

The influence of Demonetisation on Consumers of some selected sector In India

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ABSTRACT

Demonetization is the act of stripping a currency unit of its status as legal tender. It affect different sectors of the economy at large. In India demonetization took place on November 8, 2016 with withdrawing five hundreds and one thousand notes. The main purpose of this paper is to study the impact of demonetisation on consumers of different sectors such as e commerce, food and grocery industries, real estate, steel industry.

The study is descriptive in nature through the study and analysing some of literature review. The results of the study showthat the black money is prevalenceall around in India and as a result of the spreading the black money had caused menaces in the economy. The study also found that laws had to be implemented properly to demonstrate black money in our economy. This findings show the effect of such as a move on the availability of government finances, spending, level of activity and credit.

1. INTRODUCTION

The government of India has made a major change in the economic environment by

removing currency bonds - from Rs 1000 to Rs 500. The tender is no longer legal as of November 8, 2016. People have been granted until December 30, 2016 to exchange notes held by them. The Government's proposal to abolish these current observations involves gradual replacement and deliberation with new observations. In the short term, cash is likely to shrink substantially as there are limits on the amount that individuals can withdraw. In the coming months, this pressure can be mitigated somewhat.

1.1 Demonetisation concept and its impact

Demonetization is the act of changing the current currency in a different form. Old units are replaced with a new currency. (study dhaba, 2018) In other words, removing an identity means either entering new notes or currencies for the same currency or replacing the entire old currency with a new currency. There is one significant thing that exists in the economy, which is a re-recognition, where forms of payment are restored as legal tender. There are many reasons why governments are demonetizing their country's currency. Some causes of inflation resistance, resistance to

corruption, and also discouraging the country's monetary system. The impact of demonetization is on various sectors. The study throws light on the impact of demonetization on the Unbanked/ Inadequately Banked Villages, Mandi, Real Estate, Health Sector, Online Transactions & Payment Wallet, High-End Retail & White Goods, Household Sector and Cross Sector Credit customers.(TRASPAN, 2018)

1.1.1 Impact on Unbanked/ Inadequately Banked Villages

While the banking system is found to be in utter chaos in the cities and the metros because of 'cash crunch', the condition of the rural areas is worse. Almost every bank branch in rural areas provide service to more than double the number of consumers compared to their urban counterparts and much of the population in the rural areas are dependent on cash as the only mode of transaction, and therefore the impact of demonetization was more adversely felt by rural sector. According to a December 2015 Reserve Bank of India survey, each rural and semi-urban bank branch serves around 12,863 people compared to an urban and metropolitan branch which serves a lesser number that being 5, 351 people on an average. Moreover, many of these branches in the rural areas open just for a day or two in a week. ATMs again are most concentrated in the urban areas and not so much in the rural areas. Delhi, for instance, has 9,070 ATMs, more than Rajasthan, which is the

largest state in terms of size. (Source: Media Report).

It was observed that besides the farmers, most the small scale businesses in India are managed single handedly. These are reasons which explain why cash dominates small businesses in these areas. These sectors have been very badly affected and at places even been brought to a standstill by the impact of demonetization. Demonetization therefore, insists even the rural areas to move to a cashless economy. However, like every change that needs time to settle in, this sector also demands its fare share. It simply cannot be pushed to Paytm in a week or so, so brusquely to the extent that the consequence would simply result in choking the system. Its outcome in doing so would indeed be distorted. (INSIGHTSIAS, 2018)

Moreover, the relief that has been provided to farmers by the Govt are applicable for those having a KCC/Agricultural loan account. Small farmers who have no KCC/Agricultural Loan Account cannot avail the exemptions provided by the Govt to the farmers. They will be largely affected as they do not have the facilities of withdrawing INR 25,000 in cash. Generally small farmers do not prefer keeping lump sum deposits in bank accounts. This is partially due to low income and partially due to lack of awareness.(Source: Media Report).

1.1.2 Impact on Seasonal Workers/Daily Workers

The demonetisation move will have a horrendous impact on the lives of seasonal and daily workers, because most of these workers receive their wages on the basis of work they did per day. Apart from these, a large section of the countryside population for their daily bread and butter depend upon the sale of their produce which are perishable like vegetables, milk, eggs, etc. There will be a severe impact on the life of these hand-to-mouth producers as again they do not have sufficient savings to sustain their daily lives.(Source: Media Report).

