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## NEW WAYS OF RBI COMMUNICATION

Today RBI released its Annual Report (AR) for the year July 1, 2017 to June 30, 2018. The publication has presented some interesting data which bode well for the economy.

The overall banknotes in circulation were Rs 18,037 billion as on Mar'18, displaying a growth of 9.9% over Mar'16. The value share of high denomination currency(500+2000) in overall currency composition in Mar'18 was 80.6% which is lower than it was in the pre-demonetization period (86.4%). Thus, there is a 5.8% / Rs 1 lakh crore shift in favor of small denomination currency notes.

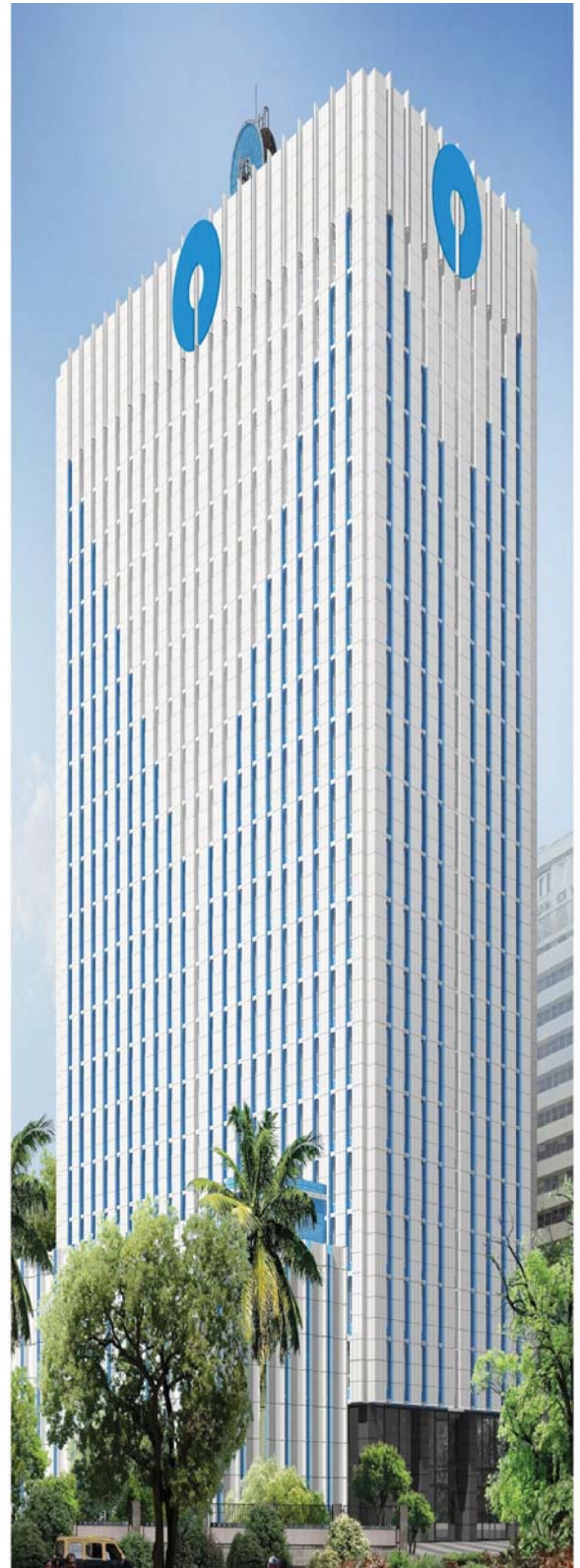
Understandably the value share of 2000 denomination notes has come down as their volume has remained almost constant going from Mar'17 to Mar'18. The availability of 200 denomination notes is still low going by the volume numbers (1.8 billion pieces).

Additionally, since FY14 the number of counterfeit notes increased rapidly and reached a height of 7.62 lakh pieces in FY17. But the number of counterfeit notes declined sharply (by 31.4%) to 5.23 lakh pieces only in FY18. This is one of the direct positive impact of demonetisation that is clearly visible.

As a result of Operation Clean Money, there is a considerable increase in the number of income tax returns filed. The number of returns filed as on 31 Jul'18 stands at 3.43 crore as against 2.24 crore filed during the corresponding period of FY18, registering an increase of 53%. Even if we assume a trend growth of 30% over FY18 numbers then at least around 2 crore new tax payers will file their return this fiscal. Assuming that 75% of such file with zero income and only 25% pay a minimal Rs 5000 tax per month, then Government would earn an extra tax revenue of around Rs 300 billion.

The shift in RBI communication is quite pleasant and interesting. In the last couple of years the RBI communication has shifted from speeches to more rigorous research. The number of speeches given by RBI Top Management has declined from 46 speeches in 2016 to only 22 speeches in 2017 and 10 so far in current fiscal.

Interestingly, apart from working papers and occasional papers, RBI has introduced Mint Street Memos to present analytical research on a contemporary topic relevant to central banking in a crisp manner that is easy to understand for various stakeholders including common persons.



