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9B17M179

INDIA’s demonetization: purging BLACK MONEY?[[1]](#endnote-1)

Tulsi Jayakumar wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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On November 8, 2016, at 8:00 p.m., Indian standard time, the Indian prime minister, Narendra Modi, made an unscheduled, live televised address to the nation. The prime minister announced that high-value currency notes, or high denomination notes (HDNs) of denominations ₹500[[2]](#endnote-2) and ₹1,000 would be withdrawn from circulation as of midnight that day. The prime minister called the decision “a fight against corruption, fake notes, black money, and terrorism funded by counterfeit notes.”[[3]](#endnote-3) Warning the citizens of the likely hardships that the move would cause, the prime minister invited citizens to contribute to “this grand sacrifice for cleansing our country.”

This move to discontinue ₹500 and ₹1,000 notes—valued at ₹15.4 trillion and constituting 86.9 per cent of the total value of all currency in circulation in India—came to be known as “demonetization.” An unconventional monetary policy involving a “reverse helicopter drop,” demonetization aimed to reduce money supply rather than expand it, unlike other unconventional monetary policies.[[4]](#endnote-4) With this one move, HDNs would cease to be legal tender in India.

In 2016, India had emerged as the seventh-largest economy in the world by gross domestic product (GDP), with a nominal GDP of US$2,251 billion.[[5]](#endnote-5) Further, with a real GDP growth rate of 7.6 per cent in fiscal year (FY) 2015/16, India had outpaced China to become the fastest-growing economy in the world.[[6]](#endnote-6) The lifeblood of this growing economy was cash. In India’s highly cash-intensive economy, an estimated 78 per cent of consumer payments in India were in cash, while in production, cash was essential for the smooth functioning of the large labour-intensive, unorganized sector.[[7]](#endnote-7)

Would the prime minister’s demonetization plan succeed in truly purging the economy of black money, encouraging digitization, and putting the economy onto a path of increasing growth? Or, given the Indian economy’s high cash intensity, would demonetization merely bring India’s remarkable growth story to a grinding halt? Would the resultant negative growth make India an unattractive investment destination?

Indian Macroeconomic Indicators

India had come a long way since the economic reforms initiated in 1991, which led to a 2,471 per cent increase in its nominal GDP as measured in rupees over the 25-year period.[[8]](#endnote-8) A real GDP growth rate of 7.6 per cent in FY 2015/16 had earned India the distinction of being the fastest-growing economy in the world, outpacing even China.[[9]](#endnote-9)

Gross Domestic Product

In production (the supply side of GDP), a large agricultural sector, comprising almost 50 per cent of the workforce, contributed to 15.4 per cent of the gross value added (GVA), while industry’s share in employment and output were 24.3 per cent and 22.7 per cent respectively. The economy was service-led, with services accounting for 61.9 per cent of GVA[[10]](#endnote-10) (see Exhibit 1). A large, unorganized sector, comprising micro, small, and medium enterprises (MSMEs) contributed to 37.54 per cent of the total GDP in FY 2012/13.[[11]](#endnote-11) Of this amount, manufacturing MSMEs’ share was 7.04 per cent, while the service sector MSMEs’ share was 30.5 per cent. MSME manufacturing output contributed to 37.33 per cent of the total manufacturing output in India.[[12]](#endnote-12) Further, the share of MSMEs in India’s total exports in FY 2015/16 was 49.86 per cent.[[13]](#endnote-13)

In terms of analyzing the demand side of the GDP, India was a private consumption-led economy. These expenditures, accounting for 55.5 per cent of GDP in 2015/16 (see Exhibit 2),[[14]](#endnote-14) were driven mainly by cash purchases. A PricewaterhouseCoopers report estimated in 2015 that 98 per cent of all transactions in India by volume and 68 per cent of all transactions by value were conducted in cash.[[15]](#endnote-15)

The savings rates in the economy—a prerequisite to capital accumulation and financial investment—had declined considerably since the peak of 36.8 per cent achieved in FY 2007/08, and stood at 32.2 per cent of GDP in FY 2015/16. The concomitant investment rates had also declined and stood at 33.2 per cent of GDP in FY 2015/16.[[16]](#endnote-16)

Domestic industrial activity, especially manufacturing, had contracted in early FY 2016/17.[[17]](#endnote-17) Export demand was also weak, given the slowdown in global trade amid rising protectionism in the United States, and China’s slowdown and rebalancing toward domestic consumption.[[18]](#endnote-18) Yet, the most prominent stock market index of India, the Bombay Stock Exchange Sensitive Index (the BSE Sensex), had reached 25,341.86 points by the end of FY 2015/16.[[19]](#endnote-19) Growth in per capita power consumption, rising car sales, and rising mobile phone sales also pointed to India becoming an attractive destination for investments.[[20]](#endnote-20)

Inflation

In 2014, following high domestic inflation, India adopted an inflationary targeting regime aimed at keeping inflation within a broad range of 4 per cent, with a band of +/−2 per cent.[[21]](#endnote-21) The Reserve Bank of India (RBI) used a monetary policy of changing interest rates—the bank, or repo, rate—to drive down inflation. Consequently, inflation had declined to 4.9 per cent in FY 2015/16.[[22]](#endnote-22) However, the implementation of the Seventh Pay Commission award,[[23]](#endnote-23) the reversal of trends in global crude oil prices, and a reduction in the gap between actual and potential output (the “output gap”) posed “prominent upward risks” to inflation.[[24]](#endnote-24)

To reduce its deficit indicators, the Indian government had set a ceiling of 3.6 per cent of GDP on its fiscal deficit for FY 2015/16.[[25]](#endnote-25) However, the fiscal deficit that year was 3.94 per cent.[[26]](#endnote-26) The plan was to bring the fiscal deficit down to 3 per cent, the revenue deficit to 0.93 per cent, and the debt stock of the union government to 36.3 per cent by FY 2019/20.[[27]](#endnote-27)

Money Supply

The money supply in India comprised currency with the public, demand deposits with banks, and time deposits and other deposits with the RBI (see Exhibit 3).[[28]](#endnote-28) Nationalization of banks in 1969 and 1980 and subsequent branch expansion had led to a decline in the currency share of money supply[[29]](#endnote-29) and a concomitant rise in the share of bank deposits. Despite this, cash remained an important mode of payment in the Indian economy. Currency was especially important for economic activity in rural India. The currency (C) to nominal GDP ratio (C ÷ GDP) stood at 12.25 per cent in FY 2015/16,[[30]](#endnote-30) while the money supply to GDP ratio was 85.84 per cent.[[31]](#endnote-31)

The ₹500 note had been introduced in 1987 to meet the needs of a growing economy, while the ₹1,000 note had been introduced and demonetized twice, then again reintroduced in 2000.[[32]](#endnote-32) In March 2016, banknotes worth ₹16,415 billion were in circulation in India. At that time, the ₹500 and ₹1,000 denomination banknotes together accounted for 86.4 per cent of the total value of banknotes in circulation, while by volume, they comprised merely 24.4 per cent. In contrast, by volume, ₹10 and ₹100 banknotes constituted 53 per cent of the total banknotes in circulation.[[33]](#endnote-33)

