

IMPACT OF DEMONETIZATION ON DIFFERENT SECTORS

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ABSTRACT

On the evening of 8th November 2016 India's Prime Minister Mr.Narendra Modi made an announcement in a broadcast that surprised the nation: From midnight onwards, the country's two largest-denomination notes, worth 500 and 1000 rupees, would be "demonetized", or no longer be recognized legally as currency. The plan to demonetize the rupee 500 and rupee 1000 bank notes began six to ten months prior and was kept highly confidential with only about ten people aware of it completely. Agriculture plays an important role in the Indian economy. Over 70 % of the rural households depend on agriculture..The consumers of rural farmer are not as advance as the urban middle class, which can be easily managed with a very little amount of cash. According to the government's latest growth estimates, the pace of growth will be impacted by slowing growth in the manufacturing and mining sectors and also construction activity. Clampdown on cash transactions and temporary cash crunch could hurt purchases particularly in the economy segment of the two wheeler space where the percentage of cash transactions have been high. However, as companies learn to work around it, demand may pick up by overall growth in consumption on the rural as well as the urban side.

Labour-intensive sector requires huge amount of money to be paid in cash to the daily wage labourers, majority of the respondents (56%) reported that they have been impacted by demonetization drive. Construction sector is severely impacted as majority of the respondents (74%) responded that Demonetization has led to lower collections in the form of customer advances as projects in early stages of construction are mostly dependent on these advances for construction progress and debt servicing. Demonetization smashed the real estate market and it will result in 50% drop down and it will remain for further 5 to 6 months. While the short-term impact is negative, Experts hoping that rate cuts in the coming months would boost home sales. Banks are the back bone of this entire process and also the biggest beneficiaries. Post complete exchange of currencies, banks should benefit from higher deposits and transaction volumes, lower cash handling costs and greater acceptance of digital channels. The decision of the central government to withdraw high-value bank notes to curb unaccounted cash will hurt education institutions that accept donations or capitation fees for admissions. As of now, private hospitals are not under any mandate to accept old notes. As a result, people are facing too much of trouble dealing with them. People found themselves unable to purchase medicines when required.As per the study IPP says Growth in Business sector 0.7% in October 2016 but after 8th Nov.2016 Service sector is hit very hard by Demonetization decision in November 2016 worst Slump in nearly three year is noted.

Keywords: Demonetization, Agriculture, Economy, IPP, Growth.

INTRODUCTION

On the evening of 8th November 2016 India's Prime Minister Mr.Narendra Modi made an announcement in a broadcast that surprised the nation: From midnight onwards, the country's two largest-denomination notes, worth 500 and 1000 rupees, would be "demonetized", or no longer be recognized legally as currency. . In their place, a redesigned 500 rupee note and a new 2000 rupee note would be introduced. The total currency in circulation in India was Rs. 16.42 lack crore of Rs. 1000 and Rs. 500 notes. The Indian government had demonetized bank notes on two prior occasions once in 1946 and then in 1978 and in both cases, the goal was to combat tax evasion by "black money" held outside the formal economic system. The logistical processes and preparations for printing the new rupee 500 and rupee 2000 bank notes began in early-May. The cabinet was informed about the demonetization on 8 November 2016 in a meeting called by the Prime Minister of India Narendra Modi which was followed by Modi's public announcement about the demonetization in a televised address.

IMPORTANCE OF DEMONETISATION

1. An attempt to put end to financial corruption
2. An effective way to fight the peril of fake currency notes.
3. Demonetization will expose those entities that have non-complied with the prevailing tax rules.
4. The government will improve the figure of the collected revenues.
5. Move towards a cashless economic framework.

OBJECTIVES OF THE STUDY

1. To study the impact of demonetization on different sectors in India.
2. To identify the findings and suggestions.

RESEARCH METHODOLOGY

The study is based on secondary data. The secondary data have been collected from various sources from books, magazines, journals, newspapers, published and unpublished articles websites etc.

IMPACT OF DEMONETISATION ON DIFFERENT SECTORS IN INDIA

I. Agricultural and rural Sectors

Agriculture plays an important role in the Indian economy. Over 70 % of the rural households depend on agriculture. Agriculture is the backbone of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. Farmers suffered a setback due to nationwide cash shortage and a fall in the demand for vegetables in wholesale markets. Farmers were not able to purchase inputs like seeds from market. They were using old seeds from the last year harvest and not purchasing new quality seeds from market. The consumers of rural farmer are not as advance as the urban middle class, which can be easily managed with a very little amount of cash. A farmer can take a day out from his busy schedule and manage to go to bank and get the cash back, however the limit on the amount withdrawal forces him to do that again and again and the banks in rural areas are some 20 or 30 kilometers the roads in rural areas can make it look like 50 kms.

II. Manufacturing Sector

1. Automobile

A. Two Wheelers: Clampdown on cash transactions and temporary cash crunch could hurt purchases particularly in the economy segment of the two wheeler space where the percentage of cash transactions have been high. However, as companies learn to work around it, demand may pick up by overall growth in consumption on the rural as well as the urban side.