## RBI ANNUAL REPORT 2017-18

- Today RBI released its Annual Report (AR) for the year July 1, 2017 to June 30, 2018. Surprisingly, RBI has for the first time released its AR in the morning session, breaking from the tradition of releasing the report post 5:00 pm. This is a welcome trend and we believe that CSO should also take a note from RBI (and also from major economies) and release all its major data releases (like CPI, GDP, etc.) in morning session only.

## CURRENCY COMPOSITION

- The value share of high denomination currency (500+2000) in overall currency composition is 80.6% which is lower than it was in the pre-demonetization period (86.4%). Thus, there is a 5.8% / Rs 1 lakh crore shift in favor of small denomination currency notes.
- As RBI has ramped up the supply of 500 denomination notes in FY18, the share of 500 denomination notes which had come down to 22.5% in total value of banknotes in circulation post demonetization, has almost doubled to 42.9% by Mar'18 enhancing ease of transaction.

Denomination	Banknotes in Circulation					
	Mar-16		Mar-17		Mar-18	
	Volume (billion pieces)	Value (₹ billion)	Volume (billion pieces)	Value (₹ billion)	Volume (billion pieces)	Value (₹ billion)
SDN (upto 100)	68.2	2,235	91.0	3,501	81.6	3,140
% share	75.6	13.6	90.8	27	79.8	17.3
200	-	-	-	-	1.9	371
% share	-	-	-	-	1.8	2.1
500	15.7	7,854	5.9	2,941	15.5	7,734
% share	17.4	47.8	5.9	22.5	15.1	42.9
1000	6.3	6,326	0.1	0.1	0.1	0.1
% share	7.0	38.6	...	0.7	...	0.4
2000	-	-	3.3	6,571	3.4	6726
% share	-	-	3.3	50.2	3.3	37.3
<b>Total</b>	<b>90.3</b>	<b>16,415</b>	<b>100.3</b>	<b>13,102</b>	<b>102.4</b>	<b>18,037</b>

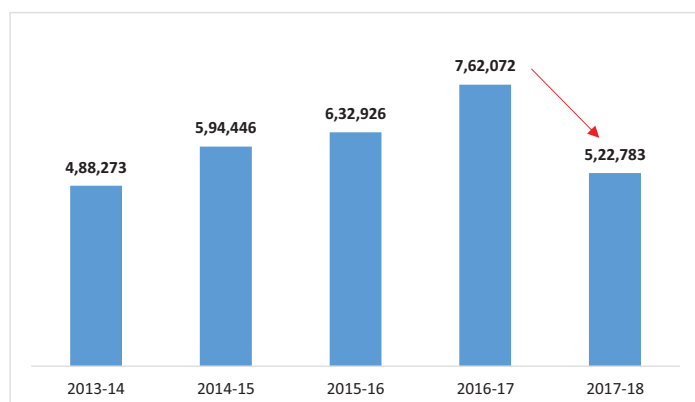
Source: RBI, ... Negligible.

- Understandably the value share of 2000 denomination notes has come down as their volume has remained almost constant going from Mar'17(value: 50.2%) to Mar'18 (value:37.3%). The availability of 200 denomination notes is still low going by the volume numbers (1.8 billion pieces).

## COUNTERFEIT NOTES: POSITIVES &amp; NEGATIVES

- One of the objectives of demonetisation was to curb the increasing prevalence of counterfeit currency in the system. Since FY14 the number of counterfeit notes increased rapidly and reached a height of 7.62 lakh pieces in FY17. But due to demonetisation the number of counterfeit notes declined sharply (by 31.4%) to 5.23 lakh pieces only in FY18. This is one of the direct positive impact of demonetisation that is clearly visible.
- Though on the other hand the promise of RBI that new currency notes of Rs 200 and Rs 500 (post demonetisation) are more secured and less prone to counterfeit is not entirely correct. There was a noticeable increase in counterfeit notes detected in the denomination of new Rs 500 (by 4178%) and Rs 2000 (by 2710%). Given the current trends, it is expected that the number of counterfeit notes in the denomination of Rs 500 (new) and Rs 2000 may increase further and RBI/banks/public should pay more attention to that.

Graph 1: Number of Counterfeit Notes



Source: RBI; SBI Research

Denomination-wise Counterfeit Notes (No. of pieces)			
Denomination	2016-17	2017-18	% Chg
10	523	287	-45.1
20	324	437	34.9
50	9,222	23,447	154.3
100	1,77,195	2,39,182	35.0
200	-	79	-
500 (MG series)	3,17,567	1,27,918	-59.7
500 (New design)	199	9,892	4870.9
1000	2,56,324	1,03,611	-59.6
2000	638	17,929	2710.2
<b>Total</b>	<b>7,62,072</b>	<b>5,22,783</b>	<b>-31.4</b>

Source: RBI; SBI Research

## RBI COMMUNICATION

- ◆ The shift in RBI communication is quite pleasant and interesting. In the last couple of years the RBI communication has shifted from speeches to more rigorous research. The number of speeches given by RBI Top Management has declined from 46 speeches in 2016 to only 22 speeches in 2017. In 2018 so far only 10 speeches were given by RBI Top Management. This in-turn leads to more research produced by RBI. Apart from working papers and occasional papers, RBI has introduced Mint Street Memos to present analytical research on a contemporary topic relevant to central banking in a crisp manner that is easy to understand for various stakeholders including common persons. Since its launch in Aug'17, 12 Mint Street Memos have been released so far by RBI on relevant topics.

