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DEMONETISATION 2016: AN ANALYTICAL STUDY OF POLICY PROCESS, ECONOMIC IMPACT, LEGAL VALIDITY, AND FAILURE FACTORS

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ABSTRACT

Demonetisation in India in 2016 refers to the decision of the Government, led by Narendra Modi, to withdraw ₹500 and ₹1000 currency notes from legal tender on 8 November 2016. These notes constituted nearly 86% of the total currency in circulation. The policy was introduced with the objectives of eliminating black money, controlling fake currency, curbing terror funding, and promoting a transition towards a digital economy.

This study examines the entire process of demonetisation, including its background, secret planning, and implementation. It analyses how the decision was taken within a limited time frame, the role of the Reserve Bank of India, and the challenges faced during execution, such as cash shortages, lack of infrastructure readiness, and public hardship. The study also considers the legal dimension of the policy, particularly the judgment of the Supreme Court of India in *Vivek Narayan Sharma v. Union of India* (2023), where the policy was upheld by a majority, while dissenting views raised important concerns regarding procedural validity and institutional roles.

Further, the research evaluates the outcomes of demonetisation in comparison to its objectives. It highlights that although there was significant growth in digital payments and improved financial tracking, the core objective of eliminating black money was not fully achieved, as approximately 99% of the currency returned to the banking system according to the Reserve Bank of India. The study also identifies key reasons for failure, including inadequate planning, loopholes in implementation, misuse of banking channels by powerful individuals, and the disproportionate burden placed on the common and middle-class population, particularly small businesses and cash-dependent sectors.

BACKGROUND

India had faced this situation before.

The first instance was during the Demonetisation of 1946. At that time, high-denomination notes were withdrawn to target black money held by the wealthy. On paper, the objective appeared strong. However, in reality, the outcome was limited. A large portion of the currency returned to the banking system. This revealed an important truth—unaccounted wealth was not primarily stored in cash. It existed in other forms, like gold and property.

The law acted on currency, but the problem was deeper than currency itself.

Years later, India made another attempt through the Demonetisation of 1978. This time, the action was backed by legislation and again aimed at controlling black money. However, these high-value notes were not commonly used by the general public. As a result, the measure neither caused major disruption nor achieved substantial success in eliminating black wealth. Once again, the gap between

policy intention and actual impact became visible.

These past experiences quietly remained in the background as India moved forward.

By 2016, the country was growing economically, but certain concerns had become more serious. The economy was still heavily dependent on cash, especially in everyday transactions. This made it difficult for the State to ensure transparency and proper tax compliance. A significant portion of economic activity operated outside formal systems, raising concerns about accountability.

At the same time, the issue of fake currency had begun to attract attention. Counterfeit notes were entering circulation through unlawful channels. This was not only an economic concern but also a matter affecting national security. The integrity of currency itself was being questioned.

Closely linked to this was the issue of terror financing. Intelligence inputs suggested that unaccounted cash, particularly in high denominations, was being used to support unlawful activities. Since cash transactions leave little trace, enforcement agencies faced limitations in tracking such flows. From a legal and policy perspective, this created a strong argument for intervention.

Alongside these concerns, corruption and black money continued to challenge governance. Cash remained the preferred medium for unrecorded transactions, whether in bribery, informal dealings, or tax evasion. While it was understood that most black wealth was held in assets, cash functioned as the operating tool of that parallel system.

It was in this environment that the idea of demonetisation re-emerged not as an isolated economic step, but as a combined response to multiple issues. The State, in exercising its policy powers, appeared to take the view that by targeting cash, it could simultaneously address fake currency, disrupt illegal funding channels, and create pressure on unaccounted wealth.

However, this decision also carried an inherent tension. Any such measure, while aiming at a larger public interest, had the potential to affect ordinary citizens whose daily lives depended on cash. This raised important legal considerations about whether such a policy would meet the test of reasonableness and proportionality, especially when it impacted livelihood and access to resources.

