

Impact of Demonetization on Various Sectors

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Abstract- *The demonetization had a great sound and immediate impact on the Indian economy. In this paper, an attempt has been made to find impact of demonetization on the various sectors such as Indian economy, agriculture sector, tourism sectors etc. Samples of 200 responder's in a town of 4.5 lakhs population. It is found that four variables namely gender, age, annual income, occupation have significant association with the impact of demonetization. It also result that demonetization helps to destroy black money is the first ranking given by the respondents and it is followed by corruption, terrorism fund, black money.*

Keywords- Demonetization, Black Money, Corruption & Currency, Tourism Sector , Auto Sector ,Etc.,

I. INTRODUCTION

“Demonetization is the withdrawal of a particular form of currency from circulation.” Through demonetization the old currency is replaced by the new currency or a currency circulation is blocked. There are multiple reasons why a country demonetizes its currency; some reasons include checking the inflation, to curb the corruption and to promote the cashless transactions. Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. Demonetization is nothing but a government is calling a legal tender invalid mostly governments legal tenders are the currencies .India 500rs and 1000rs notes, which made up to 86% (Of which 500rs notes made up to 46 % and 1000rs notes made up to 40%) of the money supply in India at that time were called invalid from 12 am of Nov 9th 2016 by our Prime minister Mr. Modi. Government of India took a crucial decision to demonetize Rs.500 and Rs.1000 currency notes on 8th Nov, 2016. It was the biggest decision taken by the government to handle black money in economy. It was the sudden announcement which didn't allow black money holders to manage liquid cash. At the beginning Indian economy felt the shortage of liquid cash because of which people had to suffer a lot. At initial level government allowed people to get their money exchanged

with new currency notes as well as deposit old money in bank account which created a chaos in banks for some days. Somehow the situation now a day is stable as it got approximately 5 months to release limit on note issues from ATM.

II. LITERATURE REVIEW

In his research article entitled “Demonetization at glance in Indian scenario: A conceptual study” described an insight about the demonetization. This paper is based on descriptive design with the involvement of secondary data. The researchers stated that in a very short period there would be more serious effect on persons earning income in cash as well as spending in cash while impact will be up to a lesser extent on those earnings in non-cash form but spending in cash. Some suggestions have been recommended at the end of the study to smoothen the way of demonetization and for treatment of issues resulting from demonetization. [1]

In his research article “Demonetization and its impact on Indian economy”, mentioned about the significance as well as challenges of demonetization of currency notes. Secondary data was used for this study collected from various newspapers as well as websites. The researcher concluded through the study made that no doubt this move was going to disturb the routine life of common man influencing largely the unorganized sector including organized sector up to a limited extent but the real consequences of move will have bigger implications on the Indian economy as a whole in the long run. [2]

In his research article “Impact of Demonetization on Indian Automobile Industry: A Special Reference to Car Industry”, described the positive and negative impact of demonetization on Indian automobile industry. His study deals with impact of demonetization on auto industry, with special reference to car industry as most of the purchases are made through cash transactions. The scope of the study is limited to car industry. This conceptual study focuses on few aspects such as, impact on sales and customer perception about the car purchase post demonetization. [3]

In his research article “Demonetization: Impact on Indian Economy”, described the positive and negative impact of demonetization on various sectors like agriculture, common people, informal sectors etc. Most of the business in India has cash transaction with less than 2% business transactions taking place electronically. [4]

In his research article “Effects of Demonetization in India”, explained impact on Indian economy. The study is based on secondary sources of data information collected from Different books, Journals, Newspapers and relevant websites in order to make the study more effective. Data is analyzed and put into the points that to clearly know the facts in the means of list. The study attempts to know the effects of demonetization on common man.[5]

In their working paper stated in favor of demonetization its main objective is to analyze the impact of demonetization on Indian economy. This paper shows the impact of such a move on the availability of credit, spending and level of activity and government finances.[6]

In his research article “a study on people impact of demonetization”, described demonetization had a great significant and immediate impact on the state of the Indian economy. Researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System. [7]

III. OBJECTIVES OF PAPER

- To describe the demonetization concept in India.
- To analyze the positive and negative impact of demonetization on Indian economy.
- To know the effects of demonetization on Agriculture.

IV. METHODOLOGY AND OBJECTIVE

Data collection:

There are two methods of data collections.

1) Primary data collections method.

The research project is analytical in nature. Primary data is collected through well-structured questionnaire. The research project is mainly based on primary data. The sample size is 200 respondents in a town of 4.5 lakhs population. The questionnaire survey was conducted on selected shopkeepers based on convenience sampling method. The collected information were reviewed and consolidated into a master

table. For the purpose of analysis the data were further processed by using statistical tools.

