

Impact of Demonetization on People, Business, Agriculture and Economy in India

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ABSTRACT

Demonetization is a process of withdrawal of a particular form of currency from circulation. Demonetization is a step taken by the government where currency units are ceased of its status as legal tender. The current form of money is pulled out from circulation and retired, to be replaced with new notes or coins. On 8th November 2016 night Prime Minister of India Mr. Narendar Modi in his unscheduled television address to the nation announced that the currency notes of 500 and 1000 denomination will not be a legal tender money from midnight. Government took this step of demonetizing the currency as a tool to fight against black money and corruption in Indian Economy. A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher demonetization money would either result in these being brought into the system or the money just disappearing. The move has caused undulating impact throughout the economy, leaving most sectors economically crippled owing to the unforeseen cash crunch. Against this backdrop, PHD Research Bureau of PHD Chamber of Commerce and Industry conducted a survey to assess the impact of demonetization on the Economy, Businesses and People. The major objective of this study was to know the impact on the Economy, Businesses and People and to provide few recommendations to the Government for effective implementation of demonetization.

Keywords: Demonetization, Cash Crunch, impact of demonetization on people, agriculture, economy, cash less transaction, black money

INTRODUCTION:

Demonetization is the process of removing currency from general usage or circulation. In India's case Government completely withdrawn the currency with the denomination of 1000. Along with Rs.1000 currency notes Rs.500 rupee notes were also withdrawn from circulation. For the old 500 currency notes new 500 rupee notes will be issued and a new currency note of 2000 denomination has been introduced in the economy. New currency notes issued to the public through commercial banks and post offices across India by depositing the demonetized currency notes by the people. Government of India announced demonetization of the high value currencies of Rs. 500 and 1000 with an objective to unearth the black money and to curb the corruption, counterfeit currency as well as terror funding. This decision is considered as biggest cleanliness drive against the black money in the history of Indian economy whose benefits will be reaped in the long run. It also involves a process of moving people from a cash based system to Digital Banking.

This is not for the first time Government Demonetizing the currency. Earlier to this India has witnessed demonetization twice. For the first time demonetization took place in pre independence period. In January 1946, for the first time demonetization took place in India. During this demonetization currency notes of Rs. 1000 and Rs. 10000 rupees were withdrawn from the circulation and new currency notes of 1000, 5000 and 10000 denomination rupees were introduced in the year 1954. On 16th January 1978, Government of India Demonetized the currency notes of 1000, 500 and 10000 rupee notes as a means to counterfeit money and black money. The present demonetization is the third occurrence in Indian Economy and it is the second Demonetization in the post-independence period. However, the impact of this sudden move is causing major cash crunch in the economy affecting day to day requirements of the common man and businesses. A decision like this can result in the sweeping up of a system for which many trust that it could not be done, as earlier attempts did not have rich impact. However, the decision by Prime Minister Mr. Narandar Modi is one the most historical steps in India. A decision like this can help control inflation, recapitalise banks, minimizing the interest

rates and making the economy vibrant, with capital inflows. India is the second most populated country in the world with nearly a fifth of the world's population. Out of the total 121 crore Indians of Indian population, 83.3 crore of population live in rural areas while 37.7 crore stay in urban areas, said the Census of India 2011. As a rural populated

Various analysts, experts and scholars have expressed their views regarding impact of demonetization on the economy and have estimated 0.5% - 3% impact on the Gross Domestic Product (GDP) of the country in the current financial year 2016-17. The main Social and Economic reasons for any Economy to Demonetize the Currency are:-It helps in reducing Inflation, to change the Financial status of People, to remove Fake Currency from the market, to reduce Illegal Activities, to tackle corruption, to encourage Digital Payments. in any economy. India has to find the solution of problems like this for its overall Economic Growth and Economic development.

The Reverse of demonetization is called as “Remonetization” in which a commodity is restored (Such as Silver or coins or bank notes) which helps in growth and development of an Economy. In this the value of currency is reinstated and is recognized as a medium of Exchange. It also helps in upliftment of an Economy. The Central bank of any Economy acts as a monetary authority for issuing of a currency or any Legal Tender. Every economy has its own national currency through which all financial transactions are transacted For Example Swiss franc is the national currency of Switzerland or Yen is Japan’s National Currency. Euro, is currency for a group of European countries called European Union. Indian currency is called the Indian Rupees (INR). In most of the cases, the Central Bank of a country has the absolute right to issue money or the currency for circulation.

History of demonetization in India

Going by the history, Indian governments had demonetized bank notes earlier in January 1946, when banknotes of Rs 1,000, Rs 5,000, and Rs 10,000 denomination were taken out of circulation. All three notes were reintroduced in the year 1945. Then, at the stroke of the hour on midnight of 9th November 2016, India lost 86% of its monetary base as Modi Government announced its decision to tender 86% of the 16 trillion Indian rupees illegal. While IMF and EU welcomed the scheme, few economists, with first hand understanding of the menaces, like, Dr. Raghuramrajan and Dr. Kaushik Basu did express their reservations on the demonetization move. On 28 October 2016 the total banknotes in circulation in India was Rs.17.77 trillion In terms of value, the annual report of Reserve Bank of India of 31 march 2016 stated that total bank notes in circulation valued to Rs.16.42 trillion of which nearly 86% were Rs.500 and Rs.1,000 banknotes. They were taken out of circulation from 2016.

