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Demonetisation: India on Road to Cashless Economy



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ABSTRACT

On November 8, 2016, the Prime Minister of India, Narendra Modi announced the Demonetization of all Rs. 500 and Rs. 1,000 banknotes of the Mahatma Gandhi Series. It created a situation of currency jams on consumption, investment, production, employment etc. After two years of Demonetization, Indian Economy seems to have done away with all the negative impacts of Demonetization. The paper studies the impact of Demonetization on the growth of Indian Economy. Demonetization calls for a cashless, digitized India. The government asked the people to go cashless by adopting and adapting to the digital mode of financial transactions. The paper also aims to discuss the cashless economy and also focuses on digital banking services that have shot up sharply post demonetization.

INTRODUCTION

On November 8, 2016, Prime Minister **Narendra Modi** in a surprise announcement said the existing higher denomination currency (Rs 500 and Rs 1000) will cease to be legal tenders. PM said this is government's biggest move to fight against black money and end of corruption. The government also introduced new Rs 500 and Rs 2000 notes and urged people to move towards cash-less economy.

The Reserve Bank of India on August 30, 2017, released its report on demonetisation. In the report, it said that 99 per cent of the banned notes came back into the banking system which trashes all claims of Narendra Modi that the move will flush out the black money and counterfeit currency.

A lot of analysis in India and abroad claimed that demonetization of November 2016 has failed to do what it was supposed to do and its impact has turned out to be more protracted than initially expected. It created a situation of currency jams on consumption, investment, production, employment etc. After two years of Demonetization, Indian Economy seems to have done away with all the negative impacts of Demonetization. The Economic Survey of India 2017-18, released the presentation of General Budget 2018. Parliament has emphasized that all the negative impact of Demonetization of Rs.500/- and Rs.1000/- currency notes has ended.

OBJECTIVES OF THE STUDY

1. To examine the impact of Demonetization on the growth of Indian Economy.
2. To analyse the cashless economy, a real worth of demonetization and also evaluate current scenario in India.

DEMONETISATION

Demonetisation is an act of cancelling the legal tender status of a currency unit in circulation. Anticipating positive changes on the liquidity structure as a whole, nations often adopt demonetization policy as a measure to counterbalance the current economic condition.

IMPACT OF DEMONETIZATION ON INDIAN ECONOMY AFTER 2016

The costs imposed by demonetization exercise were, however, quite severe, at least in the short term, disrupting ordinary life across the country for several weeks. The hardest-hit were those in rural areas, where access to banking and the internet are quite low. A 2016 Reserve Bank of India (RBI) Report on branch authorization policy classified 93% of rural centres in the country as unbanked, with the population dependent on roving banking correspondents and on distant urban or semi-urban branches.

Negative Impact -Blow to economic growth and inconvenience all around

- The sudden announcement has made adverse impact on economy. Instead of a growing economy of India has become a standstill and no growth economy. It is feared that a fall of 2-3% in the GDP growth will be recorded coming year.
- India is an agriculture based economy. Due to the cash crunch, the farmers especially small and marginal who largely depend on cash to buy seeds, fertilizers and to pay for sowing, borrowing water for irrigation and for other related agriculture equipments remained affected and could not complete the crop related activity.
- Since small branches of the banks were also not supplied with adequate cash within time of sowing season of the crop, farmers could not get their crop loans disbursed. This added to the woes of the farmers leading to a weak agriculture production in the coming year.
- Real Estate sector came to a standstill and is still gasping for buyers of the constructed and half constructed inventory without buyers. This has resulted in poor cash flow leading to a poor demand.
- Due to the inability to pay cash to poor daily wage workers, the small employers have stopped their business activity.
- Demonetization is the 2 way sword in regard to incurring the public expenditure. On the one hand huge cost is to be incurred on printing the new currency and on the other hand managing the lakhs of crores of old currency volume has also become a big expenditure incurring item.

DEMONETISATION: POSITIVE IMPACT

The finance minister said that the demonetization move is a disruptive and it is considered as one of biggest positive moves taken for the betterment of economy. The demonetisation move, which is now considered as the mother of all reform in India, has started showing its positive impacts in very short time. The study, which focused on the short-term consequences, noted that longer-term consequences may include higher tax revenue and a shift to digital modes of payment. India has marched on the path of digital transactions at a much faster pace. Key points describing success of demonetization are:

India moves to cashless economy

One of the key effects of Demonetization 2016 has been that more people have made digital payments part of their lives moving towards a cashless economy. The details of growth of such digital transactions since January 2016 to August 2017 reflect that NEFT transactions that involved Rs. 7086 bn increased to Rs.12500 bn, Debit cards transactions increased from Rs.2328 bn to Rs. 2700 bn, credit cards from Rs. 214 bn to Rs.366bn and the IMPS transaction which was not used by the people, got a share of Rs.651 bn.

