

SHOW ME THE BLACK MONEY

With RBI data showing that 99.3 per cent of banned currency is back in the banking system, the Modi government's claim that demonetisation will stamp out black money has fallen flat. Was the note ban all pain and no gain?

By M.G. Arun and Shweta Punj



Illustration by NILANJAN DAS

It was the evening of November 8, 2016. Sudden news of a televised address by Prime Minister Narendra Modi threw the nation into intense speculation. A few minutes into his speech, Modi announced his government's historic decision to scrap Rs 500 and Rs 1,000 notes at midnight, eliminating at a stroke 86 per cent of India's currency in circulation. "The five hundred and thousand rupee notes hoarded by anti-national and anti-social elements will become just worthless pieces of paper," Modi said. "The rights and interests of honest, hard-working people will be fully protected."

The next morning, all hell broke loose. A mad scramble ensued at banks as people queued up to exchange demonetised notes for new currency. The enormity of the exercise swamped the Reserve Bank of India (RBI) and public/private banks, with ATMs running dry and the central bank issuing one diktat after another in a bid to curtail withdrawals and maintain the cash flow. The government maintained that the ordeal was a one-time bitter pill the country needed to swallow to end the menace of black money.

In the immediate aftermath, many fell for this narrative, even those driven over the edge by the acute shortage of cash. "The big money hoarders will be punished as their ill-gotten piles will never find a way back into the banking system," surmised the man on the street. And many believed that the 'extinguished currency' would form a big dividend in the RBI's books, to be transferred to the government for spending on infrastructure and social welfare. It all looked so well-conceived and result-oriented.

Except that nearly two years down the road, an RBI report has changed the picture, and how. The RBI's annual report released on August 29 says that 99.3 per cent of the demonetised currency, totalling Rs 15.3 lakh crore, has returned to the banking system. Only Rs 10,720 crore out of the total could be extinguished. Has demonetisation, touted as the NDA government's biggest strike against black money, then failed in its objective? Was the hardship the public and businesses went through all for nothing? Have black money hoarders tricked the banking system to render much of their illegal cash white? If so, what does it say about the efficiency of our banking system? "It (demonetisation) has been a complete failure," says Maitreesh Ghatak, professor of economics at the London School of Economics. "The tragedy is that this was entirely foreseeable."

RBI data showed that bank credit growth fell to 5.1 per cent for the fortnight ended December 23, 2016, the lowest in over 60 years, as businesses slashed borrowings on falling demand. Former prime minister Manmohan Singh called the note ban "an organised loot and a legalised plunder" and warned of severe consequences. And indeed that happened. India's GDP growth slumped to a three-year low of 5.7 per cent in April-June 2017 as manufacturing slipped. India's GDP or the size of the economy was Rs 137 lakh crore in 2015-16. A percentage fall in GDP signifies a drop of Rs 1.37 lakh crore worth of economic activity. However, various factors can affect growth, such as the Goods and Services Tax (GST) introduced eight months after demonetisation. So, while it is difficult to attribute the slowdown just to demonetisation, it was indeed a major setback to India's growth trajectory.

Recent reports say micro and small businesses are still reeling from the effects of demonetisation and the rather bumpy start of the GST regime. Latest RBI figures (obtained through an RTI filed by a newspaper) show the loan default margin of these firms doubled over the last year—from Rs 8,249 crore by March 2017 to Rs 16,118 crore by March 2018. So was the price of demonetisation—the damage it caused to the Indian economy—too high given the objective, in optimistic projections, of 'extinguishing'

ECONOMIC TREMORS

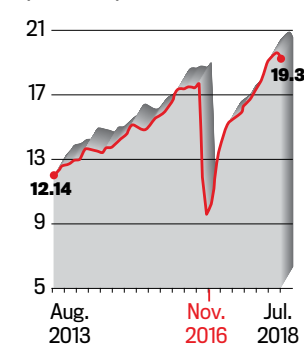
Apart from the inconvenience to the public, demonetisation led to widespread disruption of the economy. As many as 1.5 million jobs were lost in the first four months of 2017, ostensibly due to demonetisation and the sharp drop in investments, although some economists say credible jobs data is still not available. But anecdotal evidence suggests a great many jobs were lost as thousands of cash-dependent businesses had to shut down and contract labour was sent back home. Real estate projects came to a halt and *mandis* saw truckloads of fruits and vegetables rot as demand slumped. This pulled down prices, hurting farmers.



