Union Budget 2017-18: Outlook

Demonetisation a Positive Effect on Budget to Channelise Nation's Growth Prospects

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The aim of this article is to present that the Positive effect of demonetisation on upcoming budget for national growth. And demonetisation is one of the tools to be used for minimize the counterfeit and black money and maximize the deposits in banking system.

The term demonetisation is not new to the Indian economy. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data.

Achaemenid Empire and Alexander the Great also brought the use of coins to India. Especially during 2nd century BCE Indo-Greek kingdoms minted (often bilingual) coins for exchange purpose. Besides, Indian king, Samudragupta (335-376 CE) has minted most beautiful coins. Paper money is first tried out within China in about 910, during the five Dynasties period. The first printed cheques are traced to 1762 and British banker Lawrence Childs. The world "cheque" also may have take on form in England in the 1700s when serial numbers were placed on these pieces of paper as a way to keep track of, or "cheque" on, them.

One of the biggest benefits of this move is that it is going to drastically reduce the illegal payment term. Secondly, the banking system will improve as it will slowly head towards a cashless society. Cashless society will increase credit access and financial inclusion. The existing white money of people will be known to the government and it will remain with banks so that it can be put on loan, and interest can be generated from it (though interest rates would fall) with a corresponding fall in Inflation.

Further Banking System will get a boost, as more than INR. 7-8 lakh crore base money (new legal money) will enter the system. However, it should be noted that substantial amount would be in the system, even after the cash withdrawal limits are eased.

Thirdly, it will reduce the risk and cost of cash handling as soft money is safer than hard money. It will also reduce government liability. It will also reduce tax avoidance. Whatever money will be deposited or exchanged, authorities will keep a track of it and they will be extra cautious in this period. Importantly, in the longer run, tax and interest rates on loans are expected to come down as higher income tax collections arising from better compliance would offer scope to reduce rates over the long term. This, in turn, will drive up disposable income. This can give a positive impact on consumption demand in long term.

Tax: The rates of interest and tax will soon come down mainly due to the demonetisation drive of the government.

Deflationary Effect: Reduction in money circulation can also have a deflationary effect in the economy.

Credit Impact across Sectors: A significant impact in the short-run will be on the daily/weekly wage employment in the informal sector like construction sector has one of the highest employment multipliers. The key segments of the economy where cash transactions play a key role in real estate, gold and the informal sectors, which may face near term contraction. With more money coming into the banking system, deposit growth is likely to get better and positively impact the savings rate. The medium- to long-term gains are likely to outweigh the short-term pains.

Effect on Banks: Demonetisation will automatically lead to more amounts being deposited in Savings and Current Accounts of commercial banks. This, in turn, will enhance the liquidity position of the banks, which will be later utilized further for lending purposes.

Impact on Bond Markets:

Increase in deposits can lead to demand for government bonds and other high rated bonds in a situation, leading to brought down bond yields. With an influx of deposits, the rates will reduce and the yields will be lowered.

Impact on Jewelry and Real Estate Business: The decision of government has gone well with the jewelery industry as demand for gold will rise and people will acquire gold than the currency notes. Hence it is expected to benefit the industry sector.

Investment in Financial Products:

With more money coming into the highly formalized system, the effect is expected to be quite positive. Since money is in circulation, equities will grow. People will be paying more taxes and would be willing to invest in Equity linked Savings Scheme (ELSS) schemes to save on taxes. More investments can lead to more wealth creation, better economic growth and it will augment into healthy practices like investing in equity mutual funds for wealth creation, on a long-term.

Effect on Online Transactions and alternative modes of payment: With reduced cash transactions alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increases in demand. This should eventually lead to strengthening of such systems and the infrastructures required.

GDP growth potential: India's informal sector could be significantly impacted by the demonetisation, especially in rural India, and it is possible that this will reduce GDP growth in the near term. There are also short-term implications for growth in cash-intensive sectors and discretionary household consumption. However, most economists expect the long-term benefits of demonetisation on GDP growth to outweigh these short-term transitional impacts of demonetisation.

