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India's currency swap sees economy take a hit, but most remain supportive of anti-graft objective

By South Asia correspondent [James Bennett](#)

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Two months since India's two biggest banknotes were invalidated overnight to fight graft things are slowly returning to normal, but at a cost to one of Asia's fastest-growing economies.

In a central Delhi market, two men in their 50s are fiddling with smartphones.

Sudhir Sabharwal is buying a stapler from stallholder Rakesh Yadav, but no cash will change hands.

It would have been nearly unimaginable a mere three months ago, but now using one of India's many mobile wallet applications is becoming the norm.

"We must go with the Government policy, otherwise we're losing business," Mr Yadav said, who admits he only adopted the technology following the withdrawal of India's major banknotes last November, said.

"Before, the whole economy ran on cash."

Announcing the replacement of 1,000 and 500 rupee notes, [India's Prime Minister Narendra Modi said the objective was to wipe out the so called "black money"](#) which circulates in India's vast informal economy.

Untaxed and unchecked it greases bureaucratic corruption, and denies the Government much-needed revenue.

Short-term pain

Fighting graft is popular but the move has caused immense upheaval and hardship, and the cost to India's economy is now beginning to emerge.

[Is the recall working?](#)



[How was the recall of India's two largest banknotes meant to work, and what concerns do people have?](#)

India's statisticians have cut forecast growth for 2017, from 7.6 per cent down to 7.1 per cent, while the World Bank is predicting 7 per cent.

A survey of small and medium businesses estimates they lost a third of jobs and half their revenue in the first month.

Media player: "Space" to play, "M" to mute, "left" and "right" to seek.

[Audio: Listen to James Bennett's story \(AM\)](#)

The All India Manufacturers' Organisation, which carried out the survey, also projected a fall in employment of 60 per cent and loss in revenue of 55 per cent until March 2017.

That is because replacement banknotes are still being printed.

The Government said it was impossible to print adequate replacements while maintaining the necessary secrecy, but economist Kanhaiya Singh, from Delhi's National Council of Applied Economic Research, said there was another good reason for limiting the cash supply.

"It is forcing the traders and the small manufacturers to shift to the formal economy," he said, adding that would enable the Government to better track — and tax — transactions.

Take from the rich?

Elected promising brighter economic prospects for all, Mr Modi is gambling his political fortune on convincing Indians the [payoff will outweigh the pain](#).

Mr Modi is framing the policy as a crackdown on the elite, and that message seems to be cutting through.

In his first interview since the move, Mr Modi pointed to the lack of unrest, despite the long queues and disproportionate impact on India's poor as indicative of general support.

"I was well aware of the magnitude and complexity of the challenge we faced in implementation," Mr Modi told news magazine India Today, before stating: "It is no small thing that no significant incident of unrest has taken place in the country."



Photo: The currency recall would enable the Government to better track and tax transactions, an economist says. (Reuters: Jitendra Prakash)

Back in the market, customer Sudhir Sabharwal has completed his cashless purchase, and reflects a similar view.

"Initially there was some problems — standing in the lines, getting the money exchanged," he acknowledged.

"But that time — that was the teething time. People are happy now, with demonetisation."

Economist Mr Singh said it would be some time before the macroeconomic impact could be assessed, but pointed to taxation revenue as an obvious marker.

But he was also confident that India's economy would rebound quickly.

The policy will face its first electoral test in major state elections next month, while many now expect Mr Modi to turn his attention to India's notoriously shady gold and property markets.

<http://www.abc.net.au/news/2017-01-18/india-currency-recall-sees-economy-take-hit/8184722>