Consequences of Demonetization in India

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Abstract: Demonetization refers to withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new currency unit. The currency was demonetized first time in 1946 and second time in 1978. On Nov. 2016 the currency is demonetized third time by the present Modi government. This is the bold step taken by the govt. for the betterment of the economy and country. In this paper I want to discuss the impact of recent demonetization on the Indian system.

Keywords: Demonetization, Black Money, Counterfeit Currency, Corruption

Introduction: Process of removing a currency from general usage, or circulation is known as demonetization. For example, gold was demonetized in this way when it ceased to be used as an everyday currency.

The Indian rupee (INR) is the official currency of India. The recent sudden move to demonetize Rs 500 and Rs 1,000 currency notes is not new. Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data.

Objectives of the study: The main objective of this paper is to study the impact of demonetization on 8Nov.2016 by the present government on Indian economy and system.

Methodology: The paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazines, journals, newspapers and the like etc.

On 8 November 2016, the Government of India announced the demonetisation of all 500 and 1,000 banknotes of
the Mahatma Gandhi Series. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement—and the prolonged cash shortages in the weeks that followed—created significant disruption throughout the economy, threatening economic output. The move was heavily criticised as poorly planned and unfair, and was met with protests, litigation, and strikes.

Prime Minister of India Narendra Modi announced the demonetisation in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8 November. In the announcement, Modi declared that use of all 500 and 1000 banknotes of the Mahatma Gandhi Series would be invalid past midnight, and announced the issuance of new 500 and 2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes.

The BSE SENSEX and NIFTY 50 stock indices fell over 6 percent on the very next day after the announcement. In the days following the demonetisation, the country faced severe cash shortages with severe detrimental effects across the economy. People seeking to exchange their bank notes had to stand in lengthy queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash.

Initially, the move received support from several bankers as well as from some international commentators. It was heavily criticised by members of the opposition parties, leading to debates in both houses of parliament and triggering organised protests against the government in several places across India. The move is considered to have reduced the country's GDP and industrial production. As the cash shortages grew in the weeks following the move, the demonetisation was heavily criticised by prominent economists and by world media.

What caused the demonetization in India?

- No single person can take such big a decision at his whim and there is bound to be enormous planning with utmost secrecy behind it. The possible purposes of demonetization are as follows:

- Since 2009, the currency to GDP ratio in India had gradually increased from 1 : 9 to 1 : 12 which is not a good sign for long term health of
the economy. By demonetizing 85% value currency notes government got an opportunity to correct it.

- 97% of the transactions in India were affected in cash, i.e. we’re not getting routed through any bank. Huge cash hoarding shrinks bank deposits and lending capacity of the commercial banks which leads to higher interest rates.

- A few businesses like land dealers, real estate dealers, promoters and builders, goldsmith, jewellers, foreign currency dealers, private money lenders generally hold huge amounts of unaccounted money in form of currency notes. Such money had created a parallel economy in India. Such money has become void or have reached bank accounts through direct or indirect channels.

- More and more cash-less or less-cash transactions will lead to routing of consideration in bank thereby the more and more income will get disclosed and declared which will increase the direct tax collections.

- Number of income tax payers will increase,

- Pockets and persons where black money gets generated can be identified.

- As the share of direct tax collections increase government will be in a better position to rationalize the indirect taxes which will create social justice.

- The fake currency notes circulating in the economy required a surgical attack. Demonetization has converted those fake currency notes in pieces of papers.

- Obviously there is bound to be some political reasons to reap advantage. These could include the elections in UP, Uttranchal, Punjab, Goa and the Mumbai Municipality. This decision has dried out the treasury of the opposition parties so they will not able to meet expenses related to assembly elections.
There could be more purposes behind this decision.

