



DIMENSIONS OF DEMONETISATION, DIGITISATION AND LESS CASH ECONOMY: AN INTROSPECTION

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Introduction

It was a stunned disbelief on the night of 8th November 2016, when Prime Minister declared about demonetisation. The main objective of this move was to curb black money, corruption and fake money menace. demonetisation was undertaken twice in the past, once in 1946 and second time in 1978 at the period of Morajee Desai Government. But during those periods the Indian economy was not so vibrant. The high denomination notes were kept with very few people and was not faced hardship by the common people. The present demonetisation of money announced has a widespread repercussion to fight against corruption, black money and counterfeit notes. The common man was glad by realizing that drastic change will come on black money and put an end to the activities like violence of terrorist organisations operated by black money. The system to create demonetisation to make all transactions traced and tracked. Cashless transaction have the benefit of transparency on the way. Cashless system will help the Government to track payment to terrorist and other anti-national activities demonetisation. The entire system in India to create a less cash economy where, a part of transactions are in cash and rest in digital payments. The digital methods reduce the risks involved in carrying cash. No doubt, the digital economy has a major problem in cyber crime but at the same time, there is definite solution to handle cybercrime.

Objectives

The present paper exerts an ingenious endeavor at exploring the multidimensional success of demonetization, application of various cashless transactions through digitization in the country and policy measures for promoting Less Cash Economy.

The Background of Demonetisation

The declaration of demonetisation in 8th November 2016 was subjected due to unprecedented hike in the circulation of high denominated currency (Rs. 500/1000) notes. As per the communication of RBI, one third high value notes (Rs. 500/1000) in the country is outside from the banking system must create black economy. This is the cause for steep rise in gold, stock and land price about 10 times more in comparison to 2004-2010 from 1999-2004. The spurious rise of assets create high growth situation like the situation prevailed in USA in 2008. The growth rate recorded 8.6% from 2004-2010 which was the highest in the country since its plan achievement periods. The high growth accounted a deficit in the economy. GDP growth is just a wealth-led-growth. It is a growth which does not create jobs or not give internal /external comfort to the economy. The growth is generated only by high assets prices only due to unprecedented rise of high denomination notes. The Government adopted a plan strategically to control unexpected money circulation through a surgical strike to money known as demonetisation.

Certain Measures on Cashless System undertaken by the Government

In 2014 India's currency circulation outside banking to GDP was 11.1 percent which was higher than the other emerging countries like, Russia, Mexico and Brazil. The situation compels to the government to adopt digitization system for the survival of the present economic system. The prime aim of the government to motivate people towards various digital modes of transactions to curtail a long queue in front of ATM or inside the bank for cash crunch at that time of demonetisation and also at normal time. Cashless economy will check corruption, black money, terrorism and illicit wealth through adoption of digital transaction in the country. To curtail the direct money transaction through banks and other ways, Government develops various digital solution in this regard which can be defined as;

Lucky GrahakYojana and DigiDhanVyapar

Lucky GrahakYojana is applicable to the consumers and DigiDhanVyapar basically applicable for merchants' in the country. For encouraging people, Government launched digital lottery schemes from 25th December 2016. Only transactions has been processed through RuPay cards, Unstructured Supplementary Service Data (USSD), Unified Payment Interface (UPI) and Adhar enabled payment system. E-wallets are the most prevalent widely using system which usually tackle the problems and enhance e-Commerce.

VittiyaSakharataAbhijan

The sole intensity of VittiyaSakharataAbhijan is to adopt cashless mode of payment in most of the educational institutions. The Ministry of Human Resources (MRH) request to private and Government institutions to receive digital mode of payment to develop a cashless campus. This appeal of MHR confined to the students, faculty, and staff members in private and Government institutions for easier cash handle make digitization success.



Bharat Interface for Money (BHIM)

For more easier on-line transaction, the Prime Minister launched a new e-wallet app known as Bharat Interface of Money(BHIM). BHIM is the Adhaar based mobile payments directly to the bank accounts of the holders. UPI enabled account add to BHIM which is a quick and transparent money transaction.

