

A Multidisciplinary Indexed International Research Journal

ISSN: 23203714

Volume: IX



ADHYAYAN
INTERNATIONAL
RESEARCH
ORGANISATION

Impact of Demonetization on Select Sectoral Indices – A Pre and Post Evaluation Study

Dr.Ch. Chaitanya, **Professor/Principal**, TMSS College of Management, Hyderabad
Dr.G.Lavanya, **Lecturer**, AMS Arts & Science College for Women, Hyderabad

ABSTRACT

On 8th November 2016, Prime Minister Mr. Narendra Modi has made an historical decision called “Currency Demonetization” which would be a memorable experience and sorted out event of our time to share with coming generations as its impact was felt by every citizen of India. Demonetization means termination of agreement that 500 rupees and 1000 notes will no longer act as a legal tender of the country. Demonetization has different perceptions to different people; like liquidity crunch, decrease in consumption, decrease in investment, staggered production, increased inflation, increased unemployment from point of view of analysts and economists wherein from point of view of government it means decrease in black money and counterfeit currency, to fight against corruption and to paralyze the terror funding agencies etc. The current Paper focuses on how the industrial sector indices were moved and related with each other during pre and post demonetization period by using descriptive statistics and correlation.

INTRODUCTION:

The Government of India has made an historical decision and declared on 8th November 2016 that the five hundred and one thousand rupee notes will no longer be legal tender from midnight. This made the entire globe to turn its head towards India at a crucial moment where the global markets and media were making preparations to highlight the headlines with US presidential candidate; currency demonetization from India has made a unique stance on that day.

The RBI issued Two thousand rupee notes and new notes of Five hundred rupees which were placed in banned 500 and 1000 rupees circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee has remained legal tender and unaffected by this decision. This measure has been taken by the PM in an attempt to resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same. The year of demonetization would be a

Impact Of Demonetization On Select Sectoral Indices – A Pre And Post Evaluation Study

memorable experience and sorted out event of our time to share with coming generations as its impact was felt by every citizen of India.

Need and Importance of the Study:

From the past one year the economic figures like IIP (Index of Industrial Production), GDP (Gross Domestic Product), PMI (Purchasing Managers Index) etc., are tumbling and showing lot of volatility in the markets. The statistics released by various surveys also stated that the consumption and investment were declined with the decision of demonetization. The current paper focused on industrial sector indices risk, return and correlation during pre and post demonetization to ascertain the facts.

Objectives of the Study:

1. To study the movement of Sectoral Indices before (pre) Demonetization and also to study the risk, return and correlation of these sectors before (Pre) demonetization.
2. To study the movement of Sectoral Indices after (post) Demonetization and also to study the risk, return and correlation of these sectors after (post) demonetization.

Methodology:

The study is purely based on secondary data collected from various websites and articles published in different journals.

The following Table shows about the different sectors selected for study during pre and post demonetization from S&P BSE Indices

Table 1: Selected Sectoral Indices from BSE India

Sl.No	Sectoral Indices from BSE	Sl.No	Sectoral Indices from BSE
1	S&P BSE Auto	10	S&P BSE Industrials
2	S&P BSE Bankex	11	S&P BSE Infrastructure
3	S&P BSE Basic Materials	12	S&P BSE IT
4	S&P BSE Capital Goods	13	S&P BSE Manufacturing
5	S&P BSE Consumer Durables	14	S&P BSE Oil & Gas
6	S&P BSE Energy	15	S&P BSE Technology
7	S&P BSE Finance	16	S&P BSE Telecom
8	S&P BSE FMCG	17	S&P BSE Utility
9	S&P BSE Health Care		