Government Ordinance: The Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016 was issued by the Government of India on 28 December 2016 ceasing the liability of the government for the banned bank notes, and also imposing a fine up to 10,000 or five times the amount of the face value of the bank notes, whichever is higher, for people transacting with them after 8 November 2016; or holding more than ten of them after 30 December 2016. The ordinance also provided for the exchange of the bank notes after December 30 for non-resident citizens and others on a case by case basis.[33][34]

However, Petrol, CNG and gas stations, government hospitals, railway and airline booking counters, state-government recognised dairies and ration stores, and crematoriums were allowed to accept the banned 500 and 1,000 bank notes until December 2, 2016.

Exchange of old notes: People gathered at ATM of Axis Bank in Mehsana, Gujarat to withdraw cash following deposit of demonetised currency notes in bank on 15 November 2016. The Reserve Bank of India stipulated a window of fifty days until 30 December 2016 to deposit the demonetised banknotes as credit in bank accounts. The banknotes could also be exchanged over the counter of bank branches upto a limit that varied over the days:

- Initially, the limit was fixed at 2,000 per person from 8 to 13 November.
- This limit was increased to 4,500 per person from 14 to 17 November.
- The limit was reduced to 2,000 per person from 18 November.

All exchange of banknotes was abruptly stopped from 25 November 2016.

International airports were also instructed to facilitate an exchange of notes amounting to a total value of 5,000 for foreign tourists and out-bound passengers.

Facts and Figures: Up to 97% of the demonetised bank notes have been deposited into banks which have received a total of 14.97 trillion ($220 billion) as of December 30 out of the 15.4 trillion that was demonetised. This is against the government’s initial estimate that 3 trillion
would not return to the banking system. Of the 15.4 trillion demonetised in the form of 500 and 1000 bank notes of the Mahatma Gandhi Series, 9.2 trillion in the form of 500 and 2000 bank notes of the Mahatma Gandhi New Series has been re-circulated as of 10 January 2017, two months after the demonetisation.

Withdrawal Limits: Cash withdrawals from bank accounts were restricted to 10,000 per day and 20,000 per week per account from 10 to 13 November. This limit was increased to 24,000 per week from 14 November 2016. A daily limit on withdrawals from ATMs was also imposed varying from 2,000 per day till 14 November, and 2,500 per day till 31 December. This limit was increased to 4,500 per day from January 1, and again to 10,000 from January 16, 2017. Limits placed vide the circulars cited above on cash withdrawals from Current accounts/ Cash credit accounts/ Overdraft accounts stand withdrawn with immediate effect. The limits on Savings Bank accounts will continue for the present and are under consideration for withdrawal in the near future. Limits vide the circulars cited above placed on cash withdrawals from ATMs stand withdrawn from February 1, 2017. However, banks may, at their discretion, have their own operating limits as was the case before November 8, 2016, subject to 2 (ii) above.

Reactions / Support: The decision met with mixed initial reactions. Several bankers like Arundhati Bhattacharya (Chairperson of State Bank of India) and Chanda Kochhar (MD & CEO of ICICI Bank) appreciated the move in the sense that it would help curb black money. Businessmen Anand Mahindra (Mahindra Group), Sajjan Jindal (JSW Group), Kunal Bahl (Snapdeal and Free Charge) also supported the move adding that it would also accelerate e-commerce. Infosys founder N. R. Narayana Murthy praised the move.

Finance Minister Arun Jaitley said that demonetisation would clean the complete economic system, increase the size of economy and revenue base. He mentioned the demonetisation along with the upcoming Goods and Services Tax (GST) as "an attempt to change the spending habit and lifestyle."

The Indian National Congress spokesperson Randeep Surjewala welcomed the move but remained sceptical on the consequences that would follow. Chief Minister of
Bihar Nitish Kumar supported the move. The demonetisation also got support from Chief Minister of Andhra Pradesh Nara Chandrababu Naidu. Former Chief Election Commissioner of India S. Y. Quraishi said demonetisation could lead to long term electoral reforms. Indian social activist Anna Hazare hailed demonetisation as a revolutionary step. The President of India Pranab Mukherjee welcomed the demonetisation move by calling it bold step. The opinion of the masses varied both ways on micro-blogs and social media sites like Twitter.

