



Demonetisation And It' S Impact On Small Medium Enterprises

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Abstract:

The purpose of this paper is to contribute to the understanding demonetization and impact of demonetization on small medium enterprises (SMEs) by drawing attention to the impact on economic activities, and to further provide an integrated framework to examine the impact of demonetization on SMEs. "Demonetization refers to withdrawal of a particular form of currency from circulation." Through demonetization the old currency is replaced by the new currency or a currency circulation is blocked. There are multiple reasons why a country demonetizes its currency; some reasons include checking the inflation, to curb the corruption and to promote the cashless transactions. This paper aimed at reviewing the general impacts of demonetization on SMEs.

KEY WORDS: *Demonetisation, Currency, SMEs, Economy, Black Money.*

INTRODUCTION

"Demonetization refers to withdrawal of a particular form of currency from circulation." Through demonetization the old currency is replaced by the new currency or a currency circulation is blocked. There are multiple reasons why a country demonetizes its currency; some reasons include tocheck the inflation, to curb the corruption and to promote the cashless transactions. The currency was demonetized first time in 1946 and second time in 1978. On 8th Nov. 2016 the currency is demonetized third time by the present government.

The Indian government decided to demonetize the biggest denomination notes i.e. 500-1000 Rupees notes, this step has been declared as a master stroke for the Indian economy by various experts. This is not the first time that India has demonetized its currency, earlier it was done in 1946 with the complete ban of Rs 1000 and Rs 10000 notes to deal with the unaccounted money i.e. black money. Second time it was done in 1978 by Government headed by Morarji Desai, when Rs 1000, Rs 5000 and Rs 10000 notes were demonetized. The main objective of this step is to unearth the black money, to curb corruption, counterfeit currency as well as terror financing. This step is considered as the biggest cleanliness drive against the black money in the history of Indian economy. As per RBI, 87% transactions in India are cash transactions and this loophole is used by corrupted people to build a parallel economy with unaccounted money. This parallel economy helps in terror financing which in turn hampers the growth and development of country. Currently high- values notes account for total value of 86% of the notes in circulation in India. It is expected that this step will help in reducing the fiscal deficit of India and promote the cashless economy in India which can be easily monitored. There are many cons of demonetization also, for instance, it creates panic among the common man. Local traders and shopkeepers are facing problem. It is expected that it will affect the SME sector in India.

Historical Facts of demonetization in India

Although the history of demonetization in India dates back to the time when various rulers ruled this country, the freshest and most significant instances of demonetization in India are:

- In 1946, the pre-independence government hoped demonetisation would penalize Indian businesses that were concealing the fortunes amassed supplying the Allies in World War II. On 12th January 1946, Rs. 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender.
- New notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954.
- In 1978, the Janata Party coalition government demonetised banknotes of 1000, 5000 and 10,000 rupees, again in the hopes of curbing counterfeit money and black money. On 16th January 1978, the Morarji Desai led-Janata Party demonetized banknotes of Rs. 1000, 5000 and 10000. Note that, the finance minister at that time was H.M. Patel.
- RBI introduced a new banknote of Rs. 500 into the economy in 1987 to contain inflation.
- On 8th November 2016, the old banknotes of Rs. 500 and Rs. 1000 were barred from being legal tender and new notes of Rs. 2000 were soon introduced by Modi Government or BJP (Baratiya Janata Party).

SMALL AND MEDIUM INDUSTRIES

Small-scale industries (SSIs) have been playing a vital role in the overall economic development of a country like India, where millions of people are unemployed or underemployed. Poverty has become the most important problem for our country today. SSIs play an important role in minimising these problems through dividing employment with lower investment. Industrialisation is essential for rural areas because majority of the population lives there. If industrialisation is started from villages then the impact of development is enormous. The economic development of any country primarily depends upon the establishment of industries. SSI sector comprises 95 per cent of the total industrial units in the country.

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. Demonetisation would leave a negative effect on the small and medium enterprises (SMEs), job creation and rural consumption in the short-term whereas the large and well-organised sectors stand to benefit in the long-term.

OBJECTIVES

The main objective of this paper is as follows

1. To study the over view of Demonetisation
2. To know the impact of Demonetisation on Small Scale Industries.

HYPOTHESIS

H₀: There is no impact of GST on Small Scale Industries

H₁ : There is a impact of GST on Small Scale Industries.

