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Demonetisation: Currency recall could cost India a massive Rs 1.28 lakh crore, says CMIE

By ET Bureau | Updated: Nov 25, 2016, 08:23 AM IST

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NEW DELHI: The cost of withdrawing high-denomination currency notes to wipe out black money from the country will be about Rs 1.28 lakh crore during the 50-day window till December 30, the Centre for Monitoring Indian Economy (CMIE) said.

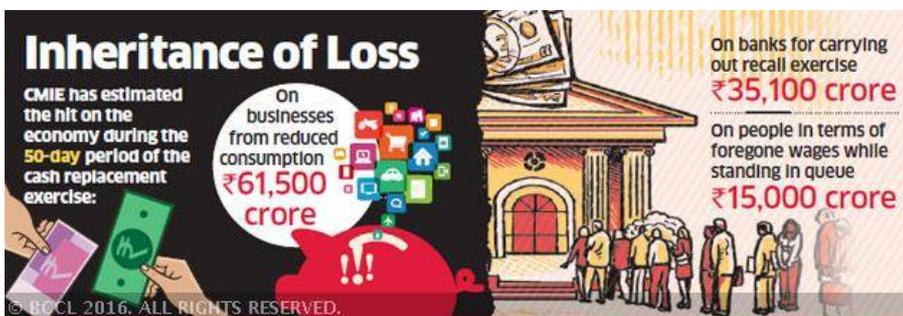
The overall cost could be much higher, the private economy watcher estimated. The demonetisation invalidated 86% of the Rs 17.8 lakh crore of currency that was in circulation on October 28. "A steady stream of news reports of empty mandis, low footfalls at malls and drop in business in restaurants, stressed factories paint a grim picture of the effects of a sudden withdrawal of liquidity from markets," CMIE said in a report on Thursday.

Emphasising that all estimates are conservative and limited to the 50-day window, CMIE said the government and the Reserve Bank of India are estimated to bear a cost of Rs 16,800 crore, largely on account of printing new currency notes and transporting them to banks, ATMs and post offices.

CMIE said businesses are expected to pay the biggest price of the demonetisation, which became effective on November 9, and the immediate impact could be about Rs 61,500 crore, or 48% of the total cost of the exercise.



Estimates cost of printing and circulating the new currency notes at Rs 16,800 crore; disruption may lead to long-term impact on economy.



"We estimate the direct impact on business in terms of the drop in discretionary spending by households. This alone adds up to more than half a trillion rupees during the 50-day period till end of December," it said. After enterprises, the other big sector to get hit is banks, which, according to CMIE, "lose a lot more."

Wage levels of bankers are higher than those of the average person in the queue and banks suffer overheads and operational costs in terms of recalibrating ATMs to dispense new notes. "Banks would do little else during this 50-day period and we estimate that they would bear a cost of Rs 35,100 crore," it said.

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People standing in queues to exchange or deposit old currency notes bear 12% of the total cost and could lose Rs 15,000 crore in foregone wages during the period. The long-term impact could be more, CMIE said.

"All estimates are admittedly conservative. All estimates are limited to the 50-day window. However, the impact of low liquidity, broken supply chains and loss of confidence in consumers is likely to impact the economy over a longer period," CMIE said.

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