

Demonetization: A Step against Black Money (With Special Reference to Counterfeit Money)

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Abstract

The government, from time to time, formulates fiscal policies that are meant to spur economic growth. A lot of black money circulates in the economy, because the sources of income are not known to the government and that are also unaccounted. For removing the black money, a multifaceted policy is needed. Demonetisation is a step that combats this problem up to great extent. By demonetization counterfeit notes could be assessed. To mop up this money out of circulation, the government can demonetize so that the money holders are forced to deposit the cash with the banks or lose their wealth. Through this paper, it has tried to understand that how demonetization strategy works in detecting the black money as counterfeiting money, forgery and money laundering activities. PTI stated on 30 August, 2017 "with over Rs. 15 lakh crore of junked currency coming back into the banking system post demonetization." And for Indian economy that is primarily cash transaction based economy, removing 86% of the money in circulation is indeed a brave step taken by government.

Key words: Demonetization, Black Money, Counterfeit currency.

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1. INTRODUCTION

India is the world's seventh-largest economy. Having significant challenges, in last decade, economic success of India ensures that South Asia is the fastest growing region in the globe. According to the newly-published 2017 edition of the World Economic Forum's Global Competitiveness Report, India has 25th rank. Instead of carrying opportunities for fastest growth, corruption is the most concerning problem. Black money leads to this corruption by creating a deplorable chain. As per Corruption Perception Index, India has scored 36/100 rank. Indian Express Article, 2016 stated that Rs. 65,250 cr. was declared as black money. **Black money is a term used in common parlance to refer to money that is not fully legitimate in the hands of the owner.** Black money is that income which is not shown to the government. It is unaccounted and earned through illegal means. Illegal activities such as crime and corruption, non-compliance with taxation requirements, globalization along with weak institutional policy, poor legal and implementation structures have further hideouts of black money in the economy.

The flushing out of black money and conversion of the shadow economy, the Government of India took an important step, '**Demonetization**' as a vigorous drive. Demonetization refers to an economic policy. It is an act of cancelling the legal tender status of a currency unit in circulation. Across the boundaries of ocean demonetisation is used as a controlling tool of economic conditions such as inflation and growth of nation.

2. LITERATURE SURVEY

- **Laheri K .Ashok (2016)** in his article stressed that across the globe, there are many countries as Canada, Singapore and other OECD countries had stopped to print of high value Note for controlling the Black Money in circulation, time to time. Like that on 8th November 2016, India also demonetized high value notes INR 500 and INR 1000. But there was a distinction in objectives of demonetization of OECD countries and India in implementation of this policy. The difference was that OECD countries did not give the time to exchange the old currency while in India very short span of time was given. Even after December 30, 2016, people could return/ exchange these old notes to RBI with proper documentation. Another change was that Government of India has introduced a new note of even higher denomination of INR 2000 at the place of INR1000.
- Currency counterfeiting is a crime that continuously poses a threat to a country's economy and is a source of financial loss to it's citizens. Some of the ill-effects that counterfeit money has on society is a reduction in the value of real money; and increase in prices(inflation) due to more money getting circulated in the economy i.e. an unauthorized artificial increase in the money supply (**Edemba, 2014**).
- **Chandra Saurabh (2016)** recommended in his paper that the only sensible argument for this exercise seems to be that counterfeiters have been discouraged to make fake currency by introducing polymer/plastic notes. It will also increase the life of notes.
- **Satish Y. Derthar (2017)** also cited in his article that static emanating from the latest RBI report published on August 30, 2017, was very encouraging. According to RBI report, counterfeit currency worth Rs. 43.5 crore, the largest cache ever, was detected by the banking system during the fiscal year 2016-17.

- **According to Parliament Query (2017)**, the National Crime Bureau detected fake currency notes worth Rs. 11.23 crore across all denomination after demonetization.

3. OBJECTIVES

In India, Demonetization is not a new step to develop the economic growth and to curb the black money. Previously it has been taken twice, once in the year 1946 and other in 1978. But the way to implement the objectives of current demonetization policy (8th November, 2016) are little different from previous demonetization policies.

