



IIMC CASE RESEARCH CENTER (IIMCCRC)

INDRANIL BOSE, SRIKRISHNA KULKARNI, SARBANI MUKHERJEE, NITIN KUMAR

APRIL 2019

DEMONETISATION IN INDIA: UNCOVERING THE ENIGMA

INTRODUCTION

It was the second anniversary of a historic occasion – the 2016 demonetisation in India. In his social media post, India's Finance Minister Arun Jaitley said that demonetisation had been a key step in a series of decisions taken by the National Democratic Alliance (NDA) government, led by Prime Minister Narendra Modi, to formalize the economy. Jaitley wrote:

"An ill-informed criticism of the demonetisation is that almost the entire cash money got deposited in the banks. Confiscation of currency was not an objective of demonetisation. Getting it into the formal economy and making the holders pay tax was the broader objective,"¹

In the aftermath of the notes ban, it was now becoming increasingly difficult to evade the tax system, he added. The minister said, direct tax collections in 2018-19, till October-end, had grown by over 20% compared to the previous year. In 2017-18, the number of tax returns filed had increased 25% to 68.6 million. The objectives of demonetisation had indeed been met, he concluded.

Former Prime Minister of India Dr. Manmohan Singh, often called the architect of India's liberalisation, had a different perspective. The eminent economist, a member of the Congress Party, said in a press statement that besides the steep drop in the economic growth rate, the

¹Arun Jaitley, Impact of demonetisation (Facebook, 7 November 2018).

This case was written by Prof. Indranil Bose, Srikrishna Kulkarni, Sarbani Mukherjee and Nitin Kumar. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation.

deeper ramifications of the currency ban were still unraveling. He added that small and medium businesses, the cornerstone of India's economy, were yet to recover from the shock of demonetisation.

*"It is, therefore, prudent to not resort to further unorthodox, short-term economic measures that can cause any more uncertainty in the economy and financial markets. I urge the government to restore certainty and visibility in economic policies."*²

While the government and the Opposition continued their rhetoric on demonetisation, the economic indicators pointed to a mixed outlook. Earlier that year, the Economic Survey 2017-18 had predicted a GDP growth of 7-7.5% in 2018-19, higher than the earlier forecast of 6.75%. While highlighting the decline in cash in circulation, the survey said demonetisation had indeed impacted the informal cash-intensive sectors. However, the survey also indicated a rise in income tax collections following demonetisation and the introduction of the Goods & Services Tax (GST).³ There were reasons for the ruling party to call the policy a success, but detractors had a compelling counter-argument too; mostly around the rise in cash in circulation and the impact on agriculture and the informal sector. Perhaps it was time to revisit the policy's three primary goals to evaluate if the objectives had been met.

² Manmohan Singh seeks certainty in economic policies on demonetization anniversary (ET Bureau, 8 November 2018), <https://economictimes.indiatimes.com/politics/>

³ Economic survey 2017-18, <http://mofapp.nic.in:8080/economicsurvey/>