

# Impact of Demonetisation on Indian Economy

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**Abstract:-** Demonetisation is very good tool to make India corruption free. It was implemented with a very good intention to make India free of parallel economy . But actual problem was in implementation. Critical issues of common people like health , small business , old age people's concern , sectors like Agriculture and small farmers issues, manufacturing sector which is a key sector that decides growth of the economy, inefficiency of rural banks etc., are to be addressed properly. The government objective behind this policy is 1. First it is an attempt to arrest black money Second to control inflation Third To stop funds flow to illegal activities, Fourth to ensure accountability among people. Finally it is an attempt to make a cashless economy and create digital India. In this paper an attempt was made to analyse the impact of demonetisation on Indian economy in the context of GDP growth rate and to examine further impact on sectoral growth rate especially manufacturing sector. There is a major impact on manufacturing sector. Manufacturing sector witnessed a downward trend immediately after demonetisation. It should be corrected immediately otherwise the growth pace of the economy may be disrupted.

## I. INTRODUCTION

Demonetisation is very good tool to make India corruption free. It was implemented with a very good intention to make India free of parallel economy . But actual problem was in implementation. Critical issues of common people like health small business , old age people's concern , unemployment sectors like Agriculture and small farmers issues, manufacturing sector which is a key sector that decides growth of the economy, inefficiency of rural banks etc., are to be addressed properly. The government objective behind this policy is 1. First it is an attempt to arrest black money Second to control inflation, Third To stop funds flow to illegal activities, Fourth to ensure accountability among people. Finally it is an attempt to make a cashless economy and create digital India.

The decision may increase the future growth of the nation, but it's cost and social benefit and loss should be

Year	GVA at basic prices	Consumption of fixed capital	NVA at basic prices	Indirect taxes less subsidies	GDP at market price	NDP at market price	GDP growth rate
2011-12	81069.46	9171.75	71897.71	6293.83	87363.29	78191.54	6.5
2012-13	85462.76	10106.61	75356.14	6667.41	92130.17	82023.56	5.46
2013-14	90636.49	11006.1	79630.39	7377.21	98013.7	87007.6	6.39
2014-15	97190.23	11807.24	85382.99	8179.61	105369.8	93562.6	7.51
2015-16	104905.2	12641.93	92263.21	8904.88	113810.1	101168.1	8.01
2016-17	111854.4	13479.37	98375.03	10044.14	121898.5	108419.2	7.11

Table 1. Macroeconomic Aggregates at constant prices (Base Year 2011-12 Amount in rs Billion)

Source: Handbook of statistics on Indian Economy 2016-17

calculated. Support will be needed to correct the problems of small businessmen facing the monetary transition.

There are three arguments in support of this decision.

- It is assumed that this decision will have a less impact on poor.
- Monetary stock and liquidity can be restored with monetary policy instruments.
- This decision will expedite the process of making India a "cashless economy" with benefits that will make short-term costs worthwhile.

## II. OBJECTIVES OF THIS STUDY

- To examine whether the policy of demonetisation effects the GDP growth.
- To analyse the impact of demonetisation on different sectors of the economy.

*Data source*

Data source to this paper is secondary data

## III. IMPACT OF DEMONETISATION ON THE INDIAN ECONOMY

### A. On Gross domestic product

The Indian economy is a cash driven economy the announcement of demonetisation has largely affected the gross domestic product. After Demonetisation the GDP growth rate of 8.01% in 2015-2016 fell to 7.11% in 2016-2017. This was largely due to less availability of cash in cash incentive industries like small business , manufacturing ,and construction. Due to lack of cash banks are not in a position to create credit and this has put pressure on business men who are current account holders demand large sums of cash. The following Table shows the GDP growth rates.

### B. Quantitative Analysis of Impact of Demonetisation on Indian Economy

As per the data published by RBI GDP at market price fell approximately by 1 percent in 2016-17 as compared to previous year. As per the data there is a continuous growth of GDP from 2012-13 to 2015-16, this pace of growth has disturbed in 2016-17. In 2015-16 the GDP growth rate is 8.01. 2016-17 registered growth rate of 7.11 percent. This decline may be due to demonetisation.

As per the estimates of the Central Statistics Office, all the sectors of the economy may face different situations

C. Quarterly estimate of CVA at basic prices in Q1 of 2017-18 (at 2011-12 Prices)

Industry	April- June Q1			% change over previous year Q1	
	(crore)				
	Gross Value Added for Q1				
	2015-16	2016-17	2017-18	2016-17	2017-18
Agriculture, forestry, & fishing	371467	380832	389732	2.5	2.3
Mining and quarrying	87294	86485	85912	-0.9	-0.7
Manufacturing	458127	507224	513139	10.7	1.2
Electricity, gas, water supply & other utility services	55324	61017	65289	10.3	7
Construction	222464	229321	233919	3.1	2
Trade, hotel, Transport, communication & service related to broadcasting	474733	516958	574262	8.9	11.1
Financial, Insurance, real estate & professional services	594755	650608	692521	9.4	6.4
Public administration, defence & other services	293784	318963	349355	8.6	9.5
Total	2557948	2751408	2904129	7.6	5.6

Source: Central Statistical Organisation.

