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Objectives of the Demonetisations in the World. Special Reference to Indian Demonetisation of 2016

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ABSTRACT

“Demonetisation” means the removal or rejection of one or more legitimate payment methods in the economy. This term is as old as the use of currency, which can be traced back to 7th and 6th centuries BCE. The Indian government conducted an unannounced demonetization in 2016. Similar cases were observed in India in 1946 and 1978. Overall, the world has witnessed dozens of demonetisations in different countries, which were carried out for different reasons. Many were successful, but many were not. We need to understand why demonetisation has been implemented over the world. This study used a literature review method to determine the causes of demonetisation in nations such as Australia, Canada, New Zealand, Libya, Ghana, Myanmar, Zaire, Russia, North Korea, Pakistan, Sweden, Zimbabwe, and Belarus. It also describes the goals of Indian demonetisation in 2016 and determines whether they have been met. As a result, the authors found that pre-announced demonetisation were usually effective, whereas most undeclared demonetisation failed and had an impact on the economy and population. The results of this paper can help governments, policymakers and scientists to understand the purpose of demonetisation and the need for caution. The authors concluded that demonetisation could have both positive and negative effects, depending largely on the intentions of the country's leadership and on the preparedness for demonetisation.

Keywords: demonetisation; objectives; analysis; economic factors; effect; India; Euro

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INTRODUCTION

Demonetisation simply means scrapping of a legal tender. It had been exercised globally in modern as well as medieval periods. Historically, kingdoms throughout the globe have used their own currencies and coins. These currencies or coinages, with rulers, have been demonetised, remonetised and keep changing. Its impact was very limited to the kingdom or a distinct locality.

In the last few decades, many countries Ghana, Nigeria, Myanmar, Congo (former Zaire), the Soviet Union, North Korea, Pakistan, Sweden, the Philippines, Zimbabwe, Belarus, Libya, Iraq, etc. had demonetised one or more of their legal tenders. Developed countries like Australia, New Zealand, Singapore, Canada, etc. also exercised demonetisations. Eurozone member countries demonetised their currencies for accepting the Euro as their legal tender. All these demonetisations were exercised for different reasons. Not all achieved their objectives.

India has seen three demonetisations in the last century, the most recent in 2016. The Indian Prime

Minister, Mr. Narendra Modi, announced demonetisation on 8 November 2016. The government and the Reserve Bank of India (RBI) both stated several objectives in their early appearances after the demonetisation announcement, like attacks on black money, corruption, terrorism, counterfeit currency, and a low-cash economy. Similar objectives were stated in the earlier two demonetisations.

This paper, based on the available literature, made a humble, non-exhaustive attempt to understand various demonetisation events in the world. This study specially aimed to find the various objectives behind these demonetisations and it briefly discusses the objectives of the Indian demonetisations of 2016 and attempts to find out if these objectives were met.

METHODS

The announcement of Indian demonetisation in 2016 has created several debates on the hazy subject of demonetisation. Even the Constitution Bench of the Supreme Court decided in favour of demonetisation's validity with a 4:1 majority; the split judgment implied an unclear nature of this event of “Demonetisation”.

This paper is purported to find out the aims or objectives of demonetisations exercised in various parts of the world. It especially finds the objectives of the 2016 Indian demonetisation and briefly attempts to see if these are achieved.

The methodology of logical literature review is employed with traditional and semi-systematic approaches, using secondary data from various literatures, legislation, and other sources, including but not limited to published journals, reports and newspapers.

Before deep diving into the objectives of demonetisation, let's briefly understand "currencies" and "demonetisation".

DEMONETISATION

In this modern world, around 164 official currencies are being used in 197 countries and 60 countries do not have their own currencies.¹ Those countries are using foreign currencies like the US dollar, Euro, etc. Eurozone's euro (Euro or €) is the official currency of 20 member countries and a few other non-European countries as official currency or de facto currency; there are several currencies that are pegged to Euro strictly or loosely. The US dollar (US\$), the currency of the United States of America (USA) is being used in several foreign countries, and many other currencies are also pegged to the US\$. The US\$ is considered the most powerful currency in the world since around 40% of payments (by value) made in the world are made through the US\$² and the US\$ contributes to 88% of the Forex market's daily turnover³; Euro follows the US\$.

Sandeip Khakase [1], in his book, has defined "Demonetisation means a specific currency unit ceases its status as legal tender". The author further stated that "Demonetisation" is the act of stripping/ removing/ recalling/ cancelling the legal tender status of one or more or all currency units or denominations prevailing in the

territory. Legal tender is a legally recognised means to settle a debt or financial obligation in a particular territory or country. Demonetisation is essential when there is a need to change a national currency or its one or more units. A new currency or currency unit will replace the outgoing currency or currency unit [2].

In the past, several countries have changed their currencies and demonetized them for various reasons. These demonetisations can be classified as "Preannounced" or "Pre-declared" when the demonetisation is announced much prior to the actual barring of the legal tender. It gives the public ample time to exchange their currencies. In the "Non-Preannounced" or "Non Pre-declared" or 'Undeclared' demonetisation, announcements are sudden, and people have a limited window to exchange retiring currency. Some of these historic demonetisations are briefly discussed hereunder.

HISTORIC DEMONETISATIONS

Silver Demonetisation

The first evidence of 'Demonetisation' that had a global impact was a "demonetisation of Silver Coins" in Germany, France, the USA and some European countries. In the 19th century, countries quickly moved toward silver demonetisation; Germany was the first to remove silver coins. After a decisive victory over France in 1870, Germany, using the acquired war indemnity, adopted gold currency by passing the law of December 4, 1871. This enactment demonetised the silver currency, but the prevailing silver coins in circulation continued to be legal tender, with new gold coins becoming legal tender. A legal tender of silver lost to gold at a legal ratio of 15 to 1. Further, by the law of June 9, 1873, the full legal tender power of the silver coins was stripped, making them a subsidiary currency [3].

