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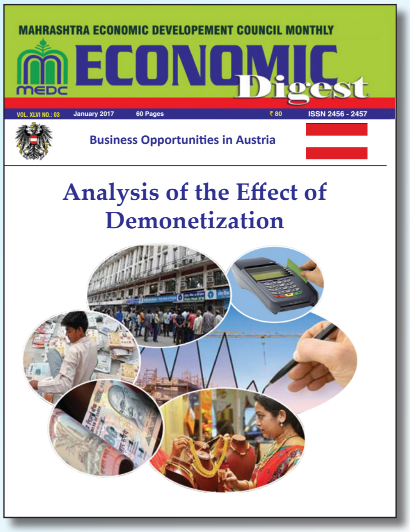
Business Opportunities in Austria

Analysis of the Effect of Demonetization



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Demonetization, Demonising, Drama

Present: Economy – Disfigured, Defaced and Defiled
Future: Economy – Kya Sach Mein 'Acche Din Aayenge ???'

Dr. Guruprasad Murthy

Demonetization on 8th Nov., 2016, the third of its kind, that India's long history has known, announced by Prime Minister Mr. Narendra Modi, rendered the Rs. 500 and Rs. 1,000 denominated currency notes invalid as legal tender forthwith from the midnight of the day of announcement. The first demonetization took place in the pre-independence era (1946) when Rs. 500, Rs. 1,000 and Rs. 10,000 notes were demonetised. The second demonetisation was announced in 1978 by the then Prime Minister Mr. Morarji Desai and Rs. 1,000, Rs. 5,000 and Rs. 10,000 were demonetised.

It is the purpose of this paper to identify the immediate reaction and response of society to the demonetisation decision of 8th Nov., 2016 and spell out the objectives of demonetisation and assess the extent to which the same can be successfully met. The paper also addresses the question, what after demonetisation?

Demonetisation – Immediate Reaction:

The latest demonetisation relayed at 8 pm, on 8th Nov., 2016, through television media created, undoubtedly, a flutter followed by a clutter of various sorts. The question confronting citizens was – what happens to the cash - legal /illegal, black or white, as the case may be which has been carefully collected, amassed and preserved apart from unlawful shielding (in some cases) of the same from taxation? However, the affected citizens were and are unlikely to discontinue the conservation of the unaccounted cash, which had escaped taxation, for whatever reasons, by resorting to methods limited by the financial genius of the indigenous Indian mind. Thus, such holders with big or small amounts of cash, came out into the open, on 8th Nov., 2016 post 8:00 pm almost on an 'as is where is basis', with large quantum of cash in bags, pockets and as much as the hand could hold. Conversion into gold started almost immediately because nearly four hours were yet to be availed to put the 'modus operandi' of conversion into gold, into fruitful action just changing the nature of the asset, held as cash. There was exuberance which resulted in a crazy, frenzy and tizzy behaviour (perhaps irrational exuberance). This resulted in hectic overnight business with jewellers offering services to boost their cash sales at the then going price of gold of Rs. 30,500/- for 10 grams for a few hours. The price of the yellow metal per 10 grams slowly moved northwards. It is believed that in the wake of dawn, price of gold (10 gm) moved rather steeply upwards. The demand for conversion of potentially, useless or harmful cash (financially and legally) continued unabated. It was the exuberance, rational or irrational, throughout, perhaps a herd mentality that was in motion. There was no other creative method of disposal of cash that could strike the holders of unaccounted cash at least overnight.

After 8th November, 2016:

As the night receded and 9th Nov., 2016 dawned, the bullion market was badly shaken and the jewellers stopped business because they were advised to do so and also feared punitive action. The price of gold as announced by jewellers in the market went up by more than 50%. The bank was closed for a day (9th Nov., 2016) and people were waiting impatiently for banking operations to commence only to witness on 10th Nov., 2016 serpentine queues and apparent lack of planning of the management process by the authorities, as well as inadequate cash delivered by printing press / RBI at the banks, non-calibrated ATM's and above all panic among cash holders of accounted and unaccounted cash.

The issues confronting the holders of cash were twofold:

1. What will happen to the hard earned cash on hand of the said denominations? and
2. How will the day-to-day cash requirements be satisfied without replenishment of invalid tender with legally valid tender?

