

# [Demonetization humanities). in india we see existence of](https://assignbuster.com/demonetization-humanities-in-india-we-see-existence-of/)

Demonetizationis not a gigantic catastrophe like global banking sector crisis of 2017. However, it will act as a liquidity shock to economic activities. Globally cashtransaction is an average of 85%. In some of the developed countries it isaround 50%.

In India this ratio is at around 95% (IOSR Journal of Humanities). In India we see existence of large informal sectors and it contributes around45% of gross value added in the economy. Some rating agencies have estimated adecline of around 40 basis points in GDP growth for 2016-17 and of a smallermagnitude in 2017-18. When we evaluate the growth of Indian economy we mainly findtwo reason for this. They are the stock market and the other one, foreigninvestors.

The continuing wage increasein China and fairly liberalized capital markets concentrated their focus onIndia as a primary manufacturing hub. But demonetization made the foreign investorsthink twice whether to invest in India or not. This is also one reason why GDPgrowth is down. The ratio of currency to GDP in India, which averaged 8. 4%during 1975-2000, crossed 10% for the first time in 2002-03 and has remainedabove this level since then.

But through the announcement of demonetization ithas drastically come down (R. Gopalan, M. C. Singhi, Dec 2016). Anddemonetization affected all the large informal sectors so the income from thesesectors was not in the economy which in turn impacted GDP growth. Indianpopulation is very much depending on agriculture and their contribution to GDPis around 18%. Demonetization has badly affected the agriculture sector and ledto the recent decline of GDP growth.

Tohave an outlook for 2017-18, we need to examine each of the components ofaggregate demand, export, consumption, private investment and government. India’s exports seem to be recovering, based on an uptick in global economicactivity. Given high elasticity of Indian real export growth to global GDP, exports could contribute to growth in the next year, by 1 percentage.  Conception also is expected to its boostafter the real two block.

Catch up of demonetization and the cheaper borrowingcost, which is likely to be lower than of 2016. Through the announcement ofdemonetization and implementation of GST will boost the private investment. Considering these factors into account the real GDP growth to be in the 6 ¾ to7 ¼ percent range in FY 2018.  The emphasis given inthe Union Budget to curb the parallel economy, and the expected buoyancy incollection of direct taxes as per the budget estimates was expected toultimately get manifested in greater formalization of the economy (RBI)