Effect of demonetization on Primary and Secondary Sector of Indian Economy

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ABSTRACT

Second half of Financial Year 2016-17 witnessed demonetization and engagement of banking system in replacing currency notes of Rs 500 and Rs. 1000. 86.4% of the currency notes were squeezed from Indian Economy. Nelson Anitra & Timmerman (2011) in their edited collection life without money: building fair and sustainable communities opened accurately an outline of marxist idea for being de-monetize in social life to experimenting in living alternative economies.

Demonetization is a distinguished feature of transition in Modern Bharat initiated on the eve of 8th November with the declaration of withdrawal of legal tender of Rs 1000 and 500 by the Prime Minister of Union of Bharat. Mid – Night of 8 and 9 November 2016 witnessed restricted transactions with the currency of 500 and 1000 at few selected points. Citizen of the country witnessed a new dawn without the legal tender of the currency they had. They were under utter Confusion. Citizens opted to exchange or deposit their currency with the banks and stood in queue for long hours.

The Purpose of the paper is to investigate the effects of demonetization on Primary herein referred to Agriculture and Allied services and Secondary Sector including industry, manufacturing and consumer goods of Indian Economy. The study will be based on secondary data analysis and analyzed by adequate statistical data available through different government bodies and International rating agencies. The paper is conceptual in nature and lays focus on current and prevailing economic condition of the country. Present Research has strong implications for Policy formulators, NEETI Ayog, bureaucrats, politicians and society. This can help to develop more effective policy interest of people and country.

1.1 INTRODUCTION

The role of Government in Business and society is yet to be explored. On the one side people believe in free-reign policy while on the other hand government should drive the economic activities in national interest. The public sector overdependence is not a solution for every problem of the society. New role of Public private partnership (PPP) and its contribution has to be significant for the sustained development. Nikoley A.Dentchew, Elvira Hsaezendonk et al. (2015) addressed paradox between the principle of voluntarism and the role of government in business and society, the boundaries of government and business to business and society contribution and the mechanism of government intervention for corporate performance. Demonetization has become a radiant transition of Indian economy in recent past in India. Being complex phenomenon it is a proliferation of Barter System and a step towards digital and transparent transactions. The government of India intended to demonetize for the sake of curbing corruption, checking black money, checking fake currency and curbing funding for terrorist activities. On the other hand the government wanted to promote digital India and digital transactions. Different estimates reflect that the demonetization in India reached unprecedented Economic history. The number of non cash transactions in our country started to increase and the inflation rate and economic growth rate was under control and macroeconomic indicators were reflecting a stable and positive sign in the country. The declaration of withdrawal of currency notes of 500 Rs and 1000 Rs on 8th November 2017 was puzzling and
shocking to the citizens of the country. Citizen of the country witnessed a new dawn without the legal tender of the currency they had. Confused??? Citizens opted to exchange or deposit their currency with the banks and stood in queue for long hours. In fact many Latin American countries that experienced persistent hyperinflation did not resort to demonetization.

Nelson Anitra & Timmerman (2011) in their edited collection life without money: building fair and sustainable communities opened accurately an outline of marxist idea for being de-monetize in social life to experimenting in living alternative economies. Well established fact and influential explanation of demonetization is virtual economies (Giddy and Ickes, 1998). The root cause of such practices is desire of over reporting of economic indicators. The influential groups pretended that manufacturing sector was producing a valuable output but in reality may be suffering. Demonetization may be understood as lack of Liquidity (cash) and credit.

G. Kiel & G. Nicholson, J.A. Tunny (2012) in their Model in Directors at work: A practical Guide for boards set a corporate governance practical framework set four pillars of governance – Defining governance roles, Key board functions Improving board functions and board effectiveness. Challenges before Indian Economy for demonetization were the existence of unorganized sector; corruption in bureaucracy and political system, lack of trust in banking sector, inadequate facilities and infrastructural issues, widespread illiteracy, Cash based economy, tax evasion, black money and parallel economy. Role of some private banks after demonetization is under scrutiny and people registered many complaints against them.

