

## RBI report on demonetisation

### Why in news?

\n\n

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

\n\n

### What are the highlights of the report?

\n\n

\n

- Rs. 500 and Rs. 1,000 banknotes were withdrawn as a means to combat counterfeiting, black money and the financing of terrorist activities.

\n

- The report brings out that as much as **Rs. 15.28 lakh crore** of the demonetised high-value currency returned to the banking system.

\n

- This is around **99% of the total value** of the withdrawn currency at the time of demonetisation.

\n

- The bank has **not received** a part of the demonetised sum which is equal to **Rs 16,050 cr.**

\n

- The final deposit figures could still rise with influx of money from District Central Cooperative Banks.

\n

- This is because, these banks were very recently allowed to deposit withdrawn notes that they had accepted for a few days after demonetisation after which it was stopped.

\n

- Also, RBI is in discussions with the government to further accept the demonetised notes held by citizens and financial institutions in Nepal.

\n

\n\n

### What are the favourable outcomes of demonetisation?

\n\n

\n

- The whole process has brought more **accountability to money** and the anonymity with cash transactions is reduced.

\n

- Big data analytics of deposits and increase in suspicious transaction reports have thrown better light on holdings of **black money**.

\n

- The reports by banks are also helping in **identification of shell firms** and taking necessary actions against money laundering activities.

\n

- This could possibly lead to an increase in future tax revenues with **better tax compliance**.

\n

- 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.

\n

- The drive has promoted more formalisation of the economy and financialisation of savings.

\n

\n\n

### **What are the contentious outcomes?**

\n\n

\n

- 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.

\n

- **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.

\n

- The RBI incurred a reduction in the profit made by the central bank on account of issuing currency.

\n

- 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.

\n

- It has cost the government around Rs 8000 crore for **printing new notes** during the period July 2016-June 2017.

\n

- **Economy** - Worsening business conditions are significantly bringing down **private investment**.  
\n
- Demonetisation considerably made a hit on the **unorganized supply chains** that were dependent on cash transactions.  
\n
- How efficiently were they able to rebuild after the economy was remonetized is still doubtful.  
\n
- The figures and outlook on **consumption**, which has long been the main driver of the economy, is also not very optimistic with demonetisation impact.  
\n
- Overall, the growth prospects look dull due to the impact of demonetisation.  
\n

\n\n

### **What lies ahead?**

\n\n

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

\n\n

\n\n

**Source: Economic Times, Business Standard**

\n\n

\n\n

\n



**SHANKAR**  
**IAS PARLIAMENT**  
*Information is Empowering*