Demonetisation – Before and After

Was the Indian economy healthy before demonetisation?

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- India has been the fastest-growing country among the smajor economies since 2015. But GDP growth do not tell us about some serious problems of our economy today.
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- **Investment Demand -** It refers to the demand by businesses for physical capital goods and services used to maintain or expand its operations.
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- The biggest concern on the economic front in the recent times has been the poor investment demand situation in the country.
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- **GFCF -** Growth in **gross fixed capital formation** (refers to the net increase in physical assets within the measurement period) in the current fiscal year is expected to be negative for the first time in five years.
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- **Govt Consumption -** If we took the govt consumption out of the GDP figures, it brings down the growth rate to only 5.2% for 2016-17.
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- **Private Sector -** The private sector was not on the same page with the government. It claimed that the economic situation had never been better.
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- Economic Survey pointed out that, with no clear progress in tackling the **twin balance sheet problem** (over-leveraged companies and the rising bad loans in public sector banks), private investment is unlikely to recover significantly.
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- **Manufacturing -** Industrial activity, was in negative growth in 8 out of 14 months until December 2016.
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What is the condition after 100 days of demonetisation?

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- **Currency in circulation -** Latest RBI data (20 Jan, 2017) shows that cash with public is still 40% less than what it was a year ago.
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- The government has also suggested that it does not intend to replenish the entire stock of demonetised currency and the **gap would be taken care of by digital payment methods.**
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- **Black Money -** Unofficial estimates of money which would not return to the system after note-ban varied from Rs 1.5 to 4.8 trillion.
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- Two-thirds of demonetised currency has come back in deposits of more than Rs 2 lakh according to 2017 budget speech. It could very well mean that there was **no windfall gain from demonetisation.**
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- **Growth in digital payments -** Statistics showed a decline in growth of average value of such transactions, suggesting a cutback in overall spending.
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- Latest RBI data also shows that digital payments are slowing down in both value and volume terms.
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- **Agricultural Wages -** Agricultural wages grew faster than non-agricultural wages after demonetisation.
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- There had been some improvement in demand for farm labour due to a normal monsoon after two consecutive deficient rainfall years. This upswing, is not visible in the demand for non-farm labour.
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- **On informal sector -** Among businesses, it is the informal sector that has been the worst affected by demonetisation.
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- Firms in the informal sector operate in a cash economy. So, it’s no wonder that when access to cash is a problem these businesses took a hit.
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- Vegetable sellers, small shopkeepers, taxi drivers, truckers, etc., have all been affected with loss of livelihood, for example, loss of daily wages for casual labour, or lower sales for vegetable vendors etc.,
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- **Real-estate -** It was badly affected because it is heavily cash-dependent, having long been a favourite asset for holding black wealth.
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- **On banks -** Banks are not in a position to significantly increase lending;

their net interest income, may fall over the next few quarters, thus, worsening their capital position; their NPA situation may get worse.
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- **On stock market -** Demonetisation hasn't really affected the overall market much and investors believe the impact is temporary, with lower interest rates and more government spending offsetting any adverse effects.
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- **On foreign investors -** Foreign investors were major sellers of equities because they feared an economic slump, resulting in the slump in the stock market.
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- **Effect on economic activity -** There is no credible short term data on either GDP or employment in our country.
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- But, since the note-ban decision, gains are still uncertain while the **economy has suffered definite losses,** even though they might be short-lived in nature.
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Source: Live Mint

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