

# Demonetization: Impacts and effects on small scale merchants. A study with special reference to Pala municipality

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## ABSTRACT

*Demonetisation is an executive action by which a country declares the circulating currency of the same is no more a legal tender. In contradiction the demonetization declared on 8<sup>th</sup> November 2016 was different; firstly the policy is adopted and declared by the prime minister and secondly it cost the drastic change in the economic activities of each and every citizens; by this action all the currencies of denomination of Rs500 and Rs1000 were declared as non-legal tender. Almost 86% of the currency in circulation was demonetized. This paper studies the impact of demonetisation in small scale trading structure, in Pala municipality and also details the crisis if any faced by small scale traders regarding demonetization.*

**Keywords:** Demonetisation

## Introduction

Demonetization is the most important and necessary when there is a change of national currency. The old unit of currency replaced with new currency. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. There are both pros and cons of demonetization in the Indian economy. The reasons for demonetization are to control counterfeit notes that could be contributing to terrorism, and to undermine or eliminate the “black economy”. There are some

Potentially ways in which the pre-demonetization money supply will stand altered:

- ✓ There would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner.
- ✓ The government might choose to replace only a part of the currency which was in circulation as cash. In the other words, the rest would be available only as electronic money. This could be a mechanism used to force a transition to cashless medium of exchange.
- ✓ The empirical extent of these two components will be unravelled only over the next six months.
- ✓ These two would have different effects on the economy in the short term and in the medium term.

The general monetary policies are most probably undertaken by the central bank are familiar to us. However this policy does not directly influence the economic activities of layman. Demonetisation is an executive action by which a country declares the circulating currency of the same is no more a legal tender. In contradiction the demonetization declared on 8<sup>th</sup> November 2016 was different; firstly the policy is adopted and declared by the prime minister and secondly it cost the drastic change in the economic activities of each and every citizens; by this action all the currencies of denomination of Rs500 and Rs1000 were declared as non-legal tender. Almost 86% of the currency in circulation was demonetized. Anil Bokil was the master brain behind demonetization in 2016. There was a vicious circle of liquidity during this period. Small scale merchants and street vendors were on a huge trouble as they were not upgraded to cashless payment system. Common merchants faced lot of difficulties in payment transactions and in basic economic activities and consumption. The prime minister declared it as a surgical strike against black money and counterfeit currency; but there was a huge crises in the economy during that period; so after 15 months it's relevant to analyse the impacts, the effects, merits of demonetization in general and in the locality.

## Review of literature

- **A Chitra Balasubramaniam (2017)** state in her article that India is switching to cashless economy and electronic transactions has caused a negative impact initially on some hotels. These measures include cancelling legal tender money & placing restrictions on cash transactions to put an end to black money.
- **Jai Bansal(2017)** state in his article that demonetization is a surgical strike on black money, terrorism, fake currency, unorganised trading, real estate, share market, etc. The Indian industry is

divided into three categories i.e. manufacturing sector, service sector and agriculture sector. After demonetization, only agricultural sector shows positive improvement while other two sectors – manufacturing and service sectors were crashed down. He also focuses on demonetization impact on Indian economy’s different sectors.

- **CD Equisearch Pvt ltd (2017)** - In this article, they have concentrated on effects of demonetization on various sectors. The move as shed a dark shadow on the increasing tourism & hospitality industry in India. These sectors are facing a tough time. November through January months generally witness the maximum inflow of international tourists in India, due to ban there has been a 65% drop in Christmas & New Year vacation bookings. Cash crunch has adversely affected the liquidity of currency exchanges in the country.
- **Balamurugan.S and Hemalatha.B.K (2016)**, the study focused on highlighting the short term & long term impact of demonetization on the various organised and unorganised sectors depending upon the extent of cash availability ,credit availability, spending & government finances . They stated that medium and large scale businesses are unaffected by such ban where as small scale establishments were deeply affected by demonetization.
- **AmbalikaSinha and Divya Rai (2016)** stated in their article that supreme sufferers of demonetization were the informal sectors of Indian economy where cashless transactions are minimal. They have indicated the microeconomic effects and macroeconomic effects of demonetization. The microeconomic effects are beneficial i.e. uncollected revenue increased & political move on terror financing was restrained, whereas the macroeconomic effect was not beneficial i.e. due to the problems faced by the people.