Rate of Inflation goes down

Prices of commonly consumed commodities like Pulses, fruits, vegetables had gone down substantially post demonetization.

Over Bank Deposits

It is well-known fact that near about 86 percent currency circulation in India was composed of 500 and 1000 currency notes. And demonetization of these notes made people deposit their money into the banks which was in the form of 500 and 1000 Rs notes. RBI had declared that Bank had received Rs 5.12 trillion worth of deposits until 18th November. This deposit of money can boost Indian GDP by 0.5 to 1.5 percent. India's largest public sector State Bank of India (SBI) said that it had received Rs.1.27 trillion worth of cash deposits.

Stock Market gets bullish

After demonetization stock market in India got bullish. While BSE index which was 27, 459 on November 7, 2016, rose to 33680.92 on November 6, 2017, and 34,918.08 on 12

November 2018 the NSE rose from 8497 to 10,443 and to 10,514.95 on November 12, 2018. The data shared by Bloomberg reflect the trend.

Banks' lending increases for small businesses

Banks' finance to small business was going down in pre-demonetization period. There was a negative growth even in short period of months. As on November 25, 2016, a negative growth of -7.71% was recorded in Banks' lending to small business. It went to -8.16% as on December 23, 2016. However, as on September 29, 2017, the Reserve Bank of India has reported a positive growth of 1.65% in lending to small business by the Banks.

Automobile sales picked up

Sale of 2 wheelers and 4 wheelers was showing a negative growth in 2016. In 2017 it went up substantially and recovered from the impact of negative growth to high positive growth as reflected in the report. After an initial slowdown, as the effect of demonetisation lingered into the fiscal year and then due to hiccups related to goods & services tax, sales growth started accelerating in the second half. In March, the final month of the year, data issued by companies. Sunday suggested strong sales growth across the passenger and commercial vehicle, and tractor segments.

More people use Mobile wallets than cash

Instead of using cash, more people have started using Mobile wallets for making payments for their regular needs. Even less educated people have learned and switched over to mobile transactions. The volume of transactions which was Rs.22.14 bn in January 2016, had gone up to Rs. 83.53 bn in January 2017. eMarketer statistics suggest that this year, 73.9 million people in India – that account to be 7.6% of the whole population of the region – will use mobile payments. That is a dramatic increase of 39.7% compared to last year. The value of transactions made through mobile wallets touched a record 14,632 crore in June 2018, Reserve Bank of India (RBI) released data showed, rising 4.2% from 14,047 crore in May 2018.

TWO YEARS OF DEMONETISATION: DID INDIA BECOME A CASHLESS ECONOMY?

Did India really need a demonetisation process, was it a wise decision? Did it really curb finance going to fund terrorism?

In the midst of criticism, Modi and his government has been firm and resolute and steadfastly supported its decision and believed it was the best solution.

Finance Minister Arun Jaitley last year was very vocal on explaining the idea behind demonetisation after RBI's FY17 annual report.

On September 01, 2017 he said, "Nearly how much money comes back to the system and how much does not, that was never the real object of demonetisation."

Demonetization, whatever the original intent of it, has resulted in one positive consequence—*Digitization of Indian economy*.

A CASHLESS ECONOMY

A Cashless Economy is an economy in which all types of transactions are carried out through digital means. It includes ebanking (Mobile banking or banking through computers), debit and credit cards, card-swipe or point of sales (POS) machines and digital wallets. This is possible in mostly those countries where there is greater financial literacy and citizens are aware of the benefits of going cashless.

The Indian government has introduced mediums such as: Banking cards, USSD, AEPS, UPI, Mobile Wallets, Banks Pre-Paid Cards, Point of Sale, Internet Banking, Mobile Banking, Micro ATM's. Reducing the economy's dependence on the cash and making it more deviated towards these mediums would result into the betterment of the country and the economy.

BANKING CARDS: Banking cards are available by the bank by providing the KYC (know your customer) information to the bank. Applying for a card and getting a pin for the same.

USSD: You should be handling a bank account and have your mobile number attached to the same. You should register for mobile banking and you will get the MPIN (Mobile PIN) and MMID (Mobile Money Identifier) for the transaction.

AEPS: You should be having a bank account opened along with your 'Aadhar' Card information linked with it.

UPI: For this digital service you need a bank account with your mobile number linked to it. Also, the phone should be a smartphone and a debit card to set the MPIN.

