

Demonetization Impacts on Indian Economy and Social Sector

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Abstract- *Demonetization is one of the biggest steps taken by the BJP government in India on 8th November 2016. The announcement made by our honourable Prime Minister Sri Narendra Modi Ji, the ban of 500 and 1000 currency notes in order to make cash less economy, corruption free and remove black money from the economy. This was necessitated to tackle the issue of counterfeit Indian banknotes, to effectively nullify black money hoarded in cash and curb funding of terrorism with fake notes. Further, these steps forwarded to digitalised payments and cashless economy. The demonetisation has made impacts on Manufacturing sector, Service sector and Agricultural sector. Some sector shows positive improvement and others were crashed down. We should congratulate the entire government and hidden brains of our democracy who made this decision to be implemented. This paper has made an attempt to analyzing the impact of demonetization on various sectors of economy and as on social sectors. The study is done on secondary data and on descriptive analysis.*

Keywords- Demonetization, Indian Economy, socio, impact on various sectors.

I. INTRODUCTION

It gives us a pleasurable moment to see some sort of changes in Indian environment. Not sure, the economy will be shined exactly and too instantly as what a common layman of India anticipates on today's demonetisation impacts to the various sectors. Money tree of corruption is grown as a titanic. One arrow never kills the thousands of evil of corruption. It is only a start up bricks for the construction of future in a better way of economy. This is not the first time the government has banned currency. Earlier, during pre independence period of January 1946, currency note of 1000 and 10000 rupees were withdrawn from circulation and new currency notes of 1000 and 500 and 10000 demonetization rupees introduced in the year 1954. On 1978 government of India changed the currency notes of 1000, 500 and 10000 rupee. Now, the Indian Prime Minister Narendra Modi took a historic decision on November 8 by announcing that the high denomination notes (Rs 500 and Rs 1,000) then in circulation would cease to be a legal tender.

The demonetization initiative has caused a sudden breakdown in the some sector and the unbanked and informal economy is hard hit. Trade across all aspects of the economy has interrupted, and sectors like agriculture, manufacturing, and the huge informal market were almost shut down during the initial days of announcement. The informal sector in India signs to invite an unpredictable moment. And more than a majority of the people unbelievably they imagine how would they trade a cashless transactions with zero base knowledge. Disruption to this system could endanger the employment and livelihood of weaker sections of society. The change disturbed the lives of ordinary people, led to widespread and even many poor people missed out a daily income.

With the demonetization effect exchange of the old currency notes coming to an end, with the estimation of banks many people are forced to open accounts to save their money. Opened about 30 lakh (and still counting) new accounts since the demonetization drive began on November 8. India's largest bank, State Bank of India (SBI), with its 17,097 branches half of which are in the rural and semi-urban areas – is opening 50,000 accounts a day. The leading consumer e-commerce companies in India (Flipkart, Snapdeal, Shopclues, CCAvenues, Ola and Oyo Rooms) have applauded the move, saying it will pave the way for digital payments, aid the process of financial inclusion and the overall transformation in the economy will translate into long-term benefits for the industry. Payments companies Paytm and Free charge saw a surge in adoption of their digital wallets. According to market experts, the growth of digital payments and wallets is the first phase of the impact and will give big boost to lending and credit as the digital records of merchants will expand and create more demand in the second phase.

Even demonetization created impact on medium and long sector and reduction in overall investment in both formal and informal encountered. But this effects illegal activities get abolished and there is no channeled to generation and corruption of money backed to economy. According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000 rupee currency notes formed 86.4% of the value. In

one stroke, the government removed 86.4% of the currency in circulation by value. In terms of volume, the currency notes of these two denominations formed 24.4% of a total 90.27 billion Pieces. Also, RBI data showed that as of March 2016, 632,926 currency notes were counterfeit—known as an FICN (Fake Indian Currency Note). As a proportion of NIC (Notes in Circulation), the 1,000 rupee and 500 rupee notes were the highest. Nullifying these FICNs was also part of the demonetization move.

Now we need to talk about the impact of Demonetization on Indian Economy Sector. First economy can be bifurcated in three broad segments Agriculture Sector, Manufacturing Sector and Service sector. All these three sectors are the major components where contributes to Indian GDP.

