

INDIA'S ECONOMY POST DEMONETISATION: A PRELIMINARY ASSESSMENT

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The main objective of this article is to assess the change in growth rate and employment conditions in the economy of India post demonetisation through empirical evidences. Using official data and employing difference-in-difference approach, the paper finds slowdown in growth rate in the major sectors of the economy in the post demonetisation period as compared to the pre demonetisation period. The construction sector has been found to be worst hit. As far as the employment scenario is concerned, the paper finds no impact of demonetisation on workers employed on regular and contract basis but finds worsening of job opportunities for the casually employed workers post demonetisation.

Keywords : *Demonetisation, Gross Value Added, Employment, Black Economy, India.*

I. Introduction

On November 8, 2016, the government of India withdrew the legal tender status of Rs. 500 and Rs. 1000 denominations of bank notes issued by the Reserve Bank of India till November 8, 2016¹. Mainly three reasons were cited by the government for demonetization - to effectively nullify black money hoarded in cash, to tackle counterfeiting Indian banknotes, and to curb funding of terrorism with fake notes (RBI, 2016).

The government cited the above three reasons for demonetisation of Rs. 500 and Rs. 1000 notes but not a single official estimates exist on the quantum of black money and counterfeit notes in circulation in the economy of India. Sourcing information from the National Institute of Public Finance and Policy (NIPFP), Mehra (2014) reports the size of black economy in India constitutes 75 per cent of India's GDP. On the other hand, Kumar (2016) estimates put the size of black economy to be around 62.02 per cent of India's GDP. As far as fake notes are concerned, a 2015 study by the Indian Statistical Institute, Kolkata, estimated the fake currency in circulation to be just Rs. 400 crore or a mere 0.02 per cent of the total notes in circulation (Ghandy, 2016). Kumar and Verma (2017) note that 98.8 per cent of the demonetised currency was back with the RBI by January 13, 2017.

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The current demonetisation was second in row in independent India². Before that, on January 16, 1978, the government of India had withdrawn the legal tender status of Rs. 1000, Rs. 5000 and Rs. 10,000 bank notes with the objective of eliminating the possible use of such notes for financing illegal transactions. But, in 1978, these bank notes constituted only a miniscule 0.6 per cent of the total currency in circulation and therefore had insignificant impact on the economy of India and on the common people (Rajakumar and Shetty, 2016; Nag, 2016).

The incumbent government, in 2016, by demonetizing Rs. 500 and Rs. 1000 bank notes withdrew over 85 per cent of bank notes from circulation in the economy by value. In doing so, the government opined that the demonetisation of bank notes, by and large, will have no negative impact on the economy. That is, there will be no slowdown in the growth rate of India's economy and hence no decline in the income and employment in the aftermath of demonetisation. Rather, the government opined that this demonetisation exercise will provide a fillip to the growth of the Indian economy in the long run. But, many commentators, and erstwhile policy planners of India had the different views. Dasgupta (2016), Basu (2016) and Singh (2016) among others opined that the current demonetisation exercise would have adverse impact on the Indian economy. Not only the growth rate of the economy will slow down but its adverse impact would be felt even in the long run.

In this backdrop, this short article makes a modest attempt to investigate the following research questions: Has the pace of India's economic growth and creation of employment slowed down? or has there been sustained growth and employment in India's economy in the aftermath of demonetization? This short article tries to address these issues through empirical evidences.

The paper is divided into five sections. Following the introduction in Section I, the rest of the paper has been divided into four sections. Section II mentions the objectives, sources of data and methodology used in analysing the growth rate and employment scenario in the pre and past demonetisation period. Section III analyses the change in economic growth. Section IV analyses the employment scenario in the country and finally Section V concludes the paper.

II. Objectives, Sources of Data and Methodology

As stated above, the major objectives of this article is twofold: to analyse the change in the growth rate in the major sectors of the Indian economy and employment scenario in the post demonetisation

period vis-à-vis the pre demonetisation era. To address these issues we used the official data published by the government of India.

