



DEMONETIZATION IN INDIA: PRE AND POST EFFECT ON INDIAN AUTOMOBILE INDUSTRY

Dr. Navjyot Raval

Assistant Professor, Marwadi University, Rajkot

ABSTRACT

The present government took an enormous step to terminate Rs. 500 and Rs. 1000 notes with prompt effect on 8th November 2016. Proceed was aimed to control the fake currency circulation, black money and terror financing movements in the country. India has the highest level of currency in circulation at nearly 13% of GDP. The act of demonetization is expected to have a marked impact on various sectors. The sectors which are based on cash transactions will witness more disturbances. Therefore an attempt has been made to analyses the impact of demonetization on automobile sector of Indian economy.

KEYWORDS : Demonetization, Fake Currency, liquidity crunch.

INTRODUCTION:

India is a cash based economy, hence the circulation of fake notes is likely to cause harm to the society. Fake notes are used for various inflammatory activities such as spying, smuggling of arms, drugs and other illegal traffic in India. The high denomination notes contribute 86% to the total supply of money in the economy. The value of these notes is more than 13% of GDP in 2016, which is much more than in any other developing country like Brazil and China. As per the reports number of fake notes in the banking system in 2006 was 1.24 lakh and it went to 6.33 lakh in 2016 and also the share of high value notes increased from 10.4% to 64% from 2006 to 2016. To track the same issue of fake currency notes and to invalidate black money, the government of India announced that Rs. 500 and Rs. 1000 notes will be no longer legal tender from midnight, November 8 2016.

This is not a new step in the history to demonetize the currency. In 1946 first time the currency of Rs. 1000, Rs. 5000 and Rs. 10,000 was demonetize and phase out these notes. In 1938 RBI printed the highest value notes of Rs 10,000 which was demonetized in 1946. Rs 1000, Rs 5000, Rs 10,000 were in circulation in 1946 which was reintroduced in 1954 and further all these notes were demonetized in January 1978. Rs 1000 note was again introduced in November 2000. Rs 500 were circulated in 1987 as an attempt to control the volume of bank notes due to inflation. Hence Rs 2000 note was introduced for the first time. In 1967 the bank notes with Ashoka pillar watermark were introduced. In October 1987 the notes were imprinted with the portrait of Mahatma Gandhi. The Rs 50, Rs 100 banknotes were issued in august 2005, followed by Rs 500 and Rs 1000 in October 2005, which continued till November 2016. The liquidity crisis and clampdown on black money on account of demonetization headway is expected to impact the sectors that are based on cash transactions to a great extent.

REVIEW OF LITERATURE:

Kumar (2016): Demonetization is an act of declaring currency as not valid wherein old notes are withdrawn and replaced by new currency notes. The act of demonetization is not new in the history as it is being adopted by various countries. Ghana demonetized its 50 cedi currency notes to check corruption. Myanmar demonetized 80% of its currency to track black money.

Dr. Manmohan Singh (2016): confronted that this step of present government to demonetize the currency will create disorder in lives of millions of poor people as cash is the base of their livelihood.

Charon Singh (2016), RBI chair professor said that this step will result in positive and negative impacts on the society. He concluded that this will also bring up India's rank as it reflects that our country is against corruption and wants to eradicate

it. Moreover the output in agriculture and many more industries was reduced due to scarcity of cash.

RESEARCH METHODOLOGY:

Research is a process of systematically obtaining accurate answers to significant and pertinent questions by the use of scientific method of gathering and interpreting information. This study is based on the secondary data i.e. financial information and data about the impact of demonetization taken from the newspapers, magazines etc. The study is focus on determining the impact of demonetization on the industrial growth of the country and analyses the change in trend of progress of the Indian industry after and before the demonetization of currency note in 2016. To achieve the set objectives of the study the analytical technique is applied with the view to observe the impact of demonetization on the Automobile Industry of India. Similarly the Objective of the Study are

- To study the growth of Automobile Industry during the post and pre demonetization era.

ANALYSIS OF STUDY

Automobile Industry is being analyzed in this study in detail to observe pre and post effects of demonetization.

