

Major events and effects (2017)

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- Demonetization or Remonetization?
- GST rates!
- Financial Resolution and Deposit Insurance Bill?
- Bit coin and crypto-currencies!

Demonetization

- Reasons stated
- Additional agenda
- Effects
- On 8th November 2016 – money with the public was Rs.16.38 lakh crore – demonetization was Rs.14.95 lakh crore [85%]– through notification

Demonetization

- Unlike in the past two instances in 1946 and 1978, in 2016 demonetization has been done through the issuance of notifications [Notification Nos. SO3407[E] and 3408[E] under subsection (2) of Section 26 of the RBI Act, 1934.
- In 1978, Janata Party government enacted the High Denomination Bank Notes (Demonetization) Act 1978 after promulgating an ordinance to this effect first.

Demonetization

- Manmohan Singh described the 2016 demonetization as “organized loot and legalized plunder” and “monumental mismanagement” [EPW, Dec 3, 2016, p.10]
- Highest Denominations:
 - In UK, 50 pounds
 - In US, 100 dollars
 - In India 1,000 rupees

Demonetization

- In India, on Nov 8, 2016, 95% of HDNs were with the public; only 5% of HDNs were with the banks
- HDNs with the public 34 % in 2004
- HDNs with the public 79 % in 2010
- HDNs with the public 87 % in 2016
- 6 lakh crore of the old HDNs printed by RBI did not come back to the banks (buried somewhere)

Demonetization

- According to Indian Statistical Institute, Kolkata, fake currency is just Rs.400 crore, i.e.,0.002% of the total currency value
- Of the 21.2 lakh crore 1000 and 500 currency notes (old), only 2.61 lakh 500 rupees currency notes and 1.43 lakh 1,000 rupees currency notes were fake

Demonetization

- Additional cost of printing new currency notes Rs.15,000 to 18,000 crores
- The cost incurred for printing the old currency note was Rs.5,000 crore
- RBI imports 95 per cent of the ink, security thread, water mark, printing machinery and currency papers are imported by Govt. of India.
- 75 % of all currency notes in circulation are disposed every year [RBI data], as they get spoiled.

Demonetization

- 99 % of the demonetized currency note came back to banks
- Only 5% of the fake notes were removed from circulation
- The use of currency notes gained momentum
- The proportion of HDNs increased to the levels of earlier
- No reduction in corruption or black money or fake money
- After initial increase, the proportion of digital transaction declined later

GST

- GST on 1,211 goods from July 1, 2017 in India
- Corporate sector loans waived Rs.1.14 lakh crore
- The NPAs of public sector banks Rs.11 lakh crore
- Direct tax arrears of corporate sector Rs.5 lakh crore
- Tax exemption to corporate sector Rs.40 lakh crores

GST

- The following are the taxes that were stated to be subsumed under GST:
- Excise Duty, Customs Duty, Central Sales Tax, State VAT, Luxury Tax, Entry Tax, Purchase Tax, Entertainment and Amusement Tax, Taxes on Advertisements, Lotteries, Betting and Gambling

GST

- GST on 1,211 goods from July 1, 2017
- 0%, 0.25%, 3%, 5%, 12%, 18%, 28% rates along with cess to be imposed additionally in some cases
- 19% of goods will be taxed at 28%
- 43 % 18%
- (But their transaction value is more than 85 % in the total transaction value)
- 17%.....12%
- 14%.....05%
- 07%.....00%
- (The last two are very rare in the market)

Are the following sin goods?

- **28% GST** on wire, cables, electrical bulbs, switches, furniture, suitcase, bags, detergents, shampoos, shaving items, toilet soaps, toilet waters, fans, compressor machines, primary batteries, sanitary ware, shower, wash basins, lighters, flasks, watches, clocks, mirror, safety glasses, fire extinguishers,



Are the following sin goods?

- bull dozers, sewing machines, radio, television, sound recorders, exercise equipment, athletic equipment, musical instruments, artificial flowers, oil powder, chewing gum/bubble gum, rubber tubes, cameras, microscope, laboratory equipments, solvent, thinners [The New Indian Express, 11.11.2017, p.15]

GST

- Compensation law to compensate loss to States for first 5 years
- Territorial waters as the territory of States to levy, collect and appropriate to the States
- Anti-profiteering clause
- Input Tax Credit, particularly to exporters

GST

- 160 countries already following GST
- **Australia:**
- GST was implemented in July 2000
- A special emphasis was laid on anti-profiteering measures
- The economy experienced a slowdown for around 3 months; in the long run there was no adverse impact on the economy

Financial Resolution and Deposit Insurance

- In India, upto Rs. one lakh of a depositor's money is protected by insurance provided by the Deposit Insurance and Credit Guarantee Corporation [DICGC, subsidiary of the RBI].
- The amount of deposits protected by insurance in the US is \$ 2.5lakhs and in UK it is \$1.15 lakhs. This limit is fixed by considering the per capita income of the country. Going by this norm, this limit in India is much lower as compared to Brazil and China.

Financial Resolution and Deposit Insurance

- On 24th January 2018, the Government announced the details of Rs.2.1 lakh crore recapitalization plan for public sector banks.
- The capital infusion plan for 2017-18 includes Rs.80,000 crore through recapitalization bonds and Rs.8,139 crore as budgetary support.

Capital infusion to banks

	(in Rs. crore)
• IDBI Bank	10,610
• Bank of India	9,232
• State Bank of India	8,800
• UCO Bank	6,507
• Punjab National Bank	5,473
• Bank of Baroda	5,375
• Central Bank of India	5,158

Capital infusion to banks

- [Rs. In crore]
- Bank of Maharashtra 650
- Deena Bank 243

Crypto-currencies

- Bitcoin's explosive growth in value was one of the most notable trends in 2017.
- Bitcoin touched the \$20,000 mark in the 3rd week of December 2017 from \$1,000 in January 2017.
- This price bubble is another symptom of capitalism's inconsiderate pursuit of private wealth [EPW, January 13, 2018, p. 9].
- Bitcoin was the first digital currency in 2009.

Cryptocurrencies

- Crypto-currency fell by 41 % in value in just a month, hitting \$11,348 on January 16, 2018 [The New Indian Express, 22.01.2018, p.11].

