



INTERNATIONAL JOURNAL OF ADVANCE RESEARCH, IDEAS AND INNOVATIONS IN TECHNOLOGY

ISSN: 2454-132X

Impact factor: 4.295

(Volume3, Issue6)

Available online at www.ijariit.com

Effects of Demonetisation on the Retail Business of Pune

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Abstract: *The Modi government's demonetisation move has had an impact on several sectors, especially real estate. How could retail be far behind? Given Indian's propensity to deal in cash, especially when shopping in luxury malls and high streets, retail will see the short-term impact on sales. The media has already reported how retail sales have dwindled in the immediate aftermath of the government's announcement, and how millions of new users are registering on portals offering digital payment services.*

The study was conducted by meeting respondents personally and by generating the questionnaire online by means of a Google spreadsheet, where different retailers of different products were interviewed.

Through this study findings, I could learn that demonetisation negatively affected the middle class the most, followed by the lower and higher class retail business firms. Surprisingly, the higher class of retail firms was not affected much due to their dependence on plastic money. In fact, they were also to some extent positively affected as they had many customers seeking them to dispose of their illegally stored currency notes of Rs. 500 and Rs. 1000.

However, demonetization seems to have largely achieved the objective of its introduction in India, as would the findings of the study reveal.

I had an amazing experience while doing this research which was full of learnings.

Keywords: *Demonetisation, Retail Business, Financial Impact.*

INTRODUCTION

November 8th. 2016 was a big day in the political history of India. On 8 November 2016, early evening hours, the Government of India announced the demonetisation drive, commonly called 'Notebandi' translated into English meaning 'closure of currency notes', of all ₹500 (US\$7.80) and ₹1,000 (US\$16) banknotes of the Mahatma Gandhi Series to be invalid and outdated. The government claimed that the action would curtail the shallow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement—and the prolonged cash shortages in the weeks that followed—created significant disruption throughout the economy, threatening economic output.

Prime Minister of India Mr. Narendra Modi announced the demonetisation in an unscheduled live televised address to the whole nation. In the announcement, Modi declared that use of all Rs 500 and Rs1000 banknotes of the Mahatma Gandhi Series would be invalid past midnight, and announced the issuance of new Rs 500 and Rs2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes.

The demonetisation effort aimed that the Rs 500 and Rs 1,000 notes should be declared no longer legal tender and needs to be replaced by other notes of different designs. It was also targeted to eradicate the stock of "black money" out of the economy and get it into the licit, banked and taxable, part of the economy as well as to fight against corruption, inflation, and to stop fake money laundering.

As a result of demonetisation drive of the Indian Government, many businesses across the country went through varied experiences. Some earned huge profits while some earned major losses too. News around the country circulated on the social, political and economic repercussions of the move on the country's citizens across different strata.

With this precedence, the current study was conducted to find out the effects of demonetisation on the retail business of Pune city.

OBJECTIVES

1. To find out the effects of demonetisation on retail business of Pune
2. To analyse financial impact on Pune retail business pre and post demonetisation
3. To find out the preferred payment options for customers post demonetisation
4. To find out which retail sector was affected most positively and/or negatively by demonetisation in India.

REVIEW OF LITERATURE

The microeconomic effects here seem to be beneficial. There have long been concerns about terror financing through forged notes for example. There's quite obviously substantial tax revenue going uncollected. And perhaps the biggest effect is that large portions of the population feel that the basic system is unfair. They're locked out of that easier world where matters are settled in large amounts of cash, where tax is not paid and where favours are bought.

However, we should also think about the macroeconomic effects here. And that's difficult--because we're not even sure what the sign of the effect will be, positive or negative, let alone the size of it. It's actually possible for this to run either way:

Ambit Capital, a respected Mumbai-based equity research firm, has officially estimated that the demonetisation-driven cash crunch will result in GDP growth crashing to 0.5% in the second half of the financial year 2016-17. This means the GDP growth for six months, from October 2016 to March 2017, could decelerate to 0.5%, down from 6.4% in the previous six months.

