



AN EMPIRICAL ANALYSIS OF THE EFFECTS OF DEMONETIZATION ON KOLKATA

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ABSTRACT

Indian economy is undergoing one of the greatest transitions presently. Over the last few years starting from early 2013 there have been quite a few major reforms in the financial sector which further gave rise to even more radical changes in the functioning of the economy. Demonetization is one such event which has literally transformed the way the common man lives today. Demonetization of the 500 and 1000 rupee notes took place on the 8th of November, 2016 when the Indian Government ceased their use. The move was made to curb corruption, black money, terrorism and other issues. Apart from trying to solve the issues, it also gave rise to a new form of economy in the country, called cashless economy. More than just card based payments, there was a new mode of payment introduced to a large group of people, known as digital payment. Due to many people now using smart phones in the country, the revolution was not confined to digital payment gateways, but replaced the leather wallets with mobile wallets, for example Paytm, Mobikwik, etc. which were more convenient and apparently secure. This paper analyses the concept and rationale of demonetization, growth and development of mobile wallets, effect of demonetization on mobile wallets and Post demonetization effect on the sample selected in the Kolkata region. This is an empirical research which is based on both primary and secondary data. The secondary data has been collected from various journals, magazines and newspapers. The primary data has been collected through Google forms between time periods of April 2017 to December 2017. The respondents have been randomly selected from the Kolkata region within the age group of 18-65 years. Graphical tools like pie charts and histograms have been applied to interpret the data. The main result of this analysis was that 62% of the respondents attributed the growth of mobile wallets to the demonetization move and 42% responded that they prefer the digital mode of transactions using mobile wallets.

KEYWORDS: *demonetization, cashless economy, corruption, credit card, sustainable development.*

INTRODUCTION

The dictionary meaning of Demonetize is “to deprive (a metal) of its capacity as a monetary standard” or “To withdraw from use as currency” So, demonetization is the act of stripping a currency unit of its status as legal tender. On November 8th, 2016, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender effecting from midnight. The Reserve Bank of India (The Central Bank of the country) issued new five

hundred rupee notes and two thousand rupee notes from 10th November, 2016. The movement by the regime on the 8th of November 2016 had taken the entire country by surprise. There were certain reasons for Demonetization in India, namely to promote a Cashless, economy, to eradicate counterfeit currency, to eliminate black money, to combat corruption, to combat inflation, to crackdown on terrorism and Naxalism among others.



OBJECTIVES OF THE STUDY

1. To study the concept and rationale of demonetization,
2. To analyze the growth and development of mobile wallets due to demonetization,
3. To analyse the Post demonetization effect on the sample selected in the Kolkata region.

RESEARCH METHODOLOGY AND DATA COLLECTION

This is an empirical research which is based on both primary and secondary data. The secondary data has been collected from various journals, magazines and newspapers. The primary data has been collected through Google forms between time periods of April 2017 to December 2017. The respondents have been randomly selected from the Kolkata region within the age group of 18-65 years. Graphical tools like pie charts and histograms have been applied to interpret the data.

ANALYSIS AND INTERPRETATION

Concept and Rationale

The annual report of Reserve Bank of India (RBI) as on 31st March 2016 stated that total bank notes in circulation valued to Indian Rupee (INR) 16.42 trillion (US \$ 240 billion). The total worth of the old denominations in the circulation amount to INR 14.2 trillion (US \$ 210 billion), which is approximately 86% of the total value of legal tender in circulation. After the announcement of demonetization by the Indian government, public was allowed to tender their old currencies at any office of the RBI or any bank branch and credit the value into their respective bank accounts till 30th December 2016. These old currencies would have to either report by paying the applicable tax and penalties or would get extinguished. Some cash holdings were perfectly “white” as income has been declared and taxes on such net income has been paid and is not applicable in the first position for example agricultural income. Cash holdings arising from such income could easily be deposited into banks while black money would face various complications. Black money holders could declare their unaccounted assets and pay taxes at a penalty rate; continue to conceal it without exchanging their old currencies and thus suffering a tax rate of 100%; or launder their black money, paying a price for converting the money into white. India’s demonetization exercise is not unprecedented in its own economic history. It has experienced such instances of demonetization measures twice in the past, in January 1946 and January 1978. Government of India, in the