MOBILE WALLETS: Option to open a zero KYC or a full KYC wallet along with your mobile number and the application to be downloaded to your smartphone.

BANKS PRE-PAID CARDS: For this service, a bank account should be there with wallet or a pre-paid card and a smartphone to generate the MPIIN.

POINT OF SALE: A handheld device with the biometric reader along with a merchant bank account and internet connectivity.

INTERNET BANKING: For this type of digital service to take benefit of the individual must hold a bank account and opt for the online service same.

MOBILE BANKING: A bank account is required along with a mobile phone application of the bank and internet connectivity to take benefit of this digital service.

In the aftermath of the cancellation of the legal tender character of old Rs 500 and Rs 1,000 notes, there has been a surge in the digital transactions through use of credit/debit cards and mobile phone applications/e-wallets etc. Further, to accelerate this process, the Central Government has announced a package of incentives and measures for promotion of digital and cashless economy in the country.

According to a release by Ministry of Finance, the incentives/measures are as following:

1. The Central Government Petroleum PSUs shall give incentive by offering a discount at the rate of 0.75% of the sale price to consumers on purchase of petrol/diesel if payment is made through digital means.

Nearly 4.5 crore customers buy petrol or diesel at such petrol pumps per day who can take benefit of this incentive scheme. It is estimated that petrol/diesel worth Rs.1800 crore is sold per day to the customers out of which nearly 20% was being paid through digital means. In the month of November 2016, it has increased to 40% and the cash transaction of Rs.360 crore per day have got shifted to cashless transaction methods. The incentive scheme has the

potential of shifting at least 30% more customer to digital means which will further reduce the cash requirement of nearly Rs. 2 lakh crore per year at the petrol pumps.

2. To expand digital payment infrastructure in rural areas, the Central Government through NABARD will extend financial support to eligible banks for deployment of 2 POS devices in 1 Lakh villages with population of less than 10,000. These POS machines are intended to be deployed at primary cooperative societies/milk societies/agricultural input dealers to facilitate agri-related transactions through digital means.

This will benefit farmers of one lakh villages covering a total population of nearly 75 crore who will have facility to transact cashless in their villages for their agri needs.

3. The Central Government through NABARD will also support Rural Regional Banks and Cooperative Banks to issue “Rupay Kisan Cards” to 4.32 crore Kisan Credit Card holders to enable them to make digital transactions at POS machines/Micro ATMs/ATMs.

4. Railway through its suburban railway network shall provide incentive by way of discount up to 0.5% to customers for monthly or seasonal tickets from January 1, 2017, if payment is made through digital means.

Nearly 80 lakh passengers use seasonal or monthly ticket on suburban railways, largely in cash, spending worth nearly Rs.2,000 crore per year. As more and more passengers will shift to digital means the cash requirement may get reduced by Rs.1,000 crore per year in near future.

5. All railway passengers buying online ticket shall be given free accidental insurance cover of up to Rs. 10 lakh. Nearly 14 lakh railway passengers are buying tickets every day out of which 58% tickets are bought online through digital means. It is expected that another 20 % passengers may shift to digital payment methods of buying railway tickets. Hence nearly 11 lakh passengers per day will be covered under the accidental insurance scheme.

6. For paid services e.g. catering, accommodation, retiring rooms etc. being offered by railways through its affiliated entities/corporations to the passengers, it will provide discount of 5% for payment of these services through digital means.

7. Public sector insurance companies will provide incentive, by way of discount or credit, up to 10% of the premium in general insurance policies and 8% in new life policies of Life

Insurance Corporation sold through the customer portals, in case payment is made through digital means.

8. The Central Government Departments and Central Public Sector Undertakings will ensure that transactions fee/MDR charges associated with payment through digital means shall not be passed on to the consumers and all such expenses shall be borne by them. State Governments are being advised that the State Governments and its organizations should also consider to absorb the transaction fee/MDR charges related to digital payment to them and consumer should not be asked to bear it.

9. Public sector banks are advised that merchant should not be required to pay more than Rs. 100 per month as monthly rental for PoS terminals/Micro ATMs/mobile POS from the merchants to bring small merchant on board the digital payment ecosystem.

Nearly 6.5 lakh machines by Public Sector Banks have been issued to merchants who will be benefitted by the lower rentals and promote digital transactions. With lower rentals, more merchants will install such machines and promote digital transactions.

10. No service tax will be charged on digital transaction charges/MDR for transactions up to Rs.2000 per transaction.

11. For the payment of toll at Toll Plazas on National Highways using RFID card/Fast Tags, a discount of 10% will be available to users in the year 2016-17.

