

A Critical Study on Impact of Demonetization on Industrial Sector of Indian Economy

Dr.B. Kapoor and Santosh Kumar Maurya

Abstract--- *Demonetisation is the withdrawal of units of cash from circulation; units of cash are refused legal tender status. Demonetisation is described as a method that does not allow currency units to stay a legal tender. It will not take the currency notes as valid currency. Demonetisation is a move made by the government to cease its status as a legal tender for currency units. It will not take the currency notes as valid currency. Demonetisation is a move made by the government to cease its status as a legal tender for currency units. Demonetisation is a fundamental prerequisite for changing national currency. In other words, a shift of currency can be called demonetisation, where fresh currency units substitute the old one. It may require fresh notes or coins being introduced same denomination or entirely new denomination. In India, the currency was demonized three times. The first demonization took place on January 12, 1946 (Saturday), the second on January 16, 1978 (Monday) and the third on November 8, 2016 (Tuesday). The research tries to comprehend the significance and reasons of demonetisation, the wise effect of demonetisation on the industry. Same denomination or completely new denomination. In India, three times the currency has been demonized. On January 12, 1946, on January 16, 1978, and on November 8, 2016, the first demonization took place. The study attempts to understand the importance and reasons of demonetisation, the wise impact on the sector of demonetisation. This study is also being done.*

Keywords--- *Cash, Demonetization, Cashless exchange, Computerized Economy, Indian Economy.*

I. INTRODUCTION

Demonetisation means pulling back the legitimate delicate privileges of any group of money. Units of cash have denied the status of lawful delicate. Demonetisation is a demonstration of removing the lawful delicate privileges of any money. The units of cash won't be considered as legitimate money. Demonetisation is the way toward stopping a unit of cash of its status as lawful delicate. Demonetisation is an essential condition for changing the old cash with the new units of cash... It might include the presentation of new notes or coins of a similar division or totally new section. The money has been demonetised thrice in India. The principal demonetisation was on twelfth January 1946 (Saturday), second on sixteenth January 1978 (Monday) and the third was on eighth November 2016 (Tuesday). The administration accept that this cash boycott is required for the four fundamental reasons. To control expansion, to battle against debasement, to evacuate fake money and to dishearten the money exchange. Creating nation like India needs to discover the answer for leave the issues like this for the advancement of the nation. The legislature neede d to keep the choice mystery so the assessment dodgers would not know about this tidy up mission before the declaration of demonetization occurred.

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II. LITERATURE REVIEW

Shanbhogue Girish, Kumar, A. Prashanth, Bhat, Swathi and Shettigar, Chethan (2016) characterized cash boycott as a transition to stop fake certified receipts were supposedly utilized for fear financing, just as a careful strike to dark cash and defilement in the nation. Demonetisation prompts money deficiencies in the nation which demonstrates adverse to various private company, horticulture and transportation. The deficiency of money prompted disorder and a great many people confronted issues to trade their banknotes because of long lines outside banks and ATMs the nation over. This demonetisation step was demonstrated to be the greatest assault on dark cash and debasement throughout the entire existence of Indian Economy and a development toward digitalisation. It likewise energizes advanced installments. They presumed that Demonetization is favorable so, medium and long haul. Muthulakshmi, E. Kamatchi (2017) in her paper entitled "Effects of Demonetisation on Indian Economy- Issues and Challenges" expresses that when the cash is pulled back from the economy, the nation won't be profited in present moment. Then again, if the cash clears its way into the economy it would have a positive and significant effect. She likewise expresses that the demonetisation move, on one hand, was a genuine assault on dark cash, debasement, hawala exchange, fake money and fear financing. Then again, it negatively affected different areas like products and land. Shah, Ayash Yousuf (2017) expressed that Demonetization is one of the significant strides in battling against debasement, dark cash and dread subsidizing. Be that as it may, this choice was taken without legitimate planning and it unfavorably affected people in general. Without printing enough new cash notes 86% of the money notes were pulled back whipping all market exchanges. Just everyday citizens needed to confront issues trading their notes, not the individuals who were focused on. With an aim to free the nation of dark cash and uncover charge defaulters and dark cash holders, the administration has made the move to demonetized Rs 500 and Rs 1000 notes. The unexpected declaration of demonetisation and neglecting to design appropriately has made confusion among the overall population. Average citizens are confronting issues purchasing with no cash in their grasp, burning through their time remaining in unlimited lines could have effectively been maintained a strategic distance from with arrangement ahead of time. Veerakumar, K. (2017) places that the declaration of demonetization of 500 and 1000 cash notes by the legislature is a major stun to the resident of India. The most astounding money notes are pulled back from the economy to counter the issue of tax avoidance, fake cash and financing of fear exercises. It is demonstrated that gigantic cash is being kept into the ledgers which are more than determined breaking points and are liable to punishments and charges. Use of e-wallets, charge and Visa has been expanded massively and this will make better cashless framework. Abhani Dhara K. (2017) sets that this Demonetisation is demonstrating to be more effective than the past two. The period is evolving. Individuals are utilizing web based banking as a method of installment. Bank workers are giving their best to make the demonetisation a fruitful one. Their help matters a ton. In spite of the fact that the demonetisation move has neglected to get all out dark cash in the economy, this has at any rate made dread in the psyches of individuals holding dark cash. He presumed that demonetisation was a necessary advance to handle the issue of dark cash, fear based oppression and debasement and so forth. 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 utilized essential information for their investigation and reasoned that the individuals effectively bolster any activity taken by the administration

