International Journal of Engineering Technology Science and Research
IJETSR
www.ijetsr.com
ISSN 2394 – 3386
Volume 5, Issue 1
January 2018

Impact of Monetary Reforms of the Modi Government-A Critical Analysis

Vyomakesisri Tippabhotla
Assistant Professor
St. Joseph's Degree & PG College,

Abstract

Demonetization and GST are the main monetary reforms of Indian government to tackle and resolve issues emerging in Indian economy. Demonetization is act of stripping a currency unit of it status legal tender. Demonetization becomes necessary whenever change in national currency takes place. The present paper examines critically the impact demonetization on different sectors. The paper discusses the main objective of demonetization, its advantages and disadvantages.GST is the giant indirect tax structure to support and enhance economic growth of the country, the present paper discusses its impact on economy and common man.

Key words: Demonetization, GST, economic reforms and impact assessment

Introduction

Monetary reform can be any theory or movement that proposes a system of money supplying and financing the economy completely different from the current system. Reserve Bank of India is been giving greater emphasis in monetary policy for promoting economic growth from recent years starting from mid nineties.The economic reforms started in 1991 brought about changes and expansion of the services sector. The economy received a massive boost after it was liberalized and changes were brought in the trade regime.

Major monetary reforms by Modi government

Demonetization: To curb black money, bring cash to banking system, to end fake currency Prime Minister Narendra Modi announced Demonetization and is most important economic reforms in India.

GST Constitutional Amendment Bill: August 3, 2016: Elimination of excessive taxation is the main objective of GST (Goods & Service tax). It is uniform indirect tax levied on goods and services across the country. The goal is to have single comprehensive tax mechanism for manufacture, sale and consumer.

Objective: The objective of present study is Critical analysis of the recent monetary reforms.

Impact assessment of demonetization:

Banning of Rs 1000 and Rs 500 notes produced several direct and indirect effects on transaction behavior.

Demonetization and Black money

The most important fact for people to support demonetization was its association with bringing an end to black money problem. The direct effect was the amount of black money unearthed from savings made by the people during the demonetization period. The statistics revealed that 3 lakh crores of unaccounted wealth had flown into the banking system due to the withdrawal of two high denomination motes.

Demonetization and cashless India:

Demonetization boosted digital payments. Popularization of digital payment methods, instruments and institutions facilitated digital transactions. Use of card based payments have become popular when compared to pre demonetization period.

Demonetization and Tax payments:

According to government reports the income tax payers saw a record increase in post demonetization as 9.1 new tax payers were added to the slab which was an 80% rise over the typical yearly rise. This increase of taxpaying citizens has been credited to demonetization.

Demonetization and informal economy:

Demonetization has reduced the informal economy: With the increased use of digital payments, economic transactions become recorded. Along with the highly digital documented GST, India’s informal sector is getting absorbed into the formal economy.

Crash Crunch:

Direct impact of demonetization could be seen on sectors dealing with cash like the auto, taxi drivers, small traders and daily wage workers. Majority of the transactions are cash transactions and demonetization interrupted the flow. Real estate also went through rough patch.

Bank Interest rates:

Money deposited in bank gets interest rate, but demonetization led to huge cash deposits in banks. Some leading public and private banks reduced the rate of interest.

Inflation:

Implies less cash compared to the supply of goods, but as the price levels in India have been high due to high inflation, fall in money supply can actually help in bringing down inflation. With unaccounted money being wiped out, it is expected to lesser pressure on demand. Fall in inflation will help the common man, because goods will now become cheaper. Due to the slowing economy, if production falls more than the fall in the supply of money, then the demand for goods will overshoot the supply of goods, which in turn will lead to higher inflation. It all depends upon the effect on production and economic activity in the nation.

Growth

The gross domestic product, which is a parameter to measure growth in the economy, will take a hit. Research firms have already cut growth estimates by 0.5 per cent. India’s economy could shrink as there are many sectors run by cash. There are a lot of businesses in the non tax-paying sector, which will now be formalized they will have to give up their market share to the organized sector. This will cause shrinking of the economy and a fall in the growth.

Demonetization and GDP

The demonetization effect and the resultant slowdown in household spending and corporate investment were evident in the fall in GDP growth estimates released by the government today. The GDP growth for the Financial Year 2017 (FY17) was reported at 7.1% while for the fourth quarter of the Financial Year 2017, the GDP growth stood at 6.1%. The growth of the farming sector stood at 5.2% for the fourth quarter FY17 while for manufacturing sector it was 5.3%.

Demonetization and Agriculture

India’s millions of farmers live mostly in cash economy and agriculture is dependent on cash transactions. Fruit and vegetable farmers were badly hit. Demonetization resulted in resulted in lower yields, reduced sales, higher wastage and lower price realization. They need cash on daily basis to purchase inputs like pesticides, fertilizers and hired labour for harvest and also to transport and sell at urban centers. Lack of cash with farmers leading to less-than optimal use of inputs resulted in lower yields, reduced sales, higher wastage and lower price realization. Lack of PAN cards, lack of Banks, ATMs effected agriculture sectors.

Impact of GST on the Indian Economy and common man

Conceived as the biggest tax reform in India GST founded on the notion of one nation, one market and one tax.The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens. Fundamentally, the $2.4-trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST.

International Journal of Engineering Technology Science and Research
IJETSR
www.ijetsr.com
ISSN 2394 – 3386
Volume 5, Issue 1
January 2018

Benefit is that GST replaced bundled indirect taxes like VAT, CST, service tax etc. Reduction of manufacturing costs due to lower burden of taxes on manufacturing sector, therefore prices of consumer goods will be likely to come down. Increased demand and consumption of goods can be seen. Increase in demand leads to increase in supply and ultimately rise in production.Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check. Thus boost to the Indian economy in the long run.

Conclusion:

Goods and service tax (GST) and demonetization both have desired impact, resulting in increased tax compliance and squeezing quantum of cash in economy. GST is virtually unbreakable chain of transactions from initial raw material to final goods consumed by consumer. The study concludes though initial hiccups are present in the major economic reforms they can be said to have greater positive impact on long run on Indian economy.

References

1. The Economic Times (2009) Featured Articles from The Economic Times.
2. Gst India (2015) Economy and Policy.
3. Mehra P (2015) Modi govt.'s model for GST may not result in significant growth push. The Hindu.
4. Sardana M (2005) Evolution Of E?Commerce In India Part 3.
5. Demonetisation of Rs. 500 and Rs. 1000 notes: RBI explains". *The Hindu*. 8 November 2016. Retrieved 10 November 2016.
6. Demonetisation protest sure to succeed with people's support'". The Economic Times. Retrieved 24 November 2016
7. RiminDutt (December 7, 2016). "Less Than 30% Of Scrapped Currency Value Has Been Replaced In New Notes, According To RBI". *Huffington Post India*