CURRENT SCENARIO

CASH WITHDRAWN USING ATMs

Now, let's have a look at the cash withdrawn from ATMs. Debit card usage at ATM was at 561.36 million in November 2016 worth Rs 1,234.52 billion, that rose to 710.11 million worth Rs 2,259.46 billion in March 2017.

Performing a debit card transaction at ATMs has been rising consistently, as transactions stood at 774.94 million by end of March 2018 valuing Rs 2,663.50 billion.

DIGITAL TRANSACTION IN INDIA

Let's have an understanding about digital transactions now. Did India become a cashless economy in two years of demonetization?

There has been a significant progress in digital transactions. A highly encouraging statistic is the rapid growth of cashless infrastructure in India – both in number of ATMs and POS machines. India now has modern financial setup independent of hard cash. The use of credit and debit cards in ATMs has increased, while POS machines and mobile banking have not followed a similar pattern.

Data given by RBI reveals that, NEFT transactions were at 123.05 million in November 2016 month valuing up to Rs 8,807.88 billion. This rose to 186.7 million by end of March 2017, aggregating to a massive Rs 16,294.5 billion. The growth increased further to 212.01 million transactions in volume terms in March 2018 worth Rs 22,540.77 billion. In the first half of FY19, NEFT transaction stands at 181.01 million in volume terms already by end of September, having worth Rs 18,015.5 billion.

Transactions using **IMPS** stood at 36.17 million in November 2016 worth Rs 324.81 billion, which increased to 67.41 million valuing Rs 564.68 billion in March 2017. It does not end here, IMPS transaction further rise to 110.15 million in volumes worth Rs 1,038.04 billion by end of March 2018, and by end of September 2018, this stands at 135.74 million worth Rs 1,256.4 billion.

Point of Sale (POS) has also seen growth, as it was at 236.47 million in November 2016, rose to 271.17 million in March 2017, further to 318.9 million in March 2018 and to 362.75 million in September 2018 in volume terms. In value terms, transactions at POS stood at Rs 321.74 billion in November 2016, then moved up to Rs 356.99 billion in March 2017 to Rs 418.57 billion in March 2018 and now stands at Rs 458.41 billion by end of September 2018.

Mobile banking also soared during the course of 2-years demonetisation. As in volume terms, mobile banking transactions were at 87.47 million in November 2016, rose to 113.65 million in March 2017 to 239.9 million in March 2018 and a whopping 477.57 million in September 2018. In value terms, mobile banking has risen from Rs 1,365.7 billion in November 2016 to Rs 1,730.88 billion in March 2017, further to Rs 1,415.03 billion in March 2018 and to Rs 2,074.95 billion.

Surely, by end of March 2019, transactions in digital portals will touch commendable heights.

RBI data on digital transactions in 2 years of demonetisation in values (Rs in billion)				
	Nov 2016	March 2017	March 2018	Sep 2018
NEFT	8807.88	16294.5	22540.77	18015.5
IMPS	324.81	564.68	1038.04	1256.4
M-wallet	33.06	73.12	100.97	151.02
Usage at POS	321.74	356.99	418.57	458.41
Mobile Banking	1365.7	1730.88	1415.03	2074.95

Arun Jaitley in his Facebook blog said, "Demonetisation is a key step in a chain of important decisions taken by the Government to formalize the economy". Jaitley gave the data of how digital transaction performed. UPI transactions have grown from Rs. 0.5 billion in October 2016 to Rs. 598 billion in September 2018. BHIM Pay transactions using UPI is currently being used by 1.25 Crore people. BHIM transactions have gone up from Rs. 0.02 billion in September 2016 to Rs. 70.6 billion in September 2018. RUPAY Card is used both at the Point of Sale (PoS) and for e-commerce. Its transactions have increased from Rs. 8 billion before Demonetisation to Rs. 57.3 billion in September 2018 for PoS and from Rs. 3 billion to Rs. 27 billion in e-commerce. Well, looks like India is still far away from becoming a cashless economy.

	Sep 2016	Sep 2018
UPI	Rs.0.5 Billion	Rs. 598 billion
BHIM	Rs. 0.02 billion	Rs. 70.6 billion
RUPAY CARD	Rs. 8 billion	Rs. 57.3 billion
E-COMMERCE	Rs. 3 billion	Rs. 27 billion

RBI data on digital transaction in 2 years of Demonetisation in values (Rs.in billion)

ADVANTAGES OF GOING CASHLESS FOR INDIVIDUALS:

Pack of cards: No need to carry bulky notes in a case. Just carrying the required cards or mobile banking will suffice.

