

# Why demonetization has been disruptive for India

Despite growing cellphone adoption, only 10% of households have Internet access, finds ICE 360° survey



BY PRAMIT BHATTACHARYA pramit.b@livemint.com

NEW DELHI

As most of the high-value currency notes scrapped on 8 November make their way back to the system, belching earlier expectations, the official narrative around the move seems to have shifted from this being a "surgical strike" against black money to being a great leap towards a cashless India, where most consumers love cash, and very few have access to the Internet.

The Household Survey on India's Citizen Environment & Consumer Economy (ICE 360° survey) conducted this year shows that most Indian households prefer using cash for buying both essentials and consumer durables, and that nearly half of them have a habit of saving cash at home. The survey covering 61,000 households is among the largest consumer economy surveys in the country, and captures data till July 2016.

An earlier Plain Facts column by Tadiit Kunda ([bit.ly/2Zf1M39](http://bit.ly/2Zf1M39)) based on latest data from the Bank of International Settlements (BIS) had pointed out that India lags most emerging markets in access to point-of-sale terminals and automated teller machines.

The challenge of scaling up the infrastructure for cashless payments is a big one, but there are two related challenges India faces in its attempt to transition to a cashless economy: bridging the country's great digital divide and changing old habits of using cash for everything.

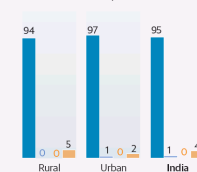
The ICE 360° survey shows that only 10% of households in India reported having an Internet connection at home. In metros, the figure is comparatively higher at 26%, but in underdeveloped rural areas, only 3% have an Internet connection at home. The proportion of households where at least one member can access the Internet (either at work or home or elsewhere, and either through a computer or mobile) is a bit higher at 22%, but even on that metric there is a yawning chasm between big cities and underdeveloped rural areas.

A notable feature of the ICE 360° survey is that it is representative at the level of economic clusters. Urban India has been divided into four clusters: metros (population more than 5 million), boom towns (2.5 to 5 million), niche cities (1 to 2.5 million) and other urban towns (less than 1 million). Less than a district development index, rural India has been subdivided into three different clusters: 'developed rural', 'emerging rural', and 'underdeveloped rural'. The first category includes districts such as Bathinda (Punjab) and Kangra (Himachal Pradesh). The second category includes districts such as Latur

## Cash is king

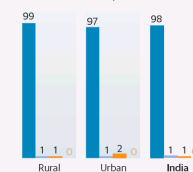
Almost all households in both urban and rural India prefer using cash for buying groceries

Preferred mode of payment for groceries (% households)

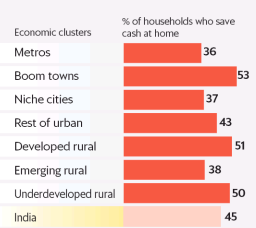


Almost all households in both urban and rural India prefer using cash for buying consumer durables

Preferred mode of payment for groceries (% households)

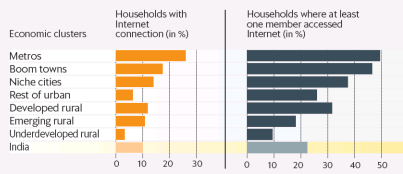


Half of the households in underdeveloped rural areas have cash savings at home. Even in metros, more than a third of households save cash at home

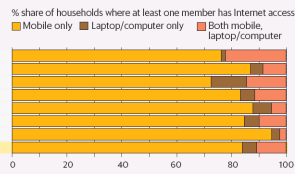


## Digital divide

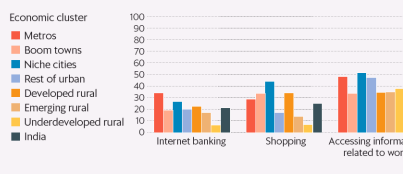
A quarter of households in metros reported having an Internet connection, and half reported having at least one member who could access the Internet, but the figures for underdeveloped rural areas are significantly lower



Most people in India with access to Internet get online via mobile phones. The proportion of people accessing the Internet only through mobiles is significantly higher in underdeveloped rural areas than in metros



Nine out of 10 people with access to Internet in underdeveloped rural areas don't use it for banking or shopping. In metros, two out of three people with access to Internet don't use it for banking or shopping



Graphic: Ahmed Raza Khan/Mint

## mint ICE 360° Part 10

(Maharashtra) and Kamrup (Assam), while the last category includes districts such as Kaliahadi (Odisha) and Bastar (Chhattisgarh).

The survey shows that half the households in metros have at least one member who has access to the Internet. Less than one in 10 households in underdeveloped rural areas has a member with access to the Internet.

There is a similar digital access across income classes when it comes to Internet access. Forty-seven per cent of households in the top quintile have at least one member with access to Internet. In stark contrast, only 4% of households in the bottom quintile have any member who can access the Internet.