REASONS BEHIND ON DEMONETIZATION

As per the government, the reasons behind current demonetization move are cited as follows:

- Tackling the danger of black money/parallel economy/shadow economy
- Reduction of the cash transactions and control on corruption, thereby moving towards cashless transactions.
- Countering the nuisance of counterfeit currency
- Preventing the cash being used for terrorist activities.

As per my study Following is the main reasons behind Demonetization.

- **To Curb Black Money:** Demonetisation was a bold and revolutionary action taken by the government of India to curb black money and one that will have the deep impact on the parallel economy in the country. Pockets and persons with black money can be identified with this move. A few businesses like property dealers, jewellers, foreign currency dealers, private money lenders generally hold huge amounts of unaccounted money in form of currency notes. Such unaccounted money had created a parallel economy in the country. Such illegal money has reached the bank accounts through direct or indirect channels.

To Control Fake Currency: Fake Currency Notes have been wasted by the demonetisation. Withdrawing highest currency notes out of the economy will have a serious impact on the fake currency syndicates, thus putting an end to the terror funding in Jammu and Kashmir, Naxalite hit states and North-eastern states. The fake currency with racketeers have been left in vain, and new currency notes with high security; making a counterfeit impossible. Demonetisation was a surgical attack on a fake currency circulating in the economy. Demonetization has converted those fake currency notes into a mere piece of papers.

- **To Encourage Cashless Transaction:** Demonetization's motto was to encourage the cashless/digital economy. More and more cash-less or less-cash transactions will lead to more disclosure of income which will increase the direct tax collections. With a reduction in cash transactions, alternative forms of payment will more in demand. Electronic mode of payment like online transaction, payment through applications, E-wallets E-banking, usage of debit and credit cards etc. will surely see the substantial increase in demand

- **To make worthless of Maoist:** This step actually made money with Maoists worthless. As reported Maoists had hoarded over Rs.7000 cores with them at Baster in Chhattisgarh. All such currency is now nothing but pieces of papers

- **Growth of GDP:** Though demonetization has negatively impacted sectors such as real estate and property, construction, and household consumption in general, it is believed that long-term benefits for GDP growth will outweigh the short-term transitional impact. We are now heading towards a 9% GDP growth by FY2018-19.

REVIEW OF LITERATURE

- **Shanbhogue Girish, Kumar, A. Prashanth, Bhat, Swathi and Shettigar, Chethan (2016)** defined currency ban as a move to stop counterfeit bank notes were allegedly used for terror financing, as well as a surgical strike to black money and corruption in the country. Demonetisation leads to cash shortages in the country which proves detrimental to a number of small business, agriculture and transportation. The shortage of cash led to chaos and most people faced problems to exchange their banknotes due to long queues outside banks and ATMs across the country. This demonetisation step was proved to be the biggest attack on black money and corruption in the history of Indian Economy and a movement toward digitalisation. It also encourages digital payments. They concluded that Demonetization is advantageous in short, medium and long-term.

- **Muthulakshmi, E. Kamatchi (2017)** in her paper entitled “Impacts of Demonetisation on Indian Economy- Issues & Challenges” states that when the money is withdrawn from the economy, the country will not be benefited in short term. On the other hand, if the money paves its way into the economy it would have a positive and meaningful impact. She also states that the demonetisation move, on one hand, was a serious attack on black money, corruption, hawala transaction, counterfeit currency and terror financing. On the other hand, it had a negative impact on various sectors like commodities and real estate.

- **Shah, Ayash Yousuf (2017)** stated that Demonetization is one of the major steps in fighting against corruption, black money and terror funding. However, this decision was taken without proper preparation and it adversely impacted the public. Without printing enough new currency notes 86% of the currency notes were withdrawn thrashing all market transactions. Only common people had to face problems exchanging their notes, not the people who were targeted. With an intention to rid the country of black money and dig out tax defaulters and black money holders, the government has taken the step to demonetized Rs 500 and Rs 1000 notes. The sudden announcement of demonetisation and failing to plan properly has created chaos among the general public. Common people are facing problems buying with no money in their hands, wasting their time standing in endless queues could have easily been avoided with advance planning.

- **Veerakumar, K. (2017)** posits that the announcement of demonetization of 500 and 1000 currency notes by the government is a big shock to the citizen of India. The highest

currency notes are withdrawn from the economy to counter the problem of tax evasion, counterfeit currency and financing of terror activities. It is shown that huge money is being deposited into the bank accounts which are more than specified limits and are subject to penalties and taxes. Usage of e-wallets, debit and credit card has been increased tremendously and this will create better cashless infrastructure.

