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Demonetisation in India and Emerging Challenges: A Report Delivered to the Department for the Economy, Northern Ireland and the Government of India by Queen's University Belfast and O.P. Jindal Global University

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सत्यमेव जयते

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Context

Demonetisation is the act of divesting a currency unit of its status as legal tender, and in some cases replacing it with new currency units. While the Western World is engaged in eager discussions on whether or not cash is an outdated means of payment in the 21st century (providing shelter for the 'shadow economy' rather than merely simplifying every day means of payment), the Indian Government took the bold step, on 8 November 2016, of instantly stripping the 500 and 1,000-Rupee currency notes of their status as legal tender (these notes constituted over 86 per cent of the currency in circulation). The reasons given included the curbing of the hoarding of 'black money',[1] the elimination of counterfeit currency,[2] the reduction in cross-border terrorist incursions, the enhancement of the digital economy,[3] and the inducement of more of the population onto the formal, taxable economic grid (see Appendix).[4]

The Government of India (through the person of the Prime Minister, Narendra Modi) declared its intention of replacing demonetised units with new currency units of 500 and 2,000-Rupee denominations. Demonetisation has impacted Indian society like no other event in the country's financial history: effects have been felt across all classes in their daily activities; the effects on businesses and financial institutions have also been pronounced. The suddenness of both the initiation of demonetisation, and the conclusion of the first stage on 30 December 2016, received mixed responses from stakeholders.[5]

The Indian Government is, by its own admission, committed to fighting against poverty, and to enhancing the nation's prosperity and economic growth.[6] The country, with a population of over 1.3 billion people, has the potential to become a leader among the innovative economies of the world – particularly in the knowledge-intensive fields of science and technology;[7] it should be recalled, however, that poverty affects more than half of India's population.[8] It should also be noted that over 95 per cent of all transactions in India are conducted in the form of cash; indeed India's cash to GDP ratio (an indicator of the amount of cash in the economy) is 12-13 per cent: much higher than most leading economies, including the United States, the United Kingdom, and the Eurozone.[9]

Demonetisation clearly has had an immediate impact on many areas of the economy. The media reported anecdotally on the issues in diverse scenarios, which might be summarized by this vignette on the Forbes website:

> Businesses shut down, farmers couldn't buy seeds, taxi and rickshaw drivers didn't have any way to receive payments, employers had no way to pay their employees, hospitals were refusing patients who only had old banknotes, fishermen watched their catch wither up and rot, some families had difficulty buying food, and weddings throughout the country were canceled.[10]

At present there are no reliable figures on the cost of demonetisation to the economy; it has, however, had a major impact on the labour market, and has resulted in increased uncertainty and a fall in employment elasticity.[11] Demonetisation was instituted in a context in which a majority of workers are paid in cash, and have no written contracts or benefits.[12] These problems are compounded by the fact that since demonetisation the country has experienced a 'reverse migration' from industrial states like Punjab, Haryana, Maharashtra, Gujarat back to the workers' places of origin.[13] The effects have been felt in both the formal and informal economies.

After the announcement of 8 November, it quickly became apparent that the banks were unprepared for the transition, owing to the unavailability of the new notes. Initially the amount of defunct currency that could be exchanged over the counter at banks was set at 4,000 Rupees; five days later this was increased to 4,500 Rupees; in late November 2016 over-the-counter exchanges ceased altogether.[14] The situation was complicated by the fact that the Reserve Bank of India introduced different rules for District Central Cooperative Banks and Primary Agricultural Credit Societies: the two primary financial institutions used by the rural population.[15]

One of the aims of demonetisation was the acceleration of the digital economy. It is interesting to note that in November and December 2016, there was, according to the Reserve Bank of India (RBI) a marked increase in digital payments – particularly point-of-sale (PoS) card transactions. This figure is in part explained by the severe limits on ATM withdrawals; but it is interesting that the total use of digital

solutions (including digital wallets and prepaid cards) rose by more than 100 per cent, and the average value of individual transactions on digital payment solutions rose by 62 per cent.[16] There are various strictures on the future growth of digital payments, including the relative scarcity of PoS and ATM facilities; this is currently being addressed through a government mandate for the installation of new electronic facilities. The target of a million new machines by 31 March 2017 has been met – and indeed exceeded.[17]

