

Unbiased critical analysis of Demonetization

As one of the biggest decision in the history of Independent India, Prime Minister Mr.Narendra Modi marks the evening of 8th November 2016 with his surgical strike on black money through announcement of ceasing the [Currency Notes of 500 rupees and 1000 rupees](#) with a vision of putting a check on the huge amount of Black Money which is held by black money holders in the form of big denomination currency notes. Unlike the general thinking, demonization is not something new to the Indian economy. The country had gone through the phases of demonetization twice earlier in the year 1946 in pre-independence scenario and in 1978 by the then ruling Janta Party.

The 2014 general election came with huge expectation from the former Gujarat CM Mr. Narendra Modi after he conquered in the state election for the third time, when the people of the country voted for growth and development and Bhartiya Janta Party emerged as the highest voted with no other party getting qualified as the opposition.

Famous for the dedication towards work and his long-term vision, Mr.Modi immediately after being elected started his working towards better foreign trade policies and along with working on the other election promises made which includes curbing the black money and controlling corruption which were one of the strongest grounds for his general election win. Until the announcement of demonetization the government had come out with several policies and decision with macro level impact which includes the idea of [Make in India](#), nationwide clean drive in the form of Swachh Bharat Abhiyan, replacement of the so-called planning commission with the introduction of NITI Aayog, enabling the reach of banks to the rural population through Jan Dhan Yojana. Besides these initiatives the government also worked towards the transformation of the country into Digital India and encouraging entrepreneurship in the youth generation in the form of Start-up India.

In one way or other the initiatives mentioned above may or may not be linked with topic under discussion but the series of events somehow relates the whole scenario. Though the reason behind the government's move for demonetization was defined by the Prime Minister as to curb the black money, reports did not agree with the same. Central Board of Direct Taxes in the year 2012, had recommended against demonetisation, saying in a report that "demonetisation may not be a solution for tackling black money or economy, which is largely held in the form of [benami properties](#), bullion and jewellery". According to data from income tax probes, black money holders keep only 6% or less of their ill-gotten wealth as cash, hence targeting this cash may not be a successful strategy.

Though no accurate figures are available for the amount of Black Money in the country still different figures came out in the public in general announced by different peoples of the society and their different sources.

Based on the government data, total notes in circulation just before the date of announcement of demonetization was 17.77 Trillion Rupees as compared to 16.42 trillion Rupees as per the Reserve Bank of India Annual Report of 31st March 2016 out of which

86% i.e., 14.18 Trillion Rupees (14.18 Lakh Crores) of the currency in circulation is in the form of 500 Rupees notes and 1000 Rupees notes. The report further provides that in volume 24% of the total notes in circulation are denominated in 500 and 1000. As per the RBI's last announcement on December 10, figures of deposition of old currency notes with the banks for which a period 50 days were given by the government remains quite shocking with 12.40 Trillion (12.40 Lakh Crores) already getting deposited with the bank with still a period of 20 days to go somewhere putting a question mark on the success of the demonetization move.

It may not be right to judge whether the decision was correct or not or whether it was planned or unplanned but the 125 Crore population of the country has gone through a severe period of hardship in the last 50 days which is as of now , causing no problems for the actual culprits. Even after a period of one and half month from the date of demonetization, new currency is not there in circulation with the public in general though the RBI in its recent statements had stated that almost 8 Trillion Rupees in new currency notes have been issued post demonetization. Since 8th November 2016, people throughout the country had either faced long queues outside the Banks and ATMs or Banks and ATMs going out of cash. Throughout the country demonetization affected people leading to various problems whether it is the case of family function like marriages, or in rural and urban areas where economic activity is totally based on cash, throughout the country people found themselves cashless for the purchase of agricultural inputs and no market for their ultimate produce. Even the big corporate industrial houses like Tata Steels admitted that the sector has been hit by the Demonization inversely though they expect some positive vibes in the long term. Also, the Indian security market hit badly after the combined announcement of demonetization and US election. As of my personal opinion it is only the PM Modi's personal image and the faith of the peoples of the country in his decision otherwise the efforts of the opposition and other factors of the country might have created massive nationwide uproar towards this move.

The complete scheme looks little bit unplanned by the simultaneous notifications and announcements made by Reserve Bank of India which is generally not expected from the Central Bank of any country. The footsteps of the scheme somewhere correlated to the ouster of former RBI governor two months before this announcement and introduction of new governor as Mr. Urjit Patel.

It was claimed that only three people were aware about the announcement of demonetization which includes the prime minister himself, finance minister and the RBI Governor though in the early post demonetization scenario various prior leakage of information related facts came into notice which includes prior publishing of related information in a Gujarati newspaper, Dainik Jagran. The initial uproar by opposition and the peace afterwards also puts a question mark whether or not demonetization any impact on corruption or it was just a scheme ultimately created hurdles for the public in general.

The scheme had received mixed reviews with supports from various peoples including bankers like Arundhati Bhattacharya and Chanda Kochar, and international organization like IMF and criticism from Indian Supreme Court and various economists.

The post demonitization scenario has also seen simultaneous Income Tax Raids and Cash seizures throughout the country. The departments of the Government succeeded to defuse the planning made by various people to get the money converted into white without getting eyed by the Income Tax Department through commission agent though the amount involved in these raids and seizures are relatively very low.

Soon after getting the signs of the scheme getting unsuccessful the Government turned the whole story towards Digitization and India to be emerged as Digital India with Smartphone as the biggest player and various banks creating their own digital wallets and Companies like Paytm, Mobiwik, Freecharge providing the facility of all type of Cashless transaction. Early reports claimed for multiple fold growth in cashless transaction, though in rural areas people still found it difficult to operate and faith on its security. Moving towards cashless economy has created hurdles for people who did not want to operate the transaction in records in order to avoid any action from the Income Tax Department. As of now digitization seems to be the sole benefit emerged out from the complete scheme though a lot of people are still expecting something big announcement from the PM Narendra Modi's coming address to the nation on 30th December 2016.

Going by people's opinion and as admitted by Mr. Modi, [demonetization](#) was targeted long back and Jan Dhan Yojana and Income Declaration Scheme were part of the complete exercise wherein the government had given chance to the people to get their black money converted into white after paying a fixed rate of taxes. Yet some of the notifications by RBI including exemption to political parties and limiting the deposition from the public in general before 30th December are some of the disappointing factors.

As of now public in general is of the opinion that the move for demonetization lost its early objective and not seems to get successful, with a 2000 rupees note higher than the earlier denomination, providing much better scope of creating black money. Possibility of announcement to curb black money in the form of Gold and Benami Properties are also their still the government must not make any such decision without proper planning and possible out comings of any such decision.

Source: CA Club India