**Objectives of the study**

- To analyze the impact of demonetisation in small scale trading structure, in Pala municipality.
- To study in detail the crisis if any faced by small scale traders regarding demonetization.
- To study the impact of demonetisation on banking habits, digital transactions and cashless payment.

**Data and Methodology**

Secondary data regarding the background, economic aspects, impacts, general merits and demerits etc..... of demonetisation will be collected from news reports, various journals, periodicals and internet resources.

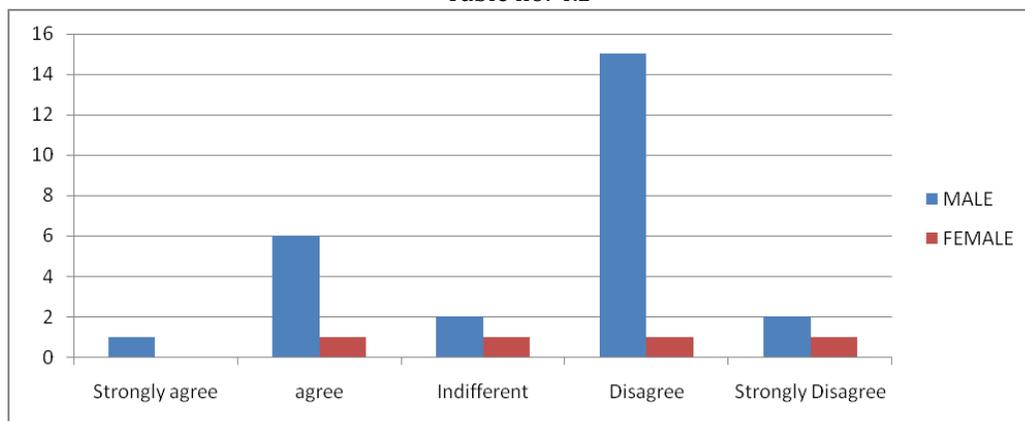
A primary data analysis was carried out through structured questionnaire, and the sample size of 30 samples selected to carry out the analysis. The data will be collected in random sampling method upon randomly selected small scale merchants in Pala municipality.

**Result and Discussion**

1) Opinion about Prime minister’s action regarding demonetization of Rs500 and Rs1000 notes

Gender	Strongly Agree	Agree	Indifferent	Disagree	Strongly Disagree	Total
Male	1	6	2	15	2	26
Female	0	1	1	1	1	4
Total	1	7	3	16	3	30
Percentage	3	23	10	54	10	100

Table no: 4.1



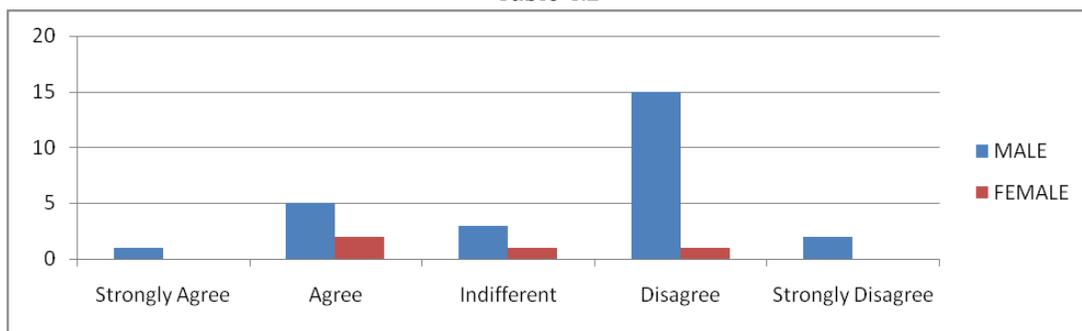
Graph no: 4.1

The above table shows the Prime Minister action regarding demonetization of Rs 500 and Rs1000 notes. Here more than half of the small scale merchants were against the decision. And only 3 percent of merchants strongly agree and 23 percent of merchants were agreeing.

2) Opinion about whether the demonetization policy reduces the usage of black money.

