



RESEARCH ARTICLE

A STUDY ON THE IMPACT OF DEMONETIZATION ON RETAIL SECTOR

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ABSTRACT

In the later hours on 8th November 2016 the Government of India announced a drastic economic reform. It was demonetization of high denomination currencies such as Rs.1000 and Rs.500. By the end of the Financial Year 2015-16, in value terms high denomination notes of Rs.1000 and Rs.500 together accounted for Rs.14.18 trillion or 86.4% of the total value of notes in circulation. The unexpected announcement about demonetization from the part of Government of India harmfully affects many sectors mostly depending day-to-day cash payments. Retailers constitute an important part of such sectors that has experienced the currency famine triggered by demonetization was the financial system prepared to meet the immediate impact of demonetisation, what extend of digitisation India had accomplished. The present study tried to analyse the problems faced by the retailers due to demonetization of Indian currency. It also tried to examine the perception of retailers on the anticipated benefits of demonetization. Demonetization creates welfare losses to the retail sectors of the society who gets income based on their daily sales and those who don't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the immeasurable benefits of having more transparency and decrease in the volume of black money activities can be pointed as long term benefits.

Key words: Demonetization, Transparency and Decrease.

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INTRODUCTION

Demonetization is the act of stripping a currency unit of its status as legal tender. It is the act or process of removing the legal status of currency unit. Reasons of Demonetization are to eradicate counterfeit currency, eliminate black money, to combat corruption, to combat inflation, crackdown on terrorism, to promote a cashless economy etc. In the later hours on 8th November 2016 the Government of India announced a drastic economic reform. It was demonetization of high denomination currencies such as Rs.1000 and Rs.500. By the end of the Financial Year 2015-16, in value terms high denomination notes of Rs.1000 and Rs.500 together accounted for Rs.14.18 trillion or 86.4% of the total value of notes in circulation. Demonetization is not new to India. India has carried out demonetization exercises twice before, in 1946 and 1978. In Jan 1978 episode, currency worth INR 1.46 billion (1.7% of total notes in circulation) was demonetized. Of this INR 1.0 billion (or 68%) was tendered back. In 1978 the value of demonetisation was very small (only 0.1% of GDP). However, the 2016 demonetisation efforts cover 86% of the total currency in circulation (11% of GDP).

In the days following demonetization banks and ATMs across the country faced severe cash shortages. 80% of the India's labour force is employed in the informal sector. Over 60% of the population of India lives in below the International poverty threshold line of 1.9\$ per day. However, our economy is an under banked economy, the demonetization move, could no doubt cause a severe social experiment, across the segment of the population. Finally the Reserve Bank of India's annual report has revealed that 99% of demonetised notes returned that was demonetised in November 2016 (ManojitSaha, 2017). Hence the present study focuses the problems faced by the retailers due to demonetization.

Statement of Problem

The unexpected announcement about demonetization from the part of Government of India harmfully affects many sectors mostly depending day-to-day cash payments. Retailers constitute an important part of such sectors that has experienced the currency famine triggered by demonetization was the financial system prepared to meet the immediate impact of demonetisation, what extend of digitisation India had accomplished. Hence, an attempt is made to examine the extent of problem faced by the retailers due to demonetization.

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Objectives

The objectives of the study are

- To analyze the problems faced by the retailers due to demonetization of Indian currency.
- To examine the perception of retailers on the anticipated benefits of demonetization

MATERIALS AND METHODS

Both primary and secondary data were used for the study. Secondary data were collected from websites, books and journals. Primary data were collected from the medium scale retailers of Trivandrum District in Kerala. Medium scale retailers are those retailers whose monthly turnover ranges from one lakh rupees to five lakh rupees. Data were collected from 30 medium scale retailers on the basis of purposive sample.

Review of Literature

LokeshUke, 2017 tried to find out positive and negative impact of note ban decision taken by Indian government. The study found out that Demonetization has created so many hurdles for the citizens of India. They faced queue problems in the banks and ATM'S for depositing and withdrawing money. Citizens of India faced problem of less consumption of goods due to the lack of cash liquidity. Several businesses disrupted due the lack of liquidity, business owners as well as consumer faced so many problems. The study also point out that positive impact of demonetization will show in future. Jai Bansal, 2017 tried to analyse the impact of Demonetization on GDP. The analysis of the study revealed that GDP of Country slightly decreases as compare with the previous year. But cannot say it will be same in future also. The study also showed that demonetization is a one-time draining of the current stock of black money but unless the root causes of corruption are removed, corruption will continue.