past, had adopted several steps to control unlawful menace, including creation of the Special Investigative Team (SIT) in the 2014 budget; the Black Money and Imposition of Tax Act 2015; Benami Transactions Act 2016; the Information Exchange Agreement with Switzerland; Changes in the tax Treaties with Mauritius, Cyprus and Singapore; and the Income Disclosure Scheme. India’s demonetization exercise is quite distinct from the global economic record, in that its joint confidentiality and unexpectedness amidst normal economic and political conditions. Demonetization in other nations has occurred in the context of hyperinflation, wars, political turmoil, or other extreme circumstances. Some countries, in the past, had embraced the act of demonetization where public refused to accept the decision resulting in a big breakdown in government who implemented in their rule. In 2010, dictator of North Korea, Kim Jong-2 demonetized old currency to crack down black market, fight inflation and to improve the economy of the country. But this move of Kim Jong didn’t give any better effect to the economic system. However, price of necessity goods increased and this led to public panic. On January 1991, Mikhail Gorbachev, the first president of the Soviet Union Government, withdrew the currency note of Ruble 50 and 100 to address black money in the country and increase the currency value. The government expected that it will lessen the market of black money and give a proper life to ordinary people. But this selection of the government considered a wrong twist and people started doubting on government that resulted in deprivation of public confidence, hyperinflation, cash drying up and even loss of businesses. Gorbachev faced a rebellion within eight months in August 1991 as the move was not a success.

Growth of Mobile wallets and E Wallets

Move to Electronic Currency due to the cash crunch after demonization, was the most obvious outcome of this move. With limitations on cash transactions, alternative patterns of payment like usage of plastic money (debit and credit cards), e-wallets and apps, online transactions using e-banking, etc. have gained ground. The demonetization indicates a possibility of transformation in spending behaviour on account of switching to other mode of transactions other than cash. There are numerous substitutes for cash in the contemporary financial system ranging from cheques, debit cards, credit cards, pre-paid cards, and mobile wallets. With frequent use of modern means of transactions, the consumption levels are expected to increase. In the long-run, it is expected to alter the lifestyles of the people and their spending behavior.



- Smartphone has become essential part of daily life. According to TechSci Research's latest report, India's mobile wallet market could reach \$6.6 billion by 2020. Smartphones are used as communication devices, as socialized tool, entertainment tool, internet access tool, and even payment tool.
- Mobikwik said it has registered 18-fold growth in transactions since the announcement of demonetization that saw old Rs 500 and Rs 1,000 notes ceasing to be legal tender. MobiKwik registers 7000% increase in bank transfers.
- Paytm has been witnessing over 7 million transactions worth Rs 120 crores a day, helping it cross \$5 billion GMV sales. Over 10 lakh offline merchants across India accept Paytm for payment including taxis, autos, petrol pumps, grocery shops, restaurants, coffee shops, multiplexes, and parking. Paytm has over 150 million mobile wallet users currently.
- The mobile wallet saw almost immediate results, reporting a 1,000% growth in money added to the mobile wallet, a 300% rise in app downloads, and an increase from three transactions per user per week to 18 over a three-week period.
- Freecharge claimed that the average wallet balance on its platform increased 12 times since the announcement.
- One of India's biggest banks, the State Bank of India (SBI), has blocked its customers from transferring money to their Paytm wallets, rather recommending they use the bank's own wallet, the State Bank Buddy, according to Mashable.
- Currently SBI's mobile wallets has 5 million downloads on the Google Play Store, according to Mashable. However, this could significantly grow if the bank doesn't allow its customers to use alternative wallets and leverages its massive network. The bank has over 20,000 branches in India, more than 54,000 ATMs, and it holds a 22% share of the domestic Indian banking market.
- The ratio of Oxigen's offline and online business is 90:10 in terms of gross realization but it is 60:40 in terms of gross transaction value indicating a heavy reliance on the offline business but the company aims to grow its online business. It has spiked over 160 percent as per-pressreader.com
- It has a large footprint of 2,00,000 retail touch points and more than 150 million active users, over 15,000 online and offline vendors, a wide network of over 100 banks and 14,000 trade partners scattered around the country. It handles transactions worth Rs 1200 crore every month.

