

Five years ago on this day (November 8, 2016), Prime Minister Narendra Modi appeared on national television and said all Rs 500, Rs 1,000 high value notes will turn invalid by midnight. The announcement at 8 pm— aimed at flushing out money hidden from the taxman, known as black money—led to nearly 86 percent of the currency in circulation becoming invalid by midnight.

Expectedly, mayhem followed. The move, known as demonetisation, caused a lot of hardship for large swathes of people who were forced to form serpentine queues before banks to exchange notes. Several small businesses that were dependent on cash took hard knocks.

There were three main economic objectives of demonetisation—fighting black money, fake notes and creating a cashless economy by pushing digital transactions.

1. Black Money

Killing black money was the prime target of demonetisation.

According to the RBI data, almost the entire chunk of money (more than 99 per cent) that was invalidated came to the banking system. Of the Rs 15.41 lakh crore worth invalidated notes, notes worth Rs 15.31 lakh crore have returned. In February, 2019, the then finance minister Piyush Goyal told Parliament that Rs 1.3 lakh crore black money has been recovered through all anti-black money measures including demonetisation.

The government had originally expected that at least Rs3-4 lakh crore black money will get extinguished outside the banking system due to demonetisation exercise alone.

2. Fake notes

Fake notes or counterfeit currency notes was second big target of Modi's demonetisation.

In 2016, the year when demonetisation was launched, 6.32 lakh counterfeit pieces were seized across the country. In the next four years (including year 2020 so far), a total of 18.87 lakh pieces of fake notes have been seized across the country in various denominations, according to the RBI data. During 2019-20, out of the total Fake Indian Currency Notes (FICNs) detected in the banking sector, 4.6 percent were detected at the Reserve Bank and 95.4 percent by other banks.

Most number of fake currency notes seized in the post demonetisation years was in the Rs 100 denominations-1.7 lakh pieces in 2019-20, 2.2 lakhs in 2018-19 and 2.4 lakh pieces in 2017-18. Compared to the previous year, there was an increase of 144.6 percent, 28.7 percent, 151.2 percent and 37.5 percent in counterfeit notes detected in the denominations of Rs10, Rs50, Rs200 and Rs500 [Mahatma Gandhi New Series], respectively, the RBI data showed.

Counterfeit notes continue to be circulated even now.

3. Currency In circulation

Creating a cashless economy was pitched as another major target of demonetization in the later period.

Cash has proved that it remains the King in the post note-ban years.

Currency in circulation, according to the RBI data, was Rs 24.2 lakh crore from Rs 16.4 lakh crore in 2016, as on March, 2020. Volume of currency notes have increased to 11.6 lakh pieces in 2020 from 9 lakh pieces in 2016.

Sure, digital payments have risen. According to this Financial Express report, UPI payment volume stood highest in FY20 at 1251.86 crore up from 91.52 crore in FY18 among all digital or contactless payment channels. UPI transaction value also went up from Rs 1.09 lakh crore to Rs 21.31 lakh crore during the said period. Total digital payments, in terms of volume, have gone up to 3.4 lakh in 2020 from 70466 in 2016.

People still prefer to deal in cash to a large extent even though there is an increase in digital transactions.

The debate is still on with respect to the effectiveness of demonetization as a move to attack blackmoney. According to an RTI reply, the RBI's Board didn't support demonetization as a measure to counter blackmoney.

