

"IMPACT OF DEMONITISATION ON AGRICULTURE SECTOR"

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ABSTRACT

“As far as the real economy is concerned, there is going to be huge blow to purchasing power. All kinds of people who were accepting notes are going to refuse to accept the notes,” economics writer Swaminathan Anklesaria Aiyar, **told** the *Economic Times*.

“Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes,” the Deloitte report said.

The demonetisation of Rs 500 and Rs 1,000 notes will hurt agriculture, informal sector workers — about 482 million people who earn cash incomes — and disrupt India’s consumption patterns for at least the next quarter, according to an **assessment** released last week by Deloitte, an international consulting firm.

In contrast, sectors like e-commerce and payment banks, payment gateways are set to gain as transactions using cashless methods will increase over the coming months, the Deloitte report said, emphasising that “the long-term outlook remains positive”.

Advertisement of an online payment gateway, PayTM, published on the front page of major newspapers on November 10, 2016, The lines to exchange defunct Rs 500 and Rs 1,000 notes grew across India, as fraying tempers and scuffles were reported.

Introduction:

The prime minister – who had **promised** working ATMs by day three – **pleaded** for 50 days to set the chaos right, and his government **extended** the validity of the old notes in select transactions for another 10 days.

While the short term impacts will be pronounced on the brick-and-mortar retail sector like kirana shops, vegetable and fruit vendors, long-term negative impacts on the real-estate sector are possible, the Deloitte report said.

“Overall, a likely negative impact on disposable income is expected along with disruption in the consumption patterns of the general populace,” said the report, which called demonetisation “arguably one of the most significant reform measures in its tenure” and “an expeditious move to boldly counter the black money and parallel economy”.

Others are not as optimistic. Demonetisation has perhaps “penalised” the entire informal sector and damaged it permanently”, especially the informal financial sector, which could account for a fourth of bank lending, or 26 percent of GDP, wrote Pronab Sen, country director of the India Central Programme of the International Growth Centre, a think tank.

“There is no doubt whatsoever that Modi has pulled off a major political and publicity coup and substantially enhanced his reputation as a muscular leader, but surely somebody needs to ask: at what price?” wrote Sen on 14 November, 2016 in Ideas for India, an economics and policy portal. Rs 14 lakh crore – or \$217 billion, 86 percent of the value of Indian currency then in circulation – became useless from midnight of 8 November, 2016, part of the government’s crackdown on black, or unaccounted, money, which accounts for about a fifth of the economy, as *IndiaSpend* reported on 8 November, 2016.

Agriculture, under stress for two years, was forecast to grow 4 percent

Agricultural growth in India contracted 0.2 percent in 2014-15 and grew no more than 1.2 percent in 2015-16, largely because of back-to-back droughts.

Agriculture was expected to grow at 4 percent this year according to **this** October 2016 CRISIL report, but demonetisation is likely to dent that forecast. India is currently in the midst of the winter sowing season, but farmers are **reported** to be running out of cash to buy seeds.

Indian farmers expect a record harvest this year, as *IndiaSpend* reported in October 2016, but the rural economy—on which 800 million people, or 65 percent of India’s population, depend – is largely driven by cash. Farmers buy seeds, fertilisers and farm equipment in cash, pay their workers in cash, and traders and commission agents pay farmers in cash.

The shortage of cash is **spreading anger** in the countryside.

Informal economy has limited access to internet, online payment

The informal economy — which presently **employs more than 80 percent** of India's workforce — includes workers in small and medium industries, grocers, barbers, maids and others. Roadside vendors, cab drivers, kirana stores and medical stores have stopped accepting Rs 500 and Rs 1,000 notes.

People who do not use debit or credit cards, access the internet or use mobile banking and e-wallets will be the worst hit, said the Deloitte report. India has about 700 million debit and 25 million credit cards, according to this Reserve Bank of India **data**; about 950 million people (78 percent of the population), **do not have an internet connection**. The demonetisation-led slowdown may also impact a key economic driver, private consumption, the things that people buy.

Private consumption, as a percentage of gross domestic product (GDP) has been steadily rising over five years to 2015-16, according to **data** from the office of government's economic advisor.