AUTOMOBILE INDUSTRY:

Indian automobile Industry stands as one of the booming industry in the world with annual production of 23.37 million vehicles in 2014-15 touching the growth of 8.68% since last year. Indian automotive aftermarket stood around US\$ 7 billion by 2021 with the growth rate of 10-15%. The industry was able to allure FDI worth US\$ 15.79 billion during April 2006 – September 2016. (Source: Department of industrial policy & promotion)

PRE DEMONETIZATION:

The industry accounts for 7.1% of country's GDP. The total production of the industry is 23960940 vehicles (including passenger vehicles, commercial vehicles three wheelers & two wheelers) during April – March 2015 the number stood to 23,358,047, which recorded a growth of 2.58%. Two wheelers segment with 80% market share is the leader in the domestic market, the reason behind the growth is due to growing middle class and young population in India. The growing interest of companies to hunt the rural market also promoted the growth of the sector. Passenger vehicle segment with 14% market share is follower of two wheeler segment and others are commercial vehicle and three wheeler market shares of 3% each.

(Source: <http://www.siamindia.com/statistics.aspx>)

Similarly passenger vehicles, commercial vehicles, three-wheeler and two-wheeler showed a growth of 6.89%, 13.77%,

18.69% and 16.60% respectively during 2010 to 2015. Two wheelers made a remarkable share of export at 69.4% in 2015, followed by 16.7% for passenger vehicles and three-wheeler accounted for 11.1% exports in 2015. Luxury cars market is expected to reach 150000 units by 2020. Various steps are being initiated by the Indian government and automobile companies to make India a leader in the market by 2020.

POST DEMONETIZATION:

Certain precautionary steps are required to bear the heat of capricious event of demonetization; the downfall is clearly portrayed in the detailed figures below in the table. Till October 2016 the automobile sales were in growing percentage at the rate of 4.5%, but sales started to decline after the announcement was made by Prime Minister Narendra Modi, despite aggressive sales push to thrash the year end indolence. The domestic sales declined by 5.5% and maximum decline was observed in case of three wheelers which dropped by 25.9%.

Segment wise sales	Dec-15	Dec-16	Change (%)
Passenger vehicles	230959	227824	1.40%
Commercial vehicles	56840	53966	5.10%
Two wheelers	1167621	910235	22.00%
Three wheelers	46894	29904	36.20%

The above table clearly shows the overall decline in sales of all the segments of the industry due to demonetization as compared to previous year 2015. The sales of passenger vehicle went down by 1.4%. Two wheeler volumes declined sharply during December 2016, a second consecutive month of decline. With consecutive 10 months of increased sales December 2016 observed the maximum downfall. The sharpest downfall was seen in scooters lowering by 26.4% followed by motorcycles that slumped by 22.5% even as mopeds continued to return upbeat volume growth. Domestic sales of commercial vehicle went down by 5.1% during December. The sales of trucks and buses observed positive sales. The export market in the automobile reduced 35% in 2016. In the coming months ICRA expects the growth of 3 wheelers industry around 0-2% in 2017. From low priced two wheelers to the Luxury cars the whole line has been affected. Though discomfort is caused but it will be a dominant spring in cashless economy and will bring transparency into the system.

FINDINGS:

The big bang initiative taken by government was necessitated to tackle the issue of counterfeit Indian bank notes, effectively nullify black money boarded in cash & curb terrorism with fake notes. The sudden announcement created a crash crunch in the economy where in every sector was effected. The impact of the measures bought a disruption and ambiguity in short term and will show positive implication in long run. Impact of demonetization was analyzed on Automobile sectors in this study which brought out following findings:

- Demonetization completely stalled the market for a couple of weeks .which led to increase inventory, production cuts & plants shutdown
- The disruption for a short term was a difficult phase . But in long run proper invoicing for each purchase will be a great achievement for economy in tracking the black money
- Demand was likely to dip for a couple of months for two wheelers where purchases were made via financing, while rests were through banked cash. No cash deals were processed during this period. But expected to revive in few months from now.
- Lack of liquidity would result in pain to primary producer who don't have much money, so that they can hold their produce for longer time and on the other hand due to lack of cash they were offered less by the buyer.

CONCLUSION:

As the demonetization initiative encourages the use of plastic and electronic money, cash transactions will become less common. The transition to a cashless economy will also improve savings in financial assets which will benefit the banks and the Government. The move was also initiated to curb or eliminate the black money which impacted various sectors of the economy. As customers and companies are shifting to cashless platform, demand will come back from unorganized players to organized ones. The automobile sector saw a short term impact where the purchases were delayed due to scarcity of funds, but was neutral for purchases through financing or banked cash. However, in medium term, benefits through higher Government spending, better transmission, greater financial inclusion and movement of household savings from physical to financial would lead to potential growth of economy. It would also help to reduce poverty and corruption in the country.

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