

Adverse effect of demonetization in India

Anurag Varshney

Yuvraj Research Center Pvt Ltd., Ghaziabad (UP), India

Article Info

Article history:
Received 25 January 2017
Received in revised form
30 February 2017
Accepted 19 March 2017
Available online 29 June 2017

Abstract

Demonetization in India is adverse effected Indian economy. It assumes that in long run it will be positive for economic growth, development and GDP. Black Money market will be finished and Indian currency value will be increased at International level. India faces a big revolution change in economy as aversive or supportive. Predictions & problem could be study but only Future can shoe the right result. Indian economy has to have stood very strongly at world level Economic Growth. The study is defining the adverse effect on economy during Demonetization Period.

Keywords

Economic Factors, GDP Growth, demonetization, economy

1. Introduction

The Economy of India in comparison with World Economy Our Number comes at sixth largest economy measured by nominal GDP. On the other hand it is third largest in purchasing power parity (PPP). Our country has been classified as a newly Industrialized Country. We are one of the G-20 Major Economies, Member of BRICS and a high growth rate developing country with average growth rate approximately 7% over the last 02 decades.

Maharashtra is the wealthiest Indian State as its annual Nominal GDP touch the figure of US\$ 330 billion, Which is near around equal with Portugal and Pakistan annual GDP.

Uttar Pradesh and Tamil Nadu followed 12% of the Indian GDP US\$150 and US\$130 billion respectively. India's economic growth left Republic of China in 2014 and become world's fastest growing major economy.

India has very high growth rate of population where the size of the workforce will continue to grow for foreseeable future. A rising workforce not only increase productivity but saving & Investment also. There is much scope for the improvement of infrastructure where a big scope is available and world's most preferable area for Investment is Real Estate & Infrastructure. Globally India is famous for out sourcing and globalization. India is also famous for its human Brain; most part of Information Technology is handling by Indians only. Comparative advantage in labor intensive industries, India will also benefit from the liberalization of free trade in recent years.

2. Indian Currency Value Stand at International Market

Indian currency on 08 November 2016 after demonetization of rupee has become weaker than currency of 96 countries or economies. Out of 161 countries currency, rupee has become stronger than 60 currencies and is at same exchange rate with 5 currencies. The data for past 6 months before demonetization from 08 may 2016 to 9 November 2016, rupee has become stronger than 125 currencies. But after 26 days of ban on Rs 500 and Rs 1000 notes, rupee has become stronger than only 47 currencies.

*Corresponding Author,

E-mail address: yuvrajexportind@gmail.com

All rights reserved: <http://www.ijari.org>

Table1 Statistics of Indian Economy

Statistics	
GDP	\$2.30 trillion (nominal; 2016) \$8.72 trillion (PPP; 2016)
GDP rank	6th (nominal) / 3rd (PPP)
GDP growth	7.6% (2015-16)
GDP per capita	\$1,718 (nominal; 2016) \$6,658 (PPP; 2016)
GDP per capita rank	140th (nominal) / 122nd (PPP)
GDP by sector	Agriculture: 16.5% Industry: 29.8% Services: 45.4% (2016 est.)
Inflation (C PI)	3.41% (December 2016)
Base borrowing rate	6.75% (as of 23 December 2016)
Population below poverty line	21.2% of population below the poverty line of \$1.90/day (2011, World Bank)
Gini coefficient	33.9 (2013)
Human Development Index	0.609 (2014)
Labour force	513.7 million (2016 est.)
Labour force by occupation	Agriculture: 49% Industry: 20% Services: 31% (2012 est.)
Unemployment	4.9% Urban 5.1% Rural 5.0% National (2016, Labour Bureau)
Average gross salary	GNI per capita: \$1,600 yearly per person (2015); GNI per capita (PPP): \$6,030 yearly per person (2015); Average household income: \$8,671 yearly (2016)
Main industries	software, petroleum products, chemicals, pharmaceuticals, agriculture, textiles, steel, transportation equipment, machinery, leather, cement,

	mining, construction
Ease-of-doing-business rank	130 (2017) (1 YoY)

