

# India Demonetisation Monitor

Issue #2

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## Digital payments are expanding in India

India continues to make steady progress toward becoming a “less cash society.” As expected, cash has recently enjoyed a revival, but this re-monetization is likely to peak out and a new post-demonetisation normal for the GDP-to-cash ratio will soon be found. This is consistent with the Reserve Bank of India’s (RBI) recent policy decision to limit printing of replacement notes for those withdrawn from circulation last November. The breadth with which digital payment alternatives are emerging and being embraced also signals a larger trend away from cash. This issue of the India Demonetisation Monitor examines the sectors that are making the fastest progress to digital payments.

Visa’s Digital Payments Tracker for India has declined relative to other developing electronic payments markets as cash returned to the economy in recent months. However, the metrics of digital enablement in Visa’s Tracker have continued to expand, confirming that important behavioural

changes are occurring in how Indian’s spend and transact on a daily basis.

The breadth of sectors and frequency of digital transactions reveals that behaviours surrounding cash and digital payments are evolving in the direction the demonetisation policy sought.

### Key Points:

**Cash has returned to the system with India’s re-monetization**

**Digital payments throughout many sectors suggest widespread adoption**

**Visa’s Digital Payments Tracker indicates a permanent shift in consumer behavior is underway**

## Tracking India’s development as a digital payments market

(Indexed based on five key economic indicators\*)



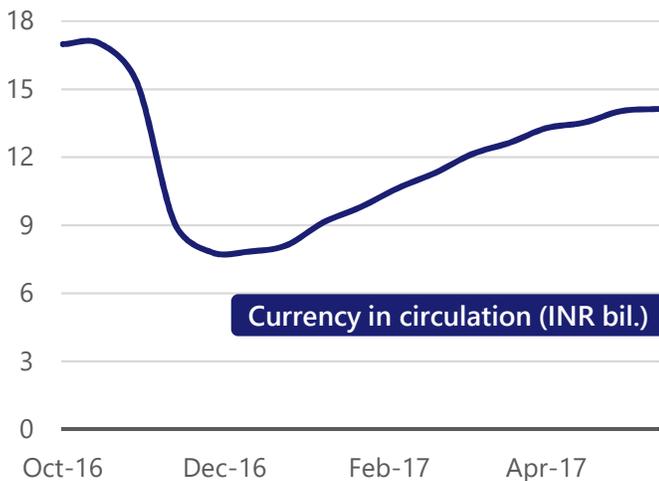
Sources: Visa Business and Economic Insights analysis of industry data, including Haver Analytics.  
\*Indicators provided on Page 3.



# Societal participation grows in the digital payments landscape

Cash has recently returned to the Indian economy, but the pace of re-monetization is slowing. The RBI's currency in circulation figures show sequentially slower growth rates over the course of the year, from a high of 6 percent in the second week of January to average weekly growth of just 0.5 percent in early June. However, the overall trend indicates currency in circulation is stabilizing over time.

## Currency in circulation is stabilizing as re-monetization comes to an end



Sources: Visa Business and Economic Insights; Reserve Bank of India; Haver Analytics.

The currency removed from circulation has not been fully replaced, reflecting the dynamics of both supply and demand—the RBI will likely print less currency than was removed from circulation, while a wide array of digital payments alternatives has emerged and is being embraced.

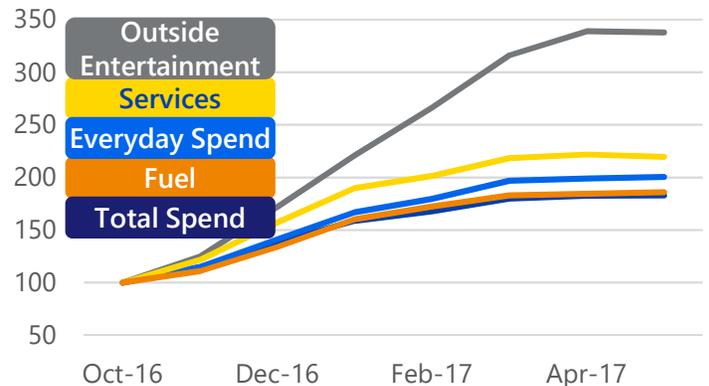
## India's transition to a digital economy is occurring on multiple fronts and across a range of income cohorts.

