

IMPACT OF DEMONETIZATION ON HOUSEHOLDS AND SMALL BUSINESSES

Dr. Vinod C Sugathan

Assistant Professor & HoD

PG & Research Department of Economics

Sree Narayana College

Sivagiri, Varkala

Saranya. S

Research Scholar

PG & Research Department of Economics,

Sree Narayana College

Sivagiri, Varkala

ABSTRACT

The demonetization move initiated by the Government of India has destabilized socio-economic lives in the country. It will have far reaching consequences in the coming years. Though initiated as a tool to eliminate black money in the economy, lack of supporting frame work proved it as cause of big concern. On November 8, 2016 honorable Prime Minister of India has announced that the notes of 500 and 1000 are no longer valid currencies. With this, the Government has withdrawn notes of currency of 86% value. 59.4 lakh crores in circulation. In his address to the nation. Honorable Prime Minister has stated that the move is directed towards clearing the black money in the Economy. The decision of the Government and the Reserve Bank of India (RBI) to withdraw the legal tender status of the pre existing INR 500 and INR1000 currency notes beyond November 8, 2016 and the resulting cash shortage have been matters of intense debate.

Keywords : *RBI, nation, Economy, government and Currency.*

The Government decision, according to its own declaration in its press released on November 8th, 2016 related that demonetization was initiated to curb the finance of terrorism through the proceeds of fake Indian currency notes (FICN) and use of such funds for subversive activities such as espionage smuggling of Arms. Drugs other contra bands into India, and it also eliminate black money which casts a long shadow of parallel economy on

our real economy. After November 9, 2016 which was declared to be black holiday, the old demoralized INR 500 and 1000 notes could be deposited, with proper identification in bank or post office account, without any limit until December 30, 2016. These could also be exchanged for new INR 500 and 2000 notes, or old INR 5,10,20,50 and 100 notes, but initially only upto INR 4000. This limit was increased to INR 4500 since November 14, before such direct exchange was completely stopped from November 25, 2016.

A gross of Sectors, economy have experienced sever shocks due to currency shortage. Vegetable farmers were not able to sell their agricultural produce, leading to their gross loss. After November 8, the price of cotton has reduced from 5600 per Quintal to 4100 due to shortage of cash. Price of fish, etc., fall down even upto 30%. Daily earners had to wait in long queues for exchanging their earning. Fall in output has experienced in almost all the sectors. Micro and Smaller enterprises (SMES) also found it difficult to run industrial activities due to lack of currency to pay the workers and to pay for inputs. Index of industrial production has indicated a decline industrial production upto 30%. Capital goods are also on decline. Service sectors also hit severely. Nikei marketing services purchasing managers index (PMI) has fallen to 46.7 in November 2016 from 54.5 in October month. Nikei India services business activity Index also has recorded similar slump. Stock prices also fall down by 6%.

Since India unorganized sector contributes 80% of jobs and 45% of gross domestic product, setbacks in this sector will have for reaching impacts. Job loss due to demonetization is estimated at 55%. Reserve Bank of India has reduced its GDP growth forecast from 7.6% to 7.1% for the current fiscal. The impact on banking institutions unprecedented. The burden of receiving entire demonetized currencies as deposits on for exchange has been assigned along with supportive papers. Endless queues were seen in front of banks for exchanging the currencies of "500 and 1000". However the banks were allowed to disburse only limited amount per day or per week to the customers on some days. Banks had even face extreme shortage of currency to disburse, even the amount permitted by the Government. Server had ships even lead to conflict between the customers and the employees had to work minimum 3 to 4 hrs every day currency printing presence run by the government of India and employees to distribute/fill the printed currencies also hectic works pressures

Though demonetization was aimed of eliminating black economy, the drive itself has invited several unlawful dealings. Heavy purchase of assets like gold on the eve of November 8. Use of hired people for exchanging demonetized notes on a commission basis, booking of railway tickets for highest fares and subsequent cancellation. Even foul play with help banking officials, etc., are also reported in leading newspapers, in several places currencies were destroyed by its holders. The Jan Dhan accounts which were having in their accounts till November 8, were filled with deposits of more than 25 crores collectively.

Meanwhile, genuine people found it difficult to get adequate currency for marriage, health care needs, etc., since the cooperative banks and urban cooperative banks were not permitted to receive of currencies 500 and 1000 common man in many places across the country met with added worries. The productive labourhrshas also wasted in the quest in front of banks and ATMs for exchanging and or depositing old currency.

It can be found that demonetization has impacted socio-economic classes in adverse manners. Demonetization may be considered as one of the initiation towards eliminating black money in the economy. However, when it was implemented lack of enough preparedness has caused a lot of difficulties. Also in order to continue the heterogeneous group of citizen in the country, government needs to prove that the objectives are committed and will be taken at broader levels of financial discipline. It depends a set of reaction and pro active measures. On the oneside, immediate steps are needed for solving imminent problems while on the other hand, interventions are needed for attaining larger goals of eliminating black money.

In order to solve the difficulties caused by demonetization several measure are needed. The foremost among them is ensuring necessary currency in all the bank's branches and ATMs in the country. Since rural areas not much equipped with digital payment means. Such location should be given priority in this regards. Limits on cash withdraws need to be lifted at earliest. Denying the citizens to withdraw had earned and tax assessed money in a gross injustice. It should be ensured that all the 2.5 lakh ATMs in the country are functioning filled with necessary currency.