Table 2: Public finances

Public finances	
Public debt	66.5% of GDP (2016)
Budget deficit	3.9% of GDP (2015–16)
Revenues	31.98 trillion (US\$480 billion) (2016,IMF)
Expenses	INR 38.09 trillion (US\$570 billion) (2016,IMF)
Economic aid	\$2.98 billion (2014)
Credit rating	BBB- (Domestic) BBB- (Foreign) BBB+ (T&C Assessment) Outlook: Stable (Standard & Poor's)
Foreign reserves	\$367.04 billion (8th) (as on 18 November 2016)
Main data source: CIA World Fact Book	
*All values, unless otherwise stated, are in US dollars.	

Rupee has become weaker by 2.66% against US Dollar (\$) from 66.40 to 68.17 INR per unit US Dollar. Rupee has become weaker against some popular currencies like British Pound, Canadian Dollar and Hong Kong Dollar too. But also became stronger than Euro, Australian Dollar, Swiss Franc, Singapore Dollar and Japanese Yen.

Indian rupee (INR) became weaker than currencies of other south asian nations Pakistani Rupee, Sri Lankan Rupee, Bangladeshi Taka and Nepalese Rupee.

Table 3: Effect of Demonetization

Period	Stronger	Weaker	Same
After 50 days of demonetization (08-11-16 to 28-12-16)	60	96	5
6 month before demonetization (08-05-16 to 08-11-16)	125	32	4
In Modi government (26-05-14 and 28-12-16)	94	65	2
In Modi govt before demonetization (26-05-14 and 08-11-16)	93	66	2

3. Problems during Demonetization period

We do not understand the Micro economic effects which going difficult to difficult because we are not even sure what will be the effect on future growth Positive or Negative.

“Ambit Capital, a respected Mumbai-based equity research firm, has officially estimated that the demonetization-driven cash crunch will result in GDP growth crashing to 0.5% in the second half of financial year 2016-17. This means the GDP growth for six months, from October 2016 to March 2017, could decelerate to 0.5%, down from 6.4% in the previous six months.

Further, Ambit Capital estimates that during the October to December quarter that we are currently in, the GDP growth may contract, thus showing negative growth. However, Ambit is hopeful that a strong formalization of the informal economy will ensue through 2017 until 2019 and this disruption could also crimp GDP growth in 2017-18 to 5.8 % from their earlier estimate of 7.3%.” Ambit Capital Slashes FY17 GDP Growth Estimate To 3.5%

The current Ambit FY17 Sensex EPS (earnings per share) estimate stands at Rs 1,496 (implying 7.4 percent earnings growth over FY16) while the consensus FY17 Sensex EPS estimate stands at Rs 1,466 (implying 5.6 percent earnings growth in FY16). However, in light of our expectation of weak GDP growth expected over the next two quarters, it is highly unlikely that FY17 Sensex EPS would be able to reach the kind of levels being estimated by our analysts currently. In light of this, our March 2017 Sensex target of 29,500 (first published in June 2016) is rendered meaningless. Ambit Capital Report (November 18)

4. Effect on Black Market

After Demonetization on Nov. 8, 86% of India's currency was nullified because of Black market's cash Supply. Indian economy 86% is running on CASH transaction where this CASH transaction has big role of black market. The decision of Demonetization has been taken only to stop Black Currency, Fake Currency & Black market activities. The people who directly involve with Black Market they seat idle without any job and this create a big crises for them. The transaction of CASH Dealing has been stopped suddenly in Black market.

India has done this before. In 1946, all 1,000 and 10,000 rupee notes were recalled. In 1978, 1,000, 5,000, and 10,000 rupee notes were demonetized.

We sense Black Market, in terms of CASH Market but Black market is related to bribes, smuggling, prostitution, drugs, fraud etc which comes under illegal activities. This Cash is usually used in Blank Property purchasing, Jeweler, buy up more tangible assets or to finance a lavish lifestyle - cars, jeweler, homes, flats foreign trips etc. Now on the day itself Jeweler & Gold was purchase till 12 in the night.

