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## From demonetisation to a cashless economy- A vision for better India

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### Abstract

Demonetisation is an act of withdrawal of a particular form of currency from circulation.

As per the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated RBI, the total value of the Rs 500 and Rs 1,000 notes in circulation till March 2016 was Rs 14.18 lakh crore. Of this amount, 15,707 million comprised Rs 500 notes and 6,326 Rs 1,000 notes. This accounted for 86% of the total currencies in the system (Agencies| Dec 05, 2016) [1]. As per the press release of RBI dated on 13/12/2016, the total number of old notes (which are now withdrawn) of value of ₹ 12.44 the customers have deposited lakh crore. The government claimed that the move of demonetisation is required for making the black money worthless and for reducing the corruption. The move was targeted to stop the funding of terrorism and to stop the problem faced by fake currency. Demonetisation makes the country to move towards cashless environment. Soon after demonetisation people started to adopt to modern methods of cashless payments. To encourage this transformation government has introduced discounts and freebies on digital transactions. The emerging of cashless economy has been widely expanded and the knowledge of cashless economy has been spread across. The wide usage of digital payment would reduce duplicity. Cashless payments are becoming trend as it saves a lot of time and the benefits received are numerous. The main motive behind the digital mela by Narendra Modi is to increase transparency. For promoting cashless economy, many cashless transaction provider have started to give 100% cashback on the transaction that are cashless. Demonetisation and cashless economy are interlinked. Cashless economy is result of demonetisation. The volume of uneducated lower sectors of vendors are progressing towards the change.

**Keywords:** Demonetisation, cashless, digital India, black money, GDP

### Introduction

In the recent times the word demonetisation has been heard many times. Demonetisation means an act of stripping a currency unit of its status as legal tender. Not only India but world also has faced demonetisation and they came of crisis successfully. Many countries demonetise their currency when they huge circulation of fake currency or large-rubble bills from circulation to take over the black market. When the fake currency circulation is high which lower the value of currency which leads to inflation and other major problems. Indian Prime Minister Narendra Modi made a surprise TV announcement on Tuesday 8<sup>th</sup> of November, 2016 about the withdrawal of legal tender of high denomination notes Rs 500 and Rs 1000. Prime Minister Narendra Modi has explained his citizens that the demonetisation is for following reasons:

- To remove black money from the economy.
- To stop funding of terrorism.
- To remove fake money.
- To stop Hawala trade.
- To reduce corruption.

This is not the first-time India is facing demonetisation, the history begins in

- RBI has printed the highest denomination note ever in 1938, the 10,000 rupees note, which was demonetised in the year 1946.
- Higher denomination banknotes as Rs.1000, Rs.5000, Rs. 10,000 were reintroduced in the year 1954 later all of them were demonetised in the year 1978.

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- As on date 1000 and 500 rupees were the high value of currency which were introduced in the year 2000 and 1987 respectively. They were recently demonetised on 8<sup>th</sup>, November, 2016.

As India, has been with a constant currency since 1978 i.e., Rs 50, Rs 100 and later introduced with Rs 500 and Rs 100. The Indian economy was stagnated with fake currency all over again. The arms for black market have grown extensively which left India still as a growing economy. The main reason for demonetisation is the amount of unaccounted money is growing increasingly. If taxes are being paid for this unaccounted money, then the growth scope for country is more. As per the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated RBI, the total value of the Rs 500 and Rs 1,000 notes in circulation till March 2016 was Rs 14.18 lakh crore. Of this amount, 15,707 million comprised Rs 500 notes and 6,326 Rs 1,000 notes. This accounted for 86% of the total currencies in the system (Agencies| Dec 05, 2016) <sup>[1]</sup>. As per the press release of RBI dated on 13/12/2016, the total number of old notes (which are now withdrawn) of value of 12.44 the customers have deposited lakh crore. Nearly 86% of money which was readily available for transactions was pulled out by the government. In this period, the Reserve Bank of India has distributed 2.2 billion pieces of notes of higher denomination of ₹2000 and ₹500 <sup>[3]</sup>. The bulk of new high denomination currency are useless for most of the transactions because of absence of sufficient smaller-denomination notes where receivers can offer as “change”. Modi came into power with an initiative to eradicate black money, he has already planned his steps to work towards curbing black money.

