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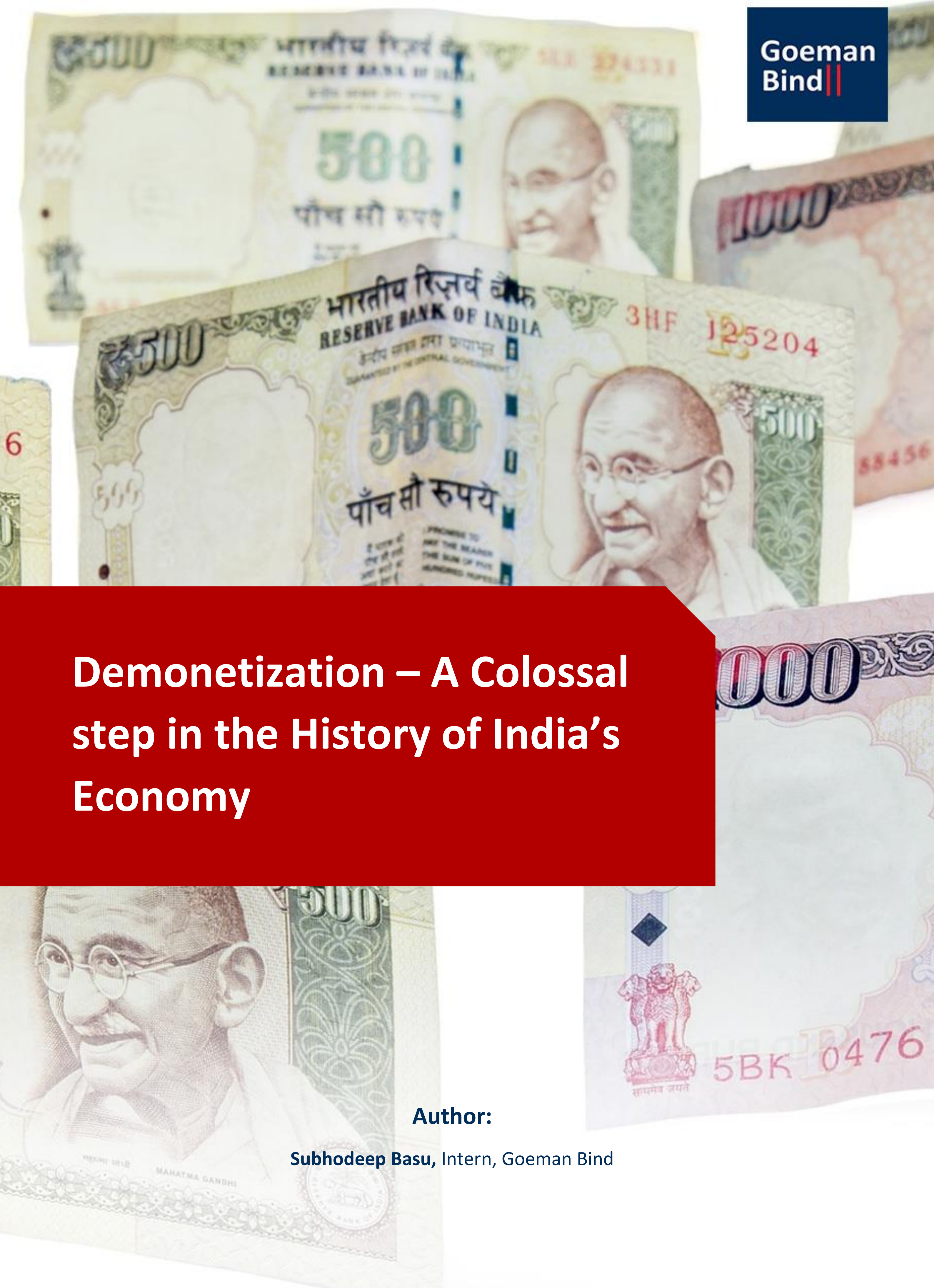

Demonetization – A Colossal step in the History of India’s Economy

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Retrospection of India's Demonetization history:

The 2016 demonetization drive was third of its kind taken by the government of India. The first demonetization was recorded as early as 1946 while the second demonetization took place in 1978 when the Janata Government promulgated an ordinance to phase out Rs. 1000(thousand), 5000 (five thousand) and 10,000 (ten thousand) legal tender.

In order to get an insight into the stakeholders perspective of the 1946 demonetization, lets shed some light on the certain relevant documents of the RBI. In a relevant document of RBI "Sir Chintaman Deshmukh (governor) felt that we may not get even as much as Rs. 10 crores as additional tax revenue from tax evasion and that the contemplated measure, if designed to achieve such a purpose, has no precedent or parallel anywhere. If value is going to be paid for value (no matter whether such value is in lower denomination notes), it is not going to obliterate black markets. His advice is that we should think very seriously if for the object in view (as he deduces from the declaration form) whether this is an opportune time to proceed with the scheme. Provided that the Government is satisfied on the points of (i) sparing harassment to the unoffending holders and (ii) a worthwhile minimum of results in the shape of extra tax revenue, he does not wish to object to the scheme as drafted, if government wishes to proceed with it notwithstanding the administrative difficulties involved."[1]