Source: bseindia.com

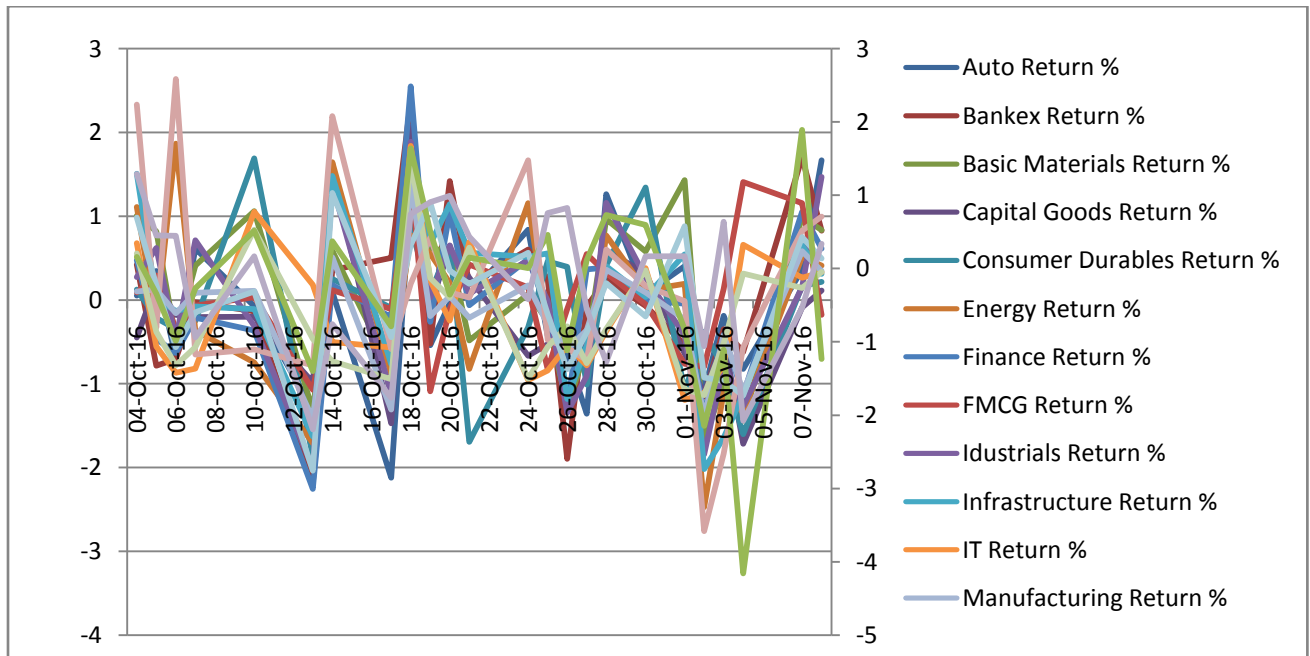
Impact Of Demonetization On Select Sectoral Indices – A Pre And Post Evaluation Study

Table 2: Returns of Selected Sectoral Indices from BSE India during Pre Demonetization period

