



A study on economical & social impact of demonetization in south Gujarat region

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Abstract

Withdrawing units of money from circulation is demonetization; units of money are denied the status of legal tender. Demonetization is defined as a process by which currency units will not remain legal tender. The currency notes will not be taken as valid currency. Demonetization is a step taken by the government where currency units cease their status as legal tender. Demonetization is a basic condition to change national currency. In other words, demonetization can be said to be a change of currency where new units of currency replace the old one. It may involve the introduction of new notes or coins of the same denomination or completely new denomination. The study attempts to understand meaning and the sector wise impact of demonetization. This study also gives an insight into the positive and negative impact of demonetization on selected research areas.

Keywords: currency, demonetization, cashless transaction, digital economy

Introduction

Definition of Demonetization

“Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, Often to be replaced with new notes or coins”

Demonetization is the most important and necessary when there is a change of national currency. The old unit of currency replaced with new currency. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. There are both pros and cons of demonetization in the Indian economy. The reasons for demonetization are to control counterfeit notes that could be contributing to terrorism, and to undermine or eliminate the “black economy”.

Demonetisation in India

On 12 January 1946 Rs.500, Rs.1000 and Rs.10000 notes were taken out of circulation. The Rs.10000 notes were the largest currency denomination ever printed by the Reserve Bank of India, introduced for the first time in 1938. All three notes were reintroduced in 1954.

In 1977 Wachchoo committee (set up in 1970s), a direct tax inquiry committee, suggested demonetization as a measure to unearth and counter the spread of black money.

On 16 January 1978 Moraraji Desai govt. had demonetized the denomination of Rs.1000, Rs.5000, and Rs.10000. Notes were taken out of circulation.

On 28 October 2016 the total banknotes in circulation in India was Rs.17.77 trillion (US\$260 billion). In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to Rs.16.42 trillion (US\$240 billion) of which nearly 86% (around Rs.14.18 trillion (US\$210 billion)) were Rs.500 and Rs.1000 banknotes. They were taken out of circulation from 8 November 2016.

Sector-wise impact of Demonetisation

Real estate and Property

This sector would be one of the most affected sectors by note ban. Demonetization has finished the businesses of the majority of the builders as a major portion of their transaction depends on cash rather than based on banks transfer or cheque transactions. As other sectors, marginal builders are adversely impacted reason being the high involvement of cash component in payment in this sector. Unorganised builders have been most affected.

Gems & Jewellery

The substantial portion of the payment by customers involves cash for purchasing jewellery so the impact of demonetisation in this sector is quite high. Demonetisation made people with less cash available in their hands for fulfilling their daily needs let alone purchasing jewellery. Smaller retailers in the unorganised sector were the most to be impacted which reduce the demand for jewellery. This sector is seriously hit by demonetisation as buyers prefer to pay in cash.

Banks

Banks have proved to be the backbone of this entire process of demonetisation and also the biggest beneficiaries. As per the direction of the government, old notes have to be exchanged with the new one, this resulted in increased liquidity position of banks which could be utilised for lending. Both deposit and lending rates have been cut by many banks.

Media and Entertainment industry

Currency ban adversely impacted the media and entertainment industry as it resulted in lesser number of viewers. The major portion of the drop has been seen in the lower middle class. The sudden decision of demonetisation affected the film industry as well. This brought the production of films to a halt.

Hospitality and tourism

Due to demonetisation, the Indian tourism industry has been severely impacted as the majority of spending is in cash. Most of the luxury foreign trips sponsored by black money have come to a halt. Due to the cash crunch, local tourism will also get affected. The unorganised sector is most impacted with the inability to make payment in cash.

Luxury items

Demonetisation will have a drastic impact on this sector. Majority of the people spend their unaccounted money on luxuries. After the note ban, luxury segments and allied businesses like clothing, electronics, and luxury cars will have a huge setback.

Automobiles

Demonetisation has also affected the automobile industry. The major decline in demand has been seen in two-wheeler’s business as compared to four wheelers/luxury cars because buyers prefer to pay in cash for buying a two-wheeler. The used car industry is another segment affected by a demonetisation wherein sudden decrease in sales has been reported by several dealers.

Retail

The cash crunch is leading to low consumer demand for the products. Since cash is the favourable mode of payment in buying daily needs which in turn result in the number of cash transactions. The impact of demonetisation on small and the unorganised traders is higher than the organised sector.

Agriculture

There are various factors impacting agriculture such as sale, distribution, marketing and transport, such factors are dominantly cash-dependent. Further, demonetisation disrupted the supply chains, this sector has severely been impacted by huge wastage of perishables. The small farmers selling their products on a daily basis to the wholesale centres, mandis and to the consumers have also been impacted by demonetisation.

Labour-intensive sectors

In order to pay daily wage labourers huge amounts of cash is required, they have faced problems buying their routine stuff. A limitation on the withdrawal amount from the bank is affecting the weekly payment to contract personnel in mining, textile and leather industries. Additionally, daily requirements of the factory owners are being affected by the restrictions on cash withdrawal.