During the ordinance on demonetization passed by the Janata government certain media recorded coverage of the move. A Times of India report (sourced in-house) published on 17th January 1978 said:

"A press note issued tonight said that the ordinance had been promulgated because there was reason to think that high-denomination notes were facilitating the illegal transfer of money for financing transactions which are harmful to the national economy or which are for illegal purposes. There has been concern in recent months over the behaviour of agricultural prices particularly of edible oils. In spite of a bumper harvest agricultural prices are ruling much higher than after the poor harvest of 1976- 77. Massive imports of edible oil have failed to bring down prices and the mustard oil price control order has failed miserably to give the consumer his requirements at the specified rate. There has been a feeling that a considerable amount of black money has gone to finance hoarding and speculation. The Demonetization of high denomination currency notes will hit black money hard."[2]

The then RBI Governor I.G. Patel was not in favour of such decision. According to him the decision was a move to reprimand the supposedly predecessor governments. Patel recorded in his book that the then Finance Minister H.M. Patel had pointed out:-

"Such an exercise seldom produces striking results. Most people who accept illegal gratification or are otherwise the recipients of black money do not keep their ill-gotten earnings in the form of currency for long. The idea that black money or wealth is held in the form of notes tucked away in suit cases or pillow cases is naïve. And in any case, even those who are caught napping— or waiting—will have the chance to convert the notes through paid agents as some provision has to be made to convert at par notes tendered in small amounts for which explanations cannot be reasonably sought. But the gesture had to be made, and produced much work and little gain.[3]"[i]

Both in 1946 and 1978 the top brass of RBI was not really glad with the decision and if we are to compare the two previous Demonetization drives with the current one, we can say there has been both similarities and differences.

The prominent similarity is that all three were aimed at curbing black money in the economy. Although this time the aspect of national security is also been cited as one of the prime objective.

In both the earlier decisions as we can see from recorded statements RBI was mostly against the exercise and to an extent have been proven right at a later stage. This time though RBI seemed to have welcomed the move in spite of reservations from certain quarter of RBI.

The big difference however this time is the monumental nature of the move. Compared to the last two editions this has impacted the economy and its people by a considerable larger extent. The impact of the current demonetization on the lives of common people has by far been the most relative to the previous two instances.

The first demonetization was clearly intended at cash conversion while the second was more of accumulation by nature as currency stock rose subsequently by 1067 crores in Rs 100 alone. This time it seems to be more inclined towards cash conversion than cash accumulation, it's objectives and purpose are far more elaborate and gargantuan this time.

The key policies of the demonetization drive can be summarized in the points mentioned below:

"Provision until the 30th of December to exchange old Rs.500 and Rs. 1,000 notes. Provision to exchange beyond 30th December at specified RBI offices.

Daily limit of Rs. 2000 or $30 (initially Rs.4,000 or $60 which was then raised to Rs. 4,500 or $67.5) for storage of the counter cash exchanges at banks.

Daily limit of Rs. 2,500 or $37.5 (initially Rs. 2,000 or $30) for cash withdrawals at recalibrated ATMs. Daily limit of Rs.2000 at other ATMs.

Weekly limit of Rs.24,000 or $360 (initially Rs.20,000 or $300) for withdrawal from bank accounts.

Banks, post offices, and co-operative banks are mandated to report to the Income Tax Department in case cash deposits in savings and current accounts exceed Rs2.5 lakh ($3750) and Rs.12.5 lakh ($18,750) between November 9th and December 30th, or cash deposits of over Rs.50,000 ($750) are made in one day. The entities will then have to file a statement of these high value transactions on or before 31st January, 2017."[4]

A key observation: India's demonetization is unprecedented in international economic history, as it combined secrecy and suddenness amidst normal economic and political conditions. All other sudden demonetization have occurred in the context of hyperinflation, wars, political upheavals, or other extreme circumstances. But the Indian economy had been growing at the fastest clip in the world on the back of stable macroeconomics and an impressive set of reforms. A demonetization of high valued currency under such a situation can hinder potential economic growth to a considerable extent. So when an economy is growing at a relatively steady state what compelled the government to take such a drastic step is a significant incertitude. To comprehend the government and RBI's perspective regarding this it is important that we consider the objectives which might have prompted the institutions to take this giant leap.

Objectives behind the monumental injunction:

Removing Black Money From Country: The step is a jolt to the underground economy of the country. It was thought that People who were having hordes of black money will now be impacted to a great extent. Popular media hailed the move as "the surgical strike on black money in India."

Curbing Corruption: The removal of the Currency Notes from circulation is believed to have direct impact on corruption as most of the malpractices, be it at the ground level or at the high level is conducted with tons of illicit money.

Creating a situation of exigency for terror group: Because of demonetization, the people or organizations who used to fund terror groups could be in hot waters as the lifeline of such organizations is mostly funded by the black money itself.

Curbing Fake Notes: Demonetization could stop the circulation of fake Notes in the economy. Fake notes circulation is detrimental to any economy's growth and mostly it is the high valued currencies which are counterfeited. With circulation of new notes in the economy it might give a temporary solution to the problem.