THE RETURN OF CASH

Cash is again king, and even the switch to digital payments is slow at best

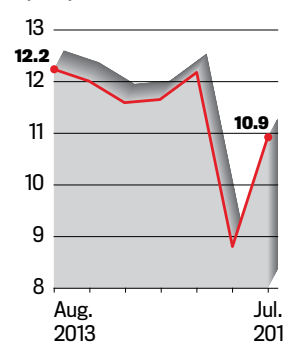
Currency in circulation
(Rs trillion)



Cash has crossed pre-demonetisation levels...

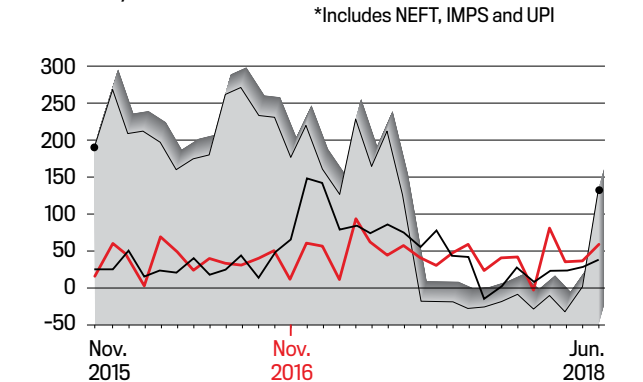
Source: CMIE, MOSPI

Cash-to-GDP ratio
(in %)



...but cash-to-GDP ratio is marginally lower

Digital payments
(Year-on-year %)



Digital payments were on an upswing even before demonetisation

Source: CMIE, RBI

FOLLOW THE MONEY

A long queue at a bank in New Delhi post-demonetisation to exchange banned notes with new currency

some Rs 3 lakh crore worth of assumed black money? “The largely cash-dependent informal sector accounts for 40 per cent of the GDP and employs 80 per cent of the workforce. It suffered perhaps the biggest policy-induced recessionary shock in post-independence India,” says Ghatak. The plight of small businesses prompted RSS chief Mohan Bhagwat to call for special protection measures for small and medium enterprises.

“If the purpose of demonetisation was a surprise attack on the illegitimate stock of cash, it has failed,” says Ajit Ranade, chief economist at the Aditya Birla Group. “If it is about curbing black money, it has again not succeeded. If it was to ensure that every currency note comes back into a valid bank account, which can then be tracked subsequently, then yes, it has succeeded.” He adds that unaccounted cash will circulate and illegitimate wealth will be generated despite demonetisation.

TAXING TIMES

According to the RBI’s August 29 report, currency in circulation is, in fact, growing and is higher than in the months before demonetisation. The cash-to-GDP ratio is only marginally lower and there has been no significant change in the quantum of fake currency detected. This punctures the theory that demonetisation hit the counterfeit currency racket hard. The number of counterfeit notes detected in 2017-18 was in line with pre-demonetisation levels.

As it became increasingly clear that most of the demonetised currency was returning to the system, the government spelt out new goals for demonetisation—ranging from battling counterfeit notes and containing terror funding to formalisation of the economy and aiding digitisation. The increase in tax compliance is now being touted as the biggest benefit of

demonetisation. India’s tax-to-GDP ratio stands at 21.89 per cent, lower than several countries much smaller in size. For instance, India is 32 times bigger than Iceland, but Iceland’s tax-GDP ratio is nearly twice that of India’s. No wonder, within hours of the RBI annual report being made public, finance minister Arun Jaitley blogged: “In March 2014, the number of income tax returns filed was 3.8 crore. In 2017-18, this figure has grown to 6.86 crore. In the past two years, when the impact of demonetisation and other steps is analysed, the income tax returns have increased by 19 per cent and 25 per cent.”

