Demonetisation

Monumental Blunder or Master Stroke

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'Having faith in beauty of realistic dreams,

Eternal and dedicated efforts will bring dreams to reality.'

For dreams of my people, I dedicate this book to all my brothers and sisters of the country, who dream of India to be a developed nation and especially to Hon. Prime Minister, Mr. Narendra Modi, who is bestowed with responsibility to lead the people with profound expectation, hopes and dreams.

I have started this book with the 'Preamble of the Indian Constitution' and 'Constitutional fundamental rights and duties', because I observed there is differential understanding in national value system mentioned in these heads and the value system we have adopted, regardless our education, job ranking, economic strata or political hierarchy & beliefs. I hope these pages have potential to change lives of brethren and ultimately the NATION.

Preamble of Indian Constitution[1]

We, the people of India, having solemnly resolved to constitute India into a Sovereign Socialist Secular Democratic Republic and to secure to all its citizens:

JUSTICE, social, economic and political;
LIBERTY of thought, expression, belief, faith and worship;
EQUALITY of status and of opportunity; and to promote among them all
FRATERNITY assuring the dignity of the individual and the unity and integrity of the nation;

in our constituent assembly this twenty-sixth day of November, 1949, do hereby adopt, enact and give to ourselves this constitution.

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[1] The preamble has been amended only once so far. On 18 December 1976, during the Emergency in India, the Indira Gandhi government pushed through several changes in the Forty-second Amendment of the constitution. Through this amendment the words "socialist" and "secular" were added between the words "Sovereign" and "democratic" and the words "unity of the Nation" were changed to "unity and integrity of the Nation".

Fundamental rights of Indian citizen

The six fundamental rights recognized by the Indian constitution are:

1. Right to equality: It includes equality before law, prohibition of discrimination on grounds of religion, race, caste, gender or place of birth, and equality of opportunity in matters of employment, abolition of untouchability and abolition of titles.

2. Right to freedom: It includes freedom of speech and expression, assembly, association or union or cooperatives, movement, residence, and right to practice any profession or occupation, right to life and liberty, protection in respect to conviction in offences and protection against arrest and detention in certain cases.

3. Right against exploitation: It prohibits all forms of forced labour, child labour and traffic of human beings.

4. Right to freedom of religion: It includes freedom of conscience and free profession, practice, and propagation of religion, freedom to manage religious affairs, freedom from certain taxes and freedom from religious instructions in certain educational institutes.

5. Cultural and Educational rights: It preserves the right of any section of citizens to conserve their culture, language or script, and right of minorities to establish and administer educational institutions of their choice.

6. Right to constitutional remedies: It is present for enforcement of Fundamental Rights.

Fundamental duties of Indian citizen

Fundamental duties of Indian citizen as per article 51(A) of Indian Constitution, 1949[2]:

(a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;

(b) to cherish and follow the noble ideals which inspired our national struggle for freedom;

(c) to uphold and protect the sovereignty, unity and integrity of India;

(d) to defend the country and render national service when called upon to do so;

(e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;

(f) to value and preserve the rich heritage of our composite culture;

(g) to protect and improve the natural environment including forests, lakes, rivers and wild life and to have compassion for living creatures;

(h) to develop the scientific temper, humanism and the spirit of inquiry and reform;

(i) to safeguard public property and to abjure violence;

(j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;

(k) who is parent or guardian to provide opportunities for education to his child, or as the case may be, ward between the age of six and fourteen years.

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[2] Originally, the Constitution of India did not contain these fundamental duties. The Fundamental Duties were inserted into the Constitution of India by the 42[th] Constitutional Amendment Act, 1976 on the recommendations of the Swaran Singh Committee. Ten Fundamental Duties were included in Article 51-A under Part IV-A through this amendment. The 11[th] Fundamental Duty 51-1(K) was added by the 86[th] Constitutional Amendment Act, 2002.

Preface

The demonetisation: recalling currency of Rs. 500 and Rs. 1,000 banknotes was a policy enacted by the Government of India on November 8, 2016. All Rs.500 (US$7.495) and Rs.1000 (US$14.99)[3] banknotes of the existing series and any older series[4] ceased to be legal tender in India from November 9, 2016.

The most critical event of 2016 of India has objectives to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy.

When decided to write on 'Demonetisation', have found most of published articles on the subject which were unfortunately, biased either to pro-demonetisation or anti-demonetisation. Most of articles have tried to show only one side of the coin, this is a humble attempt to weigh and analyse both sides, rationally. Few aspects like emotional attachment to old currency, physical appearance preference between old and new currencies and emotional and physical loss of people queued to change the currency could not be monetarily quantified, though tried.

Perhaps it will impact on every section of economy and people, the media tried to cover political views on the event making it more political than economic. It's difficult to understand why many TV news channels did not focus on the economics of demonetisation as it affected the all whereas it focussed on the political impact on the ruling and opposition parties. Ergo, instead of economists and representatives of non-political and non-religious domains, the TV news-channels have spokespersons from political parties, either from ruling or opposition or from left or right.

Keeping electoral decision with the people, we have tried to evaluate all possible angles of demonetisation, truly without any pro or anti thought.

With the hope, readers will appreciate unbiased non-political attempt of writing on a dramatic issue, its economic impact is also considered.

We salute to all the citizens of the country for being patience and supportive, managing daily needs even without or with less cash; importantly wish to thank

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[3] Computed with currency rate of Rs 66.7073 = US$1, a closing reference rate as on November 8, 2016 on Reserve Bank of India portal, www.rbi.gov.in

[4] All notes of Rs 500 and Rs 1000 denominations issued before November 8, 2016 were of Mahatma Gandhi Series. Mahatma Gandhi (New) Series was issued on the same date for Rs 500 and Rs.2,000 denominations.

all banking professionals who have worked 16-18 hours a day during demonetisation move.

This book would be of value to everybody who has observed some effect of demonetisation; this may turn helpful to economist, policy maker who wants to observe or evaluate the demonetisation effect.

It will also help to representatives from the local government authorities, regulatory agencies and trade associations would also benefit from the information given as this would assist them to take rational decision in consideration with the effect of demonetisation on their business and industry.

The book may have listed pro or anti assessments on demonetisation, though it can't be denied that the source of inspiration is our honourable Prime Minister, Mr. Narendra Modi and our belief that he could consider our analytical work for future planning leading to country's development; need not to say, pain to pen down the book might not be taken if there would be any other Prime Minister.

Appealing to the people of India, a Sovereign Socialist Secular Democratic Republic, to consider the Book as a mean to discharge our fundamental duty, mentioned in Article 51-1(h).

In the book, sincere efforts are made to stand be non-political & non-religious on demonetisation. Here, last two Indian demonetisations along with over twenty global demonetisations are presented along with its reasons and outcomes. In addition, "black money and corruption", an objective of demonetisation is discussed and ways along with broader implementation plan are stated to curb such illicit practices. We hope, corruption free India can make it economic power as it was in precolonial or medieval time; again will be symbolised as "*Sone Ki Chiriya*"[5].

[5] "*Sone Ki Chiriya*" is *a Hindi word* which means the golden sparrow. Ancient India was referred as the golden sparrow or bird.

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Introduction

The advent of currency dates back to the Indus Valley civilisation. The first coins were developed independently in Iron Age, Lydia (Anatolia and Archaic Greece), India and China around the 7th and 6th centuries BCE. Coins spread rapidly in the 6th and 5th centuries BCE, throughout Greece and Persia, and further to the Balkans.[6]

Standardised Roman currency was used throughout the Roman Empire. Important Roman gold and silver coins were continued into the middle ages.[7] Ancient and early medieval coins in theory, had the value of their metal content, although there have been many instances throughout history of the metal content of coins being debased, so that the inferior coins were worth less in metal than their face value. Fiat money first arose in medieval China, with the jiaozi paper money. Early paper money was introduced in Europe in the later middle ages, but some coins continued to have the value of the gold or silver they contained throughout the Early Modern period. The penny was minted as a silver coin until the 17th century.[8]

Kingdoms issued royal seals, coins made of gold, silver and copper that kept changing with rulers and dynasties, until 14th century, when under Muhammad bin Tughlaq, Tankas - copper and brass coins to replace gold and silver coins, were introduced. Though they were in short supply, his experiment failed with counterfeits flooding the market, thereby making way for minted coins having a unique seal. In 1735, Nadir Shah devalued currency that led to a surge in inflation, and withdrawing his decision subsequently.[9]

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[6] (A Brief History of Coin Invention); (Coin). South western part of present day Turkey was known in antiquity as Lydia. Ionians (Greek settlers on the east coast of Asia Minor) described their eastern neighbors Lydians as the people with dark hair and olive colored skin. Evidence exists for Lydian coins but only circumstantial evidence exists for the Indian and Chinese coins of this period.

[7] In the history of Europe, the Middle Ages or Medieval Period lasted from the 5th to the 15th century. It began with the fall of the Western Roman Empire and merged into the Renaissance and the Age of Discovery. The Middle Ages is the middle period of the three traditional divisions of Western history: classical antiquity, the medieval period, and the modern period.

[8] (Coin)

[9] (Rastogi, 2016)

Overview

On the night of November 8, 2016 when America was counting votes, India was counting notes, what made them to do so: Demonetisation. The term demonetisation was unheard for years, but not new to the Indian economy. First demonetisation took place in 1946, yes, in British India, it met with a little success with only 6.3% of high value currency notes were not being exchanged.[10] The Second demonetisation was taken place in 1978, when Mr. Morarji Desai was Prime Minister, even this demonetisation was a failure with 11.02% demonetised currency was not exchanged.

Demonetisation, the "Big Bang Reform" step taken by honourable Prime Minister Narendra Modi, was appreciated, supported and praised by almost all classes' and masses. The audacious move has given birth to wild hopes of a decisive blow to the black economy and counterfeit currency. It was also being lauded for its potential to convert India into a cashless economy. However, demonetisation had dampened the celebratory mood that followed the announcement, and its disruptive impact turned visible in December 2016.

Days passed, footage snatched from Hillary and Trump, became nightmare for the Prime Minister, the plan of demonetisation was blamed to be wrong; stalwarts of banking sectors, middle and lower class sections of the society started screaming in varied expressions along with the black money hoarders. It created dramatic impacts on the Indian social-economic condition; political drama started in wake of shedding tears of the society. The Condition was getting worse, as the objective was fainted and side-effects with negatives observed prominently.

Many including senior bankers Mr. KV Kamath, Former ICICI Bank chairman, Mrs. Arundhati Bhattacharya, Chairperson of State Bank of India and Mrs. Chanda Kochhar, MD & CEO of ICICI Bank and businessmen Mr. Anand Mahindra (Mahindra Group), Mr. Sajjan Jindal (JSW Group), Kunal Bahl (Snapdeal and FreeCharge)[11] and Infosys founder N. R. Narayana Murthy[12] have supported the move and though the step was not wrong, but why several economists including Dr. Raghuram Rajan[13], Dr. Amartya Sen[14] and Dr.

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10 (Rastogi, 2016)

11 (Express Web Desk, 2016)

12 (PTI, 2016)

13 (Parmar, 2016)

14 (PTI, 2016)

Manmohan Singh[15,16] were against the move; more than 15 public interest litigations (PILs) had been filed[17] against the government's move to scrap the notes of Rs 500 and Rs 1000 as 'Legal Tender'. What made people to suffer for more than one month; importantly, what made RBI to reduce its GDP growth figure for FY2016-17, the book attempted to answer those.

Demonetisation 2016

On November 8, 2016, Indian Prime Minister, Mr. Narendra Modi, followed by Reserve Bank of India (RBI) Governor, Dr. Urjit Patel, announced that 'the 500 rupee and 1,000 rupee currency notes presently in use will no longer be legal tender from midnight'. In the same TV appearance, the Government claimed that it was fully prepared for the action and situation would be sorted out within few days.[18]

Within few hours, the higher denomination notes of Rs.500 and Rs.1000 constitute 86.9[19] per cent of the total currency in circulation in the economy, by value, have ceased to be legal tender: It was like removing 86.9% of cash from cash driven economy. People at large, have appreciated and welcome this move throughout the country, in first few days, few weeks and then observed mix responses.

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[15] (Express Web Desk, 2016)

[16] (Singh D. M., 2016)

[17] (Mastakar, 2016)

[18] (IANS, 2016). The Government's claim of preparedness was trashed by Mr Piyush Goyal saying "Government didn't have enough time to prepare" in the Hindustan Times Leadership Summit in New Delhi. (Ray, 2016)

[19] As per (Reserve Bank of India, March 10, 2017) Report, Rs 500 and Rs 1000 currency was of Rs 15.4 Lac Crores constituting 86.9% of total currency in circulation; whereas this report didn't mention denomination-wise currency in circulation as on that date. Considering this, total currency in circulation as on November 8, 2016 is computed to Rs 17.7 lac Crore. Also, Weekly Statistical Supplement (issued by RBI) dated November 11, 2016 mentioned that the total currency of Rs 17.74 Lac Crores was in circulation on November 8, 2016. 86.9% figure is used throughout the book.

Objective of Demonetisation

Honourable Prime Minister Narendra Modi and Governor of RBI[20], Dr. Urjit Patel, both have mentioned several objectives in their early appearances after demonetisation announcement. These objectives were:

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

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

Demonetisation 2016: Objective Ambiguity

Government and RBI have stated demonetisation as an act of attack on black money, corruption, counterfeit currency and terrorism. Unfortunately, demonetisation proved to be tangential to these objectively, barely touched it.

Black Money

World Bank estimated the size of the black economy in India was of 23.3% and 21.4% in 1999 and 2006 respectively of GDP; the average ratio of shadow economy to GDP was computed to 22.4% for period of 8 years from 1999 to 2006.[21,22] Further in 2013, McKinsey & Company has estimated Indian Shadow economy of 26% to GDP[23] for the year 2011. This was most recent shadow economy estimation available.[24]

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[20] RBI is an abbreviation for Reserve bank of India, the Central bank of India.

[21] (Schneider, Buehn, & Montenegro, 2010); Annexure of Shadow Economies is available.

[22] (Department of Economic Affairs, Ministry of Finance, Government of India, 2016). The shadow economy wrongly mentioned to "20.7% of the GDP in 1999 and rising to 23.2% in 2007" as mentioned in its reference paper of world bank ""20.7% of the GDP in 2007 whereas 23.2% in 1999". World Bank References are mentioned in annexure.

[23] (Denecker, Istace, & Niederkorn, 2013)

[24] (Jain M. , 2016)

According income tax probes in 2015-16, black money holders keep only 6%[25] or less of their ill-gotten wealth as cash, hence targeting this cash may not be a successful strategy. It simply mean demonetisation would distress only 6% of black money which was kept in cash, rest black money would be unaffected by demonetisation.

Counterfeit Currency

In India, as mentioned in the Annual report of RBI for FY 2015-16, 7.01 pieces of counterfeit notes per million of NIC (Notes in circulation) were floating, on an average. Counterfeiting in lower denomination notes (less than 100 rupee) has been negligible, were of Rs 0.32 mn in total; whereas highest FICN[26] notes were in Rs 500 currency, followed by Rs 100 and Rs 1000. FICN currency in terms of value, Rs 500 and Rs 1000 note contribute to 92.42% of total FICN whereas Rs 100 shares 7.47% of FICN currency. The value of these fake notes in 2015-16 was Rs 29.64 crore, which was 0.0018 per cent of the Rs 16.41 lakh crore currencies in circulation.

India had reasonably low counterfeit currency as compared to USA, UK and Europe that is 7 FICN notes per million whereas Euro, Pound and Dollar are having 50, 72 and 100 FICN currencies respectively.

This simply means that combating counterfeit currency could not justify a reason for such a big decision of demonetisation when economic losses were certain.

Terrorism

Disengaging emotions associated with terror attacks and demonetisation or any political party or philosophy to understand effect of demonetisation on terrorism. It is important to understand that terror is nothing more than an instrument of war, regardless it is intra-border or inter border, which expresses to its antagonist to those who are in power about their intention, philosophy and non-agreeable opponent's policies or activities; his inability to express his view clearly makes him terrorist or Naxalite.

Unavailability of cash currency will restrict the terrorism for some time; once cash is available it will regain momentum.

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[25] (Suresh, 2016)

[26] FICN is an abbreviation for Fake Indian Currency Notes.

Social justice and security, increasing per capita income, employment creation and reducing unequitable distribution of wealth of the country are few ways to annul the terrorism; this will also reduce all kind of crimes, social or financial.

Cashless Economy

India has a large cash economy due to dependence on agriculture, and existence of non-formal sector and insufficient banking infrastructure. In one sense, demonetisation looks sensible to make India cashless; but is India ready for it? The big 'NO' can be justified on few facts of Indian economy (figures are for 2015 and 2016):

1. There are 13.5 bank branches per one lac population. In rural India, the figure stands close to 8 bank branches per one lakh Indians. This shows that a majority of rural India has very little access to banks and the organised financial sector. They rely heavily on cash and the informal credit system.

2. Then, we have just 2.05 lac ATMs in the country for a population of over 1.29 billion people, that's a very small number. A majority of ATMs are concentrated in metros and cities. For instance, Delhi has more ATMs than the entire state of Rajasthan.

3. In India ATMs per lac population is 19.71 which is much below the world average of 40.55.

4. Indian Banking penetration in terms of number of bank account holders above 15 years of age is 52.8% which is again below the world average of 60.07%.

5. Internet penetration and mobile subscription in India are 26% and 79% respectively as compared to compared to global average of 44% and 99%.

6. Mastercard reported 'Digital Banking Readiness Scores' of India indicating presence of macro-economic pre-requisites for going cashless was 29[27] out of 100 in 2013. AT Kernerly report of 2013 stated that India has to focus on fundamental, a primary level to go for digital banking.[28] It indicates unavailability of proper banking infrastructure to make cashless economy.

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27 (Thomas, 2013)

28 (AT Kearney; Efma, 2013)

As stated poor penetration of banks, internet, mobile and inadequate financial infrastructure in India, we believe that Modi's cashless economy ambition seems a distant dream.

Importantly, at the end of March 2016, the value of banknotes in circulation was Rs.16,415 billion showing an increase of 14.9 per cent as against 11.4 per cent in 2014-15. On March 31, 2013-14, the value of bank notes in circulation was Rs. 12,829 bn. The growth in currency over last two years that is from FY 2013-14 to FY2015-16 was 28%. The currency notes in circulation increased by 4 per cent from Rs 16,415 billion as on March 31, 2016 to Rs 17,077.16 billion as on June 30, 2016.[29]

The currency growth within 2.25 years[30] is 33.11% up to June 30, 2016. This simply suspects if the government's has any intention to promote cashless transactions; else they would have not increased 33.11% cash in circulation.

Impact of Demonetisation

Demonetisation had a short term and will have long term effect on both people and economy; its effect will not be uniform across the sectors or industries. People faced cash crunch in first few weeks and the situation improved gradually with remonetisation of fresh currency. During cash crisis period, people started exploring cash less trade options and used to it; and non-cash transactions surged many folds during the period.

Indian economy was coerced severely; many economists have considered demonetisation as an unsolicited action. Demonetisation has affected several factors of the economy, of which few are as:

1. GDP Growth: Because of cash crunch many industries were affected negatively and expected GDP growth figure for 2016-17 was reduced by many research and analytical agencies at least by 1.00%.
2. Negative Industry Effect: Many industries like real estate, gold and jewellery, construction and transportation which has substantial cash transactions, affected ruthlessly. This effect trickled down to its backward industries, suppliers, employees and workers.
3. Real Estate Property rates: It was observed that there was a price correction by approximately 15% after announcement. This was due to

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[29] (RBI, 2016)

[30] During this tenure, BJP government was in power, headed by PM Mr. Narendra Modi.

unavailability of cash to carry out/ complete the projects also because of declined property demand.[31]

4. Repo/ Reverse Repo & CRR: It's not rocket science to predict that RBI will try to avail liquidity in the market. Policy rates will be eased to facilitate economic growth in short term. Once, liquidity in place, Government will have other challenge of maintain trade-off between bank deposits (or lending) and inflation control.
5. Employment Reduction: In many industries, labours are offloaded because of poor demand in the market, increase in inventory or inability of employer to pay.
6. Bond Yield: Sovereign bond yield will fell; corporates bonds will also see the same trend until economic recovery.[32]

India with GDP of Rs 135.76 Lac Crore (nominal GDP estimated at current prices for 2015-16) was having bank notes in circulation of Rs 17.42 Lac Crore as on March 31, 2016. With 12.09% of Currency to GDP ratio, India has one of the highest levels of currencies in circulation.

India's economy, which grew 7.3 per cent[33] in July-September 2016 from a year earlier, is seen slowing to 6.5 per cent in the third quarter of FY2016-17 as Mr. Modi's shock decision damps consumer demand. The benchmark 10-year sovereign yield fell five basis points on December 5, 2016 to 6.19 per cent and is down 157 basis points over last year.

"Demonetisation is the main factor that has led to the sharp drop in corporate bond yields," said Shameek Ray, the Mumbai-based head of debt capital markets at ICICI Securities Primary Dealership Ltd. [34]

The currency held by the public, is a liability on the books of the Reserve Bank of India. Hence, when demonetised currency is unclaimed, it will reduce RBI's liability, and subsequently add to the government exchequer. The RBI can print new notes in place of those destroyed and these can be brought into circulation.

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[31] During last demonetization move of 1978, Indian real estate industry has seen drop in demand and prices. Similar trend is expected in 2016-17.

[32] (Patil, 2016)

[33] (Tripathy & Kumar, 2016)

[34] (Patil, 2016)

Without doubt, withdrawing 86.9% of cash created immediate cash crunch and further slowed down the economy. India could have planned it meticulously, execute with all resources otherwise implemented it like USA or Pakistan (passively) which would not have affected the economy negatively, importantly when the economic growth was priority of the country.

CBDT & SIT Reports on Black Money didn't recommend demonetisation

In 2012, the Central Board of Direct Taxes had recommended against demonetisation, saying in a report that "demonetisation may not be a solution for tackling black money or shadow economy, which is largely held in the form of *benami transaction*[35] (or properties), bullion and jewellery".[36,37,38] Further, demonetisation will only increase the cost, as more currency notes may have to be printed for disbursing the same amount.[39]

In 2015, the Special Investigation Team (SIT) headed by Justice M.B. Shah (retired), submitted its fifth report to the Supreme Court on methods to curb black money in the economy. The has recommended a ban on cash transactions of above Rs 3 lac, restricting cash holding with individuals to not more than Rs 15 lac and amendment in Black Money Act[40]. But, the report did not recommend demonetisation.

Public Interest Litigations against Demonetisation

Nearly 15 Public Interest Litigations[41] have been filed in Supreme Court and High Courts in Mumbai, Andhra Pradesh, Kerala, Karnataka, Kolkata etc. Public Interest Litigants have challenged the central government's notification on various grounds, the most important of which were:

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35 *Benami* Transactions (Prohibition) Act, 1988 is an Act of the Parliament of India defines a *benami* transaction as a transaction where a property is held by or transferred to a person, but has been provided for or paid by another person.

36 (Subodh Varma, 2016)

37 (PTI, 2012)

38 (Central Board of Direct taxes (CBDT), 2012)

39 (Central Board of Direct taxes (CBDT), 2012)

40 Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

41 (Mastakar, 2016)

1. It is a violation of fundamental rights under article 19, 21 of Indian constitution- right to life, liberty, right to trade freely.
2. It violates Section 26(2) of the Reserve Bank India Act, 1934. They are arguing that reasonable time should be given to people to make alternate financial arrangements in order to avoid large scale mayhem and chaos.

These kinds of litigations were also observed against demonetisations of 1946 and 1978, almost all were in the favour of the Government; obviously, similar results will be seen in these cases.

Beneficiaries of Demonetisation: Political Parties, Religious Centres & Black Money Hoarders

Charity is a noble act, an act of sharing with others without any expectation or consideration; it is a selfless service. Demonetisation has added to the charity, regardless it's a political, religious, educational and non-government/ non-political.

Political charity or donation surged during demonetisation as this is a way to convert black money to white; there is no need to disclose the identity of donor up to Rs.20,000 donations to registered political party.[42] Most of political funding is in cash which is a large chunk of black money; that rarely talked about.[43] Any political party can show donation in small amounts below Rs.20,000 and escape of regulatory requirement. Demonetisation offered an opportunity to black money hoarders to donate to political parties for future consideration in money or kind; obviously ruling parties of states and centre will be benefitted more.

Religious charity also gushed during the demonetisation period. 70%[44] of Indians donates solely or partly for religious reasons; and donation receipts by charitable trusts or temples, churches, mosques from donation boxes does not comes under income tax scanner. Also, there may be pressure or temptation to accommodate black money on religious trust or societies, this will lead to upsurge in donation; there might be any future consideration. BJP, once known

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[42] ADR (Association for Democratic Reforms)) and Representation of People Act-Section 29C. Also political parties are exempted from income tax (Section 13A of Income tact Act, 1961)

[43] (Kapur, 2016)

[44] As per Charity Aid Foundation India Report

as *Brahmin-Bania*[45] Party, still may have control over religious centres and may get benefitted by this demonetisation.

Practically every prominent politician in the country has an educational trust to his name which is always in an expansion mode. Starting with Arts, Science and Commerce colleges, they grow on to add institutes in high-demand segments like engineering, medicine, pharmacy, IT and now, biotechnology. Educational institutes facilitate politicians to accept donations. [46] During demonetisation, these institutes may also see upswing in donation either back dated or current dated for some benefits.

Almost all cancelled currency is presented and exchanged with legal tender, the black money hoarders explored different ways to convert it to white, unfortunately, and they succeed. This is because of loopholes in the system which may be kept intentionally or unintentionally.

Political Blame-Game

Politically, the demonetisation decision has reinforced Mr. Narendra Modi's image as a strong and decisive leader prepared to take bold and tough decisions. In electoral democracies, all major economic decisions have political dimensions. The Narendra Modi government's decision to demonetise high-value currency notes was nothing if not political; no politician would willingly risk economic growth and jobs if he did not think there would be political gains at the end of the rainbow, especially when the pain is upfront.[47]

It can be visualised couple of political factors which would have helped for demonetisation decision, these are:

1. 2017 elections in UP, Punjab and other states in which BJP is not ruling: In upcoming elections, mainly UP and Punjab, cash is openly distributed. Demonetisation may turn to be game changer in these

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[45] (Mahapatra, 2016). Brahmin is a varna (class, caste) in Hinduism specialising as priests of sacred learning across generations. Brahmins used to survive on the donations they used to earn from religious rituals called "Daan" by following the religion ie. "Dharma". (James Lochtefeld (2002), Brahmin, The Illustrated Encyclopedia of Hinduism, Vol. 1: A–M, Rosen Publishing, ISBN 978-0-8239-3179-8, page 125). Bania or Baniya caste occupations are traditionally merchandising, trade and money lending, and more than other castes most baniya's are still enbgaged in one of these.(Russel 1975, 111-3, Enthoven 1979, Volume 3, 412-22) (Schrader, 1997)

[46] (DNA)

[47] (Jagannathan, 2016)

elections. It could denude political rivals of substantial cash assets for fighting the forthcoming elections in Uttar Pradesh, India's most populous state and Punjab. Government might have thought of this and wanted to have clean elections.[48]

2. Economic growth in 2017-18 and 2018-19: Demonetisation will retard the economic growth in FY2016-17 and FY 2017-18 due to cash crisis. After remonetisation, the economy may show increased growth rate in 2018-19.
3. Demonetisation might be a first step for 2019 general election win: The expected growth figures will be political campaigning agenda for 2019 elections. Alike 2009 win of UPA, economic growth may help BJP to win in 2019.[49]
4. It is also expected that BJP may come up with Tax reduction or any other generous schemes in 2018 and 2019 budget which will help it to win in 2019.

Only the Prime Minister can tell us what were rationale behind demonetisation; in times to come the picture will be clear and expect it will be in the best interest of the country.

Food for Thought:

India has been suffering from corruption, black money, fake currency and terrorism for long. This has had some adverse effects on our economy. Indeed, demonetisation, a bold step taken by the Government, is a pious step to curb such practices; but its effect on the economy was contrary to its objectives.

In the first few days, people from every segment have whole heartedly supported the move; the support faded with time and the pain, they had or have been going through. Again, demonetisation is not a fool-proof step to eradicate the corruption in India, but might have destroyed some of its roots, if have implemented well. It's a long due step, but need to ensure that no new black

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[48] BSP & SP in UP and Congress & AAP in Punjab were in leading positions, according opinion polls. It might be perceived that demonetisation and cash unavailability might restrict BSP & SP in UP and Congress & AAP in Punjab. Political parties can accept unlimited charities from known accounted sources and upto Rs 20,000 unknown sources which may limit the effect of demonetisation on political parties.

[49] The GDP growth is expected to improve in FY2019 and FY2020. The effect of demonetisation in FY 2016-17 and FY 2017-18 was predicted negative by most of rating agencies including IMF, World Bank, Nomura, Morgan Stanley, Fitch etc.

money will be generated in the system; as old black money gets converted into new currency, demonetisation turned futile.

"Politics apart, only demonetisation is unlikely to curb black money in circulation. For a simple reason that no one really knew how much black money there was in circulation and in what forms it was cash, real estate, jewellery or something else. Most people who do collect it never keeps it in currency form, hence effect of demonetisation has not met as planned for. Even more important, whether all the holes of economy which creates black money or converts it to white are plugged in before demonetisation, if not there are fear factors which may help to pile up black money again.

Positives may be seen later as government announced; masses were suffering immediately after declaration of demonetisation. 86.9% of currency became worthless in four hours; the inconvenience caused by this sudden currency crunch is main reason for opposing this move by many.

The government and the RBI had tried hard to make the situation better and execute it smoothly. Demonetisation turned out of control, did it emerge as demon?

Demonetisation

Introduction

Demonetisation, to comprehend it, its meaning and effects lets understand what money, is actually mint for. Money is unanimously agreed language which understands and expresses need of each individual of the society and makes it more common language for trade, business and even to meet personal and family needs.

In barter era, without using a medium of exchange, money goods or services were directly exchanged. Now, barter system is not enough and practically viable to serve the complexity of business, cross border trade and differential needs of individuals and businesses. In all economies, no matter how regulated or liberal these are, 'money' serves as a means to store value, as a medium of payment and exchange, or as an accounting unit.

'Money' is essential for rational decision-making on many levels for individuals, societies and states or countries. Thanks to money, we can designate a product as a cheap or an expensive and decide whether to or not to buy it. We see whether wages for a particular job is high enough or too low, a factor upon which we compare employment decisions. Money helps to determine whether a person is rich or poor, and on this basis should be taxed heavily or receive welfare benefits. A producer can readily see whether costs exceed revenues, and whether the return on investment justifies the time and labour spent and the risk taken.

Money has important economic and political functions beyond the individual realm. Central banks can alter the growth of its economy by adjusting the interest rate and other policy rates. Money is also a simplistic but powerful tool to quantify the size and growth rate of an economy; it also quantifies size and growth of any state, town, even a family or an individual. In one word, our whole lives as individuals or as a group, or a country, would be unthinkable without money.

Legal Tender

Demonetisation simply means a specific currency unit ceased its status as legal tender.

Black's Law Dictionary defines the word "tender" to mean "an unconditional offer of money or performance to satisfy a debt or obligation". Anything can be "tendered" in payment of debts as long as the creditor accepts it. A creditor will not accept any item whose intrinsic value is less than the value of debt. The only exception is a "legal tender". A creditor will accept legal tender even though it lacks equivalent intrinsic value because its value is guaranteed by the state itself through law. Hence, anything whose value for the purposes of payment is independent of its intrinsic value because of an explicit state guarantee through law is a "legal tender".

Legal tender is a medium of payment recognised by a legal system to be valid for meeting a financial obligation.[50] Paper currency and coins are common forms of legal tender in many countries. Legal tender is variously defined in different jurisdictions. Formally, it is anything which when offered in payment extinguishes the debt. Thus, personal cheques, credit cards, and similar non-cash methods of payment are not usually legal tender. The law does not relieve the debt obligation until payment is tendered. Coins and banknotes are usually defined as legal tender. Some jurisdictions may forbid or restrict payment made other than by legal tender. For example, such a law might outlaw the use of foreign coins and bank notes or require a license to perform financial transactions in a foreign currency.

Generally, designation of a particular form of money as legal tender means that the designated money is valid payment for all debts unless there is a specific agreement to the contrary.[51] In some jurisdictions legal tender can be refused as payment if no debt exists prior to the time of payment (where the obligation to pay may arise at the same time as the offer of payment). For example, vending machines and transport staff do not have to accept the largest denomination of banknote. Shopkeepers may reject large banknotes: this is covered by the legal concept known as "invitation to treat" or "invitation to offer".[52] Under the law, United States money as identified above is a valid and legal offer of payment for antecedent debts when tendered to a creditor. By contrast, US Federal statutes do not require that someone who is not a pre-existing creditor must accept currency or coins as payment for goods or services. Private businesses may formulate their own policies on whether to accept cash unless state law requires otherwise.[53]

Indian Rupee as Legal Tender

The Indian rupee is the de facto legal tender currency in India. The Indian rupee is also legal tender in Nepal and Bhutan, but the Nepalese rupee and

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[50] (Legal Tender Guidelines, 2007-09-02)

[51] (Horvitz, 1974)

[52] In India, "Invitation to offer", as per Indian Contract Law, is synonymic to "invitation to treat".

[53] (Current FAQs)

Bhutanese ngultrum are not legal tender in India. Both the Nepalese rupee and Bhutanese ngultrum are pegged with the Indian rupee.[54]

The Indian rupee used to be an official currency of other countries, including the Straits Settlements (now Singapore and parts of Malaysia), Kuwait, Bahrain, Qatar, and the Trucial States[55] (now the UAE).

In 1837, the Indian rupee was made the sole official currency of the Straits Settlements, as it was administered as a part of India. In 1845, the British replaced the Indian rupee with the Straits dollar after administration of the Straits Settlements separated from India earlier in that same year.

After partition of India and Pakistan in 1947, the Pakistani rupee came into existence, initially using Indian coins and Indian currency notes simply over-stamped with the word "Pakistan". New coins and banknotes were issued in 1948.

The Gulf rupee, also known as the Persian Gulf rupee (XPGR), was introduced by the Government of India as a replacement for the Indian rupee for circulation exclusively outside the country with the Reserve Bank of India Amendment Act of May 1, 1959. This creation of a separate currency was an attempt to reduce the strain put on India's foreign reserves by gold smuggling.

Two states, Kuwait and Bahrain eventually replaced the Gulf rupee with their own currencies (the Kuwaiti dinar and the Bahraini dinar) after gaining independence from Britain in 1961 and 1965, respectively.

On June 6, 1966, India devalued the rupee. To avoid following this devaluation, several of the states using the rupee adopted their own currencies. Qatar and most of the Trucial States adopted the Qatar and Dubai riyal, whilst Abu Dhabi adopted the Bahraini dinar. Only Oman continued to use the Gulf rupee until

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54 (Area handbook Series/ Bhutan (Nepal and Bhutan) / Glossary)

55 The Trucial States (also known as Trucial Oman, Trucial States of the Coast of Oman, the Trucial Coast, and Trucial Sheikhdoms) were a group of sheikhdoms in the south-eastern Persian Gulf, previously known to the British as the 'Pirate Coast', which were signatories to treaties (hence 'trucial') with the British government. These treaties established an informal protectorate by Great Britain, and the sheikhdoms, or emirates, were a British protectorate from 1820 until December 2, 1971, when the seven principal trucial sheikhdoms became independent. Six (Dubai, Abu Dhabi, Sharjah, Ajman, Umm Al Qawain and Fujairah) were to form the United Arab Emirates on that day; the seventh – Ras Al Khaimah – joined the Federation on February 10, 1972. (Trucial States)

1970, with the government backing the currency at its old peg to the pound. Oman later replaced the Gulf rupee with its own rial in 1970.

Indian Currency Historic Events

1. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954.
2. Rs 1,000 and higher denomination notes were first demonetised in January 1946.
3. Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954
4. Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967.
5. Rs 1,000, Rs 5,000 and Rs 10,000 and all of them were demonetised in January 1978.
6. Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979.
7. The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms.
8. In the year 1980, the legend *"Satyameva Jayate"* which means 'truth alone shall prevail', was incorporated under the national emblem for the first time.
9. In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark.
10. Mahatma Gandhi (MG) series banknotes - 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000).
11. The Rs 1,000 note made a comeback in November 2000.
12. The Mahatma Gandhi Series - 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 and contained some additional/ new security features as compared to the 1996 MG series.

13. Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs.10 and Rs.20 in April 2006 and August 2006, respectively.

In 2016, this is the first time that Rs 2,000 currency note is being introduced; and Rs 500 and Rs 1000 notes are demonetised.

Demonetisation: Meaning

Demonetisation is the act of stripping/ removing/ recalling/ cancelling a currency unit of its status as legal tender. Demonetisation is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit.[56] In other words, Coins and banknotes may cease to be legal tender if new notes of the same currency replace them or if a new currency is introduced replacing the former one.[57]

Objectives of Demonetisation

In past, countries used demonetisation as economic tool for different reasons, these were:

1. To change Legal Tender completely: America, in 1983, ceased legal tender of silver coins and shifted to monometallic currency, gold coins as only legal tender.
2. To Change the Currency: Zimbabwe demonetised its currency, Zimbabwean Dollar in 2015 to switch to multi-currency economy or US dollar currency.
3. To redenominate or revaluate the currency: In 2009, North Korea invalidated its old currency and replaced with new currency at 100:1 ratio. In 1971, United Kingdom adopted decimal currency.
4. To remove excess liquidity: Ghana in 1978, demonetised its currency, 50 Cedi to mop up excess liquidity in the country.
5. To combat inflation: In 1987, Myanmar (Burma) retired its currencies, 25, 35, 75, Kyats to combat inflation.
6. To tackle tax evasion: In 1982, Ghana demonetised the currency, 50 Cedi to reduce inflation and tackle tax evasion.

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[56] (Demonetisation Definition)

[57] (Cross, 2012)

7. To combat corruption: In 1984, Nigeria ditched its currency, naira with the aim to eradicate corruption.
8. To restrict black market: In 1991, Soviet Union demonetises it currency, 50 and 100 Rubble to take over black market activities. In 2009, North Korea replaced its old currency with new currency in order to control black market activities and reinstate control of the state over market operations.
9. To combat forfeited currency: India, in 2016, demonetised Rs 500 and Rs1000 to counter counterfeiting.
10. To discourage a cash system: India, in 2016, culled Rs 500 and Rs1000 to discourage cash system and promote cash-less or low cash economy.
11. To add security feature to currency notes: Pakistan exterminated its currency in 2011 and 2015 to have a new design currency with advanced security features. Similarly, Philippines also demonetised its currency in 2014 to have a new design currency with advanced security features.
12. Introduction of new designs: Belarus demonetised its currency in 2016 to have a new design currency. Libya eradicated it currency to redesigned banknotes, eventually, to replace the Gaddafi-emblazoned bills who was overthrown in 2011.
13. To increase durability of currency notes: Australia or New Zealand started using plastic currency to have durability and counterfeit-proof.
14. To structure the money in circulation: United States of America (USA) discontinued denominations of \$500, \$1,000, \$5,000, and \$10,000 as these high denominations were not required and need to remove from the economy.

Remonetisation follows Demonetisation

The opposite of demonetisation is “Remonetisation” wherein a form of payment is restored as legal tender. Remonetisation usually, carried out by replacing the old currency with new currency.

Demonetisation differs in operations in country to country. In USA, any demonetised or withdrawn currency will continue to be a liability of the issuing bank and the bank will exchange with legal tender after presenting it, even after years of demonetisation. Whereas, in 1978, Myanmar Government promised to exchange demonetised currency with legal tender, but was never done.

Essentially, demonetisation needs to be followed by exchange of demonetised currency with prevailing legal tender. If legal tender is not enough to be exchanged with demonetised currency then it is followed by remonetisation, the issuer bank (RBI as in India) mints new legal tender and float in the economy to facilitate the exchange with demonetised currency.

In Indian demonetisation of 1946 and 1978, only 11.65% and 1.74% currency was demonetised, so it was easily exchanged with other legal tender in circulation. 2016 demonetisation was different, less than 13.9% legal tender currency was not enough and need to remonetise.

Rs 15.4 lac Crore was demonetised and hence there is no option than to remonetise it. Remonetisation capabilities that is minting and distribution capacities will play important role to ensure sufficient legal tender in the economy for its smooth operation. That was again a challenge for RBI in 2016 demonetisation.

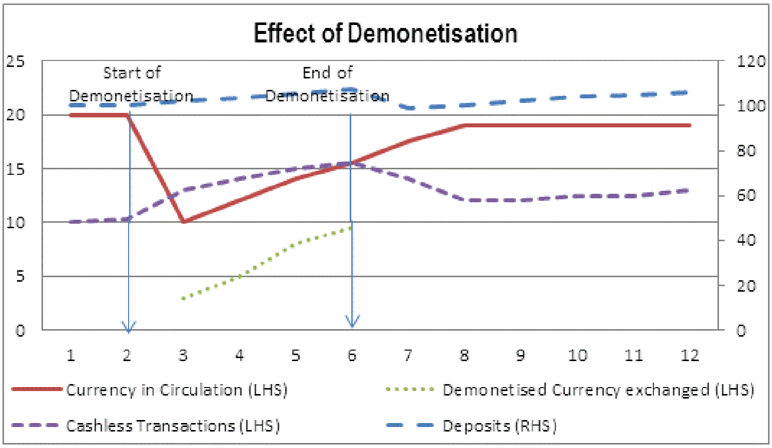
Demonetisation and Bank Deposits

Demonetisation, in which a specific currency is annulled, has to exchanged or deposited in banks, resulting to increase in bank deposits. This deposit surge lasts up to the last permissible day to deposit ceased currency. Effect of demonetisation on bank deposits depends on various economic factors like:

1. Amount of ceased currency was in circulation on the date of demonetisation
2. Volume of cash transactions
3. Volume and share of shadow economy in the country
4. Volume of shadow economy in cash of that country
5. Regulatory ways restricting conversion of shadow economy to white economy
6. Loopholes in the regulatory system, facilitating conversion of shadow economy to white
7. Remonetisation Process (& Pace) and availability of currency to exchange demonetised currency
8. Cashless systems infrastructure, its awareness, penetration of Banking and ATM, etc.
9. The last but not least, objective(s) of demonetisation

In simplistic way, the effect of demonetisation was described in the chart below. At point 2, demonetisation is effected and the currency ceased to be legal tender. This immediately reduces, the cash in circulation from 20 to 10, that indicates 10 is a demonetised currency. At point 6, exchange of demonetised currency with legal tender ends, only 9.5 out of 10 demonetised currencies are presented and exchanged with legal tender. Its effect is seen increased deposits. At 7, deposits goes significantly down, indicates slow remonetisation and the need of cash during demonetisation period was delayed and hence its goes even below the earlier deposit level. Deposits gradually recover, regain earlier level and exceed thereafter.

Currency in circulation grows slowly, indicating slow remonetisation; it depends upon minting and distribution abilities of issuer bank. Here, currency is restored to earlier level of 20. 0.5 currency is not exchanged whereas remonetisation is done to the same level, it means Issuer bank relinquished its liability by 0.5, and also 0.5 cash more is available in the economy which will be used for economic activities.



During this process, cashless transaction also surged to 3.5 times the earlier level, these transactions comes down with remonetisation process, but still there is significant gain in cashless activity even after demonetisation and remonetisation.

Demonetisation's effect on Inflation

Effect of demonetisation on inflation is complex and can depend on several factors of the economy. This effect is varied on the basis of few factors:

1. Volume of demonetised currency
2. Food production and supply in the economy

3. Availability of food products and basic needs during demonetisation period
4. Pre-demonetisation and historic inflation rates
5. Dependence of inflation on food product inflation
6. Level of cashless transaction

Amount of currency which is demonetised, obviously, an important factor. If only 1% of total currency in circulation is demonetised, its impact will be negligible compared to withdrawal of 80% or more currency.

Food factors viz. production, availability and inventory of food products are important to computes demonetisations' effect on inflation. Demonetisation has influenced inflation in both directions, upward and downward in historic demonetisations. During demonetisation period, food becomes basic necessity and inflation moves with its supply demand equation. In few countries like North Korea, Nigeria and Zimbabwe, the inflation has shot up many folds after demonetisation. It can be correlated with availability of food and basic items. If these needs are not satisfied, the demand-supply gap widens and inflation escalates. Similarly, if there is enough food supply, but demand is declined due to unavailability of cash or currency, deflationary pressures can be observed in the economy.

Perhaps, the movement of inflation upward or downward depends upon proportion of food products and non-food items.

Ghana and Zimbabwe have fallen for inflation spiral. These countries have executed demonetisation in their weak economic condition. Shortfall of government budget was met with printing of currency. Large supply of currencies led to higher inflation and to meet these inflated expenses, these countries have to print more money, and eventually were tucked in inflation spiral.

Demonetisation's effect on Interest Rates

As per theoretical definition of demonetisation, ceasing legal tender status of a currency and its exchange with legal standard won't impact interest rate. Interest rate, in fact, is a secondary factor, depend upon remonetisation. If the withheld currency is not remonetised or the currency in circulation is not restored to desired level, there are incidences which affected interest rate.

In 1873, America demonetised silver currency which led to reduction in currency supply, the demand for currency fuelled and interest rates increased.

In Indian 2016 demonetisation, remonetisation is slow, which increased demand for currency at the same time, demand for products and services is reduced, building up deflationary pressures. To create demand in the economy, the central bank (that is RBI) has reduced banking rates which eventually lowered interest rates.

Interest was also influenced in Ghana and Nigeria by loss of confidence in the currency and banking system, a resultant of demonetisation. To attract funds, the banks offered attractive interest rates for short term deposits.

Demonetisation, though a normal practice, but not uniform globally. Countries like USA withdraw its currency from circulation passively; it did not cease legal tender status. It means, even after years, if withdrawn currency presented it will be exchanged with legal tender.

Demonetisation, though, an economic tool, has some concerns. Demonetisation take way a basic right of individual to hold the property that is currency here and also it invalids promise made by central bank to pay against the currency.

Historic Demonetisations in the World

In historic period many kingdoms throughout the globe have used their own currencies and coinages. These currencies or coinages, as per the ruler, has been demonetised, remonetised and keep changing. Its impact was very limited to the kingdom or distinct locality.

The measure of demonetisation is not a new concept for the world, there were other nations too that have tried changing their currency in the past, few succeed, few failed. Perceptibly, the success and failure of demonetisation drive reflected both views in India, supportive and countering: historic precedents prove both are correct, intention, planning and implementation are keys.

Global Currencies and Demonetisation Overview

164 official currencies are being used in 197 countries and 60 countries do not have their own currency and have been using foreign currency like US dollar, Euro etc. While European euro (Euro) is used in 32+ independent countries and overseas territories, the US dollar is used in the USA as well as 10 foreign countries. US dollar is considered as most powerful currency in the world as about forty seven percent share of payments made in world is through US dollar and eighty seven percent of the forex market's daily turnover.

Euro has about twenty eight percent of share of payments made by the international banks and it has share of thirty three percent of daily transactions in the forex. Meanwhile, there are twenty countries in the world, including Pakistan and Sri Lanka which have lower currency value than the Indian Rupee (IR).

Process of demonetisation has been undertaken in the recent past by several countries across the world, including erstwhile Soviet Union, North Korea, Zaire, Ghana, Myanmar, Nigeria, Zimbabwe, Australia, Libya, Iraq and the European Union (EU), a union of initially 28 countries. In February 1971, the United Kingdom and Ireland had also decimalised their currencies.

In 1982, 50 cedi notes were withdrawn in Ghana, in 1984 Nigeria's military government under Muhammadu Buhari had replaced old notes with new ones to eradicate corruption in the country and in 1987 Myanmar's about eighty percent of the value of money in circulation was invalidated by the military junta, which had resulted into political unrest in the country.

In January 1991, the erstwhile Soviet Union had withdrawn large-rubles bills with the aim of taking on the black money. The invalidation of 50 and 100 rubles notes had led to the invalidation of about one-third of money in circulation in the Soviet Union. However, this currency reform to fight with menace of black money failed to give any positive result and the government could not stop the increasing high inflation. People lost their faith in the leadership of Mikhail Gorbachev and finally on December 25, 1991, this resulted into the breakup of Soviet Union.

In 1993, the Zaire government under the dictatorship of Mobutu Sese Seko had undertaken the process of withdrawing obsolescent currency from the system, which led to unexceptional inflation in the country following which country faced a civil war which resulted into dismissal of President Mobutu in 1997.

In 1996, Australia had replaced all paper-based notes with polymer bank notes with the aim of stopping widespread counterfeiting. Such polymer notes were developed by the Reserve Bank of Australia (RBA), Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the University of Melbourne and Australia become first country in the word in introducing such type of currency.

Later in 2009, North Korea, under the dictatorship of Kim Jong-il had initiated currency reform in the country to eradicate black markets as well as to tighten government's control over the economy. In 2012, Libya's central bank had also withdrawn old currency notes to restore liquidity when vast portions of funds were not being kept in the country's banks. Meanwhile, during 1998-2000 the European Union (EU) undertook world's biggest exercise of creation of a single currency called European euro (Euro), which led to demonetisation of various currencies of the member countries. In 2002, the European Council (EC) had replaced a large number of currencies and EU nationals were given two month time.

In some cases, countries had given sufficient times to its nationals to exchange old currencies with new ones.

In Philippines the government had announced to withdraw old peso notes in December 2014 starting from January 2015 but allowed to its customers to replace the withdrawn note up to January 2016. Similarly, in 2009, when the US dollar was withdrawn as a Zimbabwean currency, citizens were given a three-month window before replacing the dollar.

In mid-2015, the State Bank of Pakistan (SBP), which is the central bank of the country, had announced that all old design bank notes would cease to be legal tender from December 2015. Earlier in March 2015, the SBP had directed all commercial and microfinance banks not to issue old designed bank notes from April 1, 2015. The SBP had started issuing new notes from the year 2005 and completed this process by the end of year 2008, when all other denominations received new designs. It was done mainly to improve the security and durability of the Pakistani currency notes.

Silver Demonetisation

The first evidence which has not only national but also global impact was demonetisation of Silver Coins in Germany, France, USA and some European countries. The work of demonetising silver began to grow apace; first in the field was Germany. Having vanquished France in the war of 1870, she utilised the war indemnity in the reform of her chaotic currency by hastening to adopt a gold currency for the United Empire of Germany.

The law of December 4, 1871, authorised the change, with the mark as the unit of currency. Silver was demonetised by this enactment; but the existing silver coins continued to be legal tender though their further coinage was stopped, along with the new gold coins at the legal ratio of 15 to ½ to 1. This full legal-tender power of the silver coins was taken away from them by the law of June 9, 1873, which reduced them to the position of a subsidiary currency.

This policy was immediately copied by other countries of Germanic culture. In 1872 Norway, Sweden, and Denmark formed a Scandinavian Monetary Union, analogous to the Latin Monetary Union, by which they agreed to demonetise silver as was done by Germany. This treaty, which established a gold standard and reduced the existing silver currency to a subsidiary status, was ratified by Sweden and Denmark in 1873 and by Norway in 1875. Holland also followed the same course; till 1872 she had a pure silver standard. In that year she closed her mint to the free coinage of silver, although the old silver money continued to be legal tender to any amount. In 1875 she went a step further and opened her mints to the free coinage of gold. Her policy differed from that of the Germanic countries in that she only suspended the free coinage of silver, while the latter had demonetised it.

Even the Latin Union was unable to resist this tide against silver. As a consequence of this exclusion of silver, the Latin Union, enlarged as it was by additional members, naturally desired to take precautionary measures against being flooded by the influx of this depreciated silver. Nor was this fear unfounded, for the silver tendered for coinage at the Belgian Mint in 1873 was three times greater than what was tendered in 1871. Rather than be embarrassed, Belgium, by the law of December 8, 1873, suspended the free coinage of her silver five-franc pieces. This action of Belgium forced the hands of the other members of the Union to adopt similar measures.

On the other side of the Atlantic, an important event had taken place in the United States. In 1870 that Government resolved to consolidate the mint laws, which had not been revised since 1837, in a comprehensive statute. Since the legislation of 1853, the silver dollar was the only coin which the United States mints coined freely. But in the new consolidated Mint Statute of 1873, the silver dollar was deleted from the list of coins to be issued, so that it virtually amounted to suspension of the free coinage of silver in the United States.[58]

The United States of the America Demonetisation 1873

The United States of America (USA), commonly known as the United States (US) or America, is a constitutional federal republic composed of 50 states, a federal district, five major self-governing territories, and various possessions. The United States is a highly developed country, with the world's largest economy by nominal GDP and second-largest economy by PPP. It ranks highly in several measures of socioeconomic performance, including average wage, human development, per capita GDP, and productivity per person.

The US dollar (US$ or $) is the official currency of the United States and its insular territories per the United States Constitution, is divided into 100 smaller cent (¢) units. It is most used international transactions currency and the world's primary reserve currency which is held in significant quantities by governments and institutions as part of their foreign exchange reserves.

European colonization began in the 16th century. The United States emerged from 13 British colonies along the East Coast. Numerous disputes between Great Britain and the colonies following the Seven Years' War led to the American Revolution, which began in 1775. On July 4, 1776, during the course of the American Revolutionary War, the colonies unanimously adopted the Declaration of Independence. The war ended in 1783 with recognition of the independence of the United States by Great Britain, representing the first successful war of independence against a European power.[59]

The Mint Act of 1792 established the Mint of the United States. The Mint, in its first decades, only coined gold and silver in response to deposits of that metal by citizens, returning the bullion to the depositor in the form of coins. Either gold or silver could be presented for conversion into currency, as both metals were a legal tender; a dollar was equal to a legally defined amount of silver, or a legally defined amount of gold.

When silver prices rose relative to gold as a reaction to the California Gold Rush, silver coinage was worth more than face value, and rapidly flowed overseas for melting. Until then, depositors of silver could choose to have their bullion struck into silver coins of any denomination of five cents or above; the 1853 act lightened the silver coins from the half dime to the half dollar and

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[58] (Ambedkar B.R., 2014)

[59] (Greene & Pole, 2003)

eliminated the right of the depositor to have silver struck into those denominations. Depositors could still choose to have silver struck into dollar coins, but the high price of silver made it more profitable to use the bullion in other ways. So long as silver prices remained high, this effectively placed the United States on the gold standard.[60]

The decision of the German Empire to cease minting silver thaler[61] coins in 1871, caused a drop in demand and downward pressure on the value of silver; this had a knock-on effect in the USA, where much of the supply was then mined. As a result, the United States Congress passed the Coinage Act of 1873, which changed the country's silver policy.

In 1873, the Coinage Act of 1873 demonetised silver in favour of adopting the gold standard as the legal tender of the United States. In abolishing the right of holders of silver bullion to have their metal struck into fully legal tender dollar coins, it ended bimetallism in the United States, placing the nation firmly on the gold standard. Eventually, the act became contentious in later years, and was denounced by people. The Act had the immediate effect of depressing silver prices. This hurt Western mining interests, who labelled the Act "The Crime of '73." Its effect was offset somewhat by the introduction of a silver trade dollar for use in Asia, and by the discovery of new silver deposits at Virginia City, Nevada, resulting in new investment in mining activity.[62] But the coinage law also reduced the domestic money supply, which raised interest rates, thereby hurting farmers and anyone else who normally carried heavy debt loads. The resulting outcry raised serious questions about how long the new policy would last.[63] This perception of instability in United States monetary policy caused investors to shy away from long-term obligations, particularly long-term bonds. The problem was aggravated by the railroad boom, which was in its later stages at the time.

In September 1873, the U.S. economy entered a crisis which is a result of series of economic setbacks: the Black Friday panic of 1869, the Chicago fire of 1871, the outbreak of equine influenza in 1872, and demonetisation of silver in 1873.

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[60] (Taxay, 1983)

[61] The thaler was a silver coin used throughout Europe for almost four hundred years. Its name lives on in the many currencies called dollar and, until recently, also in the Slovenian tolar.

[62] (Loomis, 1968)

[63] Silver coinage was resumed under the Bland–Allison Act of 1878.

The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a 5 year economic depression in the country.

Support for bimetallism grew in the late 1870s, silver miners and farmers pushing for bimetallic currency; and resulted in the passage of the Bland–Allison Act of February 28, 1878, over the veto of President Rutherford B. Hayes. This legislation required the Treasury to purchase millions of dollars' worth of silver bullion each month, and coin it into silver dollars—the denomination was restored as a legal tender, except when gold was specified by law or private contract.[64]

Renewed support for silver led to the passage of the Sherman Silver Purchase Act of 1890, greatly increasing the silver purchases, and requiring the Treasury to pay for them in banknotes that could be redeemed for gold. Over the next three years, $132,000,000 in gold was withdrawn from the Treasury, and amid another depression President Grover Cleveland secured the repeal of the silver purchase act.[65]

Ghana Demonetisation 1978 and 1982

Ghana, officially the Republic of Ghana, is a unitary presidential constitutional democracy, located along the Gulf of Guinea and Atlantic Ocean, in the sub-region of West Africa.

The territory of present-day Ghana has been inhabited for a millennium, with the first permanent state dating back to the 11th century. Numerous kingdoms and empires emerged over the centuries, of which the most powerful was the Kingdom of Ashanti. Beginning in the 15th century, numerous European powers contested the area for trading rights, with the British ultimately establishing control of the coast by the late 19th century. Following over a century of native resistance, Ghana's current borders were established by the 1900s as the British Gold Coast.

On March 6, 1957, Ghana became the first sub-Saharan African country to gain independence of European colonisation. It was hailed as the 'black star' of Africa with a hopeful economic future to be based upon development of its natural and human resource endowments.

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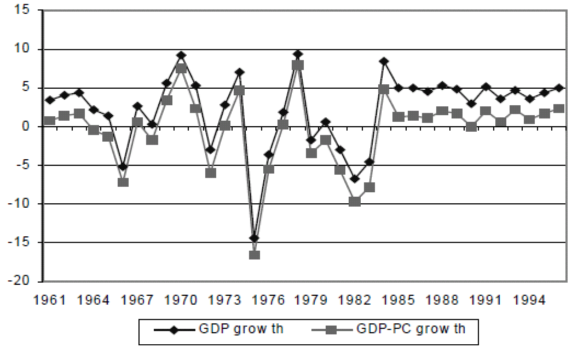
64 (Van Ryzin, 2001)

65 (Van Ryzin, 2001)

During the post-independence period the economic decline in the mid-1960s and 1975-1983 was associated with a falling real value of the cedi[66]. This encouraged movement of financial holdings into physical goods and foreign currency, and correspondingly holdings of financial assets relative to GDP fell.

Real GDP growth and per capita growth



The balance of payment position that had improved as a result of very high gold and cocoa prices in 1971/ 1972 was eroded by the first oil price shock of 1973. In the face of the shortfall in government finances, the gap in the budget was plugged with heavy borrowing from the central bank. The deficit financing through printing of money led to an inflation spiral. The deficit increased from 17 million cedis in 1971 when the army came to 781 million cedis in 1977, with total money supply growing by 500% cumulatively over the period. The extremely high money supply growth and deficit levels caused inflation to move to 117% by 1977. In a bid to forestall a deepened inflation crisis extensive price control mechanism was introduced.[67]

In 1977, the central bank (Bank of Ghana) issued new measures for monetary control aimed at mopping up excess liquidity in the economy. A new system of cash reserve ratios was introduced which made it mandatory for each commercial bank to maintain the average cash reserve ratio. Banks had voluntarily maintained over the previous twelve months, but even this did not eliminate excess reserves. Defaulting banks were levied interest charges. The reserve requirements are not effective constraints to banks' lending since banks' aggregate reserve holdings are always above the required ratios.[68] When the

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[66] Cedi is the fourth and only legal tender in the Republic of Ghana.

[67] (Ocran, 2007)

[68] (Sowa, May 1991)

government failed to achieve its aim through the reserve requirement, it demonetised the cedi in March 1978.

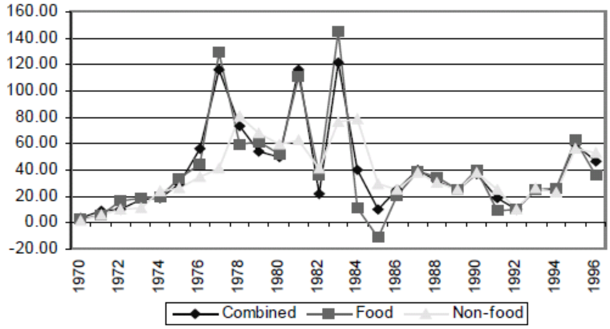
Furthermore there was an evident financial shallowing, shown by relatively higher proportions of financial assets held as cash or demand deposits between 1973 and 1983. Specific government policies tended to weaken people's confidence in the banking system. For instance, in 1978 the government decided to mop up excess liquidity by demonetising the cedi. Currency outside the banking system was changed at a 30% discount for the new currency, i.e. holders of cash were given only 70% of the face value of their currency holdings. The 5O-cedi notes were refunded to their owners after four years, by then inflation had substantially eroded their real value.

Rate of inflation, 1970-1996

These policies contributed a great deal to the loss of public confidence in the banking system which is also reflected in the high currency to broad money ratios. The recovery during the ERP[69] phase (post-1983) has so far brought only a relatively modest increase in the ratios of financial holdings to GDP, particularly in comparison to previous declines. This post-independence process of demonetisation and shallowing has limited the scope for the financial system to intermediate between savers and borrowers, and to allocate financial assets efficiently.[70]

[69] Under the guidance of the World Bank and the IMF, the Ghana government launched the Economic Recovery Program (ERP) with an objective of reducing Ghana's debts and to improve its trading position in the global economy. The ERP was carried out in roughly three phases, first Phase started in April 1983 was focused on reducing its expenditures and budget deficit while creating incentives for private production. During the second phase, which lasted from 1987 to 1989, the government moved to divest itself of many assets through privatization and to institute radical foreign exchange reforms to devalue the cedi further. Although privatization was sluggish, the hard-currency black market was nearly eliminated with the introduction of foreign exchange bureaus in 1988. In the ERP's third phase, the government intensified monetary reforms and reduced private corporate taxes to boost private-sector growth. (Source: http://countrystudies.us/ghana/70.htm)

[70] (Sowa, May 1991)



In February 1982, the military government of Ghana (the Provisional National Defense Council that is PNDC) demonetised the 50 cedi note issued by the Limaim Administration in 1981. The public was asked to deposit these notes in their banks in return for chits that were supposed to be redeemed later but never were as it was a ruse. Ghana shut its borders for two years. The official reasons were: to mop up excess liquidity in the system, to crack down on tax evasion, to punish corrupt politicians, and to render useless large amounts of the currency circulating outside the country. Additionally, the exercise was intended to crush currency smuggling and thereby shore up the external value of the currency. In contrast, this made the people of the country support the black market and they started investing in physical assets which obviously made the economy weak. The government insisted that the withdrawal of the 50 cedi note was not against the poor or the genuine rich but rather it was meant to withdraw excess liquidity in the hands of a few greedy and corrupt businessmen. The other official reason for the currency change was to reduce excess liquidity in the banking system and ease inflationary pressures.

However, this was criminally dishonest. Borrowing from the central bank to finance soaring budget deficits was the primary source of excess liquidity in the system. Even Ghana's own 1978-79 budget statement admitted that over the past 5 years, more than 70 percent of every budget has been financed by the Bank of Ghana, resulting in the injection of substantial amounts of money into the economy.

On February 13, 1982, exactly one day after the deadline for the deposit of the demonetised 50 cedi notes in Ghanaian banks, the PNDC announced that those whose bank balances exceeded 50,000 cedis would be subject to investigative probes to determine their compliance with tax obligations.[71] In one stroke, this

71 (Ayittey, 2016)

inane policy shattered confidence in the currency and dealt a devastating blow to the banking system, from which it took decades to recover. Traders and innocent farmers, who had toiled and placed their savings in old currency under mattresses, suddenly found them worthless because they could not meet the deadline.

Nigeria Demonetisation 1984

The Federal Republic of Nigeria, commonly referred to as Nigeria, officially a democratic secular country is a federal republic in West Africa, bordering Benin in the west, Chad and Cameroon in the east, and Niger in the north. Its coast in the south lies on the Gulf of Guinea in the Atlantic Ocean. It comprises 36 states and the Federal Capital Territory, where the capital, Abuja is located.

Modern-day Nigeria has been the site of numerous kingdoms and tribal states over the millennia. The modern state originated from British colonial rule beginning in the 19th century, and the merging of the Southern Nigeria Protectorate and Northern Nigeria Protectorate in 1914. The British set up administrative and legal structures whilst practising indirect rule through traditional chiefdoms. Nigeria gained independence from the United Kingdom as a Commonwealth Realm on October 1, 1960.

The naira (code: NGN) is the currency of Nigeria, is subdivided into 100 Kobo. It was introduced on 1 January 1, 1973, replacing the pound at a rate of 2 naira = 1 pound. Naira was valued at 0.658 per US$ in 1972 and devalued to 300-489 per US$ in 2016.

All were generals. From January 16, 1966 to March 1999, a period of 33 years, the military monopolised power except when briefly interrupted by the civilian government of Shehu Shagari (October 1, 1979 to December 31, 1983) and the three-month interim administration by Ernest Shonekan (August 26 to November 17, 1993), was leaving 29 years under military rule. It was during this period that the destruction of the Nigerian state began.

When former President Olusegun Obasanjo[72] was a military ruler in the 1970s, Mr. Buhari held the key post of minister of petroleum affairs. But the relationship between the former colleagues cooled as Mr. Buhari's coup ousted

[72] Olusegun Mathew Okikiola Aremu Obasanjo, (Birth March 5, 1937) was the former Nigerian Army general who was a democratically elected President (served twice as his nation's head) of Nigeria from 29 May 1999 to 29 May 2007. He served as a military ruler from February 13, 1976 to October 1, 1979, and hence became the first military head of state to transfer power peacefully to a civilian regime in Nigeria. .

a civilian government, led by Alhaji Shehu Shagari, who won elections organised by Mr. Obasanjo.

The civilian government under President Shehu Shagari was overthrown in a military coup led by a relatively young officer by the name of Muhammadu Buhari. The military junta led by him claimed that Nigeria under civilian rule had become a highly corrupt country, with a rich elite gobbling up the country's enormous oil-generated wealth and secreting it in secret bank accounts in the West. After taking power, Buhari launched a "War against Indiscipline", which included raids on corrupt officials and businessmen, along with the public shooting of armed robbers and those accused of violent crimes.

When the military took over, the Nigerian currency, known as the "naira", was among the strongest in the African continent. You could get two American dollars for one naira those days. The Nigerian economy, however, had come under great strain at the time as international oil prices were plummeting. A country that once had a thriving farm sector had become almost dependent on imports for its entire food needs. General Buhari initially resisted the demands of the World Bank and the International Monetary Fund to restructure the economy by resorting to devaluation of the currency. Instead, he opted for the radical measure of demonetising the currency.

In 1984, the Buhari administration copied exactly the same measure of Ghana and in one stroke destroyed the value of the naira. Without any warning, the military government announced the decision over radio and television in early 1984. The government just changed the colour of the notes. The country's borders were sealed and a "wage freeze" was implemented. What followed was utter chaos and confusion as the weak banking system was not in a position to cope with the anarchy, the decision had unleashed.

People remember paying a hefty bribe to get his money exchanged and to retrieve his savings from the bank. Those days there were no cards, ATMs or the Internet. Prices shot up and the living standards of the people fell as a result of the demonetisation policy. The demonetisation move did not pay any economic or political dividends either. The media at the time reported that corruption went on unabated, with Nigerians leaving the country with suitcases full of currency to be deposited in Western banks.

In Nigeria, the public responded similarly shunning the banking system just like in Ghana. To attract funds, banks offered fantastic rates for short-term deposits for 6 months or less. The banks had considerable difficulty attracting funds for long term. In both countries, loss of confidence and flight from the currency also drove people to hold foreign currencies, which they could only obtain at the black market. The results led to soaring black market rates and thus declining external value of the currency, a result clearly opposite to what the currency change was intended to achieve. Within one year, the black market rate for the cedi jumped from 40 to 100 to the dollar. In January 1995, the cedi rate reached to 1,200 cedis to the dollar.

Buhari was overthrown by General Babangida, who seized power in 1985, but he was no better in terms of economic management.

By the end of 1984, the Nigerian government had to admit that the move aimed at eradicating corruption was a failure. General Buhari himself admitted that the government was to "all intent and purposes become bankrupt". However, the debt-ridden and inflation hit country did not take the change well and the economy collapsed.

Nigeria again illustrates how social structure plays a role in corrupt practices. Nigeria's three largest ethnic groups namely Hausa, Igbo and Yoruba have maintained historical pre-eminence in Nigerian politics; competition amongst these three groups has fuelled corruption and graft.[73]

After the end of military rule in 1999, Mr. Buhari was defeated in the last three elections; he achieved a historic victory on the March 28, 2015 election, becoming the first opposition candidate to defeat an incumbent.

Myanmar (Burma) Demonetisation 1964, 1985 and 1987

Myanmar, officially the Republic of the Union of Myanmar, also known as Burma, is a sovereign state in South East Asia bordered by Bangladesh, India, China, Laos and Thailand.

Early civilizations in Myanmar included the Tibeto-Burman-speaking Pyu city-states in Upper Burma and the Mon kingdoms in Lower Burma. In the 9th century, the Bamar people entered the upper Irrawaddy valley and, following the establishment of the Pagan Kingdom in the 1050s, the Burmese language, culture and Theravada Buddhism slowly became dominant in the country. In the early 19th century, Konbaung Dynasty ruled over an area that included modern Myanmar and briefly controlled Manipur and Assam as well. The

73 (Rashid, 2003)

British invaded Myanmar after three Anglo-Burmese Wars in the 19th century and the country became a British colony.

On January 4, 1948, when Burma gained independence from the British, it became a republic and the heading on the note was changed to Government of the Union of Burma. As the Burma Currency Board notes increased in number, it was decided to demonetise all those India notes marked "Legal Tender in Burma Only" from July 1, 1948. All denominations of coins were released into circulation on July 20, 1950.

With the passage of the Union Bank of Burma Act, 1952, the sole right of currency issued was transferred from the Burma Currency Board to a newly created Currency Department of the Union Bank of Burma with effect from July 1, 1952. The Burma Currency Board was abolished and its asset and liabilities were transferred to the Union Bank of Burma. Another important change in the new currency is the conversion to a decimal system. The decimal series of coins order from the Royal Mint constituted of 1, 5, 10, 25, 50 pyas and 1 kyat[74]. Those coins have more inscriptions but the Burmese Lion or Chinthe[75] remains. A start was made at putting them into circulation on October 1, 1952 with the 5 and 10 pyas.

When the Union Bank of Burma took over the central bank's responsibilities, a token issue of the bank notes was made on July 1, 1952. Coins were made in nickel; denominations of ½, 1, 2, 4 and 8 pe and all had the Chinthe (lion) on the obverse, with vale and AD date in wreath on the reverse. But ½, 1, 2 pe coins were demonetised on November 1, 1953. Moreover, the English name for the unit of currency was changed to kyat and decimalised into 100 pyas in 1952. Previously, one rupee was equivalent to16 pe (64 pyas), the unit of currency was changed one kyat was equivalent to 100 pyas.

New Currency included peacock water mark. The second issue of bank notes was made in 1958, all with a portrait of Aung San with a peaked cap. The 1, 5, 10 and 100 kyat were introduced on February 12, 1958 (Union Day), and the 20

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[74] Kyat is the currency of Burma (Myanmar). Its subunit is pyas.

[75] The chinthe is a leogryph (lion-like creature) that is often seen at the entrances of pagodas and temples in Burma, Cambodia, Laos and is related to the Singha in Thailand and the Simha in Sri Lanka as well as to other similar lion statues in other parts of Asia. It is revered and loved by the Burmese people and is used symbolically on the royal thrones of Burma. Predating the use of coins for money, brass weights cast in the shape of mythical beasts like the chinthe were commonly used to measure standard quantities of staple items.

and 50 kyat on August 21, 1958. This was the first issue of 20 and 50 kyat notes made for Burma.

In 1952, after replacing Indian rupee at par with the Burmese kyat, there was a strong black market for many years, the government was forced to demonetise currencies several times. A total of three demonetisation waves hit the country since independence, the most recent one in 1987, which rendered 75% of the currency in circulation worthless.[76] In May of 1964, the 50 and 100 kyat notes were demonetised, and in 1985, notes of 20, 50, and 100 kyat were demonetised. The last demonetisation occurred in 1987, when the government demonetised the 25, 35, and 75 kyat notes, rendering three quarters of the country's currency valueless.

In 1962, the new military government came into power and played an increasing role in the national economy. In 1963 the nationalisation of the economy, including the financial sector commenced. Twenty-four banks (fifteen foreign and ten local) were nationalised and merged into the People's Bank of Burma and seventy-eight foreign insurers were merged into the state-owned Myanma Insurance (MIC). There would be no private banks under the state-economy from 1963 to 1992 and no private insurers for 50 years. The following year, 1964, Myanmar's government began the period of demonetisation that would proceed into the late 1980s. It was during this period that the government phased out larger bank notes from being legal tender and these were no longer redeemable.

When the revolutionary government announced that the high denominations 50 and 100 kyat notes would no longer be legal tender from May 17, 1964 and the new People's Bank of Burma[77] notes of 1, 5, 10 and 20 kyats with a portrait of Aung San from his wartime army days, were still a legal tender. All 50- and 100-kyat notes were demonetised under Law No. 7, 1.2 billion kyat worth of these notes were in circulation. By June 13, 1964, 970 million kyats have been turned in under the May 17 demonetization decree; great parts of the hard-earned savings of the majority of the population are made worthless overnight.

During 1979, F.A.O (United Nations Food and Agriculture Organisation) 50 pyas also appeared, as well as 50 kyat notes. Both the F.A.O coins are reported to have been minted at Security Printing Works Factory.

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[76] (Disclsure Document for Listing, 2016)

[77] On September 30, 1972, the People's Bank was renamed as the Union of Burma Bank.

When the regime demonetised 50 and 100 kyat notes in 1964 and, again, 20, 50 and 100 kyat notes in 1985, the people were allowed a limited time to exchange their worthless notes for the new legal tender. To replace these currencies, Union Bank of Burma issued 75 Kyats on November 11, 1985 and 35 Kyats on August 1, 1986 respectively. However, due to the time limit and the various conditions imposed, the people lost billions of kyats of their hard-earned money.

Myanmar started its transition to market economy during the economic turmoil of late 1980. Before the transition, real GDP growth was negative for three years in row, and it recorded minus 11.4% in 1988 (World Bank 1995). To counteract the economic downturn, in September 1987, the BSPP Government announced the abolition of the state procurement and distribution of rice which led to immediate rise in price of rice. U Ne Win's next move, most shocking and damaging to the people, was not long in coming. To combat inflation, on September 5, 1987, 80%[78] of the currency in circulation was made worthless by demonetisation[79] of 25, 35 and 75-kyat notes. Unlike on the previous two occasions, the people were not allowed to exchange any amount of their worthless paper money for the new legal tender. The demonetisation, like in the previous instances, severely affected 90% of the population who could barely maintain a hand to mouth existence under the Burmese Way socialist economic system. It was a blatant robbery of the poor. This callous and loathsome act aroused hatred and anger in the hearts of the people.[80]

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[78] Writes have difference on this figure. Listing disclosure of First Myanmar Investment Co. Ltd' mentioned "demonetisation of 1987 rendered 75% of the currency in circulation worthless"

[79] The black market taxation, one of the main financial sources for ethnic armed groups, ironically was sustained and prolonged by Ne Win's regime. Because of mismanagement, nationalization, centralized socialist economic policy, and isolationism, Burma was economically unable to sustain but relied on the black markets for its consumer goods that came from neighbouring countries crossing the borders that were controlled by ethnic armed groups: the Karen, Karenni, Mon, and Shan from the eastern borders of Thailand and China; the Kachin from northern borders of China, and Chin from the north-western borders of India, and Arakan from western borders of Bangladesh. Viewing that ethnic armed groups had controlled all the black markets, which in turn influenced the financial markets, Ne Win's once again applied the "four-cut" strategy, this time "to cut off the financial resources" to ethnic armed groups by way of demonetisation. (Lintner, 1999)

[80] (KNU (Karen National Union), 1987)

Demonetisation Notice 1987

Ordinance having the Force of Law (Ordinance No 1/1987)

The Council of State has issued the following Ordinance.

With effect from 11 a.m., Saturday, September 5, 1987, 13th Waxing of Tawthalin 1349 BE, K 25 (Kyats twenty-five), K 35 (Kyats thirty five) and K 75 (Kyats seventy-five) currency notes issued by the Union of Burma Bank have ceased to be legal tender.

Sd.Sein Lwin,

Secretary,

Dated 5-9-87 Council of State

(WPD 9/6)

The regime's four-cut strategy missed its target this time. The ethnic armed groups, who never trusted the regime in Rangoon, were "chiefly based in border areas and kept most of their funds in Thai or Chinese (or Indian) currency". The black marketers might have suffered temporarily but they were able to make up for the loss after a few more trade deals. The ones who suffered the most were the ordinary people, who lost their saving. It was estimated that "sixty to eighty per cent of all the money in circulation in Burma had become worthless, in one sweep".[81] The announcement came at a time when the final exams were approaching for the students at Rangoon University and Rangoon Institute of Technology, and "there was a spontaneous outburst of violence minutes after the announcement had been made"[82]. The student demonstrations spread to several campuses but the government responded swiftly by closing all the universities and colleges in the country.

The rise in the price of rice, student protests and the demonetisation led to a nationwide anti-government movement in August 1988. A general strike, as planned, began on August 8, 1988[83]; mass demonstrations were held across Burma as ethnic minorities, Buddhists, Muslims, students, workers and the young and old all demonstrated.

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81 (Disclsure Document for Listing, 2016)

82 (Disclsure Document for Listing, 2016)

83 The strike on August 8, 1988 against ruling military junta was known as 8888 Uprising; during which where Aung San Suu Kyi emerged as spokesperson for democracy.

Under these circumstances, military under leadership of General Saw Maung staged a coup and retook the power on September 18, 1988.[84] The Military established the state law and Order Restoration Council and announced the abandonment of Burmese Way to Socialism, aiming to revitalize the economy. After gaining power, the Central Bank of Myanmar issued Lion series and Aung San series was replaced by gradually. The military junta remained in the office until March 2011 and implemented its peculiar transition strategy.

On October 1, 2009 Central Bank of Myanmar issued new currency notes of 5000 kyats to easier handling for the people and new currency notes of 10000 kyats issued to the public effect from June 15, 2012. The modern Myanmar kyat was introduced in 1989 without a demonetisation of the prior currency and is still in use today (2016).

Congo, former Zaire Demonetisation in 1979

The Democratic Republic of the Congo, also known as DR Congo, DRC, DROC, East Congo, Congo-Kinshasa, or simply the Congo[85],[86] is a country located in Central Africa. From 1971 to 1997 it was named, and is sometimes still called, Zaire, and from 1908 to 1960 it was called the Belgian Congo.

The Belgian Congo achieved independence on 30 June 1960 under the name "République du Congo" ("Republic of Congo" or "Republic of the Congo" in English). As the neighbouring French colony of Middle Congo (Moyen Congo) also chose the name "Republic of Congo" upon achieving its independence on August 15, 1960, the two countries were more commonly known as "Congo-Léopoldville" and "Congo-Brazzaville", after their capital cities.

In 1971, Mr. Mobutu renamed the country 'the Republic of Zaire', its fourth name change in 11 years and its sixth overall.[87] The Congo River was renamed the Zaire River. During the 1970s and 1980s, Mr. Mobutu was invited to visit the United States on several occasions, meeting with U.S. Presidents Richard Nixon, Ronald Reagan and George H. W. Bush. President Mobutu was forced by the IMF to embark on a stabilisation programme in 1976 for political and economic survival. The programme was initiated four years after signs of economic trouble emerged in 1972 and also constituted the first stabilisation

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84 (Delang, 2000)

85 (Starbird, Deboer, & Pettit, 2004)

86 (Office of the United States Trade Representative, 2003)

87 (Kisangani & Bobb, 2010)

measure in nine years. From 1976 to 1991, the Zairian government and the IMF agreed on the adoption of 14 stabilisation programmes in order to achieve internal and external stability. IMF had requested the government to downsize the public sector which was completely overlooked; the state continued to be Zaire's largest employer. The first indicator to evaluate these programmes was the price level. By targeting external balance, the 1976 stabilisation measures resulted in a 'devaluation inflation spiral' in subsequent years. The Zairian currency was devalued several times in relation to the currencies of its main trading partners. Figure indicates that the IMF's success with respect to prices was quite modest up to 1980.[88]

To control inflation, deflationary measures including demonetisation were planned. To implement this deflationary policy, Mobutu announced demonetisation on December 25, 1979, targeting domestic "currency hoarders"[89] and check inflation[90]. Zaire closed its frontiers on Christmas Day of 1979. Also, flights over Zairian territory were forbidden by President Mobutu until December 31, 1979. All bank accounts were frozen. Under the change, 5 and 10 denomination zaire[91] banknotes were replaced with new notes. Private citizens could exchange old bills for new notes up to a maximum of 3,000 Z[92] (or 1,500 old ones); small and medium businesses up to 5,000 Z and major companies up to 10,000 Z. By closing the airports and frontiers, the government hoped that zaire banknotes held abroad would be prevented from entering the country during the three day operation. This deflationary policy was devastating for the majority of the population who had no knowledge of the operation and lost the life savings, they had kept in pillows, mattresses, and jars. The beneficiaries of the operation were the bank managers and members of the ruling group who had no limit on the exchange of notes.[93]

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88 (Emizet, 1997)

89 Wikileaks: https://wikileaks.org/plusd/cables/1979KINSHA13315_e.html

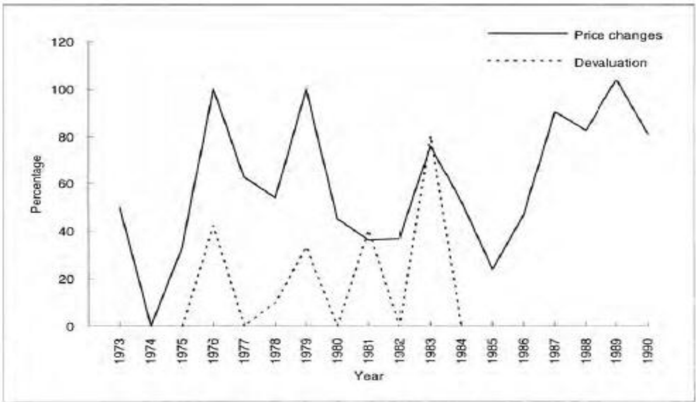
90 (The World Bank, 1981, May 20)

91 Zaire is the currency of Congo, former Zaire. It was introduced in 1967, replacing the Congolese franc at an exchange rate of 1 zaire = 1000 francs.

92 Z is Zaire, currency of Republic of Zaire. It subdivided into 100 mukuta (singular: likuta).

93 (Emizet, 1997)

CHANGES IN PRICE INDEX AND PERCENTAGE OF DEVALUATION [a]



Source: Price level (34; 35) and devaluations (Emizet 1987; I; 4). See data sources in Appendix.
Note: [a] Price changes computed by the author.

The substitution or exchange with new currency was drastically mishandled. Two billion zaires were in circulation beforehand and the government managed to retrieve a quarter of it. In other words, the treasury made a 75 per cent profit by pulling out the money that was in circulation. In Shaba Province where there are three million people, the Central Bank supplied only 21 million zaires that is seven zaires a person, which works out to US$ 2.3[94] a head. The diamond mining centre of Mbuji-Mayi in the centre of the country received no new money at all and was reduced to barter. This demonetisation also effectively wiped out all the small traders who didn't get to the banks in time. Banks were, still, rationing new notes to their clients. One businessman in Kinshasa has offered a certified cheque for 150,000 zaires for 100,000 zaires in cash in order to meet his payrolls. He had no takers.[95]

In the hinterland, merchants lacking political access or proximity to banks found their cash holdings effectively confiscated; many ordinary citizens as well found it impossible to exchange their currency.[96] The stock of broad money did not regain the level before the demonetisation operation until the end of April 1980. In the interim, the insufficiency of liquidity restrained both private consumption and investments, which had a negative effect on economic activity

[94] The exchange rate used as per (The World Bank, 1981, May 20)

[95] (Kapstein, 1980 October)

[96] (Young, 1985)

in general. The decrease in effective demand caused certain enterprises to reduce production, but it also had a mitigating effect on inflation.[97]

Opponents within Zaire stepped up demands for reform, this atmosphere contributed to Mobutu's declaring the Third Republic in 1990, whose constitution was supposed to pave the way for democratic reform. The reforms turned out to be largely cosmetic. Mobutu continued in power until armed forces forced him to flee Zaire, in 1997.

Soviet Union Demonetisation 1991

The Soviet Union, officially the Union of Soviet Socialist Republics (USSR), was a socialist state in Eurasia that existed from 1922 to 1991. It was nominally a supranational union of national republics, but its government and economy were highly centralized in a state that was unitary in most respects. Although each republic had its own communist party, the Union was a one-party state, federal in nature and governed by the all-Union party, the Communist Party of the Soviet Union.

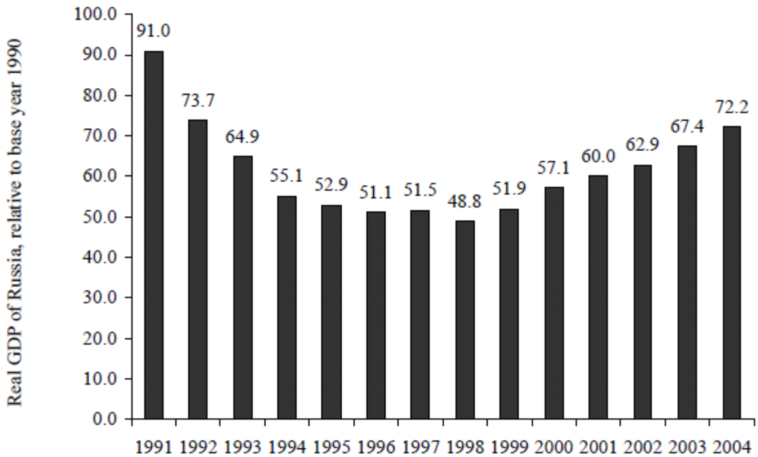
The Cold War, emerged by 1947 under Stalin's leadership, ended during tenure of the last Soviet leader, Mikhail Gorbachev. In 1989, Soviet satellite countries in Eastern Europe overthrew their respective communist regimes, led to the rise of strong nationalist and separatist movements inside the USSR. Central authorities initiated a referendum on the future of the Soviet Union which was boycotted by Armenia, Georgia, Moldova, and the Baltic republics. It resulted in the majority of participating citizens voting in favour of preserving the union as the Union of Sovereign States. In August 1991, a coup d'état[98] was attempted by Communist Party hardliners. It failed, with Russian President Boris Yeltsin playing a high-profile role in facing down the coup, resulting in the banning of the Communist Party. On December 25, 1991, Gorbachev resigned and the remaining twelve constituent republics emerged from the dissolution of the Soviet Union as independent post-Soviet states.

For most of the period after World War II up to its collapse, the Soviet economy was the second largest in the world by GDP (PPP), and was 3rd in the world during the middle of the 1980s to 1989, though in per capita terms the

97 (The World Bank, 1981, May 20)

98 A coup d'état (kuː deɪˈtɑː) also known simply as a coup means an overthrow. It is the illegal and overt seizure of a state by the military or other elites within the state apparatus.

Soviet GDP was behind that of the First World countries.[99] A healthy economic expansion continues to be obstructed by the demonetisation of the Russian economy that dates to 1991. Mikhail Gorbachev ordered to withdraw large-ruble bills from circulation to take over the black market.[100] The move didn't go well with the citizens which resulted into a coup attempt which brought down his authority and the led to Soviet breakup. In late 1991, the Soviet Union dissolved into 15 independent states, each with its own economic policies and its own institutional structure, of which Russia was by far the largest.



Real Gross Domestic Product of Russia, 1991-2004 (base year 1990=100)

Source: International Monetary Fund 1993, p.86; 1995, p.1; Goskomstat 2002, p. 32; 2004, p. 32; 2005, p. 38

On January 22, 1991, President of the USSR, Mikhail Gorbachev signed a decree on withdrawal from circulation and retirement of the 50 and 100 ruble banknotes of then current, 1961 issue. The signing of the decree was reported on television at 21:00 pm Moscow time same day. By that time, virtually all financial institutions and shops were closed for the day. In the next few hours, the most "resourceful" people managed to exchange their 50 and 100 ruble

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[99] (Central Intelligence Agency, 1991 & 1992)

[100] Ruble (or Rouble) is currently the currency unit of Russia (as Russian ruble) and Belarus (as Belarussian ruble). The Russian ruble is also used in the partially recognised states of Abkhazia and South Ossetia. In the past, several other countries influenced by Russia and the Soviet Union had currency units that were also named rubles. One ruble is divided into 100 kopeks

banknotes at institutions that were open late, like subway and railway stations and in taxis as many cashiers and taxi drivers were not aware of the news.

Some were able to send large remittances at late-open post offices, at railway stations, working 24 hours to relatives or to themselves. Some managed to purchase advance rail and air tickets and pay with 50 and 100 ruble banknotes with an intention to return then for refund in other banknotes.

The reform included provision for the 50 and 100 ruble banknotes of 1961 standard to be redeemable for exchange in limited quantities per person or family through workplace-organised exchange locations to smaller-denomination banknotes or to new-issue (1991) bills of 50 and 100 rubles denomination. The exchange was a subject to significant limitations, some of them were:

1. Exchange was permitted for three days from 23 to 25 January 1991 (Wednesday to Friday).
2. No more than 1,000 rubles per person were permitted to exchange. Additional exchange was to be requested, as an exception, for consideration by special commissions till the end of March 1991.
3. However, actual exchange was also limited by the amount of cash available to exchange locations.
4. Withdrawal at the "Savings Bank of the USSR" - the only consumer bank in USSR was also limited to no more than 500 rubles per month per depositor.

In reality, deposits in several savings banks, including those in different cities, were allowed and common. As there was no technical way to link different accounts, an ad-hoc decision was made to make notes of withdrawals on the last pages of passport, where bank's officers made a mark of the amounts withdrawn from the deposit.

Government plans succeeded only in part, and had tremendous negative effect: confiscatory procedure allowed to withdraw from circulation 14 billion rubles in cash, but the surprise attack (or reform?) which intended to help in the fight against "speculation", "unearned" income, counterfeiting, "smuggling" and corruption, resulted in a loss of public confidence in the government's actions.

Unpopular "shock therapy" reforms in the Soviet Union under the leadership of Pavlov continued.

On April 2, 1991, just as suddenly, consumer prices (then controlled by government) increased about 3-fold, cash dried up and so many daily wage workers lost their jobs, Soviet Union crashed miserably and got separated into different nations.[101]

Budget Surplus (% to GDP) and inflation Rate in (%) over previous year

Russia	1989	1990	1991	1992	1993	1994
Budget	-8.6	-10.3	-30.9	-29.4	-9.8	-11.8
Inflation	1.9	5.0	161.0	2506.0	840.0	204.4

Poland	1989	1990	1991	1992	1993	1994
Budget	-7.4	3.1	-6.7	-6.7	-3.1	-3.1
Inflation	247.0	249.0	60.4	44.3	37.6	29.4

Hungary	1989	1990	1991	1992	1993	1994
Budget	-0.2	-1.4	0.4	-2.9	-6.8	-5.5
Inflation	16.7	16.9	33.4	32.2	21.6	21.1

Czech Republic	1989	1990	1991	1992	1993	1994
Budget	-2.8	0.1	-1.9	-3.1	0.5	-1.2
Inflation		18.4	58.3	9.1	25.1	11.7

Sources: World Bank (1992); Gaidar (1998); Sinelnikov (1995).[102] Negative figures of "Budget" indicate deficit.

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101 (Monetary reform in the Soviet Union, 1991)

102 (Mau, 1999)

The sudden lifting of nearly all price controls in January 1992 set off a runaway inflation, while tight monetary policy prevented money growth from keeping up with the requirements of the economy. As a result, in the mid-1990s elaborate barter arrangements became commonplace, along with a unique type of trade credit in the form of simply not paying suppliers or employees for long periods of time by both private and public entities.[103]

Demonetisation in Russia 1993

Russia, also officially the Russian Federation, is a country in Eurasia. Russia is the largest country in the world by surface area, covering more than one-eighth of the Earth's inhabited land area, and the ninth most populous, with over 144 million people at the end of March 2016. The European western part of the country is much more populated and urbanised than the eastern; about 77% of the population live in European Russia.

The Russian ruble (code: RUB) is the currency of the Russian Federation, the two partially recognized republics of Abkhazia and South Ossetia, and the two unrecognized republics of Donetsk and Luhansk. The ruble is subdivided into 100 kopeks (sometimes written as kopecks or copecks).

The ruble was the currency of the Russian Empire and of the Soviet Union. In 1992 the Soviet ruble (code: SUR) was replaced with the Russian ruble (code: RUR) at the rate 1 SUR = 1 RUR. In 1998 following the financial crisis, the Russian ruble was redenominated with the new code "RUB", and was exchanged at the rate of 1 RUB = 1,000 RUR.

Post dissolution of Soviet Union, final chapter in the demise of rubble started in late July 1993 when the Russian authorities announced demonetisation of pre-1993 rubble in Russia. According to the announcement, pre-1993 rubble notes ceased to be legal tender in Russia from September 1993 and the CBR[104] would only deliver new rubble banknotes to those members of the rubble area which subordinated their monetary and fiscal policies to those of Russia by agreeing to the rules of a “new” rubble area. At the time of 1993 demonetisation, the rubble area consisted of ten countries namely Russia, Armenia, Azerbaijan, Belarus, Georgia, Moldova, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan. They were still using the rubble as a legal tender although several of them (Azerbaijan, Belarus, Georgia and Moldova) coupons circulated in parallel with the rubble.[105]

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[103] (Kotz)

[104] Central Bank of Russia

[105] (J. C. Odling-Smee, 2001 August)

The Russian announcement was intended to bring about what had been not achieved in 1992, namely a clear separation between national currencies and Russia to dominate rubble area. Demonetisation was aimed at controlling inflation and separate currencies. Demonetisation did not deliver expected result mainly due to Russia was not fully monetised[106] and higher inflation rate[107].

