The Impacts on India's Growth Rate through Demonetization and GST

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ABSTRACT

Growth rate are those rate which measure how fast economy growing. Growth rate means how much change in GDP growth from one year to another. In India growth rate is measure by central statistics office (CSO) of India. In this article we discuss about "the impacts of India's growth rate trough demonetization and GST". Its means after demonetization and GST policy implemented what positive or negative impact on growth rate of India. On august 31, 2017 data release by CSO the GDP growth rate is 5.7%. Which is lowest growth rate of last 3 year?

Keywords

Gross domestic product (GDP), central statistics office (CSO), Goods &services tax (GST), and demonetization

INTRODUCTION

Growth rate refers to the geometric annual rate growth in GDP from one year to another year period of time. Growth rate is defines about the economic condition & decision which are already taken in previous period and impact & output is seen after some times.

The rate at which the GDP of a country is rise .it is important for the country citizens and policy makers to keep a close watch on the GDP growth rate.

In other words, the GDP growth rate is the rate % increase in the economy output from one period to another period. Usually the time period is year to year. It gives you an accurate idea of how fast a country economy is growing of developing.

In this article, we study about the growth rate. India's economy slowed to three year low in the april-june quarter, official data showed on 31 august 2017,signaling that disruptions from last year's cash squeeze from demonetization were far from over.

Gross domestic product (GDP) grew 5.7% in the last quarter, undershooting market expectations, compared to 6.1 % in the three months to march. The drop was even sharper when compared to the like- quarter a year ago when GDP expended at 7.9%, suggesting the underlying momentum was still weak. A sharp fall in mining, manufacturing and construction proved a drag on the broader economy, as consumer demand stayed muted even nine months after the government decided to scrap about 86% of cash in circulation to fight corruption and counterfeiting. A rush to clear inventories ahead of the goods and services tax rollout also affected manufacturing growth, finance minister Jaitley said. The april-june data, however, does not take into account the impact of the new tax regime that triggered chaos on the ground.

While manufacturing and construction grew at just 1.2% and 2% respectively, mining output saw a 0.7% contraction year on year. This offset relatively robust expansion in services moderate growth in farm output. "The lingering impact of demonetization is visible in the low growth of construction" Aditi Nayar, an economist with ICRA, told Reuters, referring to a segment of the economy where most people use cash. In November, Prime Minister Narendra Modi unexpectedly demonetized 500 and 1000 rupee notes in what was billed as the country's biggest-ever assault on 'black money'.

REVIEW OF LITERATURE

Robert Barro (1996) studied a panel of 100 countries from 1960 to 1990 to find the factors that affected the economic growth of countries. He found that the growth rate of real per capita GDP was associated with maintenance of the rule of law, smaller government consumption, longer life expectancy, more male secondary and higher levels of schooling, lower fertility rates, higher levels of investment, the level of democracy, a lower inflation rate, and openness to trade. He also emphasized the theory of convergence, which implies that as the real GDP level rises, the growth rate falls. Barro's sample of 100 countries included 18 countries from Sub-Saharan Africa,

22 from Latin America, and 18 from Asia of all economic levels, but included very few developing countries (i.e. the poorest countries). Many of these countries were excluded from the sample because data was missing. Despite international aid and support, developing countries were not able to grow and prosper because of economic traps. The traps include conflicts or wars, rent seeking on natural resources, dependence on only one neighboring country, and lack of the rule of law (Collier, 2007). Although real per capita GDP growth of developing countries was higher than the world average, they had low levels of socio-economic conditions. It was partly due to weak institutions, low human and physical capital, conflicts, poverty, a low level of productivity, lack of international trade, and heavy reliance on external help. Since they had a low level of real per capita GDP, the theory of convergence, "catching up," should hold true. In fact it seemed to, because despite all the problems, they had higher growth rates compared to developed countries. Foreign direct investment (FDI) has been a big source of external funding in developing and developed countries. The impact of FDI on Economic growth has been extensively discussed in economic research. There have been both positive and negative analyses of FDI on economic growth. Most economists and policymakers believe that FDI stimulates development in investment in technology, increases the capital stock, and increases employment. Some worry, however, that it has a crowding out effect on domestic investment and eliminates competition in the local markets.

