



Demonetization: Economic impact on different sectors in India

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Abstract

The alteration of legal tender by an administration to control illegitimate actions and transactions is well-known as demonetization. The divisive plan of demonetization commenced by India on 8th Nov 2016, by announcing the Rs. 500 and Rs. 1000 notes not as permissible tender. The Government of India through this significant move sought to deal with four main issues: redundant ascend of black money, forged money distribution, corruption and aiding of fanatic actions in the nation. The life of Indian people with this declaration of Prime Minister Narendra Modi, came to a halt; an individual having numerous inferior currency notes unexpectedly grow to be prosperous to fulfill day to day requisites whereas the metropolitan middle class dependent on e-banking had no ready money in hand and devoted hours in line outside ATMs and banks to get hold of cash. The prosperous people who had suspiciously saved Crores in their homes, within a few hours turn out to be indigents. This had an extra special blow on slowing behind the escalation rate of the Indian financial system also. The impact of Demonetization was primarily on ten segments of the financial system in India as; Building, Manufacturing, Real Estates, Agriculture, Tourism and Hospitality, Financial, Aviation, Telecom, Healthcare and Automobile. The most horrible affected segments were Financial and Real Estate, Construction, Tourism and Hospitality. All the way through this paper short-term and long-term financial blow of demonetization on a variety of sectors of India are highlighted.

Keywords: Demonetization, agriculture, real estate, financial services.

Introduction

It was the time of sunset on 8th November 2016, Mr. Narendra Modi, the Indian Prime Minister made an announcement of sudden denomination of Rs. 500 and Rs.1000 notes. Astonishingly, the Prime Minister in its place of RBI Governor Urjit Patel proclaimed that the legal tenders of these bank notes from 8th November midnight would not be allowed in circulation. The deadline for replacing the scrapped notes were fixed till 31st of December 2016. The withdrawal from a bank are fixed at rupees ten thousand a day from an account and two thousand rupees from ATM from one account during 10th to 13th November. It was further altered to twenty-four thousand rupees from bank and two thousand five hundred from ATM from 14th November till 31st of December¹. But an individual would withdraw as per requisite by providing a legitimate purpose. A statement by Reserve Bank of India on 31st of March 2016 that these high demonetized notes embrace about 86% of overall money in the market. During the course of action Ninety-seven percent of previous currency were placed in depository prior to 31st December having the value of almost Rs. 14.97 lakh crore.

The economy can be first categorized in three broad segments before discussing about the result of Demonetization on Indian financial system as; Agriculture Sector, Manufacturing Sector

and Service sector. The Gross Domestic Product part of the entire three sectors is publicized in the table underneath.

Table-1: Sectors of economy and their share of GDP².

Sectors	Percentage Share in GDP
Agriculture Sector	17%
Manufacturing Sector	30%
Service Sector	53%

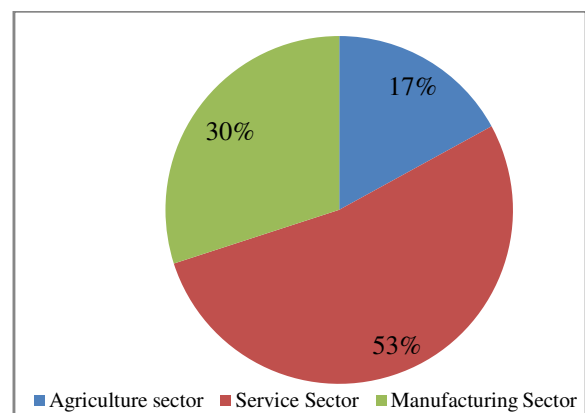


Figure-1: Percentage share of GDP.

All the three segments face downbeat crash subsequent to Demonetization.

Motivation: The key financial example and a brave step by the administration was demonetization during last year. Soon after Prime Minister confirmed about demonetization, discussions were in progress in the whole country. The happening of broadcast channels, from the offices, work places, streets everywhere everyone required to know the special effects of demonetization as it was not so apparent. We are among those who were engrossed, snooping and enthusiastic about the latest event. As an economics student we thought we should also have a knob on this issue as it is an economic concept and deals with the economics subject. This entirely stimulated us to hollow out into this topic.