By and large, international response was positive which saw the move as a bold crackdown on corruption. International Monetary Fund (IMF) issued a statement supporting Modi’s efforts to fight corruption by the demonetisation policy.

Chinese state media Global Times praised the move and termed it as "fierce fight against black money and corruption." Former Prime Minister of Finland and Vice-President of European Commission Jyrki Katainen welcomed the demonetisation move stressing that bringing transparency will strengthen Indian economy. BBC’s South Asia Correspondent Justin Rowlatt in his article praised the move for its secrecy and success and elaborated on reason behind demonetisation. Tim Worstall termed the demonetisation as welcome macroeconomic effect in his article in Forbes magazine. Swedish Minister of Enterprise Mikael Damberg supported the move by calling it bold decision.

Singapore-based paper The Independent published a laudatory article on the move titled "Modi does a Lee Kuan Yew to stamp out corruption in India." Lee Kuan Yew was the Singaporean Prime Minister and is considered the architect of modern Singapore. "From making up his mind to rolling it out, a new Lee Kuan Yew is born in India. It will be reflected in the legacy of this Prime Minister," the article said.

Criticism: The Indian Supreme Court while hearing one among a slew of cases filed against the sudden demonetisation decision in various courts, observed that it "appears to be carpet bombing and not surgical strike" which government repeatedly claims it to be. Nobel laureate Indian economist Amartya Sen, severely criticised the demonetisation move calling it a "despotic action" among other things. Former Senior Vice-President and Chief Economist of the World Bank, Kaushik Basu, called it a 'major mistake' and said that the 'damage' is likely to be much greater than any possible benefits. Pronab
Sen, former Chief Statistician and Planning Commission of India member, called it a "hollow move" since it did not really address any of the purported goals of tackling black money or fake currency. Prabhat Patnaik, a former professor of economics at the Jawaharlal Nehru University, Delhi called the move 'witless' and 'anti-people'. He criticised the simple way in which black money was assumed as "a hoard of cash", saying that it would have little effect in eliminating "black activities" while "causing much hardship to common people." Noted economist and journalist, T. N. Ninan wrote in the Business Standard that demonetisation 'looks like a bad idea, badly executed on the basis of some half-baked notions'. Deepak Parekh (Chairman of HDFC) had initially appreciated the decision to ban the Rs. 500 and Rs. 1000 notes, but later said that the move had derailed the economy, and expressed scepticism about its outcome. Industrialist Rajiv Bajaj criticised the demonetisation, saying that not just the execution, but the concept of demonetisation was wrong in itself.

Chief Ministers of several Indian states like Mamata Banerjee, Arvind Kejriwal and Pinarayi Vijayan have criticised and led major protests against the decision in their states and in parliament. Initially, the move to demonetise and try to hinder black money was appreciated, but the manner in which it was carried out by causing hardships to common people was criticised. A Public Interest Litigation (PIL) was filed in Madras High Court by M Seeni Ahamed, General Secretary of the Indian National League, to scrap the decision. The High Court dismissed the PIL stating that it could not interfere in monetary policies of the government. Similar PILs were also filed in the Supreme Court of India. Supreme Court of India is yet to decide on the matter. It is listed for hearing on 2 December 2016. Several government ministers had declared before the demonetisation that they were holding large amounts of cash, including Arun Jaitley, who had more than 65 lakh rupees in cash. This led to speculation about whether and when the ministers had deposited the cash they held. Steve Forbes described the move as 'Sickening And Immoral'. He stated that "What India has done is commit a massive theft of people's property without even the pretense of due process--a shocking move for a democratically elected government. Nobel laureate Paul Krugman said that it is difficult to see
gains from demonetisation, while there may be significant costs to it.