- **Abhani Dhara K. (2017)** posits that this Demonetisation is proving to be more successful than the previous two. The era is changing. People are using online banking as a mode of payment. Bank employees are giving their best to make the demonetisation a successful one. Their support matters a lot. Though the demonetisation move has failed to grab total black money in the economy, this has at least created fear in the minds of people holding black money. He concluded that demonetisation was a compulsory step to tackle the problem of black money, terrorism and corruption etc.
- **Shukla, Bal Govind and Gupta, Hariom (2018)** in their paper entitled “An Exploratory Study Of Business Students Perspectives On Demonetization In India: With Special Reference To Allahabad City”. They used primary data for their study and concluded that the people actively support any initiative taken by the government which are basically targeted to eradicate corruption, black money, and any other threats like terrorism and naxalism in the country.
- **Sukanta Sarkar (2010)** conducted a study on the parallel economy in India: causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian political system i.e. Indian Govt. just focused on making committees rather than implementing it.
- **Mr. Swapnil Undale (2016)** , observed in his study that ever since the announcement of demonetization, the income of unorganized sector workers had come down drastically — by up to 60 per cent. And their work was decreasing each day. It was hurting all the more as their —debit and credit limit with their patrons had been crossed. The study concludes that laws should be implemented properly to control black money in our economy.
- **AIMO (2016)** report says note ban caused 35% job loss, 50% dip in revenue. As per the study, the industrial sector has been badly affected, with small and medium-sized enterprises (smes) sector worst-hit.
- **Deepali Bhargava (2016)**, analysed in her study that businesses, especially the small and medium enterprises, and sectors like autos, non-bank finance companies, which are cash driven will see temporary disruptions as well. Demonetization would likely result in big disruptions in the informal economy, which is estimated at about 40-50% of GDP with big multipliers. A large chunk of wholesale and retail trade that happens through the informal sector, as well as lending through the informal financial sector could be most impacted. Tax research team (2016) in their working paper affirmed in favour of demonetization. Its main objective is to analyze the impact of demonetization on Indian economy. Their study highlighted the impact of such a move on the availability of credit, spending, level of activity and government finances.

OBJECTIVE OF THE STUDY:

1. To understand meaning and reasons of demonetization.
2. To study the sector-wise impact of demonetization.
3. To study the positive and negative impacts of demonetization.

RESEARCH METHODOLOGY:

This study is of descriptive nature and tells about the meaning and reasons of demonetization along with the sector-wise impact and positive and negative impacts of on Indian economy. Hence makes use of secondary data. The entire study is based only on observation and documentary analysis. Furthermore, the required & relevant secondary

data are collected from various Research Papers, Journals, & Publications, websites and many others. Books have also been referred for theoretical information on the topic as required

SECTOR-WISE IMPACT OF DEMONETIZATION:

Positive and Negative Impact of demonetization on Indian Economy:

I. POSITIVE EFFECTS OF DEMONETIZATION

In what could be termed as the mother of all reforms, Prime Minister Modi's demonetisation move will have far reaching implications. This is not to dispute that the transformative step has brought some hardship for the citizens, but those are temporary and will blow over soon. For the larger benefit of the nation, we the citizens can bear such hiccups with a smile. After all, this is how we as citizens can contribute in policy making and nation building. While bank employees are working overtime to make Modi's ambitious demonetisation drive a success, let's discuss its many-fold impacts.

- **Black money:** At one stroke the Prime Minister has choked the supply of black money stacked inside the country. Of the Rs 17 lakh crore of total currency in circulation in the country, black money is estimated at mind-boggling Rs 3 lakh crore. Black money is nothing but a plunder of the nation. Black money operators run a parallel economy which shakes the very foundation of the Indian economy. With Modi's demonetisation move, all domestic black money will either be deposited into the banks with heavy penalty or be simply destroyed.
- **Economy:** Demonetisation will have a huge resultant effect on the Indian economy. The clean-up of illegal cash will help turn around the economy. First, it will bring more borrowings to the exchequer, improve inflation outlook and increase India's gross domestic product (GDP). Second, it will revive investment opportunities and give a fillip to infrastructure and the manufacturing sector. Third, it will help reduce interest rates and lower income tax rate.
- **Note bank politics:** In the run up to the crucial assembly elections in Uttar Pradesh, Punjab, Goa and Uttarakhand, Prime Minister Modi's demonetisation announcement has come as a shock and awe for the political parties and politicians for whom black money is a lifeline. The pulling out of the old Rs 500 and Rs 1,000 currency notes will help make the election process clean and transparent. But it has brought tough times for the political parties and politicians who believe in the idea of purchasing votes in exchange for notes. That is precisely the reason a rainbow coalition of a galaxy of regional parties and the Congress is building up against Modi, because their political interests are badly hurt.
- **Real estate cleansing:** It is said that real estate is an industry built on black money. The extent of black money floating around in the sector is huge. According to an estimate at least 40 per cent of real estate transactions in Delhi-NCR are in black. Modi's demonetisation move will curtail the flow of black money into the real estate sector. This will help in making the much needed correction in the sector. The impact: An unexpected dip in land and property prices.
- **Hawala transactions:** Demonetization has crippled the hawala rackets. Hawala is a method of transferring money without any actual money movement. Hawala route is used as a means to facilitate money laundering and terror financing. Hawala rackets run again on black money. With black money suddenly being wiped out of the market, thanks to demonetization, hawala operations have come to a grinding halt. According to an India Today report, one of the hawala operators in Mumbai has destroyed currency notes worth about Rs 500 crores.
- **Counterfeit currency:** Demonetization has dealt a death blow to the counterfeit Indian currency syndicate operating both inside and outside the country. Counterfeit currency seriously devalues the real worth of Indian currency. A study conducted by Indian Statistical Institute, Kolkata on behalf of the National Investigation Agency (NIA) suggests

that fake Indian currency notes (FICN) amounting to Rs 400 crore are in circulation in the country at any given point of time and around Rs 70 crore fake notes are pumped into Indian economy every year. The estimation is based on recovery and seizure made by various agencies. But the actual figure could be much larger. A One India report, quoting an Intelligence Bureau dossier, says fake Indian currency worth Rs 12 lakh crore has pumped into Indian financial system over the years. Needless to say that most of the fake currencies circulated in India are of Rs 500 and Rs 1000 denominations. With Prime Minister Modi's decision to pull out the old Rs 500 and Rs 1,000 notes and replace them with new Rs 500 and Rs 2,000 series has completely stalled the circulation of counterfeit Indian currency.

