
A Study on the Impact of Demonitization on Selected Sectors of the Economy

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ABSTRACT

"All cash is not black money, and all black money is not cash". On November 2016, the currency was demonetized by the present government through removal of 1000 and 500 rupee denomination currency in India. The old unit of currency must be removed and substituted with a new currency unit. The currency was demonetized first time in 1946 followed by second time in 1978. This is the bold step taken by the government, for the betterment of the economy and country. However the after effects of this act were in manifold. Effect of demonetization was adverse across all sectors, particularly on unorganised sector. However very few researches have been conducted and little is known on these sectors after the demonetization.

Hence this paper focuses on the effectsof demonetization in organized and unorganized sector in particular.This paper is based on secondary data collected from newspapers, magazines,

research papers etc. The paper points out that most of the unorganised sectors deal with hard cash for their day to day operations including their profit margin which is kept is kept as reserves in hard cash. This paved way for greater effect on this sector when compared with organised sector.

Key words: Organized sector, unorganized sector, demonetization, currency

INTRODUCTION

The government has implemented a major change in the economic environment by demonetizing the high value currency notes – of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given up to December 30, 2016 to exchange the notes held by them.¹ The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that

the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw. The reasons offered for demonetization are for two reasons:

- i. To control counterfeit notes that could be contributing to terrorism, in other words a national security concern
- ii. To undermine or eliminate the “black economy”.

There are potentially two ways in which the pre-demonetization money supply will stand altered in the new regime one, there would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner. Second, the government might choose to replace only a part of the currency which was in circulation as cash. In other words, the rest would be available only as electronic money. This could be a mechanism used to force a transition to cashless medium of exchange.

OBJECTIVES:

- To study the impact of demonetization on selected organised and unorganised sectors.
- To know the problems faced by organised and unorganised sectors.

Need for the study

There are research papers which focus on the impact of demonetisation on organised and unorganised sector as a whole. But this paper focuses on specific organised sectors like, real estate, hospital sector, political sectors, restaurant sector and education sector. So also specific unorganised sectors like, agriculture, vendors and labourers who are backbone and vital for the sustenance of the economy.

Limitation of the study:

The study is limited to few of the selected organized and unorganized sectors of the economy. Further the geographically it is confined to south part of Bangalore

BACKGROUND

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. Sometimes, a country completely replaces the old currency with

new currency. The opposite of demonetization is remonetisation, in which a form of payment is restored as legal tender.

ORGANISED SECTOR

The sector, which is registered with the government, is called an organized sector. In this sector, people get assured work, and the employment terms are fixed and regular. A number of acts apply to the enterprises, schools and hospitals covered under the organized sector. Entry into the organized sector is very difficult as proper registration of the entity is required. The sector is regulated and taxed by the government. There are some benefits provided to the employees working under organized sector like they get the advantage of job security, add on benefits are provided like various allowances and perquisites. They get a fixed monthly payment, working hours and hike on salary at regular intervals. The following are the characteristics of organised sector;

- Organized Sector is a sector where the employment terms are fixed and regular, and the employees get assured work.
- A number of acts apply to an organized sector like Factories Act,

Bonus Act, PF Act, Minimum Wages Act, etc.

- The government rules are strictly followed in the organized sector
- In organized sector, the employees draw regular monthly salaries
- Job security exists in the organized sector
- The organized sector, provide additional remuneration to employees for overtime.
- The salaries of employees are as per government norms
- Employees get add-on benefits like medical facilities, pension, leave travel compensation, etc. in the organized sector

UNORGANISED SECTOR

The sector which is not registered with the government and whose terms of employment are not fixed and regular is considered as unorganized sector. In this sector, no government rules and regulations are followed. Entry to such sector is quite easy as it does not require any affiliation or registration. The government does not regulate the unorganized sector, and hence taxes are not levied. This sector includes those small size enterprises, workshops where there are low skill and unproductive employment. The working hours of

workers are not fixed. Moreover, sometimes they have to work on Sundays and holidays. They get daily wages for their work, which is comparatively less than the pay prescribed by the government. The following are the characteristics of unorganized sector;

- The workplace is scattered and fragmented.
- There is no formal employer - employee relationship.
- Majority of the unorganised workers does not have stable durable avenues of employment.
- There is no provision for overtime, paid leave, holidays, leave due to sickness etc.
- When there is less work, such as during some season, some people may be asked to leave.
- Jobs are low paid and often not regular.
- Inadequate and inefficient labour laws and standards relating to the unorganised sector.
- The unorganised workers do not receive sufficient attention from the trade unions.
- Primitive production technologies and feudal production relations are rampant in the unorganised sector.