Another initiative undertaken in the wake of demonetisation is the roll-out of a Goods and Services Tax (GST) in September 2017. While the institution of this measure will have an adverse impact on the informal, rural, and cash-based sectors of the economy initially, it might have long-term structural benefits. The country's growth estimate for 2017 has been reduced from 7.9 per cent to 6.9 per cent; prices are expected to fall marginally in the short term, and a delay in private-sector investment is also expected. It is also forecast that demand will rebound in 2018. Thus the combined factors of demonetisation and GST could result in a wider tax base, and greater participation in the formal economy, which should benefit India's business climate and financial system.[18]

There are, of course, adverse, far-reaching effects embodied in the sudden shock of demonetisation, which are felt in areas far removed from the realms of banking, credit ratings, national economic forecasts, and high finance. This monumental financial measure has had a deep social impact, which has been much harder to isolate and quantify – particularly in the days and months following 8 November 2016, because of the absence of reliable evidence, in the form of case studies; these are only now beginning to emerge. For example, the OECD Global Anti-Corruption & Integrity Forum has produced a study on India's anti-corruption policies, in the wake of demonetisation. It found that while this financial measure reinvigorated public debate on the need for integrity and accountability, the emphasis the government placed on cash-based issues might well have the effect of diverting attention away from the adoption of more holistic strategies, including strengthening legislation and capacity-building amongst regulators and anti-corruption watchdogs.[19] All indications are that Government communications regarding the rationale for demonetisation were limited.

Many other issues emerged for civil society in the wake of Prime Minister Modi's announcement. For example, farmers were unable to sell recently-harvested crops, or purchase seeds for the upcoming winter season; thus prices crashed and wages fell.[20] At hospitals and doctors' surgeries there were cases of patients being turned away, as a result of not having notes in acceptable denominations.[21] Reports have also surfaced of the effects of demonetisation on human trafficking. A report in the UK's *Guardian* newspaper indicates that demonetisation complicated every point in the supply chain: suppliers had less capital to buy and transport people, from such states as Jharkhand, Assam and Bihar, and potential buyers were unable to pay for services.[22] Those who were trafficked suffered in other ways, because they often lacked the identity documents necessary to set up bank accounts to exchange the demonetized currency, and thus lost their cash savings. Case studies from such organisations as Bachpan Bachao Andolan (an Indian NGO battling slavery, forced labour and bonded labour) are forthcoming.[23]

The Queen's-O.P. Jindal Conference

On 10-11 April 2017 a conference was held at O.P. Jindal University in Sonipat, Haryana, India; the organisers were academics from Queen's University and Jindal University. They brought together representatives of large and medium-size businesses, accountancy firms, banks, think tanks, the media, representatives of civil society, digital finance experts, economists, and other stakeholders. The occasion served as a unique opportunity to collect observations and expert opinions on the current state of affairs, five months after the momentous events of November 2016. The present report distils the content of those frank interchanges, and serves as a foundation on which to build a considered response by the Government of India to the effects of demonetisation. The report is, by its nature preliminary, as there is at present no data to support many of the observations made. Should circumstances and further funding opportunities allow, supplementary research will be undertaken, which will include both case studies and quantifiable metrics, thus providing solid evidence of the outworkings of this monumental financial intervention.

Key Issues

A recurring issue in the wake of demonetisation is the highly perceptible insecurity faced by market actors and citizens, in the light of an unanticipated measure that took the country by surprise. Both critics and supporters of the measure seek to explain the impact of this sharp shock by arguing that the Government of India did not consult internal or external authorities,[24] and did not allow the population time to prepare for this event, it is clear that certain key issues undoubtedly remain to be addressed. The headline issues listed here emerge specifically from the Queen's-OP Jindal workshop; there are, of course, many others, which are not enumerated in this listing.

The Effect of Demonetisation on the Shadow Economy

While the supporters of demonetisation argue that it downgraded the shadow economy and reduced tax evasion,[25] there is no objective evidence to support this claim – whether from independent financial experts or from the Government of India itself.[26] It will therefore be necessary to quantify the effects of demonetisation on the shadow economy, relying on thorough data collection or case studies. Claims have been made that up to 97% of demonetized notes were deposited in banks by 30 December 2016;[27] however this figure has not been independently verified.