5. Develop new Black Market

Jan Dhan Yojana Bank accounts where only few amount lying deposit where more than 250000 rupees deposited by Black Money marketers. The source of this money no one is able to explain. A large number of Poor people get offerd for Money depositing in their Jan Dhan Yojana Bank accounts.

6. Effect on Demand in Demonetization Period

The overall demand is expected due to demonetization to be affected for an extent. The demand is to be impacted particularly in the following area

- Daily Use items FMCG Products
- Property – Real Estate
- Luxury Items
- Foreign Tour
- Expensive Items
- Car -Automobiles Industry

Many Sectors which affected the GDP

Due to Cash Transaction held and less availability of Big Notes or Less Circulation spread Widely, Many Area affected and hold the growth for a time of spam.

- Agriculture and related sector
- Small traders
- SME
- Services Sector
- Households
- Political Parties
- Professionals like doctor, carpenter, utility service providers, etc.
- Retail outlets

The nature of given business are doing only in cash, All transactions are in CASH Only. People not to buy mostly because of giving change against big Amount Note.

Acknowledgements

The authors are very thankful and grateful for the constructive comments of reviewers in the sense of this article during the review process.

References

- [1.] Reports: Economic Survey of India, Ambit Capital Report, November 18, 2016
- [2.] Alamgir Jalal. India's Open-Economy Policy. Routledge. 2008, ISBN 978-0-415-77684-4.
- [3.] Bharadwaj Krishna. Regional differentiation in India. In Sathyamurthy, TV Industry & agriculture in India since independence. Oxford University Press.1991, 189–199. ISBN 0-19-564394-1.
- [4.] Growth of India. 2005.
- [5.] Milton Friedman on the Nehru/Mahalanobis Plan. 2005.
- [6.] Infrastructure in India: Requirements and favorable climate for foreign investment. 2005.
- [7.] Bernardi, Luigi, Frascini Angela. Tax System and Tax Reforms in India. Working paper n. 51, 2005.
- [8.] Centre for Media Studies. India Corruption Study 2005: To Improve Governance Volume – I: Key Highlights (PDF). Transparency International India. Archived from the original (PDF), 2005
- [9.] Ghosh, Jayati. Bank Nationalisation: The Record. Macrosan. 2005.
- [10.] Gordon, Jim, Gupta Poonam. Understanding India's Services Revolution (PDF). 12 November 2003.
- [11.] Panagariya, Arvind. India in the 1980s and 1990s: A Triumph of Reforms, 2004.
- [12.] Sachs D Jeffrey Bajpai, Nirupam Ramiah, Ananthi. Understanding Regional Economic Growth in India" (PDF). Working paper 88. Archived from the original (PDF) 2002.
- [13.] Srinivasan TN. Economic Reforms and Global Integration, January 2002. June 2009.
- [14.] Kurian NJ. Regional disparities in India. August 2005.
- [15.] Kaur Ravinder. India Inc. and its Moral Discontent". Economic and Political Weekly 2012.
- [16.] Kaur Ravinder. Good Times, Brought to you by Brand Modi. Archived from the original on 18 May 2015.
- [17.] Ravi S Jha. India, the Goliath, Falls with a Thud. Archived from the original on 9 May 2013.
- [18.] India says 21 of 29 states to launch new tax. Daily Times. 25 March 2005. Archived from the original on 16 January 2009.
- [19.] Economic structure. The Economist. 6 October 2003. Archived from the original on 6 April 2008.a
- [20.] Regional stock exchanges – Bulldozed by the Big Two. Retrieved 10 August 2005.
- [21.] FinMin considers three single-brand retail FDI proposals.
- [22.] https://en.wikipedia.org/wiki/Economy_of_India
- [23.] Source: statisticstimes.com/economy/GDP-growth
- [24.] ambit-capital-slashes-fy17
- [25.] forbes.com/sites/wadeshepard/2016-one-month-in-whats-the-impact-of-indias-demonetization
- [27.] ambit-capital-slashes-fy17-gdp-growth-estimate
- [28.] www.careratings.com
- [29.] Source: Jammi N Rao, Amateur student of economics, trade liberalisation, and public policy
- [30.] www.forbes.com/sites/wadeshepard/2016/12/12