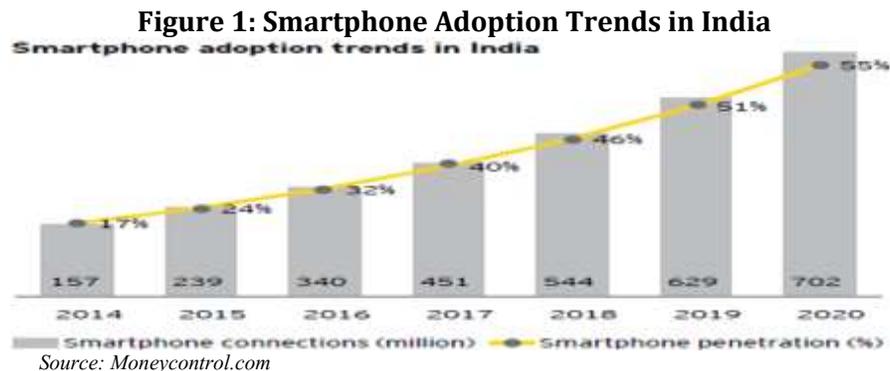




Figure 2: E- Payment Adoption Trends in India



Source: Moneycontrol.com

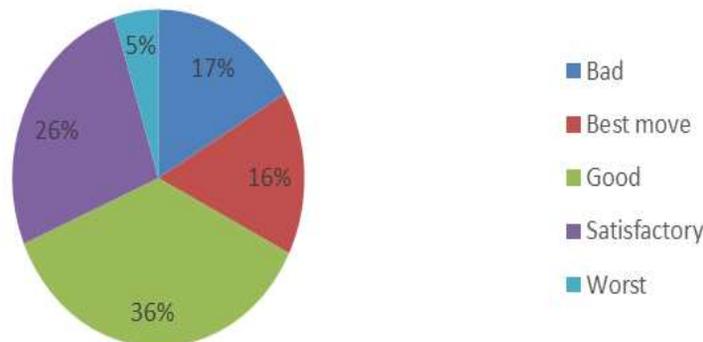
Post demonetization effect on the Sample Population.

Demographics

72% of the respondents were male and 28% female. 62% of the respondents were in the age group of 18-25 years; 34% were in the 26-40 years age group; 2% were in the 40-60 years age group; 1% was above 60 years and 1 % was below 18 years. 36% of the respondents were students; 11% were professionals; 44% were in service; 5% were in business; 2% were housewives and

2% were Entrepreneurs. 3% of the respondents were in the monthly income bracket of Rs. 5000-10000; 47% of the respondents were in the monthly income bracket of Rs. 10000-20000; 3% were in the monthly income bracket of Rs. 20000-25000; 18% were in the monthly income bracket of Rs. 25000 and above; 10% were in the monthly income bracket of Rs. 5000 and below; 19% were dependents. The analysis of some of the answers of the respondents is given below.

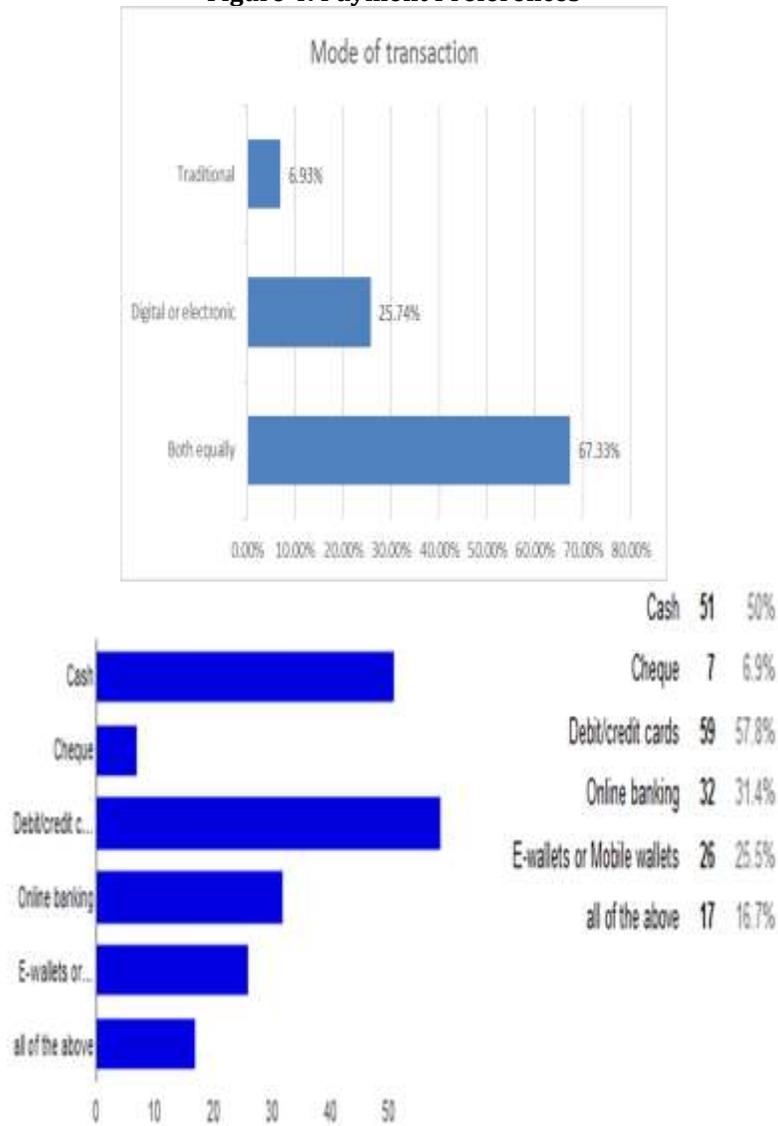
Figure 3: How do you rank PM Modi's move of demonetization?