- **Terror financing:** Terror financing is sourced through counterfeit currency and hawala transactions. This is how terror financing works. Fake currency circulation is routed through a multi-layered network of hawala operators which are closely linked to satta (gambling) and smuggling of drugs, opium and arms. Indirectly, they all end up financing terrorism. In addition, the terrorists collect huge donations and then route the money through hawala transactions. With the circulation of counterfeit Indian currency completely stalled and hawala transactions stopped, all windows for terror financing are closed.
- **Maoism:** Maoist sympathisers call Modi's demonetization move an "undeclared financial emergency". There are reasons to it. Demonetization has hit the Maoists and their movement hard. Black money is the oxygen for Maoists. According to an estimate, Maoists manage to raise Rs 300 to Rs 400 crore annually through donations, levy and extortions. The illicit money is used to purchase arms and ammunition, food and medicine and daily essentials, apart from distributing it among the ranks and the cadre. No wonder, with Modi's demonetization drive, all those illegal money are reduced to paper scrap. Maoists are in a state of coma and Maoist activities see a crippling blow. Ever since the demonetization announcement was made, no major violence was reported from the Maoist infested states like Chhattisgarh, Odisha, Andhra Pradesh and Telangana.
- **Kashmir unrest:** The four-month-long unrest in Kashmir valley is on a backburner, thanks to demonetization. No stone pelting on security forces has been reported in Kashmir ever since the demonetization announcement was made. An intelligence estimate suggests that Pakistan sends Rs 1,000 crore annually to the separatists for fuelling unrest in Kashmir. The money is transferred through hawala route. With hawala transactions completely choked up, the separatists are now clueless. It won't be wrong to say that "stone pelter" Modi completely shattered the Kashmir unrest with his stone called demonetization.
- **North-East insurgency:** Demonetization has severely affected the multiple militant groups operating in the North-East. According to intelligence estimate the north-eastern insurgent groups together have a corpus of Rs 400 crore annually.
- The insurgents source their funding in two ways. They raise funds through levy and extortions like the Maoists do. But unlike Maoists, the leaders of North-East militant outfits do not live in the jungle. Their English speaking high ranking leaders run operations from their dens in Myanmar, Bangladesh and Nepal. From there they also transfer huge illegal money via hawala route to their cadre for running the militancy. With the extortion money stopped completely in the absence of cash inflow and hawala operations coming to a complete halt, all activities of North-East militants have shuttered down
- **Tourism and hospitality** and wellness – According to the survey, 61% respondents responded that tourism sector is highly affected since people consume a major part of their undeclared income on luxuries. Hence, with the inability of customers / tourists to spend due to lack of available currency, the tourism industry is suffering the most wherein the unorganized inventory of hotels is mostly impacted. In addition, the leisure sector hotels and restaurants segment is facing impact on account of the discretionary nature of spending in this sector and the substantially larger base of cash transactions that occur in its when compared to mainstream business hotels. Further, the restaurants businesses are facing a slowdown in growth on account of the reduced availability of cash and the

generally high usage of cash spending in restaurants.

II. NEGATIVES IMPACTS

- **Liquidity crisis:** Demonetization gave rise to liquidity problem as people found it difficult to get sufficient amount of cash to fulfill their basic needs. Marginal section of the society mainly depends on cash to meet their daily transactions. Out of total currency in circulation 500 rupee notes constituted nearly 49% in terms of value. More the time is required to resupply Rs 500 notes, the more will be the duration of the liquidity crisis.
- **Loss of well-being:** Most of the population who constitute the lower middle and lower class uses currency to meet their daily transactions. Such class of the society such as daily wage labourers, small traders and other marginal section of the society use cash more often. These sections of the society have lost their income in the scarcity of cash. Cash crunch made firms to cut their labour cost and thus reduces the income of the lower middle class.
- **Consumption:** Cash shortage adversely affected the consumption behaviour of the people in India. The sales of consumer durables likely to be hampered in short-term, especially sales through unorganized channels are cash purchases. Most of the purchases by retailers are through cash which brought down their volume of trade.
- **Decrease in GDP:** Withdrawal of highest currency notes reduces the growth rate of the economy. Demonetization reduces consumption pattern, income, investment etc. This may bring a slowdown in India's growth rate as the liquidity crisis itself may last three-four months.
- **Interest rate and Bank deposits:** Deposit of the bank may increase in short-term due to demonetization, but will come down in long-term. Such liquid cash deposited in the bank by people may not be assumed that such amount of money once stored in the banks will be invested for long term. Such money may be saved into banks just to convert the old notes with the new one. These are not voluntary savings aimed to get interest rather it is because of demonetization. It will be withdrawn by the savers as soon as the supply of new currency takes place. This indicates that new savings are only for short-term which may be encashed at the appropriate time in future. It may not be said that demonetization will generate big savings in the banking system in long term, this may reduce interest rates in short but not in the long term
- **Black money:** One of the main reasons behind demonetization move was to curb black money but only a small portion of the black money is actually stored in the form of cash. Most of the black money is kept in the form of land, gold and buildings etc. Hence the amount of unaccounted money deposited with the banks is only up to the amount of cash deposited. Countrywide awareness is created among the people to fight against black money

IMPACT ON DIFFERENT SEGMENTS OF ECONOMY

There is short-term and long-term impact of Demonetization on different sectors of economy.

