

AN ANALYTICAL STUDY OF DEMONETIZATION AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

The Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of the professed roles of Digital India. In this regard, the government has implemented a major change in economic environment by demonetizing the high value currency notes of – Rs 500 and Rs 1000 from 8th November 2016 (more than 86% of value of notes in circulation) aiming to curb black money, forged currency and to promote the cashless transactions in the economy. After the announcement, demonetization became a burning issue among the people and media regarding payment system and it was the turning point of our country to move towards a cashless economy.

Demonetization is the current economic phenomenon in India and is considered as the foundation of drastic economic reforms. Present research paper emphasizes on the impact of demonetization on the Indian Economy and how much this decision is successful in achieving the goal of Cashless Economy. This paper also briefly explains few programs of Indian Government helping to push India towards cashless economy. This study appraises demonetization decision as a strategic decision.

KEYWORDS: *Demonetization, Cashless Economy, Cashless Transaction*

Introduction

Demonetization is a bold decision that paves the way towards elimination of involvement of Black money and the cash transaction dealing in the Indian Economy. Demonetization is the act of stripping a currency unit of its status as legal tender. It is the process to replace the currency in circulation by new currency notes. The first demonetization in the independent India was done in the year 1946, in order to deal with counter forgery, had withdrawn the notes of Rs.1000 and Rs.10000. However, these notes were again reintroduced in economy as Rs.1000, Rs.5000 and Rs.10000 in 1954 and again these notes were de-monetized in 1978, when Janta Party government came into the power. Demonetization of November 2016 by Modi Government was a great shock to common people and Indian economy. The strategy was to instantly nullify all 500 and 1,000 rupee banknotes, the most common currency denominations in the country, and then eventually replace them with newly designed, more secure 500 and 2,000 rupee notes. Some of the economists called it 'a surgical strike' of black economy. The demonetization policy will force people to pay income tax returns. Most of the people who have been hiding their income are now forced to come forward to declare their income and pay tax on the same.

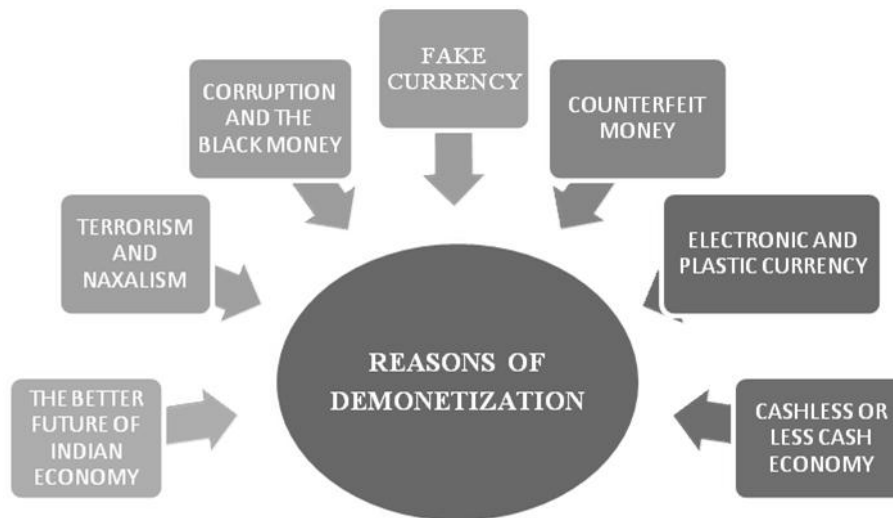
Reasons Behind Demonetization of Currency Notes in India

A recent study commissioned by the NIA (National Investigation Agency) showed that 250 in every 10 lakh notes in circulation in India are fake, with FICN (Fake Indian Currency Notes) bearing a face value of Rs 400 crore in circulation at any given point in time. (Reported by TOI) The study stated

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that FICN worth Rs 70 crore was being infused into the Indian market every year. The fake currency racketeers have been left with trash, and with high security features in the new Indian currency notes; making a counterfeit is impossible. Not only for fake currency, but also to remove black money from circulation and to drive the nation towards a cashless economy with ensuring transparency was the main reason behind demonetization of currency notes in India. Some of the economists argue in favor of demonetization and remark as under:



Cashless transaction is a clear message towards the good economic growth in the country. The demonetization policy has increased the use of online banking services, cheque and e- wallets. It has not only reduced the threat of theft and loss of money on the one side but also facilitated the risk free transactions.

Literature Review

Tax Research Team (2016) in their working paper stated in favor of demonetization its main objective is to analyze the impact of demonetization on Indian economy. This paper shows the impact of such a move on the availability of credit, spending and level of activity and government finances.

