

Tracking the Merchant Journey

The Impact of Demonetization and Goods and Services Tax on India's Small and Medium Enterprises

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Abstract

The Government of India recently implemented Demonetization, a policy in November 2016 that suddenly voided all ₹500 (US\$7.80) and ₹1,000 (US\$15.6) banknotes, and Goods and Services Tax, a single tax that subsumes a slew of taxes levied by Central and State Governments. While the macroeconomic effect of these policies has been widely studied, literature on how India's 48 million Small and Medium Enterprises have been impacted is lacking. This survey of 234 SMEs in Delhi, Bangalore, and Noida assesses the impact of Demonetization and GST on India's small merchants. We found that small merchants reported increased internet and electronic device usage for payments, accounting, and tax compliancy. A 13% increase in the number of bank accounts was also noted. Overall, prices have not changed under GST while cost of business has decreased for 53% of SMEs. Sales revenue and accessibility of credit decreased, and perception of the government worsened. This work adds to the body of knowledge on Indian SMEs as well as the effects of Demonetization and Goods and Services Tax.

Keywords: India, Small and Medium Enterprises, 2016 Demonetization, Goods and Services Tax

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