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## IMPACT OF DEMONETIZATION ON VARIOUS SECTORS & THE ECONOMY

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### Abstract

Prime Minister Mr.Narendra Modi has declared a war against black cash and defilement. In an encouraged move, he announced that the 500 and 1000 Rupee notes will never again be legitimate delicate from midnight, eighth November 2016. The RBI will issue new chip based Rs. 500 and Rs. 2,000 notes which will be set available for use from tenth November 2016. Notes of 100, 50, 20, 10, 5, 2 and 1 Rupee will stay legitimate delicate and will remain courageous by this choice. This measure has been taken by the PM trying to address the resolve against debasement, dark cash, fear mongering and fake notes. This move is required to purify the formal financial framework and dispose of dark cash in the meantime. One reason that provoked the Government to demonetize Rs. 500 and Rs. 1000 notes is that their dissemination was not in accordance with the Economic Growth. According to the Finance Ministry, amid 2011-2016 periods, the course of all notes grew 40% yet the flow of Rs. 500 and Rs. 1000 notes went up by 76% and 109% separately. Moderately, the economy has become just by 30% which is path beneath the cash course. At a total level, this move will altogether take out the current load of dark cash, fake money and will profit the economy in the medium-to long-run. This paper focuses on the impact of demonetization on sectors like bank, Real Estate, various service sectors and so on.

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### Impact on Parallel Economy: Cash Economy to Witness Contraction

The cash of the previously mentioned groups constitutes around 86% of the aggregate estimation of the money available for use. It is required to expel dark cash from the economy as they will be blocked considering the holders won't be in a position to store the same in the banks, incidentally end the course of vast volumes of fake money and check the subsidizing for hostile to social components like carrying, fear based oppression, undercover work, and so on.

### **Impact on GDP: Downward Bias to GDP Growth**

The sudden decrease in cash supply and concurrent increment in bank stores is going to unfavorably affect utilization request in the economy for the time being. This, combined with the unfavorable effect on land and casual areas may prompt to bringing down of GDP development. The GDP arrangement could be affected by this measure, with a decrease in the utilization request. Be that as it may, with the current ascent in celebrations, request is required to counterbalance this fall in a general effect. Besides, this normal effect on GDP may not be critical as some of this request might be conceded and will re-enter the stream once the money circumstance gets to be distinctly typical. Bring down Money Supply has a Deflationary Effect: With the more seasoned 500 and 1000 Rupees notes being rejected, until the new 500 and 2000 Rupees notes get generally coursed in the market, cash supply is relied upon to be decreased in the short run. Lessening in cash supply can likewise have a deflationary impact in the economy. Notwithstanding, regardless of whether the effect of the diminished cash supply will prompt to collapse or withdrawal sought after or a blend of both will differ from segment to segment contingent upon the way of products and administrations. To the degree that dark cash (which is not fake) does not re-enter the framework, save cash, and in the long run, cash supply will diminish for all time. In any case, continuously as the new notes get flowed in the market and the bungle gets amended, cash supply will get speed.

### **Affect on Bond Markets**

Surge in stores will make more interest for government securities and other high appraised securities in a circumstance of lukewarm requests for credit, prompting to lower security yields particularly in the shorter end of the bend. In the meantime, a decrease in spillages in systemic liquidity will diminish the degree for open market operation buys in the coming days. We trust that the RBI will keep on sterilizing abundance liquidity from the saving money framework to keep the transient rates adjusted to the approach rate.

### **Credit Impact Crosswise Over Sectors**

Impact of this arrangement measure will stream to the economy primarily through the Real Estate area, which has solid linkages with segments, for example, concrete and steel and which will turn credit negative in the short-run. A critical effect in the short-run will be on the day by day/week after week wage work in the casual segment. The development part has one of the most noteworthy business multipliers. The key portions of the economy where money exchanges assume an indispensable part are land, gold and the casual divisions, which may confront close term compression. With more cash coming into the keeping money ambit, store development is probably going to enhance and emphatically affect the reserve funds rate. The medium-to long haul additions are probably going to exceed the fleeting agonies.

### **Impact on Banks**

As coordinated by the Government, the 500 and 1000 Rupee notes, which now stop to be lawful delicate are to be stored or traded in banks (subject as far as possible). This will naturally prompt to more sums being saved in Savings and Current Accounts of business banks. This, thus, will improve the liquidity position of the banks, which will be later used further to lend purposes. In any case, to the degree that family units have clutched these assets for crisis purposes, there are relied upon to be withdrawals at the second stage.

### **Impact on Online Transactions and Option Methods of Installment**

With money exchanges confronting a decrease, elective types of installment will see a surge sought after. Advanced exchange frameworks, E wallets and applications, online exchanges utilizing E saving money, use of Plastic cash (Debit and Credit Cards), and so forth will see considerable increments popular. This ought to in the long run prompt to fortifying of such frameworks and the foundations required. Bank Deposit Rates to Soften: We can expect a lot of trade out dissemination to be brought inside the domain of the formal keeping money framework by method for stores. This is basically positive for banks, as a component of this money gets kept as present record and investment account (CASA) stores, diminishing banks reliance on higher cost acquiring. Store organization remains a test in the short to medium term because of the current lukewarm interest for credit, in this way pushing store rates lower.

