

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS
RAJYA SABHA
UNSTARRED QUESTION NO. 2102
TO BE ANSWERED ON 01ST JANUARY, 2019 / 11TH PAUSHA, SAKA, 1940.

Gains and pains from demonetisation

QUESTION

2102. SHRI VAYALAR RAVI:

Will the Minister of FINANCE be pleased to state:

- (a) whether it is a fact that Government claimed long term gain and expected short term pain due to demonetisation; and
- (b) what are the short term pains experienced and what are the long term gains achieved two years after this action?

ANSWER

**MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI P. RADHAKRISHNAN)**

(a) & (b): The Government of India decided to cancel the Legal Tender Status of Rs.1000 and Rs.500 denomination currency notes on 8th November 2016 with several objectives: (i) flushing out black money, (ii) eliminate Fake Indian Currency Notes (FICN), (iii) to strike at the root of financing of terrorism and left wing extremism, (iv) to convert non-formal economy into a formal economy to expand tax base and employment and (v) to give a big boost to digitalization of payments to make India a less cash economy.

The Economic Survey 2016-17 stated that that Demonetisation has been an unprecedented step with short term costs and long term benefits. There may have been some short term costs of demonetization in terms of inconvenience and hardship, especially for the cash intensive sectors. In the short-run, economic activity may affected, temporarily, by demonetisation on account of formalisation of economy; the economy is now growing at a robust pace.

The Economic Survey 2017-18 indicated that implementation of GST and demonetization lead to increase in number of new taxpayers (income tax), increase in voluntary registrations in the indirect tax. The Economic Survey 2017-18 Volume 1 noted that there was around Rs.2.8 lakh crores less cash (1.8 percent of GDP) and about Rs.3.8 lakh crores less high denomination notes (2.5 percent of GDP) in circulation post-demonetisation, as of 19th January 2018. The Survey observed that there has been a substantial increase in digitalization across all categories. And even though the immediate post-demonetization surge has moderated in some cases, the level and pace of digitalization are still substantially greater than before demonetization.