Gender	Strongly Agree	Agree	Indifferent	Disagree	StronglyDisagree	Total
Male	1	5	3	15	2	26
Female	0	2	1	1	0	4
Total	1	7	4	16	2	30
Percentage	3	23	13	54	7	100

Table 4.2



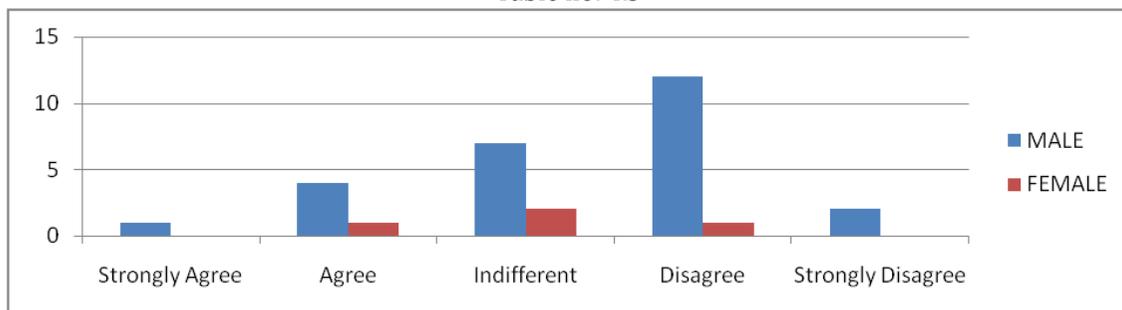
Graph 4.2

The precautions taken for demonetization are not effective. 23 percent of Merchants agree the policy. 13 percent are indifferent, that means they have no idea about it. 54 percent are against the policy and 7 percent are strongly disagreeing and only 3 percent of Merchants are strongly agree the reduction of usage of black money.

3) Opinion about the effectiveness of demonetization.

Gender	Strongly Agree	Agree	Indifferent	Disagree	Strongly Disagree	Total
Male	1	4	7	12	2	26
Female	0	1	2	1	0	4
Total	1	5	9	13	2	30
Percentage	3	17	30	43	7	100

Table no: 4.3



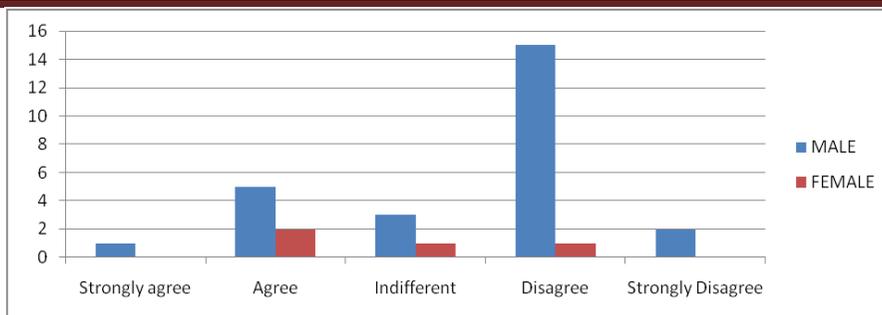
Graph no: 4.3

The data shows that only 3 percent of Merchants strongly agree the decision and 17 percent agreed. That means the demonetization process does not strongly affect the day to day activities of small scale merchants.

4) Opinion about whether to find out foreign black money investors through demonetization process.

Gender	Strongly Agree	Agree	Indifferent	Disagree	Strongly Disagree	Total
Male	1	5	3	15	2	26
Female	0	2	1	1	0	4
Total	1	7	4	16	2	30
Percentage	3	23	13	54	7	100

Table no: 4.4



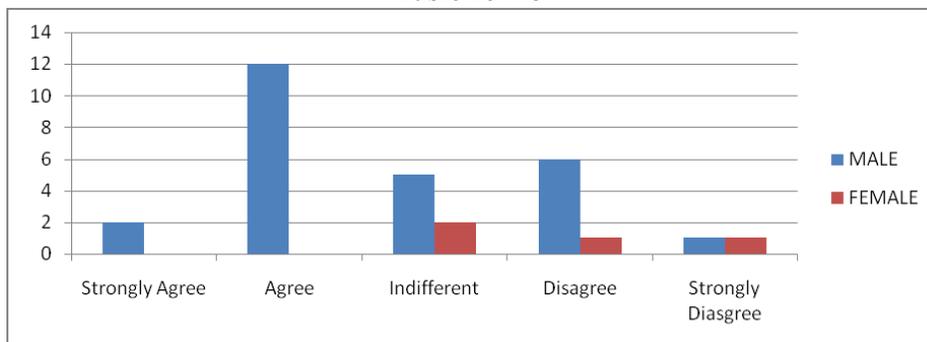
Graph no: 4.4

From this table we can analysis that only 3 percent of the respondent is strongly agreeing the opinion. Majority of the percent of the merchants disagree the opinion.

