

A Study on Impact on Demonetisation in Various Business Sectors

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Abstract

Demonetization means to change of currency by a government to stop illegal activities and transactions. India insisted its resolution of demonetization on 8th Nov 2016, by making the Rs 500 / 1000 notes, not as legal tender. Government tried to reduce four major issues: The storage of black money, corruption, fake currency, circulation and funding of terrorist activities in the country. Through this announcement of prime minister Narendra Modi,

The life of Indian citizens came to struggle to meet daily needs. They had no cash in hand and spent maximum hours in front of banks and ATMs to get cash. Also, this had an impact on growth rate of Indian economy. Demonetization majorly impacted ten sectors in India: Construction, agriculture, real estate, hospitality, tourism, manufacturing, financial, telecom, healthcare, and hospitality. The most affected sectors are real estate, construction, tourism, and hospitality. Though this paper, various sectors impacted through demonetization is highlighted.

Introduction

Demonetization was an act by the Indian Government to change the formal economic system and terminate black money in India. This act cleared around 86% of the Indian currency. It was also implemented to keep a check on the illegal activities like smuggling and terrorism. The existing five hundred and one thousand notes would not be used longer as declared as a legal tender. RBI gives guidelines for issue of rupees two thousand notes and five hundred notes: There were no changes in rupees one hundred, fifty, twenty, ten, two and one rupee continued as legal tender. At two earlier instances of India has witnessed for demonetization, i.e. January 1946 and January 1978. Rs 1000 and 10000 notes were demonetized on the first demonetization in January 1946. Whereas in January 1978, rupees thousand, two thousand and ten thousand notes were promulgated to demonetize. The first demonetization related to conversion, the second was termed as cumulating. Hence, it can be proved that the change of currency is not new for Indian economy. It can be understood that all the three instances had a common objectives to avoid the circulation of black money and illegal activities.

Impact Assessment: Overview of Literature

At the outset different economists have analyzed the impact of demonetization from various dimensions viz. impact on economic growth, real estate, small and medium enterprises, agriculture sector, informal economy, wages, employment, and digital transactions. One group of researchers supported the present move, while other eminent economists like Paul Krugman, Manmohan Singh, Amartya Sen, Kaushik Basu, Larry Summers and Raghuram Rajan have cautioned the adverse impact on economy. RBI has argued that the transient impact was observed in the beginning of the demo move but economy could sustain the earlier level by mid-February of 2017, reflecting the fast pace of remonetization. However, the economic reform process is key to sustain the long-run growth.

Economy

Impact: Demonetization plays in India's economy just when it was getting into a cruise mode, fired by good monsoon-led rural demand and Seventh Pay. Commission- enabled urban buying. Only a quarter of currency canceled is back in circulation, it creates difficulties for an emergency. Lower denomination notes are not available to facilitate transactions. The fall in demand is a greater risk in investment .The sharpest crash in services PMI since November 2008 in the aftermath of the global financial crisis underscores the risks.

Jobs

Impact: Expert says jobs at senior levels are not greatly impacted. But overall job hiring is down right now. Managers need to protect revenue and profit targets. No plans are relating for the job cuts. Remunerations and increment amounts may be impacted. It creates difficulties to pay remuneration for employees and also shows risk in estimating jobs. For sectors, where hiring is most hit, are retail, real estate, consumer goods, infrastructure, auto consumables, and building prod.

Consumerspend

Impact: The companies and analysts says that a big GDP contributor, will take a hit for at least two quarters. The two main problems are low circulation of lower denomination notes, and wealth erosion. Low circulation of lower denomination notes may be temporary but wealth erosion affecting big-ticket purchases. In November FMCG sales dropped to 20-30%. At store level eatables like snacks; biscuits were greatly hit. December can be worse than November. Since, consumer spent in the beginning of last month was unaffected. Totally nine million retailers who are depending upon wholesalers are worst hit. It will feel the pain for a while. Big, organized retail is going well. Annual growth rate is around 4.4%. Some big FMCG companies have reduced the production. Supply chains are greatly affected.