Only 22% were not satisfied with this move. Overall, it was a satisfactory move for the population in view



Figure 4: Payment Preferences



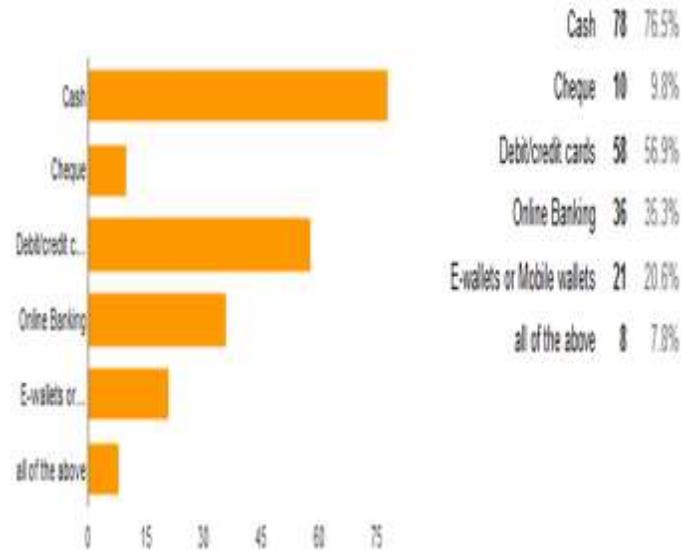
A majority of the respondents (67.33%) prefer using both the traditional and digital modes of payment. Out of those who are using the digital mode of payment also 57.8% are using credit/debit cards. Payments

through Online banking and e – wallets are slowly gaining ground.

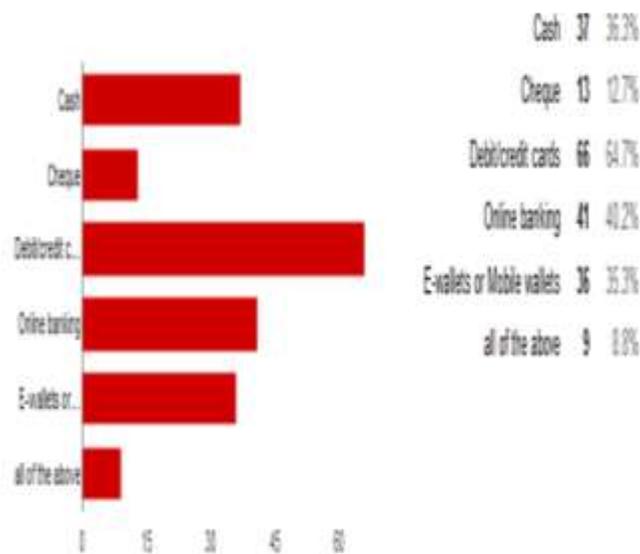


Figure 5: Usage Trend before and after Demonetization.

BEFORE DEMONETIZATION



AFTER DEMONETIZATION



There has been a considerable increase in the usage of Debit/Credit Cards, E- Wallets and Online Banking services post demonetization. This is not only

because of the cash crunch but also due to the ease of transaction that the respondents could avail.



