

## THE IMPACT OF DEMONETIZATION ON INDIAN RETAIL SECTOR WITH SPECIAL REFERENCE TO LUCKNOW REGION

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**Abstract**—On November 8th 2016, the Indian Government, convey an attainment, by announcing, as illegal tender, the Rs. 500/-and Rs. 1000/-denominations in the exchange system. Indian Retail sector reported downfall of averaging up to 42% profits in the sector in their early weeks. Demonetization is the current biggest challenge in retail sector in India have described in this paper. After a chaotic fortnight for the whole country ever since the government announce the fractional demonetization of the higher value rupee notes. The retail industry has definitely confronted a short-term effect of this, as spends are adjourn towards immediate needs. So, the knock has mostly been confined to the unorganized retail sector. The paper draws facts from the existing articles and other reports. Also analyze the implementation of demonetization and its impact on retail sector which are based on the results collected through survey method from the owners of small to medium retailers of Lucknow city of Uttar Pradesh in India. This paper brings out key findings after interaction with industry professionals as to incorporate real-time, relevant and contemporary data. Demonetization changes the working environment of the market. Organizations would also modify in their usage and utilization of the innovative tools and applications for the cashless payment. Kirana stores, home deliveries, Departmental stores, KIOSK, Weekly bazaar, etc. have tolerated the main shock, as there has been massive trouncing of prospects.

**Keywords**—Demographic Variables, Buying behavior, Demonetization, financial apps, Retail, Unorganized retail.

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### INTRODUCTION

The Government's current demonetization act has definitely affected the retail Industry in the short term due to lack of cash flow in the economy. As the Indian retail sector produces a great deal of currency exchange, there may be decrease in the reduction in the sales throughout the next 1-2 quarters.

Never the less, the affect is more experience by the small dealers and the unorganized retailing sector, instead of the organized retailers. Undoubtedly sectors like jewelry and luxury segments got much more affected and will take time to restore. However, the utilization of plastic card and transactions through online installments will keep on releasing the cash into the retail showcase.

In the medium-to-long run, residential utilization will be steady inferable from India's solid financial base and great socioeconomics. Likewise, as more retailers empower elective/advanced installment arrangements, the market biological community will turn out to be more straightforward and organized going ahead.

Demonetization has result in noticeably diminished low crowd in shopping centers, yet this impact is incidentally and will pivot in couple of weeks as more money circles in the framework and enhances the buying influence and craving of the purchasers. The long-haul development story of the Indian retail division keeps on being one of strength and development.

### DEMONETIZATION

Demonetization: removing or stopping the currency from the circulation with the legal framework of the country. It happens only when there is a requirement of alteration in national currency. Actually, the circulation currency is withdrawn from the market and the new currency is replaced. Sometimes a country or the government completely replaces the new currency with old currency to block the fake currency.

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## **RETAILING**

A retailer or retail store is a business undertaking which offers fundamentally to extreme shoppers. Retailing incorporates all movements straightforwardly to identified with the offer of products or services to a definitive shopper. Retailer or retail stores consists of street vendors, small shops, provisional shops, super markets, departmental stores, vegetable shops, textiles, medicals, restaurants, entertainment places, theatre, ticket reservation, recharge shops, pawn brokers etc.

## **STATEMENT OF THE PROBLEM**

Demonetization is a step of central government aims to eliminate black money, also it will promote the sustainable and inclusive economic development. It will surely get the clear view of every transaction within the country and promote cashless transaction. This step will affect the normal public to a little extent but for the benefit of upcoming generation this type of decisions are inevitable. Even though the demonetization process affects the retailers in large scale those who are providing essential goods and service to the people. This analysis helps to know how and what ways the demonetization process affect the sellers, shop owners, street vendors, small and medium enterprises.

## **OBJECTIVES**

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

## **REVIEW OF LITERATURE**

The microeconomic effects here seem to be advantageous. For example, there has been long discomposure about the financing of terrorism through counterfeit notes. Fairly enough tax revenue is going to waste. May be the main consequence is that a portion of the population believes that the fundamental structure is inappropriate. They have gone out of the easy world where the cases are arranged in huge amount, where without paying taxes and where nepotism are purchased. But we must think of the big economic impact here. It will be really hard-- since we are also not ensuring that the impact will be indicated, encouraging or pessimistic, leaving its size alone. It's in fact feasible for this to run either way: Ambit Capital, a respected Mumbai-based equity research firm, has publicly predicted that the demonetization-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 lose pace to 0.5%, down from 6.4% in the previous six months. In addition, Ambit Capital estimates that during the October to December period where we are currently operating, the growth of GDP shows depressing growth. In fact, Ambit believes that the strong formalization of the informal economy will continue through 2017 until 2019. This disruption can hinder the growth of GDP in the period 2017-18 to 5.8 % from their previous estimate of 7.3%. Was Indian economy healthy before demonetization?