1. The very first plan of Modi was for everyone to have a bank account. He inspired people to open bank accounts which future benefits them in insurance at cheap norms. He made accounts for common man (JAN DHAN YOJANA).
2. His second major step was a master one. INCOME DECLARATION. He allowed the people carrying black money a chance to tackle any sort of investigation, penalty, or anything. Some people did come out and declared their assets and paid the taxes.
3. His visit to various countries and signing of double tax treaty.
4. The next step was getting a new law where anyone can be accounted for property (land, flats etc.) if their salary is not able to clarify the same. This also includes retired government employees.
5. Then he did what he did on 8th Nov.

These stages of transformation Modi has bought wouldn't be possible with a single person. There must be great minds and hard work behind this initiation. These stages are for better India the future generations will have great impact of the change that we saw. These changes can make India a country from developing economy to developed economy. The currency replacement programme is designed in flushing out cash that is earned legally but never disclosed and earned through illegal activities.

### Impact of Demonetization

**Challenges in Rural India:** RBI has implemented several cash withdrawal limits after demonetisation and banking

industry is suffering from severe cash crunch so they are not getting enough cash flow in rural banks where their daily needs requires cash. In rural India, lack of awareness of internet banking and lack of trust in technology due to security and privacy risks.

**Fake Currency:** Demonetization will remove the fake currency circulation from the economy which is highly circulated by the anti-nation elements in the economy. But, it's a short run impact because they will find a way to print the new fake currency in future so government has to take a severe step against fake currency.

**Making the black money worth less:** Demonetization will help to reduce the black money but there are some schemes where people can convert their black money into white money after paying 50% tax and penalty which may bring the situation as previous and the purpose of demonetisation will be objective less.

**Agreement Cost of Real Estate May Rise:** Its most expected that would an impact on the demand for the real estate as most of them are backed from bank loan. The demand for investors in the sectors of real estate has declined over a period of time as, investors prefer cash transactions. If the percentage of previous transactions in the real estate sector, which were allegedly done through partial cash reduces, then registered prices for real estate will go up. It's expected that supply of real estate secondary market, which is strongly whispered to have a large cash component involved, to agonize in the short term, which may in turn progress demand for residential real estate in the primary market.

In the intermediate term, the prices in this sector could regain on many future as developers rebalance their prices (probably charging more on cheque payment).

**Used car Sales May Fall:** The second-hand market sale and disposal would be a big trouble as manufacturers will get impacted the original product that will cause a wave effect on New Car sales, as buyers wouldn't be able to dispose of their old vehicles easily.

**Slowdown in Flexible Spending to Hurt Consumer Durable Sales:** Sales of goods like Refrigerator, Washing Machine and TV could crash as much as 60% as a good portion of the market is driven by Cash. This may continue for next Six Months to Eight Months till the dust settles down and there is adequate circulation of the new currencies.

Prices are expected to reduce only marginally, due to demand fluctuation, as use of cards and cheques could compensate for some purchases.

**Demand for Gems and Jewellery to Decline:** There will be huge impact on the jewellery and gems as they are the current assets that can be easily converted and most of people prefer to invest in gold. Upon that alleged rumours for tax to be paid with respect to gold and an exception of certain limit is allowed both for men and women. The unorganised sector would face major problem as they must show the accountability for the stock they are holding. Over the time the organised industry players will benefit at the cost of the unorganised players. The illegal import of gold

will eventually decline. There won't be no significant impact on jewellery exporters because it is mostly an organised market and sales are against invoices.

**High End Retail Demand to fall:** The segment of high fashioned and luxury goods will be profoundly expected to be reduced/ declined. In case of Restaurants, although 50%-70% of the transactions are currently paid in cash, the impact is likely to be moderate due to the low segment pay in cash and the higher segment prefers to pay in plastic money. We expect a limited impact to be caused on the food and grocery retail, when compared to any other sector of purchases there would be a high rate of impact on luxury goods especially.

**Private Educational Institutions:** The huge donations taken by the private educational institutes of which 40% to 50% in cash, so it's expected to impact on the receipts of the educational institution.

**Medical Institutions (Both Hospitals & Medical Colleges):** As mentioned the colleges and medical institutions like hospitals take huge amounts of donations in Cash which are additionally a 100% of fees, this can not only lead decline in admission and the receipts.

**Political Parties:** Political Parties and elections are major sources of Black Money transactions. The funding for the regional parties amounting approximately 40% to 50% is done by the national political parties they receive it from party funds. 90% of these funds are not disclosed anywhere. Candidates along with the political parties and donors will taking cash bath. Approximately the seat cost of an assembly candidate spent on an average Rs. 4-5 Cr on Campaigning that is likely to go down drastically. This is going to curtail on their funding and will drastically reduce their funds. It is going to affect majorly those

political parties flattering their coffers with cash contributions in anticipation of high votes in electoral battles in Punjab, UP, Uttarakhand, Manipur, and Goa. This strokes the big players strung and leave the resources in hand poor.