5) Opinion about whether the group or persons get prior knowledge about demonetization process and use such information for unfair advantages.

Gender	Strongly Agree	Agree	Indifferent	Disagree	Strongly Disagree	Total
Male	2	12	5	6	1	26
Female	0	0	2	1	1	4
Total	2	12	7	7	2	30
Percentage	7	40	23	23	7	100

Table no: 4.5



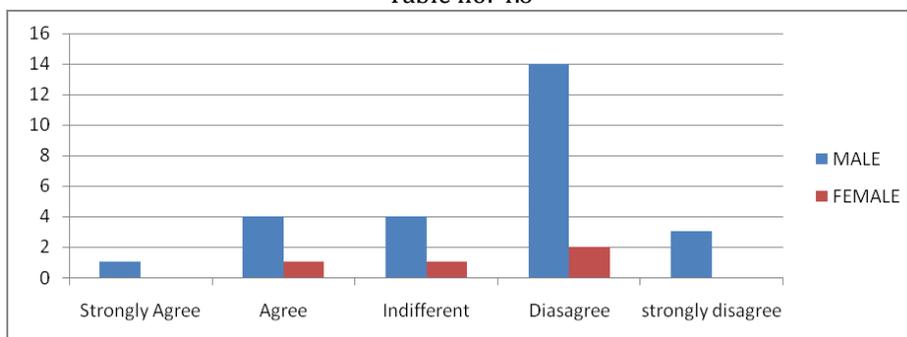
Graph:4.5

from the above table we can interpret that 40 percent of respondents is agreeing and 7 percent strongly agree with the opinion, that there are group of merchants to get prior knowledge about demonetization process and used such information for unfair advantages. Only 23percent of respondent disagree and 7 percent respondents strongly disagree with the opinion.

6) Opinion about whether the demonetization process is completely confidential in nature

Gender	Strongly Agree	Agree	Indifferent	Disagree	Strongly Disagree	Total
Male	1	4	4	14	3	26
Female	0	1	1	2	0	4
Total	1	5	5	16	3	30
Percentage	3	17	17	53	10	100

Table no: 4.6



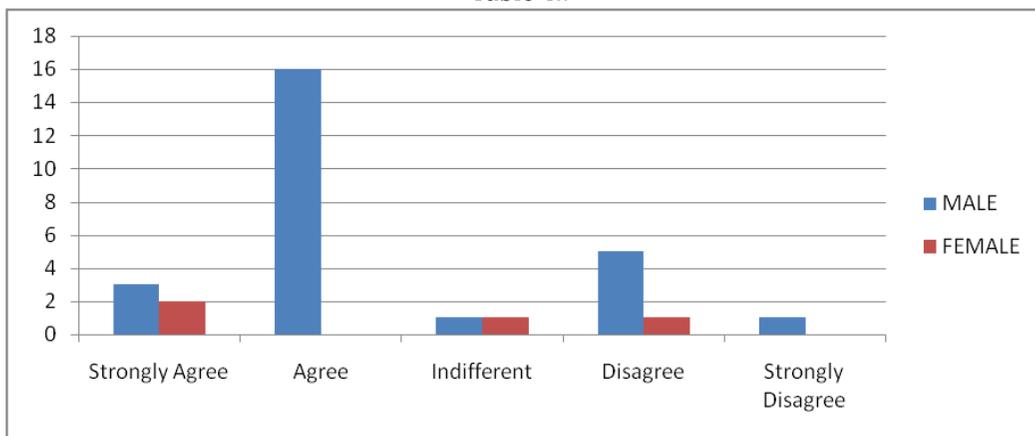
Graph no: 4.6

Here we can analysis that 17 percent of the merchants have no any idea about the demonetization plan is confidential in nature. Only 3 percent have strongly agreeing the opinion. 17 percent merchants agree it. And 53 percent disagree and also 10 percent of merchants strongly disagreeing the opinion.

7) Does the demonetization process affected day-to-day activities?