Government Action:

As a matter of convenience to society, the Government allowed the acceptance of old currency notes at Government hospitals (eventually even private hospitals), chemist shops, utility bills payment centres and petrol pumps to list a few. Of course, the question arises as to why particularly in the case of hospitals only Government hospitals were chosen. It was reported later that even Government hospitals were refusing to accept old currency notes which was corrected forthwith. However, the situation, which was simultaneously dramatic and traumatic, had its toll on the common man – gross disarray, lack of planned governance and total confusion and chaos - a pandemonium par excellence. Undoubtedly, the issue was politicised by the politicians using the so called common man's plight as the bait – ruling party as well as the opposition.

Black Wealth and Black Cash:

The tentacles of demonetisation touches only the cash base of Indian economy which is a miniscule proportion, estimated in the range of 6% to 15%, say 10% of the total cash in circulation. Even if it is argued that an expanded bank deposit base will help to eventually understand the aggregate money in the hands of people and improve tax collection, the question is by what percentage amount tax collection will go up. Indeed in India, a bare 3% to 4% of the population pay income taxes. May be less.

However, cash to GDP ratio now a double digit number for India may hopefully come down to a single digit number on the lines of other major economies. Yet, let us assume tax collection will increase. However, a major portion of black wealth is stashed in non-liquid assets like bullion, real estate, construction business et al.

The genius of the Indian population perhaps has no-parallel when it comes to financial matters. There were and are various methods adopted by people even in the short period available, following 8th Nov., 2016 – 8:00 pm, to use the cash, invalid legal tender, on hand to acquire durable and non-durable assets.

Avenues other than Gold:

While conversion into gold has been an important diversion of cash on hand on 8th Nov., 2016, a variety of other proactive legitimate methods (may be perceived as reactive and perverted) were also deployed, for big or small amounts, such as incurring pre-paid expenses towards items incurred on revenue account viz. salaries and other payments, purchase of consumables for longer periods of time (transaction / precautionary motives) than usual (inventory build-up), non-durables items accumulated for consumption at a future date, purchase of items, medicines as well as OTC products from chemist shops and perhaps other ingenious methods too. Of course, there were perverted reactive methods committed in petrol pumps and also people waiting in queues as proxy for depositing old notes and collecting new notes on behalf of very high net worth individuals. Yet another unique feature is the savings account opened in the Jan-Dhan Yojana which was available for use at competitive rents to those who wanted to use such account holders as proxy depositors with adequate precautions taken by the original owner of cash to ensure the withdrawals can be made by the true owners only. In the desperate last move, huge amounts were just left in public places and in some daring exploits, the police interjected to seize huge amounts of cash (fake / genuine as the case may be) across the country. Thus, it will be interesting to estimate the extent of conversion that has taken place both accounted as well as unaccounted. Accounted cash was also converted into other assets, off banking windows, to avoid queues in the bank and unaccounted cash, of course, was hastily converted into non-cash assets for apparent reasons. As a result, both accounted and unaccounted cash have mingled which is indeed a mixture of black and white in action simultaneously. All the collections in different counters of various enterprises will now be reported as cash sales prior to 8th November, 2016. Sales can be reported even post 8th Nov., 2016 from those segments which were permitted to accept invalid legal tender which was deemed to be valid. The fear that the Government assurance of no questions asked for deposits upto Rs. 2.5 lakhs could be eyewash already loomed large in the minds of people. Therefore many persons have ventured to convert cash on hand to assets as described above.

The objectives of Demonetisation include, inter-alia, the following:

1. Flushing the unaccounted stock of cash from the country
2. Identifying the quantum of cash (black / white / counterfeit) entering the banking system and the residual of cash (black / white / counterfeit) still lying outside.
3. Assessing the implications of revised augmented deposit base of the banking system in the post-demonetisation scenario which can help in:
   A. Recapitalisation of over leveraged weak public sector banks
   B. Improving levels of public investments
   C. Increasing the levels of investment effective demand in public / private sectors through appropriate inducement via instruments of monetary policy
4. Identifying role of demonetisation as a deterrence / corpulence to pre-empt future generation of black cash.
5. What after Demonetisation!!!

Each one of the above objectives will be discussed in turn.

1.