- India since 2015, fastest-developing country. But today our GDP does not make us clear about some severe problems of our economy.
- Investment Demand - This indicates to demand by companies for real financial goods and services which are used to maintain or expand their operations.
- Recently the biggest concern on the economic front was the weak position of investment demand in the country.
- GFCF - Growth in gross fixed capital (referring to net increase in physical assets during the measurement period) is expected to be negative for the first time in five years in the current financial year.
- Govt Consumption - If we take government consumption of GDP figures, it will reduce the growth rate to only 5.2% for the period 2016-2017.
- Private Sector - The private sector does not agree with the government. They stressed that there never been improvement in the situation of the money.
- Economic Survey pointed out that, with no clear progress in tackling the double balance sheet problem (over-leverage companies and the rising bad credit in public sector banks), private investment is doubtful to improve 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 there is no intention of renewing the full stock of the demonetized currency and that payments will be paid from digital means.
- Black Money - Unofficial estimates of money which will not come back to the system after note-ban varied from Rs 1.5 to 4.8 trillion.
- Two-thirds of demonetized currency has come back in deposits of more than Rs. 2 lakhs according to 2017 budget speech. It could very well mean that there was no windfall gain from demonetization.
- 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 demonetization.
- 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 demonetization.
- 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 increase loans; their net interest returns may drop over the next few quarters, thus, deterioration their funds position; their NPA situation may get worse.
- On stock market - Demonetization hasn't generally influenced the general market much and financial specialists trust the effect is impermanent, with lower interest rates and more government spending offsetting any unfavorable 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.
- After the decision of note-ban, profits become unsure while the economy is crashed, although they may be short-lived in nature. Thus, as per the various material available online and offline on demonetization, the country certainly looks to be all ready for a big time financial growth.

## **REVIEW OF LITERATURE**

M. Angel Jasmine Shirley (February, 2017) has studied about the "Impact of Demonetization in India" in her research paper. In the first part of the paper, the impact over Indian economy had been explained. As per the research, the BSE SENSEX and NIFTY 50 stock had been falling near about 6% on the very next day. Moreover, on the later on days, the country felt severe shortage of the cash. Moreover, due to lack of cash overall production had decreased. Banks had not enough new currency for the exchange of the old notes, which breakdown the overall economic system. Moreover, in the paper impact of the demonetization over world economy also shown. The first thing that happened after demonetization was decrement in to overall consumption of commodities which results in to decrease in the export-import. Moreover, there was a major impact over the domestic sectors, reduction in the Government liability, farming and fishing industry, business, drop in industrial output, black money, impact over counterfeit currency, hawala, bank deposits, jewelry and real estate, IT sector etc. Searches in this sector says that, capturing the black money holders demonetization is a good step, most of black money is reserved in form of gold, land, real estate, etc. "Not all black money is in cash, not all cash is black money". People bear too much inconveniency of post demonetization due to unsystematic planning. A part of

that they had spent their time by standing in queues for months. To minimize all the negative effects, the methods are to focus on the tax side, cash availability and eliminate gaps.

**Geeta Rani (November 2016)** presented a research paper on demonetization and its after effect on the retail outlets. She had used the Questionnaire method to gather the primary data to complete her research. Around 50 shopkeepers of that area filled the form. As a result, she was prepared with some results like 80% shopkeeper offered their outlook that sales increased by 20% due to accepting old notes from 9th November, 2016 to December 10, 2016. But after than slowly sales dropped they tried various ways like Paytm and cheque system in fact they started extended credit period but could not help. Top brands like HUL, P&G have reduced sales of only 20% sales due to brand name. Apart from this, on the basis of the study she identified the effect of according to demonetization. Similarly, all the FMCG products like salty snacks 10%, chocolates 50%, biscuits sales 20%, juice/fruit drinks 20%, cigarettes sales 10%, mobile phones 70%, gold 70% and durable goods 70% sales reduced in the market. She concluded in her views that for short term demonetization might be painful, but it will definitely be beneficial for the long run and most customers are now adopting cashless instruments like cheques, debit card and Paytm, etc.

