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Impact of demonetization on various sectors: Issues and challenges

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Abstract

Demonetization had a huge resultant effect on Indian economy. Demonetization has helped in clean-up of illegal cash which will help turn around the economy in various fronts, it also helps in bringing more borrowing to the exchequer, improve inflation, increase GDP of the economy, revive investment and to reduce interest rates and to lower income tax rate. Business houses in India are going through a tough time mainly due to demonetization. Even though it is said that demonetization will help the economy in the long run but it has created a lot of fear in the minds of common man, traders, small business houses and unorganized sector which was largely dependent and running on cash basis. Even though demonetization is expected to have a positive impact in the years to come, business house fear for short run problems and reduced use of cash. It is said that demonetization has hampered the growth of the world's fastest growing economy India. Hence by keeping this in mind, an effort has been made to analyze the perception of people about demonetization from various sectors of society. Sample size of 250 was randomly selected from Bangalore district to understand their perception about demonetization.

Keywords: Demonetization, currency, real estate

Introduction

Demonetization is not new to Indian economy because it has implemented first in 1946 and second time in 1978 and now it is third time. Demonetization is a bold decision taken by government and it will have multiple impacts on organized sector and unorganized sector. In fact it has more impact on unorganized sector and lesser on organized sector. Demonetization will have impact on consumption, saving and investment activities of all sections of the economy. It also makes people to be cautious about their expensive spending habits. Even though demonetization is said to be having long term benefit but in short run it cuts economic growth. Before demonetization majority of the population was doing financial transaction without bank account but after demonetization majority do financial transaction with banks and also using various digital payment methods for making payments. Demonetization is a clear cut message for the entire nation that government is making India a better place to invest and better place to do business. There are various reasons why government demonetizes the currency which includes combating inflation, corruption and to discourage the cash system. Demonetization will help the government to get accountability of every monetary transaction that takes place in the economy.

Demonetization in any economy is usually monetary policy to tackle black money, it is meant to be suddenly implemented. Earlier demonetization has taken place twice but has failed. If any government announces the time of demonetization then, this step will not be successful in controlling counterfeit currency and black money. In a country like India cash and banks especially co-operative banks plays an important role in economy. Even though there is existence of debit card, credit card, mobile banking and online transaction they are not so popular in rural India it is only restricted to urban India. Due to demonetization there are higher chances of unaccounted money getting exchanged through illegal means because of the fear of legal consequences and subsequent legal issues if declared. Demonetization has drastically affected the unorganized sector. Majority of Indian population work in unorganized sector due to demonetization, their income, saving and financial transaction has affected drastically. In the presence of the above factors in mind the researcher has made an effort to study the impact of demonetization on various sections of the society.

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Due to demonetization there is a shrink in customer base and resources, the financial transaction of financial intermediaries and financial institution and money lender has come to a standstill. Demonetization will have great significant and immediate impact on the state of the economy. The researcher result has found that four variables namely gender, age, annual income and occupation has significant association with demonetization. Demonetization is said to be one of my generation memorable experience and it is one of the most surprising economic events of our times. It has most significant impact on every citizen of the nation.

Literature Review

Ansari (1982) examined the impact of real per capita GDP, the size of overseas trade and density of population on the tax revenue by making an inter country comparison. Data was collected for the period 1972 to 1976 from IMF publications, earlier studies and World Bank publications relating to 79 and 62 countries. The author employed regression analysis on the basis of two equations. In the first equation real per capita GDP and size of trade were taken as independent variables and tax revenue as dependent variable. In the second equation population factor was also included as independent variable to assess the impact of all three factors (GDP, size of overseas trade and density of population) on tax revenue. The study concluded that real gross domestic product and foreign trade were positively correlated with tax revenue, whereas density of population was negatively correlated with tax revenue.

Arpit Guru and Shruti Kahanijow (2010) researcher analyzed the black money income. Need for amendment in DTAA & ITEA and analyzed that black money is spread everywhere in India up to a large extent which continuously slashed towards abroad in a very large amount. The researcher also identified how black money had caused menaces in our economy and in what ways it is used.

Sukanta Sarkar (2010) [3] conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System i.e. Indian govt. just focused on making committees rather than to implement it. The study concludes that laws should be implemented properly to control black money in our economy.

Tax Research Team (2016) in their working paper stated in favor of demonetization its main objective is to analyze the impact of demonetization on Indian economy. This paper shows the impact of such a move on the availability of credit, spending and level of activity and government finances.

Burse Sagar, (2018) [4]. It has been concluded that Indians are more tolerant in terms of the application of any new event by the government of India. During demonetization people had initially protested demonetization but by the time of 10 to 15 days they had accepted the fact that they had to comply with the decision of the government to take a chance to contribute to the Corruption and Black money free economy of India.