Due to demonetisation in Germany, silver lost global demand. Further, the USA passed the Coinage Act in 1873 that demonetised silver coins. This ended bimetallism in the USA, which accepted only gold as a legal tender. While accepting the gold standard, the right of holders of silver bullion to use its metal for making or using it as a legal tender was abolished. This enactment depressed the silver prices, which obviously hurt the mining interests; these people labelled the Act "the Crime of 73" [4]. Eventually, the Coinage Act of 1873 became controversial in subsequent years, and the Act was denounced by the people.

¹ WorldData.info. All currencies of all countries. 2023. URL: <https://www.worlddata.info/currencies/> (accessed on 22.01.2023).

² World Economic Forum. How does use of the US dollar and Euro compare? Jan 17, 2022. URL: <https://www.weforum.org/agenda/2022/01/euro-challenges-dollar-global-currency> (accessed on 20.01.2023).

³ Statista.com. Daily turnover of global foreign exchange market with 39 different currencies from 2001 to 2019; Jan 10, 2023. URL: <https://www.statista.com/statistics/247328/activity-per-trading-day-on-the-global-currency-market/> (accessed on 10.01.2023).

Ghana

During 1970–1980, to meet its fiscal deficits, Ghana was printing currency that led to inflation in the country. In 1977, the central bank, the Bank of Ghana undertook new measures in monetary policy that were aimed at removing excess liquidity in the economy. A new monetary policy made all commercial banks mandatory to maintain the average cash reserve ratio and other policy parameters, although most banks were already maintaining these parameters [5]. These efforts could not bear fruit in eliminating the excess reserves or liquidity, proving them ineffective. Banks that had defaulted were penalised with interest charges. After the failed effort, the Ghanaian government exercised another measure and demonetised its currency ‘Cedi’ in March 1978 to mop up excess liquidity [5].

Again in February 1982, the military government of Ghana (the Provisional National Defense Council) demonetised the 50 cedi note issued by the Limaim Administration in 1981. The government ordered the public to deposit 50 cedi notes in their bank accounts; against such deposits a chit or note was given that was supposed to be paid or redeemed. It was never redeemed⁴ [6].

In 1984, Ghana’s M2 /GDP ratio declined to 12% from 29% in 1977. The public preferred holding liquid funds outside the banking system that simply implies that the public lost confidence in the financial system after demonetisation [7].

Myanmar

Myanmar (Burma) has demonetised its currency in 1964, 1985 and 1987, in addition to demonetisation of all India notes marked “Legal Tender in Burma Only” from 1 July 1948 after her independence on 4 January 1948. In 1962, the new military junta took control over the country, became deeply involved in the economic affairs of the nation, and started the nationalisation of the economy, including the financial sector reform in 1963. The government has nationalised twenty-four banks into the People’s Bank of Burma and seventy-eight foreign insurer companies into the state-owned insurer, Myanma Insurance.

⁴ GhanaWeb.com. The Re-Denomination of the Cedi — Caution. 2007; Feb 13. URL: <https://www.ghanaweb.com/GhanaHomePage/business/The-Re-Denomination-of-the-Cedi-Caution-118997> (accessed on 20.12.2022).

On 17 May 1964, the government demonetised the high denomination notes of 50 and 100 kyat. Again, in 1985, currency notes of 20, 50 and 100 kyat ceased to be legal tender. To replace these currencies, the Union Bank of Burma issued 75 Kyats on 11 November 1985 and 35 Kyats on 1 August 1986 respectively. However, due to the limited time allowed to exchange demonetised currency and other restrictions, the people lost their hard-earned money. Economic downfall was observed; to counter it, the BSPP Government abolished the state’s policy of procurement and distribution of rice that in turn again shot up the price of rice.

In the late 1980s, Myanmar initiated a transition to a market economy to counter the economic turmoil it created. Before the transition, real GDP growth was negative for three years in a row with a recorded minus 11.4% in 1988.⁵

Democratic Republic of Congo (former Zaire)

After independence in 1960, Mr. Mobutu Sese Seko renamed the “Republic of Congo” to the “Republic of Zaire”. The Zaire government with international assistance planned a program to relieve the country from the economic trouble of 1972. From 1976 to 1991, the Zairian government and the International Monetary Fund (IMF) agreed to adopt 14 stabilisation programs for achieving internal and external stability [8].⁶ The IMF had advised the government to downsize the public sector, but that advice was overlooked. To control inflation, deflationary measures, including demonetisation were planned. Mobutu announced demonetisation on 25 December 1979, targeting domestic “currency hoarders”⁷ [9] and checking inflation.

The 5 and 10 denominations of Zaire banknotes were demonetised and bank accounts were frozen. The government allowed the public to exchange their old bills for new notes up to a maximum of 3000 Z (or 1 500 old ones). Small and medium businesses were allowed

⁵ World Bank. Myanmar: Policies for Sustaining Economic Reform. 14062-BA. Washington DC: Washington, D.C.: World Bank Group; 1979, October 19.

⁶ World Bank. Zaire — Economic memorandum: current situation and constraints. Washington, D.C.: World Bank Group; 1979, October 19.

⁷ Zairian financial situation. Confidential letter from Democratic Republic of the Congo Kinshasa to Department of State, Germany, Bonn (Executive order: GS 19851227 HEIMANN,JP). Public Library of US Diplomacy. WikiLeaks. 1979. URL: https://wikileaks.org/plusd/cables/1979KINSHA13315_e.html. (accessed on 19.12.2022).

to exchange up to 5000 Z and major companies could exchange up to 10000 Z. The government had closed airports and borders to restrict the entry of demonetised Zaire banknotes held in foreign countries during the three-day exchange window [8]. Public and private businesses, not having any political or banking affiliation/proximity could not exchange their currency notes.

