

India's Demonetization - Changing payment culture and widened tax net provides the government with room for maneuver

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Abstracts

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SUMMARY

In an effort to crack down on the shadow economy and reduce the usage of counterfeit cash, the Indian government in November 2016 ordered the demonetization of all 500INR and 1,000INR notes. The shock announcement caused a serious disruption to the Indian economy with many analysts claiming its long term benefits do not justify the short term losses incurred.

KEY HIGHLIGHTS

On November 8 2016, the Indian government declared in a shock announcement that all 500 and 1,000 rupee notes were henceforth invalid. These two bank notes together accounted for 86% of the circulating currency in India and 50 days were given to the Indian populace to return them to banks

Claims that counterfeit notes were overrunning the country were hence shown to be untrue in August as the RBI declared that 99% of the revoked bank notes had made their way back to Indian banks. Demonetization has nevertheless had an immense impact on the everyday lives of Indian citizens as well as on the wider Indian economy.

A changing in the payment culture from cash to digital is hence one

consequence of demonetization that India may feel in the coming years. Another one is the widening of the tax net which will provide the government relief and increase its revenues.

SCOPE

Explores the context behind India's decision to demonetize.

States the reason why demonetization was ordered.

Discusses whether demonetization was successful in achieving its targets.

Expands on how demonetization has impacted the Indian economy.

Explores how the ruling political party's popularity has been impacted by demonetization.

Points out some of the positive results of demonetization on the Indian economy.

REASONS TO BUY

Why was demonetization ordered?

Was demonetization successful in achieving its targets?

How was the Indian economy impacted by this decision?

Did any positives emerge out of demonetization?

How was the Indian government's popularity affected by demonetization?

Contents

Overview

Catalyst

Summary

Culture of corruption pushes authorities to take action

India ranks amongst most corrupt countries in the world

Public disapproval of rampant corruption led government towards demonetization

Demonetization policies introduced in November 2016 with huge consequences

86% of circulating currency disappeared as a consequence of demonetization

Demonetization unable to meet stated target as 99% of notes return

Indian economy decelerates post demonetization yet some positives emerge

Indian economy sees growth decelerate post demonetization

Demonetization has widened the tax net as digital payments also increase

Demonetization fails to dent ruling party popularity as analysts voice concern

Demonetization has amazingly bolstered support for ruling party

Economists and analysts voice concern over demonetization

Conclusions

Widened tax net and transition towards digital payments may be what demonetization will be remembered by

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