



Impact of Demonetization: Structured and Unstructured Sector

Nitika Gupta*, Kanika Budhiraja**, Jatinder Kaur***

Abstract: The proclamation made by Prime Minister of India Sh. Narendra Modi on 8th of November that keeping the notes of Rs.500/1000 is no longer legal makes every citizen motionless, it is the plan of Demonetization by the government to restrain unlawful transaction and moves and to control the unfavorable expansion of black money, corruption and forged currency flow. Arguments put up in favor of demonetization is that the money that would be put out, would be "black money" and hence, should be fairly put out to place correct the vicious induced structure in the economy (Singh and Singh, 2016). While the information or the reality is not available to anybody, it would be unwise to say that this is the only option. Therefore, it is essential to assess the short run and medium-term effects that such a blow is expected to traumatize the economy and the extraordinary effect on the sluggish growth of Indian Economy. Demonetization has awfully affected some of the important sectors of our country like Real Estate, Agriculture, Healthcare, Finance, Automobile, Hospitality, Manufacturing, Construction, Aviation etc. Further, the effect of such a step would differ depending on the level to which the government chooses to demonetize. This paper elucidates the effect of such a step on the accessibility of advances, outlays, and government capital and its proceedings. It also highlights the short and long-term economic effects of demonetization on the different sectors of our country.

Keywords: Demonetization, electronic banking transactions, Loans, and tax avoidance

1. INTRODUCTION

Demonetization of high value notes of Rs.500 and 1000 by the government has greatly affected the financial environment. From the midnight of 8th November 2016 this concluded to be the lawful submission. People have been directed to exchange their notes by 30th December 2016. Under this plan the government means the exclusion of the current notes from the passage and a steady alternate with a new set of currency or notes. Since people are bounded to withdraw the cash from the bank which cause the significant constrict in cash circulation. With the passage of time this constrict may get back to the

tranquil mode. The government proposed few reasons for demonetization like to emasculate the black money, to control the corruption, to keep a check on the forged notes which are adding to terrorism. To keep the pre-demonetization funds delivery remain unchanged in new system, there are two possible ways- first there would be mediators who are having the cash and which they cannot reveal and that money cannot be deposited in banks and hence such money will be snuff off as it cannot be put back. Second, the only the part of money which was in passage might be reinstate and remnant would be obtained as electronic money. This could help to enhance the cashless mode of transaction. There will be short term and medium term effects on the economy by these two ways. To identify the consequences of this in the economy we have to keep an eye on the ways cash transactions are done. In economy mostly operations are done in the form of accounted operations, unaccounted operations, operations of unofficial sectors and unlawful operations. All these sectors are related to whether they have tax liability or not. The unlawful cash requirements like for bribes, inducements, corruption, to spend more than the approved limits. If at any given point of time one would spot the place of cash, then according to these sectors, it is not easy to foresee that what would be the division of cash, but it would be harmless to say that each of these elements would be stand in the picture. **(Report on Fifth Annual Employment and Unemployment Survey (2015-16)**

2. 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. Sometimes, a country completely replaces the old currency with new currency. The opposite of demonetization is remonetization, in which a form of payment is restored as legal tender (**Morewedge, 2007**). Demonetization is the method of extraction or pulling of a current form of currency from circulation. Demonetization occurs whenever there is a change in the national currency.

*Research Scholar, Rayat Bahra University, Chandigarh

**Research Scholar, MMIM, Maharishi Markandeshwar (deemed to be) University, Mullana, Ambala, India, kanikarelan@yahoo.com

***Research Scholar, MMIM, Maharishi Markandeshwar (deemed to be) University, Mullana, Ambala, Indiajettu.jazz@gmail.com

The new currency unit replaced the old unit of currency. It may be either introduction of new notes or coins of the same denomination or full replacement of the old denominations with the new denomination and which is carried out to trap the black market. The verdict of this study shows that, with the demonetization strategy India will attain a considerable growth and it will create a great positive effect on the entire economy.