RESEARCH OBJECTIVES

1. Determine the overall success or failure of demonetisation by comparing its stated objectives with actual outcomes.
2. Analyse the economic impact of the measure, including its effect on growth, liquidity, and overall economic performance.
3. Examine the social impact, particularly the effect on daily life, public hardship, and access to essential financial resources.
4. Assess the impact on businesses, especially small and medium enterprises, in terms of cash flow, operations, and employment.
5. Evaluate the effect on tax compliance and government revenue, including changes in the tax base and reporting behaviour.
6. Study the legal and judicial response, including how the Supreme Court of India viewed the validity and justification of the decision.

OBJECTIVES OF DEMONETISATION

The main objective of demonetisation was to remove black money. This was also an important promise made by the government, led by Narendra Modi, during the 2014 elections. The policy was seen as a strong step to act against unaccounted cash.

Another objective was to control fake currency. High-value fake notes were circulating in the economy, and by banning old notes, the government aimed to make such currency useless. The policy also aimed to stop terror funding. It was believed that illegal activities were supported through cash transactions, especially in large denominations.

At the same time, demonetisation was used as a tool to improve tax monitoring. By forcing people to deposit money in banks, the government could track income and check tax compliance. It also aimed to promote digital payments. With less cash available, people were encouraged to use online and electronic payment systems.

Another objective was to support financial inclusion through schemes like the Pradhan Mantri Jan Dhan Yojana, so that more people use banking systems. The policy helped in tracking money movement in the economy, as more transactions came into the formal system.

POLICY PLANNING

Earlier financial reforms created a supporting base for such a move. The Pradhan Mantri Jan Dhan Yojana, launched in 2014, had already expanded banking access across the country. In addition, the Unified Payments Interface (UPI) was introduced in April 2016 by the National Payments Corporation of India, providing a digital infrastructure that later supported the shift towards cashless transactions after demonetisation.

Against this background, the planning of demonetisation in 2016 was carried out under strict secrecy. The process was confined to a very limited group within the government and the Reserve Bank of India. It is widely noted that not all members of the RBI's Central Board were aware of the proposal in advance, and the matter appears to have been handled primarily by the Governor along with a small number of senior officials. This reflects a tightly controlled and restricted decision-making process.

In the preparation phase, the printing of new currency notes had already begun by October 2016. This work was undertaken at secured government presses located in Nashik and Dewas. Strict confidentiality protocols were enforced within these facilities—workers were not permitted to carry mobile phones or communicate externally—ensuring that no

information regarding the new currency design or the impending policy became public.

On 7 November 2016, a meeting of the RBI Central Board was convened, where the proposal relating to demonetisation was placed and approved. However, subsequent observations suggest that the approval was granted within a limited time frame, with minimal detailed deliberation. This later raised questions regarding the extent of institutional consultation in such a significant monetary decision.

On the following day, 8 November 2016, a Cabinet meeting was held at around 5:00 PM, where the decision received formal executive approval. The short interval between this approval and the public announcement ensured that confidentiality was maintained until the final stage.

THE ANNOUNCEMENT

On 8 November 2016, at approximately 8:15 PM, Prime Minister Narendra Modi addressed the nation and announced that, from midnight, ₹500 and ₹1000 notes would cease to be legal tender. This declaration, remembered in simple terms as "*Aaj raat 12 baje se 500 aur 1000 ke note band*", had immediate legal effect, rendering a substantial portion of currency invalid for regular transactions.

In the same address, the Prime Minister appealed to the public to cooperate with the government and bear the inconvenience for a limited period. He specifically referred to a 50-day window, requesting citizens to support the measure and allow time for the system to stabilise. This appeal was framed as a collective effort in the public interest, aimed at achieving larger national objectives.

The immediate consequences were significant. With nearly 86% of the currency in circulation affected.

IMPLEMENTATION CHALLENGES

The implementation of demonetisation faced serious challenges, mainly because of the

sudden withdrawal of a large portion of currency from the economy. The most immediate and important issue was the cash shortage. Since nearly 86% of the currency was invalidated, and new notes were not available in sufficient quantity, people faced difficulty in carrying out daily transactions. This shortage continued for several weeks and affected both urban and rural areas.