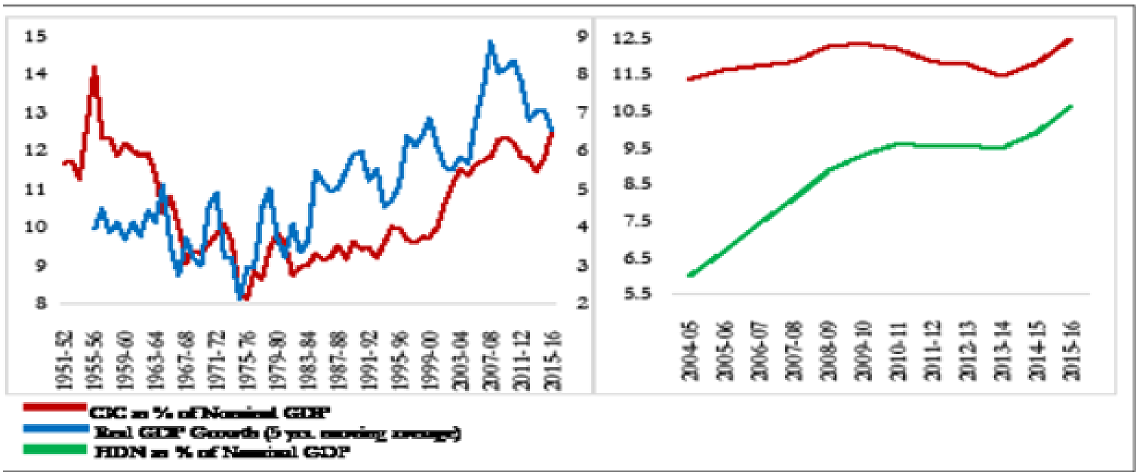
Crack down on political campaigning: Political parties using black money for election campaigning is a known fact. It has even been observed that there are places where Rs 500 and Rs 1000 are openly distributed in return for votes. And considering the politics of India during these period the current demonetization has played the role of a trump card for the current government. Black money election funding has seriously been impacted in states like Uttar Pradesh, Punjab, Goa which has indeed helped the tide of power to sway even further towards the B.J.P government.

Background: Rationale behind the gigantic step:

India's currency to GDP ratio has evolved in two broad phases. It declined fairly steadily for the first decade and a half after Independence, falling from around 12 percent in 1952-53 to about 9 percent in 1967-68. Thereafter, the ratio appears to have responded to the growth of the economy. It began its upward trend in the late 1970s when growth increased, and then accelerated further during the growth boom of the 2000s. The ratio declined during theperiod of high inflation in the late 2000s and early 2010s but it rebounded after 2014-15 to 12 percent when inflation declined again. The value of high denomination notes (INR 500 and INR 1000) relative to GDP has also increased in line with rising living standards as shown in the figure below.

Second, India's economy is relatively cash-dependent, even taking account of the fact that it is a relatively poor country. The given figure plots the cash to GDP ratio against country per capita GDP, showing that on average the use of cash does indeed decline with development, India's level is somewhat higher than other countries in its income group.

Figure 1: Currency in Circulation, High Denomination Notes and Real GDP Growth.



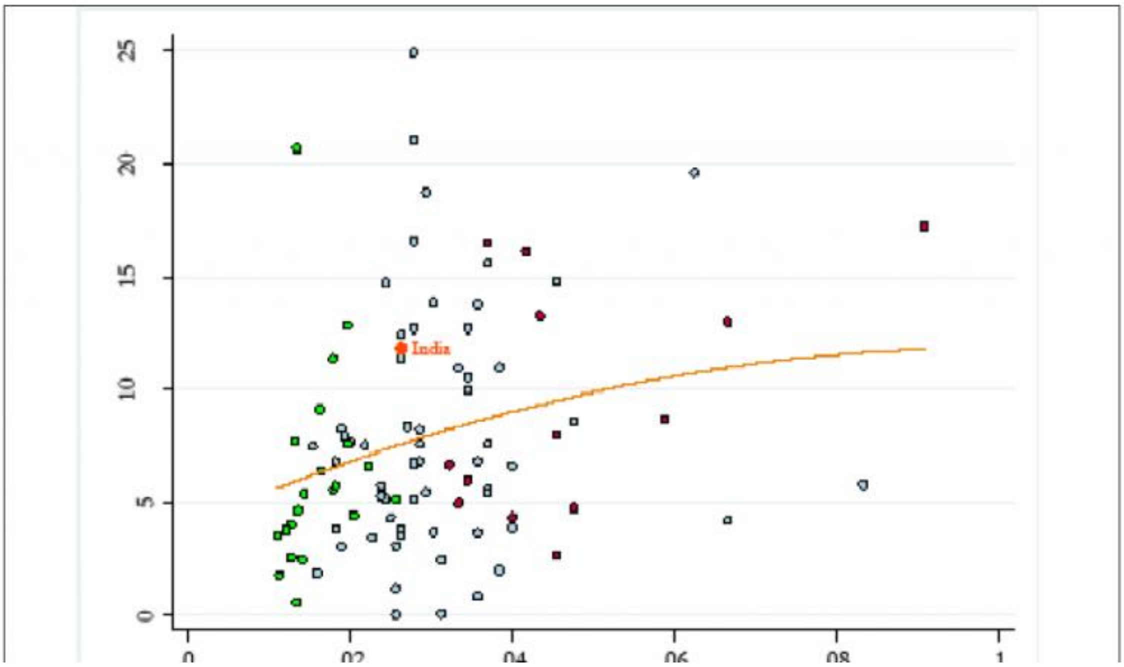
Source: RBI

Note: CIC = Currency in Circulation

HDN = High Denomination Notes (INR 500 and INR 1000)

From the second point we can draw a conclusion that perhaps some of the cash holdings were not being used for legitimate transactions, but perhaps for other activities such as corruption. This presumption is especially strong because across the globe there is a link between cash and nefarious activities: the higher the amount of cash in circulation, the greater the amount of corruption, as measured by Transparency International given in the figure below.