Annamalai, S. and Muthu R. Iakkuvan (2008) in their article "Retail transaction: Future bright for plastic money" projected the growth of debit and credit cards in the retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money.

Alvares, Clifford (2009) in their reports "The problem regarding fake currency in India." It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

Ashish Das, and Rakhi Agarwal, (2010) in their article "Cashless Payment System in India- A Roadmap" Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc. enhance financial inclusion and integrate the parallel economy with main stream.

Objectives of the Study

Present research study aims at:

- To study the role of Demonetization for cashless economy.
- To examine the status of cashless payment system in India.
- To understand the philosophy of demonetization and its impact on economy.
- To check the misappropriation and fraud related to cash transaction.

Research Methodology

The study is based on secondary sources of data/ information, various books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. In addition to this, my personal observation has also significant to strengthen this study. The study attempts to examine the Impact of demonetization for cashless economy.

Problems After Demonetization in India

The biggest dilemma faced by Indians after suddenly removing 86% of its currency from circulation without having an adequate supply of new notes ready to take their place when India is more reliant on cash in comparison to any other country on earth. It is estimated that only five per cent Indians make digital payments, while the rest use cash. Suddenly, hundreds of millions of people were left without the means to engage economically, to buy the things they wanted and needed, and innumerable businesses were left without a readily available mechanism to receive payment for their goods, to buy supplies, or pay their staff members and employees. After the demonetization, the opposition has criticized on this sudden step and raised questions over the government's preparedness to tackle the current currency crunch.

Effect of Demonization on Cashless Payment System

A payment or transaction which are operated or performed without the use of coins and currency for money transaction, instead of using bank cards or electronic transfer of funds for transactions is known as cashless payment. After demonetization in India, cashless payment system has been given more importance for monetary transactions. There are mainly 6 modes for cashless payment system-

Bank Cards- Card transactions at point of sale (PoS) terminals at merchant locations have surged, reflecting a positive for the economy as more people start using their debit cards for payments rather than for withdrawing cash at ATMs. Debit card transactions rose to more than 1 billion in January, 2017 from 817 million last year. While ATM transactions have remained constant at around 700 million, the incremental growth has been driven mostly by card swipes at PoS terminals.

Transactions on these trebled to 328 million against 109 million in January last year by way of volume. "The acceptance infrastructure of the country has expanded significantly, which allowed card transactions to report the biggest growth post demonetization," said Lokvir Kapoor, chief executive officer at PineLabs, one of the biggest deployers of retail terminals. "Further, with so many different initiatives from the government, card transactions at terminals will only grow."

Digital Drive Gathers Momentum

	2017			2016		
	Jan	Feb	March	Jan	Feb	March
Volume of Transaction in Million						
Debit Cards	1,040.97	944.32	981.28	817.51	796.69	844.5
IMPS	62.42	59.75	67.41	22.48	22.86	25.98
PPIs	295.8	280.02	342.09	65.25	65.37	72
Value of Transaction in Billion						
Debit Cards	2006.48	2286.82	2616.45	2327.99	2259.57	2342.82
IMPS	491.25	482.21	564.68	165.59	169.67	198.73
PPIs	110.01	96.28	106.77	49.09	49.98	59.72

Source: Compiled data from RBI reports

While observing the use of electronic payment mode in above data, there is a tremendous increase in percentage change after demonetization in the use of bank cards. In case of IMPS (Immediate payment service), there is 39.94 million change in the month of Jan i.e. 177.67% increase. Similarly, in Feb 35.89 million change i.e. 150.419% increase and in March 2017, 41.43 million i.e. 159.47% increase respectively in 2017. In case of PPIs (Prepaid payment instruments), there is 230.55 million change in Jan 2017 in comparison to Jan 2016 i.e., 353.33% increase. Similarly, in the month of Feb 2017, 214.65 million change i.e., 328.36% increase and in March 2017, 270.09 million change i.e. 375.125% increase respectively.

On the basis of above facts it is observed that the increase in the use of cashless transaction with positively check the fraud and misappropriation.

Unified Payment Interface (UPI) – Unified Payments Interface (UPI) and the Bharat Interface for Money (BHIM) both use the Immediate Payment Service (IMPS) network of the National Payments Corporation of India. IMPS has seen a 160% jump with 67 million transactions in March against 26 million a year earlier (Source NPCI).

Prepaid Payment Instruments (PPIs) – According to the data released by NPCI, Prepaid Payment Instruments or PPIs, which include wallet services reported an average 350% jump in transactions in the January-March period from the year earlier. In March, transactions from PPIs stood at 342 million, up 375% from 72 million a year earlier. “While digital transactions had been consistently growing over the years, demonetization gave it an additional leg up,” said Vineet Singh, chief business officer at MobiKwik.

