Impact of Demonetization on top 5 industries

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(1) ABSTRACT

Demonetization refers to withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new currency was demonetized first time in 1946 and second time in 1978. On November 2016 the currency was demonetized third time by the present modi government. This is the bold step taken by the government for the betterment of the economy and country. In this paper I want to discuss the impact of recent demonetization on the Indian system.

Key words
1) Demonetization
2) Black money
3) Counterfeit currency
4) Corruption

(2) INTRODUCTION

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

(3) SCOPE OF THE WORK

Demonetization- A broader scope

8 Nov, 2016 sharp at 8p.m, prime minister of India addressed the nation. All what people expected was a straight decision on the enemies outside the borders. But soon it turned into a war against the enemies within the borders. And expectations became apprehensions, the moment PM uttered”. 500 and 1000 rupee notes will become illegal tender from 9 nov2016”. The parallel economy estimated to be worth 476 billion USD crashed within hours. Leaving the stake holders of shadow economy shocked.

Also read: Union Budget Trimmed and Condensed. (Short version)
Soon after the announcement, the political arena awaited to host a fight between the supporters and the looters. Yes, opposition, to be brutally honest, a bunch of looters. As a result, we witnessed a gruesome scuffle, in both the houses. Well, that is a matter of political discussion. Let us not focus on the cheaper concept and concentrate on the broader scope of demonetization. Broader scope covers the long-term efforts on the economy, let’s start with its efforts on the banking sector.

**Indian Banks needs money**

A few months ago, government of India, had decided to inject 22,900 crore rupees into 13 public sector banks, in order to boost their credit lending capacity. According to a report by RBI, as on Nov 18, the total worth of currency handled by banks stood at 5.44 trillion rupees, well, a sum which is nearly 23 times of that allocated by the government. Even if half of the deposited amount is withdrawn still banking sector has nearly 2,00,000 crore rupees. Isn’t it heartening to see the banking sector revive again? Not for the black money holders but for general public it surely is. A report published in the Fitch rating said, “Indian banks will need 90 billion USD in total additional funds to meet global capital adequacy norms by 2019.” And surprisingly more than half of it is met by 2016.”

**Demonetization Promoters Digital Payments, Plastic Money.**

Roll back of old currency and introduction of new notes with a different design, is the transitional phase in the process of economic digitalization. Introduction of plastic money will make transactions safer, save a ton of money spent note printing, improve transparency and prevent black money hoarding. Digital payments will reduce the long queues at banks, providing major relief to the senior citizens. No chaos in the bank premises, payments at a click and efficient tracking of the transactions are some of the major economical goals. For a well settled, transparent, accountable and robust economy, digitalization is the need of the hour and demonetization is a harsh but swift step to achieve the target.

**Demonetization effects farmers.**

The first method to link the farmer with the digital payments platform was introduction of kisan credit card. Since, then, various other schemes and programs have been launched to empower the farmer. DBT through aadhar, conversion of KCC into debit cards, are some of the recent steps taken to promote farmers interest. The amount received by the banks in form of old currency has added to the credit lending capacity of banks and farmer is a direct beneficiary of the same. Flexible loans is presence of adequate capital with the banks is indeed a matter of joy for the farmers. To sum up, flexible loans, quick fund transfers, easy access to funds through ATM’s and concrete crop insurance policies are some of the amenities that the farmers is going to get in a couple of months.

**ATM’S & Paper Currency.**

In total there are about 101672 ATM’S in country. The number is not exaggerated but understand. At an average it costs about 5,80,000 to establish a single ATM. The monthly spending on maintenance is about 47,000. After multiplication is ignoring the maintenance costs, the total money spent on just establishing the entire network of ATM is 6.5 billion rupees. The amount could buy 2,15,000 bullet proof vests for army. According to former finance minister, the total cost of printing new notes would be 20,000 crore. Hefty
sum indeed for those who forgot 2.1 billion USD Indian money in American government account. More over after introduction of digital payments methods and plastic money the printing costs would reduce drastically.

**Digital Awareness & Demonetization.**

“Transactions without cash. It is possible.” The new tagline of the awareness campaign launched by government of India. Few methods of cashless transactions such as UPI (unified payments interface) USSD service etc.