Flushing the unaccounted stock of cash from the country – Pros and Cons: Statistics regarding the nature and extent of black cash varies. However, holders of unaccounted cash either deposit in the bank and face the consequences or destroy and suffer a total loss or resort to illegitimate methods of devising a 'jugaad' to convert old notes into valid legal tender at a discounted price i.e. laundering with its own penal consequences, if caught now or later.

Nevertheless, India is predominantly cash driven economy and the proportion of black cash as mentioned earlier is estimated to be a rather inconspicuous proportion of the total cash. Moreover, the unorganised / informal sector has a preponderant role in the Indian economy and accounts for a little less than half of the total economic activities and acts as a key source of livelihood for the Indian population. It is believed that black wealth is not really held in cash. There are other assets which are preferred bullion, land, real estate, construction and a few others. Hence, even if the drive against the cash component of black wealth is a success, the extent of coverage of the black cash portion of the unaccounted wealth is rather limited if not innocuous. Yet, the miniscule portion of the black wealth in the form of cash is no excuse for not initiating a purge – major or minor is discretion of the decision maker /s. However, a caveat is in order. Even in a normal purge, the cleansing operation has to be successful without undue dehydration or demise of the anatomy purged. Otherwise the purge is counterproductive and the remedy may be worse than the disease.

According to the Ministry sources as of 8th Nov., 2016, there are 8.58 lakhs crores of Rs. 500 notes and 6.86 lakhs crores of Rs. 1000 notes resulting in total of Rs. 15.44 lakh crores. Thus, while the operation purge is on, one has to ensure that, insofar as the anatomy of the economy is concerned, the operation has to be successful without unduly dehydrating the economy. This is far from the ground realities of the market place. Following demonetisation the Indian economy is almost totally bereft of liquidity because 86% of the cash in the system (Rs.

500 / Rs. 1000 currency notes) is withdrawn without speedy replacement. However the speed of supply of currency notes leaves much to be desired. Considering that it takes about one month to print 3 billion currency notes of Rs. 500 denominations it would take a minimum of three months to print 9 billion notes. Yet this does not meet the requirement. Assuming that all currency notes scrapped need not be necessarily is replaced in the said quantum, the time frame is not days or weeks but months. Thus, there is a wide gap between the demand for and supply of currency notes now and also in the medium term. Therefore the prevailing situation bears testimony to the extent of continued dehydration of the economy vis-à-vis cash.

Inadequate liquidity in the economic system has caused gross disruption almost in all sectors of the economy. The destruction of the economy can be seen by the landslide in business activity by at least 25% in some cases (taxis, autos, restaurants, jewellers, workers, property registration, retail, octroi, agriculture, industry, service sector et al). Already thousands of crores of rupees of business are lost. In addition to this dehydration, there have been deaths too of persons waiting in the queues outside banks. Crises in the immediate context and medium-term too, will lead to an adverse chain reaction. Demonetization unsupported by a well-planned meticulous road map for execution will spell gloom and doom in the short end medium-term without any guarantee or recovery in the long term and the arrival of the promised dreamy good days. The whole exercise of demonetization will be rendered, defunct ab initio and nugatory in toto. This is based on the ground realities of the actual outcome of happenings following the announcement of demonetization on 8th Nov., 2016. Moreover, those who have managed to get their tainted cash or otherwise, converted into cash at banks may feel comfortable for now. However, many would rather prefer destruction because the cost of disclosure will be more than the benefit in terms of the harassment (terrorised harassment) post Income Tax returns filing for the assessment year 2017-18 or even before.

The recent announcement by the Government or various penalties to be imposed on assessed found guilty bear eloquent testimony to the same. This is a fact and whether it is good, bad, right or wrong would be a value judgement.

2.

Identifying the quantum of cash (black / white) entering the banking system and the residual of cash (black / white) still lying outside: An overview of quantum of funds entering the banking system will help to assess the residual cash (black / white) which is still lying outside the banking system. However there is always a danger that what has not come into the system may find itself through circuitous network a la Axis Bank expose (Cashmere Gate exposé) back into the system, through a process of laundering before 31st Dec., 2016. Fortunately, it was exposed. The nature and extent of the flow of deposits into the coffers of the banking system is anybody's guess. It depends on; to start with, what colour of cash the bank receives. To the extent that people deposit old white notes in the banks it is only a substitution of old notes for new notes. If deposits of old, illegal notes (unaccounted cash) are a first time entry into the banking system by the holder then pro-tanto the black or tainted cash enters the banking system. Again if the proxy depositors can withdraw the cash and deliver to the original owner to that extent black cash has become white cash. However, demonetisation has, at least temporarily helped to pulverise terrorists and anti-nationals (naxalites and cross-border terrorists). To what extent this will be a permanent feature remains to be seen because it is believed that a neighbouring country, across the border, has been as active as ever before.