**Sherline T.I (December 2016)** has taken up the research on “Demonetization as a prelude to complete financial inclusion”. The main purpose of the research was to acknowledge the significance of demonetization as a measure of financial inclusion. Financial inclusion is mainly for the delivery of the financial services at the reasonable cost to the low-income group of the society. According to the report, the investments as well as credit availability can be enhanced by financial inclusion. Studies shows that this step by the Government has likely to generate long term benefits. Apart from this medium-to-long term Current account and Saving account (CASA) ratio can get better. Furthermore, demonetization will definitely decrease the circulation of cash in the real estates, which can reduce the cost of the avenues which make it reasonable to general public. In addition, in the near future inflation will reduced due to less cash transaction.

**Demonetization of Currency (2017):** Significance and Challenges, Mr. Sharif Mohd., Demonetization is to remove or stop/ ban the old currency from the circulation within the legal framework of the country. Demonetization is required only when there is a requirement of change in national currency due to certain reasonable reasons. The old currency must be withdrawing and restore with a new currency. The demonetization was used in an effort to curb the forged current of the existing banknotes used to fund terrorism and crack on black money in the country. Announcement were being made by the Prime Minister of India and the Reserve Bank of India (RBI) Governor, Urjit Patel regarding the procedure for withdrawing the 500 and 1000-rupee notes that are currently in circulation. On 8 November, in addition to the warning that these currencies will be discontinued. Current studies have been done with the declaration of demonetizing notes (500, 1000) its needs and challenges faced by the citizen of the country. Secondary data which is collected for study is from different newspapers and websites. Therefore, it can be concluded that in addition to interrupting the daily lives of the common citizen, there are also major insinuation for the economy as a whole. We know very well that without cash Politics and various elections cannot run and same is in the case of real estate. The outskirts areas or untouched rural areas, which do not have proper banking facilities, also deal largely in cash. All the fourth employees working on wages, including in urban house servants, such as domestic workers and drivers, are paid in cash, and specially in these denominations. It is too early to say something or to visualize the impact on all sections of society and parts of the economy. The returns of this step, though, will only be possible in the long-term. While formal methods of payments example debit and credit cards, net-banking and digital wallets ought to get an improve, this will take a decade to refresh because these products are still not common among the middle classes and the poor, for whom cash is as yet the overwhelming method of exchanges. This step of the government is bold indeed in its intention and very big in its measure. Undoubtly, this is Modi's biggest move since he was elected prime minister. While the intention is clear, the after effects and impact is yet to be seen.

**Veerakumar., K, (2017),** This paper analyzed demonetization is taken for several measures such as tax avoidance, fake currency and funding of terrorism. Many people have increased their bank accounts in excess over there limits and has showed the unaccounted income subject to higher tax and other penalties. Using online payment methods like e-wallet, e-banking, debit and credit card usage has increased online and it will move an efficient cashless infrastructure.

## **RESEARCH METHODOLOGY**

The scope of Study: The findings of the study shall help economists gauge the optimistic and pessimistic impact of demonetization on retail sector. The information can also be used by retailers to understand their competitor's coping strategies against demonetization, in order to enable themselves to conduct business against the challenges of demonetization. Limitations of the Study: The study was conducted only in the city of Lucknow and hence restricted to one city considering the fact that the whole country was affected by the demonetization move. The long-term impact

*The Impact of Demonetization on Indian Retail Sector with Special Reference to Lucknow Region*

whether positive or negative could not be assessed as the study was conducted within one year of introducing the drive in the country.