Visanet transaction data underscores these trends based on three key dynamics at play:

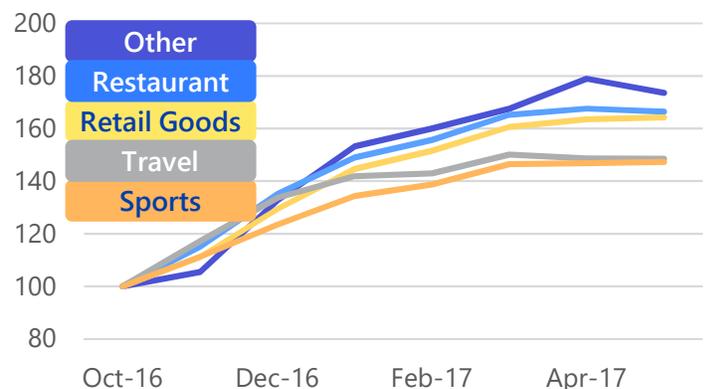
1. The increase in the number of unique card acceptor I.D.s highlights much greater acceptance
2. The increase in transactions per terminal confirms greater digital payments usage
3. The lower average spend per terminal suggests that a broader group of customers has joined the digital journey, not just the top-income or aspirational cohorts

A look at merchant categories\* helps illustrate and dispel a number of misperceptions about the payments landscape post-demonetisation. **First, the growth in non-cash alternatives is not just a middle-to-upper class trend, but is more broad-based.** While restaurant and travel spending would reflect a degree of aspirational spending, strong growth in categories such as “everyday spend” (food, transport, etc), “outside entertainment” and “fuel” indicates that a wider span of income cohorts—not just the top-earning ones—is adopting digital payments.

## Unique card acceptor I.D.s, select categories (October 2016 = 100)



## Unique card acceptor I.D.s, other categories (October 2016 = 100)



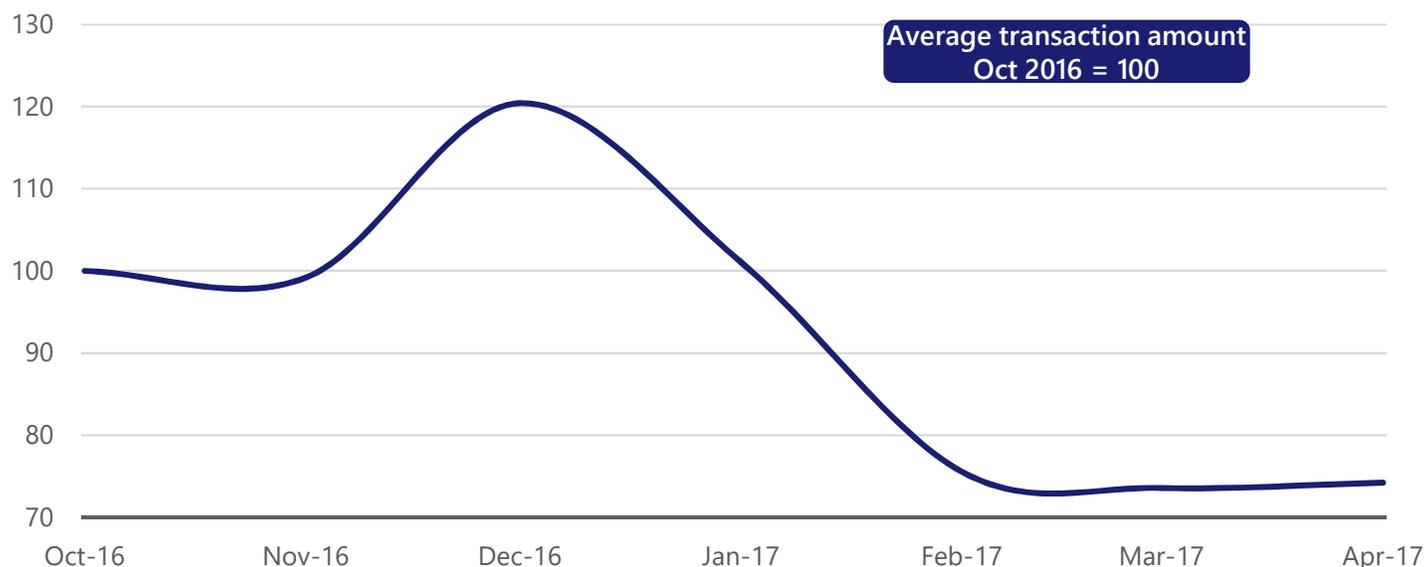
Sources: Visa Business and Economic Insights; Haver Analytics. \*For simplicity, 55 merchant categories were consolidated into nine broader categories.