Objectives

- To know the concept of demonetization.
- To know the impact on various segments of the economy.
- To assess the impact of demonetization on the respondents of selected research areas.
- To give suggestions based on the findings.

Research Design

As we all are aware with the step of demonetization which was taken by the government on 08-11-2016 at midnight. No wonder that not a single segment of economy has left

from the effect of it. All segments of the economy are affected positively or negatively.

With the objectives to keep in mind, the researcher wanted to study the impact of demonetization in his local area and the entitled with “A Study on economical & social impact of demonetization in south Gujarat region”

For this purpose 100 respondents were selected from the research area which basically belongs to the south region of Gujarat state.

Data Interpretation

From the 100 respondents following basic information gathered which are shown in chart form.

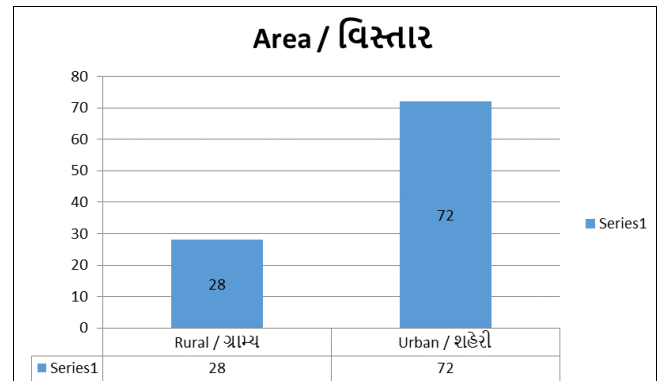


Fig 1

As we can see that there were 100 respondents from which 28 respondents belong to rural area and 72 respondents were from urban area.

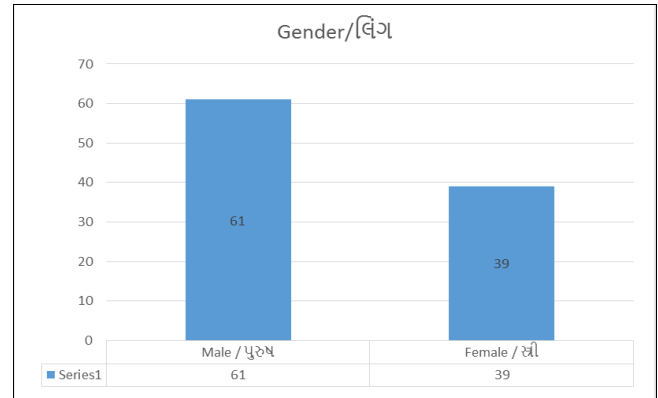


Fig 2

Out of 100 respondents 61 respondents were male and the remaining was female.

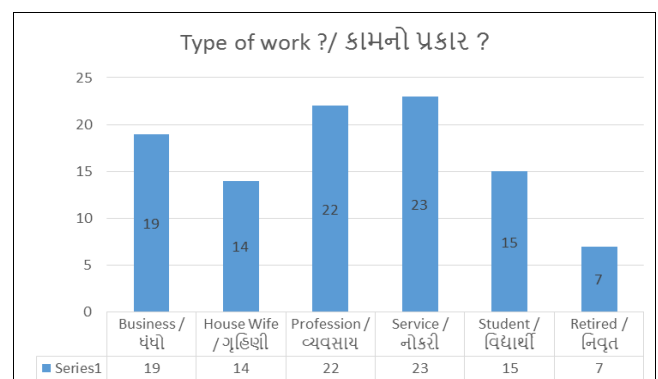


Fig 3

To look out their work, 19 respondents were doing business, 14 respondents were house wife, 22 respondents were involved in various professions, 23 respondents were doing services/job, 15 respondents were students and 7 were retired.

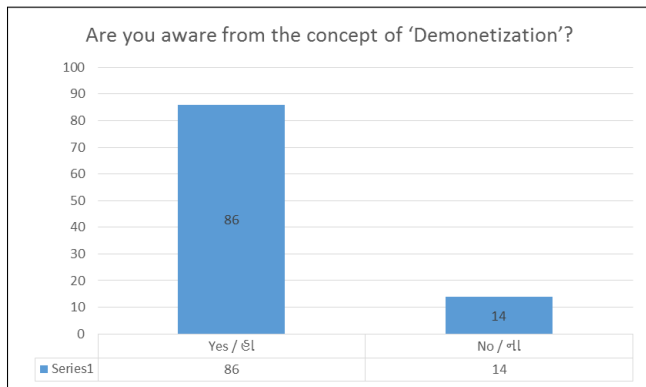


Fig 4

Regarding awareness of the concept of demonetization, out of 100 respondents, 86 respondents are aware of the concept of demonetization and 14 respondents were not aware of the same.