Further, Ambit Capital estimates that during the October to December quarter that we are currently in, the GDP growth may contract, thus showing negative growth. However, Ambit is hopeful that a strong formalisation of the informal economy will ensue through 2017 until 2019 and this disruption could also crimp GDP growth in 2017-18 to 5.8 % from their earlier estimate of 7.3%. Was the Indian economy healthy before demonetisation?

- India has been the fastest-growing country among the major economies since 2015. But GDP growth does not tell us about some serious problems of our economy today.
- Investment Demand - It refers to the demand by businesses for physical capital goods and services used to maintain or expand its operations.
- The biggest concern on the economic front in the recent times has been the poor investment demand situation in the country.
- GFCF - Growth in gross fixed capital formation (refers to the net increase in physical assets within the measurement period) in the current fiscal year is expected to be negative for the first time in five years.
- Govt Consumption - If we took the govt consumption out of the GDP figures, it brings down the growth rate to only 5.2% for 2016-17.
- Private Sector - The private sector was not on the same page with the government. It claimed that the economic situation had never been better.
- Economic Survey pointed out that, with no clear progress in tackling the twin balance sheet problem (over-leveraged companies and the rising bad loans in public sector banks), private investment is unlikely to recover significantly.
- Manufacturing - Industrial activity, was in negative growth in 8 out of 14 months until December 2016.

SCENARIO AFTER 100 DAYS OF DEMONETISATION

- Currency in circulation - Latest RBI data (20 Jan 2017) shows that cash with the public is still 40% less than what it was a year ago.
- The government has also suggested that it does not intend to replenish the entire stock of demonetised currency and the gap would be taken care of by digital payment methods.
- Black Money - Unofficial estimates of money which would not return to the system after note-ban varied from Rs 1.5 to 4.8 trillion.
- Two-thirds of demonetised currency has come back in deposits of more than Rs. 2 lakh according to 2017 budget speech. It could very well mean that there was no windfall gain from demonetisation.
- Growth in digital payments - Statistics showed a decline in growth of the average value of such transactions, suggesting a cutback in overall spending.
- Latest RBI data also shows that digital payments are slowing down in both value and volume terms.
- Agricultural Wages - Agricultural wages grew faster than non-agricultural wages after demonetisation.
- There had been some improvement in demand for farm labour due to a normal monsoon after two consecutive deficient rainfall years. This upswing is not visible in the demand for non-farm labour.
- On informal sector - Among businesses, it is the informal sector that has been the worst affected by demonetisation.
- Firms in the informal sector operate in a cash economy. So, it's no wonder that when access to cash is a problem these businesses took a hit.
- Vegetable sellers, small shopkeepers, taxi drivers, truckers, etc., have all been affected with loss of livelihood, for example, loss of daily wages for casual labour, or lower sales for vegetable vendors etc.,
- Real-estate - It was badly affected because it is heavily cash-dependent, has long been a favourite asset for holding black

wealth.

- On banks - Banks are not in a position to significantly increase lending; their net interest income may fall over the next few quarters, thus, worsening their capital position; their NPA situation may get worse.
- On stock market - Demonetisation hasn't really affected the overall market much and investors believe the impact is temporary, with lower interest rates and more government spending offsetting any adverse effects.
- On foreign investors - Foreign investors were major sellers of equities because they feared an economic slump, resulting in the slump in the stock market.
- Effect on economic activity - There is no credible short term data on either GDP or employment in our country.
- But, since the note-ban decision, gains are still uncertain while the economy has suffered definite losses, even though they might be short-lived in nature.

Thus as per the various material available online and offline on demonetisation, the country certainly looks to be all ready for a big time financial growth.