## Second, a decline in India's average “ticket price” also suggests digital adoptions across income cohorts.

Average ticket price (in rupees) is defined as total purchase volume divided by the number of transactions. Both are increasing, but transaction count is increasing at a faster pace than purchase volume, likely indicating wider societal participation.

# Societal participation grows in the digital payments landscape

## Total Spending – Average Ticket Price



Sources: Visa Business and Economic Insights; Haver Analytics.

## India Digital Payments Tracker

Key Indicators	Baseline*	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017
GDP-to-cash ratio	8.96	19.45	18.10	15.53	13.07	11.65
Deposits-to-cash ratio	0.61	1.53	1.29	1.11	1.12	0.91
Restaurants accepting Visa-branded cards per 1 million urban residents	116.16	156.73	168.73	176.39	186.22	188.89
Mobile phone subscriptions per 100	84.34	85.90	88.00	89.71	90.70	92.08
Visa PCE penetration rate	3.60%	4.00%	5.77%	5.50%	4.42%	--

Source: Visa Business and Economic Insights analysis of industry data, including Haver Analytics \* Baseline figures are from October 2016 and refer to the state of indicators pre-demonetisation

## India Demonetisation Monitor and Digital Payments Tracker

Visa's India Demonetisation Monitor is a quarterly publication that follows India's move to a "less cash" society, aiming to capture the tipping point when consumers are digitally-enabled and primed for a more dynamic payments infrastructure and economy. The newsletter includes a composite index of five key industry and economic indicators that track India's progress as a digital payments market relative to other economies where digital payments are either still developing or already taking off.

# What to watch for until Visa's next demonetisation update

Event	Date	Why to watch
Reserve Bank of India (RBI) <ul style="list-style-type: none"> <li>Monetary policy meeting</li> <li>Currency in circulation figures</li> <li>Public statements</li> </ul>	Policy Meetings: August 1-2 October 3-4 December 5-6	<ul style="list-style-type: none"> <li>The Indian banking system is now flush with funds, given the success of the obsolete bank note exchange policy.</li> <li>Banks have cut lending rates across the board, but lending will likely be slow to pick up.</li> <li>The lower-than-expected economic disruption and need to establish an equilibrium.</li> <li>The fortnightly currency in circulation growth rates are slowing, and rather than representing logistical constraints are likely to reflect a policy choice to lower the level of cash in the economy.</li> </ul>
'Project Digital Sankalp'	Announced 7 <sup>th</sup> June 2017	<ul style="list-style-type: none"> <li>Visa has partnered with the Andhra Pradesh Government, which has a commitment to complete digitization, to make Visakhapatnam a 'less-cash' city within the next six months and gradually make it the first such city in the world.</li> </ul>
Introduction of the Goods & Services Tax (GST)	Introduced 1 <sup>st</sup> July 2017	<ul style="list-style-type: none"> <li>India's complex taxation system will be simplified with the introduction of a national Goods and Services Tax (GST) from the 1<sup>st</sup> of July 2017 that will subsume a whole range of existing state and federal taxes. However, rather than a single rate, the GST will be levied at four different rates across various goods and services.</li> <li>The GST should theoretically operate more efficiently in post-demonetisation India. Transactions that are increasingly being made by digital payments reduces the scope for tax avoidance.</li> </ul>

Source: Visa Business and Economic Insights

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