



IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

Sateeshkumar G

Assistant Professor

Department of Commerce and Management

Government First Grade College, Tumakuru

E mail Id: sateeshkumar.g1@gmail.com

ABSTRACT

The reason for this move was simple: Indian Ministry of Finance claimed that 500 and 1,000 rupee notes are being used to finance terrorism, fund illegal drug sales, fuel the black market, drive counterfeiting, and pay bribes. This so-called —black money had to reputedly built up to such epic proportions that Prime Minister Modi declared that enough was enough, that he would be take it upon himself to wash his country's currency supply in one fell swoop. Demonetization can be said as a „Surgical Strike“ on Black Money, Terrorism, Fake Currency, Unorganized trading, Real Estate, share market etc. on the other hand if we talk about the Indian industry on a broader way it can be categories in three parts Manufacturing sector, Service sector and Agriculture sector. After the demonetization only Agriculture sector shows some positive improvement while if we talk about the manufacturing and service sector both were crashed down and these will affect the whole Indian market in 2017 also. As of December 28, official sources said that the Income Tax department detected over 4,172 crore of undisclosed income and seized new notes worth 105 crores as part of its country-wide operations. The department carried out a total of 983 search, survey and enquiry operations under the provisions of the Income Tax Act and has issued 5,027 notices to various entities on charges of tax evasion and hawala-like dealings. The department also seized cash and jewellery worth over 549 crore out of which the new currency seized (majority of them 2000 notes) is valued at about 105 crore. The department also referred a total of 477 cases to other agencies like to the CBI and the Enforcement Directorate (ED) to probe other financial crimes like money laundering, disproportionate assets and corruption.

Key word: Surgical Strike, money laundering, disproportionate assets, Fake Currency, Unorganized trading, fell swoop.

I. INTRODUCTION

With effect from 8th Nov. 2016 Tuesday Midnight PM Shri Narendra Modi Ji Banned the Currency notes of 500 and 1000. It is a strict decision of banning regular 500 and 1000 rupee notes from circulation which is a result of finding 1.25 lakh crore black money. Within 3 days of that striking decision: - Rs. 35000 Crore Deposited in banks and approximate Rs 1500 Crore Black Money were destroyed. 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 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 contributed in Indian GDP.

II. OBJECTIVES OF THE STUDY

- A. To analyze the impact of Demonetization on GDP.
- B. To analyze the impact of Demonetization on different sectors of economy.
- C. To analyze the future impact of Demonetization on Indian Economy. Contribute 53% in GDP after Demonetization all the three sectors faces negative impacts

III. CONCEPTUAL FRAMEWORK :

Reasons behind Demonetization: As per my study Following is the main reasons behind Demonetization.

Black Money:- A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 % of total GDP. This is even bigger than the GDP of countries like Thailand and Argentina. So now after this Decision black money holders are left with just two options – either route this money through banks, declaring it to be their income or burn the stashed file.

Fake Currency & Terrorism: Terrorism is a frightening thing. But have you ever thought about how these terrorists get their money? Enemies from across the border have run their operations using fake currency notes. This has been going on for years.

Economy: The Major impact of this decision is on the economy because it gives highly positive impact on the economic Stability in near future. The coming six to seven months are expected to witness a considerable level of deflation. Sectors like real estate, construction material, Gold, unorganized trade and services will see significant pain in the near time.

Election: We all know how much black money is used by political parties. It will be a very tough task to use trucks of money at least for the upcoming five state elections. Now in upcoming UP election which was held in January neither of the parties can purchase the vote of poor people and Some trading

Unorganized Trading:

- 1.) Prices hike in Real estate sectors is mainly because of the involvement of black money, but after taking this decision the prices of property will surely come down to their real value.
- 2.) Unorganized dealing in share market will also be eliminated after this decision and this will gain positive result in the economic condition of the country.
- 3.) The problem of inflation will get solved with this step as the government will get more money in its pocket in form of taxes and undisclosed income.
- 4.) Banking system will also get strengthened as banks will be flooded with huge amount of money. This will also result in more economic development in the nation as the money will be channelized properly through banks. Drastic change in the elections going to be seen by everyone.