The Effect of Demonetisation on Prices in the Indian Economy

Views have been expressed on the effects of demonetisation on inflation rates. It is claimed, for example, that stripping small currency notes out of the economy would make it impossible for vendors to provide change; they would therefore adjust their prices accordingly. The agricultural sector, for example, experienced volatility in pricing shortly after demonetisation, and opposing claims have been made concerning whether prices rose or fell in the aftermath of the Prime Minister's announcement.[28] It is possible that price fluctuation was due to seasonalities, rather than to the unique announcement of 8 November. In this particular case it is advisable to reconsider the data sets by deleting possible seasonalities, by lagging the observations, and by addressing such issues of heteroscedasticity[29] and autocorrelation.[30]

The Effect of Demonetisation on the Informal Sector

Demonetisation has clearly had a detrimental effect on the income of casual labourers in the tertiary sector, who not only live their lives outside of the formal economy, but rely on cash for their income payments, and carry out virtually all of their transactions in cash. They constitute 92% of the country's workforce and account for 59% of India's GDP.[31] This base-of-the-pyramid workforce was the sector most impacted by demonetisation: reports indicate that there was a significant loss of earnings in the wake of 8 November 2016, [32] and lack of access to financial services compounded the problem. Urgent quantitative and qualitative studies are required, in order to assess the nature and size of the issues affecting this large and important sector of the population.

Demonetisation and Digital Finance

It is clear that through the embrace of technology the people of India can move some distance towards a cashless society; indeed the overarching goal is to include over 90% of underserved sections of society in the ambit of formal finance by the year 2021.[33] India has been plagued historically by very low rate of financial inclusion – that is, the access of individuals and businesses to financial services and capital. As of 2014, it is estimated that only 53% of India's population had access to formal financial services.[34] This low rate, in turn, affects economic growth and financial development, not to mention the daily lives of a large percentage of the population. The link between demonetisation and inclusion derives from the fact that a cashless society relying on digital payments could, over time, enhance the usage of financial services by those parts of the population that have no formal access to banks; at the same time, going cashless could address the economic and security problems usually associated with cash.

Money is, metaphorically, the blood that makes the economy live and function. India is a particularly cash-heavy economy, with almost 78% of all consumer payments being effected in cash.[35] The decision to withdraw such a significant volume of the circulating currency has left a large portion of the Indian population and business sector with no means of payments; nonetheless, the decision to demonetise (whilst highly questionable from a policy perspective) has paradoxically

boosted the adoption of digital payments as a replacement for cash and, in doing so, also enhanced the prospects for a more financially inclusive India.

The eventual achievement of a cashless state is very complex task. While rapid progress has been made in economies with a high degree of maturity,[36] this will not be possible in India for some time to come. There are, nevertheless, incentives for increased use of formal banking structures. For example, the fixed-deposit interest rates in India are very competitive;[37] but they are in line with the Central Bank prime rate,[38] thus begging the question of how attractive relying on the private sector is for corporate banks to finance their operations. Yet moving towards a cashless society could potentially address many of the country's fiscal issues: since all electronic transactions are recorded, all payments will be monitored and processed in real time, thus reducing the risks of tax evasion and money laundering, not to mention diminishing the costs of maintaining the infrastructures on which paper currency relies. Indeed switching to a digital payment ecosystem, rather than relying on a traditional banking system, can, over time, not only reduce financial exclusion, but can increase tax revenue from a more diverse workforce. An important consideration for realising these goals and reaping the benefits is the need for investment in a reliable telecoms network, and the provision of the population with inexpensive, easy-to-use means of effecting digital payments.

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[1] 'Black money', not declared for tax purposes, has been particularly prevalent in such areas of the Indian economy as real estate and the purchase of gold.