The economy decelerated. In the wake of a desperate internal socio-economic crisis, opposition reinforced against the Mobutu government and pressed it for liberalised and democratic reforms in 1990 [8]. Further, in 1993, the Mobutu government began the process of withdrawing obsolete currency from the system that led to unexceptional inflation in the country. Public anger against the government led to a civil war that resulted in the dismissal of President Mobutu in 1997.

Russia

The Union of Soviet Socialist Republics (USSR) emerged as a power after the Second World War and contested a cold war. Satellite countries of the USSR in Eastern Europe overthrew their respective communist regimes in 1989, ending the Cold War. Many nationalist and separatist movements took place in several countries of the USSR [9]. At 21:00 p.m. Moscow time, through a television broadcast on 22 January 1991, then President Mikhail Gorbachev, demonetised the 50- and 100-rubles banknotes by signing a decree for taking over the black market. A three-day window, from 23 January to 25 January 1991 was given to exchange the retiring currency [10]. 50- and 100-rubles currency notes were contributing about one-third of the money in circulation in the USSR, affecting the public at large. This economic reform to demonetise currency to counter the menace of black money could not yield any positive results; instead, it resulted in high inflation in the USSR. The public of the USSR lost their faith in the USSR leadership and finally the USSR dissolved on 25 December 1991.

Post-dissolution of the USSR, the ruble, the new Russian currency, was demonetised again in late July 1993, wherein pre-1993 ruble notes ceased to be legal tender from September 1993. The government also announced that the Central Bank of Russia would issue and supply new ruble banknotes to the ruble area member countries, which aligned monetary and fiscal policies to Russia and agreed to “new” ruble area rules. At the time of the 1993 demonetisation, the ruble area consisted of ten countries, namely Russia,

Armenia, Azerbaijan, Belarus, Georgia, Moldova, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan. Responding to the demonetisation of 1993, four countries (Azerbaijan, Turkmenistan, Georgia and Moldova) announced their departure from the ruble area [11]. They were still using the ruble as a legal tender, although four of them (Azerbaijan, Belarus, Georgia and Moldova) circulated coupons in parallel with the ruble. All countries escaped the ruble area, whereas Tajikistan replaced Ruble by Somani in 2000.

Australia

Australia has demonetised its currencies prominently since 1966, 1988 and 2016. Australia had been a British colony until 1901, and it adopted the Australian Pound as a currency in 1910 and that was replaced in 1966 by the Australian Dollar (AU\$), a decimal currency [12].

In 1988, Australia issued an AU\$ 10 polymer note to commemorate the bicentenary. During 1992–1996, Australia printed all currency notes on polymer and started replacing paper-based notes with polymer bank notes in 1996. That made Australia the first country in the world to have polymer (plastic) bank currency notes [13]. Importantly, Australia replaced paper currency by polymer currency without affecting its economy.

Under the “Next Generation Banknote Program” Australia introduced new banknotes of AU\$ 5 denomination on 1 September 2016 with new security features. AU\$ 10 denomination currency notes were issued on 20 September 2017 and new AU\$ 50 banknotes on 18 October 2018. The new series AU\$ 20 and AU\$ 1000 denominations were issued on 9 October 2019 and on 29 October 2020 respectively.⁸

North Korea

In the last few decades, the economic and social policies of North Korea have been notoriously scarce, as has the monetary policy. In 2009, North Korea, under the dictatorship of the Supreme Leader, Kim Jong-il, initiated currency reforms that were aimed at eradicating black markets and tightening the government’s control over economic affairs.

On 30 November 2009, the North Korean government announced the introduction of a new currency for

⁸ Reserve Bank of Australia. Next Generation Banknote Program. 2023. URL: <https://banknotes.rba.gov.au/australias-banknotes/next-generation-banknotes-program/> (accessed on 01.01.2023).

banishing the black market, and the old currency would be exchanged with the new at a rate of 100:1, two zeros were knocked off of the old currency.⁹

After the surprising announcement, the market panicked, and the public was given only one week window [14] to exchange their currencies. The government also imposed restrictions on the amount of currency to be exchanged, originally 100000Won per individual. After the public protests, these limits were revised to 150000Won in cash and 500000Won in bank account [15].

The country's limited ability to provide sufficient food and goods to its people created a shortage in the market. The demonetisation of 2009 left people without food and shelter. This turned out to be a blatant mistake by the government and authorities in estimating political control over market activity and money demand.

Pakistan

Pakistan demonetised part of its currency in 2011 and 2015. The State Bank of Pakistan (SBP) issued a press release on 8 July 2011 notifying that Rs.500 denomination old design banknotes, which were introduced on 1 April 1986, will cease to be legal tender. This demonetisation took effect from 1 October 2011. Also, banknotes of Rs.5 denomination, introduced on 8 July 2008 ceased to be the legal tender from 1 January 2012.¹⁰ SBP advised the public to exchange old design Rs.500 banknotes and Rs.5 banknotes before they cease to be legal tender. These demonetised currency notes could be exchanged at all the field offices of SBP Banking Services Corporation (BSC) and branches of commercial banks operating throughout the country.

Again, SBP, via a press release dated 17 June 2015 confirmed the federal government's journal notification dated 4 June 2015 that declared the old design banknotes of all other denominations ceased to be legal tender with effect from 1 December 2016. It meant that all old design banknotes of remaining denominations of Rs.10,

50, 100 & 1000 ceased to be legal tender.¹¹ The public was directed to exchange all old design banknotes at banks or bank branches on or before 30 November 2016. Though all old design banknotes ceased to be legal tender on 1 December 2016, all such banknotes could be exchanged at SBP BSC field offices until 31 December 2021. Pakistan has executed pre-declared demonetisation with a wide exchange window.