**Dabba Trading (Bucketing):** It may have led to extinct Dabba Trading. Trades done outside boundaries, Illegal Betting and Satta bazars market may die a natural death as currency gets a new face. Demonetisation was an end for Dabba traders, who were surviving in the markets for many years now.

**Impact of demonetisation on Indian economy**

During the phrase of depositing old currency and exchanging for new currency, India has seen a drastic shift in the economy, the economy has dropped down initially this might be for a good cause, as there was no cash for to run the business there were many sectors that were effect like the agricultural sectors, as the mediators were running out of 100 so they couldn't purchase vegetables and even the people were facing problem as they couldn't get the change for their purchases. The manufacturing sector has dropped, most of manufacturing units run on cash transactions, purchasing of raw material ( may be in cheque, but to deposit them in the account, the banks were filled with common public queue's for exchanging the currency and it would block the realisation of cheques), payment of daily wages to workers, transportation charges(toll, petrol,) and the banking sectors in these two months has received the amount equivalent to that of what it should receive in 2 years this shows the growth in that particular sector, the more and more deposits it receives the interest rates lower as and then on the loans. This is beneficial for the common public. The circulation of cash benefits the economy. There are certain sectors that had initial effects but later they could cope with the developing economy.

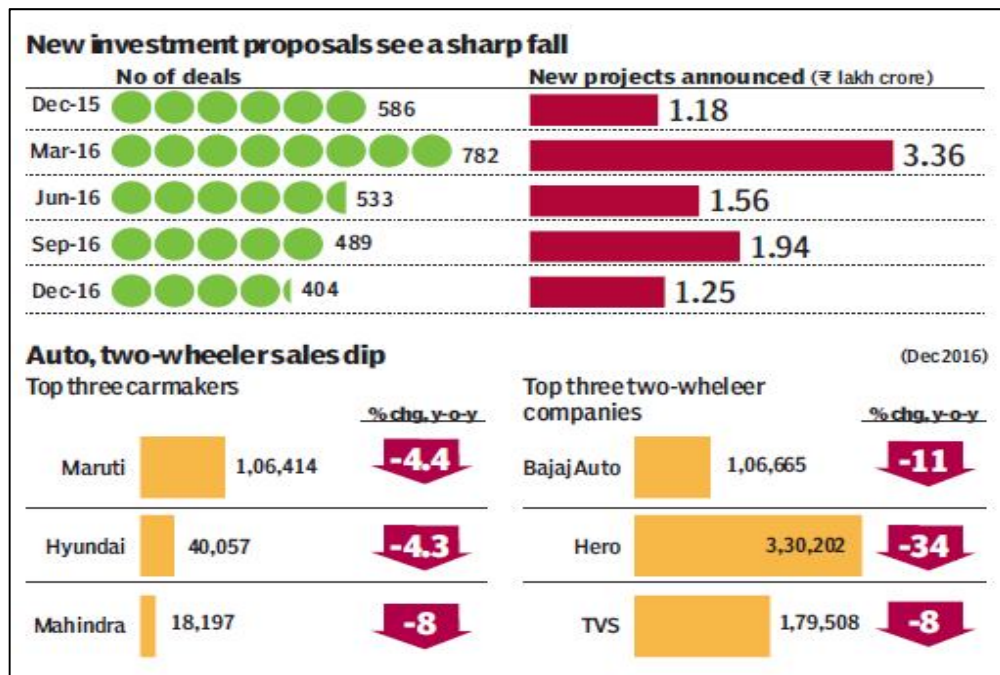


Fig 1: Sharp fall in investment sector and automobile industry [2]

Source: [http://www.financialexpress.com/opinion/how-did-demonetisation-impact-Indian-economy-heres-all-you-want-to-know-in-brief/499509/]