METHODOLOGY

- **Type of Research:** The study is descriptive and conceptual in nature. And described the impact of Demonetization on Small and Medium Industries.
- **Type of data:** Both primary and secondary data are used. Primary data is collected by administering a structured questionnaire and secondary data is collected through various reports, books, articles etc.
- **Type of statistical tools:** Statistical tools used for the analysis of the present study are, descriptive statistics, paired sample t-Test and chi-square test

ANALYSIS AND INTERPRETATION

EFFECT ON VARIOUS ECONOMIC ENTITIES

The key segments of the economy where cash transactions play a vital role are real estate / construction, gold and the informal sectors as such. The role of cash transactions in case of real estate and gold is mostly dubious, however in case of the informal sectors it is the lifeline. For example, small and marginal farmers in the fruits and vegetables category typically require off-loading of their produce in the local Mandi in cash and could see an immediate impact. A sudden demonetization will adversely impact this segment of the economy and it will witness immediate contraction, though this impact will diminish over time. With cash transactions lowering in the short run, until the new notes are naturalized widely into circulation, certain sections of the society could face short term disruptions in facilitation of their transactions. These sections are: Agriculture and related sectors, Small traders, SME, Services Sectors, Households, Professionals like doctors, carpenters, utility service providers, etc.

Impact on Daily Workers

Mostly daily workers receive their wages on the basis of work they did per day. Cash crunch is very likely to result in delay or withholding of their payments. Apart from them, a large section of rural population depends upon the sale of their produce like vegetables, milk, eggs, etc which are perishable. There will be several impacts on these producers whose daily bread & butter depend upon their daily sale.

Impact on Farmers

Generally small farmers do not prefer keeping lump sum deposits in bank accounts. They will be largely affected as they do not have the facilities of withdrawing INR 25,000 in cash. This is partially due to low income and partially due to lack of awareness.

Impact on Real Estate

Real estate is expected to be one of the most affected sectors. The numbers of buyers are expected to come down and consequently low demand will bring about lower prices in the short term. However, it will subsequently help in improving the sector's prospects. Unorganised builders will be most affected and the sector will drag down cement and ceramic sectors also along with it.

Impact on Bond Markets

Indian banks witnessed over INR 11 Lakh Cr entering into the system till 30 November after the demonetisation exercise kicked off on 8 November, as per a CNBC report. This increase in deposits will create more demand for government bonds and other high-rated bonds. This will lead to lower bond yields especially in the shorter end of the curve.

Impact on Online Transactions & Payment Wallet

Online transactions and payment wallets are seeing a surge already. Paytm, one of the largest payment wallets in India today said that it has seen 35 million transactions for mobile and DTH recharges on its platform post the government's move to scrap INR 500 and 1,000 notes.

Impact on Pension Holders

A large section of the Indian population is constituted of significant number of pension holders. A large section of these pension holders are above 80 years of age. Standing in long queues for prolonged hours is a sign of potential casualties. Further, the withdrawal limit for such sector is also restricted to current limit. So, for withdrawing the entire pension, most of these persons have to go on multiple trips to banks.

Impact on High-End Retail & White Goods

It is expected that the high-end fashion and luxury items market may see a slump in near future. Sale of White Goods like TV, Refrigerator & Washing Machine could slump as well as a good portion of the market is driven by cash. A marginal impact will be there in food and grocery sector since these are non-discretionary in nature.

Impact on Small Scale Industries:

Liquidity – The immediate impact will be on liquidity. Businesses dealing with large amount of cash can no longer use the currency to drive business.

Loan Demand – To fill up the gap and run business smoothly the demand of loans or funding from bank and other financial institutions will increase.

High Cost – Even if one can avail funding through other institutions, the cost of lending will be much higher.

Conclusion:

Demonetization means the old currency is replaced by the new currency or a currency circulation is blocked. This move would be positive for sectors like Banking and Infrastructure in the medium to long term. This could be negative for sectors like Consumer Durables, Luxury items, Gems and Jewellery, Real Estate and allied sectors, in the near to medium term. This move can lead to improved tax compliance, better fiscal balance, lower inflation, lower corruption, complete elimination of fake currency and another stepping stone for sustained economic growth in the longer term.

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