



DEMONETIZATION ISSUES AND CHALLENGES

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ABSTRACT

It's a bold move by the government and can be called as the Surgical Strike of the government on black money (add terrorist funding, arms smuggling and counterfeit current to that). There is a huge panic in the general masses regarding it. So what lead the government to ban Rs.500/- and Rs.1000/- notes in India? The reason is to trace out all the black money. Black Money is the one of the major hurdle in the economic growth. Many sectors affected due to demonetization, still many sectors have to recover. It may take 6 months to 1 year. In my survey/observation the most affected sectors are Real Estate, Consumer Staples/Jewelers and so on. I took many people opinion about it. Maximum people welcomed the government decision where as they felt that some precautions should be taken. But government fails to make alternative arrangements for cash withdraws and cashless transactions. Due to that many people were hurt. Most of the people accepted the government decision. We hope that in next few months the situation will become normal. So in this paper the affected sectors and consequences and remedial measures are discussed.

INTRODUCTION:

Narendra Modi government, it what may are calling “**surgical strike on Black Money**” has made the Rs.500/- and Rs.1000/- currency notes (currently in circulation) as invalid or null after mid night of 8th November 2016. There was a huge panic situation in the general masses regarding it. The people were gone to banks and post

offices and other available options to exchange all these notes. The main objective of Demonetization is to trace out all the uncounted money or Black Money. Black Money is one of the major hurdles in the economic growth. Government thought that due to demonetization the following things can be prevent/control:

Massive decline in black money: There is a parallel economy run on black money and this decision is a massive setback to them. They were given enough time to declare their income but they continued ignoring and not paying Tax for his income.

End of Counterfeiting: To counterfeit means to imitate something. Counterfeit products are often produced with the intent to take advantage of imitated product. The word counterfeit frequently describes both the forgeries of currency and documents, as well as the imitations of clothing, hand bags, shoes, pharmaceuticals, aviation and automobile parts, watches, electronics, software, works of art, toys, movies and any other type of products such as those. Counterfeit consumer products have a reputation for being lower quality and may even include toxic elements. This has resulted in the deaths of thousands and hundreds of people, due to automobile and aviation accidents, poisoning or ceasing to take essential compounds(e.g. in the case a person takes a non working medicine). Now, paper money is the most popular product counterfeited. I have explained in the 2nd point that fake currency rockets are now ruined. This will deliver a massive blow to the unethical counterfeiting industry which

runs on fake currencies and we can expect better quality of consumer products soon. Counterfeiting costs India \$7.8Billion annually. Thus, our Indian GDP also increases due to this measure.

Obstacle for Terrorism: As said by PM Modi “**From across the border, our enemies running rocket in India through fake currency**”, we all know he was referring Pakistan and China so this decision will put obstacle in their path.

- **Reduce in corruption in few months:** This decision will put an end to corruption for the time being, but as has been seen in the past, the corrupt always find an alternative to keep their malpractices going.
- **Demonetization affect on outcome of election in 5 State elections.**

IMPACT: It will be quite interesting to know on which side the voters decide as at present the common is more worried to take care of his money and get food on the table where Cash. Crunch is already hit him hard. Common people didn't carry back money but still suffering after 3 months. This might be twist not in favor for BJP. Demonetization just consolidated the concept of vote against SAD as business men and low income group is affected

salaried and students are not affected at all. So that might play crucial role.

➤ **Fair Election:** There is a chance that election will be fought on issues and performances rather than on the back of economic power of a political party. Political parties will find it hard to find the finances to fight elections pay for the votes that they have been accustomed to doing in the past.

Budget after Demonetization:

With the announcement of demonetization on Nov 8, which is expected to affect the level of gross domestic product (GDP) and revenue collection from direct, & indirect taxes in the 2016-17 & 2017-18 financial years, the principal concern now is the impact that exercise would have on the govt risk.

DEMONETIZATION IMPACT ON VARIOUS SECTORS OF ECONOMY:

As the demonetization initiative encourages the use of the plastic and electronic money, cash transactions will become less and less common. This analysts reckon, will have its share of benefits for the economy, apart from boosting tax coffers.

The transition to a cashless economy will also improve savings in financial assets which will benefit intermediaries such as banks, NBFCS, microfinance and digital money operators.