Digital illiteracy and less number of smart phones is one of the biggest challenges for moving to cashless economy. Society as a whole does not want to adopt digital transactions, may tax imposition be one of the fear amongst the people. One of the common observations was shop keepers and stores even in urban parts of the country had no swipe machines. Shopkeepers were showing the fear of tax rates to the consumers or put connectivity issues. Jitendra Singh (Professor, Wharton School of Management) commented it is too early to assess the impact of demonetization and need to understand it in long run, what have been achieved at what cost and mostly borne by whom? He further argued that the prime minister has taken a bold and visionary step. Kartik Hosanagar (Professor, Wharton’s department of operations and information decisions) commented demonetization against the backdrop of other economic gains. Demonetization is one of the wildcard and it is unclear how it will pay out? People felt immediate effect of demonetization on Industrial output and agricultural Sector of the country.

Agriculture Sector plays a critical role and contributes 17% to gross value added (Current Price 2015-16, 2011-12 series) and 54.6% of the population is engaged in these activities (Annual report 2016-17, Central Statistical organization, ministry of Agriculture and farmer welfare, P 6,7). Government has a agricultural credit provision in every year union budget. It is remarkable that there is consistent increase in agricultural credit. The agricultural credit of Rs. 711,621 Crore was provided to the farmers against target of Rs.7,00,000 Crore in 2013-14 and it was raised to the target of Rs 9,00,000 Crore and sum of Rs. 755,995.17 Crore has been disbursed as agriculture credit during April – September 2016. (Annual report, Ministry of statistics and programme Implementation, Govt. of India). In the Next section of the research paper Authors will lay down the conceptual framework for demonetization and government belief related to economic activities and their effects on various segments of the economy.

1.2 CONCEPTUAL FRAMEWORK
Finance Ministry of the country claimed that high denomination currency notes worth Rs 500 and 1000 is being used to finance terrorist activities, stone pelting in state of Jammu and Kashmir, funding of illegal activities, illegal sales of drugs, boosting of black marketing, drive counterfeiting, real estate black money transactions and unorganized trade. Demonetization may be referred as surgical strike on these illegal trade activities. According to Reserve bank estimates ( Annual Report 2015-16), the value of the currency notes at the end of the financial year was 16.42 trillion Rupees and Rs 500 notes and 1000 Rs notes formed 86.4% of the total value. Another estimate of RBI claimed 632,926 currency notes were fake currency notes. The government of India decided for demonetization move on the assumption of channelizing black money into banking channel or declaring the unknown income to the Income tax department. Major criteria for demonetization were

1) Curbing of fake currency and cross border terrorism
The government believed high denomination currency and fake (counterfeit) currency is used in promoting cross border terrorism and withdrawal of legal tender of high denomination currency will strike off the roots of the terrorism.
2) Black Money
Black money runs a parallel economy in the country. All illegal transactions, unorganized trade and drugs, real estate sales, gold, transaction is done through black money. As it is unaccounted money tax evasion is easily done by the people. According to one study India’s black market economy is over Rs 30 Lakh crore or 20% of the total GDP. It is like a short circuiting of the currency from the banking channels.

3) Prevalence of unorganized sector
People have tendency for cash transactions and unorganized sector and real estate tries to have maximum transactions in the form of black money or cash money. These sectors try to evade tax by showing the transactions with lesser values. Inflation rate can also be curbed by adequate income declaration and proper tax collections.

4) Cash less Economy
The government believed that the cash transactions are non traceable and potential source of corruption and unaccounted money. Henceforth transparency of transaction element is lacked. Cashless economy and less cash economy will boost up the tax revenues and economic growth. Prime Minister himself believes digital transactions are more easy and transparent.

In the next section the authors will discuss and review available literature and lay down the theoretical conceptual and the effect of demonetization in other countries and try to understand why Indian Government resorted for demonetization.

1.3 LITERATURE REVIEW
Demonetization Policy Background
Demand for effective anticorruption policies in India was rising for long time and people wanted to get rid of such practices. It was one of the major concerns of election of the country. This trend was reasonably intensified in the recent past. As a prime ministerial candidate, Mr. Narendra Modi pitched corruption issue in almost election campaign. He promised the electorate that I will curb corruption and make corruption free India. He started campaign of India against corruption (IAC). Demonetization is seen as a step against corruption and puts an evidence of elimination of corruption in the country. The President and Cabinet ministers were kept uninformed till the prime minister address to the nation (Kapoor, 2016). Responding to rationale behind demonetization Prime Minister quoted four International Economist, James Henry (Chief economic advisor McKinsey, Kenneth Rogoff (Professor, Harvard University) author of curse of cash(2016)- advocating large proportion of high denomination currency is used in illegal activities, Larry Summers (Harvard University Professor and former world Bank chief economist) and Peter Sands (CEO, HSBC). Prime Minister also cited European central Bank’s decision (2016) to phase out 500 Euro notes as they were used in illegal transactions and Indian Government report (Wanchoo Committee report-1971).

