

Demonetisation - Impacts after an year

Why in news?

\n\n

November 8th marks the 1st year anniversary of the announcement of Demonetisation.

\n\n

What were the objectives?

\n\n

\n

- 86% of the currency in circulation was withdrawn in one fell stroke.

\n

- This was done to achieve -\n

\n

- a lower cash-to-GDP ratio

\n

- subsequent reduction of black money

\n

- cutting fake currencies

\n

- curbing terror fundings

\n

- pushing digital transactions

\n

- increasing the tax net.

\n

\n

\n

\n\n

What are the positive effects?

\n\n

\n

- DeMo has rung in a climate of tax compliance, even if through coercive means.

- \n
- Deposits worth nearly Rs.3 lakh crore are under the scanner.
- \n
- According to the Finance Minister, an additional 9 million people have come under the tax net.
- \n
- Over 200,000 shell companies have been deregistered.
- \n
- Real estate shenanigans have been reined in.
- \n

\n\n

What are the negative effects?

\n\n

- \n
- **Growth** - Growth has been slowed down since DeMo.
- \n
- GDP growth in Q1 of 2017-18 was at 5.7%, against 7.9% in 2016.
- \n
- Rural sector was affected the most with 2.3% growth in Q1 2017-18, against despite record foodgrain output in 2016-17.
- \n
- Earlier a rapid recovery from the slowdown was predicted. But the narrative has now been changed into 'short-term pain for long-term gain'.
- \n
- **Price** - Prices have crashed in major markets for kharif crops such as maize, green gram, groundnut, soyabean and sunflower despite their output being either flat or marginally lower than last year.
- \n
- It is primarily because of the disruptive impact of the withdrawal of cash on supply chains and inventories. Click [here](#) to know more about Impact of DeMo on Prices
- \n
- **Unemployment** - The rate of loss of jobs registered in the trade sector and industries was "almost" 55% in the two months after the note ban.
- \n
- The job loss is significant in the middle-age group (40 to 50), among people with limited options.
- \n
- Job creation was zero in November-December 2016.
- \n
- It improved to a growth rate of 10%-15% in January-March 2017, and to 20%-25% in April and June, but again, between July and October, fell to

5%-10%.

\n

- **Return of cash** - Though cashless transactions prevailed initially, cash has returned.

\n

- The major reasons for this are connectivity issues with POS, the transaction charge and security concerns.

\n

- **Logical flaw** - To say that a 12% cash-to-GDP ratio for India is too high, when compared with other countries, is incorrect.

\n

- This comparison is not valid as India has a large informal sector.

\n

- So its cash needs are also higher.

\n

- A lower cash-to-GDP ratio could mean that the informal sector has shrunk due to demonetisation thereby needing lower cash.

\n

- This indicates rise in unemployment.

\n

\n\n

\n

- **Ignoring Other Factors** - Government projects that it achieved a lower cash-to-GDP ratio of 9% after demonetisation, from over 12% earlier.

\n

- This might be due to a combination of factors apart from a shift towards digital transactions.

\n

- It might be due to lower currency supply, shrinkage in cash-dependent enterprises due to the note ban, and shortage of cash in pockets of the economy.

\n

- **Terror Funding** - Since demonetisation, the number of infiltration attempts in the Valley has reached a high,.

\n

- The number of civilians killed has trebled.

\n

- In the theatres of Left Wing Extremism, more security personnel have been killed in Naxal attacks but in fewer incidents, which have dropped 21%.

\n

\n\n

What should have been done?

\n\n

\n

- Cash plays a significant role even in developed economies such as Japan.
- So the criminalisation of the entire cash economy seems unfair.
- Hence the debate on DeMo is about ends and means.
- The same outcomes could have been achieved with less pain.
- DeMo could have been implemented in a gentler way — with ‘nudging’ rather than bureaucratic diktat.

\n

\n\n

\n\n

Source: BusinessLine, Indian Express

\n