Figure 6: Digital Payment Usage

Digital Media Usage

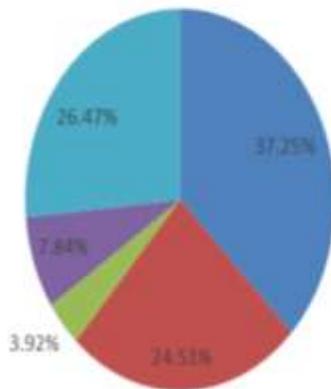
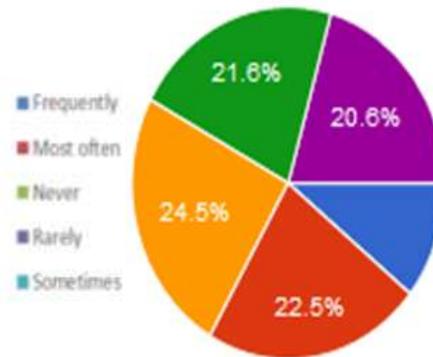


Figure 7: Mobile wallets usage



Most often	11	10.8%
Frequently	23	22.5%
Sometimes	25	24.5%
Rarely	22	21.6%
Never	21	20.6%

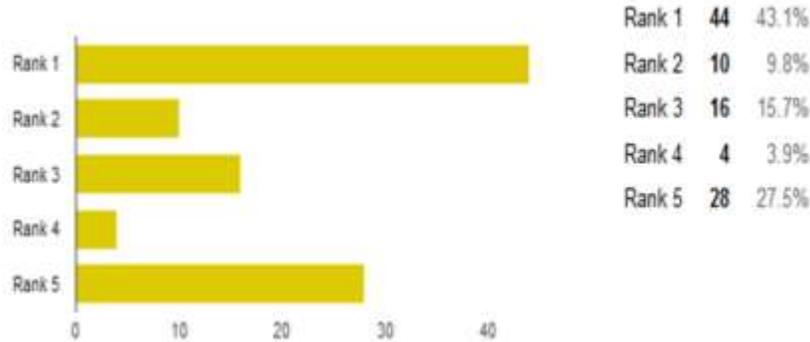
37.5 % of the respondents use the digital media frequently. 88% are generally using digital modes, out of those, 58% are generally using mobile wallets. Overall, Mobile wallet usage is taking up pace among users.

We also analyzed the preference of a type of wallet amongst the e-wallet users. Some of the aspects are discussed as below.

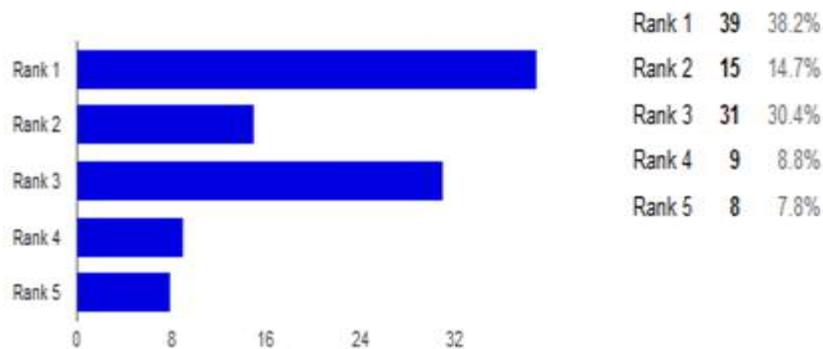


Figure 8: Wallets Preferred

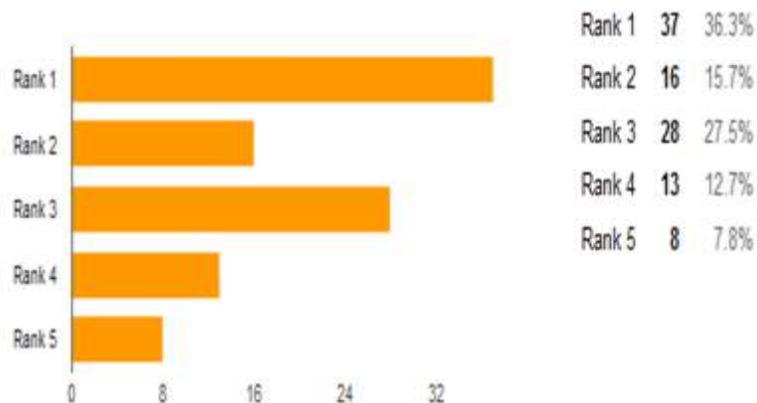
Paytm:



Oxigen:

