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Issue Brief

India: The Nightmare of Demonetisation

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It was November 8, 2016 when Prime Minister Modi in his address to the nation announced demonetising Rs. 500 and Rs. 1000 notes in India. The said notes accounted for around 86 per cent of all cash in circulation in the country. The reason, Prime Minister explained, was the black money, corruption and the rising menace of fake Indian currency. As was expected, the Modi government blamed Pakistan for pumping fake money into India allegedly for fuelling drug trade and funding terrorism.

The results were a disaster. Soon after this announcement was made, long queues of people were seen outside banks to change the old currency notes with the new one. After waiting for hours in line, to their horror, people were met with strict withdrawal limits. It has to be kept in mind that unlike advanced Western countries where people mostly use credit cards for transactions, 95 per cent of the transactions in India are made in cash. The 500 and 1000 rupee notes that were demonetised were the most popular currency denominations of India by value. It was indeed mismanagement of epic proportion that the government had announced such a step without printing enough notes in advance. Also, the design of the new note was such that it was difficult to fit them in the existing ATMs machines. As a result, people found it difficult to get medical assistance or buy medicines or grocery as they were not able to get enough amount of new currency notes. The Asian Development Bank also decreased India's growth estimate from 7.4 per cent in 2016 to 7.0 percent.¹

More than 50 people lost their lives standing in these long queues. Some reports even put the figure as high as more than 80. Further, as of November 21, 2016, i.e. in less than two weeks, around 11 bank officers are said to have died due to severe pressure and panic.² This forced members of opposition parties to demand that Modi "should be booked for murder".³ The situation was such that the former Prime Minister Mr. Manmohan Singh who is also a celebrated economist had called it a "monumental disaster".⁴ Similarly, Kaushik Basu, former chief economist for the World Bank said that the "collateral damage" is likely to outstrip the benefits of demonetisation.

The debate over the wisdom of this move is still going on in India. The critics point to the fact that all this drive could achieve was an economic disruption. The general public was left in panic as daily wagers were not able to find work since it was difficult for the employer to pay them in cash. Small traders suffered huge losses as people were without cash to buy their perishable items. Farmers were hit hard as they were also not able to buy seed for their winter crops in time. And on the contrary, those who

have actually accumulated huge amounts of money through illegal means would find ways to launder it and the government would not be able to get its desired results.

However, the security establishment in India was supportive of this drive as according to it, terror financing would be severely hit by this decision. Many scholars also believe that this is not a permanent solution of the problem but would certainly hit hard the forces that are involved in the business of fake money. It is believed that terrorist outfits usually store money in the form of big currency notes. According to a report by the Indian Statistical Institute, Kolkata that was carried out on behalf of the National Investigation Agency (NIA), 70 crore (700 million) fake notes are pumped into Indian economy every year.⁵

Indian officials allege that this fake currency is printed in Pakistan and then pumped in through neighbouring countries like Bangladesh and Nepal. Dubai is believed to be another route for the fake money to make its way into India. By pumping this fake money, not only India is made to suffer high inflation rates but also this money is used in terror activities inside India.

The problem of fake currency is faced by every country in the world including Pakistan. Similarly, before blaming Pakistan of funding terror groups, India perhaps forgot about the confessions of Kulbhushan Yadav, the Indian spy caught by Pakistani authorities who openly admitted to the fact that funds were being provided by India to the Baloch secessionist movement.⁶ Further, the unrest that is being witnessed in Indian Occupied Kashmir cannot be termed as terrorist activities. There is a need to understand that the people of Kashmir are waging an indigenous war for the right of self-determination. Hence, to blame Pakistan for everything that goes wrong in India or to cover its own policy failures, the Indian government does not help in creating a conducive environment where all such menaces could be fought together. Practical steps must be taken to safeguard national interests but pointing fingers is a practice that must be shunned so that peace constituency may take deeper roots and ensure a prosperous future for coming generations

Notes and References

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