



DEMONETISATION: ANALYSIS OF ITS CURRENT KEY EFFECTS ON THE INDIAN ECONOMY

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ABSTRACT

In his address to nation on 8th November, 2016, prime minister of India Sh. Narendra Modi suddenly announced the demonetization of high denomination currency notes of Rs500 and Rs 1000. Whole economy got panicked on this sudden move of the government. All the economy felt immediate effects. Some sectors of economy started growing at very fast rate whereas some suffered a considerable loss. This research paper tried to analyze the effects of demonetization on the key sectors of the economy. It was found the digital payment companies, banks etc. got benefitted from demonetization, whereas some sectors such as reality, MSME got a considerable downfall.

KEYWORDS:- *Demonetisation, sectors, economy, key effects.*

1. INTRODUCTION

Demonetization is a very crucial step in the working of an economy. Government of India demonetized the high denomination currency notes of Rs 500 and Rs 1000 by issuing a notification in the official gazette. The logic behind such move was to wash out the black money and reduce the terrorism. The government was of the view that black money was held mainly in cash consisting of high denomination currency notes. Further government also argued that terrorists were getting their funding using fake Indian high denomination currency. So that it was a smart move to stop the terrorism.

2. IMPORTANCE OF THE STUDY

Indian economy has become the fifth largest economy of the world recently leaving Great Britain behind. India is cash based economy and demonetization was a very big shock for our economy as most of the transaction in India is done through cash. In pre-demonetization period there were 1,650 crores of Rs 500 denomination and 670 crores Rs 1,000 denomination notes in the economy. So the was a very big move to remove such a huge amount of currency nearly 86 percent in value, from the country. Soon Indian economy started facing its effects on a large scale. This study was important from the viewpoint of the scope of its effects of nearly all sectors of the economy. Indian economy is a traditional economy and is on the path of digitization but a lot more distance has to be covered towards this.

3. OBJECTIVES OF THE STUDY

The objectives of the study were to analyze immediate effect of demonetization on the economy especially on:

1. Digital payment services sector,
2. Service sector,
3. Banking sector,
4. Reality sector,
5. GDP growth rate,
6. MSMEs sector,
7. Large scale industries,
8. And price level.

4. RESEARCH METHODOLOGY

For the purpose of above study newspapers, websites and news channel were used as sources of data. Further discussions on the various news channels were used as a guide for above study. After collection of data a analysis was done to study the impacts of the demonetization. An empirical research was conducted using comparative data analysis.

5. RESULTS AND DISCUSSIONS

5.1 EFFECT ON DIGITAL PAYMENT FIRMS

Soon after the demonetization Ola money saw a record increase in recharge to the tune of 1500%. Further the digital payment giant Paytm also got 400% increase in its transaction.¹ Further paytm company is planning to hire 10,000 agents to expand its business. So it can be said that effect of demonetization on the digital payment sector was good and has given a boost to the sector.

5.2 EFFECT ON REALITY SECTOR

Soon after demonetization, experts made forecast that prices of property will decline by approximately 25% to 30% by the first quarter of the 2017 because 50% of the transaction are done in cash currently.² Further as per research done by Propequity Research based upon the data collected across the top 42 cities of India has forecasted that reality business will fall nearly by 30% from Rs 39,55,044 crore to Rs 31,52,170 crore.³ But there is a hope for the reality sector to come out of recession as banks are under pressure to cut the lending rates. It will reduce the home loan cost that can give a boost to the above sector in future. But as of now the immediate effect on the economy is that it has faced a downfall to the tune of 30%.

5.3 EFFECT ON BANKING SECTOR

As demonetization was largely involved with the banking sector, this sector has gone through a complete change. Deposits in Jan Dhan accounts in 5 north Indian states were increased from 4364.03 crores on 9/11/2016 to 7022.26 crores on 23/11/2016.⁴ There was a sharp increase in the deposits in Jandhan accouns between this period.