Caves (1971) found that there was a positive correlation between the productivity of a multinational enterprise and labor productivity in domestic firms in the same industry. He claimed that this was a result of competition and continuous improvement brought by foreign investment to the domestic market. Foreign direct investment may also have benefits not only to the industry that receives the investments but also to other domestic industries that gain from spillover effects of improved human capital and technological improvement (Rappaport, 2000). Foreign direct investment benefits a host country through added employment, new technology and transfer of knowledge. Also, it causes an increase in the volume of domestic investment

(Borensztein, De Gregorio, and Lee 1998).Foreign direct investment (FDI) may also have negative effects on the recipient country. Foreign firms may invest capital only on what they think is productive. It drives away domestic firms, which lowers the welfare of the nation (Hanson, 2001). While there had been a lot of talk about spillover effects from foreign direct investment in previous studies, Aitekn and Harrison (1999) did not find any evidence of beneficial spillover effects from foreign firms to domestic ones in Venezuela over the period 1979-1989. Also, Mansfield and Romeo (1980) did not find a positive effect of FDI on the rate of economic growth in Morocco, a developing country. So, while there is optimism for the role of FDI in economic growth, there is some pessimism as well. Therefore, it is important to discover how FDI affects the economies of the least developed countries. International trade enhances the economy of both importing and exporting countries. There is a positive relationship between international trade and economic growth. Kavoussi (1984) found that higher rates of economic growth were strongly correlated with higher rates of export growth. He found that the positive correlation between exports and growth holds for both middle and low income countries.

Sachs and Warner (1995) found that open developing economies outperformed closed developing economies every year in terms of real GDP growth. Even in poorer countries, openness to trade enhances growth in productivity, and thus, human capital (Harrison 1996). Least developed countries, however, are heavily dependent on primitive agriculture and are more vulnerable to shocks. A country rich in natural resources can benefit from the production and sale of such wealth. Yet, even with abundant natural resources such as oil and diamonds, countries in Africa have not experienced substantial 40 Major Themes in Economics, Spring 2015 GDP growth (Sachs and Warner, 1995). This may be because poor countries fall into the natural resource trap. For one thing, the export of the natural resource leads to an appreciation in the exchange rate, which makes their other exports more expensive. This is known as "Dutch Disease." Also, diverting human and physical capital from other industries to the production of natural resources shrinks other industries

(Collier, 2007). In addition, natural resource sales fuel corruption and other rent-seeking behavior. Some of the developing countries in Sub- Saharan Africa are rich in natural resources and have a very low per capita GDP.

Kumar and Woo (2010) found a linear inverse relationship between initial debt and subsequent growth in a sample of emerging and advanced economics. The impact of high debt was smaller in developed economies. They also found

that only very high levels of the debt-to-GDP ratio had significant negative effects on economic growth.

Reinhart and Rogoff (2010) studied 20 developed economies for about two centuries and found that the negative relationship between growth and level of debt was very weak.

Bhattacharya and Nguyen (2003) found that the substantial reduction in the stock of external debt for highly indebted poor countries would directly increase per capita income growth by about one percentage point per annum.

Gelos, Sahay and Sandleris (2010) concluded that only larger and wealthier countries had access to larger credit and borrowed larger amounts and more frequently. Because of the inaccessibility of external credit, most of the developing countries relied on unilateral transfers of international funds for development. The World Bank Data (2015) reported that countries in the Organization for Economic Co-operation and Development (OECD) contributed about 130 billion US Dollars to developing countries as Official Development Assistance.

Minoiu and Reddy (2009) found that development aid (as opposed to non-development aid) had positive and robust effects on subsequent growth. However, they suggested that such effects appeared after long time-lags. In the short run, such aid had no effects on growth and development. An increase in life expectancy is directly related to the control of diseases and better health. Increases in life expectancy have a direct impact on population growth.

A study by Acemoglu and Johnson (2006) cast doubt on the claim that unfavorable health conditions are the root cause of poverty in some countries, but agree that improvement in health conditions may lead to improvement in economic conditions.

Cervellati and Sunde (2009) predicted that improvements in life expectancy foster human capital accumulation and have an effect on income generation. The level of education is widely accepted as a factor in economic growth.

Barro (1999) found that an additional year of schooling increased the country's growth rate by 0.7 percent per year. Investment in human capital enhances the workforce's ability to work and increases productivity. Al Nassar (2007) noted that a worker's level of education was a measure of human capital and was directly related to productivity. Corruption and poor governance hinders the economic health of countries. Mauro studied 67 countries and concluded that annual economic growth increased 1.3 percentage points where corruption was reduced by one standard deviation (Murro 1995). Poor countries that have people of different backgrounds, cultures, languages, and customs are more vulnerable to corruption. Empirical models can test these claims and see if they are true for both developing and developed economies.