IMPACT DEMONITIZATION ON ORGANISED SECTOR

The idea of demonetization is good but it must be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step. The Government is not saying that 100% corruption will be tackled. If announcement and time would have been given, this step might not have been successful in controlling black money and counterfeit currency in circulation coming from Pakistan, Nepal or other countries.

Even if 50% of this amount is withdrawn, the kind of relief that RBI will get on its liabilities and the sort of deposits commercial banks will get will lead to a rise in the deposit and later there will be decrease in lending rates plus fiscal deficit. Investment is not taking place in the economy and the rate of growth of capital formation is down. This will also make

tendency of using Plastic Money which makes organized sector better, easy and fast.

Organized sectors are already familiar with banking and other formalities in one way or other. But mostly the unorganized sector, the farmers and laborers will suffer the most as they had been used to get and save in currency notes. Electronic or transactions by bank was limited to below 20% of daily transactions.

REAL ESTATE

Real estate may see significant course correction: The demonetization decision is expected to have far reaching effects on real estate. Resale transactions in the real estate sector often have a significant cash component as it reduces incidence of capital gains tax. Black money was responsible for sharp appreciation of properties in metros; real estate prices may now see a sharp drop. As more liquidity enters the organized sector along with some further softening of land rates and gradual movement towards cleaner real estate transactions, we anticipate investments into the sector to increase from the organized players who have, in the past, shied away due complexities associated with underlying real estate.

- **Commercial real estate:** There will be a minimum impact on office / industrial leasing and transactions, given that cash components do not play a significant role in such transactions.
- **Residential real estate:** The primary sales segment is largely influenced by home finance players, and deals tend to be facilitated in a transparent manner. The secondary or resale market will, however, certainly be impacted, since this segment does see the involvement of cash component.
- **Real estate investment markets:** Projects could get stretched as informal sources of capital may not be available. This, in fact, spells more opportunities for institutional capital. FDI, private equity and debt players will suddenly find the market even more transparent and attractive. Moreover, banks could start funding land transactions, thereby decelerating land prices.
- **Retail real estate:** Retailers could see some impact on their business in the short-to-medium term due to reduced cash transactions. The luxury segment is likely to be hit because of the historically high incidence of cash acceptance. However, credit / debit cards and e-Wallets should come to the rescue. Overall, the domestic consumption story remains intact, with

no threat to the overall strength and growth of the Indian retail industry.

HOSPITALITY SECTOR

Over the short and medium terms, the demonetization drive will have varied effects on the many sections of the hospitality industry in the country, but in the long term will positively impact the growth of the hospitality sector.

Often, the strong season for the hospitality sector in the country extends from October to March, which to a large extent defines the success for the industry in any given year. The lack of available currency will force some hospitality customers to either postpone / cancel their travel and accommodation or to use hospitality products that easily allow the use of the other modes of payments. The demonetization drive will benefit the organized hospitality sector in India the most. The tourism and hospitality sectors are intrinsically tied to the economic conditions of any country. The boost provided by the demonetization move to the macro economy of the country will effectively trickle down to the industry.

RESTAURANT SECTOR

the restaurants business – both in hotels and standalone – will see a short-term slowdown in growth because the reduced

availability of cash and the generally high usage of cash spending in restaurants.

POLITICAL SECTOR

With nearly five state elections in 2017, demonetization has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash donations are a huge part of "election management". In one stroke, big parties will find themselves hamstrung as cash hoards are often undeclared money. Parties will have to completely reign campaign strategies considering expected cash crunch.

EDUCATION SECTOR

Demonetisation to the greater extent had a positive impact on education sector. The decision of central government to withdraw high value bank notes to curb unaccounted cash will hurt education institutions that accept donations or capitation fees for admissions. Nursery admissions, private education institutions and professional higher education including medical and engineering are the segments which accept donations widely. These segments are going to feel the impact in a big way. The donations of medical college is usually more than 100% of the fees demonetisation will impact both admissions and also the receipt.

IMPACT ON UNORGANISED SECTOR

The unorganized sector in India will be the worst hit by the November demonetization of high value currency, while lots of industries in the organized sector would be impacted by the shortage of cash required to run business. The unorganized sector is expected to bear higher brunt of demonetization. Within the organized space, a lot of industries would get impacted owing to the sucking out of daily liquidity needed to run the business," Centrum Wealth Research said in a report.