The demonetisation also came in for sharp criticism from media outside India, with the New York Times saying that the demonetisation was "atrociously planned" and that it did not appear to have combated black money, while an article in The Guardian stated that "Modi has brought havoc to India". The Harvard Business Review called it "a case study in poor policy and even poorer execution". The frequent change in the narrative on objectives of the demonetisation to its visible impact on the poorest of the poor made other critiques calling government's narrative as spins in view of the "pointless suffering on India's poorest.

**Opposition:** A Congress-led opposition which includes 13 political parties, opposed the current government on the demonetisation issue in the Winter Session of the Indian Parliament on 16 November 2016. The Chief Minister of West Bengal Mamata Banerjee also met the President Pranab Mukherjee to oppose the demonetisation. The debate on demonetisation is known to be initiated by Indian National Congress and Anand Sharma in the Rajya Sabha on 16 November 2016, while Banerjee is known to be the first to oppose the current government on the demonetisation.

On 16 November 2016, Banerjee led a rainbow delegation comprising political parties of Trinamool Congress, Aam Aadmi Party, BJP ally Shiv Sena, Patidar Anamat Andolan Samiti (of Hardik Patel) and National Conference to Rashtrapati Bhawan to protest against the decision to withdraw the 500 and 1000 banknotes. A memorandum was submitted to the President of India Pranab Mukherjee demanding rollback of the decision. Outside the Parliament in a rally the same day, Saugata Roy, a member of parliament from the opposition Trinamool Congress Party, commented, "People are in utter distress, especially the informal sector is totally disrupted. Poor people, daily wage earners, they're all facing difficulty.

In the demonetisation debate on the first day of the winter session of Parliament at the Rajya Sabha, Pramod Tiwari from the Indian National Congress compared Narendra Modi to Benito Mussolini, Adolf Hitler and Muammar Gaddafi. Prem Chand Gupta, a member of the Rashtriya Janata Dal, questioned a statement of Modi from the unscheduled TV broadcast on 8 November, "If it was planned 10 months
ago, how did RBI Governor Urjit Patel sign on new note?". Praful Patel, a member of the Nationalist Congress Party, stated that "the government was not even prepared to recalibrate the ATMs while announcing the move. People's sufferings are unimaginable. Nobody is questioning the government's intention, but you are unprepared to execute the move". Later, the former Chief Minister of Uttar Pradesh Mayawati Prabhu Das stated the situation to "a financial emergency", by saying "It looks as if Bharat has shut down."

Also, Sitaram Yechury from Communist Party of India, questioned the government on the demonetisation move by stating "only 6% of black money in India is in cash to drive his point that demonetisation won't curb illicit wealth." On 17 November 2016, in a rally against demonetisation of 500 and 1000 notes, led by the Chief Minister of Delhi Arvind Kejriwal and his West Bengal counterpart Mamata Banerjee at Azadpur Mandi, the biggest vegetable and fruits wholesale hub in the national capital; Kejriwal demanded the withdrawal of demonetisation in 3 days. Banerjee also stated "I give the government 3 day ultimatum, fix things or withdraw the demonetisation scheme". In the demonetisation debate on the second and third day of the Winter Session of Parliament, on 17 and 18 November 2016, the opposition and the government clashed over the demonetisation issue, bringing the house to continuous halts.[149] On 24 November 2016, in the demonetisation debate, the former prime minister of India Manmohan Singh said "this scheme will hurt small industries, the farming sector. The GDP can decline by about 3 per cent due to this move", while he also questioned "I would like to ask the Prime Minister examples of countries where people have deposited their money in the banks and not allowed to withdraw their own money." and later also said "It is no good that on each day banks bring out new notifications. It doesn't reflect properly on Prime Minister's Office, Finance Minister and the Reserve Bank of India. Cooperative banking system has been prevented from handling cash". Singh at last termed the demonetisation move as an "organised loot, legalised plunder of the common people". 