In response to 1993 demonetisation, four countries namely Georgia, Azerbaijan, Turkmenistan and Moldova announced their departure from the rubble area while other five initially declared to join the "new" rubble area. On September 7, 1993, this latter group of countries entered into framework agreement with Russia that envisaged a revived rubble area after a transition period during which countries other than Russia would continue to use old rubbles or new currencies or would introduce new temporary currencies so as to attempt to achieve monetary control pending unification. However, when these countries realised the possibility of destabilisation of cross-border flows of old rubbles from other states and Russia's unwillingness to speed up monetary unification and provide them with new rubble, all except Tajikistan introduced national currencies by November 1993. Tajikistan which signed a protocol to receive delivery of new Russian rubbles only in November 1993, was hit by sever inflation thereafter as a result of large inflow of old rubbles as it was withdrawn from circulation in other countries.[108]

North Korea Demonetisation 2009

North Korea, officially, the Democratic People's Republic of Korea (DPRK) was founded in 1948, and although this important fact has been widely forgotten, the North Korean central planning system functioned tolerably well for about a generation after its inception. Indeed, the North Korean economy appears to have outperformed its South Korean competitor for several decades; there is a reason to believe that both per capita output and per capita exports were higher in the North than South as late as 1970.[109] But in the 1970s and 1980s, the North Korean economy veered off toward stagnation while South Korea's soared. And, since the Soviet collapse, the North Korean economy suffered a catastrophic slump from which it has yet to recover fully. North

106 (Seabright, 2000)

107 (Ghosh, 1997 July)

108 (J. C. Odling-Smee, 2001 August)

109 (Federal Research Division, Library of Congress Country Studies, 2009)

Korea's economic and social trends are, of course, notoriously scarce. It may suffice, however, to consider this single fact to assess the overall performance of the DPRK economy in the post-Soviet era: North Korea is the only literate and urbanised society in history to have undergone a famine in peacetime.

The Great North Korean Hunger of the 1990s was not a once-only event, attributable to natural disaster or force majeure; quite the contrary, it reflected fundamental new structural realities for the DPRK economic system. From the mid-1990s, North Korea has relied on "temporary" international emergency humanitarian food aid donations, but on a permanent basis, even up to 2010.[110] Evidently, North Korea has lost its capacity for feeding its own people (by growing food domestically or purchasing it from abroad). The DPRK is the only once-industrialised society in economic history to have "accomplished" such a fateful retrogression. Virtually the only uninterrupted economic time series data related to the DPRK's economic performance comes from "mirror statistics": purchases and sales of merchandise as reported by a country's trading partners. These are by no means free from flaw, but to the extent they can be trusted, they depict North Korea as an economy that has not only been falling behind, but perhaps falling backward, over the past generation.

As early as 2006, papers in the Kyo'ngje Yo'ngu journal of economic policy argued that "idle currency in the people's closets must be pulled out into the official currency structure" and that the bank had to play the key role in currency distribution and transactions.[111]

On November 30, 2009, North Korea announced that it would exchange new currency for old currency at the rate of 100:1, spurring panic in the North Korean markets. The plan was announced to the public with little advance warning, catching individuals with large amounts of local currency off guard. As a strategy for exposing and impoverishing holders of excess local currency, the initial phase of the strategy was effective. A representative of the Korean Central Bank affirmed that "we are not moving toward market opening, but will further strengthen the principle and order of socialist economic management."[112]

110 (Park & Snyder, 2013)

111 (Snyder, 2010)

112 (I-Ruk, 2009)

The *Chosun Sinbo*[113] interview with Central Bank representative Cho Song-hyo'n states clearly the objective of the currency revaluation as follows: "In the future, a great deal of economic activities will be conducted not according to the market but based on the planned supply and circulation system, and it is expected that this will make it possible to further strengthen order in the planned economic management.

In the past, the utilisation of the market was partially allowed because the state was unable to satisfactorily secure the supplies needed for the production activities of enterprises as planned. The market was utilised as a supplementary means based on the principle of socialist economic management. We believe that, as the capability of the state has strengthened, the role of the market-which has performed its function as a supplementary means - will gradually dwindle." [114]

Following the surprise announcement of the currency reform, North Koreans were given only a week (from November 30 to December 6, 2009) to exchange old currency for new and faced strict limits on the amount of currency they were allowed to exchange, although these limits reportedly faced strong opposition from average North Koreans.

The demonetisation happened in North Korea in 2009, left people with no food and shelter. Kim Jong-il introduced a reform that knocked off two zeros from the face value of the old currency in order to banish black market.

North Korea's policy failure occurred at a variety of levels. At the technical level, initial implementation of the currency revaluation was undermined by the inability of the state to have sufficient goods on hand to restore the public distribution system as a replacement to the market.

Moreover, the reforms themselves caused the markets to seize up, robbing them of the exchange needed to ensure that they continued to be well supplied with goods from China, leading to the breakdown of distribution of necessities in North Korea. A related failure was the difficulty that the state faced in setting prices in the aftermath of the reform. The failure to get prices right also interfered with the functioning of the markets and made normal commerce difficult to conduct, leading to shortages of goods.

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[113] The Chosun Sinbo (or Chosun Shinbo), also known by the name of its English edition The People's Korea, is a newspaper based in Japan, published in both Korean and Japanese. The name literally means 'Chosun (Korea) Newspaper'.

[114] (I-Ruk, 2009)

Secondly, the state effort to expropriate hoarding of local currency and set the limit for exchange of new currency at impossibly low levels invited public outrage and a rather strong backlash among the people. In fact, the backlash was sufficient that the government was forced to undertake tactical readjustments to the ceiling on the amount of local currency that could be exchanged for new currency within days of the announcement of the initial plan.

In the face of protests, North Korean authorities adjusted the original ceiling of 100,000 won[115] per individual to 150,000 won in cash and 300,000 won in bank savings. The most egregious mistake of the reform was a serious underestimation by the authorities of the extent to which market activity and the resulting need for money was being used to hedge against political control by the state.

Each dimension of the failure contributed to exposing the major conceptual miscalculation behind the policy, namely, that it is possible to roll back the markets and return to the old state-centred distribution system of the past.

North Korean authorities took a second step against the markets by banning use of foreign currencies on December 28, 2009. The Daily NK[116] reported that the official decree requires businesses to deposit all foreign currencies in banks, to be withdrawn after obtaining approval for use of the foreign currency. This measure was designed to further strengthen political control over foreign exchanges in order to "bring the black market under control."[117] The measure meant by this edict, essentially to criminalise the unauthorised possession of foreign currency which has endangered all, conducting foreign trade outside of market channels. Impoverished individuals, most likely, were active in meeting market demand; the foreign currency ban criminalised those individuals.

The third step was the most drastic: North Korean authorities shut down general markets across the country in order to transition them to farmers' markets. This shutdown exacerbated both inflation and the supply of goods inside North Korea, contributing to the spread of famine conditions in various parts of the country. Good Friends reported deaths by starvation in Hamgyong

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[115] The won (symbol: ₩; code: KPW) or Korean People's Won is the official currency of North Korea. It is subdivided into 100 chon.

[116] The Daily NK is an online newspaper focusing on issues relating to North Korea.

[117] (Lee, 2009)

and Pyongyang provinces and a sharp drop in the value of the new currency in North Korean markets.

Stephan Haggard and Marcus Noland argue in their recent policy brief that North Korea's currency reform was confiscatory in nature, that "currency reform was designed to target groups engaged in market activities that not only generate cash earnings but also require cash balances given the underdevelopment of the North Korean financial system, while at the same time providing compensatory allocations to favoured groups closely connected to the state." In the same policy brief, Haggard and Noland estimate inflation in North Korea to have exceeded 100 percent per year in the years following 2002 and dropped to double or single digit levels in 2007 before accelerating again in 2008-2009.

The currency reform was intended to provide a strong boost to the economy, both to grow and to become more self-sufficient. Even though it was followed by attempts to modernise the DPRK commercial base, it amounted to a deliberate attempt to transfer wealth from those engaged in "illegal" market activity and from households that had saved to the political and military elite. It also sought to bring transactions into the state banking system rather than allowing cash transactions based on markets. North Korea's objective in pursuing the revaluation, therefore, was aimed at curbing the markets and reinstituting state control over the markets and over public reliance on the state. But given that objective, it is clear that as the currency revaluation process unfolded, it met with a variety of challenges that in the course of less than two months led to an unprecedented public admission of failure by DPRK Premier Kim Jong-il and the dismissal and reported execution of finance chief Pak Nam-gi.[118]

The reopening of the markets was accompanied by a rare public apology in a reported meeting with government officials and local village leaders. Premier Kim Jong-il stated that "regarding the currency reform, I sincerely apologise as we pushed ahead with it without a sufficient preparation so that it caused a big pain to the people" and that the government "will do its best to stabilize people's lives." Media reports have also revealed that the alleged responsible official, Park Nam-ki, was dismissed in January, 2010 as chief of the planning

[118] (North Korea's Premier Apologizes Over Chaotic Currency Reform,", February 10,, 2010)

and finance department of the Workers' Party and reportedly executed in March, 2010 for his failure to lead the currency exchange successfully. [119]

Pakistan Demonetisation 2011 & 2015

Pakistan, officially the Islamic Republic of Pakistan, is a federal parliamentary republic in South Asia on crossroads of Central Asia and Western Asia. It is the sixth-most populous country with a population exceeding 200 million people (2016 estimate).

It is worth mentioning that the State Bank of Pakistan issued a new design banknote series which started with the issuance of Rs[120] (or PKR) 20 denomination banknotes in 2005 to improve the security, durability and aesthetic quality of banknotes. The process of issuance of complete series of new design banknotes comprising eight denominations (Rs 5, 10, 20, 50, 100, 500, 1000 and 5000) was completed in 2008.

With reference to press release issued by State Bank of Pakistan dated July 8, 2011, it has notified that old design banknote of Rs 500 denomination (introduced on April 1, 1986) will cease to be the legal tender with effect from October 1, 2011 while banknote of Rs 5 denomination (introduced on July 8, 2008) will cease to be the legal tender from January 1, 2012.[121]

Further, the State Bank of Pakistan (SBP) has advised the general public to exchange Rs 500 bigger size old design banknote latest by September 30, 2011 and Rs 5 banknote by December 31, 2011 from the field offices of SBP Banking Services Corporation (BSC) and branches of commercial banks operating throughout the country. [122]

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[119] (Snyder, 2010)

[120] The Pakistani rupee (Rūpiyah; code: PKR) is the currency of Pakistan.

[121] (State Bank of Pakistan (SBP), 2011); http://www.sbp.org.pk/press/2011/Demon-Rs%20500-Old-Design-Rs5-09-Jul-11.pdf

[122] (State Bank of Pakistan (SBP), 2011)

Pak Rs billion

Particular	Rs.5	Rs.10	Rs.20	Rs.50	Rs.100	Rs.500	Rs.1000	Rs.5000	Total
FY2008	0.0	9.5	6.1	10.7	116.8	174.5	500.6	227.9	1046.0
FY2009	2.3	9.0	7.0	14.9	115.8	186.0	565.7	323.0	1223.7
FY2010	4.6	10.1	7.9	17.1	119.3	193.0	618.0	407.4	1377.4
FY2011	5.7	11.5	8.6	20.0	122.6	211.0	756.0	464.7	1600.0

Again, the State Bank of Pakistan issued a press release on June 17, 2015 confirming that as per federal government's gazette notification dated June 4, 2015, the old design banknotes will cease to be legal tender with effect from December 1, 2016. Therefore, it has now been decided to phase out all remaining old design banknotes of Rs 10, 50, 100 & 1000. The Rs 5 banknote and the old design Rs 500 banknote have already been demonetised.[123]

The last day to exchange all old design banknotes from banks is November 30, 2016. All old design banknotes shall cease to be legal tender on December 01, 2016 while last day to exchange all such banknotes from the SBP BSC field offices is December 31, 2021.

The commercial/ microfinance banks will accept the old design banknotes of Rs 10, 50, 100 and 1000 and exchange the same with the new design banknotes and coins of all denominations up to November 30, 2016 only. However, the SBP BSC field offices will continue to accept the old design banknotes of Rs 10, 50, 100 & 1000 from general public up to December 31, 2021. Pakistan legally issued the tender a year and a half back, and therefore, the citizens had time to exchange the old notes and get newly designed notes.

The Ministry of Finance has categorically denied rumours regarding the demonetisation of the Rs 5,000 banknote in a press release issued on Monday, December 26, 2016. A statement issued by a spokesperson for the ministry said that the government has neither taken such a decision nor is there any justification to do so; the currencies will continue to be legal tender.[124]

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123 (Dawn, 2015); (State Bank of Pakistan, 2015)

124 (Khan, 2016)

Pak Rs million

Particulars	End June		July-06	May (Stock)
	2014	2015	2014-15	2015-16
Currency in Circulation	2,177,873	2,554,749	2,506,779	3,116,918

Sweden Demonetisation 1991, 2013-2017

Sweden, officially the Kingdom of Sweden is a Scandinavian[125] country in Northern Europe. Sweden is the third-largest country in the European Union by area, with a total population of 10.0 million and having approximately 85% of the population lives in urban areas.

The krona[126] (krona literally means crown in Swedish) has been the currency of Sweden since 1873 and has ISO code[127] "SEK" issued by the Riksbank.[128]

Sweden is a wealthy country and in the 1970s and 1980s the value of banknotes and coins per capita was one of the highest in the world. In 1991, the largest banknote worth 10,000kr that was in circulation since 1958 was declared invalid and no longer was legal tender.

A 1,000 kronor banknote (without foil strips) was printed 1989-1991 with a portrait of Gustav Vasa and on the reverse was a harvest picture from 'Olaus Magnus' description of the Northern Peoples from 1555.

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[125] Scandinavia is a historical and cultural region in Northern Europe characterized by a common ethno-cultural North Germanic heritage which includes the three kingdoms of Denmark, Norway and Sweden.

[126] One krona is subdivided into 100 öre (singular and plural; when referring to the currency unit itself, however, the plural definite form is ören). However, all öre coins have been discontinued as of 30 September 2010.

[127] ISO 4217 is a standard published by International Organization for Standardization, which delineates currency designators, country codes (alpha and numeric). The first two letters of the code are the two letters of the ISO 3166-1 alpha-2 country codes (which are also used as the basis for national top-level domains on the Internet) and the third is usually the initial of the currency itself.

[128] Sveriges Riksbank, or simply Riksbanken, is the central bank of Sweden. It is the world's oldest central bank and the 3rd oldest bank still in operation, began operations in 1668.

From the years 2001 to 2008 banknotes and coins were circulated at a near constant level of around 12,000 krona per capita, but in 2006 a modified 1000-kronor banknote with a motion security strip was produced. Within 7 years the banknotes without the strip were declared invalid, leaving only a radically reduced number of banknotes with foil valid. The Vasa 1000-kronor banknotes without the foil strip became invalid after December 31, 2013, and however, on March 15, 2006, the Riksbank introduced a new, more secure 1,000-krona banknotes with the same portrait and 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 1,000-krona banknote. When the banknote is tilted, the picture in the striped band appears to move.

On September 11, 2012, the Riksbank announced a new series of coins with new sizes to replace the 1 and 5 kronor coins which arrived in October 2016. Also the Swish mobile payment system was established in Sweden in 2012 and become a popular alternative to cash payments.

The Riksbank deposit rate[129] dropped to zero percent on December 18, 2013 only two weeks before the 1000 kronor Vasa banknotes without foil became invalid. The deposit rate went negative on July 9, 2014 and has remained negative as of February 22, 2017. At that date, the Executive Board of the Riksbank has stated that there has still a greater probability that the rate will be cut than that it will be raised in the near term.

On December 31, 2015, Sweden had currency in circulation of US$ 8.59 bn (per capita currency was of US$872) which was 1.73% of GDP of the country.

The Vasa banknotes with the security thread became invalid after June 30, 2016. Replacement banknotes were circulated in considerably fewer quantities, thus reducing the supply of cash in Sweden.

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[129] The deposit rate is the rate of interest received by banks when they deposit funds in their accounts at the Riksbank overnight and is normally 0.75 percentage points lower than the repo rate. A similar term is ‘reverse repo rate’ in India.

Valid banknotes as on December 31, 2016: 'Cultural Journey series

Value	Dimensions	Main Colour	Description	
			Obverse	Reverse
20 kronor	120 × 66 mm	Purple	Astrid Lindgren	Småland
50 kronor	126 × 66 mm	Orange	Evert Taube	Bohuslän
100 kronor	133 × 66 mm	Blue	Greta Garbo	Stockholm
200 kronor	140 × 66 mm	Green	Ingmar Bergman	Gotland
500 kronor	147 × 66 mm	Red	Birgit Nilsson	Skåne
1000 kronor	154 × 66 mm	Brown	Dag Hammarskjöld	Lappland

Soon to be invalid banknotes (on June 30, 2017)

Value	Dimensions	Main Colour	Description	
			Obverse	Reverse
100 kronor	140 × 72 mm	Blue	Carl von Linné	Bee pollinating a flower
500 kronor	150 × 82 mm	Red	Charles XI	Christopher Polhem

Philippine Demonetisation 2014-15

The Philippines, officially the Republic of the Philippines (Filipino: Republika ng Pilipinas), is a sovereign island country in Southeast Asia situated in the western Pacific Ocean. It consists of about 7,641 islands with capital city, Manila.

The country was declared independent sovereign on June 2, 1898 from Spain. On October 24, 1945, the Philippines became one of the founding members of the United Nations and the following year, on July 4, 1946, it became recognised by the United States as independent, during the presidency of Manuel Roxas.

The Bangko Sentral ng Pilipinas (BSP) announced on Wednesday, December 29, 2014 that it will start circulating the new batch of New Generation Currency (NGC) banknotes bearing the President's signature starting next week.[130] Old banknotes have been used since 1985, for almost 30 years, whereas the New Generation Currency (NGC) was launched in 2010, and has six denominations: 1,000, 500, 200, 100, 50, and 20 peso[131] bills.

The BSP started circulating the NGC bills in 2010 as it began phasing out the New Design Series (NDS) banknotes launched in 1985. "The initial batch of NGC banknotes is ready for release to the general public. These banknotes shall be issued to authorised agent banks once the approval process is completed," said BSP Governor Amando Tetangco Jr.[132]

The demonetisation process was in line with the Republic Act 7653, or the New Central Bank Act, that grants authorisation to the BSP in replacing banknotes that have been used for more than five years.

Demonetisation Schedule

1. From January 1 to December 31, 2015 – The old banknote series can still be used for daily transactions
2. From January 1 to December 31, 2016 – The old banknote series can no longer be used for daily transactions and can only be exchanged in authorised agent banks and BSP Cash Department or any of its regional offices/ branches
3. Starting January 1, 2017 - Demonetised, no more monetary value. Only the new banknote series will remain as legal tender in the country

Special Cases

1. For OFWs (overseas Filipino workers) or Overseas Filipinos (OFs) or individuals who are not in the Philippines at the time of demonetisation, old currencies should be registered through the BSP

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130 (The Bangko Sentral ng Pilipinas (BSP), 2014)

131 The Philippine peso (sign: ₱; code: PHP) is the official currency of the Philippines. It is subdivided into 100 céntimos (Filipino: sentimo).

132 (Agcaoili, 2015)

website starting October 1, 2016, to December 31, 2016. These can be exchanged at the BSP within one year of the date of registration.

2. For banknotes that are stored as evidence: The legal agencies that are keeping the money in their custody until 2017, have to declare the amount to BSP. The old banknotes will then be replaced after the case is closed.

New Security Features

The new banknotes contain the following enhanced security features:

1. Embossed prints on the "REPUBLIKA NG PILIPINAS," denominational value in text, signatures on each bill, and value indicators located at the lower right corner on the obverse (front side) of the banknote.
2. Serial Numbers: It is composed of alphanumeric characters, made up of one (1) or two (2) prefix letters and six (6) to seven (7) digits, increasing in size and thickness.
3. Security Thread**:** The metallic thread that looks like, it's been stitched vertically on the obverse of 100, 200, 500, and 1,000 peso bills.

And to showcase the natural wonders of the Philippines, the following iconic spots and species that can be found in the country are featured on the NGC:[133]

Denomination	Natural wonder	Native species
20 peso bill	Banaue Rice Terraces	Palm Civet
50 peso bill	Taal Lake in Batangas	Maliputo Fish
100 peso bill	Mayon Volcano in Albay	Whale-Shark
200 peso bill	Chocolate Hills in Bohol	Philippine Tarsier
500 peso bill	Puerto Princesa Subterranean River National Park	Blue-naped Parrot
1,000 peso bill	Tubbataha Reefs Natural Park	South Sea Pearl

133 (Serran, 2015)

The bills are originally to be demonetised by January 1, 2017, but the deadline for exchanging the old banknotes was extended until March 31, 2017. Starting April 1, 2017, all NDS banknotes will be demonetised and will not be a liability of the Bangko Sentral ng Pilipinas.[134]

Zimbabwe Demonetisation 2015

Zimbabwe, officially the Republic of Zimbabwe, is a landlocked country located in southern Africa; the name "Zimbabwe" is based on a '*Shona*'[135] term for Great Zimbabwe, an ancient ruined city in the country's south-east whose remains are now a protected site.

Unilateral Declaration of Independence (commonly abbreviated to "UDI") from the United Kingdom was issued on November 11, 1965 declaring independence; intent on effectively repudiating the recently adopted British policy of "no independence before majority rule". It was the first such course taken by a British colony since the American declaration of 1776. On December 12, 1979, Britain formally took control of Zimbabwe Rhodesia after the Rhodesian House of Assembly voted 90 to nil to revert to British colonial status on December 12, 1979; although on December 13, 1979, Soames declared that during his mandate the name Rhodesia and Zimbabwe Rhodesia would continue to be used. Zimbabwe officially recognised as independent country as on April 18, 1980.

The Zimbabwe dollar was introduced in 1980 to directly replace the Rhodesian dollar at par (1:1) and at a similar value to the US dollar. At the time of its introduction, the Zimbabwean dollar was worth more than the U.S. dollar in the official exchange market, with 1 ZWD = 1.47 USD. Countering inflationary pressure, Currencies such as the South African rand, Botswana pula, pound sterling, Indian rupee, euro, Japanese yen, Australian dollar[136] and the United States dollar are used for all transactions in Zimbabwe. In December 2015, Zimbabwe added the Chinese yuan to its basket of currencies.[137] Use of the Zimbabwean dollar as an official currency was effectively abandoned on April

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[134] (The Bangko Sentral ng Pilipinas, 2016)

[135] Shona is the most widely first spoken language of people of Zimbabwe. There are an estimated 3 million Zimbabweans in South Africa of which more than half of them are Shona speakers

[136] (Hungwe, 2014)

[137] (Agence France-Presse, 2015)

12, 2009. The Zimbabwean dollar was demonetised in 2015, with outstanding accounts able to be reimbursed until April 30, 2016.[138,139]

Hyperinflation in Zimbabwe reduced it to one of the lowest valued currency units in the world. It was redenominated three times (in 2006, 2008 and 2009), with denominations up to a $100 trillion banknote.[140] The final redenomination produced the "fourth dollar" (ZWL), which was worth 1025 ZWD (first dollars).

On February 16, 2006, the governor of the Reserve Bank of Zimbabwe, Gideon Gono, announced that the government had printed ZW$20.5 trillion in order to buy foreign currency to pay off IMF arrears.[141] In early May 2006, Zimbabwe's government announced that they would produce another ZW$60 trillion.[142] The additional currency was required to finance the recent 300% salary increase for soldiers and policemen and 200% increase for other civil servants. The money was not budgeted for the current fiscal year, and the government did not say where it would come from. On May 29, 2006 Reserve Bank officials told Integrated Regional Information Network (IRIN)[143] that plans to print about ZW$60 trillion (about US$592.9 million at official rates) were briefly delayed after the government failed to secure foreign currency to buy ink and special paper for printing money.

August 2006, the first dollar was redenominated to the second dollar at the rate of 1000 first dollars to 1 second dollar (1000:1). At the same time, the currency was devalued against the US dollar, from 101000 first dollars (101 once revalued) to 250 second dollars, a decrease of about 60%.

In late August 2006, it was reported that about ZW$10 trillion old dollars (22% of the money supply) had not been exchanged for revalued dollars.[144]

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138 (Zimbabwean dollar)

139 (Mandizha, 2016)

140 (Zimbabwe rolls out Z$100tr note, 2009)

141 (Meldrum, 2006)

142 (Parker, 2006)

143 IRIN acts as a news agency focusing on humanitarian stories in regions that are often forgotten, under-reported, misunderstood or ignored.

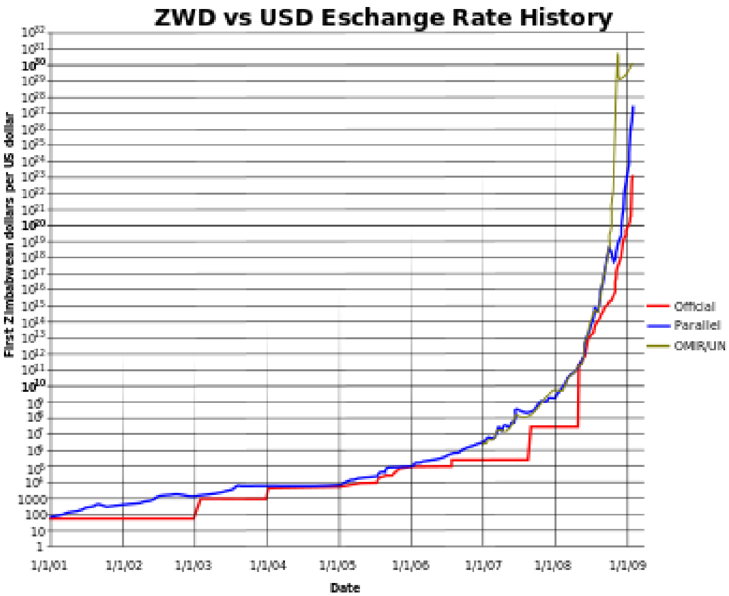
144 (Ndlela, 2006)

Date of redenomination	Currency code	Value
August 1, 2006	ZWN	1000 ZWD
August 1, 2008	ZWR	1010 ZWN
		= 1013 ZWD
February 2, 2009	ZWL	1012 ZWR
		= 1022 ZWN
		= 1025 ZWD

On June 27, 2007, it was announced that central bank governor Gideon Gono had been ordered by President Robert Mugabe to print an additional Z$1 trillion to cater for civil servants' and soldiers' salaries that were hiked by 600% and 900% respectively.[145]

On 30 July 2008, the dollar was redenominated. After 1 August 2008, ZW$10 billion were worth ZW$1. Due to frequent cash shortages and the apparently worthless Zimbabwean dollar, foreign currency was effectively legalised as a de facto currency on 13 September 2008 via a special program. It's a beginning of multi-currency economy.

145 (Zimbabwe: Gono ordered to print Z$1 Trillion for Civil servants and Army, 2007)



Source: Wikipedia.com

The Zimbabwean dollar was effectively abandoned as an official currency on April 12, 2009 when the Economic Planning Minister Elton Mangoma confirmed the suspension of the national currency for at least a year, but exchange rates with the Zimbabwean dollar were maintained for up to a year afterwards. The government of Zimbabwe said in 2009 that the Zimbabwean currency should only be reintroduced if the industrial output reach to 60% or more of its capacity, compared to the April 2009 average of 20%.[146]

Zimbabwe adopted the multiple currency system or dollarisation in 2009 and it was therefore necessary to demonetise the Z$ unit to replace it with the multiple currency system as was approved in the Finance (No. 2) Act of 2009.

The decommissioning of the Z$ has therefore been pending and long outstanding since 2009. On January 29, 2014 the Zimbabwe central bank announced that the US dollar, South African rand, Botswana pula, Pound sterling, Euro, Australian dollar, Chinese yuan (renminbi), Indian rupee and Japanese yen would all be accepted as legal currency within the country.[147]

146 (Zimbabwe dollar 'not back soon, 2009)

147 (Mpofu, 2014)

On June 12, 2015, the Reserve Bank of Zimbabwe said it would begin a process to demonetise the Zimbabwean dollar, to officially value the fiat currency at zero. The plan was to have completed the switch to the US dollar by the end of September 2015[148] and to adopt the use of multiple currencies.

In 2015, the Zimbabwean government demonetised the Zimbabwean dollar as a way to combat the country's hyperinflation that was recorded at 231,000,000%. The 3-month process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the US dollar, Botswana pula, and South African rand as the country's legal tender in a bid to stabilize the economy.[149]

Demonetisation Window

The demonetisation process which ran from June 15, 2015 to September 30, 2015 dealt with all non-loan bank accounts as at December 31, 2008 as well as cash held by the public. Cash holders were allowed to exchange their holdings at any bank, building society, POSB and Zimpost.

All cash pay-outs under the demonetisation process were exempted from bank charges and Government tax, and would be disbursed on a "no questions" asked basis.

Exchange rate: Bank Account Holders

Banks announced to pay the equivalent US$ amount for each account balance as at December 31, 2008 converted as follows:

a) Accounts with balances of Zero to Z$175 quadrillion will be paid a flat US$5.

b) Accounts with balances above Z$175 quadrillion will be paid the equivalent value after applying the UN exchange rate of US$1/Z$35 quadrillion or US$1/Z$35,000 (revalued).[150,151]

The bank pronounced the public to visit their banks and establish the balances which were in their accounts.

Exchange rate: Walk-in Cash Customers

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148 (Press Statement: Demonetisation of the Zimbabwe Dollar, 2015)

149 (Demonetization)

150 (Reuters, 2015)

151 (Marawanyika & Wallace, 2015)

The Reserve Bank directed Banks to exchange ZW$ cash for US$ equivalent for walk-in cash customers at an exchange rate of Z$250 trillion to US$1 for 2008 note series and Z$250 to US$1 for 2009 note series.

Cash customers were get their exact US$ equivalent of the converted amount, starting from US1 cent up to US$50. If the US$ equivalence exceeds US$50, payment will be made through their respective bank accounts. Corporate customers' US$ equivalent will be credited into their respective bank accounts.

Banks will accept all notes, with or without value from customers on behalf of the Reserve Bank of Zimbabwe.

Zimbabwe has shadow economy bigger than mainstream economy comprising of 60% of total economy.[152] Zimbabwe used to have $100,000,000,000,000 note, a one hundred trillion dollar note. The Zimbabwean economy went for a toss when President Robert Mugabe issued edicts to ban inflation through laughable value notes. After demonetisation, the value of trillion dollar note was dropped to US$0.5 and it was also put up on eBay.[153]

Belarus Demonetisation 2015-16

Belarus, officially the Republic of Belarus, formerly known by its Russian name Byelorussia, is a landlocked country in Eastern Europe bordered by Russia to the northeast, Ukraine to the south, Poland to the west, and Lithuania and Latvia to the northwest. Its capital and most populous city is Minsk.

In the aftermath of the 1917 Russian Revolution, Belarus declared independence as the Belarusian People's Republic, which was conquered by Soviet Russia. The Socialist Soviet Republic of Byelorussia became a founding constituent republic of the Soviet Union in 1922 and was renamed as the Byelorussian Soviet Socialist Republic (Byelorussian SSR). Belarus lost almost half of its territory to Poland after the Polish-Soviet War of 1919-921. Much of the borders of Belarus took their modern shape in 1939, when some lands of the Second Polish Republic were reintegrated into it after the Soviet invasion of Poland, and were finalised after World War II (WWII).[154] During WWII, military operations devastated Belarus, which lost about a third of its population and more than half of its economic resources. The republic was redeveloped in

152 (Nhavira, 2015)

153 (Borkar, 2016)

154 (Taylor & Francis Group, 2004)

the post-war years. In 1945, the Byelorussian SSR became a founding member of the United Nations, along with the Soviet Union and the Ukrainian SSR.

The parliament of the republic declared the sovereignty of Belarus on July 27, 1990, and during the dissolution of the Soviet Union, Belarus declared independence on August 25, 1991.

The currently circulating banknotes of the 2000 series will be the sole legal tender for making cash settlements in the Republic of Belarus till July 1, 2016.

Beginning on July 1, 2016, the legal tender of the Republic of Belarus, the Belarusian ruble, will be redenominated. A corresponding decision was taken by Edict of the President of the Republic of Belarus No.450 dated November 4, 2015.[155]

From July 1, 2016 to December 31, 2016, the banknotes of the 2000 series and the banknotes and coins of the 2009 series will be in parallel circulation and subject to obligatory acceptance without restriction in all kinds of payments performed by all economic entities.

During the next five years, from January 1, 2017 through December 31, 2021, the currency units of the 2000 series will be exchanged for the currency units of the 2009 series in any sum without restriction and charging commission.

1. In the meantime, the old currency units may be exchanged for the new ones:
    a. from January 1, 2017 through December 31, 2019 at the National Bank, banks and non-bank financial institutions of the Republic of Belarus;
    b. from January 1, 2020 through December 31, 2021 at the National Bank of the Republic of Belarus; and
2. From January 1, 2022, the currency units of the 2000 series will be deemed invalid.

The redenomination will be carried out by means of substitution of the banknotes in circulation of the 2000 series by the banknotes and coins of the 2009 series in proportion of 10,000 Belarusian rubles of the 2000 series per 1 Belarusian ruble of the 2009 series. That is, having regard to the chosen increase in the scale of the Belarusian ruble value (1:10,000), the current banknote of the

155 (Press Release, 2015)

lowest denomination, 100 Belarusian rubles, will be replaced by the lowest denomination of the new currency line of 1 copeck.

A total of seven denominations of banknotes namely 5, 10, 20, 50, 100, 200, and 500 rubles and eight denominations of coins viz. 1, 2, 5, 10, 20, and 50 copecks, and 1 and 2 rubles will be put into circulation beginning on July 1, 2016.

The general concept of the new banknotes design meets the motto "Belarus is my country". Each banknote is dedicated to one of the regions of Belarus and the city of Minsk. The coincidence of the regions and the banknotes denominations was determined in alphabetical order. The design of the banknote of 5 ruble denomination is dedicated to Brest region, 10 rubles to Vitebsk region, 20 rubles to Gomel region, 50 rubles to Grodno region, 100 rubles to Minsk region, 200 rubles to Mogilev region, and 500 rubles to the city of Minsk. The design of new banknotes of the 2009 series maintains continuity of the line of banknotes of the 2000 series as to the use of images of the architectural and urban monuments.

The obverse of the coins being put into circulation bears the image of the State Coat of Arms of the Republic of Belarus; the reverse side has the numerical symbols of coins' denominations.

The decision on the Belarusian ruble redenomination was taken with a view to improving money circulation, streamlining accounting and settlements, maintaining the optimal structure of money denominations, as well as reducing public expenditures on servicing cash circulation in the Republic of Belarus to a significant degree.

Venezuela Demonetisation 2016

Venezuela, officially the Bolivarian Republic of Venezuela, is a federal republic located on the northern coast of South America. It is bordered by Colombia on the west, Brazil on the south, Guyana on the east, and the islands of Trinidad and Tobago to the north-east. The territory currently known as Venezuela was colonised by Spain in 1522 amid resistance from indigenous peoples. In 1811, it became one of the first Spanish-American colonies to declare independence, which was not securely established until 1821, when Venezuela was a department of the federal republic of Gran Colombia. It gained full independence as a separate country in 1830.

Following the footsteps of India, Venezuela also adopted demonetisation, but it turned out to be catastrophic. The president of the country Nicolas Maduro on December 11, 2016, signed an emergency decree ordering the country's largest banknote, 100 Bolivar[156] bill, to be illegal tender within 72 hours. This was a step to curb the hoarding of cash by international "mafia". Maduro said that they were "accomplices in the plot," to "destabilise" the economy and that they were led by an NGO "contracted by the US Department of Treasury."

Venezuela's economic crisis

The decision came as a major surprise to the people as the country is amidst of a great economic crisis with the world's highest inflation. The 100 Bolivar is the most valuable note in circulation, accounting for 77% of the nation's cash. At the highest official rate, this 100 Bolivar note is worth about 15 US cents. He declared that new bank notes of 20,000 Bolivars (200 times greater than 100 bolivars) would be issued.

The retirees complained that their pensions were already paid in lower 50 and 20 Bolivar denominations.

Oppositions went to say that Maduro is destroying Venezuela's economy. IMF has projected that the country would have an inflation rate of 475%. The nation is reeling under runaway prices and has shortages of essential amenities.

Effect of the Announcement

Soon after demonetisation proclamation, the angry citizens started protesting. Venezuela already has the highest criminal record in the world. And people were plundering shops on Friday in several provinces after they began to face the cash crunch. The reason, being that the promised higher denomination bills had not reached the banks and ATMs. This economic woe is a week before Christmas and the beginning of the holiday season.

Security forces have so far detained over 300 people during the protests and looting. The police had to use teargas to control crowds in some places.

Implementation Postponed

After two days of unrest including one death, Maduro on Saturday announced that the measure would be postponed until January 2, 2017. In spite of the recall, many businesses were still refusing to trade with the 100 Bolivar notes on succeeding days.

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[156] The bolívar fuerte (sign: Bs.F. or Bs.; plural: bolívares fuertes; ISO 4217 code: VEF) has been the currency of Venezuela since 1 January 2008. It is subdivided into 100 céntimos and replaced earlier (or original) bolívar.

Maduro also hoped, like India's Prime Minister Narendra Modi, to make his country's economy digital as much as possible. But, the reality is quite different. Nearly 40% of Venezuela's people do not have bank accounts.[157]

Hyperinflation[158] voided the value of bolivar note; the 100-bolívar note is worth about 2.8 American cents at Monday's black market rate. The new notes, range from 500 to 20,000 bolívars, and the largest of the bills is worth about $5.60 on the black market, were introduced to make easy in handling of currency Finally, on January 15, 2017, Mr. Maduro affirmed that the new bank notes would be phased in from January 16, 2017 and the 100-bolívar note will remain in circulation until February 20, 2017.[159]

Libya's demonetisation 2017 (after currency withdrawal in 2012)

Libya is a country in the Maghreb region of North Africa, bordered by the Mediterranean Sea to the north, Egypt to the east, Sudan to the southeast, Chad and Niger to the south, and Algeria and Tunisia to the west.

Libya was under foreign rule for centuries until it gained independence in 1951. Soon after oil was discovered and earned the country immense wealth. A military coup in 1969 overthrew King Idris I, beginning a period of sweeping social reform. The most prominent coup figure, Muammar Gaddafi, was ultimately able to fully concentrate power in his own hands during the Libyan Cultural Revolution, remaining in power until the Libyan Civil War of 2011, in which the rebels were supported by Western military intervention[160], NATO.

Muammar Mohammed Abu Minyar Gaddafi (1942 – 20 October 2011), commonly known as Colonel Gaddafi, was a Libyan revolutionary, politician, and political theorist. He governed Libya as Revolutionary Chairman of the Libyan Arab Republic from 1969 to 1977 and then as the "Brotherly Leader" of the Great Socialist People's Libyan Arab Jamahiriya from 1977 to 2011. He was

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[157] (The Logical Indian, 2016)

[158] Inflation in Venezuela is expected to rise to nearly 500% this year and to a whopping 1,660% in 2017, according to the International Monetary Fund. (Source: CNN Money dated December 5, 2016. http://money.cnn.com/2016/12/05/news/economy/venezuela-new-20000-bolivar-note/)

[159] (Herrero & Malkin, 2017)

[160] (BBC, 2015)

initially ideologically committed to Arab nationalism and Arab socialism, but he came to rule according to his own Third International Theory.

Libya's economy witnessed increasing privatization; although rejecting the socialist policies of nationalized industry advocated in The Green Book, government figures asserted that they were forging "people's socialism" rather than capitalism. Gaddafi welcomed these reforms, calling for wide-scale privatization in a March 2003 speech. In 2003, the oil industry was largely sold to private corporations,] and by 2004, there was $40 billion of direct foreign investment in Libya, a six fold rise over 2003. Sectors of Libya's population reacted against these reforms with public demonstrations, and in March 2006, revolutionary hard-liners took control of the GPC cabinet; although scaling back the pace of the changes, they did not halt them.[161]

Fearing domestic protest, Libya's government implemented preventative measures by reducing food prices, purging the army leadership of potential defectors and releasing several Islamist prisoners. They proved ineffective, and on 17 February 2011, major protests broke out against Gaddafi's government. In Libya, there was widespread dissatisfaction with the corruption and entrenched systems of patronage, while unemployment had reached around 30%.[162] To suppress the rebellion, army opened fire on protestors, hundreds were killed. Shocked at the government's response, a number of senior politicians resigned or defected to the protesters' side, the rebellion upraised. By end of February 2011, eastern cities like Benghazi, Misrata, al-Bayda and Tobruk were controlled by rebels, and the Benghazi-based National Transitional Council[163] (NTC) had been founded to represent them. Muammar Gaddafi was captured and killed on October 20, 2011 during the Battle of Sirte. Gaddafi was found hiding in a culvert west of Sirte and captured by National Transitional Council forces. The NTC initially claimed he died from injuries sustained in a firefight when loyalist forces attempted to free him, although videos of his last moments show rebel fighters beating him and one of them sodomising him with a bayonet before he was shot several times as he shouted for his life.[164]

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161 (Bruce St. John, 2012)

162 (Kawczynski, 2011)

163 The National Transitional Council of Libya, sometimes known as the Transitional National Council, was the de facto government of Libya for a period during and after the Libyan Civil War, in which NATO-backed rebel forces overthrew the Libyan Arab Jamahiriya of Muammar Gaddafi.

164 (Greenhill, 2011)

After Gaddafi's death, Central Bank of Libya (CBL) Governor, Gasem Azzoz said that notes with the ousted strongman's face on them were still in circulation and would be used by the National Transitional Council to pay the salaries of public servants and government employees. The bank is holding a contest for redesigned banknotes that will likely eventually replace the Gaddafi-emblazoned bills.

The bank's deputy governor, Ali Mohammed Salem, told Reuters in December 2011 that the central bank's major concern was to restore liquidity in the Libyan banking system,[165] which was depleted of its dinar reserves when Gaddafi's entourage seized 3-4 billion dinars[166] ($2.4-$3.2 billion) from the central bank. They also seized 2.3 billion dinars worth of gold, he said.[167] A Reuters report on May 8, 2012 said, "The new leadership did not know the size of state assets, how their money was being spent, or what had happened to more than $2 billion transferred from the sovereign wealth fund." And the other concern was the public were refused to use old currency having image of Gaddafi,[168] though, banks are already accepting the fifty dinar bill which some Libyans refuse to use as it has an image of Gaddafi printed on it.

This led to cash crisis in the country; in Benghazi, bank withdrawals are limited to LD 400 per person, regardless of how much money one may have in one's account.[169]

The central bank has started printed new notes and started replacing 50 Dinar note from January 14, 2012 and the last date for exchanging the bill was March 15, 2012.[170]

In October 22, 2012, the Central Bank vide Decree 37/2012 announced the withdrawal of the fourth and fifth series of the five and ten dinar notes, setting the deadline for handing them into banks as December 31, 2012. The CBL

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165 Reuters is an international news agency headquartered in London, England. It is a division of Thomson Reuters.

166 The dinar is the currency of Libya. Its ISO 4217 code is "LYD". The dinar is subdivided into 1000 dirham.

167 (Al Arabia News, 2012)

168 (Bocchi, 2017)

169 (Bocchi, 2017)

170 (Al Arabia News, 2012)

ended up with a mess on its hands, though, when people carried on using them and it had postponed the withdrawal twice.[171]

The Central Bank of Libya under the control of the Thinni administration in Beida has announced that the five and ten dinar banknotes of the sixth series are to be withdrawn from circulation. The sixth series (denoted by the numeral 6 at the beginning of the notes number) was first issued in 2004. The withdrawal is announced to start from February 26, 2017. Holders of such notes have to hand them in to local banks until 27 July 2017. Furthermore, although there are not thought to be many such notes still in circulation because newer redesigned ones have replaced them, there are concerns that the central bank's order will be ignored.[172]

Global Events of Pre-declared Demonetisation, Exchange of Currencies or incidental events

Australia: Replacement of Currencies in 1966, 1988, 2016

Australia, officially the Commonwealth of Australia, has no state religion[173], is a country comprising the mainland of the Australian continent, the island of Tasmania and numerous smaller islands. It is the world's sixth-largest country by total area.

The Australian dollar (sign: $; ISO Code: AUD) is the currency of the Commonwealth of Australia, including Christmas Island, Cocos (Keeling) Islands, and Norfolk Island, as well as the independent Pacific Island states of Kiribati, Nauru and Tuvalu. Within Australia, it is almost always abbreviated with the dollar sign ($), with A$ or AU$ sometimes used to distinguish it from other dollar-denominated currencies.

Change of Currency or decimalisation in 1966: The Australian pound, introduced in 1910 and officially distinct in value from the pound sterling since devaluation in 1931, was replaced by the dollar on February 14, 1966.[174] The rate of conversion for the new decimal currency was two dollars per Australian

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171 (Bocchi, 2017)

172 (Bocchi, 2017)

173 Section 116 of the Australian Constitution prohibits the federal government from making any law to establish any religion, impose any religious observance, or prohibit the free exercise of any religion.

174 (The Reserve Bank and Reform of the Currency: A Separate Central Bank); The Age, 5 June 2013, Money, P 8.

pound, or ten Australian shillings per dollar. The exchange rate was pegged to the pound sterling at a rate of $1 = 8 shillings ($2.50 = UK £1).

In 1963, the Prime Minister, Sir Robert Menzies, a monarchist, wished to name the currency the 'royal'. Other proposed names included more exotic suggestions such as the *'austral'*, the *'oz'*, the *'boomer'*, the *'roo'*, the *'kanga'*, the *'emu'*, the *'digger'*, the *'quid'*, the *'dinkum'* and the *'ming'* (Menzies' nickname). Menzies' influence resulted in the selection of the royal, and trial designs were prepared and printed by the Reserve Bank of Australia. The Treasurer, Harold Holt, announced the decision in Parliament on June 5, 1963. The royal would be subdivided into 100 cents, but the existing names shilling, florin and crown would be retained for the 10 cent, 20 cent and 50 cent coins respectively. The name royal for the currency proved very unpopular and on July 24, 1963 Holt told the Cabinet the decision had been a "terrible mistake" and it would need to be revisited. On September 18, 1963, Holt advised Parliament to name it the 'dollar', of 100 cents.[175]

Introduction of polymer notes in 1988: Following the joint development of new banknote technology in Australia by the Reserve Bank and the Commonwealth Scientific and Industrial Research Organisation (CSIRO), Australia issued a polymer $10 commemorative banknote in January 1988 to mark Australia's bicentenary. The successful issue of the $10 commemorative banknote was a world first and it set the scene for a new era of banknotes. Between 1992 and 1996, a new series of banknotes, all printed on polymer, were progressively introduced to replace the original decimal banknotes.[176]

Australia became the first country to release polymer (plastic) notes to stop widespread counterfeiting. Since the purpose was to replace paper with plastic and only the material changed, it did not have any side-effects on the economy.

New notes introduction: On 27 September 2012, the Reserve Bank of Australia stated that they had ordered work on a project to upgrade the current banknotes. The upgraded banknotes will incorporate a number of new features so that they remain secure against counterfeiting into the future. The first new banknotes (of the five dollar denomination) were issued from September 1, 2016, with the remaining denominations to be issued in the coming years.[177,178]

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175 (The Reserve Bank and Reform of the Currency: A Separate Central Bank); The Age, 5 June 2013, Money, P 8.

176 (Reserve bank of Australia)

177 (Reserve bank of Australia, 2014)

USA: Discontinue of US$5,000 and US$10,000 notes 1969

On July 14, 1969, the Treasury Department and the Federal Reserve System announced that "the issuance of currency in denominations of $500, $1,000, $5,000, and $10,000 will be discontinued immediately. Production of these denominations was stopped during World War II. Use of these large denominations has declined sharply over the last two decades and the need for them appears insufficient to warrant the added cost of production and custody of new supplies.

The large denomination notes were first authorised primarily for interbank transactions by an amendment to the Federal Reserve Act in 1918. With demand for them shrinking, printings of new notes of these denominations were discontinued in 1946, and the supply that was on hand at that time has now diminished to the point where continued issuance of such notes would require additional printings. Surveys have indicated that transactions for which the large denomination notes have been used could be met by other means, such as cheques or $100 notes.

Under the decision announced, all existing supplies of large denomination bills in circulation find their way back to the Federal Reserve Banks in the normal course of business and the Federal Reserve Banks will be turned it over to the Treasury for destruction.

The Federal Reserve will continue to issue notes in denominations of $1, $5, $10, $20, $50, and $100. Currency comprises only about 25 percent of the nation's money supply, the vast bulk of which is made up of demand deposits.

With the arrival of more secure transfer technologies, however, they were no longer needed for that purpose. Whilst these notes are legal tender and may still be found in circulation today, the Federal Reserve Banks remove them from circulation and destroy them as they are received. It's not a demonetisation, as it's still a legal tender.

Singapore: Change in Currency Series 1967, 1976, 1984, 1999

Singapore, officially the Republic of Singapore, sometimes referred to as the Lion City or the Little Red Dot, is a sovereign city-state in Southeast Asia. 63 islands state gained independence from the UK in 1963 by federating with other former British territories to form Malaysia, but was expelled two years later over ideological differences, becoming a sovereign nation in 1965. After early years of turbulence, and despite lacking natural resources and a hinterland, the nation

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[178] (Reserve bank of Australia)

developed rapidly as an Asian Tiger economy, based on external trade and its workforce.

The currency of Singapore is the Singapore dollar (SGD or S$), issued by the Monetary Authority of Singapore (MAS). It is interchangeable with the Brunei dollar at par value since 1967, owing to their historically close relations.[179] The Parliament of Singapore passed the Monetary Authority of Singapore Act in 1970, leading to the formation of MAS on January 1, 1971. The MAS Act gave the MAS the authority to regulate all elements of monetary, banking, and financial aspects of Singapore. On March 31, 2003, the Board of Commissioners of Currency Singapore (BCCS) merged with the Monetary Authority of Singapore (MAS), which took over the responsibility of banknote issuance.

Interchangeability of Currency: Singapore continued to use the common currency upon joining Malaysia in 1963, but only two years after Singapore's expulsion and independence from Malaysia in 1965, the monetary union between Malaysia, Singapore and Brunei broke down. Singapore established the Board of Commissioners of Currency, Singapore, on April 7, 1967 and issued its first coins and notes. Nevertheless, the Singapore dollar was exchangeable at par with the Malaysian ringgit until 1973, and interchangeability with the Brunei dollar is still maintained.[180]

Changing to the Portrait notes, the fourth series of currency notes:

The Orchid Series of currency notes, having orchid design in the centre of the note's front, being the national flower, was the earliest to be in for circulation in Singapore. Issued in the years 1967 to 1976, it has nine denominations: $1, $5, $10, $25, $50, $100, $500, $1000, and $10,000.

The Bird Series of currency notes was the second set of notes to be issued for circulation in Singapore. Each note features a bird on the left side of the note's front, a theme selected to represent a young Singapore "ever ready to take flight to greater heights". Issued in the years 1976 to 1984, it has nine denominations; the same number as in the Orchid Series, albeit the $25 note was replaced by the $20 note.

The Ship Series of currency notes was the third set of notes to be issued for circulation in Singapore. Issued in the years 1984 to 1999, it retains the number

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179 (Monetary Authority of Singapore Press Release, 2007)

180 (Monetary Authority of Singapore Press Release, 2007)

of denominations as was in the previous two series of notes, but switches the $20 note for the $2 one.

The current Portrait series has been introduced in 1999, with the 1 and 500 dollar denominations omitted. These notes feature the face of Yusof bin Ishak, the first president of the Republic of Singapore, on the obverse, and the reverse depicts a feature of civic virtue. There are both paper and polymer notes in circulation. The designs of the polymer notes are very similar to the corresponding paper note except for the slightly slippery feel and a small transparent window design in the corner of the banknote. Polymer notes are progressively replacing the paper banknotes in circulation. The notes also have Braille patterns at the top right-hand corner of the front design.

Withdrawal of S$1,000 note: The S$10,000 and B$10,000 note are the world's most valuable banknotes (that are officially in circulation). As of August 2011, it was worth over seven times as much as the next most valuable, the 1000 Swiss franc note. On July 2, 2014, the Monetary Authority of Singapore announced that it would stop printing $10,000 notes starting from October 1, 2014, to reduce the risk of money laundering. Singapore has now officially stopped producing the S$10,000 banknote and has thus begun the process of withdrawing it from active circulation. This is a trend in many countries like Canada withdrawing the C$1000 banknotes last decade and the European Central Bank announced in May 4, 2016 that they will stop the production and issuance of the 500 Euro banknote. The MAS said that the notes will likely remain legal tender until all the notes slowly get returned as they get damaged.[181] It is still a legal tender.

United Kingdom: Adoption of Decimal Currency 1971

The United Kingdom of Great Britain and Northern Ireland, commonly known as the United Kingdom (UK) or Britain, is a sovereign country in Western Europe. The United Kingdom is a constitutional monarchy with a parliamentary system of governance. The monarch is Queen Elizabeth II, who has reigned since 6 February 1952. The United Kingdom consists of four countries, England, Scotland, Wales and Northern Ireland; although, are also regarded as countries, though they are not sovereign states.

The pound sterling (symbol: £; ISO code: GBP), commonly known as the pound, is the official currency of the United Kingdom, Jersey, Guernsey, the Isle of Man, South Georgia and the South Sandwich Islands, the British Antarctic Territory, and Tristan da Cunha. It is subdivided into 100 pence.

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[181] (Council for Parity Democracy: Annual Meeting Paper 11)

The Coinage Act of 1792 had officially authorised the United States as the first English-speaking nation to have decimalised currency, although Tsar Peter the Great used the concept for the Russian ruble close to a century earlier, in 1704, while China has used such a decimal system for at least 2000 years.[182] The United Kingdom's Parliament rejected Sir John Wrottesley's proposals to decimalise sterling in 1824, which was prompted by the introduction in 1795 of the decimal French franc. After this defeat, little practical progress towards decimalisation was made for over a century, with the exception of the two-shilling silver florin (worth 1/10 of a pound) first issued in 1849. A double florin or four-shilling piece was a further step in that direction but failed to gain acceptance and was struck only from 1887 to 1890.

The United Kingdom adopted decimal currency in place of pounds, shillings, and pence in 1971. Banknotes remained unchanged (except for the replacement of the 10 shilling note by the 50 pence coin). In 1968 and 1969 decimal coins which had precise equivalent values in the old currency (5p, 10p, 50p, 1, 2, and 10 shillings respectively) were introduced, while decimal coins with no precise equivalent (½p, 1p, 2p equal to 1.2d (old pence), 2.4d, 4.8d respectively) were introduced on February 15, 1971. The smallest and largest non-decimal circulating coins, the half penny and half crown, were withdrawn in 1969, and the other non-decimal coins with no precise equivalent in the new currency (1d, 3d) were withdrawn later in 1971. Non-decimal coins with precise decimal equivalents (6d (= 2½p), 1 and 2 shillings) remained legal tender either until the coins no longer circulated (1980 in the case of the 6d), or the equivalent decimal coins were reduced in size in the early 1990s. The 6d coin was permitted to remain in large circulation throughout the United Kingdom due to the London Underground committee's large investment in coin-operated ticketing machines that used it. Old coins returned to the Royal Mint through the UK banking system will be redeemed by exchanging them for legal tender currency with no time limits; but coins issued before 1947 have a higher value for their silver content than for their monetary value.

England: Introduction of new design banknote in 1994-96

The Bank of England introduced a redesigned £50 note on April 20, 1994 (as part of a series of new designs that began in 1990 with a new £5 note). The public was informed that the old series of £50 notes would remain legal tender for some time but that eventually legal tender status would be withdrawn. In fact, previous-series £50 notes and new design £50 notes circulated together for about twenty-nine months. During that period, the Bank of England withdrew

182 (Heeffer, 2016)

previous-series notes as they were returned to the Bank and replaced them with new-design notes, achieving a replacement of about 80 percent of the old series. In early 1996, the Bank announced that, effective September 20, 1996, £50 notes of the previous series would no longer have the status of legal tender. However, the "promise to pay the bearer the sum of . . ." on Bank of England notes stands good for all time, and the Bank will pay out in notes of the series then current the face value of any genuine Bank of England note, no matter how old.

Brazil: Change of currencies in 1986 and 1993

Brazil (Portuguese: Brasil), officially the Federative Republic of Brazil, is the largest country in both South America and Latin America. It is the world's fifth-largest country by both area and population. Brazil was inhabited by numerous tribal nations prior to the landing in 1500 of explorer Pedro Álvares Cabral, who claimed the area for the Portuguese Empire. Brazil remained a Portuguese colony until 1808, when the capital of the empire was transferred from Lisbon to Rio de Janeiro. In 1815, the colony was elevated to the rank of kingdom upon the formation of the United Kingdom of Portugal, Brazil and the Algarves. Independence was achieved in 1822 with the creation of the Empire of Brazil, a unitary state governed under a constitutional monarchy and a parliamentary system. The ratification of the first constitution in 1824 led to the formation of a bicameral legislature, now called the National Congress. The country became a presidential republic in 1889 following a military coup d'état. An authoritarian military junta came to power in 1964 and ruled until 1985, after which civilian governance resumed. Brazil's current constitution, formulated in 1988, defines it as a democratic federal republic.[183]

The cruzeiro was the currency of Brazil from 1942 to 1986 (two distinct currencies) and again between 1990 and 1993; the cruzado and cruzado novo were currencies from 1986 to 1989 and 1989 to 1990. In 1994 it was replaced with the real. The name refers to the constellation of the Southern Cross, known in Brazil as Cruzeiro do Sul, or simply Cruzeiro.[184] Cruzado novo replaced the cruzado in the rate of 1000 cruzados = 1 cruzado novo.

Crusado novo replacement with cruzeiro in 1990 was aimed to control hyperinflation. Brazil executed monetary contraction by freezing all deposits above certain limit; deindexation of the economy; price and wage freezes. Deposits up to a ceiling denominated in the old currency (cruzado novo) were

[183] (wikipedia.org)

[184] (Faber)

converted to the new currency (cruzeiro) at parity. This resulted into contraction of output and price moderation was very slow due to uncontrolled reinjection of liquidity.[185]

On July 1, 1994, during the presidency of Itamar Franco, when Rubens Ricupero was the Minister of Finance, the modern real was introduced, replacing the old currency, the cruzeiro real, as part of the Plano Real, a substantial monetary reform package that aimed to put an end to three decades of rampant inflation. At the time it was meant to have approximately fixed 1:1 exchange rate with the United States dollar. It suffered a sudden devaluation to a rate of about 2:1 in 1999, reached almost 4:1 in 2002 and then partially recovered until the domestic economic crisis of 2015. The exchange rate as of September 2015 was BRL 4.05 to USD 1.00. The currency has since been in a gradual recovery period, reaching 3.0 BRL per USD by February 2017.[186]

In 1990, Brazil switched back to using the name cruzeiro for its currency. The cruzeiro replaced the cruzado novo at par and had the ISO 4217[187] code BRE. This third cruzeiro was used until 1993, when it was replaced by the cruzeiro real at a rate of 1 cruzeiro real = 1000 cruzeiros.

Alike earlier currency change, real was also introduced to combat hyperinflation and did it well. New currency of Brazilian real was introduced at the rate of 1 Brazilian (cruzeiro) real = 1000 cruzeiros. This helped Brazil to stabilise the economy gradually.

Germany: Introduction of new design banknote in 1990-94

Germany (German: Deutschland), officially the Federal Republic of Germany (German: Bundesrepublik Deutschland), is a federal parliamentary republic in central-western Europe. With about 82 million inhabitants, Germany is the most populous member state of the European Union. After the United States, it is the second most popular immigration destination in the world.

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185 (Government of India, Ministry of Finance, 2017, January)

186 (wikipedia.org)

187 ISO 4217 is a standard published by International Organization for Standardization, which delineates currency designators, country codes (alpha and numeric). The first two letters of the code are the two letters of the ISO 3166-1 alpha-2 country codes (which are also used as the basis for national top-level domains on the Internet) and the third is usually the initial of the currency itself.

Beginning in the 10th century, German territories formed a central part of the Holy Roman Empire. During the 16th century, northern German regions became the centre of the Protestant Reformation. The remains of the Holy Roman Empire formed the German Confederation in 1815, while the German revolutions of 1848-49 established major democratic rights first.

In 1871, Germany became a nation state when most of the German states were unified into the Prussian-dominated German Empire. After World War I and the German Revolution of 1918-1919, the Empire was replaced by the parliamentary Weimar Republic. In 1933, the Nazi seizure of power quickly led to the establishment of Nazi Germany which was built upon a dictatorship and consequently led to World War II and one of the biggest genocides in history, the Holocaust. By 1945, Germany and most of Europe were left in destruction and ruins. After the end of World War II in Europe and a period of Allied occupation, two German states were founded: the democratic Federal Republic of Germany (commonly known as West Germany) and the socialist German Democratic Republic (commonly known as East Germany). On the 3rd of October 1990, the country was reunified.

In the 21st century, Germany is a great power and has the world's fourth-largest economy by nominal GDP, as well as the fifth-largest by PPP.

The Bundesbank introduced a newly designed 100 deutschmark note in October 1990 (as well as a new DM200 note at the same time and newly designed DM10, DM20, and DM50 notes in 1991 and 1992). In an approach similar to that used by the Bank of England, the Bundesbank informed the public in advance that previous-series notes would remain legal tender for some time but would eventually be recalled from circulation. Previous-series notes were withdrawn by the Land Central Banks (whose functions are similar to those of Federal Reserve Banks in the United States) and replaced with new-design notes as they were deposited by commercial banks. By September 1992, new series DM100 notes accounted for 85 percent of the total DM100 circulation (although lower denominations had not at that point reached the same level of replacement). In June 1994, the Bundesbank announced a recall of the old-series notes of all denominations. Notes of the previous series still retain their value and may be exchanged at the Bundesbank free of charge for notes of the new series.

Iraq’s Local Currency printing in 1993

Iraq, officially known as the Republic of Iraq is a country in Western Asia. The region between the Tigris and Euphrates rivers, historically known as Mesopotamia, is often referred to as the cradle of civilisation. It was here that mankind first began to read, write, create laws, and live in cities under an organised government—notably Uruk, from which "Iraq" is derived.

During the late 14th and early 15th centuries, the Black Sheep Turkmen ruled the area now known as Iraq. In 1466, the White Sheep Turkmen defeated the Black Sheep and took control. From the earliest 16th century, in 1508, as with all territories of the former White Sheep Turkmen, Iraq fell into the hands of the Iranian Safavids[188]. Owing to the century long Turco-Iranian rivalry between the Safavids and the neighbouring Ottoman Turks, Iraq would be contested between the two for more than a hundred years during the frequent Ottoman-Persian Wars.

With the Treaty of Zuhab in 1639, most of the territory of present-day Iraq eventually came under the control of Ottoman Empire as the eyalet[189] of Baghdad as a result of wars with the neighbouring rival, Safavid Iran. Throughout most of the period of Ottoman rule (1533–1918), the territory of present-day Iraq was a battle zone between the rival regional empires and tribal alliances. During World War I, the Ottomans sided with Germany and the Central Powers. In the Mesopotamian campaign against the Central Powers, British forces invaded the country and driven from much of the area by the United Kingdom during the dissolution of the Ottoman Empire.

On 11 November 1920, Iraq became a League of Nations mandate under British control with the name "State of Iraq". Britain granted independence to the Kingdom of Iraq in 1932, on the urging of King Faisal, though the British retained military bases, local militia in the form of Assyrian Levies, and transit rights for their forces. Ghazi was followed by his underage son, Faisal II. 'Abd al-Ilah served as Regent during Faisal's minority.

The military occupation ended on 26 October 1947, although Britain was to retain military bases in Iraq until 1954, after which the Assyrian militias were disbanded. From 1958, several coups led to establish the control over Iraq; at the end General Saddam Hussein acceded to the presidency and control of the Revolutionary Command Council (RCC).

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[188] The Safavid dynasty was one of the most significant ruling dynasties of Iran. The Safavids ruled from 1501 to 1722 (experiencing a brief restoration from 1729 to 1736) and, at their height, they controlled all of modern Iran, Azerbaijan, Bahrain, Armenia, most of Georgia, the North Caucasus, Iraq, Kuwait, and Afghanistan, as well as parts of Turkey, Syria, Pakistan, Turkmenistan and Uzbekistan.

[189] Eyalets in English means States or provinces; also known as beylerbeyliks or pashaliks, were a primary administrative division of the Ottoman Empire.

Following the Iran–Iraq War (or First Persian Gulf War) in 1980, Iraq invaded and annexed Kuwait in August 1990. Iraq's armed forces were devastated with military intervention by United States-led forces in the First Gulf War and shortly after it ended in 1991. Shia and Kurdish Iraqis led several uprisings against Saddam Hussein's regime.

Further, Iraq was divided into two parts in 1992 - North and South with latter under control of Saddam. Due to restrictions imposed by West, Saddam decided to do deficit financing. Till then Iraq imported notes made elsewhere but they were not available anymore due to restrictions imposed by UN[190]. This led Saddam to print new currency notes on an inferior paper with his image. He even demonetised the highest denomination note of 25 Dinars and asked it to be exchanged with Saddam Dinars. Eventually the Saddam regime printed many more dinars than required leading to high inflation. Plus, the Saddam Dinar could be easily counterfeited as it was on poor paper and low tech.[191]

Meanwhile in the North, the old currency continued as no avenue for exchange. No extra notes could be printed as there was no monetary authority.

This presence of irresponsible policy and absence of any policy panned out differently as it became clear that Saddam regime will collapse. The North currency called Swiss Dinar appreciated as things were far more stable there.

Following the deposition of Saddam Hussein in the 2003 invasion of Iraq, the Iraqi Governing Council and the Office for Reconstruction and Humanitarian Assistance began printing more Saddam dinar notes as a stopgap measure to maintain the money supply until new currency could be introduced.

Between October 15, 2003, and January 15, 2004, the Coalition Provisional Authority issued new Iraqi dinar coins and notes, with the notes printed by De La Rue[192] using modern anti-forgery techniques to "create a single unified currency that was used throughout all of Iraq and also made money more convenient to use in people's everyday lives". Multiple trillions of dinars were then shipped to Iraq and secured in the CBI (Central Bank of Iraq) for distribution to the masses in exchange for the 'Saddam dinar'. Old banknotes were exchanged for new at a one-to-one rate, except for the Swiss dinars, which

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190 (Government of India, Ministry of Finance, 2017, January)

191 (King)

192 De La Rue plc is a banknote manufacturer, security printing of passports and tax stamps, brand authentication and paper making company with headquarters in Basingstoke, Hampshire, England.

were exchanged at a rate of 150 new dinars for one Swiss dinar. At this point, the UN, IMF, WB and US combined to limit the value of the dinar to less than 1/10 of a cent to prevent looting and counterfeiting. The US Treasury was commissioned to print multiple billions of US currency, specific to Iraq so as to easily identify as different from that used elsewhere in the world.[193]

Adoption of Euro in Eurozone 2002

Another example of demonetisation occurred when the nations of the European Monetary Union adopted the euro in 2002. In order to switch to the euro, authorities first fixed exchange rates for the varied national currencies into euros. When the euro was introduced, the old national currencies were demonetised. However, the old currencies remained convertible into euros for a while so that a smooth transition through demonetisation would be assured.

The European Union (EU) is a political and economic union of 28 member states that are located primarily in Europe. The EU as a whole is the largest economy in the world.

The euro (sign: €; code: EUR) is the official currency of the Eurozone[194], which consists of 19 of the 28 member states of the European Union: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. The euro is managed and administered by the Frankfurt-based European Central Bank (ECB) and the Euro system (composed of the central banks of the Eurozone countries).

The euro was introduced to world financial markets as an accounting currency on 1 January 1999, replacing the former European Currency Unit (ECU) at a ratio of 1:1 (US$1.1743). Physical euro coins and banknotes entered into circulation on 1 January 2002, making it the day-to-day operating currency of its original members, and by May 2002 had completely replaced the former currencies.

The currency was introduced in non-physical form (traveller's cheques, electronic transfers, banking, etc.) at midnight on 1 January 1999, when the national currencies of participating countries (the Eurozone) ceased to exist independently. Due to differences in national conventions for rounding and

[193] (wikipedia.org)

[194] The eurozone, officially called the euro area, is a monetary union of 19 of the 28 European Union (EU) member states which have adopted the euro (€) as their common currency and sole legal tender.

significant digits, all conversion between the national currencies had to be carried out using the process of triangulation via the euro. The definitive values of one euro in terms of the exchange rates at which the currency entered the euro are shown below. The euro thus became the successor to the European Currency Unit (ECU). The notes and coins for the old currencies, however, continued to be used as legal tender until new euro notes and coins were introduced on 1 January 2002.

Currency	ISO 4217 Code	Rate	Fixed on	Yielded
Austrian schilling	ATS	13.7603	12/31/1998	1/1/1999
Belgian franc	BEF	40.3399	12/31/1998	1/1/1999
Cypriot pound	CYP	0.585274	7/10/2007	1/1/2008
Dutch guilder	NLG	2.20371	12/31/1998	1/1/1999
Estonian kroon	EEK	15.6466	7/13/2010	1/1/2011
Finnish markka	FIM	5.94573	12/31/1998	1/1/1999
French franc	FRF	6.55957	12/31/1998	/1/1999
German mark	DEM	1.95583	12/31/1998	1/1/1999
Greek drachma	GRD	340.75	6/19/2000	1/1/2001
Irish pound	IEP	0.787564	12/31/1998	1/1/1999
Italian lira	ITL	1,936.27	12/31/1998	1/1/1999
Latvian lats	LVL	0.702804	7/9/2013	1/1/2014
Lithuanian litas	LTL	3.4528	7/23/2014	1/1/2015
Luxembourgish franc	LUF	40.3399	12/31/1998	1/1/1999
Maltese lira	MTL	0.4293	7/10/2007	1/1/2008
Monégasque franc	MCF	6.55957	12/31/1998	1/1/1999
Portuguese escudo	PTE	200.482	12/31/1998	1/1/1999
Sammarinese lira	SML	1,936.27	12/31/1998	1/1/1999
Slovak koruna	SKK	30.126	7/8/2008	1/1/2009
Slovenian tolar	SIT	239.64	7/11/2006	1/1/2007

Spanish peseta	ESP	166.386	12/31/1998	1/1/1999
Vatican lira	VAL	1,936.27	12/31/1998	1/1/1999

The changeover period during which the former currencies' notes and coins were exchanged for those of the euro lasted about two months, until February 28, 2002. The official date on which the national currencies ceased to be legal tender varied from member state to member state. The earliest date was in Germany, where the mark officially ceased to be legal tender on December 31, 2001, though the exchange period lasted for two months more. Even after the old currencies ceased to be legal tender, they continued to be accepted by national central banks for periods ranging from several years to forever (the latter in Austria, Germany, Ireland, Estonia and Latvia for banknotes and coins; also, Belgium, Luxembourg, Slovenia and Slovakia will accept banknotes forever, but not coins). The earliest coins to become non-convertible were the Portuguese escudos, which ceased to have monetary value after 31 December 2002, although banknotes remain exchangeable until 2022.

Denmark: Introduction of new banknote (bridges) series in 2009-12

Denmark, officially the Kingdom of Denmark, is a Scandinavian country in Europe and a sovereign state. The southernmost and smallest of the Nordic countries, it is south-west of Sweden and south of Norway, and bordered to the south by Germany. Denmark also comprises two autonomous constituent countries in the North Atlantic Ocean: the Faroe Islands and Greenland.

The unified kingdom of Denmark emerged in the 10th century as a proficient seafaring nation in the struggle for control of the Baltic Sea. Denmark, Sweden and Norway were ruled together under the Kalmar Union, established in 1397 and ending with Swedish secession in 1523. Denmark and Norway remained under the same monarch until outside forces dissolved the union in 1814. The Constitution of Denmark was signed on 5 June 1849, ending the absolute monarchy which had begun in 1660. It establishes a constitutional monarchy organised as a parliamentary democracy.

The krone[195] is the official currency of Denmark, Greenland and the Faroe Islands, introduced on January 1, 1875. Both the ISO code "DKK" and currency sign "kr." are in common use. The krone is pegged to the euro via the ERM II, the European Union's exchange rate mechanism. Adoption of the euro

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195 The currency is sometimes referred to as the Danish crown in English, since krone literally means crown.

is favoured by the major political parties; however a 2000 referendum on joining the Eurozone was defeated with 53.2% voting to maintain the krone and 46.8% voting to join the Eurozone.[196]

Most Danish banknotes (with a few exceptions) issued after 1945 are valid as payment. Banknotes has since 1945 been issued with the values: 5 kroner, 10 kroner, 20 kroner, 50 kroner, 100 kroner, 200 kroner, 500 kroner & 1000 kroner.

The process of designing the 'Bridge' banknotes was initiated in 2006 by the Danish National Bank. The theme of the new banknotes has been Danish bridges and the surrounding landscapes, or details from these landscapes. Danish artist Karin Birgitte Lund has chosen to interpret this theme in two ways: bridges as links between various parts of Denmark and as links between the past and the present. The present is represented by the bridges, the past by five distinctive prehistoric objects found near the bridges. Among the new security features is a window thread ("Motion") with a moving wave pattern. Another feature is a new, sophisticated hologram that reflects light in different colours. The new banknotes also have the traditional security features such as the watermark and the hidden security thread.

Canada: Change to polymer notes in 2011

Canada is a country in the northern half of North America. In 1931, Canada achieved near total independence from the United Kingdom with the Statute of Westminster 1931, but at the time, Canada decided to allow the British Parliament to temporarily retain the power to amend Canada's constitution, on request from the Parliament of Canada. With the Constitution Act 1982, Canada took over that authority (as the conclusion of Patriation), removing the last remaining ties of legal dependence on the Parliament of the United Kingdom, giving the country full sovereignty.

The Canadian dollar is the currency of Canada. ISO 4217 symbol for the currency is CAD. The first paper money issued in Canada, denominated in dollars, was British Army bills, issued between 1813 and 1815. Canadian dollar bank notes were later issued by the chartered banks starting in the 1830s, by several pre-Confederation colonial governments (most notably the Province of Canada in 1866), and after confederation, by the Dominion of Canada starting in 1870. Some municipalities also issued notes, most notably depression scrip during the 1930s. On July 3, 1934, with only 10 chartered banks still issuing

[196] (Folketing's EU Information, 2006)

notes, the Bank of Canada was founded. It took over the federal issuance of notes from the Dominion of Canada.

Significant design changes to the notes have occurred since 1935, with new series introduced in 1937, 1954, 1970, 1986, and 2001. In June 2011, newly designed notes printed on a polymer substrate, as opposed to cotton fibre, were announced; the first of these polymer notes, the $100 bill, began circulation on November 14, 2011, the $50 bill began circulation on March 26, 2012, the $20 denomination began circulation on November 7, 2012, and the $5 and $10 denominations began circulation on November 12, 2013.

Cyprus Banking Bail Out in 2013

Cyprus, officially the Republic of Cyprus, is an island country in the Eastern Mediterranean and the third largest and third most populous island in the Mediterranean.

Alike Greece, Spain, Italy and Ireland, Cyprus is also a victim of the euro crisis, in which a combination of highly indebted banks and unsustainable sovereign debts brought several members of the euro zone to the brink of bankruptcy. Cyprus has the volume of the banks seven times bigger than its GDP. High interest rates and easy access have attracted a lot of foreign capital to Cyprus, and the country has developed a reputation for being a tax haven and even a money-laundering location.[197] Cypriot banks have attracted large amounts of capital from sources seen as dubious by the rest of the euro zone. Around 20 billion of the 68 billion euros deposited in Cypriot banks are thought to be owned by Russians. But the Cypriot banks' high exposure to bad Greek debt meant that when Greece negotiated a debt write-off, the so-called "haircut", for its struggling financial institutes in February 2012, Cyprus took a severe blow. Downgraded by the big rating agencies, Cypriot banks were cut off from the international financial markets and only kept alive through infusions from the European Central Bank (ECB), administer of the monetary policy of the 17 European Union member states. But even ECB threatened to withhold these emergency funds unless Cyprus agreed to a deal, so Cyprus budged, accepting to raise around 5.8 billion euros to qualify for a 10 billion euro bailout.

"Ice Nine"[198] was put to deadly effect in the Cyprus banking crisis in 2012 (and the Greek sovereign crisis in 2015). The financial repression was brutally

[197] (Chaudhari, 2013)

[198] The term "Ice Nine" is from the novel "Cat's Cradle" written by Kurt Vonnegut in 1963. This substance was discovered by a character in the book, a Dr. Felix Hoenikker, which could freeze another molecule of water when it came into contact with it. "Ice

enforced: Banks were shut down and the ATM machines were taken out. The banks blocked the depositors from withdrawing physical cash from their accounts. A mad scramble for cash started. In Cyprus, the Laiki Bank was shut down and the bank of Cyprus was restructured by the government. Deposits, above the insured amount of Euro 100,000, were transferred to a bad bank where the chance of recovering any sum was next to impossible.

At the bank of Cyprus, the meat cleaver was applied with deadly effect: around 47.5% of the uninsured deposits over Euro 100000 were used to recapitalise the bank. Financial commentators whose humour was on the dark side called it the Cyprus haircut. Some called it a bail-in. Others called it simply an officially sanctioned theft. [199]

After repeatedly delaying the reopening of the banking system, officials said finally opened on March 8, 2013 at noon local time, raising concerns that customers will scramble to remove savings on which they could otherwise be facing losses of at least 40%.

Cash withdrawals from banks were limited to €300 (£253) a day, although banks in recent days have been restricting withdrawals to €100 per customer to prevent them running out of cash while the country has negotiated its €10bn bailout. Yiangos Demetriou, head of internal audit at the island's Central Bank, told the Cypriot state broadcaster that a limit of €5,000 would be set on the use of credit cards abroad and insisted the measures would be imposed for just four days.

The Cyprus haircut got policy status in the newly formed global organization by G20, called the Financial Stability Board (FSB). In an arcane technical report, FSB made it clear that in the event of bank losses, the depositors should absorb the losses. The bank deposits could be used to write down and convert into equity all or parts of the unsecured deposit lying with the bank. The Cyprus haircut was applied with deadly effect in the Greek crisis during 2015. The modus operandi was the same: the banks were shut down and the ATM machines stopped dispensing cash. Credit cards were declined by merchants and the people resorted to quasi barter system to keep trade and commerce going.

Nine" had the awesome capacity to freeze rivers, lakes and oceans. In a financial panic, a "Ice Nine" approach means taking draconian measures to prevent or severely restrict withdrawal of physical cash from bank accounts, shutting down ATM's and ordering asset managers not to sell securities. In other words this means financial repression or lockdown. (Rickards, 2016)

[199] (Raman S. C., 2016)

Depositors realised that their bank deposit was not theirs and could be frozen at any time. In other words they could get a Cyprus haircut.[200]

Greece: Capital Control in 2015

Greece, officially the Hellenic Republic, historically also known as Hellas, a country in south Eastern Europe, with a population of approximately 11 million as of 2015. A founding member of the United Nations, Greece was the tenth member to join the European Communities (precursor to the European Union) and has been part of the Eurozone since 2001.

Notes were issued by the National Bank of Greece from 1841 until 2001 when Greece joined the Euro. Early denominations ranged from 10 to 500 drachmae. Smaller denominations (1, 2, 3 and 5 drachmae) were issued from 1885, with the first 5-drachma notes being made by cutting 10-drachma notes in half.

By the 1890s, Greece was virtually bankrupt. Poverty was rife in the rural areas and the islands, and was eased only by large-scale emigration to the United States. There was little education in the rural areas. Nevertheless, there was progress in building communications and infrastructure, and fine public buildings were erected in Athens. Despite the bad financial situation, Athens staged the revival of the Olympic Games in 1896, which proved a great success.

During the German-Italian occupation of Greece from 1941 to 1944, catastrophic hyperinflation and Nazi looting of the Greek treasury caused much higher denominations to be issued, culminating in 100,000,000,000 drachma notes in 1944.

In November 1944, after Greece was liberated from Germany, old drachmae were exchanged for new ones at the rate of 50,000,000,000 to 1. Only paper money was issued. The government issued notes of 1, 5, 10 and 20 drachmae, with the Bank of Greece issuing 50, 100, 500, 1000, 5000, and 10,000 drachma notes. This drachma also suffered from high inflation. The government later issued 100, 500, and 1000 drachma notes, and the Bank of Greece issued 20,000 and 50,000 drachma notes.

In 1953, in an effort to halt inflation, Greece joined the Bretton Woods system. In 1954, the drachma was revalued at a rate of 1000 to 1. The new currency was pegged at 30 drachmae = 1 United States dollar. In 1973, the Bretton Woods System was abolished; over the next 25 years the official exchange rate gradually declined, reaching 400 drachmae to 1 U. S. dollar. On 1 January 2002, the Greek

[200] (Raman S. C., 2016)

drachma was officially replaced as the circulating currency by the euro, and it has not been legal tender since March 1, 2002.

From late 2009, fears of a sovereign debt crisis developed among investors concerning Greece's ability to meet its debt obligations due to strong increase in government debt levels. This led to a crisis of confidence, indicated by a widening of bond yield spreads and risk insurance on credit default swaps compared to other countries, most importantly Germany. Downgrading of Greek government debt to junk bonds created alarm in financial markets. By the end of 2009, as a result of a combination of international and local factors the Greek economy faced its most-severe crisis since the restoration of democracy in 1974 as the Greek government revised its deficit[201] from an estimated 6% to 12.7% of gross domestic product (GDP).[202,203] In May 2010, the Greek government deficit was again revised and estimated to be 13.6% which was the second highest in the world relative to GDP with Iceland in first place at 15.7%.[204]

On May 2, 2010, the Eurozone countries and the International Monetary Fund agreed on a €110 billion loan for Greece, conditional on the implementation of harsh austerity measures.

In April 2014, Greece returned to the global bond market as it successfully sold €3 billion worth of five-year government bonds at a yield of 4.95%. According to the IMF, Greece will have real GDP growth of 0.6% in 2014 after 5 years of decline.

After default of the IMF instalments, the Greek government has implemented capital control measures. Few important events of the defaults are mentioned below:

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201 In early 2010, it was revealed that through the assistance of Goldman Sachs, JPMorgan Chase and numerous other banks, financial products were developed which enabled the governments of Greece, Italy and many other European countries to hide their borrowing. Dozens of similar agreements were concluded across Europe whereby banks supplied cash in advance in exchange for future payments by the governments involved; in turn, the liabilities of the involved countries were "kept off the books". (Greece Paid Goldman $300 Million To Help It Hide Its Ballooning Debts, 2010)

202 (Lynn, 2011)

203 (The Economist, 2010)

204 (Melander & Papchristou)

1. June 4, 2015: Greece asks the IMF to postpone the instalment due on June 5, 2015 until the end of the month.[205]
2. June 28, 2015: Tsipras announces that Greek banks will remain closed for a while; he also announces the imposition of capital controls (€60/day withdrawal limit; most foreign transfers banned).
3. June 30, 2015: Greece misses a payment on an IMF loan and falls into arrears.[206](Missed payments to the IMF are not considered formal defaults by the major credit rating agencies.[207])
4. July 1 to 3, 2015: 1,000 bank branches open to allow pensioners to withdraw €120 for the week. The move was made to accommodate the many pensioners who lack a bank card.
5. July 6, 2015: Greece extends its bank holiday and capital controls through July 8, 2015.
6. July 20, 2015: Greek banks open again, but capital controls remain. The Greek government repays two loans to the IMF and ECB.
7. August 3, 2015: The Greek Stock Exchange reopened after being closed since June 25 and fell more than 16% with bank stocks losing an average of 30% in a single day's trading.
8. January 22, 2016: Greece's credit rating is upgraded by Standard and Poor's to B-.

Improved rating indicates recovery of the economy; though Brexit has affected Greek stock market index negatively.

New Zealand: Replacement of Currency 2015

New Zealand is an island nation in the southwestern Pacific Ocean. The country geographically comprises two main landmasses, the North Island, or Te Ika-a-Māui, and the South Island, or Te Waipounamu and around 600 smaller islands.

The New Zealand dollar (sign: $; code: NZD), is the currency and legal tender of New Zealand, the Cook Islands, Niue, the Ross Dependency, Tokelau, and a British territory, the Pitcairn Islands.

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[205] (Greece to delay IMF repayment as Tsipras faces backlash, 2015)

[206] (BBC News, 2015)

[207] (Mayeda, 2015)

New Zealand is a constitutional monarchy with a parliamentary democracy, although its constitution is not codified. Elizabeth II is the Queen of New Zealand and the head of state. The powers of the Queen and the Governor-General are limited by constitutional constraints and they cannot normally be exercised without the advice of ministers.

Sometime between 1250 and 1300 CE, Polynesians[208] settled in the islands that later were named New Zealand and developed a distinctive Māori[209] culture. In 1642, Dutch explorer Abel Tasman became the first European to sight New Zealand. In 1840, representatives of Britain and Māori chiefs signed the Treaty of Waitangi, which declared British sovereignty over the islands. In 1841, New Zealand became a colony within the British Empire and in 1907 it became a Dominion. Since the 1980s, New Zealand has transformed from an agrarian, regulated economy to a market economy.

On October 12, 2015, the Reserve Bank of New Zealand released new bank notes. The brighter colours are not the only new feature to the notes. They also contain more sophisticated security features, including:

1. A large clear window that contains a hologram featuring a fern, map of New Zealand, and the same bird that features on the left-hand side of the note.
2. When the note is tilted a rolling bar, that changes colour, flashes across the bird. On the reverse of the note, in the same position, a similar effect can be seen in the fern window.
3. If the notes are held up to the light, coloured irregular shapes on the front and back combine like puzzle pieces to show the note's denomination.
4. Raised ink features on both sides of the notes, including the words "Reserve Bank of New Zealand Te Putea Matua" and "New Zealand Aotearoa".[210]

New Zealand's new banknotes will be released into circulation on October 12, 2015, but might not be in people’s pockets for some time. The design of the

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[208] Polynesia is a sub-region of Oceania, made up of over 1,000 islands scattered over the central and southern Pacific Ocean. The indigenous people who inhabit the islands of Polynesia are termed Polynesians.

[209] The word Māori refers to the indigenous people of New Zealand.

[210] (NZ Herald, 2015)

new $5 and $10 notes were shown to the public in September, 2015. The new notes feature brighter colours, but the same famous faces and flora and fauna design features.

Head of Currency at the Reserve Bank, Brian Hayr said that banks and retailers have been given the sign off to dispense the new notes today. "Approximately 345,000 of the new Series 7 banknotes have been dispatched to banks to meet their orders. This compares with about 45,000,000 Series 6 $5 and $10 notes currently in circulation," Mr. Hayr said further. "However, the public might not get to see a new note for some weeks", he informed.[211]

"This is because the Reserve Bank distributes banknotes only when it receives orders from banks. Orders for replacement of $5 and $10 notes come in less frequently than other denominations as they tend to circulate much more between retailers and consumers." The Reserve Bank expects more orders to come in from retail banks over the next few months as they gradually replace old notes.

The old notes will still be legal tender and people can pay with either the new or old bank notes: implying it's not a demonetisation.

211 (NZ Herald, 2015)

Past Demonetisations in India

Introduction

In 2016, the Indian government decided to demonetise Rs. 500 and Rs.1000 notes, the two highest denomination currency notes in circulation. These notes accounted for 86.9% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money, its use in money laundering and terrorism and promote a cashless economy.

By making the larger denomination notes worthless, individuals and entities with huge sums of black money gotten from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity. If the entity could not provide proof of making any tax payments on the cash, a tax penalty of 200% of the tax owed was imposed.[212]

Demonetisation was a new word for many, but not for India. India has seen two such demonetisations, first in 1946 and next in 1978.

Historic View: Demonetisation in India

Historically, Indian had demonetised bank notes in January 1946 that's in British India. Banknotes of 1,000 and 10,000 rupees were withdrawn and new notes of 1,000, 5,000 and 10,000 rupees were introduced in 1954.

After independence, the Janata Party coalition government had again demonetised banknotes of 1,000, 5,000 and 10,000 rupees on January 16, 1978 as a means of curbing counterfeit money and black money.

In this chapter, readers will find details about both of these demonetisations; before this, let's see the legal aspect behind demonetisation.

Demonetisation: Legal Aspect

In India, section 22 of the Reserve Bank of India Act, 1934 gives the RBI the sole right to issue banknotes. Section 26(1) states that every banknote shall be a legal tender in India, bears the value of the amount mentioned on it; and shall be guaranteed by the Central government. So by default, a banknote issued by the RBI commands the value mentioned on it for any transaction in India since

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[212] "Withdrawal of Legal Tender Status for Rs 500 and Rs1000 Notes: RBI Notice (Revised) dated 8 November 2016 of Reserve Bank of India."

it is a legal tender guaranteed by the Central government. This default setting can be changed in three ways.[213]

1. Under the current Reserve Bank of India Act, 1934, it can be done only if, on the recommendation by the RBI, the Central government issues a notification under section 26(2) declaring that any series of the RBI banknote of any denomination will cease to be legal tender from a particular point of time. This notification path has never been used to demonetise until now and can lead to some unique problems.
2. The current Reserve Bank of India Act, 1934 itself could be amended. As explained below, this was done in 1956 to give legal certainty to the demonetisation of 1946.
3. A Presidential Ordinance or a separate Parliamentary law could be passed. It could specifically override any other law including the Reserve Bank of India Act, 1934 as may be necessary. As explained below, the 1948 and the 1978 demonetisations were effected through an Ordinance and then a Parliamentary law.

Demonetisation of 1946

The idea of 1946 demonetisation seems to have come from the colonial master Britain where 10 Pound and higher denomination notes were called back after the Second World War. Soon after the war, while Government were giving attention to ways and means of averting the expected slump, thought was also given to check black market operations and tax evasion, which were known to have occurred on a considerable scale. Following the action in several foreign countries, including France, Belgium and the U.K., the Government of India decided on demonetisation of high denomination notes, in January 1946. It is interesting that as early as April 7, 1945, in an editorial on the tasks before the new Finance Member, Sir Archibald Rowlands, the Indian Finance referred to the action of the Bank of England in calling in notes of £ 10 and higher denominations and suggested similar action in India as 'one more concrete example for the Indian Government to follow in its fight against black market money and tax evasions which have now assumed enormous proportions'.[214]

It is not known when the Government authorities started thinking on the demonetisation measure, but the final consultation with the Governor and Deputy Governor Trevor took place towards the end of 1945, when Mr. N.

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[213] (Datta & Sengupta, 2016) and Reserve Bank of India Act, 1934

[214] (RBI, 1970)

Sundaresan, Joint Secretary, Ministry of Finance, called for a discussion, for which he had earlier prepared a note and the drafts of the Ordinances to implement the scheme. According to a note recorded by Mr. Sundaresan, it would appear that the Reserve Bank authorities were not enthusiastic about the scheme. The Governor stated that the Finance Member had given him the impression that the scheme would be launched only when there were signs of the onset of an inflationary spiral. The Governor saw no special signs of such a situation. 'It appeared to him that the main object of the scheme was to get hold of the tax evader. The Governor wondered if this could be called an emergency to justify the promulgation of an Ordinance, just before the newly elected Legislative Assembly met. The Governor wanted Government to be satisfied that there was no harassment to honest persons. As a currency authority, the Bank could not endorse any measure likely to undermine the confidence in the country's currency. The Governor agreed that about 60 per cent of the notes would be in the Indian States and so co-operation of the State Governments was very necessary. Apparently he had some doubts about this. According to Mr. Sundaresan, the ideal thing was to block high denomination notes, but this course was not favoured by either the Finance Member or the Governor.[215]

Announcement of 1946 Demonetisation

On January 11, 1946, the government announced that notes of Rs 500, Rs 1000 and Rs 10,000 will not be legal tender from January 12, 1946. The front page of Indian Express of that day, January 12, 1946, reads that the move was made with an aim to curb black marketing. The repercussions were similar with people dying of shock, exceptionally long lines at the bank and the middle classes being hit.

The old notes were being sold at 60 and 70 per cent of their price. The move was called a 'death blow' to black marketers. A rumour also went around that Rs 100 notes were being demonetised too, leading to panic and people discarding their Rs 100 notes as well.[216]

So, based on inputs, the British India government came out with 2 ordinances on January 12, 1946, which was declared a holiday. First ordinance asked banks to furnish information about currency holdings of various denominations (Rs.100, Rs. 500, Rs. 1,000 and Rs.10,000); second was about telling public that denominations of Rs. 500 and above were demonetised (sparing Rs 100).

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215 (RBI, 1970)

216 Indian Express dated 12th Jan 1946

People were given 10 days for exchange which meant first helpline ended at January 23, 1946. This was later extended to February 9, 1946 where people had to give explanations on why they could not exchange in first ten days.[217]

In British India, there were several princely states, some declared similar ordinances. The provisions of the second Ordinance, which was applicable to British India, were also extended, with suitable modifications, to the Administered Areas on January 22, 1946. Many Indian States also issued parallel Ordinances. States which did not enact such legislation were required to exchange their holdings of demonetised notes before March 7, 1946.

At that time, total notes amounting Rs 1,235.93 crore[218] were in circulation, the measure did not succeed, as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged.[219] Thus, notes worth only Rs. 9.07 crores were probably not presented.

At that time, one did not introduce any new currency and exchanges were made with Rs 100 and lower. The success of demonetisation then was seen as exchange of notes with lower denominations.

Sir Chintaman Deshmukh, Governor of the Reserve Bank of India during 1946 demonetisation, in his Dadabhai Naoroji Memorial Prize Fund Lectures, delivered at Bombay in February 1957, said "It was more of "conversion", at varying rates of profits and losses than "demonetisation"[220]

News Paper articles of Indian Express dated January 12 and 13, 1946 are given on next pages.

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217 RBI's 2016 demonetisation was very much similar to 1946 and 1978.

218 (Samal, April-June 1992)

219 (Lahiri, 2016)

220 (Digging through India demonetization history — 12 Jan 1946 (Saturday) and 16 Jan 1978 (Monday))

GOVT. STRIKE AT 'BLACK' CAPITALISTS

NOTES OF RS. 500, 1,000 AND 10,000 CEASE TO BE LEGAL TENDER

Procedure for Exchange By Banks and Others Laid Down

Another Ordinance Issued

NEW DELHI, Jan. 12.

Currency notes of the value of Rs. 500, Rs. 1,000 and Rs. 10,000 cease to be legal tender from today, under the provisions of a new Ordinance issued today, following the one published this morning calling on Banks and Treasuries to declare their holdings of currency notes of the value above Rs. 100.

