

Demonitisation & Its Impact on Indian Economy



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Abstract

India occupies 2.4% of World area but constitutes 17.5% of world population. According to census of 2011, 68.84% people lives in rural area & about 55% people directly engaged in agriculture & allied activities in the country, acknowledging the significance of agriculture in Indian Economy. The present government under the leadership of PM NarendraModi launched big programs like SMART cities, Make in India, Start Ups, MUDRA, Digital India, Skill India & double the agriculturist income with One Drop More Crop& So on to transform India from present situation to paradise.

MK Gandhi rightly stated that India can observe in 700000 villages not in few cities, M.S. Swaminathan pointed out that jobless growth is Joyless growth and Lord Keynes stated that unemployment in economies leads to higher deficiency in effective demand, PM NarendraModi took revolutionary decision to demonetizeRs. 500 & Rs.1000 note in one stroke on 8th November, 2016, and withdrawn about 86% proportion of Indian Currency with prime intension to bring out black money &clean the economy.

An attempt has been made to study demonetization& its impact on Indian economy with a Prime objective to review its effect on different sector of economy, The study is based on secondary data. Pie Charts, Bardigram is used with percentage and index in the study.

It is obvious that Co-operative Banks in particular could not achieve or fulfill target of agricultural loan in 2016-17. It is big concern that both the mining & manufacturing sector recorded negative growth rate in 2016-17 while electricity growthrate declined to 5% in 2016-17 as compared to 8.4% in 2014-15. As a result overall performance get decreased in terms of percentage from 2.8% to 0.4% in the same period, acknowledging some extent negative effect of decision like demonetization.

The declivity in surplus transferred from RBI to Government of India in 2016-17 not be assumed good sign which came down to Rs. 30690 crores as against Rs. 65876 are in 2015-16. GDP, April-June 2017, 5.7% created a big challenge before policy makers. Bank loan to business & Services continued to shrink in the first four months of Financial Year 2018.

Keywords: Demonitization, MUDRA, RERA, PMMY.

Introduction

Still Indian Economy is predominated by agriculture and rural part of the country. India occupies merely 2.4% world area but constitute 17.5% of world population. According to census of 2011, 68.84% people lives in rural area while about 55% population engaged in agriculture and allied activities. Both the poverty & unemployment continued since long as major problems in the country. XIIth Plan target comprise double digit GDP, agriculture growth rate 4%, employment generation p.a. 1 crores & removal of trade & budget deficit.

The present govt. under the leadership of P.M. Narendra Modi launched big programmes like SMART Cities (100), make in India, Swachta Bharat, Startup, MUDRA, Digital India, Double the agriculturist income and so on, to transform India with the support of NITI Ayog & Public itself.

Father of India M.K. Gandhi rightly stated that "India can be observed in 700000 vilages not in few citites." Senior agriculture scientist M.S., Swaminathan painted out that "Jobless growth is joyless growth. We have to provide meaningful employment in agriculture sector to address these concerns. Leading economist lord keynes stated that "Unemployment in economics results in higher deficiency in effective demand" All these together indicates the need of employment generation in

populous country like India. The prime agenda of the country development must focus more on creation of job opportunities more and more, adopting labour intensive technique.

Since long a parallel economy through black money continued as big obstacle in achieving targeted growth and development several sector of the Indian economy. Accordingly the govt. headed by P.M. Narendra Modi took revolutionary decision in no time to demonitisation note Rs.500 and 1000 in one stroke on 8th Nov. 2016. The prime intention behind it was to bring out black money and clean up Indian economy transforming it from present position to paradise. As majority Indian people feels this is the high time to bring out the country from such chronic disease like frauds and misappropriation ensuring better socio-economic development of the country and decided to support strongly the idea of P.M. Modi i.e. demonitisation. Irrespective of several difficulties face by Indian citizens they supported Modi govt. by all the angles. They have great confidence that Indian economy will enjoy tremendous benefits of the decision. Hence, an attempt has been made to undertake study on demonitisation and its impact on Indian economy to see the results.

Objectives and Methodology of the Study

The prime objective of the study is to focus on demonitisation adopted on 8th Nov. 2016 and its impact on some sectors of Indian economy, comprising GDP growth, sectorwise growth, agriculture finance, employment and income to govt. from RBI.

Present study is basically depends on secondary data, which is compiled from books, govt. reports and websites. The procured data is tabulated in structured format followed by the text. Percentage, index and average growth rate alongwith pie chart and bar diagram is used in the study.

