

Currency Demonetization is Boon or Bane: A Study

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Abstract – Demonetization is the latest buzzword in the country. The demonetization of 500 and 1000 banknotes was a policy enacted by the Government of India on 8 November 2016, ceasing the usage of all 500 and 1000 banknotes of the Mahatma Gandhi Series as legal tender in India from 9 November 2016. Its impact will be felt by every Indian in some or the other manner. Demonetization technically is a liquidity shock i.e. sudden stop in terms of currency availability. It is not a big disaster like global banking sector crisis of 2007. Every coin has two sides and the Demonetization too. On one hand millions of people are facing the heat of severe cash crunch and on the other hand so many people are getting Other than this a group of people including money launderer, brokers, policemen etc are making money illegally.

This paper elucidates the impact of currency Demonetization on various sector and also highlight the sector which extremely get benefited.

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INTRODUCTION

Demonetization is the latest buzzword in the country. The demonetization of 500 and 1000 banknotes was a policy enacted by the Government of India on 8 November 2016, ceasing the usage of all 500 and 1000 bank notes of the Mahatma Gandhi Series as legal tender in India from 9 November 2016. This one decision has changed the life of common man to special man. However, in the days following the Demonetization, banks and ATM across the country faced severe cash shortage with severe detrimental effects on a number of small business, agricultural activities, transportation and construction.

People seeking to exchange their notes had to stand in lengthy queues and several deaths were linked to the inconvenience caused due to the rush for exchanging cash. The government claimed that the Demonetization is with the aim to stop counterfeiting of the current banknotes allegedly used for funding terrorism as well as a crack down on black money in the country. The move was also described as an effort to reduce corruption and the use of money in smuggling.

EFFECT OF DEMONETIZATION

About 86% value of currency in circulation was in the form of Rs. 500 a Rs. 1000 notes in total amounting to Rs 14.7 lacs crore worth of currency.

17 lacs crore worth of currency notes in circulation, only Rs 2.3 lacs crore worth small –denomination notes remained in the system.

The banks were flooded with deposit of Rs 11.85 lacs crore worth 500 & 1000 notes upto 7th December 2016..

The immediate effect of demonization is collapse of retail activity/trade in goods and services including daily wage services.

Stocks plunged on November 9, the day after the announcement, the BSE Sensex fall over 1500 points in early hours of trade.

Cell phones sales had declined 40-50% in Nov and 15-20% in Dec, after Demonetization.

Methods adopted for transforming black money into white:-

The most interesting fact regarding the Demonetization is that people are devising various unique methods for transforming their black money in to white one. Some of these methods are as follows –

Purchase of gold	Sale at premium Backdated invoice Under invoicing [Less than 50000]
Back dated fixed deposit	Creation of back dated fixed deposit at rural co-operative banks with manual operations.
Payment of advance salary & Bonus	Old notes to pay advance salaries New accounts opened for salaried employees.
Donation to political parties	All donation receipts are structured to be less than Rs 20,000 to avoid quoting of permanent account number[PAN]
Agriculture Income	Land property owned falsely declared to be used for plantation nursery, garden .
Cash deficit firms	Small firm with large amounts of cash in hand but low on liquidity join hands with large cash rich firms to obtain short term loans.

Other measure-

- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with some percentage of money for exchange.
- Asking their employees to stand in the long queues in front of Banks and ATMs for getting money exchanged.
- Hiring labors for some Rupees ranging from Rs 500/- to 700/- for becoming the part of long queues in front of banks/ ATMs.
- Converting black money in to gold.
- Paying a few months salaries in advance.
- Paying back loans forcibly.
- Using their influence / links with bank employees and so on.

OBJECTIVES

- To study the impact of currency Demonetization on various sector.
- To know the profitable sector after currency Demonetization.

ANALYSIS

We can observe a great impact of this move of the Central Govt on Indian Society and Economy. The first impact shall be that people will have lower expenditure power that is they will not be able to purchase luxurious things.

There shall be no pretentious expenditures on marriages and other ceremonies. So the society will grow lesser materialistic. With the fake money destroyed, Indian economy will see a big boom and the so far booming real estate sector shall fall on the ground.

The things shall be cheaper. Indian Currency shall get respect at the international market. There shall be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means.

It will bridge the gap between the haves and the have-nots. However, there may be some difficulties for a couple of months but this inconvenience shall be temporary and for short-term.

We can classify the people on three categories like:-

Winner [opportunity seeker]	Looser	Utterly Ruined
Money Launderer	Average common man	Daily wage earner
Broker	patient	Self employed
Bank officer	student	Truck driver
Policemen	Farmer	farmer

Impact on Economy:-

Particular	Short term	Long term
Inflation	Inflation likely to come down due to low demand owing to liquidity crunch.	Since lower demand can have a lagging impact on inflation prices may remain flat or fall in the long term.
G-sec yields	Likely to fall as liquidity in the banking system pulls down interest	Likely to remain flat to positive depending on how inflation and the fiscal

	rates.	situation play out.
GDP growth	To be negatively impacted by 0.5-1% due to drop in consumption.	With the tax net widening due to restrictions on the cash economy, GDP likely to get a boost.
Interest Rates	With banks flush with cash, interest rate may down.	If Demonetization encourages formal banking and more cash continues to come into the system, the rate may fall further.
Fiscal Deficit	Likely to have positive impact through higher tax collection and penalties in FY 2017.	With likely increase in the size of the formal economy, tax collections would improve the fiscal condition of the country.