Terming it a “phenomenal increase”, Jaitley said the new returns filed post-demonetisation had increased in the past two years by 8.55 million and 10.7 million, respectively. Income tax collections increased from Rs 6.38 lakh crore in 2013-14 to Rs 10.02 lakh crore in 2017-18. As many as 938,620 returns were filed by corporate taxpayers during 2017-18 against 801,115 returns during 2016-17—a jump of 17.2 per cent. Experts say the higher tax compliance can be counted as one of the related outcomes of demonetisation, though it may not have been initially intended. “The rise in tax collections at a time when growth is slow is a positive co-relation,” says D.K. Joshi, chief economist with Crisil. According to government data, Rs 1.14 lakh crore worth of black money has been unearthed through various schemes, income tax searches and surveys.

Economist Surjit Bhalla says it is wrong to evaluate demonetisation only on the criteria of money returning to the system. “Nevertheless, the government and certain individuals had said that Rs 2-3 lakh crore will not return to the system because people will not want to expose themselves,” he says.



COUNTING THE COST
Employees at a bank in Jammu handle piles of demonetised Rs 500 notes

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WITH NEARLY ALL THE BANNED CURRENCY BACK IN THE BANKING SYSTEM, WHAT IS YOUR ASSESSMENT OF DEMONETISATION?

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JEAN DRÈZE
Development economist

My assessment is the same as before—demonetisation was a blunder and did grave injustice to the poor.



PRONAB SEN
Economist

Whatever its political merits, as an economic measure, demonetisation was a bad idea. The return of practically all the cash into the banking system was expected since the basic premise of demonetisation that black money is held as idle cash was wrong *ab initio*. Hopefully, policymakers will now have a better idea of how the black economy functions.



SURJIT BHALLA
Member, PM's Advisory Council

It is a wrong metric to evaluate demonetisation by only the criterion of money returned. In fact, it is the weakest criterion. Nevertheless, the government and certain individuals had said Rs 2-3 lakh crore will not return to the system as people will not want to expose themselves. We were very naïve and not appreciating the ingenuity of the corrupt in India, who found all means to return the money. Yes, this was a very limited objective, and on this, demonetisation was a clear failure. Over the next few years, we will know if the corrupt were able to get away, or were found out and penalties were imposed.



N.R. BHANUMURTHY
Professor, National Institute of Public Finance and Policy

It's no surprise that most of the money is back in the

banking system. And this by itself is not such a bad outcome in the short run. While there were many short-term costs—and these are well documented—the long-term benefits of demonetisation are still not clear. This would be a major empirical question for more research in the coming years. There are indications about a moderate increase in filing of income tax returns, which used to be quite low and could not augur well for a large, fastest-growing economy. Before demonetisation, there were efforts by several governments to increase the tax base and reduce black money. But none succeeded. There are still hopes that demonetisation, along with GST, will expand both the direct and indirect tax base and reduce the size of the black economy, whose estimates range from 25 per cent to 70 per cent!



MAITREESH GHATAK
Professor of economics, London School of Economics

It has been a complete failure. The tragedy is that this was entirely foreseeable. At best, demonetisation

would have had as much a lasting effect on curbing black money as a one-time effort to remove garbage would have on the quality of sanitation and hygiene. Black money generation is continuous and involves evading taxes and regulations as well as engaging in corrupt and criminal activities, which will continue unabated with the new currency.

Given that the affected currency notes constituted 86 per cent of the total volume of cash in the country, this policy effectively led to a much higher drop in liquidity than even the drop in the money supply (about 30 per cent) that the US Fed is criticised for during the Great Depression. Whatever be the illness, you don't take 86 per cent of the blood supply out of a patient's body. You would be exposing the patient to a serious health shock. It is commonly agreed that demonetisation has knocked off at least a percentage point from the trend growth rate (even the Economic Survey says that between 0.25 and 0.5 percentage point of growth was lost relative to the baseline of about 7 per cent). In any case, these growth figures underestimate the impact of demonetisation on the informal sector.

Add to it the physical hardship imposed on citizens, such as the long queues at banks, and the strain on the banking sector, which resulted in some deaths.



DID DEMONETISATION MEET ITS STATED OBJECTIVES?