Growth of Industrial Production

Annual growth rate of industrial production in India during 2014-15 to 2016-17 is presented in Table -I. From the table it can be revealed that annual growth rate of mining recorded 1.5% in 2014-15 which jumped to 2.2% in 2015-16 with an rise of 46.67%. Unfortunately it registered negative annual growth of 0.3% acknowledging some adverse effect of decision like demonitisation. Same is the experience with annualized growth rate of manufacturing sector.

Electricity sector growth rate came down to 5% in 2016-17 as against 8.4% in 2014-15 with significant slowdown of 45.50%. As a result overall growth rate decreased from 2.8% in 2014-15 to 0.4% in 2016-17 confessing that industrial production is under pressure. It calls intensive efforts to maintain level of production in the interest of nation.

Agricultural Credit

Agriculture is spine of Indian economy. It is essential to provide adequate credit supply to agriculture to boost its share in GDP and promote employment and export alongwith sufficient foodgrain supply to Indian population. M.K. Gandhi rightly stated that the dream of national development - can't be materialized unless we develop agriculture and rural part of the country.

The statistical data pertaining to agriculture credit is tabulated in table-II. From table-II and pie chart it can be ascertained that the target given to commercial bank and RRBS mostly get fulfilled both in 2015-16 and 2016-17. Commercial banks achieved it 109 and 128% in 2015-16 and 2016-17 respectively. Similarly, cooperative banks shown deep concern and rendered finance to agriculture sector i.e. 118% of targeted amount in 2015-16. RBI could achieve it 99% only in both year indicating some financial crises with them.

We can clearly say that both the co-op. & RRBS played crucial role in agriculture and rural development. As a result foodgrain production reached to record output of 27 crores tons today as against just 5 crores tons prior to 1950-51. It is big concern to note that cooperative banks in particular could not achieve 100% target of agriculture loan in 2016-17 and its achievement is recorded 95% confessing severe problem of financial support. Govt. should take immediate step to support cooperative banks safeguarding the interest of farmer community in particular and entire nation in general.

Financial Status of RBI

RBI is bankers' bank and bank of the govt. It act as last resort for both the banks and govt. Banking Regulation Act 1949 empowered the RBI to control and regulate entire banking and FTs system in the country and maintain adequate credit support and currency value in the country.

The detailed information of yearwise income, expenditure, disposable income and surplus transferred to Govt. of India by RBI is given in Table-III. From table III and bar diagram it can be proclaimed that RBI net income not recorded neither rising nor declining trends during the period 2014-15 to 2016-17 and not found stable in earning and maintaining level of income. The highest income recorded Rs. 808.70 bn in 2015-16 and lowest 618.18 bn in 2016-17 i.e. after demonitisation period.

So far as expenditure is concerned it is found that expenditure recorded consistently rising trend. It swelled up from Rs.133.56 bn in 2014-15 to 311.55 bn in 2016-17 with an rise of 133%. As a outcome disposable income of RBI come down to Rs.306.63 bn in 2016-17 as against Rs.659.00 bn in 2014-15 with considerable decrease of 53.47%. Certainly the surplus transferred from RBI to govt. of India reduced from Rs.65896 crores in 2014-15 to Rs.30659 crores in 2016-17, due to some problem with govt. decision like demonitisation and its implementation. Eradication of fraud should become a movement at all level and entire nation should support in all the respect.

Construction, Financial Sector and Trade Hotel Transport

The govt. move to pass RERA assumed good step to protect the interest of common people and investors. Some restriction are imposed on builders accordingly. Both the financial sector and trade, hotel, transport are also important and integral part of our economy along with real estate. It is big concern that economic growth for fourth quarter in construction, financial sector, trade, hotel transport

and communication is under pressure declared in 2016-17 as compared to 2015-16 having some extent negative effect of remonitisation. Financial sector growth deduced to 5% in 2016-17 over 10.8% in previous year confessing some severe problems in the sector. Immediate steps to be taken to improve the performance of financial sector.

Performance of PMMY

The present govt. announced MUDRA scheme on 15.04.2015 for financing new enterprises including three categories like Shshu, Kishore and Tarun, with an loan limit of upto Rs.50000, above 50000 to 5 lakhs and above 5 lakhs to 10 lakhs respectively. The scheme is highly appreciated in the country like India who need to promote self employment and employment programme and involve more people in the process of national development.