Sweden

During the 1970s and 1980s, Sweden had one of the highest per capita currencies in circulation (CIC) in the world. Sweden has the largest banknote worth 10000 kr which was introduced in 1958. This 10000 kr denomination was demonetised in 1991 and lost its legal tender status.¹²

On 15 March 2006, the central bank of Sweden, Riksbank, introduced more secure banknotes of 50 krona and 1000 krona denomination. By adding moving security features, the Riksbank became the first central bank in the world to use the security feature of motion (a moving image in the striped band) on the new 1000 krona banknote.¹³ When the banknote is tilted, the picture in the striped band appears to move. The Vasa 1000 kronor banknotes, which were printed from 1989 to 1991 without the foil strip, were declared demonetised after 31 December 2013. The Vasa banknotes with the security thread also ceased to be legal tender after June 30, 2016. All old banknotes and coins were invalidated after 30 June 2017.¹⁴ The currency replacing the demonetised currency was kept lower. Hence, CIC was intentionally reduced.

¹¹ State Bank of Pakistan. Demonetization of All Old Design Banknotes. State Bank of Pakistan- Press Release. 2015 June 17. URL: <https://www.sbp.org.pk/press/2015/Demonetization-17-Jun-2015.pdf> (accessed on 02.02.2022).

¹² Riksbank. Invalid 10000-krona banknotes. May 4, 2018. URL: <https://www.riksbank.se/en-gb/payments-cash/notes-coins/notes/invalid-banknotes/banknotes-that-became-invalid-prior-to-2016/10-000-krona-banknotes/> (accessed on 20.12.2022).

¹³ Sveriges Riksbank. Riksbank to introduce new, more secure 50 and 1,000-krona banknotes. Stockholm: Press Release. 2006 March 6;11:1. URL: <https://archive.riksbank.se/Pagefolders/24936/nr11e.pdf> (accessed on 05.02.2022).

¹⁴ Sveriges Riksbank. Banknote and coin changeover in Sweden — Summary and evaluation. Report. Stockholm: Sveriges Riksbank; 2018 March. URL: <https://www.riksbank.se/globalassets/media/sedlar-mynt/sedel-och-myntutbytet-2015-2017/engelska/evaluation-banknote-and-coin-changeover-in-sweden.pdf> (accessed on 05.02.2022).

⁹ North Korea Today. Dec 2, 2009; 307/308. Research Institute for North Korean Society. URL: https://reliefweb.int/attachments/b457ccb6-4db0-3004-9d67-12f52b521402/BD81DF747EA5696349257681000433BC-Full_Report.pdf (accessed on 15.01.2023).

¹⁰ State Bank of Pakistan. Demonetization of Rs 500 Old-Design and Rs 5 Banknotes. State Bank of Pakistan — Press Release: July 8, 2011. URL: <https://www.sbp.org.pk/press/2011/Demon-Rs%20500-Old-Design-Rs5-09-Jul-11.pdf> (accessed on 27.01.2022).

Philippines

In 2010, Philippines' central bank, Bangko Sentral ng Pilipinas (BSP) started phasing out the New Design Series (NDS) banknotes launched in 1985. New Generation Currency (NGC) currency banknotes had replaced NDS series notes.¹⁵ On 29 December 2014, BSP announced the circulating of NGC banknotes bearing the President's signature starting the following week. The BSP demonetised the old currency in a phased manner. In 2015, older currencies could be used in daily transactions; in 2016, older currencies were only allowed to be exchanged in bank branches; and lastly, older currencies lost their legal tender status on 1 January 2017. Older currency notes were replaced with new currency with security features like embossed prints and special features in the serial number and security thread.¹⁶

In 2020, BSP launched enhanced NGC banknotes with the latest anti-counterfeiting technology. This NGC currency was designed considering the convenience of elderly and visually impaired people.¹⁷

Zimbabwe

On 12 June 2015, the Reserve Bank of Zimbabwe (RBZ), the Zimbabwean central bank, demonetised its official currency, the Zimbabwean dollar (ZWD) in order to switch to US\$ and multiple currencies. It offered an exchange window between 15 September to 30 September 2015.¹⁸ This painful decision is set against the backdrop of catastrophic economic turbulence.

With the official recognition of Zimbabwe as an independent nation on 18 April 1980, ZWD was introduced in the same year, directly replacing the Rhodesian dollar at par, and it was valued higher than the US dollar that is 1 ZWD = 1.47 US\$ [16].

¹⁵ Bangko Sentral NG Pilipinas. Coins and Notes — New Generation Currency Banknotes: New Generation Currency Series (2010-present). Bangko Sentral NG Pilipinas; 2020. URL: <https://www.bsp.gov.ph/SitePages/CoinsAndNotes/NewGenerationCurrencyBanknotes.aspx> (accessed on 19.12.2022).

¹⁶ Bangko Sentral ng Pilipinas. Demonetization Schedule Important Deadlines. Embassy of Philippines; 2016. URL: <https://www.isdpe.com.pk/pdf%20forms/DEMONETIZATION-English.pdf> (accessed on 19.12.2022).

¹⁷ Bangko Sentral NG Pilipinas. Supra Note 14.

¹⁸ Reserve Bank of Zimbabwe. Press Statement — Demonetisation of Zimbabwe Dollar. Reserve Bank of Zimbabwe; June 11, 2015. URL: <https://www.rbz.co.zw/documents/publications/press/demonetisation-press-statement-9-june-2015.pdf> (accessed on 20.12.2022).