3.

Assessing the implications of revised augmented deposit base of the banking system in the post-monetisation scenario: After 31st December, 2016 the extent to which bank can benefit from bank deposit depends upon the spate of the withdrawals which follow the cash crunch created during the initial phase of demonetization (November to December, 2016). If the spate of withdrawals is very heavy both for transaction and precautionary motives too, the extent of bank deposits retained by the banks could be curtailed accordingly. If the white cash deposited by the public are in the main withdrawn, then on a 'netnet basis' there may no implication. Yet, it may not be untrue to say that on balance, banks would be flush with funds assuming that withdrawals would be less than the deposits and first time white cash depositors have also deposited and last but not the least the catchment areas of black money have yielded fruits and responded positively by depositing the tainted cash also in the banking system.

The options open for deployment of surfeit cash deposited with the commercial banks, post-demonetisation, include:

A. Recapitalisation of over leveraged weak public sector banks
B. Improving levels of public investments and public sector investments
C. Increasing the levels of investment effective demand in private sectors through appropriate inducement

The above options are closely examined in turn.

A.

Recapitalisation of public sector banks: Assuming a bonanza of bank deposit between 8th Nov., 16 to 31st Dec., 16 uses of funds stemming from the surge of bank deposits is a challenge following demonetization. The new, increased, deposits are to be deployed in favour of strengthening the capital structure of weak, overleveraged public sector banks and perhaps other commercial / co-operative banks too. Now redressing the imbalances caused by such past delinquents through this fresh surge in bank deposit is once again the use of the common man's savings. The bank decides to lend to rich entrepreneurs who eventually are identified as doubtful debts which become or is shown, in connivance, as bad and then get written off from the books of the banks and finally, for various reasons, may not come back. The savings of the common man are sunk in the balance sheet of banks. However, these savings have already been thoroughly enjoyed by the borrowers and also the lenders because loans are not sanctioned without a quid pro quo to the banking bureaucracy for decisions in favour, of the rich and famous as well as small and medium, borrowers. To say that the banking system is not in complicity with borrowers may be far from truth and out of tune with the ground realities known to one and all. However, once again now to use the savings of the common man to fund the recapitalisation exercise and provide the sinews to the banking system perhaps to repeat the same cycle of events, a la the likes of Mallya, is unfair. This is a paradox –'Daridra Narayana' subsidising the rich and famous who, incomplicity with the banking system and other stakeholders, can avail of public funds and get away by not returning it. Thus, it is a vicious circle of public savings from the household sector, going to enterprise via the banking sector and then the latter unable to recover or deliberately lets free the loan. Now, the Government finds again an opportunity to mop up, through demonetization, this time, common man's savings, to recapitalise the public sector banks, only to transfer wealth again, of the common man, to enterprise. In all probability, with some degree of certainty like the past, delinquent accounts may be the redeeming feature of the future too. This is to reiterate unfair and also not consistent with the understood, ethical rules of a true and fair treatment to the savings stemming from the sweat of the brow of the common man – which party is in power is immaterial to the common man.

The gigantic levels of NPAs in PSBs are the result of collusion between all stakeholders – lenders, borrowers, bureaucracy and politicians. The NPAs were identified by the AIBEA at nearly Rs. 70,000 crores in about 350-400 PSB loan accounts. Prior to recapitalisation, the PM, Mr. Modi, and his team need to be a pre-emptive sentinel rather than preacher's ex-post facto. Historically projects have failed but borrowers have flourished - a paradox but true. The question is will Mr. Narendra Modi the self-proclaimed sentinel of nation's wealth now set the ball really rolling to pre-empt the recurrence of the chain of events where common man savings get reinvested in projects but borrowers get away without adequate collaterals, thanks to the nexus between vested stakeholders (Basu, Debashish. "A chowkidar for state banks." Business Standard 19th Oct., 2014.). This game has to be pre-empted without political drama and blame game.