The Impact of Demonetization on Agricultural Sector

Demonetization has affected every Indian, but it has hit the agricultural sector badly. The sector typically sees high cash transactions and therefore near-term impact could be seen till liquidity is infused in the rural areas. As farmers face a temporary shortage of cash in hand, it could lead to a delay in payment which in turn would hurt the related companies in the short term. As liquidity eases and cashless transactions gain acceptance, the fundamentals would be driven by the longer term drivers of normal monsoons and positive traction in acreage. Agricultural growth in India contracted 0.2% in 2014-15 and grew no more than 1.2% in 2015-16, largely because of back-to-back droughts. It was expected to grow at 4% in this year as per CRISIL Report, but due to Demonetization this forecast is proven wrong because Farmers are running out of Cash to buy Seeds, Fertilizer, equipment

and Wages payment to workers and Commission to Agents etc. Because of Cash shortage daily supply transport system has also suffered which was result in 25 to 50 % reduction in sales. Following is the main reasons; I. Farmers are not educated and aware about how to work on E-Payment System, Recent study by RBI Says 78% of the population do not use internet in which almost 80 to 85% are Farmers. II. In most of the Villages Proper Banking system is not Developed yet and Villagers are need to go to the cities for the same because of that Farmer's most of the time is engaged in exchanging the old notes in Banks.

Agriculture plays an important role in the Indian economy. Over 70 % of the rural households depend on agriculture. Agriculture is the backbone of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. It also provides raw materials to leading industries such as cotton textiles and sugar industries. The number of various agricultural commodities like tea, coffee, spices and tobacco constitutes our main items of exports. This amounts to almost 15% of India's total exports. Hence agriculture provides foreign exchange which helps us to purchase machines from abroad. It also maintains a balance of payments and makes our country self-sufficient.

Agriculture in India accounts for 50 percent of the workforce. Farmers, who are the backbone of our economy, were severely affected by the note demonetization of 8 November 2016. 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 mandis is dominantly cash-dependent. Farmers suffered a setback due to nationwide cash shortage and a fall in the demand for vegetables in wholesale markets. .

Farmers were not able to purchase inputs like seeds from market. They were using old seeds from the last year harvest and not purchasing new quality seeds from market.

It is true that almost crops are sold in cash the transaction which has been done is cash is to be deposited in the banks and can be withdrawn accordingly.

The consumers of rural farmer is not as advance as the urban middle class, which can be easily managed with a very little amount of cash. The problem of the demonetization is largely associated with the rural areas of the country have lesser number of banks and ATMs compared to the urban areas and semi-urban areas. The problem was not the inaccessibility of the banks and ATMs, but the limit on cash which can be withdrawn. A farmer can take a day out from his busy schedule and manage to go to bank and get the cash back, however the limit on the amount withdrawal forces him to do that again and again and the banks in rural areas are some 20 or 30 kilometres the roads in rural areas can make it look like 50 kms. Repeating that 4 or 5 times in a week can be exhaustive.

The various effect of the Demonetisation would be very positive for farmers are:

- With plentiful money, the government becomes able to complete the incomplete irrigation projects so that more land comes under irrigation and two crops instead of one crop in a season can be taken by farmers. This will double up their income as our Prime Minister Mr Narandar Modi has promised to do.
- The interest rates of banks started falling which could reduce the capital cost and farmers can now go for farm mechanisation.
- Government can build cold storage chain thereby minimize the wastage which are 80, 000 cr annually.
- The intermediaries and commission agents blooming on black money will be minimized and farmers can directly deal with consumers and they can credit instant payments to their bank account.
- The owners of essential commodities like pulses, grains, potatoes onion etc will run out of cash and will not be able to rig the prices. The farmers and also consumers will be benefitted as the price would remain stable.
- The quality of fertilizers will improve in that the nutrients contents will not be

depreciated.

- The Government can conclude the pending electricity generating projects so that the farmers who are suffering by lack of proper electricity will get more electricity so that he can run their drip irrigation system and save water.
- The national portal made for farmers of the country will be more effective as the farmers will have wider market instead of local and District mandies. They will get more prices for their production with payment directly in their bank accounts.
- Farming becomes more viable and there will be reverse migration to villages from cities. The smart phone holder children of farmers will not now shy from working on farm in future.

Impact on Automobile Business

• Two Wheelers

- Clampdown on cash transactions and temporary cash crunch could hurt purchases particularly in the economy segment of the two wheeler space where the percentage of cash transactions have **been high**.

• Passenger Vehicles

- The seasonal slowdown seen during November and December months could get more pronounced as consumers delay purchases due to temporary liquidity crunch and expectations of rate cuts.

• Commercial Vehicles

- Slackness in the economy on account of demonetization could have a negative impact on the commercial vehicle volumes which have been under pressure in recent times.

