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Analysis Report on Effects of Demonetisation

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Abstract: *In order to reduce black money in the Indian economy, the think tank meticulously designed demonetisation, which was then abruptly announced. The cash restriction inflicted significant harm to the economy's wheels in the form of forced unemployment. The informal sector in India, which accounts for 80% of total employment, was severely impacted. The reverse movement of the labour force required them to follow a one-meal-per-day regimen. Nearly 2.5 lakh workers in the leather industry, 20,000 workers in the diamond industry, and 15 to 20 percent of daily wage earners in the jewellery industry have lost their jobs. The Government itself lowered its estimate of the Gross Domestic Product (GDP) for 2016-2017 from 7.6% to 7.1%. The International Monetary Fund (IMF) has reduced its GDP prediction for 2016-17 to 6.6%. In the aftermath of the cash ban, the number of new investments dropped by fifty percent. The value of the rupee fell by 1.69 percent on December 15, 2016. The surgical strike on black money first undermined investor trust in the stock market. The cost of Demonetisation, including GDP losses, is estimated at Rs. 4.3 trillion. The government believed the effect to be temporary, whereas economists viewed it as firing cannonballs at mosquitoes. Conclusion: Demonetisation is a long-awaited method to combat black money. In addition, the government must immediately implement all other essential measures to ensure the success of the cash ban.*

Keywords: Demonetisation, GDP, industrial lobby, cyber security, corporate governance

I. INTRODUCTION

Demonetisation has precipitated a dramatic collapse of the Indian economic ecosystem. Cash-centric industries were effectively shut down. The rural populace became unemployed. Poor and working people have been displaced, and their means of subsistence have been severely harmed. Farmers were unable to purchase inputs, and private clinics refused to treat patients with outdated medical records. Some members of the working class had trouble purchasing food and were obliged to follow a daily meal plan. Weddings and other social gatherings were disrupted as a result of the working class's inability to adapt structurally to the shock doctrine economics.

II. DEMONETISATION AND EMPLOYMENT

The creation of jobs has always been a challenge for the government, even prior to demonetization. The cash restriction caused more employment losses in several economic sectors. Nearly 2.5 lakh people in the leather industry and 15 to 20 percent of daily wage earners in the jewellery business lost their jobs. The majority of ceramic tile factories in Gujarat have closed. More than 20,000 diamond industry employees in Surat lost their jobs. As a result of the reverse migration of the workforce caused by demonetisation, billions of individuals lost income.

According to CPI member Sitaram Yecherury, since November 8, 2016, four lakh jobs have vanished and over 31,9 million textile employees have not been paid. The All India Manufacturers Association (AIMA) predicted a 60% decline in employment and a 55% decline in revenue for its member units in the aftermath of demonetization. Employment in the Indian infrastructure sector decreased by 35% due primarily to a cash shortage.

Budget 2017-18 had a positive effect on the Indian labour market. The budget, according to Teamlease's Rituparna Chakraborty, suggests young employment in the tourist, footwear, leather, textile, and manufacturing industries. A reduction in corporate tax from 30% to 25% will increase employment by 5% to 10%. Infrastructure-focused investment will help increase employment in the sector. Additionally, digital payments promote the establishment of jobs in cyber security and related industries.

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III. DEMONETISATION AND INVESTMENTS

According to the World Bank Report, India's capital formation has been declining since 2011. In addition, Demonetisation has made the flow of investments unclear. After demonetization, 50% of new investments were made. The investment ideas, which numbered 227 before to the cash restriction, decreased to 177 by December 31, 2016. During the time, the value of investment proposals decreased from Rs. 81,8 billion to Rs. 43,7 billion. In 2016, the Private Final Consumption Expenditures (PFCE) decreased from 7.5% in 2015-16 to 5.5%. However, the government's commitment to macroeconomic stability, such as lowering inflation, reducing bank rates and bank deposit rates, and sharply reducing the current account deficit, have become important factors in India's capacity to attract greater investments. In January 201712, the Government of West Bengal received investment proposals of Rs. 2.35 lakh crore. The 2017-18 federal budget also paved the path for a strong investment climate in the Indian economy.

DEMONETISATION AND GDP

The decline in cash supply retards GDP growth. The Indian government has reduced its GDP forecast for 2016-2013 from 7.6% to 7.1%. In addition, the International Monetary Fund (IMF) has reduced its 2016-17 GDP prediction for India from 7.5% to 6.6%. However, the American Rating Agency 'Fitch' predicted that India's GDP for fiscal year 201715 would decrease from 7.4% to 6.9%. The Indian rating agencies ICRA and CARE both reduce the GDP forecast for FY17 to 6.8%.

Due to demonetization16, Mahesh Vyas, CMIE, predicts that India's GDP growth will slow to 6% annually over the next five years, beginning in 2017-18. The effect of the cash restriction is not expected to carry over into the 2017-18 fiscal year, as stated in the budget for that fiscal year.