Before India seven countries resorted for demonetization. They were Ghana in 1982 to tackle tax evasion but the people supported black marketing and invested in physical assets, Zimbabwe demonetized it’s one hundred trillion dollar but after demonetization the value of the currency dropped to $0.5, Nigeria in 1984 under the rule of Muhammadu Buhari. He introduced new Currency and banned old currency. However debt ridden and inflation hit Nigerian economy collapsed. Myanmar demonetized its currency in 1987 and invalidated 80% of its currency under the military rule, to curb black market but the decision resulted in mass protest and economic disruptions. North Korea in 2010 and the people left with no food and shelter, Soviet Union under the regime of Mikhail Gorbachev and uplifted the ruble bills with high value to curb black marketing but did not go well, Australia released polymer currency to stop counterfeit currency did not resulted in side effect.

Despite of economic and financial data and their failed ratio in initial level, demonetization in the eyes of the poor proved to be one of the greatest tools for corruption elimination. Demonetization led people to believe that Prime minister is doing all well for the country and gained faith and confidence of the people. Despite of all hardship faced, people has cent percent confidence on the policies. This confidence raised to next level as the new economic and financial data gave positive signals in the September-November Quarter of FY 2017.

Jayati Ghosh (2017) claimed all demonetization through history came with advance warning and there is no need for secrecy and it could reduce the damage to the innocent people. Bloomberg report agrees that the volume of consumer cash transactions is 98% (against 55% in United States and 48% in UK). Even China has 90% cash transactions and Japan works with 86%. World does not have cashless transactions so far. Much of Indian cash transactions are in rural parts of the country so far life came to standstill and miserable. By the end of December 2016, the country became host of new scam of converting black money into white money with the support of some of the
corrupted bankers, Non government organizations and politicians. Many of the crucial agricultural activities in post demonetization phase were suspended temporarily as the agricultural banks and financial institutions were unable to undertake agricultural loan, dispensing cash, distributing fertilizers and public distribution for the poor (Matthew, 2016).

There is no precedence of the scale of demonetization volume except in India; therefore it is becoming increasingly difficult to assess the impact of demonetization on the economy. The Authors s in present paper views that secrecy and transparency of transactions are self defeating, demonetization for such purpose shall be unfruitful.

Ken Rogoff and Richard Thaler (Nobel Laureate-2016) support less cash based economies for safe and fairer transactions. The Government took initiative of opening of accounts under Prime Minister Jan dhan Yojana and thereafter announced demonetization. Demonetization move would have become impossible if low income group were unbanked. Harvard Business Review (HBR) argues that demonetization is not a best tool to curb corruption. Larry Summers commented it would have better to demonetize less commonly used large domination bank notes, country witnessed large swath of people from all walks of the society, including poor.

Peter Beyes & Reema Bhattacharya (2016) discussed in their demonetization drive research paper, demonetization policy had triple objectives to achieve 1) Tackling corruption 2) To Undermining counterfeit currency 3) Punishing hoarder of black money. Prime Minister highlighted the magnitude of cash transactions is directly proportional to corruption. Demonetization is characterized as monumental mismanagement (Rath 2016). Ministry of Finance issued a survey report (Feb 2017a) and assumed the higher the cash in circulation, the greater the amount of corruption. Kohli and Ramakumar (2016) cited former RBI governor, accepted that the idea of black money in cash is naive and majority of unaccounted money is transferred to real estate, stocks and precious metal, thereby named as Benaami stocks and precious metal, thereby named as Benaami. CII (Confederation of Indian Industries report, 2016) stated impact of demonetization is negative on rural consumption and job creation in MSME on temporary basis (Mint, 2017). Pointing out that only a small percent less than 6% of the unaccounted wealth is held in cash (Rajesh Chakrabarti, 2017). The impact of demonetization could be even bigger than GST (Crisil report, 2016-17). Although Arun Jaitley (Finance Minister) stated that the goal of demonetization is clean transactions and clean money. Demonetization announcement appears to be most significant change made by the central Government (Girish Vanvari, KPMG, India, 2017)

1.4 OBJECTIVES OF THE STUDY

1. To analyze the effect of demonetization on Primary Sector with respect to agriculture and allied services of Indian Economy.
2. To analyze the effect of demonetization on Secondary sector with respect to industry and manufacturing sector of Indian Economy.