1.1.3 Impact on Mandi

The financial surgical strike by the Govt. also has a pronounced impact on the vegetable market. Trade has been hit hard at the largest vegetable market in North India – the Chandigarh vegetable market as per Times Now Report. Drivers with the edible products loaded on their lorry coming from far off places like Indore and Nasik say it takes 2 to 3 days for unloading to happen since there is no money in the market for doing the transactions, as they are not able to sell the perishable farm produce. Traders claim "sales have dried up as cash has dried up" and at times they do not even have enough money to go back to their homes.(Source: Media Report).

1.1.4 Impact on Real Estate

Real estate is undeniably one of the most affected sectors due to the demonetization exercise. The number of buyers are expected to come down and consequently, the prices will slump in a short term. However, it will subsequently help in improving the sector's prospects. Unorganised builders will be most affected and the sector will drag down cement and ceramic sectors also along with it. A perspective contrary to this is that a majority of purchase transactions in this sector are backed by loan financing. Hence, it is unlikely that this sector would be much affected. Secondary market of this sector is supposedly driven by a large cash component. Hence, in short term, this particular sector may suffer.(INSIGHTSIAS, 2018)

1.1.5 Cross Sector Credit Impact

Sectors that are closely linked like real estate, cement, steel are likely to run negative credit. As a result of this the daily wage employment and job contracts will be impacted adversely as the construction sector is one of the biggest employers of such seasonal workers. However, this situation is likely to get neutralised in the medium to long term.

1.1.6 Impact on Online Transactions & Payment Wallet

Online transactions and payment wallets are seeing a surge already. Paytm, one of the largest payment wallets in India Today it saw a 35 million mobile phone deal and the DTH

recharges on the platform after the government's move to cancel the Ener 500 thousand 1000 comments. Apart from this, 20,000 small businesses in Hyderabad alone have adopted Paytm. This has by far been the most positive impact, eventually leading to the strengthening of such systems.

1.1.7 Impact on Health Sector

People going to the private hospitals for treatment suffer the ramifications of demonetization as these hospitals are not under any mandate to accept old notes. Reports have been made by the media that they are blatantly refusing treatment. While we do not vouch for the accuracy of the reports, we cannot, however, disagree that the chances of the same are very much present.

1.1.8 Impact on High-End Retail & White Goods

High-End Retail and the sale of White goods have also seen grave repercussions. White Goods such as Washing Machine, TV and Refrigerator could lull like good portion of the market for such items is driven by cash. A marginal impact will be there in food and grocery sector since these are non-discretionary in nature.(INSIGHTSIAS, 2018)

1.1.9 Impact on Household Sector

It is a common practice among Indian housewives to be setting aside petty amount of cash from the total sum given to run the

household. This little amount, concealed from everyone, usually grows as time passes and is used in the time of needs. The unprecedented move of scrapping the currency notes was no less than an assault on these personal savings. The monetary treasure stashed away in secret places have now been unveiled by the housewives as it is of no worth unless exchanged. However, relief has been given to housewives with respect to small amount of deposits up to INR 1.5 Lakhs-INR 2 lakhs.

In all, the key segments of the economy where cash transactions play a vital role are likely to get impacted in short term. A sudden demonetisation will witness immediate contraction and it will adversely impact these segments of the economy, though this impact will neutralise over time.(INSIGHTSIAS, 2018)

Summary of the impacts

After looking at the immediate aftermath of the demonetization move it seems difficult to gauge its effect in the long run. Nevertheless, India being the largest democracy in the world is bound to face some problems in one way or the other by insisting people to use a cashless economy. It is simply **not possible to ensure 100% smooth compliance** for any such huge transformation. However, as a result of this scheme, there is an obvious sudden short term decline in money supply and with bank deposits.

These, coupled with regressive impact on real estate and other consumption sectors is expected to lead to a reduction of GDP growth.

However, this is mostly a temporary and virtual shortfall and demand is expected to get deferred and replenished in the system once cash situation normalises. In all, if the liquidity problem is not solved at the reasonable earliest, i.e. by January at the least, demonetisation will have negative impact on the GDP.

2. Literature review

Cherylin T.I (December 2016) conducted a study on "demonetization as a prelude to complete financial inclusion". The main purpose of the research was to investigate the significance of demonetization as a measure of financial inclusion. Financial integration is the mainstay of providing affordable financial services to low-income segments of society. According to the report, financial inclusion can boost savings as well as availability of credit. Research shows that this move by the government may generate long-term benefits. Moreover the medium to long-term current account and savings account (CASA) ratio can be improved. In addition, demonetization will reduce cash transactions for properties that may reduce the prices of those methods that make them acceptable to the general public. Moreover, inflation in the near future will decline because of lower cash transactions.