1. ECONOMY

IMPACT: Demonetization attack India's economy just when it was getting into a cruise mode, fired by good monsoon-led rural demand and Seventh Pay Commission-enabled urban buying. The 8% growth that looked within grasp in FY17 is beyond horizon now. Only about a quarter of currency cancelled is back in circulation, and that too is being stashed away for emergency. Lower denomination notes are not available to facilitate transactions. The fall in demand will further dent already weak investments. The sharpest crash in services PMI since November 2008 in the aftermath of the global financial crisis underscores the risks. Ambit sees growth falling to a low of 3.5% in FY17. Others are not so pessimistic, penciling in about 7%.

2. CURRENT VERDICT: Strongly negative

REMEDIAL MEASURE: Boost sentiments big time. Cut corporate tax to 25% to stimulate demand. Raise income tax

slabs to reduce effective tax on income tax payers. Offer low interest rate loans for housing through interest subvention. Urgently plough back income from demonetization into public investments. Budget will determine economy's near future.

2. REAL ESTATE

IMPACT: Insiders say there's a 40%-50% drop in enquiries and sales across key markets of Mumbai, Delhi, Bangalore and Pune. Deals in secondary market have come to a standstill. In Bangalore, drop in deal closings is as much as 60%. Most homebuyers are waiting for big price reductions. With fear of black money transactions and cash crunch added to an already slumping real estate sector, near future is bleak.

CURRENT VERDICT: Strongly negative, can get worse

REMEDIAL MEASURE: Big rate cut will help, as will tax concessions on home purchases. RBI policy and budget are keys. But sentiment improvement will be a very long process.

3. AUTOS

IMPACT: Post-demonetization, there was

some cushion at wholesale level for Maruti Suzuki, Toyota Kirloskar Motor and Tata Motors from dealer demand for new models or new variants like Baleno, Brezza, Fortuner, Innova and Tiago. Hyundai India, Honda Cars India and Mahindra & Mahindra have seen some short-term impact on sales. At the retail level, sales for cars without waiting period are down 30-50%. Two-wheeler and commercial vehicles have been hit harder. 60% to 65% of entry level motorcycle sales happen in rural markets where cash is king. Two-wheeler sales may have gone down by 5% last month. Tata Motors posted a 17% decline in commercial vehicle sales in November.

CURRENT VERDICT: Negative, but not yet bleak

REMEDIAL MEASURE: Car-makers are promoting use of cashless transactions. But upgrade in consumer sentiment is the key to avoiding deep negative impact.

4. E-COMMERCE

IMPACT: Mostly bad, some good. For the online retail market, gross merchandise value (GMV) of players fell by 40-50% in first few weeks after demonetization, in the middle of their biggest quarter for sales. Things may remain bleak till March. Even

high-value items like expensive smart phones are selling less. Products returned are up by 50%. And experts feel consumer sentiment won't improve quickly. But the boost to digital payments (100% jumps in transactions) has led industry to hope for a bright medium term. Also, grocery and food delivery set-ups are doing better since they sell essential items. Some saw new customer orders jump to 25%, from the usual 15-16%.

CURRENT VERDICT: Negative, can get worse in short term

REMEDIAL MEASURE: Measures like tax cuts will improve sentiment. Sector specific innovations like card or mobile wallet payment on delivery will help.

5. METALS

IMPACT: Real estate slowdown has hit steel, and may hit further. Aluminum, copper, zinc also hit since they are raw materials in building industry products. If auto sales are hit badly, metals business will do worse.

CURRENT VERDICT: Negative, can get worse

REMEDIAL MEASURE: Massive government spends on infrastructure till

sentiments and cash supply improves. Budget will be a key.

6. AGRICULTURE

IMPACT: Interestingly, villages have adapted in some ways better than cities. Govt allowing tax free deposits of any amounts for farmers have led to many of them getting 20% premium from traders when transacting. Informal credit for daily purchases and use of old notes for key inputs and selling produce have kept rural economy going. Crop planting increased 20-35% every week after demonetization and remained higher than last year in all weeks after November 8. But a lot depends on cash supply improving quickly in the New Year.

CURRENT VERDICT: Neutral to positive

REMEDIAL MEASURE: Rural India is hoping the New Year will mean back to normality on cash supply, if not, major disruption possible.

7. GOLD

IMPACT: Scared by government warnings, sale of gold against old currency notes fell drastically. NRI customers have fled. Sales are down sharply, and it was already a bad year for gold.