Corruption in India

India had been grappling with corruption and charges of graft even in the pre-reform period, before 1991. However, firms could navigate most of the corruption—the result of the “Licence Raj” or “Permit Raj,” a regime of rules, licences, and quotas—by paying small bribes. Privatization and liberalization in 1991 sought to reduce the red tape and corruption; however, globalization created unprecedented opportunities for dishonesty and increased corruption payoffs.[[34]](#endnote-34)

The *Economist* used three methods to quantify profits from rent-seeking (i.e., the tendency of people to seek benefits for themselves through political contacts and connections) and in 2014, estimated that gains from rent-seeking over the previous decade peaked at about $80 billion—equivalent to 7 per cent of the stock market’s value that year. The *Economist* estimated that the total paid in bribes was between $4 billion and $12 billion.[[35]](#endnote-35)

Petty corruption involved paying bribes to government officials (including the police) in cash, which could be deposited at banks using *benami* (literally, nameless) or nominee accounts, or accounts in servants’ names. Such bribes were essentially transfer payments, which did not impact black income or black GDP.[[36]](#endnote-36)

Investing in gold, property, and foreign accounts abroad were other methods for laundering cash. Corruption in large deals involved politicians as beneficiaries, and often included funnelling funds abroad.

India’s political system contributed to its own corruption. A campaign for a parliamentary seat cost between $300,000 and $3 million per candidate. A candidate was expected to pay campaign workers (nominally “volunteers”) and distribute gifts, including liquor. However, the Indian Election Commission limited both fundraising and expenditure on election campaigns. For instance, in the 2014 parliamentary elections, the commission set a limit of ₹7 million ($115,000) per campaign for a parliamentary seat, but for a hope of winning, a candidate might have had to spend 50 to 100 times more money than that.[[37]](#endnote-37) Bribes thus provided a significant source of election funds, and illegal party funding was at the heart of corruption.

The national elections did not provide a clear mandate for one single party; thus, larger parties depended on the support of smaller parties, and therefore courted their alliance. The elected representatives turned a blind eye to corruption and allowed the small parties to get rich when their support was necessary to hold power.[[38]](#endnote-38) Further, because court cases in India dragged on for decades, the fear of prosecution was low.

India, thus, ranked high on the global index of corruption. In 2016, the Transparency International’s Corruption Perceptions Index ranked India 76th among 168 countries.[[39]](#endnote-39)

The Problem of Black Money

“Black money” referred to money earned through either legal or illegal activities, on which tax had not been paid. In February 2012, the director of India’s Central Bureau of Investigation stated that Indians held $500 billion of illegal funds in foreign tax havens—more than any other country.[[40]](#endnote-40) Various studies, including those by McKinsey & Company and the Bank of America Merrill Lynch, estimated the share of the black economy in India was roughly a quarter of India’s GDP.[[41]](#endnote-41)

However, while some of this black money was held in the form of domestic currency, a substantial amount was held as real estate and gold, and in foreign accounts abroad.[[42]](#endnote-42) Thus, the share of cash in the black economy was estimated to be only 10 per cent.[[43]](#endnote-43) Moreover, there was no clear demarcation of activities that were financed purely through black money or white money (the latter being legally earned money on which necessary tax was paid). Money was fungible. For instance, the black money used by a real estate developer was converted into white money when the developer paid the construction workers, who in turn used the money to buy groceries.[[44]](#endnote-44)

The amount of black money in India’s economy could not be explained by the country’s income tax rates, which were among the lowest among the world’s major economies.[[45]](#endnote-45) Further, India did not have an inheritance tax, wealth tax, or gift tax. Yet despite the low tax rates, India’s record of compliance with tax laws was dismal.

The government had offered tax amnesty schemes in the past as a means of converting black money to white, but with little success. The schemes failed to mobilize enough of the black money relative to the estimated stock, and did not curb the generation of more black money. To the contrary, the schemes reduced the stigma attached to black money and came to be anticipated by the public in a regime of policy changes.[[46]](#endnote-46)

The HDNs of ₹500 and ₹1,000 were easier to store and carry than smaller denomination notes or other stores of value, such as gold; therefore, the prime minister’s plan of reducing the proportion of HDNs in a cash-dependent economy such as India’s could reduce the cash available for corruptive use and thus lower the levels of black money.[[47]](#endnote-47) However, cash—including HDNs—had transactional functions and were stores of value, and each of these functions had black and white dimensions. For instance, in its transactional role, cash could be used to pay legitimate salaries to employees, with tax deducted at source; on the other hand, when a small enterprise used cash to pay for inputs, with neither the buyer nor the seller declaring the transaction to tax authorities, such cash became black. In its role as a store of value, the cash held by households for meeting emergencies was white, while undeclared cash hoarded by businesspeople and used for political funding was black. Therefore, in addition to reducing the cash available for corruptive purposes, reducing the proportion of HDNs would also impact the effectiveness of cash in performing its legitimate, white functions.

A rough measure that indicated how widely notes were used purely for facilitating transactions was the ratio of the currency note denomination to the nominal per capita GDP. As this ratio increased, the possibility that the notes were being used solely for transactions decreased, and their use as a store of value increased. For India, this ratio had declined from 1.62 in 1991 to 0.62 in 2015,[[48]](#endnote-48) suggesting that HDNs were being used to facilitate transactions over time, and were not merely being used as stores of value. However, soil rate data for Indian HDNs—the rate at which the notes were returned to the central bank as too damaged for circulation—when compared with soil rate data for U.S. $20 and $50 notes, indicated that an estimated 2 per cent of the Indian GDP was not used for transactions and hence, was potentially black.[[49]](#endnote-49)

DEMONETIZATION

Background and Mechanics

India had experimented with demonetization twice in the past—once in 1946, and then again in 1978, when an ordinance was promulgated to phase out notes with denominations of ₹1,000, ₹5,000, and ₹10,000. However, these efforts had failed to achieve their stated objectives.[[50]](#endnote-50)

The National Democratic Alliance, the political party that came to power after the 2014 elections in India, was a coalition led by the Bharatiya Janata Party (BJP). The BJP’s 2014 election promises included “minimisation of black money . . . eliminating corruption through public awareness, e-governance, rationalisation and simplification of tax regime; . . . [and] reviving the anti-terror mechanism.”[[51]](#endnote-51) The government had initiated several schemes to curb illicit activities since the elections, but with little success. Demonetization, thus, was a means of “signalling a regime change, emphasizing the government’s determination to penalize illicit activities and the associated wealth.”[[52]](#endnote-52) The scope of the demonetization exercise was in keeping with the BJP’s 2014 election manifesto: to curb corruption, counterfeiting, and the use of fake HDNs for funding terrorist activities, and especially to curb the accumulation of black money generated by income that had not been declared to the tax authorities.[[53]](#endnote-53)