which are fundamentally focused to annihilate debasement, dark cash, and some other dangers like psychological warfare and naxalism in the nation

Objective of the Study

1. To get significance and reasons of demonetisation.
2. To consider the segment savvy effect of demonetisation.
3. To examine the positive and negative effects of demonetisation

III. RESEARCH METHODOLOGY

This investigation is of unmistakable nature and tells about the importance and reasons of demonetisation alongside the segment shrewd effect of demonetisation and positive and negative effects of demonetisation on Indian economy. Thus utilizes optional information. The whole investigation depends just on perception and narrative examination. Moreover, the required and significant auxiliary information are gathered from different Research Papers, Journals, and Publications, sites and numerous others. Books have likewise been eluded for hypothetical data on the theme as required

IV. FINDINGS

This part is partitioned into following sub parts as under:

- Reasons of demonetisation.
- Sector-wise effect of demonetisation.
- Positive and negative effect of demonetisation on Indian Economy.

Reasons of Demonetisation

1. **To hit the phony cash rackets:** Fake Currency Notes have been squandered by the demonetisation. Pulling back most noteworthy money notes out of the economy will seriously affect the phony cash syndicates, along these lines putting a conclusion to the fear financing in Jammu and Kashmir, Naxalite hit states and North-eastern states. The phony cash with criminals have been left futile, and new money notes with high security; making a fake outlandish. Demonetisation was a careful assault on a phony cash circling in the economy. Demonetization has changed over those phony cash notes into an insignificant bit of papers.
2. **Dark cash:** Demonetisation was an intense and progressive move made by the administration of India to check dark cash and one that will have the profound effect on the parallel economy in the nation. Pockets and people with dark cash can be related to this move. A couple of organizations like property vendors, gem specialists, outside cash sellers, private cash loan specialists by and large hold immense measures of unaccounted cash in type of money notes. Such unaccounted cash had made a parallel economy in the nation. Such illicit cash has arrived at the financial balances through immediate or circuitous channels.
3. **Online exchanges:** Demonetization's proverb was to energize the cashless/advanced economy. Increasingly more money less or less-money exchanges will prompt more exposure of salary which will build the immediate assessment accumulations. With a decrease in real money exchanges, elective types of

installment will more sought after. Electronic method of installment like online exchange, installment through applications, E-wallets E-banking, use of charge and MasterCard's and so on will definitely observe the considerable increment popular

4. **To hit Maoists:** This progression really profited with Maoists useless. As revealed Maoists had accumulated over Rs.7000 cores with them at Baster in Chhattisgarh. All such money is presently only bits of paper
5. **Growth in GDP:** Though demonetisation has contrarily affected segments, for example, land and property, development, and family unit utilization by and large, it is accepted that long haul benefits for GDP development will exceed the momentary transitional effect. We are currently heading towards a 9% GDP development by FY2018-19.