Figure 2: Cash to GDP ratio and corruption.



In this sense, attempts to reduce the cash in an economy could have important long-term benefits in terms of reducing levels of corruption. Yet India is “off the line”, meaning that its cash in circulation is relatively high for its level of corruption.

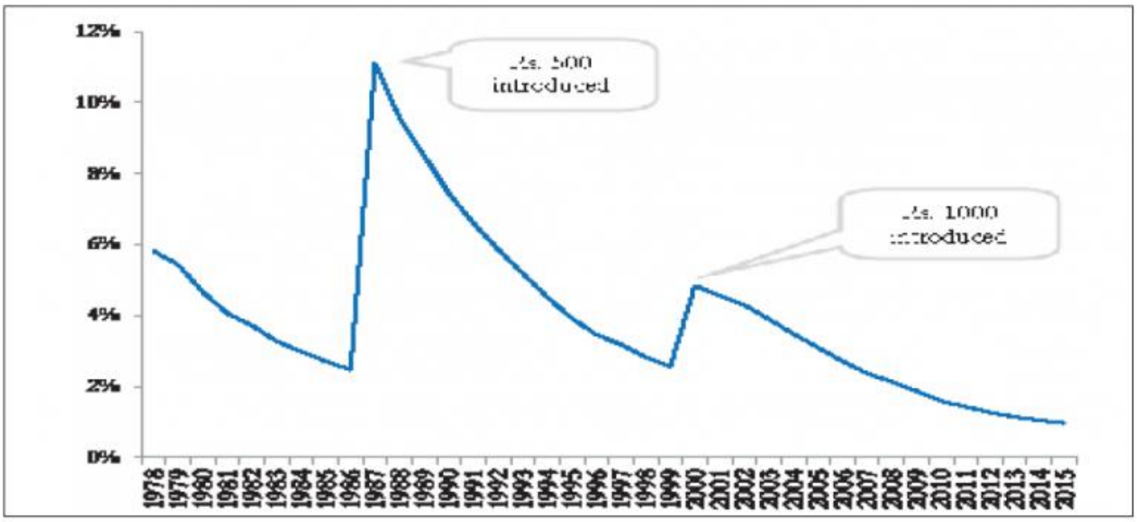
This suggests two possibilities: perhaps India’s level of corruption (or other related pathologies) is much worse than the index shows, so that the orange dot should really be placed to the right or cash is being used for other, presumably legitimate purposes. But even if high levels of cash are needed this doesn’t mean high denominations are needed. It is usually the case that high value notes are associated with corruption because they are easier to store and carry, compared to smaller denominations or other stores of value such as gold.

How high were India’s high denomination notes in terms of their use for transactions relative to store of value?

Figure 3 sheds some light on this aspect. In particular, it is useful to look at the size of the notes relative to nominal per capita income. The higher a note is relative to income, the less likely it is to be used purely for transactions purposes. In India’s case, the denomination/income ratio has fallen sharply over the past quarter century because incomes have been growing rapidly relative to the prevailing highest denomination notes.

This suggests that the high denomination notes have become increasingly useful for transactions over time.

Figure 3: Highest Denomination/Income Ratio (Percent of GDP per capita) [6]



Source: World Development Indicators; RBI

Implication of soil rate:

Perhaps the most conclusive evidence on the extent to which Rs. 500 and Rs. 1000 the notes used for transactions come from data on "soil rates", i.e. the rate at which notes are considered too damaged for use and have been returned to the central bank. The RBI data show that low denomination notes in India have a soil rate of 33 percent per year. In contrast, the soil rate for the Rs 500 note is 22 percent, and the Rs 1000 only 11 percent. One way to estimate black money is to assume that all these notes should be dirty at the same rate if they were actually being used for transactions. This would give an estimate of money that is not used for transactions to Rs. 7.3 lakh.

Using relative soil rates for the US$50 and $20 notes and applying them to comparable Indian high denomination notes, yields an estimate of the amount not used for transactions, and hence potentially black, of about Rs. 3 lakh crore. This is substantial, as it represents about 2 percent of GDP. Thus it is prudent to conclude that there were indeed substantial reasons for the government and RBI to take this leap even when the economy was growing at a steady state. Now to what extent the measures have been effective and how it has impacted the lives of the commoners is something which we would deal with in the subsequent sections.

Impact of Demonetization on different sectors of Economy:

"Among all forms of mistake, prophecy is the most gratuitous."

