

The primary targets of demonetisation as announced by the PM were black money, fake currency, corruption and terror-funding. Fake or counterfeit currency was being pumped into India by a neighbouring country to destabilise it (India), promote terrorism, drug and human trafficking and smuggling.

The evaluation of demonetization from only the black money perspective is partial as the move has multi-fold targets such as giving boost to the tax base, financial inclusion, cashless economy, etc.

Demonetisation was the strong and decisive action against these continuing ills.

The formal announcement of demonetization of high currency denomination notes of ₹ 500 and ₹ 1000 worth nearly 15.4 trillion, constituting about 87 percent of the currency in circulation, took place on November 8, 2016.

One must also bear in mind that 'all black is not cash and all cash is not black'. Cash is also, widely and legitimately, used in India's large informal sector which contributes over 45% of GDP and 90% of employment. It is used extensively as the medium of transaction in the agricultural sector, outside the ambit of income taxation.

The recent demonetization in India is third in the sequence of major initiatives taken related to banning the high denomination notes in India. The earlier initiatives were carried out in 1946 and 1978. In 1946, the currency note of ₹ 1,000, and ₹ 10,000 were removed from circulation.

The 1978 demonetization has banned the high denomination notes of ₹ 1000, ₹ 5000 and ₹ 10,000. The possible reason for the then note ban was to overcome the problem related to black money generation in the country.

The previous two initiatives of demonetization had similar features to the recent demonetization of 2016 only in terms of banning the highest denomination notes in the system, but the moves are not as such comparable.

In 1978 the value of demonetization was to the tune of only 0.1% of GDP whereas recent demonetization affected a major chunk of currency in circulation (87%) and around 10 percent of the GDP thereby creating a huge difference in terms of volume of currency.

The magnitude of the decision by PM Modi to go in for demonetization is enormous. It involved criticism from all quarters and major inconvenience to the public at large. There was a considerable drop in economic activity by about 1 percent in GDP immediately after demonetization and on account of currency squeeze even during remonetisation period there was an impact on several sectors of the economy albeit for a brief duration.