

The facets of Demonetisation 2016: Towards the Indian Economy and Digitalisation

*Kirti Sharma
**Pankaj Madan
***Gaurav Chopra

ABSTRACT

This study aims to focus on the concept how the demonetisation has affected the economy of India and measuring its impact on M-commerce adoption. This study is of secondary nature as it appraised and reviewed the concept of demonetisation and its process in India and seeing its impact on Indian economy and M-commerce adoption. The result of demonetisation were mixed, after the demonetisation, uses of online transactions increased but on the other hand, people who were at the bottom of the pyramid suffered most by this demonetisation as most of their transactions were in cash. Demonetisation though has created some positive as well as some negative impacts on different sectors of the economy but in long run it will have positive impacts in controlling black money and fake money from the economy of India. It influenced the GDP, transparency, and integrity in the system and mainly after the demonetisation government generated the higher revenue and that revenue is to be spent on the poor and marginalised sections of the country.

Keywords: Demonetisation, Black money, Corruption, Economy, Cashless transaction, digital economy

1. Introduction

On 8th November 2016 at 8:00 PM Indian government declared the drastic declaration of demonetisation in which top valued currency notes were stripped from the circulation that were RS 500 and RS 1,000 rupee notes. This declaration was very unbelievable for everyone. This demonetisation step was the third time in India before it in 1946 and in 1978; this step was implemented in India. The motives behind this step were to remove the black money, corruption and increase the role of digital transactions in India. But at the time of demonetisation, the common men were suffered most. They faced so many difficulties at that time. They had to stand in the lines for hours to deposit the old currency notes in banks and in post offices and no retailer or vendor accept that old currency notes for transaction purpose. But on the other hand, there was an increment in digital transactions. As no vendor accept the Rs 500 and Rs1,000 rupee notes, the person moved towards the online transaction for their daily routine transactions. However, as the flow of cash was decreased at that time, the use of online applications, debit card transactions, credit cards and digital wallets saw a rapid rise (Krishnan, 2019).

1.1 The birth of a paper currency in India

With the discussion of demonetisation which took place on 8th November 2016, we also consider the history of birth

of paper currency as how the use of paper currency had been started in India. Until the 18th century, Indian persons use silver and gold coins to carry out their daily transactions. But after that some European companies established their own banks in the region to carry out their business transactions, such as the Bank of Hindustan in Calcutta. They introduced the first versions of Indian paper notes which boosted the further use of paper notes in India. After that, the Bank of Bengal went on to release notes that characterised a small image of a female figure which meant to represent the idea of "commerce," as well as the bank's name and the denomination is in three scripts i.e. Urdu, Bengali, and Nagri. After the implementation of Paper Currency Act, 1861 the British colonial government deeply got involved in producing money as well as in establishing the paper currency notes. In this way, paper currency took birth in India (Vedashree., 2016).

2. Literature Review

On 8 November 2016, Indian government took the drastic and unprecedented step of demonetising its high denomination currency notes Rs 500 and Rs 1000 for eradicating the black money, eliminating counterfeit notes, stop terror funding and increase the role of digital transactions (Reddy., (2017), Sherline., (2016)). Further, the Tax Research Team (2016) was in favour of this demonetisation step as they identified that with this step the

*Research Scholar, Faculty of Management Studies, Gurukul Kangri University, Haridwar.

**Professor, Faculty of Management Studies, Gurukul Kangri University, Haridwar.

***Assistant Professor, School of Management, IMS Unison University.

black money was eradicated and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy. They also identified that the step put the great impact on the availability of credit, spending, level of activity and government finances. Deodhar., (2016) found that there is a difference between black money and black economy. Black money was also known as shadow money and underground money. Black money is the currency of black economy; it is a part of black economy. It refers to that illegal money which was earned through illegal sources and which has not been disclosed to the government. The advantage of black money is that it connects into the legitimate economy and uses the advantages of the legitimate economy but does not pay the costs of it.

On the other hand, pachare., (2016) identified that after the demonetisation, the use of online transactions had increased. People use their cell phones to make their transactions through online payment modes that were via debit card, credit card and M-wallets. Demonetisation increased the usage of M-wallets. Goriparthi & Tiwari., (2017) found that the step of demonetisation had increased the growth of digital payment sectors and reduce the black money from the economy.