RESEARCH METHODOLOGY

The scope of Study: The findings of the study shall help economists gauge the positive and negative impact of demonetization on the retail sector. The information can also be used by retailers to understand their competitor's coping strategies against demonetisation, in order to enable themselves to conduct business against the challenges of demonetisation.

Limitations of the Study: The study was conducted only in the city of Pune and hence restricted to one city considering the fact that the whole country was affected by the demonetisation move. The long term impact whether positive or negative could not be assessed as the study was conducted within one year of introducing the drive in the country.

RESEARCH DESIGN

Type of Questions: Both Close ended and Open ended Questions

Method of Data Collection: Primary method

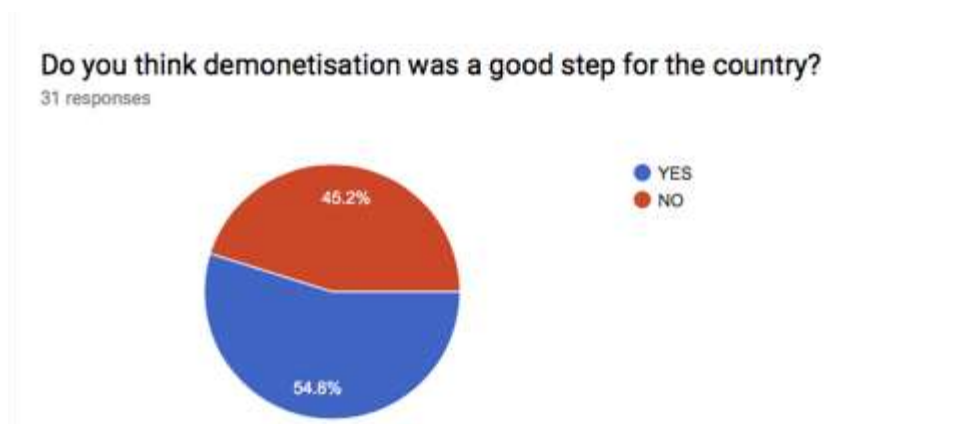
Source of Data Collection: Questionnaire method using Google Spreadsheet and conduction personal interviews.

Sample Size: 31 retailers across different retail business in Pune

FINDINGS AND ANALYSIS

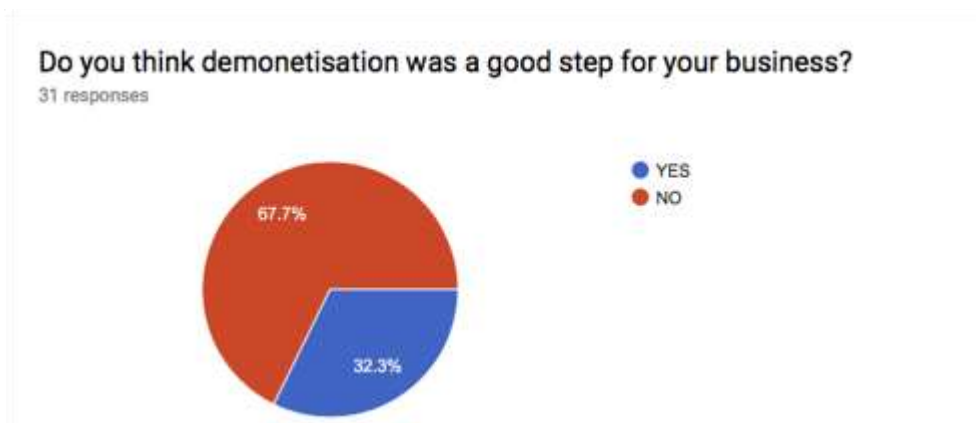
The study came out with certain very interesting findings. From most retailers finding it a favourable move to beating contradictory reports that high end retailers were the most negatively affected team, the study findings have been stated below, supported with the details of graphs and pie charts