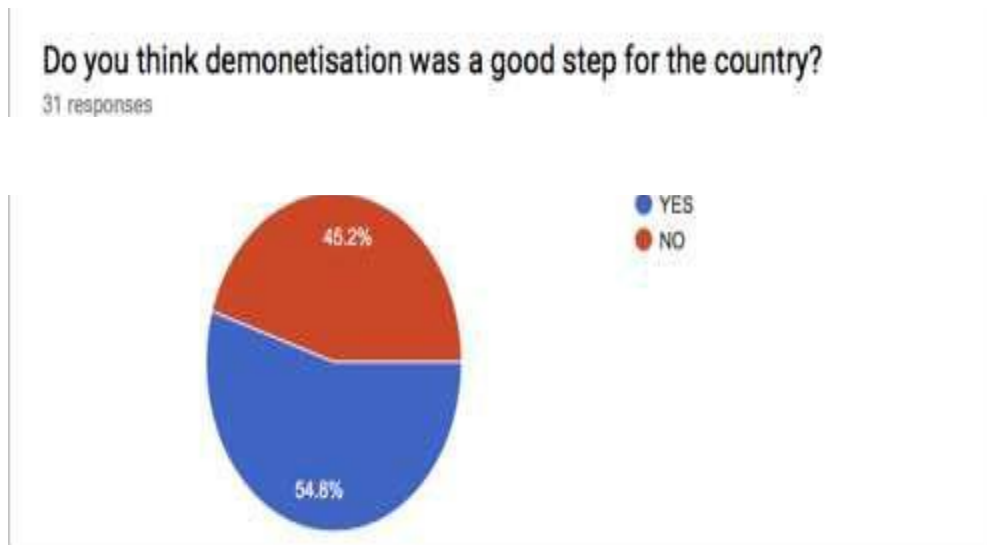
**RESEARCH DESIGN**

Type of Questions: Both Close 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 Lucknow.

**FINDINGS AND ANALYSIS**

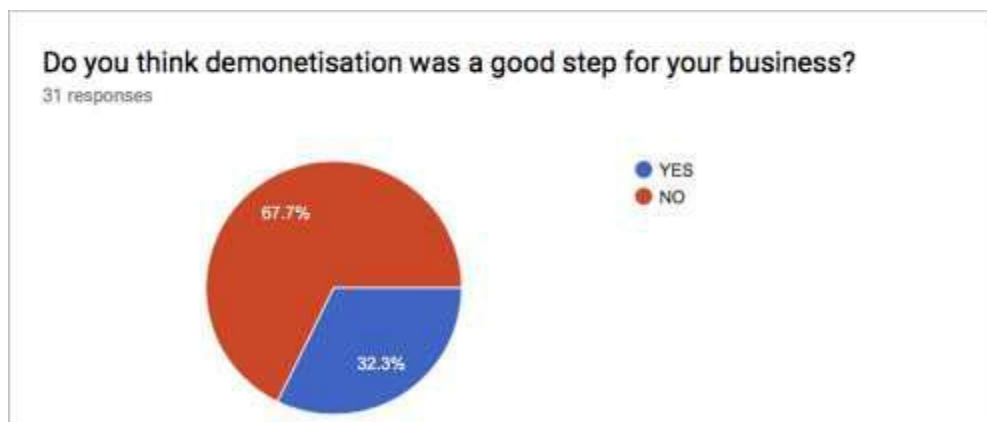
The study came out with certain very interesting findings. From most retailers finding it a favourable move to beating contradictory reports that high end retailers were the most negatively affected team, the study findings have been stated below, supported with the details of graphs and pie charts

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



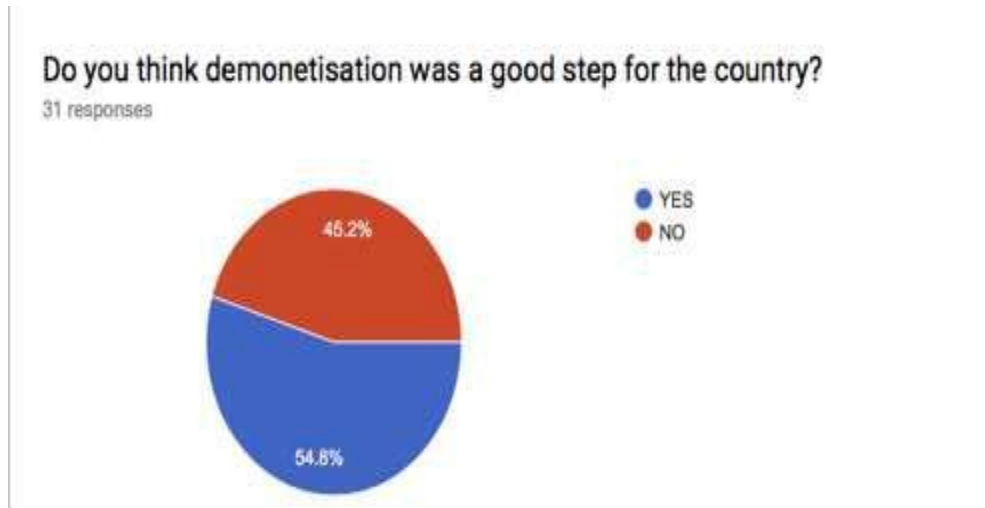
**Inferences Drawn:** Most people thought it was a good step for the country.