Gender	Strongly Agree	Agree	Indifferent	Disagree	Strongly Disagree	Total
Male	3	16	1	5	1	26
Female	2	0	1	1	0	4
Total	5	16	2	6	1	30
Percentage	17	53	7	20	3	100

Table 4.7



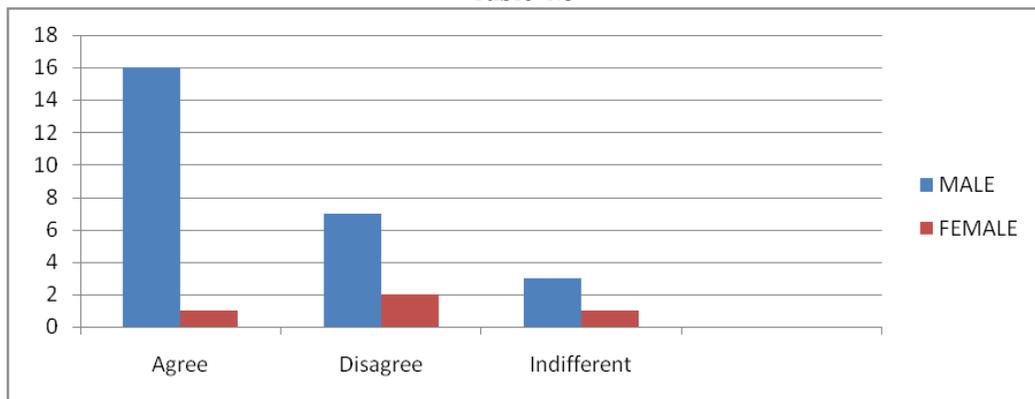
Graph 4.7

From the data given above we can interpret that almost 53 percent of merchants agreed that they faced shortage of funds and liquidity crisis during demonetization. Only 20 percent of the merchants claim that demonetization has not affected them.

8) Opinion about the liquidity crisis at the time of demonetization.

Gender	Agree	Disagree	Indifferent	Total
Male	16	7	3	26
Female	1	2	1	4
Total	17	9	4	30
Percentage	57	30	13	100

Table 4.8



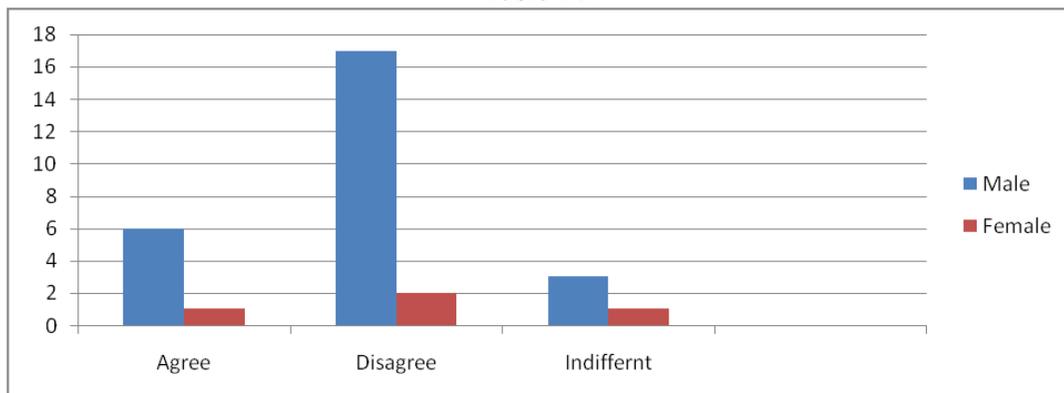
Graph 4.8

As per the data given above we can interpret that almost 57 percent of merchants agreed that they faced liquidity crisis and problems in purchasing of new stock. 30 percent of merchants disagreed that the demonetization has not affected their liquidity and purchases. Only 13 percent was indifferent as they were extreme small scale were the customers are less.

9) Opinion about whether the policy implemented by the government was helpful to small scale traders.

Gender	Agree	Disagree	Indifferent	Total
Male	6	17	3	26
Female	1	2	1	4
Total	7	19	4	30
Percentage	23	64	13	100