Seventy-seven per cent of households in the bottom quintile have a

mobile phone, as an earlier part of this series ([bit.ly/2Zf1M39](http://bit.ly/2Zf1M39)) pointed out, but the overwhelming majority of them do not seem to be accessing the Internet on their phones.

Even among those accessing and using the Internet, a majority did not use it either for banking or shopping, at least till July this year, the survey data shows.

An overwhelming majority of Internet users used it for social networking (through apps such as Facebook and WhatsApp), and only 2% of those having access to Internet reported using it for banking.

In metros, two out of three people with access to Internet did not use it for banking or shopping. In underdeveloped rural areas, nine out of 10 people with access to Internet did not use it for banking or shopping.

After 8 November, these figures must have changed, especially in areas with reliable Internet connections, but it is unlikely that a large section

of India's digitally excluded citizenry has suddenly been able to access the Internet and has been able to use it for their daily transactions.

It is more likely that those with Internet access (especially the richer classes living largely in metros) have been using it for shopping and banking in greater numbers, while the rest of the country queues up to get cash outside banks, ATMs and work sites.

It is the digitally excluded majority whose lives have been disrupted the most by demonetization.

"Digital India" may be an attractive slogan, but it is not a reality yet, the ICE 360° survey shows.

The ICE 360° survey was conducted by the independent not-for-profit organization, People Research on India's Consumer Economy (PRICE), headed by two of India's best-known consumer economy experts, Rama Bijapurkar and Rajesh Shukla. The urban sample of the survey is comparable to that of the

National Sample Survey Office (NSSO) consumer expenditure survey conducted in 2011-12.

While the NSSO surveyed 101,631 households of which 41,968 (41.3%) were urban households, the ICE 360° survey covered 61,000 households of which 36,000 (59%) are urban households. The rural sample of the ICE 360° survey is less than half of the NSSO sample. Nonetheless, all the estimates of each region have been derived by adjusting for the respective population of those regions.

Tadiit Kunda in Mumbai contributed to this story.

This is the 10th of a 16-part data journalism series on how India lives, thinks, earns and spends, based on the latest results from the ICE 360° survey ([www.ice360.in](http://www.ice360.in)) conducted by the People Research on India's Consumer Economy (PRICE) in 2016. The next part will look at access to banking, and the instruments Indians use to save and invest.

# ADB cuts India's FY17 growth forecast to 7%

BY ASIT RANJAN MISHRA asit.m@livemint.com

NEW DELHI

The Asian Development Bank (ADB) on Tuesday became the first multilateral agency to reduce India's growth forecast for the current fiscal year to 7% from 7.4% it earlier estimated, following the government's decision to devalue the rupee to Rs100 and Rs1,000 currency notes.

In its Asian Development Outlook 2016 update, ADB said its lower growth projection for India is due to weak investments, a slowdown in the country's agriculture sector, and the lack of available cash due to the government's decision to ban high-denomination banknotes. "This will likely affect largely cash-based sectors in the country including small- and medium-scale businesses," it said. However, it added that the effects of the transition are expected to be short-lived and the Indian economy is expected to grow at 7.8% in 2017. The government announced withdrawing the high-value notes on 8 November, which amounted to 86% of the total value of currency in circulation.

The slow pace of supplying the new Rs100 and Rs2,000 notes has led to long queues at banks and ATMs and hit businesses.

Fitch Ratings has already downgraded India's growth forecast to 6.9% in 2016-17 from earlier estimate of 7.4%.

## ADB cites weak investment and note ban for revision from the earlier 7.4%

while Morgan Stanley has reduced its projection to 7.3% from 7.6% for the same period.

ADB trimmed its year-over-year growth forecast for south Asia and developing Asia as a result of slower growth expectations in Asia's third largest economy.

South Asia's growth is now projected at 6.6% in 2016 from 6.9% while developing Asia except Japan is expected to grow at 5.6% during the same year, down from 5.7% expected earlier.

ADB said growth in the People's Republic of China (PRC)—the world's second largest economy—is expected to touch 6.8% this year, driven by strong domestic consumption, wage growth, urban job creation, and public infrastructure investment. The forecast for PRC in 2017 is maintained at 6.4%.

"Asian economies continue their robust expansion in the face of global economic uncertainties," said ADB deputy chief economist Huzhong Zhuang in a statement. "Structural reforms to boost productivity, improve investment climate, and support domestic demand can help maintain growth momentum into the future," he added.

# India's CAD at 0.6% of GDP in second quarter

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NEW DELHI

India posted a current account deficit (CAD) of \$3.4 billion, or 0.6% of gross domestic product (GDP), in the July-September quarter, data released by the Reserve Bank of India (RBI) showed.

The CAD in the second quarter was higher than the first quarter (April-June) CAD of 0.1% of GDP but lower than the same quarter (July-September) a year ago at 1.7% of GDP. The contraction on a year-on-year (y-o-y) basis was primarily on account of a low trade deficit (\$25.6 billion) brought about by a larger decline in merchandise imports relative to exports.