B.

Public investment programs and public sector investments: The main problems plaguing the economy are low level of industrial activity, large unemployment levels, outdated human resource management practices, poor productivity and consequent lack of effective demand for investment and the inevitable chain reaction on consumption, savings, investment and national income and other key economic indicators like inflation, index of industrial production et al. It is believed that overall the investment levels and climate in the economy is not improving. Infact it is deteriorating over the last half decade. The actual investment in all industries from 2014-15 is just Rs. 2.71 lakh crore against a visualised Rs. 31.93 Lakh crores. The cumulative growth, between April to August, 2016, in three important sectors viz. mining, manufacturing and electricity, has been .6%, -1.2% and 5.7% respectively over the corresponding period in 2015. The latest scenario in the manufacturing sector is far from encouraging because the demonetisation decision has resulted in a cash crunch which has adversely affected the growth of the manufacturing sector. The Purchasing Managers Index (PMI) has gone down to 52.3 as against the higher number 54.4 for Oct, 16. This is indeed a forewarning signal for the impact of demonetisation on the Indian economy.

The Government plans to redeploy the funds of the banking sector in favour of public investment programs and public sector enterprises to improve the levels of employment and through that stimulate the process of economic growth via capital formation in different sectors of the economy. Along with the same, there are already certain initiatives like Make in India, Start-ups, Digital India and skill India which are spoken about and perhaps acted upon. Public investment programs intended to act as a pacesetter to stimulate the process of economic development and also drive the change in the economic scene is a welcome proposition. However, unemployment level is also high and with a youthful population at the helm of affairs of the world's largest democracy, tangible and verifiable results have to be shown. Reinvestment opportunities need to not only create employment but also to contribute to productive deployment of funds and help in improving the value creation process and additions to the wealth producing resources of the country. The demographic dividends of a young democracy should be visible and tangible to sustain the youthful exuberance . Of course, there is no doubt that public investment programs, as John Maynard Keynes said may also be directed to create employment for employment sake and "The government should pay people to dig holes in the ground and then fill them up". It is earnestly visualised that this is not the case. However, in a country with substantial unemployment of very highly qualified youth who are willing to do rather lowly jobs to eke out an existence, the wisdom of Keynes may come true and handy too. It is hoped that the Government has investment proposals in the pipeline to reinvest the banks', bonanza, and surfeit resources into well thought of, carefully planned projects. The new investment proposals should be able to absorb the funds and simultaneously justify the end results in terms of returns of investment (internal rate of return or marginal efficiency of capital) which exceed the marginal cost of capital nay the minimum acceptable rate of return. The internal rate of return of new investment proposals shall always be greater than or equal to the cost of capital. If this does not happen the social dimension of unemployment may be alleviated but the economic dilemma of the gap between the return on investment and target rates of return would be a cost to the country.

C.

Private Investments: Private investment has not come up to expectations over the last several years. The global meltdown, the marvels of technology leading to a spate of labour saving innovations in business, increasing use of robotics and diminished green field projects in industry have all contributed, in fact globally, to low levels of private investment in the world economy. This has definitely affected the employment creation potential of the private sector. In fact the very poor, snails, pace at which the index of industrial production is growing, bears testimony to the lack of effective demand for investment in the private sector. Among other things which influence (not exclusively determine) investment decisions in the interest rate. Monetary policy thus has to play an important, though not exclusive role, to stimulate capital formation in the economy.

Assuming that interest rates are reduced, let say by 2%, the tax implications would result in an effective reduction of only 1.4%, given a marginal tax rate of 30%. Interest rate reductions in recent times are failing to revive the levels of effective demand for consumption. The new normal behaviour is contrary to such expectations. In western countries very low and zero interest rates have not been able to induce levels of effective demand for consumption and investment to new higher levels. India's experience of sustained reduction in the rates by RBI, during Raghuram Rajan's tenure, is not very happy with respect to inducement to consume and invest. Further, even if interest rates are lowered by the monetary authorities, will the banks be ready to pass on the benefits of cheap money policy to borrowers and enable entrepreneurs to revisit their appetite for risk and revive the inducement to invest. In the recent past even when borrowers were willing to pay higher interest rates, public sector banks were not responsive to lend. If that is so, migrating from cheap to cheaper money policy is only a theoretical exercise with no practical use.

