

STUDY ON THE IMPACT OF DEMONETISATION ON VARIOUS SECTOR IN INDIAN ECONOMY

By RASHMI

Student, M.B.A IInd Year, PES Modern Institute of Business Management (M.I.B.M) Pune-05

ABSTRACT

“Demonetization, this one word has created a chaos in many economies of the world. Every sector of the economy is affected by this single word. In India the happening of demonetization affected the entire economy. This research deals with the effects faced by many sectors of the economy after demonetization. It talks about the problems faced by various sectors like banking, agriculture etc at the time of demonetization.”

Keywords-*Demonetization, Banking, Economy*

INTRODUCTION

DEFINITION

On 8 Nov 2016, PM Narendra Modi announced the demonetization in an unscheduled live television at 20:00 pm. Modi declared that the use of ₹ 500 and ₹ 1000 banknotes would be invalid past midnight and new banknotes of ₹ 500 and ₹ 2000 will be issued in exchanged.

By this announcement, there was a chaos in the Indian economy and they faced a lot of shortage of cash and faced detrimental effects.

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be

retired and replaced with a new currency unit.

Demonetization has already been tried not once but twice in the Indian economy, First time in 1976 and then in 1978 for the purpose of reducing black money and illegal transactions.

On 8 Nov 2016, demonetization is done to tackle certain problems mainly like:

- For stopping the funding of terrorism,
- For facing the problem of fake Currency,
- For making the black money worthless and
- For reducing the corruption.

IMPACT OF DEMONITIAZATION ON COMMON PUBLIC

- During demonetization, people faced a lot of problems as they have to stand in lengthy queue to exchange notes.
- Cash wasn't available with the banks. People weren't accepting the change as this was very much disturbing for them.
- Businesses were going into losses due to non payments and cancellations.
- ₹ 2000 banknote was a huge amount for a normal person.

RESEARCH METHODOLOGY

The paper is based on secondary data. The data has been collected from internet, articles newspapers etc. Graph and percentile method has been used to analyze the data.

OBJECTIVE OF THE RESEARCH

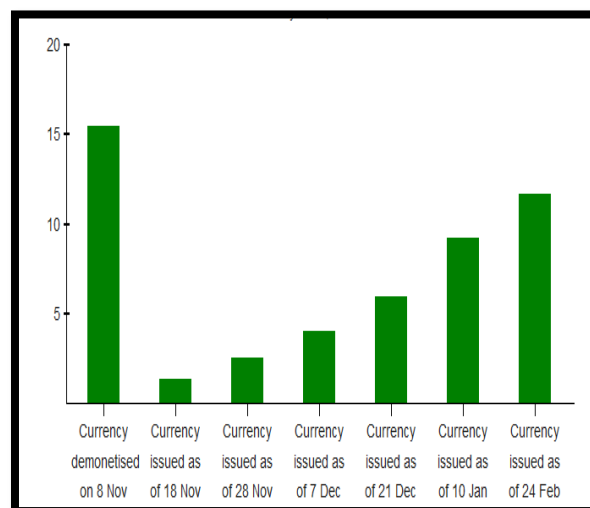
- To study the impact of demonetization on common person of India
- To study the impact of demonetization on various sectors of the economy.

IMPACT OF DEMONITIAZATION ON VARIOUS SECTORS OF THE ECONOMY

BANKING

Banking sector faced a lot of problems, due to demonetization their workload increased several times than usual. People were questioning them and creating problems and blaming them for the entire plan.

The banking sector has handled about 180 million transactions in 4 days after demonetization. SBI alone received more than ₹ 300 billion in bank deposits in 2 days after demonetization was announced.



Between November 10 and November 27, banks reported exchange and deposits of demonetized banknotes worth ₹ 18.45 trillion. During this period, an amount of ₹ .50 [lakh crore](#) had been transacted by people from their accounts.

The expected dividends by RBI was ₹74.9 lakh crores in financial year 2016-17 but due to demonetization it was less than half the dividend ₹30.7 lakh crores was actually paid. This was the scenario and hence the government revenue dropped and to avoid increase in fiscal deficit the government cut off investment in social schemes etc.