**USSD Service**

The service is as easy as checking your prepaid balance. Just a few steps to follow. Works on normal mobiles, phones too. No need to worry if you don’t have working knowledge of a smart phone. Few codes to memorize is all that you require.

(4) **Literature review**

After identifying books and articles as useful, the next step is to start reading them critically to pull together themes & issues that are associated. If you do not have a theoretical framework of themes is mind to start with, use separate sheets of paper for each article or book. Once you develop a rough framework, slot the findings from the material so far reviewed into that framework, using a separate sheet of paper for each themes of that framework. As you read further, go on slotting the information where it logically belongs under the themes so far developed. You may need to add more themes as you go. Read critically with particular reference to the following aspects:

1) Note whether the knowledge relevant to your theoretical framework is confirmed beyond doubt.
2) Note the theories put forward the criticisms of there and their basis, the methodologies adopted and the criticism of them.
3) Examine to what extent the finding can be generalized to other situations.

As certain the areas in which little or nothing is known the gaps that exist in the body of knowledge.

**Develop a theoretical framework.**

As you have limited time it is important to set parameters by reviewing the literature in relation to some main themes to your research topic.

As you start reading the literature, you will realize that it deals with a number of aspects that have a direct and indirect bearing on your research topic. Use there aspects as a basis for developing your theoretical framework.

Until you go through the literature you cannot develop a theoretical framework & until you have developed a theoretical framework, you cannot effectively review the literature.
Literature pertinent to your study may deal with 2 types of information:

- universal
- more specific

In writing about such information, you should start with the general information gradually narrowing down to the specific.

(5) **Research Objectives**

1. What is the real purpose of demonetization?
2. Surgical strike on the parallel black money.
3. Get everyone to have a bank account.
4. Get every citizen in India to be monitored online.

(6) **Research Hypothesis**

1. Trust versus illusion.
2. Monetary versus in-kind exchange.
3. Cyclical dynamics of the demonetized sector.
4. Impact of demonetization among the public.

(7) **Research Methodology**

The word research is composed of two syllabus, re and search re is a prefix meaning again, new or over again.

Search is a verb meaning to examine closely and carefully, to test & try or to probe. Together they form a noun describing a carefully systematic, patient study and investigation in some field of knowledge, undertaken to establish facts or principles.

Research is a structured enquiry that utilizes acceptable scientific methodology to solve problems and create new knowledge that’s generally applicable. Scientific methods consist of systematic observation, classification and interpretation of data. Although we engage in such process in our daily life, the difference between our causal day-to-day generalization and the conclusion usually recognized as scientific methods lies in the degree of formality, rigorousness, verifiability & general validity of latter.
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(1) Banking sector

As directed by the government, the 500 & 1000 rupees notes which now cease to be legal tender are to be deposited or exchange in banks (subject to certain limits). This will automatically lead to more amounts being deposited in savings and current accounts of commercial banks. This, in turn, will enhance the liquidity position of the banks which will be later utilized further for lending purpose. However, to the extent that household have need on the funds for emergency purpose, there are expected to be withdrawal at the second stage.

Effect on online transactions and alternative modes of payments

With cash transactions facing a reduction, alternatives forms of payment will see surge in demand. Digital transactions system, e wallets & apps, online transactions using E-banking, usage of plastic money (debit and credit cards) etc. will definitely see substantial increase in demand. This should eventually lead to strengthening of such system and the infrastructure required.

Bank deposit rates to soften

We can expect a large amount of cash in circulation to be brought within the purview of the formal banking system by way of deposit. This is structurally positive for banks, as part of this cash gets deposited as current account and saving account (CASA) deposits, reducing banks dependence on higher cost borrowing. Deposit remains a challenge in the short to medium term due to the current tepid demand for credit, subsequently pushing deposit rates lower.

Payments banks to benefits

Payments banks and other entities which are part of the transactions ecosystem are likely to be long beneficiaries, as more cash finds its way into the formal banking channels. We believe the cumulative measures taken to reign in black money will improve banking habits, create financial and transactions history of the informal & cash dependent segments and could, over the long term, make them “bankable.”

