

A windfall for govt, but losses for RBI: study

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Demonetisation will give Centre over ₹2.5-lakh cr, but RBI could lose ₹2,800 crore

Hyderabad, November 15:

Demonetisation is likely to give the government a fiscal windfall of ₹ 2.5-lakh crore or more. But, for the RBI, the exercise will lead to a net loss of seigniorage of ₹ 2,800 crore.

Seigniorage is the difference between the value of money and the cost to produce and distribute it.

An internal research by State Bank of India states that going by the experience of the 1978 demonetisation, there may be a cash payout against the extra notes printed by the RBI to the government.

As the RBI will issue notes only against the old ones, there has to be a decline of an equivalent amount from the RBI's asset side/cash payouts.

The notes issued by the RBI appear on the liability side of its balance-sheet. The central bank creates a corresponding entry on the asset side by investing in foreign currency assets abroad (in US treasuries) in lieu of such currency holdings. The investment income generated in turn is ploughed back to the government through dividend income, among others. The RBI is expected to transfer this windfall to the government over time, the study said, adding that: "Such amount may be at least ₹ 2.5-lakh crore, but with a significant upward bias."

No return

There is a possibility of about 25 per cent of the existing notes not being exchanged at all as people are resorting to various ways to get rid of stashed cash.

As on March 2016, the total value of ₹ 500 and ₹ 1,000 denomination notes stood at ₹ 14.18-lakh crore, of which, ₹ 2.5-lakh crore or more may come back into the system.

"Hence, burning them is the quickest way to get rid of these notes and the process has reportedly begun in Uttar Pradesh," the study said.

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