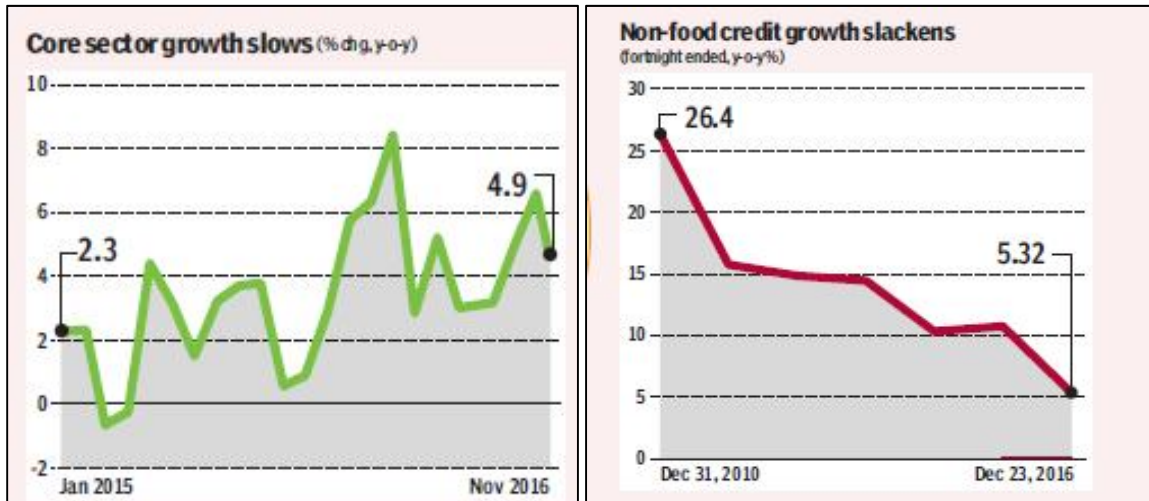


Fig 2: Fluctuations In the core sector decline in the non-food sector [2]

Source:[<http://www.financialexpress.com/opinion/how-did-demonetisation-impact-Indian-economy-heres-all-you-want-to-know-in-brief/499509/>]

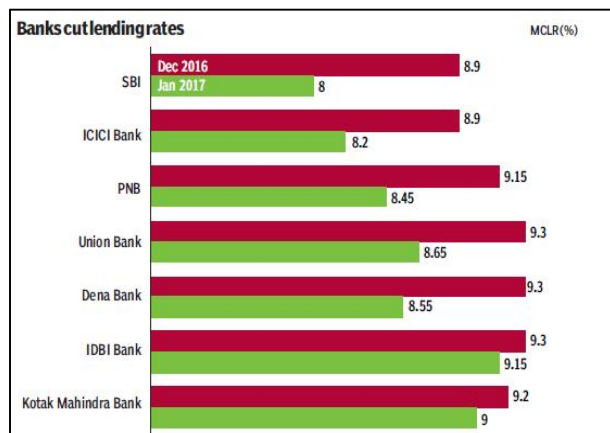


Fig 3: Banks cutting down the lending rates<sup>2</sup>

Source:[<http://www.financialexpress.com/opinion/how-did-demonetisation-impact-Indian-economy-heres-all-you-want-to-know-in-brief/499509/>]

**Impact on GDP**

Central Statistics Office (CSO) has released the first advance estimates on Friday 6<sup>th</sup> of January 2016, which showed India’s GDP growth is seen decelerating to 7.1% in 2016-2017(April-March) from 7.6% last year, due to slowdown in manufacturing, mining and construction sectors. ICRA and Crisil have estimated 6.8% and 6.9% growth for 2016-2017.

The primary reason for the difference in the estimation is the absence of sufficient information for the third quarter when the economy slowed due to demonetisation. (The Indian Express| January 8, 2017) [6].

**India Turns Cashless Before Demonetisation**

Online payment in India accounted for 14% of total transaction amount in FY 2015, the main reason behind the rise in cashless transaction is the growth of ecommerce industry in India. This generation is shifting towards cashless economy with the help of technology and hi-tech gadgets which is very easier and hassle-free for fund transfer when compared to paying in cash and cheque. Most cashless payments come from retail electronic clearing

which contributes More than 71% of the overall cashless transactions was cashless payments comes from retail electronic clearing in FY 2015. Deputy Managing Director (corporate strategy and new businesses) at State Bank of India, Sunil Srivastava says that, “At SBI, about 69% of daily transactions happen through alternative channels, including internet, ATM and mobile banking. We see it rising every year with more young people becoming our customers.” [ISSN: 2278-9359 (Volume-5, Issue-5)] [7].