[2] Estimates suggest that before demonetization, 250 out of every million Indian banknotes were counterfeit. See Minister of Finance's response to question in Parliament (Lok Sabha) on 5 August 2016: http://164.100.47.190/loksabhaquestions/annex/9/AU3285.pdf

[3] See Deliotte India's report, 'Moving Towards a Digital Economy', January 2017: https://www2.deloitte.com/content/dam/Deloitte/in/Documents/finance/in-fa-forensic-critical-security-and-fraud-control-measures-noexp.pdf

[4] For the full text of Prime Minister Narendra Modi's speech to the nation see Appendix, and https://blogs.wsj.com/indiarealtime/2016/11/08/full-text-of-indian-prime-minister-narendra-modis-speech-on-replacing-largest-rupee-notes/

[5]http://www.forbes.com/sites/wadeshepard/2017/01/03/after-day-50-the-results-from-indias-demonetization-campaign-are-in/#731d5da1552e

[6] See economic forecast for India by the OECD: http://www.oecd.org/eco/outlook/india-economic-forecast-summary.htm See also the Government of India's Five-Year Plan, *Faster, More Inclusive and Sustainable Growth*: http://planningcommission.gov.in/plans/planrel/12thplan/welcome.html

[7] http://blogs.economictimes.indiatimes.com/et-commentary/india-has-the-potential-to-become-a-leader-among-innovative-economies/

[8] *Perspectives on Poverty in India: Stylized Facts from Survey Data* (Washington, DC: The World Bank, 2011), p. 4.

[9] http://economictimes.indiatimes.com/news/economy/indicators/going-cashless-rising-currency-gdp-ratio-key-impediment/articleshow/55648619.cms

[10] https://www.forbes.com/sites/wadeshepard/2017/01/03/after-day-50-the-results-from-indias-demonetization-campaign-are-in/#4cf32a3d50d1

[11] http://www.hrkatha.com/news/1132-india-low-on-employment-elasticity-assocham

[12] *Fifth Annual Employment and Unemployment Survey* (Government of India, Ministry of Labour & employment 2015-16): http://labourbureaunew.gov.in/UserContent/EUS_5th_1.pdf

[13]See http://timesofindia.indiatimes.com/india/Demonetisation-effect-Reverse-migration-has-begun-says-Congress-leader-Digvijaya-Singh/articleshow/55851422.cms and http://indianexpress.com/article/india/demonetisation-has-set-off-reverse-migration-subhashini-ali-4425406/

[14] http://timesofindia.indiatimes.com/india/you-can-now-withdraw-up-to-10000-a-day-at-atms/articleshow/56608677.cms

[15] See http://economictimes.indiatimes.com/wealth/personal-finance-news/clients-of-cooperative-banks-need-not-panic/articleshow/56031870.cms District Central Cooperative Banks were established to provide banking to the rural hinterland, with branches primarily in district headquarters or prominent towns in a particular area. Primary Agricultural Credit Societies are organized at the grass-roots level of a village or group of villages, and provide loans to rural(primarily agricultural) borrowers.

[16] See 'Current Statistics', *Reserve Bank of India Bulletin* 71.2 (February 2017): 65. Available online at https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/0B100220176D913F52F17E4E478E1D42145CCD9C5A.PDF For a distillation of the RBI statistics on digital payments see https://yourstory.com/2017/02/digital-india-post-demonetisation/

[17] http://tech.economictimes.indiatimes.com/news/internet/banks-surpass-pms-a-million-more-pos-target/58189516

[18] See Abhishek Dangra, 'India's Demonetisation and the GST: Short-Term Pain for Long-Term Gain', S&P Global Market Intelligence, 13 Dec. 2016: https://www.globalcreditportal.com/ratingsdirect/showArticlePage.do?object_id=9910878&rev_id=2&sid=1777824&sind=A&

[19] For the full text of the report see https://www.oecd.org/cleangovbiz/Integrity-Forum-2017-Beyes-Bhattacharya-India-demonetisation-drive.pdf

[20] See http://timesofindia.indiatimes.com/india/hope-a-failed-harvest-for-farmers-as-cash-runs-dry/articleshow/56385254.cms It should be noted that nearly half of India's population is employed in the agricultural sector; see http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf

[21] See http://indianexpress.com/article/india/india-news-india/demonetisation-effect-hospitals-discourage-patients-whose-admission-not-urgent-4367156/ and http://indianexpress.com/article/india/india-news-india/demonetisation-infant-dies-as-pune-hospital-refuses-part-payment-in-old-notes-4386440/

[22] https://www.theguardian.com/global-development/2016/dec/22/india-currency-note-ban-sparks-dramatic-fall-sex-trafficking