Table no. 1: State whether demonetisation was good/bad for business



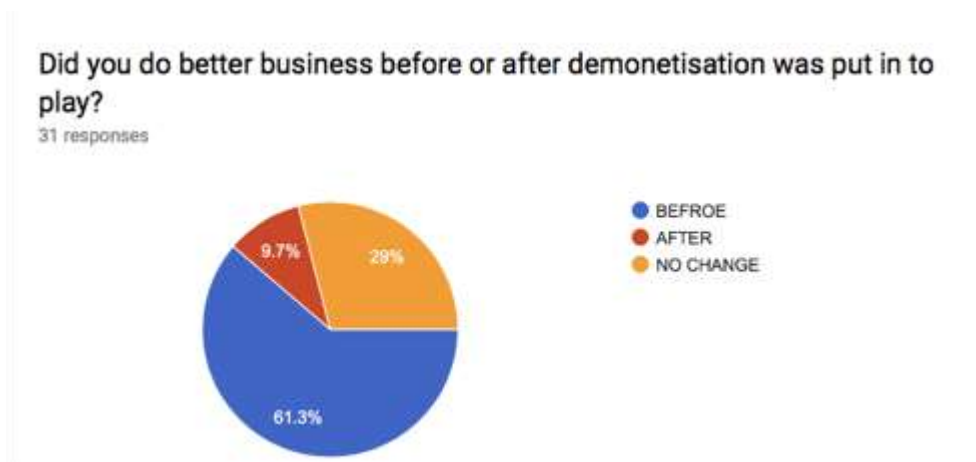
Inferences Drawn: Most people thought it was a good step for the country.

Table no. 2. Positive effect on country versus business/firm.



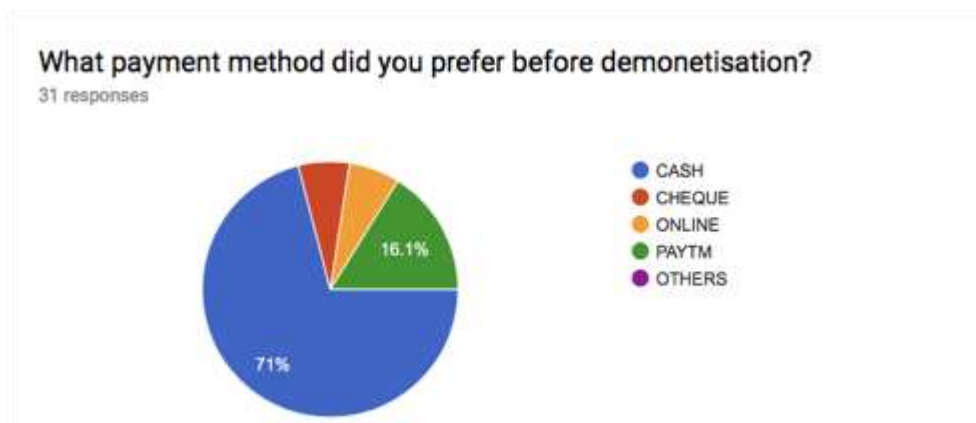
Inferences were drawn: Surprisingly it was a good step for the country but not for the businesses and firms

