

Demonetisation— Dawn of A New, Cleaner Era of Indian Economy despite Short Term Pains

Stronger the ills, stronger the pills! It was in line with this thought that on November 8, 2016 the Prime Minister gave a call for Demonetisation of high value Indian currency. As he exhorted the masses to participate in the *Mahayajna* to weed out black money and join the “*festival of honesty and celebration of integrity*,” the Indian economy looked at the dawn of a new and cleaner era. For the time being, the demonetisation may be a bitter pill but it is a pill that is likely to cure many ills plaguing our economy.

The decision of demonetisation is expected to go a long way in nullifying black money hoarded in cash, corruption, terror financing and fake currency. Despite some temporary hiccups and downsides, the move is generally seen as provider of a big boost to national interests by discouraging parallel economy on one hand and giving a much needed push to the cashless economy on the other. If a significant amount of black money held as cash comes into the banking system, the government will be able to utilise the resultant trail to boost tax collections in the longer run. As per one reliable estimate, demonetisation could lead to disclosure of 1-2% of GDP.

But some economists point out to some short-term risks, particularly including a dip in the December quarter GDP growth and corporate performance. In the first policy review post demonetisation, the Reserve Bank of India has already lowered the GDP growth forecast to 7.1% from 7.6%. Moreover, if money supply declines temporarily because of the demonetisation, then assuming no immediate change in velocity of circulation, we would either see some deflationary tendencies or lowering of real demand (economic activity). The demonetisation could rewrite some macro parameters.

However, largely the economists believe that the demonetisation is likely to have several spin-offs for Asia's third largest economy. It could lead to lower interest rates, lower inflation, improved tax to GDP ratio, rising public investments and healthy public finances. In fact, it could change the face of Indian economy, improve the government's fiscal position and tax compliance. According to rating agency Crisil, the size of the cash economy will significantly shrink, as will black money generation avenues because of better trails of money flow.

Once the size of the parallel economy shrinks, the tax base will automatically widen. This will allow the government to reduce rates and boost consumption. A World Bank estimate says that the parallel economy was made up of about one-fourth of the total economy. According to Department of Economic Affairs press release, “*the World Bank in July 2010 estimated the*

size of the shadow economy for India was at 20.7% of the GDP in 1999 and rose to 23.2% in 2007... A parallel shadow economy corrodes and eats into the vitals of the country's economy...It generates inflation which adversely affects the poor and the middle classes more than others. It deprives Government of its legitimate revenues which could have been otherwise used for welfare and development activities.”

If a significant part of economic activity lies beyond government's gaze, an unfair burden is imposed on honest taxpayers. Therefore, the demonetisation can catalyse long-term reform and gains.

Against this backdrop, our Union Finance Minister Shri Arun Jaitley also says: “*This is a big reform as it expands the GDP and makes it cleaner. It pushes revenues, pushes economy, pushes money into banking systems, curbs parallel economy, boosts Tax compliance...and is an effective way to make this country cashless...Tax collections would increase, deposits will increase in banks and their capacity to support the economy will increase.”*

As such, success of demonetisation is being seen as the key to a more progressive and vibrant Indian economy. And the government and its various agencies are sparing no efforts to block all escape routes for the tax evaders. Large scale seizures of unaccounted money, necessary amendments to the Income-tax Act, 1961 through the Taxation Laws (Second Amendment) Bill, 2016 and the alternative scheme to disclose black money namely *Pradhan Mantri Garib Kalyan Yojana 2016* are all oriented to that cause.

On its part, the Institute of Chartered Accountants of India (ICAI) is fully aware of its responsibility and is proactively supporting all anti-black money measures of the government. The efforts of ICAI and its contribution in the success of the recent Income Declaration Scheme 2016 were duly acknowledged by the Hon'ble Finance Minister.

Even earlier too, the ICAI and its members have proactively backed the anti-black money measures like setting up a Special Investigation Team (SIT), Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, Benami Transactions (Prohibition) Act 1988 and proposal of its amendment vide Benami Transactions (Prohibition) Amendment Bill, 2015, the Money Laundering Act, Real Estate (Regulation and Development) Act, 2016, etc. The forthcoming GST regime also impedes generation of black money in view of the enhanced transaction trail. Let us continue to be an effective partner in nation building and conscience keepers of national economy. ■

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