



WWJMRD 2018; 4(1): 219-221  
www.wwjmr.com  
International Journal  
Peer Reviewed Journal  
Refereed Journal  
Indexed Journal  
UGC Approved Journal  
Impact Factor MJIF: 4.25  
e-ISSN: 2454-6615

**Dr. Dimple Khosla**

Assistant Professor, Dept. of  
Commerce, Dyal Singh College,  
Karnal, India

## Impact Analysis of Demonetisation on Business Sector

**Dr. Dimple Khosla**

### Abstract

Demonetisation means when the Government declares the prevailing currency notes as illegal tender. It happened in India for the third time when ruling Government took this bold decision on 8<sup>th</sup> November, 2016. The objective behind this was very clear to the Government. They want to curb the black market, eliminate the duplicate currency and to minimise the corruption. This paper has been taken up to study the impact of this step on the businessman. The retail and informal sector suffered its all-time low during this period. The situation was becoming more and more panic. The study revealed that the panic was justified but it was for the short term. There were losses in the businesses, they faced low sales and consequently low profits but they are coming out of this situation gradually.

**Keywords:** Demonetisation, Business, digital transactions, forged currency, illegal tender

### Introduction and History of Demonetisation

Demonetisation, the term became famous in just few minutes as our Prime Minister declared the currency notes of Rs 500 and Rs 1,000 as illegal tender with immediate effect from 8<sup>th</sup> November, 2016, 12:00 p.m. onwards keeping in mind the three broad objectives: One to eliminate the prevailing forged currency, second to curb the black money and third to reduce corruption. This move of the government took the country by storm with people rushing to exchange their old currency notes with new ones.

Although the act was not new to India, since it already had a history. India earlier faced this situation twice, once in the year 1946 and then in 1978. In January 1946, the already prevailing currency notes of Rs 1,000 and Rs 10,000 were declared as illegal tender. But the impact of this demonetisation on common man was not that powerful because at that time this higher currency was beyond the reach of common man. Later in the year 1954 these notes were reintroduced along with a new currency note of Rs 5,000. Then in the year 1978, Prime Minister Morar Ji desai took the same initiative. He banned the circulation of currency notes of Rs 1,000, Rs 5,000 and Rs. 10,000. He did this for the aim of eradicating black money. This incident also was not that powerful but the latest announcement regarding demonetisation by PM Narendra Modi shook the entire country. The basic reason of the panic was that the quantity of such currency in circulation amounts to approximately 86% of the total currency in circulation. People are still in dilemma that whether this will show any positive impact in the years to come. Different people are having different opinions regarding its impact. As per the data provided by CLSA, 68% transactions in India were completed through cash mode, so this kind of step will certainly show short term as well as long term impact on the society as well as on the economy. This paper is an attempt to find out the impact that business man felt after this demonetisation.

### Objective of the study

The study has been taken to find out the impact of demonetisation on common business class.

### Research Methodology

Both primary and secondary sources of data and information collection has been used for the present study. For primary information collection personal interviews are taken and for secondary sources various newspaper articles, research papers, journals both published and electronic and various magazines are referred.

**Correspondence:**

**Dr. Dimple Khosla**

Assistant Professor, Dept. of  
Commerce, Dyal Singh College,  
Karnal, India

### Findings of the study

As stated earlier that the basic reason of the panic was that the quantity of such currency in circulation was approximately 86% of the total currency in circulation. According to the report total bank notes in circulation on 28<sup>th</sup> October, 2016 was Rs 16.42 lakh crore and out of which 86% i.e. 14.18 lakh crore were of demonetised currency. Therefore this move was having a huge impact on everyone whether one is a politician, a business-man, a bureaucrat or a common man. Most of the people hailed the Modi's strong decision, while poor were shocked by the move. The overnight decision changed the life of many as black money holders were worried about the pile of cash they were sitting on. They were searching for the means by which they could convert their money. Service class was not that panic but still even a genuine taxpayer was standing in a long queue to withdraw his own money. Many poor daily wage workers were left with no job and no income as owners were unable to pay their daily wage. The time was very crucial for those serving in banks.

But the worst affected sector post demonetization was arguably the business sector. To be precise, the retail and informal sector suffered its all-time low during this period. With less or almost nil liquidity in the market, running a business seemed as a challenge for most business men. But just to say that it put only the negative impact will not be justified as every coin has two sides so let us study both the impacts on business and businessman.

