

A Study of Impact of Post Demonetization on Indian Economy, Society and Organized Retail Sector in India

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Abstract

The Make in India initiative was launched by our Prime Minister in September 2014 as part of a wider set of nation-building initiatives like Make in India, Digital India and Smart City Mission. In an important move towards digital India is that the Government of India declared on 8th November 2016 that the five hundred and one thousand rupee notes will no longer be legal tender from midnight. And RBI issued new Two thousand rupee notes and new notes of Five hundred rupees and placed circulation by 10th November 2016. Rest of the notes i.e. one hundred, fifty, twenty, ten, five, two and one rupee will remain unaffected by this decision. This move is expected to cleanse the formal economic system and discard black money from the same and further the motive of this decision tend towards to increase the practice of digital payment mode in the country. Though people do not have sufficient cash amount in hand because of demonetization they could not make purchase from unorganized retail shops i.e. kirana shops, local stores. And this demonetization action leads them to make purchase from organized retails, where they can use digital payment mode. The research paper “A Study of Impact of Post Demonetization on Indian Economy, Society and Organized Retail Sector in India” study the impact of demonetization on market, on Indian economy and the retail sector of India. How our economy get affected by this decision and where retail sector stand post demonetization.

Keywords: Make in India, Initiative, Nation-building, Digital, Smart City Mission, Legal tender, Discard.

Introduction

The Indian government decided to demonetize the Rs 500/- and Rs 1000/- notes on 8th November 2016, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's objective was to get rid of counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering, terrorist financing activities and encourage a cashless economy. The Indian retail segment generates a lot of cash transactions, and as such there can be reduction in the sales over the next few quarters. It is noticed that the impact is deeply felt by the small traders and the unorganized retailing segment.

The impact is not much on the organized retailers. However, the increase in the use of plastic money and online payments will continue to release huge amount of money into the retail market. Also, with this trend

going forward, as more retailers encourage alternative and or digital payment solutions, the market ecosystem will become more transparent and structured.

Objectives

The definite objectives of this paper are as follows:-

- a. To study the history and present scenario demonetization in India.
- b. To analyze the impact of demonetization on Indian society and Indian economy.
- c. To study the impact of most affected sector Indian retail industry by demonetization.

Research Methodology

This paper is based on secondary data where sources have been used to collect information about the demonetization and the retail sectors shopping malls etc. Journals, articles, research reports and government

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documents were reviewed to get the insight of the previous interventions.

Internet references have also been done for achieving the purpose and objectives of the study. Information has been sourced from various books, trade journals, government publications and internet. And research is descriptive in nature.

Demonetization

Demonetization is the act of stripping a currency unit of its status as legal tender. The old unit of currency must be retired and replaced with a new currency unit. The reverse of demonetization is **re-monetization** where a form of payment is restored as legal tender.

Why HAS the government done THIS?

Our honorable Prime Minister addressed to the public in an event on 'MAN KI BAAT', that why this step of demonetization has been taken, it includes –

- a. Eliminating black money.
- b. Reducing the prevalence of counterfeit currency, which is allegedly used to fund terrorism against India itself.
- c. Curbing corruption and criminal activity of various kinds that have been facilitated by the 500-rupee and 1000-rupee banknotes.

GUIDELINES by the Government AS to what CITIZENS COULD do POST THIS DECISION

Person can go to their nearest bank branch and deposit their old notes of RS. 500 or Rs. 1000 in bank or post office accounts from 10th November till 30th December, 2016 without any limit while showing ID proof. But there will be a limit on withdrawal: Rs. 10,000 per day and Rs. 20,000 per week. This limit will be increased in the coming days. The limit for this is Rs. 4000 up to 24th November. On 9th November and in some places on 10th November also ATMs will not work. In the first few days of this decision, there will be a limit of Rs.2000 per day per ID-card but this will be raised to Rs.4000 later. No restriction of any kind on non-cash payments by cheques, demand drafts, debit or credit cards and electronic fund transfer. Source: Finance Ministry Website.

History of Demonetization in India

The term demonetization is not new to the Indian economy. India has done this before, of course. But past

demonetization cannot be compared to the economic behemoth it is today. India is projected to be the sixth largest economy in 2017 as per the records of IMF & World Bank. India is the second largest market.