SECTOR LIKELY TO BE AFFECTED:

Real Estate: - 30-40% property price may fall due to black money component in real estate. The sector could see migration of workers who are paid in cash to their native places. Developers and consultants say that home sales have slowed down significantly as consumers defer home purchases. Land transactions are at a standstill. Developers have deferred launches of premium projects while prices of land and properties, particularly luxury homes, are likely to drop in the next 3-6 months. Even secondary (resale) property markets sales have dropped by 50% as said by broker and analysts.

Demonetization also have a negative impact on cement demand in the near term mainly due to about 60 % of cement demand comes from the real estate sector and absence of cash can impact the real estate sale and construction activity. Real Estate will be one of the most affected sectors. Everyone believes the same and hence the Nifty Realty Index closed at 175.2, down by 11.60%. It is a popular bet in the fresh

and resale market dominated by black money holders. The number of buyers will come down and low demand will bring about lower prices in the short term. However, it will subsequently help in improving the sector's prospects. Unorganized builders will be most affected and the sector will drag down cement and ceramic sectors also along with it. Above all, every honest taxpayer should hail this decision. In the present economical situation, black money has inflated prices in real estate, gold and a few other sectors, making it a challenge for a common Indian citizen to invest. However the attempt of the government to curb black money will significantly lower the prices in such sectors.

According to Finance ministry's report in 2012, "real-estate accounts for more than 50 per cent of the current black money market".

Banks: - Since the Demonetization move, banking sector has managed to stand tall. But not all the banks, only large PSU banks and select private sector banks have shown uptrend. If we look at the returns delivered by the PSU banks and private banks, SBI, PNB, Bank of Baroda, Union Bank and Canara Bank have delivered handsome return post the Demonetization move. A big surge in low-cost deposits will help banks in the short-term. It means lower cost of funds and better margins. The rise in balance sheet size will also help when credit growth picks up. As yields fall, owing to excess liquidity, banks stand to book treasury gains too. However, on the flip side, loan disbursements are stagnating and asset quality could worsen as the economy slows.

FMCG:- Consumers have cut back on discretionary spending. The whole business has been hit because it is largely dependent on cash. The traditional trade has been hit hard, especially wholesalers and *kirana* stores where transactions are largely in cash. Still, things are recovering; sales are now down only 20-25% on a year-on-year basis compared to 50% in the first week after the note ban. Rural sales have been hit more.

Consumer durables:- Post Demonetization move, the consumer goods have witnessed a healthy correction. The reason are not far to seek. Demonetization would create a temporary cash crunch in the economy and consequent reduced or delayed spend by consumer, hence the demand of consumer goods will be affected in the current quarter. The market for white/brown goods still operates 80% on cash, thereby affecting volumes. Makers of durable goods are launching new schemes to tempt consumers to go cashless. Some of them are also extending discount offers and promotions such as waiver of processing fees and installment schemes with deferred start of payments.

Organized retail:- The sector is a clear beneficiary of Demonetization as consumers flock to large stores which accept non-cash payments. The nature of purchases at modern retail stores has changed. Consumers are stocking and purchasing more of daily needs and essentials such as fruits, vegetables and staples such as sugar and flour.

Airline Industry: There has been a significant impact on inbound travel. The bookings of some airlines go down by about 16% in the week after Demonetization compared to the one before that. Discretionary travel has been the worst hit. International traffic to West Asia and South-East Asia, especially by traders and low-wage workers, has been hit. Business jet operators say several charter flights have been cancelled as payments are often made in cash.

Automobiles: There is slack in the demand of the automobile during the month of December. In auto sector, the Demonetization will have a short term impact. The passenger vehicle[pv] segment will be least impacted as over 80% passenger vehicle are financed and cash transaction are nominal. But there is one more segment in the auto sector which is the second hand luxury car segment and we can say that it may get impacted as most of the transactions carried on this segment are in cash. Demand has been hit. Most firms expect to see a decline in sales. In two-wheelers, where transactions are through cash, sales have taken a massive hit. Hero Moto Corp Ltd, for instance, sold 4,80,00 units in November, down from a monthly average of 6,00,000 units.

Tourism: The most difficult period of Demonetization sits squarely in the busiest season for the tourism industry. There was a slump in hotels and associated services bookings in the first week after the currency withdrawal. However, the premium hotel segment has not seen any impact as bookings are mostly done in advance and online. So the hit has mostly been confined to the unorganized sector.

Infrastructure: Power demand and road traffic have been hit. Road companies faced short-term cash flow problems because they weren't able to collect tolls, but things are limping back to normal. Wage payment to labor can be an issue for some time which can impact the execution in the short term.