Effect on cash-dependent sectors: The below mentioned sectors are expected to have moderation

in demand in the near term from the consumer side, and a possible reduction in price levels, owing to the significant amount of cash transactions involved in these sectors:

– Consumer goods;

– Real estate and property;

– Gold and luxury goods;

– Automobiles.

Support for Government Finances: With some part of unaccounted money making its way into the formal channel, the government stands to benefit from higher income tax collections. This should help cushion the government's FY17 fiscal deficit target. The announcement will move the economy from the unorganized to organized sector, dovetailing into the GST architecture that is expected to come on board next year. It is also likely to enhance the government's ability to tax commercial transactions, resulting in a structural improvement in tax-to-GDP ratio in the economy.

Disrupted Social Activities: A huge swathe of economic activity will therefore be disrupted. Everything from marriages, funerals, festivals, purchases of essential goods, discretionary household consumption will be postponed and or cancelled.

Rebound Effect of Demonitisation

Further, the penal provisions are hefty enough to ensure that corrupt practices will find it hard to take roots again. Despite certain short term troubles, demonetisation is certainly going to give a boost to the Indian economy in the long run. As of now, all of us should stand and support this bold move of our government and help those needy, around us.

Demonetisation would be felt in the short-term pain was expected shortage of cash and that was what made the parallel shift to electronic transactions so important. The existing problem of investment not taking place in the economy and the rate of growth of capital formation is down would be taken care with increased money deposit in the banking system and the greater ability of banks to support the economy growth. Previously public, private and Co-operative banks across the country were having no adequate funds for developmental schemes before demonetisation. Moreover in this single move, the Government has attempted to minimise all these issues affecting the economy i.e. a parallel economy, unaccounted money in circulation and terror financing.

IMPACT ON BUDGET 2017:

The Government of India in this Union Budget 2017 will try to take all measures and necessary steps to provide additional tax benefits, new policies, subsidies, incentives and various other schemes for the manufacturing and service industry so that it can curb the GDP which may have slight fall this year. The GST will also come in, as many products will become cheaper as the cascading effect will also be eliminated to a certain extent. However, on the other hand luxurious item will be costlier than before so as to combat the export deficit. There would be increase in the revenue to the government then next in row the banks will benefit from it too. The liquidity crunch will get resolved with renewed flow of currency. This will make banks reduce interest rate and increase credit supply for businesses. Different sectors will do the needful to curb the glitches. Only business that relied on cash are the most hit. The 20%-70% of the cash that was on demand is now gone so people will not be able to buy property in cash. The hoarding of cash will run the risk of being worthless at any time in the future.

Projects could get stretched as informal sources of capital may not be available. This, in fact, spells more opportunities for institutional capital. Foreign Direct Investment (FDI), private equity and debt players will suddenly find the market even more transparent and attractive providing a cascading effect to the newly available funds. Moreover, banks could start funding land transactions, thereby decelerating land prices.

BUDGET IN A TIME OF HYPER-UNCERTAINTY

For now, let us assume that the government, through an increased number of deposits made in the banks, has somehow been able to marginally increase its tax revenue collected by bringing more people under the tax base by depositing unaccounted money in banks and reducing the transactional value of paper currencies (under the push for a “cashless” India). Still, there remain some major questions for India’s public finance management on both the revenue side and the expenditure end. The second part of this series will deal with expenditure. A suitable balance is also needed in India in its overall tax structure break-up. Direct-indirect tax ratios are essential for improving the country’s tax revenue structure and make a reduction in the state-induced injustice caused to the weaker sections of society (due to a higher indirect tax weight).

On the revenue side: What does the stated assumption, if true, mean for India’s public finance management? How has India’s tax to GDP ratio performed over the years? And how does India’s tax structure remain a bigger incidental problem? And steps been taken to remove the debt?

On the expenditure side: Do outlays of budgetary allocations necessarily transform into effective outcomes under these allocated areas? Does merely an increase in spending allocations improve economic efficiency? And what are the key prospective areas for the government in 2017 to focus in increasing its targeted spending? These remain some pertinent questions emerging while either identifying the prospects for budget announcements in 2017 or analysing the announcements made ex post.