Date	Auto Retu	Bankex Re	Basic Mate	Capital Go	Consumer	Energy Ret	Finance Re	FMCG Ret	Health Car	Industrials R	Infrastruct	IT Return %	Manufactu	Oil & Gas	Technolog	Telecom R	Utility Ret
04-Oct-16	0.052075	0.421349	1.005312	-0.44763	0.123591	1.111055	0.476306	0.090162	0.160656	0.272008	1.506088	0.676477	0.100866	2.334377	0.554704	1.291772	0.985956
05-Oct-16	0.348798	-0.78216	0.818381	0.186489	-0.21602	-0.25761	-0.46149	0.290129	-0.34097	0.62	0.010523	-0.55517	0.126602	-0.33045	-0.38134	0.453624	0.180272
06-Oct-16	-0.68721	-0.70287	-0.46637	-0.17983	-0.34578	1.867871	-0.63035	-0.3489	-0.98976	-0.47148	-0.13152	-0.86847	-0.15741	2.639822	-0.7827	0.44744	-0.56269
07-Oct-16	0.616227	-0.02789	0.409381	-0.20571	-0.2531	-0.36267	-0.21078	-0.06801	-0.26653	0.709925	-0.07902	-0.82011	0.087873	-0.64901	-0.56292	-0.93865	-0.14477
10-Oct-16	-0.07261	-0.13452	1.05997	-0.20088	1.68914	-0.74602	-0.36194	0.032916	0.518834	-0.31071	-0.11071	1.049751	0.108454	-0.58968	0.839604	0.168729	0.105285
13-Oct-16	-1.31479	-2.18924	-1.32336	-0.98467	-1.87502	-1.70975	-2.2546	-1.0718	-1.39955	-2.00723	-1.63087	0.179619	-1.4187	-0.77919	-0.46361	-2.1956	-2.03567
14-Oct-16	0.1003	0.359084	0.585329	1.561696	0.248189	1.646045	0.179054	0.117539	0.374316	1.367521	1.480846	-0.5037	0.510231	2.197392	-0.73042	-0.75763	1.280103
17-Oct-16	-2.12149	0.504741	-0.83052	-1.47342	-0.0944	-0.89386	-0.20368	-0.11137	-0.78793	-1.12155	-0.76663	-0.56897	-1.30945	-0.58613	-0.94717	-1.76448	-0.44139
18-Oct-16	1.289567	2.370782	1.350115	2.068386	0.856221	0.776456	2.551178	1.494532	1.641214	1.887732	1.475838	1.838207	1.405961	0.195674	1.679868	0.746665	0.658618
19-Oct-16	-0.53969	-0.51859	0.619142	-0.05021	0.07942	0.552609	-0.25939	-1.09107	0.508837	0.026194	0.666807	0.229506	-0.18989	0.74605	0.262565	0.908706	1.165849
20-Oct-16	-0.03826	1.418077	0.574231	0.610164	0.646167	0.206131	1.050583	-0.10399	-0.35426	0.652127	1.142231	-0.24557	0.046912	0.091236	0.027342	0.996396	0.351952
21-Oct-16	0.05798	0.190618	-0.48254	0.264523	-1.6956	-0.82348	-0.06013	0.421118	0.152479	0.076784	0.562087	0.69087	-0.211	0.031965	0.624607	0.434801	0.194716
24-Oct-16	0.841276	0.604017	0.070284	-0.66532	-0.32874	1.158672	0.489285	0.15185	0.007894	0.470811	0.512794	-0.9567	0.174903	1.670955	-0.94318	-0.41773	0.565967
25-Oct-16	-0.42596	0.250464	-0.25213	-0.52885	0.459254	-0.34457	-0.1204	-0.82804	0.462947	-0.01073	0.556094	-0.84052	-0.29186	-0.4753	-0.55968	0.759303	-0.16951
26-Oct-16	-0.64173	-1.89497	-1.26544	-0.34381	0.392461	-0.51338	-1.28751	-0.10981	-1.11513	-1.3479	-1.18214	-0.55021	-0.59066	-0.57045	-0.31589	0.829275	-0.8241
27-Oct-16	-1.35624	-0.07746	-0.57252	-0.55798	-1.01242	-0.74266	0.36456	0.547418	0.117334	-0.90757	-0.54423	-0.78132	-0.36019	-0.71774	-0.75324	-0.55386	-0.38408
28-Oct-16	1.262559	0.243262	0.965467	0.59093	0.412873	0.772518	0.388017	0.321643	0.734186	1.158654	0.402664	-0.37211	0.364126	0.60487	-0.34735	-1.2783	0.202235
30-Oct-16	0.076415	-0.07085	0.579089	0.313159	1.342964	0.118243	-0.00867	-0.05214	0.597957	0.268075	0.035992	0.379598	0.089387	0.166065	0.355101	0.170778	-0.19325
01-Nov-16	0.404726	-0.53057	1.430856	-0.64011	-1.09558	0.194639	-0.04315	-0.76118	-0.83068	-0.42395	0.544819	-1.19369	-0.22852	-0.0108	-1.06353	0.167094	0.882198
02-Nov-16	-1.0861	-1.15256	-1.68686	-1.11944	-0.38097	-2.47469	-1.37065	-0.79685	-2.14641	-1.84208	-2.01922	-1.11117	-1.39269	-2.75897	-1.13716	-1.05847	-0.92332
03-Nov-16	-0.18967	-0.34797	-0.98046	-0.45671	-0.81942	-1.0969	-0.41488	0.130812	-1.10701	-0.77665	-1.64345	-0.78702	-0.42184	-1.83288	-0.51794	0.640164	-0.96516
04-Nov-16	-0.82341	-0.6204	-1.44346	-1.71774	-1.60195	-1.34665	-1.12998	1.40606	-4.158	-1.26614	-1.12455	0.658053	-1.09124	-0.5637	0.313796	-2.0758	-1.13951
07-Nov-16	0.361158	1.701739	0.987136	-0.09162	0.166367	0.513832	1.053075	1.152884	1.893691	0.14991	0.649142	0.264565	0.582814	0.828747	0.145189	-0.53495	0.752817
08-Nov-16	1.669457	0.82731	0.835769	0.112153	0.213236	0.412407	0.613561	-0.17733	-1.2317	1.467318	0.309152	0.328051	0.347662	0.995011	0.333839	0.339631	0.498515

Source: Calculated Returns from BSE Sectoral Indices data

Figure 1: Graph Showing Return % of Select Sectoral Indices during Pre Demonetization Period



Interpretation

It is clearly observed that most Sectoral indices are almost moving in sync with each