[23] See http://www.bba.org.in/?q=content/trafficking-0

[24] See, for example, https://thewire.in/81767/demonetisation-consultation/

[25] See http://economictimes.indiatimes.com/news/economy/indicators/eliminating-shadow-economy-to-have-positive-impact-on-gdp-arun-jaitley/articleshow/56363833.cms

[26] The economic difficulties in India are exacerbated by the fact that only 1.5% of the population pays income tax. See http://economictimes.indiatimes.com/news/economy/policy/why-income-tax-payers-in-india-are-a-small-and-shrinking-breed/articleshow/56929550.cms It should also be noted that the total number of income tax payers has been falling continuously since 2002, even though India has experienced a dramatic growth in population during the same period (from 1.09 billion to over 1.3 billion); see http://censusindia.gov.in/

[27] For the figure of 97% see http://timesofindia.indiatimes.com/toi-features/business/97-of-scrapped-notes-deposited-with-banks-as-on-dec-30-report/articleshow/56344692.cms Forbes, on the other hand, quotes 90%: https://www.forbes.com/sites/timworstall/2016/12/28/90-of-scrapped-notes-in-banking-system-india-gets-the-tax-not-the-dividend/#755ed5c22eae

[28] On the fall of prices in the agricultural sector see the *All India Consumer Price Index* computed by the Ministry of Statistics and Programme Implementation: http://164.100.34.62:8080/cpiindex/Default1.aspx For a more positive assessment see http://niti.gov.in/writereaddata/files/document_publication/Demonetisation_Agriculture_Blog.pdf

[29] Heteroscedasticity refers to statistics of unequal scatter or variation. It is a circumstance in which the variability of a variable is unequal across the range of values of a second variable that predicts it.

[30] Autocorrelation is a mathematical representation of the degree of similarity between each of the elements of a series or array and the elements that follow after some chosen time interval.

[31] See OECD Economic Survey of India 2014: http://www.oecd-ilibrary.org/economics/oecd-economic-surveys-india-2014_eco_surveys-ind-2014-en

[32] See http://www.epw.in/node/148264/pdf, http://blogs.lse.ac.uk/southasia/2017/02/28/reviving-the-informal-sector-from-the-throes-of-demonetisation/ and https://thewire.in/97727/demonetisation-four-areas-delhi/

[33] See https://letstalkpayments.com/cashless-india-seeing-the-vision-for-financial-inclusion-come-true-part-2/

[34] See Findex Database 2014, 'Measuring Financial Inclusion around the World': http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf

[35] See https://www.ft.com/content/e3f2aaa8-f77d-11e6-bd4e-68d53499ed71

[36] Sweden is currently the economy that has advanced furthest in terms of cashless transactions; see https://www.theguardian.com/business/2016/jun/04/sweden-cashless-society-cards-phone-apps-leading-europe

[37] A comparison across different Indian banks can be found in: https://www.myloancare.in/fixed-deposit/fd-interest-rates/

[38] In June 2017 the Policy Repo Rate of the Indian Central Bank is at 6.25%; see http://www.cbrates.com

Recommendations

It must be recognised that the recommendations emerging from this initial report are based on a preliminary consideration of the issues, in the absence of reliable data. Demonetisation is too recent an event: there has been no opportunity to engage in meaningful quantitative analysis, or to complete case studies that will examine particular groups or sectors affected by this monumental, far-reaching financial measure. The recommendations are therefore, by their nature, provisional; but it is hoped that they provide a sound basis for further exploration, in which this report's authors seek to play a leading role.

1. Undertake research to monitor, analyse and assess the short and medium-term ongoing impact of demonetisation on the Indian economy, with research to be focused both of specific sub-sectors of the economy and on different regions of the country.

2. Undertake research specifically to assess the ongoing impact of demonetization on micro, small and medium enterprises.

3. Undertake research to consider the impact of the demonetisation programme on attitudes towards, confidence in, and support for, government and government policies among key sectors of business and civil society.

4. Undertake research on the short and medium-term impacts of demonetisation on specific areas of corruption associated with cash transactions.

5. Undertake research on potential amendments of banking and taxation laws to encourage enhanced use of digital finance.

6. Undertake research on the broader issue of government policy on challenging corruption and bribery, in order to review the strategic framework and to identify the activities that should be undertaken to build on, complement and extend the demonetisation programme.