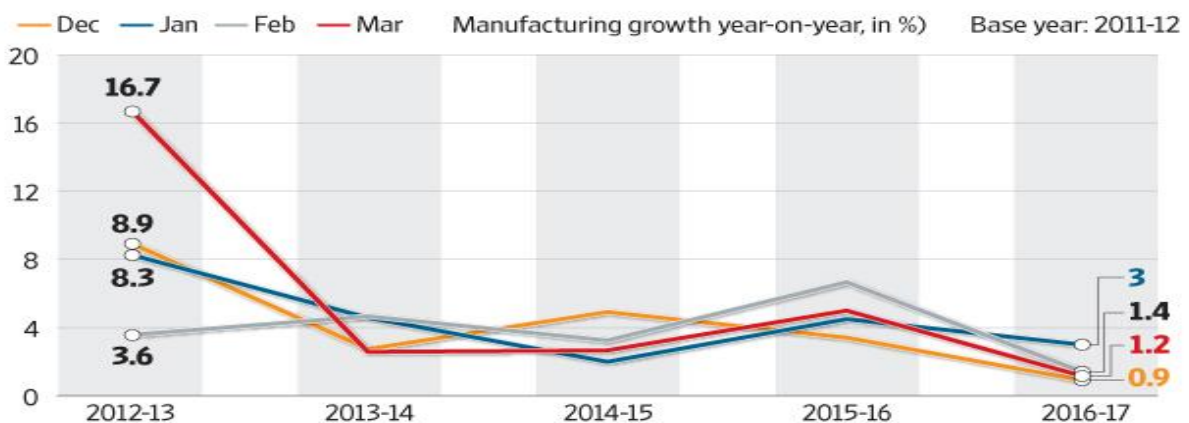
In the above table sectors of the economy such as Agriculture, Forestry and Fishing mining and quarrying, manufacturing, construction finance and insurance which employ a large number of daily wage workers and have liquidity preference witnessed a decline in growth. Agriculture and construction has witnessed declining trend. Agriculture declined from 2.5% in Q1 of 2016-17 to 2.3% in Q1 of 2017-18. Construction declined from 3% in Q1 of 2016-17 and to 2% in 2017-18 witnessed a drop of 1% . This is due to the less availability of cash from banks.

Manufacturing, which is the most important indicator of economic growth and employment has grown at a very slow rate post demonetisation. It grew by only 1.2% in Q1 of 2017-18 as compared to a massive growth of 10.7% in Q1 of 2016-17. With the above analysis it is evident that manufacturing sector which gives more employment has witnessed a worst hit due to demonetisation.

The new Index of industrial production (IIP) series, with the base revise to 2011-12 tells us that, in the period December- March of 2016-17, Manufacturing growth was the lowest compared with the same period in the past five years.

**GROWTH TREND**

Manufacturing growth in Dec 2016-March 2017 was the weakest in the past five years.



Source: Ministry of Statistics and Programme Implementation

The above chart shows the impact of manufacturing sector from 2012 to 2017. The average rate of growth in the manufacturing sector in the 2011-12 series (year-on-year) during December 2016-March 2017 was 1.6%, compared with an average of 4.9% in December 2015-March 2016. The average rate of growth in the last four months of the fiscal year in 2014-15 was 3.2% ; in 2013-14 it was 3.7% and in 2012-13 it was a very high 9.4%. 2016-17 has witnessed a lowest trend (1.6%) when compared to 2012-13 which is very high (9.4%). There is a continuous growing trend in manufacturing sector from 2012 to 2016. 2016-17 has witnessed a sudden fall. This is due to the policy of demonetisation.

Why should we attribute the declining trend in manufacturing growth to demonetisation? Because if we take 2016-17 as a whole, manufacturing growth in terms of the new series (IIP) was 4.9 percent, much higher than in the corresponding period of FY16- the average year-on-year growth in the first eight months of FY17 was 6.6 percent compared with 2.1 percent for the corresponding period of FY16.

#### IV. CONCLUSION

Demonetisation has faced a lot of criticism from the public. There are some merits and demerits of demonetisation. It has been praised as well as criticised on various grounds. The short-run problems of demonetisation are related to liquidity crunch in construction, small business and manufacturing sectors who maintain current accounts in banks. There is a temporary halt in major economic activities like construction, insurance and manufacturing which employ more daily wage workers which leads to unemployment and loss of growth momentum. All this is evident from the data provided by the Central Statistical Organisation.

Manufacturing sector is the worst hit after demonetisation. There is a declining trend in the growth of manufacturing sector after demonetisation. This may be due to liquidity crunch faced by the banks, and non-availability of credit to the manufacturing sector.

The long-run effects of demonetisation are yet to be examined. It is expected that it can improve the Indian economy in the long run by increasing tax compliance, financial inclusion, consequently driving the economy towards growth. It can boost the GDP by increasing the availability of liquidity and also by reducing transaction costs if the economy moves to digital modes of payments.

#### REFERENCES

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