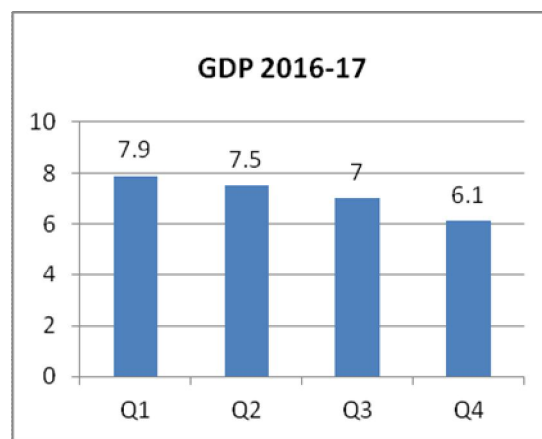
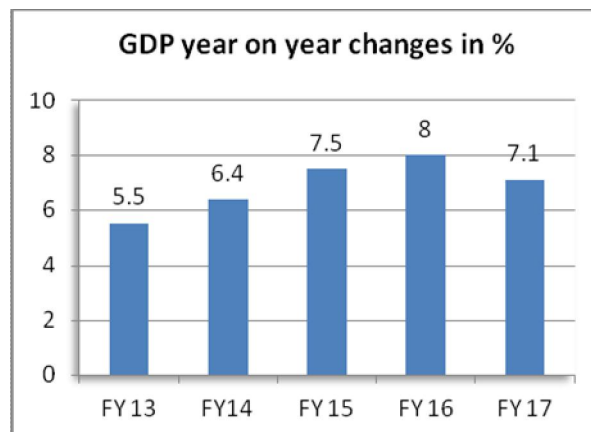
II. OBJECTIVES OF THE STUDY

- To analyze the impact of Demonetization on GDP.
- To analyze the impact of Demonetization on different sectors of economy.
- To analyze the future impact of Demonetization on Indian Economy.
- To analyze the socio culture impact of demonetization.

The Probity of the Demonetization in the Economic Development

1. To track fake currency
2. To cutoff the supply line of money, arms and ammunition to terror funding
3. To transfer Indian economy into cashless economy
4. To bring tax evasion to halt
5. To unearth and curb the black money
6. To curb illegal and unethical business activities such as, the black marketing of spurious goods, human trafficking, smuggling of gold and drugs.
7. Effect on parallel economy
8. Effect on money supply
9. Effect on demand
10. Effect on prices
11. Effect on GDP
12. Effect on bank
13. Effect on online transaction and alternative modes of payment

Demonetization pulls down India GDP growth rate to 6.1% in Q4 2016-17



Sources from: www.livemint.com

India's economic growth slowed to 6.1% in the fourth quarter ending March 2017, compared with 7% in the previous quarter, as the government's note ban decision slowed activity in cash-dependent sectors. Government data showed the gross domestic product grew 7.1% in the full financial year 2016-17, slower than 8% recorded in the previous year. After November's demonetisation drive, the government has come under criticism from opposition political parties and economists for putting a poke on India's growth story and triggering job cuts. "The impact of demonetisation was bound to show up on the growth figures," said DK Joshi, chief economist of Crisil, while forecasting 7.4% expansion in 2017-18.

"The economy was expected to outperform in the fiscal gone by with favourable monsoon and wage increase post-implementation of the 7th Pay Commission, which was expected to spur consumption in the second half of the fiscal," says Madan Sabnavis, chief economist of Care Ratings. "However, demonetisation had temporarily slowed down economic activities in the third quarter due to cash crunch," he said forecasting growth to rebound to 7.6-7.8% in 2017-18.

Below the chart light up on the various sectors quarters data and reveals the performance after demonetization in India.

Year on Year Change in %	Financial Year 2017			
	Q1	Q2	Q3	Q4
CVA at basic Prices	7.6	6.8	6.7	5.6
Private consumption	8.4	7.9	11	7.3
Investment demand	7.4	3	1.7	-2.1
Agriculture	2.3	4.1	6.9	5.2
Industry	7.4	5.9	6.2	3.1
Services	9	7.8	6.9	7.2

Sources from: www.livemint.com

Gross value added is a productivity metric that measures the contribution to an economy, producer, sector or region. Gross value added provides a dollar value for the amount of goods and services that have been produced, less the cost of all inputs and raw materials that are directly attributable to that production slowed to a growth pace of 5.6% in the March quarter, also the fourth consecutive quarterly decline. The Central Statistics Office maintained its earlier full-year growth estimate for 2016-17 at 7.1% on top of revised 8% growth in the previous financial year. The demonetisation seems to have impacted the GVA in the third as well as fourth quarter of 2016-17 which slipped to 6.7% and 5.6% respectively, from 7.3% and 8.7%.