7. Undertake research on the practices and the functioning of the shadow economy. Such investigation can optimally be done through case studies, undertaken to gain a better understanding into precisely what is being challenged or combated.

8. Undertake research to assess and determine the costs and risks of proposing such radical measures as demonetisation, in advance of their implementation, particularly with a view to regulating negative externalities

Benefits Accrued

- Academic & public exchange to assess the current state of affairs in relation to demonetisation in India
- The provision of UK expertise to the Government of India, to assist in addressing pressing national issues, that affect the whole of society – particularly the economically and socially disadvantaged
- Identification of areas of mutual concern, including the premise of e-money and digital payments
- Understanding the fundamental drivers behind Indian money supply; the effects of crime and corruption; and the impact on civil society.
- Development of joint research initiatives and case studies to assess the impact of demonetisation in a variety of sectors
- Development of joint research publications on demonetisation and its impact
- Confirmation of enhanced cooperation, including student and staff exchange, between Queen's University and Jindal University, in the fields of finance & management, law, sociology, and political science
- Effective pump-priming for applications to the UK's Arts & Humanities Research Council (AHRC) and Economic & Social Research Council (ESRC) for further, in-depth projects related to demonetisation in India

Appendix

Full text of speech by Indian Prime Minister Narendra Modi on demonetisation, 8 November 2016

My dear citizens,

I hope you ended the festive season of Diwali with joy and new hope. Today, I will be speaking to you about some critical issues and important decisions. Today I want to make a special request to all of you. You may recall the economic situation in May 2014 when you entrusted us with an onerous responsibility. In the context of BRICS, it was being said that the "I" in BRICS was shaky. Since then, we had two years of severe drought. Yet, in the last two and a half years with the support of 125 crore Indians, India has become the "bright spot" in the global economy. It is not just we who are saying this; it is being stated by the International Monetary Fund and the World Bank.

In this effort for development, our motto has been 'Sab Ka Saath Sab Ka Vikas': We are with all citizens and for development of all citizens. This Government is dedicated to the poor. It will remain dedicated to them. In our fight against poverty, our main thrust has been to empower the poor, and make them active participants in the benefits of economic progress.

The Pradhan Mantri Jan Dhan Yojana, the Jan Suraksha Yojana, the Pradhan Mantri Mudra Yojana for small enterprises, the Stand-up India program for Dalits, Adivasis and women, the Pradhan Mantri Ujjwala Scheme for gas connections in the homes of the poor, the Pradhan Mantri Fasal Beema Yojana and Pradhan Mantri Krishi Sinchai Yojana to protect the income of farmers, the Soil Health Card Scheme to ensure the best possible yield from farmers' fields, and the e-NAM National Market Place scheme to ensure farmers get the right price for their produce—these are all reflections of this approach.

In the past decades, the specter of corruption and black money has grown. It has weakened the effort to remove poverty. On the one hand, we are now no.1 in the rate of economic growth. But on the other hand, we were ranked close to one hundred in the global corruption perceptions ranking two years back. In spite of many steps taken, we have only been able to reach a ranking of seventy-six now. Of course, there is improvement. This shows the extent to which corruption and black money have spread their tentacles.

The evil of corruption has been spread by certain sections of society for their selfish interest. They have ignored the poor and cornered benefits. Some people have misused their office for personal gain. On the other hand, honest people have fought against this evil. Crores of common men and women have lived lives of integrity. We hear about poor auto-rickshaw drivers returning gold ornaments left in the vehicles to their rightful owners. We hear about taxi drivers who take pains to locate the owners of cell phones left behind. We hear of vegetable vendors who return excess money given by customers.

There comes a time in the history of a country's development when a need is felt for a strong and decisive step. For years, this country has felt that corruption, black money and terrorism are festering sores, holding us back in the race towards development.

Terrorism is a frightening threat. So many have lost their lives because of it. But have you ever thought about how these terrorists get their money? Enemies from across the border run their operations using fake currency notes. This has been going on for years. Many times, those using fake 500 and 1,000 rupee notes have been caught and many such notes have been seized.