Survey on Impact of Demonetization on Economy

As per RBI, banks have gotten nearly Rs. 13 lakh crores in old 500 and 1,000-rupee notes uptil December 10, 2016. In the interim, the banks have issued new money notes esteemed at Rs. 5,92,613 crore to people in general over their counters and through their ATMs(between tenth November – nineteenth December 2016. In this period, the RBI has issued to people in general through the banks and their branches an aggregate of 22.6 billion bits of notes of different divisions of which 20.1 billion pieces had a place with little categories of Rs. 10, 20, 50 and 100s and 1.7 billion had a place with higher categories of Rs. 2000 and Rs. 500. It has been seen that cash kept and cash pulled back has a shortage of Rs. 7,07,387 crore in the framework which in the current circumstance is causing huge money smash in the economy at last influencing the everyday prerequisites of individuals and organizations over the nation.

Summary of Withdrawal and Deposit Balance Sheet in the Wake of Demonetization

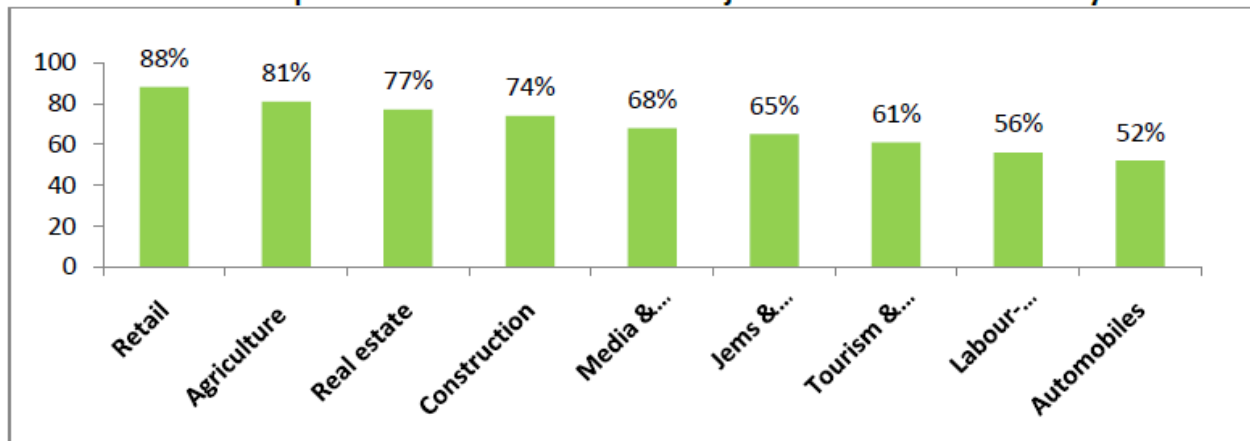
<i>Total deposits (1)</i>	<i>Deficit (2-1)</i>
Remonetized money (2)	Rs. 5,92,613 Crore
Deficit (2-1)	(-)Rs.7,07,387 crore

Source: PHD Research Bureau, compiled from RBI

Creation process in the casual division as well as in the formal area has been affected straightforwardly or by implication. Money driven sections, for example, products of the soil markets, cultivation and gardening, farming and sustenance handling, development exercises, among others have been affected. Non installment of wages to the laborers of money driven parts has antagonistically affected the work circumstance in the casual segment. Likewise, the formal segment is affected as interest in the economy has been decelerated altogether. Lion's share of the financial analysts (81%) said that there will be momentary agony for India's monetary development. In any case, the advantages of demonetization will go far with its effect not only just on dark cash, psychological oppression and defilement yet additionally in improving duty consistence, better monetary equalization and bringing down expansion which will help in supporting financial development in the more drawn out term. There will be an expansion in investment funds and term stores in the short keep running as an enormous piece of the casual and money based economy will move to the financial framework for reserve funds and speculations. Notwithstanding, over the long haul demonetization may affect investment funds in bank stores as overabundance reserves in the banks could constrain them to bring down the premium they pay on stores which would lessen the arrival of

contributors. Further, it is normal that there could be a move in other money related resources from bank stores to stock, shared assets, protection and benefits items if the arrival on little reserve funds is higher than bank stores. It is normal that expulsion of dark cash from the framework would make a decent scope for decrease in loan fees by means of a-vis lower inflationary desires and lessen the occurrence of direct tax assessment. Individuals are expecting that the approaching spending will be whimsical and our Hon'ble Finance Minister will give out of box advantages, for example, increment in the direct charge sections and upgraded dispensable salaries.