Source: **Key Economic Indicators**, Office of the Economic Advisor

E-commerce, payment companies to benefit

As e-commerce websites stop cash-on-delivery – the most favoured option for Indian online shoppers, **comprising 80 percent of sales** – and struggle to hand over to banks the money they collected after demonetisation, the report predicted a rebound that will benefit both the e-commerce industry and companies facilitating payments to it, such as payment gateway companies, payments banks and electronic money transfer portals.

Online transactions in India rose 40 percent in 2015, *IndiaSpend* **reported** on 12 November, 2016.

Other possible impacts that the Deloitte report listed: A hit on foreign trade as the rupee currency appreciates; lower inflation and cheaper prices, especially in the real-estate sector.

Reports of stress in agriculture have begun to appear because of demonetization. Cash is the primary mode of transaction in agriculture sector which contributes 15% to India's total output. Formal financing in many parts, especially Punjab, Uttar Pradesh, Odisha, Maharashtra, Gujarat and Kerala is significantly from cooperative banks, which are barred from exchange-deposit of demonetized currency. Notably, this is a time of kharif harvest and

start of rabi sowing, partly explaining why this period is dubbed the 'busy season' from a standpoint of credit demand, the other being bunching of festivals and weddings.

Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centres or mandis, is dominantly cash-dependent. Disruptions, breaks in the supply chains feedback to farmers as sales fall, increased wastage of perishables, lower revenues that show up as trade dues instead of cash in hand and when credited into bank accounts with limited access affect the sector.

Currently, many of these networks are operating sub-optimally or altogether at a standstill, depending upon location, market links and other item-specific factors. The input side is equally affected as many payments/purchases, such as seeds, fertilizers, implements and tools, are outright in cash. Borrowing-financing operations of larger farmers and organized producers are also cut off or severely clipped.

ALSO READ: [Two weeks of cashless in the country](#)

The impact is visible in different sub-segments. Winter crops such as wheat, mustard, chickpeas are due for sowing in a fortnight. Wheat prices were already up due to low stocks and anticipated shortfall in 2015-16 output and have firmed up further as demonetization fallout pushes traders to build more inventories. Production in 2016-17 could drop if sowed acreage (rabi) reduces for want of enough seeds on time to exploit the adequate soil moisture. Yields could fall from late sowing and subsequent exposure to rough spring weather, the lack of sufficient or timely application of fertilizers, pesticides, etc. Farm labour, vital for this period, is reported to be unpaid as farmers have no cash. Many of them are reported to be returning from some northern parts to homes in UP and Bihar. Labour shortages and wage-spike may follow with a lag.

Plantation crops such as rubber, tea, jute, cardamom are seeing no wages paid to workers. Small-medium tea growers have few buyers now (a third of the tea was unsold in recent auction in the south). Raw jute trade is halted as paucity of funds affects procurement-delivery by traders. Projections of scarcity have appeared with appeals for official

procurement support. Cotton is witnessing havoc: daily arrivals have plunged to 30,000-40,000 bales against the usual 1.5-2 lakh bales at this time (harvest) as per reports and prices have soared 9% in a week, pushing up global prices in turn.

Conclusion :-

ALSO READ: [Arun Jaitley says govt to announce more steps to ease cash crunch in rural areas](#)

Vegetables and fruits that along with crops added 61% of agriculture's gross value added in 2015-16, depends critically upon a cash-strapped transport sector for daily supply network. Sales have dropped sharply (25-50%) across markets with occurrences of dumping. At present, demand is repressed for want of currency, so prices are subdued, but eventually, supply shortages could cause prices to rise.

How long can the demonetization drag upon agriculture persist? And how soon could the segment rebound? The answer is up in the air at this point. Production patterns and cycles vary and there is little guidance as to when the demonetization dust finally settles. However, gestation periods extend from 2-3 months for vegetables and 4-6 months for oilseeds, pulses and cereals. Production losses in vegetables cannot be recouped and is a permanent loss. Lower cereals, oilseeds outputs would persist until the next harvest, or about nine months and it is certain that incomes and profit margins will be hurt.

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