1.5 METHODOLOGY

Present Paper uses the information available from different sources, public opinion, open accessed journals and media and government agencies and ranking of international agencies. Authors used secondary source of Information for the research work and data was collected through Annual Economic Surveys, Government Bulletins, and Union Budget 2015-16, 2016-17 and 2017-18. The Advanced estimates of Agriculture and Allied Services were collected from Central Statistics Office, MOSPI (FY 2015-16 & FY 2016-17) report. Objectives of the papers shall be analyzed through secondary data and decline or increase of a particular activity will be shown in the related tables.

Authors have recorded and analyzed data of CRISIL, Moody’s rating for 2017, Neilson Report 2017, CMIE report 2017, Economic Surveys (2015,2016, 2017), Neilson Report, Thomas Reuters and other related agencies for understanding the effect of demonetization on Primary and Secondary sector of Indian Economy. Based on these estimates authors had some common observation of demonetization on Indian Economy.

1.6 COMMON OBSERVATIONS OF DEMONETIZATION ON INDIAN ECONOMY –

Demonetization cleared the country’s black money and untaxed wealth. Demonetization in India is expected to shrink the black market from 40% to 20%, generating higher market share in the formal economy. Demonetization helped in transparent and digital transactions. Demonetization reduced terrorist funding and weeded out parallel currency. Authors observed the feeling of happiness amongst the poor and economically challenged groups of the country, as they believed now rich and poor are at same level. One of observation was that despite of currency squeeze transactions were happening at the normal pace, although the consumption of white goods, automobiles and luxurious products declined significantly. In general people were enjoying cashless economy. By the demonetization
government of India resorted towards a cashless society. RBI has published a report related to Debit & Credit Cards at PoS (point of sales) and Prepaid Payment Instruments (PPI’s). The report has been published in a banking Annual (Jan 2018, Vol. 9, Issue 1 PP 6).

Table shows there is irregular change in the volume of trade transactions occurred with the help of Debit and Credit cards at different point of sales, but Finally the volume has increased up to 172.3 (Volume in Million) and net increase in Rs value transactions by the use of debit and credits cards 309.3 between the period of October 2016- October 2017. It is a significant increase in transaction through digital media.

Prepaid Instruments also registered an increase of Volume of transactions from 126.9 to 245.2 and net increase of 118.3, whereas Rupees value (in Billion) was increased up to 56.8.

In the next part, discussion on the Agricultural and allied service has been illustrated. The table (1) shows the advanced estimates of Central Statistical Office, MOSPI for 2015-16 and the estimates of 2016-17 and 2017-18 were compared against each other. Items like Gross value added of Agriculture, Agriculture credit, Gross fixed capital formation at current prices, GDP at constant prices and agricultural growth rates were compared and net increase or decrease has been shown in IV column.

**INTERPRETATIONS**

Table 1 represents advanced estimates of agriculture and allied sector and explains that the gross value added of

| Table1: Estimates of Digital transactions |
|-----------------------------------------|
| S. No | Months | Debit & Credit Cards at PoS | Prepaid Payment Instruments (PPI’s) |
|-------|--------|-------------------------------|------------------------------------|
|       |        | Volume ( Million) | Value ( Rs. Billion) | Volume ( Million) | Value ( Rs. Billion) |
| 1     | Oct-16 | 229.5 | 518.8 | 126.9 | 60.2 |
| 2     | Nov-16 | 334.4 | 587.3 | 169.3 | 50.7 |
| 3     | Dec-16 | 531.5 | 891.8 | 261.1 | 97.7 |
| 4     | Jan-17 | 441.4 | 817.1 | 295.8 | 110 |
| 5     | Feb-17 | 346.7 | 645.5 | 280 | 96.3 |
| 6     | Mar-17 | 378.8 | 690.9 | 342.1 | 106.8 |
| 7     | Apr-17 | 374.6 | 706.2 | 352.2 | 103.7 |
| 8     | May-17 | 380.1 | 733 | 278.1 | 106.7 |
| 9     | Jun-17 | 364.1 | 730.1 | 255.6 | 85.1 |
| 10    | Jul-17 | 366.4 | 685 | 270.2 | 98.6 |
| 11    | Aug-17 | 380.8 | 717.1 | 261.1 | 102.9 |
| 12    | Sep-17 | 377.9 | 740.9 | 240.3 | 109.8 |
| 13    | Oct-17 | 401.8 | 828.1 | 245.2 | 117 |