Earlier demonetizations had been carried out in the context of hyperinflation, wars, political upheavals, or other extreme circumstances, but the November 2016 exercise, lasting 50 days,[[54]](#endnote-54) was sudden and shrouded in a veil of secrecy, amid normal economic and political conditions. When announcing the demonetization of ₹500 and ₹1,000 notes on November 8, 2016, the prime minister declared, “The five hundred and thousand rupee notes hoarded by anti-national and anti-social elements will become just worthless pieces of paper*.*”[[55]](#endnote-55)

All banks were instructed to stop dispensing old HDNs through their automated teller machines (ATMs) as of midnight November 8, 2016. ATMs were allowed to dispense only ₹50 and ₹100 notes as of November 11, 2016, with limits on the maximum withdrawal per card per day. These limits were to be only gradually relaxed.[[56]](#endnote-56)

The government declared November 9, 2016, a non-business working day for all bank branches, which were ordered to prepare for implementing the withdrawal of the HDNs.[[57]](#endnote-57) When the banks reopened, people who provided valid proof of identity were allowed to exchange old notes over the counter up to a value of ₹4,000 per person. The government set limits to the maximum cash withdrawals per day, subject to overall weekly limits.[[58]](#endnote-58) However, people could use cheques or various electronic modes of transfer—mobile banking and Internet banking, for example—for business transactions,[[59]](#endnote-59) and the government permitted old HDNs to be used for specific activities, such as paying water, electricity, and other utility bills, for a limited period until December 15, 2016.[[60]](#endnote-60)

The deadline for depositing old notes of the specified denominations was December 30, 2016.[[61]](#endnote-61) Those notes could no longer be exchanged or deposited after December 31, 2016. Meanwhile, on November 11, 2016, bank ATMs started disbursing new ₹2,000 denomination notes.[[62]](#endnote-62) Thus, as part of the government’s demonetization exercise, the recalled ₹500 notes were replaced with new ₹2,000 denomination notes put into circulation, in addition to newly issued ₹500 notes.

The 52-day period between November 8 and December 30, 2016, was difficult for people, who had to stand in long queues to withdraw their legitimate cash from banks, whether through ATMs or over the counter.[[63]](#endnote-63) Again, only 28–32 per cent of Indians had access to financial institutions, including post offices and banks, with those in rural India having the most limited access. It was estimated that 33 per cent of the 138,626 bank branches were in 60 Tier 1 and Tier 2 cities, leaving rural India at a huge disadvantage.[[64]](#endnote-64) People in this segment of underbanked/unbanked Indian population found themselves holding notes that could no longer be used. With no recourse to exchanging the banned notes in a timely manner, people in this population segment faced the maximum hardship.

Access to ATMs was also poor: 56 banks operated 210,000 ATMs in a country with 1.32 billion people (see Exhibit 4). In 2015, the World Bank placed India—with its 19.71 ATMs per 100,000 adults—in 118th position (out of 162 countries), in terms of the number of ATMs per 100,000 adults.[[65]](#endnote-65) Further, the ATMs were dispersed unevenly across the 29 Indian states, and between rural and urban areas, making it difficult to facilitate transactions uniformly. The spread of point-of-sale (POS) terminals was far greater, with more people using debit cards than credit cards through the terminals.[[66]](#endnote-66) However, the number of transactions through POS terminals compared with the number of withdrawals with debit cards suggested that most people who had been issued debit cards (or even credit cards) seldom used them for carrying out transactions.[[67]](#endnote-67)

The RBI restored the status quo in part by removing restrictions on cash withdrawals from current, cash credit, and overdraft accounts, and on ATM withdrawals effective January 31, 2017, and February 1, 2017, respectively. The limits on cash withdrawals from savings bank accounts were ultimately withdrawn as of March 13, 2017.[[68]](#endnote-68)

Impact on Black Money

Demonetization of the HDNs was technically not equivalent to demonetization of black money since for a large proportion of the HDNs held by individuals, either taxes had been already been paid (i.e., it was white money) or the money was tax-exempt in the first place, such as agricultural income. Those who did hold black money faced three choices: they could declare their black wealth and pay a tax rate of 50 per cent on the holdings they had not previously reported; continue to hide the black wealth, rendering that wealth useless; or if caught with the hidden money, either pay 85 per cent tax on the value or actively convert their black money into white at a certain cost.[[69]](#endnote-69) They could also choose to deposit their black wealth into their bank accounts; however, unexplained large cash deposits, if detected, would attract a 200 per cent penalty over and above the taxes.[[70]](#endnote-70)

Anecdotal evidence suggested that many people chose the route of money laundering, using various ways to convert their black wealth to white. One route was to donate money to temples, which were not required to report income for government tax review.[[71]](#endnote-71) Sting operations conducted by Indian television news channels had reported temple authorities were accepting and converting black wealth in exchange for commissions.[[72]](#endnote-72) Co-operative banks, credit societies, and non-banking financial institutions in rural areas, with their manual operations, helped launder money by issuing backdated fixed deposit receipts in the names of various villagers.[[73]](#endnote-73)

The government had announced that cash deposits of up to ₹250,000 in old currency notes within the 50-day window would not be questioned or subject to scrutiny by the tax authorities.[[74]](#endnote-74) Owners of black wealth used this loophole by asking poorer individuals to deposit up to the ₹250,000 limit into their accounts, often using *Pradhan Mantri* *Jan Dhan Yojana* (Jan Dhan) accounts for the purpose.[[75]](#endnote-75) The Jan Dhan accounts were zero-balance accounts that had been opened for individuals under a national mission to provide broader access to financial services. Various government programs paid their subsidies to recipients by making direct deposits into these accounts.[[76]](#endnote-76) After demonetization was announced, 23.3 million new Jan Dhan accounts were opened,[[77]](#endnote-77) and over the 45 days following the demonetization announcement, deposits in the Jan Dhan accounts surged to more than ₹871 billion.[[78]](#endnote-78)

An underground banknote mafia, alleged to be working in connivance with bank staff, emerged to launder black money at commissions ranging from 10 to 80 per cent.[[79]](#endnote-79) Officials of certain public and private sector banks were arrested for malpractices involving money laundering.[[80]](#endnote-80) As well, the domestic demand for gold and gold items spiked suddenly after demonetization, with buyers willing to pay huge premiums to dispose of old currency notes with jewellers. The volume of gold imports thus surged in November.[[81]](#endnote-81)