3. Research Methodology

For exploring the evolution of thoughts on demonetisation, we conducted an extensive review of research papers, new articles and various websites related to demonetisation and seeing its impact on M-commerce adoption. We also searched and read news articles as well as saw different websites related to e-commerce, M-commerce and demonetisation. While doing so, researchers have some questions in mind and try to find out the solutions of them and these questions were:

- i. What is the demographic profile of internet users in India?
- ii. Has digital payment preference changed in India before and after demonetisation?
- iii. How much growth happened in UPI transactions after demonetisation?
- iv. How much increment is seen in volume of digital transactions?
- v. How much changes have been recorded in circulation of currency in pre and post demonetisation period?
- vi. How much change is seen in number of PoS terminals?

- vii. Which digital wallet is mostly preferred?
- viii. How demonetisation impacted Indian economy and jobs?

4. Findings with Interpretations

(a) Internet user demographic profile

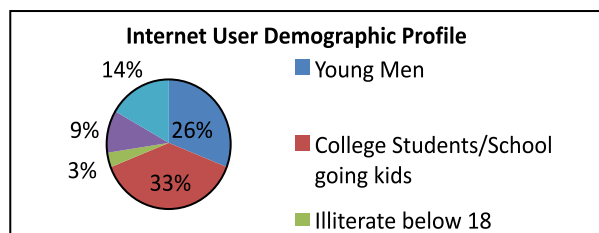


Figure 1¹: Internet User Demographic Profile

In terms of demographic profile of internet users in India, among all, the persons who are using internet in highest frequency are college students/school going kids (33%) users, after that 26% users are young men, 15% are non-working women, 14% are older men, 9% are working women and at last 3% were illiterate persons with age below 18.

(b) Preferred digital payment methods in India (2015 & 2020)

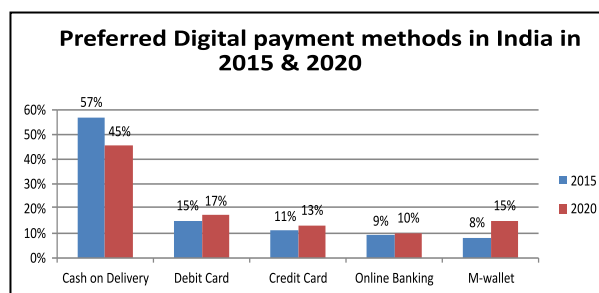


Figure 2²: Preferred Digital Payment Methods in India in 2015 & 2020*³

In terms of payment methods, the statistic gives information on the most popular and preferred digital payment methods in India in 2015 with forecast regarding 2020. In 2015, cash on delivery accounted for 57% of all digital shopping transactions while in 2020, it will be 45% (forecasted) transactions. The use of debit card is set to increase from 15% to 17% whereas the credit card usage is increased from 11% to 13%. Online banking is increased from 9% to 10% and Mobile wallet is set to increase from 8% to 15% of payments in 2020.

¹ Figure 1: Internet user demographic profile shows percentage wise the statistical data about the population who are using internet.

² Figure 2: Preferred digital payment methods in India shows the nature of payment methods preferred before and after the demonetisation.

³ 2020* = Forecasted

(c) Growth Trend in UPI transactions

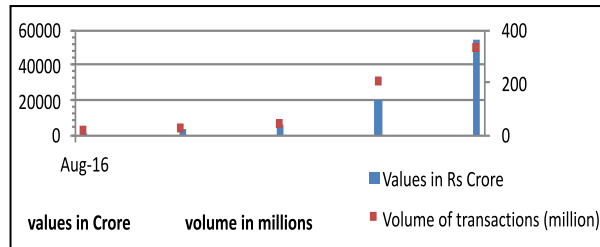


Figure 3⁵: Growth trend in UPI transactions

The growth trend in UPI transactions shows that volume of transactions (in million) are increased to near about 330 million transactions in August 2018 from August 2016 whereas if we see value in crores, it shows that the value is increased to near about 55000 crores in August 2018 from August 2016.