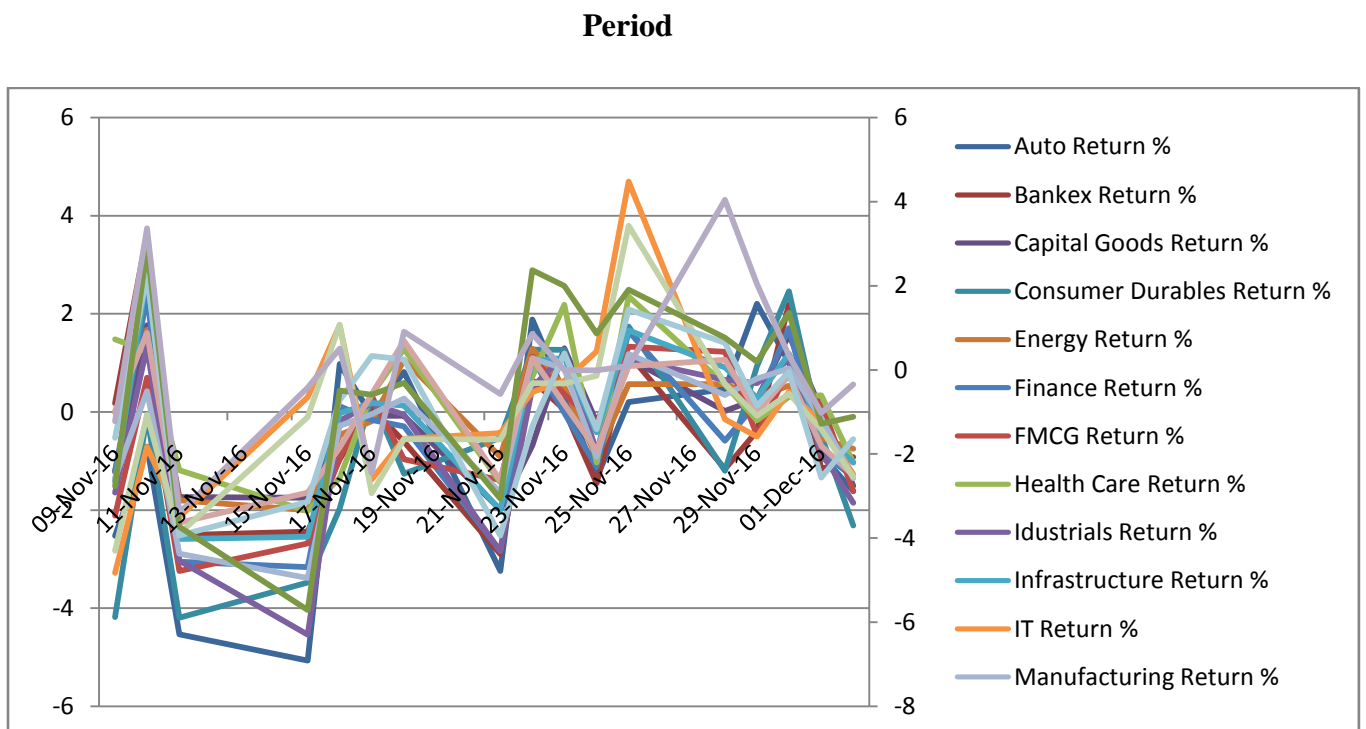
other while few are outperforming others; few are leading at one point of time and others are lagging at another point of time.

Table 3: Returns of Selected Sectoral Indices from BSE India during Pre Demonetization period

