GS-III: The great disruption of 2016

Context

India’s overnight ban on high-value currency notes in 2016 was a shock.

Studies

- According to a study published recently by the US National Bureau of Economic Research, demonetization reduced jobs by up to 3%.
- It also hurt economic activity by a similar magnitude in the first two months after it took effect.
- Research has also found that the exercise aimed at spiking black money, curbing corruption and depriving terrorists of funds led to a 2% decline in bank lending in that period.
- The research paper examines the impact of demonetization across the country at the district level to make national-effect estimates.

Research

- The research method employed reveals that the note ban’s shock was felt unevenly across the country.
- Some regions were hit harder than others because they had a higher proportion of high-value notes in circulation.
- The study’s period of analysis has not captured the secondary effects of the ban which are still being felt.
- Late 2016 disrupted a recovery of India’s economy and sent it into a prolonged slump from which it is yet to emerge.