The main objective of this study is to know the reasons for implementing the demonetization policy. Researcher also analyzed whether demonetization is helpful in detecting the counterfeit currency as black money and what are the changed positive effects from previous demonetization policies are seen after taking this bold step.

4. RESEARCH METHODOLOGY

Basically, in this paper, descriptive analysis is done. Secondary data are used. Articles and research papers from journals, magazines, newspapers, internet and other secondary sources such as annual reports also have been analyzed for thorough study.

5. DISCUSSION & RESULTS

On the midnight of 8th November 2016, announcement of demonetisation took place and Government of India declared that circulation of 500 and 1000 banknotes of Mahatma Gandhi series are invalid from the same day as move to curb counterfeited (fake) money and money laundering activities. RBI highlighted in the annual report that the volume of notes in circulation continued to increase till November 8, 2016 when the Government of India notified that banknotes of Rs.500 and Rs.1000 denominations of the existing series issued by the Reserve Bank of India till then (henceforth, specified bank notes), shall cease to be legal tender with effect from November 9, 2016 (also termed as demonetisation). Simultaneously, a new series (Mahatma Gandhi New Series) of banknotes of a different size and design, highlighting the cultural heritage and scientific achievements of the country, was introduced. This table shows the banknotes in circulation before and during demonetization.

Table: 1: Banknotes in Circulation

Denomination (Rs.)	Volume (Million pieces)			Value (Rs. billion)		
	Mar-15	Mar-16	Mar-17	Mar-15	Mar-16	Mar-17
2 &5	11,672 (13.9)	11,626 (12.9)	11,557 (11.5)	46 (0.3)	45 (0.3)	45 (0.3)
10	30,304 (36.3)	32,015 (35.5)	36,929 (36.8)	303 (2.1)	320 (1.9)	369 (2.8)
20	4,350 (5.2)	4,924 (5.4)	10,158 (10.2)	87 (0.6)	98 (0.6)	203 (1.5)
50	3,487 (4.2)	3,890 (4.3)	7,113 (7.1)	174 (1.2)	194 (1.2)	356 (2.7)
100	15,026 (18.0)	15,778 (17.5)	25,280 (25.2)	1,503 (10.5)	1,578 (9.6)	2,528 (19.3)
500	13,128	15,707	5,882	6,564	7,854	2,941

1000	(15.7) 5,612	(17.4) 6,326	(5.9) 89	(46.0) 5,612	(47.8) 6,326	(22.5) 89
2000	(6.7) -	(7.0) -	(0.0) 3,285 (3.3)	(39.3) -	(38.6) -	(0.7) 6,571 (50.2)
Total	83,579	90,266	100,293	14,289	16,415	13,102

Note: Figure in parentheses represent the percentage share in total volume/value.

Source: Annual Report of Reserve Bank of India, 2016-17.

The **value** of banknotes in circulation declined by 20.2 per cent over the year to Rs. 13, 102 billion as by March 2017 end. The **volume** of banknotes, however, increased by 11.1 per cent, mainly due to higher infusion of banknotes of lower denomination in circulation following the demonetisation. In value terms, the share of Rs. 500 and above banknotes, which had together accounted for 86.4 per cent of the total value of banknotes in circulation by March 2016 end, stood at 73.4 per cent by the end of March 2017. The share of newly introduced Rs. 2000 banknotes in the total value of banknotes in circulation was 50.2 per cent at end-March 2017. In volume terms, Rs.10 and Rs.100 banknotes constituted 62.0 per cent of total banknotes in circulation at end-March 2017 as compared with 53.0 per cent at end-March 2016.

After prime minister of India announcement, the Governor of the Reserve Bank of India, and Economic Affairs Secretary, stated that while the supply of notes of all denominations had increased by 40 percent between 2011 and 2016. Owing to forgery, the Rs. 500 and Rs. 1000 banknotes increased by 76 percent and 109 percent, respectively. They said that the forged cash was used to fund terrorist activities, and that demonetisation was meant to counter this.

