

Demonetization in india from the lebanese republic point of view

[Economics](#), [Currency](#)



Demonetization is the act of removing a currency unit of its status as legal tender. This latest initiative of the BJP government is the direct result of the injury caused to the Indian democracy and its individuals by the amount of corruption taking place in India. Corruption is a menace to the society. The steps taken by the BJP government was much needed for a very long time to remove this tumor which was killing the society. The same tactic was adopted by the Reserve Bank of India in 1946 by actually banning the Rs 1, 000 and Rs 10, 000 notes to deal with the unaccounted money also known as the black money. After demonetizing the Rs 1, 000 and Rs 10, 000 notes there was introduction of Rs 5, 000 notes in the year 1954 which didn't stay for long in the market and was eventually demonetized again in 1978.

However, with the most recent round of demonetization, 85 percent of currency in circulation has been made invalid in one single stroke.

Demonetization is surely hindering the current economy and will also impact India's growth for the coming few years.

The Lebanese Republic believes that the demonetization in India was a manufactured crisis. The government has thrown a spanner into the works of the Indian economy. It is an ill-conceived scheme, ill-planned, poorly thought through, badly implemented, and disastrously executed. Demonetization failed in its stated objectives. Deep rooted problems, like corruption or terrorism, are not amenable to blunt, one-off policy instruments.

Demonetization was the equivalent of an " anti-stimulus" policy intervention, and the consequent drag on demand has been significant. The government liked to boast of being the world's fastest-growing major economy; it is a boast it can no longer make, since, thanks to demonetization, it slipped

behind China again. India is going to be a standard textbook case where policy makers, with their own actions, destabilized a perfectly stable and one of the fastest growing economies in the world. Furthermore, banks did not have enough money and so restricted withdrawals to small amounts of cash that most customers found insufficient. To summarize the demonetization of India in a single sentence, the Lebanese Republic feels it was a well thought of idea but at the same time an equally ill-thought of implementation.

The Lebanese Republic backs a very successful currency changeover operation that took place in Europe to introduce a single currency, euro, in 12 countries on January 1, 2002. Although the context is entirely different to that of the Indian demonetization, it shows how much preparation is needed in case of massive currency changeovers.

The Lebanese Republic proposes that countries moving towards demonetization should plan well in advance. They should start printing notes and minting of new coins at least two years before the actual day. This will allow enough new notes to be in circulation once the old currency stops functioning. Consequently, in cases where the reason for demonetization is not black money, everyone should be informed about the changeover on a particular day. This will keep all the people prepared for the same.

Frontloading banks with new notes and coins almost three months in advance makes sure that the banks itself are not out of funds, something the Indian government couldn't reproduce. In under developing countries more number of ATM's should be added to prevent long snake-like lines in rural areas. Moreover, all ATMs should be preloaded with new cassettes and

should be activated and functional post-midnight. Most ATMs should be designed to give maximum notes in short denominations as large denominations would create a change shortage during the changeover. Hence, ATM's should be flourished with the new notes regularly as they too can run out of funds. This not only can be done using bank vehicles but also using the services of the army. After all they keep the country safe thus it is one of the most secure ways to transfer currency. In addition, if a country is suffering from hyperinflation they can make a far more powerful currency their legal tender, just like what Zimbabwe did. Finally, if suitable, countries should permit their legacy currency to remain in circulation for almost two months as this will permit a smooth transition to the new currency notes.