

After demonetisation

Has demonetisation achieved its original objectives? On November 8, 2016, these were tackling corruption, counterfeit currency, and terror funding. Thereafter the Prime Minister added reducing dependence on cash.

Now that we know that [99% of demonetised money has come back](#), the government's estimates of how much **black money** would be extinguished have been proven horribly wrong. The Attorney General told the Supreme Court that he expected 4-5 lakh crore to be "neutralised". Then, a Finance Ministry official told reporters that 3 lakh crore would not return. In the end, just 16,000 crore didn't come back.

No fresh window to return demonetised notes: Finance Ministry

This means previously unbanked money has now been credited to bank accounts. As they yield returns, it will be taxed and that's a clear gain. If large proportions are proven to be black, revenues will increase substantially.

The critical question is, how much of the money can the authorities establish is black? In his Budget speech, Finance Minister Arun Jaitley revealed that 4.9 lakh crore had been deposited in 1,48,000 bank accounts of a minimum value of 80 lakh, each amounting to an average deposit of 3.31 crore. At the time, Business Standard Chairman T. N. Ninan, wrote: "It's all but certain... this is black money unearthed by notebandi." On Wednesday, the Finance Ministry said 18 lakh accounts are under "scrutiny" and "Advance Data Analytics Tools" have identified a further 5.56 lakh. This is a huge number for the Central Board of Direct Taxes to scrutinise given that it only investigates 3 lakh accounts annually.

On the assumption that most black money is detected, the economist Surjit Bhalla has calculated the additional revenue in the first year as 2.5 lakh crore with a further 1.5 lakh annually in perpetuity. If that happens, it's a huge gain, but 'if' is the operative word. For now, all we can say is some black money will be identified and taxed but what proportion that is of the total and what the gain will be is unknown.

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However, the objective of reducing counterfeit currency seems unachieved. In 2015, the National Investigation Agency established that at any point only 400 crore of counterfeit currency is in circulation. That's 0.028% of total currency. Now, CNBC has calculated only 0.0007% of the returned 1,000 notes as being fake and only 0.002% of the 500 notes. In value terms the total is just 41 crore. So either a lot of fake currency hasn't been detected or didn't exist.

In terms of tackling terror funding, the Finance Ministry has said: "As a result of demonetisation of specified bank notes, terrorist and Naxalite financing stopped almost entirely." If true, this is a huge success, but no proof has been provided.

Finally, have we reduced dependence on cash? Both in number and value, [digital transactions increased sharply](#) after November but also dipped sizeably thereafter. There were 671.49 million transactions in November, rising to 957.50 million in December before shrinking to 862.38 million in July. In value terms, it was 94 lakh crore in November, 149 lakh crore in March, and 107 lakh crore in July. So, the use of cash initially diminished but has been steadily increasing thereafter.

This is a mixed picture. There's enough for the government to claim success, but also grounds for

the Opposition to be dismissive. Clearly, the demonetisation controversy continues.

Karan Thapar is a broadcast journalist

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