OBJECTIVES OF THE STUDY

The first and foremost thing is to clearly define the objectives which may help the reader to properly understand the study. Some of the objectives of this study are:

- i) To recognize the both constructive and unconstructive impacts of demonetization.
- ii) To spot out those sectors, which are adversely impacted by demonetization.
- iii) To check out the outlook of the people regarding the custody of their money.

3. IMPACT OF DENOMINATION OF CURRENCY NOTES ON SOME SECTORS

In India there are few sectors that would be immensely influenced by the ban on notes of Rs 500 and Rs 1,000:

a) E-business setup

The consumers who are tech savvy favor to make their payment by using different modes like online transfers through Pay tm, Net Banking or through E-wallets etc. E-commerce industry is growing at a very fast rate, now a day's people don't like to pay in cash but on other hand we cannot overlook those people who are not comfortable in using virtual cash. This may influence sales to a trivial extent. Taking into consideration regarding the growth of E-business or E-commerce setups in India, it is believed that almost all the consumers will get familiar with electronic payment.

b) Cab startups:

The cab startups in India have their own wallet system and the demonetization does not affect it much. Lots of people are using smart phones and through e-wallets they make their cab payments.

c) Wallet startups:

The income of these startups significantly increased and all this is due to the ban on currency notes of Rs.500 and Rs 1000. Every person whether a teenager or middle aged will be going to use the new apps in their smart phones for e-payments in subsequent days as these E-wallets setups are giving the good cash back offers like Pay tm is giving cash

back to its customers, this is to magnetize people but sooner or later these units will trim down their cash back offers to zero.

d) Foodstuffs or groceries delivery startups:

The new food delivery start ups help the customers to pay through any mode debit card, credit card, net banking etc for their food orders. This makes the customers to go cashless and the demonetization process does not upset these startups like Food panda, Dominos, Café coffee Day etc. Now the food is available at your doorstep or at counter with ease of payment.

e) Information technology startups: The work done by IT companies are par excellent and the assistance provided by these companies to the consumers are greatly priced but the forbidden of the notes of Rs 500 and Rs 1000 does not affect the IT Firms much because their payments are generally done through Cheques, NEFT, Bank Drafts, RTGS etc.

f) Accounting and Economic Advisory startups:

They mostly prefer accepting payments other than physical cash. It goes without saying that they would function smoothly irrespective of such massive pan India-based economic policy adopted by the Central Government.

4. IV. IMPACTS OF DEMONETIZATION IN INDIA

a) Black Money: Demonetization pulled out the accumulated black money from our system which was stock up in the form of Rs 500 and Rs 1000 notes. The government has calculated that with the cancellation of Rs500 and Rs 1000 notes the black money around 4.5 lakh crore will get revealed (**Gajjar, 2016**)

b) Terror Funding: The demonetization step by the government has greatly affected the terror funding set-ups in North Eastern States and Jammu and Kashmir and forbidding the notes of Rs 500 and Rs.1000 broke the (FICN) Fake Indian Currency Network and this surprise attack intensely disturbs this whole Network. (**www.moneycontrol.com**)

c) Real estate may spot major track improvement: Real prices were shooting up and black money is responsible for this price hike as the cash is the important element in resale transactions. Real estate is also likely to be affected by the Demonetization step and now the real estate prices will fall down quickly.

d) Political parties in crisis ahead of polls: The demonetization had cramped all the political parties as elections in large states are approaching and the currency notes of Rs 500 and Rs 1000 are declared illegal from midnight. This move has given the shock to political parties because Cash contribution or gift are the major part of

Election Management and with this cash crisis all the parties have to administrate and manage their campaigning plans accordingly.

e)Stepping towards digital imbursements: After Demonetization people have changed a lot now the payments are likely to be done through E-Wallets like Paytm as they are getting additional cashback offers. This whole change will make India more smarter.

f)Temporary chaos and confusion: Due to the forbidding of currency notes and shortage of lower denomination people are facing problems but that too for a short period.

g) After disallowing Rs 500 & 1000 Rs Notes: Presently there is lot of discussion on how the combination of twosome first demonetization step and second the Trump's victory will affect the real estate sector. This has affected the share market, NIFTY has fell down by 12%. While the leaders and the future indicators were intimating the depressing days for Indian Real Estate Business.