B. Passenger Vehicles: The seasonal slowdown seen during November and December months could get more pronounced as consumers delay purchases due to temporary liquidity crunch and expectations of rate cuts. However, as most passenger vehicles are financed through loans, the blip would be temporary and demand may recover on the back of growth in demand in rural and urban areas as well as trickle down benefit of the 7th Pay Commission Payouts.

2. Commercial Vehicles: Slackness in the economy on account of demonetization could have a negative impact on the commercial vehicle volumes which have been under pressure in recent times. However, this slowdown may be short lived and demand may pick up, led by pre-buying in response to the changes in emission norms as well as a pickup in overall economic activity.

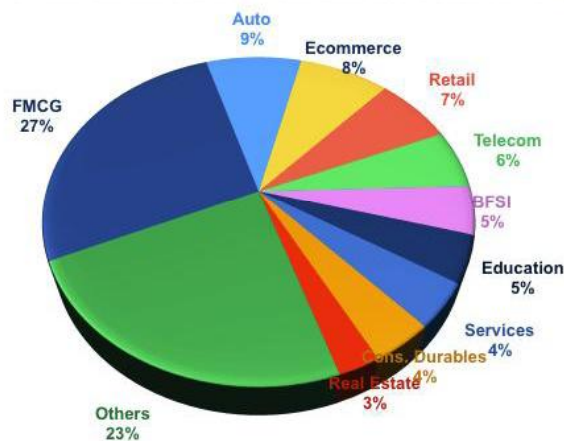
3. Construction Sectors: Construction sector is severely impacted as majority of the respondents (74%) responded that Demonetization has led to lower collections in the form of customer advances as projects in early stages of construction are mostly dependent on these advances for construction progress and debt servicing. The demonetization drive has majorly impacted the fate of the unskilled workforce in the construction sector as the sector absorbs maximum of the unskilled workforce after the agriculture sector. And these workers are working majorly on the daily wages in many of the construction activities in the country. Building materials, metals, cement, etc. sectors could see a slowdown in near-term demand due to their high dependence on real estate. Slowdown would be more pronounced for unorganized players wherein cash transactions are higher. Over time as demand for real estate improves, we would see growth come back for these sectors as well.

4. Infrastructure sector: Power demand and road traffic have been hit. Road companies faced short-term cash flow problems because they weren't able to collect tolls, but things are limping back to normalcy.

5. Labour intensive sectors (Leather, mining, textiles) sector: Labour-intensive sector requires huge amount of money to be paid in cash to the daily wage laborers, majority of the respondents (56%) reported that they have been impacted by demonetization drive. Restriction of withdrawals from bank is impacting the weekly payment to contractual workers in textile, mining and leather industries. Additionally, constraints on cash withdrawals is affecting the factory owners to fulfill daily requirements. This is negatively influencing the procurement and production in the labour intensive sectors. However, the impact will diminish once the cash flow is back to its original form.

Chart 1

SECTOR WISE CONTRIBUTION



III. 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 decision 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. Real Estate: Demonetization smashed the real estate market and it will result in 50% drop down and it will remain for further 5 to 6 months. While the short-term impact is negative, Experts hoping that rate cuts in the coming months would boost home sales.

3. 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.

4. Retail Sectors: The impact of demonetization is majorly seen on the retail sector since 88% respondents said that cash crunch is leading to low consumer demand of their products ultimately causing fall in their sales since Indian retail segment generates a lot of cash transactions. The impact is comparatively higher on the small traders and the unorganized retailing segment. Retailers who buy from wholesalers are worst hit, and will feel the pain for a while.

5. E-commerce sectors: E-Commerce companies saw up to a 30 percent decline in cash on delivery. Most of the orders that were placed with the cash on delivery option could not be delivered because the online retailers could not accept old notes. .E-payments options like Pay TM and Pay Money saw a rise. Payment through internet banking and debit or credit cards, mobile wallet payments are great too. E-commerce sites can start adding more options of payments and payment through popular mobile wallets too. Online retailers also have introduced impressive discounts for all the cashless payments. This encourages more customers to choose a payment method other than COD and claim their discounts

6. Gems & Jewellery Sector: Majority of the respondents (65%) reported that the impact of demonetization on Gems & Jewellery sector is quiet high since cash payment is the significant mode

of payment for purchasing jewellery by the substantial portion of the customers. The sector is impacted because people are not able to fulfill their daily needs. It is estimated that the domestic demand for gems and jewellery is expected to be muted in the near to medium term with the smaller jewellery retailers in the unorganized sector being the most impacted. Gold imports through the unofficial channels are likely to reduce.

IV. Impact of Demonetization on Service Sector

Service sector is hit very hard by Demonetization decision in November 2016. Worst slump in nearly three years 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 the 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.

1. Banking and NBFCs Sector: Banks are the backbone of this entire process and also the biggest beneficiaries. Post complete exchange of currencies, banks should benefit from higher deposits and transaction volumes, lower cash handling costs and greater acceptance of digital channels. We can expect a large amount of cash in circulation to be brought within the purview of the formal banking system by way of deposits. This is structurally positive for banks, as part of this cash gets deposited as current account and savings account (CASA) deposits, reducing banks' dependence on higher cost borrowing.