Under this refinance scheme govt. fixed target of 1.22 lakh crores loan in 2015-16. In practice govt. disbursed amount of 1.33 lakh crores in 2015-16 achieving 109% target showing deep concern in the development of new enterprises and small business this concern. The target get double for 2017-18 and increased it to 2.44 lakh crores.

As on 31st March 2017, total loans sanctioned Rs.180529 crores of which Rs.175312 crores disbursed to 3.97 crores aspirants. On 25th Aug. 2017 (2017-18) govt. sanctioned Rs.63078 crores of which Rs.60073 crores distributed to 1.36 crores aspirants playing efficacious role in economic development of the country.

Govt. should make more provision under MUDRA (PMMY) to involve more and more small entrepreneurs in the process of country development, expanding employment and self employment opportunities in the country.

Employment

Indian population is around 130 crores and expected to surpass China by 2050. We need labour intensive technique to accommodate more unemployed youth. The total job requirement of 11th plan was about 100 mn, where planners aims to provide 65 mn additional employment opportunities. During 1999-2000 agriculture, manufacturing, trade and community social personal services recorded 60%, 12%, 9% and 8% employment taking total 89% of total employment in the country. Similarly SSI, IT also play important role in the same direction.

It is to be assumed red signal that indias jobless rate fell 50% in last 6 mention of 2016-17. Contrary to market perception Indias unemployment rate halved from 9.5% in Aug. 2016 to 4.8% in Feb., 2017. Highest decline registered in UP i.e. to 2.9% against 17.1% during same period. On the contrary IT sector also adopted policy to cut staff on different grounds making them jobless. Hence, the advice given by PM Modi in special meet on infrastructure project to concentrate on job creation is highly appreciated in present context. It is also important that service sector share in GDP is about 53% but employment opportunities created in less proportionate.

Though economy growing at around 6-7%, rate of change in employment opportunities not found

satisfactory. This may create severe difficulties before India in coming future.

Recently labour Bureau report 2014-15 reported that economy has capacity to generate new jobs 6 lakh p.a. which come down to 1.35 lakhs and problem of unemployment become more severe. Hence jobless growth in economy never assumed good. Appropriate steps to be taken to overcome the problem soon.

GDP Slow Down

Former senior vice president and chief economist of World Bank Kaushik Basu said that India was growing typically over 8% from 2003 to 2011. The global economic crisis 2008, reduced it to 6.8% but 8% and above growth become good feature of Indian economy. The oil prices are low. Earlier Indian GDP was predicted 7 to 7.5% for 2017-18

It is matter of disappointment that GDP for first quarter i.e. April-June 2017 recorded 3 yr low level i.e. 5.7%. Kaushik Basu expected to contribute this in next two quarters. Ex-governor of RBI Raghuram Rajan already stated that short term benefit of demonitisation will get disappear in long run. It calls great attention to take corrective policy measures to maintain at least 7 to 8% GDP growth and put more attention on important segment of economy including agriculture and industry sector.

Conclusions

Indeed, Indian economy is predominated by agriculture and rural part of country. We must recall statement made by M.K. Gandhi and adopt prizable policy ensuring agriculture development. Though Indian agriculture and allied sector contribute below 15% to GDP but render employment to about 55% of Indian population. Stringent steps to be taken to promote agriculture and rural development.

Labour intensive technique has great significance in populous country like India. Accordingly, jobless growth of service sector be considered seriously, as it generates job opportunities below 25% as against 53% share in GDP. Any development without human being will create many problems before nation. Poverty also a big concern in India. Digital literacy, use of net, E-transaction still require some more time to adopt it easily in India. We face many problems in net availability, speed, and infrastructure so on on one hand, and severe problem of cyber crime on the other. We don't feel safe and secured while using e-transactions in India.

According to census of 2011 merely 59% families have bank access while 41% are away from banking access. Still ATMs, Debit / Credit cards not available at par and not found safe. South Korea have 278 ATMs per / L. people while India have merely 19.7 ATMs for 1 lakh people. Due to adverse impact bank credit recorded lowest growth of 5.1% in 2016-17 as compared to 10.3% in 2015-16.

Employment, GDP, Bank Credit, Agriculture, mining, manufacturing, electricity etc slow down in the country not be side lined and formulate comprehensive policies to overcome the problems ensuring comfortable socio-economic development of Indian economy in near future.