RAILWAYS

Railway was also affected by demonetization but not at that scale. As the payments were made by cards they have to get card reader machines for that. For some days after demonetization, cash was accepted in bookings for controlling the inconvenience and chaos created by the general public

TRANSPORTATION

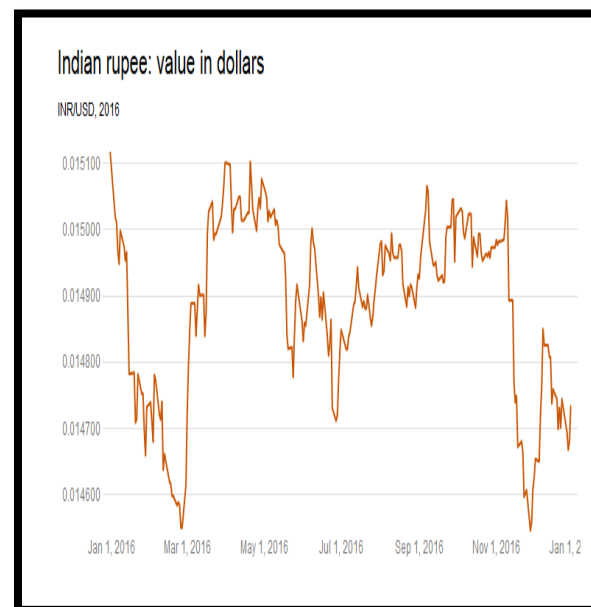
On 8 Nov, due to the announcement, the toll plaza operators refused the old bank notes creating problems for the truck drivers to stand in long queue and almost 800000 truck drivers were affected with this scarcity of cash and around 400000 trucks stopped on highways leading to jams and delays.

For that only, transport minister Nitin Gadkari announced suspension of toll collection on all national highways till 2 Dec. This was done to ease the

transportation at that point of time. But many industries suffered losses due to delay in deliveries etc.

STOCK MARKET

Stock market gets adversely affected by demonetization as stock market depends on the flow of money in the economy. Demonetization was unexpected and led to a sudden fall of 6 percent on the day after the announcement was done.



The stock market indices dropped to around 6 months low. BSE SENSEX crashed nearly 1689 points and NIFTY 50 plunged by over 541 points.

The intraday traders faced a huge loss as on 14 Nov, BSE was lower by 565 points and Nifty Index by 8100 points. This was a fall in the market and many issues like

valuation of Indian currency with dollar got affected by it.

AGRICULTURE

A major portion of the population in India depends upon agriculture for their source of income. Due to demonetization agriculture sector was adversely affected as transaction in agriculture depends majorly on cash.

Due to unavailability of cash, many farmers was unable to purchase seeds, Fertilizers, pesticides etc for the plantation of rabi crops which is sown in around mid-Nov. Many farmers protested against demonetization and restrictions imposed by reserve bank of india and other district cooperative banks.

All of this led to reduction in demand and ultimately fall in crop prices. Farmers were unable to recover even the cost of crop transportation to the market. The prices dropped to 50 paisa a kg of tomatoes and onions.

Farmers in desperation dumped their produced on roads to protest against the government. Many of them buried their produced unsold vegetables.

INDUSTRIES

As demonetization revolves around cash, industries were also affected by it.

Cash crunch led to reduction in industrial output. The source says that Purchasing Managers Index (PMI) falls to 46.7 in Nov. from 54.5 in Oct.

Major industries like steel and refinery products, cement etc which constituted 38 percent of Index of Industrial Production (IIP) dropped to 4.9 percent in Nov from 6.6 percent in Oct.

DIGITAL TRANSACTIONS

Demonetization created a ruckus in the Indian economy but it has given a positive effect on digital transactions. Due to demonetization digital transactions boosted up as many started preferring online.

Due to unavailability of cash, people started using cards and online transactions. This created a demand for card swipe machines, paytm, payumoney applications etc. according to the data of pine labs the demand for pos machines doubled after demonetization. The company stated that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016.

CONCLUSION

Demonetization affected the economy adversely and all the sectors were affected by it, especially the

agriculture sector. The farmers faced a lot of problems due to demonetization as they perform major transaction in hard cash and hence they weren't able to adjust to the change.

The other sectors like railways, stock market, banking etc were also affected by it as the workload increased overnight and scarcity of fund was also a problem. The stock market drops down by 6 percent in a flash and putting everyone at loss. The GDP growth rate got affected by demonetization.

In this phase digital transaction boosted up as everyone preferred online

transaction instead of cash as cash crunch was there in the economy. These are the problems faced by the economy.

Overall 97 percent of banknotes have been deposited into banks which is ₹15.4 trillion as on 30 Dec. In this ₹14.97 trillion was demonetization, in this ₹9.2 trillion has been re-circulated as new currency note of ₹500 and ₹2000 banknotes.

Reference:

<https://index.investopedia.com/index/?q=demonetisation&o=40186&qo=investopediaSiteSearch>