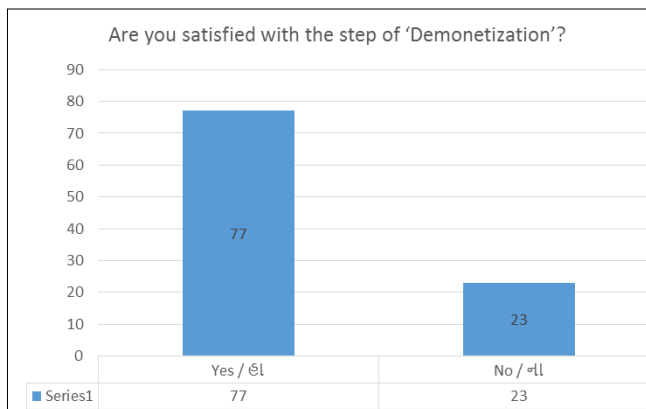


Fig 5

As an impact of satisfaction of demonetization, nearly 77 respondents are satisfied with the step of demonetization while 23 were not satisfied this action.

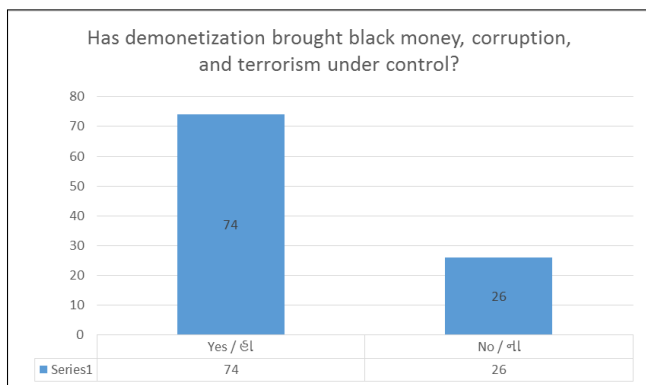


Fig 6

The impact of demonetization with respect of eradication of black money, control on corruption, control on terrorism, 74 respondents were positively while 26 respondents were not favour in the context.

Positive impact of Demonetisation

- Ø One of the biggest benefits of this move is that it is going to drastically affect corrupt practices.
- Ø People who are holding black money in cash will not be able to exchange much as they would be in a fear of getting penalised and prosecuted by the authorities
- Ø Enemies of the country which are involved in counterfeit currency and terrorism will not be able to continue it further for quite some time at least.
- Ø The smuggling of arms and dealing with the terrorist will not sustain further as all of the money will be on record now.
- Ø Real estate prices dip to be seen in the long run.
- Ø Reduction in inflation
- Ø Reduction in Fiscal Deficit
- Ø Reduction in lending rates
- Ø Increase in GDP
- Ø Secondly, the banking system will improve as it will slowly head towards a cashless society.
- Ø Cashless society will increase credit access and financial inclusion. The existing white money of people will be known to the government and it will remain with banks so that it can be put on loan, and interest can be generated from it (though interest rates would fall) with a corresponding fall in Inflation. Further Banking System will get a boost, as more than Rs 7-8 lakh crore base money (new legal money) will enter the system.

Indirect Impact

- Ø Kashmir moved to normalcy - Blow of insurgency, no more schools being burnt and no stone pattern found
- Ø Use of Apps and cards - Initial step towards digitization in India with the involvement of small vendors leading to transparency in the system
- Ø Gold Stock - Declaration in the stock maintained by the jewellers on a day-to- day basis, which if continued would have control over generation of wealth from black money
- Ø Increase in revenue collection by the Government authorities
- Ø Simplification in tax policies and reduction in tax rates in the upcoming years.

Negative impact of Demonetisation

- Ø The liquidity squeeze caused by demonetization will be negative across sectors with high levels of cash transactions. Real estate, jewellery, retailing, restaurants, logistics, consumer durables and luxury brands, cement and some segments in retail/SME lending space will be facing short term instability. Those companies with high levels of debt will face more pressure and can face loan defaults. Secondly, there will be added replacement costs of currency. We cannot ignore the
- Ø Increased cost of operating ATMs need to be refilled more often and also it will be a huge burden on banks. Initially, it is very difficult to create a cashless society as more than 50 percent of the Indian population is not well versed with card transactions.

Findings

As per the data collected from the target respondents, which are explained, we can find the following reviews except their demographic profile: Regarding awareness of the concept of demonetization, out of 100 respondents, 86 respondents means 86% are aware of

the concept of demonetization and 14 respondents means 14% were not aware with the same.

As an impact of satisfaction of demonetization, nearly 77 respondents (means 77%) are satisfied with the step of demonetization. That means that 77 respondents believed that the step of demonetization was needed at that time; it would be helpful to remove curses like, black money, corruption etc. While 23 were not satisfied with this action.

The impact of demonetization with respect of eradication of black money, control on corruption, control on terrorism, 74 respondents were positively and strongly believed that its necessary to remove the same, while 26 respondents were not favour in the context. They are not sure with the action, that it might be helpful to remove the evils.

Conclusion

The move by the government to demonetize old currency and replace it with the new one has taken the country by surprise. The move was an effort to handle the threat of illegal money, corruption, terror funding and counterfeit currency. The decision regarding demonetizing the old currency was considered as a surgical strike against the undeclared money in the history of Indian Economy, it may be a move towards the cashless economy. Demonetization is beneficial for the economy in the medium to long-term. As the respondents expressed their views in this regard, it showed that majority respondents are favouring the step of demonetization.

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