More sense of safety with a PIN-protected card etc. which will work only with your own credentials. No fear of being robbed unlike carrying cash and letting everyone know that there could be something worth snatching.

Tracking of expenses: it becomes easier to determine how much and where was spent.

The exact amount in small denominations can be paid. Unlike cash transactions, there is no need to pay fringe amount in case the exact amount is not available with either of the parties.

An important, though seemingly insignificant issue, is that of **hygiene of the notes**.

ADVANTAGES OF GOING CASHLESS FOR BUSINESSES:

- Easier accounting
- Direct payment to bank account. You don't need to go every day to deposit cash to your current account.
- Easier transactions

ADVANTAGES FOR THE ECONOMY AS A WHOLE:

Taxation: with lesser availability of hard cash at homes and more in banks, there is lesser scope of hiding income and evading taxation and when there are more taxpayers it ultimately leads to a lesser rate of taxation for the whole country.

Transparency and accountability: it becomes a lot easier to track the flow of money with every transaction being recorded with the buyer, seller as well as regulatory bodies, making the system much more transparent and compliant. In the long term, it leads to better business and investment prospects for the economy as a whole.

More currency in bank will mean more circulation of money in the economy, leading to greater liquidity and would eventually mean lesser interest rates (according to the monetary policy of the country).

Reduced red tapism and bureaucracy: with cashless transactions through electronic means the wire transfers are tracked and people are accountable which in turn reduces corruption and improves service time.

Less availability of cash for illegal activities: when people are encouraged to go cashless, there is lesser cash available with the people and there won't be a means to invest in other activities to use the idle cash. Channels (illegal remittance) will ultimately suffer the brunt of a cashless economy.

CHALLENGES AHEAD

High Cash Dependency: India has a high cash penetration in almost all of its transactions that happen as B2C transactions. Total cash flow in the market accounts for 12.04% of the GDP, which is among the highest in developing countries. This goes to show our dependence on cash is acute and it requires time to tackle it.

Lack of Digital Infrastructure: The first and foremost requirement of a digital economy is the penetration of internet and smartphone. Although a billion mobile subscriptions (not users), only 30% of subscribers use smartphones. With 370 million mobile internet users, over 70% of them are in cities while 70% of Indian population lives in villages.

Skepticism in Merchants: Small merchants as well as users have high amount of suspicion over plastic money and they need to be educated over the potential benefits of using it. One cannot expect an overnight change in the perception of a majority of Indians over the use of plastic money. Government needs to come out with awareness and incentive schemes to promote digital economy.

High Merchant Discount Rate: These are the percentage deducted from each purchase a merchant makes by the card issuing authority or bank. These are volume dependent and are more economical if the merchant is able to sell a large amount of products, thereby beneficial for big merchants. For smaller merchants, it does not provide enough incentive to make the shift from cash.

CONCLUSION

India has not entirely adopted the method of digitalization. Indians still prefer holding cash in hand. Not many regions especially the rural areas have been comfortable in using digital portals. But it would not be wrong to say that; demonetization in fact did boost the country's digital platform. RBI releases monthly data of payment system on its website, and looking at the digital performance, India has seen growth in that section.

However, in a country of 1.3 billion people, not all is perfect and not all is rosy. Going cashless must be an exponential curve, slow initial buildup then fast paced in later stages, not a digital step signal. That could be counterintuitive to the whole process. India is a large country that needs a change that is systemic and systematic.

The effective smart steps to make India a complete cashless economy are

One person, teach five: If one person educate at least 5 person in span of 3 months, about benefits of e-wallets, formal-banking. This can also bring big change.

Zero charges on cashless transfers: Today, there are charges for online transfer from bank to bank, from paytm to bank. In fact previous is higher i.e. 4% charges, now temporarily reduced to 1%. This is high enough that vendors & domestic won't like to come on e-wallets. Government should intervene and maybe compensate to banks, e-wallets companies by some other way.

Zero surcharges on petrol pumps: Surcharge is a big deterrent. This certainly has to go zero. In fact, govt. can incentivize at petrol pumps by schemes, just like done for LPG. If some portion of Govt subsidy on petrol comes as re-imburement to bank a/c, this can go a long way.

Transfer Subsidy to bank a/c only: More and more subsidies must be returned back to bank a/c, just like done for LPG.

Modification in Kisan credit loans: Loans to farmers must be made in terms of special pre-paid card. This pre-paid card will only be eligible at seed, fertilizers. All seed, fertilizer vendors must be given license only if they abide to use these pre-paid cards. This will have big social impact too.

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