(d) Increase in volume of transactions

Table 1⁶: Increase in volume of digital transactions

Increase in Volume of Digital Transactions		
	% change (November 2016- February 2017)	% change (November 2015- February 2016)
NEFT	20.4	10.4
Cheque Truncation System	15.3	18
IMPS	65.2	25.1
UPI	1346.1	NA
Debit & Credit Cards (PoS)	3.3	3.9
Pre-Paid Instruments	32.8	4.3

Here, we compare the change in volume of digital transactions from November 2015-February 2016 with November 2016-February 2017, it was found that the percentage of NEFT transactions which was only 10.4% in November 2015-February 2016 has changed to 20.4% in the time period between November 2016-February 2017 and so on.

(e) Currency in circulation (pre and post demonetisation)

This figure depicts that on 4 November 2016, the currency in circulation was Rs 17977 billion and then it declined to

touch Rs 8980.2 billion by 6 January 2017 and on 9th March 2018, it crossed the pre-demonetisation level and touched Rs 18135.52 billion. Above, a plotted linear trend was shown to show how much the level was if there was no demonetisation. In above, the potential currency level was shown through dotted blue line and the actual currency level was shown through orange line.



Figure 4⁷: Currency in circulation

(f) PoS terminals

Table 2⁸ : PoS⁹ terminals

Statistics	March 2015	March 2016	March 2017
Total # of PoS Machines	11,26,735	13,85,668	25,28,758
No. of Card Transactions of PoS			
Debit Cards	7,61,05,726	11,28,68,336	27,11,72,292
Credit Cards	5,69,06,942	7,22,20,394	10,62,23,627
Total Value Transacted at PoS (in crores)	28,727	36,157	68,586
Debit Cards	10,828	13,463	35,699
Credit Cards	17,899	22,694	32,887
Total Number of Cards	57,45,62,206	68,63,29,311	88,47,16,821
Debit Cards	55,34,51,553	66,18,24,092	85,48,74,586
Credit Cards	2,11,10,653	2,45,05,219	2,98,42,235
Average Spend per Debit Card Transaction (in Rs.)	1,422.80	3,145.27	1,192.82
Average Spend per Credit Card Transaction (in Rs.)	3,142.37	1,316.47	3,096.00

⁴ UPI = Unified Payment Interface is an application which allows users to transfer money between bank accounts

⁵ Figure 3 Growth trend in UPI transactions shows how much increment happened in volume of digital transactions.

⁶ Table 1: Increase in payment of digital transactions shows how much increment has been seen in payment via digital transactions.

⁷ Figure 4: Currency in circulation shows the circulation of currency before and after the demonetisation.

⁸ Table 2: PoS terminals are the electronic devices used to process card payments.

⁹ PoS = Point of Sale






Average # of transactions per Debit Card	0.14	2.70	0.17
Average # of transactions per Debit Card	2.95	0.32	3.56

Here, the comparison of PoS was shown according to time period. The time period between March 2016 to March 2017 clearly shown that the number of PoS terminals increases to 100% i.e. in March 2016 the total number of PoS machines were 13,85,668 and in March, 2017 it just increased to 25,28,758.

(g) The future is digital (description of m-wallets)

The Future is Digital : Digital payments market in India is currently pegged at \$ 200 billion but is expected to touch the \$ 1 trillion mark by 2023, says a Credit Suisse report.

Table 1¹: The future is digital

					
User base	350 million (total active users)	25 million (monthly active users)	107 million (total active users)	118 million (total users)	Payment in Whatsapp is not officially available in India yet. It is currently in beta.
Modes of payment	UPI, Wallet, Payments bank	UPI	Wallet, UPI	Wallet, UPI	
What all you can do with it	UPI payments, mobile, DTH, flight, train, movie tickets	UPI payments, DTH, flight, movie ticket booking, food	UPI payments, wallet, mobile, DTH, electricity, gas, insurance	UPI payments, wallet, mobile, electricity, water, insurance	
Number of offline merchants	9.5 million	1.2 million	143,332	300,000	
Transaction	Over 1.5 billion transactions in a quarter	860 million transactions in 2017-18	\$3 billion gross transaction value in F.Y 2017-18	\$ 110 million transaction value in August	

It depicts that Paytm, is one of the leading m-wallet of the country which has a largest user base and over 1.5 billion transactions were done in one quarter by it. The use of PhonePe was also increasing day by day, it have 118 user base.