Impact on Business sector

As per the study IPP says Growth in Business sector 0.7% in October 2016 but after 8th Nov.2016 Demonetization shows a different picture because of this decision labour turnover is also increased as lack of Production because of law demand of products people were purchase only if it necessarily required, for this I have studied on following business sector. Demonetization drive has impacted the Indian businesses directly or indirectly in terms of impact on demand but the impact of demonetization is majorly seen on small businesses as these are highly driven by cash transactions. The labour-intensive sectors mainly agriculture and construction sector have been impacted since a major portion of transactions involve cash for the purchase of raw materials and payment to daily wage labourers.

MSMEs sector has been impacted significantly as the sector is majorly driven by the contractual and daily wage work force and most of the mobile work force don't have their bank accounts at the place of their working.

- 1) 73% Respondents are facing huge cash crunch due to demonetization as they are unable to fulfill their daily requirements.
- 2) 88% Respondents said that the impact of demonetization is majorly seen on the Retail sector because of high dependency on cash for purchase by customers.
- 3) 81% Respondents said that the cash driven agriculture sector is impacted majorly due to demonetization.
- 4) 56% Respondents said the impact of demonetization on the Labour intensive sectors (leather, mining, textile) is quiet significant

Impact on Textile industry

Most of the Brands and Retailers Report 40 to 60 % drop in sales after Demonetization in

first few weeks but from December onwards this drop is slightly decrease, but still we can say the impact of this decision has affect the industry in 2017 also for at least 3 to 4 months.

Impact on Real Estate

Demonetization smashed the real estate market and it will result in 50% drop down and it will remain for further 5 to 6 months. While the short-term impact is negative, Experts hoping that rate cuts in the coming months would boost home sales.

Impact of Demonetization on FMCG sector

In FMCG Industry, more than 80-85% transactions between retailers to distributors are cash based. Further though most of the large FMCG companies do not extend credit to distributors, but distributors tend to extend credit to retailers typically for a period ranging between 7 days to 3 weeks. Under-reporting of sale at retailer level and transactions without bill by distributors is a rampant practice in trade and is something ignored by FMCG players being off book. All this money which used to typically find its way back in circulation has been made redundant by the governments move. The money which is genuine was also stuck since majority of it is in denominations of Rs 500 or Rs 1000 and the process of conversion is tedious and with a limit of Rs 4000 per day. These transactions being high value in nature was seen taking time before the order is re-established.

Vegetable markets, departmental stores, milk booths were found empty for many days. As a result, products with very short shelf life were almost expired for usage, resulting in a loss again. Almost Rs2.6 trillion packed goods industry mostly transact in cash at the lower level of supply chain. And more than nine million retailers in India are Kirana store who deals in cash. Since the rural economy is mainly cash based and wholesaler dependent, this shortage of cash has led to slow down in rural sales and demand. Consumers don't have cash. Moreover, paucity of cash has jammed the movement of trucks. Most of the stocks of Consumer durables, consumer non-durables, Food and beverages settled on red in the last quarter.

S&P BSE Fast Moving Consumer Goods index declined almost 6% from November 8, 2016, to December 8, 2016. In food processing companies ADF food Industries declined almost 13%, Britannia declined almost 6%, Nestle declined almost 2%.In beverage and distilleries United beverages declined almost 5.2%, United Spirits declined almost 4.2% in the same period. Personal care companies like Dabur India, Colgate, Emami also dipped in the last quarter. Domestic appliances companies like Bajaj Electric and Hawkins too faced the dip.

Impact of Demonetization on FMCG Industry (Impulse Products): Distributors for Impulse products like beverage and chocolates are usually non-exclusive. This would mean that for a distributor with lower liquidity his preference might force him to divert his limited cash to products which have a high throughput and turnover ratio i.e. either consumer staples or personal care. An estimate by financial services company Edelweiss has pegged the initial impact of demonetization on nationwide FMCG sales at 20-40%. Impulse categories such as biscuits and salty snacks have taken the biggest hit, along with personal care categories like toilet soaps, shampoos and detergents.

Impact on Service Sector

Service sector is hit very hard by Demonetization decision in November 2016 worst Slump in nearly three year is noted. The Nikkei India Services Purchasing Managers' Index (PMI), which tracks services sector companies on a monthly basis, stood at 46.7 in November, down from 54.5 in October. The Index slipped into contraction territory for the first time since June 2015 and pointed to the sharpest reduction in output for almost three years. On other hand if we talk about Banking Sector this is the only sector which was benefited by that decision in many aspects, this move will pull a large chunk of first time users to banks, who will have to use the system at least once to exchange their old notes for new ones. According to a study conducted by Moody's, people tend to continue using banking 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.

Impact on Indian Economy

Government of India demonetized the currency as a tool to fight against corruption and black money, which are the major problems of Indian economy. The present demonetization will be having some effects on Indian economy. Some of the major effects of demonetization is as follows.

It has been observed that money deposited and money withdrawn has a deficit of Rs. 7,07,387 crore in the system which in the present situation is causing immense cash crunch in the economy ultimately affecting the day to day requirements of people and businesses across the country.

