

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
**LOK SABHA**  
**UNSTARRED QUESTION NO. 2261**  
TO BE ANSWERED ON 02.12.2019

**DEMONETISATION**

2261. SHRI DEEPAK BAIJ:

SHRI SUBBARAYAN k.:

Will the Minister of FINANCE be pleased to state:

- (a) the details of targets achieved by demonetisation announced on 8<sup>th</sup> November, 2016;
- (b) whether demonization has badly affected the economy and if so, the details thereof;
- (c) the number of times Moody's has downgraded the rating of Indian economy after 2016;
- (d) whether the latest data released by the National Accounts Statistics shows that three years later of the demonetisation, Indian households were quick to accumulate significantly more cash than they previously held resulting in reduced share of deposits in banks; and
- (e) if so, the details thereof along with the reaction of the Government in this regard?

**ANSWER**

MINISTER OF STATE IN THE MINISTRY OF FINANCE  
(SHRI ANURAG SINGH THAKUR)

(a) The Government of India decided to cancel the legal tender status of Rs.1000 and Rs.500 denomination currency notes on 8<sup>th</sup> November 2016 with several objectives: (i) flushing out black money, (ii) eliminate Fake Indian Currency Notes (FICN), (iii) to strike at the root of financing of terrorism and left-wing extremism, (iv) to convert non-formal economy to a formal economy to expand tax base and employment and (v) to give a big boost to digitalization of payments to make India a less cash economy.

The notes in circulation (NIC) as on November 4, 2016 were Rs.17,741.87 billion which have now increased to Rs.22,420.13 billion as on November 25, 2019. NIC had grown at an average growth rate of 14.51 % year on year wise since Oct 2014 till Oct 2016. At this rate, NIC would have increased to Rs 25,354.93 billion as on November 25, 2019. As actual NIC on 25<sup>th</sup> November 2019 are only Rs. 22,420.13 billion, the demonetisation, followed by digitalisation and reduction of cash use in informal economy has succeeded in reducing NIC by as much as Rs. 2934.80 billion rupees.

As reported by RBI, 762,072 pieces of counterfeit bank notes were detected in the Banking system during 2016-17, 522,783 pcs. in 2017-18 and 317,389 pcs. in 2018-19. Hence, demonetisation resulted in curbing of the counterfeit currency.

The demonetisation of bank notes of Rs.500 and Rs.1000 denomination resulted in significant positive impact on most theatres of violence in the country. Since illegally held cash forms the major chunk of terrorist funding, after the demonetisation, most of the cash held with the terrorists turned worthless. Demonetisation led to instant extinguishment of high quality fake Indian currency notes.

During the period November 2016 to March, 2017, the Income-tax Department conducted search and seizure actions in 900 groups leading to seizure of Rs. 900 crore, including cash of Rs. 636 crores and admission of undisclosed income of about Rs.7961 crore. Further, a dedicated campaign was launched to take focused action on non-filers who had deposited large value of cash during the demonetization period. The cash deposit data was analyzed to identify those persons whose cash transactions did not appear in line with their profile.



Notices under the Income Tax Act, 1961 were issued to those persons who had deposited large amount of cash in their bank accounts during demonetisation but had not filed their corresponding returns of income. These exercises promoted compliance, which has resulted in increase of Income tax returns filer base and direct tax collections also.

The provisional Annual Survey of Industries for fiscal year ending March, 2018 (Provisional) issued by Ministry of Statistics and Programme Implementation (MOSPI) also shows an increase in jobs in organized manufacturing sector. During 2014-15 to 2017-18, total number of workers has increased by 14.69 lakh and total person engaged has increased by 17.33 lakh in organized manufacturing sector in India. Apart from this, as per press release of MOSPI dated 25<sup>th</sup> November, 2019, 285.3 lakh new subscribers joined the Employees' Provident Funds (EPF) Scheme, 310.3 lakh joined the Employees' State Insurance (ESI) Scheme and 15.7 lakh joined the National Pension Scheme (NPS) during September, 2017 - September, 2019.

There has been significant increase in the use of the digital payments in the country since demonetization. The details in terms of volume and percentage of digital transactions during each of the last three years are as mentioned below:

Financial Year (FY)	Total Digital Transactions (in Nos.)	Year on Year Growth % of Digital transactions
FY 2016-17	1023 crore	-
FY 2017-18	2070 crore	104.38 %
FY 2018-19	3133 crore	51.35 %

(b) The overall economic growth of the Indian economy/different sectors is dependent on many factors, inter-alia, rate of capital formation and savings, utilization of technology, availability of infrastructure, efficiency of resource allocation, quality of institutions, governance and the policy framework in place, money supply and degree of financial development. It is difficult to pin-point the impact of demonetization on the economy.

(c) Moody's has not downgraded the rating of Indian economy after 2016. In 2017, it upgraded India's ratings to Baa2 from Baa3 and changed the outlook to Stable from Positive. In 2018, ratings and outlook remained unchanged. However, in November 2019, Moody's has changed the outlook to Negative from Stable while keeping the ratings unchanged at Baa2.

(d) & (e) As per the information available in National Accounts Statistics 2019 published by National Statistical Office, the details of household savings are as given in table below.

Items of the financial savings of Indian Household sector	2015-16 (Rs. in crore)	2016-17 (Rs. in crore)	2017-18 (Rs. in crore)
Currency	200518	-316473	470809
Deposits with banks, non-banking companies, Co-operative societies & net trade debt.	644512	967989	535284
Shares and debentures	28356	44309	63005
Claims on Government	67940	63079	82152
Insurance funds	264177	354321	350446
Provident and pension funds	290729	325153	367881
Gross financial Savings	1496232	1438377	1869578
Financial Liabilities	385388	468648	740566
Net financial savings of household sector	1110845	969729	1129012

The net financial savings is the outcome of behaviour of households which is affected by several factors. There is no direct data available to analyse the impact of demonetisation on savings of Household sector. However, it is apparent from the above data that net financial savings of the household sector has not declined post-demonetisation.

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