Kamatchi Muthulakshmi and Kalaimani, 2017 have made an attempt to assess how the tool of Demonetization can be used to eradicate parallel economy. The study concluded that government's decision to demonetize the high value currency is one of the major step towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent. Vijay Ghutukade, 2016 pointed out that demonetization along with implementation of the GST will make the system more accountable and the efficient. There will be significant improvement in tax-to-GDP ratio. The shift towards electronic modes of payment will make it increasingly easy to track financial transactions, leading to better service tax and income tax collections.

Problems Faced by the Retailers due to Demonetization

In order to examine the problems faced by the retailers due to demonetization, a list of problems were identified from literature review which include Decrease in the volume of sales, Payment lag from debtors, Unable to pay to creditors,

Loss of stock, Reduce the selling price. Respondents were requested to rank all the problems according to the level of preference. Mean scores were computed and problems were ranked.

Table 1. Problems Faced by the Retailers due to Demonetization

Problems	Mean	Rank
Decrease in the volume of sales	5.83	1
Payment lag from debtors	5.63	2
Unable to pay to creditors	4.33	3
Loss of stock	2.73	6
Reduce the selling price	4.23	4
Delay in procurement of goods	3.27	5
Others	1.97	7

Source: Primary Data

The study revealed that decrease in the volume of sales was ranked as first problem while trading in stock market with a mean score of 5.83. This is followed by payment lag from debtors (mean score = 5.63) and unable to pay to creditors (mean score = 4.33) with second and third rank respectively.

The other important problems faced by retailers were compelled to reduce the selling price and delay in procurement of goods. The other categories which the retailers gave the last rank includes loss due to lack of online payment system and unable to give the balance amount. Details are given in Table 1.1 and Figure 1.1.

Opinion of Retailers about the Benefits of Demonetization

Opinion of retailers about benefits of demonetization was measured on a five point scale where 5.00 denote the highest level of agreement and 1.00 the lowest. Interpretation was done using the following scale.

Mean Value	Interpretation
4-5	Highly Agree
3-4	Agree
2-3	Disagree
1-2	Highly Disagree

The study revealed that in terms of Death blow to counterfeit currency the mean value was 3.43 indicating that the respondents agreeing the statement. Similar for decrease in land price it was 3.33, improvement in tax collection (mean value = 3.33) and increase currency less transactions (mean value = 3.17). In terms of countering terrorism financing the mean value was 3.00 which mean the respondents neither agree nor disagree the statement. But the retailers disagreeing the statements clean-up black money (mean value =2.07) and cripple hawala transactions (mean value = 2.83).

The analysis indicates that 46.67 percent of the respondents highly disagreeing that the black money will clean-up because of demonetization and 30.00 percent of the respondents highly disagreeing the statements cripple hawala transactions and decrease binami transactions due to demonetization. The study also revealed that 40.00 percent of the respondents agreeing that the land price will decrease because of demonetization and 36.67 percent of retailers agreeing that the tax collection will improve due to demonetization. Details are given Table 1.2 and Figure 1.2.

Table. 2 Opinions of Retailers about the Benefits of Demonetization

Benefits		Highly Disagree	Disagree	Neither agree nor disagree	Agree	Highly Agree	Mean
Death blow to counterfeit currency	N	4	7	0	10	9	3.43
	%	13.33	23.33	0.00	33.34	30.00	
Cripple hawala transactions	N	9	4	5	7	5	2.83
	%	30.00	13.33	16.67	23.33	16.67	
Decrease binami transactions	N	9	2	4	9	6	3.03
	%	30.00	6.67	13.33	30.00	20.00	
Decrease in land price	N	6	7	0	5	12	3.33
	%	20.00	23.33	0.00	16.67	40.00	
Clean-up black money	N	14	8	2	6	0	2.07
	%	46.67	26.66	6.67	20.00	0.00	
Countering terrorism financing	N	5	5	9	7	4	3.00
	%	16.67	16.67	30.00	23.33	13.33	
Increase currency less transactions	N	3	9	2	12	4	3.17
	%	10.00	30.00	6.67	40.00	13.33	
Improvement in tax collection	N	3	7	3	11	6	3.33
	%	10.00	23.33	10.00	36.67	20.00	