Zimbabwe is one of the country's worst hit by hyperinflation, which recorded as high as 231 000 000% in 2008 [17] and eroded the value of ZWD to one of the lowest valued currencies in the world. ZWD was redenominated three times, firstly in August 2006, then in 2008 and lastly in July 2009 in order to reinstate its losing value, but all in vain. Worthless Zimbabwean currency had denominations up to a ZWD 100 trillion banknote. Repetitive printing of currency to meet government expenditures and international obligations continued devaluating ZWD. Finally, to avoid frequent currency shortages due to the hyperinflation vicious cycle, Zimbabwe was forced to adopt the multiple currency system on 13 September 2008, foreign currencies were officially legalised as de facto currencies.

Belarus

Belarus emerged as an independent country with the Belarusian Ruble as its currency during the period of the dissolution of the USSR. The President of Belarus has declared to redenominate the Belarusian Ruble, vide No. 450 dated 4 November 2015. The 2000 series banknotes were replaced with the 2009 series currency in the ratio of 1:10 000, increasing the worth of the new currency by 10 000 times.¹⁹ Both series (2000 and 2009) of Belarusian Ruble were legal tender from 1 July 2016 to 31 December 2016. During the next five years, from 1 January 2017, all the 2000 denominations were exchanged against the 2009 series currency.

Libya

Muammar Gaddafi, the dictator for over 4 decades, was captured and killed on 20 October 2011. After Gaddafi's death, Central Bank of Libya (CBL) Governor, Gasem Azzoz replaced the notes, having ousted strongman's face with newly redesigned banknotes. 50-dinar notes with Gaddafi's image were discontinued in March 2012 and other denomination notes were phased out afterwards [18]. In 22 October 2012, CBL vide Decree 37/2012 announced the withdrawal of the fourth and fifth series of the five- and ten-dinar notes, setting the deadline for depositing into banks as 31 December 2012.²⁰

¹⁹ The National Bank of the Republic of Belarus. Press Release: On redenomination of the Belarusian ruble since July 1, 2016. The National Bank of the Republic of Belarus: Nov 5, 2015. URL: <https://www.nbrb.by/engl/news/4565> (accessed on 20.12.2022).

²⁰ Temehu. Libyan Money Notes & Coins. 2012. URL: <https://www.temehu.com/money-notes-and-coins.htm> (accessed on 20.12.2022).

After the outbreak of the civil war in 2014, CBL split into two branches that had issued their own currency notes individually. These CBL branches have initiated unification in 2020–2022.²¹

Adoption of Euro in Eurozone 2002

The European Union (EU) was formed as a political and economic union, currently consisting of 27 member countries after Britain's exit. And, Eurozone is a union of 20 member states of the EU that accept the euro (€) as their official currency.

On 1 January 1999, during the establishment of the Eurozone, the euro was introduced as a legal tender and exclusive currency in the member countries at an exchange rate of 1.1743 US\$ [19], although, physical Euro currencies, notes and coins entered into circulation on 1 January 2002, replacing the currencies of member countries.

Iraq

After the Iran-Iraq War of 1980, Iraq invaded and annexed Kuwait in August 1990. The United Nations (UN) and the USA have intervened in the war; Iraq's armed forces were devastated by the USA led military forces, resulting in the end of the First Gulf War in 1991. Even after that, there were several uprisings against Saddam Hussein's regime, mostly by Shia and Kurdish Iraqis [20]. Further, in 1992, Iraq was divided into two parts, North and South Iraq, the latter under control of Saddam Hussein.

Under restrictions from the West, Saddam was forced to finance deficits by printing currency on inferior local paper with his image, as Iraq was restricted by the UN from importing currency notes made elsewhere.²² He even demonetised the highest denomination note of 25 Dinars and asked it to be exchanged with Saddam Dinars. Eventually, the Saddam regime printed excess dinars leading to high inflation, whereas the currency in North Iraq, the Swiss Dinar, was stable. And above that, the Saddam Dinar could be easily counterfeited as it was made with inferior technology on poor quality paper [21].

²¹ United Nations Support Mission in Libya. The Two Branches Of The Central Bank Of Libya Meet To Further Unification Efforts. United Nations Support Mission in Libya (UNSMIL). Sep 9, 2021. URL: <https://unsmil.unmissions.org/two-branches-central-bank-libya-meet-further-unification-efforts> (accessed on 20.12.2022).

²² Government of India. Economic Survey 2016–17. New Delhi: Ministry of Finance, Department of Economic Affairs. January 2017:79. URL: <https://www.indiabudget.gov.in/budget2017-2018/es2016-17/echapter.pdf> (accessed on 24.12.2022).

After the deposition of Saddam Hussain in the Second Gulf War of 2003, the Coalition Provisional Authority issued new currency, replacing the earlier Saddam dinar currency at par, whereas one Swiss dinar was exchanged for 150 new dinars.²³

INDIAN DEMONETISATIONS OF 1946, 1978 AND 2016

India has witnessed three “Non-Preannounced” demonetisations, the first in 1946, then in 1978, and recently in 2016.

On 11 January 1946, the British India government announced demonetisation of Rs.500, Rs.1 000 and Rs.10 000 currency notes from the next day that is 12 January 1946.²⁴ The Indian Express of 12 January 1946 stated that the demonetisation was an exercise with the objective of curbing black marketing.²⁵ The people were stunned by the announcement; exceptionally long queues were seen at banks for exchanging currencies.

On 16 January 1978, all India radio broadcast the ordinance declaring demonetisation. Through radio, all banks and government treasuries announced to be closed on the immediate next day, 17 January 1978 for transaction of all business activities except the preparation and presentation or the receipt of returns that are required vis-a-vis the announced demonetisation. The public was given a period of 3 days (7 days with satisfactory reason) for exchanging Rs.1 000, Rs.5 000 and Rs.10 000 notes.²⁶

Demonetisation of 2016

On 8 November 2016, Prime Minister Mr. Narendra Modi announced that the 500 rupee and 1 000 rupee currency notes would no longer be legal tender from

²³ Al Jazeera News. Saddam dinar fades away. Al Jazeera: Jan 15, 2004. <https://www.aljazeera.com/news/2004/1/15/saddam-dinar-fades-away> (accessed on 04.02.2023).