History and Background

- The highest denomination note was Rs 10,000 printed by the RBI in 1938 and again in 1954. But this note was demonetized in January 1946 and over again in January 1978.
- Till January 1946 Rs 1,000 and Rs 10,000 bank notes were in circulation. Higher denomination banknotes of Rs 1,000 and Rs 5,000 were reintroduced in 1954 and demonetized by January 1978.
- In October 1987, Rs 500 banknote was introduced with the picture of Mahatma Gandhi and Ashoka Pillar watermark. Mahatma Gandhi (MG) series banknotes were issued in 1996 with the denominations of Rs 5 in November 2001, Rs 10 in June 1996, Rs 20 in August 2001, Rs 50 in March 1997, Rs 100 in June 1996, and Rs500 in October 1997.
- The Mahatma Gandhi Series bank notes issued in 2005 with the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 notes were enclosed with some additional and new security features as compared to the 1996 MG series.
- The Rs 1,000 note again introduced in November 2000.
- The Rs 50 and Rs 100 banknotes were issued in August 2005, after that Rs 500 and Rs 1,000 notes issued in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively.

Impact of Demonetization on Indian Economy and Indian Society

Demonetization step will adversely impact to our economy and it will eyewitness to immediate reduction of expenditure, despite the fact that this effect will diminish over time. One of the primary benefits of this move is that it is going to affect the corrupt practices i.e., people who are holding black money, enemies of the country which are involved in bogus currency and terrorism., smuggling of arms. Some of the positive and negative impact of this demonetization on our economy and the society are as follows as per the study.

Private Educational Institutions: Since Private Educational Institutions take massive amounts of donations in hard cash which is 40 % to 50%, we expect that this step will impact on the Private Education Institutions fee receipts and their admission count too.

HOSPITALS & Medical INSTITUTIONS: Medical Institutions like Hospitals and Colleges takes massive amounts of donations in Cash and most of the time it is more than 100 % of actual fees. We can keep on expecting that this decision will impact not only the admissions but also the receipt records.

USED Car SALES May go down: Another sector that has a great impact of demonetization is used car sales segment i.e. True value, First Choice etc. Because of cash crisis buyers are not able to dispose of their old vehicles easily hence original equipment manufacturers will get impacted, which will cause low sales of New Car.

Political PARTIES funding: Elections and political parties are the major sources of black money transactions because most of the funding of national political parties is in cash which is 40-50%, and when it comes to regional parties it goes up to 50-60% and sources of more than 90% of their funds are never disclosed. As demonetization done cash crisis and now it's going to cause huge craters on their funding and will reduce their cash funds drastically.

Dabba Trading or Bucketing: It will destroy Dabba Trading, as the trades done outside the share market, satta bazaar & illegal gambling; market may die a natural death as currency is demonetized. Demonetization is a shock for such practices, which were thriving in equity markets for many years now.

Effect on VARIOUS economic ENTITIES: The key segments of the economy are real estate, construction, gold where cash transactions play a vital role, however in case of the informal sectors cash transaction is the lifeline.

Impact of Demonetization on Indian Society

INCREASE of digital payment MODES – Various brands are not only supporting PM Modi's vision of a Digital India, but also formulating the new mechanisms on digitalization to help and to contribute in achieving the goal towards Digital India Vision.

For example – Paytm, Vodafone's M-Pesa, SBI Buddy.

CASHLESS SOCIETY – As the digital payment mode are becoming easier and many application on digital money transaction are introducing i.e. PayTm, M-Pesa and many more are providing ease to our society to become cashless. Cashless society will increase credit access and financial inclusion.

Inconvenience to illiterates – The more digital payment we follow the more structured system we required, for carrying cash we cannot overlook the increased cost of operating ATMs need to be refilled more frequently and also it will be a burden on banks. In the beginning, it is quite hard to build a cashless society as more than 50% of Indian population is not well educated for card transactions.

It will INCREASE the loan defaulters – The liquidity compress caused by demonetization will be negative across sectors with high level of cash transactions like Real estate, retailing, restaurants, jewellery, logistics, consumer durables and luxury brands, cement and some segments in retail/SME lending space will be facing short term insecurity. Companies with high level of debt will face more pressure and can face more loan defaults.

The Impact of Demonetization on Indian Retail

The Retail Sector has taken an initial beating but with the growing flexibility publicized by their customers in making digital payments, it will be on track soon. The transition for big retailers to implement the digital path is not going to take much time but the problem lies with the small retailers. We also have been amazed at the keen acceptance of digital payment mode by a handful of local fast-food vendors in almost every city in the country. Only time will tell whether the digital India Step will take over and completely change the face of Indian Retail.

The immediate effect on retail and its' customers –

High End Retail Demand to fall: In case of Quick Service Restaurants, approx 60%-70% of the transactions are made in cash, the impact is likely to be moderate due to the low ticket size of purchases and high possibility of patrons adapting digital payment mode or to plastic money. We expect a partial impact to be caused on the food and grocery retail sub-segment, since the buying cycle for the current month would have been largely influenced.