► **JEAN DRÈZE**
Development economist

Certainly not. The official objectives were clearly stated by the prime minister on November 8, 2016. They were summarised the same day by his right-hand man, Hasmukh Adhia, then revenue secretary, as a “surgical strike on black money”. As many economists have pointed out, black money is not a stock of tainted cash on which a surgical strike can be launched. But even if

it is, that cash is now in bank accounts. The government claims that the tainted bank balances are now going to be separated from legitimate earnings, but that is like trying to separate milk from water after they have been mixed. The entire operation was based on voodoo economics.

► **PRONAB SEN**
Economist

It depends upon which stated objective. The first was extinguishing

black assets held in cash. This was most certainly not met. The second was attacking fake currency. The RBI has found very little fake currency. The third was stopping terror finance. No evidence that there has been any let-up in terrorism, both cross-border and Maoist. The fourth was formalisation of the economy. Formalisation has certainly increased, but it has been achieved mainly by a contraction of the informal sector and not by informal

firms getting formalised. The fifth was higher tax compliance. The evidence does not yet support this, but it is too early to take a final call.

► **SURJIT BHALLA**
Member, PM's Advisory Council

If one of the stated objectives was to unearth black money, there are 148,000 individuals who deposited an average of Rs 32 crore each. It is by no means established that this

is legitimate cash. At \$500,000 per person, this is more than a drug lord in Colombia. It is very likely that these people will be caught out—given the large amounts of cash involved.

► **N.R. BHANUMURTHY**
Professor, NIPFP

The official objectives kept changing and it's still not clear what the final objective of such a shock was. Now, they seem to suggest

that India would achieve clean growth. But it has for sure helped the government in the perception battle against corruption and black money, on which the NDA actually came to power.

► **MAITREESH GHATAK**
Professor of economics, LSE

Demonetisation has clearly failed in its main stated objective, namely, those who store their

black money in large currency notes will face a one-time wealth (as well as stealth) tax. The reasoning was they will not be able to convert the money into the new currency (of smaller denomination) as they will face the risk of being caught in the tax net, or worse still, face legal proceedings. With all the notes finding their way into the banking system, it is clear as daylight that all the fish have escaped the net.

“We were very naïve and not appreciating the ingenuity of the corrupt in India, who found all means to return the money.”

Many argue that new taxpayers have been added simply because their incomes crossed a particular threshold and not because they have turned compliant. Also, such individuals are mostly with lower average incomes. For instance, as per the Economic Survey 2016-17, the average annual income reported by new individual taxpayers added in 2016-17 was Rs 2.7 lakh. The trouble with demonetisation has been that the bulk of taxpayers comprise salary earners, small businesses and professionals, who are tax compliant and yet had to suffer the consequences of the currency ban.

Moreover, tax collections have been high in previous years, too. According to James Wilson, a civil engineer-turned-data cruncher from Kerala who has been popular with his analysis of demonetisation, direct tax collections showed a steady upward trend, from 2011-12 (10.7 per cent) to 2012-13 (13.6 per cent) to 2013-14 (14.2 per cent), during the UPA-2 regime under Manmohan Singh. But under the Modi government, the year-on-year growth fell to 8.96 per cent in 2014-15 and 6.63 per cent in 2015-16. Though it shows some recovery (14.5 per cent) during 2016-17, that is based on a low base in 2015-16, according to Wilson.

It seems tax compliances could have improved had the government stuck to amnesty schemes instead of a blanket

currency ban. In October 2016, at least Rs 65,250 crore of undisclosed assets were declared in the one-time compliance window, yielding Rs 29,362 crore in taxes. The Pradhan Mantri Garib Kalyan Yojana (PMGKY) launched in December 2016 to enable people with black money to come clean by paying tax and penalty of 50 per cent netted Rs 5,000 crore. In 2015, under a similar scheme for black money holdings abroad, 644 declarations of undisclosed foreign income and assets were received and just Rs 2,428 crore was collected in taxes. In 1997, a total tax of Rs 9,760 crore was collected under the Voluntary Disclosure of Income Scheme (VDIS) introduced by then finance minister P. Chidambaram.

Moreover, replacing the demonetised Rs 1,000 and Rs 500 notes with a higher value note (Rs 2,000) has itself been questioned as it would make hoarding of black money easier. Also, the cost of printing notes doubled to Rs 7,965 crore in 2016-17, from Rs 3,421 crore in 2015-16, on account of the new currency introduced.

WHERE'S THE BLACK MONEY?