M. Angel Jasmine Shirley (February, 2017) had studied about the "Impact of Demonetization in India" in her research. The first part of the paper was the impact over Indian economy had been explained. As per the research, the BSE SENSEX and NIFTY 50 stock had been fall near about 6% on the very next day. Moreover on the later, the country felt severe shortage of the cash. Moreover due to lack of cash overall production had decreased. Banks had not sufficient of new currency for the exchange of the old notes, which breakdown the overall economic system. Moreover in the paper impact of the demonetization over world economy also displayed. The thing that happened after demonetization was decrement in to overall consumption of commodities which get out in to reduce in the import-export. Moreover there was a big impact over the local sectors, reduction in the Government liability, farming and fishing industry, business, drop in industrial output, black money, impact over counterfeit currency, hawala, real estate, IT sector, jewellery and bank deposits etc. The results in this sector say that although demonetization is a good concept to seize black money holders, in form of land most of the black money had kept., gold, real estate etc.

People had met so much inconveniency because improper planning around the dimension of demonetization. Moreover for a number of days they spent their time queuing

up. To reverse all its negative effects, the methods are to focus on the tax side and to eliminate the availability of cash and gaps.

Chabi Gupta (December 2016) had studied about the payment banks and demonetization. To clarify its point of view. Firstly she has illustrated about the Indian banking industry. Payment banks are generally niche banking set up by RBI, payment banks offering saving accounts and small payment services mainly for low income household, small businesses etc. Then she has made it clear the overall effect of moving demonetization. As per Reserve Bank of India (RBI) the volume of currencies traded in March 2016 amounted to 16.415 billion rupees of this amount of 500 papers with a value of about 47.8% and 1000 value of 38.6%. Worth 86% in the economy. Jointly they had 86% value in the economy. There are a lot of banks such as ICICI, HDFC and AXIS are discovering to launch the contact less credit card and debit. It will allow the customers to use card without swipe.

4. Findings

SECTOR	IMPACT	OUTLOOK
REAL ESTATE	Not positive	While the short-run impact is not positive, developers expect things to return to normal during the fiscal year. Some hope that price cuts in the coming months will lead to increased home sales.
BANKS	Mixed over short-term, neutral to	Non-interest income for banks would increase, but asset quality and credit growth will be hit in the short-term. Over the long term, demonetisation should benefit banks because

3. Research Methodology

Objective of the study was to find out the:

- a) Degree of influence of the different sectors of economy due to demonetisation.
- b) Factors, which lead to take the major step like demonetisation.

An exploratory study will be conducted to achieve the research objective. At first the research will be done on the impact of demonetisation on different sectors through the previous studies. Descriptive study was used to gauge the mind set and viewpoints of the consumers pertaining to their preferred sector.

3.1 Scope of the study

The study will be limited to the concept and impact of demonetisation on Indian market consumers. The consumer profile will be individual who take buying, investment decisions during demonetisation period and can afford to do so for various day to day activities and the different individual sectors of the economy that will be the part of the research.

	positive in the long term	they will likely attract a disproportionate share of savings and see greater fee income from electronic payment opportunities
CONSUMER PACKAGED GOODS	Not positive	Third quarter numbers for packaged consumer goods sellers will be severely hit, despite the wedding and holiday season. In the long term, things should bounce back as the economy is re-monetized, and firms lower in the supply chain too move to non-cash payments
CONSUMER DURABLES	Negative	Sales are recovering, but still about a fifth less than a year ago. Sales in the third quarter will be hit
ORGANISED RETAIL	Positive	Sales rose 15% on a weekly basis in the first week following the demonetization of Retail Stores' Retail Stores and 25% YoY. That's true even after a month; sales are still 25% higher than the same period last year. In the long term, things will be positive as some of these new consumers will commit to shopping in large stores.
AIRLINES	Not positive	Because fuel prices have been low, airlines have been able to fill seats by offering cheaper fares but the real impact of demonetization will be visible in December, January and February when the final revenue and traffic numbers are released
AUTOMOBILES	Not positive	It will take a while for demand to improve, say dealers, but the good part is that enquiry levels have not dropped and that suggests it is a matter of time, may be three months, before the industry gets back on track
TOURISM	It is positive and negative, mix	Hotel and travel bookings have made a slow comeback. Offshore travel has been negatively impacted as foreign exchange usage abroad is mostly in cash
INFRASTRUCTURE	Positive in long term, Negative for now.	The demonetisation and ensuing switch to a less cash-dependent system will aid transparency in the construction sector especially. With economic growth likely to be hit, the government will likely step in and spend more, which will result in increased revenue for the sector
MICROLENDERS	Positive in long term, Negative over short-term.	Over the long term, demonetisation could pave the way for more people to turn to the organised sector for microcredit
PHARMA	Negative for now, neutral over the long	Owing to advanced buying of medicines for chronic diseases and seasonally weak December-March period for the industry, sales of drugs are expected to remain subdued. The