Another money-laundering mechanism was “retiming” the accrual of income, using altered receipts that made it seem as if the black money had just been earned in the period immediately before November 8, 2016,[[82]](#endnote-82) or showing that employees had been paid advance salaries for three to eight months in amounts up to the ₹250,000 limit, thus avoiding questions about the deposits.[[83]](#endnote-83) Another scheme involved taking advantage of the exemption from demonetization extended to railway and airline bookings until November 11. People booked expensive tickets, anticipating that cancelling their tickets and collecting refunds in new notes at a later date would help them avoid the impact of demonetization. There was a 1,000 per cent increase in the purchase of expensive air-conditioned coach-class rail tickets during this period.[[84]](#endnote-84) The Directorate General of Civil Aviation declared air tickets bought with HDNs to be non-refundable, reducing the impact on airline sales.[[85]](#endnote-85)

The need to launder black money was significant enough that the query “How to convert black money into white money” was among the top queries on Google search engines in India in the immediate aftermath of the demonetization.[[86]](#endnote-86) However, data analysis from tax raids undertaken in FY 2012/13 and later suggested that less than 6 per cent of black income was hoarded as cash, with most black income invested in business, stocks, real estate, and *benami* bank accounts. Even during the period of highest black money detection—FY 2015/16—only 6 per cent of the recovered money was cash.[[87]](#endnote-87) Hoarding black money in cash was simply too challenging logistically. It was estimated that ₹10 million, if stashed evenly in the form of ₹1,000 notes, would occupy one square foot and weigh 13 kilograms. Storage and transport of that cash would be difficult. A finance ministry official speculated that most of the black wealth would have entered the formal economic system through real estate and shell companies.[[88]](#endnote-88)

In January 2017, Bloomberg estimated that 97 per cent of the scrapped notes had been returned to the banking system by December 30, 2016.[[89]](#endnote-89) The RBI’s own weekly figures for currency in circulation, announced on January 13, 2017, corroborated Bloomberg’s estimate. If that were the case, only $7.08 billion of the total value of $236.23 billion of scrapped notes had not been returned to the system.[[90]](#endnote-90)

The government hoped to signal behavioural change toward black money with the sanctions of demonetization: financial penalty and social condemnation. It also hoped to shift transactions from the cash economy to electronic payment technologies, thereby permanently increasing the tax to GDP ratio and the size of the formal economy (see Exhibit 5).[[91]](#endnote-91) Additionally, by channelling savings into the formal monetary system, the government hoped to positively affect long-term growth.[[92]](#endnote-92)

Impact on GDP

Given the limited spread of the formal banking system in India, dependence on cash was critical. Demonetization was thus expected to affect GDP through two channels. On the demand side, limited access to currency for transactions would cause a decline in demand, primarily for discretionary items. On the supply side, limited access to cash to pay wages, especially in the informal sector, was expected to disrupt production. The reduction in workers’ incomes was then, in turn, also expected to affect consumption.[[93]](#endnote-93)

The impact on the organized sector and formal economy was expected to be less than on the large, informal, unorganized sector. However, within the organized sector, sectors such as real estate—which were largely based on cash transactions—were expected to be affected more (see Exhibit 6). In contrast, the unorganized sector accounted for about 45 per cent of the country’s gross value added (GVA) and 82 per cent of total employment (see Exhibit 7). The MSME sector, with its high labour-intensity and reliance on cash for its working capital requirements, also contributed to 49.86 per cent of India’s exports, which suffered as a result of demonetization (see Exhibit 8).

In addition to liquidity effects, possible uncertainty effects needed to be considered. Firms and households were uncertain about the economic impact of demonetization, and the prime minister had said that he might follow up demonetization with other moves to uncover wealth, without specifying what those moves might be. The combination of uncertainties led people to postpone their investment decisions and purchases of durable goods. This deferral was particularly true for high-value goods, such as luxury items and gold. A director at a bullion store reported, “We’re uncertain about what the government will do next. No legal business trader is willing to risk very big quantity. [Some] want to buy 2–3 [kilograms] extra so that in future they could conduct their business for a month or two until the situation is sorted out*.*”[[94]](#endnote-94)

The RBI, in its fourth bimonthly monetary policy statement on October 4, 2016, had projected a 7.6 per cent growth in real GVA for FY 2016/17 as a whole.[[95]](#endnote-95) In February 2017, the *Economic Survey 2016–17* estimated the impact of demonetization on real GDP as negative, but no more than 0.25 to 0.5 per cent relative to the baseline of 7 per cent. The government expected the adverse impact of demonetization to be transient, and growth to bounce back soon.[[96]](#endnote-96) This projection was based on the expectation of a strong surge in consumption in response to the remonetization exercise that followed. With workers having a high propensity to consume, their access to cash was expected to lead to increases in consumption. Similarly, investment was also expected to increase as repo and bank lending rates dropped in a scenario of surplus liquidity in the banking system. Further, demonetization was expected to improve the government’s tax revenues, and thereby create fiscal space for higher public investment.[[97]](#endnote-97)

In March 2015, the head of the International Monetary Fund described India as the “bright spot” in a “cloudy global horizon,” stating, “A brighter future is being forged right before your eyes.”[[98]](#endnote-98) Would this future be realized by India after demonetization? Did demonetization purge the economy of black money and achieve its objective of a stronger, corruption-free India? Or did the liquidity and uncertainty effects associated with the exercise set the economy back significantly from its pursuit of growth?

EXHIBIT 1: INDIA’S supply-Side Gross Value Added, 2015–16 (AT BASIC PRICES)

Source: Reserve Bank of India, “Appendix Tables: Growth Rates and Composition of Real GDP (2011–12 Prices),” in *Annual Report 2015–16*, August 29, 2016, accessed March 3, 2017, https://rbi.org.in/Scripts /AnnualReportPublications.aspx?Id=1175.

EXHIBIT 2: INDIA’S EXPENDITURE-SIDE Gross Domestic Product, 2015–16

Source**:** Reserve Bank of India, “Appendix Tables: Growth Rates and Composition of Real GDP (2011–12 Prices),” in *Annual Report 2015–16*, August 29, 2016, accessed March 3, 2017, https://rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1175.

EXHIBIT 3: india’s MONEY STOCK DURING THE DEMONETIZATION PERIOD, selected dates in 2016 and 2017 (IN ₹ BILLIONs)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **1. Currency with the Public\*** | **1.1 Notes in Circulation** | **1.2 Circulation of Rupee Coins** | **1.3 Circulation of Small Coins** | **1.4 Cash on Hand with Banks** | **2. Demand Deposits with Banks** | **3. Other Deposits with Reserve Bank** | **4. Time Deposits with Banks** | **5. M3\*\*** |
| **March 31, 2016** | 15,972.54 | 16,415.58 | 211.62 | 7.43 | 662.09 | 9,898.34 | 154.51 | 90,150.77 | 116,176.15 |
| **October 28, 2016** | 17,022.10 | 17,540.22 | 227.70 | 7.43 | 753.25 | 10,405.35 | 159.62 | 96,062.01 | 123,649.09 |
| **November 11, 2016** | 15,265.26 | 17,644.51 | 227.70 | 7.43 | 2,614.38 | 10,778.92 | 202.91 | 97,566.59 | 123,813.68 |
| **November 25, 2016** | 9,128.78 | 11,642.37 | 234.38 | 7.43 | 2,755.40 | 11,958.59 | 150.80 | 100,573.24 | 121,811.40 |
| **December 9, 2016** | 7,819.18 | 9,576.75 | 234.38 | 7.43 | 1,999.37 | 11,980.94 | 154.17 | 101,297.64 | 121,251.93 |
| **December 23, 2016** | 7,843.12 | 9,185.94 | 238.72 | 7.43 | 1,588.97 | 12,008.91 | 152.60 | 100,501.86 | 120,506.50 |
| **January 6, 2017** | 8,112.31 | 8,734.02 | 238.72 | 7.43 | 867.86 | 11,947.03 | 155.46 | 101,237.31 | 121,452.12 |

Note: \* Currency with the Public = 1.1 + 1.2 + 1.3 – 1.4; \*\* M3 (broad money supply) = 1 + 2 + 3 + 4; US$1 = ₹66.4, and ₹1 = US$0.0151 on November 8, 2016.