CURRENT VERDICT: Strongly negative

REMEDIAL MEASURE: No immediate solution, a long wait for sentiments to turn around, and fundamental change in terms of fewer cash transactions can have

8. CONSUMER SPEND

IMPACT: Consumption, a big GDP contributor, will take a hit for at least two quarters, say companies and analysts. Two main problems: Low circulation of lower denomination notes, which may be temporary, and wealth erosion, that is impacting big ticket purchases. FMCG sales dropped 20-30% in November. At store levels, impulse buys like snacks, biscuits were hard hit, as were personal care items, Nielsen data shows. December can be worse than November, since last month consumer spend in the beginning of the month was unaffected. Nine million retailers who buy from wholesalers are worst hit, and will feel the pain for a while. Big, organised retail is doing well. Annual growth rate is around 4.4%. Some big FMCG companies have cut production. Supply chains are hit as cash fuels many transactions. Full impact will show up in a month's time, and can be severe.

CURRENT VERDICT: Negative, can get worse in short term

REMEDIAL MEASURE: Depends on how many consumers can shift to

Cashless transactions, which partly depends on how many retailers do – an uncertain process at best. Some consumer sector experts say GoI should consider giving a boost to shopping, like Western governments do in tough times.

Shopping vouchers to Jan Dhan account holders is one idea. Consumers need to feel good again, tax cuts would be a huge help.

9. TOURISM

IMPACT: Peak tourism period of November-December badly hit. For tourist destinations beyond metros, business may be down by as much as 40%. Tourism business in metros may go down by 10%. Cash shortage at airports and hotels are a big problem. And many national monuments entry points don't have card payments facilities. Western countries have issued advisories on cash crunch in India

CURRENT VERDICT: Strongly negative, peak season may be badly hit

REMEDIAL MEASURE: Provide more cash at various critical points in tourist destinations as most vendors don't have cashless payment systems at tourist spots, or have a massive drive to spread cashless transactions.

10. TELECOM

IMPACT: Mobile phone shipments fell by 26% in November, compared to the previous month. Smartphone shipments are down by 23%. Inventory pile up with retailers big sellers who do card and online transactions less badly hit. IDC analysts expect sales for feature phones to drop by 25% in the quarter, and smart phones to fall by 17.5%.

CURRENT VERDICT: Strongly negative

REMEDIAL MEASURE: Zero cost EMI offers from brands, retailers, buy now pay later plans; among other offers can boost demand. But future of cash purchase by low-end consumers still dim.

11. AVIATION

IMPACT: In world's fastest growing aviation market, passenger traffic growth will fall below 20% from an average 23-24% growth recorded in previous years. Flight bookings dropped drastically in days after demonetization. Recovered somewhat

later offline travel agents, who took cash, badly hit. Flights to small towns, where cash payments are the norm, are also badly hit, may post negative growth.

CURRENT VERDICT: Somewhat negative, not alarming yet

REMEDIAL MEASURE: Discount offers from airlines. Making sure small operators take online payments.

12. JOBS

IMPACT: Hiring experts say jobs at senior levels are not and won't be impacted. But overall hiring is down right now, as managers seek to protect revenue/profit targets. No job cut plans as of now. Variable pay/increment amounts may be impacted. Job numbers are difficult to estimate, experts say, but sectors where hiring is most hit are retail, consumer goods, real estate, infrastructure, logistics (for ecommerce especially), auto consumables, and building products. Hiring by mobile wallet and fintech companies are up, though.

CURRENT VERDICT: Mildly negative, and may improve in future.

REMEDIAL MEASURE: Everything depends on how temporary the pain in. Experts say fundamentals are good for

jobs, provided normality returns fast. One change may be generation of more formal sector jobs as informal jobs are hit worst by cash-crunch. Of 60 crore Indians employed, only 6 crore have formal jobs. That may go up to 10 crore in the next 2-3 years.

13. PHARMA

Demonetization is not expected to have any major impact on the Indian Pharma Market and demand is not expected to get impacted in a big way. However, Luxury to get impacted in a big way however, Luxury Hospital may see some impact due to spending cuts.

CURRENT VERDICT: Neutral to Positive.

14. POWER & COAL: This sector also not much affected due to demonetization.

CURRENT VERDICT: Neutral to +v

REMEDIAL MEASURE: A possible fall in the interest rate will +ve for yield players.

World bank Statement on demonetization in India

World Bank Said “The immediate withdrawal of a large volume of currency in circulation and subsequent replacement with new note announced by the govt in Nov contributed to slowing growth in 2016.

World Bank appeared to acknowledge that the negative impact of demon would likely be short term with the positives resting in liquidity expansion in the banking system.

Conclusion:

GOI needs to inject a massive dose of positive sentiment, led by Tax and other demand, boosting measures

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