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INDIAN ECONOMY AFTER DEMONETISATION-2016

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Abstract

Demonetization has caused real life problems for couple of weeks to almost all people from all walks of life in the country. Most of the things in domain of society and economic activities suffered and money in physical form had become most precious thing to be sought after. The present article tries to find out effect of demonetization drive that was initiated on November 8th 2016 by government of India. Were the aims of demonetization fulfilled? How the demonetization affected the growth rates of various sectors of economy? What is the international opinion about the whole process of demonetization and its repercussions? These are some basic questions about which the present article tries to answer in concise account.

Introduction: PM of India , shri N.Modi , on 8th November 2016, ordered ban of Notes of 500 and 1000 denomination as legal government currency. The RBI Governor Urjit Patel in March -2017, gave statement that the impact of demonetisation was very tiny in terms of quantity and quality. He told that the negative impact was over by month of January 2017 as the new currency notes have replaced the older one and thus remonetisation has started building up. Cash availability shrunk for couple of weeks and many new rules were introduced that became source of problems in day to day life. For e.g. limitations were introduced for withdrawing cash per day. Similarly new rules were designed for depositing cash in banks. Most of the problems were faced by small and medium entrepreneurs, farmers, people working on daily wages and other sectors of economy which are daily dependent on cash.

Assessment of impact of Demonitisation on Indian economy in last quarter of FY 2016-17:

World Bank, in its India development update report, estimated GDP growth rate of 6.8% for India at the end of FY 2016-17. Estimated growth was quite lower than last year's figure i.e. 7.9% in 2015-16. Junaid Ahmad (World Bank country director-India) stated that around 15.5 Lakh crore worth of currency notes were demonetized and this have severe impact on people belonging to the lower and middle strata of economy. Recent data released by government of India shows that GDP witnessed lowest growth in quarter 4 of 2016-17 compared to last 4 quarters. For the last quarter (FY 2017), GDP growth rate was 6.1% which is quite lower than the 3rd quarter rate of 7%. GDP growth rate for FY 2016-17 has turned out to be lowest in number (7.1%) compared to last 2 fiscal years.

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FY 2017	Q1	Q2	Q3	Q4
GVA (basic prices)	7.6	6.8	6.7	5.6
Investment demand	7.4	3.0	1.7	-2.1
Private consumption	8.4	7.9	11.0	7.3
Industry	7.4	5.9	6.2	3.1
Services	9.0	7.8	6.9	7.2
Agriculture	2.5	4.1	6.9	5.2

Table 1: Growth Rate of various sectors of economy in 4 quarters of FY 2016-17

From the above table it can be easily understood that 'invest demand' suffered a lot in hands of demonetization. Its growth retarded to negative side because of condition of unavailability of cash and slowing down of economy. Similarly industries were hit hard and the progress was somewhat hurdled as 11% growth in Q3 retarded to 7.23% in Q4.

In general terms, Indian economy picked up pace during late 2017 as a result of good monsoon rains but at that time 'demonetization' in economy was initiated which caused shrink in cash availability and affected many sectors of economy. GDP growth was 7.1% in quarter-3 (Q3), which slowed down to 6.1% in Q4 of FY 2016-17. GVA (Gross value added) data shows that growth was slowed down in Q2 and it further fell down in Q4. GVA growth (constant price) in Q4 slowed down to lowest value of 5.6% since last 2 years. In comparison to 2015-16, the GVA (2016-17) rate fell down and the difference is prominent if we see the last quarters of both years. It was prominent 8.7% growth in last year (Q4) and the same dropped to 5.6% in present year Q4. If agriculture and government expenditure is left behind then the GVA growth in last quarter comes out to be 3.8%. This emphasizes the impact of 'demonetisation' in last quarter of FY 2017. Good monsoon rains and increase in public sector employees' salary due to 7th pay commission implementation were the two reasons which made better figures (5.6%) of GVA.

Agricultural sector, public expenditures and consumption level contributed a lot in, otherwise grim scenario, last quarter of 2016-17. Private consumption generally remains high in Q3 because of festival season but the effect of demonetisation is seen in Q4 result when it dipped lower. Private consumption's share in GDP decreased marginally compared to last year and it remained at 58.7% (compared to 59.1%) in FY 2017. Gross fixed capital formation is

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measured by the growth in investment. Share of investment to GDP shrunk, from 28.5% (quarter 4 FY 2016) to 25.5% in Q4-FY 2017.

FY	GVA growth rate	
	Q3	Q4
2015-16	7.3%	8.7%
2016-17	6.7%	5.6%

Table 2: GVA in quarter 3rd & 4th (comparison of FY 2015 & 2016-17)

Jobs faced tough time because demonetization and resulting limited and meagre capital availability caused setback to business and industries. Many starts- up business suffered a lot due to unavailability of cash and fall in business. for e.g. the option of cash payments on delivery failed to work. Small and mid-sized company's cutback their staff and even bigger companies like Snapdeal also lay off more than 1000 employees during the period. Most of the job curtailment came in start-ups and business related to e-commerce, food & edible delivery and consumer services. But another important effect, very much positive in nature, is that mobile-wallet companies like Paytm & MobiKwiK etc. added employment in their business at time of cash crunch. E-payment and mobile payment soared high and it was one of the aims of government behind demonetisation. Currency circulation shrunk from 17.98 lakh crores to 8.98 lakh crore during 1st weekend of January 2017. Cashless payment-environment was sought after by the government, however the country is still not fully prepared for this.