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



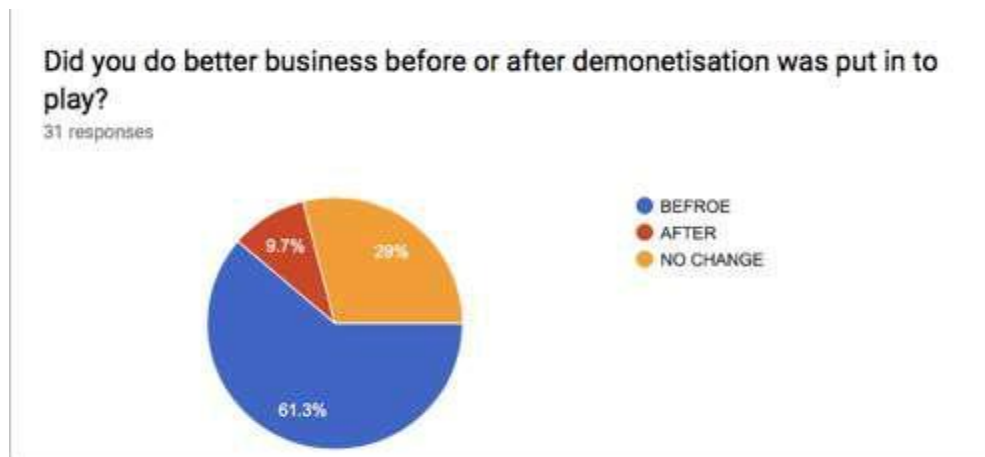
**Inferences were drawn:** Surprisingly it was a good step for the country but not for the businesses and firms

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



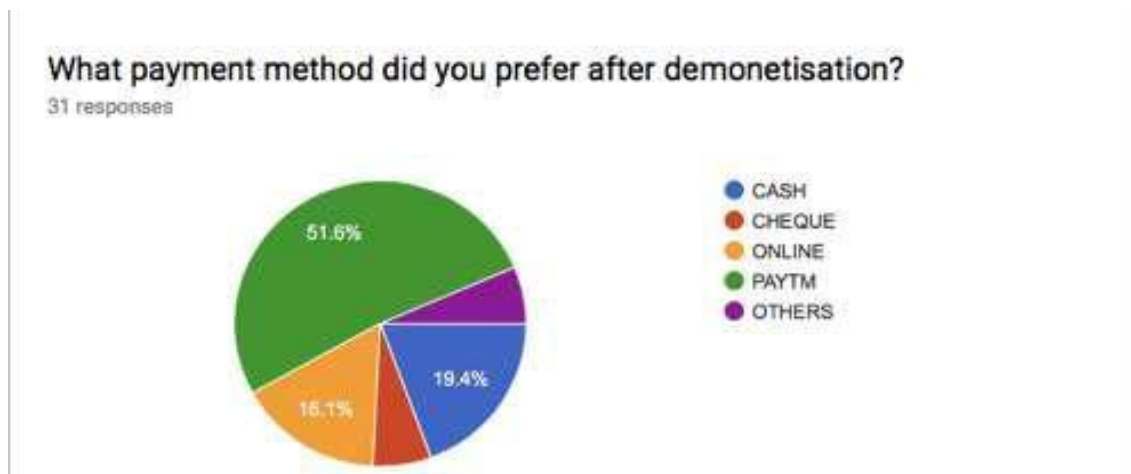
**Inferences were drawn:** Based on the above graph most people did better before demonetisation.

