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THERE is little doubt that the Narendra Modi government's most radical move to date has been demonetisation, which was announced without warning on Nov 8. Demonetisation, which sucked out 86 per cent of the currency in circulation, will continue to be one of the most debated issues this year.

Papers have already been written on the demonetisation, with conflicting views about the nature of its impact and disruption.

Many mainstream economists viewed this as a move that was unwarranted and one that made little economic sense.

In contrast, the Bharatiya Janata Party (BJP) and its supporters trumpeted this as the most revolutionary of moves that is going to change the face of the Indian economy and how Indians conduct financial transactions.

The truth, in this case, lies somewhere in between.

But what is certain is that the government's initial aim of touting demonetisation as a means to root out black money has not worked out as it had hoped.

According to reports in the Indian media, culled from information from the Reserve Bank of India and the government, about Rs14 lakh crores out of a total of an estimated Rs15 lakh crores in demonetised currency had been deposited with banks by the end of last year.

This meant that less than Rs1 lakh

crores in demonetised currency had not returned to the formal banking system out, taking the wind out of the government's claims about cleaning up black money.

Perhaps the biggest challenge for the Modi government this year will be how to manage, and indeed package, the impact of demonetisation.

The government has already changed its tack on demonetisation.

From its initial goal of curbing black money and counterfeiting, the government is now peddling demonetisation as a tool to digitise the economy and widen the tax net.

Mr Modi in his year-end address to his nation also described demonetisation in mythical terms as a fight between good and evil.

He described demonetisation as a "shuddikaran (purification)" drive and characterised the hardships faced by ordinary Indians in the wake of the move in heroic terms.

The real economic impact of demonetisation on India's growth and the unorganised sector can be gauged only when hard statistics are available.

Earlier this month, the World Bank cut India's GDP growth for 2016-17 fiscal to 7 per cent from its previous estimate of 7.6 per cent, citing the impact of demonetisation.

But it also forecast that the country would regain momentum in the following years with a growth of 7.6

per cent and 7.8 per cent.

There are others who believe the downturn will be more significant.

But one might have to go beyond national growth figures to understand what demonetisation achieved or did not.

State elections

As it was apparent from Mr Modi's year-end speech, as well as others by him across the country, demonetisation is also seen as a potent political weapon in the BJP's armoury.

With elections in five Indian states, including the crucial state of Uttar Pradesh (UP), to be held next month and in March, demonetisation is very much part of the BJP's poll campaign.

If the BJP does win in UP, it will be seen by the party as a positive verdict on demonetisation.

Indeed, any victory by the BJP in by-elections or local body polls post-November 8 has been interpreted as a thumbs-up for demon-

Modi's challenges

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etisation.

The feedback on demonetisation in states such as UP is somewhat mixed.

A recent opinion poll conducted by India Today-Axis, released the day the Election Commission (EC) announced the polling dates, reported that 76 per cent of the respondents supported demonetisation, though 58 per cent said they had been inconvenienced.

At the same time, there are reports of rural distress from several parts of the country.

Irrespective of demonetisation, the BJP is still considered a front-runner in the coming election in UP.

One of the primary reasons for this is its success in the recent past in getting Other Backward Class (OBC), or the lower caste vote.

Though the BJP is traditionally considered a party of the upper castes, in the 2014 national election, the BJP got substantial OBC support in UP. This represented a significant jump from the 2012 Assembly election in UP.

Importantly, the BJP also won support from the Dalits, or former untouchables. This phenomenon has been termed, by one political scientist, as the "third democratic upsurge" of India where caste identities have weakened.

One of the drawbacks of the BJP's campaign in UP, however, is the lack of a chief ministerial candidate.

The BJP seems to have gone back to the strategy of banking on Mr Modi's appeal, which worked in states such as Haryana and Maharashtra, but not in Bihar.

Interestingly, some election surveys conducted before demonetisation found that Mr Modi enjoyed fairly high ratings, though over 50 per cent of the respondents also felt that he had not delivered on his promises.

Whether this strategy of banking on Mr Modi will work in a state that will witness a genuine triangular contest remains to be seen.

The BJP will have to contend with a resurgent Samajwadi Party, banking on chief minister Akhilesh Yadav's popularity and its tie-up with the Congress, and the Mayawati-led BSP which has been quietly working on the ground for the past two years.

In the other big state going to elections, Punjab, the BJP is handicapped by the anti-incumbency sentiments against its ally, the Akali Dal.

Punjab too will for the first time see a triangular contest, with the Aam Aadmi Party being a contender along with the Congress, under

the strong leadership of former chief minister Amarinder Singh.

The BJP is, however, well placed in the two smaller states of Goa, where it is the incumbent, and Uttarakhand where it is in the opposition. In Manipur, the BJP is poised to make a mark following on from its success in the North-eastern states, Assam and Arunachal Pradesh, where it ousted the Congress.

GST and the rest

While the jury is out on demonetisation, one economic initiative of the government on which most economists agreed on is the Goods and Services Tax (GST).

The government might not meet its April 1 deadline to roll out the GST, but finance minister Arun Jaitley is hopeful of doing it by July 1.

Since the Indian Parliament passed the GST constitutional amendment, the GST council has been making slow but steady progress in creating the rules for a single market.

It is true there is a lack of consensus between the centre and the states on some issues, but the finance minister's deadline as of now seems realistic.

Despite India's projected healthy growth rate, the biggest challenge for Mr Modi this year would be to overcome the impression that his government has not really delivered on the transformation or the "acche din" that he had promised in 2014.

While measures such as demonetisation have shaken up India, there is a danger, as one prominent analyst warned, that the government's preferred modus operandi is constant disruption and distraction.

The same can be said of the so-called "surgical strikes" against Pakistan during the end of last year, which did not succeed in putting a halt to cross-border terrorism but garnered plenty of publicity.

The government must realise that this strategy comes at the cost of India's institutions, with one of them, the Reserve Bank of India, already facing a credibility test. It also runs against the promise of minimum government with the Indian state taking on an increasingly intrusive role.

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