George Eliot, Middlemarch

Agriculture: The sector typically sees high cash transactions and therefore near-term impact could be seen till liquidity is infused in the rural areas. As farmers face a temporary shortage of cash in hand, it could lead to a delay in payment which in turn would hurt the related companies in the short term. As liquidity eases and cashless transactions gain acceptance, the fundamentals would be driven by the longer term drivers of normal monsoons and positive traction in acreage.

Impact of Demonetization on Agriculture Sector:- In 2014-15 agricultural growth in India contracted 0.2% and the picture was not that bright even in 15-16 where a growth of 1.1% has been recorded largely because of back-to-back droughts. It was expected to grow at 4% in this year as per CRISIL Report, but due to Demonetization this forecast has been proved wrong because farmers are running out of Cash to buy seeds, fertilizer, equipment and owing to the same cash shortage daily supply transport system has also suffered which has in fact resulted to 25 to 50 % reduction in sales of agricultural products. Few of the main reasons can be cited as the following. 1. Farmers are not educated and aware about how to work on E-Payment System, in fact recent study by RBI suggests that 78% of the population do not use internet in which almost 80 to 85 % are farmers. 2. In most of the villages proper banking system is yet to be developed and the people are in the need to go to the cities and a considerable time of these farmers have been spent most of in the engagement of exchanging the old notes in banks. These ordeal has gone to the extent of even claiming lives of one of one such farmer in Tamil Nadu.The following report by Hindustan Times reported one such tragedy:

“A 45-year-old farmer allegedly committed suicide as he was upset over not being able to get his high-denomination notes exchanged for fresh ones due to serpentine queues in banks. “My two sons Sunil (22) and Anil (20) were working at a yarn mill in Tamil Nadu. On November 10, one of my sons called his father and informed that they urgently need money as their contractor escaped without giving them their wages. They wanted to come back home for which they were in need of cash,” quoted the farmer’s wife. As old currency notes were scrapped, Pradhan had to immediately go to the bank for the exchange. He stood in queues for two consecutive days at a bank branch in Saraia, around two kms away from Maharajpur, to exchange Rs 3,000 but he could not reach the counter before the bank shut.He was so upset with the fact that he shall not be able to pay his wards fees in time that he decide to end his life instead”.[7]

Manufacture:

Automobile of two wheelers: Clampdown on cash transactions and temporary cash crunch could hurt purchases particularly in the economy segment of the two wheeler space where the percentage of cash transactions have been high. But with change in company’s strategies the effect of the cash crunch on this sector could be short lived. The more reason for this blip is the expectation of rate cuts during the following months. The seasonal slowdown seen during November and December months could get more prominent as consumers might have an incentive to delay purchases due to temporary liquidity crunch and expectations of rate cuts. However, as most passenger vehicles are financed through loans, the blip would be temporary and demand may recover on the back of growth in demand in both rural and urban areas. Slowdown in this sector of the economy on account of demonetization could have a negative impact on the commercial vehicle volumes which have been under pressure in recent times. However, owing to pre-buying in response to the changes in emission norms could keep this impact short lived.

Consumption-related sectors like consumer durable, FMCG:

The outlook is near-term negative as cash sales account for a significant chunk of sales for companies in these sectors. As customers and companies migrate to the cashless platforms, demand should come back making demonetization near term neutral. In the long term, demand may shift from the unorganized players to the organized players.

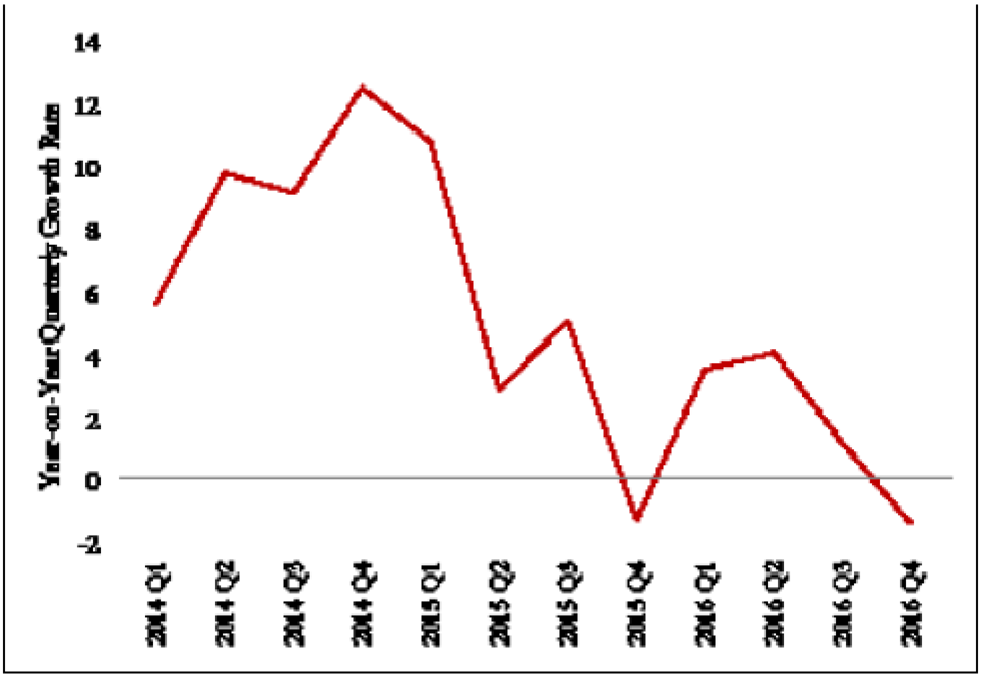
FMCG Products:-Consumer expenditures is also affected by that decision now only those products are purchased which was necessary for daily consumption and mostly the small traders like kirana store', small bodies' etc. they all have done their daily transactions only in cash and because consumer has less cash in his pockets the daily sells of these traders drop down by 20 to 30 %. It is also a short term impact and in future things can be expected to get normal.