The Demonetisation Ordinance issued today is a step taken to deal with black marketing in the country.

"The working capital of black market operations," says an official announcement, "is believed to be held in large measure in the form of high denomination notes, and Government are aware of the persistent public demand for effective action against these enemies of the public welfare."

This ordinance, adds the announcement, "is designed to achieve the purpose of bringing such operations within the knowledge of the Government and of the taxing authorities in particular, with results of considerable value both to the Government and to the general public. The Government are satisfied that their action will not seriously inconvenience nor in any way prejudicially affect the ordinary honest citizen."

Following is the full text of the Press note announcing the Government's decision:—

A further Ordinance entitled "High Denomination Bank Notes (Demonetisation) Ordinance" has been issued today. High denomination notes are defined as bank notes of the value of Rs 500, 1,000 and 10,000. These notes ceased to be legal tender after the 12th Jan. 1946 notwithstanding anything contained in Section 26 of the Reserve Bank of India Act. The transfer and receipt of high denomination notes after the aforesaid date are prohibited. There will be no ban on the acceptance and exchange of 100 rupee notes.

Monday will be a bank holiday under the Ordinance.

Procedure for Exchange By Banks

The Ordinance provides for the exchange of high denomination notes and following is the procedure: A Scheduled Bank or a Government Treasury may obtain from the Reserve Bank in exchange for its high denomination notes 100 rupee notes to an amount equal to the value of the total value of high denomination notes declared by it under the Bank Notes (Declaration of Holdings) Ordinance. A Non-Scheduled Bank may obtain from the Reserve Bank or a Scheduled Bank in exchange for its high denomination notes declared by it under the aforesaid Ordinance an amount equal thereto in 100 rupee notes. The Scheduled Banks and Non-Scheduled Banks, may, however, obtain if they so desire a credit in the Reserve Bank or a Scheduled Bank, as the case may be, to the equivalent amount instead of 100 rupee notes. All applications from Banks or Government Treasuries for exchange of high denomination notes should be accompanied by the copy of the statement rendered under Section 4 of the Bank Notes (Declaration of Holdings) Ordinance which has been returned to a Bank or Treasury by the receiving officer under that Ordinance. Where a declaration of holdings has been telegraphed to the Reserve Bank, Bombay, the application for exchange should be addressed to that office accompanied by a certified copy of the telegram despatched thereto on Saturday before 3 p.m.

By Others

As regards the exchange of high denomination notes held by other persons, the Ordinance lays down that every such owner should within ten days after its commencement submit to the Reserve Bank or a Scheduled Bank or a Government Treasury with his application a form of declaration as prescribed therein in triplicate. The form demands information as regards the name, status and address of the applicant, the circle of his income-tax assessment, the nature of his business and the partners, the salary of the person, if salaried, and particulars of his employment, details of the denominational value of the notes tendered, the reasons for their being so held and references to any other application made for exchange of high denomination notes. In order to ensure the identity of the owner who is to be the applicant, an attestation of the application by his banker or by a salaried Magistrate or a Justice of the Peace or a police officer not below the rank of Inspector of Police is prescribed. Where an owner lives in a place not within convenient reach of a branch of the Reserve Bank or any other Bank or Treasury or he is by reason of age, infirmity or illness unable to attend any of the appointed places, the Ordinance permits the posting within 14 days of the notes with the duly attested declaration to any of the offices of the Reserve Bank of India at Bombay, Calcutta or Madras under insured cover. Where a person applies for exchange of high denomination notes in more than one instalment, or at more than one branch of a Bank or Treasury or on more than one day, the Ordinance makes it obligatory on him to give full particulars of such other applications, if any. Where a total exchange exceeds Rs 10 lakhs the application should be directed to the Reserve Bank at Bombay, Calcutta or Madras as convenient.

To Discourage Benami Ownership

In order to discourage 'benami' ownership, the Ordinance provides that the person who signs any declaration shall be deemed to be the owner of the notes for all purposes. Where the declaration appears to be incomplete in its particulars a Bank or a Treasury is prohibited from making any payment in exchange. In such cases, the applications will be referred to the Central Government for a decision. The Central Government is given powers to authorise extension of the time limit in any particular case.

Penalty

The penalty for false declaration or other contravention of the Ordinance is imprisonment up to three years or fine or both. Provision is also made for the framing of rules to deal with high denomination Bank notes brought or sent to British India after the commencement of the Ordinance or held outside British India.

The working capital of black market operations is believed to be held in large measure in the form of high denomination notes, and Government are aware of the persistent public demand for effective action against these enemies of the public welfare. Black market operations not only hold the general community to ransom but are also concealed from taxation authorities and so fail to contribute their proper share to the public revenues at the expense of honest citizens. This Ordinance is designed to achieve the purpose of bringing such operations within the knowledge of the Government, and of the taxing authorities in particular, with results of considerable value both to the Government and to the general public. The Government are satisfied that their action will not seriously inconvenience nor in any way prejudicially affect the ordinary honest citizen.—A.P.I.

BANK NOTES ORDINANCE

REACTIONS IN BOMBAY

BOMBAY, Jan. 12.

The promulgation of the Bank Notes Ordinance this morning by the Governor-General came as a surprise to financial and business circles in Bombay. Many people, not understanding the real implications of the ordinance, rushed to their banks at 11 a.m. to exchange their holdings of currency notes of denominations of 100 and above, but they were promptly told by the Bank authorities that it was a Bank holiday and that no notes could be exchanged.

The new Ordinance had its repurcussions in the Mahalaxmi Race course today where an announcement was made before the commencement of the races that the race course authorities would permit cashing of only one note of higher denomination mentioned in the Ordinance at a time. This announcement disappointed many punters who had gone to the races with notes of higher denominations and they were unable to exchange them for smaller notes. This naturally resulted in punters not being able to back certain horses to the extent they would have liked to do.

The Agent of a leading Bank in Bombay told an Associated Press of India reporter today that the Bank notes Ordinance was a right step taken just in time which would, by a process of elimination, bring out hoarded currency notes of higher denominations.

Financial circles hint at more ordinances in the immediate future to check inflation and to bring out hoarded currency notes.—A.P.I.

Currency Notes "Sold" For 60 or 70 p.c. of Their Value

Sequel to Demonetisation Ordinance

BOMBAY, Jan. 13.

The Demonetisation Ordinance came as a complete surprise to speculators who, it was reported, were yesterday unofficially buying and selling hundred-rupee currency notes at anything between Rs. 95 and 97.

To-day hundred-rupee notes, it was reported, were quoted at a premium of Rs 10 whereas notes of Rs. 500, 1,000 and 10,000 denomination were quoted at anything between 60 to 70 per cent of their original value.

According to reports current in financial circles, a large number of Rs. 500 and Rs. 1,000 notes have been exchanged unofficially at 60 to 70 per cent of their original value.

Gold which shot up from Rs 73 to Rs. 96 yesterday was, it is reported, quoted at Rs. 82 today. Millions of rupees worth of gold bars were exchanged for currency notes yesterday and are reported to have been sold unofficially today at very high premium though forward trading rates in gold have been fixed at a maximum of Rs. 84.

The Board of Directors of the Bullion Exchange is meeting tomorrow to consider what steps should be taken to meet the extraordinary situation.

Diamond was another precious thing which was much in demand in the market both yesterday and today and according to private reports, these precious stones were sold at a very high premium.

Silver prices however remained steady. Bundles of currency notes of high denominations were seen changing hands during many private dealings

The quick succession in which the Government of Inda took sweeping action has stunned black-marketeers and even speculators who are now puzzled as what will be the next stroke that Government will adopt. There is even speculation among the speculators on this subject.—A.P I

ANOTHER ORDINANCE TO COME?

The Associated Press of America adds: Financial quarters checked in a survey by the A. P. A. said that of 1,220 crores of currency in circulation in India, 200 to 300 crores of notes of Rs. 500 and higher denomination had "gone underground" into black market channels to evade income and Excess Profits Taxes.

The amount "underground" in Bombay alone was estimated at 20 crores.

The Ordinance is designed to unearth this hoard.

Some observers who anticipated this attack on black-marketeers predicted informally that there would yet be another ordinance to enforce arbitrary assessment of income-tax on any sum of money declared before the authorities in the coming days.

Yesterday, when the first ordinance requiring the banks to declare their holding was made known, the local bullion market experienced one of the biggest runs for gold in the mistaken belief that bullion was a safer proposition for holding than currency. The subsequent ordinance that came at 9-30 p.m. put an end to this mad rush.

Nervousness prevailed in Bombay markets besides the bullion. There has been a general fall in all markets. Among stocks, Tata Steel (deferred) which closed at Rs 2.690 on Friday spurted to Rs. 2,725 on Saturday but due to the prevailing uneasiness declined to Rs. 2.600 In the textile field Bombay dyeing went down to Rs. 2.100 from Rs. 2,145.

The Cotton market has not been much influenced, but sentiment was however lower in sympathy with the others.

DEATH-BLOW TO BLACK-MARKETEERS

(From Our Special Correspondent)

NEW DELHI, Jan. 12.

The present Ordinance for which Sir Archibald Rowlands Finance Member, is responsible aims a death-blow at black-marketeers and tax-evaders and Govern-

Ordinance of 1946 for Demonetisation

On January 12, 1946, the Governor General of India promulgated the High Denomination Bank Notes (Demonetisation) Ordinance, 1946. It declared that the high denomination bank notes of Rs 500, Rs 1,000, and Rs 10,000, issued by the RBI would cease to be legal tender on expiry of January 12, 1946.

The ordinance passed has following clauses:

1. Section 4 of the Ordinance specifically prohibited transfer or receipt of such notes after January 12, 1946.
2. Section 6 provided that notwithstanding anything to the contrary in the Reserve Bank of India Act, 1934 such bank notes could be exchanged for valid legal tender subject to a detailed procedure within January 22, 1946. Extensions could be given by the Central government.
3. Section 7 of the Ordinance imposed penalties for providing false information during the exchange process.
4. Section 9 imposed a blanket ban on any legal proceeding against any person for any action taken under the 1946 Ordinance.

Legal Challenges of the Ordinance

This Ordinance led to three types of legal challenges.

1. RBI's obligation to exchange old notes with new notes:

Section 39 of the RBI Act, 1934 imposes an obligation on the RBI to exchange its banknotes with other legal tender. Section 6 (applicable to non-banks) of the 1946 Ordinance applied notwithstanding anything to the contrary in the RBI Act including section 39. But section 5 (applicable to banks) of the 1946 Ordinance did not expressly override section 39 of the RBI Act.

This resulted in confusion as to whether after January 22, 1946, the RBI was still under an obligation under section 39 of the RBI Act to keep on exchanging the non-legal tender banknotes.

The Bombay High Court in JM D'souza vs. RBI (1946) held that an individual's right to exchange notes from the RBI under section 39 of the RBI Act did not exist any longer since section 6 (which applied to individuals) of the 1946 Ordinance applied notwithstanding anything contrary in the RBI Act.

However, the Calcutta High Court in Dominion of India vs. Manindra Land And Building Corporation Ltd. (1952) held that a bank still had the right to exchange non-legal tender banknotes from the RBI under section 39 of the RBI Act since section 5 (which applied to banks) of the 1946 Ordinance did not have a notwithstanding clause overriding the RBI Act.

2. Violation of right to property:

In B Ram Lal vs. State (1954), constitutionality of sections 3 and 4 of the 1946 Ordinance was challenged before the Allahabad High Court for violating the fundamental right to acquire, hold and dispose property under Article 19(1)(f) of the Constitution as it stood then.

The Court held that once these notes ceased to be legal tender, any restriction on their transfer to another person could not be said to be unreasonable.

Moreover, the Ordinance provided for the exchange of the high denomination notes for notes of smaller denominations on certain conditions. Therefore, the restriction imposed by section 4 of the Ordinance was found to be a reasonable restriction. This settled the question of constitutionality.

3. Temporary nature of Ordinance:

The third problem with the 1946 Ordinance was whether it was a temporary measure or was it permanent in nature. An Ordinance was valid for six months. So the question was whether its effect would continue even after six months.

In Sridhar Achari vs. Emperor (1947), the petitioners had submitted documents for exchange of banknotes under the 1946 Ordinance. After six months, on March 4, 1947, a charge-sheet was issued against them under section 7 of the 1946 Ordinance alleging that they provided false information. The petitioners argued that the 1946 Ordinance was a temporary emergency measure and was no longer valid after six months. This argument was rejected by the Allahabad High Court which held that the intention was to give the Ordinance permanent character.

A similar argument was taken in the Supreme Court in Hansraj Moolji vs. State of Bombay (1957). In 1953, the petitioner was charge-sheeted for transferring some high denomination banknotes in violation of the Ordinance. The petitioner argued that the 1946 Ordinance was not effective in 1953 and so he could not be prosecuted under that law. The Supreme Court rejected this argument and upheld the permanent nature of the 1946 Ordinance.

These litigations possibly nudged the government to clarify the law permanently. Schedule I of the Jammu and Kashmir (Extension of Laws) Act, 1956 amended the RBI Act and inserted section 26A to clarify that notwithstanding any law to the contrary, all high denomination notes of Rs 500, Rs 1,000 and Rs 10,000 shall cease to be legal tender from January 13, 1946.

Few Legal Cases of 1946 Demonetisation

Mehta Parikh & Co vs. CIT [TS-5011-SC-1956-O]

In this case, assessee firm encashed 61 high denomination notes of Rs 1000 each relating to AY 1947-48, on promulgation of high denomination bank notes in 1946. However, when asked to prove assessee firm submitted books of account showing relevant entries showing payment being made to them which resulted in said cash in their hand. It also submitted affidavit of payers. However, the Revenue authorities held that it was not possible that all payments after a particular date were being made in multiples of Rs. 1000, and thus held part of assessee's income as undisclosed income. On further appeals HC confirmed additions made by assessee. Supreme Court, however, reversed HC judgement and held that it was not enough without further scrutiny to dislodge position taken up by assessee that was supported by entries in cash books and affidavits put in by assessee. Thus ruling in assessee's favour SC held that assessee's income from undisclosed sources was based on pure surmises and since it has no evidence it had to be quashed.

Madhuri Das Narain Das vs. CIT [TS-5208-HC-1966(ALLAHABAD)-O]

Allahabad HC had reversed ITAT order upholding undisclosed income addition to the tune of Rs. 6000 during AY 1947-48. In the present case, assessee encashed 28 high denomination notes of Rs. 1,000 each after issuance of High Denomination Bank Notes (Demonetisation) Ordinance, 1946. On being asked to explain the source of the notes, the assessee stated that it had a closing balance, in respect of the account maintained for its business, on January 11, 1946 and that these 28 notes had come out of the aforesaid closing cash balance. However ITO disbelieved explanation and treated entire amount as assessee's income from an undisclosed source.

On appeal, Tribunal partly upheld addition by holding that 22 notes of the denomination of Rs. 1,000 each could have come out of the cash balance of Rs. 38,000 and odd, but was not satisfied that the balance of six notes of Rs. 1,000 each were also from the same source. It accepted that 22 notes out of 28 could have come out of cash balance, however, remaining 6 notes could not have formed part of such balance. On further appeal by assessee, HC held that finding of Tribunal was based upon surmises and conjectures and cannot be upheld. HC relied on coordinate bench ruling in Kanpur Steel Co. v. CIT [[1957] 32 ITR 56].

Gur Prasad Hari Das vs. CIT [TS-5018-HC-1962(ALLAHABAD)-O]

In the case, Allahabad HC held that the prima facie value represented by high denomination notes in possession of assessee must be presumed to be part of his cash balance and if department wanted to treat such value as his concealed income from some undisclosed sources, it was for department to establish that fact on basis of material in their possession.

Demonetisation of 1978

The next round of demonetisation happened under the Janata Party government in 1978; Mr. Morarji Desai was the Prime Minister at that time. The second demonetisation has a backstory. In the early 1970s, the Wanchoo committee on black money had recommended withdrawing certain banknotes.

However, this suggestion could not be acted upon because the very publicity given to the recommendation resulted in black money operators getting rid of high-value currency notes.[221]

On January 16, 1978, the President promulgated the High denomination Bank Notes (Demonetisation) Ordinance, 1978. This Ordinance was subsequently repealed and replaced by the High Denomination Bank Notes Demonetisation) Act, 1978 on March 30, 1978. By this law, banknotes of denominations Rs 1,000, Rs 5,000 and Rs 10,000 issued by the RBI ceased to be legal tender from January 17, 1978.

Announcement of 1978 Demonetisation

The story of second exercise starts with a telephone call made to Mr. R Janakiraman, a senior official in the chief accountant's office in the Reserve Bank on January 14, 1978. He was said to come to Delhi for urgent work regarding exchange control. On reaching Delhi, he was asked to write the demonetisation ordinance within 24 hours. With previous ordinance as a guidance document, the ordinance was drafted. All communications with RBI were restricted to avoid any speculation.[222]

Then on January 16, 1978, the ordinance was announced via All India Radio at 9 am. The Ordinance provided that all banks and government treasuries would be closed on January 17, 1978 for transaction of 'all business except the preparation and presentation or the receipt of returns' that were needed to be completed in the context of demonetisation. For purposes of the Negotiable Instruments Act, 1881, January 17, 1978 was deemed to be a public holiday notified under the Act.

This time public was given even lesser time of 3 days[223] to exchange Rs 1,000, Rs 5,000 and Rs 10,000 notes.

Banks and government treasuries were required to submit information (in the form of data 'return') to the Reserve Bank of high denomination notes held with them as at the close of business on January 16, 1978. The notes held would be exchanged for an equivalent value by the Bank. The general public was given

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221 (Gopika Gopakumar, 2016)

222 (Digging through India demonetization history — 12 Jan 1946 (Saturday) and 16 Jan 1978 (Monday))

223 With a statement explaining the reasons for his failure to exchange within the said time limit of 3 days, Individual was permitted to exchange within 7 days.

three days to surrender high denomination notes for conversion. After January 16, 1978, notes could be exchanged on tender of the high denomination notes in person by the individuals themselves or by a person competent to act on his/ her behalf. They had to tender the notes at the Reserve Bank or at notified banks in the prescribed format with full particulars giving, among other things, the source or sources from which the notes came into his/ her possession and the reasons for keeping the amount in cash.

Higher denominations of Rs 1000, Rs 5000 and Rs 10,000 notes amounting Rs 145.42 Crore were ceased to be legal tender in 1978 whereas only Rs 16 Cr were not presented for exchange.[224] Compared to this, Rs 1,067 crores were added in Rs 100 denomination alone and the rest of the smaller denominations made up another Rs 650 crores. So, it did not reduce any cash liquidity, at least some was done by 1946 demonetisation.

There were anecdotes of a few Arab nationals who reached the RBI office at Ballard Estate with “bundles of Rs 1,000” notes, demanding immediate change as they had to leave the country. They kept yelling about the counter of a posh hotel in south Bombay where they stayed as the source of the money. Except that when the RBI officials called to check, the hotel denied any knowledge.

In temples, donations surged and at least in two temples: the money which poured in broke all past records. By evening of the first day of scrapping these notes, the RBI governor, Mr. I G Patel, called to all priests, asking them to adhere to the Thursday deadline, quipping that the order applied as much to “gods as to men”.

On January 16, 1978, high denomination notes were as:

Particulars	Rs. 1000 Notes	Rs. 5000 Notes	Rs. 10000 Notes
Numbers	1.269 mn	36,287	346
Value in mn	1269 mn	181.4 mn	3.46 mn
Value in Cr	126.9 Cr	18.14 Cr	0.346 Cr

224 (Lahiri, 2016)

Currency in circulation (Amount in Crores)

Year	Rs. 1000 notes	Rs. 5000 notes	Rs. 10000 notes	Total High Denomination	Total Currency in Circulation	HD as % of Total Currency
1970-71	45	21.5	1	67.5	4596	1.5
1972-73	43	19.1	10.3	72.3	5742.3	1.3
1973-74	35	25.1	26	86.1	6676.1	1.3
1974-75	35	23.8	21.6	80.4	6776.4	1.2
1975-76	88	22.9	1.3	112.2	7120	1.6
1976-77	105	18.3	23.9	147.2	8354.3	1.8
1977-78	55	18	0.1	73.1	9170.1	0.8

Currency in circulation after demonetisation (Amount in Crores)

In Rs crore	Notes and Coins below Rs 10	Rs. 10 Notes	Rs. 20 Notes	Rs. 50 Notes	Rs. 100 Notes	Rs. 1000 Notes	Rs. 5000 Notes	Rs. 10000 Notes	Total
1977-78	1285	1825	690	995	4302	55	17.97	0.11	9170.1
1978-79	1325	1957	779	1440	5369				10870
Difference	40	132	89	445	1067				1699.92

This table implies that currency in circulation was increased by Rs 1,067 Cr in 1978-79 compared to previous years. Demonetisation move simply was to take out high denomination currency of Rs 129.40 Cr; and addition of Rs 1,067 Cr in lower denomination.

News Paper articles published in Indian Express dated January 17, 1978 and in The Tribune dated January 17, 1978 are mentioned on next pages.

Published from Bombay, New Delhi, Ahmedabad, Madras, Madurai, Vijayawada, Bangalore, Cochin, Hyderabad and Chandigarh.

City Edition

INDIAN EXPRESS

Largest combined net sales among all daily newspapers in India

Vol. XLVI: No. 68 Bombay: Tuesday January 17 1978

High currency demonetised

NEW DELHI, Jan. 16.

THE Janata Government, in a bold step on the economic front today, demonetised currency notes of the denomination of Rs. 1,000, Rs. 5,000 and Rs. 10,000 with immediate effect.

Saklecha election certain

Express News Service

BHOPAL, January 16.

MR. Veerendra Kumar Saklecha, Industries Minister, will be the next Chief Minister of Madhya Pradesh.

Bogus mail theory exposed

Step against black money

Soviet official to brief Centre on Ocean talks

Party warns Begin on peace plan

MISSING LIST

Strike leaders meet Chavan

Jolt for Cong.

Cow and calf case before Commission

Assembly poll on Feb. 25

Kalinga Prize awarded

Cosmonauts back

CITY EDITION

THE TRIBUNE

ESTABLISHED 1881

VOL. XCVIII NO. 17 Chandigarh, Tuesday, January 17, 1978 30 Paise

Regd. No. NW/CH-1

NOTES OF Rs 1000 & ABOVE DEMONETISED

Government Treasuries, banks closed today

NEW DELHI, Jan 16 (Samachar) — In a bold step on the economic front today the Janata Government demonetised currency notes of the denominations of Rs 1000, Rs 5,000 and Rs 10,000 with immediate effect.

Top secret decision

Foreign Briefs

Cyprus talks

Solidarity move

Support for Sadat

Tunis talks

Pak vessel for China

UNCTAD chief

Students' decision on strike today

Magisterial probe into Pundri firing

Slight improvement at Kaithal

Desai's probe offer spreads uneasiness

Indira Cong has edge in Punjab

H.P. dissidents' dilemma

Jha panel decries multi-stage levies

Cosmonauts return to earth

Pakistan may re-enter Commonwealth

Chandigarh Weather

Ordinance & Act of 1978 for Demonetisation

In 1978, demonetisation was effected through an Ordinance and followed by a Parliamentary law.

Few clauses of the Act are mentioned hereunder:

1. Section 4 prohibited transfer or receipt of such notes after January 16, 1978.
2. Section 7 provided for exchange of these high denomination banknotes with valid legal tender from January 17 to January 19, 1978.
3. Section 8 provided for exchange of such notes even after January 19 but up to January 24, 1978 provided RBI was satisfied that there was genuine ground for delay.

4. Section 10 provided for penalties and section 11 provided for offences.
5. Section 34 of the Reserve Bank of India Act says:

The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and banknotes for the time being in circulation.

This 1978 Act also ran into the same legal challenges as the 1946 Ordinance.

Legal Challenges of the Ordinance & Act

1. RBI's obligation to exchange old notes with new notes:

The 1978 Act was also challenged on the ground that the RBI had a statutory obligation to exchange the non-legal tender banknotes even after expiry of the time limit provided in the 1978 Act.

The Delhi High Court in Bimladevi vs. Union of India (1982) held that because of section 3 of the 1978 Act, the banknotes ceased to be a legal tender and by virtue of section 4 its transfer was also prohibited. Consequently, the liability of the issue department of the RBI under section 34 of the RBI Act also ceases. Hence, the RBI was under no obligation to exchange such banknotes after the expiry of the period mentioned in the 1978 Act. The High Court also noted that section 7 of the 1978 Act overrides section 39 of the RBI Act. So the RBI was under no obligation to exchange the notes under section 39 either.

2. Violation of right to property:

The constitutionality of the 1978 Act was challenged. It was argued that the Act resulted in compulsory acquisition of property in violation of Articles 19(1)(f) and 31 of the Constitution as it stood then.

However, the Gauhati High Court in Somi Horam Tongkhul Naga vs. Union of India (1980) was satisfied that the 1978 Act provided adequate procedure for exchange of notes to safeguard the fundamental right to property. Accordingly, the High Court refused to lay down guidelines on the RBI in this regard and refrained from issuing any directions to the RBI to exchange notes.

In similar lines, the Delhi High Court in Bimladevi v. Union of India (1982) observed that Article 31 of the Constitution only requires that compensation be paid for an acquisition. It did not prohibit payment of compensation before acquisition – the exchange facility.

Finally, the Supreme Court in Jayantilal Ratanchand Shah vs. RBI (1996) upheld the constitutionality of the 1978 Act since the acquisition was for public purpose to resolve the problem of unaccounted money. The Court also held that a time limit for exchange was a reasonable restriction in view of the purpose of the law – to clamp down on the circulation of high denomination notes. If a person could at any time in future go to RBI and ask for exchange value of such notes, the purpose of the Act would be frustrated. Therefore, the constitutionality of the 1978 Act was upheld.

Few Legal Cases of 1978 Demonetisation

Naresh Kumar Tulshan vs. Fifth Income- Tax Officer [TS-5768-ITAT-1984(BOMBAY)-O]

In this case, assessee deposited high denomination notes in bank declaring their source as past profits. In subsequent statement however during survey, the source was given as withdrawal from a partnership firm, but examination in firms book made possession of such high denomination cash by firm on date of withdrawal improbable and thus Bombay HC held that the ITO was justified in treating the impugned high denomination cash as assessee's income as unexplained money u/s 69A and was made taxable. It was held that "there was a clear contradiction in the two statements of the assessee about the source of the impugned amount. Had the source of the notes been his past profits as stated on January 19, 1978, there was no necessity for him to state subsequently that the amount had been withdrawn from the firm. Clearly if it represented his past profits, there was no need for any withdrawal from the firm.

Also, the certificate of the firm was in general terms and there was no other contemporaneous evidence to corroborate the assessee's case. Even the firm itself had not explained the source of high denomination notes worth more than Rs. 6 lac and had asked for a settlement. Considering all the evidence produced by the assessee, the conclusion would be that the notes were never part of the firm's cash and the assessee had not been able to establish this fact. The lower authorities were, accordingly, justified in making the addition…"

CIT vs Allied International Product Ltd [TS-5761-HC-2001(DELHI)-O]

In the present case, assessee declared five high denomination notes of Rs. 10,000 each acquired from certain bank. On enquiry, bank denied having issued such notes. Assessment was completed on a total of Rs. 60,000 rejecting assessee's explanation and penalty under section 271(1)(c) was levied. Tribunal cancelled penalty on ground that explanation of assessee was rejected merely on plea that certificate from bank was dated January 9, 1979 as against declaration on January 19, 1978. In fact no certificate was filed but letter issued by bank was dated January 9, 1979. Delhi HC held that tribunal was not justified in cancelling penalty on one statement and real factual position was not kept in mind.

It was held that "Tribunal has not kept in view the real factual position and was not justified in cancelling the penalty. We may note that there was submission made by the assesse before the Tribunal that Commissioner, Delhi-II had considered that there was no concealment or misrepresentation and the prosecution case was to be withdrawn. No material seems to have been placed before the Tribunal to test the correctness of the said stand…"

CIT vs. Andhra Pradesh Yarn Combines (P) Ltd. [TS-5427-ITAT-1995(BANGALORE)- O]

In the present case, assessee was found in possession of unexplained money in form of high denomination notes, which had ceased to be legal tender and had no value in market at all in terms of Ordinance issue by Government in 1978. Upon additions u/s 69A made by AO for unexplained money and penalty levied u/s 271(1)(c), Bangalore ITAT held that "Since assessee was found in possession of unexplained money in the form of high denomination notes after these notes had ceased to be legal tender, addition under s. 69A is unsupportable and question of levying penalty under s. 271(1)(c) cannot arise."

The said decision of Bangalore ITAT has been affirmed by Hon'ble Karnataka High Court 200 CTR 641.

The Janata Dal demonetised high currency notes of Rs 1000, Rs 5000 and Rs 10,000 in a second such historic move, again with a view to curb black money transactions. It was termed as "an Act to provide in the public interest for the demonetisation of certain high denomination bank notes and for matters connected therewith or incidental thereto."[225]

People who possessed these notes were given a week's time to exchange any high denomination bank notes that was till January 24, 1978 with specifying reason for not changing it in first 3 days. The one big difference, in 1978, Rs 1,000 and higher value notes were demonetised which were almost impossible to possess then for the common man given the value of these amounts then.

Rs 1000, Rs 5000 and Rs 10,000 notes amounting Rs 145.42 Crore were ceased to be legal tender whereas only Rs. 16 Cr were not presented for exchange,[226] this small amount makes 1978 event also unsuccessful alike earlier.

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[225] (The Indian Express, 1978)

[226] (Lahiri, 2016)

India's Demonetisation of 2016

The November 8, 2016, the United States of America was on the cusp of history with most signs, polls and experts pointing to "her story" as it elects its 45th President, the eventual nationwide verdict and a pivotal moment in the American story; India was also planning for historic event which attracted eyes and ears of the world. Newsmakers and news seekers in India had never expected it to be that big.

While the reporters and editors were busy writing tell-all stories about US Presidential elections, Prime Minister Narendra Modi surprisingly appeared on TV sets at 20:00 PM in a state of nation address and started speaking on the issue of black money. People thought it to be another mix of words on corruption till the time he hadn't announced the abolishment of Rs. 500 and Rs. 1000 notes. Needless to say, he caught the attention of the nation. TV screens had to change the headlines, prime time slots changed the issue of debate. And, most of all, 129 crore[227] Indians had to think how much cash in these two denominations particularly, they have in their abodes.

Uncountable thoughts popped-up in people's mind. The common man of India had some worries like "How do I get my money exchanged? Which bank should I prefer to deposit my money in the banks? Where to get lower denomination notes? How to get the payment done for the monthly expenses", this was the worry of 'common man'. But for those 'uncommon', who had flocks of unaccounted wealth stored at their homes, the night became a nightmare. Politicians started appearing on TV screens started lauding and criticising government's initiative. But as they spoke on the announcement, all of them had one thought going in their minds – "What I am going do."[228]

Address for Demonetisation of November 8, 2016

On November 8, 2016 at 20:15 IST[229], the announcement was made by the Prime Minister of India Narendra Modi in an unscheduled live televised address.[230] "To break the grip of corruption and black money, we have decided that the 500 rupee and 1,000 rupee currency notes presently in use will no

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227 Population estimate of IMF (International Monetary Fund) for 2016. (IMF, 2015)

228 (Dwivedi, 2016)

229 Indian Standard Time (IST) is the time observed throughout India and Sri Lanka, with a time offset of UTC+05:30. India does not observe daylight saving time (DST) or other seasonal adjustments.

230 (Bhatt, 2016); (Demonetisation of Rs. 500 and Rs. 1000 notes: RBI explains, 2016)

longer be legal tender from midnight tonight that was November 8, 2016. This step will strengthen the hands of the common man in the fight against corruption, black money and fake currency."[231] However, the banknote denominations of Rs.100, Rs.50, Rs.20, Rs.10 and Rs.5 of the Mahatma Gandhi Series remained legal tender and were unaffected by the policy.

After the official announcement by Mr. Modi, the Governor of the Reserve Bank of India, Dr. Urjit Patel, and Economic Affairs secretary, Mr. Shaktikanta Das explained in a press conference that while the supply of notes of all denominations had increased by 40% from 2011 to 2016, the Rs 500 and Rs 1,000 banknotes increased by 76% and 109% respectively in this period owing to forgery. This forged cash was then used to fund terrorist activities against India. As a result the decision to eliminate the notes had been taken.[232]

Dr. Urjit Patel also informed that the decision had been made about six months ago, and the printing of new banknotes of denomination Rs.500 and Rs.2000 had already started. However, only the top members of the government, security agencies and the central bank were aware of the move. But media had reported in October 2016 about the introduction of Rs. 2,000 denomination well before the official announcement by RBI. This statement has led to much debate, because the Reserve Bank governor six months before the announcement, was Mr. Raghuram Rajan, while the new banknotes were having signatures of the newly appointed governor, Mr. Urjit Patel.[233],[234]

Government's Reasons for Demonetisation

Honourable Prime Minister Narendra Modi and RBI's Governor Dr. Urjit Patel have mentioned several objectives in their early appearances after demonetisation announcement. These objectives were:

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

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231 (The Wall Street Journal, 2016)

232 (Move was in the pipeline for months, 2016)

233 (Sridhar & Vageesh, 2016)

234 (Move was in the pipeline for months, 2016)

5. Adding deposits in the banking system

After couple of weeks, the government also asserted few more objectives like promoting cashless economy and making transparent business environment.

Moreover, Finance Minister, Mr. Arun Jaitley said on December 2, 2016 that the recall of Rs 500 and Rs. 1000 rupee notes will cause just three months of disruptions before yielding substantial benefits for the economy. In a year, he sees a bigger and cleaner economy with less paper currency, a wider tax base with lower rates, and more money in the banks resulting in cheaper loans. All of this will help the country's ambition of becoming a modern and digital economy befitting its status as the world's fastest growing major economy.

"If you switch over from a particular way of life and conducting expenditure, there is disruption. But I do not see the disruption lasting long, maybe a quarter or so. But if you look at the next 12 or 15 months, the impact will be beneficial," Mr. Jaitley said at the inaugural session of the Hindustan Times Leadership Summit in New Delhi.[235]

The government recalled Rs. 500 and Rs 1,000 denomination notes culling 86.9% of cash in circulation to purge the economy of illicit "black money" and fake bills. The move, said Mr. Jaitley, will prove a windfall in many ways. Banks flush with money from new deposits, will be able to give social, infrastructure, industrial, and trade loans at lower rates. He, however, said the amount of new banknotes being released will not touch the November 8, 2016 level, and that will help the country along the path of becoming a digital economy.[236]

Secrecy of Demonetisation Move

Though the implementation of move started two months ago, only a handful of people include Principal Secretary Nripendra Mishra, erstwhile and present RBI Governors, Finance Secretary Ashok Lavasa, Economic Affairs Secretary Shaktikanta Das besides Finance Minister Arun Jaitley were kept in the loop.[237]

To make and implement concrete demonetisation plan, more people needed to be involved in it, involving them may lead to possibility for leakages: "You can't have your cake and eat it too." This recent bout was planned in secret as it was feared that if the black market caught wind of what the government was planning of, they would find ways to rapidly unload their illicit cash, and the

[235] (Jaitley, 2016)

[236] (Sinha, 2016)

[237] (Ranjan, 2016)

initiative would flop on one of its initially-stated goals. Though, the government should have maintained the trade-off between secrecy and planning/ execution capabilities to execute it successfully.

Government's Preparation for Demonetisation:

Over the past two decades, India has pushed hard to become a less–cash society, technologically. In the early 1990s, the Reserve Bank of India spearheaded the development of technological infrastructure that facilitated the creation of a payment and settlement ecosystem. The RBI has up the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) in 2005. In 2007, the Indian Parliament passed the Payment and Settlement Systems Act, after which the central bank released a series of vision documents for the periods of 2009–12, 2012–15, and 2015–18. These papers were supplemented by initiatives to promote wider acceptance and deeper penetration of electronic payments in India.

The core objective was to consolidate and integrate the multiple systems with varying service levels into nation-wide uniform and standard business process for all retail payment systems. The other objective was to facilitate an affordable payment mechanism to benefit the common man across the country and help financial inclusion.

The Government of India has encouraged the shift to a less–cash society with its push for digital payments through the JAM Trinity: the Prime Minister's Jan-Dhan Yojana[238], Aadhaar, and mobile connectivity. Further, on May 8, 2014, RuPay, domestic card system, was launched.[239] The Government of India devised an Income Declaration Scheme (IDS), which opened on June 1, 2016 and ended on September 30, 2016. Under the scheme, the black money holders could come clean by declaring the assets, paying the tax and penalty of 45% thereafter. The scheme yielded Rs. 65,250 crore (US$9.7 billion) from 64,275 declarations with 45% of it as the revenue to the government.[240]

The Unified Payments Interface was launched by National Payments Corporation of India in April 2016 to encourage cashless payments.[241]

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[238] The Government of India had launched Jan Dhan Yojana for financial inclusion of people having no banking system in August 2014.

[239] (IANS (Indo Asian News Service), 2014)

[240] (FirstPost, 2016)

[241] (Saha, 2016)

Extending to it, Bharat Interface for Money (BHIM), an app (mobile application) that makes simple, easy and quick payment transactions using Unified Payments Interface (UPI), was launched on December 30, 2016.[242] This app enables direct bank to bank payments instantly and collects money using just Mobile number or Payment address.

Government has also taken regulatory measures, such as the Income Declaration Scheme (IDS) in the Budget for 2016- 17, the August 2016 amendment of the Benami Transactions (Prohibition) Act of 1988, and the Taxation Laws (Second Amendment) in November 2016.

Government's Initiatives to counter Black Money

1. SC-monitored SIT on Black Money

The Supreme Court on July 4, 2011, ordered the appointment of a Special Investigating Team (SIT) headed by former SC judge BP Jeevan Reddy to act as a watch dog and monitor investigations dealing with the black money. This body would report to the SC directly and no other agency will be involved in this.

The first such initiative came when the Narendra Modi Government, in its very first Cabinet meeting, constituted a Special Investigation Team (SIT) on Black Money. The SIT during the past two years had made several recommendations through its interim reports to the apex court to check the generation and tap the black money at source.

The fifth SIT report has been submitted before the Hon'ble Supreme Court by the SIT on July 14, 2016 with several recommendations.

2. Jan Dhan Yojana

The Pradhan Mantri Jan Dhan Yojaya (PMJDY) was launched on August 28, 2014. Prime Minister Narendra Modi took personal interest in the scheme. He made it a mission to ensure that the success of the scheme. The scheme would be of immense help in the present circumstances. Now, Rs 500 and Rs 1000 currency denomination notes have been banned. Accounts opened in the remote areas, under PMJDY, will help the rural villagers.

As on December 21, 2016, 26.03 crore accounts have been opened and Rs 71,557.90 crore has been deposited in these accounts. Hence, a whopping 15.86

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[242] (ET Bureau, 2016)

crore accounts have been opened in the rural areas and 10.17 crore accounts have been opened in the urban areas.[243]

A total of 20.28 crore accounts have been opened in the public sector banks, 11.39 crore accounts in the rural areas while 8.90 accounts in the urban areas. A total of 4.30 crore accounts have been opened in the Regional Rural Banks, 3.70 crore in the rural areas and 0.60 crore in the urban areas. As far as the private banks are concerned, a total of 0.86 crore banks have been opened, 0.53 crore in the rural areas and 0.34 crore accounts in the urban areas.[244]

3. Renegotiation of Tax Treaties and Automatic Information Exchange Agreements with Tax Havens

The government renegotiated the Double Tax Avoidance Agreement (DTAA) with Mauritius to impose Capital Gains Tax if such Capital Asset is situated in India. The Narendra Modi Government also negotiated an Automatic Information Exchange Agreement with Switzerland. Agreements are also being negotiated with other tax havens. From 2017, Organisation of Economic Cooperation and Development (OECD) countries have agreed to share information on foreign account holders with their home countries.

Also, India has signed Tax Information Exchange Agreements (TIEA) with 13 countries -Gibraltar, Bahamas, Bermuda, the British Virgin Islands, the Isle of Man, the Cayman Islands, Jersey, Liberia, Monaco, Macau, Argentina, Guernsey and Bahrain - where money is believed to have been stashed away.[245]

4. The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 for Foreign Black Money

Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (popularly Black Money Act) is an Act of the Parliament of India. It aims to curb black money, or undisclosed foreign assets and income and imposes tax and penalty on such income. The Act has been passed by both the Houses of the Parliament. The Act has received the assent of the President of India on May 26, 2015. It came into effect from July 1, 2015.

The scheme was launched to bring back black money stashed in foreign countries and tax havens. The scheme ended on September 30, 2015. The Act also had various stringent provisions for penalty and prosecution of foreign

243 (Press Information Bureau, Ministry of Finance, Government of India, 2017)

244 (Shekhar, 2016)

245 (Doshi, 2016)

black money holders unearthed during future investigation by the tax department.

5. Income Disclosure Scheme, 2016

The Income Declaration Scheme (IDS) which opened on June 1, 2016 gave a chance to black money holders to come clean by declaring the assets by September 30, 2016 and paying tax and penalty of 45 per cent on it. The Narendra Modi Government wanted to capture the entire parallel economy flowing in the system of Rs 7 lakh crore in India. The Income Tax department had identified 90 lakh high value transactions without PAN, the final disclosure of black money was to the tune of Rs 65,250 crore.

6. Penalty on Real Estate Transactions undertaken in Cash exceeding Rs 20,000

The Narendra Modi Government imposed a penalty of 20 per cent on all cash transactions exceeding Rs 20,000 to purchase or sell a property (real estate). This was aimed at curbing the role of black money in real estate transactions.

7. Tax Collection at Source on Cash Sales exceeding Rs 2 lakh

Another important step to check high value cash transactions and create an audit trail was to impose Tax Collection at Source at a nominal rate of 1 per cent on cash purchases exceeding Rs 2 lakh.

8. Benami Transaction (Prohibition) Amendment Bill

The Parliament passed the Benami Transactions (Prohibition) Amendment Act, 2016 (BTP Amendment Act) in August. It came into force from November 1, 2016. The new law seeks to give more teeth to the authorities to curb benami transactions. The notification issued by the Income Tax department, stated that after coming into effect, the BTP Amendment Act, the existing Benami Transactions (Prohibition) Act, 1988, shall be renamed as Prohibition of Benami Property Transactions Act, 1988 (PBPT Act).

9. Gold Monetisation Scheme

Prime Minister Narendra Modi on November 5, 2015, launched three programmes aimed at reducing physical gold demand and luring tonnes of gold from households into the banking system. The three schemes that Modi launched are Gold Monetisation Scheme (GMS), Gold Sovereign Bond Scheme and the Gold Coin and Bullion Scheme. The Gold Monetisation Scheme will replace the existing Gold Deposit Scheme, 1999. However, deposits outstanding under the Gold Deposit Scheme will be allowed to run till maturity unless the depositors prematurely withdraw them. The Gold Monetisation Scheme is aimed at tapping part of an estimated 20,000 tonnes of idle gold worth Rs. 5,40,000 crore in family lockers and temples into the banking system.[246]

This scheme allows gold depositor to earn some regular interest on the bank deposited gold and also he has benefit no need to pay any carrying costs as it is in 'locker' system. Gold can be deposited in any physical form, jewellery, coins or bars. This gold will then earn interest based on gold weight and also the appreciation of the metal value. Also depositor can ask back his gold either in the equivalent of 995 fineness gold or Indian rupees.

10. Taxation and Investment Regime for Pradhan Mantri Garib Kalyan Yojana, 2016

The Taxation Laws (Second Amendment) Bill, 2016, passed by Lok Sabha[247] on November 29, 2016, interalia seeks to introduce the, 'Taxation and Investment Regime for Pradhan Mantri Garib Kalyan Yojana, 2016 (the Scheme)'. A declarant under the Scheme shall be required to pay tax at the rate of 30% of undisclosed income, with surcharge of 33% of taxes and penalty of 10% of undisclosed income. The declarant shall also be required to deposit an amount, which shall not be less than twenty-five per cent of the undisclosed income in, the ' Pradhan Mantri Garib Kalyan Deposit Scheme, 2016'. Such deposit shall carry no interest and have a locking period of four years.

The Scheme does not provide any immunity to the declarant in respect of detention made under Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974, offence punishable under Chapter IX or Chapter XVII of the Indian Penal Code, the Narcotic Drugs and Psychotropic Substances Act, 1985, the Unlawful Activities (Prevention) Act, 1967, the Prevention of Corruption Act, 1988, the Prohibition of Benami Property Transactions Act, 1988, the Prevention of Money-Laundering Act, 2002, the Special Court Act, 1992, and the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

Also, a declaration in respect of any income, in the form of cash or deposit in an account maintained by the person with a specified entity, chargeable to tax

[246] (HT Correspondent, 2015)

[247] The Lok Sabha (House of the People) is the Lower house of India's bicameral Parliament. Members of the Lok Sabha are elected by adult universal suffrage and a first-past-the-post system to represent their respective constituencies, and they hold their seats for five years or until the body is dissolved by the President on the advice of the council of ministers

under the Income-tax Act for any assessment year commencing on or before the 1st day of April, 2017, can be made under the Scheme.

Legal Effect of Demonetisation 2016

On November 8, 2016, demonetisation was effected through three legal means or ways:

1. The Ministry of Finance issued a Gazette Notification (Ministry of Finance Notification) by which "banknotes of denominations of the existing series of the value of five hundred rupees and one thousand rupees" ceased to be legal tender with effect from November 9, 2016. Ministry of Finance issued another Gazette notification (Ministry of Finance Notification 2) by which it specified the denomination of the new Rs 2,000 rupee note.[248,249]
2. The RBI issued a notification mentioning that a new series of banknotes called Mahatma Gandhi (New) Series having different size and design will be issued. The RBI also laid down a plan of action including the process for exchanging the old banknotes with new ones. The Ministry of Finance Notification 1 mentions that the exchange of the old banknotes with the new notes will be allowed till December 30, 2016.[250]
3. Both the Ministry of Finance and the RBI issued subsequent notifications to clarify and adjust for additional circumstances.
4. The Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016 was passed on December 31, 2016 to cease the liability of RBI.

However, in 1946 and 1978, demonetisations were backed by a Presidential Ordinance or Act of Parliament. In absence of such ordinance, RBI has statutory obligation to exchange old notes with new ones even after demonetisation. To be legally ring-fenced, an Act of the Parliament or Ordinance is needed, although a Presidential Ordinance can serve the purpose in the interim. The Parliamentary Act must have at least following features to restrict its liability:

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248 (Gazette Notification-Press Release, 2016)

249 (Ministry of Finance, 2016)

250 (Reserve Bank of India, 2016)

1. It must prohibit transfer or receipt of the banknotes that have ceased to be legal tender, so that these do not reflect as a liability on the Issue Department of the RBI.
2. It must generally override any conflicting provision in the RBI Act, especially section 39.
3. It must provide a reasonable mechanism and time frame within which the old banknotes can be exchanged with new legal tender.

In the absence of such a law, the RBI's obligation to exchange the old banknotes for new banknotes subsists irrespective of any timeline mentioned in any notification. The RBI Governor's signed promise on every note to pay the bearer will have to be honoured until such a law is passed. The Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016 ceased any such liability of RBI, making demonetisation quite watertight.

The Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016

Addressing above points, On December 30, 2016, government has passed the Ordinance; some of its features are mentioned below:

1. The Specified Bank Notes Cessation of Liabilities Ordinance, 2016 was promulgated on December 30, 2016.
2. The Ordinance provides that the specified bank notes (old Rs 500 and Rs 1,000) will cease to be liabilities of the Reserve Bank of India (RBI) from December 31, 2016 onwards. Further, these notes will no longer be guaranteed by the central government.
3. These notes were demonetised on November 8, 2016 through a notification issued under the RBI Act, 1934. The notification had allowed these notes to be deposited in banks or post offices by December 30, 2016.
4. Grace period: The central government will specify a grace period after December 31, 2016 during which the following persons may deposit the specified notes with the RBI: (i) an Indian citizen who makes a declaration that he was outside India from November 9, 2016 to December 30, 2016, or (ii) any other class of persons specified by the central government. Any such persons depositing old notes will be required to make declarations or statements as specified by the RBI.
5. Verification of claims: The RBI will verify if the reasons for delay in depositing the specified bank notes are genuine. If satisfied with the reasons, it will credit these notes to the person's Know Your Customer (KYC) compliant account.

6. Any person aggrieved by the RBI's refusal to credit notes to their account may approach the RBI central board within 14 days.
7. Punishment for false declaration: Any person wilfully making a false declaration will be punishable with a fine: (i) which may extend to Rs 50,000, or (ii) five times the value of notes deposited, whichever is higher.
8. Prohibitions related to specified notes: A person will be prohibited from holding, transferring or receiving the specified bank notes from December 31, 2016 onwards. It exempts persons from this prohibition if: (i) a person holds up to 10 old notes (irrespective of denomination), (ii) a person holds up to 25 notes for the purposes of study, research or numismatics (collection or study of coins or notes), or (iii) a person holds notes on the direction of a court. In addition, the RBI or any person authorised by it, are also exempted from this prohibition.
9. Punishment for holding specified bank notes: Any person holding the specified bank notes, except in the circumstances mentioned above, will be punishable with a fine: (i) which may extend to Rs 10,000, or (ii) five times the value of notes possessed, whichever is higher.
10. Offences by companies: If a person acting on behalf of a company commits an offence under the Ordinance, the company would also be held liable for such an offence.
11. Authority for imposing fines: Any fine for contravening provisions of the Ordinance will be imposed by the Court of a Magistrate of the First Class or the Court of a Metropolitan Magistrate.

Government's Plan of Action:

The Reserve Bank of India laid down a detailed procedure for the exchange of the demonetised banknotes with new Rs.500 and Rs.2000 banknotes of the Mahatma Gandhi New Series and Rs.100 banknotes of the preceding Mahatma Gandhi Series. Following are the key points: [251]

1. Citizens will have until December 30, 2016 to tender their old banknotes at any office of the RBI or any bank branch and credit the value into their respective bank accounts.

[251] RBI Notifications issued on different dates; These Notifications are given in Annexure section of this book.

2. Cash withdrawals from bank accounts were restricted to Rs.10,000 per day and Rs.20,000 per week per account from November 10 to 13, 2016.[252] This limit was increased to Rs.24,000 per week from November 14, 2016.
3. For immediate cash needs, the old banknotes could be exchanged for the new Rs.500 and Rs.2,000 banknotes as well as Rs.100 banknotes over the counter of bank branches by filling up a requisition form along with a valid ID proof. It was announced that this facility would be available until December 30, 2016.
4. Initially, the ATM limit was fixed at Rs.4,000 per person from November 8 to 13, 2016.
5. This cash withdrawal limit was increased to Rs.4,500 per person from November 14 to 17, 2016.
6. The limit was reduced to Rs.2,000 per person from November 18, 2016.
7. All exchange of banknotes was abruptly stopped from November 25, 2016.

Though, old currency was exterminated, however, exceptions were given to petrol, CNG and gas stations, government hospitals, railway and airline booking counters, state-government recognised dairies and ration stores, and crematoriums to accept the old Rs. 500 and Rs.1,000 banknotes until November 11, 2016, which was later extended to November 14, 2016 and once again to November 24, 2016. International airports were also instructed to facilitate an exchange of notes amounting to a total value of Rs.5,000 for foreign tourists and out-bound passengers.

Under the revised guidelines issued on November 17, 2016, families were allowed to withdraw Rs.250,000 for wedding expenses from one account provided, it is KYC compliant. The rules were also changed for farmers who are permitted to withdraw Rs.25,000 per week from their accounts against crop loan.

Value of Demonetised Currency

According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees and coins of Rs 218.61 billion were in circulation as

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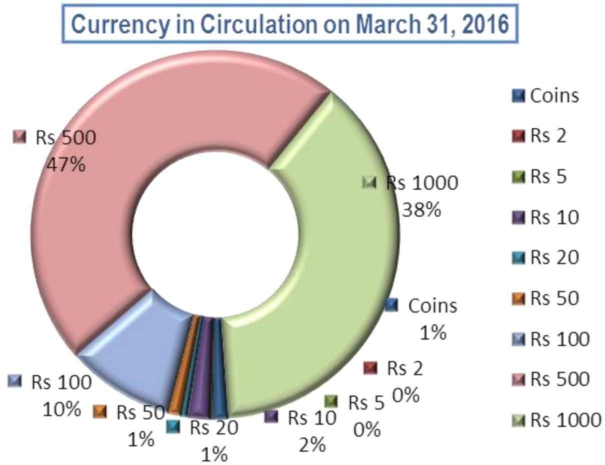
[252] (Reserve Bank of India, 2016)

on March 31, 2016. The 500 rupee and 1,000 rupee currency notes contribute to 86.4% of total currency in circulation; in terms of volume, the currency notes of these two denominations formed 24.4% of a total 90.27 billion pieces on March 31, 2016.

Currency in Circulation as on March 31, 2016[253]:

Currency	Rs 2	Rs 5	Rs 10	Rs 20	Rs 50	Rs 100	Rs 500	Rs 1000	Coins#	Total
Amount in Rs Billion	8.53	36.8	320.15	98.47	194.5	1577.83	7853.75	6325.68	218.61	16634.32

#Coins of Rs	Small Coins	Paper Coins	Rs 1	Rs 2	Rs 5	7	Total
Value in Rs bn	7	3.09	41.78	59.26	70.45	37.03	218.61



Also, RBI data showed 632,926 currency notes were detected as counterfeit currency (known as an FICN (Fake Indian Currency Note)) in banking system during the FY2015-16 ended March 31, 2016. The ratio of FICN notes to NIC (Notes in Circulation) for FY 2015-16 found to be 7 ppm.[254]

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[253] (RBI, 2016)

[254] ppm means parts per million. (RBI, 2016)

500 rupee and 1,000 rupee denomination notes were the highest in FICN category found to be 16.66 ppm and 22.62 ppm. Nullifying these FICNs was also part of the demonetisation move.

FY2014-15			
Denomination	Number of Counterfeit Notes	Notes in Circulation	FICN as a proportion of NIC
2 and 5	-	11,672,000,000	-
10	268	30,304,000,000	0.00000001
20	106	4,350,000,000	0.00000002
50	7,160	3,487,000,000	0.00000205
100	181,799	15,026,000,000	0.00001210
500	273,923	13,128,000,000	0.00002087
1,000	131,190	5,612,000,000	0.00002338
Total	594,446	83,579,000,000	0.00000711

FY 2015-16				
Denomination	Number of Counterfeit Notes	Notes in Circulation	FICN as a proportion of NIC	Value of FICN FY2015-16
2 and 5	2	11,626,000,000	0.00000000	
10	134	32,015,000,000	0.00000000	0.00
20	96	4,924,000,000	0.00000002	0.00
50	6,453	3,890,000,000	0.00000166	0.32
100	221,447	15,778,000,000	0.00001404	22.14
500	261,695	15,707,000,000	0.00001666	130.85
1,000	143,099	6,326,000,000	0.00002262	143.10
Total	632,926	90,266,000,000	0.00000701	296.42

Challenges for the Government

1. By banning Rs 500 and Rs 1,000 notes, Government attacked the black money which was in the form of cash currency: other forms of black money were barely touched.
2. Also, there was no exact and/ or reliable estimate for how much of India's black money was in cash/ currency form and other forms such as gold, jewellery, land, realty, etc.
3. The challenge was not just in pulling out 86.9 per cent of the high-value currencies in circulation but also to ensure printing, swift distributing and reinstating new currency.
4. Delay in distribution in currency has affected the livelihood of public, controlling it was again a challenge.
5. Demonetisation was also altered economic parameters like GDP, GVA, inflation, etc. It was a big challenge to restrict negative effect of demonetisation when growth is most needed.
6. On similar lines, this move obviously had little effect on black money stashed away in foreign tax havens.
7. Demonetisation had created deflationary situation; also, assuming decline in economic growth of the country, it may lead to decline private and foreign investment.
8. Again there was possibility that the black money will get converted into new currency; restricting such practices was a big challenge.
9. To really limit corrupt practices, government has to root out all possible way which creates and facilitates black money.
10. Policy reforms are required to ensure greater universal banking access, and nudge the real estate sector and charity (political, religious and educational) to move towards greater transparency; besides offering more incentives to encourage electronic payments and use of cards.
11. Importantly, social, moral and political values of Indian are deteriorated over the years. Because of this and unequitable distribution wealth, black money will start piling up soon. Controlling this would be nightmare for the government.

Comparison among Indian Demonetisations

There are similarities as well differences among these three demonetisation events. Importantly, all these were aimed at curbing black money (and to generate extra income to the government as in 1946)

In the earlier editions, RBI was mostly against the exercise and was proven right. This time it seems RBI has welcomed the idea (though there could be initial differences which will emerge only later). So, will RBI be proven to be right or wrong? In February 2017, RBI's decision turned to be wrong.

The big difference, obviously, was the size demonetised currency in circulation that was over 86.9% of currency in circulation whereas there were 11.65% and 1.74% in 1946 and 1978 respectively.

Demonetisation	1946	1978	2016
Prime Minister	British India	Mr. Morarji Desai	Mr. Narendra Modi
Governor	Sir Chintaman Deshmukh	Mr. I.G.Patel	Dr. Urjit Patel
RBI's Stand on the Demonetisation	Against	Against	Pro
Date of Announcement	January 12, 1946	January 16, 1978	November 8, 2016
Currency denomination demonetised	500, 1000 & 10000	1000, 5000 & 10000	500 & 1000
Time Given for exchange	10 Days	3 Days	51 Days
Time Given for exchange with explanation	26 Days	8 Days	**
Demonetised Currency in circulation (Rs Crore)	143.97	145.42	14,17,943
Total Currency in Circulation	1,235.93	8,354	16,63,432#
Demonetised Currency (% to Total Currency in circulation)	11.65%	1.74%	86.9%
Currency Exchanged	134.9	129.4	NA
Currency not presented for Exchange (Rs Cr)	9.07	16.02	NA
Currency not presented (% to total demonetised currency)	6.30%	11.02%	NA

Per Capita Income (in Rs)	278	1550	93,293
Ratio of 1,000* to per Capita Income (in %)	359.71%	64.51%	1.07%
Ratio of Per Capita GDP to Rs 1000 note	0.278%	155%	9329%

Ended March 2016. * Rs 1,000 denomination was common in all demonetisation.

**Residents who were abroad during the demonetisation period were allowed to exchange up to March 31, 2017 and NRI upto June 30, 2017.

Again, the critical difference was in the quantum. The first and second demonetisations affected really high value notes which formed a small part of notes in circulation. We can arrive at the estimates by comparing the denomination of the note with the annual per capita GDP. In 1946, India's per-capita GDP was Rs. 278[255], in 1978 per capita GDP was Rs. 1550[256] whereas in 2016 it was Rs. 93,293[257] (nominal at current prices). Thus in 1946, a 1000 Rupee note was 3.59 times and in 1978 it was 0.64 times of per capita GDP, considerably easy to withdraw than current situation.

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255 The estimation made by second method of Arora and Iyengar, is used; the first method estimate comes to Rs 283. In this period, the rise in the business activity index is so large that, in spite of adjustments, its use may lead to a considerable overestimation of national income. (Saini, 1969)

256 http://statisticstimes.com/economy/gdp-capita-of-india.php

257 (PTI, 2016)

RBI & 2016 Demonetisation

RBI, Banker's Bank, Central Bank[258] of the country, is the sole body which is authorised to issue currency[259] in India. In contrast to issuance (or minting) of currency, demonetisation is not so customary. Though, needless to mention, demonetisation is equally vital as very critical economic event; globally, it is observed that intent, planning and execution are keys for its success; these played important role in 2016 demonetisation.

It's claimed that demonetisation was planned for six months and all possible care has been taken to minimise the pain to the people. The bases of demonetisation planning are as:

1. Brains Behind: It is believed that the entire idea of demonetisation was being planned for 6 months, which involved just three people: PM Narendra Modi, finance minister Arun Jaitley and RBI Governor. [260]
2. Strict Secrecy: The second stage of the move involved top level cabinet meet few hours ahead of the announcement, which involved Mr. Modi, Mr. Arun Jaitley, Mr. Ajit Doval and RBI Governor. No one was allowed to carry any electronic devices, even mobile phones.[261]
3. The Armed forces Involvement: The main reason behind the involvement of the armed forces[262] was to smooth operation ensuring safety of the public.

RBI & its Role in Demonetisation

The Reserve Bank of India (RBI), commenced its operations on April 1, 1935 during the British Rule, is India's central banking institution. The origins of the Reserve Bank of India can be traced to 1926, when the Royal Commission on Indian Currency and Finance (also known as the Hilton-Young Commission)

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[258] A central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates; also oversee (usually) the commercial banking system of their respective countries.

[259] While coins and one rupee notes are minted by Government of India, the RBI works as an agent of GoI for distributing and handling of coins.

[260] (Sengupta, 2016); Earlier RBI Governor, Dr Rajan didn't acknoledge any knowledge about the demonetisation upto February 2017.

[261] (Sengupta, 2016)

[262] (Sengupta, 2016)

recommended the creation of a central bank for India to separate the control of currency and credit from the Government and to augment banking facilities throughout the country.[263]

RBI regulates the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency any credit system of the country to its advantage; primary objective of the monetary policy laid down by RBI is to maintain price stability while keeping in mind the objective of growth. [264]

Reserve Bank's functions are multidisciplinary in nature; it focuses, among other things, on maintaining price and financial stability; ensuring credit flow to productive sectors of the economy; managing supply of good currency notes within the country; and supervising and taking a lead in development of financial markets and institutions. The functions of the Reserve Bank today can be categorised as follows: [265]

1. Monetary policy
2. Regulation and supervision of the banking and non-banking financial institutions, including credit information companies
3. Regulation of money, forex and government securities markets as also certain financial derivatives
4. Debt and cash management for Central and State Governments
5. Management of foreign exchange reserves
6. Foreign exchange management—current and capital account management
7. Banker to banks
8. Banker to the Central and State Governments
9. Oversight of the payment and settlement systems
10. Currency management
11. Developmental role

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263 (Sadakkadulla)

264 (Reserve Bank of India Act 1934, Act No. 2 of 1934 amended upto Act No. 28 of 2016)

265 (Sadakkadulla)

12. Research and statistics

Few Functions of the Reserve Bank of India related to Demonetisation are mentioned herein :-

1. Issuer of Bank Notes:

The Reserve Bank of India has the sole right to issue currency notes except one rupee notes which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country.

This concentration of notes issue function with the Reserve Bank has a number of advantages: (i) it brings uniformity in notes issue; (ii) it makes possible effective state supervision; (iii) it is easier to control and regulate credit in accordance with the requirements in the economy; and (iv) it keeps faith of the public in the paper currency.

2. Banker to Government:

As banker to the government the Reserve Bank manages the banking needs of the government. It has to maintain and operate the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as the member of the IMF and the World Bank.

3. Custodian of Cash Reserves of Commercial Banks:

The commercial banks hold deposits in the Reserve Bank and RBI also has the custody of the cash reserves of the commercial banks.

4. Custodian of Country's Foreign Currency Reserves:

The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crisis connected with adverse balance of payments position.

5. Lender of Last Resort:

The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

6. Central Clearance and Accounts Settlement:

Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank.

7. Controller of Credit:

Since credit money forms the most important part of supply of money, and since the supply of money has important implications for economic stability, the importance of control of credit becomes obvious. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

Sections of RBI Act, 1934 (related to Demonetisation)

"Does the government have powers to seize the legal tender?" These powers come from RBI Act, 1934. Section 24, 26 and 26(A) of the RBI Act[266] reads as:

Section 24: Denominations of notes

(1) Subject to the provisions of sub-section (2), bank notes shall be of the denominational values of two rupees, five rupees, ten rupees, twenty rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees, five thousand rupees and ten thousand rupees or of such other denominational values, not exceeding ten thousand rupees, as the Central Government may, on the recommendation of the Central Board, specify in this behalf.:

(2) The Central Government may, on the recommendation of the Central Board, direct the non-issue or the discontinuance of issue of bank notes of such denominational values as it may specify in this behalf.]

26. Legal tender character of notes.

(1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in [India] in payment or on account for the amount expressed therein, and shall be guaranteed by the [Central Government].

(2) On recommendation of the Central Board the [Central Government] may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender [save at such office or agency of the Bank and to such extent as may be specified in the notification].

26A. Certain bank notes to cease to be legal tender.

Notwithstanding anything contained in section 26, no bank note of the denominational value of five hundred rupees, one thousand rupees or ten thousand rupees issued before the 13th day of January, 1946, shall be legal tender in payment or on account for the amount expressed therein.

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266 (Reserve Bank of India Act 1934, Act No. 2 of 1934 amended upto Act No. 28 of 2016)

Role of RBI's Central Board in Demonetisation

Section 24(2) and 26 (2) of RBI Act, 1934 say the Central Board can recommend to cease a specific denomination. The Central Board's composition is mentioned in Section 8(1) of the RBI Act, which says:

[(1) The Central Board shall consist of the following Directors, namely:-

(a) a Governor and [not more than four] Deputy Governors to be appointed by the Central Government;

(b) four Directors to be nominated by the Central Government, one from each of the four Local Boards as constituted by section 9;

(c) [ten] Directors to be nominated by the Central Government; and

(d) [two Government officials] to be nominated by the Central Government;]

The above section says that the Central Board should have 17 member and Deputy Governors up to 4 in numbers, so, maximum 21 members in totality.

So, all major decisions happen through the Central board. Section 13 of the RBI Act, 1934 says:

(1) Meetings of the Central Board shall be convened by the Governor at least six times in each year and at least once in each quarter.

(2) Any [four Directors] may require the Governor to convene a meeting of the Central Board at any time and the Governor shall forthwith convene a meeting accordingly.

(3) The Governor, or [if for any reason, he is unable to attend,] the Deputy Governor authorised by the Governor under the proviso to subsection (3) of section 8 to vote for him, shall preside at meetings of the Central Board, and, in the event of an equality of votes, shall have a second or casting vote.

Central Board of RBI on the announcement of demonetisation

The last meeting was held in Kanpur on Oct 20, 2016. At that time, there were 10 members:

Official Directors: There were four official directors including one Governor and three Deputy Governors.

Non-Official Directors: There were three non-official Directors from various fields, two governments and one from local boards; these are nominated by the Government.

Central Board plays a crucial role in demonetisation[267] as it has to be on their recommendation. But the Board is even less than 50% of its capacity. It is highly understaffed and has been there for a while[268]. It is little difficult to understand how a half-staffed board took such a decision which has immense economic impacts, some are predicted and some are unpredicted. Does it mean the Central Board was aware of all consequences of the demonetisation and was ready to take onus for demonetisation?

As the RBI Act is silent on the number of Board members, demonetisation was announced and carried out.

The RBI's statutory obligation

The RBI's liability continues even for cancelled legal tender: The RBI banknotes are issued by RBI's Issue Department, which is separate and wholly distinct from the Banking Department. According to Section 34 of the RBI Act, "The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation."[269]

The RBI's obligation to exchange continues: Under section 39 of the Reserve Bank of India Act, the RBI is under a statutory obligation to exchange banknotes with other legal tender. The RBI cannot refuse to exchange the old Rs 500 and Rs 1,000 with new legal tender based on a notification under section 26(2).

In 1946 and 1978, the Ordinances and the Parliamentary Act specifically prohibited the transfer or receipt of banknotes which had ceased to be legal tender. For instance, section 6 of the 1946 Ordinance and section 7 of the 1978 Act specifically mentioned that notwithstanding anything contained in the RBI Act, exchange of notes held by persons (other than banks) will stand restricted after a certain date. In the absence of such a provision in an Ordinance or Parliamentary law, the RBI's obligation to exchange notes under section 39 of RBI Act will continue based on the Calcutta High Court's judgement in

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[267] Unfortunately, RBI did not record the votes of individual board members which have supported or against the demonetization, as per the RBI reply to s RTI filed by Bloomberg/ Reuters.

[268] As on February 20, 2017, there are 14 directors on the central board; reference: https://rbi.org.in/Scripts/AboutusDisplay.aspx

[269] (Reserve Bank of India Act 1934, Act No. 2 of 1934 amended upto Act No. 28 of 2016)

Dominion of India v. Manindra Land and Building Corporation Ltd. (1952) as discussed in earlier section of this book.

Following the Delhi High Court's decision in Bimladevi v. Union of India (1982), they will continue to form part of the liability of RBI's Issue Department till their transfer or receipt is prohibited by an Ordinance or Parliamentary law.

On the similar line of earlier ordinances/ Parliamentary laws, the Ordinance dated December 31, 2016 was passed prohibiting on the possession and circulation of ceased currency.

Board & Cabinet Meetings

On Tuesday, November 8, 2016, the Reserve Bank of India initiated the first "public" move when its board met around 6 pm and recommended the withdrawal of Rs.500 and Rs.1,000 notes. Soon, the government, which was ready with the notification, moved the Cabinet, which met at 6.30 pm on the same day includes Mr Modi, Jaitley, Ajit Doval and RBI Governor. No persons were allowed to carry electronic gadgets. [270]

The decision was taken and the PM went on air to announce the first demonetisation after 38 years.[271]

Information on how many members favoured or opposed the move isn't "on record," the RBI said in response to queries from Bloomberg News under the Right to Information Act.

Announcement of Demonetisation

Though Prime Minister of the country has announced it, it's still unclear whose brainchild it is. Two antagonist gestures are seen, one says it's an idea of PM and others are saying, RBI board has suggested the move.[272] When there is politics, opaqueness is inevitable, witnessed hear also; will have to give time to the time to unveil the truth.

In an appearance on November 8, 2016, Dr. Urjit Patel has announced cessation of Rs 500 and Rs 1000 denomination. He also mentioned that RBI

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[270] (Sandra, 2016)

[271] (Sandra, 2016)

[272] Power Minister Piyush Goyal's comment to lawmakers on November 16, 2016 that it was RBI's 10-member board that came up with the idea of note ban & whereas in earlier appearances, it was indicative that the move was initiated by the Government.

started to print new 2000 and 500 rupee notes 6 months back but what everybody thought was they were a new inclusion to the existing currency.[273] The six months were used not just to print enough Rs 50 and Rs 100 currency notes, but also to plan the operations meticulously. [274,275] This is contradicted by RBI's RTI reply stating Rs 2000 notes and Rs 500 notes started printing from August 22, 2016[276] and November 23, 2016[277] respectively.

RBI Notifications pertaining to demonetisation

From the moment of announcement, RBI actively worked on all possible way to ensure smooth implementation of demonetisation move. To facilitate the banks, public and other factors of the system, it has taken several measures which are published in its press release and notifications, important date wise press releases and data releases are mentioned hereunder:

November 08, 2016/2016-2017/1142: Legal Tender status of Rs 500 and Rs 1,000 denomination of banknotes is withdrawn. ATM will be closed on November 9, 2016 for recalibration. From November 10 to December 30, public can deposit or exchange old currency at bank counters.

November 08, 2016/2016-2017/1143: All scheduled and non-scheduled banks, including public, private, foreign, cooperative, regional rural and local area banks, will remain closed for public on Wednesday, November 9, 2016.

November 08, 2016/2016-2017/1144: RBI shortly issue Rs 2,000 denomination notes in Mahatma Gandhi (New) Series without inset letter bearing signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India. Salient features of bank notes (on obverse and reverse side) were also notified.

November 08, 2016/2016-2017/1145: The Reserve Bank of India will shortly issue Rs. 2000 denomination banknotes in the Mahatma Gandhi (New) Series, with the inset letter 'R', bearing signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India, and the year of printing '2016' printed on the reverse of the banknote.

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[273] (S, 2016) (S, 2016)

[274] (Talukdar, 2016)

[275] (Times News Network, 2016)

[276] RBI reply to RTI request filed by an Ahmedabad-based activist, Parag Patel. (Sharma J. P., 2017)

[277] (Deccan Chronicle, 2017)

November 08, 2016/2016-2017/1146: The Reserve Bank of India will shortly issue Rs. 500 denomination banknotes in Mahatma Gandhi (New) Series with inset letter 'E' in both the number panels, bearing the signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India, the year of printing '2016' and Swachh Bharat Logo printed on the reverse of the Banknote.

November 09, 2016/2016-2017/1161: All scheduled and non-scheduled banks, including public, private, foreign, cooperative, regional rural and local area banks, will remain open for public on Saturday, November 12 and Sunday, November 13, 2016. Banks are advised to keep all their branches open on November 12 and 13, 2016 as regular working days for transacting all business. Banks may give due publicity about availability of banking services on these days.

Nov 10, 2016/2016-2017/1164: Consequent to the banks being open for public transactions on Saturday, November 12 and Sunday, November 13, 2016, it has been decided that Payment Systems (RTGS, NEFT, Cheque Clearing, Repo, CBLO and Call markets) shall remain open on Saturday, November 12 and Sunday, November 13, 2016. All participants/member banks are advised to facilitate operations on the above payment systems for their customers on November 12 and 13, 2016 as on regular working days. Banks may give due publicity about availability of above payment system services on these days.

November 11, 2016/2016-2017/1182: The Reserve Bank of India has said that consequent to the withdrawal of Legal Tender Character of existing Rs 500 and Rs 1000 Bank Notes, it has made arrangements to distribute the notes in new Rs 2000 and other denominations across the country.

There is enough cash available with banks and all arrangements have been made to reach the currency notes all over the country. Bank branches have already started exchanging notes since November 10, 2016. As mentioned in RBI communications, it may take a while for the banks to recalibrate their ATMs; once the ATMs are functional, members of public will be able to withdraw from ATMs upto a maximum of Rs 2,000 per card per day up to November 18, 2016; and after that withdraw up to Rs 4000 per day per card. The facility for exchanging the withdrawn denominations of Rs 500 and Rs 1000 is available for nearly 50 days. The Reserve Bank appeals to members of public to be patient and urges them to exchange their old notes at their convenience, any time before December 30, 2016.

November 12, 2016/2016-2017/1189: The Reserve Bank of India today clarified that as part of the instructions issued to banks, including to cooperative banks, regarding withdrawal of legal tender status of the existing Rs 500 and Rs 1000 bank notes (specified bank notes), detailed reporting system has been put in place. The Reserve Bank further stated that with a view to preventing misuse of the facility, the authorities are closely monitoring the information received through these reports about exchange and deposits of the specified bank notes by the public with the banks, including cooperative banks.

November 12, 2016/2016-2017/1190: To Minimise the inconvenience to the public branches of banks and RBI offices have been working beyond normal business hours. On November 10, 2016, about 10 crore exchange transactions have been reported.

Keeping in mind the need for other denomination notes which are legal tender (including Rs 2000), adequate stocks of these notes are kept ready in the Currency Chests located at more than 4,000 places across the country. Bank branches are linked to them to source their requirements from them. To sustain the demand, Printing Presses are printing the currency notes at full capacity so that adequate quantum of notes is available.

While these efforts are afoot, public are encouraged to switch over to alternative modes of payment, such as pre-paid cards, Rupay/Credit/Debit cards, mobile banking, internet banking. All those for whom banking accounts under Jan Dhan Yojana are opened and cards are issued are urged to put them to use. Such usage will alleviate the pressure on the physical currency and also enhance the experience of living in the digital world.

November 13, 2016/2016-2017/1194: The Reserve Bank assures members of the public that enough cash in small denominations is also available at the Reserve Bank and banks. The Reserve Bank urges that public need not be anxious; need not come over to banks repeatedly to draw and hoard; Cash is available when they need it.

November 13, 2016/2016-2017/1196: The Reserve Bank of India will shortly issue Rs 500 denomination banknotes in Mahatma Gandhi (New) Series with inset letter 'L' in both the number panels, bearing the signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India, the year of printing '2016' and Swachh Bharat Logo printed on the reverse of the Banknote.

November 14, 2016/2016-2017/1197: Task Force for enabling dispensation of Mahatma Gandhi (New) Series Banknotes and recalibration and reactivation of ATMs has been decided to set up under Chairmanship of Shri S. S. Mundra, Deputy Governor, Reserve Bank of India. It has become necessary to re-calibrate all ATMs/ Cash handling machines to dispense the new design notes following introduction of Mahatma Gandhi (New) Series Banknotes including a new High Denomination (Rs 2000) in new designs. Re-calibration of ATMs involves multiple agencies – banks, ATM manufacturers, National Payment Corporation of India (NPCI), Switch Operators, etc., and multiple activities making it a complex operation requiring immense coordination among these agencies. Representation of them will be invited to Task Force's deliberation. Department of Payment and Settlement System (DPSS) will provide secretarial support.

November 14, 2016/2016-2017/1198: The Reserve Bank of India has today clarified that District Central Cooperative Banks (DCCBs) can allow their existing customers to withdraw money from their accounts upto Rs 24,000 per week upto November 24, 2016. However, no exchange facility against the specified bank notes (Rs 500 and Rs 1000) or deposit of such notes should be entertained by them. The Reserve Bank has accordingly advised all banks to permit withdrawal of cash by DCCBs from their accounts based on need. The cash withdrawal limit of Rs 24,000 per week is not applicable to withdrawal of cash by a DCCB from its account with any other bank.

November 14, 2016/2016-2017/1199: The Reserve Bank of India has today decided that banks shall waive levy of ATM charges for all transactions (inclusive of both financial and non-financial transactions) by savings bank customers done at their own banks' ATMs as well as at other banks' ATMs, irrespective of the number of transactions during the month. The above waiver of charges on ATM usage will be effective from November 10, 2016 till December 30, 2016, subject to review.

November 15, 2016/2016-2017/1215: There were reports that some cooperative banks were not strictly adhering to the instructions issued in connection with the withdrawal of legal tender status of the existing Rs 500 and Rs 1000 bank notes (specified bank notes). The Reserve Bank of India today informed that it has advised the Urban Cooperative Banks through its Regional Offices and the State Cooperative Banks through National Bank for Agricultural and Rural Development (NABARD) of the need to ensure strict compliance with the instructions issued with regard to exchange of specified bank notes as also deposit of such notes into the accounts of their customers.

November 17, 2016/2016-2017/1235: The Reserve Bank of India has once again clarified today that there is sufficient supply of notes consequent upon increased production which started nearly two months ago. Members of public are requested not to panic or hoard currency notes.

November 18, 2016/2016-2017/1255: The Reserve Bank of India had issued instructions to banks on November 14, 2016 that banks shall waive levy of ATM charges for all transactions by saving bank customers done at all ATMs, irrespective of the number of transactions during the month, from November 10, 2016 till December 30, 2016, subject to review. As another customer-centric measure, the limit for cash withdrawal at POS (Point of Sale) has been made uniform at to Rs 2000/- per day across all centres (Tier I to VI) for all merchant establishments enabled for this facility and (ii) customer charges, if any, being levied on all such transactions waived till December 30, 2016, subject to review.

November 21, 2016/2016-2017/1265: Consequent to the announcement of withdrawal of Legal Tender status of banknotes of Rs 500 and Rs 1000 denominations from the midnight of November 8, 2016, the Reserve Bank of India made arrangements for exchange and /or deposit of such notes at the counters of the Reserve Bank and commercial banks, Regional Rural banks and Urban Cooperative Banks.Banks have since reported that such exchange/deposits effected from November 10, 2016 upto November 18, 2016 amounted to Rs 5,44,571 crore (exchange amounted to Rs 33,006 crore and deposits amounted to Rs 5,11,565 crore). They have also reported that the public have withdrawn, during this period, Rs 1,03,316 crore from their accounts either over the counter or through ATMs.

November 22, 2016/2016-2017/1282: In order to meet the transactional needs of the public through digital means, the Reserve Bank has introduced additional measures by way of special dispensation for small merchants and enhancement in limits for semi-closed Prepaid Payment Instruments (PPIs).

A special dispensation has now been enabled for small merchants whereby PPIs issuers can issue PPIs to such merchants. While balance in such PPIs cannot exceed Rs 20,000/- at any point of time, the merchants can transfer funds from such PPIs to their own linked bank accounts upto Rs 50,000/- per month, without any limit per transaction. Merchants only need to provide a self-declaration in respect of their status and details of their bank account.

The limit of semi-closed PPIs issued with minimum details has been enhanced to Rs 20,000/- from the existing Rs 10,000/-. The total value of reloads during any given month has also been enhanced to Rs 20,000/-.

Extant instructions for other categories of PPIs remain unchanged. Full KYC PPIs with balance upto Rs 1,00,000/- can continue to be made available by authorised PPI issuers.

The above measures will be effective from November 21, 2016 till December 30, 2016, subject to review.

The earlier PPI guidelines did not specifically provide for opening of PPIs for such merchants as a separate category and the limit for semi-closed PPIs issued with minimum details was Rs 10,000/-.

November 22, 2016/2016-2017/1283: The facility for public to exchange the specified bank notes (old notes in Rs 500 and Rs 1000) for legal tender notes and allowing them to deposit into bank accounts in unlimited amounts is provided to enable members of the public in possession of these notes as on the date of the announcement to secure the value of these notes either through exchange or by deposit into their bank accounts.

It is reported that certain gullible persons are exchanging these notes on behalf of other; some are even helping them by depositing the hoarded cash into their own bank accounts. Even Pradhan Mantri Jan Dhan Yojana accounts are being put to use for this.

Members of public are cautioned that exchanging /dealing in Specified bank notes in unauthorised manner is illegal and liable to strict punitive action.

November 25, 2016/2016-2017/1317: The Reserve Bank of India advises members of public that exchange of banknotes in Rs 500 and Rs 1000 denominations, whose legal tender status has been withdrawn, will continue to be available at the counters of the Reserve Bank upto the current limits per person as hitherto. (However such exchange facility is no longer available at other banks' counters).

November 28, 2016/2016-2017/1349: Consequent to the announcement of withdrawal of legal tender status of banknotes of Rs 500 and Rs 1000 denominations from the midnight of November 8, 2016, the Reserve Bank of India made arrangements for exchange and/or deposit of such notes at the counters of the Reserve Bank and commercial banks, Regional Rural banks and Urban Cooperative Banks.

Banks have since reported that such exchange/deposits effected from November 10, 2016 upto November 27, 2016 amounted to Rs 8,44,982 crore (exchange amounted to Rs 33,948 crore and deposits amounted to Rs 8,11,033 crore).

They have also reported that the public have withdrawn, during this period, Rs 2,16,617 crore from their accounts either over the counter or through ATMs.

December 01, 2016/2016-2017/1382: It has been reported that certain guidelines/instructions purported to be issued by the Reserve Bank are being circulated in the social media by some unscrupulous elements creating confusion in the minds of the public/bank personnel.

Banks and members of the public are, therefore, cautioned to be guided by only those instructions which are either uploaded on the Reserve Bank's official website or received through the Reserve Bank's official mail. The banks and members of the public are advised that they should not rely on other unsecured/ unofficial channels like social media in which the authenticity of the documents circulated is questionable and not verifiable.

December 08, 2016/2016-2017/1460: The Reserve Bank has also made arrangements for supply of adequate quantity of banknotes in various denominations to the public through the banks. During the period from November 10, 2016 and December 7, 2016, banks have reported that banknotes worth Rs. 4,27,684 crore have been issued to public either over the counter or through ATMs.

December 08, 2016/2016-2017/1461:The Reserve Bank of India will shortly issue Rs. 500 denomination banknotes in the Mahatma Gandhi (New) Series, without any inset letter, bearing signature of Dr. Urjit R. Patel, Governor, Reserve Bank of India, and the year of printing '2016' printed on the reverse of the banknote. The design of these notes to be issued now is similar in all respects to the Rs. 500 banknotes in Mahatma Gandhi (New) Series.

December 13, 2016/2016-2017/1508: Mr. R. Gandhi, RBI Deputy Governors told the agencies that Specified Bank Notes (SBNs) of Rs. 500 and Rs.1000 returned to RBI and Currency Chests amounted to Rs. 12.44 lakh crore as of December 10, 2016. In this period, the RBI has also issued to the public through the banks and their branches a total of 21.8 billion pieces of notes of various denominations of which 20.1 billion pieces belonged to small denominations of Rs. 10, 20, 50 and 100s and 1.7 billion belonged to higher denominations of Rs. 2000 and Rs.500.

December 16, 2016/2016-2017/1549: The Reserve Bank of India will shortly issue Rs. 500 denomination banknotes in Mahatma Gandhi(New) series with the inset letter 'E' in both the number panels, bearing the signature of Dr. Urjit R. Patel Governor, Reserve Bank of India, the year of printing '2016' and Swachh Bharat Logo printed on the reverse of the Banknote. Some of the captioned banknotes will have an additional character '*' (star) in the number panel in the space between the prefix and the number.

December 19, 2016/2016-2017/1576: In continuation of issuing of Rs. 500 denomination banknotes in Mahatma Gandhi (new) series which are currently legal tender, a new batch of banknotes with inset letter "R" in both the number panels, bearing the signature of Dr. Urjit R. Patel Governor, Reserve Bank of India, with the year of printing '2016' are being issued.

December 21, 2016/2016-2017/1728: Over the period from November 10, 2016 upto December 19, 2016, banks have reported that banknotes worth Rs 5,92,613 crore have been issued to public either over the counter or through ATMs. In this period, the Reserve Bank has issued to the banks and their branches, for distribution to the public, a total of 22.6 billion pieces of notes of various denominations of which 20.4 billion pieces belonged to small denominations of Rs. 10, 20, 50 and 100s and 2.2 billion belonged to higher denominations of Rs 2000 and Rs 500.

December 31, 2016/2016-2017/1728: Resident Indian citizens who were abroad during November 9, 2016 to December 30, 2016 can avail this facility upto March 31, 2017 and Non Resident Indian citizens who were abroad during November 9, 2016 to December 30, 2016 can avail this facility upto June 30, 2017. While there is no monetary limit for exchange for the eligible Resident Indians, the limit for NRIs will be as per the relevant FEMA Regulations. The facility will remain open for residents from January 2, 2017 to March 31, 2017 and for NRIs from January 2, 2017 to June 30, 2017.

January 05, 2017/2016-2017/1783: We would like to clarify that the periodical SBN figures released by us were based on aggregation of accounting entries done at the large no of Currency Chests all over the country. Now that the Scheme has come to an end on December 30, 2016, these figures would need to be reconciled with the physical cash balances to eliminate accounting errors/ possible double counts etc.

Challenges for RBI

1. To print legal tender of approximate 15 lac Crores within small time.
2. To distribute currency notes to ensure that bank branches are able to meet the tidal wave of demand.
3. The 2.05[278] lac ATMs that are in operating across the country will also need to be reconfigured to dispense the new denominations.
4. The logjam may be particularly acute in rural areas where both bank branches and ATMs are in short supply.
5. While rural India reportedly has 6 lakh villages and had 44 crore savings account holders, they were home to just 48,000 bank branches.
6. Add on the necessity of ID-proofing all the walk-in depositors and one can visualize the chaos at banks over the next couple of weeks
7. There will be an urgent need for debit cards, electronic transfers and mobile payment platforms to be widely adopted.

[278] (RBI Data Release, 2016)

RBI's Preparation for Demonetisation

Following decisions were taken keeping in view the convenience of the public.[279]

Network and Reach of the Banks

1. The withdrawal limit of Rs.20,000/- per week has been enhanced to Rs.24,000/-. The withdrawal limit of Rs.10,000/- per day has been removed.
2. The limit of Rs.4000/- for over the counter exchange against old Rs.500/- and Rs.1000/- notes has been increased to Rs.4500/-. This will enable the banks to give lower denomination notes for Rs.500/- while dispensing the remaining Rs.4000/- through Rs.2000/- notes.
3. Business entities having current accounts which are operational for last three months or more will be allowed to draw Rs.50,000/-per week. This can be done in a single transaction or multiple transactions. This will enable the small business entities to pay wages to their workers and make sundry payments.
4. Adequate cash will be made available with District Central Cooperative Banks (DCCBs) to facilitate withdrawal from existing accounts. The cash withdrawal limits for Banks will apply in case of DCCBs also.

ATM Network

1. To expedite the process of recalibration of ATMs, a task force is being set up under deputy governor, RBI consisting of representatives of banks and finance ministry. This task force will draw up action plan and ensure implementation of this action plan for quick recalibration of the ATMs to enable them to dispense new bank notes of Rs.500/- and Rs.2000/-.
2. The ATMs are progressively getting recalibrated. As and when they are recalibrated, the cash limit of such ATMs will stand enhanced to Rs.2500/- per withdrawal. This will enable dispensing of lower denomination currency notes for about Rs.500/- per withdrawal. Other ATMs which are yet to be recalibrated, will continue to dispense Rs.2000/- till they are recalibrated.

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[279] (TNN (Times News Network), 2016)

3. In the meantime, Micro ATMs will be deployed to dispense cash against debit/credit cards up to the cash limits applicable for ATMs. The handheld Micro ATMs have the facility of mobility and deployment at the required places.

E-Payments

1. All Central government departments and public sector enterprises are being instructed to use the method of e-payments to the maximum extent possible.
2. RBI has advised National Payments Corporation of India (NPCI) to waive its transaction charges on transactions settled through National Financial Switch (NFS) till December 31, 2016.
3. Banks are also being advised to waive similar charges currently levied by them.

Arrangements for public convenience

1. Banks have been advised to arrange separate queues in their branches for senior citizens and *divyang*[280] persons; customers for transactions against accounts held with the Bank; and exchange of notes. There will, therefore be, three or more separate queues in every branch
2. Pensioners are required to submit Annual Life Certificate during the month of November. This time limit has been extended up to January 15, 2017.
3. The existing exemptions for acceptance of old Rs.500/- and Rs.1000/- notes for certain types of transactions are being extended beyond November 14, 2016 midnight up to November 24, 2016 midnight.

Business (Banking) Correspondents (BCs) Network

1. Banks will increase the cash holding limit of BCs to at least Rs.50,000/- each. Banks will also allow higher limits in appropriate cases.
2. Banks will replenish the cash with BCs multiple times in a day as per requirement of the BCs. BCs have wide presence in the rural areas. In

[280] '*Divyang*' is a *Hindi* word which means divine body. Prime Minister Narendra Modi, during his radio address "Mann Ki Baat" on December 27, 2015 said that physically-challenged people have a "divine ability" and the term '*divyang*' should be used in place of '*viklang*' (means persons with disability) for them. (Economic Times Dec 28, 2015)

total, there are 1.2 lakh[281] BCs in the country. The above decisions will facilitate wider reach in the rural areas for exchange and withdrawal of cash from bank accounts.

Postal Network

1. There are about 1.3 lakh branch post offices in the country. It has been decided to enhance the supply of cash to branch post offices to facilitate cash withdrawals from postal accounts.

The above measures would substantially enhance the reach of the banking system to exchange notes and facilitate cash withdrawal from bank accounts.

RBI's Demonetisation Execution: A Culprit

"The thought to fight black money no doubt is good, but the way it has been executed, it looks like the treatment itself has become a big problem than the disease,"

Execution has always been our Achilles heel, and the attitude is always one of '*Jugaad*'[282]. It works actually because we feel that let us roll out something and then address issues as and when it comes. We can never think of preventative measures and contingencies. There is merit here and as and when equilibrium finally comes, things are forgotten. But there is a cost to this exercise.[283]

During the demonetisation, many lacunas were identified in RBI's execution; few of them are mentioned hereunder: [284]

1. All banks do not have currency chests and do not have access to money. They need to get from the RBI these bundles and the central bank appears not to have the stock which means that there is shortage of currency notes.
2. Second, once a bank gets the money it should have the wherewithal to handle it and disburse to branches. All do not have these facilities.

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281 (TNN, 2016)

282 Jugaad (a word taken from Hindi which captures the meaning of finding a low-cost solution to any problem in an intelligent way) is a new way to think constructively and differently about innovation and strategy.(Definition from Financial Times Lexicon)

283 (Sabnavis, 2016)

284 (Sabnavis, 2016)

3. Third, the ATMs need to be reprogrammed to dispense specific denomination notes of fixed quantity and also ensure that the same card cannot be used twice in a day. There is a limit to it as it involves a physical exercise. There are over 2 lakh machines that need such attention. The outcome is also that once these machines are to provide a larger quantity after a pre-specified date, then they have to be reprogrammed. It is not surprising that these notes do not fit and the result is long queues. The people in these lines are definitely from the lower income groups. Hence even these bold measures which serve the larger good have to be supported by the lower income people.
4. Printing Rs 2,000 notes without having lower denomination currency is a losing proposition as it is quite meaningless. All those receiving them have to wait for the Rs 500 notes to come as there are no takers for the same.
5. Second announcing limits on withdrawals at ATMs or exchanging of currency sends out panic messages that the system does not have money today. If an equivalent amount was made available within the normal limits, there would be no panic.
6. Third, banks have their own interpretation of the RBI rules which creates confusion for customers. For example, Sabnavis[285] mentioned his experience as "ICICI bank told me that if I exchanged money today I could do the next one after November 23, 2016, but I could do successive transactions in Corporation Bank after enquiring about this issue and the officials saw no objection."

Effect of demonetisation on Banks

Banks which deals with money were largely affected by demonetisation as its impact was completely routed through banks and banking channel. Banks and its branches were not sufficient to serve the country of 129 Crore people and to serve them the banking hours were stretched double. Few fatalities in banks also had been claimed, the effect on banks was as:

Short term Positive Effect on Banks:

1. Demonetisation has surged bank deposits and interest income will be generated from it.

[285] (Sabnavis, 2016)

2. Increased low-cost current and savings accounts (CASA), which in turn will rub off favourably on the banks' funding costs and liquidity.
3. The Central Bank has reduced the repo rate which eventually lowered the cost of borrowing of banks. This was done in view to counter deflationary pressure, arose due to unavailability of cash in the market.
4. Use of credit/ debit cards, net banking and other online/ non-cash payment mechanisms has grown, as these non-cash activities would not only lower transaction costs but also some of these generate income.

Long Term Positive Effect on Banks:

1. Bank deposits had been increased during the demonetisation period. This will help banks to lend more money in the economy and to support the economy to grow. It will boost growth as it will expand and clean the formal economy.
2. Increased deposits had made banks to strengthen its balance sheet. It will lead to increase its assets size (loans) and earn interest income on it.
3. If major parts of deposits are lent, then total loan amount will be increased. This may lead to decreased in NPA ratio because of increased denominator.
4. Demonetisation pushed towards cashless economy, the banking system will improve its operation making it more conducing to cashless.
5. Cashless (or less-cash) society will increase credit access and financial inclusion. It will increase the customer base by both volume and value.
6. RBI has decreased spread between Repo and Reverse Repo Rate[286] (increasing reverse repo rate to 6.25%), which has helped banks to deposit incremental deposits with the RBI and earn amplified interest on it.