India's merchandise exports and imports turned positive in September and October after consistently declining since December 2014—barring in June—because of sluggish global demand and low commodity prices.

Net services receipts moderated on a y-o-y basis, primarily because of a fall in earnings from software, financial services and charges for intellectual property rights.

Private transfer receipts, mainly representing remittances, amounted to \$15.2 billion, having declined by 10.7% from their level a year ago.

RBI in its monetary policy review earlier this month said CAD is likely to remain muted, notwithstanding some loss of remittances and software exports under the "so-called invisible category," which refers to the trade that is not tangible. However, rising crude oil prices may put some pressure on trade deficit.

Crude prices reached an 18-month high at \$56.14 per barrel on Monday after members of the Organization of Petroleum Exporting Countries and OPEC producers outside the group led by Russia agreed to reduce output almost by 2% of global oil supply.

On a cumulative basis, CAD narrowed to 0.2% of GDP in the first half (April-September) of 2016-17 from 1.5% during the same period a year ago as trade deficit narrowed to \$49.5 billion from \$71.3 billion during the comparable period.

Portfolio investment recorded a net inflow of \$8.2 billion during the first half (April-September) against a net outflow of \$3.5 billion a year ago. A widely anticipated Fed interest rate hike in the US may lead to further outflow of portfolio investments from India though analysts say it is unlikely to match the taper tantrum of 2013 which rattled Indian markets.

# A CATALYST FOR A CASHLESS SOCIETY

EXPERT VIEW  
ARVIND GUPTA



Respond to this column at [feedback@livemint.com](mailto:feedback@livemint.com)

The Modi government's demonetization decision, replacing 86% of currency, was undeniably disruptive. No major disruptive decision was without upheavals and it will be foolhardy to suggest that the removal of Rs500 and Rs1,000 notes from circulation hasn't inconvenienced most people, especially those on the wrong side of the socioeconomic and digital divide in India—the poor. Yet, the exercise was neither a knee-jerk reaction nor was it without consideration for the poor. In fact, it was just the opposite and reflective of the inclusive motto

of the Prime Minister and his government's 'sabka saath sabka vikas' theme.

Removing high-denomination currency notes fits well with the government's successful efforts at financial inclusion, through Jan Dhan, and using technology as an enabler, through Digital India, to improve the socioeconomic condition of the most marginalized sections in our society. The central idea behind this vision is not just about connectivity, but about how to leverage that connectivity in enabling consumers, small businesses, traders and farmers to harness technology for efficiency and productivity.

The Jan Dhan-Aadhaar-Mobile trinity and less-cash initiatives are the backbone of far-reaching reforms, development and a growth agenda. Each and every Indian cannot have access to all financial services through the revolutionary IndiaStack. IndiaStack's open innovation at its best, with tight integration with Aadhaar identity, digital locker and payment systems available to all to build their innovations on top of these platforms. The data exhaust from the digitization efforts will make our society truly data rich, which in turn can be leveraged for a host of appli-

cations, including better credit facilities for small and medium businesses, customized insurance and savings products, among others.

Prior to demonetization, the bulk of transactions were conducted through cash. Since then, it has reduced considerably and this move has proven to be a catalyst for consumption to be digitally driven and payments to go cashless. However, it must be acknowledged that large parts of the poorer sections of society, especially in tier-2 and 3 cities as well as rural India, are not financially literate and distrustful of the formal banking system. In many cases, even if they have bank accounts, they are unaware and unable to use digital payments systems. That is the real challenge for the new-age banks and fintech disruptors. They need to ensure that a consumer trusts and uses digital payments as comfortably as cash.

## COLUMN

It is pleasing to see, since the demonetization drive, the number of smaller merchants such as tea stalls, grocery stores as well as consumers in rural and smaller cities embracing digital payments through mobile wallets, bank point-of-sale machines, among others. But in order to make digital payments pervasive and sustainable, India not only needs to focus on continuing to roll out digital infrastructure, but also proactively educate its citizens on the long-term benefits of digital transactions.

The payment supply chain should work on smartphones, as well as feature phones in areas of low connectivity with confidence. There are already villages in states such as Gujarat and Haryana where digital payments are the norm, be it in grocery shops or managing welfare payments from the government. But this needs to be replicated across the country.

The digital transformation of cash is also a cost saving to the entire financial ecosystem and not just the payments ecosystem. Printing and cash management by physical infrastructure to secure and dispensing of currency, cash is very expensive. Banks and our government must think out of the box to pass these savings to consumers as incentives to embrace digital transactions.

Indians must use the demonetization drive as a business innovation and political catalyst, to ensure those who are on the wrong side of the digital and socioeconomic divide, especially in rural Bharat, can effectively function in a less-cash society.

So, while it has thrown up many challenges, this bold decision by the government definitely acts as a catalyst to ensure all parts of our society can be part of India's growth story. The government cannot do it alone—all of us need to play our part in it.

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