Source: RBI estimates, Banking Annual, Jan 2018

| Table2: Advanced Estimates of Agriculture and Allied Services |
|---------------------------------------------------------------|
| S.No | Item                        | 2016-17     | 2017-18     | Growth/Decline                  |
|------|------------------------------|-------------|-------------|---------------------------------|
| 1    | Gross value added of Agriculture at constant Prices | 6.6%        | 6.1%        | -0.5%                           |
| 2    | Agricultural Credit          | 9,00,000 Crore Rs | 18,00,000 Crore | Target of Agriculture increased by double of the previous financial year |
|      |                              | 29.3%       | 26.6%       | -2.7%                           |
| 3    | Gross Fixed Capital formation ( at Current Prices) | 7.6%        | 6.75%       | -0.85%                          |
| 4    | GDP at Constant Prices       | 1.2%        | 4.1%        | +2.9% (Estimated)               |

Source: Central Statistics Office, MOSPI Advanced estimates for 2015-16.
agriculture at constant prices in 2016-17 was found to be 6.6% but due to demonetization effect the GVA reduced to 6.1% and shown the decline of 0.5%. The government is keen to double the income of the farmers therefore it has increased the credit limit target to double to facilitate good farming practices. Gross fixed capital formation (at current prices) also resulted in decline of 2.7% (as shown in the table).

Gross Domestic product at constant prices was found to be 7.6% in FY 2016-17 while in the post demonetization phase in the first and second quarter of FY 2017-18 was 6.78% and shown decline of 0.85%. The government advance estimates of agricultural growth rate show the increase of 2.9% in the FY 2017-18. We found the negative effect of demonetization on agriculture in the current financial year but the government initiatives and improved policies may lead positive sign in the coming financial years. In the subsequent section we shall focus on the Positive signals of demonetization on Primary Sector referred herein as Agriculture and Allied Service Sector.

1.7 EFFECT OF DEMONETIZATION ON THE PRIMARY SECTOR OF INDIA IS OBSERVED AS

Agriculture sector contributes around 15% of GDP in our country. There are many marginalized farmers and cannot sustain long without cash in their hands. Such farmers were hardly hit by the demonetization. The effect of demonetization on agriculture sector can be analyzed on the basis of time frame viz, short term effect of demonetization and long term effects of demonetization. Let us understand the effect in short term and Long term on Agriculture and Allied Services.

A) Short term effects of demonetization on Agriculture

Indian Agriculture system is cash based and due to demonetization, there is temporary stress on the sector. Immediate effect was observed on the sales of agricultural produce, distribution and transportation of the product, increased wastages of perishable goods and lower revenues. Being the cash dependent transactions, farmers were unable to purchase seeds and fertilizer on time as a result one agricultural cycle went in vein. Payments to farmers and daily wagers and rental of implements were postponed. Farmer with Kisan credit cards have very less knowledge of banking system as a result was unable to get credit and cash facilities. Farmers could not buy seeds, fertilizers, equipments and uphold wages payments due to cash squeeze from the market. Daily transport system also suffered which resulted in 25-50% reduction in sales volume. Farmers fell in the vicious cycle of demonetization, which may be illustrated as reduced inputs (less Cash), decreased agricultural output, deficient demand in markets (cash squeezed factor) and reduce revenues. Agricultural productivity reduced to greater extent and the sector faced a very tough time the given financial year. Recent study of Reserve Bank of India says 78% of the population do not use internet in which almost 80 to 85% belong to Agriculture or farming Sector.

B) Long term effects of demonetization on Agriculture sector

In Long run the agriculture sector will experience sectoral and transformational changes. Farmers may get credit facilities, better access to credit facilities, elimination of middlemen, direct transfer of subsidies, linking of agricultural markets with the global markets. Dependency on cash transactions will reduce significantly and digital mode of transaction will be facilitated by BHIM app. Government is committed to give access to Internet facility to the remote and rural art of the country which will improve the farmers’ position and status in many ways.

In the subsequent section we shall focus on the Positive signals of demonetization on Industry, manufacturing and consumer goods.