Brothers and sisters,

On the one hand is the problem of terrorism; on the other is the challenge posed by corruption and black money. We began our battle against corruption by setting up an SIT headed by a retired Supreme Court judge, immediately upon taking office. Since then a law was passed in 2015 for disclosure of foreign black money;

- agreements with many countries, including the USA, have been made to add provisions for sharing banking information;
- a strict law has come into force from August 2016 to curb benami transactions, which are used to deploy black money earned through corruption;
- a scheme was introduced for declaring black money after paying a stiff penalty;

My dear countrymen,

Through all these efforts, in the last two and a half years, we have brought into the open nearly 1 lakh 25 thousand crore rupees of black money belonging to the corrupt. Honest citizens want this fight against corruption, black money, benami property, terrorism and counterfeiting to continue. Which honest citizen would not be pained by reports of crores worth of currency notes stashed under the beds of government officers? Or by reports of cash found in gunny bags?

The magnitude of cash in circulation is directly linked to the level of corruption. Inflation becomes worse through the deployment of cash earned in corrupt ways. The poor have to bear the brunt of this. It has a direct effect on the purchasing power of the poor and the middle class. You may yourself have experienced when buying land or a house, that apart from the amount paid by check, a large amount is demanded in cash. This creates problems for an honest person in buying property. The misuse of cash has led to artificial increase in the cost of goods and services like houses, land, higher education, health care and so on.

High circulation of cash also strengthens the hawala trade which is directly connected to black money and illegal trade in weapons. Debate on the role of black money in elections has been going on for years.

Brothers and sisters,

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 longer be legal tender from midnight tonight, that is 8th November 2016. This means that these notes will not be acceptable for transactions from midnight onwards. The 500 and 1,000 rupee notes hoarded by anti-national and anti-social elements will become just worthless pieces of paper. The rights and the interests of honest, hard-working people will be fully protected. Let me assure you that notes of 100, 50, 20, 10, five, two and one rupee and all coins will remain legal tender and will not be affected.

This step will strengthen the hands of the common man in the fight against corruption, black money and fake currency. To minimize the difficulties of citizens in the coming days, several steps are being taken.

1. Persons holding old notes of 500 or 1,000 rupees can deposit these notes in their bank or post office accounts from 10th November till close of banking hours on 30th December 2016 without any limit.
2. Thus you will have 50 days to deposit your notes and there is no need for panic.
3. Your money will remain yours. You need have no worry on this point.
4. After depositing your money in your account, you can draw it when you need it.
5. Keeping in mind the supply of new notes, in the first few days, there will be a limit of 10,000 rupees per day and 20,000 rupees per week. This limit will be increased in the coming days.
6. Apart from depositing your notes in your bank account, another facility will also be there.

7. For your immediate needs, you can go to any bank, head post office or sub post office, show your identity proof like Aadhaar card, voter card, ration card, passport, PAN card or other approved proofs, and exchange your old 500 or 1,000 rupee notes for new notes.
8. From 10th November till 24th November the limit for such exchange will be 4,000 rupees. From 25th November till 30th December, the limit will be increased.
9. There may be some who, for some reason, are not able to deposit their old 500 or 1,000 rupee notes by 30th December 2016.
10. They can go to specified offices of the Reserve Bank of India up to 31st March 2017 and deposit the notes after submitting a declaration form.
11. On 9th November and in some places on 10th November also, ATMs will not work. In the first few days, there will be a limit of 2,000 rupees per day per card.
12. This will be raised to 4,000 rupees later.
13. 500 and 1,000 rupee notes will not be legal tender from midnight. However for humanitarian reasons, to reduce hardship to citizens, some special arrangements have been made for the first 72 hours, that is till midnight on 11th November.
14. During this period, government hospitals will continue to accept 500 and 1,000 rupee notes for payment.
15. This is for the benefit of those families whose members may be unwell.
16. Pharmacies in government hospitals will also accept these notes for buying medicines with doctors' prescription.
17. For 72 hours, till midnight on 11th November, railway ticket booking counters, ticket counters of government buses and airline ticket counters at airports will accept the old notes for purchase of tickets. This is for the benefit of those who may be travelling at this time.
18. For 72 hours, 500 and 1,000 rupee notes will be accepted also at

• Petrol, diesel and CNG gas stations authorized by public sector oil companies
• Consumer co-operative stores authorized by State or Central Government
• Milk booths authorized by State governments
• Crematoria and burial grounds.

These outlets will have to keep proper records of stock and collections.