**Strikes:** As the demonetisation was opposed in both houses of the parliament, it triggered organised nationwide strikes across India. Opposition parties like Indian National Congress, Bahujan Samaj Party, Trinamool Congress, DMK,
JD(U), AIADMK, Nationalist Congress Party, Left, Rashtriya Janata Dal and the Samajwadi Party decided to observe ‘Akrosh Diwas’ as, a protest campaign day on November 28 and launch protests in front of banks, demanding that money be returned to people. In the state of Bihar, 15 trains were blocked and stranded, while the states of West Bengal, Maharashtra and Uttar Pradesh saw protest marches and rallies led by opposition parties. In the state of Kerala, shops and business establishments were shut, with school and colleges closed throughout the state, while movements of private vehicles were also disrupted in Northern Kerala.

The Congress party has decided to launch a nationwide movement to expose the "biggest scam" of independent India, said spokesperson leader Randeep Surjewala on 31 December 2016. The first phase would take place from January 1–10, second phase from January 11–20 and third phase from January 20–30.

**Impacts :** A State Bank of India branch remained open at night, and a long queue of people waited outside the ATM to withdraw money. In the first four days after the announcement of the step, about 3 trillion (US$45 billion) in the form of old 500 and 1,000 banknotes had been deposited in the banking system and about 500 billion (US$7.4 billion) had been dispensed via withdrawals from bank accounts, ATMs as well as exchanges over the bank counters. Within these four days, the banking system has handled about 180 million transactions. The State Bank of India reported to have received more than 300 billion (US$4.5 billion) in bank deposit in first two days after demonetisation. A spike in the usage of debit card and credit card post demonetisation was also reported.

Between November 10 and November 27, banks reported exchange and deposits of demonetised banknotes worth 8.45 trillion (US$130 billion) (exchange of 339.48 billion (US$5.0 billion) and deposits of 8.11 trillion (US$120 billion)). During this period, an amount of 2.16 lakh crore (US$32 billion) had been withdrawn by people from their accounts. In Malda, a district believed to be a transit-point for fake Indian currencies, a large sum of cash deposits in dormant accounts was also reported. According to The Economic Times, more than 80 percent of fake currency in India originates from Malda district in West Bengal.

**Human Trafficking:** Nobel laureate Kailash Satyarthi and others
working to fight human trafficking said that the note ban had led to a huge fall in sex trafficking. Satyarthi said the demonetisation would be effective in combating exploitation of children as well as corruption and would be a great obstacle to traffickers. However, 2 months later he expressed his disappointment on Rs 2000 notes being pushed into human trafficking in absence of other concrete steps.

**Radical Groups:** The Demonetisation has badly hit Maoist and Naxalites as well. The surrender rate has reached its highest since the demonetisation is announced. It is said that the money these organisations have collected over the years have left with no value and it has caused them to reach to this decision.

The move also reportedly crippled Communist guerrilla groups (Naxalites) financing through money laundering. On 10 November the police arrested a petrol pump owner at Ranchi when he reportedly tried to deposit 2.5 billion, belonging to a person affiliated with the banned Communist Party of India (Maoist). According to Chhattisgarh Police demonetisation has affected the Naxalite activities. It is reported that insurgents have stashed more than 70 billion in the Bastar region.

While Manohar Parrikar claimed that the move has also helped in reducing the incidents of stone-pelting in the Kashmir valley, his claim has been disputed.

**Hawala:** Mumbai Police reported a setback to Hawala operations. Hawala dealers in Kerala were also affected. The Jammu and Kashmir Police reported the effect of demonetisation on hawala transactions of separatists.

**Railways:** As of November 2016, Indian Railways did not have the option to make payment with cards at the counters. After the demonetisation move, the government announced to make card payment options available at railway counters in the country. The railways placed an order for 10,000 card reader machines in January 2017.

