RBI report on demonetisation

Why in news?

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The Reserve Bank of India's annual report has revealed the data on amounts retrieved after the recent demonetisation drive.

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What are the highlights of the report?

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- Rs. 500 and Rs. 1,000 banknotes were withdrawn as a means to combat counterfeiting, black money and the financing of terrorist activities.
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- The report brings out that as much as **Rs. 15.28 lakh crore** of the demonetised high-value currency returned to the banking system.
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- This is around **99% of the total value** of the withdrawn currency at the time of demonetisation.
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- The bank has **not received** a part of the demonetised sum which is equal to **Rs 16,050 cr.**
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- The final deposit figures could still rise with influx of money from District Central Cooperative Banks.
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- This is because, these banks were very recently allowed to deposit withdrawn notes that they had accepted for a few days after demonetisation after which it was stopped.
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- Also, RBI is in discussions with the government to further accept the demonetised notes held by citizens and financial institutions in Nepal.
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What are the favourable outcomes of demonetisation?

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- The whole process has brought more **accountability to money** and the anonymity with cash transactions is reduced.
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- Big data analytics of deposits and increase in suspicious transaction reports have thrown better light on holdings of **black money**.
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- The reports by banks are also helping in **identification of shell firms** and taking necessary actions against money laundering activities.
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- This could possibly lead to an increase in future tax revenues with **better tax compliance.**
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- The recent surge in digital transactions, inflows into mutual funds and insurance companies, the rise in new income tax assesses are evident of transformation to a modern economy.
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- The drive has promoted more formalisation of the economy and financialisation of savings.
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What are the contentious outcomes?

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- As against the government's expectations on the impact the exercise would have on illegal money, the return of almost 99% of devalued currency raises doubts on the purpose of the drive.
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- **Banking** - This is the first time since 1952-53 that **reserve money** for the whole year **contracted**, by 13 per cent due to demonetisation impact.
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- The RBI incurred a reduction in the profit made by the central bank on account of issuing currency.
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- Also, processing and destruction of old Rs 500 and Rs 1,000 notes kept in various currency chests and regional offices of the RBI pose a challenge.
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- It has cost the government around Rs 8000 crore for **printing new notes** during the period July 2016-June 2017.
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- **Economy** - Worsening business conditions are significantly bringing down **private investment.**
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- Demonetisation considerably made a hit on the **unorganized supply chains** that were dependent on cash transactions.
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- How efficiently were they able to rebuild after the economy was remonetized is still doubtful.
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- The figures and outlook on **consumption,** which has long been the main driver of the economy, is also not very optimistic with demonetisation impact.
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- Overall, the growth prospects look dull due to the impact of demonetisation.
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What lies ahead?

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- The challenge now is to ensure that the creation of new black money is minimized.
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- A committed government plus tax reforms such as the GST will be part of the solution.
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- Government has to analyse the pros and cons of the demonetisation impact to take lessons for future reforms.
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Source: Economic Times, Business Standard

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