Source: Reserve Bank of India, “Database on Indian Economy: Weekly Statistical Supplement,” accessed November 6, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications.

EXHIBIT 4: BANK ATM, POS, and CARD STATISTICS FOR 56 BANKS in india, selected months in 2016 and 2017

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Month** | **ATMs** | | **POS** | | **Credit Cards** | | | | | **Debit cards** | | | | |
| Onsite (’000s) | Off site (’000s) | Online (’000s) | Offline (’000s) | No. of Outstanding Cards as at the End of a Month (in millions) | No. of Transactions  (in millions) | | Value of Transactions  (in ₹ billion) | | No. of Outstanding Cards as at the End of a Month  (in millions) | No. of Transactions  (in millions) | | Value of Transactions  (in ₹ billion) | |
|  |  |  |  |  |  | **ATM** | **POS** | **ATM** | **POS** |  | **ATM** | **POS** | **ATM** | **POS** |
| **2016-10** | 110 | 100 | 1,510 | 0.3 | 27.34 | 0.62 | 88.86 | 3.00 | 299.42 | 739.28 | 802.06 | 140.59 | 2,547.81 | 219.41 |
| **2016-11** | 110 | 100 | 1,590 | 0.3 | 27.78 | 0.40 | 97.91 | 1.39 | 265.59 | 744.58 | 561.36 | 236.47 | 1,234.52 | 321.74 |
| **2016-12** | 110 | 100 | 1,770 | 1.3 | 28.32 | 0.38 | 116.08 | 0.88 | 311.49 | 761.12 | 630.47 | 415.46 | 849.34 | 580.31 |
| **2017-01** | 110 | 100 | 2,010 | 2.2 | 28.85 | 0.44 | 112.80 | 1.55 | 327.08 | 817.98 | 712.35 | 328.62 | 1,516.44 | 490.04 |

Note: ATM = automated teller machine; POS = point of sale; US$1 = ₹66.4 and ₹1 = US$0.0151 on November 8, 2016.

Source: Reserve Bank of India, accessed “Bankwise ATM/POS/Card Statistics,” November 6, 2017, https://rbi.org.in/Scripts/ATMView.aspx.

EXHIBIT 5: BANK VOLUMES IN ECS, NEFT, RTGS, AND MOBILE BANKING TRANSACTIONS in india, selected months in 2016/2017

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Volume (in millions) and Value (in ₹ billion)** | | | | | | | | | | | | | |
| **Month** | **ECS** | | | | **NEFT** | | | | **RTGS** | | | | **Mobile Banking Transactions** | |
| **ECS (Credit)** | | **ECS (Debit)** | | **Total Outward Debits** | | **Received Inward Credits** | | **Inward** | | **Outward** | | **Volume** | **Value** |
|  | **Volume** | **Value** | **Volume** | **Value** | **No. of transactions (million)** | **Amount** | **No. of transactions (million)** | **Amount** | **Volume** | **Value** | **Volume** | **Value** |
| 2016-10 | 0.96 | 16.55 | 0.82 | 2.04 | 133.21 | 9,504.50 | 133.21 | 9,504.50 | 9.01 | 76,473.29 | 9.01 | 76,473.29 | 78.12 | 1,139.41 |
| 2016-11 | 0.76 | 7.89 | 0.28 | 1.38 | 123.05 | 8,807.88 | 123.05 | 8,807.88 | 7.87 | 78,479.19 | 7.87 | 78,479.19 | 87.47 | 1,365.70 |
| 2016-12 | 0.91 | 12.84 | 0.25 | 1.55 | 166.31 | 11,537.63 | 166.31 | 11,537.63 | 8.84 | 84,096.48 | 8.84 | 84,096.48 | 110.64 | 1,498.18 |
| 2017-01 | 0.76 | 10.51 | 0.20 | 1.43 | 164.19 | 11,355.08 | 164.19 | 11,355.08 | 9.33 | 77,486.07 | 9.33 | 77,486.07 | 106.13 | 1,383.05 |

Note: ECS = electronic clearing service; NEFT = national electronic funds transfer; RTGS = real time gross settlement; US$1 = ₹66.4, ₹1 = US$0.0151 on November 8, 2016

Source: Reserve Bank of India, “Bankwise Volumes in ECS/NEFT/RTGS/Mobile Transactions,” accessed November 6, 2017, https://rbi.org.in/Scripts/NEFTView.aspx.

EXHIBIT 6: india’s LEAD INDICATORS OF ECONOMIC ACTIVITY, selected months in 2016 and 2017