Pharma: Pharmaceutical product sales likely to fall by 8-10% month-on-month basis in November with sales of medicines for acute diseases feeling the adverse impact of Demonetization due to lower patient turnout, although retail sales of medicines for chronic diseases rose in the first fortnight, as patients stocked up medicines by using old notes at pharmacies, which were among the few outlets accepting old bank notes. Off take from wholesalers and stockiest was sluggish and companies have extended the credit period by 7-21 days.

Thus on the basis of above we can summarize the impact of Demonetization as under

The spots	Impact	Remark
Consumer discretionary	Negative	Demands for discretionary items have been hit as buyers a focus on essentials.
Real estate and Jewellery	Negative	The bulk of business here was done in cash. Real estate could correct 30%.
Cement & building material	Negative	A slowdown in housing and real estate will impact its dependency sectors.
Autos	Negative	Bookings have slumped 30-40% since demonetization.
Agri-chemicals	Negative	A cash crunch is hurting purchases of agri-fertilisers and chemicals.
Technology	Neutral	Structural headwinds notwithstanding the rupee fall could boost margins.
Health care	Neutral/positive	Some companies stand to gain as exports are expected to improve.
PSU banks	positive	Deposits into the formal banking channels surge, driving treasury gains.
Energy and utilities	positive	Reforms and an increase in public expenditure should benefit this segment.

As earlier stated there is other side of the coin too. Demonetization has positive impact also which can be illustrated as under -

Digital payment: The company [paytm] has registered 200% hike in the number of application downloads & 250% surge in the number of overall transaction & transaction value. Within hours of the government ban on the existing Rs 500 and Rs 1000 currency notes, mobile payment and commerce platform paytm saw an overwhelming 435% increase in overall traffic. The company has recorded a 1000% growth in money added to the wallet and a 400% growth in transaction value of offline payments. Same in the case with online payment gateway payU India. As an immediate consequence of the announcement, payU India witnessed an increase of 85% in daily transaction. As the enquiries by merchants have increased by 50%.

Real Estate: While the short-term impact is negative, developers expect things to return to normal over the course of the fiscal year. Some are hoping that rate cuts in the home loan would boost home sales.

Bank: Non-interest income for banks would increase but asset quality and credit growth will be hit in the short-term. Over the long term, Demonetization should benefit banks because they will likely attract a disproportionate share of savings and see greater fee income from electronic payment opportunities.

FMCG - 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 durable: Sales are recovering, but still about a fifth less than a year ago. Sales in the third quarter will be hit.

Organized retail: Sales were up by 15% on a week-on-week basis in the first week after Demonetization was announced at retail stores of Future Group and 25% compared to a year ago. This is true even a month later; sales continue to be higher by 25% compared to the year-ago period. In the long term, things will be positive as some of these new consumers will stick to shopping at large stores.

Airline Industry: As 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 Feb, March and April when the final revenue and traffic numbers are released.

Automobiles: 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 that it is a matter of time, may be three months, before the industry gets back on track.

Tourism: 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: The Demonetization 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 is likely to step in and spend more, which will result in increased revenue for the sector.

Pharma: 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 impact of

Demonetization 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 9-10% witnessed in the first 6-7 months.

Gold prices: As investors rushed to invest in safe havens, Gold Futures touched a high of Rs 31,376 and was trading at Rs 30,500 up 2% on 9th November 2016 evening. Local shops have stopped selling gold in exchange of old notes and prevailing prices are Rs 31,800 per 10gm against Rs 30,700 per 10gm on 8th November 2016.

CONCLUSION:

A boon to common Indian citizen, the move to demonetize Rs 500 and Rs 1,000 currency tenders by the union government of India on 8-11 was a laudable and historic effort to clean up the decade's long corruption and black money. If unaccounted or black money isn't obliterated, it would make the rich richer and the poor poorer.

According to SBI, "Banks received deposits worth Rs 53,000 crore since the government put out of circulation, high-value banknotes in a bid to drain illegal wealth. Nearly 14 lacs crore are held in Rs 500 and Rs 1000 notes now nearly 86% of the total value of currencies of all denominations in circulation". Banks are flush with funds, the cost of credit will fall and economic activity will pick up.

- [1] Ultimately, government will possess an adequate amount of money to invest in infrastructure, education, agriculture, and all other sectors to build India economically stronger.
- [2] Demonetization would not only repair internal economic issues, but also tackles funding to terrorism. Counterfeit money is one of the main sources of funding for activities related to terrorism
- [3] Also, corrupted government officials and politicians who have earned in illegal ways will have no other option to put that money into usage.
- [4] On the basis of above analysis we can say that two sector which get benefited from this Demonetization are banking and digital payment specially paytm.

As the saying goes "no pain no gain". In the same way short-term constraints will be associated with long-term benefits. It can rightly be said that almost all the sectors of Indian economy is getting affected

by this decision in one or other way, but undoubtedly we will reap the fruits of Demonetization.

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