Adverse effects of demonetization on Industry, manufacturing and consumer goods

Demonetization adversely affected Gross domestic product of the country by 2% due to lesser trade and consumption. Government of India, Withdraw around 86.4% of cash currency form the market which resulted in long queues and people sufferings. Demonetization led unemployment in the country and inability of doing business. Around 4 Lakh people got unemployed; 31.9 Million people of textile industry remain unpaid. Fast moving consumer goods sector retrenched by 1-1.5% in November 2016 (Neilson report). Post demonetization effected corporate credit growth declined up to its lowest level (Thomson Reuters report). Firm’s investment proposal fell from an average of 2.4 trn Rupees to 1.25trn Rupees (CMIE report-2016). Foreign portfolio investment (FPI) outflow declined up to 60% in the month of November and December 2016, as a result of demonetization and decline in interest rates. (Economic Survey, 2017), while positive Foreign portfolio Investment in April – September, 2017. Inflation rate at Consumer Price Index was registered at 4.9% 9 much below the stated RBI target of 5.0% in the III quarter of FY 2016-17 due to demonetization effect as it created deficit demand and price (Economic Survey, 2017). Consumer goods particularly Jewellery stocks lost its sparkle and index dipped from 3700
points to 3000 points in between Jan 2016- Nov 2016 (Bloomberg, 2016-17).

1.8 EFFECT OF DEMONETIZATION ON THE MANUFACTURING SECTOR

Manufacturing sector with the unexpected withdrawal of legal tender of Rs 500 and Rs 1000 took a toll in the month of December, 2016. As per Nikkie report, 2016-17, companies observed a new work and output decline for the first time in the last month of the year. As a result purchases and employment reduced to alarming state. Input cost increased to manifold while output were charged with inflation.

Pollyanna De Lima (Economist HIS- 2016) reported, “Shortages of cash in the economy set new orders of output in negative direction and interrupted sequence of growth throughout the year”. Moreover cash flow issues resulted in reduction in purchasing activities. Demonetization perhaps penalized the entire informal sector permanently, especially the informal financial sector (Pronab Sen). According to Sumeet Sen( Commercial Director, United Colours of Benetton), demonetization has impact at both ends – production and consumption. In production, as large part of the industry is still unorganized and a lot of activities subcontracted due to cash crunch. It also pushed the consumers to pull on their spending. Shitanshu Jhunjhunwala (Director, Turtle) opined Indian garment business relies on lot of cash transactions and demonetization has brought in conservative spending sentiments.

As a per (PMI- Purchasing manager’s Index) Nikkie report, the manufacturing sector in India fell to 49.6 % in December 2016, while suggested positive contribution to overall GDP in Q3 of Fiscal Year, 2017-18. Make to stock also faced consumption related issues which in turn created bull-whip effect across the Supply chain. Automobile sector faced liquidity issues and offered discounts over the new variants at the start of the financial year. Lack of demand resulted in reduced output and large workforce got unemployed. The table illustrates the effect of demonetization on industrial and service sector and the components like Industrial growth rate, Core infrastructure sector (including eight core) and supportive Industrial Growth rate, corporate sectors growth in up to second quarter of 2017 and service sector were analyzed during the period 2015-16 and 2016-17.

Interpretations

Table 2 represents the effect of demonetization on industry and service sector. Industrial growth rate in 2015-16 was 7.4% and in 2016-17 the growth was found to be 5.2% and there was decline of 2.2% in the financial year 2016-17. Core infrastructure and supportive industry recorded the growth of 2.4% as compared to the base year of 2015-16.

Corporate sector Growth in second quarter of 2016-17 registered the growth of 1.8% while service sector experienced no change in the growth and remained static. All estimates have been collected from the Annual Economic Survey 2016-17.

Industrial Production contacted to 0.4% in year December 2016 due to decline in capital and consumer item output. Manufacturing output reduced to 2% while mining and electricity registered a positive growth of 1.2% in December 2016. Capital goods were lowered by 3% and 17 out of 22 manufacturing Sub- Sectors with office, accounting and computing machinery leading with 23.9% contraction. In order to reduce negative waves of demonetization government undertook an aggressive policy and tried to correct it. Real Estate smashed and resulted in 50% drop down and indicated same for the next quarter of the year but in long run real estate get boosted. Discussing about the popular brands and retail registered 40% to 60% drop in sales after demonetization. Consumer expenditures were reduced to the purchases of necessary items and FMCG and small retail outlets, Kirana stores experienced drop down in sales by 20-30%.