Closely connected to this was the heavy pressure on banks and post offices. The existing infrastructure was not prepared for such a sudden surge in demand. There were limited branches, fewer staff, and inadequate human resources to handle the large population. This resulted in long waiting times and operational stress on the banking system.

Another major issue was the long queues seen across the country. People had to stand for hours outside banks and ATMs to deposit or withdraw money. This created hardship, especially for daily wage workers, elderly persons, and those dependent on cash for survival. The time limitation for depositing and exchanging old notes also created difficulty. Many people, particularly in rural areas and those who were uneducated, were not fully aware of the procedures or deadlines, which added to confusion and inconvenience.

A technical problem also arose due to the ATM size mismatch. The new ₹500 and ₹2000 notes were of different dimensions, and most ATMs were not calibrated to dispense them. This required time for recalibration, delaying cash distribution.

The printing and supply of new currency also posed challenges. Printing new notes on a large scale involved cost, logistics, and time. As a result, it took nearly six months for the currency situation to fully stabilise.

Environmental conditions further added to the problem. In many parts of India, extreme heat and weather conditions made it physically difficult for people to stand in long queues, increasing the overall hardship.

IDS (Income Declaration Schemes)

The idea behind the Income Declaration Scheme (IDS) was simple. The government gave people a chance to come forward voluntarily and declare black money. Instead of directly punishing them, it said declare your income, pay a fixed amount, and your money will become legal. It was like a last opportunity before strict action.

1. IDS-I (2016) – Before Demonetisation

The first scheme, called the Income Declaration Scheme, 2016, was open from 1 June to 30 September 2016.

Under this, any person could declare undisclosed income. The process was simple—file a declaration, pay the required amount, and the income becomes legal.

The total payment was 45%, which included:

30% tax

7.5% surcharge

7.5% penalty

In simple terms:

If someone had ₹100 of black money, they had to pay ₹45 and could keep ₹55 legally.

Result: Around ₹65,000+ crore was declared under this scheme.

2. IDS-II / PMGKY (During Demonetisation)

After demonetisation in November 2016, the government gave one more chance through Pradhan Mantri Garib Kalyan Yojana (PMGKY), 2016, from December 2016 to 31 March 2017.

This time, the rules were stricter.

Around 50% had to be paid as tax and penalty

Plus, 25% had to be kept locked for 4 years without interest

Result: Only about ₹4,900 crore was declared, much less than the first scheme.

3. If People Did Not Declare

Their bank deposits were checked. Notices were sent by the Income Tax Department.

Heavy tax and penalty were applied (up to 75% or more)

In serious cases, legal action could also happen

GOVERNMENT ACTIONS AFTER DEMONETISATION

After demonetisation, the government shifted its focus from policy announcement to monitoring and enforcement, using the large amount of financial data generated from bank deposits.

One of the key steps taken was Operation Clean Money (OCM), launched in January 2017 by the Income Tax Department. Under this initiative, data of deposits made during the demonetisation period (9 November to 30 December 2016) was analysed. The government compared these deposits with past income records and identified cases where the amount deposited did not match the known income of the person.

In the first phase, around 18 lakh (1.8 million) persons were identified for verification. These individuals were contacted through online notices (e-verification) and asked to explain the source of their deposits on the income-tax portal. Out of these, a large portion responded online, and cases were categorised based on risk.

Further data analysis showed that:

- Around 23 lakh bank accounts were linked to these high-risk cases
- Deposits in these accounts were approximately ₹3–4 lakh crore (approx.) under scrutiny
- Cases were divided into low, medium, and high-risk categories for targeted action

In subsequent phases, OCM expanded beyond individuals. The government focused on:

- Shell companies used for routing cash
- Benami transactions
- Cash-intensive sectors with abnormal deposits

Specific enforcement outcomes (facts):

- Around 3 lakh+ shell companies were identified and deregistered (Government action post-demonetisation)
- Over 1 lakh directors linked to such companies were disqualified
- A large number of cases were taken up for scrutiny and reassessment

What the government did with the data:

- Matched deposits with PAN and tax returns
- Used data mining tools to detect patterns
- Issued notices for explanation
- Selected high-risk cases for detailed investigation