(Year-Over-Year GROWTH IN %)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Item** | **April–October 2016** | **2016-10** | **2016-11** | **2016-12** | **2017-01** |
| I. MACRO-INDICATORS |  |  |  |  |  |
| 1. M3 | 6.4 | 10.4 | 8.5 | 6.6 | 6.4 |
| 2. Currency in circulation | 6.9 | 17.2 | −23.6 | −39.9 | −37.8 |
| 3. Bank credit | 1.8 | 8.4 | 6.2 | 4.9 | 4.7 |
| 4. Indirect tax collections | 24.7 | 23.4 | 36.5 | 20.2 | 13.9 |
| 5. Service tax collections by the centre | 25.2 | 29.6 | 43.9 | 13.1 | 12.1 |
| II. SECTORAL INDICATORS |  |  |  |  |  |
| 1. AGRICULTURE |  |  |  |  |  |
| a. Foodgrains production (reported for 2016/17) | 8.1 |  |  |  |  |
| 2. INDUSTRY |  |  |  |  |  |
| a. PMI manufacturing (index) | 52.0 | 54.4 | 52.3 | 49.6 | 50.4 |
| b. Index of industrial production (IIP) | −0.3 | −1.9 | 5.7 | −0.1 | 2.7 |
| i. Mining | −0.2 | −0.9 | 3.7 | 5.5 | 5.3 |
| ii. Manufacturing | −1.0 | −2.4 | 5.5 | −1.7 | 2.3 |
| iii. Electricity | 4.5 | 1.1 | 8.9 | 6.3 | 3.9 |
| 3. SERVICES |  |  |  |  |  |
| i. PMI services | 52.6 | 54.5 | 46.7 | 46.8 | 48.7 |
| ii. Automobile sales | 15.0 | 8.1 | −5.5 | −18.7 | −4.7 |
| iii. Commercial vehicle sales | 6.9 | 11.9 | −11.6 | −5.1 | −0.7 |
| iv. Passenger vehicle sales | 11.0 | 4.5 | 1.8 | −1.4 | 14.4 |
| v. Three-wheeler sales | 11.8 | 4.4 | −25.9 | −36.2 | −28.2 |
| vi. Two-wheeler sales | 16.0 | 8.7 | −5.9 | −22.0 | −7.4 |
| vii. Cargo handled at major ports | 6.3 | 13.2 | 10.2 | 12.9 | 3.6 |
| viii. Railway freight traffic | −1.7 | −2.6 | 5.5 | −0.1 | 0.3 |
| ix. Tourist arrivals | 10.8 | 10.4 | 9.2 | 13.6 | 16.4 |
| x. Cement production | 4.8 | 6.2 | 0.5 | −8.7 | −13.3 |
| xi. Steel consumption | 2.7 | 0.3 | 5.0 | 5.3 | 3.1 |
| xii. Civil aviation: domestic passenger traffic | 22.5 | 23.6 | 22.0 | 23.9 | 25.6 |
| xiii. Bank deposits growth | 6.4 | 9.3 | 15.7 | 14.9 | 13.5 |
| xiv. Insurance premium | 31.1 | 22.4 | 72.1 | 21.1 | 32.1 |
| xv. Merchandise exports | 0.2 | 9.0 | 2.4 | 5.5 | 4.3 |
| xvi. Merchandise imports | −9.8 | 8.3 | 9.4 | 0.1 | 10.7 |

Note: M3 = broad money supply; PMI = purchasing managers’ index

Source: Reserve Bank of India, “Macroeconomic Impact of Demonetisation—A Preliminary Assessment,” March 10, 2017, accessed November 6, 2017, https://rbi.org.in/scripts/PublicationsView.aspx?Id=17447#C.

EXHIBIT 7: India’s SECTORAL INDICATORS OF LIKELY CASH INTENSITY

|  |  |  |  |
| --- | --- | --- | --- |
| **Sector** | **Unorganized Sector**  **Share in GVA** | **Sectoral Share in Employment** | **Unorganized Sector Employment Share in Total Employment** |
| Agriculture and allied activities | 94.7 | 45.8 | 48.7 |
| Industry | 15.0 | 13.7 | 8.5 |
| Mining and quarrying | 21.9 | 0.3 | 0.2 |
| Manufacturing | 12.1 | 13.3 | 8.3 |
| Electricity | 3.1 | 0.1 | 0.1 |
| Services | 42.4 | 40.5 | 25.2 |
| Construction | 75.5 | 11.1 | 6.9 |
| Trade, repair, hotel, and restaurants | 56.1 | 16.1 | 13.3 |
| Transport and communication | 55.5 | 5.3 |
| Financial services | 0.0 | 0.4 | 0.8 |
| Real estate and professional services | 56.2 | 1.3 |
| Overall | 44.9 | 100.0 | 82.4 |

Note: GVA = gross value added

Source: Reserve Bank of India, “Macroeconomic Impact of Demonetisation—A Preliminary Assessment,” March 10, 2017, accessed November 6, 2017, https://rbi.org.in/scripts/PublicationsView.aspx?Id=17447#C2.

EXHIBIT 8: EXPORT PERFORMANCE OF india’s MAJOR LABOuR-INTENSIVE SECTORS

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Sector** | **Workforce (millions)** | **Labour:Capital Ratio** | **Exports** | | | | |
| **% Share in Exports** | **Growth, Year-Over-Year (%)** | | | |
| **Oct. 2016** | **Nov. 2016** | **Dec. 2016** | **Jan. 2017** |
| Gems and jewellery | 5.2 | 38.1 | 15.9 | 21.8 | −12.8 | 27.9 | −4.5 |
| Readymade garments | 0.6 | 41.8 | 6.3 | 10.7 | −2.9 | −0.3 | 2.1 |
| Leather and leather products | 0.3 | 27.3 | 2.0 | −1.7 | 6.4 | −3.1 | −10.3 |
| Meat, dairy, and poultry products | 0.1 | 17.7 | 1.6 | 11.5 | 0.6 | −45.7 | −15.4 |
| Handicrafts and carpets | 7.3 |  | 1.3 | 14.1 | 0.6 | −1.2 | 0.3 |
| Cotton yarn, etc. | 4.3 |  | 3.7 | −9.0 | 0.5 | 7.8 | 9.8 |