SECURED GOVERNANCE STRATEGY FOR TOWARDS POSITIVE RESULT OF DEMONETISATION

The ideal money in circulation has to come to the banking channels. So, in a nutshell, this scheme of demonetisation may have come as a boon for Indian banks. On the one hand, they may see a stimulated surge in new account openings and on the other hand they are already seeing a surge in deposits. The large takeaway for banks will be the betterment in their operating margins. This could be the big moment for the Indian banking system. Liquidity and funding remain the bright spots for the Indian banking system. Banking System will get a boost, as more than enough money (new legal money) will enter the system.

Eventually, the currency reform should help to move economic activity into formal channels, accelerate financial inclusion, and increase government revenue. The move could raise government revenue to the extent that demonetisations helps to move economic activity from the informal to the formal sector, as more earnings would be declared. It is possible that this positive effect would soon outweigh the drag on revenue collection from lower short-term GDP growth.

Demonetisation will lead to a big set anew in our economy; funds will be used for key infrastructure development and growth. This money is used to lubricate the key businesses of infrastructure and related service areas (transport, power, telecom, tourism etc.) will become high priority sectors for the government. So while the collection of money looks rosy, the key focus of the government will also be to increase employment and infrastructure development. Thus money available for lending will be much more than before.

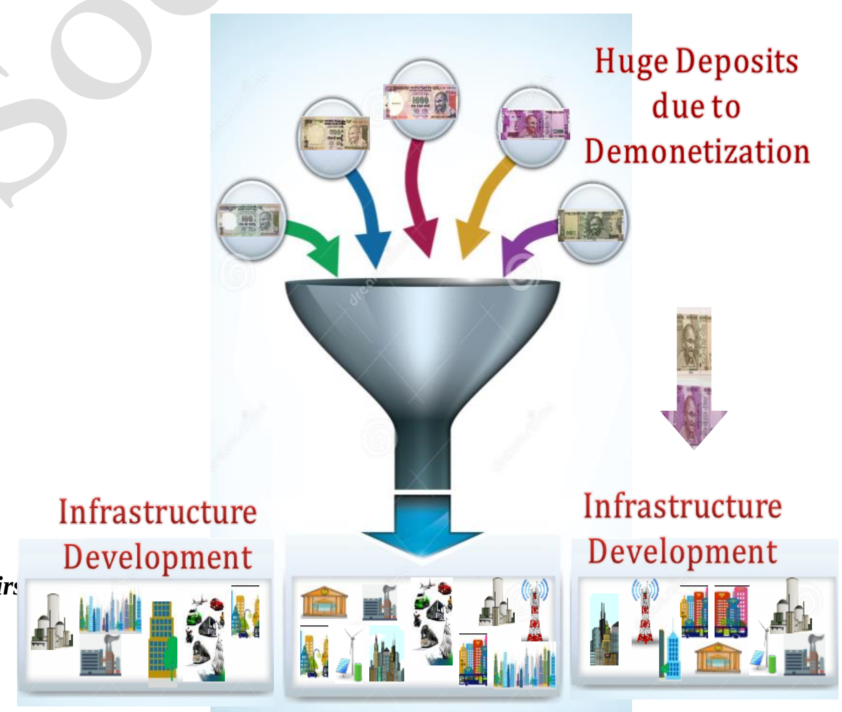
Infrastructure is indispensable to achieve the main development targets in India, such as urbanization, industrialization, export promotion, equitable income distribution, and sustainable economic development. India needs to urgently bridge the infrastructure gaps that industry and people face every day. Secured governance a concept offers a framework for sustainable sector development and a self-sufficient developmental model with minimum involvement and funding from the government. Government's role is majorly curtailed to being a facilitator – monitoring the progress of projects and development through a pragmatic approach. It lays emphasis over the Private Public participation and is in tune with the existing guidelines. It streamlines and promotes efficiency in the functioning of the various aspects of a nation's governance, while facilitating all-round development of the economy and its people.