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[286] Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation. Reverse repo rate is the rate at which the central bank of a country borrows money from commercial banks within the country. It is a monetary policy instrument which can be used to control the money supply in the country.

Short Term Negative Effect on Banks

1. Bank focus was shifted from business generating operations to demonetising operations which had reduced its assets (loan lending) during the demonetisation period.
2. Banks had incurred extra cost for replacing currency and ATM operations and maintenance; Banks also had to bare recalibration cost for newly introduced currency.
3. During demonetisation period, Banks operating costs has increased due to prolong working hours.
4. Prolonged Banking hour had led to human errors in dealing with public. This may turn negative for employees and/ or banks.
5. Extended working hours, even upto 18 hour a day may, may toll on the health (even fatality) of the bank employee; if claimed under insurance to the bank, will cost to the banks.
6. Such long working may increase level of dissatisfaction in bank employees and immediate or in near future, bank may observe employee attrition.

Long Term Negative Effect on the Banks

1. Banks will have to spend months for demonetisation related activities. This will divert from their business and affect revenues and profitability both, for this financial year ended March 2017. The effect may trickle down to next year FY2017-18.
2. There are chances that many banks will not able to cope up with demonetisation move, it regulatory practice and compliances; and will suffer regulatory punishment for non-compliance in future.
3. There will be added costs for replacing, recalibration, maintenance of ATMs and office activities; cost of operations and compliance may affect the bottom line[287] of banks. (The net effect of increased reverse repo may be positive)
4. Employees of Banks had to work for 14 to 18 hours a day also few fatalities were registered during working hours, claimed to be due to intense pressure. This may reduce employee satisfaction and attrition can be seen in near future.

[287] Bottom line is synonym for net profits or profit after taxation.

5. Asset quality of banks and NBFC may wane as some of its cash sensitive borrowers may not sail through the cash crisis.

PM Modi's justifications for demonetisation or Finance Minister Arun Jaitley's clarifications cannot wish away the fact that the Modi government started blind on a massive gamble in public life and economy. It was totally unprepared and decided matters on the go. That explains the endless number of rules, sharp U-turns and the 60 circulars from the Reserve Bank in just a month.[288] Mr. Modi's reasoning that only the corrupt and fraud oppose demonetisation isn't fair. Even after December 30, 2016, the time he sought to end the 'temporary' pain of the people on account of demonetisation-induced artificial cash crunch. But, it is likely that the PM will fail to make good of his promise, if not in its entirety, partially.

[288] (Unnikrishnan, Demonetisation countdown to day 50: Why are govt, RBI so secretive on the whole affair?, 2016)

Effects of Demonetisation on Economic Indicators

Overview

Demonetisation is sure to have short-term and long-term impact on India, an economy which is predominantly dependent on cash transactions, the signs of which are already visible. The RBI has lowered the GDP forecast for the year, 2016-17 to 7.1 percent, so have most private forecasters[289]. The consumption story has taken a hit. The services sector PMI sharply fell to 46.7 in November 2016 from 54.5 in October 2016 that is the biggest monthly drop since November 2008, just two months after the global financial crisis hit the economy following the US investment bank Lehman Brothers gone bust in September, 2008.

Similarly, the manufacturing PMI too has fallen with the index shrinking to 52.3 in November 2016 from October's 22-month high of 54.4. Data from the Centre for Monitoring Indian Economy (CMIE), unemployment rates fell to less than 5 percent in the week of November 27, 216, but has since risen to 6.1 percent in the week of December 4, 2016 to 6.6 percent in the week ended December 11, 2016 and then to 7 percent in the week ended December 18, 2016. The impact comes with a lag and we need to wait for fresh numbers. The full impact of the demonetisation resulted cash crunch will only unfold in the next few months.[290] Fortunately remonetisation is in full swing with its optimum capacity, still may take April or May 2017 to replace non-legal tender currency with legal tender.

The effect of the demonetisation will not be uniform across the economy. Industries that have a larger cash component in their transactions will be hit harder, such as real estate, movie production, campaign finance, transportation etc. Also, the rural India will have sever smash as it is mainly driven on cash and also banking network is not as efficient as in metros and mini-metros.

Demonetisation was followed by deflation, a market correction due to lowered demand in markets; these corrections are deflationary (reducing prices) or contractionary (reduce business). These market corrective responses, a short

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289 While brokerage Ambit Capital created shock waves by predicting that GDP growth will fall to 5.8 percent in 2017-18 from 7.3 percent estimated earlier, former Prime Minister Manmohan Singh, also an economist, echoed concerns by suggesting that demonetisation could contract the GDP by as much as 2 percent.

290 (Nag, 2016)

term effect, will be reinstated once economy will have enough cash. There will be long term effects; it will bring market equilibria reflecting genuine demand and supply in the real economy, nullifying the effect of parallel economy.

Impact on Inflation

The RBI considers the CPI (consumer price index) as its primary gauge of measuring inflation. Prior to the RBI adopting the CPI in India, another measure of inflation, the WPI (wholesale price index), was the key gauge of inflation and it's still considered for reference.

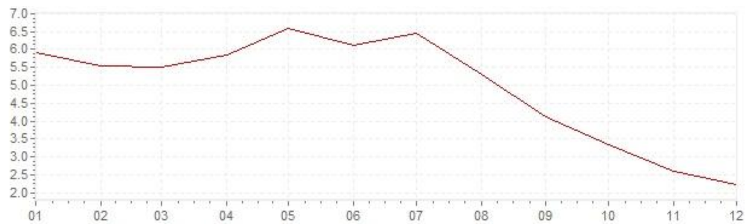
The RBI has CPI growth targets to adhere, which is decided in monetary policy. By January 2016, it was supposed to keep inflation below a target of 6%, which it was able to do. Its next target is to keep inflation at or below the 5% mark by March 2017. Demonetisation will surely bring inflation to these levels.

Consumer Price Index (CPI)

The demonetisation which has been in effect since November 9, 2016, had a negative impact on inflation in November and December 2016. Consumer spending activity fell to a near halt; they were refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly, Metropolitan and Tier 1 cities reported up to a 30% fall in house prices.

Food inflation, measured by changes in the Consumer Food Price Index accounts for 47.3% of the overall CPI. Due to 86.9% of the value of the currency in circulation going out of the financial system and re-monetisation being slow, the supply and demand of food items fell. It will exert more downward pressure on inflation.

CPI Chart for period Jan 2016 to Dec 2016[291]

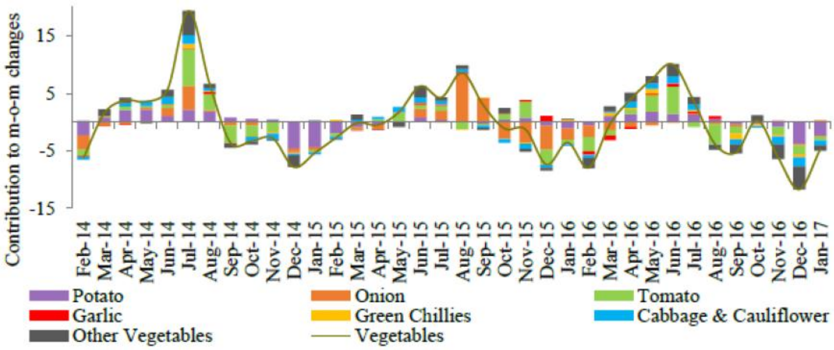


[291] Source: http://www.inflation.eu/inflation-rates/india/current-cpi-inflation-india.aspx

Food Inflation

Food inflation declined from 3.7 per cent (year-on-year, y-o-y) in October 2016 to 2.6 per cent in November, to 2.0 per cent in December and further to 1.3 per cent in January 2017. This was mainly on account of vegetables and pulses. Vegetable prices declined by 6.2 per cent on a month-on-month (m-o-m) basis in November 2016 and further by 11.7 per cent in December 2016. The vegetable price decline continued in January 2017 *albeit* at a lower rate of 4.7 per cent. Pulses prices declined by 7.4 per cent between October 2016 and January 2017.[292] The sharp decline in prices of pulses and vegetables was due to a number of factors.

Month over month inflation of vegetables is shown in the chart below:[293]



Food inflation comparison with non-food category

Category	15-Nov	15-Dec	16-Jan	16-Oct	16-Nov	16-Dec	17-Jan
Fuel & light	5.3	5.4	5.3	2.9	2.8	3.8	3.4
Clothing & footwear	5.8	5.7	5.7	5.2	5	5	4.7
Housing	5	5.1	5.2	5.1	5	5	5
Miscellaneous*	3.8	4	3.9	4.7	4.8	4.7	5.1
CPI-excluding Food-Fuel	4.7	4.9	4.7	4.9	4.9	4.9	5.1
Food Inflation				3.7	2.6	2	1.3

292 (Reserve Bank of India, March 10, 2017)

293 (Reserve Bank of India, March 10, 2017)

*Includes household goods and services; health; transport and communication; recreation and amusement; education; and personal care and effects. Source: CSO and Staff Estimates. (Reserve Bank of India, March 10, 2017)

Wholesale Price Index (WPI)

The Wholesale Price Index (WPI)-based inflation for December, 2016 rose to 3.39 per cent from 3.15 per cent in November, 2016 with rising prices of petrol and diesel. In December 2015, WPI inflation was a negative 1.06 per cent.

Data from the commerce ministry showed while food prices fell in December, 2016 by 0.7 per cent, compared with a rise of 1.54 per cent in November, 2016 diesel rose 20.25 per cent and petrol by 8.52 per cent. The overall inflation index of the fuel and power segment rose 8.65 per cent.

This rise in the December 2016, WPI was in contrast to a marginal deceleration of the Consumer Price Index (CPI) for the month. The latter figure showed a dip in the rise to 3.4 per cent, versus 3.6 per cent in November, 2016. "The divergence primarily comes down to the composition of these two indices," said Madan Sabnavis, chief economist at CARE Ratings. "WPI has a higher food and manufacturing composition. Fuel and power have a weight of nearly 15 per cent and manufactured products of 65 per cent in WPI inflation. Hence, inflation is rising due to increase in global crude oil prices. CPI has a greater composition of food. Food and beverages have a weight of 54 per cent for CPI inflation. Prices are down due to good output and possible distress sales in *mandis* and lower demand due to demonetisation." Sabnavis said the divergence is expected to continue in the coming months, due to increasing crude oil prices after the petro exporters' cartel deciding late last year to cut global output.

Index of Industrial Production (IIP)

The Quick Estimates of Index of Industrial Production (IIP) with base 2004-05 for each month is monitored and released by the Central Statistics Office of the Ministry of Statistics and Programme Implementation. IIP is compiled using data received from 15 source agencies viz. (i) Department of Industrial Policy & Promotion (DIPP); (ii) Indian Bureau of Mines; (iii) Central Electricity Authority; (iv) Joint Plant Committee, Ministry of Steel; (v) Ministry of Petroleum & Natural Gas; (vi) Office of Textile Commissioner; (vii) Department of Chemicals & Petrochemicals; (viii) Directorate of Sugar & Vegetable Oils; (ix) Department of Fertilizers; (x) Tea Board; (xi) Office of Jute Commissioner; (xii) Office of Coal Controller; (xiii) Railway Board; (xiv) Office of Salt Commissioner; and (xv) Coffee Board.

November 2016 IIP

The General Index of IIP for the month of November 2016 stands at 175.8, which is 5.7% higher as compared to the level in the month of November 2015. The cumulative growth for the period April-November 2016 over the corresponding period of the previous year stands at 0.4%. The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of November 2016 stand at 135.9, 181.2 and 191.2 respectively, with the corresponding growth rates of 3.9%, 5.5% and 8.9% as compared to November 2015.

The industry group 'Radio, TV and communication equipment & apparatus' has shown the highest positive growth of 32.2% followed by 23.2% in 'Electrical machinery & apparatus n.e.c[294].' as well as in 'Motor vehicles, trailers and semi-trailers'. On the other hand, 'Furniture; manufacturing n.e.c.' has shown the highest negative growth of -16.5%, followed by -5.2% in 'Office, accounting and computing machinery' and -3.2% in 'Tobacco products'. The cumulative growth in these 3 sectors during April-November 2016 over the corresponding period of 2015 has been 0.3%, -0.3% and 5% respectively.

December 2016 IIP

India's industrial production numbers of December 2016 had shown a 0.4% drop. Quite rightly at least some of this is being ascribed to the effects of demonetisation. According to the, manufacturing output shrank 2% while mining and electricity registered positive growth of 5.2% and 6.3% in December 2016. The data comes despite a low base in December 2015.

Although the usually-volatile capital goods segment a gauge for investment dropped just 3%, a sharp 10.3% plunge in consumer durables and a 5% decline in non-durables output suggest the note ban dented demand. However, the plunge in the consumer durables segment seems to have been aggravated by an unfavourable base (it had grown 16.6% in December 2015).

January 2017 IIP

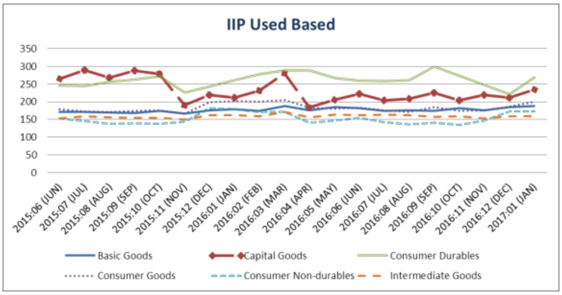
The General Index for the month of January 2017 was 191.3, which is 2.7 percent higher as compared to the level in the month of January 2016. As per Use-based classification, the growth rates in January 2017 over January 2016 are 5.3 percent in Basic goods, 10.7 percent in Capital goods and (-) 2.3 percent in Intermediate goods. The Consumer durables and Consumer non-durables have

[294] 'n.e.c.' refers to 'not elsewhere classified'.

recorded growth of 2.9 percent and (-) 3.2 percent respectively, with the overall growth in Consumer goods being (-) 1.0 percent.

Cumulatively, the index of Basic goods, Intermediate goods and Consumer Durables registered growth of 4.4 %, 2.2 % and 4.9 % respectively during April to January, 2016-17 while the index of Capital goods and Consumer Non-durables declined by 15.0 % and 2.3% respectively during the same period.

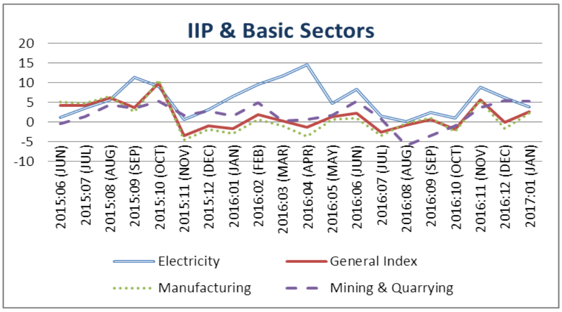
Following graph shows IIP Use Based:[295]



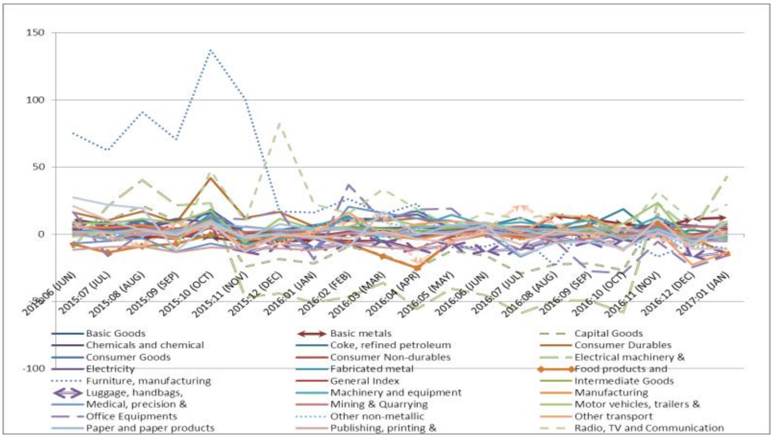
The weightage of Manufacturing, Mining and Electricity production in overall Index of Industrial Production (IIP) is 75.52 %, 14.16 % and 10.32 % respectively. The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of January 2017 stand at 146.1, 199.2 and 195.6 respectively, with the corresponding growth rates of 5.3 percent, 2.3 percent and 3.9 percent as compared to January 2016. The cumulative growth in these three sectors during April-January 2016-17 over the corresponding period of 2015-16 has been 1.4 percent, (-) 0.2 percent and 5.0 percent respectively.

[295] (Reserve Bank Of India)

Growth of Index of Industrial Production (IIP) (Basic Sectors) is mentioned in below chart[296]



In terms of industries, nine out of the twenty two industry groups (as per 2-digit NIC-2004) in the manufacturing sector have shown positive growth during the month of January 2017 as compared to the corresponding month of the previous year.



The industry group 'Electrical machinery & apparatus n.e.c.' has shown the highest positive growth of 42.4 percent followed by 21.8 percent in 'Radio, TV and communication equipment & apparatus' and 12.4 percent in 'Basic metals'. On the other hand, the industry group 'Office, accounting and computing machinery' has shown the highest negative growth of (-) 16.0 percent followed by (-) 14.8 percent in 'Food products and beverages' and (-) 13.4 percent in 'Other transport equipment'.

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[296] (Reserve Bank Of India)

Gross Domestic Product

Gross Domestic Products (GDP) is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.

It can be measured by three methods namely,

1. *Output Method:* This measures the monetary or market value of all the goods and services produced within the borders of the country. In order to avoid a distorted measure of GDP due to price level changes, GDP at constant prices or real GDP is computed. GDP (as per output method) = Real GDP (GDP at constant prices) - Taxes + Subsidies.
2. *Expenditure Method:* This measures the total expenditure incurred by all entities on goods and services within the domestic boundaries of a country.

GDP (as per expenditure method) is computed as = C + I + G + (X-IM)

C: Consumption expenditure, I: Investment expenditure, G: Government spending and (X-IM): Exports minus imports, that is, net exports.

3. *Income Method:* It measures the total income earned by the factors of production, that is, labour and capital within the domestic boundaries of a country.

GDP (as per income method) = GDP at factor cost + Taxes - Subsidies.

In India, contributions to GDP are mainly divided into 3 broad sectors, agriculture and allied services, industry and service sector. In India, GDP is measured as market prices and the base year for computation is 2011-12.

As per the definition, the GDP will be declined in FY2016-17 as industry output in terms of goods and services has declined due to unavailability of cash. Many research agencies already have declined their 2016-17 GDP expectation figures by 0.5% to 2%, some of these are mentioned hereunder.

Demonetisation Effect on GDP Growth Estimates (by Various Agencies)

(y-o-y growth in per cent)

Agency	2016-17		2017-18	
	Pre-demonetisation	Post-demonetisation	Pre-demonetisation	Post-demonetisation
IMF	7.6	6.6	7.6	7.2
World Bank	7.6	7	7.7	7.6
ADB	7.4	7	7.8	7.8
Economic Survey, Government of India	7.0 to 7.75	6.5 to 6.75		6.75 to 7.5
Morgan Stanley	7.7	7.3	7.8	7.7
HSBC	7.4	6.3	7.2	7.1
Nomura*	7.8	7.1	7.6	7.1
Goldman Sachs	7.6	6.3	-	-
ICRA	7.9	6.8	-	-
CARE Ratings	7.8	6.8	-	-
CRISIL	-	6.9	-	-
FITCH	7.4	6.9	8	7.7
BofA-ML	7.4	6.9	7.6	7.2

*Pertains to calendar year. Sources: Growth projections by the Financial Institutions and Rating Agencies were compiled on the basis of media reports published during November and December 2016. (Reserve Bank of India, March 10, 2017)[297]

Real GDP or GDP at constant (2011-12) prices in the year 2016-17 is likely to attain a level of Rs 121.65 lac crore, as against the First Revised Estimate of GDP for the year 2015-16 of Rs.113.58 lakh crore, released on January 31,

297 (Reserve Bank of India, March 10, 2017)

2017. The growth in GDP during 2016-17 is estimated at 7.1 per cent as compared to the growth rate of 7.9 per cent in 2015-16.[298]

Gross Value Added (GVA)

The demonetisation of two highest currency denominations has impacted the consumption activity in the Indian economy to a bare minimum level. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit the hardest.

Growth in the Indian economy remained solid in the quarter from April to June 2016 and July-September 2016 quarters with expected growth rate of 7.2% and 7.4% growth over previous year quarter.[299] During that period, the GVA (gross value added) rose 6.9 and 6.7% in similar period.

The relationship between the GDP and GVA is:

GDP = GVA + taxes on products – subsidies on products

The base year for calculating the GVA is 2011–2012.

The Reserve Bank has been conducting the Survey of Professional Forecasters since September 2007. Eighteen professional forecasters participated in the latest survey round (Round 44) conducted in January 2017. The result of the survey is as[300]:

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298 (The Central Statistics Office (CSO), 2017)

299 (The Central Statistics Office (CSO), 2016)

300 (Respondent Forecasters, 2016 December)

Median Forecast of Real GVA

Segment	Q3: 16-17	Q4: 16-17	2016-17	2016-17
Real GVA	6.1 (-0.9)	6.6 (-0.5)	6.7 (-0.4)	7.5 (+0.1)
Agriculture & Allied Activities	4.0 (+0.4)	3.5 (+0.7)	3.5 (+0.4)	3.3 (+0.4)
Industry	4.9 (-2.0)	5.2 (-1.9)	5.8 (-1.1)	7.2 (-0.1)
Services	7.1 (-1.2)	7.5 (-1.0)	8.0 (-0.4)	8.8 (-0.2)

Note: Growth rates are in per cent. Figures in parentheses represent the extent of revisions relative to the 43rd round. The results of the survey represent the views of the respondent forecasters and in no way reflect the views or forecasts of the Reserve Bank of India.

As per the survey, Quarterly real GVA growth at basic prices may moderate to 6.1 per cent in Q3:2016-17, improving gradually to 6.6 per cent by Q4: 2016-17.

Real GVA, i.e. GVA at basic constant prices (2011-12) is anticipated to increase from Rs.104.70 lac crore in 2015-16 to Rs.111.68 lakh crore in 2016-17. Anticipated growth of real GVA at basic prices in 2016-17 is 6.7 percent against 7.8 percent in 2015-16.[301] The fall in economic activity due to demonetisation could last from two to three quarters. As a result, GDP and GVA growth in the quarters from September to December 2016 and January to March 2017 observed lower than previous years.

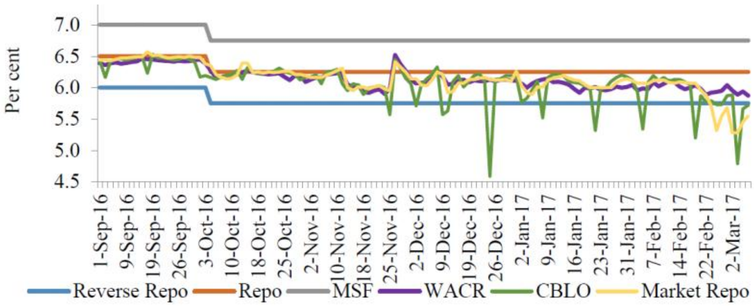
Money Market

Despite large surplus liquidity, active liquidity management by the Reserve Bank, the weighted average call money rate (WACR), the operating target of monetary policy, traded around the repo rate during November 8 to November 25, 2016, but with a softening bias (23 bps on an average). With the announcement of the incremental CRR of 100 per cent on November 26, banks borrowed aggressively on November 28 (November 26 and 27 being holidays) from both the Reserve Bank and money markets to meet the additional reserve requirement. This pushed up the WACR above the repo rate on November 28,

[301] (The Central Statistics Office (CSO), 2017)

2016. However, this impact was short-lived and the WACR started trading again with an easing bias (21 bps on an average) from December 1, reflecting the persisting surplus liquidity conditions.

Policy Corridor and Money Market Rates*



*On Reporting Fridays, banks shift their borrowings from the CBLO market to other overnight segments to take advantage of CRR maintenance which pulls down CBLO rates. Unlike borrowings from market repo and call money market, borrowings from the CBLO market form a part of NDTL for CRR.

Source: RBI and CCIL.

Other overnight money market rates have tracked the WACR. In line with the overnight money market rates, other short-term rates also eased. Post demonetisation, 3-month CD[302] and 91-day T-bill rates softened by about 22 and 45 basis points (bps) respectively, while the 3-month CP[303] rate declined by 9 bps.

Money Market Rates

Segment	8-Nov-16	Post-demonetisation period*		7-Mar-17
		Lowest	Highest	
WACR	6.22	5.9	6.52	5.93

[302] CD means Certificate of Deposit, is a time deposit with a bank, generally issued by commercial banks and bears a specific maturity date (from three months to five years), a specified interest rate, and can be issued in any denomination, much like bonds. CDs offer a slightly higher yield than T-Bills because of the slightly higher default risk.

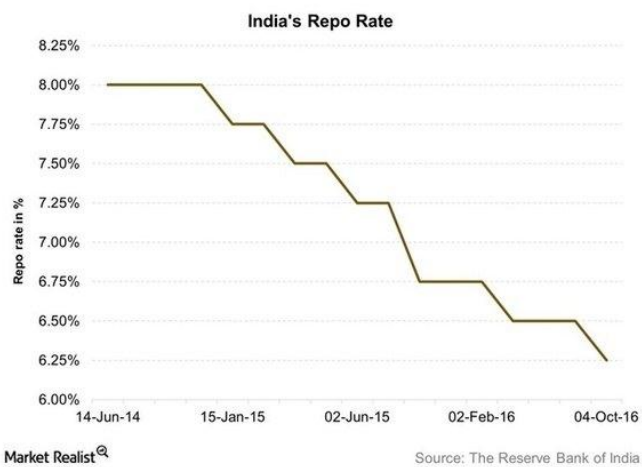
[303] CP stands for Commercial Paper. It is a short term money market instrument that matures within a period of 270 days, used as a means of raising funds without any collateral security.

CBLO rate	6.26	4.59#	6.45	5.72
Market Repo rate	6.23	5.28	6.41	5.55

Impact on Repo Rate

The repo rate, or repurchase option rate, is the key monetary policy rate for the RBI. It's the rate at which the RBI lends to commercial banks. The reverse of the repo rate that is the rate at which banks park money with the central bank is known as the "reverse repo rate." A change in the repo rate signals an increase or decrease in rates to commercial banks, other rates, like the reverse repo rate and the MSF (marginal standing facility), are fixed against the repo rate. The rate impacts the movement of the rupee, which impacts the revenue of exporters and tech companies.

In its policy meeting on October 4, 2016 the RBI's (Reserve Bank of India) Monetary Policy Committee reduced the country's repo rate by 25 basis points. The October meeting marked the second rate cut in 2016. The combined quantum of the cuts for the year stands at 50 basis points.



With the announcement of demonetisation, and its subsequent impact on cash transactions and consumption, inflation fell during demonetisation period. Banks started reducing their deposit rates, lending rates fell as well. The RBI had controlled inflation by reducing repo rate and pushing for consumption.

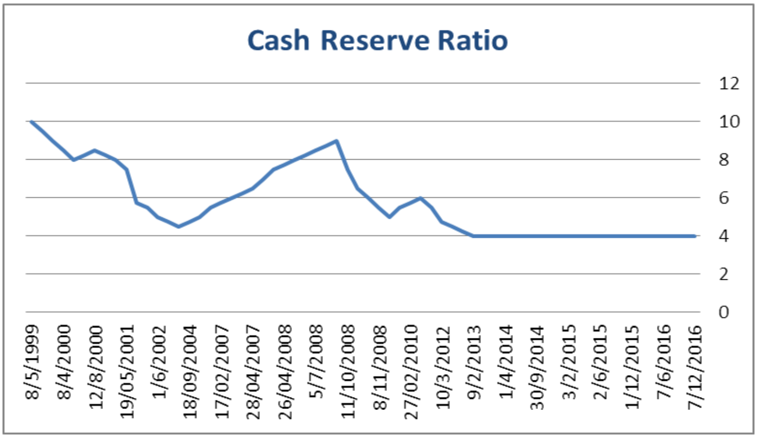
Though, this inflation will not be for long time; increased deposits will be offloaded to market as credit (lending) and again there will be increase in inflation after remonetisation. The RBI, at that time may reverse the repo rate reduction or a trade-off strategy will be used to keep lending and growth with controlled inflation.

Cash Reserve Ratio

Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank. CRR is set according to the guidelines of the central bank of a country.

The amount specified as the CRR is held in cash and cash equivalents, is stored in bank vaults or parked with the Reserve Bank of India as reserves. This is called fractional reserve banking. The aim here is to ensure that banks do not run out of cash to meet the payment demands of their depositors. CRR is a crucial monetary policy tool and is used for controlling money supply in an economy. CRR specifications give greater control to the central bank over money supply.

Historic CRR Rates are as:



Incremental CRR post demonetisation:

In a surprise move, the Reserve Bank of India, vide notification dated November 26, 2016, raised incremental cash reserve ratio (ICRR) of banks to 100% of net demand and time liabilities (NDTL). The central bank's intent is to absorb a significant portion of the liquidity surge created in the banking system since November 8, 2016, after the government has culled bank notes of Rs 500 and Rs.1,000 denomination. The central bank calls this a 'purely temporary measure', which will be reviewed on or before December 9, 2016.

In a report, Care Ratings said, post the CRR hike, banks will have to park an additional sum of Rs3.24 lakh crore with the RBI without earning any interest. "This amount, which is incremental deposits between September 16 and November 11, 2016, would be still paying a minimum of 4% interest to deposit holders. In addition, there is a fear of a penalty being imposed, in case, banks are not able to deposit the same with the RBI," the ratings agency said.

CRR Requirements in Rs Crores		
Fortnight Ended	September 16, 2016	Nov11, 2016
NDTL (CRR)	10,526,222	10,892,439
CRR@4%	421,049	435,698
Change in NDTL		366,217
Incremental CRR (100% of NDTL)		366,217
Total CRR Requirement as per New Directive (4% + Incremental CRR)		801,915

Source: RBI, SBI Research

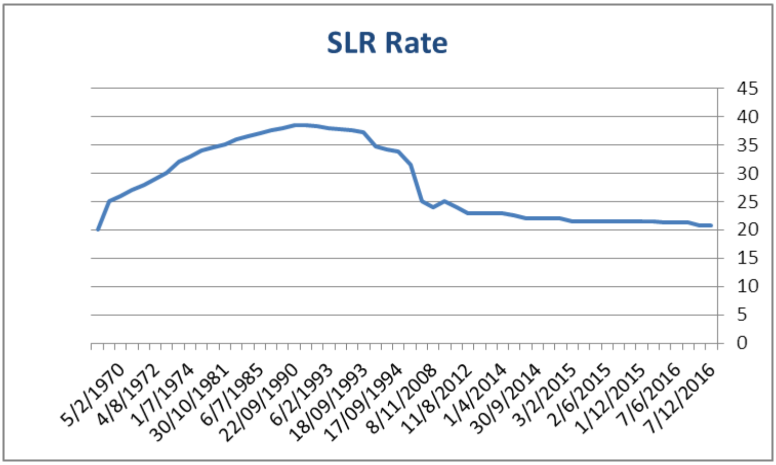
SBI was of different in opinion on ICRR. In a report, State Bank of India (SBI) said, to be fair to the central bank, CRR has ceased to be an instrument of monetary control in India since the mid 1990's, with the CRR being brought down sharply since then. "Interestingly, during the early 1990's additional CRR requirements (in the form of incremental CRR) were introduced from time to time. For example, an incremental CRR of 10% was also levied on various non-resident deposits in order to restrict inflows during such time. Against this background, the imposition of a 100% incremental CRR seems unprecedented and is the first time in history. In fact, the Chakravarty Committee in 1985 had suggested that the incremental CRR should be used only in special circumstances requiring drastic monetary control measures. By this analogy, this imposition is therefore a drastic control measure," the report said. There were alternative measures available with the RBI, which should have been used, feels SBI. It says, "There were options like cash management bills issued under MSS scheme by Government. We understand such measures require the concurrence of the Government, which should not have been a problem. In particular, cash management bills may have meant better liquidity management since their short tenor would have meant banks having headroom to deal with eventual outflows when the withdrawal limits are unwound."[304]

Statutory Liquidity Ratio

The ratio of liquid assets to net demand and time liabilities (NDTL) is called statutory liquidity ratio (SLR).

Apart from Cash Reserve Ratio (CRR), banks have to maintain a stipulated proportion of their net demand and time liabilities in the form of liquid assets like cash, gold and unencumbered securities. Treasury bills, dated securities issued under market borrowing programme and market stabilisation schemes (MSS), etc also form part of the SLR. Banks have to report to the RBI every alternate Friday their SLR maintenance, and pay penalties for failing to maintain SLR as mandated.

Historic SLR Rates are as:



It doesn't seem the demonetisation will affect SLR. If demonetisation would be exercised when there is credit demand and low supply, then demonetisation may avail credit. This is different scenario when there is low credit demand; and again banks cannot push for credits as it has NPAs on its books to alarming level.

To increase credit and liquidity, Repo rates are reduced, indicating RBI and government wishes to have more credit borrowers. It's unlikely that the RBI or government will use SLR for managing liquidity caused by demonetisation.

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304 (Moneylife Digital Team, 2016)

Bank Deposits

Banks' net profits essentially reflect the difference between interest earned on loans and advances and investments, and interest paid on deposits and borrowings, adjusted for operating costs and provisions. Loans and advances and investments, which are the main sources of interest income, together constitute more than 85 per cent (61 per cent accounted for by loans and advances and 25 per cent by investments) of banks' consolidated balance sheet.[305] Post-demonetisation, there has been a surge in the current account and saving account (CASA) deposits of banks. The sharp increase of 4.1 percentage points in the share of CASA deposits in aggregate deposits to 39.3 per cent (up to February 17, 2017) resulted in a reduction in the cost of aggregate deposits. The cost of CASA at 3.2 per cent is significantly lower than the weighted average term deposit rate at 7.1 per cent. Banks earned return of around 6.23-6.33 per cent under reverse repos and market stabilisation scheme (MSS)[306] as against the cost of CASA deposits of around 3.2 per cent. This differential adds profit to bank's statements.

Banks have also lowered their term deposit rates; the median term deposit rate declined by 38 bps during November 2016-February 2017.[307] Accordingly, for an average deployment of about ₹6 trillion in a quarter under reverse repos and MSS securities, banks' net interest income from increased deposits is estimated

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[305] (Reserve Bank of India, March 10, 2017)

[306] The market stabilisation scheme (MSS) scheme was launched in April 2004 to strengthen the RBI's ability to maintain the stability in foreign exchange market and enable to conduct monetary policy in accordance with its stated objective. The ceiling on the amount of securities issued under the MSS is mutually agreed upon between the Government and the Reserve Bank from time to time by way of a Memorandum of Understanding (MoU) under the MSS. The government bills/bonds issued by way of auction under the MSS have all the attributes of the existing treasury bills and dated securities. The amount of bills and securities issued for the purpose of MSS is matched by an equivalent cash balance held by the Government with the Reserve Bank, thus, having only a marginal impact on the revenue and fiscal deficits of the Government to the extent of interest payment on bills/securities outstanding under the MSS. The cash management bills (CMBs) issued under the MSS are non-standard discounted instruments, generally issued by the Government to meet the temporary mismatches in their cash flows. CMBs have the generic character of Treasury Bills but are issued for maturities of less than 91 days. Hence, they can be issued to absorb excess liquidity during the period of large surplus conditions, as has been the case after demonetisation.

[307] (Reserve Bank of India, March 10, 2017)

at about Rs.45 billion[308] in a quarter after demonetisation. Banks continue to enjoy the increased share of low cost CASA deposits, although it is gradually declining with the increase in currency in circulation.

The increase in net interest income would need to be adjusted for the cost of managing withdrawn currency and injection of new bank notes (such as calibration of ATM machines, staff overtime, security arrangements, lower fees/waiver of fees on digital modes of payments), the exact details of which are not available at this stage.

Bank Lending

Monetary policy transmission is the translation of monetary policy actions into the financial system through banking and trading channels. The RBI (Reserve Bank of India) has been on a rate reduction cycle since January 2015. Before the January 2015 meeting, the repo rate stood at 8%. Its journey from that level to 6.25% currently includes six rate cuts totalling 175 basis points. However, banks have been slow in transmitting the benefit to consumers.

After being flush with deposits, it's expected that banks will reduce their lending rates sizeably, improve monetary transmission, and benefit consumers, both corporate and individual. Any increase in economic activity due to more consumption on account of lower rates can be beneficial to India-focused funds well.

Banks furnish data on their major assets and liabilities on a fortnightly basis. As per data available for the reporting Fridays of October 28, 2016 (prior to demonetisation) and February 17, 2017 (latest available), aggregate deposits of SCBs increased by Rs.5,549 billion during the period, see the table below:[309]

Incremental Liabilities and Assets (From October 28, 2016 to February 17, 2017)

308 (Reserve Bank of India, March 10, 2017)

309 (Reserve Bank of India, March 10, 2017)

Particulars in Rs. billion

Liabilities		Assets	
Aggregate Deposits	5,549	Bank Credit	1,008
Borrowings	-56	Investment in Government Securities	4,560
		Net Other Assets	-75
Total	5,493	Total	5,493

Bulk of the deposits so mobilised by SCBs have been deployed in: (i) reverse repos of various tenors with the RBI; and (ii) cash management bills (CMBs) issued under the Market Stabilisation Scheme (which is a part of investment in government securities in the balance sheet of banks). Loans and advances extended by banks increased by Rs.1,008 billion. The incremental credit deposit ratio for the period was only 18.2 per cent. Additional deposits mobilised by commercial banks have been largely deployed in liquid assets. This may be due to the expected transitory nature of the bulk of such deposits and weak demand as reflected in the subdued growth of credit.

This mean even growth of deposits may not increase the credit or bank lending.

Liquidity Management during Demonetisation

With the withdrawal of notes, currency in circulation contracted, deposits in the banking system surged. The sudden increase in deposits (given the gradual replacement of old notes by new notes) created large surplus liquidity conditions in the banking system, which could be divided into four distinct phases in terms of how liquidity was managed by the Reserve Bank using different instruments. The active liquidity management was necessitated to ensure that the operating target remained aligned to the policy repo rate.

In the first phase (November 10 to November 25, 2016), the Reserve Bank absorbed the excess liquidity through variable rate reverse repos of tenures ranging from overnight to 91 days under its Liquidity Adjustment Facility (LAF). The outstanding amount of surplus liquidity absorbed through reverse repos (both variable rate and fixed rate auctions) reached a peak of Rs 5,242 billion on November 25, 2016.

In the second phase (November 26 to December 9, 2016), the liquidity surplus was managed through a mix of reverse repos and the application of the incremental cash reserve ratio (ICRR)[310] of 100 per cent on the increase in net demand and time liabilities between September 16 and November 11, 2016. The ICRR helped drain excess liquidity in the system to the extent of about Rs 4,000 billion during the fortnight ended December 9, 2016.

In the third phase (December 10 to January 13, 2016), surplus liquidity conditions were managed through a mix of reverse repos and issuances of cash management bills (CMBs)311 under the MSS. With the enhancement of the limit on issuance of securities under the MSS from Rs 300 billion to Rs 6,000 billion on December 2, 2016 by the Government of India, the Reserve Bank withdrew the ICRR effective the fortnight beginning December 10, 2016. Between December 10, 2016 and January 13, 2017, surplus liquidity in the system was managed by a mix of fine-tuning reverse repo operations and auctions under the MSS. The peak liquidity absorbed was Rs 7,956 billion on January 4, 2017 (Rs 2,568 billion absorbed through reverse repos and Rs 5,466 billion through CMBs). Subsequent to the advance tax payment in mid-December, a part of the excess liquidity was offset by the build-up in government cash balances. The surplus liquidity in the system declined to Rs 7,269 billion on January 13, 2017.

In the fourth phase (since January 14), the Reserve Bank has increasingly used reverse repo operations to absorb surplus liquidity, particularly the liquidity released through the maturing CMBs, as the magnitude of surplus liquidity has been moderating in sync with remonetisation. Of the total surplus liquidity (net of injection under the LAF) in the system of Rs 5,537 billion on March 7, 2017, Rs 500 billion was absorbed through CMBs under the MSS and the remaining through variable rate reverse repo auctions under the LAF. The surplus liquidity is expected to decline going forward as remonetisation progresses further,

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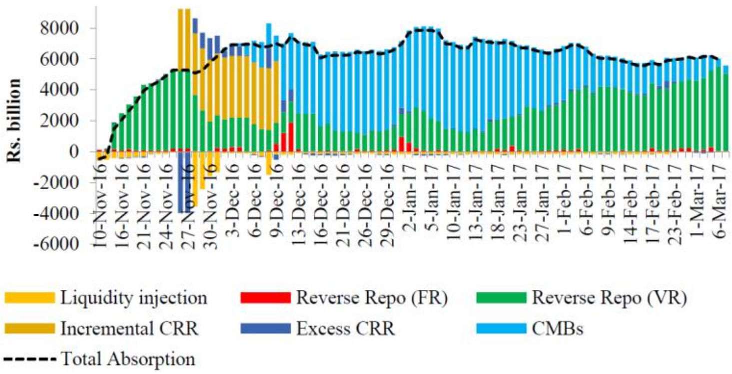
[310] Incremental Cash Reserve Ratio (ICRR) over and above the usual CRR is used to control excessive money and/or credit supply in the economy. Alike CRR, ICRR is also a certain percentage of the total bank deposits has to be kept in the current account with RBI which means banks do not have access to that much amount for any economic activity or commercial activity.

[311] Cash management bills is a short term instrument of less than 91 days maturity issued to meet the temporary mismatches in the cash flow of the Government. The CMBs have the generic character of T-bills, are also issued at a discount and redeemed at face value at maturity. The tenure, notified amount and date of issue of the CMBs depend upon the temporary cash requirement of the Government.

which will result in decline in deposits with the banking system. Despite this, however, surplus liquidity conditions are likely to persist for some more time.[312]

Liquidity Position from November 10, 2016 to March 6, 2017



FR: Fixed Rate; VR: Variable Rate; CRR: Cash Reserve Ratio; CMB: Cash Management Bill.

Marginal Cost of funds-based Lending Rate (MCLR)

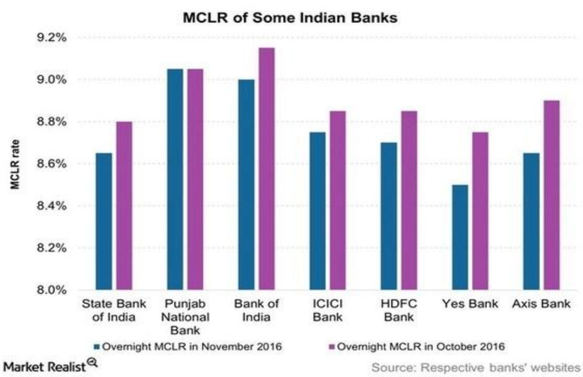
Apart from cutting deposit rates, banks reduced their lending rates as well. In India, loans sanctioned from April 1, 2016 are with reference to the MCLR (Marginal Cost of funds-based Lending Rate), instead of the Base Rate, which was used earlier.

It will translate into lower interest rates on existing floating rate loans and new loans. The reduction in lending rates is expected to stoke lending by tempting consumers to take out loans for purchasing expensive consumer discretionary items like vehicles and houses.

312 (Reserve Bank of India, March 10, 2017)

Reduction in Deposit and Lending Rates – Post-demonetisation (up to March 7, 2017)

Bank Group (Change in bps)	MCLR (Median)	Term Deposit Rates (Median)		
	1 year	Up to 1year	1 to 3 years	All Tenors
Public Sector Banks	85	26	35	28
Private Sector Banks	65	50	48	50
Foreign Banks	40	8	34	6
Scheduled Commercial Banks	70	31	40	38



This reduction of MCLR is also a temporary correction and will adjust to earlier levels in 3 to 4 quarters of demonetisation.

Jan Dhan (PMJDY) Accounts

Post-demonetisation, 23.3 million new accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY), bulk of which (80 per cent) were with public sector banks. Of the new Jan Dhan accounts opened, 53.6 per cent were in urban areas and 46.4 per cent in rural areas.

Deposits under PMJDY accounts increased significantly post demonetisation. The total balance in PMJDY deposit accounts peaked at Rs 746 billion as on December 7, 2016 from Rs 456 billion as on November 9, 2016, an increase of 63.6 per cent. As there were reports regarding the use of these accounts to convert black money into white, the Government issued a warning against the misuse of such accounts.

Deposits under PMJDY: Number of Accounts (in million)

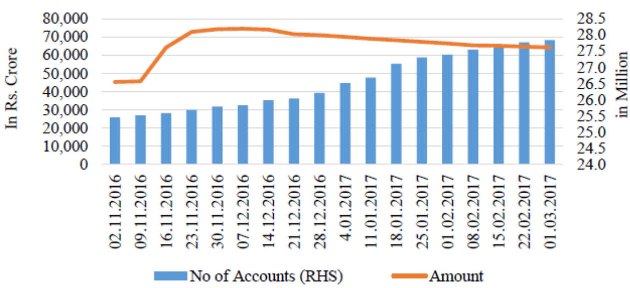
Bank-Group	As on November 9, 2016			As on March 1, 2017			Variation (March 1, 2017 over Nov 9, 2016)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Public Sector Banks	114.3	89.3	203.6	122.1	100.8	222.9	7.8	11.5	19.3
							(6.8)	(12.9)	(9.5)
Regional Rural Banks	37.1	6	43.1	40	6.4	46.4	2.9	0.4	3.3
							(7.80)	(6.80)	(7.70)
Private Sector Banks	5.3	3.1	8.4	5.4	3.6	9	0.1	0.5	0.6
							1.3)	(16.8)	(7.0)
Scheduled Commercial Banks	156.7	98.4	255.1	167.5	110.9	278.4	10.8	12.5	23.3
							(6.9)	(12.7)	(9.1)

Note: Figures in parentheses are percentage variations.

Source: Pradhan Mantri Jan Dhan Yojana website https://pmjdy.gov.in/

Deposits & Accounts under PMJDY

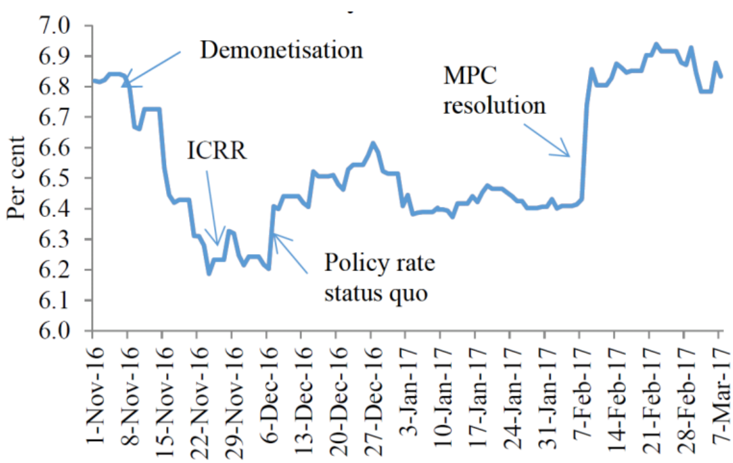
The Government also capped deposits into PMJDY accounts at Rs. 50,000 on November 15, 2016. Although deposits declined to Rs. 643 billion as on March 1, 2017, they were still higher by 41 per cent over the level of November 9, 2016.



Government Securities Market

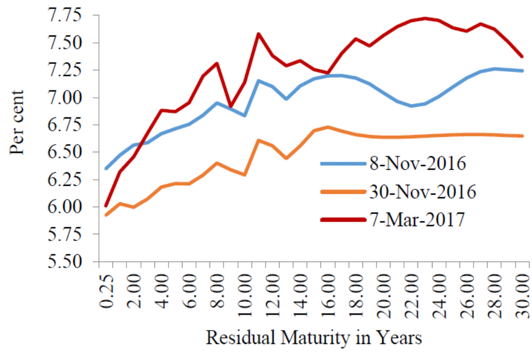
The 10-year gilt yield softened from 6.80 per cent (November 8, 2016) to as low as 6.18 per cent (November 24, 2016). It rose to 6.33 per cent on November 28 with the announcement of the incremental CRR effective November 26, which helped maintain integrity of the yield curve. Following the MPC's decision to pause on December 7, the 10-year benchmark yield hardened by 21 bps and traded in a range-bound manner but with a hardening bias up to end-December. This was also supported by global developments, including US monetary policy tightening and subsequent hardening of US yields driving FPI outflows from EMEs, including India, and higher crude prices. Between end-December 2016 and early February 2017, however, the benchmark yield traded with a softening bias on continuing surplus liquidity conditions and the reduction in the government borrowing programme for January-February 2017. Bond yields firmed up significantly over two successive days after the announcement of the change in the monetary policy stance from accommodative to neutral on February 8, 2017 by the Monetary Policy Committee (MPC). Yields have remained firm thereafter. The spread between 30-year and 10-year yields declined from 41 bps on November 8, 2016 to 35 bps on November 30 and further to 23 bps on March 7, 2017.

10 Year G-Sec Yield[313]



313 Source: Bloomberg and Fixed Income Money Market and Derivatives Association of India (FIMMDA).

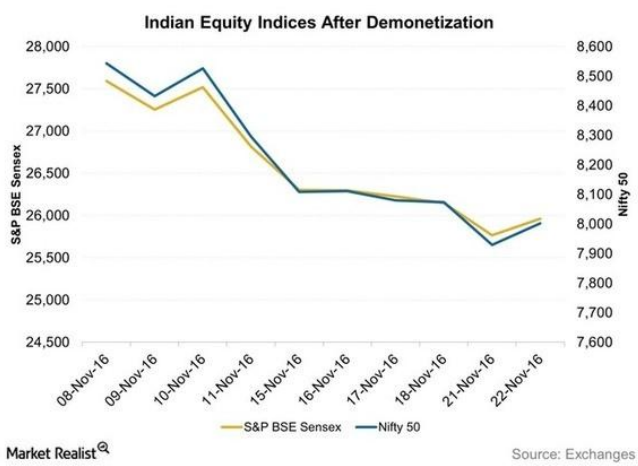
FIMMDA Yield Curve



Equity Market

Indian equity markets have been on a near secular falling trend since midnight on November 8, 2016. The two benchmark equity indices, the Nifty 50 and the S&P BSE Sensex fell on each trading day since the demonetisation except for November 10 and November 22, 2016. While the Nifty 50 fell 6.3% from November 8 until November 22, 2016 the S&P BSE Sensex fell 5.9% during the same period. Due to the rise in the US dollar, the dollar equivalents of the Sensex and the Nifty fell more than 8% each.

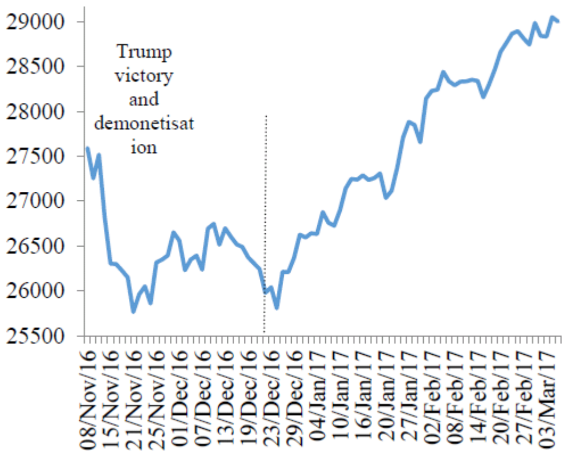
The S&P BSE 100 Index, which is comprised of 100 stocks compared to the Sensex's 30, fell 6.6% during this period. Mid and small-cap indices have been hit much harder than broader market indices. Even after a rise on November 22, the S&P BSE MidCap and the S&P BSE SmallCap indices fell 8.2% and 10.9%, respectively, in the previously mentioned period.



Apart from concerns about demonetisation, Donald Trump's victory and concerns about his restrictive trade philosophy led to foreign investors pulling out of Indian equities. According to Bloomberg, foreign investors have net sold Indian equities worth $1.4 billion from November 9 to November 17, 2016.

However, the short-term negative impact of demonetisation was up to end of December 2016, Indian equities bounced back sharply in first two months of 2017. A rate cut from the Reserve Bank of India would be helpful and easy monetary conditions are generally beneficial for equities. Consumption-driven sectors and stocks will continue to be hit in the short term.

Movement of BSE Sensex



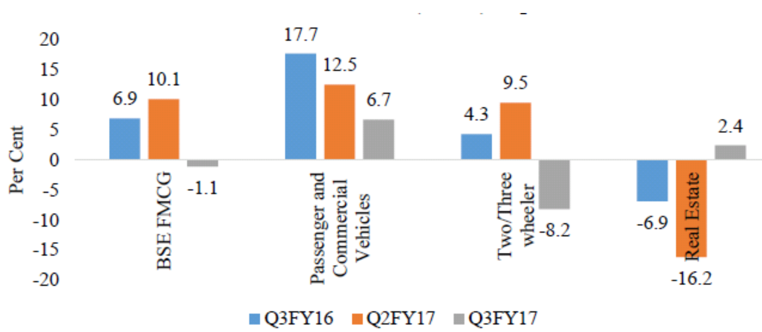
BSE Sectoral Performance (% Change)

Sector	Dec 30/ Nov 8, 2016	Mar 7, 2017/ Dec 30, 2016	Mar 7, 2017/ Nov 8, 2016
Consumer Durables	-9.9	23.0	10.8
Realty	-14.4	18.8	1.7
Metal	-3.7	18.1	13.7
Telecom	-2.5	15.0	12.1
Bankex	-7.1	13.4	5.4
Capital Goods	-4.7	13.0	7.6
Oil & Gas	2.1	12.0	14.3
Power	-0.1	10.0	10.0
PSU	-0.3	9.4	9.1
Sensex	**-3.5**	**8.9**	**5.1**
FMCG	-5.3	8.7	2.9
Auto	-9.0	7.2	-2.4
Healthcare	-3.4	3.8	0.3
IT	3.3	2.9	6.3

The equity market was affected by both domestic and global factors; the impact of demonetisation alone can be gauged from the movement in indices of cash sensitive sectors such as FMCG, consumer durables, auto and realty *vis-a-vis* the overall index. As against the decline of 3.5 per cent in the BSE Sensex (from November 9 to December 30, 2016), the BSE Realty index declined by 14.4 per cent, followed by consumer durables (-9.9 per cent), Auto (-9.0 per cent) and FMCG (-5.3 per cent) indicating market expectation of a sharp fall in demand for these products, as they were disproportionately driven by cash transactions. However, the impact on sectoral indices was transitory as they have since recovered most of the lost ground. As against the overall increase of 8.9 per cent in the BSE Sensex between March 7, 2017 and December 30, 2016, the BSE consumer durables index increased by 23.0 per cent, followed by realty (18.8 per cent), FMCG (8.7 per cent) and auto (7.2 per cent) during this period. On the whole, while consumer durables, FMCG and realty indices are now higher than their pre-demonetisation levels, the auto sector is marginally lower.

Within manufacturing, sales of cash intensive sectors such as FMCG and motor vehicle companies got impacted in Q3 *vis-à-vis* the previous quarter. However, the companies in the real estate sector registered positive sales growth in Q3 in contrast to the sharp contraction in the previous quarter.

Sales Growth (Y-o-Y) in per cent



Note: BSE FMCG: Fast moving consumer goods companies listed in Bombay Stock Exchange.[314]

India's IT companies saw a sharp correction since demonetisation was announcement and Donald Trump's victory, the correction is made-up with rupee's weakness as these companies are dollar earners. Still, Mr. Trump's protectionist policies will continue to be a concern.

314 (Reserve Bank of India, March 10, 2017)

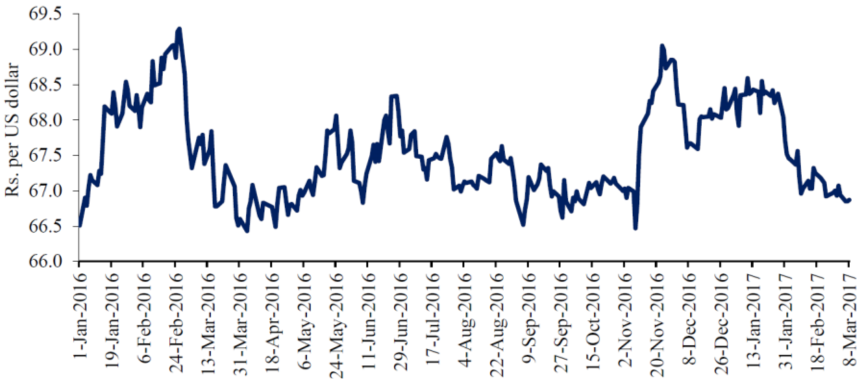
Exchange Rate

The foreign exchange market has exhibited some volatility post-demonetisation, reflecting both global and domestic developments. Foreign portfolio investors (FPIs) made net sales of US$ 8.8 billion (November 9, 2016 to February 16, 2017) in a global retrenchment across (emerging market economy) EMEs as funds rebalanced their emerging market (EM) exposures after the US presidential elections and the Fed rate hike. The softening of G-sec yields following surplus liquidity immediately after demonetisation may also have encouraged some FPIs to sell government securities to book profits. The likely fall in quarterly earnings of cash intensive sectors such as auto and FMCG may have also led to a sell-off by FPIs, which led to some volatility in the foreign exchange market. However, equity portfolio flows have been positive at US$ 2.4 billion since January 17, 2017.

The Indian rupee, which depreciated by 2.6 per cent during November 8, 2016 to November 30, 2016 against the US dollar, appreciated in the first week of December 2016. Considering the factors mentioned above and the peak FCNR(B) deposit redemptions in November 2016, the exchange rate volatility remained contained. Thereafter, it exhibited some downward pressure amidst sustained foreign portfolio outflows especially after the US Fed's policy rate hike and hawkish guidance, and increased demand for dollars from importers. Since February 2017, the Indian rupee has appreciated by 1.8 per cent mainly due to net equity inflows led by the policy announcements made in the Union Budget and the change in the monetary policy stance of the Reserve Bank from accommodative to neutral. Thus, the impact of demonetisation on the forex market appeared to have been transitory.

The Indian rupee fell against the US dollar in November 2016, is more due to Donald Trump's victory in the US presidential election rather demonetisation. Given the pressure on the local unit and its relative stability, it seems like the Reserve Bank of India has been working hard to keep the currency stable.

Exchange Rate of the Indian Rupee versus US Dollar



Use of Non-cash Transaction

An upshot of demonetisation was that the digital modes of payments picked up sharply. After demonetisation, there has been a significant emphasis on digital modes of payment. The Government of India and the Reserve Bank have initiated a series of measures, some of which are temporary, to promote movement from cash to non-cash modes of transactions. They include, inter alia, (i) reduction in the merchant discount rate (MDR) and point of sale (POS) fees; (ii) monetary incentives in the form of discounts and prizes; (iii) service tax relief on MDR for small transactions; (iv) waiver of charges for small value transactions under Immediate Payment Service (IMPS), Unified Payment Interface (UPI) and Unstructured Supplementary Service Data (USSD) based *99# platform; (v) broadening Prepaid Payment Instrument (PPI) reach by enhancement of limits; (vi) introduction of a new category of PPIs; (vii) permitting banks to issue PPIs to a larger set of entities; and (viii) permitting National Payments Corporation of India (NPCI) to launch (a) the common app for UPI; and (b) National Electronic Toll Collection (NETC) system.

The government also announced that it would ensure that transactions fee/ MDR charges associated with payment through digital means shall not be passed on to consumers. These measures are encouraging migration of consumers from cash to digital modes of payments.

After the announcement of demonetisation, digital activity levels were low in the initial weeks as people were busy depositing/ exchanging terminated currency. However, in December 2016, digital payment activity increased alongside progressive remonetisation. The usage statistics show that the y-o-y growth for major modes of electronic payments was good in October 2016, mainly on account of festive season. The continuance of that high growth with a further pick up in some components from November 2016 to January 2017 was positive fallout of demonetisation. However, the pace of growth moderated somewhat in February 2017.

Growth in Select Electronic Modes of Payments[16]

(y-o-y growth in per cent)

Category		Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
NEFT	Volume	16.2	23.3	39	38	34.5
	Value	37.6	38.3	40.8	60.2	49.5
CTS	Volume	-1.1	23	58.4	52.7	20.2
	Value	2.9	8.6	13	19.3	0.8

Source: RBI Bulletins and Press Releases on Electronic Payment Systems - Representative Data

The recent pick-up in digital payment activity is better reflected in the sequential growth in the months following demonetisation. The pattern of digital transactions in February 2017 over November 2016 shows that the growth rates surged in both value and volume terms compared with the corresponding period of last year for most electronic modes of payment, even as there was some decline in the use of digital payments after December 2016.

Of the various digital payment services that grew sharply post demonetisation, some require particular mention.

Recent Growth in Digital Modes of Payments[17]

Category	(Volume in million, Value in Rs bn)					Change (%)	
		16-Nov	16-Dec	17-Jan	17-Feb	Feb-17 over Nov-16	Feb-16 over Nov-15
NEFT	Volume	123	166	164	148	20.4	10.4
	Value	8808	11538	11355	10878	23.5	14.3
	Average ticket size (Rs.)	71583	69376	69159	73397	2.5	3.5
CTS	Volume	87	130	118	100	15.3	18
	Value	5419	6812	6618	5994	10.6	19.2
	Average ticket	62236	52395	55873	59677	-4.1	1.1

	size (`)						
IMPS	Volume	36	53	62	60	65.2	25.1
	Value	325	432	491	482	48.5	23.2
	Average ticket size (`)	8982	8183	7870	8071	-10.1	-1.4
UPI	Volume	0.3	2	4.2	4.2	1346.1	NA
	Value	0.9	7	16.6	19	2001.2	NA
	Average ticket size (`)	3150	3565	3995	4577	45.3	NA
USSD	Volume	0.007	0.102	0.314	0.225	3091.9	NA
	Value	0.007	0.104	0.382	0.357	4789.4	NA
	Average ticket size (`)	1037	1015	1215	1589	53.2	NA
Debit and Credit Cards at POS*	Volume	206	311	266	212	3.3	3.9
	Value	352	522	481	391	11.1	-5.6
	Average ticket size (`)	1714	1679	1812	1844	7.5	-9.2
PPI#	Volume	59	88	87	78	32.8	4.3
	Value	13	21	21	19	41.9	15.2
	Average ticket size (`)	224	242	241	239	6.8	10.4

*Card transactions of four banks. NA: Comparative data not available.

Post Paid Instruments issued by 8 non-bank issuers for goods and services transactions only.

Source: For FY16, full data from DBIE, RBI; For FY17, RBI Daily Press Releases on Electronic Payment Systems - Representative Data. (Reserve Bank of India, March 10, 2017) [315]

First, a sharp pickup is seen in UPI transactions, a flagship product of the NPCI, though on a low base. The number of transactions rose from about 0.3

[315] (Reserve Bank of India, March 10, 2017)

million in November to 2.0 million in December and further to 4.2 million in January and February 2017. The value of transactions increased 20 fold from Rs 0.9 billion in November 2016 to about Rs 19 billion in February 2017. The average ticket size of transactions using UPI also increased from Rs. 3,150 to about Rs 4,600 within the short window of three months, indicating some increase in confidence among the users. The UPI platform is operated through an app for money transfer between bank accounts using a smart phone in both on-line and off-line (at brick and mortar shops) modes. UPI provides ease to person-to-person as well as person-to-merchant transactions. Until recently, the front-end mobile app was provided by a few banks. However, with the introduction of Bharat Interface for Money (BHIM), there is now a front-end app, developed by NPCI, which will serve as a common app for any bank. Linked to a bank account at the back-end, BHIM allows sending and receiving money to/from other UPI accounts or addresses, and also allows remittances to users who do not have a UPI-based bank account.

Second, an impressive pick-up in growth for two straight months in December 2016 and January 2017 in both value and volume terms, as also in the average ticket size was observed in the NPCI's *99# service, which works on an USSD channel. While the volumes moderated slightly in February 2017, the average ticket size continued to grow. This service caters to real time remittances for low value transactions, particularly of the under-banked sections of society, and facilitates their integration with mainstream banking services. The USSD service brings together diverse ecosystem partners such as banks and telecom service providers and allows customers to access financial services by dialling *99# from their mobile registered with the bank. The service works across all GSM service providers and all types of handsets – smart phones and feature phones.

Third, the spurt in digital payment activity in PPIs has also been noteworthy, with the value of transactions increasing from Rs 13 billion to Rs 19 billion, an increase of 42 per cent in three months. However, as remonetisation progressed, there was some decline in m-o-m growth in PPI transactions in January and February 2017 compared with December 2016. PPIs facilitate purchase of goods and services, including funds transfer, against the value stored on such instruments. Money can be loaded on PPIs by cash, or by debit to a bank account, or by credit card. PPIs are issued as smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, and paper vouchers. The post-demonetisation spurt in activity among the major payment wallet companies such as Paytm, Free charge, Mobikwik, SBI's Buddy, and HDFC's Chillr have been phenomenal. Both app downloads and merchant acquisitions have happened at a fast pace.

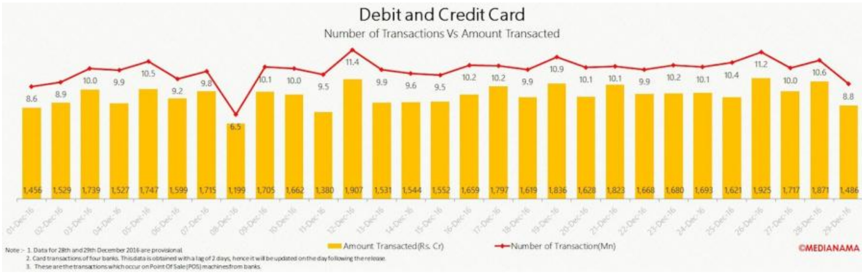
Fourth, debit and credit card payments at POS, the familiar and time tested mode of digital payments, also recorded a sharp pick-up in December but the growth moderated in January and further in February with progressive remonetisation.

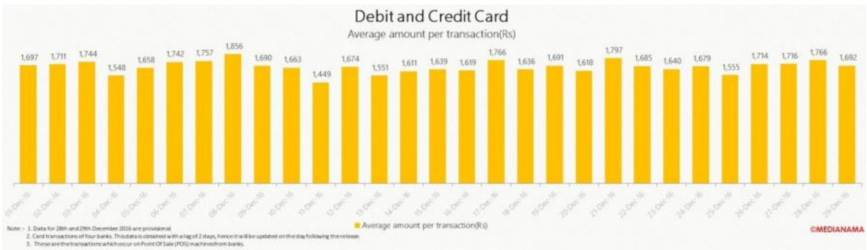
The catalytic push from demonetisation, has hastened migration towards digital payments in November and December 2016. However, ease in availability of cash by progressive remonetisation impacted the pace of growth of digitalisation in February 2017. Further efforts are essential to enhance the use of digital payment going forward such as: (i) continued efforts to incentivise digitalisation; (ii) removing roadblocks in penetration of payment technology; (iii) handholding of new users to bring in behavioural shift; and (iv) providing an environment for development of a robust and easily scalable payment ecosystem that benefits from the advancements in technology. This will facilitate adoption of digital payments on a sustained basis and help in substantial savings for the country in terms of reduction in cost of cash in the system; and an increase in accountability and tractability of transactions, thereby circumscribing tax avoidance.

While it is important that efforts be made for increasing acceptance of digital payments, it is equally vital to ensure that the digital payments are safe and secure. It has been the constant endeavour of the Reserve Bank to enhance security features of currency notes to maintain confidence in India's paper currency. Similarly, there is a need to constantly review and ramp up security features of digital payments to maintain and enhance trust of its users, especially, given the low levels of literacy in India. In this context, the Report of the Committee on Digital Payments (Chairman: Shri Ratan Watal) submitted in December 2016 has also underlined, *inter alia,* the need for enhancing the resilience of the Indian payments and settlement systems; and strengthening the consumer protection framework in digital payments

Debit and Credit card transactions: during the month of December, judging by data from point-of-sale transactions for four banks, an average of 9.9 million transactions per day were over the reported 29 day period, around 43.9% higher than 6.9 million transactions per day in November 2016. In total, over the 29 day period reported so far, around 285.9 million debit and credit card transactions were executed at PoS terminals for the four banks which the Reserve Bank of India has so far not identified. Historically, the RBI has released data for individual banks, but it's possible that not all banks are geared up to release data on a daily basis. [316]

[316] (Pahwa, 2017)

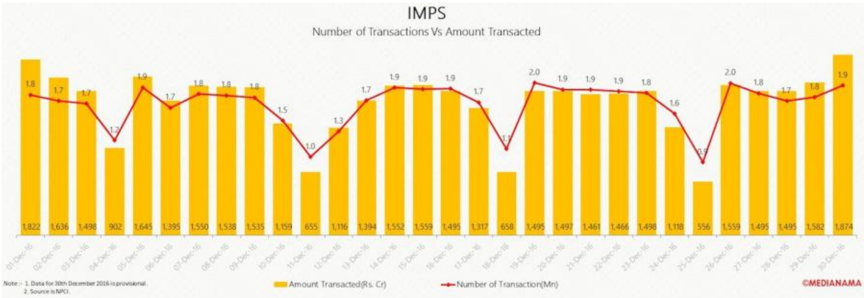




In the same way, the amount transacted per day varied between Rs 1456 crore to Rs 1907 crore, averaging at around 1648 crore per day. Average amount transacted per day for the 29 days grew by 40.4% from 1174.5 crore per day for the month of November 2016.

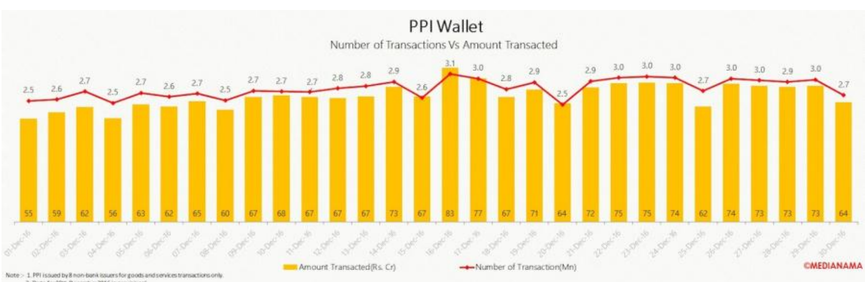
IMPS: In case of IMPS, the number of transactions reported for a 30 day period ending December 30, 2016 were 47.2 million, averaging at around 1.6 million transactions per day. This is around 30.4% higher than November 2016, where around 1.2 million transactions per day were reported (around 36.2 million in total). Amount transacted increased much less: to around 380.6 million for the 30 day period reported, as compared to 324.8 million for the month of November. An average of 1268.8 crores were sent per day on an average, using IMPS, as compared to Rs 1082.7 crore per day for the month of November 2016. A growth of only 17.2%.[317]

317 (Pahwa, 2017)



PPI/Wallets: Transactions using Prepaid Payments Instruments (Wallets), for 8 non-bank wallets, for goods and services (and not money transfer) grew from 59 million in November 2016 to 78.1 million for the 30 day period till December 2016. That's a 32.3% increase in transactions per day, to 2.6 million from 2 million. Average amount transacted per day increased 43.8% to Rs 63.3 crore from Rs 44 crore.

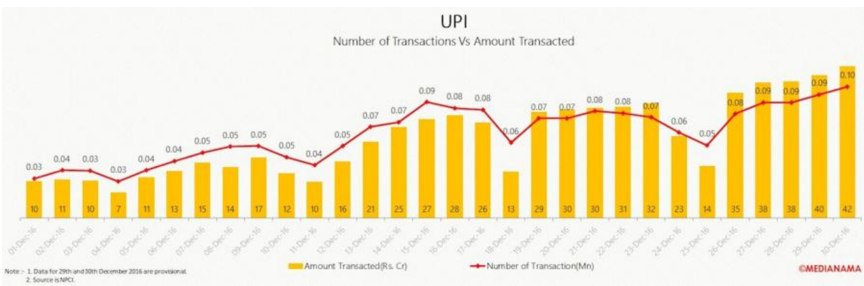
Again, these wallets haven't seen an exponential growth in payments (not money transfer), although its unknown that which wallets specifically have been included by the Reserve Bank of India. [318]

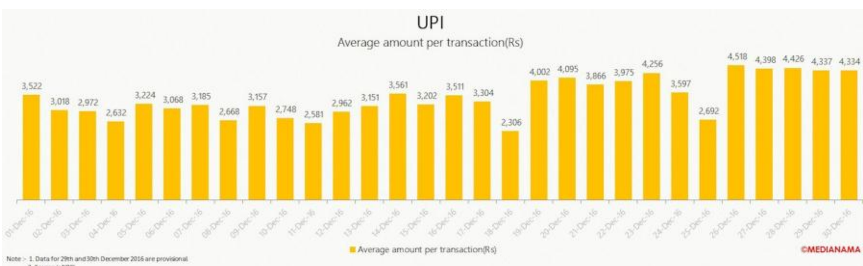


318 (Pahwa, 2017)

UPI: There has been significant growth in UPI, but that is largely because it is relatively new, as compared to other modes such as Debit and Credit Cards, IMPS and Wallets.

Usage of UPI grew to 1.676 million transactions for the 30 day period till December 2016, from 0.287 million in November 2016. That's a 483% increase in transactions per day, to 0.056 million from 0.01 million. Average amount transacted per day increased 550% to Rs 19.59 crore from Rs 3 crore. It's important to remember that this growth is on a low base, and is still a tiny fraction of transactions using other methods of payments. [319]

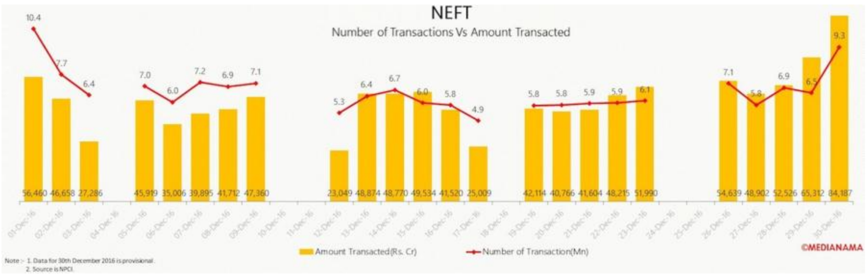


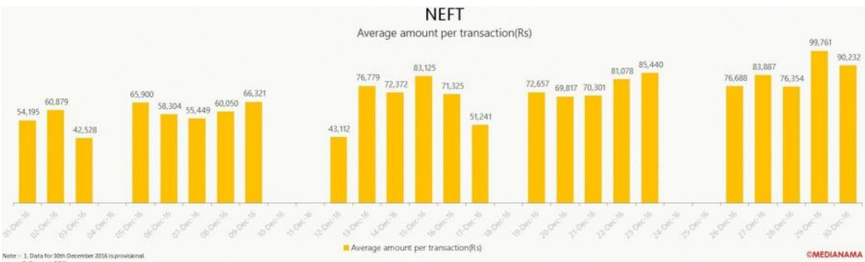


[319] (Pahwa, 2017)

NEFT: An anomaly in the digital world, and NEFT remains shut on the weekends, and appears to increase towards the turn of the month.

Average NEFT transactions per day grew 16.4% during the 30 day period ending December 30, 2016. Average transactions per day were 4.77 million, up from 4.1 million per day in November 2016. Amount transferred grew even less, up 8.7% to Rs 319 crore per day, from Rs 293 crore per day.[320]





320 (Pahwa, 2017)

Demonetisation: Effect on Industries

Demonetisation has affected almost each and every aspect of economy, no industry was left untouched. Its effect varies industry to industry, some are severely and some are trivially affected; even a few are positively. There are mainly three kinds of effects:

1. Effect on Money Supply

With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run. Black money which is not exchanged with the legal tender will be decreased permanently. Unavailability of cash will make people to desist buying behaviour and impact on economic consumption. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up and the industrial and domestic demand of products and services will be restored.

2. Effect on Demand

Literally every aspect of the economy was affected by demonetisation, may be positively or negatively, to a minor extent or major. The demand impacted more in sectors like consumer goods, real estate and property, gold and luxury goods, automobiles (certain segments), etc. These sectors are either having high level of cash transaction like real estate or has discretionary buying pattern like consumer durables.

3. Effect on Prices

Along with demand deflationary, demonetisation also created price deflationary situation. Price level was lowered in many products and services due to moderation from demand side. This demand crisis was observed in few industries as:

1. Daily Needs: Public refrained from buying discretionary products affecting FMCG sector.
2. Consumer goods: Prices were fallen only marginally, in some cases remarkably. Use of cards and cheques tried to compensate for some purchases, but were not sufficient.
3. Real Estate and Property: Prices in this sector fall even up to 50%.
4. Travel: Price correction was also witnessed in travel space.

With cash transaction lowered, waiting for the new notes to spread into circulation, certain sections of the economy faced visible disruptions in carrying out transactions. These sections were agriculture, small traders, SME, retail outlets, professional services, utility and domestic services providers, etc. The nature, frequency and amounts of the commercial transactions involved with these sections necessitate cash frequently. Thus, these segments had impacted significantly during the demonetisation and remonetisation.

Real Estate

Immediately after demonetisation announcement, home sales slowed down significantly as consumers defer home purchases. Similarly, commercial property and land transactions were at a standstill. Developers had deferred launches of premium projects while prices of land and properties, particularly luxury homes dropped substantially in November, December 2016. Residential sales volume dropped by 44% year-on-year and new launches fell by a massive 61% year-on-year in that period.[321]

Short Term Impact

The short-term impact was negative; developers were expecting market to return to normal in FY2017-18. Some were hoping that rate cuts in the coming months would boost home sales.

Property consultant Knight Frank tracks the primary housing markets of eight cities — Delhi-NCR, Mumbai, Kolkata, Chennai, Bengaluru, Hyderabad, Pune and Ahmedabad. According to Knight Frank India, the housing market, too, came to a "complete standstill" during October-December 2016 quarter, with sales sliding by 44 per cent in the eight top cities, lowest level since 2010. Housing sales in the residential segment fell to 40,936 units in eight major cities during October-December 2016, from 72,933 units in the year-ago period and 68,734 units in the previous quarter, according to the report. New home launches fell by 61 per cent to 24,316 units in the fourth quarter of 2016 compared with the year-ago period. The Delhi-NCR market was hit hardest with sales volume dropping by 53 per cent to 6,765 units in the fourth quarter of 2016 while new launches fell by a massive 73 per cent.[322]

Long Terms Impact

After March-April 2017, the real estate industry is expected to regain its activity. As far as demonetisation's effect on real estate is concerned, it won't affect the really roots of corrupt practices in real estate sector. Its effect will be superficial and if there is no policy and regulatory improvements and strict follow ups, it

[321] (Vandana Ramnani, 2017)

[322] (ENS Economic Bureau, 2017)

hardly results. Unfortunately, deep-rooted corrupt practices will root out transparent practices imposed by demonetisation soon and continue to be an investment destination of black money. Though, there is expectation that some cash components used in real estate may drop for a while and bring transaction transparency.

Post demonetisation, surged deposits will facilitate credit lending. This may create a demand of realty section in FY2017-18; further inflation may balance demand.

Real Estate Related Sectors

Cement: Crisil[323] has again dubbed the impact of demonetisation on the cement sector as negative. Its analysts have pointed out that 60-65 percent or two-thirds of consumption of cement is in the real estate sector, so near-term demand will be affected. There will be pressure on already low prices.

Steel: This will be marginally negative since 30-35 percent of consumption or just a third emanates from the real estate sector. Near-term demand will be affected. There could be marginal pressure on long steel prices.[324]

Banking Sector

After ‘woe’ during demonetisation, it’s ‘wow’ for banking. A big surge in low-cost deposits will help banks. It means lower cost of funds and better margins. The rise in balance sheet size will also help when credit growth picks up. However, on the flip side, loan disbursements are stagnating. With production estimates reduced, there is no need for working capital either.

Lenders will be hard pressed to find incremental credit demand even during the busiest of the seasons. And asset quality could worsen as the economy slows.

Short Term Impact

With demonetisation, public had deposited cash in banks, increasing deposits. After remonetisation, deposits started descending, though, there was a significant increase in both demand and fixed term deposits.

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323 Crisil Limited (formerly Credit Rating Information Services of India Limited) is a global analytical company providing ratings, research, and risk and policy advisory services. Crisil’s majority shareholder is Standard & Poor's, a division of McGraw Hill Financial and provider of financial market intelligence.

324 (Bhattacharya, 2017)

The negative effect of demonetisation on banking industry was negated by increased deposits and increased interest income on deposits (from assets or reserves). During demonetisation period, the banks were focussed on successful implementation of demonetisation which in turn increased liabilities (CASA) but were distracted form its operation primarily "Assets" business which in turn gives revenues. Increased working hours has increased operating expenses, employee dissatisfaction and diverted business attention leads to declined lending.

The banks were restricted to levy ATM usage charges by the Regulator, so it will lose that amount. Demonetisation may put financial pressures on some sectors, specifically SMEs and professional which are driven by cash economy, may find difficult to survive in low cash environment. This may put pressure on asset quality and it may deteriorate.

Even considering these negative factors, increased low cost deposit, reverse repo rate and non-cash transactions were net positive for the banking sector.

Long Term Effect

Obviously, the term deposits increased during the demonetisation period will facilitate banks to increase lending and this may help to improve its books.

In contrary, there is less demand for the credit in the industry, even if deposits (lending) will be available, takers will not be there. The banks will prefer to deposit with the central bank; for an average deployment of about Rs.6 trillion in a quarter under reverse repos and MSS securities, banks' net interest income from increased deposits is estimated at about Rs.45 billion[325] in a quarter after demonetisation. The RBI will have to control money market operations because of sudden increase in deposits and to curb it future inflationary effect. To make it more palatable, RBI increased reverse repo rate by 25 bps to 6.25%, shifting benefits to banks, increasing interest income from incremental reverse repo rate.

Again, NPAs are at higher side in PSBs, so even pressurised lending may deteriorate asset quality. So, it is unlikely that PSB, having significant NPA, will increase lending; private and multinational banks will increase lending and will reflect increased income in FY2017-18.

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325 (Reserve Bank of India, March 10, 2017)

Consumer Durables

The market for white/ brown goods was operating at ~80% on cash in October-November 2016, thereby demonetisation affected the sector. Makers of durable goods had launched new schemes to tempt consumers to go cashless. Some of them had also extended discount offers and promotions such as waiver of processing fees and instalment schemes with delayed start of payments.

In regards to consumer goods sales, the 2016 festival season was the best since 2012, as it followed a healthy monsoon and the 7th pay commission award.

Growth in Consumer Durable Segments (in per cent)

Category	Volume Growth		Value Growth	
	Oct-16	Nov-16	Oct-16	Nov-16
Microwave	90.6	-53	90.7	-51.5
Refrigerator	74	-41.2	73.4	-40.3
Air Conditioner	1.8	-34	4	-33.8
Washing machine	116.7	-31.7	113.1	-34.4
Flat Panel TV	94.7	-30.4	99.4	-26.6

Source: Retail sales data by GFK-Nielsen and (Reserve Bank of India, March 10, 2017)[326]

Short Term Effect

The overall influence of demonetisation on the consumer goods sector is negative. Consumers curtailed spending following demonetisation. Most of consumer goods buying decision are planned and cash crisis deferred it. But the IIP figures are shows that the consumer goods production was increased in November 2016 and declined in December 2016 whereas GFK-Nielsen sales data shows substantial sales reduction in November 2016.

Long Term Effect

Demonetisation will not have any significant effect on consumer durable sector in long term, accept, transaction may incline towards non-cash. After reinstating

[326] (Reserve Bank of India, March 10, 2017)

cash in circulation, public will keep buying consumer durable products with cash. For obvious reasons like government's push for no-cash, incremental non-cash transactions will be observed in metros, tier 1 and tier 2 cities.

FMCG (Fast Moving Consumer Goods) Sector

Consumers had cut back on discretionary spending. The whole-sale business has been hit as it was largely dependent on cash. The traditional trade was suffered hard, especially wholesalers and *kirana*[327] (grocery) stores where transactions were largely in cash. Still, things are recovered in last week of November 21016, sales was down only 20-25% on a year-on-year basis compared to 50% in the first week after the note ban. Rural sales have been hit more.

The impact of the government's move to eliminate current high-value currency notes on FMCG companies can be seen in two parts. The first impact was at the consumer level. In liquidity crunch, consumers were awry in their buying behaviour, affecting sales in FMCG sector. Other was on the distribution channel as small retailers used to mostly deal in cash.

While consumers recovered quickly with notes availability, trade channels trailed it.

Short Term Effect

Discretionary consumption with a liquidity crunch had slowed down purchase decisions and eventually affected FMCG Sales. Nielsen said after its survey of over 750 stores, "70% stores reported that due to cash-crunch on both purchase as well as sales, their business has come down in the last few days. Many wholesalers/ distributors have stopped visits to small towns and rural areas compounding the problem."[328]

"There has been almost 40-50% impact on FMCG sales. Challenge is particularly in the wholesale segment, which is a very cash driven part of the channel and there things have come to a standstill," Vivek Gambhir, managing director of Godrej Consumer Products said.[329] Godrej has further said it may have to cut production in certain categories, while Varun Berry, MD of Britannia Industries maintained that the company may cut production to check

[327] Kirana refers to a small neighbourhood retail store or grocery store in the Indian Subcontinent

[328] (Kelkar, 2016)

[329] (Kelkar, 2016)

supply in the market. Several other companies were also considering production cuts if the situation would not ease by mid-December 2016.

Long Term Effect

With remonetisation, FMCG sector will recover. Demonetisation is unlikely to affect FMCG sector in long term. After March 2017, when cash will be in the economy, the cash dominant industry will continue to trade in cash. Transition to non-cash transaction will depend upon strategic incentive schemes launched by the government and non-cash companies.

"In December, we saw positive growth and stability," said Sameer Shah, head of finance and investor relations at Godrej Consumer Products Ltd's (GCPL's) India business. "In January, 2017 we saw very strong growth rates which continued in February. We are going to continue our strong growth from here on now as well."

India's largest makers of food, beverages, personal and home care items say they have weathered the storm of reduced inventories and consumer spending, and are expecting to be back on their normal growth trajectories from the first quarter of 2017-18. Marico Ltd's Managing Director, Saugata Gupta said that with cash back in circulation (March 2017), wholesalers and distributors were taking on regular levels of stock, boosting sales volume.[330]

Organised Retail

The sector was a clear beneficiary of demonetisation as consumers flock to large stores which accept non-cash payments. The nature of purchases at modern retail stores had changed. Consumers were stocking and purchasing more of daily needs and essentials such as fruits, vegetables and staples such as sugar and flour.

Short Term Effect

It was a bullish response to organised retail though some negative figures are also indicative. The modern cash and carry stores have also seen sales drop. According to Nielsen, sales in these cash and carry outlets declined 1% in the week after demonetisation was announced, versus a 14% year-to-date growth till November 6, 2016.[331]

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[330] (Gupta & Agarwal, 2017)

[331] (Kelkar, 2016)

Sales were up by 15% on a week-on-week basis in the first week after demonetisation was announced at retail stores of Future Group and 25% compared to a year ago. This is true even a month later; sales continue to be higher by 25% compared to the year-ago period.[332]

Due to the impact on trade, companies have taken select actions to alleviate stress in working capital for trade channel partners. "Some companies have extended credit timelines for distributors," said Gautam Duggad, head of research at brokerage Motilal Oswal.[333]

Long Term Effect

In the long term, things will be positive as some of these new consumers will stick to organised retail shopping and ultimately add to revenues of organised retail.

Tourism Sector

The most difficult period of demonetisation was squarely in the busiest season for the tourism industry. Demonetisation has shredded its gloomy shadow on the booming tourism and hospitality industry in India. People have curtailed overseas travel and instead have explored various local tourist destinations. Getting money from banks and ATMs continued to be an annoyance with no respite in sight.

The travel and hospitality industries had faced a tough time. Many domestic and foreign travels largely done through cash transactions were negatively affected due to the ongoing cash crunch. India's hospitality industry had been severely affected as the hotels had lost a large number of pay-in-cash-only clientele due to demonetisation. Around 60 percent drop in hotel bookings had been reported.

The accommodation section of hotels is much affected; leisure segments like hotel banquets and high-end restaurants were feeling the pinch as weddings had been called off and many pre-bookings for different wedding ceremonies were also cancelled. In addition to this, high-end restaurants were too facing drastic change as people had opted out fine-dining with pocket-friendly eateries.[334]

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[332] (Livemint, 2016)

[333] (Kelkar, 2016)

[334] (Arya, 2017)

Short Term Effect

The onset of the winter travel season had been stymied by the unexpected storm of demonetisation. The ripple effect of demonetisation had felt across the borders, across industries and travel sector was not an exception.[335] Short term negative effects were clearly visible, these were:

1. Impact on inbound and outbound travel: Travellers to India had faced a lot of problems during their trip as these tourists were more likely to use cash, rather than cards. Exchange of currency was also a difficult task and with the unavailability of the currency, it was very difficult to find a good bargain. It was not convenient for these travellers to use their credit or debit cards because of the exorbitant transactional charges levied by their home banks. Many travellers also complained that their e-cards were not activated for international transactions as well. In the same way, travellers moving out of India had faced with similar issues due to currency exchange.

2. Impact on domestic travel: Indians travelling within India in first week of announcement had faced severe problems for apparent reasons. Firstly, they had faced severe issues in payments because of the sudden ban of notes. Hotels and restaurants had not been accepting the defunct currencies and all ATMs were not configured for the new notes.

3. Decrease in traffic on online travel websites: The initial few days after the note ban had seen a severe impact on the online travel agency's traffic. The visits to the website had suddenly dropped initially. However, it was just a temporary side effect.

4. Travel plans deferred: Many travellers had postponed their travel plans due to many reasons; the most important was liquidity of funds. They had prioritised the bank work over travel, due to government's stringent deadlines on cash deposit and currency exchange.

5. Impact on restaurant reservation: Restaurants had seen many cancellations and cases of no show. Restaurant reservations in Delhi NCR dropped by 28%, in Mumbai by 7% and in Bengaluru by 2% in November 2016.[336] This disruption has largely affected small-time hoteliers and restaurateurs.

335 (Karnik, 2017)

336 (ET, 2016)

6. Impact on airline booking: The unexpected ban had seen a severe impact on airline booking as well, with a lot of travellers postponing or cancelling their plans.

7. Drop in visitors to national monuments: Due to demonetisation, the number of visitors to monuments of national significance had declined. It was because most of the payments made there were in cash. It was understood that even foreigners had faced issues in visiting those places.

8. Rise in digital payments: On the other side, the travel industry had seen a lot of transactions done electronically. However, this had been limited to places where POS and online payments were available.

9. Small vendors had resorted to the use of digital wallets like Paytm: Because of lack of digital establishments, vendors had found it easy to accept money through digital wallets. It was only the ease of paying money via a simple phone number that has enabled this convenience.

Long Term Effect

While most of these side-effects were temporary, it is believed that in due course, the pendulum will be back to normal. The postponed and cancelled travel plans will be exercised in first and second quarter of 2017, indicating expected surge in tourism. Travel is very optimistic about its pick up. It is unlikely that tourism will keep abreast with cashless as it has been dominated by cash for years and will continue once cash in place.

Airlines

According to industry estimates, Indian aviation market is expected to become the third largest across the globe by 2020. To achieve this landmark, it is essential that underserved and unserved airports are connected offering easy air connectivity to people living in far-flung areas of the country by offering affordable and accessible connectivity. The Government is working on ways to boost regional air connectivity in the country. Regional Connectivity Scheme ('RCS') for aviation or UDAN (*Ude Desh ka Aam Nagarik*) was formally launched in October 2016 after its introduction in the National Civil Aviation Policy, 2016.

Meanwhile, the report estimated that Indian airlines posted a combined profit of $ 122 million in fiscal 2016 returning to the black at an industry level after a gap of a decade and adds that the Indian market was on track to surpass the 100 million passenger mark in 2017. "This ($ 122 million profit) includes record profits at IndiGo, Jet Airways, SpiceJet, GoAir and Air India Express," The Centre for Asia Pacific (CAPA) stated. "Based on aircraft deliveries, competitive dynamics and a positive outlook for the economy, growth above 20 per cent could continue for up to a further two years," the report said that Indian carriers are scheduled to induct 60-65 narrow body aircraft and 10-12 regional aircraft in fiscal 2018, the report stated.[337]

AirAsia India and Vistara both were in their initial years of operations; however loss making as was Air India. Though, the state owned carrier reported its first operating profit in a decade, the report adds. IndiGo's domestic market share could approach 55-60 per cent in the next two years, according to the report. The report forecasts that India is set to overtake Japan in 2017 to become the world's third largest domestic aviation market behind United States and China.[338]

Short Term Effect

Almost all airlines had announced discounts and promotional offers in November 2016 although it was a part of a quarter that's considered peak time for air travel because of festivals and year-end holidays. There had been a significant impact on inbound travel. Some airlines had seen bookings go down by about 16% in the week after demonetisation compared to the one before that. Discretionary travel had been the worst hit. Poor sales had forced all airlines to bring forward their airfare sales usually reserved for the low season starting January. International traffic to West Asia and South-East Asia, especially by traders and low-wage workers, had been hit. Business jet operators said several charter flights had been cancelled as payments are often made in cash. Because fuel prices were low, airlines were able to fill seats by offering cheaper fares. "Demonetisation had a significant downward impact on inbound travel in the beginning; however things seem to be getting better every day. With the continued low airfares, the passenger demand will likely continue to be strong."- Sharat Dhall, chief operating officer at Yatra.com.[339]

He said, "If they don't offer promotional schemes, it will reflect in lower occupancy for the month as also lower market share. Most airlines have had no problems filling their seats this year. SpiceJet flew its flights 91.9% full in October, followed by IndiGo (84.9%), GoAir (84.4%), AirAsia (78.3%), Jet (75.5%), Air India (71.8%) and Vistara (69.2%)."[340]

337 (Phadnis, 2014)

338 (Phadnis, 2014)

339 (Livemint, 2016)

340 (Shukla, 2016)

Long Term Effect

The Centre for Asia Pacific Aviation (CAPA) report stated that the effect of the Government's demonetisation move was still unclear, although, there was no visible impact.[341] Typically, travel in the quarter ending March, considered a lean time for the airline industry. To attract traveller, airliners had offered many inclusive fare options. AirAsia India unveiled all-inclusive fares from Rs.899 for travel till April 30, 2017. SpiceJet said, "It was offering fares of Rs.737 on short-haul sectors like Chennai-Coimbatore, Jammu- Srinagar-Jammu, and Chandigarh-Srinagar." GoAir, IndiGo and Jet Airways followed suit with similar fares for travel on many sectors. Vistara, owned by Tata Sons Ltd and Singapore Airlines Ltd, offered Rs.999 tickets, allowing passengers to fly in the "happy month of December and into 2017". These tickets were valid for travel from December 5, 2016 right up to October 1, 2017.[342]

These options might help to keep the occupancy intact but still the revenues may drop, usually a cyclic dip and there may not be y-o-y plunge. As far as demonetisation is concerned, its long term effect is imperceptible.