From the above analysis, it is clear that in the immediate context it should be noted that private sector will respond if and only if business environment is proactive and is not coloured by volatility, uncertainty, complexity and ambiguity. Further, no entrepreneur will come forward to invest unless his return on investment (IRR %) is greater than the minimum acceptable rate of return (%). Enterprise is bound to add a plus by way of premium to the cost of capital in order to create elevated target rates to justify the use of funds. This difference is the gap between the risk free rate and the expected return on market portfolio, that is, the projects in which funds will be reinvested. In addition, there are other complications of computations.

Be that as it may, the emergence of cheap and cheaper money policy perhaps, enterprise may be motivated to revive the levels of effective demand for investment in industry. But, if enterprise themselves are averse to the banking sector for a wide variety of reasons the job is ill done. As an alternative, then, the funds to flow into the private sector may be used for sick units rehabilitation, small and medium enterprise in chronic need of working capital and other segments of the economy which need funds primarily to set their houses in order rather than build new investment blocks in industry which represent quantum jumps in investment to further the process of economic development.

Once again for companies in the pink of health public or private sector enterprises, it is not the adequacy of cash (or otherwise) but the ability to identify reinvestment opportunities to absorb surfeit funds. And this is lamentably missing.

D.

Identifying role of demonetisation as a deterrence / corpulence to pre-empt future generation of black cash: The assumption that either tainted cash will not re-accumulate itself or counterfeit currencies will not emerge is unfounded. The very fact that several malpractices in the process of conversion is taking place shows that the mind-set of the Indian public is glued to the idea of generating cash surpluses willy-nilly black, white or shades of grey. For example old cash notes, that is legal tender, are being exchanged for new cash notes, which are now legal tender, at a discount though. The difference is the profit of the agent. If the hoards of black cash get eventually converted into valid legal tender there is black cash already in the system.

Thus, demonetisation will only result in finding ingenious methods of holding wealth and give parallel economy a new avatar and the status quo ex ante remerges sooner rather than later including the printing of counterfeit currency notes to fund cross border terrorism by neighbours. This is not surprising and is well-known world over as a French traveller Tavernier said "All the Jews who occupy themselves with money and exchange in the empire of the Grand Sergneur, pass for being very sharp, but in India they would scarcely be apprentices to these changers ".

Similarly it is believed that the counterfeit Rs. 2,000 currency note is already available as traced by the Police in Bengaluru and reported in the Indian Express 13th Nov., 2016. Hence demonetization cannot in anyway change the mindset of a society which is apprehensive of disclosing its wealth for reasons well-known to all and best known to holders of black cash. Thus, demonetisation in any economy can address only the stock or inventory of cash and not the flow of cash even in the interregnum. The survival or demise of the latter and the former depends on the mindset and mentality of the holders of black cash and last but not the least, limited only by the genius of the people dealing with money and resorting to 'jugaad' of all sorts.

E.

What after Demonetisation!!!: Without hazarding any guess, the success of the post-demonetisation period will depend upon how well the Government is prepared to handle the task of productive deployment of the surge in bank deposits to keep India's growth rate intact notwithstanding the transitory disproportional ties which have become an inevitable and imminent concomitant of the decision of the Prime Minister on 8th Nov., 2016.

In the broader context, the success of demonetisation will be seen in time to come post 50 days from 8th Nov., 2016 or even later to experience the gains of pains on a measureable basis. Nevertheless, it can be said that the prowess of demonetisation as a powerful instrument to initiate change and unleash the hidden capabilities of the Indian economy and the population depends on how soon the Government, in the first instance, is in a position to remonetise the economy. However, the downturn in the Indian economy in terms of loss of business, trade and commerce, jobs in different industries across the sub-continent has badly damaged the psyche and motivation of the population. Thousands of labourers are rendered jobless and there is consequent call back upon the rural hinterland in the new demonetisation driven mood of despondency, despair and doom.

This has to be addressed immediately through appropriate socio-economic policies which can rejuvenate the psyche of work force. Therefore, the mind-sets of the population have to be steered through successfully during the pain period to be proud recipients of the gain process at a future date. Otherwise the job gets ill done notwithstanding the laudable objectives of the decision taken by the Prime Minister on 8th Nov., 2016.