TABLE 1: DEPOSITS IN JANDHAN ACCOUNTS (amount in crores)

| State | Total deposits (9/11/2016) | Total deposits (23/11/2016) | Total deposits (30/11/2016) |
|----------------------------|----------------------------|-----------------------------|-----------------------------|
| Harvana | 1685.77 | 2830.27 | 2870.46 |
| Chandigarh | 71.76 | 102.39 | 103.53 |
| Punjab | 1737.15 | 2673.88 | 2729.53 |
| Himachal Pardesh | 340.23 | 510.24 | 515.12 |
| Jammu & Kashmir | 529.12 | 912.48 | 910.39 |
| Total | 4364.03 | 7022.26 | 7129.03 |

Source: Prime minister Jan dhan yojna.

Fearing a misuse of Jandhan accounts, government issued some strict guidelines regarding use of Jandhan accounts. After those guidelines, Deposits in Jandhan account declined sharply and only 100 crore was submitted in such account between the period between 23/11/2016 to 30/11/2016.

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As per latest data released from the RBI, bank credit has fallen to the tune of Rs 61,000 crores in last 15 days. Further a good effect was that Rs 66,000 crores was received during such period. Banks have received Rs 4.03 trillion in accounts which as of 9/12/2016 has crossed Rs 12 trillion.⁵ So that it can be said that the effect of demonetization has brought cheers to the banking sector along with sharp rise in deposits and availability of large funds for lending. It is expected that banks may cut the lending rates. It has also helped in recovery against defaulters accounts.

5.4 EFFECT ON GDP GROWTH RATE

As per data released by the rating agency ICRA, it has been forecasted that growth rate of GDP will be reduced by 40 basis points to 7.5%.⁶ CRISIL rating agency has also forecasted a slowdown in growth rate to 6.9% in financial year 2016-17.⁷ Further an international rating agency, S & P has estimated a lower GDP growth rate Of 6.9% from 7.9% estimated earlier.⁸ Also as per RBI, GDP growth rate will be 7.1% as against the last estimate of 7.9%.⁹ So that taking the data released by various rating agencies as basis, the conclusion is drawn that GDP growth rate of economy is definitely going to reduce by approximately 1% due to the effect of demonetization.

5.5 EFFECT ON MSMEs SECTOR

Micro, small and medium industries play a vital role in the Indian economy. It generates a large part of GDP and provides employment to a large population. MSMEs were much affected by the demonetization as a large number of industries in this segment are organized and mainly follow the traditional cash basis transaction method. Soon after the demonetization, retail trade came down significantly from Rs 14,000 crore per day to Rs 3,500 crore per day.¹⁰ Further a data collected over 200 cities reveal that 90% of the small traders have witnessed decline in their trade.¹¹ The acute shortage of currency has forced the MSME industries in Punjab to stop payment of their staff.¹² So that, it has been seen that MSMEs has been largely effected by such move because of following of cash basis system and due to status of non-organized.

5.6 EFFECT ON SERVICE SECTOR

Note ban has also hit the service sector of the economy. As per data released by Nikkei India Service Purchasing Manager Index which tracks service sector companies on monthly basis, has recorded a slump sale in service sector companies. This index has come to 46.7 points in November 2016 as against 54.5 in October 2016 and 50.1 points in the November 2015.¹³ It is a clear indication that service sector too has been effected from the demonetization.

5.7 EFFECT ON LARGE SCALE INDUSTRIES

As a consequence of demonetization, in Ludhiana industrial area production of Bicycle, hosiery, hand tools and auto components industry has been reduced by 50%. Recently, Seth cycle industries, Ludhiana laid off its 700 daily wage workers.¹⁴ Further Bicycle industries' sale has been reduced by 30% as consumers are facing shortage of cash.¹⁵ It is clear from the above facts that organized and large scale industries are effected from the demonetization move.

5.8 EFFECT ON PRICE LEVEL

Demonetization has thrown the consumers out of the market due to lack of funds in hands resulting in fall in demand. Inflation rate has been recorded 3.63% in November 2016 post demonetization.¹⁶ Further wholesale price index has been reduced to 3.15% in November due to the demonetization.¹⁷ So that, there has been considerable reduction in price level post demonetization.

6. CONCLUSION

From all above study the conclusion can be drawn that, demonetization has widely effected the Indian economy and nearly all sectors of the economy. Its effects on the Digital payment services and banking sector have proved to be good. But at the same time, it has slowed down the GDP growth rate and growth of many other industries. The reason behind the slowdown was wide presence of unorganized and cash based business and lack of availability of digital payment methods.

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