2. Media and Entertainment Sector: Due to slump in consumer spending in the wake of the demonetization drive, 68% respondents said that Media and entertainment industry is impacted majorly as viewership has dropped to a very low number. The drop in demand is comparatively higher from the lower middle class. The respondents reported that the businesses in cinema halls and the production of few films have come to a halt with the sudden decision from the central government on demonetization. Also, the impact of demonetization is majorly seen on the smaller and emerging players in the industry.

3. Education Sector: The decision of the central government to withdraw high-value bank notes to curb unaccounted cash will hurt education institutions that accept donations or capitation fees for admissions. The seats in the so-called "management quota" will not be up for sale by the institutions, instead will be in the hand of meritorious students.

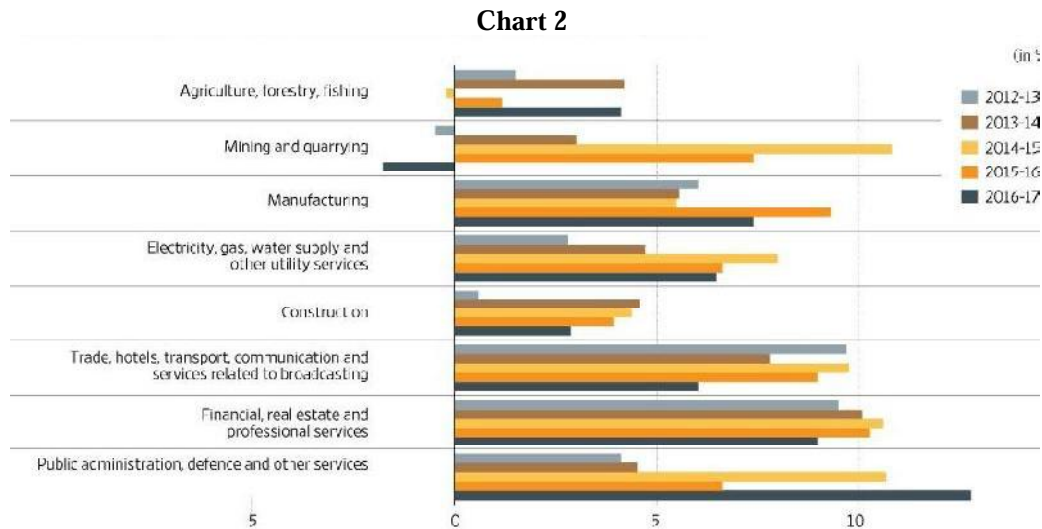
5. Health Sector: As of now, private hospitals are not under any mandate to accept old notes. As a result, people are facing too much of trouble dealing with them. People found themselves unable to purchase medicines when required. Several medical shops stayed shut for days as they could not accept the cancelled bank notes. Demonetization is not expected to have any major impact on the Indian pharmacy market and demand is not expected to get impacted in a big way. But it has negative impact in short run as sales likely fell 8% in November. However, luxury hospitals may see some impact due to spending cuts.

After demonetization 2012 to 2017 in different sectors like agriculture, manufacturing and business, service sector is more affected in demonetization. Agriculture and construction is down manufacturing sector also some defects trade and hotel transport, communication and service sector some better to compare with before demonetization and after demonetization.

FINDINGS

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. 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. Construction sector is severely impacted as majority of the respondents (74%) responded that Demonetization has led to lower collections in the form of customer advances as projects in early stages of construction are mostly dependent on these advances for construction progress and debt servicing. 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. Service sector is hit very hard by

Demonetization decision in November 2016 worst Slump in nearly three year is noted. According to the government's latest growth estimates, the pace of growth will be impacted by slowing growth in the manufacturing and mining sectors and also construction activity.



SUGGESTIONS

To improve the education system and banking system in India. Encourage the people to their payment paid through the online system. To elaborate the manufacturing industry with sophisticated technology. Because of this decision labour turnover is also increased as lack of Production because of law demand of products people were purchase only if it necessarily required, for this I have studied on following business sector. 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, which will have to use the system at least once to exchange their old notes for new ones. This development will increase bank deposits by 1 to 2 percent compared to what they were before the demonetization scheme.

CONCLUSION

The present study shows the impact of Demonetization on Indian economy's different sectors. GDP of Country slightly decreases as compare with the previous year but we cannot say it will be same in future also. Rural India is hoping the new year will mean back to normality on cash supply, if not, major disruption possible. Big rate cut will help, as will tax concessions on home purchases. RBI policy and budget are key. But sentiment improvement will be a very long process. Measures like tax cuts will improve sentiment. Sector specific innovations like card or mobile wallet payment on delivery will help. Provide more cash at various critical points in tourist destinations as most vendors don't have cashless payment systems at tourist spots, or have a massive drive to spread cashless transactions. The GVA at basic prices for 2016-17 from the manufacturing sector is estimated to grow by 7.4 percent, compared to growth of 9.3 percent in 2015-16, the data showed. The private corporate sector has a share of around 72 percent in the manufacturing sector.

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