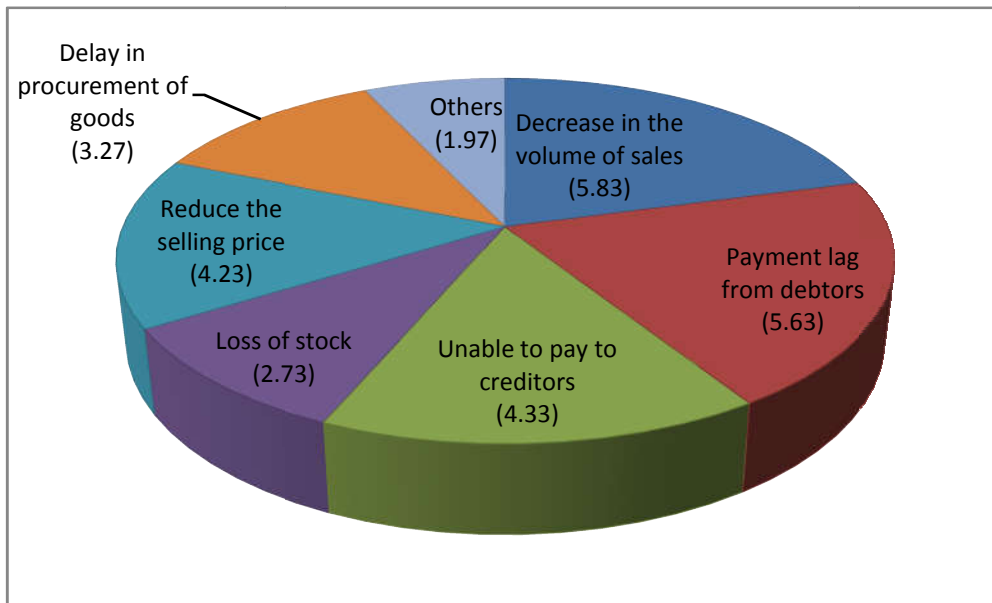


Figure 1. Problems Faced by the Retailers due to Demonetization

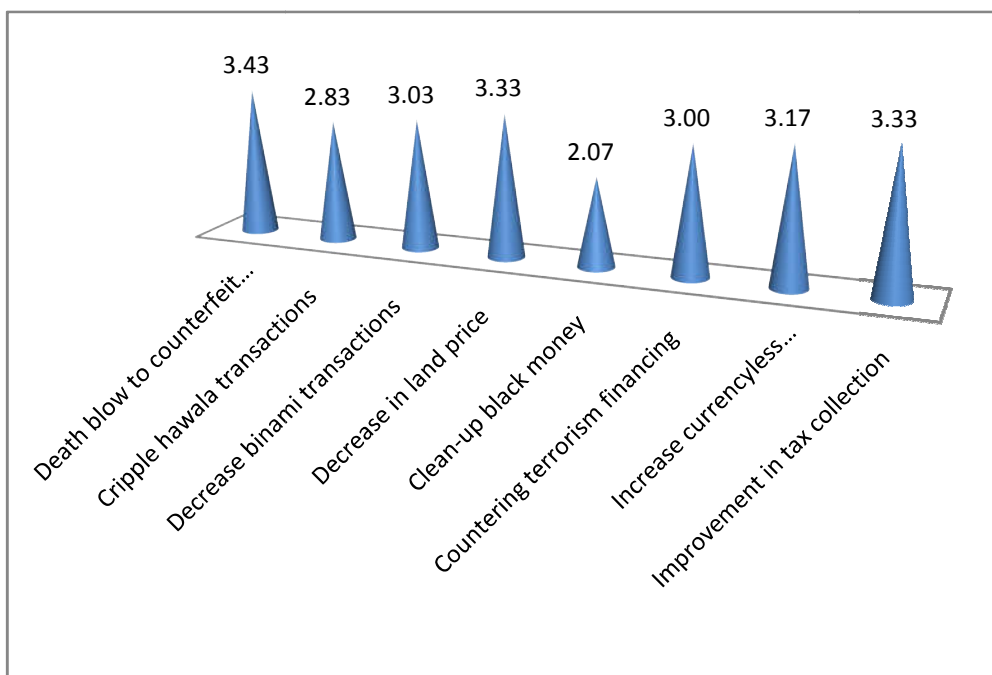


Figure 2. Opinion of Retailers about the Benefits of Demonetization

Conclusion

Demonetization creates welfare losses to the retail sectors of the society who gets income based on their daily sales and those who don't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the immeasurable benefits of having more transparency and decrease in the volume of black money activities can be pointed as long term benefits.

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