DEMONETISATION AND RUPEE

The value of a currency is determined by its demand and supply. Since demonetization, the rupee has declined by 1.69 percent, from Rs. 66.63 to Rs. 67.75 on December 15, 2016. This trend will continue until complete monetary circulation is restored. The currency circulation decreased from 11.8% on November 4, 2016 to 6.5% on January 20, 2017. From November 7, 2016 to December 12, 2016, about $1.4 billion in Foreign Investors Fund was withdrawn from the Indian Stock Market as a result of the US Federal Reserve's increase in interest rates from 0.5% to 0.7%. During the same time frame, the FOREX reserve decreased from $367.04 billion to $359.67 billion. Beginning on February 1, 2017, the withdrawal limit for checking accounts was lifted. By the end of February 2017, the savings account holder's cash withdrawal limit will likely be eliminated. The elimination of these transitional difficulties will increase money circulation in the near future, which will have a favourable effect on the rupee.

DEMONETISATION AND REAL ESTATE

Real estate in India is cash-intensive. Moreover, the sector had been experiencing a decline for the past three years. Since demonetization, roughly 37 percent fewer properties have been registered in Mumbai. The rate of home sales had decreased by 50%, while the price had decreased by 20%. Beneficial to homebuyers, developers, and investors, the 2017-18 federal budget placed a significant emphasis on real estate. The proposed infrastructure status for cheap housing, which includes a vow to construct one billion rural dwellings within the next two years, is a boon to Indian realities. According to Sunil Rohokale of ASK Group, the infrastructure's transition from concept to reality creates several opportunities to raise financing from insurance firms and pension funds. Smart Cities, Housing for All by 2022, AMRUT, the Real Estate (Regulatory and Development) Act, the Benami Transaction Act, and the GST Act will increase sector transparency. However, pricing is a big issue for all industry participants.

DIGITALIZATION AND DEMONETISATION

Compared to the United Kingdom, the average number of card transactions per person in India is only 6.7. (201.7). India is emerging as digital India. It is currently on the verge of a tremendous digital revolution. The government had estimated that a substantial proportion of unlawful assets are held in high-value currencies. As of December 30, 2016, approximately Rs. 14.97 trillion in illegal currency have been deposited into banks, representing 96.5% of all restricted currency. It indicates that only Rs. 54,000 billion were not returned. The 96.5% deposits consist of Rs. 80,000 crore in loan repayments, Rs. 250,000 crore in dormant accounts, Rs. 16,000 crore in co-operative deposits, and Rs. 13,000 crore in Regional Rural Bank deposits. During the period20, more than Rs. 2 lakh was deposited in each of the 60 million bank accounts. As detecting black money in the chaos requires time, the cash ban's target has been switched to the internet economy. Generally, the cash-driven economy led to the accumulation of illicit funds. The digitization of services makes them more efficient, formal, and responsible. After demonetization, daily mobile wallet transactions multiplied by 12. As the average transaction amount decreased from Rs. 750 to Rs. 500, people began using digital payment methods even for little purchases. During the post-shock therapy, "PayTM" exhibited a threefold increase and "Oxygen" increased by 160%. The rural populace has been adopting digital payments via mobile wallets. To encourage individuals to adopt digital payment methods, specific tax incentives and awards should be provided.

INDIAN STOCK MARKET - POST DEMONETISATION

In reality, the surgical assault on black money undermined the faith of investors. The BSE SENSEX dropped by a little less than 6% on the day following the cash ban. As Warren Buffet correctly stated, "be scared when others are confident," the volatility in the financial markets created nothing but purchasing opportunities amidst uncertainty. On January 27, 2017, the BSE SENSEX recorded its greatest weekly rise in eight months, 0.63 percent. In addition, the Nifty gained 0.45% throughout that weekend21. According to Porinju veliyath of Equity Intelligence India, the impact of demonetization on the Indian formal sector has been good over the long term. To compete with the informal sector, the formal industry must attract massive stock market investments. The Union Budget 2017-18 is continued with a tax exemption for long-term capital gains from stocks, which boosted the BSE SENSEX by 485,68 points and the Nifty by 155.1 points on the day of the budget.

IV. CONCLUSION

The success of Demonetisation is contingent upon its implementation. In 1991, the Union of Soviet Socialist Republics (USSR) implemented Demonetisation, resulting in the formation of the Commonwealth of Independent States (CIS). Such move in North Korea drove people homeless while cash ban in Nigeria in 1984 led in utter collapse of their economy. It is common knowledge that the government machinery was unprepared for the challenges of the cash crisis when it was imposed. Almost 62 modifications and notifications were made during the first three weeks after its release. Psychologically, consumer confidence has been completely undermined, necessitating a comprehensive approach to increase domestic consumption by increasing the purchasing power of the working class. India is rich but Indians are poverty. So a stable but low rate of inflation is always necessary to protect the poor Indians who are daily wagers.

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