Various agencies have estimated the quantum of black money in India (including but not only cash) at over Rs 30 lakh crore, roughly 20 per cent of the GDP (the World Bank says it was 23.7 per cent of the GDP in 2007). According to official figures released by the Switzerland Central Bank, India moved up to the 73rd place in 2017 in terms of money parked by its citizens and companies with Swiss banks. If one of

the aims of demonetisation was to unearth black money, some 148,000 individuals deposited an average of Rs 32 crore of cash each, says Bhalla. Some economists say it's not easy to separate black money from legitimate cash in the banks. “The government claims the tainted bank balances are going to be separated from legitimate earnings, but that is like trying to separate milk from water after they have been mixed,” says Jean Drèze, a development economist. “The entire operation was based on voodoo economics.”

According to the government, searches conducted on 900 groups between November 2016 and March 2017 led to seizures worth Rs 900 crore, including Rs 636 crore in cash, and admission of undisclosed income amounting to Rs 7,961 crore.

In the same period, 8,239 surveys led to the detection of undisclosed income worth Rs 6,745 crore. Some 1.8 million cases were identified where either cash deposits in banks were not in sync with the income returns filed or returns had not been filed at all. Notices were issued to over 300,000 individuals who had deposited over Rs 10 lakh but not filed their I-T returns. As a result, 200,000 such individuals filed their returns, paying self-assessment tax of Rs 6,416 crore.

However, the increased state surveillance and action with regard to income tax has been unsettling. Given the high number of cases filed, the situation has amounted to tax terrorism, argues former finance minister Yashwant Sinha, who doubts if the I-T department

₹ **15.3**
LAKH CRORE

or 99.3% of the banned notes returned to the banking system, says the RBI report

DEMONETISATION

can handle the huge pile of cases.

The government, as part of its crackdown on shell companies, identified 225,000 firms that did not file their returns in 2015-16 and 2016-17 and sent notices. Now, it needs to aggressively deploy tools such as artificial intelligence and analyse the data in real time to ensure that shell companies don't spring up again. According to sources, more than snuffing out black money immediately, the government has succeeded in establishing a trail that the I-T authorities can scrutinise. Bank deposits to the tune of Rs 1.75 lakh crore as well as 1.8 million individuals are under scrutiny, Modi had said in August 2017.

A Supreme Court-monitored special investigation team on black money has been set up and India has signed a treaty with Switzerland to allow automatic sharing of tax-related information beginning January 2019. Tax treaties with Cyprus, Singapore and Mauritius have been renegotiated. The Benami Transactions (Prohibition) Amendment Act, 2016, empowers authorities to provisionally attach *benami* properties, which can eventually be confiscated. A person held guilty of holding *benami* property faces rigorous imprisonment of 1-7 years and a fine of up to 25 per cent of the property's market value.

For the real estate sector, which has been steeped in black money, demonetisation was expected to bring transparency that would correct prices and boost demand. However, the sector, already hit by inordinate delays in completion of projects, has seen a further slowdown due to the twin effects of demonetisation and the Real Estate (Regulation and Development) Act (RERA). Some reports suggest that substantial amounts of black money still circulate in the real estate sector, especially in property transactions worth Rs 3 crore or more. In the July 2018 Mood of the Nation (MOTN) survey conducted by INDIA TODAY, 44 per cent respondents felt black money is back in the market in the form of new currency notes—a seven percentage point increase over the last survey.



NOTE OF CAUTION Mamata Banerjee and Omar Abdullah lead a march from Parliament to Rashtrapati Bhavan against demonetisation in 2016



DOES A COST-BENEFIT ANALYSIS JUSTIFY DE MONETISATION?

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► **JEAN DRÈZE**

Development economist

The basic principle of cost-benefit analysis is that a project should be evaluated against the next-best alternative. In this case, the next-best alternative would have been to fight corruption through constructive steps, such as transparent governance, financial accountability of political parties,

non-coercive promotion of digital transactions, firm prosecution of scamsters, and so on. All this was ignored in favour of demonetisation, a reckless gamble with the economy that inflicted much misery on the poor and powerless. Perhaps it did have some positive side-effects, but then most calamities have some too. Applauding demonetisation because it helped, say, with

income-tax compliance shows a dismal lack of concern for its human consequences. You might as well approve of tax defaulters being hanged.