OBJECTIVE OF THE STUDY

1. To find out why growth rate is low compared to previous year
2. To study on which sector's growth is affected by the demonetization and GST.
3. To study on GDP growth rate of India from 1980 to 2016
4. To study on estimated growth rate declared by IMF

RESEARCH METHODOLOGY

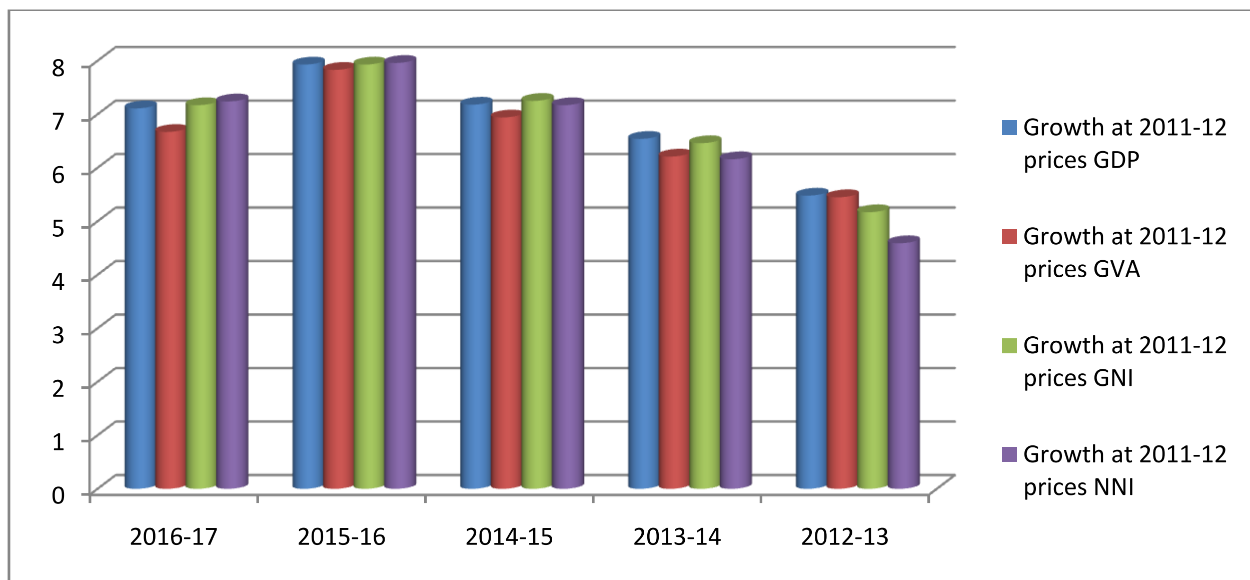
This research is based on the descriptive nature. The research related data is collected from secondary source. Estimated Growth rate data from 2008 to 2021is collected from IMF and another growth rate related data collected from the Hindu news paper, RBI reports and data published by central statistics office of India.