Real Estate:

It has been observed that demonetization created havoc in the real estate market and it will result in 50% drop down which is expected to remain for further 5 to 6 months.

While the short-term impact is negative, experts hope that rate cuts in the coming months would boost home sales. Although the S&P BSE realty index declined significantly after demonetization till end-December 2016, it rebounded subsequently. With real estate prices reportedly rising, sales and new launches declined. According to Knight 7 Frank India demonetization move created a real indentation thereby pulling back the last quarter trend of residential sales substantially across the cities. After demonetization, expectations of downward correction in house prices seemed to have impacted registrations in some of the cities in November-December however, registrations appeared to have bounced back, though they were lower than in October pre demonetization.

Figure 4: Real Estate Prices [8]



Influence of GDP:

According to the government's latest growth estimates, GDP will decline due to the slowdown of growth in the manufacturing and mining sectors and also construction activity. This estimate is in line with the forecast of India's central bank, Reserve Bank of India, which in its last monetary policy had forecast GDP growth to be at 7.1 percent for the twelve months ending March. But this latest estimate does not consider the impact demonetization on the economy, in the absence of sufficient information.

"The Reserve Bank in its Fifth Bi-monthly Monetary Policy Statement on December 7, 2016 placed the GVA growth for 2016-17 at 7.1 per cent, which was lower than 7.6 per cent GVA growth (bps) downward revision in GVA growth was on account of 35 bps loss in momentum, which was reflected in GVA growth in Q2 estimated by the Central Statistics Office (CSO) in November 2016 and 15 bps on account of the adverse impact of demonetization. The CSO in its first advance estimates released on January 6, 2017 placed the GVA growth for 2016-17 at 7.0 per cent."[9]

Impact of Demonetization on Service Sector:

Service sector is hit very hard by the decision in November 2016 worst Slump in nearly three year is noted. The Nikkei India Services Purchasing Managers' Index (PMI), which tracks services sector companies on a monthly basis, stood at 46.7 in November, down from 54.5 in October. The Index slipped into contraction territory for the first time since June 2015 and pointed to the sharpest reduction in output for almost three years. On the other hand if we talk about Banking Sector this is the only sector which was benefited by that decision in many aspects, this move will pull a large chunk of first time users to banks, who will have to use the system at least once to exchange their old notes for new ones. According to a study conducted by Moody's, people tend to continue using banking services once they have crossed the 'first-time user' mark. This development will increase bank deposits by 1 to 2 percent compared to what they were before the demonetization scheme.

A concluding remark on the impacts caused by demonetization:

The above analysis shows that the impact of Demonetization on Indian economy has been more of adverse nature at least in the short term that is what is being observed. GDP has slightly decreased as compared to the previous year but we cannot say it will be same in future too. The step had profound adverse impact on the two most important sectors of our country-namely agriculture and service sector. As far routing corruption out of the country is concerned, well to judge it from an extreme optimistic point of view one could say this intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed, corruption will continue. It is sort of like a dialysis, more of a short term cleaning up than a solution to the problem. Now whether this short term impacts will have similar aftermath even in the long run is something which only time can tell. The extent to which Government's objectives would be fulfilled is an aspect for which the people of this country need to be patient about.

On the brighter side:

Demonetization has been progressing at a steady acceleration between the end of December 2016-March 2017, there was a net increase in the currency in circulation by about 2,600 billion. During this period, deposits at banks also declined moderately. It is important to note that the currency in circulation in terms of number of pieces and value has steadily been rising since early January 2017."Given the partial information that is available post Demonetization so far, the analysis, especially of growth, is only preliminary in nature. It should, therefore, be possible to make an analysis in greater detail as more data becomes available in the coming months".[10]

Jan Dhan Yojana: Post-demonetization, 23.3 million new accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY), bulk of which (80 per cent) were with public sector banks. Of the new Jan Dhan accounts opened, 53.6 per cent were in urban areas and 46.4 per cent in rural areas. Deposits under PMJDY accounts increased significantly post demonetization. The total balance in PMJDY deposit accounts peaked at ` 746 billion as on December 7, 2016 from ` 456 billion as on November 9, 2016 – an increase of 63.6 per cent. As there were reports regarding the use of these accounts to convert black money into white, the Government issued a warning against the misuse of such accounts.

But how legally sound was this leap of faith of the Central Government?

An article by the Wire has discussed about one significant petition filed by Supreme Court advocate on behalf of the Adil Rashid who is the original petitioner. While Senior advocate Kapil Sibal is arguing for Rashid, the Ministry of Finance and RBI has been named as the respondents.

One of the four petitions challenging the demonetization of high-denomination currency notes, filed in the Supreme Court, invokes at least five significant legal grounds to show why it may not be legally sound.

