



State Bank of India

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DEMONETIZATION: FINDINGS FROM A PRIMARY SURVEY

It is now exactly 2 months since the historic decision to demonetize the high value currency notes was taken. In the aftermath of this, we decided to do a primary survey to understand the nuances of demonetization. This survey was conducted between 30 Dec'16 and 3 Jan'17.

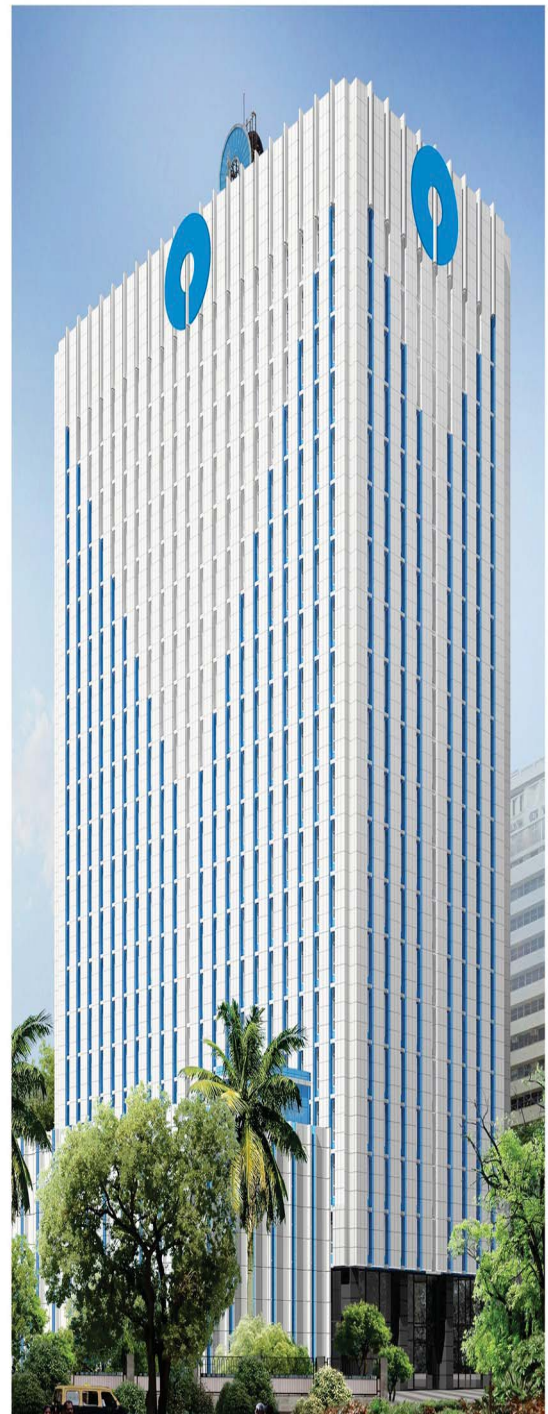
The survey reveals that 69% of the respondents did affirm that their business has been impacted. However, even then there is an overwhelming support towards this move (63% of the sample). However, the respondents were very clear that supply of only Rs 2000 denomination notes without intervening notes of Rs 500 has resulted in chaos.

Overall the decline in business is less than 50% for the majority of the businesses that were impacted. Construction sector and the informal road-side vendors seem to be the worst hit. Less impact was seen on automobile and chemist shops that already had digital modes of transaction.

Within the textile sector, shopkeepers dealing with retail segment have been more impacted than those in the wholesale segment. The gems and jewellery sector has also been hit with declining sales.

Our survey shows that 15% of cash based transactions have moved to digital in ensuing weeks. This means that Rs 25,000 crore of cash based transactions have moved to digital in the last 2 months. If this is so, this is a good beginning.

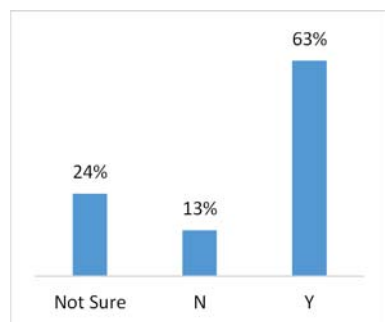
We would suggest the Government to very quickly on-board new merchants, particularly small and marginal traders, grocery shops, etc. on digital platform by a more targeted approach. This could be incentivized and the same can be met by support funds from Government. We also suggest that RBI should enhance the mobile wallet user limits further to shift more of the cash transactions to digital wallets. This may be done in steps with enabling IT infrastructure in place.