► **PRONAB SEN**

Economist

Since none of the supposedly positive effects of demonetisation has been met and the negative effects on the poor, especially

farmers, agricultural workers and those self-employed or working in the informal sector, have been substantial, any cost-benefit analysis will definitively go against it.

► **SURJIT BHALLA**

Member, PM's Advisory Council

The costs involved are a dip in GDP growth by 0.3-0.4 per cent on an annualised rate, but the

gains in tax compliance more than compensate any loss to the GDP. The loss to the GDP was temporary. Tax compliance gains are forever because these people are identified and will be in the tax net.

► **N.R. BHANUMURTHY**
Professor, NIPFP

It would take much longer to assess

the benefits of demonetisation. But one can safely suggest that in terms of tax compliance (or buoyancy), there should be a structural shift post-demonetisation and post-GST. While the macro costs are clear in terms of loss of output, investment and consumption, the micro costs are in terms of loss of jobs, shutdown of businesses

(especially the micro, small and medium enterprises) and retail trade. That India silently adjusted to the shock was commendable as well as surprising.

► **MAITREESH GHATAK**

Professor of economics, LSE

No, it was not worth it. I see only costs with no tangible benefits.



DID DEMONETISATION HELP IN THE FORMALISATION AND/ OR DIGITISATION OF THE ECONOMY?



► **JEAN DRÈZE**
Development economist

It is just possible that demonetisation gave a little nudge to formalisation, by driving some informal enterprises to the wall. But this is like saying that you can enhance the average height of a basketball team by getting rid of some of the shorter players. What matters is the strength of the whole team, not its average height. As for digitisation, this ex post defence of demonetisation added another layer of irrationality to it. Cashlessness was suddenly endowed with magical virtues. Anganwadi workers

were made to attend cashless transaction workshops instead of teaching young children. Street vendors were forced to display Paytm stickers even if they had no use for them. In Jharkhand, Nagri block was declared cashless almost in the same breath as it was selected for replacement of food rations with cash subsidies. All this was a huge distraction, with dubious benefits, if any. Economic policy should focus on people's living conditions and how to improve them, not on whether they use paper or plastic to pay for their groceries.

► **PRONAB SEN**
Economist

Formalisation and digitisation of the economy have

certainly increased. However, most of it is due to GST and not demonetisation. Furthermore, as far as digitisation is concerned, the impetus came more from the introduction of government-sponsored payment systems (such as UPI and Bhim) than from any fear of using cash. This is borne out by the fact that currency with the public today is higher than it was before demonetisation. It may well be the case that UPI was the outcome of damage control by the government, but knowing how long it takes to develop such platforms, it is much more likely that they were in development earlier. In which case, the increase in digitisation would have happened even if there was no demonetisation.

► **SURJIT BHALLA**
Member, PM's Advisory Council

There is no doubt that demonetisation helped in formalisation of the economy. If you look at cash transactions as a percentage of total transactions, they have gone down, whether you want to look at declining cash usage or tax compliance. It is unambiguous that it led to formalisation of the economy.

► **N.R. BHANUMURTHY**
Professor, NIPFP

Both formalisation and digitisation should be the ultimate long-term goals of demonetisation. While there are indications of a significant increase in digitisation, information about formalisation is still ambiguous. At

the moment, we lack robust data on it.

► **MAITREESH GHATAK**
Professor of economics, LSE

Evidence suggests that demonetisation has failed to reduce the size of the cash-based economy. I have seen no convincing evidence that it has helped in formalisation or digitisation of the economy—just showing that the absolute levels of whatever measures one may have of these have gone up does not prove anything, as in a growing economy they would be going up over time anyway. One would have to look at the trend in these before demonetisation was implemented and then assess it to see if there was a shift in the trend.

