

# Government Has a Roadmap to Revitalise GDP Growth



**BY INVITATION**

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The announcements on demonetisation have created a disruption in the country's economic ecosystem. There is a debate whether it will help us curb corruption and eliminate black money. What will be its impact on the economy in the short, medium and long term; particularly in the important segments such as the rural and agriculture sectors; micro, small and medium enterprises and the unorganised sector such as small traders, shop owners and daily wagers? But demonetisation has to be seen in a larger perspective.

Bringing economic growth and curbing corruption and eliminating black money were the two important mandates on which our government came to power. Some important aspects have to be kept in mind. A recent World Bank report stated that 20 per cent of black wealth of our country is stashed across all assets class—real estate, gold and currency, etc. The Global Wealth Report 2016 shows that 1 per cent of the population has over 58 per cent of the country's wealth. In this, India ranks second after Russia. It also states that 97 per cent of our population has wealth of less than \$10,000—approximately ₹7,00,000. This points out that over the years, a lot of our wealth was accumulated in the form of black money in the hands of a select few. A large population was deprived of benefits of growth. Though the GDP grew fast, employment could not keep pace with it, leading to skewed growth in the economy.

This has to be corrected at all cost. Objectives and effects of demonetisation cannot not be analysed in isolation. It is a part of the series of measures undertaken by the Narendra Modi government.

The very next day Shri Modi came to power, a Special Investigation Team was set up to suggest steps to curb corruption. Starting that day, several steps have been taken to curb corruption and eliminate black money.

The government has many objectives in mind from demonetisation. First, due to huge currency in circulation, the economy had inflationary pressure and housing was out of the common man's reach. Demonetisation will reduce prices in real estate and bring down inflation. Second, it will bring resources to the government for social benefit schemes for the poor and low-income groups and infrastructure development. Third, we will be able to move towards a low interest rate economy. It will help create infrastructure for smoother implementation of GST, which will

help us reduce indirect taxes. It will also curb terrorist and criminal activities. Fake currencies will be eliminated. As the cost of online payments and mobile banking are cheaper compared to physical transactions, we have the benefit of lower cost of transactions. And finally with audit trail and transparency, there will be higher tax compliance, visible from the third quarter tax collection report, showing 26 per cent increase in indirect tax collection and 15 per cent increase in direct tax collection. The government is aware of the liquidity crunch, but this will be sorted out by December 30. It will bring liquidity back into the system, but at a reduced level of about 9 per cent of GDP.



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The government knows that a squeeze in liquidity can negatively affect economic activities. Therefore, it has a roadmap to revitalise GDP growth. The increased current account and savings accounts deposits of banks will reduce their cost of funds and increase availability of funds. The government will focus on credit offtake through startup, standup, mudra loans to medium and small and rural sectors of the economy at the reduced rate of interest. Real estate prices have started falling, and with the fall in rate of EMI, housing will come within the reach of the common man and will boost the construction industry. If the black money in circulation does not come to RBI through the banks, it will reduce the liability of the Central bank, bringing several benefits to the economy, but this will be achieved only when black money is not recycled; therefore temporary restrictions on withdrawal. With higher tax compliances, the government will be able to create a premium on honesty and move towards lower rates of taxation, as already hinted by the Finance Minister.

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