Less Cash Economy: It is not possible to make India Cash-Less economy, but for the development and making transparency in the economy we can say use of less Cash is possible. So for making people familiar with E-Payment and use of plastic currency.

Impact on Different segments of economy: There is short-term and long-term impact of Demonetization on different sectors of economy. Agriculture: □□The sector typically sees high cash transactions and therefore near-term impact could be seen till liquidity is infused in the rural areas. As farmers face a temporary shortage of cash in hand, it could lead to a delay in payment which in turn would hurt the related companies in the short term. As liquidity eases and cashless transactions gain acceptance, the fundamentals would be driven by the longer term drivers of normal monsoons and positive traction in acreage.

Manufacture: Auto mobile 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.

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. 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.

Consumption: Related sectors like consumer durables, FMCG, etc: The outlook is near-term negative as cash sales account for a significant chunk of sales for companies in these sectors. As customers and companies migrate to the cashless platforms, demand should come back making demonetization near term neutral. In the long term, demand may shift from the unorganized players to the organized players.

GDP: 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. This estimate is in line with the forecast of India's central bank, Reserve Bank of India, which in its last monetary policy had forecast GDP growth to be at 7.1 percent for the twelve months ending March. But this latest estimate does not consider the impact demonetization on the economy, "in the absence of sufficient information." While releasing the data, Chief Statistician T C A Anant said the figures for November were available and examined but "it was felt in view of the policy of demonetization of notes there is a high degree of volatility in these figures and conscious decision was taken not make projection using the November figure". This latest government estimate has been released almost a month before the standard release date of February 7. According to the data released Friday January 6th: "the Gross Value Added (GVA) at basic prices for 2016-17 from the mining and quarrying sector is estimated to decline by 1.8 percent, as compared to growth of 7.4 percent in 2015-16," a statement from the Central Statistics Office of the government said Friday evening. 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.

IV. RESEARCH METHODOLOGY

Type of Data The present study is quantitative in nature and secondary data will be used for the purpose of analysis.

Source of Data

The present study is based on secondary data. The sources of data include the facts released by Reserve Bank of India (RBI), Exchange, Central statistics office India and Different banks websites.

V. FACT AND FINDINGS

A.) Impact of Demonetization on Agriculture Sector:- Agricultural growth in India contracted 0.2% in 2014-15 and grew no more than 1.2% in 2015-16, largely because of back-to-back droughts. It was expected to grow at 4% in this year as per CRISIL Report, but due to Demonetization this forecast is proven wrong because Farmers are running out of Cash to buy Seeds, Fertilizer, Equipments, and Wages payment to workers and Commission to Agents etc. Because of Cash 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.

B.) 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 law demand of products people were purchase only if it necessarily required, for this I have studied on following business sector

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.

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.

I. 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. 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.

VI. 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. —This intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed, corruption will continue. It is sort of like a dialysis, more of a short term cleaning up than a solution of the problem. It needs to be repeated periodically. After study of Demonetization following questions raised for the year 2017.

REFERENCES

- [1] Gulati, Singh, Gurbir, (Jan. 2017) Impact of Demonetization on Textile industry, www.indiaretailing.com
- [2] Das, Samantak, (Jan. 2017), impact of Demonetization on Real estate, Chief Economist and national director, Knight Frank, www.livemint.com
- [3] Malik, Anghshu, (Jan. 2017), Impact of Demonetization on FMCG Products, Chief Operating Officer at Adani Wilmar Ltd., www.livemint.com
- [4] Kapoor, Mahimam, (2016), Impact of Demonetization on Banking Sector, www.bloombergquint.com.
- [5] Dec. 2016, PTI, New Delhi, www.dnaindia.com
- [6] Key Economic Indicators, Office of the Economic Advisor, www.indiaspend.com
- [7] Crisil, 2016, A Global S&P Company, www.indiaspend.com
- [8] Sinha, Sanjeev, (Dec. 2016), Demonetization impact, New Delhi.
- [9] Ashworth, David (Nov. 2016), Reasons behind Demonetization, www.marketrealist.com
- [10] Heng, How, Koon, senior FX investment strategist at Credit Suisse, www.bloom