(2) Real Estate

We expect that the real estate demand from end users is unlikely to be impacted, since a majority of them are backed by funding bank loans. Demand from investors for real estate however may down since in some cases, prefer cash transactions. If the proportion of earlier transactions in the real estate sector, which were allagendy done through partial cash payment reduces, the registered prices for real estate will go up. We except the supply of real estate in the secondary market, which is strongly rumoured to have a large cash component involved, to suffer in the short term, which may in turn improve demand for residential real estate in the primary market. In the medium term, the prices in the sector could regain on many fronts as developers rebalance their prices (probably charging more on cheque payments).
Tourism sector.

Demonetization has shed its gloomy shadow on the booming tourism industry in India. The onset of the winter travel season has been stymied by the unexpected storm of demonetization. People have curtailed overseas travel instead of exploring various local tourist destinations. Getting money from banks and ATM's continue to be a hassle with no respite in sight. The travel industries are facing a tough time. Many foreign trips sponsored by big brands largely done through cash transactions is negatively affecting tourism industry and revenues due to the ongoing cash crunch. India’s industry has been severely affected as the hotel have lost a large number of pay-in-cash-only clientele due to demonetization. Around 60 percent drop in hotel booking have been reported. At present the scenario of the Indian citizens are worse, even if they are rich in terms of money. The wealthy and luxury driven travelers are shifting their plans and in some cases cancelling holidays completely. It has resulted in a drastic transformation that has versus “from international tourism to domestic tourism.” No just travel sector, but almost all sectors are feeling the impact of demonetization. Not a single sector is immune to it. The accommodation section of hotels is much affected, but leisure segments like hotel banquets and high end restaurants are feeling the pinch as weddings are being called off and many pre-booking for different weddings ceremonies are also being cancelled. In addition to this, high end restaurants are too facing drastic change as people are replacing fine dining with pocket friendly eateries.

Automobile sector

The scrap page of notes of demonetization INR 1000 and INR 500 ha taken the nation by storm. The sudden announcement made by prime minister Narendra Modi on November 8th, 2016 threw citizens into a quandary and even though this would be a short term impact its ramifications would be felt throughout various sector. Automobile sector, the scrapping of INR 1000 and INR 500 notes has had a huge effect. In the month of November itself the bookings down 50%. The results of December 2016 have come out and they are even more shocking for the auto makers. Vehicles sales in India down to a 16 years low. For December 2016, vehicle sales declined to 1,221,929 units. This is a 18.66% decline. India last reported this kinds of vehicle sales bank in December 2000. Dealership across the country have reported a drastic dip in walk-ins and inquiries, in both urban and more particularly in rural areas. Business in Gujarat, Punjab and NCR has been more affected with buyers in there regions preferring to make payments by cash. Customers opting for finance options also make down payments in cash which has hence brought down sales considerably. This drastic dip in demand is even more pronounced in the luxury car market. In rural areas, sales of automobiles have dipped by around 40% and are expected to go down 60% as the cash crunch and as most farmers prefer to make payments by cash. To boost sales, auto dealership have been introducing various schemes. On the spot discounts to customer and hefty incentives to company sales teams who convert inquiries to sales have been offered. The dip in sales has also prompted auto manufacturers to bring down production.

E-commerce sector

Demonetization is the hottest new topic in the country. Financial analysts everywhere are talking about what the long-term impacts could be while several business and people are caught up in the unprecedented cash crunch that has been caused. With the retail business, Online money transactions and digital payments are not as difficult as they were before. This makes it easy for you to smartly tackle the sudden ban an old currencies.
How has demonetization impact the e-commerce industry?

Flipkart, Amazon, Snapdeal and many other online shopping sites are ruling segment. There e-commerce sites, however, took an unplanned spike in their revenue soon after the implementation of the ban on the higher demonetization currency notes.

Undelivered order

Most of the order that were placed with the cash on delivery option could not be delivered because the online retailers could not accept old notes.

Suspension of COD orders

Some of the retailers temporarily suspended the option of paying with cash on delivery (COD)

Expand the payment option available

Besides 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 through popular mobile wallets too.

Go cashless to make payments

Online retailers also have introduced impressive discounts for all the cashless payments. This encourage more customers to choose a payment method other than COD.

The impact on online payments

If there is one thing has been growing at a good pace after demonetization, it is online payments. More people switched to online payments. There has been a rise in the number of debit & credit card Transaction. Even smaller vendors have introduced cashless payments methods.