To analyse the growth rate in the economy, the paper has used the data on gross value added (GVA) at basic prices³ for each quarter of the major sector of economy from 2012-13 through 2016-17. The GVA for each sector has been taken from Handbook of Statistics on Indian economy from the Reserve Bank of India's website. In order to analyse the change in employment scenario, the paper has used data of four rounds of Quarterly Employment Survey (QES)⁴ undertaken by the Labour Bureau, Government of India.

The method of analysis has been kept very simple. The paper employs the difference-in-difference approach, or what is simply called as then-and-now approach to analyse the changes in the rate of economic growth and employment conditions in the economy post demonetisation vis-à-vis pre-demonetisation era.

Analysis and Discussion

III. The State of the Economy

The table given below (Table 1) depicts the quarter on quarter growth in gross value added at basic prices in each sector of the Indian economy between 2012-13 and 2016-17.

Table-1. Quarterly Change in Gross Value Added (GVA)

Year	Quarter	Industry								
		I ¹	II ²	III ³	IV ⁴	V ⁵	VI ⁶	VII ⁷	VIII ⁸	IX ⁹
2012-13	Q1	1.53	2.52	0.44	4.64	2.14	11.28	9.10	7.15	5.38
	Q2	1.99	0.14	12.74	1.91	-2.57	10.85	9.84	5.51	7.11
	Q3	1.03	-1.28	7.76	3.11	-0.90	9.06	10.18	1.85	4.85
	Q4	1.75	-3.15	4.05	1.52	3.71	7.74	8.79	2.14	4.53
2013-14	Q1	2.71	-1.52	7.45	2.70	6.64	5.03	10.82	9.13	6.67
	Q2	4.05	3.02	4.42	6.42	7.21	7.65	14.77	3.88	7.44
	Q3	4.96	2.12	6.38	3.84	4.36	10.47	7.14	4.69	6.34
	Q4	4.57	8.09	4.54	5.82	0.81	7.83	6.67	0.91	4.86
2014-15	Q1	3.50	17.77	9.10	8.13	3.00	9.26	10.28	1.53	7.26
	Q2	4.98	3.81	8.60	8.72	3.32	6.24	14.37	7.19	8.27
	Q3	-1.56	6.76	3.22	6.44	2.41	4.11	14.17	21.77	6.37
	Q4	-0.08	10.05	6.78	2.41	0.99	11.58	11.45	1.33	6.13
2015-16	Q1	2.41	8.29	8.17	2.78	6.22	10.31	10.06	6.25	7.59
	Q2	2.32	12.19	9.29	5.67	1.55	8.26	13.01	7.17	8.20
	Q3	-2.12	11.72	13.19	4.03	6.04	10.07	10.48	7.48	7.29
	Q4	1.54	10.49	12.65	7.62	5.95	12.80	9.03	6.70	8.65
2016-17	Q1	2.52	-0.93	10.72	10.29	3.08	8.89	9.39	8.57	7.56
	Q2	4.07	-1.28	7.73	5.07	4.28	7.75	7.01	9.55	6.77
	Q3	6.85	1.86	8.15	7.44	3.39	8.28	3.26	10.26	6.65
	Q4	5.16	6.40	5.27	6.08	-3.67	6.45	2.18	16.99	5.57

Source: Author's calculations based on RBI's Database on Indian Economy

Note: 1. Agriculture, Forestry and Fishing; 2. Mining & Quarrying; 3. Manufacturing; 4. Electricity, Gas, Water Supply and other utility; 5. Construction; 6. Trade, Hotels, Transport, Communication and Services Related to Broadcasting; 7. Financial, Real Estate and Professional Services; 8. Public Administration, Defence and Other Services; 9. Total Gross Value Added at Basic Prices.

In each quarter in 2015-16, each sector of the economy, barring agriculture and the allied sector, showed an impressive growth over their corresponding previous year's quarters. Consequently, total GVA growth was more than 7 per cent in each quarter of 2015-16.