Table no. 3: Status of business pre and post demonetisation



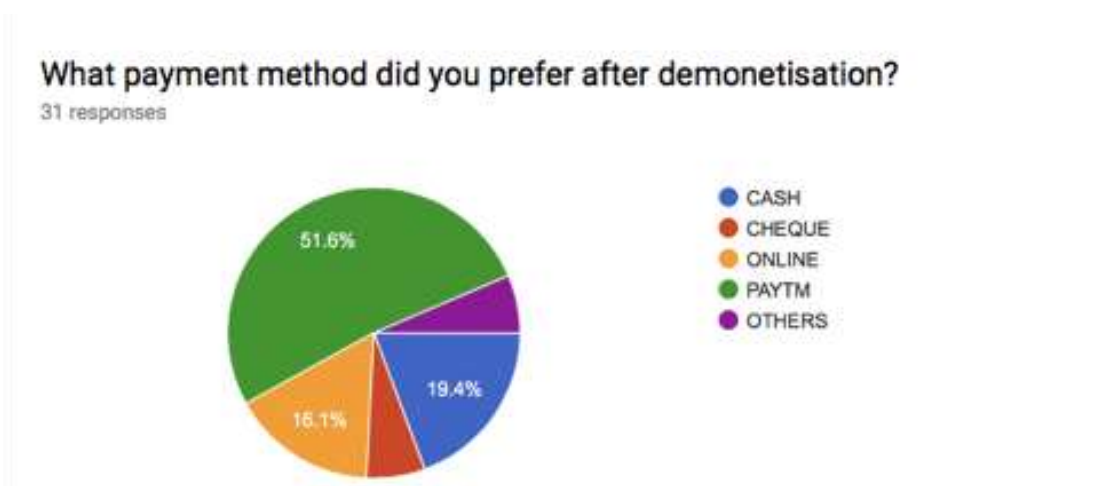
Inferences were drawn: Based on the above graph most people did better before demonetisation.

Table no. 4: Preferred mode of payment pre demonetisation



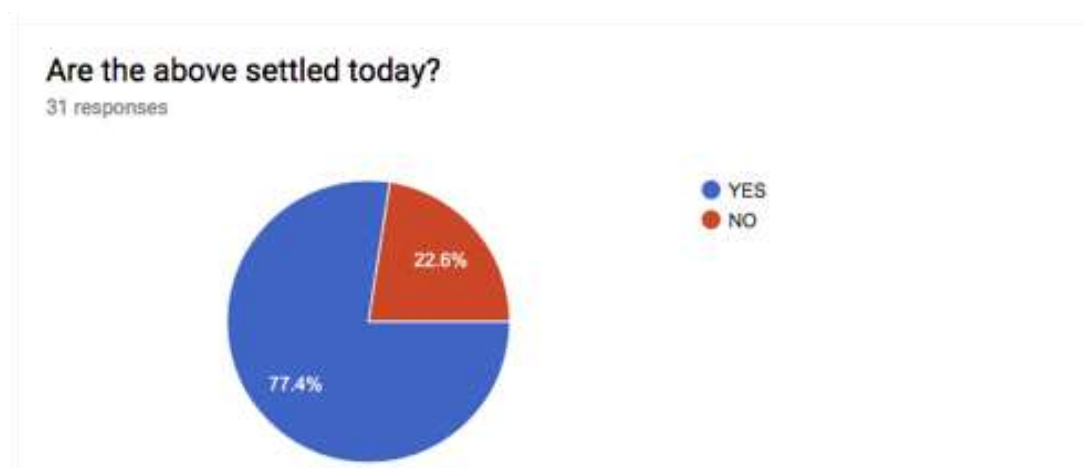
Inferences were drawn: It was no surprise that most people preferred cash before demonetisation.

Table no. 5: Preferred mode of payment post demonetisation



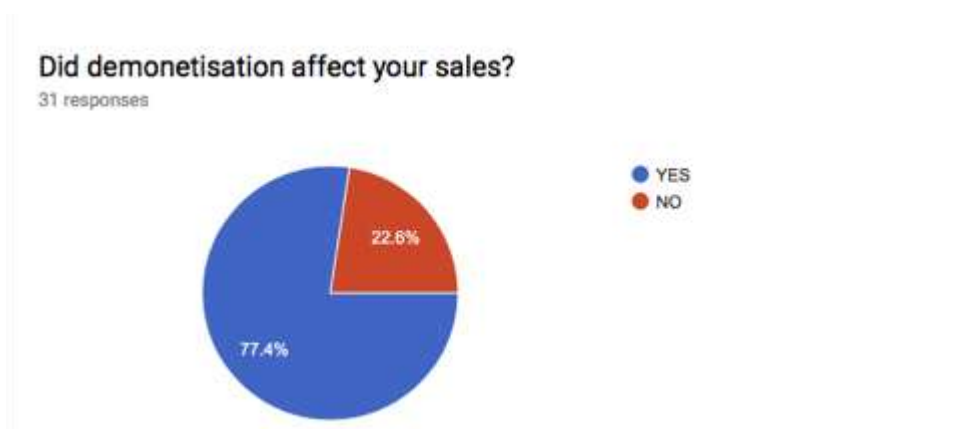
Inferences were drawn: A lot of firms preferred Paytm right after demonetisation.