Date	Auto Retu	Bankex Re	Basic Mate	Capital Go	Consumer	Energy Ret	Finance Re	FMCG Ret	Health Car	Industrials R	Infrastruct	IT Return %	Manufactu	Oil & Gas R	Technolog	Telecom R	Utility Ret
09-Nov-16	-2.52411	0.177438	-2.76881	-1.20477	-4.18206	-0.00514	-1.23316	-2.1123	1.47812	-1.64334	-1.40815	-3.28196	-1.34554	0.015541	-2.83529	-1.22341	-0.529
10-Nov-16	-0.70756	3.626454	2.922197	1.767518	-0.06984	1.675164	2.373673	0.694754	1.235229	1.334907	2.81341	-0.71552	0.421964	1.610709	-0.06059	3.363314	2.782266
11-Nov-16	-4.5344	-2.50712	-3.73709	-1.73737	-4.19321	-1.79897	-3.05481	-3.24194	-1.19053	-3.03306	-2.58964	-2.13802	-2.88712	-2.25753	-2.48194	-3.39535	-2.51525
15-Nov-16	-5.06943	-2.4375	-5.71436	-1.75257	-3.47672	-2.00396	-3.16372	-2.6785	-2.02325	-4.53925	-2.54547	0.296297	-3.3833	-1.64674	-0.10504	-0.42346	-1.82896
16-Nov-16	0.978829	-0.9648	-0.49506	-0.27019	-1.96842	-0.47269	0.116334	-0.92698	-1.34299	-0.18365	-0.02761	1.762941	-0.28026	-0.72219	1.777012	0.50322	0.240487
17-Nov-16	-0.06529	0.086903	-0.59101	-0.08015	0.304497	-0.19188	-0.16078	0.326991	0.359351	0.176176	0.18228	-1.37836	-0.04926	0.355798	-1.6605	-2.44885	1.142962
18-Nov-16	0.816815	-0.60413	-0.31375	-0.07935	-1.25838	1.059282	-0.29571	-0.9639	1.28513	-0.06169	0.126813	-0.54922	0.275386	1.447833	-0.56057	0.909066	1.069435
21-Nov-16	-3.24633	-2.89431	-3.07004	-1.99327	-0.53098	-0.91764	-2.83251	-1.39245	-1.43592	-2.84468	-2.00441	-0.4307	-1.63622	-1.39884	-0.56765	-0.57223	-0.51642
22-Nov-16	1.885955	0.653313	2.367039	-0.68579	1.269506	1.289332	1.095668	1.128375	0.718611	0.498099	1.03394	0.401885	1.093282	1.095658	0.580355	0.853823	-0.29694
23-Nov-16	0.374367	0.047371	1.996909	1.297306	1.264882	0.507777	-0.01892	0.358385	2.186489	1.165313	1.101224	0.628111	0.869237	0.154473	0.575046	-0.00625	1.188929
24-Nov-16	-1.34334	-1.45205	0.859636	-0.21274	-0.84725	-0.92461	-1.11335	-0.23591	-1.03284	-0.80528	-0.41809	1.231642	-0.91651	-0.78089	0.73097	-0.00982	-0.35413
25-Nov-16	0.198542	1.17996	1.901271	1.091561	1.744469	0.569301	1.645408	1.329837	2.354409	1.073976	1.657275	4.691198	1.178045	0.934149	3.793153	0.09289	2.087023
28-Nov-16	0.464611	-1.15832	0.757752	0.01726	-1.20274	0.568857	-0.58761	1.227881	0.552841	0.651295	0.902076	-0.15147	0.344986	1.063772	0.571283	4.037871	1.409206
29-Nov-16	2.202806	-0.39246	0.191959	0.259148	0.931945	0.303194	0.186186	-0.4735	-0.16916	0.582302	0.285437	-0.50712	0.679005	-0.01153	-0.08099	2.03707	0.122764
30-Nov-16	1.000903	2.198347	1.352209	1.572274	2.45897	0.5326	1.710361	0.885256	0.305743	1.060901	1.186832	0.406659	0.88216	0.742243	0.36855	0.336236	0.813451
01-Dec-16	-0.88123	-1.16481	-1.28796	0.040443	-0.47329	-0.53389	-0.82663	0.18375	0.337987	-0.82356	-0.42458	-0.22758	-0.12694	-0.69431	-0.35518	-1.02041	-1.33618
02-Dec-16	-1.61125	-0.9179	-1.12177	-1.50959	-2.31703	-0.74953	-1.32522	-1.6167	-1.03259	-1.85181	-1.034	-1.27254	-1.34723	-1.29709	-1.32528	-0.35041	-0.55472

Source: Calculated Returns from BSE Sectoral Indices data

Figure 2: Graph Showing Return % of Select Sectoral Indices During Post Demonetization



Interpretation

It is clearly observed that except IT, Oil & Gas almost all Sectoral indices are moving in sync with each other while the above said

indices has moved against all odds and yielded some positive return during post demonetization period it would be due to the export orientation they are attached with.

Table 4: Descriptive Statistics of Sectoral Indices during Pre Demonetization

Descriptive Stats	Auto Return	Bankex Return	Basic Materials	Capital Goods	Consumer	Energy Return	Finance Return	FMCG Return	Health Care	Industrials Return	Infrastructure	IT Return %	Manufacturing	Oil & Gas Return	Technology	Telecom Return	Utility Return
Mean	-0.09236	-0.00661	0.082784	-0.16485	-0.12871	-0.08257	-0.06883	0.026523	-0.3149	-0.05662	0.025947	-0.16083	-0.1549	0.109912	-0.18206	-0.13421	0.001709
Standard Deviation	0.901463	1.025742	0.965777	0.845516	0.895585	1.060652	0.949802	0.681613	1.254313	1.033946	1.005585	0.779072	0.662599	1.261602	0.699676	1.00655	0.813351
Kurtosis	0.077065	0.817163	-1.19612	1.509454	-0.0122	-0.14339	2.120941	0.33249	2.829748	-0.54074	-0.50453	0.120459	0.691529	0.486575	0.475424	-0.56164	0.164088
Skewness	-0.12891	0.106846	-0.41829	0.756081	-0.20251	-0.18305	0.314158	0.450384	-1.05938	-0.10526	-0.45856	0.784896	-0.24342	0.172531	0.802538	-0.6797	-0.54337

Interpretation:

During pre-demonetization study period it is clearly observed that Oil & Gas, Basic Materials, FMCG, Infrastructure and Utility indices experienced positive returns and rest of the indices gave negative returns. The risk of Oil & Gas is more followed by HealthCare, Energy, Industrials, Bankex,

Infrastructure, Telecom etc. All the indices are showing platykurtic movement by indicating no single index has given abnormal returns and returns are flat and moving away from mean; out of 17 selected indices 10 indices are showing negative skewness and 7 indices are showing positive skewness.