Review of Literature

The past literature is important for a researcher to know about the problem. For the present study we have studied the following literature:

Nithin and Sharmila in their work experienced impact of demonetization on Indian Economy. They were of the opinion that demonetization has short term harmful impact on diverse segments of the financial system and such impacts are solved when the innovative legal tender notes are widely dispersed in the financial system. They also gave an argument that the government should clear all the problems produced due to demonetization and facilitate the economy to work efficiently³.

Vijay and Shiva scrutinized demonetization and its absolute economic insertion. According to them the rewards of demonetization are to a large extent cheering and the demonetization is in the long-term interest of the countryside. They articulated that it had given impermanent soreness but it trained financial lessons. It inclined banking industries to do by a long way speculation on digitalization of banking services⁴.

Lokesh Uke investigated on special effects of demonetization in India. He considered optimistic and pessimistic impact of demonetization in India. This work was stranded on resultant data accessible in magazines, newspaper, journals etc. The fundamental intention of demonetization is to do away with the black currency and curtail the sleaze. He articulated that Government of India has turn out to be an achievement to some degree. Demonetization had unenthusiastic impact for an undersized period on Indian financial markets. But he assumed that the genuine impact will be publicized in future⁵.

Objective of the study: In this work our purpose is towards the demonetization which were made earlier in different nations. To know the plans of these nations and what was the outcome, is also composed in this work. In order to recognize the feasible effects of our demonetization to lessen the rejections and to make more progressive ones by analyzing from the worthy

conclusions made by many nations and errors which they commit. In this work we proceed different opinions of various writers by accumulating a view point around conceivable results from their proposals.

Consequently, our work would furthermore give a hand in judging available subdivisions which hembroidered from demonetization in further arrangements for future strategies. Our work furthermore demonstrates for the government in order to have an assessment to look into the nations which already finished demonetization.

Methodology

The secondary data is mostly used for this piece of work which is acquired from Books, Journals, Reports, Articles, News Papers, Magazines and different Government websites.

History of demonetization: There were several incidences in India, when high value banknotes were demonetized. In 1938, Reserve Bank of India in print the upper most legal tender notes of Rs. 10,000. Then in 1946, the management made a demonetization of Rs. 1,000 and superior quantity legal tender notes. In 1954, the upper quantity depository notes (Rs. 1,000, Rs. 5,000, and Rs. 10,000) were reintroduced and again in 1978 these notes were made illegal in array to restrain unaccounted cash. In order to hold back the growing currency notes, the government for the first time in 1987 scrapped the Rs. 500 notes, but in the year 2000 due to inflation again Rs. 1000 banknotes were introduced for restraining currency size in the market⁶. Though, it was in November 2016 when Rs. 2000 banknotes were first time commenced. In the history of World various countries all along with India had done demonetization. Almost all the government of these countries that had done demonetization of high value notes had some mutual objectives to control black money and bribery and give relief from these problems to their people. The list of a number of countries that had made demonetization are as given in Table-2.

It is apparently evident from the Table-2 that nearly all nations mentioned in the table ruined desolately from demonetization. Based on the principal the triumph behind people of India is their loyalty and blind faith on government.

Effects on Different Sectors

Manufacturing Sector: Manufacturing sector has come down. It comprises only the recognized region due to which it shows merely very little deposit. Else, the deposit would have been a huge due to massive influence in manufacturing business of the formal sector. Everyone was in receipt of minor volume of cash at the time of demonetization that was only highly regarded to create the day-to-day expenditures of individuals or of family. The situation was same with the people who were running numerous manufacturing units. They suffered due to lack of sufficient amount of money for remunerate the casual labors.

The labors were unable to purchase anything due to shortage of currency and also the labors number goes sliding. Those days there are reports that the industry owners are giving old notes to labors. The deficiency of the workers, escort to not as much of production in manufacturing sector.