### **Payment Banks to Benefit**

Payment banks and others elements which are a piece of the exchange environment are probably going to be long haul recipients, as more money discovers its way into the formal managing an account channels. We trust the combined measures taken to reign in dark cash will enhance saving money propensities, make budgetary and value-based history of the casual and money subordinate sections and could, over the long haul, make them 'bankable'. Interest in Financial Products: Investors in the here and now will now trust that Cash is not the most secure resource and there is little point in accumulating it. This will move them from physical resource for budgetary resources where returns are additionally higher.

### **Impact on Consumption Sectors**

#### **Agreement cost of Real Estate May Rise**

We expect that the land request from end clients is probably not going to be affected, since a lion's share of them are sponsored by financing from bank advances. Request from financial specialists for land however may descend since now and again, speculators incline toward money exchanges. In the event that the extent of prior exchanges in the land segment, which were purportedly done through halfway money installment decreases, the enlisted costs for land will go up. We expect the supply of land in the auxiliary market, which is emphatically supposed to have a huge money part required, to endure temporarily, which may thus enhance interest for private land

in the essential market. In the medium term, the costs in this division could recapture on many fronts as engineers rebalance their costs (presumably charging more on check installment).

### **Utilized Auto Sales May Fall**

Sales of vehicles in the second hand advertise for unique gear makers will get affected, which will bring about an expansive influence on New Car deals, as purchasers won't have the capacity to discard their old vehicles effortlessly. Log jam in Discretionary Spending to Hurt Consumer Durable Sales: Sales of White Goods like TV, Refrigerator and Washing Machine could droop as much as 70% as a decent segment of the market is driven with Cash. This may proceed for next Six Months till the clean settles down and there is satisfactory course of the new monetary forms. Costs are relied upon to fall just insignificantly, because of balance sought after, as utilization of cards and checks could make up for a few buys.

### **Top of the Line Retail Demand to Fall**

We expect the effect on top of the line design retail and extravagance products to be more articulated as optional request in this fragment will be diminished. In the event of Quick Service Restaurants, albeit 60%-70% of the exchanges are right now in real money, the effect is probably going to be direct because of the low ticket size of buys and high probability of supporters adjusting to plastic cash. We anticipate that a restricted effect will be created on the nourishment and basic need retail sub-portion, given the non-optional nature of buys in this section, since the purchasing cycle for the present month would have been to a great extent affected.

### **Private Educational Institutions**

Since Private Educational Institutions take immense measures of gifts in Cash which is 40 % to half, we expect that this move will affect the Private Education Institutions receipts.

### **Medicinal Institutions (Both Hospitals and Medical Colleges)**

Again, as Medical Institutions like Hospitals and Colleges take tremendous measures of gifts in Cash which are more than 100 % of charges, we can continue expecting that this move will affect the affirmations as well as the receipts.

### **Effect on Various Economic Entities**

The key portions of the economy where money exchanges assume a key part are land/development, gold and the casual divisions in that capacity. The part of trade exchanges out instance of land and gold is for the most part questionable, however if there should arise an occurrence of the casual divisions it is the life saver. For instance, little and minor agriculturists in the foods grown from the ground classification normally require off-stacking of their create in the nearby Mandi in real money and could see a prompt effect. A sudden demonetization will antagonistically affect this portion of the economy and it will witness quick compression, however this effect will decrease after some time. With trade exchanges bringing down out the short keep running, until the

new notes are naturalized generally into flow, certain areas of the general public could confront here and now disturbances in help of their exchanges. These segments are:

- Agriculture and related areas
- Small brokers
- SME
- Services Sectors
- Households
- Professionals like specialists, craftsmen, utility specialist co-ops, and so forth.
- Retail outlets

The nature, recurrence and measures of the business exchanges required inside these areas of the economy require money exchanges on a more successive premise. Hence, these sections are relied upon to have the most critical effect post this demonetization procedure and the presentation of new notes available for use.

### **Conclusion**

Since a large portion of the Rural Economy depends on Cash, it will affect the Rural Economy .Sectors with a sizeable extent of Cash exchanges, for example, Real Estate, Construction, Jewelry, top of the line retail, White Goods and travel and tourism are relied upon to unfavorably influence. It will push the economy in view of stream of more cash into the keeping money framework. In the long haul, the economy will profit by the diminishment of the dark cash, which will prompt to higher assessment gathering, better business condition, less defilement and straightforwardness. It will enhance the circumstance of Fiscal Deficit of the Country and henceforth diminish the monetary shortage. Loan costs will perish facilitate on account of decline on Inflation as banks are flushed with oversize inflows.

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