**Cash Shortage:** The scarcity of cash due to demonetisation led to chaos, and most people holding old banknotes faced difficulties exchanging them due to endless lines outside banks and ATMs across India, which became a daily routine for millions of people waiting to deposit or exchange the 500 and 1000 banknotes since 9 November. ATMs were running out of cash after a few hours of being functional, and around half the ATMs in the country were non-functional. Sporadic violence was reported in New Delhi, but
there were no reports of any grievous injury, people attacked bank premises and ATMs, and a ration shop was looted in Madhya Pradesh after the shop owner refused to accept 500 banknotes. The CMD of Punjab National Bank said that panic after demonetisation started fading on 19 November 2016. As of 18 December 2016, there were still long queues at banks and ATMs. Three months after the withdrawal of banknotes, a quarter of the ATMs were still short of cash.

Deaths: Several people were reported to have died from standing in queues for hours to exchange their old banknotes. Deaths were also attributed to lack of medical help due to refusal of old banknotes by hospitals. As of 15 November 2016, the attributed death toll was 25, and 33 deaths as of 18 November. In an interview, Chief Minister of Delhi Arvind Kejriwal lashed out at a BBC reporter who asked him to justify his 19 November claim that 55 deaths were linked to demonetisation. By the end of the year, opposition leaders claimed that over 100 people had died due to demonetisation.

Stock Market Crash: As a combined effect of demonetisation and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetisation announcement, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 points. By the end of the intraday trading section on 15 November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 index was below 8100 intraday.

Transportation Halts: After the demonetisation was announced, about 800,000 truck drivers were affected with scarcity of cash, with around 400,000 trucks stranded at major highways across India were reported. While major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes. Nitin Gadkari, the Minister of Transport, subsequently announced a suspension of toll collections on all national highways across India until midnight of 11 November, later extended until 14 November and again until midnight of 18 November, and yet again till 2 December.

Agriculture: Transactions in the Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetisation of 500 and 1,000 banknotes. Due to scarcity of the new banknotes, many farmers have insufficient
cash to purchase seeds, fertilisers and pesticides needed for the plantation of rabi crops usually sown around mid-November. Farmers and their unions conducted protest rallies in Gujarat, Amritsar and Muzaffarnagar against the demonetisation as well as against restrictions imposed by the Reserve Bank of India on district cooperative central banks which were ordered not to accept or exchange the demonetised banknotes.

The demonetisation led to unavailability of cash to pay for food products. The reduction in demand that arose in turn led to a crash in the prices of crops. Farmers were unable to recover even the costs of transportation from their fields to the market from the low prices offered. The prices dropped as low as 50 paise per kilo for tomatoes and onions. This forced the farmers across the country to dump their products in desperation. Some farmers resorted to burying unsold vegetables. Agricultural produce such as vegetables, foodgrains, sugarcane, milk and eggs were dumped on roads. Some farmers dumped their produce in protest against the government.

**Business:** By the second week after demonetisation of 500 and 1,000 banknotes, cigarette sales across India witnessed a fall of 30–40%, while e-commerce companies saw up to a 30% decline in cash on delivery (COD) orders. Several e-commerce companies hailed the demonetisation decision as an impetus to an increase in digital payments. They believe that it would lead to a decline in COD returns which is expected to cut down their costs.

The demand for point of sales (POS) or card swipe machines has increased. E-payment options like PayTM and Instamojo Payment Gateway, PayUMoney has also seen a rise. According to data of Pine Labs, the demand for its POS machines doubled after the decision. Further it states that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016.

**Forecast of GDP Growth Rate:** Global analysts cut their forecasts of India’s GDP growth rate due to demonetisation. India’s GDP in 2016 is estimated to be US$2.25 trillion, hence, each 1 per cent reduction in growth rate represents a shortfall of US$22.5 billion (Rs. 1.54 lakh crores) for the Indian economy. According to Societe Generale, India’s quarterly GDP growth rates would drop below 7% for an entire year at a stretch for the first time since June 2011.
Before demonetisation

After demonetisation

**Drop in Industrial Output:** There was a reduction in industrial output as industries were hit by the cash crisis. The Purchasing Managers' Index (PMI) fell to 46.7 in November from 54.5 in October, recording its sharpest reduction in three years. A reading above 50 indicates growth and a reading below shows contraction. This indicates a slowdown in both, manufacturing and services industries. The PMI report showed also showed that the reduction in inflation in November was due to shortage in money supply. The growth in eight core sectors such as cement, steel and refinery products, which constitute 38% of the Index of Industrial Production (IIP), was only to 4.9 percent in November as compared with 6.6 percent in October.