Coincident with the announcement of the withdrawal of legal tender status of specified bank notes on November 8, 2016, the reserve bank launched nation-wide exercise to estimate the density of Fake Indian Currency Note (FICNs) detected during the counting and verification of Notes. The Reserve Bank of India is facilitating implementation of the system in collaboration with National Crime Record Bureau (NCRB). A survey- based estimation of FICN carried out by the Reserve Bank is presented in Table: 2.

Table: 2: Number of Counterfeit Notes Detected

Year	Detection at Reserve Bank	Other Banks	Total
2014-15	26,128 (4.4)	568,318 (95.6)	594,446 (100.0)
2015-16	31,765 (5.0)	601,161 (95.0)	632,926 (100.0)
2016-17	32,432 (4.3)	792,640 (95.7)	762,072 (100.0)

Note: 1. Figure in parentheses represent the percentage share in total.

2. Does not include counterfeit notes seized by the police and other enforcement agencies.

Source: Annual Report of Reserve Bank of India, 2016-17.

From the table, during 2016-17, 7,62,072 pieces of counterfeit notes detected in the banking system, of which 95.7 per cent were detected by commercial banks. Detection of counterfeit notes

was 20.4 per cent higher than the previous year. The trail of deposits of Specific Bank Notes (SBNs) into bank account may provide valuable information to the revenue authorities in tracing unaccounted money. During 2016-17, the number of suspicious transaction report filed by bank and other financial intermediaries with the financial intelligent unit, government of India, witnessed a quantum jump. Data can be acknowledged in the table: 3.

Table: 3: Number of Suspicious Transaction Report Filed

Reporting Entity	2014-15	2015-16	2016-17
Banks	45,858	61,361	361,214
Financial Institutions*	10,649	40,333	94,836
Intermediaries**	2,139	4,579	16,953

*Include RBI-regulated All India financial Institutions(AIFIs), insurance companies, housing finance institutions, non banking financial companies, chit fund etc.

**Include intermediaries registered with SEBI, viz., stock brokers, merchant bankers, portfolio managers, foreign institutional investors, venture capital fund

Source: Annual Report of Reserve Bank of India 2016-17

Hence, after demonetization, the counterfeit notes of every denomination were detected by RBI. But this announcement of demonetization led to **shortage of cash**. This scarcity of cash led to chaos. People faced difficulties in exchanging them across India which made the daily routine very hard for millions of people. And Indian Economy shook for a due course of time. It affected brutally unorganized sector where 85% of transactions take place in cash. Many people were reported loss of lives because they could not get medical aid due to refusal of old bank notes by hospitals. Transportation faced a very bad situation, About 800,000 truck drivers were affected with scarcity of cash. Sensex crashed after declaration of demonetisation and considerable decline in GDP figure was seen for a few quarters.

We cannot say that demonetization created the problems only as it is taken as step of fiscal policy because the problems were not everlasting; actually it brought positive results for our economy for a longer period. Like:-

- As a result of demonetization, liquidity increased, RBI is likely to cut down the rates of interests applicable on fixed deposits, recurring deposits, and others. Since banks are sure to accumulate huge deposits in the months that follow, the borrowing cost for banks will be reduced. This benefit will be figurative to customers in the form of lower interest rates on loan products.
- As a result, to make **Smart India**, a most positive sign is seen in faster speed that is Digitalization. E-Wallets, E-Banking get promotion such as PayTM, PayUIndia, Mobokwik etc. Government started free app 'BHIM'. This is good to encourage to Indian people towards the cashless transactions. More people began using card and e-wallets, and the demand for point of sales (POS) or card swipe machines increased. This led to the acceleration of installation of POS machine. According to data of Pine Labs, the demand for its POS machines doubled after the decision. The company stated that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016.

- Positive impact of demonetization on equity and mutual funds can be noticed. If cash flow across the nation is fully tracked, equities will strengthen significantly, as more people will invest in equity linked saving schemes.
- Demonetisation also reformed the real estate sector because now property dealings are done through cheques. It increased the transparency in dealings.
- Demonetisation is expected to bring sharp changes in the prices of bullions as gold. Government also announced the exemption limits on gold ornaments as the next giant move to curb black money.
- The RBI in its annual report for 2016-17 said that 99 per cent of the junked 500 and 1000 rupee notes has returned to the banking system. An estimated Rs. 15.4 lakh crore worth old 500 and 1000 rupee notes were demonetised on November 8, 2016.