Objectives

- To study the impact of demonetization in India with special reference to Kerala.
- To study the impact of Demonetization on household and small business with the help of field survey.

Methodology and source of Data

Both primary and secondary data was used for the study. Secondary data was collected from books, newspapers, journals, reports and our secondary resources. Primary data was collected using the sample method of simple random sampling. The data was collected from 40 households and 20 persons who are running small business in Chirayinkilpanchayath

On 8th November 2016, the government of India announced demonetization of all Rs 500 (US\$7.80) and RS1000 (US\$16) bank notes of the Mahathma Gandhi series. The Government claim that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement- and prolonged cash shortages in the weeks that followed- created significant disruption throughout the economy.

In India demonetization is being used as one of the tools of eliminating black money in the economy. However due to flows in execution, it has resulted in a lot of difficulties for millions of citizens. Demonetization has caused a verity of problems the common man and small business man in kerala. It give the detailed study these problems in detail. In order to prevent black money in the future, a set of additional measures are needed. For punishing the wrong doers judiciary should be more strengthened and more prided. Establishing court couplers with subject specialization appointing necessary judicial officers and supportive staff in the existing and new courts of law amending laws for timely disposed of cases etc., are needed. Developing vigilance Departments (with specialization on serious financial/currency bonds) with adequate staff and professional, expertise should be considered.

Income tax department had a crucial role to play in achieving the objective of demonetization. According to available data, in India there are only 24 lakhs persons with an annual income of more than 10 lakhs. However, the evidences of purchase of luxurious vehicles, benglws/flats and other premium linking standards of several millions of peoples show that the due taxes are not paid by them. The experience is that salaried persons even those drawing salary, etc., directly from government, treasurers are tracked rigorously even for 100 or 200 and ignores heavy difficulties.

The demonetization undertaken by the Government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is distinguished. While it has been argue that the cash that would extinguished would be “ black money” and hence, should be rightfully distinguished to set the perverse incentive structure in the economy, this argument is based on impression rather than on fact. While the facts are not available to anybody, it would be fool hardy to argue that this is the only possibility. As argued above it is possible that these cash balances were used as medium of exchange. In other word, while the cash was mediating in legitimate economic activity. If this currency is extinguished there would be a contraction of economic activity in the economy and that is a cost that needs to be factored in while assessing the impact of demonetization on the economy and its agents.

The majority of respondents (70%) have problems with withdrawal limit from the bank also lack of availability of money in ATM. There are 90% of the business face difficulties in transaction with Bank like lack of availability of money, lack of getting adequate change difficulties to convert old notes to new notes. The majority of businesses 90% face the problem to get adequate money and change for the daily transactions. The 95% of businesses did not reduce the number of workers, because all businesses are running small scale domain and run by shop owners, etc. the majority of respondents face the problem in day today transaction because of the lack of availability of liquid cash. The majority of respondent 97.5% were of the opinion the policy of demonetization will abolish black money, terrorism and corruption to great extent. Due to lack of availability in cash in Hand and unavailability of small denomination notes respondents' was forced to reduce their consumption

It is likely that there would be a spurt in the banking deposits. While interpreting the phenomenon, however one has to keep in mind that a large part of their deposits were earlier used for transactional purposes. For example if a small trader deposits 2 lakh rupees in the Jan Dhan account since the currency in which he held these balances in for transactional purposes has been scrapped. It would be incorrect to interpret this as success of the programme in bringing in people who were hiding black money. Nor can they be interpreted as additional balances that the banking sector can lead out on the same basis as earlier deposits, since these deposits now would remain in accounts for much shorter period than deposits based on savings would be.

The government will not be able to find solution to lack of currency note by printing the denominations of note of rupees and 500 and 2000 along. There is a need for printing new 1000 rupees note. Adequate steps should be taken on a war footing to print currency notes and distribute it to the people. The bank should raise the levels of amount of withdrawal in a faced manner. So that the currency crunch should not affect transaction of common people.

Bibliography

- Arathy Krishnan,(2016), "*short term pain for longterm gain*", business line, November 10
- Ajith M K ,(2016), "sambathvyavasthayalminnalaakramanam", "500, 1000 asadhu", mathrubhoomi, November 9
- Ali firoz, (2016), "Sahakarana Bank pradhishandhiyil", manorama November 9
- Antony anto,(2016), "modi's master stroke", business line, November 10
- Barendrakumarbitol,(2016), demonetization good policy too, business line, November 9

- Government of Kerala, (2016), committee to study the impact of demonetization on the status economy of Kerala, a kerala state planning board
- Jomy Thomas,(2016), “ koottilayiottharathrikond”, malayalamanoram, November 9
- Jordimalayl,(2016), “notes maatinaagalinnuthal 2000 maathram”, mathrubhoomi, November 20
- Josepj Mathew, (2016), “Bankukalilpanamtheernnusthithigurutharam”, manorama November 13
- Kishore p, (2016), “ thalkalaviplavamaadhyamam” manorama, November 10
- Our bureau,(2016),” Modi’s surgical strike on Black Money”, business line, November 10
- Our bureau, (2016), karunnu plastic money, malayalamanorama, November 10
- Prakash B A, (2016), currency asadhuvakkalprathyakadhagalum, prathinithikalum, mathrubhoomi, December 13.
- Prasad sangaAmeshwaran,(2016), the demon in demonetization, business line, November 9.