

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
RAJYA SABHA UNSTARRED QUESTION NO. 1002
TO BE ANSWERED ON 07.12.2021

Gains of demonetisation

1002#SHRI VISHAMBHAR PRASAD NISHAD:

CH. SUKHRAM SINGH YADAV:

Will the Minister of FINANCE

be pleased to state:

- (a) the details about the benefits of demonetisation to the country;
- (b) whether it is a fact that the GDP has shrunk due to demonetisation and it is still affecting the development of the country;
- (c) the details of cash in circulation before demonetisation and cash in circulation at present; and
- (d) whether Government believes that demonetisation was a failed move that resulted in little gain and more harm to the country?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PANKAJ CHAUDHARY)

- (a): The benefits of Demonetization to the country include the following :
 - (i) Significant positive impact on most theatres of violence in the country. Since illegally held cash forms the major chunk of terrorist funding, after the demonetisation, most of the cash held with the terrorist turned worthless.
 - (ii) Instant extinguishment of high quality fake Indian currency notes.
 - (iii) More formalization of economy and observed significant growth in digital transactions in the country post-demonetisation. The total volumes of digital payments increased from 1459.02 crore in FY 2017-18 to 4371.18 crore in FY 2020-21 due to sustained efforts towards digitalisation. As per a study on macroeconomic impact of demonetization published by RBI in March 2017, there was a sharp increase in the number of accounts under the Pradhan Mantri Jan Dhan Yojana and the deposits in such accounts have also surged. These two trends of increased access to bank accounts and digital transactions have benefits associated with reduced corruption, increased flow of financial services and greater formalization of the economy.

(iv) Better tax compliance resulting in increase in tax revenues and widening of tax base – Robust growth rate of 18% for F.Y. 2017-18 in net direct tax collections over the F.Y. 2016-17, which was highest in the preceding seven financial years, indicated the positive impact of demonetization on the level of tax compliance in the country. In 2017-18, Personal Income-Tax (PIT) Advance Tax collections increased by 23.4% and PIT Self-Assessment Tax by 29.2% over those for 2016-17, corroborating the premise that demonetization and the subsequent use of bank deposit data by the Income-tax Department had a major impact on voluntary tax payments by the non-corporate/individual taxpayers. A growth rate of 25% was achieved in the number of Income Tax Returns (ITRs) filed with the Income-tax Department during FY 2017-18. It is the highest rate achieved in the preceding five years. During FY 2017-18, the number of new ITR filers was about 1.07 crore as compared to 85.51 lakhs during FY 2016-17. In earlier years, the number of new filers was between 50 lakh and 66 lakh. There is, therefore, a clear upswing in the new filers during the period 2016-17 and 2017-18, which can be attributed to higher level of compliance due to transfer of cash into the formal channels as a result of demonetization. A growth rate of 17.2% was achieved in the number returns filed by corporate taxpayers during FY 2017-18. It is more than 5 times higher than the growth rate of 3% in 2016-17 and 3.5% in 2015-16.

(b): GDP growth of a country depends on a number of factors including structural, external, fiscal and monetary factors. It is difficult to pinpoint the impact of demonetization on the economy.

(c): The Currency in Circulation (CiC) depends on the requirement for meeting the demand for banknotes due to inflation, GDP growth, replacement of soiled banknotes and reserve stock requirement. CiC which was ₹ 17,74,187 crore as on November 4, 2016 has now increased to ₹ 29,61,044 crore as on November 19, 2021. Besides, the usual factors determining the growth of CIC, the current level of CIC is also influenced by the Covid-19 Pandemic induced public demand for cash on account of uncertainty which increased the precautionary demand for currency.

(d) : Short-term costs of demonetization was in the form of inconvenience and hardship, especially to those in the informal and cash-intensive sectors of the economy but that was taken care of very soon. Benefits of demonetisation are given at part (a) of the reply.
