

INFORMAL PART OF BUSINESS IS BECOMING FORMAL

1. The trader has the option of shutting down or remodelling his business with regular tax payments. The option is to lose livelihood or pay taxes to continue the business. People will not choose to lose livelihood. Therefore, remodelling of businesses is happening rapidly to convert the informal economy into formal economy. Paying taxes and, thereby, bringing a larger part of informal business into transaction records, is the way forward. Recovery is, therefore, happening much faster than people thought.

BANKING SYSTEM STRENGTHENS

2. Banking system has got its much needed liquidity, but needs to strengthen its ability to deploy these funds. How quickly will banks deploy this money and how much demand for credit will accrue is the next biggest issue. There are many impacts. For example, banks always found it difficult to lend to micro and small units, on basis of their balance sheets, as there was not enough disclosure. There were always hidden parts in all small businesses. In future, that invisible 40% or 50%, will get reflected and this will increase their bankability for loans and thereby for growth.

CONTROL OVER DEFICIT FINANCING AND INFLATION:

3. Paying taxes is going to be the new way of life for a larger population, as disbursement of Aadhaar based direct transfers has been fast forwarded. The government can manage fiscal deficit as tax revenues go up.

Therefore, inflation remains under control and interest rates for borrowing remain low. This will reverse the vicious cycle of deficit financing fuelling inflation. Restricted cash withdrawals will restrict the recreation of black money. In the European Union also only 500 euros can be withdrawn at a time. As the transactions get digitized increasingly, the need for remonetisation in terms of currency supply will not be the same.

GROSS DOMESTIC PRODUCT (GDP)

4. The argument that demonetisation will adversely impact GDP for 2016 and 2017 by 2% to 3% or will take to zero is erroneous because in the first two quarters, the growth has been more than 7%. Moreover, the

demonetisation has disrupted the 40% estimated informal sector. The informal sector is currently not included in the estimation of the GDP. The GDP is based only on the formal sector. Therefore, impact on GDP will be marginal. It is expected to be included now after demonetisation, and will therefore, increase the GDP.

What is black money?

According to the white paper on Black Money tabled in Parliament in May 2012, Black money is defined as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed during its possession. In the context of demonetization, black money is that component of cash that has not been declared to authorities nor has any tax been paid on it . Black money can be held in the form of non-financial assets such as land and real estate, bullion and jewellery or even as foreign assets.

Money generated through illegitimate activities such as crime, drug trade, terrorism and corruption is also termed as black money.