

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS
LOK SABHA UNSTARRED QUESTION NO.4141
TO BE ANSWERED ON 27.03.2023

Assessment Over Impact of Demonetization on Business

4141 SHRI SUKHBIR SINGH BADAL:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government have assessed the recent judgement of the Hon'ble Supreme Court over demonetization and the dissenting judgement of one of the Judges of the Bench over the impact of demonetization on business, employment, agriculture and poverty and if so, the details and the outcomes thereof ;

(b) whether the Government plans to assess the views of the dissenting Judge in this matter and if so, the details thereof and if not, the reasons therefor; and

(c) whether any post-demonetization study has been done by the Government to assess the effectiveness of the demonetization policy and if so, the details and the outcomes thereof?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PANKAJ CHAUDHARY)

(a) & (b) Vide majority Judgment (4:1) dated January 02, 2023 in the Vivek Narayan Sharma case [Writ Petition (Civil) No. 906 of 2016], the Constitutional Bench of Hon'ble Supreme Court after due hearing of all parties has replied the references on reframed questions as follows:

(i) The power available to the Central Government under sub-section (2) of Section 26 of the RBI Act cannot be restricted to mean that it can be exercised only for 'one' or 'some' series of bank notes and not for 'all' series of bank notes. The power can be exercised for all series of bank notes. Merely because on two earlier occasions, the demonetization exercise was by plenary legislation, it cannot be held that such a power would not be available to the Central Government under sub-section (2) of Section 26 of the RBI Act;

(ii) Sub-section (2) of Section 26 of the RBI Act does not provide for excessive delegation inasmuch as there is an inbuilt safeguard that such a power has to be exercised on the recommendation of the Central Board. As such, sub-section (2) of Section 26 of the RBI Act is not liable to be struck down on the said ground;

(iii) The impugned Notification dated 8th November 2016 does not suffer from any flaws in the decision-making process;

(iv) The impugned Notification S.O. 3407 (E) dated 8th November 2016 satisfies the test of proportionality and, as such, cannot be struck down on the said ground;

(v) The period provided for exchange of notes vide the impugned Notification dated 8th November 2016 cannot be said to unreasonable; and

(vi) The RBI does not possess independent power under sub-section (2) of Section 4 of the 2017 Act in isolation of the provisions of Sections 3 and 4(1) thereof to accept the demonetized notes beyond the period specified in notifications issued under sub-section (1) of Section 4 of the 2017 Act.

In the dissenting Judgment, the Hon'ble Judge has also observed that "it cannot be denied that demonetisation in the instant case was a well-intentioned proposal".

Government has accepted the majority judgment.

(c) No study on effect of withdrawal of legal tender character of the Specified Bank Notes (SBNs) on Indian economy has been done by the Government. However, RBI has published a Study titled 'Macroeconomic Impact of Demonetization – A Preliminary Assessment' in March, 2017, which is available on the website of RBI.