**Income Tax Raids and Cash Seizures:** The Finance Ministry instructed all revenue intelligence agencies to join the crackdown on forex traders, hawala operators and jewellers besides tracking movement of demonetised currency notes. It was reported that the Prime Minister's Office (PMO) and the Prime Minister Modi himself were directly coordinating the raids conducted by the Income Tax, Enforcement Directorate (ED) and other agencies. As of 23 December, PMO received around 700 calls giving information about black money and it directly forwarded the information to various law enforcement agencies for further action.

Income Tax departments raided various illegal tax-evasive businesses in Delhi, Mumbai, Chandigarh, Ludhiana and other cities that traded with demonetised currency. The Enforcement Directorate issued several FEMA notices to forex and gold traders. Large sum of cash in defunct notes were seized in different parts of the country. In Chhattisgarh liquid cash worth of 4.4 million (US$65,000) was seized.[269]

As of December 28, official sources said that the Income Tax department detected over 4,172 crore of un-disclosed income and seized new notes worth 105 crore as part of its country-wide operations. The department carried out a total of 983 search, survey and enquiry operations under the provisions of the Income Tax Act and has issued 5,027 notices to various entities on charges of tax evasion and hawala-like dealings. The department also seized cash and jewellery worth over 549 crore out of which the new currency seized (majority of them 2000 notes) is valued at about 105 crore. The department also
referred a total of 477 cases to other agencies like the CBI and the Enforcement Directorate (ED) to probe other financial crimes like money laundering, disproportionate assets and corruption.

**Seizures of 2000 Notes:** Huge amounts of cash in the form of new notes were seized all over the country after the demonetisation. As of December 2016, over 4 crore in new banknotes of 2000 were seized from four persons in Bangalore, 33 lakh in 2000 notes were recovered from Manish Sharma, an expelled BJP leader in West Bengal, and 1.5 crore was seized in Goa. 900 notes of the new 2000 notes were seized from a BJP leader in Tamil Nadu. Around 10 crore in new notes were seized in Chennai.

As of 10 December, 242 crore in new notes had been seized. It was noted in the media that while people were dying in queues to obtain a few thousand rupees in cash, persons with the right connections were able to amass crores of rupees in new notes, thus rendering the demonetisation exercise futile. It was announced by the government that the seized notes will be brought into the mainstream as soon as possible to ease out the cash problem. Earlier, agencies kept all seized material, including cash seizures, in their strong rooms as evidence till the case was adjudicated by the courts. The seized money was then deposited into the Consolidated Fund of India. Sometimes, income tax cases took years to resolve, still all seized material was kept in safe lockers of the tax department.

**Multiple Bank Transactions:** There have been reports of people circumventing the restrictions imposed on exchange transactions by conducting multiple transactions at different bank branches and also sending hired people, employees and followers in groups to exchange large amounts of banned currency at banks. In response, the government announced that it would start marking customers with indelible ink. This was in addition to other measures proposed to ensure that the exchange transactions are carried out only once by each person.

