

Modi's war on cash pushes Indian economy into contraction: Hanke

January 5, 2017

Criticising Prime Minister Narendra Modi's decision to demonetise higher value currency notes, noted American economist Steve H Hanke today said India's "war on cash" has pushed its economy into contraction as anticipated.

"#Modi has officially steered #India's economy into contraction as a result of his war on cash. Just what I anticipated would happen," Hanke, an American applied economist at the Johns Hopkins University in Baltimore, Maryland said in a series of tweets.

"Manufacturing takes the hit as the war on cash in #India adversely impacts the economy. #Modi," he added.

Hanke, who is also a Senior Fellow and Director of the Troubled Currencies Project at the Cato Institute in Washington, DC further said, "Demonetization will cause #India to slip from the leaders board for economic growth in #2017."

Referring to interest rate cut by some Indian banks post demonetisation, the eminent economist said, "Indian #banks have slashed interest rates to stave off economic decline and to spark investment. A #demonetization disaster @zerohedge."

Prime Minister Narendra Modi on November 8 had announced demonetisation of Rs 1,000 and Rs 500 notes making them invalid in a major assault on black money, fake currency and corruption.

Following demonetisation, the manufacturing sector contracted in December as new work orders and output took a knock for the first time in 2016.

The Nikkei Markit India Manufacturing Purchasing Managers' Index (PMI) -- an indicator of manufacturing activity -- fell to 49.6, down from 52.3 in November.

The index came in below the crucial 50 threshold -- which separates contraction from expansion -- for the first time in 2016 in December.