Source: Reserve Bank of India, “Macroeconomic Impact of Demonetisation—A Preliminary Assessment,” March 10, 2017, accessed November 6, 2017, https://rbi.org.in/scripts/PublicationsView.aspx?Id=17447#C2.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of the Indian government or any of its employees. [↑](#endnote-ref-1)
2. ₹ = INR = Indian rupee; US$1 = ₹66.4 and ₹1 = US$0.0151 on November 8, 2016. [↑](#endnote-ref-2)
3. *Huffington Post*, “Here’s the Full Text of Modi’s Speech on the Discontinuation of ₹500 and ₹1,000 Bank Notes,” November 9, 2016, www.huffingtonpost.in/2016/11/08/heres-the-full-text-of-modis-speech-on-the-discontinuation-of\_a\_21601525. [↑](#endnote-ref-3)
4. A “helicopter drop” was an unconventional monetary tool to stimulate the economy by printing large sums of money and distributing it to the public. Government of India, “Demonetisation: To Deify or Demonize?,” chapter 3 in *Economic Survey 2016–17*, 2017, accessed March 15, 2017, http://indiabudget.nic.in/es2016-17/echap03.pdf; Lorenzo Bini Smaghi, “Conventional and Unconventional Monetary Policy,” European Central Bank, April 28, 2009, accessed April 2, 2017, www.ecb.europa.eu /press/key/date/2009/html/sp090428.en.html for a discussion on conventional versus unconventional monetary policies. [↑](#endnote-ref-4)
5. All dollar amounts are in US$. Knoema, “World GDP Ranking 2016,” accessed December 29, 2016, https://knoema.com/nwnfkne /world-gdp-ranking-2016-data-and-charts-forecast; Robbie Gramer, “India Overtakes Britain as the World’s Sixth-Largest Economy,” *Foreign Policy*, December 20, 2016, accessed January 3, 2017, http://foreignpolicy.com/2016/12/20/india-overtakes-britain-as-the-worlds-sixth-largest-economy. [↑](#endnote-ref-5)
6. Indivjal Dhasmana, “At 7.6 Per Cent in FY16, India Is Now the Fastest Growing Economy,” *Business Standard*, June 1, 2016, accessed February 14, 2017, www.business-standard.com/article/economy-policy/at-7-6-in-fy16-india-is-now-the-fastest-growing-economy-116053101080\_1.html. [↑](#endnote-ref-6)
7. Reserve Bank of India, *Macroeconomic Impact of Demonetization—A Preliminary Assessment* (Delhi: Reserve Bank of India, March 10, 2017), accessed March 23, 2017, https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/MID10031760E85BDAFEFD 497193995BB1B6DBE602.PDF. [↑](#endnote-ref-7)
8. In U.S. dollars this increase in nominal GDP was a 702% increase over the 25-year period. Reserve Bank of India, *Annual Report 2014–15*, August 27, 2015, accessed March 1, 2017, https://rbi.org.in/scripts/AnnualReportPublications .aspx?Id=1148. [↑](#endnote-ref-8)
9. Dhasmana, op. cit. [↑](#endnote-ref-9)
10. Reserve Bank of India, “Appendix Tables: Growth Rates and Composition of Real GDP (2011–12 Prices),” in *Annual Report 2015–16*, August 29, 2016, accessed March 3, 2017, https://rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1175. [↑](#endnote-ref-10)
11. These were the latest data available, according to India’s Ministry of Micro, Small and Medium Enterprises. [↑](#endnote-ref-11)
12. Ministry of Micro, Small and Medium Enterprises, Government of India, *Annual Report 2015–16*, February 29, 2016, accessed February 25, 2017, http://msme.gov.in/sites/default/files/MEME%20ANNUAL%20REPORT%202015-16%20ENG.pdf. [↑](#endnote-ref-12)
13. *SME Times*, “MSMEs’ Share in India’s Exports Near 50 pc in 2015–16,” September 2, 2016, accessed November 9, 2017, www.smetimes.in/smetimes/news/top-stories/2016/Sep/02/msmes-share-in-india-s-exports-near-50-pc-in-2015-16.html. [↑](#endnote-ref-13)
14. Reserve Bank of India, *Handbook of Statistics on the Indian Economy*, 2016, accessed January 2, 2017, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications. [↑](#endnote-ref-14)
15. Mayank Jain, “The Beginning of the End of the Parallel Economy in India?,” *Bloomberg Quint*, November 9, 2016, accessed February 1, 2017, www.bloombergquint.com/business/2016/11/09/the-beginning-of-the-end-of-the-parallel-economy-in-india. Such dependence on cash for India was not just higher compared with its developed-country peers such as the United States and the United Kingdom; it was also greater than the proportion of cash transactions—both by volume and value—for its emerging-economy peers such as Brazil, China, and South Africa. [↑](#endnote-ref-15)
16. Reserve Bank of India, *Handbook of Statistics on the Indian Economy*, op. cit. [↑](#endnote-ref-16)
17. Reserve Bank of India, *Annual Report 2015–16*, op. cit. [↑](#endnote-ref-17)
18. Reserve Bank of India, *Macroeconomic Impact of Demonetization*, op. cit. [↑](#endnote-ref-18)
19. Aprameya Rao and Kishore Kadam, “25 Years of Liberalization: A Glimpse of India’s Growth in 14 Charts,” July 7, 2016, www.firstpost.com/business/25-years-of-liberalisation-a-glimpse-of-indias-growth-in-14-charts-2877654.html. [↑](#endnote-ref-19)
20. Ibid.; Statista, “Total Volume of Passenger Car Sales in India From 2005 to 2015,” www.statista.com/statistics/606266 /passenger-car-sales-volume-india; Saritha Rai, “India Just Crossed 1 Billion Mobile Subscribers Milestone and the Excitement’s Just Beginning,” *Forbes*, January 6, 2016, www.forbes.com/sites/saritharai/2016/01/06/india-just-crossed-1-billion-mobile-subscribers-milestone-and-the-excitements-just-beginning/#755d67267db0. [↑](#endnote-ref-20)
21. Reserve Bank of India, *Macroeconomic Impact of Demonetization*, op. cit. [↑](#endnote-ref-21)
22. Reserve Bank of India, *Handbook of Statistics on the Indian Economy,* op. cit. [↑](#endnote-ref-22)
23. Pay commissions referred to the administrative system set up by the Government of India to recommend salary changes for government employees for given time frames. Such pay commission awards were usually inflationary, given the large size of the public sector in India and the overall increase in consumption generated by the first-round increase in demand by government employees. The Seventh Pay Commission was established in 2014. “History of Pay Commission in India,” 7thCPC.in, accessed March 21, 2017, www.7thcpc.in/content/history-pay-commission-india. [↑](#endnote-ref-23)
24. Reserve Bank of India, *Annual Report 2015–16*, op. cit. [↑](#endnote-ref-24)
25. Finance Commission India, *Report of the Fourteenth Finance Commission*, February 24, 2015, accessed November 3, 2017, www.thehinducentre.com//multimedia/archive/02321/14th\_Finance\_Commi\_2321247a.pdf. [↑](#endnote-ref-25)
26. LiveMint, “Government Achieves 3.9% Fiscal Deficit Target in 2015–16,” May 31, 2016, accessed February 5, 2017, www.livemint.com/Politics/HYphD5anY9P2GEBsMR8q5N/Government-achieves-39-fiscal-deficit-target-in-201516.html. [↑](#endnote-ref-26)
27. Finance Commission India, op. cit. [↑](#endnote-ref-27)
28. India used four measures of money supply: M1, M2, M3, and M4. M3, known as the “broad money supply,” included M1 (currency, demand deposits, and other deposits), M2 (post office savings deposits), and time deposits. Your Article Library, “Four Measures of Money Supply in India,” accessed November 6, 2017, www.yourarticlelibrary.com/economics/money/four-measures-of-money-supply-in-india-523-words/10993. [↑](#endnote-ref-28)