**Railway Bookings:** As soon as the demonetisation was announced, it was observed by the Indian Railways authorities that a large number of people started booking tickets particularly in classes 1A and 2A for the longest distance possible, to get rid of unaccounted cash. A senior official said, "On November 13, 42.7 million passengers were nationally booked across all classes. Of these, only 1,209 were 1A and 16,999 for
2A. It is a sharp dip from the number of passengers booked on November 9, when 27,237 passengers had booked tickets in 1A and 69,950 in 2A. The Railways Ministry and the Railway Board responded swiftly and decided that cancellation and refund of tickets of value 10,000 and above will not be allowed by any means involving cash. The payment can only be through cheque/electronic payment. Tickets above 10,000 can be refunded by filing ticket deposit receipt only on surrendering the original ticket. A copy of the PAN card must be submitted for any cash transaction above 50,000. The railway claimed that since the Railway Board on 10 November imposed a number of restrictions to book and cancel tickets, the number of people booking 1A and 2A tickets came down.

**Municipal and Local Tax Payments:** As the use of the demonetised notes had been allowed by the government for the payment of municipal and local body taxes, it led to people using the demonetised 500 and 1,000 notes to pay large amounts of outstanding and advance taxes. As a result, revenue collections of the local civic bodies jumped. The Greater Hyderabad Municipal Corporation reported collecting about 1.6 billion in cash payments of outstanding and advance taxes, within 4 days. The tax collection by local bodies have surged over 260% and more than 15000 crore more after 14 days of demonetization. The total indirect tax collection rose to 14.2% only in the month of December according to Finance Minister Arun Jaitley.

**Pros/Benefits:**

- It will help the government to fight Black money, corruption, terrorism and counterfeit currency with one single decision.
- Arms smuggling, espionage and terrorist related activities will be choked due to lack of funding.
- Counterfeit currencies are being used for financing terrorism which is being run by the enemy in India. Now Govt has taken a bold move which enables them to fight counterfeit currency/terrorist funding activities.
- This decision will help institutionalize the real estate sector bringing more transparency in the Indian real estate industry. This step would give the Indian real estate sector more credibility making it more
attractive to the foreign as well as domestic investors.

- Housing prices could witness downward pressure, helping revive demand in the sluggish housing segment (this will give much needed bloodline to the sector).
- It will help the common man by putting an end to the artificial increase in Real Estate, Higher Education and Healthcare transactions bringing them within the reach of the common man.

Cons / Loss:

- Inconvenience to common people who will start running to the nearby bank to exchange the 500 and 1000 currency notes.
- Cost of replacing the 500 and 1000 Rs notes. If all this additional money (a spectacular Rs.6.666 trillion) had to be printed using Rs.100 notes, it would cost RBI about Rs.11,900 crore, which is more than a four-fold increase. This is without taking into consideration the increased costs of operating ATMs (since they would need to be refilled more often), and of handling money in general.
- Very difficult for more than half the population who are not well versed with the card transactions.
- This move deeply impacts the working sections of society: drivers, maids, cooks, electricians, plumbers. Anybody who provides services in the informal sector and depends on monthly or bi-monthly cash payments.
- How do you expect a chai wallah to leave his business and stand in a queue to deposit these notes in bank?
- What will happen to the common man who finds out that the note he is having is a fake one? How is the Govt going to handle such situations?
- The small businesses will be affected at least in the shorter run.
- Jan Dhan scheme, UPI/digital payment stack and payment banks are still in the nascent stage. It will be a long time before rural India moves to completely cashless transactions. In the short-term, people in rural India who have a significant amount of Rs 500 and Rs
1000 notes, but no official form of identification will have a tough time in exchanging their notes.

The big fish will be left out whose black money is in the form of foreign currency, gold and stashed away in tax havens.

**Conclusion:** So far, it can be said that this is a historical step by the Modi Govt. and should be supported by all. This decision of govt will definitely fetch results in the long term. From an equity market perspective, this move would be positive for sectors like Banking and Infrastructure in the medium to long term. This could be negative for sectors like Consumer Durables, Luxury items, Gems and Jewellery, Real Estate and allied sectors, in the near to medium term. This move can lead to improved tax compliance, better fiscal balance, lower inflation, lower corruption, complete elimination of fake currency and another stepping stone for sustained economic growth in the longer term.

**References:**

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