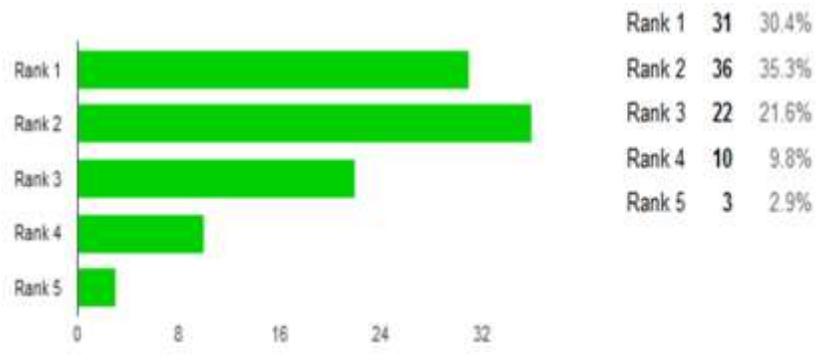


SBI Buddy:

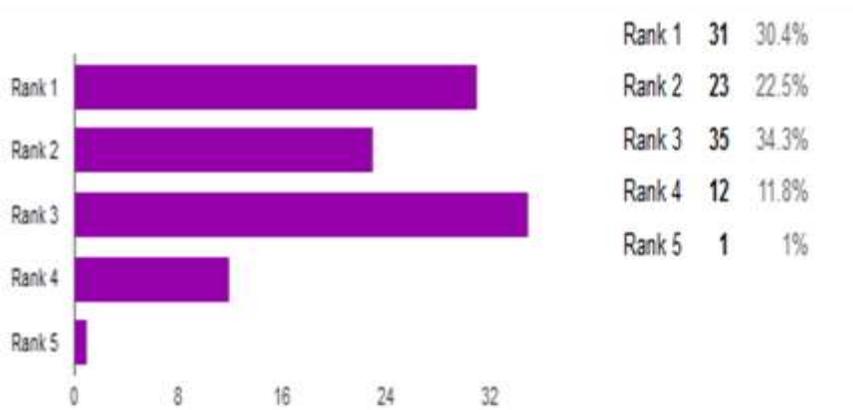




Freecharge:



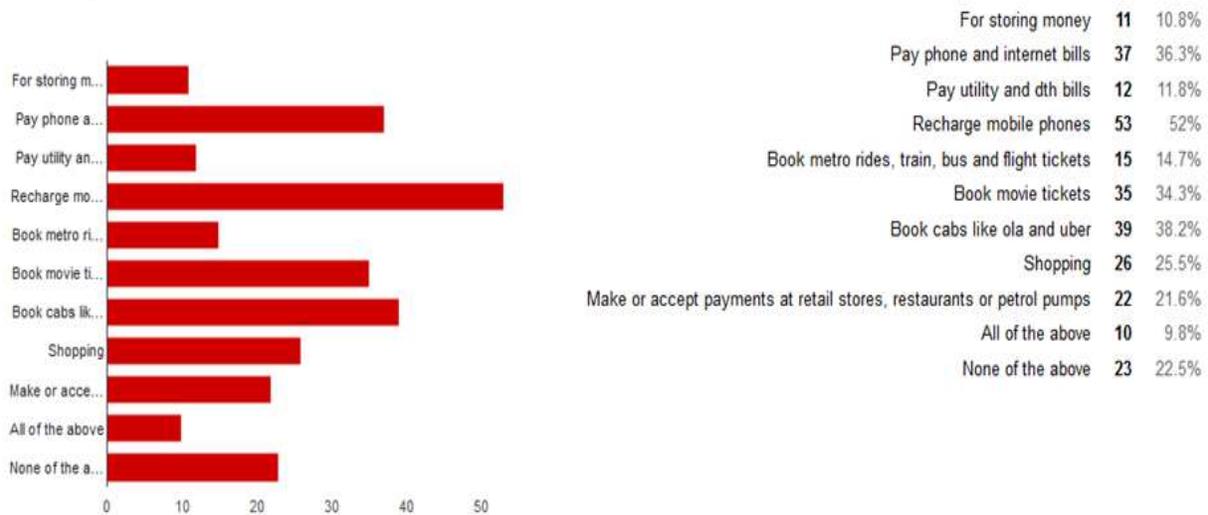
Mobikwik:



A majority of the e-wallet users prefer the Paytm application (43.1%). Oxigen and SBI Buddy are second and third in preference with 38.2% and 36.3% respectively. respondents ranking them as first preference respectively.