Table 5: Descriptive Statistics of Sectoral Indices during Post Demonetization

Descriptive Statistics	Auto Return	Bankex Return	Basic Materials	Capital Goods	Consumer	Energy Return	Finance Return	FMCG Return	Health Care	Industrials Return	Infrastructure	IT Return %	Manufacturing	Oil & Gas Return	Technology	Telecom Return	Utility Return
Mean	-0.70942	-0.38374	-0.39711	-0.20472	-0.73798	-0.06428	-0.44028	-0.44158	0.152155	-0.54373	-0.06839	-0.07257	-0.36637	-0.0817	-0.09627	0.157842	0.054407
Standard Deviation	2.117307	1.677876	2.365949	1.178505	2.010386	1.026453	1.624867	1.403948	1.322627	1.710737	1.49642	1.723815	1.362234	1.160398	1.552189	1.836533	1.525223
Kurtosis	-0.15857	0.829575	0.009866	-0.89468	-0.69081	-0.43584	-0.46146	-0.69068	-1.04266	0.227222	-0.37334	3.141245	0.171458	-0.9931	1.66672	0.800764	-0.55789
Skewness	-0.76627	0.756154	-0.68722	0.11319	-0.33542	-0.27194	-0.13005	-0.54911	0.030555	-0.99342	-0.14597	0.978914	-0.97077	-0.26213	0.510568	0.357056	-0.16852

Interpretation:

During post demonetization study period it is clearly observed that except Health Care, Telecom and Utility indices all the other indices gave negative returns. From the above table it is evident that the risk of all the indices increased after the decision of

demonetization. All the indices are showing platykurtic movement except IT index which is showing leptokurtic return indicating abnormal returns and rest of the indices returns are flat and moving away from mean; out of 17 selected indices 11 indices are showing negative skewness and 6 indices are showing positive skewness.

Table 6: Correlation of Sectoral Indices during Pre Demonetization

Correlation	Auto Return %	Bankex Return	Basic Material	Capital Goods	Consumer Durables	Energy Return	Finance Return	FMCG Return	Health Care	Industrials	Infrastructure	IT Return	Manufacturing	Oil & Gas	Technology	Telecom Return	Utility Return
Auto Return %	1																
Bankex Return %	0.516358147	1															
Basic Materials Return %	0.723651058	0.59992353	1														
Capital Goods Return %	0.626111636	0.53590751	0.62497759	1													
Consumer Durables Return %	0.342906484	0.42439983	0.543108019	0.493133869	1												
Energy Return %	0.531526593	0.48083152	0.658574051	0.583168221	0.389450915	1											
Finance Return %	0.609883583	0.9428197	0.707705716	0.662743209	0.456192971	0.585563	1										
FMCG Return %	0.301980782	0.54623533	0.166212317	0.2872459	0.046443108	0.14438	0.525456	1									
Health Care Return %	0.410594214	0.58516748	0.683089618	0.656920072	0.552096668	0.522076	0.669425	0.146951	1								
Industrials Return %	0.83717218	0.72711605	0.799588919	0.810756375	0.494845084	0.710376	0.794087	0.336366	0.601132	1							
Infrastructure Return %	0.587302012	0.70941571	0.817791335	0.680043329	0.416384447	0.790659	0.773193	0.218341	0.671135	0.827163	1						
IT Return %	0.261019922	0.38333062	0.317189067	0.371237143	0.257807973	0.070612	0.361396	0.48534	0.254821	0.30291	0.330127	1					
Manufacturing Return %	0.819007373	0.71585156	0.83093672	0.838993984	0.547065903	0.737107	0.834156	0.451579	0.733632	0.907484	0.800874	0.377379	1				
Oil & Gas Return %	0.378609444	0.35216502	0.508584798	0.394615046	0.202942948	0.922009	0.400754	0.113545	0.361488	0.549975	0.721741	0.160758	0.546872	1			
Technology Return %	0.395665222	0.45169283	0.411733828	0.473056662	0.36466305	0.141046	0.470165	0.492737	0.332556	0.423084	0.414669	0.956972	0.51275	0.157478	1		
Telecom Return %	0.34335231	0.25053042	0.422379246	0.43379341	0.424750762	0.407207	0.409688	0.08813	0.401557	0.382671	0.482016	0.146673	0.497235	0.268775	0.37158	1	
Utility Return %	0.580599946	0.63228475	0.829051737	0.572577525	0.42294362	0.716845	0.714408	0.140056	0.627119	0.756678	0.886874	0.179067	0.741569	0.610579	0.272605	0.480059	1

Interpretation:

Before demonetization it is clearly evident that almost all the indices are positively correlated with each other by giving an indication that all of them are moving in the

same direction that is if markets move up all the indices are moving up and vice versa. Mostly the indices before demonetization are showing moderate to low correlation and few related sectors are showing high correlation among themselves.