	term	impact of demonetisation on the sector is likely to be temporary as demand for drugs is largely inelastic but the growth rate in the coming months may be slower than the 9-10% witnessed in the first 6-7 months.
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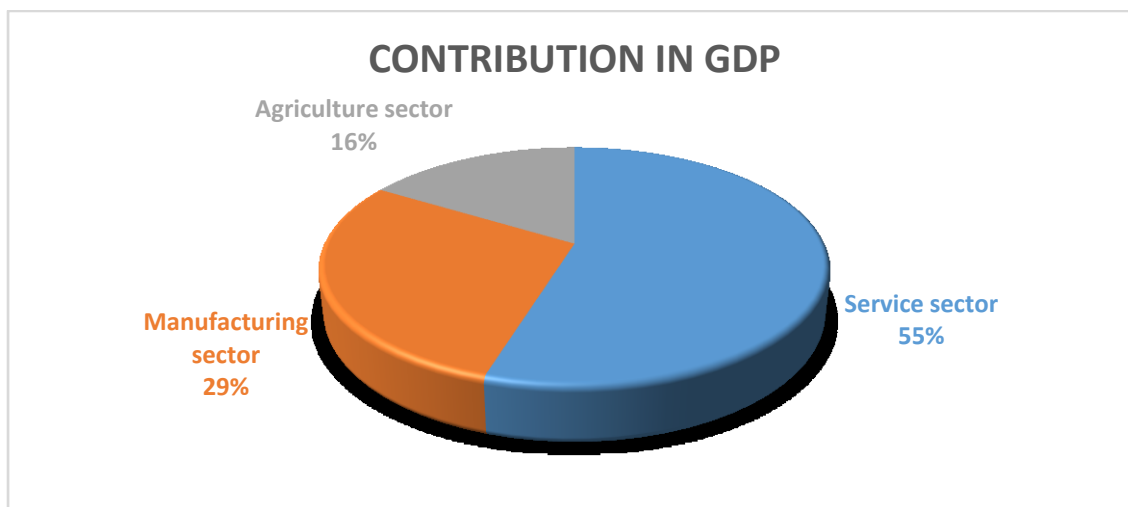
As the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The rupees formed 1,000 rupees and 500 rupees of cash currency 86.4% of the value. The government of India has removed 86.4 of the currency in circulation, in one stroke.

In terms of volume, the currency notes from these two denominations accounted for 24.4% of the total 90.27 billion pieces. Also, RBI data explore that as of March 2016, 632,926 counterfeit currency note known as FICN (fake Indian currency note). As part of NIC (notes in circulation), 1,000 rupees and 500 rupees were the highest, and the abolition of these networks

was part of the demonetization process. Now focus on the effect of Demonetization on the Indian economy. The first economy can be divided into three broad sectors: the service sector, the manufacturing sector and the agriculture sector. All the sectors contributed to India's GDP.

- ✓ Manufacturing industry Contribute 30% in GDP,
- ✓ Service industry Contribute 53% in GDP.
- ✓ Agriculture industry Contribute 17% in GDP,

All the three sectors faces negative impacts After Demonetization



5. Conclusion

Demonetization has a big impact on Indian market and citizens like you and me. People flocked the banks to change their currency and stood in long lines in front of bank and ATMs for hours to draw their money. In general the idea of demonetization is not bad but it should be took into regard that a lot of the black money has kept in the form of gold or kept abroad or in the form of buildings, land. The total amount of black money on which taxes had not paid in cash account for only 4%. Not all cash is black money and Cash is not all black money. The large quantities of black money sound to had found adopting methods to launder it, instead of destroying it to skipalluring the taxman's attention, such the government expected. Traders, sellers, daily wage labourers, merchants and Small farmers are suffering due to of lack of intelligence, foresight and proper planning such as recalibration of ATM machines.

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