Figure 9: Mobile Wallet Usage

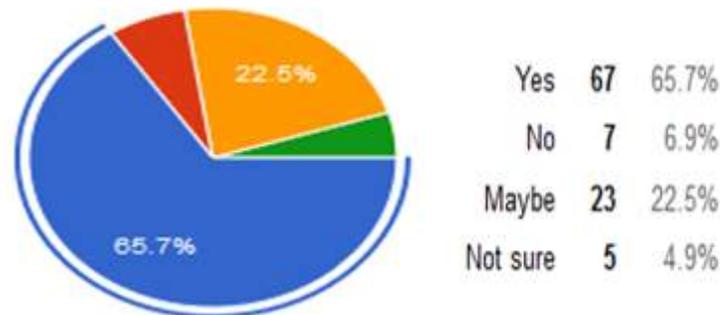


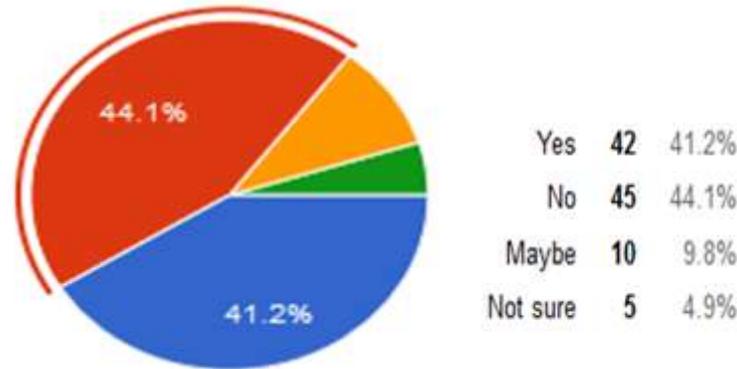
In a further analysis we found that between Cash and Mobile Wallets there were certain specific issues. Some of them have been highlighted. 41.6% respondents still prefer carrying cash, whereas 50.5% actually prefer carrying both cash and mobile wallets. 60.4% perceive that mobile wallets are comparatively safer than cash in the context of theft or loss however the mobile wallet users showed concerns over cyber-security issues. Only 14.7% preferred using only mobile

wallets as compared to 43.1% who preferred using both cash and mobile wallets.

In the final part of our analysis we observed that 65.7% of the respondents owe the recent rise in e-wallets and mobile wallets usage to demonetization. 44.1% are not supportive of a completely cashless economy. India is still not ready to accept digitalization but the rate of acceptance is increasing gradually and steadily.

Figure 10: Rise in the use of e-wallets or mobile wallets due to demonetization



**Figure 11: Preference towards cashless digitalized economy**

CONCLUSION

They are not ready yet to shift completely to a cashless mode of functioning. Also Paytm has come up as the most popular e-wallet among the masses. The Government's recent decision to dominate the higher value currency is one of the major steps towards the eradication of black money, control corruption, terror financing, and eliminate counterfeit currency in India. The announcement of the demonization of the currency has caused enormous hassle to the public. The economy of the country has experienced a recession in the last few months, but it is expected to get back to its shape in the long run. The demonetization drive has affected some extent to the general public, but for the larger interest of the country such decisions is inevitable. Economic experts are busy analyzing the merits and demerit of this demonetization policy. However, there are only advantages of the policy and that will be reflected in the long term, the forecast is that its benefits would be witnessed in the long run. Former Prime Minister Manmohan Singh, who is a noted economist, former RBI governor and former Finance Minister of the country, refers the initiation as an 'organized looting and legalized plunder. Nevertheless, if merits are compared against demerits, it would be safe to conclude that the former outweighs the latter. Ayhan Kose, Director of Development Prospects Group at the World Bank disclosed that the unfavourable effects of demonetization in India will disappear in the long term as any reform has short-term costs. It is further added that the World Bank is expecting growth over the financial year 2018 and 2019 supported by private consumption, infrastructure spending, and a rebound in investment growth. India has already undertaken a wide range of reforms. These reforms would loosen domestic

supply bottlenecks and increased productivity, moderate inflation and civil service pay raise should go along to support real incomes and expenditure. In our sample survey we observed that though the demand for digital mode of payments have increased a lot post demonetization, yet a considerable percentage of the respondents prefer both the cash and digitalized mode.

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