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Effect of Demonetisation on Indian Economy



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Sectoral Implications of Demonetization Agricultural, Industry, Service, Small Scale Sector etc.

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Abstract :

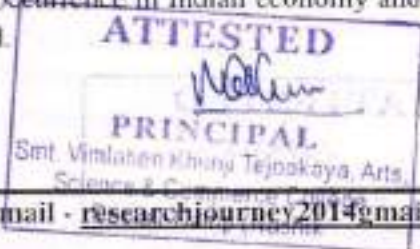
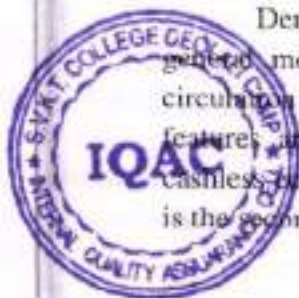
The demonization policy announced by Indian prime Minister Narendra Modi at midnight on November 8, 2016, the govt. would be to change of currency by a bridge illegal activities and transactions. If the existing 500 notes and the 1000 notes as valid forms of the currency of legal tender Government took this step of demonetizing the currency as a tool to fight against black money and corruption in Indian Economy. In this police are some sectors in India were majorly impacted by demonetization : Agriculture, Real Estate, Construction, Manufacturing, Tourism, Hospitality and Automobile industries etc. The Reserve Bank of India reported that between November 4, 2016, and December 23, 2016 "the amount of money in circulation has been reduced by almost half". After months of demonetization, cash was still scarce in many places. So we are presenting this paper to various sectorial impact of demonetization in Indian economy.

Keyword : Demonetization Agricultural, Industry, Service, Small Scale Sector.

Introduction :

The Indian government decided to demonetize the 500 and 1000 Rupee Notes, These notes accounted for amounted 86% of the country's cash supply. It was further implemented in order to keep a check on the illegal activities like, smuggling, terrorist activities, Black money and fight tax evasion. It was declared that existing rupees five hundred and one thousand notes would no longer be used as legal tender. RBI issued guidelines that rupees 2000 notes one New 500 notes would be in circulation from 10th November 2016. This is not for the first time government demonetizing the currency. India had gone through, this phase of demonetization twice earlier in the year January 1946, for the first time demonetization took place in pre independence period of India. During this demonetization currency notes of Rs.1000 and Rs.10000 rupees were withdrawn from the circulation and new currencies notes of 1000, 5000 and 10000 denomination rupees were introduced in the year 1954. On second time Jan. 1978 by then ruling Janata Party Government of India demonetized the currency notes of 1000, 5000 and 10000 rupees notes as a means to Bogus money and black money.

Demonetization is the act of stripping a currency unit of its status as legal tender. The general meaning of demonetization is nothing but withdrawing a particular currency from circulation by RBI and replacing it with new currency notes having new designs, security features and denomination. After demonetization, new objectives like turning India into a cashless economy. The present demonetization is the third occurrence in Indian economy and it is the second demonetization in the post independence period.





Need for the Study

The Indian government claims that the demonetization effort is to stop the counterfeiting of the current currency notes allegedly used for funding terrorism across the border by the neighboring countries, and as an attack on the black money in the country. This forged cash is usually used to fund various terrorist activities against India.

Objectives of the Study

- To analyze the impact of demonetization on various sectors of Indian economy.
- To analyze the positive impact of demonetization on Indian economy.

Research Methodology :

This research paper is based on secondary data which is published in various govt. reports, newspapers, websites, research papers, journal etc.

Impact on Different segments of economy :

Indian economy is largely cash driven economy with more than 90% transaction taking place in cash and remaining 10% in digital. There is short term and long term impact of Demonetization on various sectors of Indian economy.

A) Agriculture

This is the sector where all transactions are done in cash. Demonetization hardly hit this sector as there was cash crunch and for banks it was very difficult to take cash to these remote areas. The most affected were the marginalized farmers having negligible landholdings. These strata faced problems from sending the yield to the desired places, to buying seeds, tools, fertilizers with a reduction of circulation of cash in the rural areas. Because of cash shortage daily supply transport system has also suffered which was result in 25 to 50% reduction on sales because, farmers are not educated and aware from E-payment and E-Banking system, also most of the villages proper banking system is not developed yet.

B) Industries :

Industries that suffered that brunk of demonetization and showed a steep downfall in there growth were the agriculture section and the manufacturing sector of the economy and also automobile sectors in India it has been clampdown on cash transaction and temporary cash crunch could hunt purchase particularly in the economy segment of the two wheeler space the percentage of cash transaction have been high. The impact in this industry has been more witnessed in the rural areas and semi urban areas where most of the transaction took place in cash. There is also a slump seen in the sales of luxury cars, so, in totality this industry faced a tremendous slowdown because of demonetization.

C) Service Sector :

The service sector is the key driver of India's economic growth contributing almost 62% of it's gross value added growth in 2016-17, providing employment to 28.6% people contributing 37.9% in total exports. The service sector growth moderation is mainly due to declaration in growth of two services categories-Trade, Hotel, Transport, communication and other service related to broad casting (7.8%) and financial, Real estate and professional services (5.7%). Accounting to a study conducted by Moody's people tend to continue using banking



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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.

D) Small Scale Sector :

In Indian Economy Small Scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports. Following characteristics of small scale industries there are.

- 1) Technology
- 2) Management and Control
- 3) Area of Operation
- 4) Ownership
- 5) Flexibility
- 6) Dispersal of units.

Government of India has been quite actively working in promoting this sector as this sector has a big impact over the development of the nation.

Reasons Behind Demonetization :

As per my study following is the important reason in demonetization.

- To make corrupts burn cash.
- To hit the fake currency rackets.
- To unmask the black money holders.
- To crack down the circle of money supply to Naxalities and terrorists.

Conclusion :

The demonetization of high currency notes by government of India is crucial step for Indian economy. There is a mix response of people of India on this Demonetization has affected every Indian, but it has hit the agriculture sector to the core. On the other hand people facing some problems in the exchange of currency notes. If government successfully clears all the problems, drawbacks associated with the demonetization, we can also expect a corruption free India and adopted online banking system.

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Funded by Savitribai Phule Pune University, Pune

Organized by Department of Commerce & Economics

08th - 09th February 2019



CERTIFICATE

This is to certify that Prof./ Dr./ Mr./ Mrs./ Smt. Yagesh S. Jadhav

of S. V. K. T. college Deolali Camp

has participated / presented paper/ addressed / chaired a session/ reported at the
National Seminar on "Effect of Demonetization on Indian Economy" organized during
08th - 09th February 2019. His / her active participation / presentation in this Seminar is highly appreciated.

Title of Paper: Sectoral Implications of Demonetization

Prof. S. E. Brahmanekar
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