Realestate

Impact: People inside the real estate say there's a 40%-plus drop in inquiries and sales across key markets of Mumbai, Delhi, Bengaluru, and Pune. There were no changes in secondary market. In Bengaluru, nearly 60% dealings were closed. Most homebuyers are waiting for mass price reductions. Black money transactions and crash crunch creates threatening to real estate sector, near future is bleak.

E-Commerce

Impact: Maximum part of the e-commerce is bad, some of them good. The Gross Merchandise Value (GMV) for the online retail market fell by 40-50% in the first few weeks after demonetization. Things may remain unsupported till March. Even high-value items like expensive smartphones and laptops are selling less. Products returned are high by 50%, and experts feel consumer's sentiment won't work out here. But there is bright scope for digital payment (100% jump in transactions) led the industry for bright future. The essential items like grocery and food delivery set-ups are doing better.

Tourism

Impact: Demonetization badly hits the tourism. The business may be down by 40%. Tourism business in metros may go down by 10%. The hotels, airports, and resorts faced a big problem due to the cash storage. The card payment facilities have not applicable for all places like monument entry points. It creates difficulties even also for local tourism places, most of the tourism spots has not accepted the cards. It results in great drawback in tourism business.

Autos

Impact: The buyers are struggling to purchase a vehicle. The devalued currency cannot be accepted by the car dealerships and the new currency is not available in the system. Due to the demonetization the prospective buyers cannot implement their decisions and postpone those for a long time. It affects greatly in an automobile industry. The wholesale level for Maruti Suzuki, Toyota Kirloskar Motor and Tata Motors Were greatly hit. They preferred the new orders like Baleno, Brezza, Fortuner, Innova and Tiago. Hyundai India, Honda Cars India and Mahindra & Mahindra also seen some short-term impact on sales. Two-wheeler and commercial vehicles have also been hit harder. It shows the decline stage in automobile

Telecom

Impact: Mobile phone shipments fell 26% when compared with last month .The retailers were badly affected. Big sellers who do card and online transactions less badly hit. Telecom business shows the decline stage when compared with the post-demonetization.

Gold

Impact: Scared by government warnings, the sellers afraid to sell the gold for black money. Sale of gold against old currency also felt. There is no possible to convert the black money for gold due to the government threatening. NRI customers have fled. Sales are down sharply, and it was already a bad year for gold.

Agriculture

Impact: Villages have adapted in some ways better than cities. Government protects village people by providing some benefits to them. GOI allowing tax-free deposits of any amounts for farmers have led to many of them getting 20% premium from traders when transacting. Informal credit for daily purchases and use of old notes for key inputs and selling produce have kept the rural economy going. Crop planting increased to 20-35% every week after demonetization and remained higher than last year in all weeks after November 8 it may benefit to the farmers. But a lot depends on cash supply improving quickly in the new year it may decides the future of the Farmers.

Banking Sector

Impact: One of the objectives of the government's demonetization scheme is to inject desperately needed cash into India's mainly state-owned banking sector. "Non-Performing Assets" hobbled the Public sector banks (PSBs), primarily business loans that are not being repaid or paid only sporadically. NPA is greater threatening for the Indian economic growth. The deficiency of lending threatens in turn to gut economic growth, which has already declined sharply in key sectors including industrial production, IT, and merchandise export. As of June 2016, the banks' total NPAs stood at Rs. 6 trillion (\$90 billion), but these figures probably grossly understate the problem.

Conclusion

The magnitude of the decision by PM Modi to go in for demonetization is enormous. It involved criticism from all quarters and most inconvenience to the public at large. There was a considerable drop in economic activity by about 1 percent in GDP immediately after demonetization, and on account of currency squeeze even during remonetization period, there was an impact on several sectors of the economy albeit for a brief duration. The decision was also enormous since it involved complete secrecy in the printing of substantial amounts of currency, distribution through banks, etc.

Overall, the effects of demonetization on the economy can be said to be neutral. Initially, the economy suffered hiccups, and the informal sector was strictly affected. But the positive results of demonetization far outweigh the opposite outcomes. As per Moody's, Demonetization will strengthen India's institutional framework by reducing tax avoidance and corruption. However, it is too early to carry out any comprehensive analysis of demonetization till at least a year is completed. But it is a landmark initiative to deal with the problem of rampant corruption and black money in the economy.

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