Impact Of Demonetization On Select Sectoral Indices – A Pre And Post Evaluation Study

Table 7: Correlation of Sectoral Indices during Post Demonetization

Correlation	Auto Return	Bankex Ret	Basic Mate	Capital Go	Consumer	Energy Ret	Finance Re	FMCG Retu	Health Car	Idustrials	Infrastruct	IT Return %	Manufactu	Oil & Gas	Technology	Telecom R	Utility Ret.
Auto Return %	1																
Bankex Return %	0.541392	1															
Basic Materials Return %	0.808663	0.747848	1														
Capital Goods Return %	0.663124	0.804174	0.821333	1													
Consumer Durables Return %	0.727563	0.568632	0.770936	0.733644	1												
Energy Return %	0.773094	0.801577	0.838294	0.71803	0.623556	1											
Finance Return %	0.793628	0.916018	0.892231	0.868286	0.738596	0.863227	1										
FMCG Return %	0.763165	0.639458	0.874703	0.777027	0.849245	0.749267	0.815634	1									
Health Care Return %	0.509818	0.671991	0.642942	0.673344	0.479217	0.783571	0.662624	0.606199	1								
Industrials Return %	0.887437	0.76121	0.939266	0.883156	0.766372	0.866	0.91377	0.870712	0.724328	1							
Infrastructure Return %	0.778905	0.850253	0.942494	0.903244	0.752167	0.887557	0.952424	0.888425	0.70008	0.946541	1						
IT Return %	0.352983	0.161766	0.436463	0.430199	0.541771	0.164497	0.413904	0.51982	0.171245	0.363676	0.430814	1					
Manufacturing Return %	0.928777	0.693345	0.906533	0.810269	0.84023	0.873441	0.887573	0.896383	0.725858	0.962776	0.903863	0.427131	1				
Oil & Gas Return %	0.729726	0.77841	0.776511	0.728467	0.5944	0.95213	0.836345	0.774827	0.784441	0.836908	0.870158	0.21844	0.834631	1			
Technology Return %	0.476251	0.261141	0.547005	0.518869	0.586323	0.317455	0.524747	0.618593	0.237547	0.485584	0.559273	0.972648	0.540914	0.352345	1		
Telecom Return %	0.533789	0.41411	0.573181	0.486913	0.345413	0.648184	0.527344	0.549228	0.260061	0.545368	0.648005	0.254279	0.528897	0.632749	0.453849	1	
Utility Return %	0.667486	0.796948	0.801527	0.845353	0.547823	0.804804	0.849771	0.733467	0.715014	0.86258	0.909358	0.35753	0.771844	0.860707	0.466939	0.593862	1

Interpretation:

After demonetization it is clearly evident that all the indices are positively correlated with each other by giving an indication that all of them are moving in the same direction that is indices moved according to the flow of the markets that were adversely affected by the demonetization decision. Mostly the indices after demonetization are showing high to moderate correlation irrespective of their dependence or independence that is it is well observed fact that markets show this type of tendency when an event affects the markets either positively or adversely.

Findings:

After demonetization the alternate payment transactions has paved a road for increased usage of debit/credit cards, internet banking, mobile banking, and PoS terminals that would be a stepping stone for success of digitalization.

However, there is heavy disruption to the business due to which growth expectations have reduced. International rating agency Fitch has lowered India's GDP growth to 6.9% for the financial year 2017.

Post demonetization has created temporary deflation (as CPI and WPI figures has declined during this period) in the market as people who earned and acquired money through illegal ways has developed a fear of

Impact Of Demonetization On Select Sectoral Indices – A Pre And Post Evaluation Study

prosecution due to the illegitimacy of the income that would prone them to judicial act.

Demonetization proposal caused a sudden breakdown in India's commercial ecosystem. Trade across all facets of the economy was disrupted, and cash-centric sectors like agriculture, fishing, and the voluminous informal market were virtually shutdown.

Consumer goods were sharply declined and suddenly, there was a liquidity imbalance in the economy. The gateway to put money into banks is freely open but the exit gate to take money out is constricted. Practical problems like banks running of cash, servers crashing and ATMS shutting down has only worsened the problem. All this has created a cash squeeze in the economy and consumer goods are the worst hit. Considering the uncertainty, most consumers are not willing to splurge too much on their debit or credit cards. The morale of the Indian Citizen was put to test as millions of people standing in line for hours to exchange or deposit canceled banknotes rather than working or doing business.

