

Digital Transactions were Growing Faster Before Demonetisation

Retrieved Monday 12th of June 2017 09:02:55 PM

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Jun 12, 2017

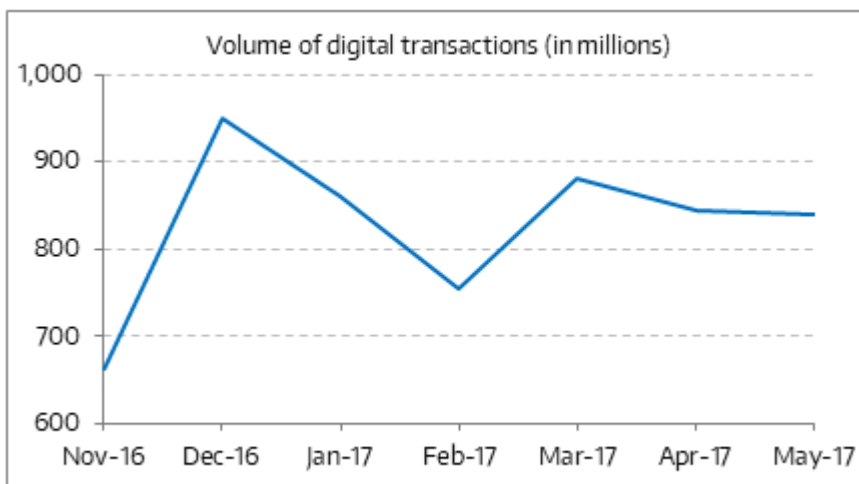


The finance [minister Arun Jaitley recently said](#): "Through demonetisation, the government created a new normal, with a big step in removing the earlier scenario of cash economy and shadow economy."

If this is true then there should have been a substantial jump in digital transactions in the recent past. If people are not carrying transactions in the cash economy, then they should be carrying out transactions digitally. *But is that true?*

Let's first look at the number of digital transactions (i.e. volume of digital transactions) that have happened every month between November 2016, when the demonetisation of Rs 500 and Rs 1,000 notes was announced, and May 2017, the latest monthly data available. All the digital data used in the column deducts the transactions carried out through Real Time Gross Settlement system simply because it is not a retail mode of digital transactions, which is primarily what we are looking at here. The minimum amount that can be transferred through this mode is Rs 2 lakh.

Take a look at Figure 1. This basically plots the total number of digital transactions that have happened between November 2016 and May 2017.



Source: Reserve Bank of India

As is clear from Figure 1, the volume of digital transactions peaked in December 2016, when the [impact of demonetisation](#) was at its peak. With very little currency available to carry out transactions, people had no option but to use digital modes of settling transactions. In May 2017, the total number of digital transactions was down by 11.4 per cent in comparison to December 2017. This clearly tells us that fewer people are using digital modes of transactions in comparison to the period right after demonetisation.

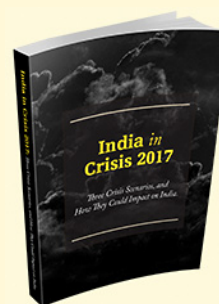
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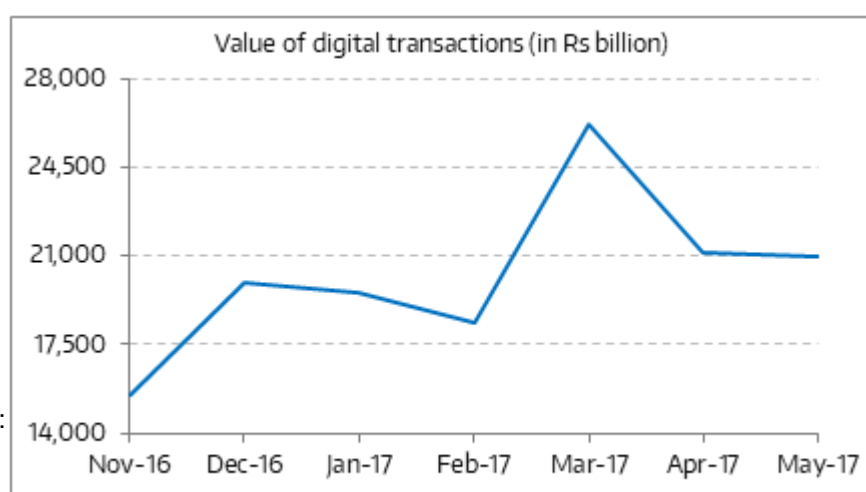
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Now take a look at Figure 2. In this we look at the total value of digital transactions carried out every month between November 2016 and May 2017.