In January-2017, AIMO (All India manufacturer's Organisation) reported that industries (micro and small scale) were badly hit by 'demonetization' drive. They witnessed job curtailment more than one third of the total capacity and fall in revenue amounting to half of total. Export oriented business and industries operating on soil of India also suffered similar setback in first 35 days of demonetisation drive. Compared to FY 2014-15 (6.9%) and 2015-16 (8.2%), the growth in GVA (2011-12 Prices) in 2016-17 remained lower at 5.77% in industrial sector. Similarly medium and large scale infrastructure projects witnessed 35% and 45 % loss in workforce and revenues respectively. Gross value added in construction sector shrinked a lot with respect to FY 2015-16. This result poor growth of jobs because construction sector is major contributor of jobs in our country.

Growth in financial sector remained quite low during 2016-17. In comparison to FY 2015-16 when the growth was 10.8%, it stagnated at 5.7%. The banking –finance sector was terribly hit by demonetization derive. This is one of the most severe dents in Indian economy, but it is calculated to be just transitory and assumed to be short-lived one. Similarly trade & hotels transport and communication sector witnessed growth rate of 7.8% which is far slower than

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Previous year's growth rate of 10.5%. Public and defence & public services witnessed quite high growth rate as compared to FY 2015-16. The figure for FY 2016-17 has been 11.3% as compared to 6.9% in 2015-16, mostly attributed to implementation of 7th pay commission report. Government expenditure inflated in Q4, when the salary and wages were hiked.

Conclusion:

1. Favourable monsoon and increase in wages and salary after implementation of 7th pay commission were expected to greatly move the economy towards higher growth. There were huge expectations of much increase in consumption and investment in last two quarters of the FY 2016-17. But the shortage of cash availability and banking restrictions resulted slowing of most of the sectors of economy.
2. Current data released by government of India (CSO) estimated slow (5.7%) growth in 'per capita income (real terms)' at the end of FY 2016-17 as compared to FY 2015-16 (6.8%). Figures related to 'Contribution of various sectors to indian economy in FY 20116-17' in terms of gross value added – painted a poor picture of Indian economy. The public administration, defence and services contributed above 35% to gross value added in Indian economy. This was mostly the government expenditure into administration and salary/ wages. Manufacturing contributed only 17.6% to economy. Construction sector witnessed negative gross value addition. Financial & real estate/ professional services made meagre 7.6% contribution.
3. Growth in economy during the period FY 2016-17 was mostly contributed by the 'consumption' and there was huge lack of 'investment demand' especially in Q3 & Q4. In consumption driven GDP growth, 'private consumption expenditure' contributed 66% and 'government consumption expenditure' contributed around one fourth. Lack in investment demand is clearly shown by the fact that gross capital formation contributed just 7.7% and change in stocks contributed a very low 1.8%.
4. Government expected that huge quantity of money (mostly black money) of value around 2 lakh crores has been either deposited in banks and fetched tax income to exchequer or had been destroyed. A big component of this money has been routed to

Pradhan Mantri garib Kalyan Yojna (PMGKY) to finance various programmes to uplift poor section of society.

5. Gross income tax collection has increased by around 16% in the FY 2016-17. This figure commands highest value in last five years income tax collection. Personal income tax receipts were up by 18%. Currency circulation decreased from level of 17.98 lakh crore to Rs. 8.98 lakh crore by 1st weekend of January 2017. However the currency expands and reached at level of 13.4 lakh crore at the end of month of

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March-2017. Finance minister specially announced that the growth of tax revenues had balanced the bad effects of demonetization.

6. The fiscal deficit for the FY 2016-17 was estimated to 3.5% of GDP translating to 5.35 lakh crores. This is very close to the budget targets. Revenue deficit stood at 2.02% level. This is highly optimistic result achieved at end of financial year.

7. Cash -less payment became very popular because of highly limited cash availability. Demonetisation gave huge thrust to mobile and internet mode of payment and it included e-payment and i- payment like mobile-wallet, mobile –banking services. Government took some giant but bold steps towards checking the use of black money in economy. Steps like mandatory cash- less transaction/ payment, above Rs. 2 lakh, will surely restrain the use of black money. But many steps are still to be taken to include almost all people, who fraudanly are able to exclude themselves from tax-net or pay lesser tax, into tax-net.

UN world economic situation and prospects report published in mid-2017 mentioned that India’s growth has been slowed down by demonetisation after effects. But it clearly says that India is very strong economy and despite temporary bad times, economic conditions persist to be strong as it is supported by strong policies pertaining to fiscal and monetary plan & strategies. Report also suggested that inspite of impact of demonetization, India will remain fastest growing large developing economy, quite ahead of china, in next FY of 2018. Finally report also warned that India still has to manage two big problems in economy namely ‘non performing assets’ and ‘bad loans’. Both are highly potential to give major setback especially in ‘investment’ in next financial year.

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