Chart: Impact of Demonetization on major sectors of the economy



Source: PHD Research Bureau, PHD Chamber Demonetization Survey 2016

Overview on Effect of Demonetization on Businesses

Since organizations are the foundation of the economy, we directed a study to break down the effect of demonetization on the business firms and to evaluate the effect on different areas of the economy. It has been seen that little firms are affected significantly over every one of the areas enterprises as these are exceptionally determined with money exchanges. The study uncovered that larger part of the business firms (73%) are confronting immense money mash because of demonetization. We found that in the shorter period, some money driven processing plants can't satisfy their everyday prerequisites, for example, installments for day by day wage laborers, buy of crude materials since they can't pull back money from the banks in light of numerous administrative reasons. The study uncovered couple of difficulties looked by the manufacturing plants which incorporate fall in participation rates in the production lines and rising creation cuts.

The divisions which are significantly affected by demonetization incorporates retail area pursued by horticulture division, land, development, media and diversion, diamonds and adornments, the travel industry and friendliness, work escalated divisions and autos part.

Retail

The effect of demonetization is significantly observed on the retail part since 88% respondents said that money crunch is prompting low customer request of their items at last causing fall in their deals since Indian retail section produces a ton of money exchanges. The effect is nearly higher on the little merchants and the sloppy retailing fragment.

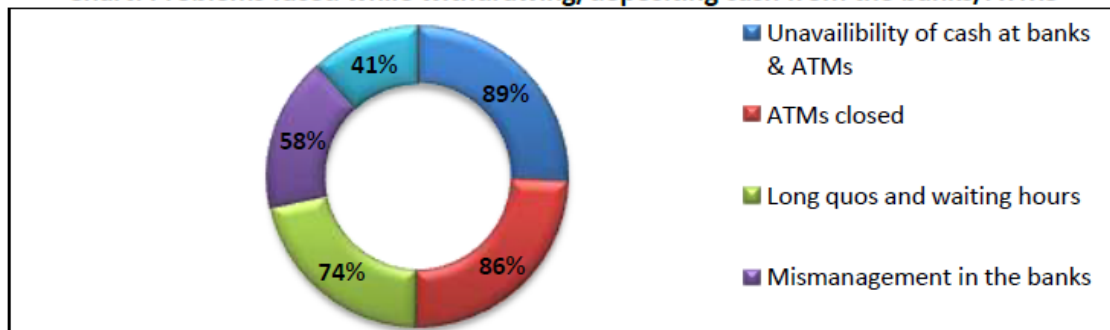
Media and Entertainment

Due to drop in buyer spending in the wake of the demonetization drive, 68% respondents said that media and media outlet is affected significantly as viewership has dropped to a low number. The drop sought after is similarly higher from the lower working class. The respondents revealed that the organizations in film corridors and the generation of few movies have stopped with the unexpected choice from the focal government on demonetization. Additionally, the effect of demonetization is significantly observed on the littler and rising players in the business.