AGRICULTURE

Cash is the primary mode of transaction in agriculture sector which contributes 15% to India's total output. Formal financing in agriculture is significantly from cooperative banks, which are barred from exchange-deposit of demonetized currency. Agriculture is impacted through the input-output channels as well as price and output feedback effects . sale, transport, marketing and distribution of ready produce to wholesale centres or mandis, is dominantly cash dependent . Disruptions , breaks in the supply chains feedback to farmers as sales fall, increased wastage of perishables , lower revenues that show up as trade dues instead of cash in hand and when credited into bank

accounts with limited access affect the sector.

LABOURERS

The currency ban has taken a heavy toll on daily wage earners in rural areas . with no one to hire them due to the acute cash crunch , daily workers and their families are in penury. Though the situation is better in the city where there are big construction projects , village workers have no work and therefore have no money even to buy essential goods. Initially, the workers were given old currencies as wages and they had to go to banks everyday and stand in long queues to get fresh notes. It is the poor who do not have bank accounts , work on daily wages and keep money in their homes who are the worst affected.

VENDORS

After demonetization weekly sales of vendors decreased upto 70%-80%. The main reason for decrease in their sales was shortage of cash as instead of buying from vendors and hawkers people preferred to go to modern retail stores and departmental stores where online payment is acceptable so that they can make transaction without cash. Most of them do not have the bank accounts which led to

stand in long queues for exchange of currency notes.

EFFECTS OF DENOMINATIONS OF CURRENCY NOTES ON SOME START UPS

Here are few sectors that would be heavily impacted by the recent ban on Rs.500 and Rs.1,000 currency note in India:

a) E-commerce start-ups:

Majority of tech savvy consumers prefer to pay using e-wallets or online transfers such as Net Banking. Airtel money, paytm, etc E-commerce industry is growing at a rapid pace and many customers avoid the option of COD (cash on delivery) as the cost maybe slightly high due to inclusion of carrying cost. However, we can't ignore people who are familiar in using virtual cash. This may affect sales to a marginal extent in volume and amount. Considering the growth of E-commerce stamps in India, it can be said that almost all end consumers will get accustomed in avoiding COD.

b) Cab start-ups:

They have their own wallet system and the demonetization move is not going to make them bleed. Many people in India use smartphones and pay for cabs through their e-wallets.

c) Wallet start-ups:

It goes without saying that the recent ban on Rs.500 and Rs. 1,000 currency notes are going to boost the revenue of these start-ups. From teenagers to youth to middle-aged people, everyone will be downloading relevant apps in the next few days and even after that. E-wallet start-ups may also give higher amount of cashback to the new customers to attract number of downloads. Eventually, after a few months, the cashback given by these entities would reduce to nil.

d) Food delivery start-ups:

These start-ups allow customers to pay for their food orders through debit cards, credit cards, net banking e-wallets etc. So, it is quite understandable that food delivery start-ups like Wow Momo, Food Panda, café coffee day, etc., will be undistributed by the recent policy implemented.

e) Information technology start-ups:

Their services are generally highly priced so the likely mode of acceptance of payments are via bank cheque, bank draft, NEFT, RTGS, net banking etc. Therefore, it is very understandable that ban of currency notes of two denominations are not going to hurt these IT firms.

f) Accounting and financial consultancy start-ups:

They mostly prefer accepting payments other than physical cash. It goes without saying that they would function smoothly irrespective of such massive pan India-based economic policy adopted by the Central Government.

FINDINGS

- Demonetisation had adverse effect majorly on the unorganised sector .
- Various unorganised sectors like farmers , merchants, incurred huge losses in their business as they depend more on the hard cash.
- Demonetisation has reduced the supply of money in the economy and this had a direct impact on the unorganised sectors, small business , as they depend on hard cash for most of there transactions,
- Organised sectors like tourism , hotels and restaurant was also affected by demonetization as people were not able to spend on these sectors.
- However , the impact was not too adverse as most customers were using electronic modes of

payment like credit cards , debit cards etc. After a short period of time these sectors came back to their previous conditions.

CONCLUSION

Demonetization is a historical step and should be supported by all. One should look at the bigger picture which will fetch results in the long term. This is what the people have been asking for a long time which has finally happened. Demonetization will likely result in people adopting virtual wallets such as Paytm, Ola Money. Net banking, mobile banking and transaction through other apps will increase; this behavioural change could be a game changer for India. This could be negative for sectors like Consumer Durables, Luxury items, Gems and Jewellery, Real Estate and allied sectors, in the near to medium term. This move can lead to improved tax compliance, better fiscal balance, lower inflation, lower corruption, complete elimination of fake currency and another stepping stone for sustained economic growth in the longer term.

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