Final results of the OCM process:

- Significant increase in tax base (new taxpayers added in subsequent years)
- Increase in advance tax and self-assessment tax collection (post-2017 trend)
- Strengthening of the data-driven tax administration system
- Creation of a permanent financial database for future enforcement

Alongside OCM, there was continuous monitoring of deposits. Since almost all old currency had to be deposited in banks, the government now had a clear financial trail. According to the Reserve Bank of India Annual Report (2018), around ₹15.28 lakh crore (99%) of demonetised currency was returned, which provided a comprehensive dataset for verification.

Based on this information, the government initiated tax compliance actions. Notices were issued to individuals to justify their deposits. If the explanation was not satisfactory, tax and penalties were imposed under provisions such as Section 115BBE of the Income Tax Act, where the effective liability could go up to around 77% or more. In serious cases, prosecution proceedings were also initiated.

IMPACT ANALYSIS

(A) POSITIVE IMPACT

The positive impact of demonetisation can be properly understood when we analyse how it changed the behaviour of people and accelerated existing systems. The policy did not create new systems, but it forced people to shift from cash to formal channels, which led to long-term structural benefits.

Digital Payments (UPI)

The story of digital payments, especially the Unified Payments Interface (UPI), begins before demonetisation. UPI was launched in April 2016 by the National Payments Corporation of India under the guidance of the Reserve Bank of India. The intention of the government was already to promote a digital economy, but adoption was low because India was a cash-dominant economy (~90% transactions were in cash).

At that time:

- NEFT was slow
- RTGS was for large payments
- IMPS existed, but it was not simple for common people.

Demonetisation changed this behaviour. Due to a cash shortage, people had no option but to shift to digital payments. At the same time, there was also a psychological change—people became cautious about holding large amounts of cash due to fear of policy action and scrutiny.

This led to:

- Rapid adoption of mobile payment apps (PhonePe, Google Pay, Paytm)
- Small vendors and shops accepting QR codes
- Daily transactions shifting from cash to digital

Data shows this clear impact:

- 2016: ~21 million transactions
- 2019: ~1 billion/month
- 2023: 10+ billion/month

- 2024–25: 12–14 billion/month
- Annual value: ₹200+ lakh crore
- Share: 75%+ of digital retail payments

Demonetisation acted as a trigger, converting UPI from a new system into a mass-used payment method. Without demonetisation, adoption would have been slow.

Tax Revenue & Tax Compliance

Before demonetisation, India had a low taxpayer base compared to its population. A large part of the economy operated in cash, making it difficult for the government to track income.

Demonetisation created two important changes:

Behavioural change (fear factor):

People became cautious about holding undeclared cash. This reduced the tendency to keep black money in cash form.

Data creation (OCM impact):

When people deposited money in banks, the government obtained a complete financial record. Through Operation Clean Money (OCM), this data was analysed and matched with past income.

Result:

- People were forced to explain their income
- Many came into the tax system
- Compliance improved

Tax Data clearly shows growth:

Total Tax Revenue:

- 2015–16: ₹14.6 lakh crore
- 2017–16: ₹17.1 lakh crore
- 2025–26: ₹42.5 lakh crore (budgeted)

Direct Tax:

- 2015–16: ₹7.4 lakh crore
- 2016–17: ₹8.5 lakh crore
- 2024–25: up to ₹27 lakh crore

Demonetisation helped in:

- Increasing tax base
- Improving reporting behaviour
- Strengthening data-based tax system

Financial Inclusion (Jan Dhan Accounts)

Before demonetisation, many people, especially in rural areas, did not regularly use banks, even if they had accounts. The Pradhan Mantri Jan Dhan Yojana was launched in 2014 to solve this problem, but usage was limited initially.

Demonetisation changed this situation.

People had no option but to:

- Deposit cash in banks
- Open new accounts
- Use formal banking channels

This made Jan Dhan accounts active.