RuPay

RuPay is the debit or credit card and similar to visa or master card. It was introduced by the National Payment Corporation of India (NPCI) under Jan DhanYojana Scheme. Banks provide an accidental insurance to all account holders. RuPay works in ATMs, Point of Sales (POS) and on-line sales. The RuPay debit card is an effort for financial inclusion of lower income groups in digital economy.

Adhaar Payment App

The Adhaar Payment App is linked to Adhaar card of an individual to his /her bank account and was launched on 25th December 2016. The bank transactions are possible through a biometric reader. The special feature of this system is that App can be used to make digital payments without phone by a person.

Digital Transaction in the Country

To curb money circulation and to prevent corruption in the economy government used demonetisation but still adoption of disitisation is coloured and criticised on the ground that it is a single handed concept adopted by the NDA Government. Instead of criticism, everybody recognised progress and prospects of demonetisation

Table 1: Digital transaction in the country (in mn)

S. No	Types of transactions	2015-2016	2016-2017
1	2	3	4
1	Debit card payment	1,173	2,399.3
2	Credit card payment	785.7	1,087.1
3	Pre-paid payment instrument	748	1963.7

Source: The New Indian Express, 31st August, 2017

The pre and post transaction digital system showed that the transaction on debit card payment is 1,173 in 2015-2016.

The transaction in debit card payment is increased to Rs. 2399.3 in 2016-2017. Analogously the credit card payment 785.7 increased to 1,087.1 in 2016-2017 against 2015-16. The pre-paid payment instrument increased to 748 to 1963.7 in pre demonetised to post demonetised year (Table-1).This trend revealed full-fledged acceptance of digital transaction by the people in the country.

Cashless and corruption status of India and some countries in the world

Visualizing the corruption status Sweden comes 3rd rank in Corruption Perception Index on the way which is 89 % in the country. India ranks 76th in Corruption Perception Index in the world. This statement proves the strong negative correlation between cashless and transaction and corruption in India.

Table 2: Status of Cashless and Corruption of some Selected Countries (by 2015)

S. No	Status	Name of some selected countries in the world						
		Belgium	France	Canada	UK	USA	India	
1	2	3	4	5	6	7	8	9
1	% of non cash payment	93	92	90	89	80	22	
2	Corruption Perception Index	77	70	83	81	76	38	
3	Rank in Corruption Perception Index	15	23	9	10	16	76	

Source: Yojana, February,2017

From the above Table-2 it is confirmed that in cashless transaction Index India is far below than Belgium, France, Canada, UK and USA and if we compare in Corruption Perception Index India is far above of these countries. Sweden is the successful driver to handle demonitisation. Now this process is undertaken in various countries. So, India needs effective policies to be a global player in the digital economy.



Advantages of Cashless/Digitisation System

Cashless Society has many advantages to the public and government.

- Convenient mode of payment with enormous benefits including transaction cost in carrying and doing business transactions.
- Lower cyber risk and safety issues of physical cash.
- Reduction in the printing cost of money and transportation.
- Reduce crime rate by anti- social activities like, drug trafficking, financing terrorism and cross-border terrorisms.
- Digital payment and transfer helps to make easier on banking sector.
- Transparency and monitoring cashless transactions can easily be monitored by the government and will check tax evasion.

Bold Reform on Political Funding

It is found that, more than 75 % of the political donation in the country stem from unknown sources. So the Finance Minister ArunJetely accepted the recommendation of Election Commission. For concrete reforms, government mandating the Reserve Bank of India fund collections by the Political Parties forelectoral funding as one Political Party can accept only Rs. 2000 donations from anonymous source. The bond can be re-deemed in the accounts of Political Parties for which they can file their income tax returns within the stipulated time period. Individuals can deposit through cheques and electronic transfer to the party accounts. But Jetley apparently ignored another recommendation of election commission, that political parties who don't contest elections should not enjoy the income tax exemption. There are 1900 registered Political parties out of which only 400 were contested in the elections between 2006 to 2015. The Election Commission claimed that some of them are knowingly avoid for participate in the election for the cause of black money (The New Indian Express, 2nd Feb,2017).