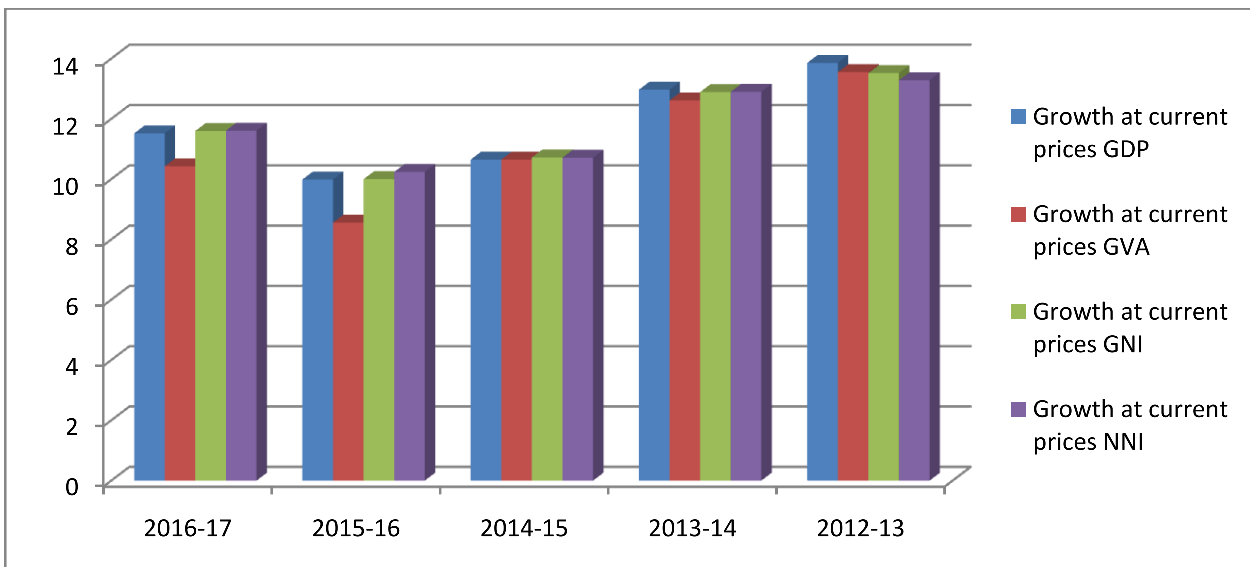
FINDING & ANALYSIS DATA

The Indian economy expanded 5.7 percent year-on-year in the second quarter of 2017, below 6.1 percent in the previous period and market expectations of 6.6 percent. It remains the weakest growth rate since the first quarter of 2014 due to a slowdown in consumer spending and exports. On the production side, manufacturing and agriculture eased. Figures for the second quarter of 2017 mark the third consecutive period of slowing growth, following the demonetization program started in November of 2016 that removed 86 percent of India's currency in circulation. GDP Annual Growth Rate in India averaged 6.12 percent from 1951 until 2017, reaching an all time high of 11.40 percent in the first quarter of 2010 and a record low of -5.20 percent in the fourth quarter of 1979.

2011-12 series								
Year	Growth at 2011-12 prices				Growth at current prices			
	GDP	GVA	GNI	NNI	GDP	GVA	GNI	NNI
2016-17	7.11	6.67	7.17	7.24	11.52	10.43	11.6	11.61
2015-16	7.93	7.83	7.93	7.96	9.99	8.56	10	10.24
2014-15	7.18	6.94	7.25	7.17	10.65	10.65	10.72	10.71
2013-14	6.54	6.21	6.46	6.16	12.97	12.61	12.89	12.9
2012-13	5.48	5.45	5.17	4.59	13.86	13.55	13.52	13.28

If we have seen above data the GDP is 5.48 in 2012-13 GDP is very slowly growth in next years.GDP in 2013-14 is 6.54, 2014-15 is 7.18, 2015-16 is 7.93 and 2016-17 is 7.11. That impact is happened with GDP same happened with GVA, GNI, and NNI. And if we focus on growth of current prices of GDP, GVA, GNI, and NNI is also slowly increase.

