

Winter Session: Demonetisation will dominate, but does Modi have a counter-chaos plan?

by [Dinesh Unnikrishnan](#) Nov 15, 2016

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As the winter session of Parliament begins tomorrow (Wednesday), the nation is still in the painful process of swallowing a bitter pill administered by Narendra Modi in the form of an abrupt ban of Rs 500, Rs 1,000 notes announced on 8 November. The side effects of this pill are still being manifested across the country in the form of severe disruptions to normal life and cash crunch.

It is a peculiar situation.

The demonetisation process initiated by the Modi government is the biggest ever crackdown on fake currency dalals and black money hoarders in this country after a similar crackdown by the Morarji Desai government in 1978. Many are lauding PM Modi for showing the political will and courage to take on the parallel economy announcing what was sure to be an unpopular step.

Remember, in the hours after the announcement, even the biggest political enemies of Modi, the Congress camp, didn't have solid arguments against the demonetisation. So were other regional satraps. Modi stood victorious in the eyes of everyone who saw the move using the yardsticks of a big economic reform and show of political will to cleanse the deep-rooted parallel economy in this country, long exploited by corrupt politicians, cronies and crooks.

But, the public veneration soon gave way to anger and agony, when the cash-drought began to hit the system, still continuing even after a week post the demonitisation announcement. The mad rush at ATMs and bank branches, the logic of new Rs 2,000 bills (more of a showcase item for common man at this stage), the absence of proper planning and the government's clue-lessness on how to bring back normalcy in public life, changed the public perception of the the exercise.



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It is this mood of public unrest that the opposition political parties will exploit to their best as they step into Parliament building tomorrow. One can expect heavy exchange of arguments and counter arguments on the issue of public agony post the demonetisation announcement. Political parties have surely done their homework on how to corner the government on the issue.

The signs of this were amply evident when Congress Vice president Rahul Gandhi joined an ATM queue in Delhi, Mamta Banerjee made a war cry from West Bengal and Akhilesh Yadav cried foul from Uttar Pradesh. All this will reflect in Parliament beginning tomorrow.

What one needs to watch out is how effectively the Modi government can counter the onslaught of accusations and get over it, to progress to the business of house, mainly passage of remaining crucial bills in Parliament for the much awaited 1 April rollout of the GST - Central and integrated GST Bills.

Political accusations

But, besides the pain caused to the public on account of cash drought, the other big charge the government will likely face in the House is the allegation Delhi Chief Minister [Arvind Kejriwal raised](#) last week - that the government allegedly leaked out the information to the BJP and its “friends” well in advance.

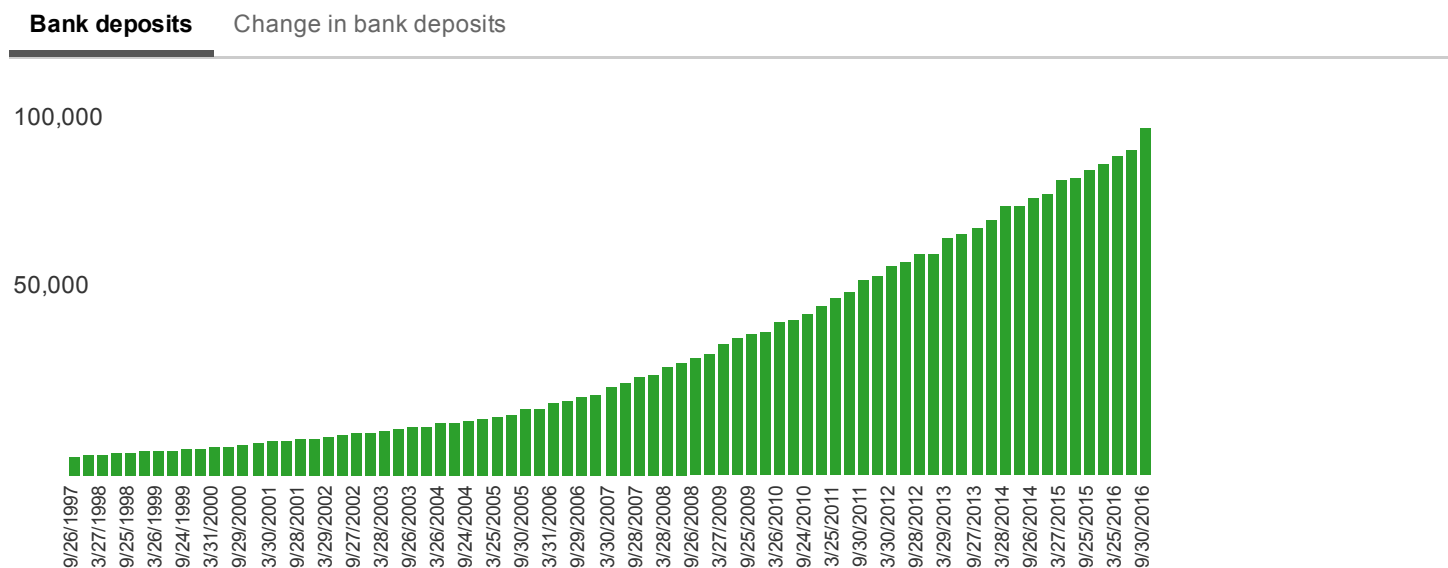
Kejriwal accused that the government, thus, facilitated the hoarders of unaccounted cash to push their money into safer destinations, including whitening part of it by depositing in the banking system. Kejriwal also cited an incident involving Sanjeev Kamboj, co-convenor, BJP law and legal affairs, Punjab, revealing on Twitter pictures of Rs 2,000 notes on 6 November, two days ahead of PM Modi's announcement on 8 November. This part, Kejriwal also raised concerns over an unusual surge in bank deposits in the July-September quarter.