Even as banks are making hay with a sharp rise in deposits, the NBFCs, MFIs and other finance companies are feeling the pinch.

MFIs give small ticket loans and hence collect repayments in cash. That window is closed. Even NBFCs collect their EMIs and repayments in cash. That is not possible any longer. The liquidity squeeze has in fact pushed many smaller finance companies to the brink of default. Larger MFIs like Ujjivan have already warned of a payment default due to the squeeze.

Officially, realty prices have not exactly crashed. Remember, realty in India is still a cash-centric business. The squeeze has made it virtually difficult for the realty sector to function smoothly. Currently, the impact is being absorbed by the stock price of realty stocks which have corrected sharply. But sooner, rather than later, this impact will show on realty prices too. If the squeeze continues then realty sector may soon find itself with negative equity in its ongoing projects. That is when the desperate selling will actually begin and the cookie may actually start crumbling!

Prima facie, this demonetization appears to favor the banks. That is right in that it will lead to a surge in deposits. However, the real worry may be on the assets side of the balance sheet. With the liquidity squeeze, banks may face a default risk not only on their corporate portfolio but also on their

Impact Of Demonetization On Select Sectoral Indices – A Pre And Post Evaluation Study

retail portfolio. As of now, the euphoria seems to be on the liabilities side of the bank's balance sheet. But bad loans may multiply if the liquidity squeeze continues for a few more weeks. That will be the acid test for the Indian economy in preventing an overall slowdown in the economy.

It has already led to reduction of money circulation in the economy and this may result in deflation. A lot of cash which are legally earned will be deposited in the banks and now the banks with more deposits will be able to do more lending and the rate of lending may come down. Accessibility of loans will become easier and as interest rates reduce economic activity will be boosted.

Demonetization has resulted in visibly reduced footfalls in shopping malls, but this effect is temporary and will turn around in few weeks as more currency circulates in the system and improves the purchasing power and appetite of the consumers.

CONCLUSION

The rewards of demonetization are much encouraging and the demonetization is in the long term interest of the country. Government need to ensure that there will be a smooth flow of currency exchanges. Demonetization will have a massive impact

on parallel economy. The current demonetization initiative by the Government of India will take Indians ten steps ahead. Though it has given temporary pains, it has taught financial lessons. It will also impact corruption, elections and terrorism. It is a reaping time for the banks that made considerable investments on digitization of banking services. The cashless and transparent mechanism has gained momentum post demonetization. In spite of the initial hiccups and disruptions in the system, eventually this change will be well assimilated and will prove positive for the economy in the long run. Black money hoarders will definitely lose out, eventually boosting the formal economy in the long run. Short term fall in real estate prices might benefit middle class citizens. This move by the Government along with the implementation of the GST will eventually make the system more accountable and efficient. No restriction of any kind on non-cash payments by cheques, demand drafts, debit or credit cards and electronic fund transfer would further boost the economy.

REFERENCES

➤ Clarke S. The Financial System and Demonetization of the Economy. Warwick:

Impact Of Demonetization On Select Sectoral Indices – A Pre And Post Evaluation Study

University of Warwick, Centre for Comparative Labour Studies, 1998.

➤ Sharma P. Financial Inclusion by Channelizing Existing Resources in India (May 24, 2009). The India Economy Review, 2009.

➤ <https://blog.religareonline.com/2016/11/29/impact-of-demonetization-across-different-sectors-in-india/>

➤ <http://www.investopedia.com/terms/d/demonetization.asp>

➤ <http://www.careratings.com/upload/NewFiles/SplAnalysis/Effects%20of%20Demonetization%20of%20500%20and%201000%20notes.pdf>

➤ [http://www.thehindu.com/education/Demonetisation-and-](http://www.thehindu.com/education/Demonetisation-and-digitalisation/article16938094.ece)

[digitalisation/article16938094.ece](http://www.thehindu.com/education/Demonetisation-and-digitalisation/article16938094.ece)

➤ <http://www.iamwire.com/2017/01/demonetization-less-cash-india/147577>

➤ https://www.researchgate.net/post/Is_digitalization_improving_organizational_performance

➤ <http://www.isb.edu/faculty-research/research/published-papers>

➤ <http://www.rapidsofttechnologies.com/blog/index.php/demonetization-opportunity-businesses-adopt-cashless-transaction-methods/>

➤ <http://www.indiaretailing.com/2016/11/22/retail/expert-speak-impact-demonetization-indian-retail/>