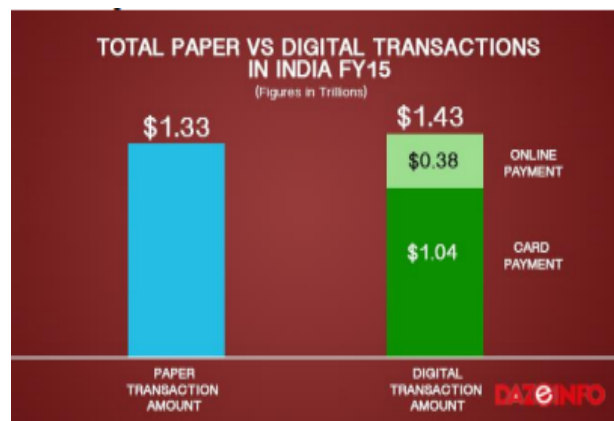
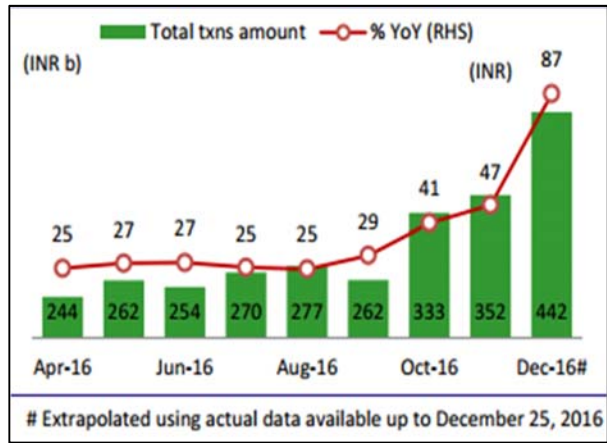


Fig 4:

Source:[[https://www.ermt.net/docs/papers/Volume\\_5/5\\_May2016/V5N5-138.pdf](https://www.ermt.net/docs/papers/Volume_5/5_May2016/V5N5-138.pdf)]

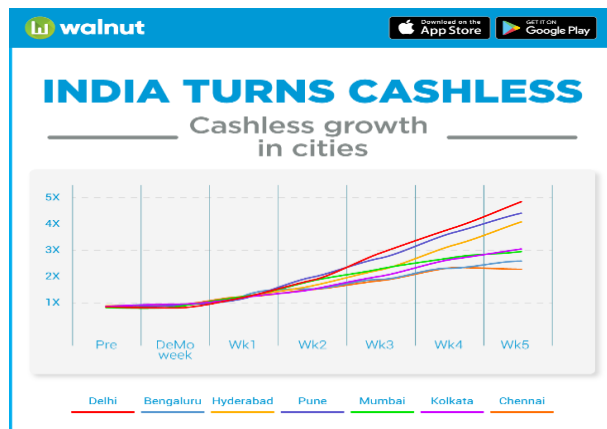
Motilal Oswal securities ltd. (MOSL) says in its report that the volume of electronic transactions has gone up sharply after demonetisation. At point of sale (PoS) terminals, the usage of debit card and credit card has increased from ₹ 33,300 crore in October-16 to ₹ 35,200 crore in November and further to ₹ 44,200 crore in December.



**Fig 5:** Usage of debit/credit card has increased over past two months

**Source:** [RBI, CEIC, MOSL]

Walnut did an analysis of cashless payments in top 7 Indian metros and found that the Delhi users have shown the increase with 500% jump in cashless transactions after demonetisation. It also stated that 72% of those who had previously used their debit card only to withdraw cash from ATM's, have now started making cashless purchases and it also increased the frequency of transactions from the users who have turned cashless for the first time. [December 16, 2016] [4].



[<http://www.getwalnut.com/blog>]

#### Cashless payment option available in India

- E Wallets – Paytm, Free charge etc.
- UPI – Unified payments Interface Apps
- Plastic Money – Debit/Credit Cards
- Net Banking – Online Fund Transfer
- Aadhaar Card – Aadhaar Enabled Payment System

#### BHIM

Prime Minister Narendra Modi on Friday 30<sup>th</sup> of December 2016 launched a mobile app for the Unified Payment Interface (UPI) called BHIM (Bharat Interface for Mobile). This will be common across all banks and financial institutions. This application will enable people to send and receive money through their mobile phones by linking their bank accounts and getting a UPI PIN number. BHIM can be used on all mobile devices, be it a smartphone or a feature phone with internet connection. (Economic times| Dec 31, 2016) [5].

#### Conclusion

It's too early to conclude about the success or failure of this demonetization in Indian Economy, but, with the current scenario we can say that Indian Financial System and its regulators were not ready for this change and impacts of demonetisation. Due to this, the laymen and the common person including farmers are the one who suffered lot. I felt that the transformation of cash to cashless economy was mapped high after the demonetisation which a good sign is stating that Indian economy will be a cashless economy in future.

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