The growth numbers reflected the lingering effects in the March quarter of the government's demonetisation of high-value banknotes with effect from 9 November, which triggered a cash crunch and disrupted business, especially in the unorganized sector. The labour-intensive construction sector contracted as a result of the cash shortage and regulatory changes, and financial services grew at an anaemic single-digit pace.

Aditi Nayar an economist opine that the distinct downtrend in GDP growth over the four quarters of FY17 suggests that the slowdown in growth that had already set in had been intensified by the note ban. "Demand and purchases during the festive season and a favourable base effect appear to have couched the impact of the note ban on consumption growth in Q3 FY17, which was followed by a sharp dip in Q4 FY17," she added.

India's per capita income in real terms in 2016-17 also slowed to a growth pace of 5.7% to Rs82,296 (\$1,276) against 6.8% growth last year. The construction sector shrank 3.7% in the March quarter, compared with a 3.4% growth in the preceding quarter. The announcement that a real estate regulator will be appointed to ensure higher accountability in the sector may have also contributed to the slowdown. Mining

picked up to grow 6.4% and so did public expenditure, rising 17%. Agriculture output growth slowed but stayed robust at 5.2% and financial services grew by just 2.2%. The manufacturing sector (5.3%) as well as trade, hotels and transportation (6.5%) also slowed from their levels in the preceding quarter.

Excluding agriculture and public expenditure, core GVA grew 3.8% in the fourth quarter, revealing the deeper impact of demonetisation and suggesting that economic activity would have been much slower without a substantial push in public expenditure. Growth in gross fixed capital formation, which is a proxy for investment demand in the economy, slowed sharply in FY17 to 2.4% from 6.5% a year ago. Private final consumption grew 8.7% in FY17 against 6.1% a year ago.

The statistics department also revised GDP data since 2012-13, incorporating the new wholesale price index and index of industrial production series which showed the economy grew marginally faster in 2014-15 and 2015-16 than earlier thought.

Credit rating agency Moody's Investors Service projected India's economy to accelerate to grow at 7.5% in 2017-18 and 7.7% in 2018-19 as the government has been able to limit the negative impact of last year's demonetisation on the economy. The World Bank also expects the Indian economy to grow at 7.2% in FY18 and gradually gather pace to touch 7.7% by FY20, a year later than Moody's projection.

Almost all sectors, with the exception of agriculture, showed deceleration in the aftermath of demonetisation. While the manufacturing sector output in the fourth quarter slowed to 5.3% versus 12.7% in the same period of last year, the construction sector slipped into the negative territory. Thanks to good monsoon, the agricultural sector posted a huge jump in growth as it expanded by 4.9% during 2016-17 compared to dismal growth of 0.7% in the previous year. Analysts say a normal monsoon along with ongoing reforms may push up the growth rate in Asia's third largest economy in the current year. Growth in gross fixed capital formation (GFCF), a gauge for measuring investment, was almost flat in Q4. Investment's share in GDP fell to 25.5% in Q4 from 28.5% a year ago. As companies scaled down investment, the country witnessed job losses. Sensing job losses in the past few months, Modi has recently set up a high-level task force under Niti Aayog vice-chairman Arvind Panagariya to fine tune jobs data so that the government can frame policies to spur employment.

In the last budget session of the Parliament, minister of state for planning Rao Inderjit Singh admitted that the overall unemployment has risen to 5% from just 3.8% in

2011.” The World Employment and Social Outlook report said: “Unemployment in India is projected to increase from 17.7 million last year to 17.8 million in 2017 and 18 million next year. In percentage terms, unemployment rate will remain at 3.4 per cent in 2017-18.”

III. IMPACT OF DEMONETIZATION ON INDIAN ECONOMY SOCIAL IMPACT

The information on demonetization was released suddenly and the worst affected was the common man. The social impact was drastic with marriages facing severe issues with cash transactions in marriages coming to a standstill. People conducting marriages must produce the marriage invitation to withdraw 2, 50,000 and above. This has caused great hassles among the public. The impact on the health care sector was huge with most of the hospitals refused to accept the old currency. The issue was faced by the Union Minister Mr. Sidharamaiah in Bengaluru when the hospital administration refused to accept the old currency to retrieve his brother's dead body. The common man faced severe issues transacting in the hospitals with old currencies and several cases of death have been registered for not attending the patients due to demonetization.