Data shows the scale:

- 50+ crore accounts opened
- ₹2+ lakh crore deposits
- 55% women account holders
- 67% rural/semi-urban accounts

These accounts became important for:

- Depositing demonetised cash
- Receiving government benefits (DBT)
- Participating in a digital transaction

Demonetisation forced people into the formal banking system, making financial inclusion more practical and not just theoretical.

(B) NEGATIVE IMPACT

Indian Economy (GDP Growth & Size)

GDP Growth Rate (%):

- 2014–15: ~7.4%
- 2015–16: ~8.0%
- 2016–17: ~8.2% (slowdown begins after Nov 2016)
- 2017–18: ~7.0%

- 2018–19: ~6.1%
- 2019–20: ~4.0%
- 2020–21: -6.6% (COVID impact)
- 2021–22: ~8.7%
- 2022–23: ~7.2%
- 2023–24: ~7.6%
- 2024–25: ~7% (est.)

GDP Size (USD Trillion, approx):

- 2014: ~\$2.0T
- 2015: ~\$2.1T
- 2016: ~\$2.3T
- 2017: ~\$2.6T
- 2018: ~\$2.7T
- 2019: ~\$2.9T
- 2020: ~\$2.7T
- 2021: ~\$3.2T
- 2022: ~\$3.4T
- 2023: ~\$3.7T
- 2024: ~\$3.9T

India's GDP growth was strong and stable. After November 2016, a slowdown became visible in the following years, especially from 2017–18 to 2019–20. The main reason was a sudden liquidity shock—people had less cash, consumption reduced, and business activity slowed. Although GDP size continued to increase over time, the growth rate declined, showing that the economy lost momentum. Later recovery happened, but the immediate impact of demonetisation was clearly negative in terms of growth.

Inflation

(% approx):

- 2014: ~6.7%
- 2015: ~4.9%
- 2016: ~4.5%
- 2017: ~3.6% (drop after demonetisation)

- 2018: ~3.4%
- 2019: ~4.8%
- 2020: ~6.2%
- 2021: ~5.5%
- 2022: ~6.7%
- 2023: ~5.4%
- 2024–25: ~5% (est.)

Inflation temporarily declined in 2017–18. This was not due to strong economic performance but due to weak demand. Since people had less cash, spending reduced, which lowered prices. This indicates that demonetisation led to a demand-side contraction, which negatively affected economic activity.

Unemployment

Demonetisation directly affected employment due to the sudden shortage of cash. Most businesses, especially small ones, paid wages in cash. When cash was not available, employers were unable to pay workers, leading to immediate job losses. Daily wage labourers, construction workers, and informal sector employees were the most affected. Many workers either lost jobs or faced reduced wages. Thus, demonetisation caused a short-term rise in unemployment, particularly in cash-dependent sectors.

Sector-wise Impact (Agriculture, Industry, Services)

The impact of demonetisation was felt across all sectors of the economy.

In the agriculture sector, farmers faced serious difficulties because they did not have cash to buy seeds, fertilisers, and other inputs. At the same time, selling crops became difficult due to low cash availability in markets (mandis). This affected both production and income.

In the industrial sector, especially small-scale industries, production slowed down. Factories that depended on daily cash transactions were unable to continue operations, leading to temporary closures.

Services sector, areas like retail trade, transport, and small services, were affected. Since these sectors depend heavily on cash transactions, their activity has reduced significantly during the initial phase.

Business Crisis

Demonetisation created a serious cash flow crisis for businesses. Before the policy, most business transactions were conducted in cash. After demonetisation, the sudden shortage of cash meant that businesses could not manage their daily operations. They were unable to pay suppliers, maintain inventory, or continue production. As a result, many small and medium enterprises (SMEs) shut down temporarily, and some even closed permanently. The lack of liquidity directly translated into a business slowdown and instability.

Job Loss

Due to the business crisis, job losses increased significantly. Workers who depended on daily wages were the first to be affected. Since employers could not pay wages, many labourers lost their jobs. Sectors such as construction, textiles, and small manufacturing saw major employment decline. This created financial insecurity among lower-income groups and increased economic stress.