²⁴ Government of India (British India). Ordinance No. III of 1946. The Gazette of India (Extraordinary). Jan12, 1946; 9–12 https://ddashboard.legislative.gov.in/sites/default/files/legislative_references/ORDINANCE%20-%201946.pdf (accessed on 10.12.2022).

²⁵ Indian Express. Govt. Strike at ‘Black’ Capitalist: Notes of Rs 500, 1,000 and 10,000 cease to be legal tender. Indian Express. Jan 12, 1946. URL: <https://indianexpress.com/article/india/india-news-india/demonetisation-narendra-modi-currency-ban-rs-500-rs-1000-1946-1978-4381683/> (accessed on 11.12.2022).

²⁶ Government of India. The High Denomination Bank Notes (Demonetisation) Act, 1978. Act No. 11 of 1978. <https://www.indiacode.nic.in/bitstream/123456789/1380/1/A1978-11.pdf> (accessed on 12.12.2022).

midnight (12 a.m.) of 9 November 2016. In the same television appearance, Mr. Modi claimed that the government was fully prepared for the action; and the situation would be sorted out within a few days.²⁷ The higher denomination notes of Rs.500 and Rs.1000 which constituted 86.9% [22] of the total CIC by value, have ceased to be legal tender. People at large have appreciated and welcomed this move throughout the country in the first few days; a few weeks later, mixed responses were observed.

PM Modi and Governor of the Reserve Bank of India (RBI), Dr. Urjit Patel, both have mentioned several objectives in their respective appearances made after the demonetisation announcement. These objectives were stated as:

1. Removing Black Money from the Economy
2. Restricting Corruption
3. Removal of Counterfeit Notes
4. Restricting Terrorism by hitting its funding sources

After a couple of weeks, the government also asserted a few more objectives, like promoting a cashless economy and creating a transparent business environment. It was also aimed at increasing tax revenues and deposits in the banking system.

DISCUSSION & ANALYSIS

After studying numerous demonetisations, “Preannounced” or “Pre-declared” demonetisations have generally bore fruit, like in Australia, Sweden, Canada, and even Pakistan. Indeed, there are exceptions, but those are coupled with externalities. “Non-Preannounced” or “Non Pre-declared” demonetisations are usually exercised to control the black market or parallel economy; mostly, these have failed; a few of the worst examples are Myanmar, Nigeria, North Korea, etc.

The objectives of many global demonetisations are summed up underneath:

1. To change Legal Tender completely: In 1873, the USA ceased using silver coins as a legal tender and shifted its economy to the monometallic currency of gold coins as an exclusive legal tender. During the

formation of the Eurozone, all member countries have demonetised their respective national currencies and adopted the euro as their official currency.

2. To Change the Currency: Zimbabwe demonetised its currency, Zimbabwean Dollar in 2015 to switch to multi-currency economy or US dollar currency. Brazil replaced its currency “Cruzado novo” with ‘Cruzeiro’ in 1990.

3. To redenominate or re-value the currency: In 2009, North Korea invalidated its old currency and replaced it with a new currency at 100:1 ratio; Zimbabwe redenominated ZWD three times. In 1971, the United Kingdom adopted decimal currency.

4. To remove excess liquidity: Ghana, in 1978 and North Korea in 2009 demonetised their currencies to mop up excess liquidity in the countries.

5. To combat inflation: Myanmar in 1987 and Zaire in 1979 retired their currencies to combat inflation.

6. To tackle tax evasion: In 1982, Ghana demonetised 50 cedi to reduce inflation and tackle tax evasion.

7. To combat corruption: In 1984, Nigeria ditched its currency, Naira with the aim of eradicating corruption.

8. To restrict black market activities: in 1991, the Soviet Union demonetised its currency, 50 and 100 ruble to take over black market activities. In 2009, North Korea replaced its old currency with a new currency in order to control black market activities and reinstate state control over market operations. India did the same in 1946.

9. To combat counterfeit currency: India, in 2016, demonetised Rs.500 and Rs.1000 to attack counterfeit or fake currency.

10. To discourage a cash system: India, in 2016, culled Rs.500 and Rs.1000 to discourage a cash system and promote a cashless or low cash economy.

11. To add security features to currency notes: Pakistan exterminated its currency in 2011 and 2015 to have a new design currency with advanced security features. Similarly, the Philippines also demonetised its currency in 2014 to have a new design currency. Singapore, Sweden, Denmark etc. have also introduced new security features in their currencies.

12. Introduction of new designs: Belarus launched a new design currency in 2016. Libya redesigned its banknotes to replace the Gaddafi-emblazoned bills in 2011. Germany also introduced new design notes in 1990–1994 and England in 1994–1996.

²⁷ IANS. Government was fully prepared for demonetisation: Jaitley. Business Standard. Nov 15, 2016. URL: https://www.business-standard.com/article/news-ians/government-was-fully-prepared-for-demonetisation-jaitley-116111501738_1.html (accessed on 20.12.2022).

Table 1

Counterfeit / FICN Notes of Indian Currency in 2022 and 2023

Notes	Notes in Circulation (in 100,000)		Counterfeits (FICN) Detected		FICN in PPM	
	2021–2022	2022–2023	2021–2022	2022–2023	2021–2022	2022–2023
Rs.500	4,55,468	5,16,338	79,669	91,110	1.75	1.76
Rs.2000	21,420	18,111	13,604	9,806	6.35	5.41

Source: Compiled by the Author from RBI Annual Reports of 2022 and 23.

13. To increase durability of currency notes: Australia, Canada or New Zealand introduced plastic currency for durability and counterfeit protection.