The first remedial action was integrating government policies with JAM and gaining efficiencies at different economic fronts. GOI want to gain redistributive efficiency through JAM ( Jan dhan, Adhaar and Mobile). The government to greater extent is able to make a route via

| S. No | Component                                      | 2015-16 | 2016-17 | Growth/ Decline |
|-------|-----------------------------------------------|---------|---------|-----------------|
| 1     | Industrial Growth Rate                        | 7.4%    | 5.2%    | -2.2%           |
| 2     | Core infrastructure Supportive Industrial Growth rate | 4.9%    | 2.5%    | +2.4%           |
| 3     | Corporate Sector growth ( Q2)                 | 1.9%    | 0.1%    | +1.8%           |
| 4     | Service Sector Growth                         | 8.9%    | 8.9%    | 0               |

Source: Annual Economic Survey 2016-17
JAM. The government will not only gain redistributive efficiency but also attain greater degree of transparency of transactions. Economic Survey understand the need the fiscal policies to balance he cyclical with short term and midterm issues relating to creditability. State finances are under stress with the fiscal deficit up to 3.6%, partly because of some public policies (Economic Survey, 2017).

The Authors have worked upon effect of demonetization on Primary Sector (Agriculture and Allied Services) and Secondary Sector (Manufacturing, Industry and Service Sector) in detail and now would focus on Some Positive macro Economic Indicators and their effects on Indian Economy as a whole.

1.9 SOME POSITIVE MACRO ECONOMIC INDICATORS

According to the growth rate will return to normal as the new currency notes in required quantities come back into circulation as it is one of the follow up action after demonetization. There is likelihood that the economy may recover back to 6.25% to 7.5% in the coming year. (Economic survey 2016-17).

According to Deutsche Bank report, 2016-17, Indian economy had $ 265 bn and $ 212 bn (86%) was drained off from the economy. Estimated amount returned as bank deposits after withdrawal was $ 127 bn. Post demonetization phase resulted in $ 1614bn as estimated new deposit base whereas old deposit base was estimated as $ 1487 bn. India has improved upon its credit rating from Baa 3 to Baa2 (Moody’s report 2017). Ease of Doing Business Index in India is ranked up to 130 and projected to increase up to 100th rank (World Bank group -2107). Foreign Direct investment in the country grew by 37% to USD 10.4 Billion in the first quarter of the current fiscal year (DIPP-Department of Industrial Policy and promotion, April- June 2016-17). In the first Quarter of current year GDP of the country was marked at 5.7% while July – September Quarter (2017) registers a growth rate of 6.3%, but there is considerable degree of uncertainty about the growth of GDP (M. Govinda Rao, former chairman of CSO).

According to Indian economic Survey (2017-18), Short run effect of demonization will be less adverse than predicted by different agencies. International Monetary Fund (IMF) observed 1% decline in growth in FY 2017. In the post demonetization phase the government of India started pushing digital transactions and promoted such transactions by rewarding the consumers. The government also started linking of Adhaar card to the bank accounts in order to trace the source of the transaction and direct transfer of economic benefit to the actual beneficiaries. This step led the elimination of middlemen and their commission. However India with highest illiterate population in the world (UNESCO –Education for all global Monitoring Report), large rural population, Cash based economy, poor infrastructure and internet connectivity issue, the digital transactions posed many challenges.

In the subsequent section the discussion will be done on the overall effect of demonetization and its effect on agriculture and allied sector and manufacturing sector. This section gives insight of government initiatives, improved policy and government vision and monitoring activities. In the post demonetization phase government resorted to good and sales tax and put the country in another acid test. Government intended for unified tax regime and passed the bill related to GST in the parliament.

1.10 DISCUSSIONS

Government sources and major rating agencies forecast faster economic growth and prosperity among the people. Demonetization will result in higher Gross domestic product, transparent and digital transactions and system integrity. Major outcome of demonetization will be doubling of farmers’ income, affordable housing, promotion of innovation and entrepreneurship.

Government of India intends to develop clean system which could support marginalized workers and direct benefit transfers to the needy people. The demonetization will bring structural reforms in the economy in coming years with the projected economic growth rate of 8-10%. The digital & transparent transactions and cashless economy will be established.

Indian Economy is under single and uniform taxation regime, the positive results and less incidence of taxation on buyer shall be observed very soon, although the country is experiencing implementation issues and correction in rate of taxes on different categories of products. Ease of doing business and organized business units will be facilitated which will result in increase in more tax revenues. Integration of policies through JAM will be to direct transfer of benefits to the underprivileged groups.

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