¹⁰ Table3: The future is digital tells about the usage of different m-wallets.

(h) Impact of demonetisation

Table 4¹¹: Impact of demonetisation

Demonetisation Impact	
How did demonetisation impact the economy?	How did it impact jobs?
26% — Damaged it for longer-term	23% — It had a long-term negative impact on jobs
32% — Made it more transparent	32% — No impact
42% — Made it more transparent but with some collateral damage	45% — It reduced a number of jobs in the short-term

This table depicts how the demonetisation impacts the country. If we see it impact on the economy, it shows that 42% our economy becomes transparent but with some collateral damage, 32% it becomes transparent and 26% it damaged for longer-term. If we see it impact on jobs, it shows that the demonetisation reduces 45% number of jobs in the short-term, 23% it had negative impact on jobs and 32% it had no impact.

Impact of Demonetisation on Indian Economy

On Gross Domestic Product (GDP): As the Indian economy is the cash-driven economy, demonetisation has affected its growth largely. The GDP growth rate was 8.01% in 2015-2016 which decrease to 7.11% in 2016-2017 after this demonetisation, reason being due to less availability of cash in cash-intensive industries like manufacturing and construction industry. It has also put adverse impact on the primary functions of the banks to issue loans and has also put pressure on them as current account holders' demands large amount of cash.

On Daily Wage Workers: The demonetisation has also put huge impact on daily wage workers, as they mostly use cash to meet all their expenses and this demonetisation has resulted adversely as they lost their jobs due to unavailability of cash at that time. According to CMIE's Consumer Pyramids Household Surveys (CPHS), approximately 1.5 million jobs were lost during the demonetisation. The estimated employment during the final quarter of 2016-2017 was 405 million which before four months was 406.5 million.

On Small Scale Industries: There are some low capital enterprises which works based on liquidity like the textile industry, salons, restaurants, and seasonal businesses. Demonetisation adversely put impact on their revenue collection and threatened their existence to an extent.

On the General Economic Situation: Just after the demonetisation, the economic situation of the country was disturbed. The people had to stand in a queue of banks to exchange their old currency with new ones. In this way, they suffered for their daily transactions.

Inflation: For measuring the inflation, the Reserve Bank of India considers the Wholesale Price Index (WPI) and the Consumer Price Index. It was expected just after the demonetisation that the inflation was reduced as consumers have cut down their spending due to this aggregate demand has considerably fallen. According to press releases of government, the official WPI for all commodities (Base Year 2004-2005) for the month of December, 2016 reduced by 0.20 percent (approx.) to 182.8 (provisional) from 183.1 (provisional) for the previous month. The Price Index had started rising during January and increase by 1 percent from 182.8 (provisional) to 184.6 (provisional) for the previous month. It can be linked with the availability of cash with people which led to increased spending (Press Information Bureau Government of India).

On Political Parties: To campaign for elections and for meeting other requirements, many of the political parties use large amount of undeclared cash. Due to the demonetisation, such type of acts might get controlled or restricted to an extent and parties will have to formulate new strategies for this.

Towards a Digital Economy: Shortage of liquid cash, led to people switched towards digital transactions. This result towards a digital economy where government have record of each and every transaction and the economy has more white money and this might be also increasing the government's tax revenue.

5. Conclusion

The result of demonetisation were mixed, after the demonetisation, uses of online transactions increased but on the other hand, people who were at the bottom of the pyramid suffered most by this demonetisation as most of their transactions were in cash. Demonetisation though has created some positive as well as some negative impacts on different sectors of the economy but in long run it will have positive impacts in controlling black money and fake money from the economy of India. It influenced the GDP, transparency, and integrity in the system and mainly after the demonetisation government generated the higher revenue and that revenue is to be spent on the poor and marginalised sections of the country.

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