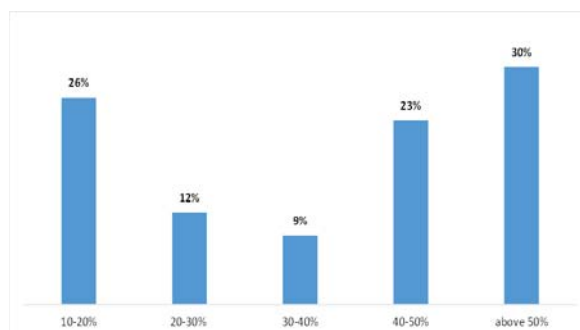
INSIGHTS FROM OUR FIELD SURVEY ON DEMONETIZATION

- ◆ It is now exactly 2 months since the historic decision to demonetize the high value currency notes was taken. In the aftermath of this, we decided to do a primary survey to understand the nuances of demonetization. This survey was conducted between 30 Dec'16 and 3 Jan'17. To ensure that the survey results were a true reflection, we decided to evenly spread the questionnaire across formal and informal sectors.
- ◆ Accordingly, we conducted a survey in Mumbai and Pune among different formal and informal business groups to ascertain the effects of demonetization on their daily business and whether this move has resulted in increase in digital modes of payments. A total of 175 responses were recorded and analyzed, of which 40% respondents were from premier business locations of Mumbai and remaining 60% were from Pune and nearby areas. The results reveal a number of interesting facts post demonetization.
- ◆ First, the survey reveals that 69% of the respondents did affirm that their business has been impacted. However, even then there is an overwhelming support towards this move (63% of the sample). However, the respondents were very clear that supply of only Rs 2000 denomination notes without intervening notes of Rs 500 has resulted in more chaos.
- ◆ The good thing is that prevalence of digital modes of payments in chemist shops and even in case of automobile stores has possibly resulted in only a marginal impact on their sales.
- ◆ Overall the decline in business is less than 50% for the majority of the businesses that were impacted. Construction sector and the informal road-side vendors seem to be the most hit with 55% and 71% respondents saying that the business got reduced by more than 50%.
- ◆ Varied responses have been received from the textile/ readymade garments sector and the FMCG sector. Within the textile sector, shopkeepers dealing with retail segment have been more impacted than those in the wholesale segment. Moreover, the wedding season has been disappointing with sales dipping significantly compared to the last year wedding season sales.
- ◆ The gems and jewellery sector has also been hit with declining sales.
- ◆ Coming to the question of shift towards digital mode of transactions, around 41% sellers already had PoS machines available even before demonetization but their usage has seen an increase only post demonetization. In fact, 15% moved to electronic payments, viz. m-wallets, PoS in the ensuing weeks. This means that Rs 25,000 crore of cash based transactions has moved to digital in the last 2 months. This number could have been even higher because the behavioral shift has not happened yet and many merchants still prefer cash transactions when the transaction amount is not large. So they are mostly discouraging people to use PoS for small transaction value of say less than Rs 200 or so. Also, a number of merchants are facing connectivity issue at PoS machines.
- ◆ But all in all, this is a good beginning. There is still some resistance about moving towards cash-less payment systems but majority are contemplating shifting as soon as possible.

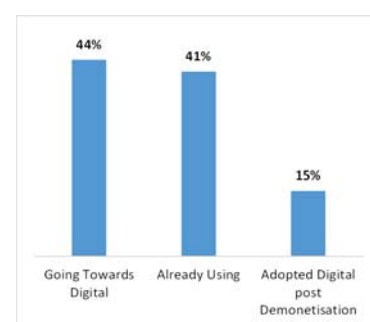
Q: Is demonetization a good move?



Q: Extent of Impact on business



Q: Are you shifting towards digital?



Source: SBI Research

CONCLUDING REMARKS

- ◆ Now merchants are quite enthusiastic to adopt the digital channels though they are facing certain challenges in the form of non/less availability of PoS terminals, lack of training/knowledge and lack of trust. Although banks have supplied more than 1 lakh PoS terminals since demonetization the supply is still low compared to high demand.
- ◆ We would suggest that the Government should thus build incentives for the Banks investing in creation of Card Acceptance infrastructure by deploying PoS terminals/creating acceptance points.
- ◆ We would suggest the Government to very quickly on-board new merchants, particularly small and marginal traders, grocery shops, etc. on digital platform by a more targeted approach. This could be incentivized and the same can be met by support funds from Government. An even better approach could be to charge the large merchants, which could be used to cross subsidize the small merchants. It could be a sustainable model, otherwise new merchants need to be convinced about the uncertainty beyond Mar'17.
- ◆ Recently, RBI has revised the per month limits on mobile wallets spend to Rs 20,000 for users and to Rs 50,000 for merchant bank transfers but given the quantum jump in digital wallets usage in recent days, RBI should enhance the user limits further to make it easier for both users and merchants to shift more of their cash transactions to digital wallets.

ABOUT US

The Economic Research Department (ERD) in Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team, now taking on multidimensional functionalities in the area of analytics, risk management, strategy and so on, who knows, the time may have come to rename it again !

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