DIGITAL FOOTPRINT

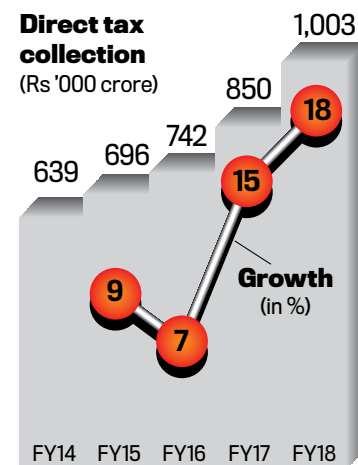
Another strong argument in favour of demonetisation was that it would help in the digitisation of the economy. As cashless transaction technologies proliferate, using less cash is a natural progression for any economy, but what had sceptics worried was whether digitisation was being spun as an excuse for failing to replenish the cash that was pulled out of the system. Former finance minister P. Chidambaram termed the idea of a cashless economy “foolishly utopian”, adding that all big countries had 20 per cent cash used in transactions.

Recent data shows that when it comes to the Indian consumer, cash is still king. RBI data shows that ATM withdrawals from 66 different banks amounted to over Rs 2.65 lakh crore in April 2018, up 22 per cent from the same period

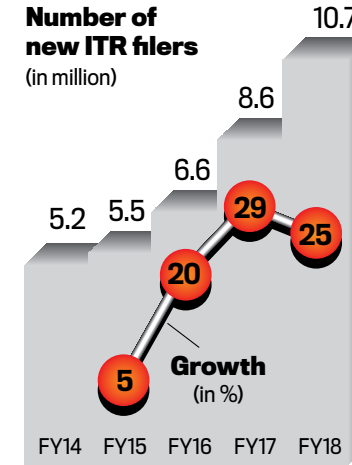
last year. RBI data shows that cash circulation was at a record high this April. The currency with the public had more than doubled to Rs 18.5 lakh crore, from a low of nearly Rs 7.8 lakh crore in the post-demonetisation months. This blows a hole in the theory that demonetisation reduced the use of cash and increased digital transactions. “I have seen no convincing evidence that it (demonetisation) has helped in formalisation or digitisation—just showing that the absolute levels of whatever measures one may have of these have gone up does not prove anything, as in a growing economy they would be going up over time anyway,” argues Ghatak. Economist Pronab Sen says formalisation and digitisation have certainly increased. “However, my sense is that most of it is due to GST and not demonetisation. As far as digitisation is concerned,

THE NET WIDENS

Direct tax collections and numbers of people filing returns have seen a spike since 2016



Direct tax collections grew at the rate of 18 per cent in 2017-18, the highest in the past seven years. The growth rate was 6.6% in 2015-16 but jumped to 15% in 2016-17



The number of new ITR filers increased to 10.7 million during FY 2017-18 compared with 8.55 million new ITR filers in FY 2016-17, a growth of 25 per cent

Source: Gol

the impetus came more from the introduction of government-sponsored payment systems (UPI, Bhim, etc.) than from any fear of using cash,” he says.

Even if we grant that demonetisation was a well-intentioned move, it was naive, as our experts point out here, to imagine that a one-time “surgical strike” would eliminate black money and choke its flow. The introduction soon after of GST, another disruptive piece of far-reaching reform, slowed down growth. There were massive job losses and a significant erosion of the country's wealth. The good news for the Modi government is that there are signs of a recovery—the first quarter GDP results of 2018-19 show 8.2 per cent growth year-on-year, albeit on the low base of the corresponding quarter last year; it remains to be seen if this will sustain for the remaining three quarters. The falling value of the rupee and the steep rise in petrol prices pose a fresh challenge to the government.

The government believes that both demonetisation and GST will, in the long run, clean up the dark side of the Indian economy and boost growth. But the popular perception of demonetisation has certainly turned net-negative while GST is perceived to have been implemented hastily. Around 73 per cent respondents to the July 2018 INDIA TODAY MOTN survey said demonetisation caused more pain than gain, up from 61 per cent a year ago. It is noteworthy that PM Modi did not mention demonetisation even once during his Independence Day speech this year. No other country has attempted a demonetisation exercise of this size and scale and its aftermath will continue to play out over the years. As Crisil's Joshi says, tackling black money is not an event, it's a process. “In a large country such as India, surveillance is difficult. But with digitisation, people are increasingly leaving a footprint of their financial activity, which is traceable by the authorities.” What's imperative now for the tax investigating agencies is to follow the money trail and go after the tax evaders. Be it higher tax compliance or the dip in hawala transactions, delays will only undo the gains. ■