2) Secondary data collection method.

The paper is also based on secondary data. The data has been collected from internet as well as newspaper. Graph and percentile method has been used to analyze the data.

V. IMPACT OF DEMONETIZATION ON VARIOUS SECTORS

Demonetization in Other Countries

The demonetization concept is old for the world but new for India. There were other nations that tried demonetization in the past. Table 1 gives the details of demonetization efforts by the countries around the world.

Table: 1 Demonetization in Other Countries

Sr.no	Country	Year	Reason
1	Ghana	1982	To control on black money
2	Nigeria	1984	To curb black money
3	Myanmar	1987	To curb black money
4	Soviet Union	1991	To decrease the market of black money
5	Australia	1996	To stop counterfeiting
6	North Korea	2010	To stop the black market
7	Zimbabwe	2015	To solve the problem of hyperinflation and to stabilize the economy

• Impact on Rural Economy

Agriculture sector is a major part of the rural and national economy. Demonetization also affected the allied agricultural industries like tractor Manufacturers farm equipment manufacturers, etc. along with the overall village economy. Lack of electronic payment services in the rural sector has significantly reduced the buying power of the rural consumer.

• Demonetization effect on the agriculture sector

There are two types of impacts of Demonetization on Indian Agricultural Sector.

Negative Impact: Cash is the basic mode of transaction in agriculture sector. Almost 98% farmers in India they use hard

cash in agriculture sector, due to this suddenly create temporary stress in the system. Transport, marketing and distribution of crop to wholesale center's or mandis are cash-dependent. Production in 2016-17 could drop if sowed acreage reduces for want of enough seeds on time to exploit the adequate soil moisture. Yields could fall from late sowing and subsequent exposure to rough spring weather, the lack of sufficient or timely application of fertilizers, pesticides, etc. Demonetization also affected the allied agricultural industries like tractor manufacturers, farm equipment manufacturers, etc. along with the overall village economy.

Positive Impact: With abundant money, the government can complete the pending irrigation projects so that more land comes under irrigation and two crops instead of one crop can be taken by farmers. The bank interest rates started dropping which would reduce the capital cost and farmers can now go for farm mechanization. Government would build cold storage chain thereby reducing wastage which are 80, 000 crores annually.

- **Demonetization effect on Banks and other institutes.**

On ground, Microfinance (MFI) and asset finance/ individual focused NBFCs are the most impacted companies by demonetization. MFIs are not able to collect from the borrowers and simultaneously they have limited their disbursement plans. NBFCs with liquid cushion are able to stick to their plans while others are in the process of short term funding (commercial paper) from Private investors or Institutional NBFCs. Individual focused NBFC and MFI will face liquidity issues in the short term and are expected to face higher delinquencies level for H2FY17 period. Despite, NBFCs and MFI will sail through in long term given strong penetration with regards to unorganized borrowers and much more effective credit appraisal as compared to banks.

- **Demonetization effect on the Auto sector.**

The automobile sector got severely influenced by demonetization. It has resulted in drop down of sales of large equipment's and machinery. However, if this rule continues to exist, it will result in terrible situation of unemployment. The government's demonetization programme has had a very negative impact on the sales of automobiles in November, 2016. Society of Indian automobile manufacturers is calling it a temporary disruption. India being the growing economy, the Global auto players have penetrated into Indian market, which basically characterized by demand for Hatchback and above car variants, for which most of the sales happen through money transaction

- **Demonetization effect on the Tourism.**

Popular Tourist Destinations of Indian people like, Maldives, Hawaii, Thailand, Singapore, Malaysia, Vietnam, Sri Lanka, Nepal, China, Indonesia and Dubai will see negative impact in tourism revenue. Indian Domestic Tourism will also get affected as they lose large tourist of the pay-in-cash-only clientele. Illegal foreign currency conversion is also reported to be badly hit, because they were big acceptors of Rs500 and Rs1000 denomination currency.

VI. CONCLUSION

So the study shows that initially the demonetization effects on market were painful but this also instigate the shopkeepers and consumers to adopt cashless means such as paytm, debit card use, internet banking to buy goods. Luxury items will have a drastic negative impact. Majority of the people spend their undeclared income on such products. After the decision, it is likely that all luxury segments like clothing, electronics, luxury car, furnishing and allied business will take a hit. Media and hospitality industries are also likely to get affected. Sectors that we feel will not be affected are– Pharma, FMCG, Education, Hospitals, Energy and Telecommunication.

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