In the first quarter of 2016-17, the growth of GVA in each sector was, by and large, similar to their corresponding first quarter growth of 2015-16. In this quarter, the manufacturing and the services sector witnessed more than 10 per cent growth rate. But thereafter, there has been a steady decline in the growth rate of almost each sector of the economy. The manufacturing sector growth rate after posting 8.15 per cent in third quarter declined to 5.27 per cent in the fourth quarter. The construction sector witnessed negative growth rate in the fourth quarter. On the whole, the Indian economy witnessed a growth rate of 6.65 per cent in the third quarter and a lowly 5.57 per cent in fourth quarter of 2016-17 as against 8.65 per cent growth rate of 2015-16 in the fourth quarter of 2015-16. The growth rate the economy witnessed in 2016-17 was comparable to the growth rate the economy witnessed in the crisis years of 2008-09 through 2010-11 (Giri and Sinha, 2014).

A sharp decline in the rate of economic growth in the fourth quarter of 2016-17 could be attributed to demonetisation in the early days of third quarter of 2016-17, because apart from demonetisation nothing untoward economic incidents occurred in India and across the world. Hence, our analysis provides credible evidence of slowing down of India's economic growth in the post demonetisation era.

IV. Employment Conditions

Given the slowdown of the economy post demonetisation, has there been slowdown or decline in the creation of job opportunities in India? Unlike the quarterly data on GVA growth in each sector of the Indian economy, there are barely any official data which provides a macroeconomic picture of employment conditions in the economy post demonetisation. The only official dataset available in the public domain as of now is the Quarterly Employment Survey⁴ dataset of the Labour Bureau, Government of India. The major limitation of this survey is that it covers only the organised enterprises, that is,

those enterprises employing 10 or more workers. In so doing, it leaves about 70 per cent of enterprises that includes the entire agriculture sector. In India, more than 92 per cent workers are informally employed without any security of employment and social security provisions and about 70 per cent enterprises employ fewer than 10 workers (Mehrotra, Parida, Sinha & Gandhi, 2014).

The Labour Bureau claims that in October 2016, just before demonetisation, the eight sectors witnessed an addition of a mere 0.33 lakh workforce over July 2016. These eight sectors added 0.78 lakh regular and 0.03 lakh casual workers and shredded 0.48 lakh contract workers. Quite ironically, in this quarter 0.01 lakh workers were retrenched from the manufacturing sector.

After demonetisation, the Labour Bureau survey data shows an increase in the regular and contract workers and a decline in the casual workers. On January 1, 2017, after demonetisation, these eight sectors had 1.39 lakh more regular workers and 1.24 lakh contract workers, while these sectors did away with 1.52 lakh casual workers over October 1, 2016. In this period, the manufacturing sector added 1.1 lakh regular workers and 0.75 lakh casual workers and it retrenched 1.13 lakh casual workers. Overall, there has been 0.55 per cent growth rate in workforce in these eight sectors between October 1, 2017 and January 1, 2017.

Table-2. Change in Employment (in lakhs)

Sector	October 1, 2016 over July 1, 2016				January 1, 2017 over October 1, 2016			
	Regular	Contract	Casual	Total	Regular	Contract	Casual	Total
Manufacturing	-0.01 (-0.01)	0.2 (1.31)	0.06 (0.98)	0.25 (0.25)	1.1 (1.43)	0.75 (4.84)	-1.13 (-18.3)	0.72 (0.73)
Construction	0.15 (6.44)	-0.03 (-4.92)	-0.12 (-31.6)	0 (0.0)	-0.04 (-1.61)	0.01 (1.72)	0.01 (3.85)	-0.02 (-0.60)
Trade	-0.02 (-0.16)	-0.04 (-3.42)	0 (0.00)	-0.06 (-0.4)	-0.06 (-0.50)	0.13 (11.5)	-0.01 (-1.75)	0.06 (0.43)
Transport	-0.02 (-0.41)	-0.01 (-1.39)	0.03 (10.7)	0 (0.0)	0.07 (1.44)	-0.01 (-1.41)	-0.05 (-16.1)	0.01 (0.17)
Accommodation & Restaurant	0.02 (0.33)	-0.09 (-12.0)	-0.03 (-7.50)	-0.1 (-1.4)	-0.06 (-0.99)	0.07 (10.6)	-0.02 (-5.41)	-0.01 (-0.14)
IT/BPO	0.1 (1.10)	-0.01 (-1.20)	0.18 (75.0)	0.27 (2.66)	0.1 (1.09)	0.21 (25.6)	-0.2 (-47.6)	0.11 (1.06)
Education	0.33 (0.76)	-0.29 (-5.6)	-0.06 (-5.17)	-0.02 (-0.04)	0.1 (0.23)	0.19 (3.88)	-0.09 (-8.18)	0.2 (0.40)
Health	0.23 (2.38)	-0.21 (-10.5)	-0.03 (-8.11)	-0.01 (-0.08)	0.18 (1.82)	-0.11 (-6.15)	-0.03 (-8.82)	0.04 (0.33)
Total Employees	0.78 (0.48)	-0.48 (-1.75)	0.03 (0.31)	0.33 (0.17)	1.39 (0.84)	1.24 (4.61)	-1.52 (-15.8)	1.11 (0.55)