Real Estate: There is a considerable chunk in Financial, Real Estate and Professional services in the country. The situation can be understood by examining the fundamental features of the areas. Major dealings in real sector are agreed with cash for smoothing of business. In these conditions, society doesn't desire the online transactions as they are afraid of high level of taxes. At the time of demonetization people had smaller amount of cash with them as compared to usual times. A huge amount of black currency is invested in real estate, that is the reason these people have extra money as shown in actual revenue. These individuals have enough volume of money from the properties and are not able to disclose it. In order to amend the enormous amount that these individuals have by different means into the new currency, a large size of money is going obtainable in the market for running the tangible sector proficiently. That's why the adverse effect was very low. It is acquainted here that, for economic policy this sector is main responsive sector which amplifies fluctuating in various reforms such as, Tax Reforms, Rate of Interest, scrapping of old currency, Failure of Stock Markets⁸.

Influence on Consumption: Production and consumption have also predisposed owing to diminution in money supply as a consequence of demonetization. Due to plunge in money supply production takes a rain check and it affects the consumption first unfavorably.

Consumption ↓ → Production ↓ → Employment ↓ → Growth ↓ → Tax revenue ↓

Decrease in Prices-demonetization of currency leads to the decline of the prices for various products. The charges of end

user goods and the rates of real estate division are estimated to go down.

Surge in Deposits of Banks-Deposits in current account and savings bank account increases on account of demonetization. As administration made an announcement of demonetization, the money for the urgent situation intention held by the household sector will be put down within the banks, which will amplify the deposits within the banks.

Rise in Methods of Transactions-Owing to demonetization the cash dealings are facing a turn down, which increases the other substitute methods of dealings similar to make use of debit cards, credit cards online payments and dealings etc.

Decline of GDP in the Short Run-Due to the demonetization Gross Domestic Product will be displeased. The Gross Domestic Product of India possibly will go down as an outcome of demonetization. The degree of fall might be very fewer and it subsists merely for a petite extent of time. This fall could not have an effect on the expansion of the financial system⁹.

Consequence on Anti-Social behavior-Demonetization is an impressive blow on the anti-social actions. Financial support of anti-social activities, smuggling can be restrained owing to the demonetization. These anti-social activities deteriorate the financial system. It is easier said than done to the rebellious activists to make progress from this. So the rebellious activities can be restrained to a superior degree.

Consequence on additional Units of the financial system-Demonetization will have dumpy impact on farming, petite dealers, small merchants etc. as agriculturists are dealing with the fragile goods, not having further means of imbursement other than hard cash dealings and be short of require will have an effect on the farmers unenthusiastically¹⁰.

Table-2: The name of demonetized nations in world⁷.

Name of the country	Year	Aims	Outcome
Nigeria	1984	To fix, debt laden and inflation suffered financial system	Financial system distorted
Soviet Union	1991	To combat unfair income, smuggling and bribery	The USSR economic structure was primarily Trampled
Ghana	1982	To have power over black money	People bowed to far-off Cash
Myanmar	1987	Curtailling the black money	Thousands people died and lead to political clash
North Korea	2010	The market of black Money should be subordinated	Wretchedlyun successful
Zimbabwe	2010	descending out as of Hyperinflation	Disastrous

Conclusion

The decision of Indian Government to scrap the old currency for curbing the black money seems a failure, as just three percent of kala money shown be worn out and remaining Ninety-seven percent were deposited in banks till the dead line by the authorities. To announce demonetization shows a little impact on black money as was hue and cry earlier every were for showing the amount. The percentage Gross Domestic Product Tax, though will surge in panorama. Due to demonetization forging money market spontaneous shows a slow down for some time, the skill of collecting the currency of similar notes in little time was a challenge but in the stretchy time it restores the dignity of business in market.

The entry of Rs. 2000 in the market in place of recent scrapped notes fulfills their place very quickly and efficiently, but easing the way for bribe as it was easy to carry than previous notes. Some momentous points have been founded in this study, as compared to other nations concerning in little and stretchy time as shown and analyzed by previous demonetized nations. As the fate of demonetized nations are in front of us, we should be more vigilant in every aspect of our economy before making any advancement.

The financial system of India nearly in every part of the economy in short-run have been exaggerated unenthusiastically because of deficient funds. Though, the formalization of economy would be in long run. The need is government has to make focal point on informal financial system and necessitate in making suitable policies for them.

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