It aims at balanced growth in all sectors in need of better facilities, in a more holistic manner, rather than focusing only on say highways, or power or any one of numerous other sectors. While addressing any one of them, the others also get due attention ensuring all round development. It promises more societal participation and benefit sharing with transparency. Secured Governance supports the PPP developmental model by ensuring balanced participation of the private and public sector taking advantage of value and valuation of infrastructure thereby yielding higher returns. There would be large participation by international funding agencies who could play a complementary role and get developments of global standard. This valuation of infrastructure, which grows many folds need to be shared by the society and by the Government to support infrastructure development, ensuring balanced growth.

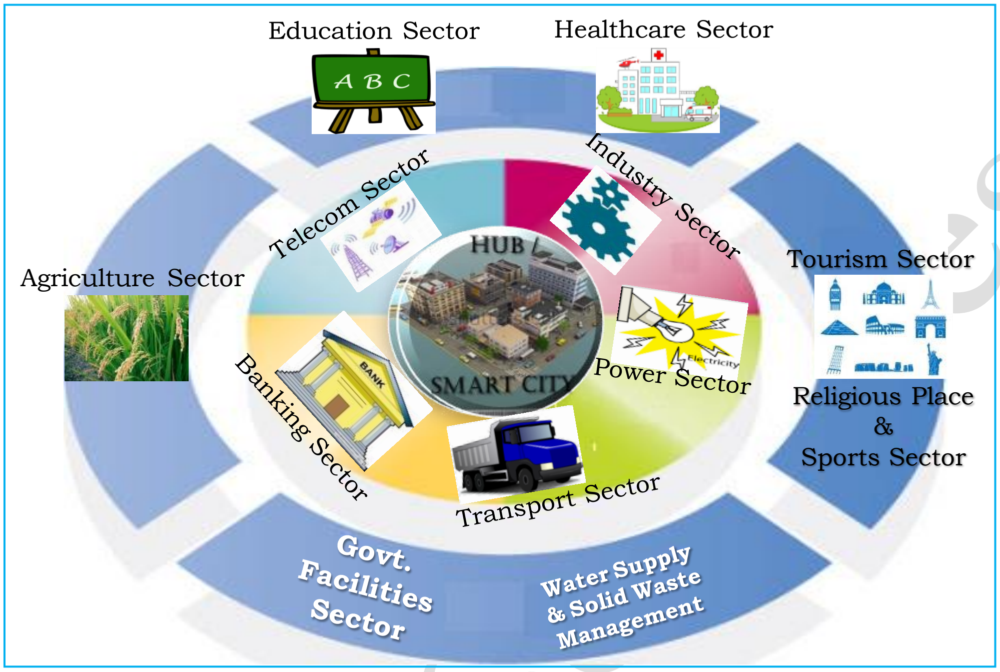
Most people expect this money to be used as the government's contribution towards infrastructure building. The land value changes based on the availability of infrastructure facilities provided by the urban local bodies, urban development authorities and other service providing agencies for facilities like road, transport, communication, water supply, sanitation, electricity, etc.

Value and Valuation of the allied projects will make it a self-sustaining mechanism while bringing unprecedented growth and development with huge employment opportunities for the region. This valuation of infrastructure, which grows many folds need to be shared by the society and by the Government to support infrastructure development, ensuring balanced growth. Today we find the valuation due to infrastructure growth is not channelized towards infrastructure development and results in inequalities.

WHAT'S BECOME OF MONEY — BEFORE AND AFTER THE 'DEMONETISATION'?



PARALLEL SECTOR GROWTH DUE TO DEMONETISATION



Jimmy Delshad

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It was most notable to experience and understand contributions of Dr. P. Sekhar towards creation of a unique development mechanism for National Development "Secured Governance". Secured Governance with Techno – Economic corridor will help in boosting the economic growth not only for developing nations but also will help extensively in developed countries.

Demonetisation has made banks flush with enough funds, and they will lend it to developmental process. The budget can take this into consideration and plan for higher level of the much required infrastructure growth. International funding also will play a good role in funding in future. Secured Governance will play a strategic role in a cascading effect for quicker and large scale implementation. There would be growth of smart cities with mini HUBs and Nano HUBs for a uniform growth going upto rural area. Even more people were to move towards cashless means of payment, then the demand for money would reduce. The same amount of transactions can take place with a limited stock of money only if there is a greater use of electronic means of payment. This could enhance the export, higher employment opportunity with a green industrial growth.