

Major Positives:

Infra push and government deficit: Government will be the major immediate beneficiary. The black money which is not returned will reduce RBI's liability and there will be income by tax and penalty. This money will push infra and will cover deficit. This coupled with focus on tax compliance will raise the Tax to GDP ratio and will improve tax collection.

Lower Inflation: Price level is expected to lower due to moderation of demand. For real estate and property, the prices are largely expected to fall, especially in sale of properties where major part of transaction is done in cash rather than other mediums.

Room for rate cut: Lower inflation, lower currency availability, and weak industrial growth will create pressure for rate cut

Major Negatives:

Lower consumer demand: A large part of the black money will go out of the system creating immediate negative impact on demand and this impact will not be reversed as that money is gone forever. Plus, cash crunch is affecting a lot of industries and sectors like agriculture, consumer products, transportation, small traders, retail etc. who will face lower demand as long as there is cash crunch.

Industrial slowdown: Real estate, NBFCs, and auto to some extent will face the maximum burden of demonetization. Worst situation will be for real estate as it used to involve a large amount of unaccounted cash. It will have serious negative repercussion on a number of linked industries like cement, steel, electrical, paints, housing finance, etc. and also on labor. And the impact will last for long a large part of cash has left permanently.

Conclusion:

Government will have more funds for infra, inflation would remain low, but it would also be offset by lower consumer demand and slowdown in several key industries. For the next one year the impact on GDP will be decidedly negative and only in the long run it would help creating a better business environment.

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