Automobiles Sector

"Demonetisation completely stalled the market for a couple of weeks, which led to increased inventory and the only way to correct the inventory is through production cuts and plant shutdowns," said Rakesh Batra, partner at consultancy firm EY. Further he said, "Instead of giving higher discount later (to clear inventory), carmakers and dealers want to end the year with adequate inventory to start the New Year on a better note financially."

"There has been a serious short-term impact, which is largely temporary in nature. It will go back to normal as liquidity comes back. Impact is largely on retail sales, which will be reflected on a long-term basis. Wholesale data does not reveal the actual picture. Footfalls had come down, but they have started to come back. People who were selling old cars, that market will be impacted because that entire market was cash."- Vishnu Mathur, director general of SIAM, said.[343]

"Honda has planned four non-production days at both its India plants this month, and the Japanese company's local unit chief indicated that it may take

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[341] (Shukla, 2016)

[342] (Shukla, 2016)

[343] (Livemint, 2016)

more such steps if the situation warrants so. The market prospects are not clear," said Yoichiro Ueno, managing director of Honda Cars India. "We are carefully monitoring it and will take necessary production alignment in case we judge it is necessary." Ueno believed that the slowdown is mainly due to postponement of purchases that would eventually return to the market. There will be incremental sales in the future when the cash situation improves. He further said, "However, it is difficult to forecast by when it would happen."[344]

After hitting a multi-year high in September, passenger vehicles sales advanced at a tepid 1.82% in November 2016, the slowest since February 2016, industry body Society of Indian Automobile Manufacturers (SIAM) said on December 9, 2016.

Short Term Effect

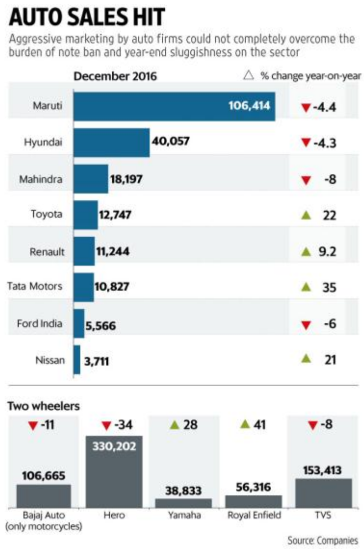
Faced with the impact of demonetisation, two-wheeler market leader Hero MotoCorp Ltd's December 2016 sales skidded 34% to 330,202 units from a year earlier. The firm's manufacturing facilities at Gurgaon, Neemrana and Haridwar were closed between 26-31 December for annual maintenance, it said. Motorcycle volumes at Bajaj Auto Ltd dropped 11% to 106,665 units. Sales at TVS Motor Co. Ltd also fell 8% to 153,413 units, inclusive of scooters' sales. S. Ravikumar, president-assurance and business development at Bajaj Auto, said the two-wheeler industry contracted 25% in December 2016 compared with last year, the steepest in many years. The impact, he added, was more pronounced in rural pockets.[345]

Demonetisation prompted consumers to delay their purchases of cars, motorcycles and trucks. Data released by the Society of Indian Automobile Manufacturers (SIAM) shows that sales of two-wheelers slid 22 per cent in December 2016 compared to the figure in December 2015, marking the highest

[344] (Ketan Thakkar, 2016)

[345] (Mohile, 2017)

monthly contraction since SIAM started recording the data from 1997. Scooters and motorcycles used to account for almost 75 per cent of total vehicle sales and was a significant indicator of rural demand. In line with the dismal sales numbers, total vehicle production, too, fell 22 per cent in December 2016, led by a 25 per cent cut in production of two-wheelers and around 20 per cent cut in production of commercial vehicles. Overall, vehicle sales slipped by 19 per cent from 15.02 lac units in December 2015 to 12.21 lac units in December 2016. That was also a new low since 2000.[346]



The SIAM auto sales data for December 2016, meanwhile, showed that passenger vehicle sales for the same month slipped by 1.4 per cent over December 2015, three-wheeler sales fall the most by 36.23 per cent from 46,894 units in December 2015 to 29,904 units in December 2016. The total commercial vehicle sales, too, declined by 5.1 per cent in December 2016. "This is the highest decline across all categories since December 2000, when there was a drop of 21.81 per cent in sales. The reason is largely due to the negative consumer sentiment in the market due to demonetisation," said Mr. Mathur, Director General SIAM. Domestic car sales stood at 1,58,617 units December 2016 as against 1,72,671 units in December 2015, down 8.14 per cent. That was the biggest fall in passenger car sales since April 2014, when sales fell 10.15 per cent.

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[346] (ENS Economic Bureau, 2017)

SIAM said that the number of units sold in December 2016 declined by 2.57 units from 11.67 lakh units in December 2015 to 9.1 lac units last month. In the same month, motorcycle sales declined 22.5 per cent and those of scooters by 26.4 per cent.[347]

Long Term Effect

After February 2017, Budget 2017, the sales are supposed to pick up in order to compensate the loss of sales during demonetisation period and secondly, because of delayed buying for registering in 2017.

"The rural retail has been impacted more (double-digit decline) compared with the urban segment, due to the liquidity crunch. They expect sales to pick up only by February-March 2017, when the cash availability improves. We expect strong double-digit growth by second half of FY 2017-18, off the low base," said Singh and Bera.[348] It will take a while for demand to improve, said dealers, "but the good part is that enquiry levels have not dropped and that suggests it is a matter of time, may be three months, before the industry gets back on track."

Vehicle finance is expected to take a pace in 2017 due to additional deposits and declined interest rates. Both things will push up the sales in last quarter of FY2016-17 and similar trend will be seen in FY2017-18.

Power Sector

Demonetisation had turned out to be a positive event for the power sector with distribution companies (Discoms) recovering pending power bills from their customers, Mercom Capital Group said. The government had mandated that the old notes of Rs 500 and Rs 1,000 denominations can be used to pay pending utility bills which helped distribution companies to recover their huge backlog of unpaid bills.

Short Term Effect

Discoms received substantial influx of payments up to December 31, 2016. An official at Maharashtra State Electricity Distribution Company Ltd said, "since the announcement of demonetisation, Discoms in the state have seen payments of old bills cross Rs 1 billion ($ 14.74 million) within a week. The signs are positive as this will financially empower these Discoms". Bihar State Power Holding Co Ltd, Jharkhand Renewable Energy Development Agency, Odisha

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347 (ENS Economic Bureau, 2017)

348 (Mohile, 2017)

Power Transmission Corp Ltd (OPTCL) and Power Management Company, Madhya Pradesh, all concurred due to demonetisation.

In power infrastructure development, substantial amount of sales is in cash, in particular, purchase of cable, contractor payments and distribution/ logistics. Because of demonetisation, there may some decline in sales of few products sold in cash.

Long Term Effect

Due to cash crunch, executions of projects were delayed and delay may overrun the cost of projects. In the monthly progress report of inter-regional/ inter-state transmission schemes published by the Central Electricity Authority (CEA), various such projects have cited demonetisation as a reason behind the delays. As on December 31, 2016, progress at projects that involved construction of nearly 2,000 circuit km (ckm) of transmission lines, pooling stations, sub-stations and switching stations were hit by demonetisation.[349]

In long run, transparent business environment is expected[350], which may increases easy of doing business and improves confidence to International investors.

Logistics Sector

The Indian logistics industry has had high dependence on cash for its operations right from paying toll charges, fuel costs, employee salaries and paying creditors. Even the warehousing sector, wherein many operators pay their daily labourers in cash, had been impacted due to demonetisation move. Together, the demonetisation exercise had adversely impacted the demand as well as working capital cycle.

Short Term Effect

The All India Motor Transport Congress (AIMTC), a representative body for 9.3 million truckers and more than five million bus operators, tourist taxis and maxi cabs, said that 70 percent of the vehicles of their members were off the roads. With the government's curbs on withdrawal of money and exchange of old Rs 500 and Rs 1,000 notes, the motor transport business was suffered, since 80 per cent of the business was cash-based. The association warned that if the situation is allowed to persist not only the supplies of essential commodities like

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[349] (Chatterjee, 2017)

[350] Though, it is difficult to achieve because of political and bureaucratic value system in India.

milk, fruits, vegetables and medicines will get increasingly affected but it will also cripple the lives of 200 million people directly or indirectly dependent on this industry.[351]

To absorb the effect of demonetisation on distribution of daily life of public, the tolls were made free up to December 2, 2016. That move relived the industry and regained activity. However, that was a temporary setback and resumed back to normal in 2017 with the availability of sufficient cash in the system.

Recent initiatives by the government such as digital payment acceptance at all toll plazas and fuel pumps had already started showing their impact on the ground, with most of the logistics players moving towards a cashless system wherever it is possible.

Long Term Effect

Logistics sector has had a high lean on cash being used in operations. It had been opined across diverse platforms that there has been a hit of Rs 10,000 crore[352] in the logistics sector as an aftermath to the demonetisation effect. Also, this has led to many players to organise, re-calibrate their operations, look at the need of cash being used by their resources during the trips, and getting a method to handle this more practically. Transparency and cash-less transaction may be seen in this sector after demonetisation effect.

Pharmaceutical Sector

The Pharmaceuticals industry has a huge chain of parties started from manufacturer, C&F, distributer, stockiest, chemist to consumer. That was an industry also dependent upon doctors and medical representatives. Any effect on any of the intermediary will affect the industry; hence demonetisation affected it too.

A largely organised sector, pharma industry is the 3rd largest in the world, in terms of volume and is expected to grow by 15% until 2020 overtaking USA. In fact counterfeit drug industry that heavily relies on liquid cash is expected to be eliminated in wake of recent developments. Since drug manufacturing requires R&D and licensing, demonetisation may thwart the illegal unorganised sector within pharmaceutical segment and result in benefit for the established and reputed players.

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351 (Bhattacharya, 2017)

352 (Infrastructure Today, 2016)

Short Term Effect

There was a mix response in pharma sector. As government had allowed using old currencies in medical store, there was surge in sales overnight. In absence of lower denomination notes, buyers were forced to buy products of Rs 1000 or Rs 500. Retail sales of medicines for chronic diseases rose in the first fortnight, as patients stocked up medicines by using old notes at pharmacies, which were among the few outlets accepting old banknotes. Offtake from wholesalers and stockists was sluggish and companies have extended the credit period by 7-21 days.[353]

Although, due to lower patient turnout due to cash crisis, pharma sales seen down for non-chronic items.

Long Term Effect:

Owing to advanced buying of medicines for chronic diseases and seasonally weak December-March period for the industry, sales of drugs are expected to remain subdued. The impact of demonetisation on the sector is likely to be a temporary as demand for drugs is largely inelastic. But the growth rate in the last quarter of FY 2016-17 may be slower than the 9-10% witnessed in earlier quarters of FY2016-17.[354]

NBFC Sector

Non-Banking Financial Companies (NBFCs) were impacted negatively with the demonetisation move. Housing loan demand had dropped as consumers were waiting for a price correction. Housing finance companies having a high exposure to Loan against property (LAP) and builder loans were especially impacted. There were also higher delinquencies in consumer loans and SME loans.

Post-demonetisation, with increased CASA, banks will surely reduce rates and there will be increased competition from banks. Though cost of funds will also reduce for NBFCs, the negative impact of a higher competition from banks will surely be material.

Short Term Effect

Loan disbursals by all categories of NBFCs declined significantly in November 2016 compared with the monthly average disbursals during April-October 2016,

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[353] (Livemint, 2016)

[354] (Livemint, 2016)

especially for micro finance companies (NBFC-MFIs) whose business is more cash intensive. NBFCs operating in semi-urban and rural areas rely more on cash and thus got affected. Fresh loan demand for large truck operators fell with lower freight business. Inability of borrowers to make down payments slowed consumer loans. The demand from real estate sector was anecdotally the worst affected as buyers expected prices to decline sharply. To sum up, demand for credit declined due to customers postponing decisions on account of uncertainty.

Disbursals by Non-Bank Finance Companies in India (Amount in Rs. billion)[355]

Category	April-October 2015	April-October 2016	November 2015	Dec 2015	Nov 2016	Dec 2016
	Monthly average Disbursals	Monthly average Disbursals				
Asset Finance Companies (19 Companies)	122.4	145.4	124.5	149.6	123	160.6
% change over the monthly average of April-October of that year			1.7	22.2	-15.4	10.5
Percentage change over November 2016.						[30.6]*
Loan Companies (19 Companies)	295.5	360.8	322.1	372.9	277.8	293.4
% change over the monthly average of April-October of that year			9	26.2	-23.0	-18.7
Percentage change over November 2016.						[5.6]*
Micro Finance Companies (17 Companies)	34.3	51.3	39	54.1	29.2	24.6
% change over the monthly average of April-October of that year			13.5	57.6	-43.1	-52.0
% change over November 2016.						[-15.8]*
Housing Finance Companies (81 Companies)	206.9	242.5	198.8	249.6	232.2	261
% change over the monthly average of April-October of that year			-3.9	20.6	-4.2	7.6
% change over November 2016.						[12.4]*

Note: Figures in parentheses in column nos. 3 and 4 represent percentage change over the monthly average of April-October 2015-16, and in column nos. 5 and 6 over monthly average of April-October 2016-17.

*: Percentage change over November 2016.

Source: Reserve Bank of India (RBI) and National Housing Bank (NHB).

The growth of credit extended by banks to NBFCs also appeared to have been impacted due to demonetisation. Bank credit growth to NBFCs decelerated

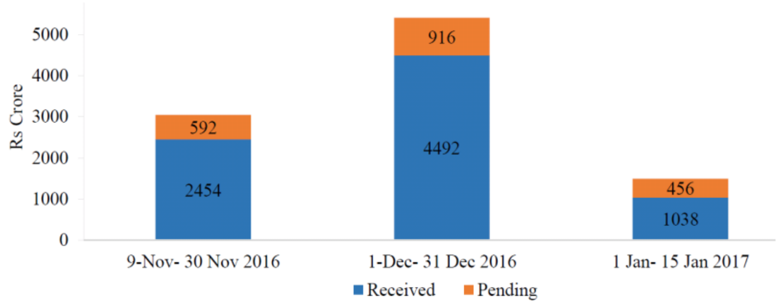
355 (Reserve Bank of India, March 10, 2017)

from 5.1 per cent on y-o-y basis in October 2016 to 1.3 per cent in November 2016, which further declined by 0.6 per cent in January 2017.

Collections by Non-Bank Finance Companies in India (Amount in Rs billion)

Category	**April-October 2015**	**April-October 2016**	**Nov 2015**	**Dec 2015**	**Nov 2016**	**Dec 2016**
	Monthly average Disbursals	**Monthly average Disbursals**				
Asset Finance Companies (19 Companies)	104.6	120.3	106.6	117.1	117.1	126.7
% change over the monthly average of April-October of that year			1.9	12	-2.0	5.3
Percentage change over November 2016.						[7.5]*
Loan Companies (19 Companies)	238.6	203	250.6	294.8	217.1	223
% change over the monthly average of April-October of that year			5	23.5	6.9	9.9
Percentage change over November 2016.						[2.7]*
Micro Finance Companies (17 Companies)	28	46	31.2	34.8	43.7	45.8
% change over the monthly average of April-October of that year			11.2	24.3	-5.0	-0.4
% change over November 2016.						[4.8]*
Housing Finance Companies (81 Companies)	123.9	165.3	107.9	161.6	161.1	179.9
% change over the monthly average of April-October of that year			-12.9	30.4	-2.6	8.8
% change over November 2016.						[11.7]*

Data provided by the MFIN[356] suggest that pending repayments were still high in January 2017, is shown in the chart below:



Long Term Effect

In FY2017-18, surplus deposits with banks may help in credit growth to NBFCs. In contrast, increased deposit will force banks to increase its asset, and may enter the NBFC space, resulting in increased completion for NBFC.

Agriculture Sector

Agriculture, one more sector of the economy, bore the brunt of demonetisation. Cash has been the primary mode of transaction in agriculture sector which contributes 15% to India's total output. Notably, October- November is a time of *kharif* harvest and start of *rabi* sowing, partly explaining why this period is dubbed the 'busy season' from a standpoint of credit demand, the other being bunching of festivals and weddings.

Agriculture was impacted through the input-output channels as well as price. Sale, transport, marketing and distribution of ready produce to wholesale centres or *mandis* (market places), was dominantly cash-dependent. Disruptions in the supply chains, resulted in sales loss and increased wastage of perishables, lower revenues that show up as trade dues instead of cash in hand and when credited into bank accounts with limited access affect the sector.[357]

Short term Effect

The sector typically has been dominated by cash transactions and

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[356] MFIN (Microfinance Institutions Network) established in October 2009 as a Society under the Andhra Pradesh Societies Registration Act 2001, is the Self-Regulatory Organisation for NBFCs-MFIs. The analysis is based on 52 NBFC-MFIs and 4 MFIs.

[357] (Bhattacharya, 2017)

The *kharif* produce came in market in October end and early November of 2016, the demonetisation affected it on two front; first distribution channel and second purchasing power of consumers. Also, farmers faced a temporary shortage of cash in hand; it had delayed in payment which in turn would affect agri-purchases and payments for *rabi*. As liquidity eases and cashless transactions gain acceptance, the farmers will continue their transactions in cash preferably.

Long Term Effect

There had been delays in sowing of *rabi* crop which will give a long term effect. This will generate income a month late and a trickling effect can be seen further. Fortunately, El Nino is faded in 2017 monsoon, which consequently add to farmers earning.

The agri-fundamentals would be driven by the normal monsoons, yield and land under cultivation.

Telecom Sector

Telecom companies had seen a sharp slump in the cash-driven mobile recharges business after the November 8, 2016 demonetisation announcement. But the late evening development on November 10, 2016, the government provided some relief to the telecom industry by partly accepting its demand and allowing consumers with prepaid connections to do top-ups upto a maximum limit of Rs 500 each using older currency notes till December 15. This effectively allowed retailers or distributors to do mobile recharges for prepaid users up to a limit of Rs 500 using former-legal tender currency.

With 80 percent of transactions in India were being conducted in cash and not moving through banks, there was a tremendous market for carriers for the grabbing. Digital transactions needed people to have devices (smartphones) and data connections (mobile data) to carry out transactions. So, those companies which are already well positioned in mobile data like Airtel, Vodafone, BSNL and Reliance Jio and the digital payments companies like Paytm[358] were supposed to be benefitted.

[358] Paytm is the name is an acronym for "Pay Through Mobile". It is India's largest mobile payments and commerce platform. It is the consumer brand of parent One97 Communications Ltd based out of Delhi NCR, India.

Short Term Effect

According to analysts at CLSA[359], demonetisation has impacted the mobile industry with a slump in prepaid recharges, smartphone sales and data adoption. But the cash crunch for prepaid recharges has been partly mitigated by a move to allow the use of old Rs 500 notes.

Demonetisation had led to a 50-70 percent fall in over-the-counter smartphone sales, as per channel checks by CLSA. There's no material impact as average transaction size is very small. However, slowdown in smartphone sales could potentially slower adoption of mobile broadband subscriber penetration.

Long Term Effect

With demonetisation and a slump in smartphone sales, Reliance Jio had extended promotions beyond December 2016 up Dec 2017. Consequently, the analysts had lowered the FY2017-19 forecast revenue and EBIDTA[360] for incumbents by 1-8 percent. This means Bharti Airtel, Vodafone and Idea Cellular, the big three telecom players, will get impacted the most. While the impact on voice revenues is likely to be short-lived, data revenues which are more discretionary are likely to see a larger impact.

Effect on Gold Industry (it is detailed in Demon or Demonetisation chapter)

Demand from India had been weak in 2016-17 due to rising prices, existing taxes, and import restrictions. The World Gold Council trimmed its demand estimate to between 650 and 750 tonnes for 2016, which would be the weakest since 2009 and down from 858 tonnes in 2015. Despite this, a good seasonal demand from India, as the Reserve Bank of India reports 86 tonnes of imports in October 2016, which was more than twice of the September 2016 volume and above the historical October average of 70 tonnes.

The demand for gold had dropped in India during *Pitripaksha,*[361] a 15-day period considered inauspicious by the Hindus for purchase or sale assets. But it

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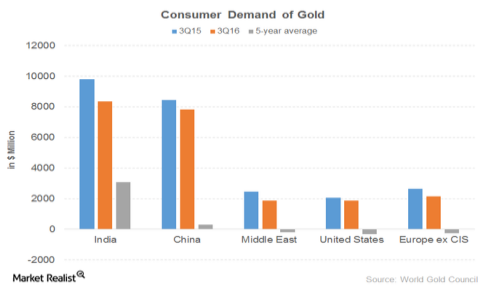
[359] CLSA Ltd, headquartered in Hong Kong, is a brokerage and investment firm focused on institutional brokerage, investment banking and asset management for corporate and institutional investors.

[360] EBIDTA is the earnings before interest depreciation, taxes and amortisation. In many places, it is considered as operating profit.

[361] Pitri Paksha also spelt as Pitru paksha (in West and South) or Pitri paksha (in North and East), (literally "fortnight of the ancestors") is a 16–lunar day period in Hindu calendar when Hindus pay homage to their ancestor (Pitrs), especially through food offerings.

significantly increased after that period, especially in the days leading up to Diwali.

Against an average monthly import of 30 tonnes since February 2016, October alone saw an import of an estimated $3.5 billion by GFMS Thomson Reuters, or 56 tonnes, of gold.[362]



India recorded a sharp drop of 28% in demand for gold in third quarter of 2016 (3Q16), driven by government policies, high gold prices, tapering rural disposable incomes, and weak consumer sentiment. The World Gold Council reported a 10% drop in the global demand for gold in 3Q16, led by India and China. High prices had driven gold recycling, which recorded year-over-year (or y-o-y) growth of 30% in 3Q16.

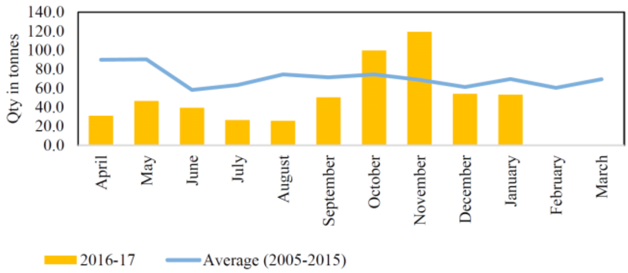
Short Term Effect

The demonetisation drive in India led to a surge in gold prices as everybody rushed to convert the abolished notes into gold and silver. Gold jewellery and gold imports recorded a sudden spike in November, 2016.[363] Government departments had raided the jewellery shops and then exchange with currency frozen. Still, India's gold import during demonetisation period of November 2016 was more than October 2016 import and even much above 10 year average for that month. Although, in the calendar year 2016, gold imports declined to 661 tonnes (from 1047 tonnes in 2015) and gold imports during 2016 were lower than the 10-year average (2005-06 to 2015-16).

362 (Bhayani, 2016)

363 (VanEck, 2016)

Monthly Gold Imports in 2016-17 versus 10 year average import



Long Term Effect

Demonetisation will have neutral to negative effect on gold sector depending upon cash usage in transactions. Further restriction on cash purchase may restrict some big ticket buyers or may split the invoices below permitted level. With available loopholes and public psycho-behavioural pattern, it seems difficult that cash will refrain from yellow metal.

Diamond Business (CPD)

After a subdued demand scenario for exports of Cut and Polished Diamonds (CPD) from India during large part of FY2015 and FY2016 which had also resulted in pressure on profitability margins in the industry. Some signs of revival in demand had been witnessed during first half of FY2016-17 (H1FY17) as seen from Y-o-Y growth of 10.71% in exports of CPD in value terms; though export in carat volume remained largely stable. The growth was mainly led by increase in demand from the USA which being the world's largest diamond jewellery market. However, sustained pick-up in demand from China/ Hong Kong (the world's second largest diamond jewellery market) was subdued.

The demonetisation of high value Indian currency did not impact the CPD industry in a big way especially as the major market for polished diamonds lies outside India. Also, larger organised sector players in the industry had been undertaking most of their purchase and sales transactions in US Dollars; mainly employee expenses were being paid in Indian Rupee.

Small Term Effect

However, small and mid-size diamond polishing firms having main presence in the local trade had impacted to the extent their business with unorganised sector. As such trades with smaller unorganised jewellery players were being in cash; starved economy might have affected its working capital cycle.

In long term, demonetisation is unlikely to have any effect on CPD industry.

Cost Benefit Analysis of Demonetisation

Benefits and costs of demonetisation are assessed in this section with simple and analytical approach which will help to understand its short term and long term effect on the economy and individual.

Beginning with what is the Cost benefit analysis (CBA). CBA, sometimes called benefit cost analysis (BCA), is a systematic approach to estimating the benefits (or pros or strengths) and losses (or cons or weaknesses) of available alternatives or decisions; these may be for businesses, government decisions, policies, projects or any functional area.

Use of CBA in decision making is not new to governments, many governments use it. Its increased usage in USA is associated with President Ronald Reagan's administration, and then it was continued to be used till date.[364]

Using CBA, it is an attempt to compute whether the benefits of a demonetisation outweigh its costs, and by how much relative to other alternative of *status quo*[365], that is not going for demonetisation.

Benefits of demonetisation

As claimed by pro-demonetisation heavyweights, major benefits of the demonetisation are reduction in black money, corruption and terrorism. The effects of these factors are difficult to compute in monetary value. Perhaps, the currency extinguished at the end of demonetisation period will be also a monetary benefit of RBI which is mentioned in this section. Also, benefits of removal of currency are also computed herein.

Removal of Counterfeit Notes

According to report of Indian Statistical Institutes (as accessed by Economic Times)[366], India has 400 crore rupees of counterfeit currency in circulation, which is about 0.02 per cent of total value of cash in circulation.

Demonetisation will devalue this counterfeit currency; the benefit to the economy will be as:

Benefit = Rs.400 crores.

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[364] Though, there is, still a debate over its use in policy making, practicability and values.

[365] *Status quo* is a Latin phrase meaning the existing state of affairs, particularly with regard to social or political issues.

[366] (Tripathi, 2016)

Indirect benefits of removal of fake currency are difficult to compute as it is involved in illicit activities, including terrorism and other crimes.

Black Money Extinguished

At the end of the demonetisation, it is expected that 97%[367] of the currency would be presented or deposited in banks against legal tender. Only 3% of the currency would not be exchanged and the RBI will extinguish or tends to extinguish its liability to that extent.

Benefit of RBI's extinguishment of liability (reduction in liability) is computed as:

Benefit = 3% * 15.4 lac Cr= Rs 46,200 Cr

There may be cases wherein people will keep some currency as memento which does not constitute black money and will not be exchanged against legal tender. Still, it is benefit to the RBI, extinguishing it liability.

Additional Tax Receipts

Usually, black money (in cash) is freely circulated in economy and the hoarder do not pay any taxes on any of such transactions; the country loose tax revenues. Simply, if one bought property for Rs 20 lac and Rs 5 lac was cash component (it's very normal practice in most of metros, tier 1 and tier 2 cities), the property registration will be carried out at Rs 15 Lac with registration fees computed on Rs 15 lac.

Considering 3% of registration duties, the Government will lose 3% of this transaction. Once received by the builder or developer, this cash will be used to pay the expenses which are not accounted and beneficiary of such receipts will again dupe the government by income taxes and other duties and taxes. This has compounding effect over years.

For computation purpose the benefit of tax revenue generation will be computed by assuming 3% tax revenues on the black money.

[367] Vide Press Release 2016-2017/1461 dated December 13, 2016, RBI confirmed the receipts of Rs 12.44 lac crore as of December 10, 2016 out of 15.4 lac crore. Times of India dated January 26, 2017 (Venkatesh, 2017) asserts that almost all money has come back to the banking system, a unexpected result may lead it to failure. Assumed 3% as relevant data is not available as on date, March 31, 2017.

Benefit of tax revenue generation for a year= 3% * 46,200[368] Rs Cr = Rs 1,386 Cr.

Benefit of tax revenue generation for 5 years = 5 * Rs 1386 Cr = Rs 6,930 Cr.

Impact on Terrorism and Naxalites

As expected by the Government, demonetisation may have short lived impact, may be for couple of weeks or maximum 3-4 months, once the economy will have sufficient cash flow, the terrorism will also regain its normal activities like other citizens.

Still, considering the impact of terrorism is constrained for 2 months, the financial (or computable) benefits to the government or public is not noticeably large. This is because, though there is no terrorism in the country for two months, the government will continue to pay for all forces which meant to counter terrorism and Naxalite activities.

It can't be denied that there won't be any impact of demonetisation on terrorism, but it is difficult to compute monetarily. There were 231 deaths in 2012 (Source: 2012 US State Department figures on the total civilian deaths by terror attacks in India and other countries). Even if terrorism is restricted for 2 months, the lifesaving would be 39. These 39 people will continue to contribute for the country and also government will save on paying to their families on fatalities.

Considering annual loss of the country due to terrorism, two month restriction due to demonetisation will be:

Benefits for 2 months = 39 * 35 Lac[369] = Rs. 13.65 Cr

Violence Containment Cost

India, rank of 141 among 163 countries in 2016 slightly deteriorated in peace score; its violence containment cost (PPP terms) is computed to US$ 0.68 trillion that is 9% of the GDP.

India's scores for ongoing domestic and international conflict and militarisation have deteriorated slightly. The country remains vulnerable to acts of terror and

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[368] Assumed Rs 46,200 Crore cash will be extinguished from the system and tax revenue income of 3% is considered for such extinguished cash.

[369] Considering working life of 35 years at per capita annual GDP of Rs 1 lac (rounded above of Rs 93,293 of 2016). Valuing a human life or "Cost per life saved" has been always a controversial issue. Still, it is used to compute overall benefits.

security threats at it shares border with Pakistan. As such, the number of deaths caused by externally organised terror strikes has risen over the year.

As per the Global Peace Report 2016, the global economic impact of violence was $13.6 trillion (in PPP terms) in 2015, 13.3% of global GDP. As per the report direct cost of violence in 2015 is 30 times of amount spent on official development assistance (ODA).

Any reduction in cost of violence in India, purely on the basis of demonetisation, is unlikely. Hence, its monetary benefit is not considered.

No cost of printing spoiled notes

As per the annual report of RBI for FY 2015-16, it has disposed of 625 mn and 2,800 mn of Rs 1,000 and Rs 500 notes respectively. Using the information received under a Right to Information from the RBI in 2012, Rs. 2.50 to print each Rs. 500 denomination note, and Rs. 3.17 to print a Rs. 1,000 note[370], the cost to print similar number in 2016-17 would be Rs 8,981 mn that is Rs 898 Crores.

Increasing bank deposits

After demonetisation, everybody is queuing up either to deposit money or exchange it, lead to quick upsurge in deposits, demand deposits and term deposits.

Demand deposits have increased up to December 31, 2016. Considering current economic conditions live higher NPA and inflationary pressure, banks may not opt for credit lending and expected to play safe by depositing with RBI against reverse repo rate. Increased reverse repo rate by 25 bps will be beneficial for banks; net economic effect will be marginal in near future. Banks may increase safe and secured assets like home loans, vehicle loans or other secured structured instruments.

Benefits of cashless Transactions

Cashless transactions will be carried out from almost all white money. (Although few exceptions are observed that the people have used cash to pay credit card money or deposit more in credit card account). There were many fold increase in non-cash transaction in November and December 2016, these mainly benefitted the companies which are providing such services. There was no financial benefit to public or government, instead, public had paid cost for cashless transactions.

370 (The Hindu, 2016)

Total Benefits = Rs.400 + 46,200 + 6,930 + 13.65 + 898 = Rs 54,441.65 Cr

Costs of Demonetisation

The demonetisation was planned to ripe benefits which seems hazy whereas costs are visible clearly in short term. Few prominent cost parameters observed during demonetisation are considered to compute its cost to the economy, mentioned hereunder.

Cost of Printing of Currency Notes

Referring to the annual report of RBI for FY 2015-16, it has Rs 6,326 bn and Rs 7,854 bn currency notes in circulation of Rs 1000 and Rs 500 respectively. Assuming Rs 500 notes will be printed in same quantity (15,707 mn pieces) and Rs 2000 notes are printed the half of Rs 1000 notes were in circulation that is 3168 mn pieces.

The Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL), which prints currency notes, has said that new Rs. 500 note costs Rs. 3.09 to print, while the magenta 2,000 rupee note costs Rs. 3.54.[371] Cost of printing of Rs 500 notes would be Rs 4,853.46 Crores and cost of Rs 2000 notes would be Rs.1,124.47 Crores, totalling Rs 5,974.93 crores.

The Government or RBI will have to bare cost of printing amounting Rs 5,974.93 Cr.

Cost of Scrapping old Currency

The annual report of RBI for FY 2015-16 mentioned that there were 6326 mn and 15,707 mn pieces currency notes in circulation of Rs 1000 and Rs 500 respectively. As all these notes are scrapped then the amount spent in printing those notes is a loss of the government or RBI.

Using the information received under a Right to Information from the RBI in 2012, Rs. 2.50 to print each Rs. 500 denomination note, and Rs. 3.17 to print a Rs. 1,000 note[372], the cost of scrapping old currency would be Rs 59.32 bn that is Rs 5,932 Crores.

371 (NDTV Profit, 2016)

372 (The Hindu, 2016)

Cost of Inventory (or Stock) of demonetised currency

Inventory (or Stock) of currency as on November 8, 2016 was provided under RTI Act. It mentioned inventory of Rs 500 and Rs 1000 currency as on announcement date was 22,760.51 mn and 9131.41 mn notes respectively.

Cost of printing of inventory of Rs 500 and Rs 1,000 would be Rs 56.90 bn and Rs 28.95 bn respectively.

Total Printing cost of inventory would be = 56.90 + 28.95 = Rs 85.85 bn that is Rs 8,584 Crores.

Logistics Cost / Transportation cost for Currency Circulation

CMIE[373] estimated the cost of transporting of printed cash to the various bank branches, post offices and ATMs as Rs.16 billion over the 50-day period. This cost includes cost of airlifting the cash to all 123 airports in the country via six sorties and then transporting it to destinations by road.

With this CMIE estimation, the cost of transportation of currency will be Rs 1,600 Cr.

Recalibrating ATM Machines

New currency notes of Rs 500 and Rs 2,000 are slightly smaller in dimension, both, in length and breadth. Recalibration of old note cassettes is required, it means that banks will have to remove the Rs 1,000 and Rs 500 cassette setting and reconfigure it to match the new Rs 2,000 notes and Rs 500 notes. Clearly, this will involve some software as well as hardware changes, costing both, time and money.

According to a report filed by Nupur Anand and Anup Roy in Business Standard on November 19, the cost of recalibrating an ATM is Rs.10,000 and there are 202,801 ATMs to recalibrate. This cost therefore works out to about Rs.2.03 billion.

Using the information, the cost of recalibration of ATMS is computed to Rs.2 billion that is Rs 203 Crore.

Cost of Loss of Working man hours due to queuing

Referring to article of Mr Sabnavis[374] dated November 14, 2016 on firstpost.com, each household would spend at least 12 hours standing in queues

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373 (Vyas, 2016)

374 (Sabnavis, 2016)

for exchanging, depositing and withdrawing money in the period up to December end. It could be higher too.

This would be around 300 million working days assuming that a working day is 8 hours and one spends one-and-half days of time.

The cost of this time at the most basic level the per capita income of Rs 8,000 per month for the country implies a daily salary of Rs 360 which works to Rs 540 for one-and-half days which comes to Rs 540x30 or around Rs 16,200 crore.[375]

With lenient approach, with assumption that 500 mn population ques up for 8 hour in total demonetisation with daily wages of Rs 300.

So, Loss of working man hours in queuing = 500 * 300 = Rs.150 bn that is Rs. 15,000 crores.

Economy Goes Into Limbo

On November 25, 2016, Mr Manmohan Singh said "I feel that this (demonetisation) scheme, the way it's being implemented, will hurt the agricultural growth of the country, will hurt the small scale industry and all the people engaged in the informal sector. My own feeling is that the national income, that is the GDP of the country, can decline by about 2 percentage points as a result of what has been done. This is an underestimate and not an overestimate."

For our Computation, we considered conservative figure of 1%.

Indian nominal GDP for FY 2015-16 was around 135.76 Lac Crores which was expected to retard growth by 1 %, So loss of economy due to demonetisation would be around Rs135,760 Crores.

Loss of Toll Revenues by Toll companies (Reimbursement of these losses)

Highway tolls became a major bottleneck immediately after the announcement of the demonetisation scheme. In response, the government announced that national highways should waive toll fees and the government would compensate them for the loss. This waiver was initially for a limited period but as the liquidity crunch has continued, the government kept extending the waiver. With belief of all the 385 national highways compensated.

375 (Sabnavis, 2016)

Government has suspended tolls up to December 2, 2016 that is for 24 days. CMIE estimated that the highway toll agencies are losing Rs.800-900 million every day on the national highways. [376]

With these calculations, the cost of toll compensation will be 19.20 bn (at Rs.800 million a day).

This implies a total cost Rs.1920 Cr.

There have been some reports of state governments waiving state highway tolls as well but, are not taken into consideration.

Cost to the Poor

Farmers, tribal and deep countryside people and one does not have banking facility have suffered more. Farmer, as it was important season for both *Kharib* and *Rabi* crops, lost substantially due to demonetisation. The labourer or the housemaid who does not have a bank account or even proper identification will first have to go through the government and administrative hoops to get identity documents made even in order to deposit his/ her cash. Till the time one able to get it, will be out of business.

The poor people, staying in hinterland without bank account or bank in his village had a hard time. As usual, the attempt to root out corruption will spawn a profit opportunity for middlemen who will buy identification, create bank accounts for a fee, and lend money at high interest in the meantime.

Cost to Informal Economy

This is the great Indian informal economy, a vast proportion by volume as well by value of all transactions, are pure cash transactions. For most of the public, all of our everyday needs like groceries, pharmacies, travel cost and household services (plumber, domestic help, electrician and so on) are paid in cash. Almost all transactions in rural India, payments to agricultural labourers and small farmers are in cash. In urban areas, a large number of middle income, self-employed service providers and small businessmen work exclusively on cash, which provides them the ability to compete with more established competitors and survive.

Stall of economy in November and December 2016, has intensely affected this informal economy.

[376] (Vyas, 2016)

Cost of Banking Operations during demonetisation

Banks have played a vital role in demonetisation, banks were benefited due to increased CASA as well it costed to banks. In banks, pure salary bill is around Rs 400 crore a day (annual wage bill of Rs 1.2 lac crore which implies Rs 10,000 crore a month) [377] where a multiple of one-and-half days can be added for other expenses that go with operations.

The cost of bank depends upon the number of days that bank worked during the demonetisation additionally.

Assuming that a bank has worked for 10 additional days the value will be between Rs 4,000 crore and Rs 6,000 crore.

For calculation purpose, it averaged to Rs. 5,000 Cr.

Premature Deaths

It is possible that a few cases of 82 claimed deaths might be due to demonetisation. This cost is not quantified; still, it is worth noting it.

Total Cost = 5,974.93 + 5,932 + 8,584 + 1,600 + 203 + 15,000 + 1,35,000 + 1,920 + 5,000 = Rs 179,214.69 Crores

Increase in Corrupt Practices

In the current scenario, the tax rate will be around 50% with penalty. India, being suffered highest in corrupt practices, will try to avoid taxation. If any tax evader is traced, he will try to bribe the Income Tax officers. Because of 69% of direct first hand bribery in India, it unlikely that government or tax officer will work with honesty. This will again cost to the country and government and is difficult to compute. Further, banks and its employees are directly in touch with the public and they may not be able to decline the commission offered by few members of the public for exchanging currency. Loss due to such activities is sidestepped.

Benefit Cost Ratio

Using the above computed figures, benefit/ cost ratio is computed as:

Benefit/ cost ratio = 54,441.65 Cr / 179,214.69 Cr = 0.3038. That is 30.38%.

This figure of 30.38% indicates that demonetisation brought more losses than its benefits.

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[377] (Sabnavis, 2016)

If we consider that the GDP losses of Rs 135,760 Crore covers all economic losses, even then benefit/ cost ration comes to:

Benefit/ cost ratio = 54,441.65 Cr /135,760 Cr = 0.4010. That is 40.10%.

Even this ration does not support demonetisation.

Economic loss for any country is eternal; it will be seen in India too. Such loss recurs year over year as a cost of opportunity at that time. Say, if there is 1% GDP loss in 2016-17 and the economy grew at 7.5% in 2017-18, the loss of 1% GDP of 2016-17 in 2017-18 would be 7.5% of 1% of the GDP of 2017-18. Similarly, irreparable loss of economy will be for years if not perpetual.

Demon in Demonetisation

The 'demon' in demonetisation has begun appearing. On November 8, 2016, Indian Prime Minister Narendra Modi announced in a broadcast to the nation that Rs.500 (US$7.495) and Rs.1,000 (US$14.99)[378] currency notes would no longer be recognised legally as currency. "Great," said Corporate India, economic commentators, foreign investors, international think tanks, global rating agencies and the public were excited. "Masterstroke," echoed the Confederation of Indian Industry (CII).

The aim behind the government's action was to combat tax evasion, currency counterfeiting and corruption. Eliminating large denominations makes it harder to hide large amounts of cash. Mr. Modi noted that the move complements the country's *Swachh Bharat Abhiyan* (Clean India campaign). He added, "For years, this country has felt that corruption, black money and terrorism are festering sores, holding us back in the race towards development", continued further, "To break the grip of corruption and black money, we have decided that the currency notes presently in use will no longer be legal tender from midnight tonight." Finance Minister, Mr. Arun Jaitley added, "The goal of this is to clean transactions, (to) clean money."[379]

"This announcement appears to be the most significant change made by the Modi government to date," says Girish Vanvari, partner and head (tax), KPMG in India. "Its impact could be even bigger than GST (the Goods and Services Tax which is still running the gauntlet of politicians)." CRISIL, a Standard & Poor's company reported, "Tuesday's move (demonetisation) could change the face of the Indian economy, improve the government's fiscal position and tax compliance. The size of the cash economy will shrink, as will black money generation avenues, because of the better cash-flow trail."[380]

On the same day after announcement, people queued before ATM to withdraw currency in Rs 100 denominations, people were withdrawing Rs 400 several times to get only Rs 100 currency or lower. Petrol pumps, medical stores, and hospitals (which were allowed to accept old notes) saw a boom in business. People also wanted smaller currency notes to serve their daily needs. No

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[378] Computed with currency rate of Rs 66.7073 = US$1, a closing reference rate as on November 8, 2016 on Reserve Bank of India portal, www.rbi.gov.in

[379] (Wharton University Pennysilviya, 2016)

[380] (Wharton University Pennysilviya, 2016)

shopkeeper would give change for Rs.500, public was forced to buy for Rs.500 in totality at petrol pumps and medical store.

On the next day, November 10, 2016, the picture on the streets had begun changing. The demon started surfacing. India is a cash economy; almost everyone keeps a few Rs500 notes as a nest egg. Queuing started before ATMs and banks which could exchange old notes for new. It wasn't mere exchange with legal tender; limits imposed on exchange or withdraw from their accounts also worried people. In some cases, there were altercations as people waited for hours.

Overview

There are also questions whether the "masterstroke" was masterful enough. "Black money is not synonymous with corruption; it is rather one of several symptoms of corruption," notes Rajesh Chakrabarti, professor and executive vice dean of the Jindal Global Business School at Jindal Global University. Pointing out that only a small percentage (by some estimates as low as less than 6%) of the unaccounted wealth is held in cash, Chakrabarti says: "This intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed, corruption will continue. It is sort of like a dialysis, more of a short term cleaning up than a solution of the problem. It needs to be repeated periodically."

Gone those days when people hoarded wealth in gunny bags full of banknotes. In today's world, there are refined ways of laundering money or stashing it away in benami properties, offshore bank accounts and foreign currency. Only the small fish keep their ill-gotten wealth in currency and the impact on black money will therefore be very limited in this exercise.

Mr. Abhiroop Sarkar, Professor at Indian Statistical Institute, said the 1978 move had no effect on the circulation of black money. "That's because people don't stack black money in cash. Rather, they stash it in undisclosed accounts in Swiss Banks. So demonetisation won't affect the big fish," he explained. Here, it's pertinent to mention that touts made most of the move in initial days, as people didn't want to deposit their money in banks fearing tax problems, they fell for the touts instead. Anil Harish, a senior advocate told TOI, "At places like Crawford Market and Zaveri Bazar, people were selling Rs 1,000 notes for as little as Rs 300. The same is happening today where at 20% to 30% discount the money is getting exchanged."

The Indian reality is that many trades and areas are still cash-based and cannot be digitised overnight by mere announcement. Many economists and industrialists have supported demonetisation, and many were against, said, "Disruptions in the real economy stemming from this move is very significant and potentially fatal for some vulnerable sections of society. If some of the key areas are hampered, there is risk of mob violence and rioting. Since the entire country is at risk, there is no way of anticipating and preparing for this, either. So there is a risk of the situation getting out of hand as well."

Its came true, demonetisation turned a temporary solutions and its effect won't last long, people explored all possible ways to convert their black money to white, resulting almost all ceased currency were presented for exchange with legal tender.

Government has declared the objectives of demonetisation are:

1. Curbing black money and corruption
2. Restricting counterfeit currency
3. Making Cashless-less cash economy
4. Limiting Terrorism

In this chapter, it is analysed if the demonetisation will achieve these objectives.

Black Money and Corruption

Politicians, political parties' corrupt higher officials of government and its institutions take bribes from foreign companies and park or invest the money abroad in tax havens for transferring to India when needed. Many times locally earned bribes, funds and collections are also routed abroad through *hawala* channels for evading from Indian tax authorities and consequent legal implications.[381]

There is a fundamental flaw in the popular expectation that government will have an interest in controlling corruption and black money. Most agents of the government comprising politicians, bureaucrats, law enforcement officers are direct beneficiaries of corrupt practices. Therefore laws are watered down leaving loopholes, enforcement of anti-corruption measures by one branch is obstructed by others.[382] It makes it institutionalised corrupt system wherein one may not interested to curb corruption as it will alter one's own income.

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381 (Wikipedia.org)

382 (Basu & Dixit, 2015)

The business community as a whole has stronger incentives to counter corruption. There are situations where business and government can conspire to benefit at the expense of the broader citizenry. But in most contexts involving award of scarce resources such as land, spectrum channels, licences and contracts, politicians' and bureaucrats' gain is the business community's aggregate loss.[383]

If the intent is really a black money, the government would have implemented the recommendations of the SIT on black money; and CBDT clearly mentioned that demonetisation is not a solution for corruption, then why demonetisation, lets analyse.

Defining 'Black Money':

Black money in the literature or economic theory, there is no uniform definition for it. In fact, several terms with similar connotations have been in vogue, including 'unaccounted income', 'black income', 'dirty money', 'black wealth', 'underground wealth', 'black economy', 'parallel economy', 'shadow economy', and 'underground' or 'unofficial' economy. All these terms usually refer to any income on which the taxes imposed by government or public authorities have not been paid. Such wealth may consist of income generated from legitimate activities or activities which are illegitimate per se, like smuggling, illicit trade in banned substances, counterfeit currency, arms trafficking, terrorism, and corruption. Ministry of Finance, in its 'White Paper' of May 2012, 'black money' is defined as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession.[384]

This definition of black money is in consonance with the definition used by the National Institute of Public Finance and Policy (NIPFP). In its 1985 report on Aspects of Black Economy, the NIPFP defined 'black income' as 'the aggregates of incomes which are taxable but not reported to the tax authorities'. Further, black incomes or unaccounted incomes are 'the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of other economic controls and relative motives'.

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383 (Basu & Dixit, 2015)

384 (Ministry of Finance, May 2012)

Thus, in addition to wealth earned through illegal means, the term black money would also include legal income that is concealed from public authorities,[385] for purpose:

1. to evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc);
2. to evade payment of other statutory contributions;
3. to evade compliance with the provisions of industrial laws such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1936, Factories Act 1948, and Contract Labour (Regulation and Abolition) Act 1970; and / or
4. to evade compliance with other laws and administrative procedures.

In simple way or layman's language, black money is money which has been earned through legal as well as illicit means but on which taxes (or any of taxes) of any nature are not paid or concealed from public authorities.

Sources of Black Money

In India black money is created by two means.

1. Tax evasion
2. Corruption

Tax evasion by the businessman: The businessman can again be classified in two categories: Small-medium businessmen and big corporates. Both of them evade tax due to wrong policies of the government. The small businessmen are at the receiving end. The big corporates are generally friends of political parties and mostly are involved in funding of elections. The tax evasion can be stopped by using the technology at the right place. With the new Income tax software in place and linking of Adhaar Card and Pan card with all the bank accounts can easily curb it but obvious with the political will.

Corruption: Corruption is one of the most topical issues that is discussed and has been researched extensively in political and economic sphere. It is understandable that corruption is an essential tool to indicate the 'fairness, stability and efficiency of a society and its ability to deliver sustainable development to its members,' thus, highlighting its significance.

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385 (Ministry of Finance, May 2012)

Lord Acton, who said, "Power tends to corrupt, and absolute power corrupts absolutely," also said that "great men are almost always bad men." But power can corrupt only when the system allows it. In an article titled "The Psychology of Power", two university researchers, Joris Lammers at Tilburg University, in the Netherlands, and Adam Galinsky at Northwestern University, in Illinois, concluded that "power corrupts, but it corrupts only those who think they deserve it." In other words, people in high office are not innately corrupt; they become so because the system gives them 1) an elevated sense of their worth, and 2) opportunity. It is no use, therefore, to blame politicians; it is the system that is to blame.[386]

Corruption by the government officials (politicians and bureaucrats) is the biggest source of black money. Mr Lammers and Mr Galinsky argue, therefore, that people with power that they think is justified break rules not only because they can get away with it, but also because they feel at some intuitive level that they are entitled to take what they want. This sense of entitlement is crucial to understanding why people misbehave in high office. Till the government takes any tough steps to stop the corruption, the generation of black money cannot be controlled; to stop it is a day dream.

Black Money Estimate:

World Bank estimated the size of the black economy in India was of 23.3% and 21.4% in 1999 and 2006 respectively of GDP; the average ration of shadow economy to GDP is computed to 22.4% for period of 8 years from 1999 to 2006.[387, 388]

Using specification 2 methodology of shadow economy estimation, it is estimated that the size of the black economy in India was of 23.2% and 20.7% of GDP in 1999 and 2006 respectively.[389,390]

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386 (The Economist (article from the Science and technology section of the print edition), 2010)

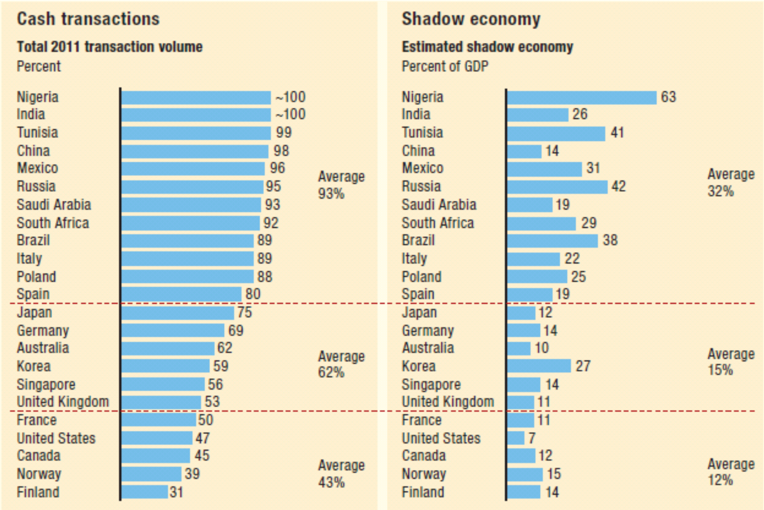
387 (Schneider, Buehn, & Montenegro, 2010); Annexure of Shadow Economies is available.

388 (Department of Economic Affairs, Ministry of Finance, Government of India, 2016). The shadow economy wrongly mentioned to "20.7% of the GDP in 1999 and rising to 23.2% in 2007" as mentioned in its reference paper of world bank ""20.7% of the GDP in 2007 whereas 23.2% in 1999". World Bank References are mentioned in annexure.

389 (Schneider, Buehn, & Montenegro, 2010)

Further in 2013, McKinsey & Company has estimated Indian Shadow economy of 26% to GDP[391] for the year 2011. Further, Visa has estimated Indian shadow economy of 14% to real GDP for FY2014-15 in its report of October 2016.[392]

McKinsey & Company has established a relation between Cash transactions and Parallel economy which is mentioned in the chart hereunder:[393]



Ranking of 25 Developing countries according to size of their shadow economy (Specification 1)

No.	Years	1999	2000	2001	2002	2003	2004	2005	2006	Country Average
1	China	13	13.1	13.1	13.1	12.9	12.6	12.3	12.1	12.8
2	Singapore	13	13.1	13.4	13.4	13.1	12.7	12.5	12.5	13
3	Vietnam	15.7	15.6	15.6	15.4	15.4	15.2	14.8		15.4
4	Mongolia	18.2	18.4	18.4	18.1	17.9	17.4	16.8		17.9

390 (Ministry of Finance, May 2012)

391 (Denecker, Istace, & Niederkorn, 2013)

392 (Visa Report, October 5, 2016)

393 (Denecker, Istace, & Niederkorn, 2013)

5	Bahrain	18.7	18.4	18.5	18.4	18	17.6	17.2		18.1
6	Saudi Arabia	18.7	18.4	18.5	18.4	18	17.6	17.2		18.2
7	Iran, Islamic Rep.	18.4	18.9	19	18.5	18.3	17.9	17.9	17.7	18.3
8	Jordan	19.5	19.4	19.3	19.1	19	18.4	17.6	17.7	18.7
9	Oman	19.5	18.9	18.8	18.9	19	18.6	18		18.8
10	Syria Arab Rep	19	19.3	19.2	19.2	19.2	19.4	18.8		19.2
11	Indonesia	19.3	19.4	19.5	19.6	19.7	19.9	19.1		19.5
12	Chile	19.8	19.8	19.8	20.1	19.7	19.4	19	18.8	19.5
13	Kuwait	21.6	21.7	21.7	21.8	21.4	21	20.7	20.5	21.3
14	Israel	22.9	21.9	22.4	22.9	22.5	21.8	21.2	21	22
15	India	23.3	23.1	22.9	22.6	22.2	21.9	21.6	21.4	22.4
16	Mauritius	23.4	23.1	22.7	22.8	22.8	22.8	22.8	22.7	22.9
17	Argentina	25.2	25.4	26.2	25.7	25	24.5	24.2		25.2
18	Costa Rica	25.8	26.2	26.8	27.1	26.9	26.5	25.8	25.4	26.3
19	United Arab Emirates	26.5	26.4	27.1	27.5	26.5	25.5	25.1		26.4
20	Yemen Rep	27.9	27.4	27.6	27.7	27.5	27.3	26.8		27.5
21	Malta	27.5	27.1	27.9	27.6	28.1	28.2	27.6	27.6	27.7
22	South Africa	28.6	28.4	28.5	28.3	28.5	28	27.4	27	28.1
23	Cyprus	29.4	28.7	28.9	29.2	29.2	28.3	28.3	28.4	28.8
24	Lao PDR	30.9	30.6	30	29.8	29.2	28.9	28.2		29.6
25	Mexico	30.5	30.1	30.1	30.2	30.1	29.9	29.3		30

Source: (Schneider, Buehn, & Montenegro, 2010); Rep. is Repblic, PDR: Public Democratic Republic

In the table above, the size and trend of the shadow economy of 25 developing countries are presented – ordered with respect to the size of the shadow economy – using the MIMIC estimation for the developing countries with the direct taxation, i.e. specification 1. It thus includes a direct measure of the tax burden, in addition to the rather indirect tax burden measure, size of government, which we solely use in specification 2. Although including direct taxation reduces the sample size by 10 countries, specification 1 is superior to specification 2 because it has been shown in various studies that the direct tax burden is a major driving force for the shadow economy. Hence, if possible, this variable should be included in an empirical model measuring the shadow economy.

On the basis of specification 2,

No.	Years	1999	2000	2001	2002	2003	2004	2005	2006	2007	Country Average
11	Netherland	13.3	13.1	13.1	13.2	13.3	13.2	13.2	13.2	13.0	13.2
12	Australia	14.4	14.3	14.3	14.1	13.9	13.7	13.7	13.7	13.5	14.0
13	France	15.7	15.2	15.0	15.1	15.0	14.9	14.8	14.8	14.7	15.0
14	Vietnam	15.8	15.6	15.5	15.3	15.2	15.1	14.7	14.6	14.4	15.1
15	Iceland	16.0	15.9	15.8	16.0	15.9	15.5	15.1	15.0	15.0	15.6
16	Canada	16.3	16.0	15.9	15.8	15.7	15.6	15.5	15.3	15.3	15.7
17	Ireland	16.1	15.9	15.9	15.9	16.0	15.8	15.6	15.5	15.4	15.8
18	Germany	16.4	16.0	15.9	16.1	16.3	16.1	16.0	15.6	15.3	16.0
19	Hong Kong	17.0	16.6	16.6	16.6	16.6	15.9	15.5	15.0	14.7	16.0
20	Mongola	18.4	18.4	18.3	18.0	17.7	17.4	17.1	16.7	16.4	17.6
21	Finland	18.4	18.1	17.9	17.8	17.7	17.6	17.4	17.1	17.0	17.7
22	Denmark	18.4	18.0	18.0	18.0	18.0	17.8	17.6	17.0	16.9	17.7
23	Bahrain	18.6	18.4	18.2	18.0	17.8	17.4	17.1			17.9
24	Saudi Arabia	18.7	18.4	18.7	19.2	18.3	17.7	17.4	17.4	16.8	18.1
25	Sloval Republic	18.9	18.9	18.8	18.6	18.3	18.1	17.6	17.2	16.8	18.1
26	Iran	19.1	18.9	19.0	18.7	18.2	17.9	18.1	17.7	17.3	18.3
27	Czech Rep.	19.3	19.1	18.9	18.8	18.7	18.4	17.8	17.3	17.0	18.4

28	Oman	19.1	18.9	18.5	18.5	18.4	18.3	18.0	17.6		18.4
29	Jordan	19.4	19.4	19.2	18.9	18.7	18.3	18.0	17.5	17.2	18.5
30	Norway	19.2	19.1	19.0	19.0	19.0	18.5	18.5	18.2	18.0	18.7
31	Sweden	19.6	19.2	19.1	19.0	18.7	18.5	18.6	18.2	17.9	18.8
32	Qatar		19.0	19.3	19.0	19.6	17.4	18.4			18.8
33	Indonesia	19.7	19.4	19.4	19.3	19.1	18.8	18.6	18.3	17.9	18.9
34	Syrian Arab Rep.	19.3	19.3	19.2	19.1	19.3	19.1	19.0	18.7	18.5	19.0
35	Chile	19.9	19.8	19.6	19.6	19.4	19.1	18.9	18.7	18.5	19.3
36	Kuwait	20.1	20.1	20.2	20.3	19.3	18.8	18.1	17.9		19.3
37	Belgium	22.7	22.2	22.1	22.0	22.0	21.8	21.8	21.4	21.3	21.9
38	Israel	22.7	21.9	22.3	22.7	22.7	22.1	21.8	21.2	20.7	22.0
39	India	23.2	23.1	22.8	22.6	22.3	22.0	21.7	21.2	20.7	22.2
40	Spain	23.0	22.7	22.4	22.4	22.4	22.5	22.4	22.4	22.2	22.5
41	Mauritius	23.3	23.1	22.9	23.0	22.7	22.4	22.4	22.2	21.9	22.7
42	Portugal	23.0	22.7	22.6	22.7	23.0	23.1	23.3	23.2	23.0	23.0
43	Hungary	25.4	25.1	24.8	24.5	24.4	24.1	24.0	23.7	23.7	24.4
44	Taiwan	25.7	25.4	25.7	25.4	25.2	24.7	24.5	24.2	23.9	25.0
45	Argentina	25.2	25.4	26.1	27.6	26.4	25.5	24.7	23.8	23.0	25.3
46	Costa Rica	26.1	26.2	26.4	26.4	26.1	25.9	25.6	25.0	24.0	25.8
47	United Arab Emirate	26.3	26.4	27.0	27.4	26.3	25.4	24.8	23.5		25.9
48	Slovenia	27.3	27.1	26.7	26.6	26.4	26.2	25.8	25.3	24.7	26.2
49	Bahamas	26.3	26.2	26.4	26.5	27.0	27.4	26.7	26.2	26.2	26.5
50	Korea	28.3	27.5	27.3	26.9	26.8	26.5	26.3	25.9	25.6	26.8

Concern: Black Money- a reason for Demonetisation

Amount of Black money in Cash

In income-tax probes from April 1 to October 31, 2016, black-money holders accepted of having stashed Rs 7,700 crore worth of ill-gotten assets. The cash component was merely Rs 408 crore or 5%. The remaining was invested in business, stocks, real estate and *benami* bank accounts, the data show. Financial year 2015-16 saw the highest black-money detection in the period, of which 6% was cash. The actual proportion of cash would be even lower as the tax department's classification of seizures considers currency and ornaments as one unit.[394]

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.

CBDT 2012 Report saying demonetisation is not a solution

In 2012, the Central Board of Direct Taxes 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".[395,396,397]

Further, demonetisation will only increase the cost, as more currency notes may have to be printed for disbursing the same amount. It may also have an adverse impact on the banking system, mainly logistic issues, i.e. handling and cash transportation may become difficult and may also cause inconvenience to the general public as the disbursal or payments of wages/salaries to the workers will become difficult. Besides, it may also adversely impact the environment as more natural resources would be depleted for printing more currency notes. Demonetisation undertaken twice in the past (1946 and 1978) miserably failed, with less than 15% of high currency notes being exchanged. The currency notes never surfaced as the owners suspected penal action by the government agencies.[398]

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394 (Suresh, 2016)

395 (Subodh Varma, 2016)

396 (PTI, 2012)

397 (Central Board of Direct taxes (CBDT), 2012)

398 (Central Board of Direct taxes (CBDT), 2012)

SIT Report Recommendation for black Money and Corruption

The fifth SIT report was submitted to the honourable Supreme Court on July 14, 2016.

Capping on the loan in cash: The SIT recommends that the loan either to give or accept above Rs 20,000, should be paid through account payee cheque, demand draft or electronic clearing system of a bank account. All dealings in immovable property should not be in cash.

Capping Cash transactions: The SIT has felt that large amount of unaccounted wealth is stored and used in form of cash. Having considered the provisions which exist in this regard in various countries and also having considered various reports and observations of courts regarding cash transactions, the SIT felt that there is a need to put an upper limit to cash transactions. Thus, the SIT has recommended that there should be a total ban on cash transactions above Rs. 300,000 and an 'Act' should be framed to declare such transactions as illegal and punishable under law.

Capping Cash holding: The SIT has further felt that, given the fact of unaccounted wealth being held in cash which are further confirmed by huge cash recoveries in numerous enforcement actions by law enforcement agencies from time to time, the above limit of cash transaction can only succeed if there is a limitation on cash holding, as suggested in its previous reports. SIT has suggested an upper limit of Rs. 15 lakhs on cash holding. Further, stating that in case any person or industry requires holding more cash, it may obtain necessary permission from the Commissioner of Income tax of the area.

Few more recommendations from earlier SIT Committees:

Black Money generation in Charity institutions: Among other recommendations, the SIT suggested action on the generation of black money in education, charities and religious institutions and misuse of exemption from capitals gains tax.

Misuse of Participatory Notes: And probably most important of them all, it wanted transparency in participatory notes (P-notes), which are misused for whitening black money through round-tripping. Reportedly, the total value of P-note investments in India is 2.75 lakh crores with nearly a third of it coming from a tiny Cayman Islands with 56,732 populations.

Introducing a central KYC Registry: For carrying out financial/ business transactions in current situation, people have to mention their PAN or UID or Passport number or driving license or any other proof of identity. However, there is no mechanism/ system at present to connect the data available with each of these independent proofs of ID. It is suggested that these data bases be interconnected. This would assist in identifying multiple transactions by one person with different IDs. A central KYC Registry should be established with all law enforcement agencies, Registrar of Companies and financial institutions having access to its database.

Regulate betting industry to curb black money generation: It is true that betting or gambling is in purview of State Governments; which has to pass appropriate law, as it is a state subject in the State List (Entry 34). However, considering the fact that large amount of black money is generated and used in this sector, it is suggested that some appropriate legislative directions or rules or regulations are required to be framed to curb the menace of such betting.

Misuse of exemption on Long Term Capital gains tax for money laundering: Investments are made in the secondary share markets with a view to capturing gains. In this market, out of nearly 8,000 listed companies, several scrips are not traded regularly. With the collusion of promoters, some brokers arrange for price(s) with purchase of such scrips at nominal costs, and sales at exorbitant prices, with a view to receiving money on sale as 'capital gain' when the long term gain is subjected to a 'nil' or nominal rate of tax. The advantage for manipulative taxpayer is that he can launder such sale receipts through payment of no tax.

Investigation of Shell Companies and beneficial ownership: However, as manipulation of income is not always possible by suppression of receipts, tax-payers may try to inflate expenses by obtaining bogus or inflated invoices from 'bill masters', who make bogus vouchers and charge nominal commission. As these persons are of very modest means, upon investigation, they tend to leave the business and migrate from the city where they operate. This is one of the reasons for a proportion of income tax arrears attributed to 'assessee not traceable'.

Real Estate & Land Transfer

Real estate is one the biggest source and mode of consumption of black money. There are no provisions in the Act to effectively counter this menace.

Land and real estate are possibly the most important class of assets used for investment of 'black' money. As immovable properties are not usually comparable, valuations are different. This imparts flexibility to the valuation process, and makes it an ideal investment for 'black' money. As an asset class both 'black' and 'white' savings are utilised for investment in land and real estate, which provides hedge against inflation apart from a profitable alternative for investment for black savings.

There are many changes in real estate but are not, sufficient, efficient or effective to curb the black money generation; many openly violate it. In almost all metros and mini-metros, cash components is real estate deal is varying from 10%-50%, few areas like Navi Mumbai has standardised it to 25%-30%, though everybody aware of these, no body wish to address it because of their personal interest.

Black Money stashed Abroad

BJP election manifesto stated that if voted to power, the government will bring back black money, held in foreign countries. During election campaigns, Mr. Modi and Mr. Rajnath Singh also said, "We will bring black money."

There are several reports and information leakages which pointed out many names holding secret bank accounts abroad, few such incidences are:

Leakages	Year
WikiLeaks	2010
Offshore Leak	2013
Luxembourg Leaks	2014
Swiss Leak	2015
Panama Papers Leak	2016
Bahamas Papers	2016

India ranked 16th in the Swiss leaks database of the International Consortium of Investigative Journalists with $4.1 billion (approximately Rs 268.2 million) in the leaked Swiss files. There were 26,999 bank accounts of Indian clients and 1,668 clients. The maximum amount of money associated with a client connected to India was $876.3 million. The amount detected through the leaked files by itself amounts to 7.07% of the revenue collection from taxes on wealth in India, which was Rs 3,792.3 million in 2013-2014.[399]

In all these information leakages, thousands of names were appeared. There are names which are officially provided by foreign authorities (French, Swiss and German), but no significant action was taken. The Supreme Court has asked to

[399] (Almeida, 2016)

disclose the information shared by foreign authorities, all governments has given reasons for not disclosing it.[400,401]

On November 2, 2015, HSBC whistle-blower, Herve Falciani said he is willing to "cooperate" with the Indian investigative agencies in black money probe but would need "protection". Prashant Bhushan and Yogendra Yadav furnished a letter written by Falciani on 21 August 2015, to Justice (retired) M B Shah, who is heading the SIT on black money.[402] Herve Falciani , further, blamed that he was willing to help to Indian Government, but it did not support him to dig information for HSBC paper leak data.[403]

Swiss Government officially confirmed that the total size of foreign money from across the world in all 283 banks operating in Switzerland stands at about $1.6 trillion.[404]

Demonetisation will not affect to black money stashed abroad.

Black Money involved in Election & Politics

Corruption by the government officials (politicians and bureaucrats) is the biggest source of black money.

Perception of administrative and political corruption in India has risen, with the country having fallen 8 places on Transparency International's Corruption Perception Index. As per Corruption Perception Index 2016, 69% of people are directly paid bribe in a year period.

Those holding public office declare their assets before election. There is no requirement (except in income tax returns) to reflect their assets when they demit office. Such a requirement should be mandatory as such information would be accessible under the RTI Act. Politically exposed persons (PEPs), before they take their pension entitlements, could be subjected to scrutiny with respect to accretions in wealth assets.

Government did not take any action to take politics under RTI or any related activities which will hinder the black money generation and motion in politics.

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[400] https://en.wikipedia.org/wiki/Indian_black_money.

[401] (PTI, 2014)

[402] (PTI, 2015)

[403] (Tiwari, 2016)

[404] (PTI, 2014)

Unprepared call for demonetisation

There are several points which amply say, the demonetisation was a decision made in haste like, unprepared cash back up, even new currency with different dimensions, almost took three weeks to recalibrate it, intensifying the issues.

The above concerns are enough to conclude that black money was not a direct target of the demonetisation move.

New currency became black money within a week

Making a mockery of Prime Minister Narendra Modi's dream of a corruption-free India, a local fund auditor in Mayurbhanj district was caught by Vigilance sleuths on November 15, 2016 while accepting a bribe of Rs 10,000, all new Rs 2,000 currency notes. This is perhaps the first trap case in the country after demonetisation which was done barely a week back to check corruption and wipe out black money.[405]

Counterfeit Currency (Fake Currency)

An important objective of the Narendra Modi government's exercise to pull out the old Rs 500 and Rs 1,000 currency notes and replace them with new currency notes was to eliminate counterfeit currency. The government statement issued soon after Prime Minister Modi addressed the nation about the exercise started by stating that the move to cancel legal tender character of high denomination notes was with a view to curb financing of terrorism through proceeds of Fake Indian Currency Notes (FICN).

Speaking to DNA, senior officials of the National Investigation Agency (NIA) and officers of the state police forces said that taking out 500 and 1000 rupee notes out of circulation will have a lasting impact on the syndicates producing FICN's, thus affecting the funding of terror networks in Jammu and Kashmir, North-eastern states and Naxalite hit states. According to official figures, more than 198 crore rupees worth fake currency has been seized since 2010. In 2010, 24 crore FICN were seized followed by 27.09 crore in 2011, 45.24 crore in 2012, 42.90 crore in 2013, 36.11 crore in 2014 and 22.90 crore in 2015 (till September). A special FICN Co-ordination (FCORD) Group had been formed by the Ministry of Home Affairs to share intelligence among the different state and national security agencies to counter FICN networks.[406]

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405 (Express News Service, 2016)

406 (Javaid, 2016)

The circulation of counterfeit currency poses a serious threat to national economies, financial institutions and consumers worldwide. It fuels the underground economy and finances the activities of organised criminal networks and terrorists. Recent developments in photographic, computer and printing technologies, along with the availability of low-cost equipment, have made the production of counterfeit money relatively easy. There is an obvious financial impact as counterfeit currency reduces the value of genuine currency, has an impact on the consumer through inflation, and leads to monetary losses for companies. There is also a proven connection with organised crime networks that uses counterfeit money to finance illegal activities such as trafficking in human beings and drugs, and even terrorism.

Counterfeit Currency Statistics for FY 2015-16

	FY2014-15			FY 2015-16			
Denomination	Number of Counterfeit Notes	Notes in Circulation	FICN as a proportion of NIC	Number of Counterfeit Notes	Notes in Circulation	FICN as a proportion of NIC	Value of FICN Rs mn
2 and 5	-	11,672,000,000	-	2	11,626,000,000	0.00000000	
10	268	30,304,000,000	0.00000001	134	32,015,000,000	0.00000000	0.00
20	106	4,350,000,000	0.00000002	96	4,924,000,000	0.00000002	0.00
50	7,160	3,487,000,000	0.00000205	6,453	3,890,000,000	0.00000166	0.32
100	181,799	15,026,000,000	0.00001210	221,447	15,778,000,000	0.00001404	22.14
500	273,923	13,128,000,000	0.00002087	261,695	15,707,000,000	0.00001666	130.85
1,000	131,190	5,612,000,000	0.00002338	143,099	6,326,000,000	0.00002262	143.10
Total	594,446	83,579,000,000	0.00000711	632,926	90,266,000,000	0.00000701	296.42

As mentioned in the Annual report of RBI for FY 2015-16, 7.01 pieces of counterfeit notes per million of NIC (Notes in circulation) are floating, on an average. Counterfeiting in lower denomination notes (less than 100 rupee) was negligible, are of Rs 0.32 mn in total; whereas highest FICN notes were in Rs 500 currency, followed by Rs 100 and Rs 1000. In terms of FICN currency in

Parameters	Euro Bank Notes	United Kingdom	USA	India
Counterfeit Notes	899,000.00	248,000	NA	632,926
Currency in Circulation mn	18,000.00	3,421.00	38,100.00	90,266
FICN per mn	49.94	72.49	100.00	7.011787384
1 Counterfeit per*	20,022.25	13,795	10,000.00	142,616.99
Source	ECB for FY2015[409]	Bank of England for FY 2015[410]	Fed Res for Dec 2015[411]	RBI for FY 2015-16

terms of value, FICN of Rs 500 and Rs 1000 contributes to 92.42% of total FICN whereas Rs 100 shares 7.47% of FICN currency.

Counterfeit currency comparison to other countries

Counterfeit money is costing the world economy millions. The currencies which are forged the most in the world are the British pounds, US dollars and Euros. Whereas the least forged currencies are the New Zealand dollars, the South Korean won and the Norwegian krone.

* This ratio is reverse of FICN per mn. It implies notes in which one counterfeit note will be detected.

When comparing the number of detected dinar counterfeits with that of genuine dinar banknote, National Bank of Serbia arrived at a conclusion that 19.2 banknotes in every 1 million of genuine circulating banknotes were fake i.e. RSD 47,593.7 worth of counterfeits in every RSD 1 billion.[407]

In Europe, the €20 and €50 notes continued to be the most counterfeited banknotes. Compared with the figures for the first half of 2015, the proportion of counterfeit €20 notes decreased and that of counterfeit €50 notes increased. Together, they accounted for 83.3% of the counterfeits. Some 454,000 and 445,000 counterfeit euro banknotes were withdrawn from circulation in the first and second half of 2015. This contributes 50 FICN currency per million.[408]

407 (National Bank of Serbia, January 2017)

408 (European Central Bank, 2016)

Of the 90.26 billion Indian currency notes in circulation in 2015-16, no more than 0.63 million, that is 0.0007% or seven in every million, were detected as fake, according to Reserve Bank of India (RBI) data. The value of these fake notes in 2015-16 was Rs 29.64 crore, which was 0.0018 per cent of the Rs 16.41 lakh crore of currency in circulation.

India has substantially low counterfeit currency as compared to USA, UK and Europe, has 7 FICN notes per million whereas Euro, Pound and Dollar are having 50, 72 and 100 FICN currencies respectively.

Simply, the objective of combating counterfeit currency as a reason, for such a big decision of demonetisation when economic losses are certain, is something cynical.

India Statistical Institute never suggested demonetisation for fake currency

The Indian Statistical Institute (ISI) study found fewer counterfeit Rs 1000 notes than Rs 500 ones in circulation, but there were almost an equal number of fakes of Rs 500 and Rs 100. The government, however, decided against scrapping Rs 100 notes. The study conducted by ISI, partnering with the National Investigation Agency, by itself, never suggested any radical demonetisation.[412] In contrast to countries such as Britain, Canada and Mexico, the study found a higher rate of occurrence of FICN in India — estimated at 250 pieces per million. "It was further estimated that attempts are being made to push about Rs 70 crore into the Indian economy every year out of which only one-third is seized," the report said. [413]

Demonetisation a temporary solution for counterfeiting

USA currency bear several anti-counterfeiting features. Two of the most critical anti-counterfeiting features of USA currency are the paper and the ink. The composition of the paper is 75 percent cotton and 25 percent linen. The ink and paper combine to create a distinct texture, particularly as the currency is circulated. The paper and the ink alone have no effect on the value of the dollar until post print. These characteristics can be hard to duplicate without the

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409 (European Central Bank, 2016)

410 (Bank of England)

411 (Board of Governors of Federal Reserve System, 2016)

412 (Tripathi, 2016)

413 (Tripathi, 2016)

proper equipment and materials.[414] Still, US$ is facing counterfeiting problem. Indian demonetisation will only give a break for few weeks.

Counterfeiting of New Currency started within 10 days of release

Its surprise for the Government that fake currency was seized in several part of India in the same month of its launch, November 2016. In Hyderabad, Six members of a gang were arrested on November 26, 2016, on charge of printing Fake Indian Currency Notes (FICN) and conspiring to circulate the counterfeit notes, including newly introduced Rs 2,000 notes.[415]

Madhusudan Meher of Jharsuguda was arrested in Odisha on charges of circulating counterfeits of newly released Rs 2,000 notes, said police on November 22, 2016.[416] Within 10 days of release of new Rs 2000 denomination currency notes by the RBI, thirty-two fake currency notes of Rs 2000 denomination were recovered from the possession of a woman at Samaluguri, Narayanpur in Lakhimpur district of north-eastern Assam on Friday, November 18, 2016.[417]

Within two months of release of new currency, alarm bells rang when counterfeit Rs 2,000 notes, which have replicated nearly 50-60 per cent of the security features, were seized. Security agencies pointed out, that Pakistani counterfeiters have managed to copy 11 out of the 17 security features of the new notes. According to police and security officials, the notes that have been recovered have copied the geometric patterns and the colour scheme both on obverse and the reverse side including watermark, and the exclusive number pattern of the Rs 2,000 currency.[418]

On numerous occasions since November 8, 2016, Prime Minister Narendra Modi has also been highlighting the security features introduced in the new Rs 500, Rs.2000 currency notes. These seizures and copying of security features, again raise an eyebrows with an unanswered question “Is counterfeit currency was real objective for demonetisation?”

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[414] (Wikipedia.org)

[415] (PTI, 2016)

[416] (IANS, 2016)

[417] (The Shillong Times, 2016)

[418] (India Today, 2017)

Comparison of security features of new and old currency

Feature	Withdrawn Currency of Rs 500/1000	New Currency of Rs 2000
Dimensions	The Rs1000 banknote is of 177 × 73 mm The Rs 500 banknote is 167 × 73 mm	Dimension of Rs 2000 banknote will be 166 mm × 66 mm and of Rs 500 is 150 mm x 66 mm
Colour	Rs 1000 notes is Amber-red coloured and Rs 500 is Orange-yellow coloured	Rs 2000 is of Magenta colour and Rs 500 note is stone grey coloured.
Obverse (Front)		
See through Register:	The small floral design printed both on the front (hollow) and back (filled up) of the note in the middle of the vertical band next to the Watermark has an accurate back to back registration. The design will appear as one floral design when seen against the light.	See through register with denominational numeral 2000
Latent Image:	On the obverse side of Rs.1000, Rs.500, Rs.100, Rs.50 and Rs.20 notes, a vertical band on the right side of the Mahatma Gandhi's portrait contains a latent image showing the respective denominational value in numeral. The latent image is visible only when the note is held horizontally at eye level.	Latent image with denominational numeral 2000
Denominational numeral in Devanagari	No	Denominational numeral २००० in Devanagari
Portrait of Mahatma Gandhi	On the right	At the centre
Micro lettering	This feature appears between the vertical band and Mahatma Gandhi portrait. It contains the word 'RBI' in Rs.5 and Rs.10. The notes of Rs.20 and above also contain the denominational value of the notes in micro letters. This feature can be seen better under a magnifying glass	Micro letters 'RBI' and '2000' on the left side of the banknote
Windowed security thread	Rs.1000 and Rs 500 notes contain a readable, windowed security thread alternately visible on the obverse with the inscriptions 'Bharat' (in Hindi), '1000' and 'RBI', but totally embedded on the reverse.	Windowed security thread with inscriptions 'Bharat' (in Hindi), RBI and 2000 on banknotes with colour shift. Colour of the thread changes from green to blue when the note is tilted
Guarantee Clause	Guarantee Clause, Governor's signature with Promise Clause and RBI emblem near bottom of centre	Guarantee Clause, Governor's signature with Promise Clause and RBI emblem towards right
Optically Variable Ink:	Denominational numeral with Rupee Symbol, 2000 in colour changing ink (green to blue) on bottom right	Denominational numeral with Rupee Symbol, 2000 in colour changing ink (green to blue) on bottom right

Ashoka Pillar Emblem	left	Ashoka Pillar emblem on the right Mahatma Gandhi portrait and electrotype (2000) watermarks
Number Panels	Number panel with numerals growing from small to big on the top right side and bottom left side.	Number panel with numerals growing from small to big on the top left side and bottom right side
Watermark:	The Mahatma Gandhi Series of banknotes contain the Mahatma Gandhi watermark with a light and shade effect and multi-directional lines in the watermark window.	The Mahatma Gandhi (New) Series of banknotes contain the Mahatma Gandhi watermark with a light and shade effect and multi-directional lines in the watermark window.
For Visually impaired		
Intaglio Printing	The portrait of Mahatma Gandhi, the Reserve Bank seal, guarantee and promise clause, Ashoka Pillar Emblem on the left, RBI Governor's signature are printed in intaglio i.e. in raised prints, which can be felt by touch.	Intaglio or raised printing of Mahatma Gandhi portrait, Ashoka Pillar emblem, bleed lines and identity mark
Identification mark:	A special feature in intaglio has been introduced on the left of the watermark window on all notes except Rs.10/- note. This feature is in different shapes for various denominations (Rs. 20-Vertical Rectangle, Rs.50-Square, Rs.100-Triangle, Rs.500-Circle, and Rs.1000-Diamond) and helps the visually impaired to identify the denomination.	Horizontal rectangle with 2000 in raised print on the right
Angular Bleed Lines	The banknotes of Rs 500 denomination had five angular bleed lines in three sets of 2-1-2 lines and Rs 1,000 banknotes had six angular bleed lines in four sets of 1-2-2-1 line.	Seven angular bleed lines on left and right side in raised print
On Reverse Side		
Year of Printing	Year of printing of the note near bottom of the centre	Year of printing of the note on the left
Logo	Not there	Swatch Bharat Logo
Language Panel	On the left	Towards the Centre
Motif of Mangalyaan[419]	No	Motif of Mangalyaan
Denominational numeral 2000 in Devanagari[420]	No	Denominational numeral 2000 in Devanagari

[419] The new denomination has Motif of Mangalyaan on the reverse, depicting the country's first venture into the interplanetary space.

The above comparative analysis of the features of new currency, it indicates there are no or minimal enhancement in security features. If curbing the fake currency would be an intention, the RBI and the government would have enhanced security features of the currency denominations.

Higher denomination of Rs 2000 is more prone to fake

High denomination of Rs500 and Rs1000 were withdrawn, saying, black money hoarders use high denomination currency for collecting, storing and distributing as it is easier to handle than low denomination which take more space, if it's in bulk. If this is a reason, then RBI should not have issued Rs 2000 denomination notes which form more convenient denomination over other notes for forging.

Again, if the government is pushing for cashless or low-cash economy, issuance of higher denomination than ceased one may turn its objective futile.

In other hand, need of more money in less time would be a reason making RBI to print Rs 2000 bills. Also printing of higher denominations is cost effective, so government might have decided to print Rs 2000 bill. After observing unavailability of low denomination and Rs 500 notes in economy, SPMCEL[421] started printing Rs 500 and lower denomination from November 22, 2016.[422]

FICN Currency: A more cross border Issue

In previous seizures of fake currency, it is clear that fake currencies are printed outside the national border and are taken to India using Kashmir, Rajasthan, Bangladesh or Nepal route.[423] To curb fake currency, government should address issues like International border security and infiltration. Fake currency syndicate usually use the sectors like realty wherein cash transactions are more.

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420 *Devanagari* or *Devnagari* also called *Nagari* an abugida (alpha syllabary) alphabet of India and Nepal. It is written from left to right, has a strong preference for symmetrical rounded shapes within squared outlines, and is recognisable by a horizontal line that runs along the top of full letters.

421 Security Printing and Minting Corporation of India Limited (SPMCEL) is an Indian government-owned corporation that engages in the production of bank notes, coins, non–judicial stamps, postage stamps, and other government related documents for India.

422 Reply of SPMCEL vide CHO/RTI/10-8/2016/Vol 6/ 6601 dated December 26, 2016 to RTI query of Mr. Anil Galgali.

423 (Javaid, 2016)

It means a complete war should be initiated against black money on every front if government wishes to address fake currency issue.

The Cost of Curbing Counterfeit Money

Changing national currency is an extremely expensive exercise, so this is not a move that any government can implement frequently to purge out fake currency from its economy. Even the USA which has repeatedly faced this problem from organised crime involving countries like Iran (which, ironically, was printing counterfeit dollars using the very mints gifted by the US to the Shah of Iran after his regime toppled) and North Korea.[424]

Replacing all the Rs. 500 and Rs. 1,000 denomination notes with other denominations, as ordered by the government, could cost the Reserve Bank of India at least Rs. 11,906.93 crore (includes printing cost of new currency and old currency)[425], based on the number of notes in circulation and the cost incurred in printing them.[426] It includes the new printing cost as well as old currency cost which will be destroyed. This is just the printing cost. To add on will be the transportation cost and social cost. Social cost is the inconvenience caused to the common people, bank employees, transport employees etc. It is the intangible cost which cannot be quantified.

Is it sensible public policy to flush Rs. 22,091.93[427] crore down the drain to purportedly remove about Rs 400 crore of fake currency?

Restriction on Cash Usage would be a better way

'Cash' as an asset has its own demand. However, in large cash economies, such as India, counterfeit currency poses a major threat to the economy. Countries have attempted to check counterfeiting of currency notes, as it disrupts smooth commercial transactions and has a multiplier effect on mainstream economy. India faces this problem, as immigrants become carriers for small amounts. The

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424 (Raman, 2016)

425 In Cost benefit analysis section of the book, printing cost of new currency and scrapped currency is estimated to Rs 5974 Cr and Rs 5932 Cr respectively.

426 (The Hindu, 2016)

427 It includes cost of printing of new, old and inventory of currencies in addition to logistics cost, ATM calibration cost.

Indo- Bangladesh, Indo-Pakistan and Indo-Nepal borders are targeted for this purpose by agencies inimical to the interests of India. [428]

Government may consider amending existing laws (The Coinage Act 2011, The Reserve Bank of India Act 1934, FEMA, IPC, Cr PC, etc.), or enacting a new law, for regulating the possession and transportation of cash, particularly putting a limitation on cash holdings for private use, and including provisions for confiscation of cash held beyond prescribed limits. This would address the concerns expressed by various courts, and also the Election Commission of India for reducing the influence of money power during elections. [429]

Acquisition of land by cash payment has the consequence of facilitating routing of black incomes and as farmers move elsewhere, chargeability of capital gains on sellers, i.e. farmers, cannot be enforced. Section 194LA, providing for tax deduction at 10% of the consideration paid, enabled monitoring of such transactions. This has encouraged large cash payments to farmers. The provision was not made applicable to agricultural land.[430]

Restriction on cash usage which was again recommended by SIT would be a better solution than demonetisation to fight corruption, black money and counterfeiting.

Terrorism

The currency ban was implemented not just to crack down on unaccounted wealth, but also to starve terrorists and extremists of funds. Union Defence Minister Manohar Parrikar on November 27, 2016, called demonetisation the Prime Minister's "surgical strike" on black money, terrorism funding and drug money.[431]

Demonetisation's objective: To curb terrorism

The government on told the Supreme Court that demonetisation, in addition to stamping out black money in India, would make void fake Indian money printed by "hostile intelligence agencies" - an obvious reference to Pakistan's

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[428] (Central Board of Direct taxes (CBDT), 2012)

[429] (Central Board of Direct taxes (CBDT), 2012)

[430] (Central Board of Direct taxes (CBDT), 2012)

[431] (Currency ban: The effects of demonetisation on terrorism funding, Left-wing extremism in 10 points, 2016)

Inter-Services Intelligence[432], and used to finance terrorist activity in India. Prime Minister Narendra Modi, too, had mentioned terrorism funding provided by "enemies from across the border" when he announced the currency ban on November 8, 2016. [433]

The official added, "Terror groups in Jammu and Kashmir use hawala transactions. Insurgent groups in North-east mostly rely on kidnapping and extortion and same goes for the Naxalites. The cash which would be lying with armed groups has been rendered useless. Furthermore, armed groups will find it very difficult to conduct business or buy arms and explosives using 100 rupee notes due to the logistical inconvenience." [434]

Since the demonetisation of high currency notes terror funding has come down to zero and there hasn't been stone-pelting on security forces, Defence Minister Manohar Parrikar said on November 15, 2016.[435]

Short Term Effect of demonetisation on Terrorism

Apart from, taking on corruption and black money, the step by the Modi government has resulted in peace and calm in the Valley. While police handouts on the situation in the Valley stated that no incidents of stone-pelting were reported from anywhere in the past few days, officials said a major reason behind the sudden decline in violence was that the "money channels" of inciting violence have been sealed.[436]

'Hawala' cash transfers to terrorists and separatists in Kashmir, which were mostly made using the defunct bills, have dried up, an intelligence officer tracking terrorism funding in Jammu and Kashmir said earlier this month.[437] That has made it harder for them to pay young people to stage violent protests.

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432 Inter-Services Intelligence (abbreviated ISI) is the premier intelligence service of Pakistan, operationally responsible for providing critical national security and intelligence assessment to the Government of Pakistan.

433 (Currency ban: The effects of demonetisation on terrorism funding, Left-wing extremism in 10 points, 2016)

434 (Javaid, 2016)

435 (News18.com, 2016)

436 (Business Standard, 2016)

437 (Currency ban: The effects of demonetisation on terrorism funding, Left-wing extremism in 10 points, 2016)

Maoist fronts in metros like Kolkata and Delhi have come forward to publicly oppose demonetisation, with some holding protests demanding a rollback and members of a CPI (Maoist) student wing in Delhi launching propaganda against demonetisation through social media posts.[438]

According to intelligence inputs, Left-wing extremism has been hit hardest by the currency ban. Up to 584 Maoists have surrendered in the last 28 days, and 469 of them did so on or after November 8, 2016 – the day on which the Rs 500 and Rs 1000 notes were demonetised.[439]

In an internal assessment by government on the impact of demonetisation, it has been found that scrapping of Rs 500 and Rs 1000 notes has crippled terror funding, fake currency rackets. The report says:[440]

1. Terror attacks down by 60 per cent: According to government sources, the number of terror related incidents have reduced by almost 60 per cent in Jammu and Kashmir post-demonetisation. They pointed out that only one blast took place in the month of December in the Valley.
2. Hawala business drops by 50 per cent: Demonetisation has affected hawala transactions as per an internal report. The call traffic of hawala agents has dropped by 50 per cent.
3. Fake currency notes racket down: Demonetisation has caused an instant setback to the issue of Pakistan printed high value fake currency notes.
4. The changes in design and improved security features of the new notes have effected printing of fake currency notes.
5. Pakistan had been printing fake Indian currency notes in its government printing press at Quetta and security press in Karachi.
6. Terror funding: The large amount of cash held by the terrorists has turned into worthless piece of paper.
7. Decline in organised stone pelting: Terrorists used Rs 500 and Rs 1000 notes to sponsor organised stone pelting. The government sources said that the terror sponsors gave the old high value currency notes to local

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438 (Bharati Jain, 2016)

439 (Currency ban: The effects of demonetisation on terrorism funding, Left-wing extremism in 10 points, 2016)

440 (Singh M. , 2017)

area commanders in order to instigate local youths to pelt stones on government establishments. Demonetisation has choked the supply of illegal cash.

8. The 4-month unrest in Kashmir valley has witnessed a sharp decline in the frequency of stone pelting incidents.

Correlation of demonetisation on Terrorism

The US Treasury Department's National Terrorist Financing Risk Assessment (2015) report gives the details of innovative terror financing, mostly with a legal facade. Centralised inter-agency coordination is done to deal with global criminal activities like kidnapping, extortion, drug trafficking, charities, bank frauds and state sponsorship to link with funding. Many individuals not directly connected to "charities" were collecting funds through their personal bank accounts and transferring funds to terrorist organisations under proper "cover".[441]

Agree, terrorism is fuelled by terror financing; but whether demonetisation will affect terrorism and terror financing, remains question.

To understand why demonetisation will not affect terror financing, it is important to detach emotions associated with terror attacks and understand that terror is nothing more than an instrument of war leveraged by a 'weaker' adversary against a conventionally stronger one. The strategic intent of terrorism is not to kill people; instead it is to compel and influence far beyond the capability of the weaker adversary. [442]

Demonetisation has taken away currency form the public and hence from the terrorist. It's a temporary, once public will have access to currency, terrorist will also.

Terrorists have certain *modus operandi*. It is researched that they never hire crime cartels because they shift loyalty. Dawood might have been used by a hostile government once, but terror cartels never "outsource" their campaigns. Funds are moved using phoney legal means, although their origin might be through crimes like robbery, extortion or fraud. Terrorists usually do not collect funds from the places of their residence and certainly not in the country where attacks are planned. [443]

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[441] (Balachandran, 2016)

[442] (Raman, 2016)

[443] (Balachandran, 2016)

New Currencies with Terrorists

The government's claim of reduction in terrorism due to unavailability of new currencies with terrorist turned to be void. Two freshly-minted Rs 2,000 notes were recovered last week from the bodies of two terrorists who'd been gunned down in an encounter with security forces in Bandipora, Jammu and Kashmir.[444]

There are hundreds of ways to reach to legal tender hence its next to impossible to restrict anybody from accessing new currency, regardless he is terrorist, Naxalite or a common.