14. To structure the money in circulation: the USA discontinued denominations of \$ 500, \$ 1 000, \$ 5 000, and \$ 10 000 as these high denominations were not required and needed in the economy. India also removed Rs.10 000 notes in 1946 and Rs.5 000 in 1978. Norway removed 10 000 krona bills.

15. Convenience to elderly or impaired citizens: Philippines introduced notes with features benefiting the elderly or impaired public, making it easy to handle currencies.

**Objectives of the 2016 Demonetisation:
Black Money, Counterfeit Currency,
Terrorism and Cashless Economy**

The World Bank estimated the size of the black economy in India was 23.3% and 21.4% of GDP in 1999 and 2006, respectively; the average ratio of shadow economy to GDP was computed to be 22.4% for a period of 8 years from 1999 to 2006 [23]. Further in 2013, McKinsey & Company estimated the Indian shadow economy at 26% of GDP [24] for the year 2011. The IMF estimated the Indian shadow economy at 17.89% in 2015 [25]. According to income tax probes in 2015–2016, black money holders keep only 6% [26, 27] or less of their ill-gotten wealth as cash, hence, targeting this cash may not be a successful strategy. It simply means demonetisation would distress only 6% of the black money, which is particularly kept in cash, the rest of the black money would be unaffected by demonetisation.

In India, as mentioned in the Annual report of RBI for FY 2015–2016, 7.01 pieces of counterfeit notes per million of Notes in circulation (NIC) were floating, on average. Counterfeiting in lower denomination notes (of less than 100 rupee) has been negligible, were of Rs.0.32 million in total value; whereas the highest Fake Indian Currency Notes (FICN) notes were in Rs.500 currency, followed by

Rs.100 and Rs.1000 (in number of pieces). FICN currency, in terms of value, Rs.500 and Rs.1000 notes contributed to 92.42% of total FICN whereas Rs.100 shares 7.47% of FICN currency. The value of these fake notes in 2015–2016 was Rs.29.64 crore,²⁸ which was 0.0018% of the Rs.16.41 lakh crore of currencies in circulation.²⁹

India had reasonably low counterfeit currency as compared to the USA, the UK and Europe, which is 7 FICN notes per million. After the demonetisation, FICN detection was inconsistent. The RBI 2017–2018 Annual report states that there were 5.1 pieces per million (PPM) of CIC.³⁰ The FICN notes in PPM terms have been reduced up to 2021, but in 2021–2022, the trend was reversed, posting total FICN notes (of all currencies) of 230,971 as compared to 208,625 notes in 2020–2021. Further total FICN notes were reduced to 225,769 in FY 2022–2023 that post-demonetisation, FICN notes were reduced to 1.66 PPM of CIC. *Table 1* illustrates that FICN of new Rs.500 and Rs.2000 notes were detected at 1.76 PPM and 5.41 PPM, respectively, in 2022–2023. In terms of numbers, FICN notes of Rs. 500 were increased by 14.4% and Rs.2000 FICN notes were reduced by 27.9%.^{31, 32}

²⁸ Lakh (or Lac) and Crore are units in the Indian numbering system. 1 lakh = 100,000; 1 million (mn) = 10 lakh; 1 Crore (Cr.) = 10 million; and 1 lakh Crore = 1 trillion.

²⁹ Reserve Bank of India. Reserve Bank of India Annual Report 2015–2016. Mumbai; 2016:91–92. URL: [https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/ORBIAR 2016CD 93589EC 2 C 4467793892C 79FD 05555D.PDF](https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/ORBIAR%2016CD%2093589EC%204467793892C%2079FD%205555D.PDF) (accessed on 15.12.2022).

³⁰ Reserve Bank of India. Reserve Bank of India Annual Report 2017–2018. Mumbai; 2018:219. URL: [https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/OANREPORT201718077745EC 9 A874DB 38C 991F580ED 14242.PDF](https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/OANREPORT201718077745EC%209A874DB%2038C%20991F580ED%2014242.PDF) (accessed on 15.12.2022).

³¹ Reserve Bank of India. Reserve Bank of India Annual Report 2021–2022. Mumbai; 2022:167–171. URL: [https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/ORBIAR 2021226AD 1119FF 6674A13865C 988DF70B 4E 1A.PDF](https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/ORBIAR%2021226AD%201119FF%206674A13865C%20988DF70B%204E%201A.PDF) (accessed on 15.12.2022).

³² Reserve Bank of India (RBI). Reserve Bank of India Annual Report 2022–23. Annual Report. Mumbai; 2023:181–184. URL: [https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/OANNUAL LREPORT2022322A548270D 6140D 998AA20E 8207075E 4. PDF](https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/OANNUALREPORT2022322A548270D%206140D%20998AA20E%20207075E%204.PDF) (accessed on 21.10.2023).

Table 2

Annual Terrorism Deaths in India (2013 to 2023)

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Deaths	442	523	437	492	443	478	332	299	314	281	281

Source: South Asia Terrorism Portal. URL: <https://www.satp.org/datasheet-terrorist-attack/fatalities/india> (accessed on 05.02.2024).