Source: Author's calculations based on Labour Bureau Various QES Survey Rounds

*Figure in parentheses indicate change in percentages

What transpires from the above analysis is that the rate of job creation in the economy is very low. However, it is heartening to know, if the findings of this survey are to be believed, that the demonetisation has not resulted in increase in unemployment conditions in the economy post demonetisation. But, the employment data shown by the Labour Bureau post demonetisation is very difficult to digest given very high informalisation of formally employed workforce and very low pace of increase in job creation in the economy of India during the reforms era between 1993 and 2012 (Giri and Singh, 2017).

The 5th Rounds of Labour Survey is still to come, but the unofficial survey shows a severe increase in unemployment conditions of workers in the fourth quarter (between January and March) of 2016-17. The Centre for Monitoring of India Economy (CMIE) claims that about 1.5 million jobs were lost between January-April, 2017 due to demonetisation (CMIE, 2017).

V. Conclusion

The main objective of this article was to assess the growth rate and employment conditions in the economy of India post demonetisation measure. Our analysis shows that demonetisation, by and large, have negative effects on the economy of India. It has slowed down the growth of the economy, especially the manufacturing and the construction sector. Although, the government of India statistics show that demonetisation has not resulted in swelling of unemployed labour force in the economy but the independent studies depict an increase in unemployment condition and sordid picture of the conditions of unemployed workforce post demonetisation.

The slowing down of the growth rate of the Indian economy, especially the manufacturing and the construction sectors, in the short run, let alone the long run, do not augur well for an economy like India given vast number of people subsisting below the poverty line and ever increasing labour force in the economy.

End Notes

1. The government allowed the members of public/corporates, business firms, societies, trusts, etc. holding these notes to tender them at any office of the Reserve Bank or any bank branch and obtain value thereof by credit into their respective bank accounts until December 30, 2016. The government also allowed the people to exchange these notes of value upto Rs. 4000 for their immediate cash needs.

2. The first demonetisation happened in British ruled India in January 1946 when high denomination of Rs. 10,000 was taken out of circulation.
3. Gross value added at basic prices (GVA) is the new measure of economic activities compiled by Central Statistics Office (CSO). In 2011, the CSO replaced GDP at factor cost with GVA at basic prices (base: 2011-12). GVA is the measure of the value of goods and services produced in an area, industry or sector of an economy minus intermediate consumption over a specified period of time. GVA at basic prices is equal to GDP at factor cost plus production taxes minus production subsidies (RBI, 2017).
4. The report of this survey contains information on employment situation at all India level in 8 selected sectors: manufacturing, construction, trade, transport, education, health, accommodation and restaurants and IT/BPO engaged in production or distribution of goods or services other than for the sole purpose of own consumption. The survey contained 10,628 units of the total 5,07,444 units in the sampling frame. 29 per cent of the sampled units were from the rural area and 71 per cent was from the urban area (Labour Bureau, 2016).

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