Role of Virtual Currency in Terrorism

While some ministers have asserted that funding for terrorists has taken a hit after the currency ban, Congress leader Mr. Digvijaya Singh took exception to that idea last week. Bitcoin, a digital currency that's "impossible to trace", is widely used for funding terrorists and by drug-peddlers, he claimed.[445]

The bitcoin, a virtual unit of account stored on an electronic device, enables a community of users to exchange them for goods and services without having to resort to regulate currency. To pay for their purchases on the Darknet, surfers use this virtual currency, which guarantees confidentiality. Transactions are anonymous and the seller does not know the buyer. The only information revealed is the delivery address. The guarantee of anonymity offered by Bitcoin transactions on the internet means that no personal information is necessary to carry out exchanges, and transaction costs, which are reputed to be low, have attracted the interest of a growing number of Internet users.

This risk is also the subject of a focal point in the 2011 activity report of the TRACFIN, which identifies the use of the virtual currency, and particularly the bitcoin, as being at the origin of a specific risk in terms of LCB-FT.[446] Internationally, the Financial Action Task Force (FATF) adopted and published

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444 (Currency ban: The effects of demonetisation on terrorism funding, Left-wing extremism in 10 points, 2016)

445 (Currency ban: The effects of demonetisation on terrorism funding, Left-wing extremism in 10 points, 2016)

446 LCB-FT stands for Lutte Contre Le Blanchiment Des Capitaux Et Le Financement Du Terrorisme which means in english 'anti-money laundering and counter-terrorism provisions.'

guidelines for new payment methods, which also mention the risk of LCB-FT related to virtual currencies which are exchangeable or reimbursable.[447]

Terrorism attack in the same month of demonetisation

The joint ambush by the anti-talks ULFA and NSCN(K) in Pengari, Assam on November 19, 2016, killing three army Jawans is a clear indication that terrorists would strike with or without demonetisation. Thus "ending terrorism through demonetisation" will remain only a political slogan. [448]

Poor Counter terrorism machinery in India

Unfortunately, in India, such centralised monitoring is rendered difficult with a structural inadequacy and bureaucratic inelasticity to keep pace with innovative terrorism. Our counter-terrorism (CT) machinery is under 29 state governments and the NIA has not expanded to take over a country-wide mandate. It is the quality of our CT machinery which prevents terrorism and not our currency.[449]

Global research has now found that terrorists seldom use tax dodgers or *hawala* agents of target countries as they are known to local agencies.

Cashless Economy

Demonetisation was announced as black money measure; simultaneously the government also initiated a big campaign to create a cashless economy, citing it as one of the objectives of demonetisation and bring all transactions under tax scrutiny.

India has a large cash economy due to dependence on agriculture, and existence of non-formal sector and insufficient banking infrastructure. Further, the RBI

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[447] (Union des Fabricants, 2016)

[448] (Balachandran, 2016)

[449] That is why we had to be alerted by the British Channel 4 to locate the "Shami Witness" in December 2014. As a result, India never took note of the ISIS threat until late 2015, although the government was warned since 2014 by many, including this writer. Strangely even as late as May 24, 2016, our home minister had maintained that ISIS posed no threat to India.Again it was only during late 2015 that we started considering the need for de-radicalisation despite global indications of its benefits. The UK was saved from the ISIS when it was trampling upon Europe only because of its "channel process" programme from 2009. Under this, 4,50,000 frontline staff were trained on the legal "prevent" strategy, supplementing vigilance by the MI-5 and local police. UK has been terror free since 2013 even though nearly 850 of its youth had joined ISIS. [449]

has attributed the growth and strength in the cash economy to factors like acceleration in per capita real GDP growth, commercialisation of agriculture and urbanisation and availability of higher denomination notes. In a recent judgement delivered by Hon'ble Kerala High Court, the Court has suggested putting restrictions on possession and handling of cash above certain limits. In an earlier case, Hon'ble Supreme Court had also observed that "The nation is facing terrorist threats. Transportation of large sums of money is associated with distribution of funds for terrorist activities, illegal pay offs, etc. There is also rampant circulation of unaccounted black money destroying the economy of the country." [450]

Cash in Circulation as on March 31, 2016

March Ended	FY2014-15	FY2014-15	FY 2015-16	FY2015-16	FY 2015-16
Denomination	Notes in Circulation	Value of Notes in Circulation (in bn)	Notes in Circulation	Value of Notes in Circulation (in bn)	Growth in Notes in Circulation
2 and 5	11,672,000,000	46	11,626,000,000	45	-2.17%
10	30,304,000,000	303	32,015,000,000	320	5.65%
20	4,350,000,000	87	4,924,000,000	98	13.20%
50	3,487,000,000	174	3,890,000,000	195	11.56%
100	15,026,000,000	1,503	15,778,000,000	1,578	5.00%
500	13,128,000,000	6,564	15,707,000,000	7,854	19.65%
1,000	5,612,000,000	5,612	6,326,000,000	6,326	12.72%
Total	83,579,000,000	14,289	90,266,000,000	16,415	14.89%

Growth/ Increase in Cash in Circulation

At the end of March 2016, the value of banknotes in circulation was Rs.16,415 billion showing an increase of 14.9 per cent as against 11.4 per cent in 2014-15. On March 31, 2013-14, the value of bank notes in circulation was Rs. 12,829 bn. The growth in currency over last two years that is from FY 2013-14 to FY2015-16 was 28%. The currency notes in circulation increased by 4 per cent from Rs

[450] (Central Board of Direct taxes (CBDT), 2012)

16,415 billion as on March 31, 2016 to Rs 17,077.16 billion as on June 30, 2016.[451]

The currency growth within 2.25 years[452] was 33.11% up to June 30, 2016. This simply suspects if the Modi government has any intention to promote cashless transactions; else they would have not increased 33.11% cash in circulation.

Cash in circulation as on November 8, 2016

RBI's weekly bulletin (WSS) which says currency in circulation on November 4, 2016 (closest date to demonetisation announcement date November 8, 2016) was Rs 17.19 lac crore. On March 10, 2017, RBI published a report 'Macroeconomic Impact of Demonetisation - a Preliminary Assessment' said that 15.4 lac crore contributing 86.9% of total currency in circulation, was terminated. This means Rs 17.7 lac crore currencies was in circulation as on November 8, 2016.

It indicates that there is slight increase in currency by Rs 0.5 lac crores within 4 days. If government has planned the demonetisation, even this negligible change raises eyebrows. Though there is not denomination wise currency reports available for both these dates, denominations of increased currency cannot be judged.

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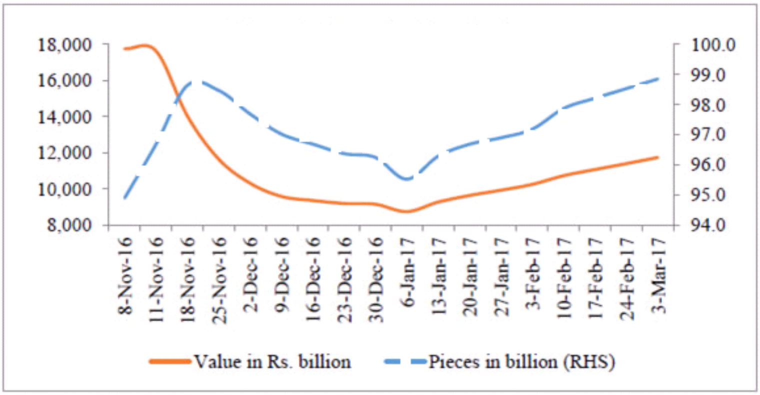
451 (RBI, 2016)

452 During this tenure, BJP government was in power, headed by PM Mr. Narendra Modi.

Chart of currency notes in circulation from announcement date is as:



Source: RBI

Further, the RBI refused to provide details of distribution of banknotes between November 9 and November 19, citing a provision in the Right to Information Act that allows a public authority to hold back information.[453]

More contradicting information received, RBI has provided information about currency in stock as on November 8, 2016 as a reply to RTI query raised by Mr Anil Galgali as:

Denomination Notes	10	20	50	100	500	1000	Total
Total Pieces in Million	40,825.59	9,497.11	6,586.83	24,983.29	22,760.51	9,131.41	113,784.74
Total Value in billion	408.26	189.94	329.34	2,498.33	11,380.25	9,131.41	23,937.53

This information shows that there was a stock of Rs 20.51 lac Crores of cancelled currency on demonetisation date. If the government has planned it earlier, why did it keep such a high inventory?

Denomination Notes	Rs 500	Rs 2000
Total Pieces in Million	-	2,473.20
Total Value in Billion	-	4,946.40

[453] Even the Author has filed couple of RTI queries with RBI. RBI replied with vague reply without any financial/ quantitative information.

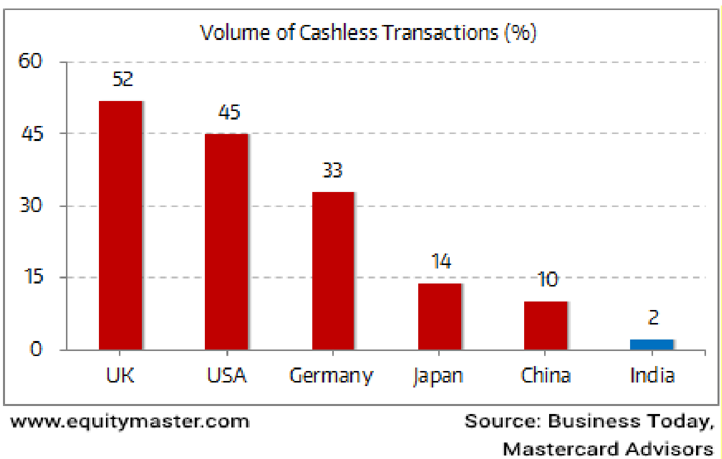
This inventory status of new currency notes means demon was not planned methodically.

These figures are not matching with any of the figures mentioned in WSS and March 2017' Assessment Report. Also, it shows there was no new Rs 500 denomination currency available which is again contradicting with the statement of the Governor.

India in Global Cashless Transactions

Global non-cash transaction volume reached to 387.3 bn in 2014, showing growth of 8.9% over previous year. The historic growth was posted by Emerging Asia, more particularly China and India. China grew with 47% (highest since 2000) and India with 13.4%. While growth in non-cash transaction in India is improving, it is still below full market potential. National Payment Corporation of India is promoting UPI and BHIM to increase penetration.[454]

In terms of volume, India is way behind the globe in cashless transactions; just about 2% of the volume of economic transactions of 2013 in India, was cashless.[455,456]



454 (2016 World Payment Report, 2016)

455 (BT Online, 2016)

456 (Thomas, 2013)

This figure indicates huge potential for cashless economy/ transactions, on contrary, 'the Readiness Scores Indicating Presence of Macro-Economic Pre-requisites for Going Cashless' of India is 29[457] out of 100. Further, AT Kernerly report of 2013 stated that India has to focus on fundamental, a primary level to go for digital banking.[458] It indicates unavailability of proper banking infrastructure to make cashless economy.

Effect of Demonetisation on Non-Cash Transaction

To encourage people shift to digital transactions the Modi-government announced a slew of initiatives in early December. This includes discounts on purchase of fuel and insurance products through digital modes. The government's campaign to nudge people to move towards non-cash transactions has shown some results. The following table shows how non-cash transactions have increased post the demonetisation announcement:[459]

Demonetisation impact on cashless transactions:

Rupay Card	8-Nov-16	26-Dec-16
Transactions	3.85 L	21 L
Value	39.17 Cr	282 Cr

E-wallet	8-Nov-16	26-Dec-16
Transactions	22 L	75 L
Value	88 Cr	293 Cr

UPI	8-Nov-16	26-Dec-16
Transactions	3721	76681
Value	2.93 Cr	35 Cr

457 (Thomas, 2013)

458 (AT Kearney; Efma, 2013)

459 (FirstPost, 2017)

USSD	8-Nov-16	26-Dec-16
Transactions	97	4796
Value	1 L	57 L

POS	8-Nov-16	26-Dec-16
Transactions	50.2 L	98.1 L
Value	1221 Cr	1751.3 Cr

A surge in non-cash transactions through digital options such as mobile wallets and debit cards is a clear sign that India is embracing the cashless economy. But, it will continue growth until new currency notes come into circulation.

It is expected that cash-liquidity situation to stabilise at some point, probably in April 2017. This will be a paradigm shift in the transactions, on both, the buyer's and seller's side. "There has been a large-scale mind set shift, both on the consumer side as well as retailer side. People have started exploring alternative of cash transaction to reduce dependence on it.

MobiKwik co-founder Ms. Upasana Taku said, "Because of this change, digital payments in India will increase 2.5 times over the next 6-9 months," she said. [460]

India's Banking Penetration

India has the highest number of bank branches in the world. According to IMF data for 2015 there are over 1.2 lakh bank branches in India, followed by China and Colombia with over 95,680 and 94,074 bank branches respectively. RBI data for the June 2016 quarter shows India now has over 1.3 lac bank branches.[461]

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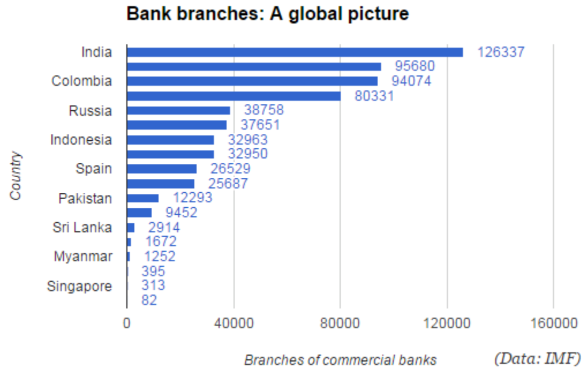
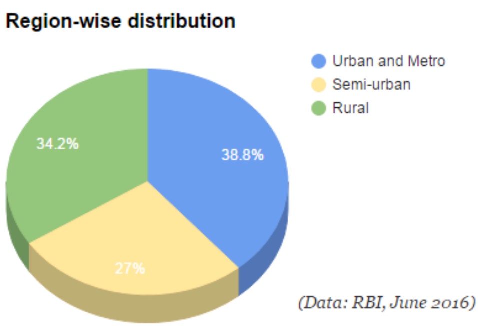
[460] (Bhargava, 2016)

[461] (Jain M. , 2016)



There's an almost even distribution of bank branches in rural and urban areas. The overall spread between the rural, semi-urban and the urban (including metropolitan) areas is fairly even in terms of numbers. While over 38 per cent of all bank branches are concentrated in urban areas, nearly 34 per cent are in the rural areas, with the remaining in the semi-urban areas.

India has rural population of 67%[462] and bank density is too less as compared to urban and semi-urban. Demonetisation, has affected it worse as this rural economy is mainly cash driven.



Banking Penetration

Despite this feat, India has far fewer banks compared to its population size. There only 13.54 bank branches per 1 lakh adults. Colombia, with 257.69 bank branches per lac adults, tops this list. Among our neighbouring countries, Sri Lanka has better reach with nearly 18.58 bank branches per lac people. China,

462 (The World Bank)

Pakistan and Nepal have around 8 bank branches per 1 lac people, and Myanmar has the least with just 3.3.

Country	Commercial bank branches (per 100,000 adults)
India	13.5
USA	32.9
UK	29
Australia	28.7
Singapore	9.3
Hong Kong	22.3
Pakistan	10
Sri Lanka	18.6
Indonesia	17.8
Bhutan	15.4
France	37.5
Germany	14.1
Italy	49.5
Philippines	8.8
Bangladesh	8.4
Brazil	20.7
China	8.4
Russia	32.9
Canada	23.6
World	12.7

Source: The World Bank for 2015

On the basis of geographic coverage, India has 42.54 bank branches per 1,000 sq km. China, given its vast geographical size, has just over 9.5 bank branches per 1,000 sq. km. [463]

Bank Account Holders

The table below indicates banking penetration in terms of % of people over an age of 15 holding bank accounts in different countries.[464]

Country	Account at a financial institution (% age 15+)
India	52.8
USA	93.6
UK	98.9
Australia	98.9
Singapore	96.4
Hong Kong	96.1
Pakistan	8.7
Sri Lanka	82.7
Indonesia	35.9
Bhutan	33.7
France	96.6
Germany	98.8
Italy	87.3
Philippines	28.1
Bangladesh	29.1
Brazil	68.1
China	78.9

463 (Jain M. , 2016)

464 World Bank 2015: Data taken from website as on February 10, 2016

Russia	67.4
Canada	99.1
World	60.7

Only 53 per cent of the country's population had bank accounts as against 79 per cent in China and more than 90 per cent in the U.K., the U.S. and Germany.[465]

ATM Penetration

ATM penetration is again an important banking infrastructure. India has 19.71 ATMs per lac of Indian population. India's ATM penetration is lower than countries like USA, UK, Australia and most of European countries. India ranks even low to other BRIC[466] countries and even to world average.

Country	ATMs per 100,000 adults
India	19.71
USA*	164.87
UK	131.59
Australia	164.62
Singapore	59.98
Hong Kong	49.75
Pakistan	8.79
Sri Lanka	17.16
Indonesia	53.31
Bhutan	26.82
France	106.98
Germany	121.1

465 (The Hindu, 2016)

466 BRIC constitutes countries Brazil, Russia, India and China.

Italy	96.13
Philippines	25.27
Bangladesh	6.79
Brazil	114
China	76.37
Russia	172.97
Canada	220.52
World	40.55

In India, most of the ATMs are placed in metro and tier-1 and tier 2 cities, the ratio in rural India is poorer to metros and mini metros.

Internet Penetration

To make a country cashless or less-cash, internet penetration is important factor to bank on. India has 26 internet users per 100 people whereas UK and USA have 92% and 74.5% internet penetration. India has lowest internet penetration in BRIC and again it ranks below world average of 44. Surprisingly, India lags to Bhutan and Sri Lanka with 39% and 30% internet users.

Country	Internet users (per 100 people)
India	26
USA	74.5
UK	92
Australia	84.6
Singapore	82.1
Hong Kong	84.9
Pakistan	18
Sri Lanka	30
Indonesia	22
Bhutan	39.8

France	84.7
Germany	87.6
Italy	65.6
Philippines	40.7
Bangladesh	14.4
Brazil	59.1
China	50.3
Russia	73.4
Canada	88.5
World	44

World Bank 2015 Figures (http://data.worldbank.org)

Mobile Banking

Mobile banking has taken a pace in last couple of years. Many banks have come up with mobile applications facilitating m-banking. It makes mobile subscription also important factor if the economy is ready for cashless or low-cash. Alike, other parameters, India also lags in this factor, even to world average of 99 and also countries like Bhutan, Bangladesh and Sri Lanka.

Country	Mobile cellular subscriptions (per 100 people)
India	79
USA	118
UK	126
Australia	133
Singapore	146
Hong Kong	229
Pakistan	67
Sri Lanka	113
Indonesia	132

Bhutan	87
France	103
Germany	117
Italy	151
Philippines	118
Bangladesh	83
Brazil	127
China	93
Russia	160
Canada	82
World	99

Demonetisation can't be an objective for cashless economy

Earlier sections have detailed about banking penetration and infrastructure available in India. These figures are clear indicator of poor infrastructure, signifies Indian economy is not yet matured to be a casheless. Few more factors, non-numeric, are discussed herein.

Cash as a commodity

Cash, like any other commodity in the world, circulates in India because there is demand for it. Had it been useless, the RBI would not have been required to print currency notes worth in excess of 17 lakh crore. By creating an artificial shortfall, the government thinks people would be forced to look for alternatives in places where none exist.

It is like asking people to stop breathing oxygen and instead try carbon dioxide or nitrogen. In the end, it will choke the economy.

This is evident from the experience of many other developed countries. Cash in circulation is around 12.25 percent of the Indian GDP as on March 31, 2016. Demonetisation is impractical; it would lead to a lot of pain unless the government and the central bank have the contingency plan ready to put cash back into the system without delay. In this case, there wasn't any such plan ready. [467]

Cash is Preferred for transaction

As the demonetisation process continues, Modi's rhetoric is less about fighting corruption and more about transitioning India to a cashless economy.

India is an incredibly cash-centric economy. Cash lends itself certain characteristics of universal acceptance with no language barrier, simplicity of use and speed of payment; higher cash to GDP in economy also favour cash transactions indirectly. Cash accounted for upwards of 95% (98% in 2013[468]) of all transactions, 90% of vendors didn't have card readers or the means of accepting electronic payments, 85% of workers were paid in cash, and almost half of the population didn't even have bank accounts. In 2015, Indian cash contributed to 78% of overall consumer payment and left 22% is done by non-cash transactions (13% digital banking, 7% cards and 2% by cheques).[469] Even Uber in India accepted cash in India, the only country in the world where this option is available and "Cash on Delivery" was the preferred choice of 70% of all online shoppers.[470]

Tidal Shift to cashless is unsustainable

A tidal shift from hard currency to digital money will need to be accompanied by an equally massive effort on securing the systems, educating millions of technology challenged users and setting up of cyber defence capabilities. [471]

India does not have the suitable infrastructure like computer literacy (users), internet and banking penetration as in developed economies. India should focus on the infrastructure factors required for cashless or less-cash economy, and then only it would be wise to think about it.

The surge in cashless transaction in the month of November and December 2016 were predictable, but these transactions will start bottoming up once cash is available in the economy.

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467 (Sharma S. , 2016)

468 (Thomas, 2013)

469 (Alpesh Shah, 2016 July)

470 (Shepard, 2016)

471 (Raman, 2016)

Cashless need not to be Terror-free

Subsequent demonetisation discourses saw official assertions that a "cashless economy" would end "black money" to make us "terror-free". But a "cashless economy" need not be "terror-free". In November 2014, CNBC conducted a survey of the 10 top "cashless" societies. It found Belgium to be the world's top cashless society with 93 per cent non-cash consumer payments and 83 per cent debit card use. France was second, then Canada, the UK, Sweden, Australia, Holland, the US, Germany and South Korea. [472]

Unfortunately, Belgium and France were also the worst victims of indigenous and trans-border terrorism. This rampage started on January 7, 2015, with the Charlie Hebdo attacks in Paris. France did not detect that Amedy Coulibaly and Medi Nemmouche had bought their weapons from Brussels. Nor did Belgian agencies know that Molenbeek, a small 5.8-sq km area in their country was Islamic State's busiest terror incubating unit in the world. This long bloody spree saw 15 serious terror incidents, killing 254 innocents and 16 terrorists. [473]

Is India ready for Cashless economy

In one sense, demonetisation looks sensible to make India cashless; but is India ready for it? To get answer for this, we have to understand few aspects of Indian economy:

1. There are 13.5 bank branches per one lac population. In rural India, the figure stands close to 8 bank branches per one lakh Indians. This shows that a majority of rural India has very little access to banks and the organised financial sector. They rely heavily on cash and the informal credit system.
2. Then, we have just 2.05 lac ATMs in the country for a population of over 1.29 billion people, that's a very small number. A majority of ATMs are concentrated in metros and cities. For instance, Delhi has more ATMs than the entire state of Rajasthan.
3. In India ATMs per lac population is 19.71 which is much below the world average of 40.55.
4. Indian Banking penetration in terms of number of bank account holders above 15 year of age is 52.8% which is again below world average of 60%.

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472 (Balachandran, 2016)

473 (Balachandran, 2016)

5. Given the poor penetration of banks and formal sector financial services in rural India, Modi's cashless economy dream seems cloudy.

Lack of clarity of Government for it motive

What began as a sure-fire "surgical strike" on black money has mysteriously metamorphosed into a campaign for digital economy and cashless life. It was observed that Government's objective of demonetisation as the attack on black money, terrorism and counterfeits didn't prove right, and then it is declared as a tool for cashless economy. This made the government, even and RBI, to suffer trust deficit.

Trust deficit can be seen in Sandeepan Sharma's sarcastic writing over the Government's unclear vision, "first it was a war on black money, then against terror funding, then against counterfeit currency, and then it's about cashless economy.'" He further puts his views as unclear motive behind demonetisation as, "Next, it would be a drive to save trees by using less paper for printing notes; then to make everyone lose a bit of weight, of the cash in their wallet; and finally, to ensure nobody calls '*Sonam Gupta bewafa hai*'[474] on currency notes."[475]

Hit on the Roots of Corruption & Black Money:

To combat corruption and black money, a bi-edged sword is needed, one edge with preventative measure and other with breakdown measures.

1. Change Mentality "Proud to be Indian, don't donate in cash, help yourself to clean India" in all charitable institutions
2. Improve system: plug loopholes of the system
3. Strict actions against corrupt practices.
4. Impose restrictions on cash transaction
5. Restrict cash usage in election and political system: Empower EC and take political party under RTI.
6. Improve administrative and judicial system effectiveness.

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[474] An old Rs. 10 note surfaced with "Sonam Gupta bewafa hai" (Sonam Gupta is unfaithful) written on it, gone viral on Twitter. (It is illegal to write on Indian currency in India.) Someone wrote the message once again, this time on a brand new and much coveted Rs 2,000 note, gone public. (Business Standard dated November 16, 2016;Indian Express dated November 17, 2016)

[475] (Sharma S. , 2016)

Breakdown measures will address three issues:

1. Strict actions against one involved in generation of black Money
2. Strict regulatory action against one facilitating black money investment in land, jewellery, CP, bonds, equity etc.
3. Strict Actions against support system like *hawala*, money laundering, routing to tax haven, etc.

If High Currency Denomination is source of Corruption, then Rs 2000 note?

Reason for demonetising high value was given as Rs 500 and Rs 1000 denominations are used to store black money, as high denomination notes are easy to store. If this is a reason, then what would be a rationale to introduce higher currency of Rs 2000 than extinguished currencies; it will garner more convenient way for corrupt practices and black money.

Demonetisation: Was it at right time?

Indian government should have to focus on economic growth (GDP), industrial growth (IIP), private and public investment, development of infrastructure, logistics, promote tourism and fuel private consumption. Also, in last 2 years, government has started many projects like Start-Up India, Stand-Up India, Clean India (Swatch Bharat), and GST implementation etc., many of these projects are in pipeline and could not reach to concluding end. Because of demonetisation, all of these projects will be delayed for some time, infrastructure development and employment creation was priority earlier, has taken back stage.

To fuel the economy, cash is important, and specifically for a country like India which has dominant informal economy. So, curbing cash would only harm the growth of economy.

Ways to Convert Black Money to White Even After Demonetisation

Government has announced demonetisation with aim of restricting black money to enter the banking system is difficult to achieve. Current economic system has several loopholes to covert ill-gotten money to legitimate, these ways are mentioned herein:

1. Temple donations. There are reports of people giving their black money to temple 'hundis' or donation boxes. Temple managements will show this money as anonymous donations, exchange it for new currency notes, keep a commission for this service, and return most of it to the owner. The government has already clarified that temple hundis will not be asked questions. ABP news showed a sting operation

in which the priest of Govardhan temple in Mathura was willing to convert Rs 50 lakh of black money into white for a 20% commission.[476] There have been such reports from different parts of the country.

2. Back-dated FDs in co-operative banks and credit societies: Since cooperative banks still do a lot of their work manually, it is reported that such institutions have issued fixed deposit receipts in back date. Owners of black money have reportedly been able to get various FDs in such institutions in names of various villagers in back dates. After paying a commission to villagers in whose name money is deposited, and rest money will be collected by depositors.[477] Non-banking financial institutions which accept such deposits are also reportedly acting similarly in helping convert black money into white. Such institutions have long been alleged to be indulging in money laundering. The level of regulation of such institutions differs from state to state.

3. Using poor people as money mules: As the poor stand in queues at banks to exchange their currency notes, there are reports of them being used to convert black money into white. This doesn't even need a co-operative bank. Black money are reportedly finding poor people to deposit Rs 2.5 lakh in cash, since the government has said deposits up to that amount won't be questioned. Such people will then ask to withdraw the entire amount soon, keep some to them and return most of it. Since this requires trust, black money hoarders are first and foremost using their staff and their relatives.

4. Giving loans to poor people: Funnelling money through poor people whose bank transactions will not arouse suspicion, is giving way to many creative enterprises. There are also people willing to give interest free loans to the poor, which may seem like a good impact of demonetisation but is actually an effort to convert black money into white and defeat the purpose.

5. Finding Jan Dhan account holders: Jan Dhan accounts have started showing high cash deposits since demonetisation and a part of it is suspected to be black money being laundered. The problem of using poor people as money mules is that they may not have bank accounts. With the banking system overloaded, opening new accounts may take a few days. The government keeps boasting about having opened crores

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[476] (ABP Live, 2016)

[477] (Vij, 2016)

of Jan Dhan accounts but most have seen barely any transactions. Jan Dhan accounts can have deposits up to Rs 1 lakh a year but there are also Jan Dhan accounts which have a lower limit of Rs 50,000 if they don't adhere to Know Your Customer norms. While the government says it will monitor unusual activity in Jan Dhan accounts, it will be easy for a poor person to say the small amount was his life saving at home. There have been concerns about the use of Jan Dhan accounts for hawala operations since the scheme was launched in 2014.

6. Approaching the banknote mafia: Overnight, a banknote mafia has emerged. These are people accepting old Rs 500 and 1,000 notes and giving back anywhere from 15% to 80% of the value in Rs 100 notes. The people collecting old notes will be able to earn a profit by converting them into white, new currency through poor people, or through other means

7. Paying advance salaries: Businesses having black money have reportedly used old notes of Rs 500 and 1,000 to pay advance salaries for anywhere between the next 3 to 8 months. The idea is to pay each employee less than Rs 2.5 lakh – the limit above which deposits will be examined. In Gujarat, some businesses are reported to have opened salary accounts and deposit advance salaries, keeping their debit cards with company itself. This way they will be able to deposit old currency notes before December 30, 2016 and withdraw new ones easily, without attracting the attention of the income tax department.

8. Filling fuel at Petrol Pumps: People who are in transportation business having 100 or more vehicles, can use old currency to buy fuel. Even if they have more cash, they can store fuel after buying it in old currency and can use in future.

9. Booking and cancelling train tickets: Since old notes are being accepted till November 14, 2016 to book train tickets, there has been a surge in booking expensive train tickets that people intend to cancel later and get refunds in new notes, with a small cancellation fee. Number of expensive first AC tickets booked per day, have increased many folds. As a result, the railways have said, "refunds won't be in cash". But since these bookings are being made through travel agents, even refunds through electronic transfers mean the travel agent will be able to return large sums in new currency notes.

10. Using professional money laundering firms: Run by professionals or chartered accountants, there are money laundering companies, most famously in Kolkata but elsewhere too, which specialise in converting

black money into white while evading the taxman. Known as '*Jama-Kharchi*' firms in Kolkata and '*Pad-Pedi*' or (or '*Patpedi*') in Mumbai or, they launder money by using businesses such as highway transport which run completely on cash. These 'cash-in-hand' firms match the needs of companies which need short-term funds with those who have excess black money to park. Showing back-dated transactions in the current fiscal is not difficult for such firms. They are said to be burning the midnight oil till December 30, 2016.

11. Buying gold: Gold prices shot up because many black money hoarders rushed to jewellery shops as soon as Prime Minister Narendra Modi made the demonetisation announcement on November 8, 2016. Many black money owners made the most of four hours they had and bought gold till midnight. There, also, have been reports of gold selling in back-dated transactions. Jewellers happily sold gold at a high premium. In some shops the demand was so high there was pandemonium with buyers fighting amongst each other to be able to buy first. The government has asked top jewellers to give details of gold transactions after the demonetisation.

12. Using farmers: Since agricultural income is not taxed, a farmer can easily say he got this much cash from the '*mandi*' by selling his produce before demonetisation, and here's the old currency, now please exchange it for new one. In this way, any farmer could help launder money, from old currency notes to new ones, for a cut. An investment advisor told Rediff, "The agricultural income in this country is going to be fabulously high this year, immaterial if the crop is good or poor."

13. Using political parties: Since political parties can collect donations of Rs 20,000 or less, without revealing identity of donor and their income tax PAN number. Political parties and these donors will have win-win situation due to demonetisation. A political party can declare it as collection or donations receipt before demonetisation. That also raises the fear that political parties could actually use this method to launder black money.

14. Declaring in in 2016-17 with paying taxes: The finance ministry said those who deposit large sums of cash that don't match their income, may have to pay up to 200% tax. In other words, their money could be confiscated and they may have to pay the same amount as penalty. However, income tax authorities say this may not be legally possible. One can put a large amount of cash in bank, showing it as income from 'other sources' in the current assessment year, and pay 33% income tax on it. To be able to levy income tax penalty on your deposit, the

government will have to be able to prove you didn't earn this cash in the current assessment year.

15. Using Tax Holiday States of India: In the North East, where citizens are exempted from paying income tax, the story is repeating as happed in 1978, people transporting cash to north-east, and deposit in local citizen with some commission. As per section 10(26) of the Income Tax Act, a member of a Scheduled Tribe residing in any area specified in the Sixth Schedule of the Constitution which covers autonomous administrative areas like Dima Hasao, Karbi Anglong and Bodoland Territorial Area District in Assam, and the Khasi, Jaintia and Garo hills in Meghalaya or the states of Arunachal Pradesh, Manipur, Mizoram, Nagaland and Tripura, is exempted from paying tax on any income that accrues from any source in the concerned area or state.
16. Lending it to builders or other businesses at lower interest rates: Interest rates have dropped to 5% from as high as 30% in the grey market, where a flourishing under-the-counter lending business has been stifled by demonetisation. Under grey market lending schemes, investor's pool in money that is lent to real estate developers, small companies and people in distress at high interest rates. These loans are given in cash without written agreements.[478 & 479]

These ways will surely use by Indians who are part of major corrupt country, their acceptance of corruption at all levels made the social system corrupt which is more dangerous than economic corruption as it will take generations to improve social system. Utilisation of one or more of these ways will make demonetisation ineffective.

Demonetisation, however, will also exacerbate a new challenge as India will be nudged towards a cashless economy or more pragmatically, a 'less cash' economy. Poor banking infrastructure in India is a key concern which makes transition difficult to cash-less economy.

Damage control practices in manipulating ill effects of Demonetisation

The Government has made changes in economic parameters like changing base year for WPI and IIP components and weightage. It seems these changes do not have any effect on ground level reality whereas it will impact economic

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[478] (ET Bureau, 2016)

[479] (Dhanorkar, 2016)

parameters on paper; more importantly will favour demonetisation, can be considered as damage control measures.

IIP Composition & Weightage Change

On the basis of new series of Index of Industrial Production (IIP) introduced by Modi Government, IIP grew 2.7 per cent in March 2017 as against 1.9 per cent a month ago. Modi Government has introduced a new category of infrastructure/ construction goods in IIP, while the category of basic goods has now been renamed as primary goods. As per the new data, the manufacturing sector output slowed to 1.2 per cent in March 2017, from 5 per cent growth in the same month last year, while electricity generation slowed to 6.2 per cent, from 11.9 per cent in March last year. The mining sector, however, expanded by 9.7 per cent in March 2017 compared to a growth of 4.7 per cent last year.[480] It's effect was in favour of the Government.

As on April 6, 2017, the country's solar grid had a cumulative capacity of 12.28 GW.[481] India quadrupled its solar-generation capacity from 2,650 MW on May 26, 2014 to 12,289 MW on March10, 2017. The country added 3.01 GW of solar capacity in 2015-2016 and 5.525 GW in 2016-2017, the highest of any year.[482] The Government of India is taking a number of steps and initiatives like 10-year tax exemption for solar energy projects, etc., in order to achieve India's ambitious renewable energy targets of adding 175 GW of renewable energy, including addition of 100 GW of solar power, by the year 2022. So, addition of solar and infrastructure category will be positive for the IIP and GDP. Also, reduction in cost of solar projects in last few years also reduces WPI, positively work of real GDP.

Several items such as carrots, walnuts, natural gas have been added to the new WPI besides changes in weights assigned to the commodities. The new IIP series has added solar energy, hormonal preparations and gold to the basket of commodities that will be tracked while removing items such as gutka, flavoured milk, leather shoes and tooth powder to reflect changes in production.

Around two years ago, the Government came up with a new methodology to calculate GDP. This exercise did little to change things on ground level. However, it did help the Government's report card look well. The GDP growth numbers as per new calculation were higher than as reflected by earlier

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480 (ENS Economic Bureau, 2017)

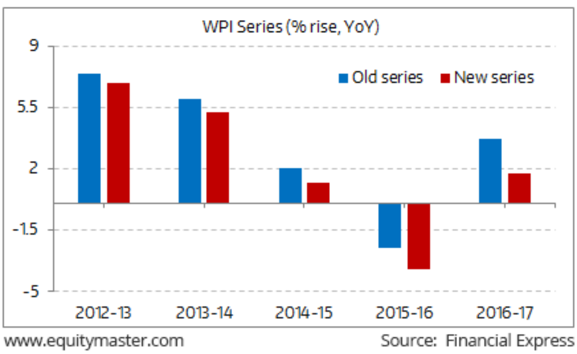
481 (Ministry of New and Renewable Energy, Government of India, 2017)

482 (Chandrasekaran & Bureau, 2017)

method. Even RBI had trouble digesting this artificially inflated performance. In the monetary policy report released on April 7, 2015, the central bank said: "*The new GDP data...came as a major surprise as it produced significantly higher growth at constant prices.*" Cut to 2017... Something similar is happening to inflation data (WPI) and industrial production data (IIP). The Government has launched an updated series for both. And the new numbers suggest better factory output growth and lower price pressure as compared to old numbers. [483]

WPI Base year change affecting deflator

The new series of Wholesale Price Index (WPI) introduced by Modi government, declined to a four-month low of 3.85 per cent in April 2017 from 5.70 per cent in March, 2017. Since WPI is used in the deflator[484] to estimate real growth in gross domestic product and gross value added (GVA), the lower WPI numbers from 2012-13 to 2016-17 on a new base could lead to upward revision of such growth data.



Note: New and old series data not comparable due to changes in base year, method of calculation, items and composition

Real GDP varied with deflator

In January, 2010, the base year for was last revised to 2004-05 by UPA government in its second term. The Modi Government, on January 30, 2015, with revision in base year to 2011-12, has sharply revised India's 2013-14 GDP growth estimate to 6.9 per cent from 4.7 per cent and for 2012-13 GDP growth

483 (Sheth, 2017)

484 In economics, the GDP deflator (implicit price deflator) is a measure of the level of prices of all new, domestically produced, final goods and services in an economy. In most systems of national accounts the GDP deflator measures the ratio of nominal (or current-price) GDP to the real (or chain volume) measure of GDP.

has been revised to 5.1% from 4.5%. The Indian economy recorded 6.9 per cent growth in 2013-14, almost 50 per cent higher than the 4.7 per cent estimated earlier.[485],[486]

Soumya Kanti Ghosh, Chief Economic Advisor at SBI said "Yes, the GDP numbers are going to be affected because the new WPI was actually not used earlier. They are now going to go and recalibrate. What will remain pretty much constant will be the current price GDP and GVA estimates because those are coming from accounts. But when you actually use the deflator to get the constant price, the deflator is going to change. So, when the deflator changes, the real GDP numbers are going to get pushed upwards."[487]

Few agencies have raised concerns over such practices. In 2016, HSBC declared that India's GDP is "fraught with methodological concerns" and that the country's real growth was around 6-6.5 per cent amid weaker global demand and risk aversion and not 7.6 per cent. HSBC argues that the primary concern with the calculation pertains to its deflator.[488] Similarly in 2017, changing WPI, a major component of deflator, GDP figure is attuned in favour of the Government.

Apurva Seth, Research Analyst at Equitymaster.com and Editor, Daily Profit Hunter said, "The boost in the performance is the result of change in base year, change in items and their weightages and calculation methodology...An academic exercise at best and has nothing to do with anything real. It even manages to write off the impact of demonetisation. In the coming days, it could influence monetary policy as well." [489]

In continuation with this practice, there is again possibility that the government may change base year to 2016-17 for GDP, IIP and WPI indexes as there is unexpectedly low output in FY2016-17 due to demonetisation. Changing base year may give better growth rates in 2018 and following years and such changes may bring positive sentiments for 2024 parliamentary elections, regardless which political party comes in power in 2019 elections.

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485 (The Hindu Bureau, 2015)

486 (Press Release- Central Statistics Office, 2017)

487 (CNBC-TV18, 2017)

488 (Sanchit Kumar, 2016)

489 (Sheth, 2017)

DEMONETISATION, CORRUPTION & CULPRITS

Overview

Indian economy, nowadays, has developed itself to create, use and manage black money; it's institutionalised. The structure of black money observed in Indian economy is cited as:

Sources of Corruption	Sufferers of Corruption	Black Money utilised in	Corruption Support System
1. Politician 2. Bureaucrats 3. Businesses 4. Professionals	1. Tax Payers including • Individuals • Businesses • Professionals 2. Public	1. Real Estate 2. Gold & Jewelry 3. Charity 4. Lease Licensing 5. Elections	1. Hawala 2. Offshore havens 3. Regulatory Loopholes 4. Political & Bureaucratic Dominance 5. Agriculture Tax Exemption 6. Tax Exempted States

The above figure shows, politician, bureaucrats and businesses along with professional as key sources in the black money generation. Surprisingly, businesses are also victims of the corrupt system; even though businesses are involved in illicit practices with short sightedness. Over the years, the back money system has evolved with ways to use the black money and keep using it or converting it to white; political elections along with few industries like real estate, gold & jewellery, charity, lease licensing are facilitators. This system has also supported by *hawala*, money laundering, investment through tax havens, regulatory loopholes and last but not least political and bureaucratic dominance on the public system.

This chapter is important part of the book, focussing on how the black money is used and how support system works for it. If the Government would have given attention to all these factors and restricted each of these activities, obviously full heartedly, demonetisation would be successful as a "Surgical Strike" on the black money. It doesn't mean that the government was not fully prepared or worked superficially against black money, if it mean so, would it be wrong.

Source of Black Money

Politics, bureaucracy and businesses are prominent sources of black money creation. The former two are beneficiaries of the corrupt practices and again are part of regulatory mechanism; hindrance of their own interest makes the corruption curbing policies ineffective.

Politics

As mentioned in the above figure, politics is focal point in corruption arena. There are several ways to restrict black money generation from politics and bureaucracy; social factors which can change the thought process of the individual and social behaviour are listed below:

i. Ethical training for all political leaders, training fees will be paid by the political parties.

ii. Minimum mandatory party workers/ volunteers should be trained for ethical behaviour and practices should be linked to total amount of donation receipts by the political party. Say, approximately, 5% of donation receipt can be used for such trainings. Training will flow from top of the hierarchy.

iii. These training will be conducted by non-political, non-government organisation under the supervision of Election Commission or the President.

iv. Education & Ethical Test criteria for Political Contestants: It is needed to impose threshold educational criteria for contesting elections. Also, these contesting candidates will have to qualify the ethical test; only after qualifying such test, candidates can contest the election. Once there are only few qualified candidates, political parties will chase and select the best one. This will help to clean up the politics, if implemented properly.

v. Restricting Criminals: People from criminal background should be restricted to contest the election. It's observed that there is race to earn money among such political figures from criminal background; other political people also sway with these.

vi. All office bearers of all political parties' up to district/ Tehsil level should declare their annual earning every year with source of income along with balance sheets.

vii. It should made mandatory to declare income and assets of all candidates contesting elections; also elected candidate should also declare their financial position every year.

viii. Maximum amount of cash donation by an individual to a political party is reduced to Rs 2,000 from 20,000 limit. It's a positive move to restrict political funding. But still political parties will declare 20,000 as donation from 10 individuals instead of one earlier. It would be better if all the donation to political parties should be disclose with PAN no.

of an Individual donor. That is all unaccounted donation to political parties should be restricted.[490]

ix. Restriction on political parties soliciting on grounds of religion, region, caste or community. In India, the Representation of People Act, 1951 restrict political parties from using these grounds to contest elections, [491] but there are almost all political parties use these measures to attract votes.[492] Supreme Court's ruling to clean the politics from religions and caste biasness is a positive move[493] and expectations are raised from EC to take strict actions against these political parties and create a precedent for others; this won't be seen in near future, the reason simply is Indian people get wooed by religious/ regional discrimination, the Indians have to change their mentality and religious inclination (over the nation) first.

No democracy in Political Parties contesting in the world's largest Democracy

India is the largest and most vibrant democracy in the world with a staggering 814 million[494] electors, barring exceptions, there is hardly any internal democracy within political parties and a majority of them virtually function like private limited companies owned and tightly controlled by political families. The absence of internal democracy within political parties is, therefore, the greatest irony in democratic India and many jurists and thinkers and national commissions have repeatedly drawn the attention of the political class to set this right, but because of the mushroom growth of regional parties and their impact

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[490] This will bring complete transparency in the political charity. A person with Rs 1 lac as annual income can pay to political party with having PAN number. This will have dual effect, PAN card holders will be increased with accountable income, may generate income tax revenues along with political funding transparency.

[491] Sections 123(3) and 123(3A) of the Representation of People Act, 1951 declares that soliciting of vote on the ground of religion and the promotion or attempt to promote feelings of enmity or hatred between different classes of citizens of India on the grounds of religion, race, caste, community or language is a corrupt practice. A person indulging in a corrupt practice can be disqualified for being a Member of Parliament or a State Legislature under Section 8A of the Representation of People Act, 1951.

[492] (Qureshi, 2017).

[493] (Singh K. , January)

[494] (Prakash, 2015)

on the composition of the two Houses of Parliament, there has not been much movement on this front.

For example, in 1999, the Law Commission suggested regulation of political parties to ensure inner party democracy, transparency in regard to flow of funds etc. It said the Representation of the People Act should be amended to deal with these issues. Significantly, it observed that a political party “cannot be a dictatorship internally, and democratic in its functioning outside”. The National Commission to Review the Working of the Constitution, headed by former Chief Justice, M N Venkatachaliah had noted that unless the political party system was reformed, there could be no electoral reforms worth the name. This commission said there was a need for a comprehensive legislation to regulate political parties and to deal with issues such as registration of political parties as national and State parties and their de-recognition. It said there was need to pay attention to inner party democracy, ensure regular party elections, training of party cadres etc. Further, it said political parties should be instruments of good governance.[495]

The President, Mr Pranab Mukherjee’s mentioned on April 8, 2017 for ensuring cleaner polling, as big bang electoral reforms are long overdue. The need for electoral reforms has been talked about for years. Many committees have been set up to go into the issue. The Goswami Committee (1990), Vohra Committee (1991), Indrajit Gupta Committee (1998), Law Commission (1999), National Commission to review the Constitution (2001). Election Commission of India - proposed reforms (2004), and the second Administrative Reforms Commission reports are all gathering dust. Various committees have suggested methods of dealing with money power and muscle power. The Vohra Committee has noted that "some political leaders become the leaders of these gangs/armed senas and over the years, get themselves elected to local bodies, state Assemblies, and Parliament. Even the model code of conduct stipulated by the Commission has been violated in the absence of backing for EC's powers. The Election Commission has a long list it has been pressing for years. As former Chief Election Commissioner S.Y. Qureshi says in his article in the Indian Express on March 31, 2017, that "The EC's proposals could broadly be divided into three categories. One, reforms to cleanse the electoral system (debarring criminally-tainted politicians from contesting, checking money power, empowering the EC to deregister defunct and dubious parties); two, reforms to make the EC stronger and more independent (appointment of election commissioners through a collegium, their elevation to CEC on the criterion of seniority, and

[495] (Prakash, 2015)

their protection from removal only through impeachment as available to the CEC and; three, reforms to make the electoral system more efficient (like the introduction of totaliser machines to prevent disclosure of polling patterns in a polling booth)." Above all, the EC has been pressing for more powers to regulate the functioning of political parties.[496] In addition to these, EC should work to regulate democratic working of all political parties, it should be empowered to take strict actions for irregularities within political parties. Simply, "a political party which is not run democratically, how it will run the country democratically?" EC should have separate financial wing which will carry out income and expenditure irregularities in political parties.

Modi Government's opaqueness on political funding

Modi Government has suspected that NGO funding[497] and P-Notes are used as money laundering route. Government has restricted these routes by taking strict actions, cancelling FCRA registration and disallowing Indian and NRI to subscribe to P-Notes. At the same time, the Government has opened foreign funding to political party, lifting eligibility criteria of donor company and promoting anonymous political donation by way of 'Electoral Bonds', creates suspicion of its attack on black money. Or the government wanted to route maximum foreign funds to political party, by closing other options, benefitting BJP to a major extent.

The government has cancelled the FCRA licence of close to 20,000 of the 33,000 NGOs operating in the country after they were found to be flouting certain norms laid out in the Foreign Contributions Registrations Act, 2010. The Lokpal law makes all foreign funded NGOs that receive foreign contribution about Rs 10 lakh, directly accountable under the Prevention of Corruption Act for the purpose of corruption,[498] whereas political parties are not; it indicates political parties is continued to be opaque and foreign funding and electoral bonds made it more convenient for anonymous donor.

The Representation of the People Act and the FCRA law had prohibited political parties from receiving foreign funds upto 2016. In 2014, the Delhi High Court indicted both the Bhartiya Janata Party (BJP) as well as the Congress of receiving foreign funds in violation of provisions of Foreign Contribution (Regulation) Act (FCRA). The verdict came after a public interest

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[496] (Shankar, 2017)

[497] (Baruah & Ahuja, 2015)

[498] (Khullar, 2016)

litigation (PIL) was filed by the Association for Democratic Reforms. A division bench comprising justice Pradeep Nandrajog and justice Jayant Nath asked the government and the Election Commission (EC) to act against the two political parties for accepting foreign funds from Vedanta subsidiaries.[499]

To avoid legal action, these political parties have a passed an amendment in Finance bill 2016, as:

In the Foreign Contribution (Regulation) Act, 2010, in section 2, in sub-section (1), in clause (j), in sub-clause (vi), the following proviso shall be inserted and shall be deemed to have been inserted with effect from the 26th September, 2010, namely:—

"Provided that where the nominal value of share capital is within the limits specified for foreign investment under the Foreign Exchange Management Act, 1999, or the rules or regulations made thereunder, then, notwithstanding the nominal value of share capital of a company being more than one-half of such value at the time of making the contribution, such company shall not be a foreign source;".

In the budget 2016, the finance bill was introduced amending the FCRA permitting political parties to get funding from the subsidiaries of foreign companies. That clause was made applicable with retrospective effect, to take away the effect of the Delhi high court judgment. [500] The BJP and the Congress, on November 29, 2016, simultaneously withdrew appeals in the Supreme Court against a Delhi High Court verdict that held them in violation of the law on foreign funding.[501]

Before 2017, corporate entities could contribute only 7.5 per cent of average net profit in the past three financial years. This cap has been removed on March 23, 2017, allowing free flow of funds to political parties.[502] Besides, another provision in the Companies Act would be amended to do away with the current requirement to disclose the names of beneficiary political parties in companies' profit and loss statements. The amount of donation, however, still needs to be disclosed.[503]

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[499] (Bhattacharya, 2016)

[500] (Khullar, 2016)

[501] (Factchecker Team, 2016)

[502] (Seth, 2017)

[503] (Seth, 2017)

The other much-touted proposal was to introduce what were called 'electoral bonds'. If there was any doubt whatsoever in anyone's mind about whether these bonds were to ensure transparency or opacity, the finance minister himself clarified this in a post-Budget media interaction by saying "These bonds will be bearer in character to *keep the donor anonymous"* Those who were naïve enough to take the title of the section in the Budget speech 'Transparency in Electoral Funding' seriously were confused and kept demanding that 'anonymity' or 'opacity' should be removed. The corporate world welcomed the move, saying that the 'anonymity' will protect them from being harassed by those political parties to whom they do not contribute. It seemed clear that the government (led obviously by one political formation) found protecting the corporates from other political formations to be more important than honouring the title of a section of the Budget speech.[504]

In Budget 2017, In order to make this possible, an amendment to section 13A of the Income Tax Act has been proposed in the Finance Act, 2017, which exempts political parties from keeping records for donations made through electoral bonds. This particular section in the IT Act states that political parties have to maintain records such as the name and address of the persons who have made contributions above Rs 10,000. An analysis by Stockholm-based International Institute of Democracy and Electoral Assistance (IDEA) shows that India is among a mere 10% of the countries in the world (or one of nine among 37 Asian nations) that allow political parties or candidates to receive anonymous donations.[505]

Government mentions that they are doing reforms in conformity of international standards, the above shows that the fact is otherwise. Politicians and political parties should understand the politics is meant for national services and not for minting money at the cost of the country and people.

Correlation of Black Money in Political Election

Politics and elections at every level also use great deal of black money. Large donations are often given to them in cash. The party uses the cash to reward its leaders, office bearers, workers, foot soldiers and to bribe the voters to cast their votes in the party's favour. Again, this requires high value notes that can be collected, transported and kept safely.

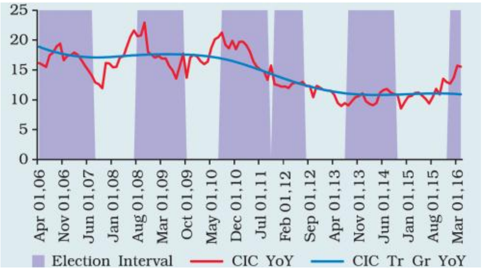
[504] (Chhokkar, 2017)

[505] (Virk, 2017)

More recent evidence suggests that the income elasticity of demand for currency is closer to unity. Apart from these fundamental determinants, currency demand is influenced by several frictional factors, e.g., festivals, jewellers' strike and elections at the union/state levels. The increase in CIC early in the year 2016-17 was also noticeable in states that were not going for elections. Since 2012-13, 26 general elections for state legislative assembly and one for the Lok Sabha have been conducted so far. A surge in currency demand by around 11 per cent on a year-on-year basis in May 2014 across India coincided with the general election. State elections also coincided with large currency demand in those states and/or neighbouring states. The increase in currency in absolute terms during April-May 2014, was around Rs.650 billion, Rs.268 billion higher than that in April-May 2013.[506],[507]

The growth of CIC (y-o-y) and its trend (using Hodrick– Prescott filter) during the election window (Lok Sabha and cluster of states) of 7 months, with election results in the centre of the interval show that there has generally been an upward movement in currency in the election run-up period, which subsides after election results.[508],[509]

CIC y-o-y Growth and its Trend Component (%)



In order to check the empirical regularity of this phenomenon, a model using monthly data on CIC, lagged CIC to control for persistence in currency demand and election dummies was estimated as under:

$\Delta CIC_t = a + b * CIC_{t-1} + b_t * \Sigma^{0}_{-3}\ _{Ei} + _{bj} * \Sigma^{0}_{-3}\ _{Ei} + _{c} * April\_dummy + d * Festival\_dummy + u_t$

[506] (Nachane, 2013)

[507] (RBI, 2016)

[508] (Nachane, 2013)

[509] (RBI, 2016)

where E_i represents dummy variable for the i_{th} month before election, E_0 is the dummy for the election result month and E_j represents a dummy in the j_{th} month after election.

The increase in CIC (m-o-m, per cent) was used as a dependent variable. Regression coefficients for months prior to the election were found to be positive and significant, which suggest that CIC increases in the run up to the election.

Currency demand in the run-up to elections accounted for close to a fifth of the overall increase in CIC during January-March 2016. CIC is known for its seasonal fluctuations, which picks up in April because of large government expenditure and procurements, and in October/ November due to festivals (*Dussehra* and *Diwali*[510]). After controlling for these seasonal factors with appropriate dummies, the coefficients of most of the pre-election dummies were found to be positive and statistically significant. Finally, the joint statistical significance of election dummies was evaluated using the Wald Test, which lent credence to these findings. However, post-election month dummies were not found to be statistically significant, though most of them had the expected negative signs.[511,512]

Bureaucracy

"Birds of a feather flock together", politics and bureaucracy go hand in hand in respect of corruption. Revolutionary changes in policies are needed to restrict bureaucratic corruption.

Social Change Practices: People should be made aware that corruption is not only "Criminal Offence but also Social Evil". All people, who will practices it, will eventually suffer in future. Government should use media, indoor and outdoor, to promote the anti-corruption thought in all possible public places like railway, bus depots, government offices, ministries, etc. Continued feeding will surely give some positive outcome.

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[510] Dussehra and Diwali are Hindu festivals which generally held in the period October to November. Dussehra is the tenth and final day of the Hindu festival of Navaratri, it especially commemorates the victory of the god Rama over the demon king Ravana. Diwali or Deepavali is a festival with light, particularly associated with Lakshmi, the goddess of prosperity, and marks the beginning of the financial year in some parts of India as per Hindu Vikram Samvat calendar.

[511] (Nachane, 2013)

[512] (RBI, 2016)

In school education, every standard/ class, one lesson or chapter should be dedicated to root out corruption. Instilling anti-corruption values at their early stage of life will give corrupt free society when they will start contributing to the country. Primary or middle school teacher should go to home with though that corruption ill activities and he should ask his parents if they are engaged in the corruption. One such question by their pupil may change corrupt psychology.[513]

Ethical Code: All the Government employees should go under training for ethical code of conduct periodically. Even 1% employees change their mind-set with such program, will be a huge success.

Test on Ethics during Recruitment: Government should carry out test on a separate subject "Ethical Practices", so, ethical values can be nurtured in employees.

It should be made mandatory to declare income and assets of all senior and middle level government employees and also to declare their financial position and balance sheet every year to tax authorities.

Motivation: The motivation to remain honest may be further weakened if senior officials and political leaders use public office for private gain or if those who resist corruption lack protection.

Employee associations: Employee associations also should not support corrupt officers, the corrupt officers should feel that they are not supported by family, friends and professional arena; creation of such unsupportive system will hinder people from getting involved into dishonest activities.

Strict Actions: Strict actions need to be taken against corrupt individuals regardless his position and level in political and bureaucratic system. This action may include suspension, imprisonment and seizure of properties possessed by him, his family members and relatives.

Scandals involves High level bureaucrats and politician

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513 This was thought of Mr. APJ Abdul Kalam (Ex- President of India delivered speech in DD Kossambi Festival of Idea at the Kala Academy auditorium in Panjim, Goa, India, on February 6, 2011). Salutes his philosophy that believes children can change the corrupt practices if they want their parent not to get involved in it and denounce any benefits coming out of such corrupt practices. He further said "Where there is righteousness in the heart there is beauty in the character, when there is beauty in the character there is harmony in the home, when there is harmony in the home there is order in the nation, when there is order in the nation there is peace in the world." A sincere attribute to Late Mr. APJ Abdul Kalam.

India has history of bureaucratic and political corruption, started from 'Jeep Scandal' in 1948- first reported scandal in independent India. V. K. Krishna Menon, then the Indian high commissioner to Britain, signed deal to purchase 200 jeeps for Rs. 80 lac, bypassing some protocols; only 155 jeeps were landed. In 1955, then Government announced to be closed, further, V. K. Krishna Menon, was inducted as a cabinet minister.[514]

Many of the biggest scandals since 2010, have involved very high level government officials, including Cabinet Ministers and Chief Ministers, such as in the 2G spectrum scam (Rs.1.7 lac crore (US$26 billion)), the 2010 Commonwealth Games scam (Rs.70,000 crore (US$11 billion)), the Adarsh Housing Society scam, the Coal Mining Scam (Rs1.86 lakh crore (US$29 billion)), the Mining Scandal in Karnataka and the Cash for Vote scam.

Judicial System is also a concern

Unfortunately Indian judiciary system also could not able to aloof from corrupt practices. Over the year there have been numerous judges who have faced allegations of corruption, including Shamit Mukherjee, ex- judge of the Delhi High Court, was arrested by the CBI in 2003 for his alleged involvement in a multi-crore land scam. P.D. Dinakaran, former Chief Justice of the Sikkim High Court had to resign in July 2011, following allegations of corruption. K.G. Balakrishnan, the former Chief Justice of India and chairperson of the National Human Rights Commission (NHRC) has faced allegations that his family members amassed wealth disproportionate assets. Former judge of the Supreme Court, A.K. Ganguly was alleged for sexual harassment by a law intern and Nirmal Yadav, a judge of the Punjab and Haryana High Court, was a charge-sheeted for alleged criminal conspiracy and corruption.[515]

However in 2011, Soumitra Sen, a former judge at the Kolkata High Court became the first judge in the India to be impeached by the Rajya Sabha, the Upper House of the Indian Parliament for misappropriation of funds.[516]

Businesses

The business community as a whole has stronger incentives to counter corruption. There are situations where business and government can conspire to benefit at the expense of the broader citizenry. But in most contexts

514 (Singh R. , 2014)

515 (Nair, 2014)

516 (Nair, 2014)

involving award of scarce resources such as land, spectrum channels, licences and contracts, politicians' and bureaucrats' gain is the business community's aggregate loss.[517]

Corruption or black money generation by businesses can be restricted by measures like:

1. Improving "Ease of doing business", this will help businesses to comply with regulations.
2. Clear and transparent taxation structure

Businesses pay donations to the political parties, there must be some expected gain or consideration; this gain cannot be shown transparently and creates black money. If elections will be carried out with government's funds, such corruption can be constrained. Again, this government funding for election has both, pros and cons, a trade off need to be maintained, minimising negative implications.

Corruption is punitive for Businesses: Truth to inculcate

Several businesses bid for government contract work, one wins. The winning firm profits, but the efforts and expenses of all the losers more than offset this gain. Worse, to the extent that corruption acts like a tax and therefore deters future investment, it hurts profits and growth for all business.

Thus business as a whole can benefit from the reduction of corruption. Moreover, the cleaning up of corruption can have long-run effects such as those of fostering growth and speeding up development and, as such, it can confer huge benefits to the citizenry.

The trouble is that each firm has an incentive to cheat on any agreement not to bribe. Of course when all firms do this, they collectively lose. This is a prisoner's dilemma game among them, and needs their own collective action: an effective system of norms and sanctions to deter cheating. [518]

Businessmen or professionals such as doctors, who took payments in cash so they didn't have to declare their full income, buy real estate or gold in cash. These professionals are strengthening the corruption system. At the end, they will pay price for these corrupt practices, may be to one or other department. Again, quality of life will deteriorate or not improve with the pace it should.

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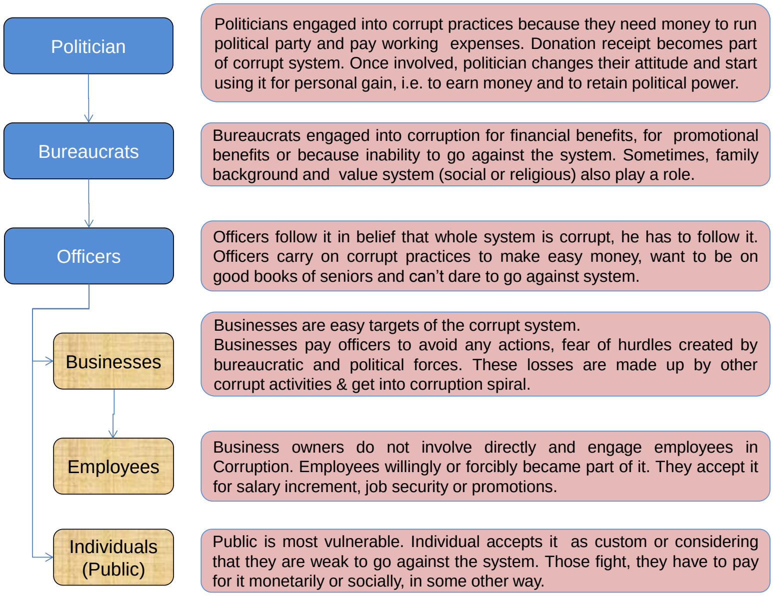
517 (Basu & Dixit, 2015)

518 (Basu & Dixit, 2015)

Corruption System in India: Everybody is involved

In India, it is widely reported that corruption is pervasive and appears impossible to eliminate. At the grass root level, corruption is practiced in millions and mostly accepted by almost all. This can be substantiated by Transparency International's report mentioning that 69% people hade first hand experienced corruption in last one year.



This is one side of public who are suffered from corrupt practices. There are beneficiaries of corrupt practices also. Considering these direct beneficiaries like family members and indirect beneficiaries like relatives and support system (hawala, private lending, betting, etc.), the figure of direct exposure to corruption will almost cover every individual of the country.

Disadvantages of Corruption

Based on the economic and sector work that does address the topic, informal country knowledge within the institution, and examples from the World Bank's vast store of country reports in which the influence of corruption can be inferred (even if the term is seldom used), the following picture emerges of the many ways in which corruption imposes costs on our borrowers. [519]

[519] (The World Bank Group)

1. *Macroeconomic stability* may be undermined by loss of government revenue and excessive spending. This can happen through corruption in tax and customs departments, through debt incurred when the scrutiny of finance ministries and central banks is bypassed, through contracts that are awarded to high-cost bidders or without competitive tendering, and through the general erosion of expenditure control. Excessive debt may be incurred through "white elephant" investment projects that owe their origin, in part, to bribes. Macroeconomic stability may also be threatened by debt guarantees and other off-budget contingent liabilities agreed to in corrupt transactions without public scrutiny. It may also be threatened by fraud in financial institutions, leading to loss of confidence by savers, investors, and foreign exchange markets. In transition economies and in many developing countries corruption may reduce revenue collection by driving firms (or their most profitable activities) out of the formal sector and by providing a moral justification for widespread tax evasion. The costs of macroeconomic instability are borne by all elements in society but especially by the poor.

2. *Foreign direct investment* may still flow to countries in which corruption is systemic but only if bribery is affordable and the results are predictable. Even so, corruption can have a negative effect on foreign investment. Where corruption is large and systemic, investment may be concentrated in extractive industries in which operations can be enclaved, or in light manufacturing or trading operations that can be relocated if corruption costs become unbearable. Or foreign investors may shun the country altogether. For most foreign firms, corruption is a cost of doing business to be recouped from revenues. If the costs become too high or unpredictable, foreign firms will disengage unless global marketing or sourcing considerations require them to maintain a presence in that country. High levels of corruption add to the risk of a country being marginalised in the international economy.

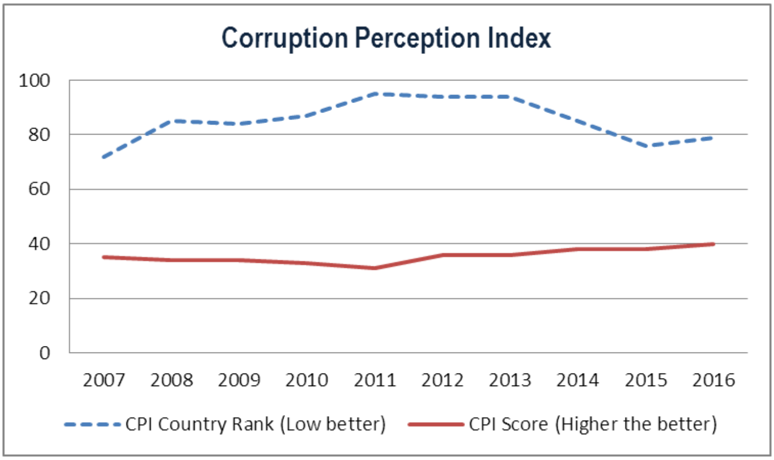
3. *Small entrepreneurs* may be affected in many developing and transition economies. Evidence from private sector assessments suggests that corruption increases the costs of doing business that small firms bear a disproportionately large share of these costs, and that bribes can prevent firms from growing.

4. *The environment* may be endangered. Many countries have enacted laws to protect the environment and have created special agencies to enforce these laws, but there is often disconnect between policy and its implementation. Complying with environmental regulations imposes on

firms costs that can be avoided by bribery. There are huge rents to be earned from activities such as logging in tropical rain forests, where permits can be obtained corruptly or where inspectors can be bribed. The environmental costs of corruption may take the form of ground water and air pollution, soil erosion, or climate change, and can be global and intergenerational in their reach.

5. The *poor* suffer. While poverty assessments have focused more on measuring poverty than explaining it, anecdotal and survey evidence reveal the cost of petty corruption to the poor. When access to public goods and services requires a bribe, the poor may be excluded. Given their lack of political influence, the poor may even be asked to pay more than people with higher incomes. Furthermore, when corruption results in shoddy public services, the poor lack the resources to pursue "exit" options such as private schooling, health care, or power generation.

Corruption Perception Index 2016 of India



India's ongoing poor performance with a score of 40 reiterates the state's inability to effectively deal with petty corruption as well as large-scale corruption scandals. The impact of corruption on poverty, illiteracy and police brutality shows that not only the economy is growing, but also inequality.[520]

Corruption Index in India is expected to be 38.00 points by the end of this quarter, according to Trading Economics global macro models and analyst's

520 (Transparancy International, 2017)

expectations. In the long-term, the India Corruption Index is projected to trend around 42.00 points in 2020, according to econometric models.[521]

Forecast	Actual (2016)	Q1/17	Q2/17	Q3/17	Q4/17	2020
Corruption Perception Index	40	38	38	38	38	42

Analysis of Corruption Perception Index

India has highest corruption level in the world, 69% people have paid bribe in last 12 months.[522]

Question	Did you have contact with any one of six public services in the past 12 months?	Have you paid a bribe to any one of six public services in the past 12 months?
Public Schools	58%	58%
Hospital	71%	59%
ID document	62%	59%
Utilities Services	61%	53%
Police	38%	55%
Courts		45%
TOTAL Contact Rate		91%
TOTAL Bribery Rate, Excluding no contact		69%
TOTAL Bribery Rate, Total population		63%

[521] India Corruption Index Forecasts are projected using an autoregressive integrated moving average (ARIMA) model calibrated using its analyst's expectations. We model the past behaviour of India Corruption Index using vast amounts of historical data and we adjust the coefficients of the econometric model by taking into account our analyst's assessments and future expectations. The forecast for - India Corruption Index - was last predicted on Sunday, March 26, 2017 on http://www.tradingeconomics.com/india/corruption-index/forecast

[522] All the data provided for this section is taken from CPI 2016 Report of Transparancy International.

Again, concern is 41% of the public thinks that corruption is increased over a past year whereas 34% think it's decreased.

Question	Change in level of corruption
Increased a lot	21%
Increased somewhat	20%
Stayed the same	20%
Decreased somewhat	25%
Decreased a lot	9%
Don't know	6%
INCREASED	41%
DECREASED	34%

As per 2016 Survey, 53% public feels government is handling corruption well against 35% negative responses.

How is the government handling the fight against corruption?	India
Very Badly	16%
Fairly Badly	19%
Fairly Well	38%
Very Well	15%
Don't Know / Haven't heard enough	12%
NET BADLY	35%
NET WELL	53%

Indians feel that they can change the corruption and also they are personally obliged to do that.

Questions	Can ordinary people make a difference in the fight against corruption?	Is it socially acceptable to report corruption?	Would you feel personally obliged to report corruption?	I would spend a whole day in court to give evidence
Strongly agree	36%	42%	36%	31%
Agree	27%	20%	24%	24%

Neither agree nor disagree	4%	6%	16%	10%
Disagree	15%	15%	8%	12%
Strongly disagree	14%	12%	9%	17%
Don't know / Refused	4%	5%	7%	7%
AGREE	63%	62%	61%	55%
DISAGREE	29%	27%	17%	29%

Further, public don't report the corruption because of fear, indicating strong presence of organised/ institutionalised corruption.

Questions	What is the main reason for not reporting corruption?
Most people do report incidents of corruption	2%
People don't have enough time to report it	11%
People don't know where to report it	8%
People don't know how to report it	7%
Nothing will be done / It wouldn't make a difference	11%
It's too expensive to report (e.g. due to travel or phone charges)	2%
Corruption is normal / Everyone does it / everyone is involved	5%
People are afraid of the consequences	31%
The officials where they would report to are also corrupt	9%
It's government's money, not the people's, so it's not our problem	1%
Other	2%
Don't know	11%

Corruption as an Obstacle for economic development

Corruption can be found in many different forms, including cronyism, nepotism and patronage.

Corruption is one of the main obstacles to sustainable economic, political and social development for developing, emerging and developed economies. Overall, corruption reduces efficiency and increases inequality. Estimates show that the cost of corruption equals more than 5% of global GDP, or USD 2.6 trillion (World Economic Forum), with over USD 1 trillion paid in bribes each year (World Bank). The costs of corruption can be felt in many different ways. Investors are often unwilling to invest in countries where systems are perceived to be corrupt, because they are less able to assess the likely risk or return on their investment. Bureaucratic processes may be slowed down, both by corrupt officials and by mechanisms introduced to identify and combat corruption. Corruption may also be linked with other criminal enterprises, such as tax evasion, money laundering and serious organised crime.[523]

Utilisation of Black Money

The black money is well entrenched in India because of multiple reasons: corruption, crime, evasion of taxes, poor tax infrastructure and more importantly social and political value system. The system keeps generating black money because it has options to use it. If the use of black money or cash is restricted then people may avoid black money transaction as it is black money use is restricted. It means sector in which black money is used are of equal importance. Some of the sectors which facilitate use of black money mentioned herein:

Real Estate Industry

For decades, Indian real estate has been an attractive investment option for businessmen and politicians to park black money. In most of transactions in this sector, sale documents don't reveal the actual property price. Sometimes, sellers receive up to 60% of payment in cash, which remains unaccounted. Cash deals help to avoid stamp duty and registration charges, which add over 5%[524] to the transaction value.

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[523] (OECD, 2013)

[524] Stamp duty is a government tax, which is levied on all legal property transactions. Stamp duty rates differ in various states across the country as stamp duty in India, is a state subject, varying from 4% to 12.5%. (5% considered for gross computation)

The primary market usually involves the property buyer and developer, and it is observed in many markets that developers dictates cash (black money) portion. Unfortunately, in many metros and mini-metros, cash component becomes universally acceptable practice. Again secondary market where investors engage in sale and resale involves cash. This is mainly to evade taxation. If the investor sells the property within 2 years[525] (changed in 2017-18 budget from 3 year threshold), he has to pay tax on short term gain. To avoid it, short term gain is attuned with cash component.

In the past one year, there have been a few positive and potentially long-lasting changes in the Indian real estate including the passage of RERA (Real Estate Regulation and Development Act 2016) and the *Benami* Transactions Act. With these reforms followed by demonetisation, hope these sectors will lose much of its historic taint and become more transparent.

Demonetisation Effect on Real Estate Industry

The government's surprise move to clamp down on black money has a cooling effect on real estate industry, due to demonetisation, the Indian real estate sector which was expected/ poised to touch $180 billion by 2020, growing at 30% annually for the next 10 years. Things have changed dramatically since then, hope it will revive in first quarter of FY2017-18.

Its impact is obvious symptomatic, share prices of listed developers have taken a beating; it indicates unanimous acceptance of fact that black money is used in real estate. Shares of DLF, India's largest realty firm, have fallen 19%, while those of Housing Development & Infrastructure lost 15% and Indiabulls Real Estate 14%.

As the real estate sector has significant consumption of black money, the impact of the government's crackdown will be felt here much more. Cash consumption starts from the beginning of the real estate project, land purchase has the highest component (40 per cent or more) of unaccounted money.[526] Also, the payments by investors at the pre-launch or early launch stage have a considerable cash component. There is a cash component of 20-30 per cent in property transactions, largely due to the difference between the ready reckoner

[525] The Budget 2017-18 has lowered the holding period for gains to qualify as long-term in the case of immovable property to two years from three years currently. Long-term capital gains in the case of immovable assets are taxed at 20 per cent, while short-term capital gains are taxed at 30 per cent.

[526] (IANS, Vinod Behl, 2016)

rate[527] and market rate of property. This is even higher in land transactions and property transactions in smaller cities.

The housing market is a hot-bed for the indiscriminate use of black money. Many developers and resellers insist on having hard cash as a component of payment in real estate deals. In some cases, homebuyers also favour cash transactions, but in most they suffer. The recent ban on high value currency notes has halted this practice.

Markets, including north India's tier I and II cities, Rajasthan, Madhya Pradesh, Gujarat and Kolkata have experienced an estimated 15-20% hit on sales during the last quarter ending December 31, 2016. Specifically during these 50 days following the cessation of legal tender, the number may have increased to 30%. In Western and southern cities, the impact was relatively lesser," said Pankaj Kapoor, MD, Liases Foras Real Estate Rating & Research.[528]

"There are people who are looking to sell even at as much as 30-40% discount to the market prices. In Delhi-NCR, prices of such properties have already come down significantly in some areas such as Sainik Farms." - said one of the brokers on condition of anonymity.[529]

Another likely side effect of the move is a down ward pressure on the interest rate structure. This would come as a relief to people who cannot afford the high EMIs on housing loans. In addition to these factors, many developers are also aggressively turning towards the affordable housing segment. This effectively opens up another avenue for those who find themselves priced out of the housing market in metropolitan cities.

Pre demonetisation, loans were given or repaid in Rs 500 and Rs 1,000 notes, which was not a case during a demonetisation period up to December 31, 2016. The interest rate in realty sector was charged anywhere between 18% and 30% per annum. Those who were to return money borrowed earlier are offering it in

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[527] Ready Reckoner Rates are the prices of the residential property, land or commercial property for a given area and is published and regulated by the respective state government. These rates are regularly revised on a yearly basis depending on the perception about the government for such price revisions.

[528] (Babar & Khan, Key Realty Markets Reel Under Cash Crunch Blow, 2017)

[529] (Babar & Khan, Key Realty Markets Reel Under Cash Crunch Blow, 2017)

high denomination notes. Interest rates have come down to minimum, about 5% per annum or even less.[530]

Regulations Related to Real Estate

In the last couple of years, the government has initiated a number of key reforms in the real estate sector like Real Estate Regulation Act (RERA), REITs and Benami Transactions (Prohibition) Amendment Act, 2016, besides reforms related to FDI, to bring in transparency.

Consequent to the reforms, foreign investors are already betting big on real estate. In a recent development, global private equity player Xander has formed a joint venture with Dutch Pension Fund Manager APG Asset Management to deploy $1 billion in real estate in India. Much to the relief of cash-strapped and debt-ridden developers, institutional financing will also come with lesser risk weightage.

The government recently amended the Benami Transactions (Prohibition) Amendment Act, 1988. Any violation of the act will be punishable with imprisonment of up to seven years and confiscation of the property without any compensation to the owner. The act will cover movable, immovable, tangible and intangible properties and include any right or interest in such property.

The amended act has provided powers to the government to confiscate properties or assets held in other person's name or under fictitious names to evade tax and hide unaccounted wealth.

"It may be a tedious task, but authorities can always check income levels of property buyers and match it against the property values at the time of buying the same. This can easily throw up cases of disproportionate assets owned by entities with lower income. Following this, notices can be sent to such people and if the explanation is not satisfactory, they are subject to further questioning, such properties can also be impounded by the government", said Abhishek Goenka, Partner Tax & Regulatory Services at PwC.[531]

According to property brokers, most *Benami* transactions are usually executed through general power of attorney. In few cases, fictitious names as well as addresses were used to register such properties. But, owners of such properties will find it difficult to retain control on these as the authorities start screening and scanning.

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530 (ET Bureau, 2016)

531 (Babar, Home sales, benami deals grind to a halt, 2017)

Buyers will no more be able to hold property under general power of attorney or paper holding companies once the Benami Act is implemented,“ Prashanth Sambargi, Partner, Mars Realty.

Further, with many states likely to enforce the buyer friendly provisions of the Real Estate Regulatory Act, homebuyers can expect more transparency. This would also provide them protection from delays in construction and handover, as well as other unscrupulous practices employed by developers.

Points of Concern

In the short term, the government’s bold move will hit the sentiment of the real estate market, already reeling under a recession, in the medium- to long-term, the sector is expected to reap the benefits of the greater transparency ushered in by government’s “surgical strike” against black money.

It’s a point of attention that real estate is major destination of black money. It won’t be unjustified if the Government would have tighten the industry and restrict from utilising black money in the sector.

It would be bottom to up approach wherein black money’s use will be restricted and in the absence of ways of utilisation of black money, the people will restrain from any such acts (or corrupt practices) which will generate black money.

The regulations passed are, apparently, a welcome move, but it’s not sufficient. Its inadequacy will limit the effect of demonetisation. As realty sector provides investment opportunity for black money, people will carry on corrupt practices and black money will keep generating in the system. Watertight regulatory policies and honest, selfless and unbiased implementation of real estate laws is the must requirement to clean up the economy. The demonetisation move without cleaning the sector seems shallow and half-heartedly; it’s not amply effective for money restriction.

Gold, Gems & Jewellery

The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 6-7 per cent of the country’s GDP. India is deemed to be the hub of the global jewellery market because of its low costs and availability of high-skilled labour. India is the world’s largest cutting and polishing centre for diamonds, with the cutting and polishing industry being well supported by government policies. Moreover, India exports 95 per cent of the world’s diamonds, as per statistics from the Gems and Jewellery Export promotion Council (GJEPC). India's Gems and Jewellery sector has been contributing in a big way to the country's foreign exchange earnings (FEEs). The Government of India has viewed the sector as a thrust area for export promotion. The Indian government presently allows 100 per cent Foreign Direct Investment (FDI) in the sector through the automatic route.

The overall net exports of Gems & Jewellery during April-December 2016 was Rs 175,879.24 crore (US$ 26.28 billion), whereas exports of cut and polished diamonds stood at Rs 113,171.17 crore (US$ 16.91 billion). Exports of gold coins and medallions and silver jewellery were Rs 25,819.48 crore (US$ 3.86 billion) and Rs 18,010.72 crore (US$ 2.69 billion), respectively during April-December 2016. According to GJEPC, gems and jewellery exports are likely to witness a growth of about 10 per cent this fiscal due to increasing demand in the USA and Europe.[532]

Indian Gold Industry

The love for gold is ingrained in the ethos of a typical Indian household and this has kept gold imports robust throughout the ages. There is a dichotomy: On the one hand, gold is deeply rooted in the socio-economic fabric of India; but from an economic perspective, gold continues to weigh heavily on India's import bill as a significant contributor to its current account deficit. However, amid this constant tug of war, the government's demonetisation drive is going to impact gold imports especially in the short to medium term.

In 2016, global gold demand gained 2% to reach a 3 year high of 4,308.7 tons whereas Indian annual jewellery demand ended 2016 to 514.0 tons, 22% down after a year of upheaval in the gold industry. Indian annual jewellery demand fell to a 7 year low amid strikes, regulation and high gold prices. Indian demand was 148.3 tonnes lighter than 2015, the biggest yearly decline recorded in our historical data series.

Circumstances in India during 2016 created a very challenging environment in which to collect accurate data on gold demand. In first quarter, the nationwide jewellers' strike effectively shut down the gold industry. Further difficulties arose when the government's clampdown on undeclared income, which reached its pinnacle in last quarter with the demonetisation policy: drove an element of gold demand into the shadier grey market.[533]

Effect of Demonetisation on Gold Industry

The unanticipated decision of demonetisation by Prime Minister Narendra Modi's government has created ripples in the industry. Soon after the

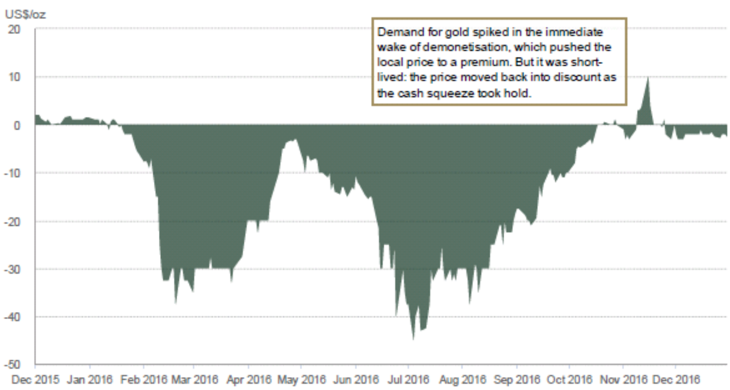
[532] (IBEF, 2017 February)

[533] (World Gold Council, 2017)

announcement, people rushed to buy gold, which soon stabilised as the government emphasised on the need to furnish PAN (Indian Permanent Account Number) card details for accountability purposes. Many jewellery shops that were flouting the norms came under crackdowns. Simultaneously, rumours of a gold ban started to float, which led to agencies ramping up volume of gold import. Overall, the rush to park idle cash lying with people and the rumours of a ban led to a jump in the import of gold to around 100 tonnes during November, 2016 the highest since 2015, as reported by Reuters. However, the same volume hasn't been absorbed and a significant amount of the import remained unsold which is likely to result in lower levels of gold import during December amid weak demand.[534] The move of demonetisation created fear regarding the ways gold will be taxed by the government.

Those having black money are now rushing to buy gold in old currency and jewellers are charging a premium for it. They plan to record the receipts in back date. It can be done if their accounts showed cash balance without any physical cash balance. Such a situation arises when the cash is spent but not accounted. The gap is being filled by accepting cash in this manner.

Local Indian gold prices surged during demonetisation



Source: National Commodity & Derivatives Exchange Ltd; World Gold Council [535]

The steep drop in the gold price, which coincided with the festival of *Dussehra*, supported gold demand in the first two weeks of October. Lower prices also added lustre to the key gold buying occasion of *Diwali*. Then the government's

534 (Bajpai, 2016)

535 (World Gold Council, 2017)

shock of withdrawal of high denomination (Rs500 and Rs1000) banknotes caught the market off guard. Demand spiked in the few days immediately following the move. In a frantic bid to exchange now obsolete banknotes, consumers rushed to buy gold: this pushed the local price to a premium over the global spot price.

Black Money use in Gold

It is estimated that the unorganised segment comprises around 70-75% of the domestic gold jewellery market; although the share of organised jewellery retail segment (comprising national and regional retail chains) is estimated to be growing at approximately 15% on y-o-y basis. Although declaration of PAN had become mandatory for purchases above Rs. 2 lacs, still lot of small ticket gold/jewellery purchase in India was being undertaken on cash-basis (especially in the backdrop of the fact that more than 60% of the demand is estimated to originate from rural India).

India is the world's second biggest gold buyer, and it is estimated that one-third of its annual demand of up to 1,000 tonnes is paid for in black money – untaxed funds held in secret by citizens in cash that don't appear in any official accounts.[536] Even after demonetisation announcement, explored gold route for conversion.

For many, gold had become the preferred route to channel their unaccounted wealth; Prices for these 'grey market' transactions were reportedly as high as Rs 50,000/ 10g, compared with a market price of Rs 31,000/10g. This rush drained retailers of their stocks, before a severe liquidity squeeze took hold.

However, they make park this money in some other form," said a head of an industry body on the condition of anonymity. Gold and jewellery are considered to be the easiest way to hide unaccounted money as these could be passed on as traditional possessions. Globally, it was observed that when holding unaccounted money in cash was made difficult, corrupt officials would opt for taking bribes in kind, including gold.[537]

Officials and politicians will continue corrupt practices until they have power, keep making things worse, if there are available sectors where black money can be accommodated.

536 (Reuters, 2016)

537 (Deccan Chronicle, 2016)

Gold Regulations and Liberalisation

The Gold (Control) Act, 1968 is a repealed Act of the Parliament of India which was enacted to control sale and holding of gold in personal possession. However excessive demand for gold in India with negligible indigenous production is met with gold imports leading to drastic devaluation of Indian rupee and depletion of foreign exchange reserves to alarming levels. Devaluation of Indian rupee is also leading to steep rise in food commodity prices due to costlier petroleum products imports. In these circumstances, the gold import policy of India aims at curbing the gold imports to manageable level time to time by imposing taxes and legal restrictions.

Gold industry should be regulated not only for curbing corruption but also it its import contributes approximately 3% of GDP, impacting current and fiscal deficit.

There is a story behind liberalisation of gold in India. In 1990, India had a major foreign exchange problem and was on verge of default on external liabilities. The Indian Government pledged 40 tons gold from their reserves with the Bank of England and saved the day. Subsequently, India embarked upon the path of economic liberalisation. The era of licensing was gradually dissolved. The gold market also benefited because the government abolished the 1962 Gold Control Act on June 6, 1990 by Finance Minister Madhu Dandvate and liberalised the gold import into India on payment of a duty of Rs.250 per ten grams.[538]

Gold Import Surged during Demonetisation

India's gold import during demonetisation period of November 2016 was more than October 2016 and even much above 10 year average for these months. Although, in the calendar year 2016, gold imports declined to 661 tonnes (from 1047 tonnes in 2015) and gold imports during 2016 were lower than the 10-year average (2005-06 to 2015-16).

Several domestic factors impacted demand for gold such as weak rural demand, destocking of earlier purchases, recycling of jewellery of households, increased regulations towards transparency and the possibility of some demand being partly met through smuggling.[539] Besides, high and volatile international gold prices also appeared to have impacted gold demand.

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538 (Shah, 2015)

539 "Directorate of Revenue Intelligence (DRI) busts a major gold smuggling racket involving smuggling of around 7000 Kilograms of gold worth more than ` 2000 crore in

Month-wise Gold Imports in FY 2015-16 and FY2016-17[540]

Month	Value (US$ Bn)	Volume (Tonnes)	Value (US$ Bn)	Volume (Tonnes)
Value (US$ Billion)	2015-16		2016-17	
April	3.1	86.8	1.2	31
May	2.4	69.2	1.5	46.6
June	2	56.6	1.2	39.5
July	3	89.4	1.1	26.5
August	5	152.9	1.1	25.7
September	2	64.2	1.8	50.5
October	1.7	48.7	3.5	99.7
November	3.5	110	4.4	119.2
December	3.8	121.8	1.9	54.1
January	2.9	93.3	2	53.2*
February	1.4	48.3		
March	1	26.8		

India's Gold Demand and Imports (Volume in tonnes)

Category	Demand (1+2)	1. Jewellery	2. Bar and Coin	Imports
2015	857.2	662.3	194.9	1047.1
Q1:2015	190.7	150.7	40	247.5
Q2:2015	159.2	121.5	37.7	212.6
Q3:2015	271.2	214.1	57	306.5

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last two and half years", Press Information Bureau, Government of India, September 19, 2016.

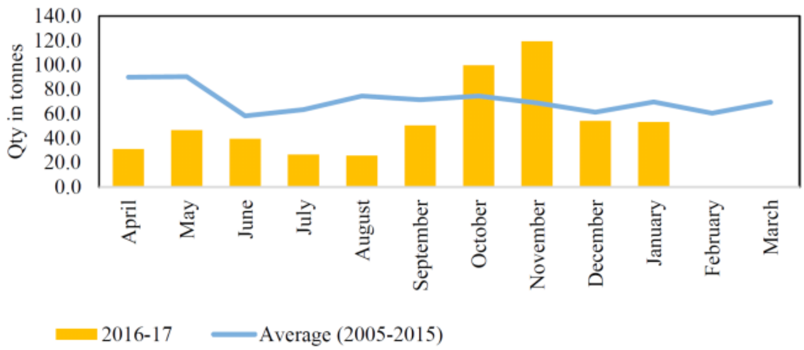
540 *Estimated. Source: DGCI&S.

Q4:2015	236.1	176	60.2	280.6
2016	675.5	514	161.6	661.3
Q1:2016	112.2	84.7	27.5	168.4
Q2:2016	126.6	94.4	32.3	117.1
Q3:2016	192.8	152.7	40.1	102.7
Q4:2016	244	182.2	61.8	273.1

Source: World Gold Council; DGCI&S, (Reserve Bank of India, March 10, 2017)

Note: Quarterly data may not add up to yearly totals due to data revisions.

Monthly Gold Imports in 2016-17 versus 10 year average import



Cash transactions have an essential role to play in gold markets claiming 80% of transactions.[541] Surge in demand in November 2016 indicates conversion of black money into gold. The demand in 2017 may not revive after 22% decline in 2016, public may wait to see the budget announcement and GST impact on this sector; also global market volatility and sovereign buying will impact the industry.

Charity/ Donation:

Charity is a noble act, the importance of Giving to Charity, whether it is small or large, whether in monetary terms or kind, is well accepted as a 'giving back' to the society. Charities change the lives of people in need, with even the smallest of donations making a large impact in a community. Charities help

541 (Dubey, 2016)

poor, distressed or deviant persons, by sharing their pains and making them self-reliant. Charity does not only a give economic effect; it improved the moral character of the recipients, thus superior in that sense.

In India, there are few distinct charities regulations under one or other acts or regulation, these are mentioned herein.

Political Charity/ Donation

Indian elections, state as well as national, have historically seen the influence of money power. It's not a secret that cash drives the Indian political system and no politician can hope to be a serious player without utilising some monies in the elections. Hence, demonetisation is bound to have a serious impact on the way India polity is structured.

There are mainly two models of political parties in India. The first is the cadre-based ideologically-driven parties, this club is almost exclusively composed of the BJP, BSP, CPM and CPI. These parties are less dependent upon monetary patronage and cash dealings, although not fully immune to them. BJP has recently topped the dubious list of being the richest party with funds coming from "unknown" sources.[542] Many of these park illicit wealth in Indian and overseas real estate, shell companies, shares, gold and overseas bank accounts. Therefore, it can be asserted that these parties, ideally should be least affected by demonetisation. On the other side, there's the "enterprise" model of political parties. These parties that derive their relevance from pecuniary patronage predicated on caste, personal charisma, community or regional identity are the ones hit hardest. In the short term, it will be tough for such political parties to sustain their patronage power and in the long term a lot will depend upon their ability to rebuild their monetary reserves.

Looking from the electoral point, most of the funding of national political parties is done in cash. With nearly five state elections in 2017, demonetisation has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash donations are a huge part of "election management". In one stroke, big parties will find themselves hamstrung. Parties would have to completely rebuild campaign strategies considering cash crunch.

542 (Deshmukh & Sharma, 2016)

Regulations related to Political Donation:

Laws related to Political Donations/ Charity/ Contribution[543] are mentioned herein:

1. Donations or contributions are amounts contributed above Rs 20,000 to the political parties by individuals. Companies, electoral trusts and unions/ associations. The details of donors such as Name, address, PAN number, Mode of payment and date of donation have to be shown by the political party in the 'Donations report' filed by the party to the Election Commission of India . Contributions could be made in the form of cash, Cheque, Demand draft or an Electronic transfer. Details of Cheque or Demand Draft should be made available by the political party.
2. According to the rules laid down by the Election Commission of India (ECI), Contribution Report containing details of the donors who donated above Rs 20,000 have to be made available with the ECI on an annual as prescribed under Section 29-C of the RPA in Form 24A. If the parties do not submit an annual report stating donations received above Rs 20,000, then such party shall not be eligible for tax relief under Section 29-C of the Representation of People's Act. In Budget 2017, it is announced that the limit of Rs 20,000 has brought down to Rs 2,000 for declaration of donor's identity. A wecome move, political

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543 (ADR (Association for Democratic Reforms))

According to Sec.29C of Representation of People Act, 1951, the treasurer of a political party or any other person authorized by the political party in this behalf shall report the details of the contributors except Government companies who have contributed over Rs 20,000 during the financial year to Election Commission before the due date for furnishing a return of its income of that financial year u/s139 of Income Tax Act, 1961.