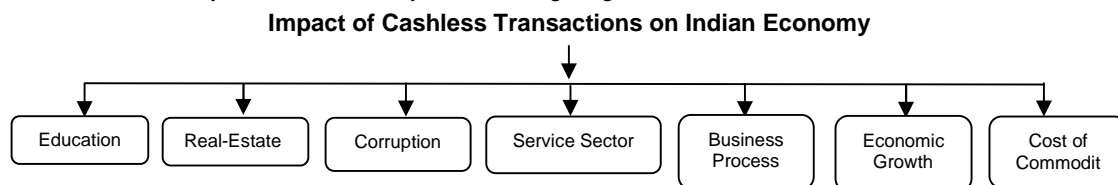
Aadhar Enabled Payment System (AEPS) – AEPS is a bank led model which allows online interoperable financial transaction at PoS through the business correspondents using the Aadhar authentication. Customers can find out their account balance, deposit cash, withdraw money and transfer funds to other Aadhaar-linked bank accounts through the help of business correspondents of any bank. AEPS will allow inter-operability among different systems adopted by different banks in a safe and secured manner. AEPS is aimed at empowering the marginalized and excluded segments to conduct financial transactions through micro ATMs deployed by banks in villages.

Point of Sale- After note recall, under pressure from the government, banks deployed 1million additional PoS terminals within three months, taking their total number to around 2.52 million.

Paytm – Paytm reported a three-time surge in new users tacking on over 14 million new accounts in November alone. “Even the vegetable vendors on the streets have opened up Paytm accounts and they have a machine outside their shop where someone can scan the bar code and make the payment,” Nangia explained.

Impact on Indian Economy

The vision of Government of India to control the fraud, misappropriation, black money, corruption etc by demonetizing the high value currency notes and to convert Indian economy into a cashless economy is a motivator step to strengthen the Indian Economy. It has definitely wide impact on the Indian Economy which is shown by the following diagram:



- **Education Sector:** Cashless transactions initiated by demonetization are in a way boon to all educational institutes because they save time, efforts and complexities in the traditional admission process. Education would become more economical and More transparency in the fees structure. Private educational institutions take huge amount of donations in Cash which is 40% to 50% more than the fees of the course. We expect that demonetization will impact the recipient.
- **Real-Estate:** The impact of cashless transaction on real estate is that the investment would be legal and become cheaper. Black money would be reduced considerably and hence demand would be lesser forcing the price reduction. Through cashless transaction this sector will become more efficient, evolved, fair and transparent in long term.
- **Corruption:** Cashless societies are free from the curse of corruption, has considerable less amount of black money in circulation. Corruption can be reduced with the help of cashless economy because E-money is easily traceable. No one can demand bribe in cashless economy. E-transactions are safe, low time consuming and transparent. Government can easily trace overflow of money like corruption money or black money in someone's account. Government easily find out to the black money.
- **Service sector:** Doctors, engineers and chartered Accountant etc are highly respected in our society. A small section of these educated members of the society tend to accept their professional charges only as cash and do not provide a proper bill. The cash thus paid could be

black. Cashless transactions would considerably reduce the scope of this acceptance as cash. Soon nobody would be able to point any fingers on these respectful members of the society.

- **Business Process:** Cashless facility has impacted on business transaction by reducing cash-related crimes, increased convenience of doing business, reduce cash handling cost, more payment options, and easy access to cash out of bank branch and reduce revenue leakage.
- **Economic Growth:** Installation of formal and pure form of economy is the best impact. It has been observed that cashless economy leads to the start of proper formal and functional economy in the country. When all the transactions are made proper clear clean and taxed, it may lead to the establishment of formal setup of the total financial system that leads the country towards the development.
- **Cost of Commodity:** The cashless economy aims at reducing the cost of the commodities by setting aside the black market and the proper deposit of the tax. All this leads to the development of the system where one can find the cost of the commodity going down in the market. The developed economy like China is the best example for this.

Conclusion

The cashless transaction system is reaching its growth day by day. We all need to provide support to the Prime Minister in his decision. The Prime Minister has insisted on moving towards a cashless society. Demonetization pushed millions of new users onto the country's digital economic grid by virtual fiat. India is currently in the middle of an all out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming.

"The Prime Minister's move to incentivize digital payments will offer a strong support to our ongoing efforts in helping the country leapfrog the cash generation to digital payment solutions," added Deepak Abbot, the senior vice president of Paytm. "This will not only help millions of Indians overcome the hassles of dealing in cash but also act as a significant step towards propelling India to emerge as a truly cashless economy."

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