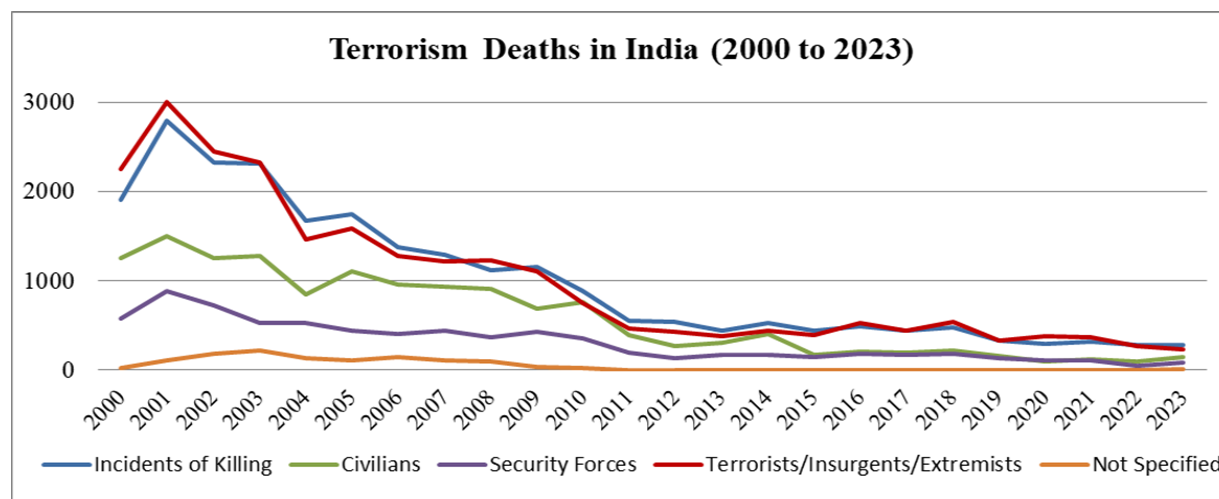


Fig. Terrorism Deaths in India from 2000 to 2023

Source: Created by the authors using data of South Asia Terrorism Portal. URL: <https://www.satp.org/datasheet-terrorist-attack/fatalities/india> (accessed on 05.02.2024).

Indeed, FICNs were reduced, but the existence of FICN implies that it may increase with the addition of counterfeit notes. As there was no addition of extra security features to notes injected after demonetisation, this may lead to a slow surge in FICN over the years (in the absence of any relevant measures), and counterfeit currency is likely to be unaffected considerably by the demonetisation.

From the data tabulated below (in Table 2) on deaths in India caused by terrorism, it seems that terrorism was unaffected by the demonetisation.

The Table 2 reflects that deaths due to terrorism were reduced slightly in 2017 and 2018 as compared to 2015 and 2016. This fatalities reduction of 10% in 2017 and 3% in 2018 does not signify the impact of demonetisation. Fatalities are reduced during the 2019–2022 period (may be due to Covid lockdown). This reduction is again unlikely to be an output of demonetisation as CIC was increased (see Table 3) during this period, which should reflect increased terrorism activities.

The above Fig. fails to justify the relationship of demonetisation and terrorism deaths. Hence, correlation between terrorism and demonetisation neither is

established nor terrorism be proved to be affected by the demonetisation.

Undeniably, digital transactions in India have grown exponentially since the demonetisation [28]. In 2014–2015, the value of digital payments to GDP was 660%, and it increased to 862% in 2018–2019; this indicates that demonetisation has shifted transactions towards digital payments.³³ A study conducted by Mohanty and Mariappan found that the public switched to alternative payment channels during the period of demonetisation and later moved back to the cash-based mode [29]. Table 3 of the CIC implies that the CIC also increased in the country, which means the country neither became a cashless economy nor a less cash economy, but without doubt, Indian digital payment transactions have increased significantly.

By exercising the 2016 Indian demonetisation, the government expected that the black money in the market will not be exchanged with the new currency. In 1946

³³ Reserve Bank of India. Publication: Assessment of the progress of digitisation from cash to electronic. Reserve Bank of India. Feb 24, 2020. URL: <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=19417> (accessed on 19.01.2023).

Table 3

Cash in Circulation (CIC in Rs. Trillion) in India

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CIC	11.80	13.00	14.48	16.63	13.35	18.29	21.37	24.47	28.54	31.34	33.48

Source: Reserve Bank of India Annual Reports (2014 to 2022).

demonetisation, 6.3% of high value currency notes were not exchanged [30] and, in 1978 demonetisation, 11.02% of demonetised currency was not exchanged [31]. But this was not true for the 2016 demonetisation, only 0.7% of demonetised currency was exchanged.³⁴ The attack on the black money was not reflected by the demonetisation.

CONCLUSION

Demonetisation is a regular activity wherein a smooth flow of money is maintained in the economy. Many countries used demonetisation as a tool to change the currency or curb counterfeit currencies. “Non Preannounced” or “Non Pre-declared” demonetisations have been generally executed to attack on black money market, limit the money flow, or control inflation. “Preannounced” or “Pre-Declared” demonetisations were aimed at introducing new currency, new security features in currency, new series of currency, increasing the durability of notes, etc.

In most of the Non-Predeclared demonetisations, the countries could not execute the demonetisation events well, resulting in turmoil. It led to inflation in several events, the public lost hope in the currency and banking system; started storing wealth in other options or assets.

This was observed in Ghana, Nigeria, Myanmar, North Korea, and many other countries. Public unrest was also observed in countries like Nigeria, Ghana, Myanmar, Libya, etc. and even the government was ousted in Myanmar.

Pre-Declared demonetisations have been normally successful, as the public gets notice in advance and ample time is available for currency exchange. The government uses this time to prepare itself for demonetization and print new currency to replenish demonetized bills. The public also slowly started getting rid of the demonetised notes.

Referring to the Indian demonetisation of 2016, which was claimed to be exercised to restrict black money, counterfeit currency, terrorism, and a less cash-based economy, Over the last five years, it has been observed that black money, counterfeit currency, and terrorism were a little affected by the demonetization. Certainly, India’s digital transactions have grown abundantly since demonetisation. But there are still questions: was demonetisation necessary for augmenting digital transactions? Can it be done by promoting digital banking or building essential infrastructure?

Summing up, demonetisation can be good or bad and mostly depends upon the intent of the government for exercising a mammoth event of a demonetisation and its success depends upon the preparedness and execution of the demonetisation.

³⁴ Reserve Bank of India. Reserve Bank of India Annual Report 2017–2018. Supra Note 29.

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