

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- Rs. 500 and Rs. 1,000 banknotes were withdrawn as a means to combat counterfeiting, black money and the financing of terrorist activities.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- This is around **99% of the total value** of the withdrawn currency at the time of demonetisation.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- This is because, these banks were very recently allowed to deposit withdrawn notes that they had accepted for a few days after demonetisation after which it was stopped.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