Impact of Demonetization on MSMEs Sector

MSMEs have assumed a vital job in giving huge work chances to more than 80 million individuals in India .The Sector contributes about 8% to GDP other than 45% to the complete assembling yield and 40% to the fares from the nation. The MSMEs segment in India is exceptionally heterogeneous as far as the size of the undertakings, assortment of items and administrations created and the degrees of innovation utilized. While one part of the bargain range contains exceptionally creative and high development undertakings, over 94% of MSMEs are built up in the casual or disorderly area. Additionally, lion's share of the MSMEs (70%) send an enormous piece of workforce on a casual premise as a result of dreary and stringent work laws. Around 74% of the workforce is conveyed based on legally binding and day by day wage workers wherein enormous number of work power is incompetent or semi-talented. Both the fragments authoritative also, day by day pay are money driven as they need to make installments to the workforce on everyday premise and the majority of the workforce is conveyed in this framework don't have their ledgers. The workforce conveyed by the MSMEs is of the portable nature. Once in a while, they find work in same city and once in a while move to other city looking for business. The vast majority of the works don't have their financial balances close to their manufacturing plants which makes it very hard for MSMEs to make installments and works to gather compensation in such a situation. As indicated by our study, lion's share of the respondents detailed that they attempted their best to adapt to demonetization process yet after the couple of weeks, they were powerless and they began cutting their creation procedure and discharging the day by day compensation and legally binding specialists which has affected their pivot essentially.

Chart: Problems faced while withdrawing/depositing cash from the banks/ATMS



Source: PHD Research Bureau, PHD Chamber Demonetization Survey 2016

Significant effect of Demonetization on Money Concentrated Sectors

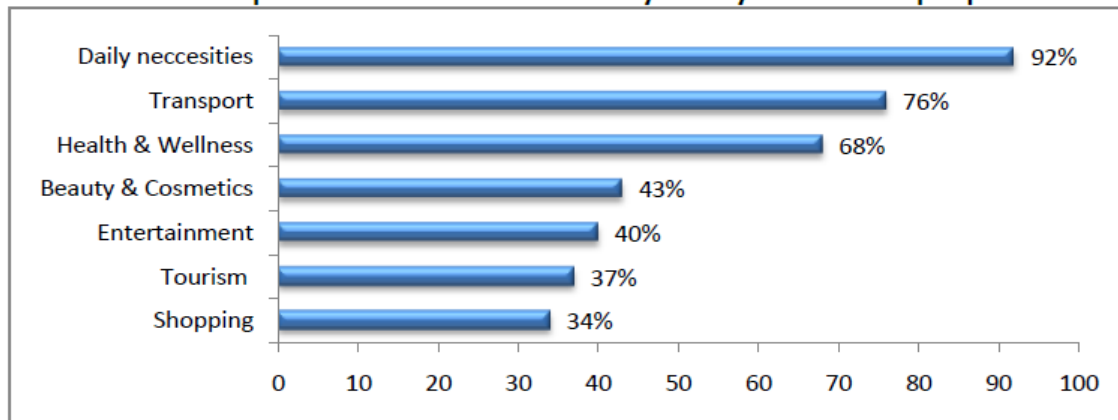
Development and agribusiness segment are both escalated from the buy side, with a part of exchanges including money and furthermore on the grounds that day by day compensation would to a huge degree be paid in money

notes. Along these lines, the effect of demonetization is found in the presentation of key sources of info like concrete and steel, composts, seeds and other rural information sources.

Horticulture division is significantly subject to money. In spite of the fact that Government has made different game plans for ranchers yet dominant part of the ranchers have reacted that they value the motivations and activities embraced by the Government for the smooth working of banking in their locales, anyway as far as possible was insufficient to meet their necessities and they were approached to hang tight for long hours to pull back money from the banks which affected their arrangements for different things essentially.

Money driven development part has been affected by demonetization as enormous number of workforce is sent on day by day base or as legally binding understanding and larger part of the installments (70%) are made in real money to satisfy the day to day necessity of the workforce. Lion's share of the respondents (74%) said that they attempted to adapt to the circumstance yet again following couple of weeks they were not capable to proceed with their development exercises.

Chart: Impact of demonetization on day-to day activities of people



Source : PHD Research Bureau, PHD Chamber Demonetization Survey 2016]

Suggestive Measures

So as to facilitate the weight of demonetization, the Government has presented various measures to facilitate the weight of demonetization on normal man. Be that as it may, there are different difficulties which are being looked by the organizations and individuals in the country which should be settled at the most punctual conceivable. Maybe a couple enrolled proposals are as per the following-:

- 1. Set up of advanced proficiency stalls outside banks significantly in country areas:** The need of the hour is to make advanced proficiency over every one of the segments of the country as little segments of the nation is utilizing web and telephone banking for their day by day necessities. Since, dominant part of the individuals having a place with lower and white collar class has their ledgers in Government banks. It is exceptionally basic to make advanced education corners outside the banks wherein there is an office of opening of new ledgers and exhibit of how to make advanced installments, use web and telephone banking.
- 2. Additional printing of littler money notes:** Government should print more and littler divisions, for example, Rs. 50, 100 and Rs. 500 notes so that there ought to be adequate flow of cash in the market. By

and by inspite of the way that the individuals have Rs. 2,000 notes they are not ready to trade the equivalent in the market because of lack of littler sections.