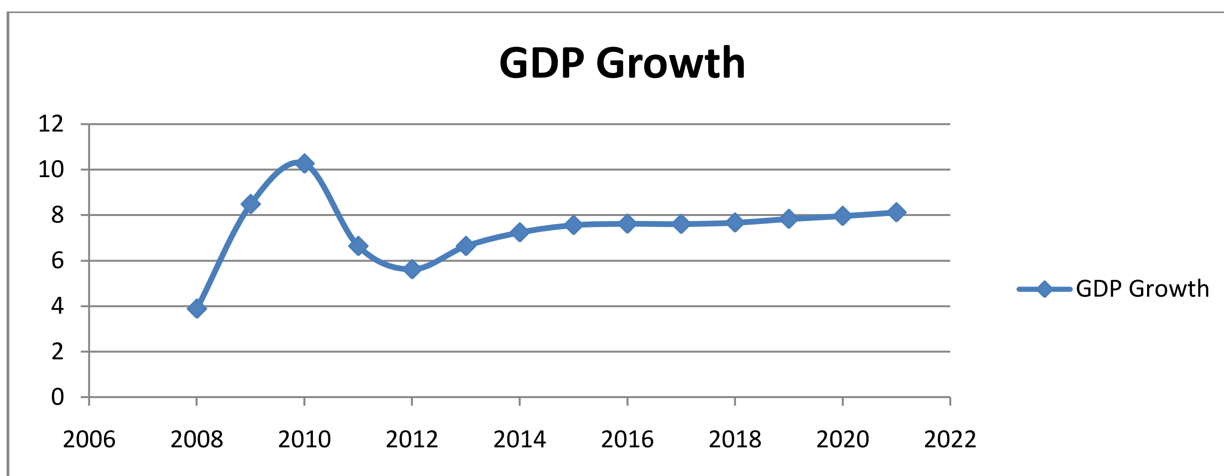


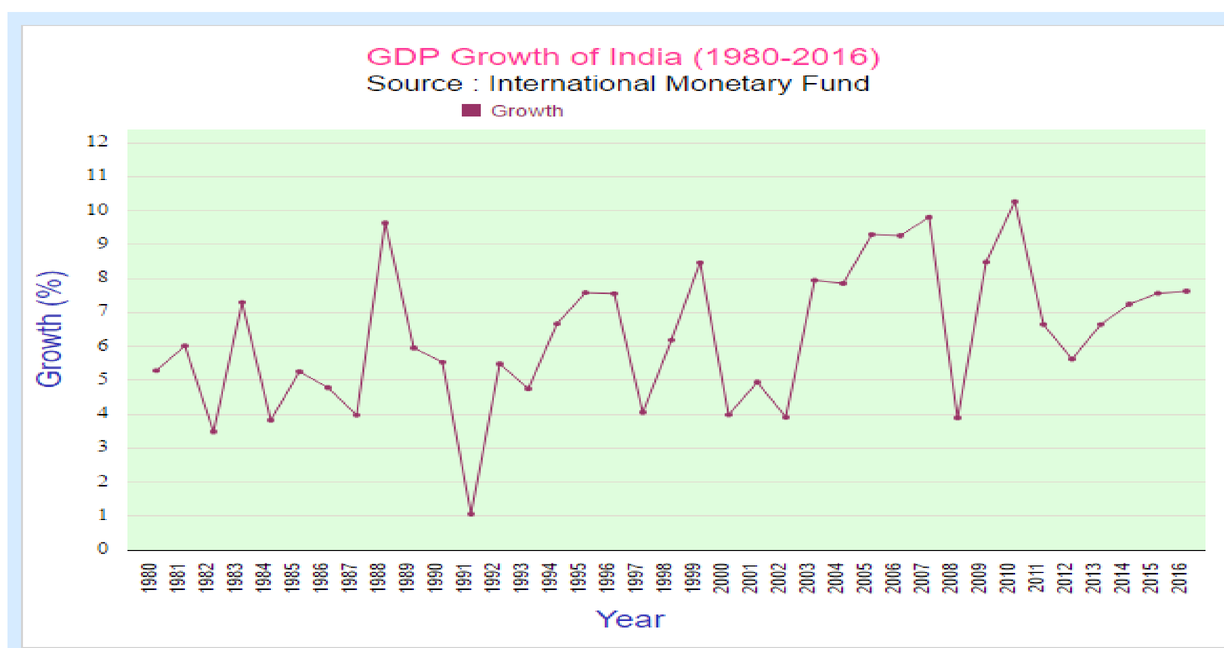


Below data is given collected from the IMF published data. The data is presents the estimates GDP growth rate which is published by IMF. IMF is published data from year 2008 to 2021. IMF estimated data shown on below with year and respective GDP growth rate.

In this article the India's Growth rate is also defined from 1980 to 2016 year. The expected growth rate is taken from the international monetary fund (IMF) published data and websites. In year 1980 the India's growth rate was 5.1%. And growth rate is increase in year 1989 was 9.8% and lowest growth rate was 1% in year 1989. And again the growth rate is ups-down as per the economy condition on year to year.

Estimates by IMF	
Year	GDP Growth
2008	3.89
2009	8.48
2010	10.26
2011	6.64
2012	5.62
2013	6.64
2014	7.24
2015	7.56
2016	7.62
2017	7.61
2018	7.67
2019	7.83
2020	7.96
2021	8.12





CONCLUSION

After studying about the India's growth rate we can say that India's GDP is down. Negative impact on Indian economy, GDP, National income, growth rate and other sector like: - real estate, manufacturing, agriculture etc. above analyzed data is show Indian economy is ups and down in last few decades. All these impact is happened through the demonetization and goods and services tax (GST) implemented by government. Due to demonetization and GST the economic condition is very slow down.

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