Organized Retail: As the organized retail sector is just 3 to 5% of total Indian market and rest 95-98% is unorganized retail market. In India population have high inclination to deal in cash, and demonetization announcement has caused huge inconvenience among retailers and their customers. Small traders and vendors have been affected the most as they are not equipped enough to make provisions of digital payments for their customers. Organized retail sector and shopping malls too are facing a drop in sales and declining the **store footfalls**, but in the long run we can expect to be restored the situation as customers increasingly adapt to making payments digitally.

Offline Retailers priority to maintain 'Store Traffic' – The biggest difficulty is diminishing level of sale due to the fall in store traffic, whether it is small traders or large retailers, Small traders are being overlooked by the customers as they don't have the advance system of accepting debit/credit card or digital payments.

Giant Retailer, Big Bazaar & FBB – Stores now allow customers to withdraw up to Rs 2000 from their bank accounts with the use of debit cards. Like V-Mart, one of the most renowned chains of family fashion stores in India is enabling Smart ATMs in 136 stores across 116 cities, which will enable people to withdraw up to Rs 2000 with their Debit cards. Apart from trying to provide convenience to people by providing this alternative, it is also a strategic move on the part of these retailers to maximize store traffic and score conversions.

Some Impressive Statistics Post Demonetization on Retail Sector

The organized retail industry in India that consists about 3%-5% of total retail market, estimated to reach 15% by 2025. The recent announcement of demonetization helps to increase the use of digital payments that will make the organized retail sector reach 20% of the total retail industry in India by year 2025. Reliance Retail is expected to be the largest and most dominant retail player in India by year 2020.

A year before demonetization effect is that the mobile wallet user base in India had already surpassed the total number of credit cards. (As per the data of RBI, there were already 135 million mobile wallet users in India by November 2015 and only 22 million credit card users.)

Increase in the digital pay transactions – Big Bazaar announced that all of its stores will allow customers to withdraw up to Rs 2000 from their own bank accounts using their Debit/ATM cards. Debit card usage has touched nearly 55 to 60% of retail sales in case of Big Bazaar/Future Retail. Axis Bank has been installing POS devices at a large number of smaller retailers PAN India, and even the small kirana shops are experiencing mobile wallet payment and higher volume of credit card and debit card usage.

Mobile Wallets & Digital Payment Services 'Stepping Stones to a CASHLESS Retail' – Now the retailers have to accept alternative provisions of payment methods for their customers convenience since the demonetization announced. Customers too are adopting these services to make ease of payments and due to the liquidity crunch. Apart from ordering for card-swipe machines, retailers are inclining towards use of mobile wallets and digital payment services for the purpose of receiving payments.

M-PESA Vodafone introduced a distinctive cash out facility where by using their digital wallet over 8.4 million of M-Pesa customers could withdraw cash from over 1,20,000 M-Pesa outlets. Uniqueness is that the M-Pesa digital wallet can be digitally recharged through credit/debit cards and using net banking also. Till date 56% of these outlets have been located in Rural India.

Since the demonetization announced Paytm is one of the mobile payment platforms this one experienced an irresistible raise of 435% increase in overall traffic as millions of people resorted to the Paytm wallets to make payments immediately. They acknowledge that 200% hike in number of app downloads and 400% growth in transaction value of offline payments.

Effect of Digital payment mode

With the declining in cash transactions the alternative forms of payment will perceive a flow in demand. Mobile wallet companies like M-Pesa, PayTm, Mobikwik, Freecharge etc. have established their massive market share over the course of the last one year. Digital transaction systems, like Plastic money (Debit and Credit Cards), E wallets and apps, online transactions by E-banking etc. will definitely witness substantial increase in demand.

Limitations of the Study

As the research have done through the secondary data where research, data, facts, information have already provided either on reports, news papers, websites etc. Facts and figures are not directly gathered from the source so that information or data may vary from the real facts, although most of the facts and data have been taken from the related source, ministry website. And time constrain has prohibited from going deep into the subject due to time constraints study is restricted to limited places.

Concluding Remarks

There is no doubt that demonetization is a great move for a better future of India and its economy. The media has already reported how retail sales have declined in the immediate month of the government's announcement, and how millions of new users are registering on portals offering digital payment services. The decision of demonetization has most impacted the retail industry due to a liquidity crisis. As the Indian retail industry generates a lot of cash transactions, because of cash crisis a reduction in sales will continue for coming one-two quarters. But the major decline effect is felt by small traders, unorganized retail vendors and many high streets

across the country as compared to the organized retailing and shopping malls. It is noticeable that footfalls are reduced in shopping malls, but this effect is temporary and will turn around in few weeks down the line as more currency will be in circulation within the system. The major impact of this decision on retailers will encourage alternate/ digital payment solutions will help the marketplace become more transparent and structured.

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