During demonetization we had seen a long queue before the bank. Despite of that it was not guarantee that the one will get money from the ATM or bank. Some people start moving to the bank from the last night. There was a severe shortage of cash.

The demonetization has a positive impact on the common people that now they the use of digital currencies got increased. So the people no need to carry physical currencies to any places which also reduced the crime rate. The price of some of the important commodities got decreased.

Salaried people faced the issue on the opening day of the month with their salaries credited in the bank account but were able to withdraw only 2,000 rupees from the ATM machines.

Many salaried people have gone to the bank branch to withdraw their full salary amount with loss of pay. Social problems in the form of road blockades and quarrels arouse with people waiting in long queues before the banks and ATM machines. People become restless spending an entire Day to withdraw money. Several deaths have been registered as the result of waiting in long queue.

IV. FACT AND FINDINGS

A) Impact of Demonetization on Business sector

As per the study IPP says Growth in Business sector 0.7% in October 2016 but after 8th Nov.2016 Demonetization shows a different picture because of this policy labour turnover is also increased as lack of Production because of low demand of products people were purchase only if it necessarily required, for this I have studied on following business sector

1. Textile industry

Most of the Brands and Retailers Report 40 to 60 % drop in sales after Demonetization in first few weeks but from December onwards this drop is slightly decrease, but still we can say the impact of this decision has affect the industry in 2017 also for at least 3 to 4 months.

2. FMCG Products

Consumer expenditures also affected by that decision now only those products are purchased which was necessary for daily consumption and mostly the small traders like ‘kirana store’, ‘small bodies’, ‘thela wala’ etc. they all have done their daily transactions only in cash and because consumer has less cash in his pockets the daily sells of these traders drop down by 20 to 30 %. It is also a short term impact in future things get normal.

B) Impact of Demonetization on Agriculture Sector

Growth of agriculture in India as per 2014-15 contracted 0.2% and grew no more than 1.2% in 2015-16, It was expected to grow at 4% in this year as per CRISIL Report, but due to Demonetization this forecast is proven because of no cash in the hands of farmer to buy Seeds, Fertilizer, Equipments, and Wages payment to workers and Commission to Agents etc. Because shortage daily supply transport system has also suffered which was result in 25 to 50 % reduction in sales Following is the main reasons;

I. Farmers are not educated and aware about how to work on E-Payment System, Recent study by RBI Says 78% of the population do not use internet in which almost 80 to 85 % are Farmers.

II. In most of the Villages Proper Banking system is not Developed yet and Villagers are need to go to the cities for the

same because of that Farmer's most of the time is engaged in exchanging the old notes in Banks.

C) Impact of Demonetization on Service Sector

Service sector is hit very hard by Demonetization decision in November 2016 worst Slump in nearly three year is noted. The Nikkei India Services Purchasing Managers' Index (PMI), which tracks services sector companies on a monthly basis, stood at 46.7 in November, down from 54.5 in October. The Index slipped into contraction territory for the first time since June 2015 and pointed to the sharpest reduction in output for almost three years. On other hand if we talk about Banking Sector this is the only sector which was benefited by that decision in many aspects, this move will pull a large chunk of first time users to banks, who will have to use the system at least once to exchange their old notes for new ones. According to a study conducted by Moody's, people tend to continue using banking services once they have crossed the 'first-time user' mark. This development will increase bank deposits by 1 to 2 percent compared to what they were before the demonetization scheme.

D) Impact to losses of job

There is a job loss due to demonetization, particularly in the unorganized and informal sector and in small enterprises. Because of no sufficient money available in the institutions many more people lose their job at the moment

V. CONCLUSION

With the present study shows that demonetization impact on various sector of economy and also on social sector. GDP of country also decreases as compare to previous year. It may not same in upcoming years and the policy help to draining the black money and to remove corruption. As the study demonetization impact on common people even by salary a person can not withdraw their salaries from bank and ATM. as result of credit deficit for that prime minister encouraged all to do their transaction throw mobile and other electronic ways. So for that economy is moving as cash less economy. With the fake money destroyed, Indian economy has seen reduced growth currently and the so far booming real estate sector is supposed to fall substantially.

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