



DEMONETIZATION

RUBY, rubynehra3891@gmail.com

ABSTRACT :- On 8 th November 2016 Prime Minister Narendra Modi announced that two of india's largest notes INR500 and INR 1000 will cease to be legal tender except for a few purposes . 86 percent of cash in circulation was rendered invalid and these notes had to be deposited in banks by the 30th of December 2016.

This move is aimed at controlling black money , take currency circulation and terror financing . One need to understand that 80% of India's labour force is employed in the informal sector , Which comprise of 45% of the GDP of our coemtry . Ouer 60% of population of india lives in below the international poverty .Since our economy is an under banked economy , present demonetization move would no doubt cause a serere social experiment across the segment of our population . At the first place and on a shortterm basis this move would benefit the Govt ,which shall effectually deploy its resources to percolate the impact to the poor and needy of our Country . This study will help us to know about the positive and negative impact of note ban decision taken by Indian Govt.

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Key Words :- Indian Government note ban economist Demonetisation , expert ,Opinion, credit, cashless transaction, Black money.

Introduction :- Demonetization of high valued currency notes of INR 500 and INR 1000 on Nov 2016 has shaken the country by disrupting normal behavior of Indian politics canony and society . The ruling coalition quickly articulated this as a big bang step to unearh black money and attached its success in the election held in the country post demonetization as an endorsement of people for the demonetization decision. The opposition on the other hand has termed it a an irresponsible step that adversely affected all sections of society.

The slowdown in the economy post demonetization by 1 to 2 percent of GDP Growth rate constituting a loss of income of rs 1 to 2 lakh crores plus the new currency printing and trans potation costs , caused in convenience and loss of lives etc are considered then the demonetization as an economic case does not stand the sorting clearly the cost outweighed the benefits what needs to be done to curtail the black money is fix the demand for black money that comes from political parties real estate business government private sector nexus rather than focusing on to curtail the supply of black money through cash less measures.

Objectives of the Study :-

1. To know about actual present outcomes of the note banned decision.
2. To know the potential of the note ban decisions
3. To estimate the consequences for future of the note ban decision
4. To know the impact of note ban decision on various sector of Indian economy

Sectoral Impact :- The different affected sectors of demonetization are as follows –

1. Real Estate :- Real Estate is arguably the most effected sector due to demonetization impact of demonetization is more prominent in un organized sector comprising small builders and real estate agents. Due to demonetization,it has been assumed that the price will be reduced 30% -40% in property . In Real Estate sector demonetization will bring increased transparency which is likely to improve the affordability at real estate in medium to long trem.

Key Initiatives By the Govt.

- Indian's Prime Minister Mr. Narendra Modi approved the launch of housing for all by 2022.
- Under the Sardar Patel Urban housing mission ,30 milion houses will be built in India by 2022 mostly for the economically weaker sections and low-income group, through public private partnership (PPP) and interest subsidy.
- In August 2015, the Union Cabinet approued 100 smart city Projects in india
- The Government has also raised fdi limits for tounships and settlements development projects to 100 per cent.
- Real estate projects within the special Economic Zone (SEZ)are also permitted 100percent FDI.

Pros :-

1. Over all decrease in inflation due to low living cost



2. Positive in long term Demonetization coupled with Real Estate Regulation Act , Benami Act and GST will transform Real Estate sector in long term. Key Positive expected increased transparency. Improved investor confidence better access to funding higher FDI likely .
3. Higher revenue for govt in terms of higher registration cost.

Cons :-

1. Greater impact on small builders and in specific cities , micro markets where cash dealing was more prevalent . Resale properties impacted more than primary sales.
2. Organized builders may also face demand slow down in near term . Another view is it supply of resale properties declines due to price crash it may favorably impact primary sales
3. Registered price in residential may go up to adjust for cash component Execution of ongoing projects will be affected and some developers may face serious fund crunch.

2. Banking :- As announced by PM. The 500 and 1000 rupees will not be legal tender . They have given the time period of 50 days for exchanging the whole currency which results in enhancement of liquidity position of bank. It will reduce the dependency of bank on higher cost borrowing .As a result there is scarcity of physical currency notes in the market which motivates the payments. For the short term it safest assets as compared to the financial assets where returns are also higher .

Key Initiatives By the Government:-

- In July 2016, the govt .allocated Rs 22915 crore as capital infusion in 13 public sector banks .
- To reduce the burden of loan repayment on farmers a provision of Rs 15000 crore has been made in the union budget 2016-17 towards interest subvention.
- Under Pradhan Mantri Jan Dhan Yojna 250.5 Million accounts have been opened and 192.2 million debit cards have been issued as of October 12,2016.

Pros :-

1. Increased share of savings moving to banks high CASA ratio.
2. Lower bond yields resulting in high treasury gains (particularly PSU banks)
3. Government's move to remove higher value bank notes circulation would lead to surge in deposits allowing lenders to eventually lower lending rates and lower costs to service the sectors.
4. Paradigm shift towards cashless economy.

Cons :-

1. With any sharp infusion of deposits and relatively limited avenues to lend , the credit deposit ratio for banks become unfavourable and thus impact margins.
2. Negative from credit growth perspective and asset quality challenges.
3. Reduction in deposit interest rate due to high liquidity

3. Automobile:- After Demonetization there was dip in BSE auto index of 205 percent on December 10,2016 . It is because , the potential buyer make their down payment in cash component in small cars segment where as if we see the two wheeler industry majority of buyers make payment in cash as there is a limited scope of cash into the market . If we look into the sale of 2 wheeler and 4 wheeler industry buyer prefer cash to buy the vehicles in tier 2 cities.