"First and foremost, it assails the very constitutionality of section 26(2) of the Reserve Bank of India Act, 1934, on the grounds of excessive delegation. Section 26(2) says that on recommendation of the central board of the RBI, the central government may, by notification in the Gazette of India, declare that with effect from a date specified in the notification, any series of bank notes of any denomination shall cease to be legal tender. According to the petition, fixing the date from which the demonetization would come into force is the substratum of power under section 26(2) and constitutes an "essential law making function" which cannot be delegated to be fixed by the central government on its own determination. "It is settled law that essential law making function cannot be delegated," the petition submits. The only way to save section 26(2) from being ultra vires the constitution is to regard that the power to fix such a date contemplates a reasonable notice to the people at large.

No alternative to legislation: Second, the petition argues that the precedent of 1978 – The High Denomination Bank Notes (Demonetization) Act, 1978 repealing the High Denomination Bank Notes (Demonetization) Ordinance 1978 – and section 26A of the RBI Act, clearly suggest that demonetization of this scale with such draconian effect can only be done by a statute of parliament. Section 26A – inserted in the RBI Act in 1956 by parliament – makes it clear that notwithstanding anything contained in section 26, no bank note of the denominational value of Rs 500, Rs 1,000 or Rs 10,000 issued before January 13, 1946, shall be legal tender in payment or on account.

The point here is that in 1956, the then central government found it imperative to declare the pre-1946 high denomination currency notes as ceasing to be legal tender only through an amendment to the RBI Act and not through a gazette notification as has been done now.

The notification suffers from its inherent potential to violate the fundamental right (under article 19(1)(g)) to practice any profession or to carry on any occupation, trade or business, because of the suddenness of its timing and its resultant consequences. It cannot be claimed even by the government that only those with black money, fake currency notes or an intent to aid terrorism are bound to suffer because of the notification.

The government, of course, would rely on article 19(6), which says that nothing in article 19(1)(g) shall affect the operation of any existing law in so far as it prevents the state from making any law imposing, in the interests of the general public, reasonable restrictions on the exercise of the rights conferred by the sub-clause.The petition argues that issuing

Rs 2000 currency notes clearly shows that it has no rational nexus with the object, sought to be achieved by the Demonetization.

The RBI and the central government: The fourth contention of the petition is that the central board of the RBI did not give a recommendation independently after detailed consideration of all the issues, although the same was elicited by the central government. The RBI Act, the petition says, uses the phrase “recommendation” and not “consultation”, and therefore a recommendation from the RBI cannot emanate from the central government itself is what the petition argues.

The petition also raises the larger issue of the relationship between the central government and the RBI, which it says ought to have been maintained at an “arm’s distance”. By implication, it would mean that the central government must not just “consult” the RBI, but give it sufficient scope to deliberate and offer its independent views through a well-reasoned recommendation, initiated by itself rather than by prompting. To discharge its role as a central bank in a financial system, the RBI is assumed to be insulated from executive and political influences and is required to act independently.

Test of reasonableness: Fifth, the petition points to an interesting correlation between reasonableness of a legislation or an executive decision and its immediate effect, as held by the Supreme Court in a judgment rendered by the constitution bench in 1954. (Saghir Ahmad v State of Uttar Pradesh.)

Although the Supreme Court’s judgment pointing to such correlation was rendered in the context of legislation, the petition argues that “the test that applies to legislation would apply more vigorously to executive decisions within the precincts of a statute”. As examples of the immediate effects, the petition cites the central government’s failure to grant exemption to essential services such as all hospitals (including private), doctors, lawyers, court houses and so on from the Demonetization, and claims that impacts the exercise of the fundamental right to health and access to justice.”[11]

Case Study: A comparative study of India’s demonetization with that of others

Major instances of Pre-announced/Gradual Demonetization along with instances of sudden Demonetization/sharp currency contractions changes since 1982:

Country	*Year*	*Measures*	*Rationale*	*Effects*
Australia-Gradual Demonetization	*. 1988&*	*After thorough research during*	*To prevent counterfeiting*	*The first country to*
	2015	*1970s-80s on higher-quality reprographic technology, counterfeit-resistant polymer*		*have a full series of*
		banknotes were released in 1988;		*circulating polymer*
		February 2015 announcement—next generation of notes would include a 'tactile' feature to assist the vision impaired.		*bank notes*
Euro	*1999*	*The agreement for a single currency by 1999 was reached in 1992;*	*Create a common*	*Transition was generally smooth*
Gradual Demonetization		*After careful planning, and*	*currency for the*	
		announcement of design, euro was	*European Union*	
		introduced in non-physical form in		
		January 1999;		

		Old currencies remained legal tender till January 2002 when new notes were issued; Old currencies were exchangeable till end-June 2002 and even beyond.		
Zimbabwe Gradual Demonetization	*2015*	*Zimbabwean dollar (ZD)*	*Following*	*Consumer prices*
		was demonetized. The plan was to	*hyperinflation*	*stabilised.*
		have complete switch to US dollar	*ZD was effectively*	
		by September 2015.	*abandoned in 2009*	
			and use of foreign	
			currencies was	
			legalized	
Soviet Union (Sudden Demonetization)	*1991*	*50- and 100-ruble notes were withdrawn suddenly in January for exchange to new rubles; exchange to be completed in three*	*Fight organized crime*	*Loss of public*
		days and in very small amounts per person.	*and address money*	*confidence,*
			overhang	*hyperinflation, cash*
				drying up, job losses.