Mangal Aman, Kalyankar Kaustubh, B. Prof. Ravikumar,

(2017) [6]. Only employment have any significant relationship with the other factors which resulted in view of people about impact of demonetization, reduction of black money and whether the digital mode is good or not. Only level of qualification is having a relationship with the view of people about whether the demonetization was applied correctly or not. The other factors were found non-significant due to the reason that the no of responses were found less to show any relationship between the factors affecting demonetization.

Shukla Bal Govind, Dr. Gupta Hariom, (2018) [7]. The whole crux of the study is that the people are actively supporting any initiatives taken by the government which are basically targeted to eradicate corruption, black money, and any other threats like terrorism and naxlism in the country. It could have witnessed from this point of view that no serious incident happened in any part of the country while 86 percent of the currency demonetized. People patiently returned and exchanged their currencies with having full trust to government. They are helping others and have positive attitude for demonetization. It has also been felt by us as my own perception found while this occurrence. As expressed by Students informally during data collection, he felt that the steps were tough but very necessary for country development.

Groppa Octavio, (2013) [5]. Complementary currencies may be a useful tool for local development, in so far as they generate an augment of the demand multiplier. The creation and maintenance of such systems, however, is not exempt from difficulties. Anyhow, the development of new technologies is greatly facilitating their development. The ease of access to the means of exchange can be of great importance for development, particularly its effect on reducing interest rates.

Objective of the study

1. To find the impact of demonetization on awareness of various banking transactions
2. To analyze the impact of demonetization on various sectors
3. To analyze the impact of demonetization on various investment activities

To analyze the perception difference about demonetization between male and female

Methodology and sources of data

In this study a structured questionnaire was used to collect the data. Questionnaires were administered to 275 respondents out of which only 250 respondents were selected based on completeness of questionnaire. Since most of the respondents were reluctant to provide information on their investment details and details related to cash transaction therefore researcher has used referral sampling and convenience sampling to collect the data. In this study both primary and secondary data are being used. Primary data is collected from respondents and secondary data is being collected from journal, magazine, published articles, websites etc. The data collected were tabulated in two formats, viz simple table and cross table. The data was then analyzed by applying simple percentage, Ranking, mean scores, standard deviation skewness and Kurtosis.

Findings and Discussion

Table 1: Showing the demographic variables of the respondents

Parameter	Variable -1	Variable-2	Variable-3	Variable-4	Variable- 5
Gender	Male – (69.2%)	Female (30.8)			
Marital status	Married (77.2%)	Unmarried (14.4%)	Widower/Separated (8.4%)		
Income (P.A)	Up to 5,00,000 – (25.2%)	Rs. 5,00,001 – 7,50,000 (13.6%)	Rs. 7,50,001 to 10,00,000 (18.4%)	Above Rs. 10,00,000 - (42.8%)	
Age	< 30 years (11.2%)	31 to 40 years (18.8%)	41 – 50 years (21.2%)	50-60 yrs (20.4%)	>60 yrs (28.4%)
Educational qualification	Professional (8.4%)	PG (11.2%)	UG (54.4%)	Schooling (26%)	
Occupation	Govt – 12.8%	Private – 9.2%	Business/Profession 64%	Retired – 14%	

(Sources: Primary data collected through structured questionnaire)

Socio Economic profile of the respondents

As per the response received majority of the sample respondents chosen for the study are male (69.2%) in the age group of 31 to 50. Most (77.2%) of the respondents married. 54.4% of the respondents are undergraduates who

are involved in either business or profession. 42.8% of the respondents are in the income group of more than 10,00,000 followed by up to 5,00,000 25.2% and 18.4% of the respondents are in the income group of 7,50,001 to 10,00,000.

Table 2: Showing the impact of demonetization on creating awareness

Factors	5	4	3	2	1	Total	Mean score	Rank
Awareness of mobile banking	22	38	16	16	08	100	3.70	2
Awareness of online transaction	14	54	18	04	10	100	3.74	1
Awareness of E-wallets	42	26	14	04	14	100	3.68	3

Impact of demonetization in creating awareness of various usage

The result on impact of demonetization in creating awareness of various usages using weighted average of each

factor shows that due to demonetization there is more awareness on online transaction followed by mobile banking and E-wallets which indicates that respondents are inclined towards technology only due to demonetization.

Table 3: Showing the impact of demonetization on various investment activity of the respondents

Factors	5	4	3	2	1	Total	Mean score	Rank
Demonetization has affected your savings	22	38	16	16	08	100	3.70	2
Demonetization has affected your returns on investment	14	54	18	04	10	100	3.74	1
Demonetization has affected your investment plans	42	26	14	04	14	100	3.68	3
Demonetization has affected your retirement plans	28	38	08	08	18	100	3.50	4
Demonetization has not affected you investment plans	20	30	14	24	12	100	3.22	5

Impact of demonetization on various investment activity

The result on impact of demonetization on various investment activity usages using weighted average of each factor shows that demonetization has affected various

activities. Among most affected is the return on investment (3.74) followed by savings (3.70), investment plans (3.68), and retirement plans (3.50).