Table 4.9



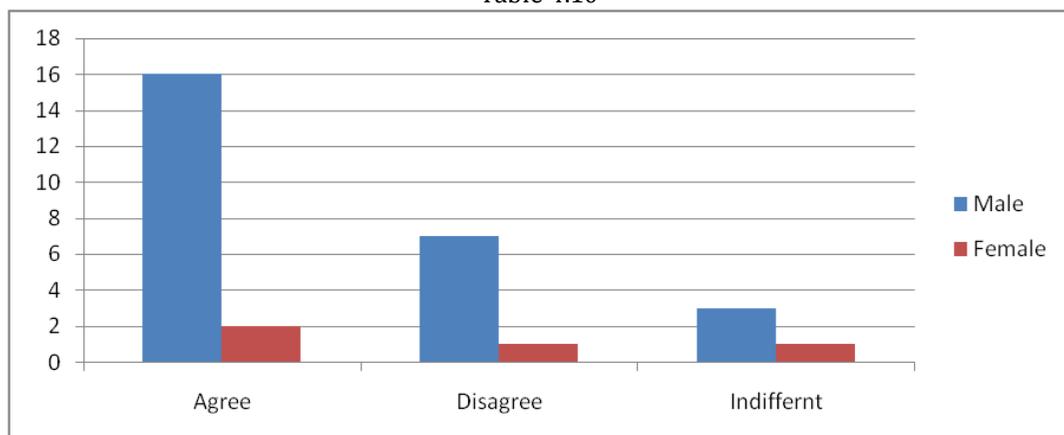
Graph 4.9

From the above data it's been clear more than half of traders deny that the policy implemented by the government was beneficial for traders and only 23 percent of traders agree that the policies are good.

10) Does demonetization had affected the purchases of inventories?

Gender	Agree	Disagree	Indifferent	Total
Male	16	7	3	26
Female	2	1	1	4
Total	18	8	4	30
Percentage	60	27	13	100

Table 4.10



Graph 4.10

It's been clear that almost half of the merchants surveyed faced difficulties in purchasing of inventories at the time of demonetization. Only 27 percent of the traders does not faced any problems in purchases as they are set with new methods of cash payments.

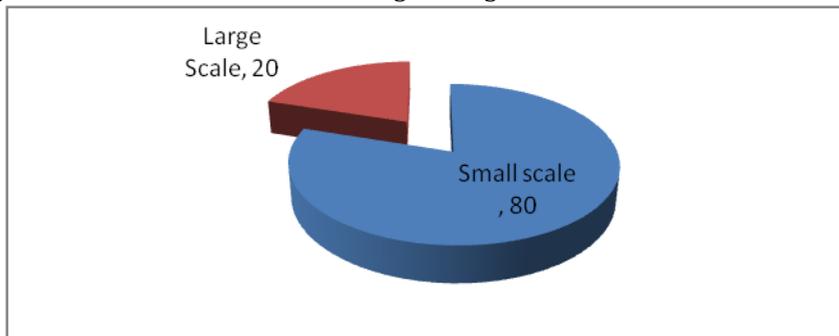
**Findings & Conclusion**

- Generally demonetization is badly affecting the small scale traders.
- Majority of the traders are not aware about the future impact of demonetization.
- Traders suffered huge liquidity crisis.
- Many of the traders lost relationship with their existing customers.
- Most of the goods were sold in credit during the period of demonetization.
- The traders mainly suffered loss in sales due to lack of cashless payments systems.

- Lack of knowledge about cashless payment systems.

The project topic was “Demonetization: Impacts and effects on small scale merchants. A case study with special reference to Pala municipality” The project reveals that the demonetization process was a real fault made by Government. The main problem was the policy was implemented without adequate precautions and proper planning. The execution of the process was also a huge failure as there were no currencies in the market for a lot of period and hence face liquidity problem. The economy as a whole goes down due to the policy. Mostly the commerce sector was affected by the demonetization process. Lack of cash leads to decline in sales and production of goods and the economic stability goes down.

As per the study we can come to a conclusion that demonetization has affected the traders in Pala municipality area. The most affected traders were small scale traders because they were not been set with new modes of cash payments. Many of the large firms in Pala municipality survive from demonetization as they were set with new cash payment modes. As per the census of Pala Municipality 80% of merchants in Pala municipality are small scale and the rest belongs to large scale.



Graph: 5.1

Pala Municipality is mainly a cash depend market. So the change in the policy of the government has affected the markets of Pala in modes of Liquidity crisis, less sales, lack of funds etc... From our study it's clear that the merchants slowly had changed their methods of payments to online after demonetization. Many of the extreme small scale merchants still now are not able to set up the online cash payment and officials had not taken any policy in benefits of traders after demonetisation. The interview schedules shows that the government authorities .So as per the results we can conclude that the demonetization process implemented by the government made huge difficulties to the merchants and it had made massive loss in their sales and customer

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