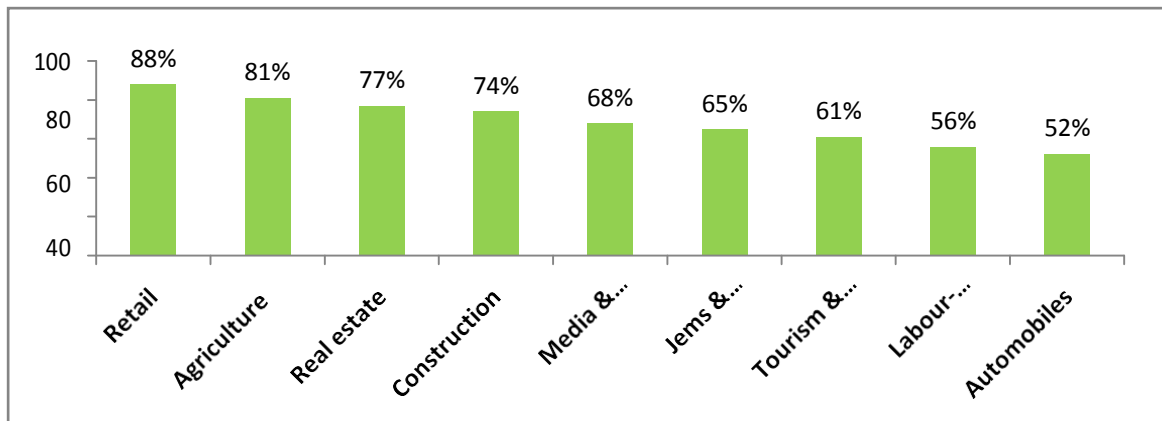
Summary of Withdrawal and Deposit Balance sheet in the wake of demonetization

Total deposits (1)	Rs.13,00,000 Crore
Remonetized money (2)	Rs. 5,92,613 Crore
Deficit (2-1)	(-)Rs.7,07,387 crore

Source: PHD Research Bureau, compiled from RBI

Production process not only in the informal sector but also in the formal sector has been impacted directly or indirectly. Cash driven segments such as fruits and vegetable markets, horticulture and floriculture, agricultural and food processing, construction activities, among others have been impacted

Impact of Demonetization on major sectors of the economy



Source: PHD Research Bureau, PHD Chamber Demonetization Survey 2016

Effect on Parallel Economy

One of the major objectives of the demonetization is to fight against the black money. With the demonetization the black money within the economy will be blocked as the owners of the black money in the form of 500 and 1000 rupee notes cannot replace it and deposit it in the banks as it is not having the proper documents. In this way the parallel economy will be affected to a greater extent which is the positive impact of demonetization.

Short run effect on money supply

Money supply will be reduced in the market due to withdrawal of currency notes from circulation. This effect will be the short run impact of demonetization. The problem of money supply will be solved when the new currency notes widely circulated in the market.

Effect on Consumption

Decrease in money supply as a result of demonetization is also having an impact on

production and consumption. Due to decrease in money supply production decreases and it affect the consumption negatively. **Fall in the prices:** Prices for different goods will fall with demonetization of currency. The prices of consumer goods and the prices of real estate sector are expected to fall. **Increase in bank deposits:** The demonetization increases the deposits in current account and savings bank account. As government announced the demonetization, the money held by the household sector for the emergency purposes will be deposited with the banks, which will increase the deposits in the banks. **Increase in alternative modes of transactions:** Due to demonetization the cash transactions are facing a reduction, which increases the other alternative modes of transactions like use of credit cards, debit cards online payments and transactions etc. **GDP will decrease in the short run:** GDP will be hurt due to the demonetization. GDP of India may fall as a result of demonetization. The extent of fall may be very less and it exists only for a short duration of time. This fall may not affect the growth of the economy.

Effect on Anti-Social Activities

Demonetization is a mighty blow on the anti-social activities. Due to the demonetization funding of anti-social activities, smuggling can be curbed. These anti-social activities weaken the economy. It is difficult to the anti-social activists to recover from this. So the anti-social activities can be curbed to a greater extent.

Effect on other units of the economy

Demonetization will have short run impact on agriculture, small traders, small vendors etc. as agriculturists are dealing with the perishable commodity, not having other mode of payment other than cash transactions and lack of demand will affect the farmers negatively. The same kind of situations faced by the small traders and small vendors. This also a short run effect of demonetization. Demonetization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks.

IMPACT OF DIGITAL TRANSACTIONS IN THE LONG RUN

Advantages of Digital transactions

- Reduction in cash operations cost:
- Universal availability of banking services online:
- Convenient and user friendly services:
- Transparency in businesses:
- Efficiency in welfare programmes:
- Reduced instances of tax avoidances and curb black money generation:

Disadvantages of Digital transactions

- The necessity of Internet:
- Higher risk of getting hacked:
- High restrictions:
- The lack of anonymity.

IMPACT ON PEOPLE

Demonetization has affected the short term consumption needs of the people belonging to the lower and middle class families for whom cash is the primary mode of payment for their day to day activities. Along with this, the direct impact of demonetization drive is seen on those who live in remote areas of country, having no bank accounts and no identification

proofs. Labour intensive sectors (Leather, mining, textiles) - Labour-intensive sector requires huge amount of money to be paid in cash to the daily wage labourers, majority of the respondents (56%) reported that they have been impacted by demonetization drive. Automobiles – Automobiles sector is impacted majorly by demonetization as reported by 52% respondents. The major decline is seen in the demand of two wheelers than luxury cars/four wheelers since cash is the primary mode of transaction in the purchase of two wheeler vehicles. Another segment of automobile industry which is facing effects of demonetization is the used car industry wherein numerous car dealers have reported sudden decrease in sales. It is an unorganized industry and therefore, the modes of payments are not exactly regulated.