Source: Reserve Bank of India

From Figure 2, it is clear that the total value of digital transactions peaked in March 2017, and has fallen by 20.2 per cent since then. Past data shows that the digital transactions tend to increase in the last month of the financial year as people settle their dues and pay their taxes. Having said that, the total value of digital transactions in May 2017, was higher than that in December 2016. But with volume of transactions being lower, what this means that people who were already on the digital bandwagon are spending more digitally. And that is one piece of good news for a government looking to increase the proportion of digital transactions in the overall economy.

This comparison just tells us how things have evolved on the digital front after demonetisation. How do things look, if were to stretch the timeline a little more? Let's compare May 2017 data with May 2016 data (In this case I have ignored the data for United Payments Interface and Unstructured Supplementary Service Data (USSD). I could not find this data for May 2016 and May 2015. This will not have any impact on the overall result because the USSD form of digital payment is close to zero and can be effectively ignored.

When it comes to UPI even in May 2017 with all the push and promotion by the government, it made up for 1.1 per cent of the total digital transactions by volume and 0.1 per cent by value (of course we have ignored RTGS here).

Take a look at Table 1. It has the total digital transactions both by volume and value, over the years.

Table 1:

Digital transactions

	May 2017	May 2016	May 2015
Volume (in millions)	831.5	726.3	491.2
Value (in Rs billion)	20,901.5	15,364.6	12,173.9

Source: Author calculations on Reserve Bank of India data

What does Table 1 tell us? Between May 2016 and May 2017, the total number of digital transactions (i.e. volume) went up by 14.5 per cent. In value terms, the digital transactions jumped by 36 per cent. So, doesn't this tell us that demonetisation had a positive impact on the digital transactions? Before we jump to that conclusion, let's look at how the situation was between May 2016 and May 2015, when there was no demonetisation to contend with.

Between May 2015 and May 2016, the total number of digital transactions grew by 47.9 per cent in volume terms, which was significantly faster than the increase between May 2016 and May 2017. Of course, the low-base effect is at work, but even with that the jump in percentage terms was significantly more last year.

This also tells us clearly the negative effect that demonetisation has had on the overall economy, with the larger of the economy going slow on spending. This ultimately reflects in the slower jump in digital transactions.

How do things look in terms of value? In terms of value, the jump between May 2015 and May 2016 stood at 26.2 per cent, which is lower than the jump between May 2016 and May 2017. (I did not look into data from May 2014 and before, because the structure of the digital data changes dramatically, with the importance of ECS increasing in comparison to NACH today).

What does this tell us? It tells us that demonetisation has led to those who were already on the digital mode to spend more digitally. It also tells us that the better-off haven't been impacted much by demonetisation. Nevertheless, the main aim of demonetisation was to increase the total number of digital transactions (the dream of a cashless society i.e.), which was happening anyway and seems to have slowed down after demonetisation.

The fact that digital transactions in India were growing at fast pace even before demonetisation, isn't surprising given that India is one of the youngest nations in the world. More than 54 per cent of India's population is under 25 years of age. Youth take on to new technology faster than others. Hence, the digital transactions in India will continue to grow in the years to come, as they had before demonetisation.

This brings us back to the question was demonetisation necessary? The [useful idiots](#) of Narendra Modi (with due apologies to Thomas Sowell who coined the term for a different context) through their WhatsApp forwards and analysis in the media, would like us to believe that. But as more and more data comes out, it is becoming more and more clear that demonetisation was a more or less whimsical decision carried out without any due-diligence. Of course, it needs to be defended now.