29. Reserve Bank of India, *Annual Report 2001*, August 28, 2001, accessed March 12, 2017, https://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=167. [↑](#endnote-ref-29)
30. Reserve Bank of India, *Handbook of Statistics on the Indian Economy,* op. cit. [↑](#endnote-ref-30)
31. Reserve Bank of India, “Components of Money Stock,” Table 44 in *Handbook of Statistics on the Indian Economy*, op. cit. [↑](#endnote-ref-31)
32. *Economic Times*, “History of Indian Currency: How the Rupee Changed,” November 28, 2016, accessed February 12, 2017, http://economictimes.indiatimes.com/wealth/save/history-of-indian-currency-how-the-rupee-changed/articleshow/55635259.cms. [↑](#endnote-ref-32)
33. Reserve Bank of India, “Currency Management,” in *Annual Report 2015–16*, op. cit. [↑](#endnote-ref-33)
34. *Economist*, “A Bad Boom,” March 15, 2014, accessed February 12, 2017, www.economist.com/news/briefing/21598967-graft-india-damaging-economy-country-needs-get-serious-about-dealing-it. [↑](#endnote-ref-34)
35. Ibid. Such bribes were essentially transfer payments, and not strictly part of the GDP. [↑](#endnote-ref-35)
36. Saumen Chattopadhyay, “Black Economy and Demonetisation,” *Economic and Political Weekly* 52, no. 20 (May 20, 2017). [↑](#endnote-ref-36)
37. *Economist*, “Black Money Power,” May 4, 2014, www.economist.com/blogs/banyan/2014/05/campaign-finance-india. [↑](#endnote-ref-37)
38. *Economist*, “A Bad Boom,” op. cit. [↑](#endnote-ref-38)
39. Transparency International, “Corruption Perceptions Index 2016,” January 25, 2017, accessed February 6, 2017, www.transparency.org/news/feature/corruption\_perceptions\_index\_2016. [↑](#endnote-ref-39)
40. Sarmistha Pal, “Tackling Black Money: How Did the Current Government Fare?,” *Indian Economist*, December 21, 2016, accessed March 3, 2017, https://theindianeconomist.com/tackling-black-money. [↑](#endnote-ref-40)
41. Ira Dugal, “Demonetization Math: How Much Cash Was Part of Our Black Economy?,” *Quint*, November 30, 2016, accessed January 6, 2017, https://www.thequint.com/india/2016/11/30/tracking-demonetisation-math-narendra-modi-arun-jaitley-rbi-500-1000-currency-deposit-2000-jan-dhan-blackmoney. [↑](#endnote-ref-41)
42. Ibid.; Y. V. Reddy, “Understanding Black Money in India” (Second Mahesh Buch Memorial Lecture, Bhopal, October 5, 2016), accessed February 5, 2017, www.yvreddy.com/black-money-mahesh-buch-memorial-lecture-bhopal. [↑](#endnote-ref-42)
43. Dugal, op. cit. [↑](#endnote-ref-43)
44. Reddy, op. cit. [↑](#endnote-ref-44)
45. Usually, tax evasion could be correlated with high tax rates. Raymond Fisman and Wei Shang-Jin, “Tax Rates and Tax Evasion: Evidence from ‘Missing Imports’ in China,” *Journal of Political Economy* 112, no. 2: 471–496, accessed November 9, 2017, http://users.nber.org/~wei/data/fisman&wei2004/fisman&wei2004.pdf.  [↑](#endnote-ref-45)
46. Reddy, op. cit. [↑](#endnote-ref-46)
47. Government of India, “Demonetisation,” op. cit. [↑](#endnote-ref-47)
48. The World Bank, “GDP per Capita (Constant 2010 US$),” http://data.worldbank.org/indicator/NY.GDP.PCAP.KD?locations=IN. Ratio calculated as 500 ÷ 309.328 = 1.616 in 1991, compared with 1,000 ÷ 1,598.529 = 0.62 in 2015. [↑](#endnote-ref-48)
49. Government of India, “Demonetisation,” op. cit. [↑](#endnote-ref-49)
50. Sanjiv Shankaran, “Demonetization in 1946 and 1978: Stories from the Past,” *Times of India*, November 15, 2016, accessed April 7, 2017, http://blogs.timesofindia.indiatimes.com/cash-flow/demonetization-in-1946-and-1978-stories-from-the-past. [↑](#endnote-ref-50)
51. *Times of India*, “BJP Manifesto 2014: Highlights,” April 7, 2014, accessed April 2, 2017, http://timesofindia.indiatimes.com/news /BJP-manifesto-2014-Highlights/articleshow/33386835.cms. [↑](#endnote-ref-51)
52. Government of India, “Demonetisation,” op. cit., 54. [↑](#endnote-ref-52)
53. Government of India, “Demonetisation,” op. cit. These schemes included the creation of a Special Investigative Team (SIT) in the 2014 budget; the *Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015*, No. 22 of 2015, Ministry of Law and Justice; and the Income Disclosure Scheme in September 2016. [↑](#endnote-ref-53)
54. The entire exercise was intended to last from November 8 to December 30, 2016. [↑](#endnote-ref-54)
55. *Huffington Post*,“Here’s the Full Text of Modi’s Speech, op. cit. [↑](#endnote-ref-55)
56. Reserve Bank of India, “Withdrawal of Legal Tender Status for ₹500 and ₹1000 Notes: RBI Notice,” press release, November 8, 2016, accessed November 25, 2016, https://rbi.org.in/Scripts/BS\_PressReleaseDisplay.aspx?prid=38520; *FirstPost*, “Demonetisation 30 Days: A Timeline of PM Narendra Modi’s Grand Indian Currency Show,”December 8, 2016, accessed November 10, 2017, www.firstpost.com/business/demonetisation-30-days-a-timeline-of-pm-narendra-modis-grand-indian-currency-show-3146334.html. Initially, these limits were set at ₹2,000 per day per card up to November 18, 2016, and then raised to ₹4,000 per card per day on November 19, 2016. These limits were then gradually increased. [↑](#endnote-ref-56)
57. Reserve Bank of India, “Withdrawal of Legal Tender Status for ₹500 and ₹1000 Notes: RBI Notice,” press release, November 8, 2016, accessed November 25, 2016, https://rbi.org.in/Scripts/BS\_PressReleaseDisplay.aspx?prid=38520. [↑](#endnote-ref-57)
58. Thus, between November 9 and November 24, 2016, cash withdrawals from bank accounts made at bank counters were restricted to ₹10,000 per day, subject to an overall limit of ₹20,000 a week. [↑](#endnote-ref-58)
59. Reserve Bank of India, “Withdrawal of Legal Tender Status,” op. cit. [↑](#endnote-ref-59)
60. *Business Standard*, “List: You Can Use Your Old Rs 500 Note Till Dec 15 Midnight at All These Places,” December 14, 2016, accessed April 23, 2017, www.business-standard.com/article/economy-policy/list-you-can-use-your-old-rs-500-note-till-dec-15-midnight-at-all-these-places-116121400263\_1.html. [↑](#endnote-ref-60)
61. Deepshikha Sikarwar, “Old Note Deposits in Banks to Be Allowed Only Once Till December 30 if It Exceeds Rs 5,000,” *Economic Times*, December 20, 2016, accessed December 30, 2016, http://economictimes.indiatimes.com/news/economy /policy/old-note-deposits-in-banks-to-be-allowed-only-once-till-december-30-if-it-exceeds-rs-5000/articleshow/56060026.cms. [↑](#endnote-ref-61)
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63. *Hans India*, “Serpentine Queues Still Continue,” December 17, 2016, www.thehansindia.com/posts /index/Telangana/2016-12-17/Serpentine-queues-still-continue/269132; “Demonetisation: Long Queues Outside Banks, ATMs Continue,” Rajya Sabha (RS tv), November 17, 2016, http://rstv.nic.in/demonetisation-long-queues-outside-banks-atms-continue.html. [↑](#endnote-ref-63)
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