As per section 13A of the I.T Act, any income of a political party

which is chargeable under the head "Income from house property" or "Income from other sources" or "Capital Gains" or any income by way of voluntary contributions received by a political party from any person shall not be included in the total income of the previous year of such political party. Provided that— (a) such political party keeps and maintains such books of account and other documents as would enables the Assessing Officer to properly deduce its income there from; (b) in respect of each such voluntary contribution in excess of twenty thousand rupees, such political party keeps and maintains a record of such contribution and the name and address of the person who has made such contribution.

transparency is needed for corruption free country, could government make it mandatory for all political donations.

3. The contribution reports of political parties, once submitted to the ECI, is uploaded into the Election Commission Website (http://eci.nic.in) and hence in the public domain. The reports are uploaded based on the financial year for which the reports were submitted. Details of the donors and the amount contributed by them can be thus scrutinised by the public.
4. Contribution reports, when made public, increases the transparency in the political system and also makes the donor and the recipient more accountable. Contribution reports throw light on the huge amounts donated by companies and industries to political parties.
5. Before March 2017, according to Section 293A of the Companies Act, donations made by companies should not exceed 7.5% of its average net profit over the past 3 years. But there is no restriction of the number of times contribution can be made either by an individual or a company/ trust. The Finance Bill, 2017 amended in March 2017, removing the cap of 7.5 per cent of the average of its net profits in the last three consecutive financial years. Additionally, companies will not be required to name the beneficiary political party.[544]
6. According to the Foreign Contribution Regulation ACT (FCRA), no candidate standing for election is authorised to receive contribution from companies registered outside India whereas Under Sections 3 & 4 of Foreign Contributions (Regulation) Act (FCRA), 1976, political parties are not permitted to accept contributions from foreign companies or companies controlled in India by foreign companies unless a special permission is sought from the Central Board of Direct Taxes (CBDT) by the party to receive such funding. This is amended in 2016 which strikes the very fundamental basis of FCRA that is restricting foreign power to control Indian economy and politics.[545] The 2016 Amendment pave the way, retrospectively, for foreign funding in politics.[546]

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[544] (Dailybite, 2017)

[545] When FCRA is passed, Mr. P Chidambaram, then Minister of Home Affairs said FCRA will ensure “foreign money does not dominate social and political discourse in India”. (Source: http://corporatelawreporter.com/2016/12/07/2016-amendment-to-the-fcra/).

[546] This retrospective amendment has several beneficiaries including companies and political parties. Sterling Industries India Ltd and Sesa Goa Ltd contributed to political

7. Government organisation or a company cannot donate to a political party. Similarly, no company which has been in existence for less than three financial years can donate, directly or indirectly to any political party or a candidate standing for election.

On positive note, a welcome move is seen in budget 2017-18, reducing the limit to Rs 2,000 from Rs 20,000.

Election Commission on Election Expenditure

Election Commission vide letter dated January 21, 2013 has informed all parties about changes in pro-forma of filing election expenditure. It has mentioned:

1. The requisite information is sought to enable scrutiny of the expenditure, incurred or authorised by the parties or the candidates, set up by them exemptions claimed by them in terms of explanation (1) to Section to Section 77 (1) of the Representation of the People Act, 1951 in their returns of election expenses, filed under section 78 of the said act.
2. 'Statement of Election expenditure' by political parties within 75 days of assembly elections and within 90 days of parliamentary elections.
3. All these expenses must be made in the format prescribed by the commission.

Empowerment of Election Commission

Election Commission of India is a permanent Constitutional Body, was established in accordance with the Constitution on 25th January 1950. The Constitution of India has vested in the Election Commission of India the superintendence, direction and control of the entire process for conduct of elections to Parliament and Legislature of every State and to the offices of President and Vice-President of India.

Finally, to ensure electoral laws are effectively adhered to, India needs to either empower the Election Commission in a fundamental manner or establish an independent regulator in the manner many advanced democracies have done. In the present form, the Election Commission of India has neither legal teeth nor capacity to enforce campaign finance laws. This is best exemplified by the

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parties' up to 2009 wherein Vedanta Resources plc holds 50% of shares in it, making it foreign company. (Association for Democratic Reform Vs. Union of India W.P.(C) 131/ 2013) inability to disqualify a single candidate caught up in the fraudulent electoral practices, including violation of expenditure restrictions in the recent times.[547]

Even for petty issues of fund misappropriation or non-submission of expenditure account by political parties, the EC has to rush to the judiciary. Similarly, though 29 out of the 45 recognised political parties failed to submit their donation report to it till the deadline of November 30, 2014, the EC did nothing except issuing further reminders. Therefore, India urgently needs to empower Election Commission to verify disclosures of expenditures penalise defaulters and track expenditures by political parties. Now, the Modi government has a rare opportunity to buck the past trends and cleanse the Augean stables of political parties by taking some radical steps that can enhance the impact of demonetisation.[548]

Role of Cash in Elections

Most political parties accept contributions in cash and it creates a mechanism that will not prevent the consequent generation of black money.[549]

According to a report by the New Delhi-based Association for Democratic Reforms (ADR), during the 16th Lok Sabha elections, the EC had reported seizures of around Rs300 crore of unaccounted cash and more than 17,000 kg of drugs and cache of liquor, arms and other items.

"Apart from funding for terror and use of black money, the government's decision will directly impact on the note-for-vote phenomena. All political parties are equally to be blamed for this. Some use notes for votes and some do it through goods and services. "If indeed there is lesser black money in the economy, then consequently, there will be lesser black money used in election campaigns too and that will lead to better and fairer polls," said Jagdeep Chhokar, founder member of ADR[550]

Political parties have not been granted any exemption after demonetisation and the introduction of Taxation Laws (Second Amendment) Act, 2016 which came into force on December 15, 2016, said Jaitley. He added: "Income and donations of political parties fall under the purview of Section 13A of the

547 (Sahoo, 2016)

548 (Sahoo, 2016)

549 (Kapur, 2016): Interview of Prashant Bhushan, Supreme Court advocate and activist by Manavi Kapur.

550 (Anuja & Varma, 2016)

Income Tax Act 1961 and there is no change in its provisions. In this era of instant outrage, a 35-year-old law is presented as a new law being passed by the NDA Government."[551]

Demonetisation and Political Charity

Under the current rules, no political outfit needs to show the source of funds for cash donations under Rs 20,000. Hence, parties have a logical opportunity to show a majority of their deposits under this category by creating thousands of backdated receipts and can, thus, launder black money with no questions asked. Typically, political parties do not even keep receipts for donations.

There should be more transparency in political funding. Donations below 20,000 should have the same rules as applicable to donations above 20,000 i.e. Name, Address, PAN number of donors must be recorded, and finally the ITR details should be made public. This will need an amendment to the Representation of Peoples act and the IT act.[552]

According to an analysis of political funding by the Association of Democratic Reforms (ADR) in the past few years, around 75 percent of such funding in India remains opaque and falls in the anonymous donation category.

Parties can take money and show them as donations below 20,000 rupees (making backdated entries showing that donations were taken before demonetisation was announced) and try to convert it into white money for a 'cut'. Political parties have a clear option to print backdated receipts and launder black money.[553]

Government should have done following things before demonetisation:

1. Before announcement, political parties should have been asked to deposit all the cash received by it to deposit in the bank. After announcement, political parties should not be allowed to deposit.
2. Government should have asked all political parties to declare banks details of deposits on or before the date of demonetisation.

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551 (Unnikrishnan, To end black money in political funding, Modi govt must do more than blame old law, 2017)

552 (Malik, 2016)

553 (Malik, 2016)

3. All political parties need to be asked to furnish all receipts including charity and donation before announcement, so they won't declare pre-dated receipts.
4. Government should take serious steps to make political funding cashless. This is at the top of corruption pyramid, from which it trickles down to common.
5. Government should link PAN cards with Aadhar cards and allow only people having with PAN card to make political donation. Confirmation of such donation will be sent to Aadhar linked phone numbers.
6. Importantly, the government which is in simple majority would bring all political parties under the Right to Information (RTI) Act.[554]

Nonetheless, it was the responsibility of this government to plug the necessary loop holes before attempting a big gamble to hunt tax cheats, and restrict looting the country. The government should have foreseen that crooks will think far ahead and use one of the 1866 political parties as black money laundering machines to make a mockery of the system.

The pain and trauma forced up on the common man who has, by far, stood by the Modi government on this move, will it go in vain?

Religious Charity

Religious charity is very important aspect of the Indian society and economy, especially because of social sector rely heavily on cash donations to religious institutions. In fact, the Charities Aid Foundation India Report showed findings that a total of 84% of Indians donated money to an individual or an organisation in 2015, and out of that those 84%, over 71% donated solely or partly for religious reasons.[555,556]

Temples are run by charitable trusts. There is restriction that if any donation is taken in cash, the name and address of the donor should be furnished to government authorities. This is true for all charitable trusts.[557] Alike rise in donation in last demonetisations, it was in 2016, too.

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554 (Kapur, 2016): Interview of Prashant Bhushan, Supreme Court advocate and activist by Manavi Kapur.

555 (Jain P. , 2016)

556 (Charities Aid Foundation, 2012)

557 (IANS, 2016)

Effect of Demonetisation on Religious Charity

As current income tax regulations allow religious institutions to accept anonymous donations, a temporary surge in donations was anticipated as some people may donate part of their black money to religious institutions

Also, there are apprehensions that those with illegal cash could get their Rs 500 and 1000 notes replaced by lower denominations in connivance with temple officials. This may defeat the purpose of the demonetisation scheme.[558]

There are reports of people giving their black money to temple 'hundis' or donation boxes. Temple managements will show this money as anonymous donations, exchange it for new currency notes, keep a commission for this service, and return most of it to the owner. The government has already clarified that temple hundis will not be asked questions. ABP news showed a sting operation in which the priest of Govardhan temple in Mathura was willing to convert Rs 50 lakh of black money into white for a 20% commission.[559]

In first few days, upsurge in donation was observed throughout the country. Few temples are mentioned herein:

Siddhivinayak Temple: Mumbai's Siddhivinayak has received twice the usual amount in anonymous donations in the week since cessation of the old Rs500 and Rs1000 currency notes. Its hundi was opened on November 16, 2016 to reveal cash donations of Rs 60 lac, much of it in high denomination notes. The average weekly tally was Rs 35-40 lac. The Maharashtra government has requested Siddhivinayak and other prominent shrines in the state to deposit cash offerings in banks on a daily rather than weekly basis so that the flow of new currency can be augmented. [560]

Tirumala Tirupati Devastanams: Hundi collection at the Tirumala Tirupati Devastanams (TTD), considered the richest temple trust in India, stands at a little over Rs 20 crore since the announcement of demonetisation. Post announcement, the temple was receiving hundi income in the range of Rs 2 crore to Rs 2. 5 crore daily.

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[558] (HT Correspondents, 2016)

[559] (ABP Live, 2016). Also Mr. Ramdev Baba was also caught on camera discussing black money in 2014, this indicates objectionable role of religious and philosophical gurus on black money.(DNA, 2014)

[560] (TNN, 2016)

Mahakaleshwar temple Ujjain: In an interesting effect of demonetisation, donations received in the charity box installed in *sanctum sanctorum*[561] of Mahakaleshwar temple doubled in last few days. According to Mahakaleshwar Temple Management Committee administrator, Rajnish Kasera the donations received in the charity box of sanctum sanctorum of the temple was Rs 2,96,005 on November 2, 2016 while the amount doubled to Rs 5,82,587 on November 11, 2016. Rs 63, 627 were obtained from the charity box of Tilak Prasad Ramp of the temple on November 7, 2016.

Donations in the charity box of sanctum sanctorum always spill out more donations than the other boxes. There are 71 charity boxes across the temple. Charity box of sanctum sanctorum is opened weekly while others are opened fortnightly and even in 3-4 months depending upon their place in the temple. The donations obtained from the charity boxes of the temple are deposited in the different banks according to a cycle, added Kasera. Sudden hike in the donations of the Mahakaleshwar temple's charity box suggests that devotees donated more than usual course after the Rs 1000 and 500 currency notes were annulled by the Government on November 8, 2016.[562]

After third week of November 2016 of currency stripping, alike humans, Gods were also affected. The charities were decreased due to unavailability of higher denomination notes with its devotees.

Point of Concern

The IT department swung into action after reports that there was a beeline for all religious trusts for turning black money into white after the demonetisation announcement including the religious trusts being run by scions of erstwhile estates, said sources. IT commissioner Vijay Kumar said, "We have served notices to all religious trusts. Action would be taken against trusts whose accounts would have anomalies."

The Income Tax department has issued notices to hundreds of charitable and religious organisations in the country enjoying exemptions on tax paid to inform

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[561] The Latin phrase sanctum sanctorum is a Latin translation of the biblical term "Holy of Holies" which generally refers in Latin texts to the holiest place of the Tabernacle of Ancient Israel and later the Temples in Jerusalem, but also has some derivative use in application to imitations of the Tabernacle in church architecture. The garbhagriha in Hindu temple architecture (a shrine inside a temple complex where the main deity is installed in a separate building by itself inside the complex) has also been compared to a "sanctum sanctorum" in texts on Hindu temple architecture

[562] (FPJ Bureau, 2016)

it about their cash balances as of November 8, 2016 when the government stripped Rs. 500 and Rs. 1,000 currency notes. Under Section 133(6) of the Income Tax Act, 1961, that empowers the IT authorities to compel banks and other authorities to furnish information which could be useful in connection with any pending proceeding or enquiry.

The notices were issued in order to keep a check on possible "accommodation" of black money of the scrapped denomination by way of making charitable contributions or donations to these organisations.

Officials said the exercise to send such notices to hundreds of such tax-exempted institutions, including NGOs, religious organisations and educational institutions, was "precautionary" so that these entities do not become a place to park tainted funds.

Similar to political parties, these religious charity centers can easily convert black money (received in the form of ousted currency) in legal tender; two simple ways are mentioned herein:

1. During the demonetisation period, the religious centres will receive huge cash in both legal tender and in defunct currency. The temple authority can use the donation receipts in legal tender to exchange it with old currency.
2. Temple authorities can print back dated receipts and accept donation in abandoned currency; such donation doesn't attract any income taxes. After authorities can pay to donor in new currency, showing expense in its books and charge some commission.

To plug these loopholes, government have to plan meticulously and should have asked these authorities to declare their receipts on specific day within specified time frame.[563] On or after the expiry of this time limit, demonetisation move can be announced.

It seems like the government has given an opportunity to the religious trust to earn by assisting black money hoarders to convert their illicit income to white.

Educational Charity

Education by definition is a charitable institution globally and most of educational institutes are run by societies or trusts as 'Not-for-Profit'

[563] (say Authorities have to declare all receipts upto October 31, 2016 on or before November7, 2016; failure to declare, their all receipts will be taxed)

organisation. It means if an institute has surplus income, then it is expected to re-plough further into educational services.

However, do our educational institutes, especially schools, really stick to the letter and spirit of "Not for Profit" tag?

On the revenue side, schools have four major sources of income, admission or capitation fee, regular fees including tuition, transportation and academic fees, ancillary fees for clothing or events or sports and revenue from other sources such as renting or brand sponsorship etc. Except regular fees most of the other collections are in cash and mostly not against a receipt, even for regular fees, sometimes. This leaves enough space for innovative bookkeeping.

With such dynamics, schools manage their income to the bare minimum by showing lesser revenues and higher costs on books, thus generating a lot of black income in cash that is extracted out of the system and paid in cash to the promoters.[564]

Regulatory Norms

Educational institutions are registered as charitable trusts, and 85% of their income is exempt from tax. The remaining 15% can also be exempted if certain provisions of the Income Tax Act are adhered to.

Several private educational trusts being run on a not-for-profit model have come under the Income Tax lens after recent search operations revealed that they were allegedly involved in money laundering.

"There is lack of transparency in the accounting and functioning of these institutes, and there is a need to look into their operations," a senior government official told HT on the condition of anonymity. Taxmen are closely monitoring the accounts of these institutions, and the flow of money into them. Sources said many of these trusts are repositories of black money.

Section 115BBC of Income Tax Act introduced by Finance Act 2006 stipulated that income tax is waived for non-profits on anonymous donation only if they aggregate up to 5% of the total income of an organisation or a sum of Rs1,00,000, whichever is higher.

This was further amended by Finance (2) Act 2014 according to which:

1. "The income-tax payable shall be the aggregate of the amount of income-tax calculated at the rate of 30% on the aggregate of

[564] (Nanda, 2016)

anonymous donations received in excess of the higher of the following, namely:

(A) five per cent of the total donations received by the Indian; or

(B) one lakh rupees, and

2. the amount of income-tax with which the Indian would have been chargeable had his total income been reduced by the aggregate of anonymous donations received in excess of the amount referred to in sub-clause (A) or sub-clause (B)

Use of Black Money in Educational charities

Impacts on education sector:

The decision of the central government to withdraw high-value bank notes to curb unaccounted cash will hurt education institutions that accept donations or capitation fees for admissions. Accepting and accounting donations will become difficult because of the demonetisation drive. Education sector was not immune to the Indian theory of 'you can buy everything with money'. This move of demonetisation will definitely curb this mentality of many in the country. Nursery admissions, private education institutions and professional higher education including medical and engineering are the segments which accept donations widely.

For the first time, these segments are going to feel the impact in a big way. Private educational institutions take huge of amount of donations in cash which is 40% to 50% more than the fees of the course. We expect that demonetisation will impact the recipient. Admissions in private educational institutions and medical college admissions come tagged along with donations without a glitch. The donations in medical colleges are usually more than 100% of the fees. Demonetisation will impact both admissions and also the receipt. MBBS seat in some colleges goes for Rs40 lac to Rs60 lac, while MD seat ranges around Rs 2 crore. Similarly, engineering and management stream seats have a price tag between Rs 2 lakh to Rs 10 lakh each.

This move can change the course of expensive education which can be made more affordable devoid of the capitation fee. The seats in the so-called "management quota" will not be up for sale by the institutions, instead will be in the hand of meritorious students. Negative impacts on the education sector: However, some in education sector feel that this effect on capitation will linger may be only for a year or two. After that black money hoarders will find one way or the other like Gold to launder their money into education sector. Some feel that the fee control by state government and no donations may also hinder the quality of institutions. Some parents use black money to fund student expenses for those who are studying abroad, the flow of Indian students to foreign countries may also dwindle. This move may impact the US and UK education markets as these are top destinations for Indians and the fees are relatively high in these countries.[565]

Education Industry creates Black Money

Education, earlier known noble turned wobble; its generating substantial black money, approximately 0.8% of Indian GDP and 73.5% of the total budget allocation to HRD ministry, was generated in FY2013-14.(Total budget for HRD ministry for 2013-14 was Rs65,867 crore.)[566]

This trend creates distortions in Indian society and is detrimental to Indian economy. Following are some of the most glaring distortions caused:[567]

1. Tax evasion – The Indian government loses out on tax revenue on these huge sums, and while black money could be as easily found in many other parts of the Indian economy, this is one black money generating machine that has the most wide-ranging effects on our future generations.

2. Money mopped from various regular individuals concentrates in a few hands. The desperation among the regular middle class people to get the best education for their children means that they are willing to shell out huge chunks from their legitimate savings to get seats in various colleges.

3. The money is either parked in real estate or stashed abroad. If parked in real estate, this supports the artificially hiked real estate prices and creates another loop that feeds inflation and price distortion.

4. If stashed abroad, the money goes out of the Indian economy to support economies in tax havens.

5. Students have come to consider this as an investment and look to recover it as soon as possible. This ends up promoting unethical practises in all related fields. For example, the medical profession has become un-regulated un-accountable mafia, where most of the doctors involve themselves in unethical practices to recover their so-called investment.

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565 (Shree, 2016)

566 (Goyal & Goyal, Business of education generates Rs 48,400 Crores of black money every year in India, 2014 June)

567 (Goyal & Goyal, 2014)

6. When the student has paid money, he treats the degree as an entitlement and not something to be earned. This affects the quality of the students input and the graduates that we educate.

7. It is speculated that some of this money is deployed in stock market and commodities exchange market. The commodities exchange has been responsible for commodities inflation especially of food grain. The money is also used for hoarding of commodities, thus give raise to inflation. All this is possible only with tacit political support.

Effect of Demonetisation on Educational trusts/ societies

"The key takeaway from this demonetisation move, is that there is a formal plan to curb the Indian theory 'you can buy everything for cash' and education sector was not immune to it," Madhavi Lokhande, dean, Welingkar Institute of Management added.[568]

Reality may not be so different, when you consider that in the last five months three medical colleges have been raided by Income Tax sleuths in Karnataka and Tamil Nadu – and these have yielded 'concealed money' of over Rs 700 crore.

No wonder then that taxmen have started asking information from registered Trusts – whether educational or charitable – in the wake of the demonetisation drive. The top 100 tax-paying Trusts are being issued notices on what their cash-in-hand status was, as on November 8, 2016 the day Rs 500 and Rs 1,000 notes ceased to be legal tender.

The seizure of Rs 43 crore was said to be the largest in Karnataka, second only to an earlier raid in Puducherry, where Rs 82 crore was seized from a private medical college. "Investigations revealed that the money was related to cash donations collected from students during admission. Apart from the cash, a large number of incriminating documents and evidence was also seized. This has resulted in the immediate disclosure of unaccounted income of more than Rs 265 crore. Further scrutiny of the evidence is in progress," a source in the income tax department informed TOI.[569]

Point of Concern

In the over-regulated education sector, politicians with clout, connections and insider knowledge, can cut through red tape and quickly expand capacity. But

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[568] (Nanda, 2016)

[569] (TNN, 2016)

political wheeling and dealing habits, die hard with scandals and allegations of corruption, are surfacing irregularities in the sector.

Given its nation-building potential, the under-serviced education sector needs all the help it can get. Although there is much head-shaking about the incremental involvement of the country's infamous politicians in education, there's no denying that they have addressed the supply side of the rising demand for secondary and higher education. The public interest demands that they are equally regulated within the system, rather than prevented from entering it.[570]

Lease Licensing

Lease licensing, here, is new terminology used refers to leasing of land rights, mining rights, spectrum rights and others. This sector is also a lucrative for corrupt practices, for both generating and utilising of black money, as there is no single and universally practiced method for valuation of such rights. Because of this loophole, the regulatory norms are flouted for personal benefits of political and bureaucratic people.

Mineral Mining

The Ministry of Mines is responsible for survey and exploration of all minerals, (other than natural gas and petroleum) for mining and metallurgy of non-ferrous metals like aluminium, copper, zinc, lead, gold, nickel etc. and for administration of the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act) in respect of all mines and minerals other than coal and lignite.

In India, state governments own minerals located within their respective boundaries and grant mineral concessions under the provisions of the MMDR Act 1957 and Mineral Concession Rules (MCR) 1960. The central government's approval is also required in cases when a concession is sought in areas previously reserved by the government, or previously held under a mineral concession.

Illegal mining impacts on economic factors by reducing states' income, deteriorating environmental factors and social factors affecting tribal people of that locality.

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[570] (Education World- Vidya Pandit, 2009)

Mining and Corruption

In India, there have been irregularities in all mineral mining including, coal, oil, sand and other minerals.

A major investigation into India's illegal mining practices that led to the arrests of public officials for corruption started in November 2010 in response to public pressure to address India's escalating illegal mining practices, was terminated on October 16, 2013. A commission was headed by Justice M B Shah was instated, with a mandate to investigate financial transactions between exporters, traders and mining lease owners, as well as illegal practices, such as mining without a licence, mining outside lease areas, transporting minerals illegally and mining-related ecological destruction. Vijay Pratap, convener of the thinktank South Asian Dialogues on Ecological Democracy said: "The commission was exposing too much corruption at government level and risked undermining tightly woven corporate collusion with the political class, which has sadly become endemic in the mining industry. This is why the government aborted the investigation." Investigations into illegal mining have exposed high levels of corruption in the industry. Two former Congress chief ministers of Goa, Digambar Kamat and Pratapsingh Rane, have been indicted for involvement in illegal mining and failure to safeguard the environment from mining-related devastation. The state's former director of mines and geology, Arvind Lolienkar, was also charged. Goa's state financial losses have been estimated at Rs 35,000 crore (US$5bn) as a result of large-scale mining scams.[571]

VV Minerals promoted by S. Vaikundarajan (the largest sand mining magnate in the country) of Tamil Nadu’s is one of example how corrupt practices are carried out in allotting sand mining licenses, violation of mining policies, excess mining, influence of political and financial power on lease licensing and illegal exports.[572] Official records show that Vaikundarajan owns 53 out of a total of 81 leases to mine heavy minerals in the state of Tamil Nadu through two companies alone, his brothers own 20 more licenses, controlling whole industry.

On 2 February 2012 the Supreme Court of India on a public interest litigation (PIL) declared allotment of spectrum as "unconstitutional and arbitrary" and quashed all the 122 licenses issued in 2008 during tenure of A. Raja (then minister for communications & IT in United Progressive Alliance) the main accused.[573] The court further said that A. Raja "wanted to favour some

[571] (Press Coverage, 2013)

[572] (Ravishankar, 2017)

[573] (PTI, 2012)

companies at the cost of the public exchequer" and "virtually gifted away important national asset".[574]

Ex CAG, Vinod Rai wrote in his book 'Not Just an Accountant: The Diary of the Nations Conscience Keeper' about how the political system was exploited to violate laws in 2G spectrum scam, Krishna-Godavari gas basin contract, Commonwealth Games scam, Indian coal allocation scam and the controversial purchase of aircraft.

Telecom & Spectrum Licenses

Licensing spectrum is other susceptible sector for corruption. In early 2008, the Department of Telecommunications allocated several new licenses to provide wireless telecom service along with wireless spectrum. Subsequent investigations by the Comptroller and Auditor General (CAG) and the Central Bureau of Investigation (CBI) revealed massive irregularities in the allocation process, with then Telecom Minister Andimuthu Raja sent to jail accused of receiving bribes of upto US $ 1 billion to award licenses to favored companies who otherwise would not have qualified for the licenses. The corruption scandal almost brought down the ruling United Progressive Alliance (UPA) government, and has dominated political discourse in India over the past two years.[575] Corruption here maps well into the Shleifer and Vishny (1993) framework as it involved the "sale of government property for private gain" by a government official. It revealed modus of operandi of such corrupt practices. The licenses were initially awarded to firms whose ability to efficiently provide wireless service might have been doubtful (e.g. real estate companies, shell companies with noother physical or human capital), these licenses were subsequently bought – at substantial premia – by firms which are ultimate users of these licenses. These are telecom giants for spectrum. For example, Swan Telecom, a complete shell company with no assets or human capital or expertise, paid US $ 384 million for 13 licenses, but subsequently sold equity worth 50% for US $ 900 million. Extrapolating from this equity dilution, the CAG has calculated that the full set of licenses allocated should have been worth US $ 14.4 billion, as opposed to the US $ 3.1 billion actually received by the government. A rather more speculative value of US $ 44.2 billion, calculated by using amounts spent on the

[574] (PTI, 2012)

[575] The corruption was discovered as a result of tapped telephone conversations between a corporate lobbyist and the head of a telecom firm.

April 2010 auction of 3G licenses, has been widely reported in the Indian press and assumed to be the loss to the government.[576]

Land Leasing

It was easier for private parties or individuals to seek government for land allotment at throwaway price, more irregularities are seen in this space over years; regulatory changes bringing transparency now a days. There are several irregularities in land allotment like Yamuna expressway- NOIDA,[577] land allotment to Adani, Tata, Essar, L&T[578], Associated Journals Ltd (AJL-National Herald),[579] Hema Malini Dance Academy[580] and many more.

In respect of allotment of precious lands, spectrum and mining leases of natural resources competitive bidding must be the norm. For this, relevant laws need to be amended, if required, such as:

1. Contracts under corrupt conditions should be considered as 'void ab initio' on proving it right.
2. For sub judicial cases, retrospective amendment should not be allowed.
3. Government officers should be held personally responsible for corrupt practices and strict action should be taken to make it clean administrative system.
4. CAG's scope to should be enhanced to Public Private Partnership (PPP) projects and undertaking/ investee companies, for more transparency.

Political interferences should be avoided and such department should be handled with honest officers. A law similar to the False Claims Act in the US should be enacted in India. This law allows imposition of a civil penalty five times the loss sustained by the Exchequer in any public procurement or transfer of natural resource. These measures may restrict illegitimate practices.

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576 (Sukhtankary, 2012 August)

577 (PTI, 2011)

578 (DailyBhaskar.com, 2014)

579 (Khatri, 2015)

580 (Moneylife Digital Team, 2016)

Black Money Support System

Corruption is the abuse of entrusted power for private gain. People seeking personal gains or favours monetarily or in kind creates a system supporting corruption. Corruption increases unequitable distribution of wealth and degrades the social system. Ironically, if there is higher unequitable distribution of wealth and poor social value system and social inequality (on any ground) there are high chances of corruption in the system. In other ways, corruption creates positive environment for corruption in future. In India, we have institutionalised structure of corruption and supported by several factors, few of them are mentioned herein.

Hawala deals

Hawala is an informal system of money transfer between entities in different countries. Brokers use handshake deals and/ or agreements with counterparts in other countries to move money without physically transferring funds (especially across borders) or using bank transfers. Often extremely difficult to monitor, hawala transactions are used primarily in the Middle East, East Africa and South Asia.

The unaccounted money is held in foreign bank accounts, as domestic and foreign real estate and other assets, as gold and jewellery. The owners could be politicians, political parties, individual and corporate businesses, commission agents, bureaucrats, private individuals, criminals and enemy agents with counterfeit money. Unaccounted money can also be laundered into "white" money. To do this there has to be a well-functioning "hawala" mechanism which is believed to exist throughout the country. These hawala traders accept the cash delivery at desired destination. These rackets are having presence in tax havens and other developed countries also. Hawala takes the unaccounted money as cash and smuggles it overseas to safe havens where it is converted into foreign currency and invested in different ways including in bank accounts. The cash returns to India by a similar route. It is now available for investment in "black" assets which could be production entities, real estate, gold, jewellery.

From a criminal perspective, the advantages of hawala are:

1. No paper trail.
2. No taxation.
3. No customs declarations.
4. Often preferential exchange rates.
5. No currency transportation

Participatory Notes

Participatory Notes commonly known as P-Notes or PNs are instruments issued by registered foreign institutional investors (FII) to overseas investors, who wish to invest in the Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India (SEBI).

This investment instrument constitutes a major portion of the total FIIs' investments into the key domestic indices, accounted for roughly 50% of FII investment in 2007. SEBI was not happy with P-Notes because it is not possible to know who owns the underlying securities and hedge funds acting through PNs might therefore cause volatility in the Indian markets.

P-Notes have also been associated with 'round-tripping' of domestic black money back into the Indian economy.

Government and SEBI should impose strict norms for KYC compliance; also Indians, NRI and their direct/ indirect owned companies should be restricted to channelize fund in India through P-Notes.

Offshore havens

India also provides a “laundry” which makes black money into white. Hawala is used to send the money to countries like Mauritius, Cayman Island which have tax benefits. The money goes there and is then legally sent back to India as investment in listed or unlisted companies against shares. These shares are further sold; the proceeds that are remitted back to Mauritius are now whiter. This happens with a few other countries like Cyprus, Switzerland etc.

Money is also sent similarly to Singapore where banks invest it for the owner but without his name. These “participatory notes” are another means to change the black money into white. Black money is thus money stolen from government by evading taxes or other means as described. Governments in India have done little over the years to close the loopholes that allow it to be generated and then accumulated.

Tax Holiday States of India

In the North East, where citizens are exempt from paying income tax, the story is repeating as happened in 1978, people transporting cash to north-east, and deposit in local citizen with some commission. As per section 10(26) of the Income Tax Act, a member of a Scheduled Tribe residing in any area specified in the Sixth Schedule of the Constitution which covers autonomous administrative areas like Dima Hasao, Karbi Anglong and Bodoland Territorial Area District in Assam, and the Khasi, Jaintia and Garo hills in Meghalaya or the states of Arunachal Pradesh, Manipur, Mizoram, Nagaland and Tripura, is exempted from paying tax on any income that accrues from any source in the concerned area or state.

Illicit financial flows (IFFs)

IFF is the money that is illegally earned, transferred or utilised. These funds typically originate from three sources: commercial tax evasion, trade mis-invoicing and abusive transfer pricing; criminal activities, including the drug trade, human trafficking, illegal arms dealing, and smuggling of contraband; and bribery and theft by corrupt government officials.

Secrecy jurisdiction

Secrecy jurisdictions are cities, states or countries whose laws allow banking or financial information to be kept private under all or all but few circumstances. Such jurisdictions may create a legal structure specifically for the use of non-residents. The originators of illicit financial flows may need to prevent the authorities in the country of origin from identifying them (e. g. if the money is the proceeds of tax evasion), in which case, the flow will be directed to a secrecy jurisdiction. Because those directing IFFs seek out low taxes and secrecy, many tax havens are also secrecy jurisdictions, but the concepts are not identical.

Tax treaties

Formally known as tax conventions on income and capital, bilateral tax treaties between countries were originally referred to as double taxation treaties. By concluding them, countries reach a negotiated settlement that restricts their source and residence taxation rights in a compatible manner, alleviating double taxation and allocating taxing rights between the parties. Treaties also harmonise the definitions in countries' tax codes, provide mutual agreement procedures that can be invoked if there are outstanding instances of double taxation and establish a framework for mutual assistance in enforcement. A treaty between a developing country and a country from which it receives investment will shift the balance of taxing rights away from the developing country. Such treaty provisions create opportunities for treaty shopping by foreign investors.

Fake companies/ bankruptcy

Companies win contracts to supply goods and services to government agencies, but go bankrupt after they receive payments and never deliver the promised goods. Also some companies subcontract further to other companies sharing substantial chunk of money. The report claimed that the money earned is divided between state officials and those involved in the bankrupt company, but there has been no detailed examination of such claims.

Agriculture

As per section 10(1) of Income Tax Act, agricultural income earned by the taxpayer in India is exempted from tax. Agricultural income is defined under section 2(1A) of the Income-tax Act. As per section 2(1A), agricultural income generally means:

(a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes. (b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.

Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A) and any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

The Central Government can't impose or levy tax on agricultural income; however, state governments can charge agricultural tax.

The Central Board of Direct Taxes (CBDT) has been looking closely at agricultural income claims of over Rs 1 crore by assesse in their tax returns in view of a PIL filed in the Patna High Court, which had raised concerns about agricultural income being used as the route for unaccounted money. Over 2,300 cases showing agriculture income of over Rs 1 crore have been detected by the Income Tax Department in the last nine assessment years.[581]

The biggest exemption (and correspondingly, the provision subject to the largest misuse) is that for agricultural income. Since most transactions of sale of agricultural produce at the farm level take place in cash, it is very easy to manipulate the quantum of agricultural income. "If the intention of the government is to launch an all-out attack on black money, does it make sense to retain the biggest loophole which enables easy conversion of black money?"[582]

Why Agriculture is exempted from Income Tax

Food Security is the basic need of not only the country but also of the world. Farmers plays vital role in providing food and they should be rewarded with tax benefits for their services. The argument against taxing agricultural incomes is that most agriculturists are poor, and that agricultural incomes are still subject to the vagaries of the monsoon and other climatic events. However, in any case, a

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581 (Magazine, 2016)

582 (Bhattacharya, 2017)

poor farmer will not have to pay income tax, if his net income is below the taxable limit.

Also, agricultural income is not taxed also because it would make food expensive for all the people, increasing inflation.[583] However, there is no need to provide tax benefit for rich farmers.

"Tax officials made a specific suggestion to Prime Minister Narendra Modi at a two-day conference of tax administrators, Rajasva Gyan Sangam on June 16, 2016 that the government should consider taxing agricultural income, not fully but partially. It was said that people having a regular income alongside agricultural income above a certain threshold can be brought under the tax net. [584]

Agriculture Income Exemption: Whistle-Blower

The land under cultivation has remained constant over the years at around 14 crore hectares. The growth in agriculture has been hovering around 3-4 percent, never exceeding 5 percent. Agricultural production too has been almost constant around 14-15 percent of the gross domestic product (GDP) of the country. There has not been any agricultural revolution to justify exponential growth in agricultural income. Poor growth in agriculture is further buttressed by growing indebtedness among farmers with thousands of them committing suicide every year. More than 90 percent of agricultural land is cultivated by marginal farmers who do not file any income tax return, as agriculture income is exempt from taxation. Hardly two percent of income tax assesse declares agricultural income.

More than four lakh taxpayers claimed exemption for agricultural income in the assessment year 2014-15. The biggest beneficiaries were Kaveri Seeds, which claimed Rs 186.63 crore as exemption, and multinational Monsanto India, which claimed Rs 94.40 crore as exemption, and both earned Rs 215.36 crore and Rs 138.74 crore profits, respectively before tax. It may be pertinent to mention that agro-companies growing crops are entitled to the same tax relief as individuals in states which impose no tax on agricultural income though some states do tax some kinds of farming.

The Economic Survey 2016 also recommended that taxing large agriculturists would help widen taxpayer base beyond the current 5.5 per cent, or 39 million earning individuals, who pay tax. The percentage of taxpayers in Singapore is 39

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[583] Also, increase in diesel price impacts similarly, though, it is accepted practice.

[584] (Magazine, 2016)

per cent, US 46 per cent and New Zealand 75 per cent. The problem is that instead of widening the tax net, the government is imposing more and more taxes on the 5.5 percent who pay taxes. This is a kind of tax terrorism. Honest taxpayers suffer while the dishonest invent ways to hoodwink the state.[585]

But this miniscule percentage of so-called farmers, have declared agricultural income worth thousands of trillions and their income grows by leaps and bounds.

Misuse of Agri-income Window

The misuse of agricultural income has been highlighted before. The Tax Administration Reform Committee, led by Parthasarathi Shome, in its third report in November 2014, had said, "Agricultural income of non-agriculturists is being increasingly used as a conduit to avoid tax and for laundering funds, resulting in leakage to the tune of crores in revenues annually."[586]

A white paper on black money released by the CBDT in May 2012 had pointed out: "Giving credit to agricultural income for income tax purposes without verification of claim allows an avenue for bringing black money into the financial system as agricultural income." Elaborating on the modus operandi, a tax official said, "Taxpayers wishing to convert black money into white show proof of ancestral property in villages. They also obtain fictitious receipts from traders of agricultural commodities as evidence that they have produced and sold agricultural produce."

CBDT's internal letter draws reference to a PIL before Patna HC which had raised concerns that a few taxpayers may be engaged in routing their illegal or unaccounted money in the garb of agricultural income. By doing so, not only they are claiming exemption on such income but also are engaged in money laundering, said the PIL.[587]

Demonetisation Effect on Agri-Income

Interestingly, demonetisation has also become a boon for small and marginal farmers who have been facing severe losses due to either drought or heavy rains for the past few years. Anjaneya Reddy (name changed) who leased 3 acres in Nellore for cultivation, invested Rs.3 lakh, but lost the entire crop to rains. To his surprise, his financier called him up and offered to waive the entire debt.

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585 (Ranjan S. , 2016)

586 (Kably, 2016)

587 (Kably, 2016)

"Instead, he wanted me to deposit his 11.5 lakh in my bank account and show it as farm income. It was only yesterday that I learnt that farm income has some benefits," Anjaneya Reddy said wryly.

Many farmers who are caught in debts are being offered such help by politicians, businessmen and financiers known to them, in return for favours.[588]

Reform steps

The Process of reform must start from the centre of political and bureaucratic power. The socialist turned Gandhian, Mr. Jayprakash Narayan who led a massive anti-corruption and anti-authoritarian extra parliamentary mass movement in the first half of 1970s, described the politics as the *gangotri*[589] of corruption in India. The Herculean cleansing of the Augean stables of politics must take a place at source. A neo-feudal rent seeking political and administrative class in India for transfer and postings still survives the dismantling, to a great extent, of a Permit-Licence-Quota-Raj at the turn of millennium. It is an anachronism that must go.[590]

Another major forthcoming change is that we will soon have a uniform rate of sales tax nationally with the goods and services tax (GST).

Disciplining banks, politicians

There have been reports of many banks, and particularly foreign banks, engaging in hawala transactions. They would collect large sums of rupee notes from high net worth individuals and give them receipts in foreign currency from Zurich and other places. Amazingly, there were no reports of these banks and their employees having been disciplined. Of course, this operation also requires the availability of high value rupee currency notes so that they can be easily collected, transported, stored and distributed.

In the last few years a class of whistle-blowers has emerged. They have exposed names of Indians and others who have accounts in foreign banks. Some of these are repositories of black money. Switzerland, France, Panama are some of the source countries. The Modi government has carefully begun to close other loopholes. People who cheated on paying full income tax were given an opportunity to confess and pay. This brought in a good amount of unpaid taxes.

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[588] (PS Dileep, 2016)

[589] In Hindu mythology, gangotri is origin of River Ganges, located in the Greater Himalayan Range. Here it is used as a synonymn to origin or root cause.

[590] (M. P. Singh, 2011)

Governments must be investigating the people with money in foreign bank accounts. Election officials have seized large sums of cash being transported during elections. The communications between banks, traders, and income-tax authorities has over the years, become speedier and voluminous so that large purchases, deposits and withdrawals could be investigated.

Corruption is deep rooted in the Indian political and bureaucratic system; and is institutionalised with investment destinations and supporting system. The cancerous growth of corruption at every stage of interface of the public with officials by way of commissions on mega-projects, kick-backs on mega purchases abroad, leakages in public spending, are all a matter of serious concern.[591] Government procurement should be carefully carried out, irregularties are even observed in most sensitive procurements like defence.

The CBDT Committee has identified following strategy to tackle black money in 2012[592]:-

1. Preventing generation of black money
2. Discouraging use of black money
3. Effective detection of black money
4. Effective investigation & adjudication
5. Other steps like proper implementation and restricting 'off-market', and 'Dabba-trading',

Cleaning of political and bureaucracy is the must requirement; followed by strict regulation for real estate, gold/ jewellery and charity should be imposed and implemented. Hawala, international tax treaties, agricultural tax avoidance routes and offshore havens have supplemented corrupt practices.

For many years, Indian governments have tried to plug the loopholes of money laundering through tax havens, of which the prime examples were Mauritius and Singapore. Prime Minister Modi personally renegotiated the double taxation agreement so that the Indian capital gains tax would ebb charged on gains from Mauritian investments in India within three years. This closes that loophole with other similar countries as well.

[591] (Central Board of Direct taxes (CBDT), 2012)

[592] (Central Board of Direct taxes (CBDT), 2012)

India must investigate and publicly announce the results from investigating the names disclosed by whistle-blowers. We must punish banks, whatevever big, that engage in facilitating hawala money.

Charity, is again, attacked by the government, restricting foreign funding to NGO; at the same time, allowing foreign funding and lifting restriction of corporate funding to political parties raised concerns.

Conclusion

Demonetisation, indeed, is a bold step which reinforced Mr. Modi's image as a strong and decisive Prime Minister. The people at large were excited with the move and prepared to support it to the possible extent. Apparently, alike other steps, this was also supported and opposed by industrialists, political leaders and academicians, importantly not nationally but across the globe.

The announcement immediately triggered a mad scramble to unload the expiring banknotes. Though people have until the end of the year to deposit the notes in bank accounts, doing so in large quantities could expose them to high taxes and fines. So they rushed to gas pumps, to jewellery shops, and to creditors to repay loans. Long queues snaked in, out, and around banks, foreign-exchange counters, and ATMs – anywhere where people might exchange the soon-to-be-defunct notes.

There has been a little doubt in anyone's mind that demonetisation has been an excellent idea in waging a war against black money and fake currency racket, aided and abetted greatly by Pakistan to fan and fund terrorism. The criticism has chiefly revolved around the manner in which the entire mammoth exercise has been executed. Virtually the entire nation, especially the weakest sections, comprising millions upon millions of people, have paid and continue to pay the price for the sins of the few who are the prime culprits in the generation and hoarding of black money.

2016 demonetisation has several similarities and peculiarities with historic 1946 and 1978 demonetisations. Though, there have also been suggestions that the chaos and hardship following the ban of Rs.1000 and Rs.500 notes, which account for 86.9% of the money in circulation, might undo the popular response that Modi's decision got.[593] In a country where citizens go without water and electricity for days, where standing in long queues is a daily routine for many, it became one more such short-lived inconvenience.

The assessment done in the book indicates it will be a failure if not a disaster, the economy and vulnerable section of the society has paid and continues to pay price for it. The Government's intent and objective of the demonetisation, as announced, in the very much interest of the country, will turn futile. Demonetisation at the cost of economic growth, without proper planning and agonising execution, will always remain be a question to the PM.

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[593] In contrary, UP election landslide victory symbolises the popularity of PM Modi and acceptance of his demonetisation across the country.

Announcement of Demonetisation

On November 8, 2016, the Prime Minister of India Narendra Modi appeared in an unscheduled live televised address at 20.00 and announced demonetisation at 20.15.[594] In the announcement, Mr. Modi declared that use of all Rs. 500 and Rs.1000 banknotes of the Mahatma Gandhi Series would be invalid from midnight. After the official announcement by Mr. Modi, the Governor of the Reserve Bank of India, Dr. Urjit Patel, and Economic Affairs secretary, Mr. Shaktikanta Das explained in a press conference that while the supply of notes of all denominations had increased by 40% from 2011 to 2016, the Rs 500 and Rs 1000 banknotes increased by 76% and 109%, respectively, in the same period, owing to forgery. This forged cash was then used to fund terrorist activities against India. As a result the decision to eliminate the notes had been taken.[595]

RBI is independent statutory body which controls the money supply in the country. Governors, post Modi's announcement, supportive role in press conference, was enough for critics to object autonomy of the RBI.

Secrecy maintained at the cost of Execution

Dr. Urjit Patel informed that the decision had been made about six months ago, and the printing of new banknotes of denomination Rs.500 and Rs.2000 had been started since then. Only the top members of few government agencies were aware of the move. The Reserve Bank governor, six months before the announcement, was Dr. Raghuram Rajan, while the new banknotes have a signature of the newly appointed governor, Urjit Patel. As per RTI reply, Rs 2000 notes were started printing two months before and Rs 500 notes 15 days after demonetisation announcement, contradicting earlier statement of the Governor.

On April 1, 2016 in a Gujarati newspaper called Akila, the news revealed regarding demonetisation stating, that there would be around 2 months' time to exchange banned notes, and that new notes in the Rs.2000 denomination would be issued. The editor of the newspaper further clarified that it was only an April-Fool day prank.[596]

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[594] (Bhatt, 2016); (Demonetisation of Rs. 500 and Rs. 1000 notes: RBI explains, 2016)

[595] (Move was in the pipeline for months, 2016)

[596] (Trend Desk, Indian Express, 2016)

Andhra Pradesh Chief Minister N Chandrababu Naidu on October 12, 2016 organised a press conference in his new office at Velagapudi and demanded for immediately abolishing currency notes of Rs 1000 and Rs 500 denominations to curb black money in the country. "Politics has become a shelter for corrupt people and black money earners. Some people who are in politics are misusing the people's mandate. I'm writing a letter to the Prime Minister today asking that Rs 1000 and Rs 500 notes be abolished and total bank transactions be encouraged," he said.[597]

In Hindi daily Dainik Jagran, a fortnight before the official announcement the story of demonetisation has been published. Brajesh Dubey, Kanpur-based Hindi journalist of Dainik Jagran has reported demonetisation story and was published on October 27, 2016. Sources in the newspaper, however, contended that Dubey got a whiff of the coming event on the sidelines of the board meeting of the Reserve Bank of India (RBI), the first under new Governor Urjit Patel, which was held on October 20 in Kanpur.[598]

Secrecy Maintained, Execution Suffered

Though the implementation of move started two months ago, only a handful of people includes Principal Secretary Nripendra Mishra, erstwhile and present RBI Governors, Finance Secretary Ashok Lavasa, Economic Affairs Secretary Shaktikanta Das besides Finance Minister Arun Jaitley were kept in the loop.[599]

To make and implement concrete demonetisation plan, more people needed to be involved in it, involving them may lead to possibility for leakages: “You can’t have your cake and eat it too.” This recent bout was planned in secret with a fear that if the black market caught wind of it, they would find ways to unload their illicit cash, and its initially-stated goals would not met. Without doubt, for effective implementation of demonetisation secrecy was a must requirement; but a trade-off to be maintained to implement it smoothly. Though, the government should have maintained the trade-off between secrecy and planning/ execution capabilities to execute it successfully.

Objectives of the Demonetisation

However, such a sudden and drastic step by the government might dissuade some, if not all sections of the society, from creating new black money reserves.

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597 (Dailyhunt, 2016)

598 (IANS, 2016)

599 (Ranjan, 2016)

Action packed demonetisation was planned with several objectives, these are cited herein:

1. Uprooting the shadow/ parallel economy (or black money): This historic move was primarily expected to remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks.
2. Removal of counterfeit Currency: This move also expected to stall the circulation of large volume of counterfeit currency at least for some time.
3. Restricting Terrorism: Demonetisation was been anticipated to curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.
4. Promoting Cashless or Less Cash economy: The Government expected that the demonetisation will dry the cash liquidity from the economy and people will start using cashless options, making the transparent economy.
5. Extinguishing of RBI Liability: The Government also thought that the demonetisation will refrain people from depositing illegitimate cash in banks and a part of it, not presented at banks, will extinguish the liability of the RBI.
6. Increase in Tax revenues: Government has expected higher tax revenues as people will disclose actual income and will pay taxes appropriately, along with penalty.

In reality, the government's decision has steered some different picture as:

1. The shadow/ parallel economy (or black money) turned white: Black money hoarders used all possible ways to convert it to white; this was huge setback to the government.
2. Extinguishing of RBI Liability: Most of the currency circulated in the economy has returned to the RBI, only a fraction of the expected liability extinguishment met. Actual figure is not declared, yet, by RBI.
3. Removal of counterfeit Currency: Counterfeit currency obviously removed from the economy. But it was a temporary standstill, within a couple of days of issuance of new currency; counterfeit currency was offloaded in the economy.
4. Restricting Terrorism: Demonetisation stopped anti-social elements like smuggling, terrorism, espionage, etc., there was also a downfall in

the terrorist activities in Kashmir valley, but the peace could not last for a long. India has seen terrorism even during demonetisation period.

5. Promoting Cashless or Less Cash economy: The Government announced demonetisation will make the country cashless, thereafter resurrected it to less-cash. Obviously, unavailability of cash made people to use cashless modes and there were huge upsurge in cashless transaction including debit, credit, wallet, net banking transactions and POS. As cash is getting available, cash transaction are regaining its dominant position in monetary transactions.
6. Increase in Tax revenues and Tax Payers: Government received unexpectedly growth of Advance Tax in personal income tax by 34.8% in last three quarters of FY2016-17.[600] Also, it is observed that tax payers have been increased post demonetiusation.

Government's publicity

The government's assiduous public relations which portray people's difficulties as a small sacrifice needed for the good of the country seems to have done its job. "If our soldiers can stand for hours every day guarding our borders," one popular social media meme asks, "why can't we stand for a few hours in bank queues?"

People from all strata, from all corners, accepted it and they unconditionally worked to make demonetisation successful. Bank employees worked for 14-18 hours a day without any off. Bank employees were, initially, compared with 'Soldiers: working on surgical strike against black money', later accused for illicit activities.

Demonetisation is missing the main culprits of black money

The demonetisation, a plan to attack black money or corruption, is about to miss the target. Demonetisation only affects the black money in cash and had hardly any impact on black money creating system and its supporting arms which are facilitating its use, transportation, conversion to white.

Government should have to hit the roots and root causes of the corrupt system, cleaning political, commercial, bureaucratic and even social loopholes so the system will not generate black money.

[600] (The Hindu, 2017)

As discussed earlier in this book, black money and corruption, has become an institutionalised crime which is having three distinct divisions namely, corruption sources, black money utilisation and its support system.

Sources of Corruption	Black Money utilised in	Corruption Support System
1. Politician 2. Bureaucrats 3. Businesses 4. Professionals	1. Real Estate 2. Gold & Jewelry 3. Charity 4. Lease Licensing 5. Elections	1. Hawala 2. Offshore havens 3. Regulatory Loopholes 4. Political & Bureaucratic Dominance 5. Agriculture Tax Exemption 6. Tax Exempted States

All these three factors make this institution, unfortunately, very powerful. The people fall for easy benefits, and entangles into corruption spiral, harming the economy at whole. Sadly, beneficiaries of this system are powerful politician and bureaucrats whilst poor suffer. With every addition of corruption, corruption acceptancy by public, increases and its social value system diminishes. Again, unequitable distribution of wealth among public increases which, in turn, inspires people for corrupt practice.

Demonetisation is not proved to be powerful dimension globally, to counter corrupt system.

Execution was concern

The demonetisation has dried 86.9% of cash, whereas 11.65% and 1.74% in 1946 and 1978 demonetisation. This has, literally halted the cash economy; such situation is difficult to handle, specifically in cash driven country.

Secondly, India does not have banking infrastructure to serve it 129 Cr people; distribution of new currency again will be a challenge. Also, people, facing difficulty in meeting their daily needs may protest.

More importantly, this is a time when India has to concentrate on economic growth and demonetisation will decelerate it with its destabilisation move. Destabilisation may or may not bear fruits but economic deceleration definitely pokes.

Convicting all for crime of few

In criminal law, Blackstone's formulation (also known as Blackstone's ratio or the Blackstone ratio) is the principle that: "It is better that ten guilty persons escape than that one innocent suffer". Furthermore, Benjamin Franklin stated it as, "it is better 100 guilty Persons should escape than that one innocent Person should suffer". Demonetisation has reversed the rule, "it is better to punish few lacs of guilty persons even 129 Crore innocent persons suffer."

Sad point is that the corrupt people who were targeted by the demonetisation, politicians and bureaucrats, were only executors of demonetisation who kept the loopholes open for themselves and large part of the society suffered.

Burden of corruption always lies on poor

It is a tragic reality, whether it is natural disasters like floods, epidemics or water scarcity or inflation or riots or war hoarding or black-marketing or even demonetisation, those in the lowest socio-economic strata, pay the maximum price, whilst those at top, who are often the prime cause of most disruptions, virtually go without having to share the pain. It seems tragic that the lion's share of the burden of cleaning up of the country's corrupt politicians, corrupt bureaucrats, corrupt police, corrupt judiciary, corrupt builders, corrupt land-sharks, hoarders, assorted black-marketeers, rioters, terrorists etc. had fallen upon the entirely innocent poorest of the poor, curtaining economic growth of the country.

Visa Report estimated India's cost of cash in 2014-15 to be 1.7% of real GDP and foregone tax revenues from the 'shadow' economy account for 3.2% of real GDP.[601,602] This cost is predominantly borne by four stakeholders - households, businesses, banks, and the central bank. A decomposition of the gross cost of cash shows that micro enterprises bear the highest cost of cash, at 1.4 percent of GDP, while the blended rate for all business-to-consumer organisations, including large players, is 0.6 percent of GDP. For households, this cost is estimated at 0.9 percent of GDP, while for banks it is 0.4 percent of GDP. Finally, for the central bank, this cost is 0.04 percent, 97 percent of which accounts for currency printing.[603]

Demonetisation 2016: Objective Ambiguity

Government and RBI have mentioned demonetisation as an act of attack on black money, corruption, counterfeit currency and terrorism. After analysing effects of demonetisation on all these factors, a depiction is something different, or to a larger extent contradictory.

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601 (Visa Report, October 5, 2016)

602 (Watal R.P; Committee on Digital Payments, December 2016)

603 (Visa Report, October 5, 2016)

Black Money

World Bank estimated the size of the black economy in India was of 23.3% and 21.4% in 1999 and 2006 respectively of GDP; the average ratio of shadow economy to GDP is computed to 22.4% for period of 8 years from 1999 to 2006.[604,605] Further in 2013, McKinsey & Company has estimated Indian Shadow economy of 26% to GDP[606] for the year 2011; Visa Report of October 2016 has estimated Indian Shadow economy of 14% to real GDP for the year 2014-15.[607] According income tax probes in 2015-16, black money hoarders keep only 6%[608] or less of their ill-gotten wealth as cash, hence targeting this cash may not be a successful strategy. It simply mean demonetisation will distress only 6% of black money which is kept in cash, rest black money will be unaffected by demonetisation.

Counterfeit Currency

In India, Seven in every million currency notes were detected as fake, according to RBI Annual Report of FY2015-16.

Counterfeiting in lower denomination notes (less than 100 rupee) was negligible, were of Rs 0.32 mn in total; whereas highest FICN[609] notes were in Rs 500 currency, followed by Rs 100 and Rs 1000. FICN currency in terms of value, FICN of Rs 500 and Rs 1000 contributes to 92.42% of total FICN whereas Rs 100 shared 7.47% of FICN currency. The value of these fake notes in 2015-16 was Rs 29.64 crore, which was 0.0018 per cent of the Rs 16.41 lac crore currencies in circulation.

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604 (Schneider, Buehn, & Montenegro, 2010); Annexure of Shadow Economies is available.

605 (Department of Economic Affairs, Ministry of Finance, Government of India, 2016). The shadow economy wrongly mentioned to "20.7% of the GDP in 1999 and rising to 23.2% in 2007" as mentioned in its reference paper of world bank ""20.7% of the GDP in 2007 whereas 23.2% in 1999". World Bank References are mentioned in annexure.

606 (Denecker, Istace, & Niederkorn, 2013)

607 (Visa Report, October 5, 2016)

608 (Suresh, 2016)

609 FICN is an abbreviation of Fake Indian Currency Notes

India was having considerably low counterfeit currency as compared to USA, UK and Europe, that was 7 FICN notes per million whereas Euro, Pound and Dollar were having 50, 72 and 100 FICN currencies respectively.

This simply means that combating counterfeit currency cannot justify a reason for such a big decision of demonetisation when economic losses are certain.

Terrorism

Disengaging emotions associated with terror attacks, political biasness or demonetisation would help to understand practical effect of demonetisation on terrorism. It is important to acknowledge that terror is nothing more than an instrument of war, regardless its intra-border or inter border, which expresses to its antagonist which is in power about their intention, philosophy and non-agreeable opponent's policies or activities; his inability to express his view clearly makes him terrorist.

Unavailability of cash currency will restrict the terrorism for some time; once cash is available it will regain momentum.

Reducing unequitable distribution of wealth of the country is the natural way to annul the terrorism and Naxalites; this will also reduce all kind of crimes, social or financial.

Cashless Economy

India has a large cash economy due to dependence on agriculture, and existence of non-formal sector and insufficient banking infrastructure. In one sense, making India cashless appreciable move; but is India ready for it? The big NO can be justified on few facts of Indian economy (figures are for 2015 and 2016):

1. There are 13.5 bank branches per one lac population. In rural India, the figure stands close to 8 bank branches per one lakh Indians. This shows that a majority of rural India has very little access to banks and the organised financial sector. They rely heavily on cash and the informal credit system.

2. Then, we have just 2.05 lac ATMs in the country for a population of over 1.29 billion people, that's a very small number. A majority of ATMs are concentrated in metros and cities. For instance, Delhi has more ATMs than the entire state of Rajasthan.

3. In India ATMs per lac population is 19.71 which is much below the world average of 40.55.

4. Indian Banking penetration in terms of number of bank account holders above 15 years of age is 52.8% which is again below the world average of 60.7%.

5. Internet penetration and mobile subscription in India are 26% and 79% respectively as compared to compared to global average of 44% and 99%.

6. Mastercard reported 'Digital Banking Readiness Scores' of India indicating presence of macro-economic pre-requisites for going cashless was 29[610] out of 100 in 2013. AT Kernerly report of 2013 stated that India has to focus on fundamental, a primary level to go for digital banking.[611] It indicates unavailability of proper banking infrastructure to make cashless economy.

Current poor penetration of banks, internet, mobile and financial infrastructure in India, we believe that Modi's cashless economy ambitions seems a distant dream.

Importantly, at the end of March 2016, the value of banknotes in circulation was Rs.16,415 billion showing an increase of 14.9 per cent as against 11.4 per cent in 2014-15. On March 31, 2013-14, the value of bank notes in circulation was Rs. 12,829 bn. The growth in currency over last two years that is from FY 2013-14 to FY2015-16 was 28%. The currency notes in circulation increased by 4 per cent from Rs 16,415 billion as on March 31, 2016 to Rs 17,077.16 billion as on June 30, 2016.[612]

The currency growth within 2.25 years[613] was 33.11% up to June 30, 2016. This simply suspects if the government's has any intention to promote cashless transactions; else they would have not increased cash in circulation by one-third.

CBDT & SIT Reports on Black Money didn't recommend demonetisation

In 2012, the Central Board of Direct Taxes had recommended against demonetisation, saying in a report that "demonetisation may not be a solution

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[610] (Thomas, 2013)

[611] (AT Kearney; Efma, 2013)

[612] (RBI, 2016)

[613] During this tenure, BJP government was in power, headed by PM Mr. Narendra Modi.

for tackling black money, which has been largely held in the form of benami transaction[614] (or properties), bullion and jewellery".[615,616,617] Further, demonetisation will only increase the cost, as more currency notes may have to be printed for disbursing the same amount. [618]

In 2015, the Special Investigation Team (SIT) headed by Justice M.B. Shah (retired), submitted its fifth report to the Supreme Court on methods to curb black money in the economy. This report has recommended a ban on cash transactions of above Rs 3 lac, restricting cash holding with individuals to Rs 15 lac and amendment in Black Money Act[619]. But, the report did not recommend demonetisation.

Economist's views on Demonetisation

An economist, Mr. Suraj B Gupta, a former Delhi University professor, criticised the measures taken by the government to unearth black money in his study, 'Black Income in India' (1992). Gupta discussed the Voluntary disclosure of Income (VDI) Schemes of 1951, 1965, 1975 and 1985, Special Bearer Bond (SBB) Scheme of 1981, and the demonetisation of currency in 1946 and 1978, apart from touching upon the schemes launched by the government in 1991-92. His critique mostly indicated that tackling the black money menace had to do with implementation of existing laws and prevention measures. Thanks to improper execution of statutory tax provisions; ineffective surveys, search and seizures; enforcement of few penalties; and rare prosecutions due to legal loopholes, the black money economy thrived. [620]

The report also quoted former JNU professor Arun Kumar who in his study, 'The Black Economy in India' (1999) wrote against the 1978 demonetisation.

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614 Benami Transactions (Prohibition) Act, 1988 is an Act of the Parliament of India defines a benami transaction as a transaction where a property is held by or transferred to a person, but has been provided for or paid by another person.

615 (Subodh Varma, 2016)

616 (PTI, 2012)

617 (Central Board of Direct taxes (CBDT), 2012)

618 (Central Board of Direct taxes (CBDT), 2012)

619 Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

620 (Central Board of Direct taxes (CBDT), 2012)

Kumar, in fact, had also termed the voluntary disclosure schemes and lowering of tax rates as failures. He recommended better regulation of real estate and financial markets, right to information, as well as political and judicial reforms to reduce the need to generate and curb black wealth. [621]

Nobel Prize-winning economist, Paul Krugman, a professor at The Graduate Center, City University of New York, said at the Hindustan Times Leadership summit, "I understand the motivation, but it is a highly disruptive way to do it (demonetisation). I hardly see significant long-run gains, but there certainly are significant, although temporary costs."

One of the reasons for Krugman's disapproval of demonetisation as part of a drive to tackle income tax evasion is practically difficult for developing economies with large unorganised sectors to raise the share of taxes as a proportion of GDP by relying too much on income taxes.

Although considered regressive, indirect taxes, such as the central excise duty and service tax levied by the central government in India and value added tax (VAT) by states, are more practical tools to raise tax revenue, he said. Indirect taxes are generally considered regressive as they affect the rich and the poor alike, unlike income tax, the burden of which increases progressively on tax payers with high income levels.

Comparison with last two demonetisation

There are similarities as well differences among these three demonetisation events. Importantly, all these were aimed at curbing black money (and to generate extra income to the government as in 1946). In the earlier editions, RBI was mostly against the exercise and was proven right. In 2016, it seems RBI has welcomed the idea (though there may be reservations which will appear only later). So, will RBI be proven to be right or wrong? In March 2017, RBI's decision turned to be wrong.

The big difference, obviously, was the size recalled currency in circulation that was over 86.9% of currency in circulation in 2016 whereas there were 11.65% and 1.74% in 1946 and 1978 respectively.

Again, the critical difference was in the quantum however. The first and second demonetisations affected really high value notes which formed a small part of notes in circulation. We can arrive at the estimates by comparing the denomination of the note with the annual per capita GDP. In 1946, India's per-

[621] (Central Board of Direct taxes (CBDT), 2012)

capita GDP was Rs. 278[622], in 1978 per capita GDP was Rs. 1550[623] whereas in 2016 it was Rs. 93,293[624] (nominal at current prices). Thus in 1946, a 1000 Rupee note was 3.59 times and in 1978 it was 0.64 times of per capita GDP, considerably easy to withdraw than current situation

Demonetisation	1946	1978	2016
Prime Minister	British India	Mr. Morarji Desai	Mr. Narendra Modi
Governor	Sir Chintaman Deshmukh	Mr. I.G.Patel	Dr. Urjit Patel
RBI's Stand on the Demonetisation	Against	Against	Pro
Date of Announcement	January 12, 1946	January 16, 1978	November 8, 2016
Currency denomination demonetised	500, 1,000 & 10,000	1,000, 5,000 & 10,000	500 & 1,000
Time Given for exchange	10 Days	3 Days	51 Days*
Time Given for exchange with explanation	26 Days	8 Days	For NRI residents abroad
Demonetised Currency in circulation	143.97	145.42	1417943
Total Currency in Circulation	1235.93	8354	1663432
Demonetised Currency (% to Total Currency in circulation)	11.65%	1.74%	86.9%
Currency Exchanged	134.9	129.4	NA
Currency not presented for Exchange (Rs Cr)	9.07	16.02	NA
Currency not presented (% to total demonetised currency)	6.30%	11.02%	NA

622 The estimation made by second method of Arora and Iyengar, is used; the first method estimate comes to Rs 283. In this period, the rise in the business activity index is so large that, in spite of adjustments, its use may lead to a considerable overestimation of national income. (Saini, 1969)

623 http://statisticstimes.com/economy/gdp-capita-of-india.php

624 (PTI, 2016)

Per Capita Income (in Rs)	278	1550	93,293
Ratio of 1,000* to per Capita Income (in %)	359.71%	64.51%	1.07%
Ratio of Per Capita GDP to Rs 1000 note	0.278%	155%	9329%

Note: *Abruptly stopped exchange on 45th day that is on December 25, 2016 whereas deposits were permitted as per the schedule.

Impact of demonetisation

Far from being a masterstroke, Modi's decision seems to have been a miscalculation of epic proportions; nearly two month later, however, all the demonetisation drive has achieved is severe economic disruptions.

The people of India were left in limbo as the government detained the bulk of their currency without providing them with the means to obtain the newly printed notes to replace it. On the surface, this seems as if it was a matter of gross negligence, but there may have been more to it than that. As the demonetisation process continues, Modi's rhetoric is less about fighting corruption and more about transitioning India to a cashless economy.

On the contrary, the possible value destruction in the cash-driven informal sectors of the economy and a consequent contraction in demand will result in slowing growth and shrinking incomes, mostly for those at the bottom of the economic pyramid. The move adds to the woes of labour intensive industries and services such as construction, logistics and retail trade. Some impacts are mentioned below:

1. Impact on money supply, short term and long term: With the older 500 and 1000 Rupees notes been scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply was reduced. Decrease in demand was clear indication of its economic aberrance.

2. Time requirement for new currency printing: As per the printing capacity of RBI, it will take at least 4-5 months to reinstate the scrapped currency, it means the economic cash crunch will last for at least for 4-5 months that's up to April 2017.

3. Impact on banks: Demonetisation has put banking operations under immense pressure, the employees have to work for 16-18 hours a day; few fatalities have been claimed, due to high pressure during the period.

4. Basic needs also strained: People even were not having cash to meet their basic needs. The situation was even worse in hinterland where banking infrastructure and cash distribution was not in place.

5. Deaths due to demonetisation (directly or indirectly): Demonetisation was positioned (by social media) as a patriotic move and people were requested to participate and sacrifice some time and comfort. But the sacrifice extends far beyond queues. Hospitals are turning away patients who have only old banknotes; families cannot buy food; and middle-class workers were unable to buy needed medicine. As many as 90 people have reportedly died in cash queues by December 9, 2016 or related events[625] whereas West Bengal Chief Minister Mamata Banerjee blamed Prime Minister Narendra Modi for alleged 112 deaths on December 31, 2016.[626]

6. Deflationary Pressure: One major impact of this was, deflationary pressure; product prices were under pressure in cash driven market. Price level was lowered due to moderation from demand side. Deflation was observed for two months after the announcement; it was either price deflation or demand deflation.

7. Industry Demand: Demonetisation has affected almost all industries to smaller or larger extent. The demand was impacted particularly in sectors like consumer goods, real estate and property, transportation, travel/ tourism & logistics, gold and luxury goods where people used to use cash for transactions.

8. Effect on the GDP: GDP effect was the worst; growth was arrested, in particular, when it was most required. GDP growth may not be of 7% in 2016-17 and get reduced in between 4.5 to 6.0%, whereas part of this decremented growth can be augmented to GDP in 2017-18 and 2018-19. Though the loss of business and GDP may have effect for a decade also.

9. Online Transactions and alternative modes of payments: With reduction in cash transactions, alternative forms of payment upsurged in demand. This many fold demand rise, did not last long. The cost of such cashless transactions is much higher in India as compared to developed nations. To push cashless or low-cash options, government

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[625] (Saxena, 2016)

[626] (IANS, 2016)

has to build nationwide supportive infrastructure, also at competitive rate. 2% transaction charges[627] are too high, and enough to deter public for non-cash transactions.

10. Impact on other economic entities: With diminished cash and its unavailability, many sections of the society like agriculture and related sectors, small traders, SMEs, services sector, households, political parties, professionals like doctor, carpenter, utility service providers, etc. and retail outlets, etc. faced short term disruptions in facilitation of their transactions. These segments are expected to have the most significant impact because of nature, frequency and amounts of the commercial transactions involved with these sectors.

11. Impact on black money hoarders: The driving force behind this historical decision was to eradicate black money. The reports which say India's shallow economy is around 23% (2007), 26% (2013) of its GDP and 14% (2014-15) of real GDP. In such a shallow economy, almost all black money hoarders were able to exchange its currency with legal tender, that, government indirectly helped them to convert their black money to white, this may be an encouraging factor for such people; they may continue to embroil in corrupt practices. Their fearlessness will cost a lot this economy also, in case there will be any demonetisation in future, its effect may not meet expectations.

12. Impact on political parties: With nearly five state elections in 2017, demonetisation has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash donations are a huge part of 'election management'; demonetisation was a big setback for them. In one stroke, big parties find themselves hamstrung as cash hoards are often undeclared money. Parties had to completely rejig campaign strategies in light of expected cash crunch. There was psychological effect on political parties; these parties had shifted their focus from upcoming election campaigning to manage their cash and donations.

Again, donation to political parties is exempted from income tax; people may use this route to convert their money to white, benefiting political parties.

13. Impact on Religious centres: Donation and charities to religious centres are also exempted from taxation, so these donations will make these religious trusts/ societies richer, a wining moment for them.

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627 (Sharma R. S., 2017)

14. Impact on Banks and its employees: Banks were only medium to exchange cash and serving 129 Cr public was a challenge for them. Cash crisis worsened the situation, many banks were not having enough cash even after month's period; ATMs were out of order, even in the end of December 2016. The demonetisation increased work pressure on bank employees, many of them couldn't even claim a half a day's leave after working 18 hours for 11 consecutive days.[628] Demonetisations increased operating cost, at the same time, incremental deposits increased the interest earning. Increase 'reverse repo rate" acted as deal sweetener for banks.

15. Effect on Agriculture: Demonetisation was carried out in the month of November and December during which farmer's sale the produce of Kharib and sow Rabi crop. Fortunately, after two years of drought, there was reasonable crop production. The demonetisation has curbed the cash and taken away the demand for the agri-produce. Farmers have been unloading produce below cost, because no one has the money to purchase it, and the winter crop could not be sown in time, because no one had cash for seeds.

Despite all of this, ordinary Indians have reacted with stoicism, seemingly willing to heed Modi's call to be patient for 50 days, even though it took much longer. It will take anywhere between March 2017 to May 2017 to restore the liquidity.

Unplanned Production of New Currency

Just two weeks after introduction of new currency, there are already different variants Rs 500 notes, which experts fear could not only create confusion in the minds of the citizens but also aid counterfeiting[629]; countering which was one of the top objectives of Centre's demonetisation move and introduction of new notes. Multiple variants of the official notes will aid people attempting to infuse fake notes. Due to variants, people find it difficult to understand all features of an official note and fail to check for everything before they accept one.

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628 (Janardhanan, 2016)

629 (Chethan Kumar, 2016)

RBI spokesperson Alpana Killawala, said: "It is likely that notes with printing defect has got released due to the current rush. However, people can freely accept such a note in transaction or return it to RBI."[630]

Huge Inventory (Stock) of demonetised currency

Inventory (Stock) of currency as on November 8, 2016, provided under RTI Act of Rs 500 and Rs 1000 currency was 22,760.51 mn and 9,131.41 mn notes that was 11.38 lac crores and 9.13 lac crores in amount respectively. Such a huge inventory indicates that RBI did not have any plan for demonetisation.

State Government income declined

After the demonetisation of the Rs.500 and Rs.1,000 currency notes, many state governments have seen a slump in revenue generated from stamp duty. Mumbai, the state capital, has seen an average of Rs.12 crore being generated in stamp duty per day since the demonetisation, the worst in three years. Mumbai being one of the top realty markets in the country saw a very pronounced decline in stamp duty. The averaged stamp duty revenue in Mumbai was Rs.20 crore per day till demonetisation, post demonetisation this figure dropped to Rs.12 crore[631]. The decline in registrations and revenue has come as a shock, as

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[630] (Chethan Kumar, 2016)

[631] (Bankbazaar.com, 2016)

the state saw a slight increase in real estate in October. Overall the state saw an average collection of Rs.58.3 crore till November 8, post demonetisation on November 8 this figure dropped to Rs.41.27 crore. Similar conditions were in other states too.

Beneficiaries of Demonetisation: Political Parties, Religious Centres & Black Money Hoarders

Charity is a noble act, an act of sharing with others without any expectation or consideration; it is a selfless service. Demonetisation has added on to the charity, regardless it's a political, religious, educational and non-government/ non-political.

Political charity or donation surged during demonetisation as this is a way to convert black money to white; there is no need to disclose the identity of donor up to Rs.20,000 donation to registered political party.[632] Most of political funding is in cash and this is large chunk of black money that is rarely talked about.[633] Any political party can show donation in small amounts below Rs20,000 and escape of regulatory requirement. Demonetisation offered an opportunity to black money hoarders to donate to political parties for future consideration in money or kind; obviously ruling parties of states and centre will be benefitted.

Religious charity also gushed during the demonetisation period. 70%[634] of Indians donates solely or partly for religious reasons; and donation receipts by charitable trusts or temples, churches, mosques from donation boxes does not comes under income tax scanner. Also, there may be pressure or temptation to accommodate black money on religious trust or societies, this will lead to upsurge in donation; there might be any future consideration. BJP, once known as *Brahmin-Bania* Party[635], still may have control over religious centres and may get benefitted by this demonetisation.

632ADR (Association for Democratic Reforms)) and Representation of People Act-Section 29C. Also political parties are exempted from income tax (Section 13A of Income tact Act, 1961)

633 (Kapur, 2016)

634 As per Charity Aid Foundation India Report

635 (Mahapatra, 2016). Brahmin is a varna (class, caste) in Hinduism specialising as priests of sacred learning across generations. Brahmins used to survive on the donations they used to earn from religious rituals called "Daan" by following the religion ie. "Dharma". (James Lochtefeld (2002), Brahmin, The Illustrated Encyclopedia of

Practically every prominent politician in the country has an educational trust to his name. Starting with Arts, Science and Commerce colleges, they control institutes in high-demand segments like engineering, medicine, pharmacy, IT and now, biotechnology. Educational institutes facilitate politicians to accept donations. [636] During demonetisation, these institutes may also see upswing in donation either back dated or current dated for some benefits.

Almost all obsolete currency was presented and exchanged with legal tender, the black money hoarders found different ways to convert it to white, unfortunately, they succeed. This was because of loopholes in the system; these may be kept intentionally or unintentionally.

With view that sometimes we have to take bitter medicines to achieve greater benefits, demonetisation was one of them. This bitter medicine has not cured the disease and raised other concerns. To curb corrupt practices, Government has to strike on the bases of it:

1. Social Change Practices: People should be made aware that corruption is not only "Criminal Offence but also Social Evil". All people, who will practices it, will eventually suffer in future. Government should use media, indoor and outdoor, to promote the anti-corruption thought in all possible public places like railway, bus depots, government offices, ministries, etc. (just like anti-tobacco & anti-smoking advertisements in public places). Continue feeding will surely give expected outcome.
2. Strict Policies: In 69 years of independence, India knew the pockets which attract corrupt practices. Government should lay down strict procedures so that corruption cannot be done at these junctures. The entire Government departments which are directly interacting with public should be under strict surveillance and/ or "Ombudsman".
3. Ethical Code: All the Government employees should go under training for ethical code of conduct periodically. Even 1% employees change their mind-set with such program, will be a huge success.
4. End Use Restriction: Four industries namely Real Estate, Gold & Jewellery, Charity and leasing rights of mines or spectrums are havens

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Hinduism, Vol. 1: A–M, Rosen Publishing, ISBN 978-0-8239-3179-8, page 125). Bania or Baniya caste occupations are traditionally merchandising, trade and money lending, and more than other castes most baniya's are still enbgaged in one of these.(Russel 1975, 111-3, Enthoven 1979, Volume 3, 412-22) (Schrader, 1997)

[636] (DNA)

for black money generation. Making these sectors water tight will limit the use of black money and ultimately reduce corruption. Defence trade deals do the same overseas, domestic restriction won't work on it.

5. Strong Regulations for Realty, Gold and Jewellery and Charity (religious and non-religious) Industry: The Government can strongly regulate these industries and ensure flawless implementation under honest bureaucrats.
6. Religious Philosophies: Importantly, corruption and black money, is more attitude kind of disease than the system kind of. In India, people openly practices corruption and offers part of it as charity and self-proclaim to be sanitised. Offering part of black money won't clean the act; people should be made aware of this. Religious cleansing is long due in India.
7. Test on Ethics during Recruitment: Government should carry out test on a separate subject "Ethical Practices", so, ethical values can be nurtured in employees.
8. Educational & Ethical Test for Politicians: Politics is again a big black money destination. All the contesting candidates will have to qualify the exam on "Ethical Code of Conduct" and after qualifying that he can contest the election. Educational threshold should be imposed on contesting candidature.
9. Restriction on criminals in Politics: Government should impose some restriction so that people from criminal backgrounds will not come to politics. Election Commission should mend the rules considering constitutional rights to have clean and healthy political environment.
10. Corrupt practices in Politics: Almost every political party is involved in corrupt practices as per the section 123 of the Representation of the People Act, 1951[637]. It seems political parties are openly violating the

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[637] Section 123 in The Representation of the People Act, 1951

*123. Corrupt practices.—The following shall be deemed to be corrupt practices for the purposes of this Act:— 1[

(1) "Bribery", that is to say—

(A) any gift, offer or promise by a candidate or his agent or by any other person with the consent of a candidate or his election agent of any gratification, to any person whomsoever, with the object, directly or indirectly of inducing—

(a) a person to stand or not to stand as, or 2[to withdraw or not to withdraw] from being a candidate at an election, or

(b) an elector to vote or refrain from voting at an election, or as a reward to—

(i) a person for having so stood or not stood, or for 3[having withdrawn or not having withdrawn] his candidature; or

(ii) an elector for having voted or refrained from voting;

(B) the receipt of, or agreement to receive, any gratification, whether as a motive or a reward—

(a) by a person for standing or not standing as, or for 4[withdrawing or not withdrawing] from being, a candidate; or

(b) by any person whomsoever for himself or any other person for voting or refraining from voting, or inducing or attempting to induce any elector to vote or refrain from voting, or any candidate 2[to withdraw or not to withdraw] his candidature. Explanation.—For the purposes of this clause the term "gratification" is not restricted to pecuniary gratifications or gratifications estimable in money and it includes all forms of entertainment and all forms of employment for reward but it does not include the payment of any expenses bona fide incurred at, or for the purpose of, any election and duly entered in the account of election expenses referred to in section 78.]

(2) Undue influence, that is to say, any direct or indirect interference or attempt to interfere on the part of the candidate or his agent, or of any other person 5[with the consent of the candidate or his election agent], with the free exercise of any electoral right: Provided that—

(a) without prejudice to the generality of the provisions of this clause any such person as is referred to therein who—

(i) threatens any candidate or any elector, or any person in whom a candidate or an elector interested, with injury of any kind including social ostracism and ex-communication or expulsion from any caste or community; or

(ii) induces or attempts to induce a candidate or an elector to believe that he, or any person in whom he is interested, will become or will be rendered an object of divine displeasure or spiritual censure, shall be deemed to interfere with the free exercise of the electoral right of such candidate or elector within the meaning of this clause;

(b) a declaration of public policy, or a promise of publication, or the mere exercise of a legal right without intent to interfere with an electoral right, shall not be deemed to be interference within the meaning of this clause. 6[(3) The appeal by a candidate or his agent or by any other person with the consent of a candidates or his election agent to vote or refrain from voting for any person on the ground of his religion, race, caste, community or language or the use of, or appeal to religious symbols or the use of, or appeal to, national symbols, such as the national flag or the national emblem, for the laws, EC need to take strict action against such infringements. If needed, EC should be empowered so.

11. Declaration of Income and assets: It should made mandatory to declare income and assets of all candidates applying for the MLA and MP positions; also elected candidate should also declare their financial position every year.

Nationalism is only a solution to restraint corruption. Understand any act, even if beneficial to you, may not be good. Act only if it is in the interest of the nation then it is correct. Any political government, regardless it is ruling or in opposition, will not help nationalist value system as these are differentiating people on the basis of religion, caste, varna, majority/ minority and implementing shock therapies, distracting and isolated from being 'Nationalist'. Be Indian, we deserve most to be.

Demonetisation is shift of Black money target

The government could have carried out a real "surgical strike" on black money by targeting people who really held this money.

Black Money in Foreign Banks: This is a major issue, also PM Modi has declared in his manifesto to bring back money, though, there is no any movement.

In all these information leakages, thousands of names were appeared. There were names which were officially provided by foreign authorities (French, Swiss and German), but no significant action was taken.

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furtherance of the prospects of the election of that candidate or for prejudicially affecting the election of any candidate: 7[Provided that no symbol allotted under this Act to a candidate shall be deemed to be a religious symbol or a national symbol for the purposes of this clause.]

(3A) The promotion of, or attempt to promote, feelings of enmity or hatred between different classes of the citizens of India on grounds of religion, race, caste, community, or language, by a candidate or his agent or any other person with the consent of a candidate or his election agent for the furtherance of the prospects of the election of that candidate or for prejudicially affecting the election of any candidate.] 8[(3B) The propagation of the practice or the commission of sati or its glorification by a candidate or his agent or any other person with the consent of the candidate or his election agent for the furtherance of the prospects of the election of that candidate or for prejudicially affecting the election of any candidate. Explanation.—For the purposes of this clause, "sati" and "glorification" in relation to sati shall have the meanings respectively assigned to them in the Commission of Sati (Prevention) Act, 1987 (3 of 1988).]

On November 2, 2015, HSBC whistle-blower, Herve Falciani said, “He is willing to "cooperate" with the Indian investigative agencies in black money probe but would need "protection". Prashant Bhushan and Yogendra Yadav furnished a letter written by Falciani on 21 August 2015, to Justice (retired) M. B. Shah, who is heading the SIT on black money.[638] Herve Falciani, further, blamed that he is willing to help to Indian Government, but it is not supporting him to dig information for HSBC paper leak data.[639]

The Supreme Court has asked to disclose the information shared by foreign authorities, all governments has given reasons for not disclosing it.[640,641]

Modi Government can focus on foreign black money and bring back it.

Participatory-Notes: They should have gone after the foreign direct investment tax havens, people who held participatory notes, or even those whose names came out in the Panama Paper leaks. There are so many people who are known to have laundered money and these are all well-documented cases.

P-Notes, which had contributed 50% of FII in 2007, and is also been suspected for association with 'round-tripping' of domestic black money back into the Indian economy. Government and SEBI should impose strict norms for KYC compliance; also Indians, NRI and their direct/ indirect owned companies should be restricted to channelize fund in India through P-Notes.

Donation & Charities: Political Donations are free to accept any amount from any individual or company. Permitting foreign companies to donate to political parties and lifting cap for donation will be beneficial for Indian political parties. Considering role of Election Commission and controlling and regulating use of such funds, political party in power, would be the most beneficiary. Strict regulations are also required to curb black money in educational and religious charity, *Hawala* & other supporting system.

Fall of Moral values is a prime concern in India

In the early days of Independence, political parties used to cajole all sections of society irrespective of caste, religion, community or class. In recent times, identity issues have had a significant influence on how conflicts arise and

638 (PTI, 2015)

639 (Tiwari, 2016)

640 https://en.wikipedia.org/wiki/Indian_black_money.

641 (PTI, 2014)

escalate. Identity issues are those in which collective identities based on language, region, state, religion, caste and tribe, assume pre-eminence.

Importantly, section 123 of the Representation of the People Act, 1951[642] is openly violated by almost all political parties, wowing the voters on the grounds of religion, race, caste, community, or language. The constitutional body, Election Commission (EC) might not be taking any action against these political parties because if EC restricted these parties, not a single party would be eligible to contest elections.

"It will take a long time before people start revolting. Unless we change the society which today respects power and money, unless we rebuild a society of 1950s and 1960s which boycotted the corrupt, we have to build such a society. "Fall in moral values is the cause for most of our problems today in the country," former Supreme Court Judge N Santosh Hegde said.[643]

Won't be it paining to say, moral values of Indians deteriorated with aging of its independence; need to clean ourselves from religious, caste, region and language discriminations, this will help to clean up the political environment; and then only Indian can have a corrupt free country.

What would be other intentions for the demon(etisation)?

Black money, as mentioned by the government, may or may not be primary intent of the demonetisation. If black money would be intent, government would have ensured its success by properly dealing with corrupt mechanism, and the ways available to convert black money to white. It is surprising, the government has not done any such strict action accept few regulatory or legislation, unfortunately those were also having pilferages. It means, possibility of other objectives cannot be ruled out. If so, few intents of the destabilisation move would be:

1. Election 2019: From the outside, this is what the political gamble seems to be about. Mr. Modi has never hidden his desire to be a two-term prime minister, and all his actions are to ensure his another shot at PMO in 2019.

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[642] The promotion of, or attempt to promote, feelings of enmity or hatred between different classes of the citizens of India on grounds of religion, race, caste, community, or language, by a candidate or his agent or any other person with the consent of a candidate or his election agent for the furtherance of the prospects of the election of that candidate or for prejudicially affecting the election of any candidate.

[643] (PTI, 2016)

Elections are won not by legislative achievements and reforms, but when voters see the gains for themselves. In 2009, the legislative record of UPA was hardly anything to write home about and reforms were stalled on many fronts. But UPA won a bigger mandate because the economy was firing on all cylinders and people had experienced some of the benefits of high growth.

The BJP Government must be planning something great, two digit economic growths to make a win in 2019 election; India also looking forward to it.

2. Hit to other political parties: It is now clear that Modi's rapier sharp demonetisation initiative was targeted to trip political parties that had large stacks of cash, especially those which are controlled by strong regional leaders. But while planning this momentous decision Modi had not foreseen loopholes in the RPA Act which helped these parties to convert their money. Also this helped them to attract more charities and donations which turned to be easier way to declare cash currency without any legal or statutory liability.

3. Reply to bring back black money: Prime Minister Narendra Modi has made a lot of efforts but "*Achhe Din*" ('Good days' in English) are yet to come, says former Supreme Court Judge N Santosh Hegde, who feels the BJP-led NDA government should tell people why it is unable to fulfil its election promise of bringing back black money. Demonetisation might be PM's reply to such allegation and helping country to bring some black wealth, if not from foreign, but from domestic hoarders.

4. Majority in Upper House (Rajya Sabha[644] or Council of states): BJP is still does not have simple majority in Upper House, this may be a move to enhance popularity with ultimate aim of majority in upper house, in a view to pass a special resolution/ bill or act. This can be actuated by win in 2017 assembly elections; BJP won in major states, surpassing all the records.

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[644] The Rajya Sabha or Council of States is the upper house of the Parliament of India. Membership of Rajya Sabha is limited by the Constitution to a maximum of 250 members, and current laws have provision for 245 members. Most of the members of the House are indirectly elected by state and territorial legislatures using single transferable votes, while the President can appoint 12 members for their contributions to art, literature, science, and social services. Members sit for staggered six-year terms, with one third of the members retiring every two years.

5. A shock therapy by disruption and destabilisation: Ms. Naomi Klein in her book 'The Shock Doctrine' mentioned how people have used shock therapies worldwide. The universal experience of living through a great shock is the feeling of being completely powerless: in the face of awesome forces, parents lose the ability to save their children, spouses are separated, homes—places of protection—become death traps. In her book, she mentioned, "A state of shock, by definition, is a moment when there is a gap between fast-moving events and the information that exists to explain them" and "any strategy based on exploiting the window of opportunity opened by a traumatic shock relies heavily on the element of surprise." [645] Both of these are true in case of Indian demonetisation. "Isolation, both physical and psychological, must be maintained from the moment of apprehension" to carry out shock therapy, same was observed in India.

Demonetisation distributed public in two groups pro-Modi of Modian, Modiman, Modimanly, Modimanesque (-esque), Modimanic/ Modimaniac and anti-Modi group of Modiantagonist (antagonist), Mod'odium (odium) and Mod'offender (offender).

If it is shock therapy, its objective would be either to erase of memory or hold on power,[646] both would be reasons here. In Indian case, Mr Modi has promised to bring back black money from foreign accounts benefitting each individual of Rs 15 lac. This may be a reason to divert the attention from the issue of black money held in foreign banks. Secondly, there were elections in UP, Punjab and few other states; this may be a reason to get in power in those states.

BJP's campaigned "Demonetisation as Dr Ambedkar's dream" in UP

Following the announcement of demonetisation, Prakash Ambedkar, grandson of B R Ambedkar, in an interview to the Indian Express, shared the economic vision of his grandfather whose research at the London School of Economics that evolved in the form of a thesis and, later, into a book 93 years ago explored the problems confronting the nation today. Prakash said, "It was way back in 1923, Babasaheb (Dr. B R Ambedkar) in his book titled 'Problems of Indian Rupee' (The Problem of the Rupee: its origin and its solution) had

[645] (Klein, 2007)

[646] (Klein, 2007)

recommended that the Indian currency should be replaced every 10 years to end the menace of hoarding of rupees and checking inflation."[647]

It appeared that the BJP has taken advantage of the erroneous seal of approval, which it has presumably gained from Prakash's interview. In Uttar Pradesh, where state assembly elections are around the corner, the BJP has loudly invoked Babasaheb's name in its favour by claiming that the party is realising his "dream" by demonetising currency notes. The farcical appropriation of Babasaheb by the BJP with the help of this endorsement was rude. Dushyant Kumar Gautam, head of the BJP's Scheduled Castes *morcha* ('rally' in English), reportedly said in late November 2016 that those opposing demonetisation are "hurting the sentiments of Dalits[648] by opposing Ambedkar's views". The ploy even made its way to Karimnagar in Telangana, where BJP MLC N. Ramchander Rao stated, "Demonetisation was the idea of Dr B R Ambedkar," while addressing a meeting that marked the icon's 60th death anniversary on December 6, 2016. Maharashtra chief minister Devendra Fadnavis also said in the legislative assembly on December 7, 2016 "How Bharat Ratna Dr Babasaheb Ambedkar had advised demonetisation in 1923 every 10 years". [649]

Dushyant Kumar Gautam, further said, "It is a matter of shame that Babasaheb (Ambedkar) has so far been projected as only a sectional leader, that of Dalits. Contrary to this, he was a national visionary and that vision reflected in his writings." Gautam claimed the Opposition is so baffled by demonetisation that it is hurting the sentiments of Dalits by opposing Ambedkar's views. "We are going among the Dalits in UP during our *'Parivartan Yatras'* ('Journey for change' in English) tell them about this fact and educate them that this move benefits them the most," he added. [650]

By linking the demonetisation move to Dr BR Ambedkar, the BJP gave BSP chief Mayawati a run for her money in winning Dalit votes; this may be one reason for BSP's worst loss since 1993. Both the BJP and Prakash Ambedkar have claimed that demonetisation was B.R. Ambedkar's brainchild. But a closer

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[647] (Khapre, 2016)

[648] Dalit, meaning "oppressed" in Sanskrit, is the self-chosen political name of castes in India which are considered and treated as "untouchable". Use of the word "dalit' for a person or group has been outlawed and India's National Commission for Scheduled Castes considers public use of the label unconstitutional.

[649] (Prabhu & Mallya, 2016)

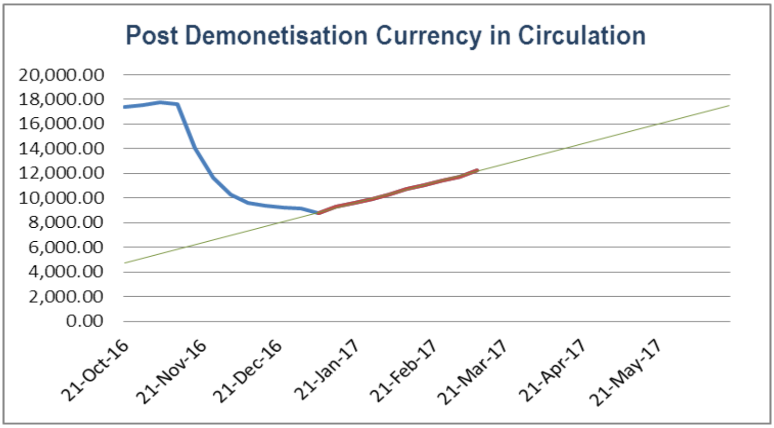
[650] (Rai, 2016)

look at his writing proves otherwise. Babasaheb's insights on economics and his contribution to our economy are rarely acknowledged. His ideas deserve considerably more research and citation. However, in his work, The Problem of the Rupee: Its Origin and its Solution, there is no mention of demonetisation by replacing currency every ten years. The basis of Prakash's claim, if it was not misreported, is, therefore, unclear.[651]

The greater tragedy is that the mass of people, the depressed classes, hit hardest by demonetisation, are being led to believe that it was Babasaheb's idea. In a report on the occasion of Ambedkar's Parinirvan Diwas, his death anniversary, it was distressing to find that while people are experiencing hardship they are also consoling themselves by believing that their idol had come up with the plan to demonetise. Because of that, they believe that something good will come of all this, although to many observers it is clear that the larger good is likely to be a distant dream. In messages circulating in different languages, on social media and through platforms such as WhatsApp, it is being baselessly propagated that demonetisation was favoured by Babasaheb.[652]

Time Required To Make Cash Flow Normal

As Mr Urjit Patel said, the new currency of Rs 4.96 lac crore was available on November 8, 2016. It will take more than six months to replace the currency taken out of circulation. The country had striven of cash up to February 2017. Personal and economical disruptions would be visibly by then.