Let's look at how....

a) Commercial real estate: Office and Industrial Leasing transactions are least affected as the cash element does not play an important role in such dealings.

b)Residential real estate: The chief or leading sales section is greatly influenced by housing finance group. Big cities are partially affected but the section which involves the cash component like resale market will pass through critical situation and will definitely get a blow.

c)Real estate investment markets: Projects could be extended as due to non availability of funds and this in fact brings out better prospects for institutional finance. The market seems to be more alluring and transparent to Debt groups, FDI etc. Even the financial institutions like banks start providing capital for land dealings or transactions and thus slow down land prices. **(Kumar and Kumar, 2016)**

d)Retail real estate:Due to lessen cash dealings retailers could discover slight effect on their business in short and medium term. The effect on their business in the short-to-medium term is due to reduced cash transactions. The luxury or opulence sector is expected to be smacked because of great frequency of cash receipt. However, it is saved by the E-Payments system. On the whole there seems to be no risk for the Indian Retail Agency.

There is an alarming situation for those developers who are wholly reliant on cash transactions. . The effect of RERA will be added control in the industry, which in long term will be excellent for its health. The effect of demonetization is very

slight in Hotels and Hospitality-related real estate in the structured sector

5. THE IMPACT OF DEMONETIZATION ON STRUCTURED SECTORS

Structured sectors are well-known with banking and other official procedures, rules and regulations. But the unstructured sector which includes farmers and laborers will have to undergo a bad experience as they mostly done their savings in currency notes. The demonetization effect in hospitality industry is more in short and medium term but it has positive effects on its growth and development in long term. As the peak season for hospitality sector to earn great profits is expected to be from October to March but due to the non availability or shortage of currency people are postponing their tours or searching those hospitality products who are accepting the E-Payments. People are now switching to the structured sectors. The demonetization has optimistic or constructive impacts on Structured Hospitality Sector in India as they are open to any electronic mode of payment. Hospitality and Tourism industry is very big; building the big hotels does not attract customers. The inability to attract customers due to non availability of payment option, the unstructured sectors bears the most. The Suppliers of unpreserved goods are also affected by the demonetization process because they do dealings in cash. It also affects the stock of hotels. The lesser availability of cash lead to the retarded growth of hotel industry. The cash only unstructured sectors influenced the customers to move towards the structured sectors. The hospitality and tourism sectors are essentially attached to the fiscal conditions of any country. The demonetization process offered improvement to the macro economy of the country will efficiently dribble down to the industry **(Kumar and Sharmila, 2016)**. Gradually, the conditions will improve and the fear will fade away from all the sectors whether its tourism and hospitality or real estate.

6. THE EFFECT OF DEMONETIZATION ON UNORGANIZED SECTOR IN INDIA.

In the November month Demonetization of higher denomination has crashed the unstructured sector. The structured sector is slightly impacted from this move due to lack of cash but the unstructured sector is badly affected. The business analyst is of view that "The unstructured sector is likely to suffer heavy burden of demonetization. "Most of the industries got affected due to daily load of liquidity required to run the business." **(Report of National Commission on the Enterprise in the Unorganized Sector, 2009)**

7. EFFECT ON VARIOUS ECONOMIC ENTITIES

There are some of the major sectors of the economy where cash dealing play an important role like Construction, Real

Estate, Tourism, Gold and informal sectors. Cash is the soul of informal sector whereas cash dealing is doubtful in gold and real estate. For instance, the small farmers sell off their produce in local fruit and vegetable market like Mandi and can see the instant effect. With this unexpected demonetization step there is a unfavorable effect on this sector of economy and it will observe an instant action though such phase is for a short period and will fade away soon. Once the new currency notes comes in circulation these disturbances regarding the non availability of cash in certain units will peter out. These Units/ sections are:

- Services Sectors
- Households
- Agriculture and related sectors
- Small traders
- Retail outlets
- Professionals like doctors, carpenters, utility service providers, etc.
- SME

The industrial operations concerned with these units are very frequent and that need cash for such dealings, therefore, these units have major effect of demonetization and such an effect will get cooled up once the new currency notes comes in circulation.