The inputs from the segment of people reveal that demonetization is directly affecting the short term consumption needs of the people which includes daily wage labourers, women, students, small vendors, shop keepers etc. basically belonging to the lower and middle class families for whom cash is the primary mode of payment for their day to day activities. Along with this, the direct impact of demonetization drive is seen on those who live in remote areas of country, having no bank accounts and no identification proofs. Further, we assessed the impact of currency crunch on the life of people and observed that the major impact of currency crunch is seen on daily needs of the people (92%) such as purchase of eatables, dairy products and other necessities, transport (76 %), health care & wellness (68 %), beauty & cosmetics (43 %), entertainment (40%), tourism (37%) and shopping (34%).

In terms of major problems faced by the people while withdrawing/depositing cash from the bank/ATMs, 89% respondents have reported unavailability of cash at banks and ATMs as a major hurdle, followed by ATMs closed (86%) long quos and waiting hours (74%), mismanagement in the banks (58%) and lack of cooperation by the bank staff (41%).

SUGGESTIVE MEASURES

In order to ease the burden of demonetization, the Government has introduced numerous measures to ease the burden of demonetization on common man. However, there are various challenges which are being faced by the businesses and people in the nation which needs to be solved at the earliest possible. Few enlisted suggestions are as follows:

- There is a need of setting up of digital literacy booths outside banks majorly in rural regions for spreading digital literacy across all sections of the nation.
- Government should print more and smaller denominations such as Rs. 50, 100 and Rs. 500 notes so that there should be sufficient circulation of money in the market.
- Government needs to ensure that the sufficient quantity of money is being transported to the banks and ATMs in both rural and urban areas on time.
- Facility of mobile ATMs in the Government, public sector and private corporate sector offices having more than 25 employees in their establishments.
- Cash driven sectors such as constriction sector and Small and Micro Units (SMEs) should be facilitated by expanded cash limits for the payment of salaries of their daily wage and contractual workers.
- Cash driven sectors such as constriction sector and Small and Micro Units (SMEs) should be facilitated by expanded cash limits to withdraw from the banking sector for the payment of salaries of their daily wage and contractual workers.
- Incentivize RTGS (Real Time Gross Settlement) and NEFT (National Electronic Funds Transfer) under the ambit of digital transfers so that more and more people adopt the available facility and are less dependent on cash transactions.
- Enhance in the limits of Removal of service tax charged while making payments through credit card, debit card, charge card or any other payment card up to Rs. 2,000 in a single transaction is a good start for the transformation from cash transactions to the digital transfers, however, the limit needs to be revised to Rs. 10,000.

- Increase in daily cash withdrawal limits from ATMS: Daily cash withdrawal limit from ATMs should also be increased to Rs. 10,000 so that people are not coming in queue again and again.
- Higher agricultural credit will improve the safety net and hopefully catalyse rural spending. Companies with strong rural presence will get benefit if agricultural output increases. If farmers get cheap easy credit from financial institution they will not depend upon village money lender and will not be trapped in high debt.
- Agricultural Insurance Indian farmers are suffering from huge loss during natural calamities which can be tackle effectively by agricultural insurance. Insurance is the one of the best way to protect the farmers from such damage. By paying insurance premium farmers can recover their loss from damage in natural calamities.
- In rural sector it is very critical to make investment in road transport and airways for reducing cost of movement of goods and people. It will improve the economy's overall competitiveness and growth and will increase capacity utilization.

Some of important measure taken by Indian government to boost agricultural growth

- **The National Rural Employment guarantee Act 2005** is a social security scheme to provide employment in rural areas. This scheme provide 100 days job guarantee to any adult who have registered in Rural Employment scheme. This scheme is implemented with the help of Gram Panchayat. The Minimum wage is determined by the state ranging between Rs 163 in Bihar to Rs 500 in Kerala.
- **Swatch Bharat (rural)** up by 33%., PM's favourite programme of building toilets and make a cleaner India has received another boost in spending touch nearly Rs 1400 crore in 2017-18. Spending on Rural health and Rural housing scheme is up considerably.

CONCLUSION

Demonetization in Indian economy is having negative impact on the different sectors of the economy. The Demonetization drive has affected both organized and unorganized sectors as well as the overall economic fabric of the nation. A permanent dent has been made in the informal sector by demonetization. Small businesses are already getting affected by this decision and facing great inconvenience. It is those who are in the low income groups who are the most affected by this decision. Majority of the negative effect are short run effects. All these effects are solved when the new currency notes are widely circulated in the economy. On the other hand people are facing some problems in the exchange of currency notes. Even though people are facing such a problem people are ready to bear these problems for its positive effect on the economy. If government successfully clears all the problems, drawbacks associated with the demonetization, this demonetization will become the successful economic revolution in India and we can expect a better tomorrow with corruption free India. Demonetization would bring a positive impact on Indian economy as it encourages the digital mode of payment like E-wallets and apps, online transactions using E-banking, usage of plastic money etc Demonetization is beneficial for the economy in the medium to long-term. Banks may expand providing more jobs and postal services are expected to upgrade providing more employment opportunities, making the overall employment scenario better.

- 1) 58% of people are facing high level of difficulty in fulfilling their day to day activities
- 2) 92% of people faces major impact of currency crunch is seen on daily needs such as purchase of eatables, dairy products and other necessities.
- 3) 89% of people suffered unavailability of cash at banks and ATMs as a major hurdle in withdrawing/depositing cash from the bank/ATMs.

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