Social Impact

The social impact of demonetisation was severe. Reports, including those by NDTV, indicated that 100+ deaths were linked to demonetisation-related hardship. These included cases of people standing in long queues, lack of access to medical treatment due to cash shortage, and stress-related issues.

Public suffering was widespread. People had to stand in long queues outside banks and ATMs for hours. Daily life became difficult, as individuals struggled to buy essentials, pay hospital bills, and manage routine expenses. The policy created significant inconvenience for ordinary citizens.

JUDGMENT OF THE SUPREME COURT

Case Name “Vivek Narayan Sharma v. Union of India (2023)”

Background of the Case On 8 November 2016, the Government of India issued a notification declaring that ₹500 and ₹1000 currency notes would cease to be legal tender from midnight. This decision affected nearly 86% of the total currency in circulation. The legal basis of the decision was Section 26(2) of the Reserve Bank of India Act, 1934, which allows the Central Government to declare any series of banknotes invalid on the recommendation of the Reserve Bank of India.

Following this announcement, there was widespread disruption in daily life and economic activity. Several individuals, traders, and organisations approached different High Courts and the Supreme Court of India, challenging the legality of the decision. Due to the national importance of the issue, all petitions were transferred and heard together by the Supreme Court. The petitioners questioned both the procedure followed and the constitutional validity of the decision.

Bench Composition

Five-Judge Constitution Bench

1. Justice S. Abdul Nazeer
2. Justice B.R. Gavai
3. Justice A.S. Bopanna
4. Justice V. Ramasubramanian
5. Justice B.V. Nagarathna

Key Legal Issues

- Validity of demonetisation under Section 26(2) of RBI Act
- Scope of powers of RBI and Central Government
- Procedural validity of decision-making
- Whether Parliament's approval was required
- Violation of Fundamental Rights (Articles 14, 19(1)(g), 21)
- Test of proportionality
- Scope of judicial review in economic policy

Petitioners' Arguments

- Decision was arbitrary and disproportionate
 - Procedure under the RBI Act was not properly followed
 - Violation of fundamental rights
 - Restriction on access to one's own money
 - Parliament was bypassed
- The petitioners argued that the demonetisation decision was arbitrary because it suddenly invalidated 86% of the currency without adequate preparation. They contended that under Section 26(2) of the RBI Act, the recommendation must originate from the RBI, but in this case, the process was initiated by the Government, making it legally flawed.

They further argued that the decision violated fundamental rights. Under Article 21, people were deprived of access to their own money, affecting their livelihood and dignity. Under Article 19(1)(g), trade and business were severely disrupted. The imposition of withdrawal limits prevented citizens from freely using their own funds.

Another important argument was that such a major economic decision should have been taken through Parliament, ensuring proper debate and legislative approval, rather than through an executive notification.

Government Arguments

- Policy decision in public interest
 - Proper procedure followed with RBI consultation
 - Temporary hardship justified
 - Limited scope of judicial review
- The Government defended demonetisation as a policy decision taken in the national interest. It argued that the objectives of the removal of black money, control of fake currency, and prevention of terror funding were legitimate and important.

The Government maintained that the decision was taken after consultation with the RBI, thereby satisfying the requirement under Section 26(2) of the RBI Act. It also argued that

the hardship faced by citizens was temporary and necessary to achieve long-term benefits.

Further, it emphasised that courts should not interfere in economic policy decisions unless they are clearly unconstitutional or arbitrary, as such matters fall within the domain of the executive.

RBI Arguments

- A recommendation was made
 - Decision based on economic considerations
 - Falls within policy domain
- The Reserve Bank of India supported the Government's position. It stated that the recommendation for demonetisation was made after considering relevant economic factors, including monetary stability and the need to address illegal currency circulation.

The RBI emphasised that such decisions are part of monetary and economic policy, where both the RBI and the Government work together. It maintained that the process followed was valid and within the framework of law.

Supreme Court Judgment (2023)

Explanation (Detailed):
The Constitution Bench of the Supreme Court of India delivered its judgment in January 2023, upholding demonetisation by a 4:1 majority. The Court held that the decision was legally valid and that the procedure prescribed under Section 26(2) of the RBI Act had been followed.