8. DEMONETIZATION AND ITS IMPACT ON GDP GROWTH

Different rating agencies gave their estimation regarding the GDP growth. Several are with the points that in 2016-17 GDP growth turns down by 40 basis point and with a small amount in 2017-18. Globally favorable mode of payment or dealing in cash but ambiguity is the biggest problem in cash transactions. In India the percentage of currency to GDP in the year 1975-2000 is around 8.3% and after the year 2001 it is increased by 1.5% and rose to 10% and in the year 2015-16 there is an incisive rise in the percentage of currency to GDP but in last three years a setback and depressing drift is observed. Cash played a dominant role in the informal sectors and they are highly disturbed by this demonetization step. On one hand there is a poor growth in savings but on other hand this sector adds 40% of capital formation (www.livemint.com)

Due to Demonetization of high denomination notes there is very less currency in circulation and this has disturb the other sectors households etc. The addition of cash in the very low and this had a great impact in both formal and informal sector incomes but the adversely hitted sector is informal/unstructured sector.

9. CONCLUSION

Nation's financial system comprises of big industrial organizations which act as its significant part. Due to such

unexpected move small sectors are adversely impacted rather than large sectors. We have seen the slow economic pace but it is likely of recovery in the coming time. To curb the black money in India, government has took the most important step of Demonetization of higher denominations. This step impacted the general public and various sectors especially the unstructured sector a lot but for the better concern of the country such a step is unavoidable. This step does not fully wipe out the black money but yes to somewhat large level it has effect the black money

REFERENCES

- [1] Dr. Pratap Singh and Virender Singh (2016). Impact of Demonetization on Indian Economy. International Journal of Science Technology and Management. ISSN (O) 2394-1537. ISSN (P) 2394-1529. Vol. No.5, Issue No. 12, December 2016
- [2] Morewedge, C. K., Holtzman, L., & Epley, N. (2007). Unfixed resources: perceived costs, consumption, and the accessible account effect. *Journal of Consumer Research*, 34(4), 459-467).
- [3] Nikita Gajjar (2016). Black Money in India: Present Status and Future Challenges and Demonetization. International Journal of Advance Research in Computer Science and Management Studies. ISSN:2321-7782. Volume 4, Issue 12, December 2016
- [4] Nithin Kumar A and Sharmila (2016). Demonetization and Its Impact on Indian Economy. International Journal of Humanities, Arts, Medicine and Science. ISSN (P):2348-0521. ISSN (E): 2454-4728. Vol. 4, Issue12, Dec 2016. Pp 23-26.
- [5] Report of National Commission on the Enterprise in the Unorganized Sector, 2009. Annual Survey of India (2013-14): Government of India
- [6] Report on Fifth Annual Employment and Unemployment Survey (2015-16): Ministry of Labour and Employment, Government of India
- [7] S Vijay Kumar and T Shiva Kumar (2016). Demonetization and Complete Financial Inclusion. International Journal of Management Research & Review. ISSN: 2249-7196. Volume 6. Issue 12.

WEBSITES

- [8] <http://blogs.timesofindia.indiatimes.com/amusing-musings/the-demonetized-indian/>
- [9] <https://dejavuh.com/short-speech-essay-paragraph-demonetization-article/>
- [10] <https://hbr.org/2017/03/early-lessons-from-indias-demonetization-experiment>
- [11] <http://indianexpress.com/article/india/india-news> "Hyderabad civic body collects Rs 65 crore of property tax. *The Indian Express*. PTI". (2016, Nov. 12).
- [12] <http://www.livemint.com/Politics/-history-of-demonetization-in-India.html>
- [13] <http://www.moneycontrol.com/news/business/economy/impactanalysisdemonetizationindia-920030.html>
- [14] <http://www.thehindu.com/news/national/demonetisation-arun-jaitley-on-atms-going-dry/article9338238.ece>