“The government needs to tell us who they had warned among friends about this announcement about black money,” said the Delhi CM.

It is a fact that there has been record surge in bank deposits in the July-September quarter. During the quarter, the bank deposits rose by a record Rs 6.65 lakh crore to Rs 102.08 lakh crore, a record level which has surprised economists given that in the previous quarters most banks have reported a negative growth in deposits.

Finance minister Arun Jaitley has, however, pointed out that the rise in the deposit was because of 7th Pay Commission arrears that may have been channelled into the bank accounts. But this arrears around to Rs 70,000 crore and add any other inflows including subsidies, this amount will not go beyond Rs 1-1.5 lakh crore at the most.

Quarterly bank deposits in Rs billion



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“This is something intriguing to me,” said D K Joshi, chief economist at Crisil. Devendra Pant, chief economist at India Ratings and Research too said the sharp growth in bank deposits during July-September is baffling. “This is perplexing. Anticipating some tough measures, there is a possibility that black money hoarders would have pushed part of their money into the banking system,” said Pant.

The logical question here is why someone should deposit his illicit money into the banking system and get exposed to the taxman even if he knew the demonetisation in advance?

Economists and financial experts point out the following reasons: It is na-ve to imagine that the entire blackmoney is pushed to the banking system, but it is quite possible that part of would have arrived there. The black money hoarder who knows about the measures coming soon would have used benamis to put the unaccounted cash into different bank accounts to escape tight scrutiny and tax/ penalty implication that will happen on such deposits post the demonetisation announcement.

The government has warned that cash deposits above Rs 2.5 lakh threshold during the 50-day window could attract tax plus a 200 percent penalty in case of income mismatch.

"We would be getting reports of all cash deposited during the period of November 10 to December 30, 2016, above a threshold of Rs 2.5 lakh in every account. The (tax) department would do matching of this with income returns filed by the depositors. And suitable action may follow," revenue secretary Hashmukh Adhia [had said](#) last week.'

In this backdrop, someone who knew about the ensuing measures could have very well used different persons to put money in various accounts and make the black money legit, said an economist who didn't want to be named. “For instance, if I split this money and give in small lots to many of my employees asking them to deposit in different bank accounts before demonetisation kicks in, the funds become white and their salary burden is taken care of, say for next six months,” the economist said.

For sure, there is no hard evidence to say that select few were tipped off, except Kamboj's twitter picture. Also, the tax department can anytime go back to these transactions and seek the source. But, the point here is that there has been a dubious surge in bank deposits in the 3 months to September.

The opposition will most likely take up this issue and allege tipping off of information in Parliament. This is likely to put the ruling NDA in a spot. It is likely to be difficult for the ruling parties to conduct the legislative business normally.

But not everyone agrees with this conspiracy theory. Rajesh Mokashi, managing director and CEO of CARE Ratings, said the deposit surge is not related to monetisation. "First, the pay commission effect is there. Second, the IDS would have led to conversion of large amounts (into bank accounts)," Mokashi said.

There are charges and counter charges. One thing is for sure. Demonetisation is likely to steal the show in Winter session. PM Modi will have to use his charisma, which he is known for, to get the business going countering allegations. The critical part to watch is whether the government will be able to contain the uproar to the initial days and get back to business, mainly GST Bills passage, at the earliest.