Myanmar (Sudden Demonetization)	*1987*	*25, 35, and 75-kyat notes demonetized with hardly any exchange facility; new*	*Need to fight black*	*Hurry to buy and*
		denominations were introduced	*Marketing*	*stock goods pushed*
				inflation up
Brazil (Sudden Demonetization)	*1993*	*Collor Plan: monetary contraction by freezing all deposits above certain limit; deindexation of the economy; price and wage freezes. Deposits upto a ceiling denominated*	*Fight hyperinflation*	*Contraction of*
		in the old currency (cruzado novo) were converted to the new currency (cruzeiro) at		*output; price*
		parity.		*moderation only*
				very gradual due
				to uncontrolled reinjection
				of liquidity
Iraq (Sudden Demonetization)	*1993*	*25 dinar notes replaced by new locally*	*Southern Iraq, being unable to cope with*	*Uncontrolled printing*

		printed, low-quality notes; limited time to exchange notes; residents in the north could not exchange notes; their holdings of old dinars in effect became their new currency..,/l	*UN sanctions and print money abroad, printed it locally to*	*caused inflation to*
			finance fiscal deficits.	*soar.*
		.		
North Korea (Sudden demonetization)	*2009*	*Old notes demonetized/revalued with strict limits on exchange, which was raised later; In February 2010, some curbs on the free*	*To crack down black currency market and*	*Activities halted for*
		market were eased.	*fight inflation.*	*a week; public panic;*
				won depreciated
				in black market;
				protests.[12]

Diagnosis of the above table:

As we can judge pretty clearly from the above table countries namely Australia, Zimbabwe and the European Union have indeed benefited in the long run through the process of demonetization while the likes of Soviet Union, Myanmar, Brazil, North Korea the picture has not been that bright. Now what one can easily infer from this is that in countries where demonetization has been carried on in a gradual and time consuming manner effects have been positive. While in cases of sudden demonetization of the latter countries the condition has not been that encouraging. One has to realize that any economic policy is formulated or executed for the well-being of its subjects i.e. the citizens and so if they are the ones who are largely adversely impacted because of a policy it is justified to state that the policy has failed to fulfill its prime objectives. In our country demonetization was a step taken overnight and people had no prior knowledge of it. The majority of the people have been adversely impacted like the people of let say's erstwhile Soviet Union or Myanmar. The people of India can hope that it becomes an exception to this and even with sudden demonetization it can achieve its stated objectives like no other country before.

Recommendations:

During an economic crisis, what matters is that the government keeps its foot on the accelerator.-DavidIgnatius.

The primary motive of the government right now should be to try to maximize the benefits and minimize the costs of demonetization. The cash shortages triggered by demonetization has been pretty severe .The faster demonetization takes place in the country the more sooner it shall recover from this impending crisis.

Internal convertibility is bedrock of every single financial system in the world, for some very practical reasons. Unless people have confidence that money deposited in bank accounts is freely convertible into cash, and vice versa, they will be reluctant to deposit their cash in the first place. Instead, they will hoard it, starving the formal financial system of resources and the informal economy of the currency it needs for transactions. And the repercussion of this would fall more on the poor sections of the society as these are the sections which are more likely to work in the informal economy as the affluent class could easily corner the limited currency available.

Digitization:

Prime tool for transformation: Above all, ensuring that Demonetization indeed proves a catalyst for long-run changes in behavior it is important that efforts are made to enhance digitization of the economy. India is still a far cry from digitization as India is a largely cash dependent economy and 94% of all the transaction in the economy is carried out by cash. During global downturn digitization acted like an economic wand in creating almost 6 million jobs worldwide and of this 94% were from emerging economies like that of India. This showcases the potential of the digitization in creating employment opportunities. Digitization indeed would make the economy more transparent and transparency of the economy is one of the prime objective of this gigantic step of the government. The long run solution in making the country's economy more advance lies largely on this wand of digitalization of economy.

A GST with broad coverage to include activities that are sources of black money creation—land and other immovable property—should be implemented;

Efforts should be made to reduce individual income tax rates and real estate stamp duties which would in a way discourage people from cash hoarding.

The income tax net could be widened gradually and, consistent with constitutional arrangements, could progressively encompass all high incomes.

Endeavors shall be made to increase tax accountability among individuals in the society. People need to realize that tax is an obligation which the government expects us to fulfill and as long the attitude of the subjects of economy does not change and their reluctance towards payment of tax does not change we cannot expect our country to achieve the evolution it has set to achieve.

It is imperative that the effort to collect taxes on newly disclosed (and undisclosed) wealth does not lead to tax harassment by officials at all rungs of hierarchy. Greater reliance must be made on use of data, scrutiny audit and online assessments to minimize interaction between tax payers and officials as far as possible. At a time when the GST will be providing so much more data on individual transactions, greater information sharing between the direct and indirect tax departments at the center, along with coordination with the states could indeed lead to greater compliance through non-punitive means, not just in relation to indirect but also direct tax collections.