### Positive Impacts of Demonetisation on Business

- **Increase in Digital Transactions:** The businesses faced immense increase in the digital transactions over the period because of cash crunch. The digital transactions in all modes increased by 23 per cent to 27.5 million in May 2017 from 22.4 million in November 2016. Non-availability of hard cash in the economy lead to the changes in the consumer behaviour patterns with the digital mode of payments becoming popular. According to the CEO of PayTm Vijay Shekhar Sharma," We are signing up 5,00,000 customers and 40,000 merchants a day". The digital transactions through plastic cards, e-wallet etc. has taken a great surge in the business post demonetization.
- **Decrease in Cost of Loan:** Bringing of cash into the banking system has lowered the cost of loans. Which further helped in providing easy credit to Indian businesses to meet working capital needs, diversification and expansion programmes.
- **Crackdown On Shell Companies:** Fake currency circulation will come to a halt in a single shot. India is intensifying its crackdown on dubious companies after it unearthed over \$1 billion in suspicious cash deposits as part of its investigations. With the elimination of fake transactions and money laundering activities business will face smooth operations. Corrupt officers, money launderers are under threat as Income tax department is taking all the measures to track such people.
- **Curbing of Grey Market:** The move has helped brands in curbing the fake, grey market, and Chinese import cash sales.
- **Improvement in easy of doing business index:** India has jumped into 100th place on the World Bank's ranking of countries by Ease of Doing Business for the

first time in its report for 2018, up about 30 places, driven by reforms like demonetization.

- **Tax payment:** Most of the businessmen who have been hiding some income are ready to pay advance tax as current year's income. They involved themselves in Income declaration scheme. Tax payers who have been hiding some income started coming forward to declare income and pay tax on the same. Moreover Individuals are now required to submit PAN for any deposit above Rs 50,000 in cash, which is helping tax department to track individuals with high denominations.
- **Other Benefits:**
  - \*Recovery of bad debts
  - \*Real value flashed in real estate
  - \*Stocking problem solved due to shortage of cash.

### Negative Impacts

- **Unavailability of Labour:** In India, labour is generally paid wages in cash and cash shortage post demonetization lead to the non-availability of labour to successfully carry out business operations.
- **A Halt to Manufacturing Processes:** Business entities engaged in manufacturing had to held up their manufacturing work solely because of the 2 reasons. First, the unavailability of labour and second, the non-availability of raw-materials due to shortage of cash. Consequently, due to low economic activity, GDP of the country took a great dip. Official figures suggest that the GDP came down to 6.1% from 7% in the quarter succeeding demonetization.
- **Declining Sales & Profits:** The finished stock remained held up in shops due to less number of buyers because of less liquidity. Consequently, sales and profits saw a declining trend. As per a Delhi based businessman," Our sales are not even 20% of what it used to be in the pre-demonetization phase". This was expected as the people started to use the limited cash they had, judiciously. The MSME's (Micro Small and Medium Enterprises), which are largely cash driven also had to cut their manufacturing processes and lay-off certain daily wage workers to face the cash crunch. It is to be noted that MSME's contribute 8% to the total GDP of India.
- **Disruption Due to Absence of Liquid Cash:** Certain sections of the society namely agriculture sector, small traders, households, SME's, daily wage earners etc. faced short term disruptions due to absence of liquid cash.
- **Short-term Recession:** There came a sort of recession in sectors like real-estate, construction material, textile, handicrafts etc., which is still prevailing.
- **Loss of Jobs:** Many employees were retrenched by the companies due to decrease in production and inability to pay salary due to cash crunch. The report given by Centre for Monitoring Indian Economy (CMIE) tells that during January to April 2017 about 1.5 million jobs were lost.
- **Stock Market Crash:** The stock market indices dropped to an around six-month low in the week following the announcement.
- **Impact on Agriculture:** Farmers too faced a lot of problem due to scarcity of the new currency. They were not sufficient cash to purchase seeds, fertilizers and pesticides which they were in need of for the

plantation of rabi crops which are usually sown around mid-November.

### **Conclusion**

As highlighted, the digital transactions in the Indian businesses are on an all-time high even after many months of demonetization. With the sudden surge in deposits with the commercial banks, the lending rates have also been reduced providing easy credit to Indian businesses to meet working capital needs, diversification and expansion programmes. The businesses have also been more tax compliant post demonetization. Official numbers suggests that 5,60,000 new assesses have filed tax returns for the year post demonetization against only 2,20,000 only in the previous year. Above all, the post demonetization phase has provided a better business environment to the business enterprises with comparatively less corruption and more transparency in operations. The government is taking all the necessary steps and actions to meet the currency demand and ensure the smooth flow of new currency.

### **References**

1. Deodhar, Rahul Prakash, Black Money and Demonetisation (November 14, 2016). <https://ssrn.com/abstract=2869172>
2. Madhusudhanan R1 , Dr. Balaji, A Study on Demonetization with special reference to swot and pestel analysis on Indian Banking Sector , <http://data.conferenceworld.in/ICCSM17/P632-642.pdf>
3. <http://www.indianeconomy.net/splclassroom/410/demonetisation-an-impact-assessment/>
4. <http://www.moneycontrol.com/news/business/economy/impact-analysisdemonetizationindia-920030.html>