Table no. 6: Status of settled versus unsettled problems post demonetisation



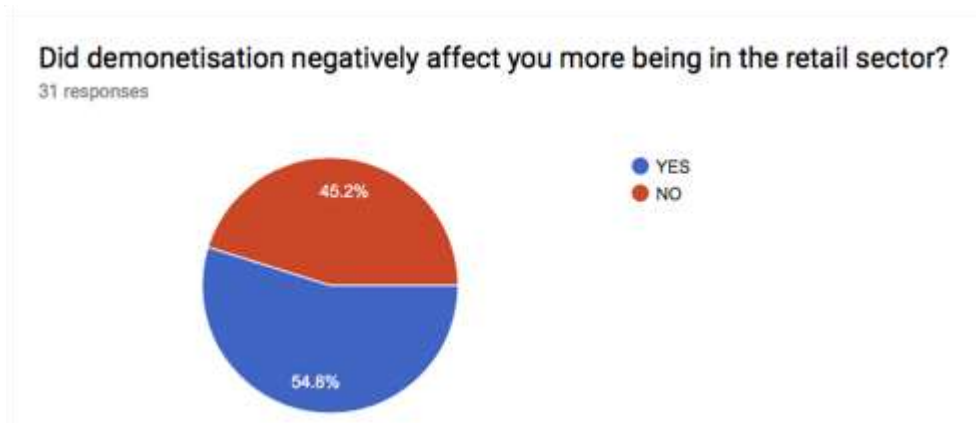
Inferences were drawn: Even though a lot of people faced a lot of problems due to demonetisation, most of them have recovered from it.

Table no. 7: Effect of demonetisation on retail sales



Inferences are drawn: According to the graph demonetisation affected the sales of almost 77.4% of the retail business in Pune

Table no. 8: Status of negative impact on retail business



Inferences were drawn: Demonetisation had more of a negative impact on the retail business.

CONCLUSION

Now that the Reserve Bank of India (RBI) has given some details of the impact of demonetisation in its annual report, the question on everyone's lips is: Was demonetisation worth all the disruption?

The answer to this question is a yes and a no.

Nearly 10 months ago when Prime Minister Narendra Modi through a speech purged Rs 15.44 trillion of cash held by the country's citizens, it was touted as a masterstroke that would rid the country of illicit money.

The pitch for demonetisation was that the bulk of Rs 500 and Rs 1000 notes were stored as illicit wealth, besides being easily counterfeited to fund illegal activities.

Fast forward to today and the numbers in the annual report of the country's monetary authority show that some of this is true.

Let us set aside the argument that black money resides not just in cash but in real estate, offshore investments, and other routes.

The number of suspicious transactions reported by banks to the Financial Intelligence Unit in the fiscal year 2017 (FY17) has surged to 361,214 from just 61,361 in the previous year. Add the fact that 98.96% of the high-value notes returned to the banking system, and it would seem that illicit money did find its way back into the system.

But now what? Fiduciary agents should have sprung to action, which is not evident. Public statements by the revenue department and other officials have at best been pithy assurances rather than data or facts.

The argument of fake notes too seems to have held up a bit. In FY17, fake notes detected rose 20% from the previous fiscal figure but what was telling is that fake pieces of Rs 1000 detected rose a massive 79%. But even then, the total detection is less than 1% of the total currency pieces in circulation. Already, fake pieces of the new Rs 2000 and Rs 500 notes have been detected.