[651] (Prabhu & Mallya, 2016)

[652] (Prabhu & Mallya, 2016)

The trend line in the graph indicates, currency in circulation of Rs 14 lac Crore would be by end of April 2017 and Rs 16 lac Crore by end of May 2017. As per the economic conditions, including higher deposits, high NPA, poor demand in credit lending, the government may not remonetise to its earlier level. It may limit the currency in circulation between Rs 14 to 15 lac Crore.

Distribution of Cash Currency

Printing the notes is only half the battle. Once the notes are printed, they need to be distributed to banks and ATMs using several intermediaries, making its way into wallet. The notes, once printed, are transported to the 19 Reserve Bank of India issue offices in major cities across the country. From the issue offices, the money is moved in high-security vans to more than four thousand currency chests across the country; it can restock its bank branches in the surrounding area. From the bank distribution centres or branches, money is taken to nearby ATMs.

Importantly, even after, currency can be used only after recalibration of ATMs as new currency has different dimensions. One team can recalibrate 20 ATMs, it will take at least 20 days to recalibrate 2.05 lac ATMs.

During this process, it was observed that RBI was not having enough infrastructures to print desired currency level and distribute it. Many banks were not having chest, so, have used unoccupied premises of commercial banks as chest and this lead to issues like security concern, biased distribution of chest to its own bank branches, etc. Recalibration of ATMs was other hurdle as there were insufficient staffs to carry out function. Literally, there were several ATM which were not operational even on December 31, 2016.

Unpreparedness of RBI

The government, it is that, notified the RBI to scrap Rs 500 and Rs 1000 notes on November 7, 2016, a day before the RBI board formally approved the recommendation. Modi then announced the decision later on November 8, 2016.[653] However, Power Minister, Mr Piyush Goyal claimed that RBI's 10 member board came up with demonetisation idea. When RBI was asked about the names of members who voted for and against the demonetisation by RTI question, it was replied saying such information is not noted. Again raises eyebrows.

[653] (Reuter, 2017)

Before parliamentary panel, Mr. Urjit Patel said that consultations between the government and the central bank on demonetisation had begun in January 2016.[654] These statements are differing with his own statements, published information or information provided under RTI.

In addition to above, there are several issues which points out if the RBI is prepared for demonetisation, few are:

1. Cash Currency was not available for distribution before announcement
2. New Currency has different dimensions, which will need recalibration. To avoid panic, the RBI at least can print currency of same dimensions so cash distribution would be faster.
3. The new currency found to be having difference in features. This will make difficult to the public to differentiate between original and fake. It may also help to add fake currency to the country.
4. The New currency fades colours, having dye leakage[655]. It means, proper care was not taken even to print the currency. This will reduce the lifespan of the currency and will ultimately add cost to the RBI.
5. RBI took long time to declare deposits of demonetised currency, even on March 31, 2017, it is not declared.

RBI's ambiguity, suffering Trust deficit

The problem with India and the schemes implemented are that most of them are either instinctive or in the precincts of institutions or otherwise without complete knowledge of the situation/ without understanding cost benefit analysis; as it may be because policy makers are not much concerned about the consequences there upon. Painfully obvious truth, 'Indian population is good in forgetting things soon' and keep on doing so, benefitting wrongdoers.

Another highlight of the 50-day period was the fall of trust in the RBI, which faced criticism for giving up its autonomy and credibility. The RBI appeared clueless how to take the demonetisation process ahead from the beginning and

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[654] (Reuter, 2017)

[655] The controversy grew to such extents within the space of a day that the Economic Affairs Secretary himself, Mr Shaktikanta Das, had to give a statement- 'The new Currency notes lose colour when wet, because that's the nature of the paper the notes are made from.' He also pointed out that counterfeit notes are often printed using indelible inks which do not 'run' when wet. Needless to say- his statement doesn't seem to have gone down.

faced criticism from former central bankers including Mrs. Usha Thorat and Mr. K.C. Chakrabarty.[656]

Both the government and the RBI were not prepared to face the rush for cash as evident from the frequent change in rules following the demonetisation announcement. Frequent changes imply that the RBI didn't prepare well for the demonetisation, it could not understand the possible issues it may face; also these changes negatively affect the banking environment and kept public in confused state throughout the period.

The All India Bank Officers Confederation has called for the resignation of Reserve Bank of India Governor, Dr Urjit Patel, taking the moral responsibility for the current crisis in the country and the deaths of more than 50 people, including 11 bank officials, according to a report in The Indian Express.[657]

"It was very, very poor planning on the part of RBI that has led to this crisis. They did not even have a roadmap. Those who sat and rolled out the demonetisation drive didn't have a basic idea about how the Indian economy works and transactions happen. "We understand that there were no discussions with experts and stakeholders before they took the decision," the head of All India Bank Officer's Confederation, D Thomas Franco said. "The administrative hierarchies too have derailed. It is strange to see that economic affairs secretary Shaktikanta Das is announcing many decisions including the use of indelible ink without any authority while the finance secretary is mum," he said.

Pre-demonetisation view of Finance Minister, Mr. Arun Jaitley:

Replying to the debate on the Finance Bill, 2016-17 in the Lok Sabha on Wednesday, May 4, 2016, Union Finance Minister Arun Jaitley asserted that despite global recession, the Indian economy is doing well. "After two years of drought, if the forecast of better monsoon rains this year holds good, it will improve agriculture," he said. [658] On the suggestion about introducing tax on agricultural income, he said that, firstly, large farm-based income was rare and people using agriculture as a front to hide income from other sources need to be dealt with by the tax authorities.[659] With these assertions, it is clear that the

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[656] (Nag, 2016)

[657] (Janardhanan, 2016)

[658] (IANS, 2016)

[659] (IANS, 2016)

government has focussed approach, first on growth and second was autonomy of tax authorities.

Demonetisation traversed both these boundaries the Minister had laid down. It raised doubts whether he was ready for demonetisation or even in loop, if it was planned six months back.

BJP's Stand on Demonetisation before November 8, 2016:

In the past, the Bharatiya Janata Party (BJP) had opposed demonetisation. BJP spokesperson Meenakshi Lekhi had said in 2014 that "The aam aurats and the aadmis (general public), those who are illiterate and have no access to banking facilities, will be the ones to be hit by such diversionary measures."[660,661,662,663]

This signifies that BJP was aware about poor banking infrastructure and isolations of public from banking in India. Execution of demonetisations, even knowing these facts, would be a surprise and unanswered question to BJP honchos, too.

Change of focus of Government from Black Money to Cashless economy: One more concern

In PM Modi's speech of November 8, 2016, there was no direct reference on shift to cashless economy, with the major focus of the demonetisation being projected as war on black money, terror funding and corruption.[664]

After one month of demonetisation, the common factor in both Modi's and Patel's talk was migration towards a cashless society, especially targeted to the youth, rather than black money. Migration to a cashless society is obviously a good thing, given that electronic banking transactions would be easier and more transparent than handing over cash. It can cut down the time taken per transaction and wouldn't require people to carry cash to wherever they go. The idea of transformation to a cashless economy, though will take time in a country which still lives in cash, is welcome but one cannot deny that there has been a

660 (Uttam, 2016)

661 (Sharma, 2016)

662 (Express News Service, 2016)

663 (Singh, 2016)

664 (The Wall Street Journal, 2016)

clear change in the demonetisation narrative by the Modi-government and in its pitch.

Anil Bokil's Claim for Ideation

Anil Bokil, the man who is self-credited the ideation of demonetisation. Disappointed Mr. Bokil said, "This is not what we proposed. If the architect of the program backs out who will ensure the success of the project."[665]

The failure of the government on above points whether treated as election jargons or implementation issues shackles faith in government.

Technically speaking, even Anil Bokil's (if his claims are true) plan is implemented, the demonetisation won't have bear any fruits. It's simply because the Indian system has several loopholes to convert black money to white. Without plugging those loopholes, it won't be sensible to expect positive results from demonetisation.

Conducive policies for Black Money laid by Government

Government has worked extensively in reframing several laws and policies. In this context, sharp reducing sharp permissible limit to receive as anonymous cash donations from the Rs 20,000 limit to Rs 2,000 is a welcome move. Though, this offers, political parties to split such donation in ten parts of 2,000 and keep doing the practices, they were doing earlier.

One significant law was the Foreign Contribution (regulation) Act, or FCRA has prevented political parties from receiving foreign funding up. The government, in April 2017, vide Finance Bill 2017; it is amended, allowing foreign companies to make donations to political parties in India.[666,667] It's a historic event which allowed foreign forces to dominate Indian economy and politics.[668] This may facilitate in accommodation to black money also; black money held in foreign companies can be routed to political parties as donation

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665 (Express Web Desk, 2016)

666 (Singh V. , 2016)

667 (PTI, 2017)

668 When FCRA is passed, Mr. P Chidambaram, then Minister of Home Affairs said FCRA will ensure "foreign money does not dominate social and political discourse in India". (Source: http://corporatelawreporter.com/2016/12/07/2016-amendment-to-the-fcra/).

or charity and then use it in India as legitimate. Importantly, NGOs were banned on accusation of national security threat[669]; and in return, allowed political parties to do the same.

The Finance Bill, 2017 also removed the cap of 7.5 per cent of the average of its net profits in the last three consecutive financial years, to make political donation.[670] Additionally, companies will not be required to name the beneficiary political party.[671]

On the electoral funding reforms brought by the government, parliamentary members raised concerns. Mr. Hooda said electoral bonds will only increase opacity in funding., Mr Sibal also said the bill gives "unbridled powers" to the taxman and he can conduct "search and seizure" at any premises without assigning any reason for the same to a superior authority. Yechury strongly objected to the provision in the Bill about use of Aadhaar for filing income tax returns (ITR).[672]

This retrospective amendment has several beneficiaries including companies and political parties. Sterling Industries India Ltd and Sesa Goa Ltd contributed to political parties' up to 2009 wherein Vedanta Resources plc holds 50% of shares in it, making it foreign company. (Association for Democratic Reform Vs. Union of India W.P.(C) 131/ 2013).

Demonetisation turned Dictatorial

Followed by demonetisation, Tax Amendment Bill was introduced in the Parliament and passed in haste. Congress leader Mallikarjun Kharge said, "the bill, the Taxation Laws (2nd Amendment) Bill, 2016, was introduced on November 28, 2016 and even the ruling party MPs had not studied it thoroughly. And on November 29, 2016 the bill has been passed in a tearing hurry which was not right." The Revolutionary Socialist Party said that it is contemplating to take up the issue with President Pranab Mukherjee.

Amidst din and without debate, Lok Sabha passed within minutes a major bill that provides a window to legalise black money post-demonetisation and a tax

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669 (Mail Online India and AFP, 2016)

670 (PTI, 2017)

671 (Dailybite, 2017)

672 (Talwar, 2017)

on that amount, triggering a controversy with the Opposition calling it a "black day" and accusing it of being "undemocratic and dictatorial".

Effect on Economic Growth

The IMF also trimmed the growth outlook for the fiscal year 2017-18 to 7.2 percent from 7.6 percent estimated earlier.[673] Former Prime Minister Manmohan Singh estimates that India's GDP will shrink by 1-2% in the current fiscal year.

Analysts are already saying the sudden contraction will hurt economic growth. Economists at Ambit Capital cut their 2017 GDP growth estimate almost in half, from 6.8% to 3.5%. They think the effects will last into 2018, too.

673 (Reuter, 2017)

GDP Growth Estimates by Various Agencies

(y-o-y growth in per cent)

Agency	2016-17		2017-18	
	Pre-demonetisation	Post-demonetisation	Pre-demonetisation	Post-demonetisation
IMF	7.6	6.6	7.6	7.2
World Bank	7.6	7	7.7	7.6
ADB	7.4	7	7.8	7.8
Economic Survey, Government of India	7.0 to 7.75	6.5 to 6.75		6.75 to 7.5
Morgan Stanley	7.7	7.3	7.8	7.7
HSBC	7.4	6.3	7.2	7.1
Nomura*	7.8	7.1	7.6	7.1
Goldman Sachs	7.6	6.3	-	-
ICRA	7.9	6.8	-	-
CARE Ratings	7.8	6.8	-	-
CRISIL	-	6.9	-	-
FITCH	7.4	6.9	8	7.7
BofA-ML	7.4	6.9	7.6	7.2

*Pertains to calendar year. Sources: Growth projections by the Financial Institutions and Rating Agencies were compiled on the basis of media reports published during November and December 2016. (Reserve Bank of India, March 10, 2017)[674]

Damage control practices in manipulating ill effects of Demonetisation

The Government has made changes in economic parameters like changing base year for WPI and IIP components and weightage. The new series of WPI of

674 (Reserve Bank of India, March 10, 2017)

2017 declined to a four-month low of 3.85 per cent in April 2017 from 5.70 per cent in March, 2017. Since WPI is used in the deflator, estimate real GDP figures will be up indicating higher real GDP growth rate in 2016-17. On the basis of IIP new series index, IIP grew 2.7 per cent in March 2017 as against 1.9 per cent a month ago. Changing composition of IIP basket will also favour growth figures, the Government and will diminish the ill effect of demonetisation on the books.

Country backs PM and his Reforms, if are in national interest

PM's good intention should have started with electoral reforms, land reforms, stamp-duty reforms, Lokpal Bill, locking up of the real thugs, seems half-heartedly. Comparing previous government with Modi's government, it's active but its activeness is in the interest of the country, question still unanswered.

Few things like election reforms, Lokpal Bill without covering political parties under RTI, opening ways for foreign funding to political parties, changing definition of "Foreign Companies"- benefitting political parties and introduction of 'Electoral Bonds' in Budget 2017 are government moves which are not in line with its stated developmental and transparency policy; again in the national interest.

Social Structure of India

Nigeria illustrates how social structure plays a role in corrupt practices. Nigeria's three largest ethnic groups namely Hausa, Igbo and Yoruba have maintained historical pre-eminence in Nigerian politics; competition amongst these three groups has fuelled corruption and graft. Corruption levels probably also vary with caste in India.[675] It indicates the possibility of competition fuelled corruption among the castes, alike Nigeria.

Public under influence

View of the public towards corruption is also a big concern for the country. Corruption Perception Index 2016 shows that India has the world's highest first hand bribery experience (69%) in a year. Importantly public believes that there is increase in corruption over two years, still they feel the government is doing good against corruption. These public perceptions are contradicting their own understanding. This may be due to undue influence of government, media and political figures on the public. This is more dangerous than the corruption, if analysed psychometrically. As Mark Twain said, *'It's easier to fool people than to convince them that they have been fooled.'*

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675 (Avidit Acharya, 2015, February 5)

Unless the public will not understand that the policies are not effectively worked out and not giving results, the economic and political condition of the country can't be changed.

Recollecting 'only when the tide goes out do you discover who's been swimming naked', a famous statement of Warren Buffett**,** but you can't wait for the tide to turn; it could be too late by then, importantly when economic losses to the country are evident and unavoidable.

The CPI 2016 report also predicts a poor index in 2017 (38) as compared to 40 of 2016; and almost at same level of 42 in 2020.

Positives of Demonetisation

Demonetisation, though, didn't achieve to restrict black money to be deposited, but the deposited money, which was not in use because of fear of confiscation by IT sleuths, now it can be used for investment and purchases.

Even surged deposits (will be observed only after full remonetisation, say by April 2017) in banks will also put pressure to increase lending and ultimately contribute to the growth of economy: Please be noted, it was not pre-announced objective.

Importantly, BJP has had landslide victor in assembly election in UP, Punjab and other states in January 2017. It is difficult to comment if there was any role of demonetisation. But, shock therapies used to impact memories, and, pro and anti-social marketing might have affected it.

Again advance taxes are increased by 34% in 2017 over similar period of last year. This may be due to consideration of black money as an income in FY2016-17 and advanced taxes are paid on it. Though the Government is excited with this incremental receipt, it is in grey area of success or failure.

This book is an attempt to show what are the pros and cons of the demonetisation; and expect they will take prudent steps to minimise the damage to the economy. '*Jiski Chati 56 inch ki ho, o hi desh ke liye kuch kar sakata hai, koi pappu*[676] *nahi'*. Its meaning in English is 'a person with competencies can only work for the nation, not a cup of tea of a common.'

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[676] '*Pappu*', a *Hindi* word, used to refer a common man of India. Wikipedia mentions "*Pappu* is a nickname for a small boy in India."

Inability of handle surge in deposits by India

One effect of demonetisation, for sure, is increase in deposits in banking system. Now, a question is whether India was and is ready to face increased deposits; what will banks do with these incremental deposits. Indian banking system already has high NPA and in this situation banks will try to shy away from lending. Even if there is force lending, it may affect NPA negatively. For discussion sake, if banks have increased lending, more money liquidity will be in the economy, subsequently add to inflation. Further, it will result in increase in nominal GDP due to increased economic activity; but real GDP will be altered due to higher inflation.

To move economic factors like GDP, bank deposits, credit lending positively, the Government is pressurising banks to increase lending, this may increase NPAs and inflation. Also, RBI has increased 'reverse repo rate', allowing banks to earn higher interest on its deposits.

Ironically, any of result of demonetisation, positive or negative, won't bear fruit for the country or economy.

The Concluding

It's not a bold decision it's a suicide. "Modi ji dreamt of Corruption free India and Indian's dream got corrupted." With this 2016 demonetisation, India has seen 3 unsuccessful demons, not to mention, 2016 was the worst. It cost the economy by Rs 2 lac crore (Rs 2 trillion) along with retarded growth of the economy and pain to the people. People continued to suffer because of Mr. Modi's adventure "*Chalo kuch tufani karate hai*[677]", has costed economy and it has to be recovered from the public. "*Picture abhi baki hai dost*"[678]: the public will continue to pay price even after this demon to make up the loss of the demon. It does mean that economic losses due to demonetisation will be recovered from the public by levying direct and indirect taxes. These will double the losses of the public for an adventure cum de-stabilisation act of Government's demonetisation.

With assiduous public relation of government, the act of standing in bank ques was correlated with fighting solders on a border; a sacrifice for good of the country and people. Sacrifices are gone in vain. Corrupts got benefitted with the move and innocent continued to suffer. It's a pity of the country, few thousands

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[677] Hindi sentence means "Let's do something adventourus."

[678] Hindi sentence means "It not over yet"

of politicians, bureaucrats and businessmen engulfed in corrupt practices, successfully converted their black money to white. 1.29 billion (129 Crore) population suffered.

History tells us, demonetisation made two dictators to apologies, a rare to rare instance, publically. In Nigeria, General Buhari of military Government, he himself admitted the failure of demonetisation and in North Korea's, the dictator, 'Dear Leader', Kim Jong-il said "I sincerely apologise as we pushed ahead with it (demonetisation) without sufficient preparation so that it caused a big pain to the people". As Indian demonetisation is deemed to fail, will Mr Modi Ji apologies?

Ordinance for 1946 Demonetisation

ORDINANCE No. III OF 1946

An Ordinance to provide for the demonetisation of certain high denomination bank notes

(Published in the Gazette of India Extraordinary, dated the 12th January, 1946)

WHEREAS an emergency has arisen which makes it necessary to provide for the demonetisation of certain high denomination bank notes;

Now, THEREFORE, in exercise of the powers conferred by section 72 of the Government of India Act, as set out in the Ninth Schedule to the Government of India Act, 1935 (26 Geo. 5, c. 2), the Governor General is pleased to make and promulgate the following Ordinance:—

1. **Short title, extent and commencement.**—(1) This Ordinance may be called the High Denomination Bank Notes (Demonetisation) Ordinance, 1946.

(2) It extends to the whole of British India.

(3) It shall come into force at once.

2. **Interpretation.**—In this Ordinance,—

(a) "bank" means a banking company as defined in section 277F of the Indian Companies Act, 1913 (VII of 1913), and includes any branch of a bank;

(b) "bank note" includes all currency notes of the Government of India issued either by the Central Government or by the Reserve Bank;

(c) "high denomination bank note" means a bank note of the denominational value of five hundred rupees, one thousand rupees or ten thousand rupees;

(d) "Reserve Bank" means the Reserve Bank of India;

(e) "scheduled bank" means a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (II of 1934).

3. **High denomination bank notes to cease to be legal tender.**—On the expiry of the 12th day of January 1946 all high denomination bank notes shall, notwithstanding anything contained in section 26 of the Reserve Bank of India Act, 1934 (II of 1934), cease to be legal tender in payment or on account at any place in British India.

4. **Prohibition of transfer and receipt of high denomination bank notes.**—Save as provided by or under this Ordinance, no person shall after the 12th day of January 1946 transfer to the possession of another person or receive into his possession from another person any high denomination bank note.

5. **Exchange of high denomination bank notes held by banks and Government treasuries.**—(1) A bank, other than a scheduled bank, may obtain from the Reserve Bank or a scheduled bank an equivalent amount in bank notes of the denominational value of one hundred rupees in exchange for the high denomination bank notes declared by it in the returns under the Bank Notes (Declaration of Holdings) Ordinance, 1946 (II of 1946), and tendered for such exchange, or if it so desires, a credit of that amount with the Reserve Bank or a scheduled bank.

(2) A scheduled bank or a Government treasury may obtain from the Reserve Bank an equivalent amount in bank notes of the denominational value of one hundred rupees in exchange for any high denomination bank notes tendered for such exchange which have been declared by it in the returns under the aforesaid Ordinance or which have been received by it in exchange under this Ordinance, or if a scheduled bank so desires, a credit of that amount with the Reserve Bank.

(3) Notwithstanding anything to the contrary in the foregoing provisions of this section, where the first return referred to in section 4 of the Bank Notes (Declaration of Holdings) Ordinance, 1946 (II of 1946) is presented in the

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manner provided in the proviso to sub-section (2) of that section, the exchange referred to in this section may be effected only with the Reserve Bank at Bombay.

(4) The copies of the returns given back under sub-section (4) of section of the aforesaid Ordinance shall accompany the first application for the exchange of high denomination bank notes under this section.

6. Exchange of high denomination bank notes held by other persons.—(1) Notwithstanding anything to the contrary contained in the Reserve Bank of India Act, 1934 (II of 1934), any high denomination bank note held by a person other than a bank or Government treasury shall after the 12th day of January 1946 be exchanged only on tender of the note for exchange by the owner thereof in the manner provided in this section.

(2) Every such owner of a high denomination bank note desiring to tender it for exchange shall prepare in the form set out in the Schedule or in a form as near thereto as may be, three copies of a declaration signed by him giving in full the particulars required by that form, and shall, within ten days after the commencement of this Ordinance, deliver such copies in person together with the high denomination bank notes he desires to exchange to a branch of the Reserve Bank or to a scheduled bank or to a Government treasury:

Provided that if such owner resides in a place not within convenient reach of any such branch, bank or treasury or if by reason of age, infirmity or illness he is unable to attend thereat, or if the provisions of sub-section (9) are applicable to him, he may forward the high denomination bank notes he desires to exchange with the three copies of his declaration by insured post to the Reserve Bank at Bombay, Calcutta or Madras at any time within fourteen days after the commencement of this Ordinance.

(3) Every declaration under this section shall, for the purpose of identifying the person making it, be attested either by his banker or by a salaried magistrate or a Justice of the Peace or a police officer not below the rank of Inspector of Police.

(4) Where a person applies under this section for the exchange of high denomination bank notes in more than one instalment or at more than one branch of the Reserve Bank, scheduled bank or Government treasury or on more than one day, he shall give in the declaration which shall accompany every such application full particulars of other applications made by him.

(5) The person who signs any declaration under this section shall be deemed for all purposes to be the owner of the high denomination bank notes to which it relates, and if it is proved that he is not in fact the owner of such bank notes, he and the owner thereof, unless in the case of the latter he can prove that the declaration was made without his knowledge, shall be deemed to have contravened the provisions of section 4.

(6) Unless it appears that the declaration has not been completed in all material particulars, the Reserve Bank, scheduled bank or Government treasury, as the case may be, to which an application for exchange of high denomination bank notes is made under this section shall exchange the said notes for an equivalent value of bank notes of the denominational value of one hundred rupees, or if the applicant so desires, for the credit of an equivalent amount to his account with a bank.

(7) Where it appears that the declaration has not been completed in all material particulars, the Reserve Bank, scheduled bank or Government treasury, as the case may be, to which such application as aforesaid is made, shall, unless the applicant is able to supply the omission without delay, refuse to accept and exchange the bank notes to which the declaration relates, and if it does so refuse, shall return one copy of the declaration to the applicant after entering thereon the date on which it is presented, and shall refer the applicant to the Central Government to which it shall forward a copy of the declaration with a brief statement of the reasons for refusing to exchange the bank notes.

(8) The Central Government may require any applicant referred to it under sub-section (7) to amplify his declaration to such extent and in respect of such particulars as it thinks fit, and may unless the applicant is able fully to comply with such requirement, refuse to sanction the exchange of the high denomination bank notes to which the declaration relates.

(9) Notwithstanding anything to the contrary in the forcgoing provisions of this section, no high donomination bank notes exceeding in value ten lakhs of rupees held by any person shall be exchangeable under this section except with the Reserve Bank at Bombay, Calcutta or Madras.

(10) The Central Government or any person or authority authorised by it in this behalf may for sufficient reason extend in any particular case the period during which high denomination notes may be tendered for exchange under this section.

7. Penalties.—(1) Whoever knowingly makes in any declaration under section 6 any statement which is false or only partially true or which he does not believe to be true, or contravenes any provision of this Ordinance or the rules made thereunder, shall be punishable with imprisonment for a term which may extend to three years or with fine or with both.

(2) Where the person committing an offence punishable under sub-section (1) is a company or other body corporate, every director, manager, secretary or other officer or agent thereof shall, unless he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent such commission, be deemed to be guilty of the offence.

(3) No prosecution for an offence punishable under this section shall be instituted except with the previous sanction of the Central Government.

(4) Notwithstanding anything in section 32 of the Code of Criminal Procedure, 1898 (V of 1898), a Presidency Magistrate or a Magistrate of the first class trying an offence punishable under this section may impose a fine exceeding one thousand rupees.

8. Closing of banks and Government treasuries.—All banks and Government treasuries shall be closed for the transaction of all business on the 14th day of January, 1946, and that day shall for the purposes of the Negotiable Instruments Act, 1881 (XXVI of 1881) be deemed to be a public holiday notified under that Act.

9. Bar of legal proceedings.—No suit, prosecution or other legal proceeding shall lie against any person for anything done or in good faith intended to be done under this Ordinance.

10. Condonation of certain offences under Ordinance II of 1946, not involving high denomination bank notes.—Notwithstanding anything contained in section 6 of the Bank Notes (Declaration of Holdings) Ordinance, 1946, where a bank which at the close of business on the 11th day of January, 1946, held no high denomination bank notes (as defined in this Ordinance) fails to present the first return referred to in section 4 of that Ordinance, it shall be deemed not to have committed an offence under that Ordinance.

11. Power to make rules.—The Central Government may make rules to provide for any matter for which it deems provision necessary or expedient in order to give effect to the purposes and provisions of this Ordinance, and without prejudice to the generality of the foregoing power, such rules may provide for the manner in which and the conditions subject to which high denomination bank notes brought or sent into British India after the commencement of this Ordinance or which are held outside British India may be exchanged.

THE SCHEDULE

(*See section* 6)

Form of Declaration

1. Name of declarant.
2. Status of declarant as owner of the bank notes to which this declaration relates, whether individual, Hindu undivided family, company, firm, local authority, or other association of persons.
3. Address.

4. District or circle in which declarant is assessed to income-tax.
5. If declarant is engaged in business, profession or vocation, name in which carried on or in the case of a firm, the firm's name.
6. Principal place of business, profession or vocation of declarant, location and style of each branch.
7. Name and address of each partner, if declarant is a firm.
8. Name and address of each firm or firms, if declarant is a partner in a firm.
9. If declarant is a salaried person, amount of the salary per annum.
10. If declarant is a Government servant, Government Department and post held.
11. If declarant is a retired Government servant, last post held, the Government Department under which such post held and date of retirement.
12. If declarant is a retired servant of a non-Government employer, particulars of last post held.
13. If declarant is not a retired employee, particulars of former profession or vocation.

If declarant is a lady, name of husband or guardian and his address.

If declarant is a lady with a vocation, or employment, particulars.

14. Particulars of high denomination notes tendered:

Denomination	Numbers*	Total value Rs.
Rs. 500		
1,000		
10,000		

* List to be attached separately.

15. Reasons for keeping above amount in high denomination notes rather than in current account, fixed deposit or securities.
16. When and from what source did declarant come into possession of bank notes now tendered?
17. If notes in question represent re-import of bank notes sent out of British India, quote number and date of Reserve Bank of India's licence.
18. Does the value of bank notes now tendered represent business profits in whole or in part? If so, specify name of business and year or years in which such profits made and place of business.
19. If amount in 18 above is in excess of profits referred to therein, indicate the source of excess with evidence in support.
20. Has any other declaration been made by declarant or on his behalf elsewhere? If so, state full particulars.

I/We hereby declare that the particulars furnished above are full, true and correct to the best of my/our knowledge and belief. I/We further declare that the bank notes tendered herewith belong to me/us and are not benami holdings.

I/We undertake to advise the Reserve Bank of India, Bombay, if any other high denomination bank notes are tendered for exchange by me/us for exchange at any other station(s).

Signature

Date Permanent address

I/We (if Bank) hereby testify that I/We know the declarant and certify that the above declaration was signed in my/our presence.

Seal Signature

Date Designation

I/We (if an Office of the Reserve Bank of India) hereby acknowledge the receipt of the high denomination bank notes tendered by........................with the above declaration at..................P.M. today.

Signature

Date Designation of receiving authority

Seal

WAVELL,

Viceroy and Governor General.

GIPD—S1—1695 LD—22-1-46—2000

THE HIGH DENOMINATION BANK NOTES (DEMONETISATION) ACT, 1978

ACT NO. 11 OF 1978

[30*th March,* 1978.]

An Act to provide in the public interest for the demonetisation of certain high denomination bank notes and for matters connected therewith or incidental thereto.

WHEREAS the availability of high denomination bank notes facilitates the illicit transfer of money for financing transactions which are harmful to the national economy or which are for illegal purposes and it is therefore necessary in the public interest to demonetise high denomination bank notes;

BE it enacted by Parliament in the Twenty-ninth Year of the Republic of India as follows:—

1. Short title, extent and commencement.—(*1*) This Act may be called the High Denomination Bank Notes (Demonetisation) Act, 1978.

(*2*) It extends to the whole of India.

(*3*) It shall be deemed to have come into force on the 16th day of January, 1978.

2. Definitions.—In this Act, unless the context otherwise requires,—

(*a*) "bank" means—

(*i*) a banking company as defined in clause (*c*) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);

(*ii*) the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955);

(*iii*) a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959);

(*iv*) a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970);

(*v*) a regional rural bank established under sub-section (*1*) of section 3 of the Regional Rural Banks Act, 1976 (21 of 1976);

(*vi*) a co-operative bank as defined in section 2 of the Reserve Bank of India Act, 1934 (2 of 1934);

and includes every branch thereof;

(*b*) "bank notes" means the bank notes issued by the Reserve Bank of India under section 22 of the Reserve Bank of India Act, 1934 (2 of 1934);

(*c*) "distinctive number" in relation to a high denomination bank note means the number including the alphabetical and numerical prefixes appearing on the face of the note;

(*d*) "high denomination bank note" means a bank note of the denominational value of one thousand rupees, five thousand rupees or ten thousand rupees, [1][issued by the Reserve Bank immediately before the commencement of this Act];

(*e*) "public sector bank" means a bank referred to in sub-clause (*ii*), (*iii*) or (*iv*) of clause (*a*);

(*f*) "Reserve Bank" means the Reserve Bank of India constituted under the Reserve Bank of India Act, 1934 (2 of 1934);

(*g*) "scheduled bank" means a public sector bank or any other bank, being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);

1. Subs. by Act 3 of 1999, s. 2, for "issued by the Reserve Bank" (w.e.f. 2-1-1999).

1

(*h*) "State Bank" means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955).

3. High denomination bank notes to cease to be legal tender.—On the expiry of the 16th day of January, 1978, all high denomination bank notes shall, notwithstanding anything contained in section 26 of the Reserve Bank of India Act, 1934 (2 of 1934), cease to be legal tender in payment or on account at any place.

4. Prohibition of transfer and receipt of high denomination bank notes.—Save as provided by or under this Act, no person shall, after the 16th day of January, 1978, transfer to the possession of another person or receive into his possession from another person any high denomination bank note.

5. Declaration of high denomination bank notes by banks and Government treasuries.—(*1*) Every bank and Government treasury shall prepare and send to the Reserve Bank in the manner provided in this section a return showing separately under each denominational value the total value of high denomination bank notes of that value held by it at the close of business on the 16th day of January, 1978 and distinctive numbers of high denomination bank notes of that value:

Provided that a bank or a Government treasury in which the currency chest of the Issue Department of the Reserve Bank has been established shall also submit a separate return showing separately under each denominational value the total value of high denomination bank notes held in such currency chest at the close of business on the 16th day of January, 1978 and the distinctive numbers of high denomination bank notes of that value.

(*2*) Every such return shall be prepared and presented as provided in sub-section (*3*) in triplicate and shall be signed by the Manager of the bank or other person in charge of the bank or the Government treasury.

(*3*) Every return under sub-section (*1*) shall be presented for forwarding to the Reserve Bank to the Manager of the sub-office, office or branch of the Reserve Bank at the places specified under sub-section (*2*) of section 7, or to the District Magistrate, or to the Sub-divisional Magistrate or, if such Manager or Magistrate is not available, to the senior-most Revenue or Police Officer available not later than 3.00 P.M. on the 17th day of January, 1978:

Provided that if it is not feasible to present the return to any such person as aforesaid, it may be presented by handing two copies thereof not later than 3.00 P.M. on the 17th day of January, 1978 to a telegraph office, one copy for despatch by express telegram to the Reserve Bank at Bombay at the expense of the bank or the Government treasury, as the case may be, and the other copy for return to the person presenting it in the manner provided in sub-section (*4*), and by despatching the third copy required by sub-section (*2*) by registered post on the same day to the Reserve Bank at Bombay.

(*4*) The officer to whom the return is presented shall give back to the person presenting it one copy thereof under his signature and seal of office in acknowledgement of receipt on which shall also be recorded the time and date of receipt, and such officer shall without delay forward one copy of the return to the Reserve Bank at Bombay.

(*5*) The Manager or other person in charge of every bank or Government treasury shall, immediately after the preparation of the returns required to be submitted under this section, cause the high denomination bank notes mentioned therein to be kept in a separate receptacle and seal the same with his seal and of the officers having custody of such receptacle.

6. Exchange of high denomination bank notes held by banks and Government treasuries.—(*1*) A bank other than a public sector bank may obtain from the Reserve Bank or a public sector bank an equivalent amount in exchange for the high denomination bank notes declared by it in the return referred to in section 5 by credit to an account maintained with the Reserve Bank or a public sector bank or in bank notes.

(*2*) A public sector bank may obtain from the Reserve Bank an equivalent amount in exchange for the high denomination bank notes declared by it in the return referred to in section 5 or the high denomination bank notes received by it in exchange under sub-section (*1*) by credit to an account with the Reserve Bank or in bank notes.

(*3*) A Government treasury may obtain from the Reserve Bank an equivalent amount in exchange for the high denomination bank notes declared by it in the return referred to in section 5 in bank notes or by credit to Government account.

(*4*) Notwithstanding anything contained in sub-sections (*1*), (*2*) and (*3*), where the return referred to in section 5 is presented in the manner provided in the proviso to sub-section (*3*) of that section, the exchange referred to in this section may be effected only by the Reserve Bank at Bombay.

(*5*) Every application for the exchange of high denomination bank notes under this section shall be accompanied by the copy of the return received under sub-section (*4*) of section 5 which contains the distinctive numbers of such bank notes.

7. Exchange of high denomination bank notes held by other persons.—(*1*) Notwithstanding anything to the contrary contained in the Reserve Bank of India Act, 1934 (2 of 1934), any high denomination bank note owned by a person other than a bank or Government treasury may be exchanged after the 16th day of January, 1978, only on tender of the note—

(*a*) where the high denomination bank note is owned by an individual, by the individual himself; or where the individual. is absent from India, by the individual concerned or some person duly authorised by him in this behalf; or where the individual is mentally incapacitated from attending to his affairs, by his guardian or by any other person competent to act on his behalf;

(*b*) where the high denomination bank note is owned by a Hindu undivided family, by the *karta,* and, where the *karta* is absent from India or is mentally incapacitated from attending to his affairs, by any other adult member of his family;

(*c*) where the high denomination bank note is owned by a company, by the managing director thereof, or, where for any unavoidable reason such managing director is not able to tender the note, or; where there is no managing director, by any director thereof;

(*d*) where the high denomination bank note forms part of the assets of a firm, by the managing partner thereof, or, where for any unavoidable reason such partner is not able to tender the note, or where there is no managing partner as such, by any partner thereof not being a minor;

(*e*) where the high denomination bank note is owned by any other association of persons, by any member of the association or the principal officer thereof; and

(*f*) where the high denomination bank note is owned by any other person, by that person or by some person competent to act on his behalf;

and within the time and in the manner provided in this section.

(*2*) Every person desiring to tender for exchange a high denomination bank note under this section shall prepare in the form set out in the Schedule three copies of a declaration signed by him giving in full the particulars required by that form and shall, not later than the 19th day of January, 1978, deliver such copies in person together with the high denomination bank notes he desires to exchange—

(*a*) to either of the offices of the Reserve Bank at Bombay or to the sub-office, office or branch, as the case may be, of that bank at Ahmedabad, Bangalore, Bhubaneshwar, Calcutta, Gauhati, Hyderabad, Jaipur, Kanpur, Madras, Nagpur, New Delhi and Patna; or

(*b*) to the main office or branch of the State Bank at the headquarters of a district; or

(*c*) to any other office of a public sector bank notified in this behalf by the Reserve Bank:

Provided that if such person resides in a place not within convenient reach of any such office or branch, or if, by reason of age, infirmity or illness he is unable to attend thereat, he may forward the high denomination bank notes he desires to exchange together with three copies of the declaration in respect thereof by insured post to the Reserve Bank at Bombay not later than the 19th day of January, 1978.

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(*3*) Every declaration under this section shall, for the purpose of identifying the person making it, be attested by the manager or other person in charge of the bank, if any, with which he maintains an account, or by a salaried Magistrate or a Justice of the Peace or a police officer not below the rank of an Inspector of Police.

(*4*) Unless it appears that the declaration has not been complete in all material particulars, the Reserve Bank, the State Bank or any bank notified under clause (*c*) of sub-section (*2*), as the case may be, to which an application for exchange of high denomination bank notes is made under this section, shall pay the exchange value of the said notes for credit to a properly introduced account of the owner or the declarant, as the case may be, with any scheduled bank:

Provided that if the owner or declarant, as the case may be, does not have a bank account, the exchange value of the said notes shall be paid only on proper identification and until payment is so made, the amount shall remain in the custody of the Reserve Bank or the bank, as the case may be, to which the high denomination bank notes were tendered.

(*5*) Where it appears that the declaration has not been completed in all material particulars, the Reserve Bank, the State Bank or the notified bank, as the case may be, to which such application as aforesaid is made shall, unless the declarant is able to supply the omission without delay, refuse to accept and pay for the bank notes to which the declaration relates, and where it does so refuse, shall return one copy of the declaration to the declarant after entering therein the date on which it is presented and shall refer the matter to the Central Government to which it shall forward a copy of the declaration with a brief statement of the reasons for refusing to pay for the bank notes.

(*6*) The Central Government may require any declarant referred to in sub-section (*5*) to amplify his declaration to such extent and in respect of such particulars as it thinks fit and may, unless the declarant is able to fully comply with such requirement, refuse, for reasons to be recorded in writing, to sanction the exchange of the high denomination bank notes to which the declaration relates.

(*7*) The Central Government or any person or authority authorised by it in this behalf may, by order in writing and for reasons to be recorded therein, extend in any case or class of cases the period during which high denomination bank notes may be tendered for exchange under this section.

8. Exchange of notes after the time limit specified in section 7.—(*1*) Notwithstanding anything contained in section 7, any person who fails to apply for exchange of any high denomination bank notes within the time provided in that section may tender the notes together with the declaration required under that section to the Reserve Bank at any of the places specified in clause (*a*) of sub-section (*2*) of that section, not later than the 24th day of January, 1978 together with a statement explaining the reasons for his failure to apply within the said time limit:

Provided that if such person resides in a place not within convenient reach of the sub-office, office or branch of the Reserve Bank at any of the said places or if, by reason of age, infirmity or illness, he is unable to attend thereat, he may forward the high denomination bank notes he desires to exchange together with three copies of the declaration required under section 7 by insured post to the Reserve Bank at Bombay not later than the 24th day of January, 1978, along with a statement explaining the reasons for his failure to apply within the time specified in section 7.

(*2*) The Reserve Bank may, if satisfied after making such inquiries as it may consider necessary that the reasons for the failure to submit the notes for exchange within the time provided in section 7 are genuine, pay the value of the notes in the manner specified in sub-section (*4*) of that section.

(*3*) Any person aggrieved by the refusal of the Reserve Bank to pay the value of the notes under sub-section (*2*) may prefer an appeal to the Central Government within fourteen days of the communication of such refusal to him.

9. Closing of banks and Government treasuries.—(*1*) All banks and Government treasuries shall be closed on the 17th day of January, 1978 for the transaction of all business except the preparation and presentation or, as the case may be, receipt of the returns referred to in section 5.

(*2*) Subject to the provisions of sub-section (*1*), the 17th day of January, 1978 shall, for the purposes of the Negotiable Instruments Act, 1881 (26 of 1881), be deemed to be a public holiday notified under that Act.

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10. Penalties.—(*1*) If any bank fails to prepare and present within the time and in the manner provided by section 5 any return referred to in that section, or presents any return under that section which is false in any material particular, the manager or other person in charge of the bank shall, unless he proves that the failure took place, or the false return was presented, without his knowledge or that he exercised all due diligence to prevent the same, be punishable with imprisonment for a term which may extend to three years, or with fine, or with both.

(*2*) Whoever knowingly makes in any declaration under section 7 any statement which is false or only partially true or which he does not believe to be true or contravences any provision of this Act or the rules made thereunder shall be punishable with imprisonment for a term which may extend to three years or with fine or with both.

(*3*) An officer of a scheduled bank who makes payment out of the amount, being the exchange value of a high denomination bank note credited under sub-section (*4*) of section 7 to an account maintained with such bank shall unless such account is an account which has been opened after proper introduction, be punishable with imprisonment for a term which may extend to three years, or with fine, or with both.

11. Special provisions relating to offences.—(*1*) No prosecution for an offence punishable under this Act shall be instituted except with the previous sanction of the Central Government.

(*2*) Notwithstanding anything in section 29 of the Code of Criminal Procedure, 1973 (2 of 1974), the court of a Magistrate of the first class or the court of a Metropolitan Magistrate trying an offence punishable under this Act may impose a fine exceeding five thousand rupees.

12. Protection of action taken in good faith.—No suit, prosecution or other legal proceeding shall lie against the Government or any officer of the Government or against the Reserve Bank or any public sector bank or any officer of such bank for anything done or intended to be done in good faith under this Act.

13. Removal of difficulties.—If any difficulty arises in giving effect to the provisions of this Act, the Central Government may, by notification in the Official Gazette, make any order, not inconsistent with the provisions of this Act, which appears to it to be necessary for the purpose of removing the difficulty:

Provided that every such order shall, as soon as may be after it is made, be laid before each House of Parliament.

14. Power to make rules.—(*1*) The Central Government may make rules for giving effect to the provisions of this Act.

(*2*) In particular and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:—

(*a*) the custody and disposal of high denomination bank notes tendered for exchange under this Act and of the declarations in respect thereof;

(*b*) the time within which applications referred to in sub-section (*5*) of section 6 may be made; and

(*c*) the time within which and the manner in which the State Bank and public sector banks notified under clause (*c*) of sub-section (*2*) of section 7 may claim reimbursement from the Reserve Bank of payments made by them in respect of high denomination bank notes accepted by them under that section.

(*3*) Every rule made by the Central Government under this Act shall be laid, as soon as may be after it is made, before each House of Parliament while it is in session for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

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15. Repeal and saving.—(*1*) The High Denomination Bank Notes (Demonetisation) Ordinance, 1978 (1 of 1978) is hereby repealed.

(*2*) Notwithstanding such repeal, anything done or any action taken under the Ordinance so repealed shall be deemed to have been done or taken under the corresponding provisions of this Act.

THE SCHEDULE

[*See* section 7(*2*)]

FORM OF DECLARATION

(To be filled in triplicate)

1. Name of the owner of the bank notes
   (In block letters)

2. Address: Office

   Residence

3. Status, *i,e.,* whether individual, Hindu undivided family, company, firm, etc.

4. (a) Whether assessed to income-tax;

   (b) If so, name of the Income-Tax Circle/Ward/District where last assessed;

   (c) Permanent Account Number.

5. If engaged in business, profession or vocation, name in which such business is carried on.

6. Principal place of business, profession or vocation, and location and style of each branch.

7. In the case of a firm, name and address of each partner.

8. In the case of partner in a firm, name and address of each firm or firms in which he is a partner.

9. In the case of a salaried person, amount of salary per annum.

10. In the case of a Government employee, Government Department and post held.

11. In the case of a retired Government employee, last post held, Government Department under which such post was held and date of retirement.

12. In the case of a retired employee of a non-Government employer, particulars of last post held.

13. In the case of any other person, particulars of profession or vocation or, as the case may be, former profession or vocation.

14. Particulars of high denomination bank notes tendered.

Denomination	Number of Notes	Distinctive Numbers*	Total value
Rs. 1000			
Rs. 5000			
Rs. 10000			
		Rs.	Rupees (in words)

*Distinctive numbers of bank notes tendered should be furnished indicating alphabetical and numerical prefixes of the notes. Attach a statement if space is not adequate.

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15. Reasons for keeping the amount in cash in notes of such high denominations
16. When and from what source did the bank notes come into possession?
17. If any of the notes tendered represent borrowings, the name (s) and address (es) of the persons from whom borrowed and the dated on which borrowed.
18. Manner in which payment of value of the bank notes is desired; *i.e.,* in cash or payment to bank, etc.
19. If payment is to be made into a bank account, full details of the bank account.
20. Has any other declaration been made in respect of other bank notes of the owner? If so, state full particulars.
21. If the declarant is not the owner of the bank notes, capacity in which declaration is signed.

I, ______________________, son/daughter/wife of ________________hereby solemnly declare

(name in block letters) (name of father/husband)

that the particulars furnished above are full, true and correct to the best of my knowledge and belief.

I further declare that the bank notes tendered herewith belong to me _____________

to _____________________and are not held *benami.*
name of owner of bank notes

not filed any other declaration under this Act.
I also solemnly affirm that I have ____
filed another/other declaration (s) as per particulars attached.

I further declare that I am making this declaration in my capacity as ___________________________ and that I am competent to make this declaration and verify it,
designation, etc.

Place: ___________

Date: ___________

....

(Signature of declarant)

I, _______________________________hereby testify that I know the declarant and certify that the

(name in block letters)

above declaration was signed in my presence.

Place: _____________

Date: _____________

....

(Signature and designation)

SEAL

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Ordinance for 2016 Demonetisation

रजिस्ट्री सं० डी० एल०—(एन)04/0007/2003—16 REGISTERED NO. DL—(N)04/0007/2003—16

भारत का राजपत्र
The Gazette of India

असाधारण
EXTRAORDINARY
भाग II — खण्ड 1
PART II — Section 1
प्राधिकार से प्रकाशित
PUBLISHED BY AUTHORITY

सं० 63] नई दिल्ली, शुक्रवार, दिसम्बर 30, 2016/पौष 9, 1938 (शक)
No. 63] NEW DELHI, FRIDAY, DECEMBER 30, 2016/PAUSHA 9, 1938 (SAKA)

इस भाग में भिन्न पृष्ठ संख्या दी जाती है जिससे कि यह अलग संकलन के रूप में रखा जा सके।
Separate paging is given to this Part in order that it may be filed as a separate compilation.

MINISTRY OF LAW AND JUSTICE

(Legislative Department)

New Delhi, the 30*th December,* 2016/*Pausha* 9, 1938 (*Saka*)

THE SPECIFIED BANK NOTES (CESSATION OF LIABILITIES) ORDINANCE, 2016

No. 10 OF 2016

Promulgated by the President in the Sixty-seventh Year of the Republic of India.

An Ordinance to provide for cessation of liabilities on the specified bank notes and for matters connected therewith or incidental thereto.

WHEREAS, the Central Government, on the recommendations of the Central Board of the Reserve Bank, *vide* notification No. S.O. 3407(E), dated the 8th November, 2016, declared the then existing series of the bank notes of the denominational value of five hundred rupees and one thousand rupees to cease to be legal tender with effect from the 9th November, 2016 to the extent specified therein;

AND WHEREAS, a part of the series of bank notes in circulation which have ceased to be legal tender on account of the said notification has come back to the Reserve Bank of India;

AND WHEREAS, such bank notes which have ceased to be legal tender are a liability in the books of accounts of the Reserve Bank of India under section 34 of the Reserve Bank of India Act, 1934;

AND WHEREAS, it is necessary to have clarity and finality to the liabilities of the Reserve Bank of India and the Central Government arising from such bank notes which have ceased to be legal tender on the basis of the said notification;

AND WHEREAS, Parliament is not in session and the President is satisfied that circumstances exist which render it necessary for him to take immediate action;

NOW, THEREFORE, in exercise of the powers conferred by article 123 of the Constitution, the President is pleased to promulgate the following Ordinance:—

Short title and commencement.

1. (1) This Ordinance may be called the Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016.

(2) It shall come into force on the 31st day of December, 2016.

Definitions.

2. (1) In this Ordinance, unless the context otherwise requires,—

(a) "appointed day" means the 31st day of December, 2016;

(b) "grace period" means the period to be specified by the Central Government, by notification, during which the specified bank notes can be deposited in accordance with this Ordinance;

(c) "notification" means a notification published in the Official Gazette;

(d) "Reserve Bank" means the Reserve Bank of India constituted by the Central Government under section 3 of the Reserve Bank of India Act, 1934; 2 of 1934.

(e) "specified bank note" means a bank note of the denominational value of five hundred rupees or one thousand rupees of the series existing on or before the 8th day of November, 2016.

(2) The words and expressions used and not defined in this Ordinance but defined in the Reserve Bank of India Act, 1934 or the Banking Regulation Act, 1949 shall have the meanings respectively assigned to them in those Acts. 2 of 1934. 10 of 1949.

Specified bank notes to cease to be liability of Reserve Bank or Central Government.

3. On and from the appointed day, notwithstanding anything contained in the Reserve Bank of India Act, 1934 or any other law for the time being in force, the specified bank notes which have ceased to be legal tender, in view of the notification of the Government of India in the Ministry of Finance, number S.O.3407(E), dated the 8th November, 2016, issued under sub-section (2) of section 26 of the Reserve Bank of India Act, 1934, shall cease to be liabilities of the Reserve Bank under section 34 and shall cease to have the guarantee of the Central Government under sub-section (1) of section 26 of the said Act. 2 of 1934.

Exchange of specified bank notes.

4.(1) Notwithstanding anything contained in section 3, the following persons holding specified bank notes on or before the 8th day of November, 2016 shall be entitled to tender within the grace period with such declarations or statements, at such offices of the Reserve Bank or in such other manner as may be specified by it, namely:—

(i) a citizen of India who makes a declaration that he was outside India between the 9th November, 2016 to 30th December, 2016 subject to such conditions as may be specified, by notification, by the Central Government; or

(ii) such class of persons and for such reasons as may be specified, by notification, by the Central Government.

(2) The Reserve Bank may, if satisfied, after making such verifications as it may consider necessary that the reasons for failure to deposit the notes within the period specified in the notification referred to in section 3, are genuine, credit the value of the notes in his Know Your Customer compliant bank account in such manner as may be specified by it.

(3) Any person, aggrieved by the refusal of the Reserve Bank to credit the value of the notes under sub- section (2), may make a representation to the Central Board of the Reserve Bank within fourteen days of the communication of such refusal to him.

Explanation.— For the purposes of this section, the expression "Know Your Customer compliant bank account" means the account which complies with the conditions specified in the regulations made by the Reserve Bank under the Banking Regulations Act, 1949. 10 of 1949.

Prohibition on holding, transferring or receiving specified bank notes.

5. On and from the appointed day, no person shall, knowingly or voluntarily, hold, transfer or receive any specified bank note:

Provided that nothing contained in this section shall prohibit the holding of specified bank notes—

(a) by any person—

(i) up to the expiry of the grace period; or

(ii) after the expiry of the grace period,

(A) not more than ten notes in total, irrespective of the denomination; or

(B) not more than twenty-five notes for the purposes of study, research or numismatics;

(b) by the Reserve Bank or its agencies, or any other person authorised by the Reserve Bank;

(c) by any person on the direction of a court in relation to any case pending in that court.

Penalty for contravention of section 4.

6. Whoever knowingly and wilfully makes any declaration or statement specified under sub-section (1) of section 4, which is false in material particulars, or omits to make a material statement, or makes a statement which he does not believe to be true, shall be punishable with fine which may extend to fifty thousand rupees or five times the amount of the face value of the specified bank notes tendered, whichever is higher.

Penalty for contravention of section 5.

7. Whoever contravenes the provisions of section 5, shall be punishable with fine which may extend to ten thousand rupees or five times the amount of the face value of the specified bank notes involved in the contravention, whichever is higher.

Offences by companies.

8. (1) Where a person committing a contravention or default referred to in section 6 or section 7 is a company, every person who, at the time the contravention or default was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention or default and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to punishment if he proves that the contravention or default was committed without his knowledge or that he had exercised all due diligence to prevent the contravention or default.

(2) Notwithstanding anything contained in sub-section (1), where an offence under this Ordinance has been committed by a company and it is proved that the same was committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary, or other officer or employee of the company, such director, manager, secretary, other officer or employee shall also be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

Explanation.—For the purpose of this section,—

(a) "a company" means any body corporate and includes a firm, trust, a co-operative society and other association of individuals;

(b) "director", in relation to a firm or trust, means a partner in the firm or a beneficiary in the trust.

Special provisions relating to offences.

9. Notwithstanding anything contained in section 29 of the Code of Criminal Procedure, 1973, the court of a Magistrate of the First Class or the court of a Metropolitan Magistrate may impose a fine for contravention of the provisions of this Ordinance. 2 of 1974.

10. No suit, prosecution or other legal proceeding shall lie against the Government, the Reserve Bank or any of their officers for anything done or intended to be done in good faith under this Ordinance. Protection of action taken in good faith.

11. (1) The Central Government may, by notification, make rules for carrying out the provisions of this Act. Power to make rules.

(2) Every rule made under this Ordinance shall be laid, as soon as may be after it is made, before each House of Parliament while it is in session for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

12.(1) If any difficulty arises in giving effect to the provisions of this Ordinance, the Central Government may, by order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Ordinance, as may appear to it to be necessary or expedient for removing the difficulty. Power to remove difficulties.

(2) Every order made under this section shall, as soon as may be after it is made, be laid before each House of Parliament.

PRANAB MUKHERJEE,
President.

DR. G. NARAYANA RAJU,
Secretary to the Govt. of India.

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Finance Minister Ordinance dated November 8, 2016 for Demonetisation

रजिस्ट्री सं० डी० एल०-33004/99 REGD. NO. D. L.-33004/99

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(आर्थिक कार्य विभाग)

अधिसूचना

नई दिल्ली, 8 नवम्बर, 2016

का.आ. 3407(अ).— भारतीय रिजर्व बैंक के केंद्रीय निदेशक बोर्ड (जिसे इसमें इसके पश्चात् बोर्ड कहा गया है) ने सिफारिश की है कि विद्यमान श्रृंखलाओं के पांच सौ रुपए और एक हजार रुपए के अंकित मूल्य के बैंक नोट (जिसे इसमें इसके पश्चात् विनिर्दिष्ट बैंक नोट कहा गया है) वैध मुद्रा नहीं रहेंगे ;

और यह देखा गया है कि विनिर्दिष्ट बैंक नोटों के जाली मुद्रा नोट अधिकांश रूप से परिचालन में हैं और वास्तविक बैंक नोटों की जाली बैंक नोटों से सरलता से पहचान करना कठिन है और जाली मुद्रा नोटों का उपयोग देश की अर्थव्यवस्था पर प्रतिकूल प्रभाव डाल रहा है ;

और यह देखा गया है कि उच्च मूल्य के बैंक नोटों का उपयोग गणना में न लिए गए धन के भंडारण के लिए किया जाता है जैसा कि विधि प्रवर्तन अभिकरणों द्वारा नकदी की बड़ी वसूलियों से परिलक्षित है ;

और यह भी देखा गया है कि जाली मुद्रा का उपयोग मादक पदार्थों का अवैध व्यापार और आतंकवाद जैसी ध्वंसकारी गतिविधियों के वित्तपोषण के लिए किया जा रहा है, जो देश की अर्थव्यवस्था और सुरक्षा को नुकसान कारित कर रही हैं तथा केंद्रीय सरकार ने सम्यक् विचारण के पश्चात् बोर्ड की सिफारिशों को कार्यान्वित करने का विनिश्चय किया है ;

अत: अब, केंद्रीय सरकार, भारतीय रिजर्व बैंक अधिनियम, 1934 (1934 का 2) (जिसे इसमें इसके पश्चात् उक्त अधिनियम कहा गया है) की धारा 26 की उपधारा (2) द्वारा प्रदत्त शक्तियों का प्रयोग करते हुए, घोषणा करती है कि विनिर्दिष्ट बैंक नोट 9 नवंबर, 2016 से नीचे विनिर्दिष्ट सीमा तक वैध मुद्रा के रूप में नहीं रहेंगे ;

1.(1) बैंककारी कंपनी (विनियमन) अधिनियम, 1949 (1949 का 10) के अधीन परिभाषित प्रत्येक बैंककारी कंपनी और प्रत्येक सरकारी खजाना 8 नवंबर, 2016 को कारबार की समाप्ति पर उसके द्वारा धृत्त विनिर्दिष्ट बैंक नोटों के ब्यौरों को उपदर्शित करते हुए एक रिटर्न पूरा करेंगे और 10 नवंबर, 2016 को 13.00 बजे से पूर्व भारतीय रिजर्व बैंक (जिसे इसमें इसके पश्चात् रिजर्व बैंक कहा गया है) के अभिहित क्षेत्रीय कार्यालय को उसके द्वारा विनिर्दिष्ट प्रारूप में अग्रेषित करेगा ।

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(2) उप पैरा (1) में निर्दिष्ट रिटर्न को अग्रेषित करने के तुरंत पश्चात्, विनिर्दिष्ट बैंक नोटों को लिंक्ड या निकटतम मुद्रा चेस्ट या रिजर्व बैंक की शाखा या कार्यालय में उनके लेखाओं में प्रत्यय के लिए प्रेषित किया जाएगा।

2. पैरा 1 के उप पैरा (1) में निर्दिष्ट किसी बैंककारी कंपनी या सरकारी खजाना से भिन्न किसी व्यक्ति द्वारा धृत्त विनिर्दिष्ट बैंक नोटों का रिजर्व बैंक के किसी निर्गम कार्यालय या पब्लिक सेक्टर बैंकों, प्राइवेट सेक्टर बैंकों, विदेशी बैंकों, प्रादेशिक ग्रामीण बैंकों, शहरी सहकारी बैंकों और राज्य सहकारी बैंकों की किसी शाखा में 30 दिसंबर, 2016 तक की कालावधि और जिसमें वह तारीख सम्मिलित है, तक निम्नलिखित शर्तों के अधीन रहते हुए, अर्थात् :--

(i) कुल 4,000/- रुपए या उससे कम मूल्य के विनिर्दिष्ट बैंक नोटों का विधिक वैध मुद्रा की विशेषता रखने वाले किसी अंकित मूल्य के बैंक नोटों में भारतीय रिजर्व बैंक द्वारा विनिर्दिष्ट किए जाने वाले प्ररूप में एक अध्यपेक्षा पर्ची और पहचान के सबूत के साथ विनिमय किया जा सकेगा ;

(ii) विनिर्दिष्ट बैंक नोटों के विनिमय के लिए 4,000/- रुपए की सीमा का इस अधिसूचना के लागू होने की तारीख से पन्द्रह दिन के पश्चात् पुनर्विलोकन किया जाएगा और जहां भी आवश्यक हो, समुचित आदेश किया जा सकेगा ;

(iii) किसी व्यक्ति द्वारा बैंक के पास रखे गए लेखे में प्रत्यय किए गए विनिर्दिष्ट बैंक नोटों की मात्रा या मूल्य पर वहां कोई सीमा नहीं होगी, जहां विनिर्दिष्ट बैंक नोट जमा किए जाते हैं ; तथापि, उन लेखाओं में जहां अपने ग्राहक को जानिए (केवाईसी) मानकों की अनुपालना पूर्ण नहीं है तो जमा किए जा सकने वाले विनिर्दिष्ट बैंक नोटों का अधिकतम मूल्य 50,000/- रुपए होगा ;

(iv) जमा किए गए विनिर्दिष्ट बैंक नोटों के समतुल्य मूल्य का जमा करने वाले द्वारा किसी बैंक में रखे गए लेखे में मानक बैंककारी प्रक्रिया के अनुसार और पहचान का विधिमान्य सबूत प्रस्तुत करने पर प्रत्यय किया जा सकेगा ;

(v) जमा किए गए विनिर्दिष्ट बैंक नोटों के समतुल्य मूल्य का किसी तृतीय पक्षकार के लेखे में प्रत्यय किया जा सकेगा परंतु यह कि उसके लिए तृतीय पक्षकार द्वारा विनिर्दिष्ट प्राधिकार मानक बैंककारी प्रक्रियाओं का अनुसरण करते हुए और वास्तव में जमा करने वाले व्यक्ति की पहचान का विधिमान्य सबूत के पेश किए जाने पर, बैंक को प्रस्तुत किया जाता है ;

(vi) पटल पर किसी बैंक लेखे से नकदी का आहरण 24 नवंबर, 2016 को कारबार के घंटों की समाप्ति तक इस अधिसूचना के प्रारंभ होने की तारीख से किसी सप्ताह में 20,000/- रुपए की समग्र सीमा के अधीन रहते हुए 10,000/- रुपए प्रतिदिन तक निर्बंधित होगा, जिसके पश्चात् इन सीमाओं का पुनर्विलोकन किया जाएगा ;

(vii) किसी खाते के किसी व्यक्ति द्वारा प्रचालन के लिए किसी गैर नकद विधि के उपयोग पर कोई निर्बंधन नहीं होगा, जिसके अंतर्गत चैक, डिमांड ड्राफ्ट, क्रेडिट या डेबिट कार्ड, मोबाइल बैलेट और इलैक्ट्रानिकी निधि अंतरण तंत्र या वैसे ही सम्मिलित होंगे ;

(viii) स्वचालित टैलर मशीनों (जिसे इसमें इसके पश्चात् एटीएम कहा गया है) से 18 नवंबर, 2016 तक प्रतिदिन प्रति कार्ड आहरण 2,000/- रुपए तक निर्बंधित होगा और इस सीमा को 19 नवंबर, 2016 से प्रतिदिन प्रति कार्ड 4,000/- रुपए तक बढ़ा दिया जाएगा ;

(ix) कोई व्यक्ति, जो विनिर्दिष्ट बैंक नोटों का अपने बैंक खातों में 30 दिसंबर, 2016 को या उससे पूर्व विनिमय करने में या जमा करने में असमर्थ रहता है, उसको भारतीय रिजर्व बैंक के विनिर्दिष्ट कार्यालयों या ऐसी अन्य सुविधा में रिजर्व बैंक द्वारा यथाविनिर्दिष्ट पश्चातवर्ती तारीख तक रिजर्व बैंक द्वारा विनिमय करने या जमा करने का एक अवसर प्रदान किया जाएगा।

3.(1) पैरा 1 के उप पैरा (1) में निर्दिष्ट प्रत्येक बैंककारी कंपनी और प्रत्येक सरकारी खजाना 9 नवंबर, 2016 को सिवाय इस स्कीम को कार्यान्वित करने के लिए तैयारी और नजदीकी मुद्रा चेस्टो या रिजर्व बैंक की शाखाओं या कार्यालयों और वैध मुद्रा की विशेषता रखने वाले बैंक नोटों की प्राप्ति के सभी कारबारों के संव्यवहार के लिए बंद होगा।

(2) सभी एटीएम, नकदी जमा मशीनें, नकदी पुन: चक्रक और कोई अन्य मशीन, जिसका उपयोग नकदी की प्राप्ति और संदाय के लिए किया जाता है, 9 नवंबर तथा 10 नवंबर, 2016 को बंद कर दी जाएगी।

(3) पैरा 1 के उप पैरा (1) में निर्दिष्ट प्रत्येक बैंक एटीएम से विनिर्दिष्ट बैंक नोटों को वापस लेगा और उनको 11 नवंबर, 2016 को मशीनों को पुन: सक्रिय करने से पूर्व वैध मुद्रा की विशेषता रखने वाले बैंक नोटों से प्रतिस्थापित करेगा।

(4) श्वेत लेबल एटीएम के प्रायोजक बैंक श्वेत लेबल एटीएम से विनिर्दिष्ट बैंक नोटों को वापस लेने के लिए और उन्हें मशीनों को पुन: सक्रिय करने से पूर्व 11 नवंबर, 2016 को वैध मुद्रा की विशेषता रखने वाले बैंक नोटों से प्रतिस्थापित करने के लिए उत्तरदायी होंगे।

(5) सभी बैंक यह सुनिश्चित करेंगे कि उनके एटीएम और श्वेत लेबल एटीएम रिजर्व बैंक से और अगले अनुदेश प्राप्त होने तक 100 रुपए या 50 रुपए अंकित मूल्य के बैंक नोटों का वितरण करेंगे।

(6) पैरा 1 के उप पैरा (1) में निर्दिष्ट बैंककारी कंपनी और सरकारी खजाने 10 नवंबर, 2016 से अपना सामान्य संव्यवहार आरंभ करेंगे।

4. पैरा 1 के उप पैरा (1) में निर्दिष्ट प्रत्येक बैंककारी कंपनी, 10 नवंबर, 2016 से आरंभ होने वाले प्रत्येक दिन के कारबार के समाप्त होने पर, रिजर्व बैंक को एक विवरण प्रस्तुत करेगा, जिसमें भारतीय रिजर्व बैंक द्वारा विनिर्दिष्ट किए जाने वाले प्ररूप के अनुसार इसके द्वारा विनिमय किए गए विनिर्दिष्ट बैंक नोटों के ब्यौरे दर्शित होंगे।

[फा.सं. 10/03/2016-सीवाई.I]

डॉ. सौरभ गर्ग, संयुक्त सचिव

MINISTRY OF FINANCE

(Department of Economic Affairs)

NOTIFICATION

New Delhi, the 8th November, 2016

S.O. 3407(E).— Whereas, the Central Board of Directors of the Reserve Bank of India (hereinafter referred to as the Board) has recommended that bank notes of denominations of the existing series of the value of five hundred rupees and one thousand rupees (hereinafter referred to as specified bank notes) shall be ceased to be legal tender;

And whereas, it has been found that fake currency notes of the specified bank notes have been largely in circulation and it has been found to be difficult to easily identify genuine bank notes from the fake ones and that the use of fake currency notes is causing adverse effect to the economy of the country;

And whereas, it has been found that high denomination bank notes are used for storage of unaccounted wealth as has been evident from the large cash recoveries made by law enforcement agencies;

And whereas, it has also been found that fake currency is being used for financing subversive activities such as drug trafficking and terrorism, causing damage to the economy and security of the country and the Central Government after due consideration has decided to implement the recommendations of the Board;

Now, therefore, in exercise of the powers conferred by sub-section (2) of section 26 of the Reserve Bank of India Act, 1934 (2 of 1934) (hereinafter referred to as the said Act), the Central Government hereby declares that the specified bank notes shall cease to be legal tender with effect from the 9th November, 2016 to the extent specified below, namely:—

1. (1) Every banking company defined under the Banking Regulation Act, 1949 (10 of 1949) and every Government Treasury shall complete and forward a return showing the details of specified bank notes held by it at the close of business as on the 8th November, 2016, not later than 13:00 hours on the 10th November, 2016 to the designated Regional Office of the Reserve Bank of India (hereinafter referred to as the Reserve Bank) in the format specified by it.

(2) Immediately after forwarding the return referred to in sub-paragraph (1), the specified bank notes shall be remitted to the linked or nearest currency chest, or the branch or office of the Reserve Bank, for credit to their accounts.

2. The specified bank notes held by a person other than a banking company referred to in sub-paragraph (1) of paragraph 1 or Government Treasury may be exchanged at any Issue Office of the Reserve Bank or any branch of public sector banks, private sector banks, foreign banks, Regional Rural Banks, Urban Cooperative Banks and State Cooperative Banks for a period up to and including the 30th December, 2016, subject to the following conditions, namely:—

(i) the specified bank notes of aggregate value of Rs.4,000/- or below may be exchanged for any denomination of bank notes having legal tender character, with a requisition slip in the format specified by the Reserve Bank and proof of identity;

(ii) the limit of Rs.4,000/- for exchanging specified bank notes shall be reviewed after fifteen days from the date of commencement of this notification and appropriate orders may be issued, where necessary;

(iii) there shall not be any limit on the quantity or value of the specified bank notes to be credited to the account maintained with the bank by a person, where the specified bank notes are tendered; however, where compliance with extant Know Your Customer (KYC) norms is not complete in an account, the maximum value of specified bank notes as may be deposited shall be Rs.50,000/-;

(iv) the equivalent value of specified bank notes tendered may be credited to an account maintained by the tenderer at any bank in accordance with standard banking procedure and on production of valid proof of Identity;

(v) the equivalent value of specified bank notes tendered may be credited to a third party account, provided specific authorisation therefor accorded by the third party is presented to the bank, following standard banking procedure and on production of valid proof of identity of the person actually tendering;

(vi) cash withdrawal from a bank account over the counter shall be restricted to Rs.10,000/- per day subject to an overall limit of Rs. 20,000/- a week from the date of commencement of this notification until the end of business hours on 24th November, 2016, after which these limits shall be reviewed;

(vii) there shall be no restriction on the use of any non-cash method of operating the account of a person including cheques, demand drafts, credit or debit cards, mobile wallets and electronic fund transfer mechanisms or the like;

(viii) withdrawal from Automatic Teller Machines (hereinafter referred to as ATMs) shall be restricted to Rs.2,000 per day per card up to 18th November, 2016 and the limit shall be raised to Rs.4,000 per day per card from 19th November, 2016;

(ix) any person who is unable to exchange or deposit the specified bank notes in their bank accounts on or before the 30th December, 2016, shall be given an opportunity to do so at specified offices of the Reserve Bank or such other facility until a later date as may be specified by it.

3. (1) Every banking company and every Government Treasury referred to in sub-paragraph (1) of paragraph 1 shall be closed for the transaction of all business on 9th November, 2016, except the preparation for implementing this scheme and remittance of the specified bank notes to nearby currency chests or the branches or offices of the Reserve Bank and receipt of bank notes having legal tender character.

(2) All ATMs, Cash Deposit Machines, Cash Recyclers and any other machine used for receipt and payment of cash shall be shut on 9th and 10th November, 2016.

(3) Every bank referred to in sub-paragraph (1) of paragraph 1 shall recall the specified bank notes from ATMs and replace them with bank notes having legal tender character prior to reactivation of the machines on 11th November, 2016.

(4) The sponsor banks of White Label ATMs shall be responsible to recall the specified bank notes from the White Label ATMs and replacing the same with bank notes having legal tender character prior to reactivation of the machines on 11th November, 2016.

(5) All banks referred to in sub-paragraph (1) of paragraph 1 shall ensure that their ATMs and White Label ATMs shall dispense bank notes of denomination of Rs.100 or Rs. 50, until further instructions from the Reserve Bank.

(6) The banking company referred to in sub-paragraph (1) of paragraph 1 and Government Treasuries shall resume their normal transactions from 10th November, 2016.

4. Every banking company referred to sub-paragraph (1) of paragraph 1, shall at the close of business of each day starting from 10th November, 2016, submit to the Reserve Bank, a statement showing the details of specified bank notes exchanged by it in such format as may be specified by the Reserve Bank.

[F.No.10/03/2016-Cy.I]

Dr. SAURABH GARG , Jt. Secy.

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RTI Reply regarding currency in stock (inventory) as on November 8, 2016

भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

मुप्रवि (आईएफसीडी) सं. 1828 /06.08.05/2016-17 दिसम्बर 14, 2016

ONLINE

Anil Galgali
2, Old Kharawala Chawl, Kajupada, Sakinaka
Mumbai - Pin 400072

महोदय / महोदया	Sir / Madam
सूचना का अधिकार अधिनियम 2005 - **हमारी संदर्भ सं. RBIND/R/2016/53140**	**Right to Information Act, 2005 –** **Our Ref. No.RBIND/R/2016/53140**
कृपया अपना ऑनलाइन आवेदन देखे जो हमे 19 नवम्बर, 2016 को प्राप्त हुआ ।	Please refer to your online application received by us on November 19, 2016.
2 आपके प्रश्न के संबंधित जानकारी संलग्न है।	2. The required information to your Query is enclosed herewith.
3. आपकी जानकारी के लिए भारतीय रिजर्व बैंक में प्रथम अपील प्राधिकारी डॉ. (श्रीमती) दिपाली पंत जोशी, कार्यपालक निदेशक, भारतीय रिजर्व बैंक (प्रथम अपील प्रा धिकारी, मुद्रा प्रबंध विभाग), केंद्रीय कार्यालय, अमर भवन, सर पी. एम. रोड, मुंबई - 400001 है । उपर्युक्त उत्तर के प्रति अपील, अगर हो, तो 30 दिनों के अंदर प्रथम अपील प्राधिकारी को प्रस्तुत की जाए।	3. For your information, the First Appellate Authority in Reserve Bank of India is Dr. (Smt.) Deepali Pant Joshi, Executive Director, Reserve Bank of India, (First Appellate Authority – Department of Currency Management), Central Office, Amar Building, Sir P. M. Road, Mumbai - 400 001. Appeal, if any, in respect of the above reply, should be preferred within 30 days to the First Appellate Authority.

भवदीय / Yours faithfully,

विजयकुमार

(पी विजयकुमार)

केंद्रीय लोक सूचना अधिकारी / Central Public Information Officer

अनुलग्नक / Encls : 1

मुद्रा प्रबंध विभाग, केन्द्रीय कार्यालय, अमर भवन, चौथी मंज़िल, सर पी.एम.रोड, मुम्बई 400 001
फोन : 2260 3000 /4000 फैक्स : 022 2266 2442 ई-मेल : helpdcm@rbi.org.in

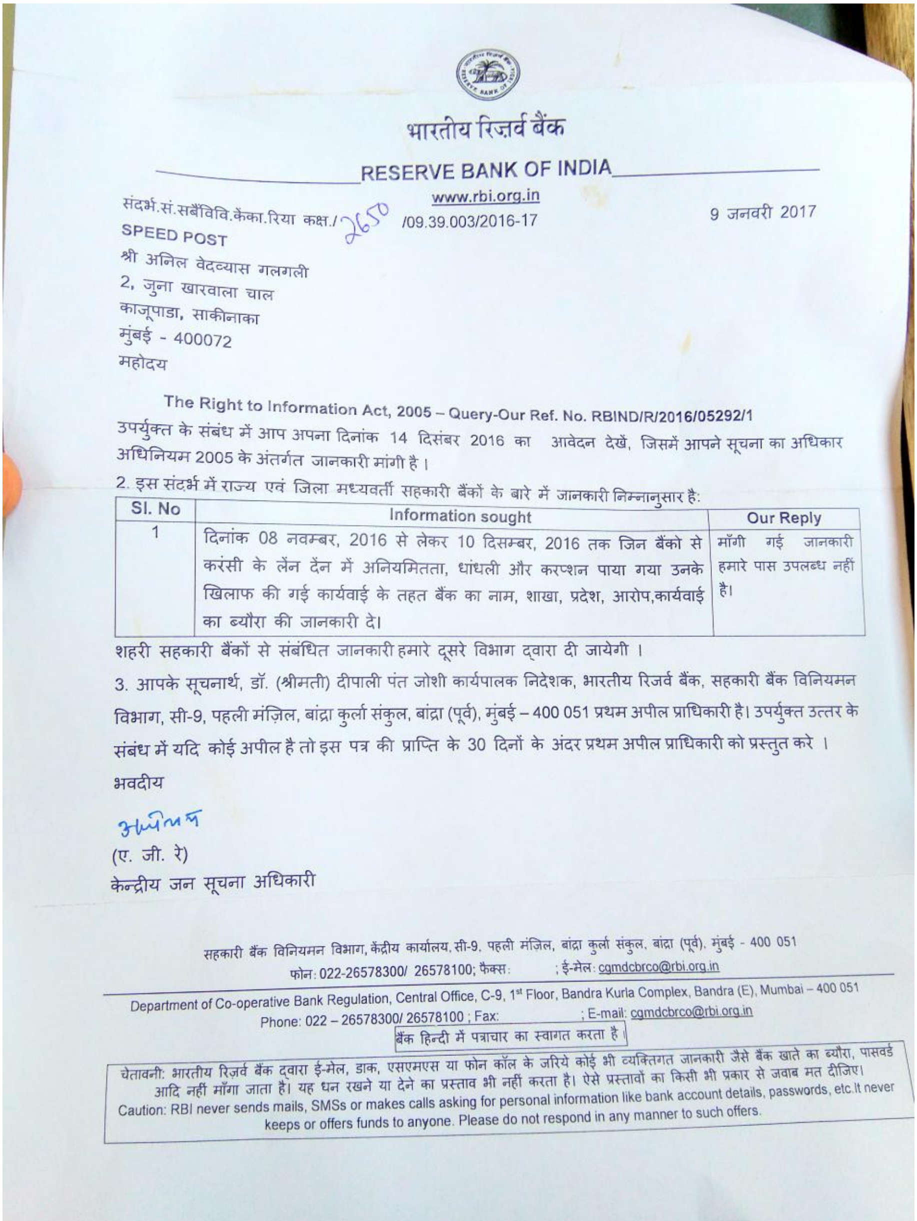
Department of Currency Management, Central Office, Amar Building, 4th Floor, Sir P.M.Road, Mumbai 400 001
Tel No: 91-22-2260 3000 /4000 Fax No: 91-22-2266 2442 Email ID : helpdcm@rbi.org.in

हिंदी आसान है, इसका प्रयोग बढ़ाइए

आरआईए क्र RBIND/R/2016/53140 - श्री अनिल गलगलि

<table>
<tr><th>Sr. No.</th><th>Information sought for</th><th>Information proposed to be provided</th></tr>
<tr><td>1.</td><td>Please Provide the Inventory of 10,20,50,100,500 & 1000 Old Denomination currency as on 08.11.2016. Please Provide this Information in mumberwise as well as value wise of said denomination currency</td><td><table>
<tr><th colspan="8">Stock position as on 08th November 2016</th></tr>
<tr><td>Denomination</td><td>10</td><td>20</td><td>50</td><td>100</td><td>500</td><td>1000</td><td>Total</td></tr>
<tr><td>Total pieces (in millions)</td><td>40825.59</td><td>9497.11</td><td>6586.83</td><td>24983.29</td><td>22760.51</td><td>9131.41</td><td>124230.01</td></tr>
<tr><td>Total value (in crores)</td><td>40825.59</td><td>18994.21</td><td>32934.13</td><td>249832.93</td><td>1138025.37</td><td>913141.15</td><td>2393753.39</td></tr>
</table></td></tr>
<tr><td>2.</td><td>From 9th of November 2016 till 19th of November 2016 provide the information of Rupees 10,20,50,100,500 and 2000 denomination Printing. Provide this information in numberwise as well as value wise of said denomination printed currency</td><td>The information sought is not available with us. Bank notes are printed by presses under BRBNMPL and SPMCIL.
The query is therefore transferred under Section 6(3) of Right to Information Act, to
1) The CPIO,
Bharatiya Reserve Bank Note Mudran Pvt. Ltd. Nos. 3 & 4, 1st Stage, 1st Phase, BTM Layout, Bannerghatta Road, Bangalore – 560 029.
2) The CPIO,
Security Printing and Minting Corporation Ltd. Corporate Office, 16th Floor, Jawahar Vyapar Bhavan, Janpath, New Delhi – 110001</td></tr>
<tr><td>3.</td><td>Please provide the distribution information of currency made by RBI to Bank from 9th November 2016 to 19th November 2016. This information please provide Bank wise Currency Distributed in Numbers as well as in Value</td><td>Office-wise / currency chest-wise information about supplies of notes and stock position with respect to a reasonable period prior to the date of receipt of request is exempt from disclosure under Section 8 (1) (g) of Right to Information Act, 2005.</td></tr>
<tr><td>4.</td><td>Please provide the inventory of 2000 New Denomination currency as well as New 500 denomination currency available at RBI currency chest as on 8th November 2016</td><td><table>
<tr><th colspan="4">Stock position as on 08th November 2016</th></tr>
<tr><td>Denomination</td><td>Rs. 500</td><td>Rs. 2000</td><td>Total</td></tr>
<tr><td>Total pieces (in millions)</td><td>0.00</td><td>2473.20</td><td>2473.20</td></tr>
<tr><td>Total value (in crores)</td><td>0.00</td><td>494640.00</td><td>494640.00</td></tr>
</table></td></tr>
</table>

RTI Reply regarding actions taken against suspicious banking activities



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

संदर्भ.सं.सबैंविवि.कैंका.रिया कक्ष./2650 /09.39.003/2016-17

9 जनवरी 2017

SPEED POST

श्री अनिल वेदव्यास गलगली
2, जुना खारवाला चाल
काजूपाडा, साकीनाका
मुंबई - 400072

महोदय

The Right to Information Act, 2005 – Query-Our Ref. No. RBIND/R/2016/05292/1

उपर्युक्त के संबंध में आप अपना दिनांक 14 दिसंबर 2016 का आवेदन देखें, जिसमें आपने सूचना का अधिकार अधिनियम 2005 के अंतर्गत जानकारी मांगी है।

2. इस संदर्भ में राज्य एवं जिला मध्यवर्ती सहकारी बैंकों के बारे में जानकारी निम्नानुसार है:

Sl. No	Information sought	Our Reply
1	दिनांक 08 नवम्बर, 2016 से लेकर 10 दिसम्बर, 2016 तक जिन बैंको से करंसी के लेंन देंन में अनियमितता, धांधली और करप्शन पाया गया उनके खिलाफ की गई कार्यवाई के तहत बैंक का नाम, शाखा, प्रदेश, आरोप,कार्यवाई का ब्यौरा की जानकारी दे।	माँगी गई जानकारी हमारे पास उपलब्ध नहीं है।

शहरी सहकारी बैंकों से संबंधित जानकारी हमारे दूसरे विभाग द्वारा दी जायेगी ।

3. आपके सूचनार्थ, डॉ. (श्रीमती) दीपाली पंत जोशी कार्यपालक निदेशक, भारतीय रिजर्व बैंक, सहकारी बैंक विनियमन विभाग, सी-9, पहली मंज़िल, बांद्रा कुर्ला संकुल, बांद्रा (पूर्व), मुंबई – 400 051 प्रथम अपील प्राधिकारी है। उपर्युक्त उत्तर के संबंध में यदि कोई अपील है तो इस पत्र की प्राप्ति के 30 दिनों के अंदर प्रथम अपील प्राधिकारी को प्रस्तुत करे ।

भवदीय

अ.जी.रे

(ए. जी. रे)
केन्द्रीय जन सूचना अधिकारी

सहकारी बैंक विनियमन विभाग, केंद्रीय कार्यालय, सी-9, पहली मंज़िल, बांद्रा कुर्ला संकुल, बांद्रा (पूर्व), मुंबई - 400 051
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Department of Co-operative Bank Regulation, Central Office, C-9, 1st Floor, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051
Phone: 022 – 26578300/ 26578100 ; Fax: ; E-mail: cgmdcbrco@rbi.org.in

बैंक हिन्दी में पत्राचार का स्वागत करता है।

चेतावनी: भारतीय रिज़र्व बैंक द्वारा ई-मेल, डाक, एसएमएस या फोन कॉल के जरिये कोई भी व्यक्तिगत जानकारी जैसे बैंक खाते का ब्यौरा, पासवर्ड आदि नहीं माँगा जाता है। यह धन रखने या देने का प्रस्ताव भी नहीं करता है। ऐसे प्रस्तावों का किसी भी प्रकार से जवाब मत दीजिए।
Caution: RBI never sends mails, SMSs or makes calls asking for personal information like bank account details, passwords, etc.It never keeps or offers funds to anyone. Please do not respond in any manner to such offers.

Currencies of Countries

State or territory	Currency	Symbol	ISO code	Fractional Unit	Number to Basic
Australia	Australian dollar	$	AUD	Cent	100
Belarus	New Belarusian ruble	Br	BYN	Kapyeyka	100
	Old Belarusian ruble[H]	Br	BYR	Kapyeyka	100
Democratic Republic of the Congo	Congolese franc	Fr	CDF	Centime	100
Republic of the Congo	Central African CFA franc	Fr	XAF	Centime	100
Ghana	Ghanaian cedi	₵	GHS	Pesewa	100
Greece	Euro	€	EUR	Cent	100
India	Indian rupee	₹	INR	Paisa	100
Korea, North	North Korean won	₩	KPW	Chon	100
Korea, South	South Korean won	₩	KRW	Jeon	100
Libya	Libyan dinar	ل.د	LYD	Dirham	1000
Myanmar	Burmese kyat	Ks	MMK	Pya	100
New Zealand	New Zealand dollar	$	NZD	Cent	100
Nigeria	Nigerian naira	₦	NGN	Kobo	100
Pakistan	Pakistani rupee	Rs	PKR	Paisa	100
Philippines	Philippine peso	₱	PHP	Centavo	100
Singapore	Brunei dollar	$	BND	Sen	100
	Singapore dollar	$	SGD	Cent	100
Sri Lanka	Sri Lankan rupee	Rs or රු	LKR	Cent	100
Sweden	Swedish krona	kr	SEK	Öre	100
United Arab Emirates	United Arab Emirates dirham	د.إ	AED	Fils	100
United Kingdom	British pound[F]	£	GBP	Penny	100

United States	United States dollar	$	USD	Cent[A]	100
Venezuela	Venezuelan bolívar	Bs	VEF	Céntimo	100
Zimbabwe[S]	Botswana pula	P	BWP	Thebe	100
	British pound[F]	£	GBP	Penny	100
	Chinese yuan	¥ or 元	CNY	Fen[J]	100
	Euro	€	EUR	Cent	100
	Indian rupee	₹	INR	Paisa	100
	Japanese yen	¥	JPY	Sen[C]	100
	South African rand	Rs	ZAR	Cent	100
	United States dollar	$	USD	Cent[A]	100
	(none)	(none)	(none)	Cent[K][T]	(none)

Abbreviation

AFC	Asset Finance Companies
AO	Assessment Officer
ASSOCHAM	The Associated Chamber of Commerce of India
ATM	Automated Teller Machine
ASI	Annual Survey of Industries
BHIM	Bharat Interface for Money
bps	Basis Points
BJP	Bharatiya Janata Party (a political party in India)
BRBNMPL	Bharatiy Reserve Bank Note Mudran Private Ltd
BSP	Bangko Sentral ng Pilipinas (Central Bank of Philippines)
BSP	Bahujan Samaj Party (a political party in India)
BSE	Bombay Stock Exchange
CAD	Current Account Deficit
CAPA	Centre for Aviation (India)
CAS	Central Accounts Section
CASA	Current Account and Saving Account
CBDT	Central Board of Direct Taxes
CBLO	Collateralised Borrowing and Lending Obligation
CCIL	Clearing Corporation of India Limited
CD	Certificate of Deposit
CIC	Currency in Circulation
CIT	Commissioner of Income Tax

CMBs	Cash Management Bills
CMIE	Centre for Monitoring Indian Economy
CPD	Cut and Polished Diamonds
CPI	Consumer Price Index
CPI	Communist Party of India
CPM	Communist Party of India (Marxist)
Cr or CR	Crores that is 10 million
Cr PC	Code of Criminal Procedure
CRR	Cash Reserve Ratio
CSO	Central Statistics Office
CT	Counter Terrorism
CTS	Cheque Truncation System
DBIE	Database on Indian Economy
DCCB(s)	District Central Cooperative Bank(s)
DGCI&S	Directorate General of Commercial Intelligence and Statistics
DRI	Directorate of Revenue Intelligence
DISCOMs	Distribution Companies
DTAA	Double Tax Avoidance Agreement
EC or ECI	Election Commission of India
ECB	External Commercial Borrowing
EM	Emerging Market
EMEs	Emerging Market Economies
EOU	Export Oriented Units
EPZ	Export Processing Zone

ETP	Exchange Traded Fund
FATF	Financial Action Task Force
FCNR	Foreign Currency Non-Resident
FCRA	The Foreign Contribution Regulation Act, 1976
FCORD	FICN Coordination Group
FDI	Foreign Direct Investment
FEE	Foreign Exchange Earnings
FEMA	Foreign Exchange Management Act
FETERS	Foreign Exchange Transactions Electronic Reporting System
FICN	Fake Indian Currency Notes
FIEO	Federation of Indian Export Organisations
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FMCG	Fast Moving Consumer Goods
FPIs	Foreign Portfolio Investors
FR	Fixed Rate
FT	Financial Transaction
FY	Financial Year
G20	It is an international forum for the governments and central bank governors from 20 major economies
GDP	Gross Domestic Product
GJEPC	Gems and Jewellery Export Promotion Council
G-Sec	Government Security
GST	Goods and Services Tax
GVA	Gross Value Added
GVAPEW	Gross Value Added per Effective Worker

H1	First Half of the Year
H2	Second Half of the Year
HC	High Court
HFCs	Housing Finance Companies
ICRR	Incremental Cash Reserve Ratio
IFF	Illicit Financial Flows
IIP	Index of Industrial Production
IMPS	Immediate Payment Service
IPC	Indian Penal Code
IRDAI	Insurance Regulatory and Development Authority of India
IST	Indian Standard Time (GMT+5.30hrs)
ISO 4217	International Organization for Standardization which delineates currency designators, country codes (alpha and numeric).
ITAT	Income Tax Appellate Tribunal
ITO	Income Tax Office
Lac or Lakh	Hundred Thousand (100,000)
LAF	Liquidity Adjustment Facility
LCB FT	Lutte Contre Le Blanchiment Des Capitaux Et Le Financement Du Terrorisme which means in english 'anti-money laundering and counter-terrorism provision.'
LI	Labour Input
LIC	Life Insurance Corporation of India
LC	Letter of Credit
M3	Broad Money Supply
MCLR	Marginal Cost of Funds Based Lending Rate

MDR	Merchant Discount Rate
MFs	Mutual Funds
MFIs	Micro Finance Institutions
MIC	Myanma Insurance Corporation (Myanmar)
MMID	Mobile Money Identification Number
m-o-m	Month-on-Month
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MPD	Monetary Policy Department
MSF	Marginal Standing Facility
MSMEs	Micro, Small and Medium Enterprises
MSS	Market Stabilisation Scheme
N.A.	Not Available
NACH	National Automated Clearing House
NBFCs	Non-Banking Financial Companies
NDTL	Net Demand and Time Liabilities
NEFT	National Electronic Funds Transfer
NETC	National Electronic Toll Collection
NGC	New Generation Currency (issued in Philippines)
NHB	National Housing Bank
NIA	National Intelligence Agency
NIC	Notes in Circulation
NIPFP	National Institute of Public Finance and Policy
NPCI	National Payments Corporation of India

NSCN(K)	The National Socialist Council of Nagaland – Khaplang
NSSO	National Sample Survey Office
OECD	Organisation for Economic Cooperation and Development
OF	Overseas Filipino
OFW	Overseas Filipino Workers
PAN	Permanent Account Number
PM	Prime Minister
PMI	Purchasing Managers' Index
PMJDY	Pradhan Mantri *Jan Dhan* Yojana
PMLA	Prevention of Money Laundering Act, 2002
PMO	Prime Minister's Office
PNDC	Provisional National Defence Council (Ghana)
PPP	Purchasing Power Parity
PoS	Point of Sale
POSB	People's Own Savings Bank, Zimbabwe
PPI	Prepaid Payment Instrument
PSU	Public Sector Undertaking
PTI	Press Trust of India
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBZ	Reserve Bank of Zimbabwe
RCS	Regional Connectivity Scheme
RPA	The Representation of Public Act
RTI	Right to Information (Act of India)

SBI	State Bank of India
SBNs	Specified Bank Notes
SCBs	Scheduled Commercial Banks
SIAM	Society of Indian Automobile Manufacturers
SIT	Special Investigation Team
TIEA	Tax Information Exchange Agreements
TOI	Times of India
TNN	Times News Network
TRACFIN	Traitement Du Renseignement Et Action Contre Les Circuits Financiers Clandestins (Unit for intelligence processing and action against illicit financial networks)
TTD	Tirumala Tirupati Devastanams
UDAN	'Ude Desh ka Aam Nagarik' means 'Common resident will fly'
ULFA	United Liberation Front of Asom
UPI	Unified Payment Interface
US	United States
USD	United States Dollar
USSD	Unstructured Supplementary Service Data
USSR	Union of Soviet Socialist Republic
VAT	Value Added Tax
VR	Variable Rate
vs.	Versus
WACR	Weighted Average Call Money Rate
WALR	Weighted Average Lending Rate
WPI	Wholesale Price Index

WWII	World War Two (Second World War)
y-o-y	Year-on-Year
Zimpost	Zimbabwe Posts (Pvt) Ltd

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