19. Arrangements will be made at international airports for arriving and departing passengers who have 500 or 1,000 rupee notes of not more than 5,000 rupees, to exchange them for new notes or other legal tender.
20. Foreign tourists will be able to exchange foreign currency or old notes of not more than Rs 5,000 into legal tender.
21. One more thing I would like to mention, I want to stress that in this entire exercise, there is no restriction of any kind on non-cash payments by checks, demand drafts, debit or credit cards and electronic fund transfer.

Brothers and sisters,

In spite of all these efforts there may be temporary hardships to be faced by honest citizens. Experience tells us that ordinary citizens are always ready to make sacrifices and face difficulties for the benefit of the nation. I see that spirit when a poor widow gives up her LPG subsidy, when a retired school teacher contributes his pension to the Swacch Bharat mission, when a poor Adivasi mother sells her goats to build a toilet, when a soldier contributes 57,000 rupees to make his village clean. I have seen that the ordinary citizen has the determination to do anything, if it will lead to the country's progress.

So, in this fight against corruption, black money, fake notes and terrorism, in this movement for purifying our country, will our people not put up with difficulties for some days? I have full confidence that every citizen will stand up and participate in this 'mahayagna'. My dear countrymen, after the festivity of Diwali, now join the nation and extend your hand in this Imandaari ka Utsav, this Pramanikta ka Parv, this celebration of integrity, this festival of credibility.

I am sure that all political parties, all governments, social services organizations, the media and indeed all sections of the society will take part in this with enthusiasm and make it a success.

My dear countrymen,

Secrecy was essential for this action. It is only now, as I speak to you, that various agencies like banks, post offices, railways, hospitals and others are being informed. The Reserve Bank, banks and post offices have to make many arrangements at very short notice. Obviously, time will be needed. Therefore all banks will be closed to the public on 9th November. This may cause some hardship to you. I have full faith that banks and post offices will successfully carry out this great task of national importance. However, I appeal to all of you to help the banks and post offices to meet this challenge with poise and determination.

My dear citizens,

From time to time, based on currency needs, the Reserve Bank with the approval of the Central Government brings out new notes of higher value. In 2014, the Reserve Bank sent a recommendation for issue of 5,000 and 10,000 rupee notes. After careful consideration, this was not accepted. Now as part of this exercise, RBI's recommendation to issue 2,000 rupee notes has been accepted. New notes of 500 rupees and 2,000 rupees, with completely new design will be introduced. Based on past experience, the Reserve Bank will hereafter make arrangements to limit the share of high denomination notes in the total currency in circulation.

In a country's history, there come moments when every person feels he too should be part of that moment, that he too should make his contribution to the country's progress. Such moments come but rarely. Now, we again have an opportunity where every citizen can join this mahayajna against the ills of corruption, black money and fake notes. The more help you give in this campaign, the more successful it will be.
It has been a matter of concern for all of us that corruption and black money tend to be accepted as part of life. This type of thinking has afflicted our politics, our administration and our society like an infestation of termites. None of our public institutions is free from these termites.

Time and again, I have seen that when the average citizen has to choose between accepting dishonesty and bearing inconvenience, they always choose to put up with inconvenience. They will not support dishonesty.

Once again, let me invite you to make your contribution to this grand sacrifice for cleansing our country, just as you cleaned up your surroundings during Diwali.

Let us ignore the temporary hardship.
Let us join this festival of integrity and credibility.
Let us enable coming generations to live their lives with dignity.
Let us fight corruption and black money.
Let us ensure that the nation's wealth benefits the poor.
Let us enable law-abiding citizens to get their due share.
I am confident in the 125 crore people of India and I am sure country will get success.

Thank you very much. Thanks a lot.

Namaskar.
Bharat Mata Ki Jai.

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Demonetisation is the act of divesting a currency unit of its status as legal tender, and in some cases replacing it with new currency units. On 8 November 2016 the Indian Government took the bold step of instantly stripping the 500 and 1,000-Rupee currency notes (which constituted over 86 per cent of the currency in circulation) of their of their value as circulating currency. This report provides an initial assessment of the consequences of this measure for Indian society; it also identifies some of the key longer-term issues, and provides recommendations for further investigation. The full text of the Indian Prime Minister's public announcement is reprinted as an Appendix.

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