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Cash crunch shockwave: Ambit cuts FY18 GDP forecast to 5.8%

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FinMin warns against misuse of bank accountsfor money laundering

New Delhi, November 18:

With the cash crunch precipitated by the Centre's move to demonetise high-value currency disrupting economic activity, a report from brokerage house Ambit Capital cut India's GDP forecast for 2017-18 to 5.8 per cent from the 7.3 per cent estimated earlier.

Although the demonetisation of ₹ 500 and ₹ 1,000 notes is expected to benefit the economy in the long term, economists and think-tanks fear that India's GDP growth could suffer in the short term, as it has impacted the informal sector, which accounts for 45 per cent of GDP.

But despite the grim short-term outlook, a resolute Finance Ministry on Friday showed little signs of rolling back its decision, urging people not to fall prey to the lure of black money converters for the misuse of their bank accounts.

Ten days after Prime Minister Narendra Modi announced the decision on November 8, the Finance Ministry promised action against tax evaders using others' bank accounts to convert their black money into new notes.

"Person(s) who allow(s) his or her bank account to be misused for this purpose can be prosecuted for abetment under Income Tax law," a Finance Ministry statement read.

While the Ministry remained firm, the Supreme Court on Friday dismissed the Centre's plea to stay cases filed in courts across the country against inconveniences caused by demonetisation. "How can we shut our doors to people when there is an issue of such magnitude?" noted a Bench led by Chief Justice TS Thakur.

The Finance Ministry also appealed to people not to be lured by black money converters or be a partner in the crime of converting black money into white. The Ministry's appeal came amidst speculation that the government and the Reserve Bank may ban the exchange of old notes (₹ 2,000 per person per day) for new ones from Saturday.

Taking note of reports that some people were using others' bank accounts to convert their black money into new denomination notes and in turn were rewarded, particularly, in the case of Jan Dhan accounts, the Finance Ministry said, " It is hereby clarified that such tax evasion activities can be made subject to income tax and penalty, if it is established that the amount deposited in the account was not of the account holder but of somebody else."

The Modi government, which is facing a tough time both inside and outside Parliament on account of the demonetisation move, had to face some difficult questions on black money stashed away by Indians in Swiss banks. To a question on black money accounts, Santosh Kumar Gangwar, Minister of State for Finance, informed the Lok Sabha that "no authentic estimate" of black money of Indians in Swiss banks was available.

He also said action had been taken against 12 trusts/entities involving 26 individuals of Indian origin/nationality, based on information received from German tax authorities.

Modi meets President

Prime Minister Modi on Friday called on President Pranab Mukherjee against the backdrop of continuing chaos and criticism over the demonetisation exercise undertaken by his government. The meeting lasted 45 minutes, Rashtrapati Bhavan officials said, without divulging the issues that were discussed.

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