**Table no. 4: Preferred mode of payment pre-demonetisation**



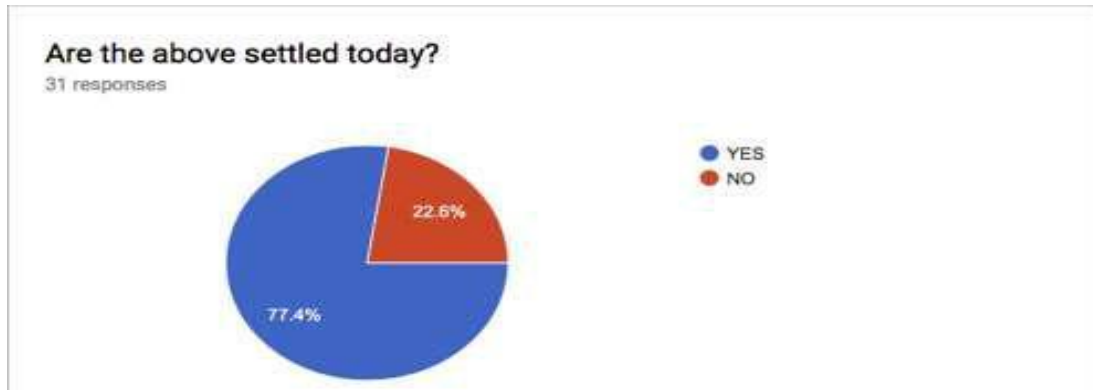
**Inferences were drawn:** It was no surprise that most people preferred cash before demonetisation.

**Table no. 5: Preferred mode of payment post demonetisation**



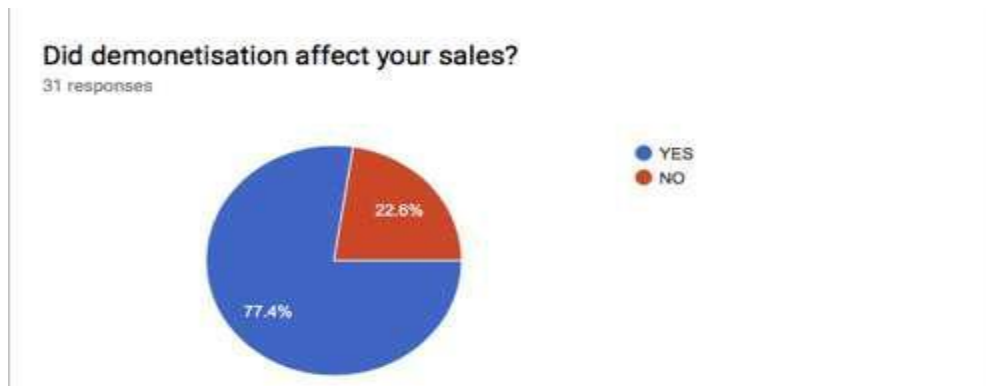
**Inferences were drawn:** A lot of firms preferred Paytm right after demonetisation.

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



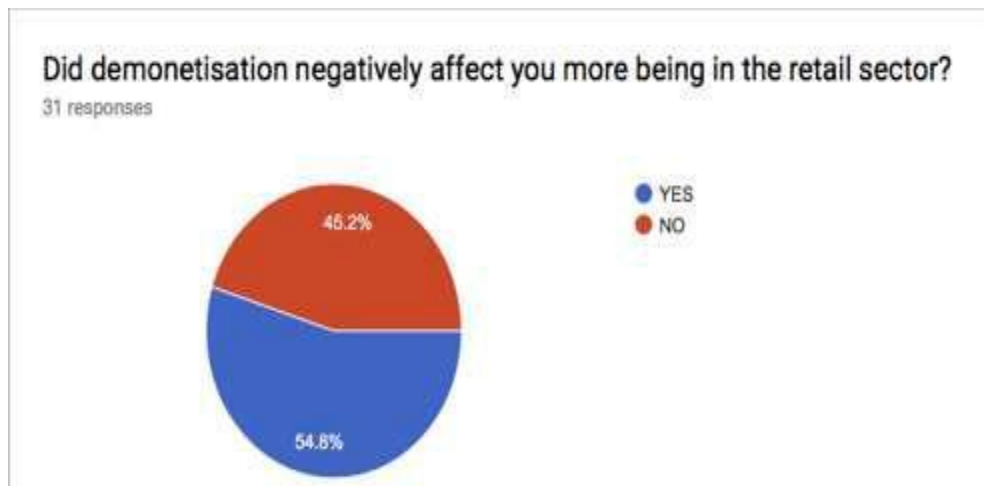
**Inferences were drawn:** Even though a lot of people faced a lot of problems due to demonetisation, most of them have recovered from it.

**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 Lucknow.

**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 demonetization.

An unintended benefit that demonetization 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.

## **SCOPE FOR FURTHER STUDIES**

The analysis can be expanded to cover the state wise awareness and impact of Demonetization. Also, the study may be conducted to know how the demonetization activity has influences the various sectors of economy and life of the people.

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*The Impact of Demonetization on Indian Retail Sector with Special Reference to Lucknow Region*

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