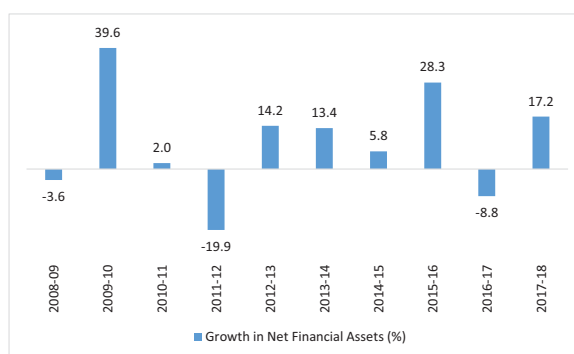
## AT LEAST RS 300 BILLION WILL COME FROM INCREASED TAX PAYERS

- ◆ As a result of demonetisation and Operation Clean Money, there is a considerable increase in the number of income tax returns filed. The number of returns filed as on 31 Jul'18 stands at 3.43 crore as against 2.24 crore filed during the corresponding period of FY18, registering an increase of 53%. This stupendous increase in filing will garner extra tax revenue for the Government.
- ◆ We did a simple exercise to estimate how much benefit will Government net. If we assume a trend 30% growth over FY18 numbers then at least around 2 crore new tax payers will file their return in current fiscal. Assuming that 75% of such have filed with zero income and only 25% paying a minimal Rs 5000 tax per month then Government will earn extra tax revenue of around Rs 300 billion over and above the trend estimates. We believe that this is the minimum revenue that the Government can net as most of the new (added) tax payers are in higher income brackets.

## INVESTMENT HAS PICKED UP & HOUSHOLD FINANCIAL ASSETS HAVE ALSO SURGED UP

- ◆ The firming up of investment/GFCF during 2017-18 could be attributed to various factors. Some of the important factors that led to the revival are, the undergoing renewal of the capex cycle, a strong pick-up in exports and larger FDI inflows based on strong domestic macro fundamentals.
- ◆ Manufacturing sector also started to recover from its sluggishness mainly driven by capital goods, infrastructure/construction goods and intermediate goods. Structural reforms such as RERA helped to garner momentum in real estate sector.
- ◆ Along with that the infrastructure sector has also shown an improvement as the investment carried out in transport, railway and airways have significantly contributed to investment during 2017-18. The length of highway projects constructed during FY18 increased to 9,829 km from 8,232 km in the previous year. In railways, a large part of the railway capex was devoted to doubling or trebling of lines, gauge conversion and electrification.
- ◆ While Household financial saving which is the most important source of funds for investment in the economy has declined which reduced to 6.7% in FY17, down from 8.1% in FY16. But, interestingly, net financial assets of the household sector has increased to 7.1% in FY18 on account of an increase in households' assets in the form of currency, despite an increase in households' liabilities.

Graph 2: Growth of Net Financial Assets of Household



Source: RBI, SBI research

## KEY DRIVERS OF INVESTMENT

- ◆ A study on “Investment climate for Growth: What are the Key enabling Factors?” to analyse the movements in GFCF and mapped with the behaviour of domestic production of capital goods. The key finding suggests, corporate profitability, which is largely influenced by input costs and demand conditions that determine pricing power, emerging as a forward-looking driver of new investment.
- ◆ Some the factors that are having a downward risk to investment are slow growth in demand represented by non-agricultural income, subdued business confidence and higher real interest rates. In addition to it an appreciation of the real exchange rate, which is an indicator of possible loss of external competitiveness unless offset by higher productivity may adversely impact future investment demand.
- ◆ Some of these downside factors are gaining momentum as agricultural growth is expected to be lower and higher real interest rate may dampen the investment cycle in Q1FY19.

## INFLATION TARGETING FRAMEWORK

- ◆ Post global financial crisis, while the advanced economies have witnessed a pick-up in inflation along with economic recovery, after a prolonged period of deflationary risks, emerging market and developing economies particularly in Asia have continued to record moderation in inflation. Studies shows, inflation targeting has been and is an important factor in the moderation of inflation in Asian countries along with other factors like exchange rate, energy prices as well as domestic demand conditions also play a role.
- ◆ In India, RBI has continuously maintained a flexible inflation targeting regime to supplement the growth momentum of the country. Some of the factors which could pose some upward risk to headline inflation are (i) demand pressures arising on account of strengthening of domestic growth impulses, especially in view of rising input price pressures and corporates gradually regaining pricing power; (ii) high crude oil prices and the channels through which it may influence headline inflation (iii) impact of increases in MSPs by the government (iv) geo political risk due to trade war between developing countries etc.

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## ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management, corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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