Table 4: Showing the impact of demonetization on various sections

Factors	5	4	3	2	1	Total	Mean score	Rank
Agriculture	11	35	41	09	04	100	3.48	6
Real estate	23	51	10	07	09	100	4.10	2
Small and medium enterprise	25	53	12	05	05	100	4.36	1
Service sector	28	43	09	11	09	100	3.96	3
Professional	09	27	31	27	06	100	3.27	7
Retail outlet	26	38	14	13	09	100	3.56	5
Startup companies	29	38	13	15	05	100	3.78	4

Impact of demonetization on various sectors

The result on impact of demonetization on various sectors using weighted average of each factor shows that demonetization has affected small, medium enterprises

(4.36), followed by Real estate (4.10), Service sector (3.96), Startup companies (3.78), Retail outlet (3.56), Agriculture (3.48) and lastly Professionals (3.27).

Table 5: Showing the descriptive statistics of variables

	Mean	Std deviation	Skewness	Kurtosis
Lower growth of economy	3.05	1.121	0.378	-0.528
Positive support to demonetization	4.48	1.176	-1.024	0.431
Insufficient funds for business	4.64	1.238	-1.374	0.632
Poor implementation	4.83	1.283	-1.633	1.364

Perception analysis of respondents on impact of demonetization

Likert scale was used to measure the responses on impact of demonetization on various aspects of demonetization such as demonetization affecting growth of the economy, insufficient funds for business due to demonetization, poor implementation in the process of demonetization. The result

indicates that the respondents disagree that the demonetization will affect growth of the country (Mean = 3.05). They agree that they positively support to demonetization (Mean = 4.48). The statistical result indicate that respondents strongly agree that there is insufficient funds for business (Mean = 4.64).

Table 6: Showing the descriptive statistics of variables

Variables	Gender	Mean Rank	U	Sig.
Lower growth of economy	Male	52.16	1409.50	0.046*
	Female	69.72		
Positive support to demonetization	Male	57.43	1697.50	0.876
	Female	58.91		
Insufficient funds for business	Male	65.17	1496.50	0.067**
	Female	53.92		
Poor implementation	Male	63.91	1383.50	0.05*
	Female	57.76		

Respondents strongly disagree that there is poor implementation (Mean = 4.83). Respondents differ in their decision on demonetization. While male and female in their perception. Female (Mean Rank = 69.72) are more disagree to the effect of demonetization in lowering the growth of economy as compared to male (Mean Rank = 52.16) ($p < .05$). Male (Mean rank = 63.91) are more agree to poor implementation as compared to female (Mean rank = 57.76) ($p < .05$). Male (Mean rank = 65.17) are more agree to insufficient funds for business as compared to female (Mean rank = 53.72). Female (Mean rank = 58.91) shows positive support to demonetization as compared to male (Mean rank = 57.43).

Issues and Challenges

Demonetization is a liquidity shock for the economy, as demonetization is done basically for various issues such as abolition of fake money, digitalization of transaction, control of inflation, reducing the rate of interest, transparency of money transaction. Demonetization is not a disaster like global banking crisis of 2007, it is only a short term liquidity shock which will disturb economic activities of an economy. Due to demonetization banks has received huge deposits. Demonetization will not create big savings permanently in the banking sector. The deposits which are received by the bank are those liquid cash which was kept by people for their day today activities and to meet their cash transactions. Even though banks deposit has increased it is only for the short period, in the long term it is tend to decrease. It is a wrong notion to assume that such deposit by the public will be put in to savings because these deposits are not voluntary but due to demonetization. This deposits are made only to convert old notes into new notes once liquidity starts in the economy such deposits which are made by the public will be withdrawn, which means that new deposits in the bank is only seen as transitory deposits. Interest rates have fallen due to demonetization and deposit of huge liquid cash, it is tend to increase over a period of

time once these deposits are withdrawn by the public. Demonetization will also lower the purchasing power as people cannot purchase luxurious items and they tend to cut unnecessary expenditure. Real estate is hit very badly due to demonetization because it is the only sector which largely depend on black money, hence due to this there are bright changes that there is revaluation of real estate price such as land, plot and flat prices it tend to come down and the really need will be helpful in these process.

Conclusion

Demonetization is said to be one of my generation memorable experience and it is one of the most surprising economic events of our times. It has most significant impact on every citizen of the nation and immediate impact on the state of the economy. Demonetization will have impact on consumption, saving and investment activities of all sections of the economy. It also makes

People to be cautious about their expensive spending habits, even though demonetization is said to be having long term benefit but in short run it cuts economic growth. Without adequate and proper planning demonetization will cause economy paralyzed for short duration.

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