According to the CMIE study, the cost demonetisation to the economy is staggering Rs. 1.28 lakh crore. Now, the estimated notes in circulation, according to the Finance Ministry, as mentioned earlier of Rs. 500 and Rs. 1000 notes, is Rs. 15.44 lakh crores. As of 1.12.2016 nearly Rs. 10 lakh crores have been deposited in banks. Including all adjustments like CRR and cash on hand with the Reserve Bank of India, the notes in the aggregate outside the public hands, in the banking system, is estimated at Rs. 13 Lakh crores. And still cash deposits are likely to come in. On 7.12.2016 Rs. 11.5 lakh crores is estimated as deposits in commercial banks.

If the existing flows continue till the last dates 31.12.2016 / 31.03.2017 the aggregate cash deposited according to the authorities may even be greater than or equal to the amount of notes (Rs. 500 / Rs. 1,000) impounded.

The implications of the above scenario are many as presented below:

1. The adventurous claim that a windfall of Rs. 2 to 3 lakhs crore will fall in the lap of the Government from the RBI now, may be defeated. Yet black cash would be ubiquitous within and outside the banking system.
2. In the circumstances the cost benefit ratio of demonetisation comes in for serious question.
3. In addition to the cash which has come into the banks, there may be still a lot of white cash (old notes) lying with embassies across the globe, money exchanges and foreign exchange dealers all over the world, white cash in the hands of citizens (residents and non-residents Indian) who for various reasons may not have deposited cash and may forfeit the value to that extent. What happens to these cash balance after the last date?
4. Large amounts of white may also be in custody of the Police / courts on account of cash seized due to the bank robberies and similar delinquencies.
5. Cross border trade between people of India and neighbouring border countries like Myanmar, Bangladesh, Bhutan, Nepal, Sri Lanka and Tibet. In many cases, Indian Rupee is exchanged and it is possible that foreigners hold large or small quantities of Indian currency (old currency), normally used in day-to-day buying and selling.

It should be noted that event after the last date, not all cash deposited in banks so far is white and not all cash lying outside, even after the last date is black. Cash deposited as well as cash not deposited that is to say cash lying outside the banking system after the last dates can be black, white, laundered or counterfeit as the case may be. It is now conjectured that the cash which may be deposited in the banks post Nov., 10, 2016 could exceed the amount of Rs. 500 and Rs. 1,000 notes in circulation on Nov., 8th. Of course the SBI authorities are suspecting some double counting. Nevertheless, the picture is unclear as of now (8th Dec., 2016). In any case how much black cash has been unearthed due to impounding of the Rs. 500 and Rs. 1,000 notes will be known after some data analytics is initiated and analysed. The success of the purge depends on how the regulators are able to distinguish between the real colours of cash received.

There is no denial that the macro and micro structure of the Indian economy is grossly disfigured defiled and defaced. Infact as articulated by eminent economist it's a 'tectonic' shift in the financial, nay fiscal, architecture of the Indian economy. Demonetisation suddenly announced and badly botched up at implementation stage on all fronts ignored the ground realties that India is still rural India, vastly unbanked. Only 55% of the rural population have bank accounts, with some areas in UP and Bihar grossly unbanked and banks and post offices available only at select spots. While ownership of mobile is extensive, less than 15% of population have access to internet facilities. Further, cyber security leaves much to be desired to justify shift to the digital mode for transacting day-to-day business by citizens. Thus an important message is "does no more harm". Always think of the outcomes of actions, on the vulnerable, before acting. As a recent TOI article (6th Dec., 2016) "…..The super-rich have expanded their wealth much faster under this government, as the recent Credit Suisse report shows". The instincts and impulses governing decisions should ensure that the vulnerable are protected and not the other way round that the privileged and powerful are beneficiaries of Govt. policies. Yet without being cynical we hope things will move in a positive direction and all the key macroeconomic variables like GDP, consumption, savings, investment, national income, production, productivity, employment, value of rupee, foreign exchange balance will be regained and well sustained.

In conclusion, I hope this demonetisation really works and major, pro-active, reforms on the anvil are soon announced and, this time, well implemented too so that criticisms levied against the decisions and implementation are disproved viz. despotic, authoritarian, much suffering, less pain, disruptive, unintelligent, not humane et al.

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The views expressed are personal

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