3. **Appropriation conspire for advanced mobile phones:** Government should think of financed plans for minimal effort advanced mobile phones which would make PDAs available to all and would help in spreading advanced education among individuals. Further, this will lift Make in India program since the positive effect will be seen on Indian cell phone makers.
4. **Money the board in banks and ATMs:** Few banks have a day by day withdrawl utmost of most extreme Rs 10,000 every day when contrasted as contrasted and Rs. 24,000 in their banks because of which individuals need to remain in long quos regularly for cash withdrawl. Here, the Government needs to guarantee that the adequate amount of cash is being shipped to the banks and ATMs in both rustic and urban zones on schedule with the goal that the banks can work productively.
5. **Expanding entrance of banks in rustic territories:** The infiltration of banks in country regions is less and the significant effect of demonetization is seen on individuals living in rustic district since they don't even their own financial balances. Here, the Government need to guarantee simple stream of cash in the banks situated in the rustic areas and extraordinary camps for their help.
6. **Office of portable ATMs:** Withdrawl of new money groups through versatile ATMs in the Government, open segment and private corporate part workplaces having more than 25 workers in their foundations.
7. **Extended money limits for Cash driven divisions:** Cash driven areas, for example, choking part also, Small and Micro Units (SMEs) ought to be encouraged by extended money cutoff points to pull back from the financial segment for the installment of pay rates of their day by day wage and legally binding laborers.
8. **Motivating forces for RTGS and NEFT:** Incentivize RTGS (Real Time Gross Settlement) and NEFT (National Electronic Funds Transfer) under the ambit of computerized moves with the goal that more and more individuals embrace the accessible office and are less reliant on money exchanges. A edge cutoff of Rs. 2,00,000 for exchanges under the RTGS and Rs. 50,000 for exchanges under NEFT ought to be absolved from the administration charge.
9. **Increment the breaking point for administration charge exception to Rs. 10,000:** Enhance in the breaking points of Removal of administration assessment charged while making installments through Mastercard, platinum card, charge card or then again some other installment card up to Rs. 2,000 of every a solitary exchange is a decent start for the change from money exchanges to the advanced exchanges, in any case, the limit needs to be changed to Rs. 10,000.
10. **Increment in every day money withdrawl limits from ATMS:** Daily money withdrawal limit from ATMs ought to likewise be expanded to Rs. 10,000 with the goal that individuals are not coming in line again and once more.

V. CONCLUSION

The move by the legislature to demonetise old cash and supplanting it with the enhanced one has shocked the nation. The move was a push to deal with the risk of illicit cash, defilement, fear subsidizing and fake money. The choice in regards to demonetising the old money was considered as a careful negative mark against the undeclared

cash throughout the entire existence of Indian Economy, it might be a move towards the cashless economy. The demonetisation is trailed by a liquidity mash in the nation, banks and ATMs the nation over confronted serious money deficiencies with adverse impacts on different independent venture, farming and transportation. Cash boycott by the administration of India made disarray in present moment as a great many people with old money notes confronted challenges trading them in long lines outside banks and ATMs crosswise over India. The absolute estimation of old money notes in the flow was to the tune of Rs 14.2 trillion, which establish about 86% of the complete an incentive available for use. The dark cash has either been accounted by settling overwhelming regulatory obligations and punishments or has arrived at the financial balances through immediate or backhanded channels. Demonetization would expedite a positive effect Indian economy as it energizes the advanced method of installment like E wallets and applications, online exchanges utilizing E banking, utilization of plastic cash and so forth Demonetization is valuable for the economy in the medium to long haul.

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