Evasion attempts taken by those people who hold black money:

People invest their illegal money into these **encampment** such as: purchasing gold, donations due to availability of exemption, booking travelling tickets of high class and others. A senior official said, "On November 13, 2018, 42.7 million passengers were nationally booked across all classes. Due to spoilage of the large amount of old currency, multiple transactions were done by sending hired people, employees and followers in group to exchange this large amount of banned notes.

Steps taken to combat (eradicate) black money

Reserve Bank of India (RBI), Government of India and Department of tax have taken measure as to eradicate black money .These are:-

- The Income Tax Department launched '**Operation Clean Money**' (OCM) on 31st January, 2017 to analyse the data of the persons who deposited large sums of cash and whose returns of income were not in sync with such deposits. The effect of Demonetization is also clearly visible by the growth in Direct Tax Collections. Collection of Advance Tax under Personal Income Tax (i.e. other than Corporate Tax) as on 05.08.2017 showed a growth of about 41.79 percent over the corresponding period in Financial Year 2016-2017. Collection of Self-Assessment Tax under Personal Income Tax showed a growth of 34.25 percent over the corresponding period in Financial Year 2016-2017.
- **Tax Information Exchange Agreements:-**To curb black money, India has signed TIEA with 13 countries – Gibraltar, Bahamas, Bermuda, the British Virgin Islands, the Isle of Man, the Cayman Islands, Jersey, Liberia, Monaco, Macau, Argentina, Guernsey and Bahrain - where money is believed to have been stashed away. Government made a treaty with tax havens like Switzerland, Singapore, Mauritius and Panama, which have agreed to share suspicious banking transactions of Indians on real time basis. Government made Double Tax Avoidance Agreement(DTAA) In June 2014, the Finance Minister Arun Jaitely on behalf of the Indian government requested the Swiss Government to hand over all the bank details and names of Indians having unaccounted money in Swiss banks.
- **Name & Shame Policy:-** The income tax department has started to publish the name of tax defaulter in leading newspapers. The prime goal of this policy is to make the grip over such defaulters.
- To check the hike of railway ticket booking, (as we discussed earlier in this paper) The Railways Ministry and the Railway Board responded swiftly and decided that

cancellation and refund of tickets of value Rs. 10,000 and above will not be allowed by any means involving cash. The payment can only be through cheque/electronic payment. A copy of the PAN card must be submitted for any cash transaction above Rs. 50,000.

- During 2016-17 the National Crime Record Board(NCRB) , the minister of Home Affairs designed a uniform Performa for collection of Fake Indian Currency Note(FICN) data. It also developed web- enabled software for uploading data on FICN detected by bank and law enforcement agencies. (*This can be seen in Annual Report of RBI, 2016-17*)
- Enactment of the Benami Transactions (Prohibition) Amendment Act, 2016 to check the benami property.
- The union cabinet in May 2014 approved a constitution of a special investigating team(SIT) to control the large amount of money stashed abroad by evading taxes or generated through illegal means.
- Apart from demonetisation, government has announced several measures to clamp down on black money action like Jan Dhan Yojna, make payment electronically, and so on.

6. CONCLUSION

From the above discussion, it is clearly visible the effect of demonetization. Fiscal changes in any economy stimulus the economic growth. 'Invalidation of currency" namely **Demonetization** is a akin tool for curbing the black money. Black money is dangerous for nation's economy because it gives false picture of economic growth. There is a distortion in investment in economy. Black money generates huge loss of taxes, manipulation in tenders and offers, compromise in quality, crime, trafficking and become an obstacle in the growth of the nation. The aim is to take the decision of demonetization as brilliant step to root out the black money and bringing transparency. So that Indian Economy could be strong and spur growth. It has indeed had a salutary effect on banking and digitalized transactions.

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