If we see the used car industry it is badly hit by this decision in short term as this industry is dependent on cash component and limited cash supply has negative impact on this industry.

Pros :-

1. Passenger vehicles short term impact due to purchase deferment, demand will revive in medium term.
2. Tractors Demand to be materially impacted plus question able trade practices like over invoicing to moderate.
3. Due to decrease in bank lending rates the sales might be boosted as the bike and car EMI become much more affordable.

Cons :-

1. Two wheelers high impact on 2 wheeler sales as large % rural 2w Transactions are in cash % transactions banked by loans is lower.
2. Luxury Cars Suv ,Sales will see significant impact due to wealth deterioration and decline in rural transactions.
3. Commercial Vehicles Negatively impacted 2nd hand truck sales, which decline sharply both number of transactions and pricing.

4. Consumption :- Indian Consumer regime is broadly segregated into urban and rural markets and is attracting marketers from across the world. The sector comprises of a huge middle class relatively large affluent class and a small e



economically disadvantaged class with spending anticipated to more than double by 2015.

Key Initiatives by the Government:-

- The govt of india has allowed 100percent foreign Direct Investment in online retail of goods and service through the automatic route.
- Union Cabinet like implementation of the goods and services Tax and Seventh Pay Commission are expected to give a boost to consumer durable sector in india during 2016.
- With the growth in demand for skilled labor the govt plans to train 500 million people by 2022.
- In the Union Budget 2016, the govt removed duties on items such as components for microwaves charger, LCD ,Battery ,Wired ,Speaker, Headsets ,Broadband ,Modems ,CCTV Camera . Depending on the product category, Various duties such as special additional duty, Countervailing duty and basic customs duty have been reduced in the range of four to 1205 percent.

Pros :-

1. Consumer staples the move should benefit organized retail and hamper the market for local counterfeit goods.
2. Consumer durables sales through online retail should pick up relatively.
3. Consumer discretionary time louder rates should provide butter in thle medium term.

Con:-

1. Consumer staples given the need based demand and small would be muted.
2. Consumer durables sales likely to be hampered over short term especially sales through unorganized channels as cash purchases take a hit .
3. Consumer discretionary the adverse wealth effect will likely hurt higher end discretionary demand.
4. Liquor Most of the purchases by retailers are through cash which may bring down volume in the near term.

5. Infrastructure:-

Infrastructure sector is a key driver for the Indian economy Mr. Nitin Gadkari Minister of Road Transport and High ways and shipping has announced the govt target of Rs 25 trillion investment in infrastructure over a period of three year which will includes Rs 8 trillion for developing 27 industrial clusters and additional Rs 5 trillion for road ,Railway and port connectivity projects.

Infrastructure sector includes power bridger dams roads and urban development. In August 2016 jumped 19 places in world bank Logistics performance Index 2016 to rank 35 th among 160 coemtries.

Pros :-

EPC/ Construction Most of these projects have a big ticket side and reuene is from larger corporate houses and govt authorities which do not tank transactions. Therefore due to reduction in unorganized sector in the market their revenue are likely to increase

Cons:-

1. EPC/ Construction for small contractors due to cash crunch there will be som disruption in medium term.
2. Tall collection ,which are mainly done in cash may see some hiccups in short term
3. Building material likely to be negatively impacted as the underlying real estate demand will be severely impacted due to curtailment of black money large part of transaction done in cash in segments like paints, hence likely to be negatively impacted.
6. **Others :-**Divergent impact is estimated on various sub sectors .However the long term impact is likely to be positive for the sector.

Pros :-

1. With cash transactions fancing a reduction ,alternative forms of payment will see a surge in demand digital transaction system E wallets and apps , Online transactions using E bankng , Usage of Plastic money etc . Will definitely see substantial increases in demand . This should euentually lead to intrastrucyure required.
2. Donations in cash taken by education institutions and medical colleges is likely to come down.

Cons:-

1. Media , Cable TV , Elongated working Capital Cycles for multi system operators due to cash dealing of local cable operators



- . ARPU growth may be delayed and Bad debts may increase due to payment delays by Lcos.
- 2. Print Media: Slowdown in real estate will impact ad reenuu growth for print media.
- 3. Metals : Demend slowdown from end conservers such as auto , White goods and construction on is likely to result in louer domestic volumes pressure on debt deriving for leverage metal companies due to drop in volumes.

Conclusion : Demonetization in India is a great effort taken by Indian government to combat with black money and corruption to combat with black money and corruption. It is a bold decision taken by government. The main purpose of demonetization is eradicating the black money and reduces the corruption .Government of India has become success to some extent .Most of the black money has been crushed .Amount of

cash liquidity increased in the bank day by day. The country in which bank is strong then that country is more financially strong. In future banks will able to do more and more loans to the Individual and to the industrial sectors so that production will grow in our country employment will be greater and our country can develop at very fast rate. But this is only future perfections upcoming few month will show the actual economic condition of our country.

On the therhand Indian financial market ,real estate market .FMCG sector ,Auto cassets banked lons etc . all are declined for a short time .

Some economics expert aid that positive impact of demonetization will should in future Govt has also increased the with drawal limits . The queues in front of banks and ATM`s have reduced . Somehow black money also comes out .Now use should wait and watch the ouerall impact of demonetization drive.

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