Which brings us to whether demonetisation cleaned up businesses or individual behavior. It is tough to say so convincingly. There is no guarantee that the new notes won't be used to store illicit money, they are already 50% of total currency in circulation because of rapid remonetisation.

An unintended benefit that demonetisation has given is the fall in interest rates after the surfeit in liquidity—this has helped borrowers, but hurt savers. Also, Indians have begun to transact digitally more often than before as the surge in digital transactions shows. But we still have a long way to go. After all, 99% of the demonetised cash value is back into the economy, according to RBI.

At what cost have these benefits come?

It is worth a repeat that demonetisation hurt every nook and corner of the economy. Industrial output crashed, services growth slowed and economic growth decelerated, best shown by the massive fall in growth excluding agriculture and government spending.

What will indeed make Indians pay more taxes are the tax reforms and the laws to monitor real estate. RBI believes that the harmful effects of demonetisation on the economy are transient. The government needs to ensure that its benefits are not.

RECOMMENDATIONS

- The organised retail industry in India, which consists about 5% of the total retail market, is estimated to touch 15% by 2025. Reliance Retail is likely to be the largest and most dominant retail industry player in India by the year 2020, leveraging the Jio platform and seamless payment interface from Jio. FMCG firm Dabur too feels that demonetisation of high value currency notes would have a beneficial impact on organised players in the segment. Demonetisation seemed to have negatively affected the unorganised sector more than the organised sector. Bringing in some structure in the unorganised retail sector will help them to face demonetisation effects better.
- The multiple reasons for which nations across the world adopt demonetisation are to combat inflation and corruption, discourage cash system and curb fake currency circulation. India seems to be coming close to all these parameters.
- The digital move has encouraged alternate/ digital payment solutions which in turn has helped the retail marketplace become more transparent and structured.
- Though a temporary slug was witnessed in the first quarter, the growth scenario of Indian retail market continues to be resilient and growth-oriented in the long run. The domestic consumption story with the passage of last one year is visibly showing signs of being intact, thanks to a strong economic base, favorable demographics and FDI-friendly policies.
- Remonetisation immediately followed demonetisation. Demonetisation may have brought a temporary slug in the retail sector but its impact has already started to subside. The process of remonetisation is already at its full throttle and withdrawal limits are not forever.
- The government should initiate and take a step for digital payment system in all the retail outlets with proper training and awareness. Moreover, the banks should provide swipe machines to all the retail outlets free of cost and exempt them from service tax.

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Annexures: Sample Questionnaire (Questionnaire Copy is given below)

QUESTIONNAIRE FOR DEMONETISATION EFFECTS ON RETAIL BUSINESS OF PUNE

Personal information:

Full Name: _____

Age: _____

Shop Name & Place: _____

Products: _____

Shop Since: (Mention year) _____

1. Do you think demonetisation was a good step for the country?

a. Yes / No

If Yes, Why

b. If No, Why

2. Do you think demonetisation is a good step for your business?
 - a. Yes / NoIf Yes, Why
 - b. If No, Why

3. Did you do better business before demonetisation or after demonetisation?
 - a. Yes, Before _____
 - b. No, After_____

- 4 . What mode of payment was used before demonetisation?
 - a. Cash
 - b. Cheque
 - c. Online Mode (NEFT/RTGS etc.)
 - d. Paytm
 - e. Others

5. What mode of payment is used after demonetisation?
 - a. Cash
 - b. Cheque
 - c. Online Mode (NEFT/RTGS etc.)
 - d. Paytm
 - e. Others

6. List any 3 top problems you faced due to demonetisation?
 - 1.
 - 2.
 - 3.

7. Are the above settled today?
Yes / No
8. Did demonetisation affect your sales?
Yes / No

10. Do you think demonetisation has negatively affected you more being in the retail sector?
Yes / No