(8) Findings

On the same day that Donald trump was elected president of the units states, india also received an unexpected, earth-shattering announcement. However, theirs wasn’t of a disruptive, unconventional presidential candidate coming to power but of a disruptive new policy that would instantly shake up the lives of 1.25 billion people, rich and poor alike. At 10 p.m on November, india’s prime minister narendra modi announced that on the stroke of midnight all 500 & 1000 rupees notes-86% of the currency in circulation would cease to become legal tender. Modi demonetization man ever was a “shock doctrine” tactic to dismantle the cash- centric black market, to cleanse the country of counterfeit notes, to further digitize the economy and to get more of the modi plan called for the cancelled notes to be replaced by new 500 & 2000. Demonetization notes, but there were slow to be circulated, and india- the most cash dependent country in the world-suddenly found itself without enough cash to run its economy. As the clock ticked down to midnight on nov 8th a huge portion of Indian society instantaneously found themselves stripped of the ability to interact economically. Up to that point, upwards of 95% of all
transactions in india were conducted in cash and 90% of vendors didn’t have the means to accept anything but on top of this 85% of workers were paid exclusively in cash and almost half of the population didn’t even have bank accounts. Even uber accepted cash payments. Business shut down farmers couldn’t buy seeds, taxi & rickshaw drivers didn’t have any way to receive payments, employees had no way to pay their dues.

(9) **Recommendations**

(1) Demonetization of the Rs 500 & Rs1000 currency notes was an “advice” given by the central govt. that the reserve bank of india followed despite the short notice of less than 24 hours. This was communicated to parliament’s committee of finance, headed by congress leader M veerappa moliy, by the central bank through a seven page note. In its submission, the RBI also clarifies it had been working on the introduction of a new series of banknotes, with improved security features to prevent counterfeiting, over the last few years.

(2) “Through no firm decision was taken initially, whether to demonetize or not, preparations still went on for introduction of new series notes, as that was needed in any case, the report said. The report puts to rest the confusion created by statements from both within & outside the govt. that demonetization was suggested by the central bank and implemented by the govt. The RBI highlights that it was prepared with the introduction of Rs 2000 notes to tackle the problem of fake currency in the market & demonetization coincide with it.

(3) However, despite all the caution exercised to maintain the shock-value of the move a big chunk of black money has found its way back into the system feel analysis. “Perhaps there was a leakage in the banking system or banks were ill-equipped to track the black money that has sheaked back into the system. The RBI needs to seriously work with the IT department & other agencies to pull out this black money.

(4) Backing this opinion, statistics released by the govt. On Tuesday estimate nearly Rs 3-4 trillion tax-evaded money to have flown back into the banking system in the 50 days window post demonetization. The income tax department is scrutinising the accounts-in more than 60 banks-that had received deposits of more than Rs2lakh. Since Nov , which is estimated to be about Rs 7.34trillion more than Rs 10700 crore cash deposited in different accounts in the north-eastern states since November 9 & over Rs 16,000 crore deposited in different accounts of cooperative banks are under the IT department.

(11) **Conclusion**

Demonetization process is like a two faces of a coin because one side it will benefit the nation & other side it’s going to create some temporary & long term problems, we will discuss each side of coin one by one.

- **Benefits for the nation**
  1) Possible to stop counterfeit currency using for the terrorism activity.
  2) **Black money**: By demonetization of higher currency suddenly it will take out illegally stored money from the holders.
  3) **Transparency**: Moving towards digital economy may bring the transparency in the system.
  4) **Easy monitoring**: Digital payment easy to monitor cash flow.
5) Less chance of avoiding the taxes.
6) Transparency in the system will bring more invest from the foreign countries.

➢ **Draw back**

1) Losses to small vendors trade because of cash crunch.
2) Many people died because some hospital not accepted old money & rejected treat them.
3) Repeatedly changes in the rulers & misleading to the people.
4) Many people do not have Bank accounts in rural areas & hilly areas.
5) Lots of daily basis labours removed from the work.
6) Violation of article 14 (between holders & non-holders)

12) **Bibliography**

The bibliography should given a clear, complete description of the sources that were used while preparing the report. It is an alphabetical list as per the author’s surname.

**For a book**

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