Table-1: Annual Growth of Industrial Production (%)

	Mining	Manufacturing	Electricity	Overall
2014-15	1.5	2.3	8.4	2.8
2015-16	2.2	2.0	5.7	2.4
2016-17	-0.3	-0.3	5.0	0.4

Source : Report on Evolution Dept. of Industrial Policy 2016-17, p.17

Table-2 : Agriculture Credit (Rs.bn)

	2015-16			2016-17		
	Target	Achievement	%	Target	Achievement	%
CBS	5900	6430	109	6250	7998	128
Coop	1400	1533	110	1500	1428	95
RRB	1200	1193	99	1250	1232	99
Total	8500	9155	108	9000	10658	118

Source : RBI Report 2016-17, p.80 Achievement

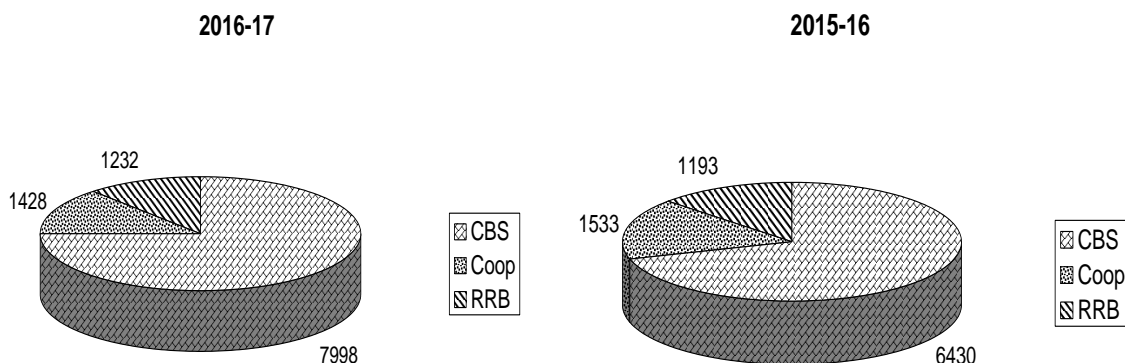
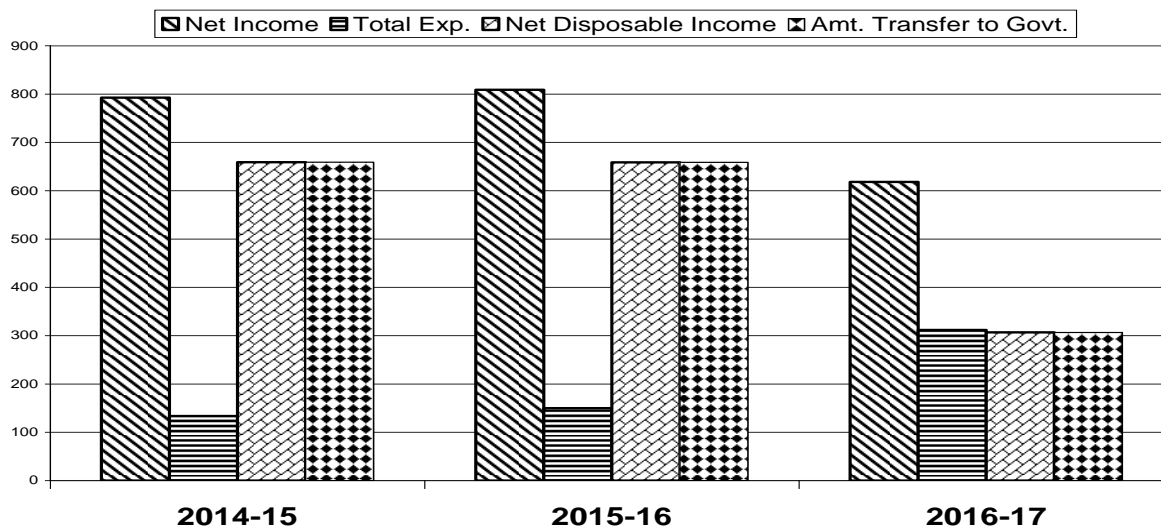


Table-3 : RBI Surplus to Govt. (Rs.bn)

	Net Income	Total Exp.	Net Disposable Income	Amt. Transfer to Govt.
2014-15	792.56	133.56	659.00	658.96 (100)
2015-16	808.70	149.90	658.80	658.76 (99.97)
2016-17	618.18	311.55	306.63	306.59 (45.33)

Note : Paranthesis figures show index



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