The majority observed that there was sufficient consultation between the RBI and the Government, and that the decision could not be struck down merely because it caused hardship. It emphasised that economic policy decisions fall within the executive domain and that judicial review in such matters is limited.

The Court also applied the test of proportionality, concluding that the measure had a reasonable connection with its objectives and was not excessive. It held that temporary restrictions on citizens, such as withdrawal limits, did not amount to a violation of fundamental rights.

Dissenting Opinion – Justice B. V. Nagarathna

Justice B. V. Nagarathna delivered a detailed dissenting opinion, focusing mainly on the procedure followed in demonetisation, rather than its objectives. She agreed that the aims, such as controlling black money and fake currency, were legitimate, but she held that the method adopted was legally flawed.

Her primary reasoning was based on Section 26(2) of the RBI Act, 1934. According to her interpretation, the law requires that the recommendation for demonetisation must originate from the Reserve Bank of India, after proper application of mind by its Central Board. However, in this case, she found that the process was effectively initiated by the Government, and the RBI merely gave its approval within a very short time. This, in her view, went against the statutory scheme and undermined the independent role of the RBI.

Justice Nagarathna also emphasised that such a significant decision affecting the entire economy and the daily lives of citizens should have been carried out through a legislative process (an Act of Parliament), rather than by executive notification. She highlighted that Parliament represents the will of the people, and such wide-ranging economic measures require debate, discussion, and accountability, which were absent in this case.

Another important aspect of her dissent was the principle that “procedure established by law must be strictly followed.” Even if the objective of the policy is valid, it cannot justify a decision taken through an improper process. She stressed that ends do not justify means in a constitutional democracy.

She also indirectly raised concerns about institutional balance, noting that the RBI's role should not be reduced to mere approval of government decisions. The independence of institutions is essential for maintaining the rule of law and proper governance.

FAILURE OF DEMONETISATION

The failure of demonetisation is most clearly reflected in the data that around 99% of the currency returned to the banking system, as reported by the Reserve Bank of India. This indicates that the core objective of eliminating black money held in cash was not achieved, as almost all money came back into the system.

At the ground level, the reality was different from the assumption behind the policy. Poor people generally did not hold large amounts of cash, so they were not the actual target of black money control. On the other hand, individuals with large amounts of unaccounted money were able to find ways to adjust. In many cases reported during that period, wealthy individuals used the bank accounts of poorer people, sometimes with small commissions or sometimes without proper awareness to deposit their cash. This created a situation where those who were supposed to be affected were able to avoid the impact.

The burden of demonetisation was therefore felt most strongly by the common and middle-class population. These groups typically hold their savings in cash and depend on it for daily expenses. As a result, they had to stand in long queues, face cash shortages, and struggle to access their own money. Small and medium businesses, which operate largely on cash transactions, were also severely affected. With no cash flow, many of these businesses were forced to shut down temporarily or reduce operations, leading to income loss and job reduction.

In contrast, large businesses were relatively less affected because they operate through banking channels, digital payments, and formal financial systems. They were able to continue their operations with fewer disruptions. This created an unequal impact, where those dependent on cash suffered the most.

Another major reason for failure was poor planning and a lack of preparedness. Banks were not ready to handle such a large-scale operation, ATMs were not calibrated for the new currency, and there was an immediate

shortage of cash. The infrastructure was not prepared, and there was limited awareness among people, especially in rural areas. There was also a lack of strong monitoring mechanisms, which allowed loopholes to be exploited.

CONCLUSION

Demonetisation (2016) was a strong policy aimed at removing black money, controlling fake currency, and promoting digital payments. While it succeeded in increasing digital transactions and improving tax tracking, it failed to achieve its main objective, as about 99% of the currency returned to the banking system (Reserve Bank of India data).

The policy also caused short-term economic disruption, business losses, and public hardship, especially for the common and middle-class population. Although it was upheld as legally valid by the Supreme Court of India in *Vivek Narayan Sharma v. Union of India* (2023), concerns about planning and implementation remain.

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YouTube Videos (For conceptual understanding only; no data used)

15. YouTube Video 1.
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