Note Ban Impacts on GDP

In the quarter ending June, India's GDP slowed down at 5.7 % where the government is criticized on the ground of demonetisation. The opinion of Finance Minister denied the cause of slow down of GDP is not due to demonetisation rather due to the universal application of GST in the country. The chief economist Abhishek Barua has the opinion that the slowdown of GDP in the last quarter of June intensified due to the combination of long term slow down and temporary shock of demonetisation and application of GST in the country. So this indicates that the country is yet to recover from cash squeeze demonetisation and launch of the uniform tax regime GST.

Recent RBI Report about demonetised currency

By realising the necessity and demand of the people in the country, the final report of Reserve Bank of India (RBI) regarding demonetisation has announced. The report revealed that 15.28 lakhs crores of high value demonetised currency after 8th November 2016 returned to the Central Bank. The 98.96 % of the demonetised currency value of Rs.500 and Rs.1000 notes in circulation of 15.44 lakh crores was deposited. Prior to demonetisation the total number of 17,165 mn of Rs.500 notes and 6,858 mn of Rs.1000 notes are deposited. The cash not deposited or exchanged amount is Rs.16000 crores or 1.04 % of the total value of old notes.

Table 3: RBI's income and spending (in bn)

S. No	Types of transactions	2015-2016	2016-2017
1	2	3	4
1	RBI income	808.70	618.18
2	Spent or expenditure	149.90	311.55

Source: The New Indian Express, 31st August, 2017

From the above Table the income declined from Rs. 808.70 bn in 2015-2016 to Rs.618.18 bn. in 2016-17. But the spending is increased from Rs.149.90 bn to 311.55 bn in the financial year 2016-2017 against 2015-16.

Break up of Fake Notes in 2016-2017

The high denomination currencies like Rs. 1000 and Rs. 500 notes entered to the bank and it is found that out of the high denomination notes 256325 pieces of 1000 notes and 317567 pieces of 500 notes are fake notes.

Table 4: RBI's declaration on fake notes (in Nos)

S. No	Types of notes	New	Old
1	2	3	4
1	2000	638	-
2	1000	-	2,56,324
3	500	199	3,17,567

Source: The New Indian Express, 31st August, 2017



In the present monetary circulation high denominated 638 pieces of Rs.2000 notes are found as fake notes. In the same time, 199 number of Rs.500 fake new notes are also found fake.

Suspicious Transaction

It is a fact that after demonetisation the suspicious transactions come to the notice of the Government and some illicit accounts are also under suspicion for tax evasion and illegal transaction.

Table 5: Suspicious transactions (Nos.)

S. No	Entity	2015-2016	2016-2017
1	2	3	4
1	Banks	61,361	361,214
2	Financial Institutions	40,338	94,836
3	Intermediaries	4,579	16,963

Source: The New Indian Express, 31st August, 2017

In 2015-2016 the total No. of suspicious Bank accounts are 61,361 which increased to 36,12,14 in 2016-17. Similarly, the financial institutions occupied 40,338 and 94,836 numbers of Accounts coming under suspicious accounts. The intermediaries' suspicious transaction is also high in the country. It is observed that after demonetisation suspicious transaction in the entity like, banks, financial institutions and intermediaries are many folds in 2016-2017 as against 2015-16.

Impact of Demonetisation

Demonetisation has caused withdrawal of 3.5 lakh crore of cash from the available cash system before its implementation in the country. Digitisation transaction even has increased among the poor and rural areas (Economic Survey 2017). The report has distinguished three categories people evolved in the application of digitisation transactions,

- Firstly, the poor who are largely outside the digital economy,
- Secondly, the less affluent section who have acquired Jan Dhan account and RuPay cards.
- Thirdly, the affluent that is fully digitally integrated and acquainted with debit and credit cards.

It is amply clear that there has been a substantial increase in digitization across all categories and which substantially increased after demonetisation. The growth of taxpayers in post demonetisation period is significantly greater than previous years.(45%-25%)

Table 6: Information about demonitised currency

S. No	Information on currency	Figures
1	2	3
1	Demonitised notes returned to RBI	98.7 %
2	Currency in circulation by 4 th Nov.	17.97 lakh crore
3	Banned Notes	15.45 lakh crore
4	Returned Notes	15.28 lakh crore
5	New note printing cost	3420 crore

Source: The New Indian Express, 31st August, 2017

The above Table represents that the total expenditure incurred for printing of new notes are Rs. 3420 crore. Demonetisation had no such impact on black money as 98.7 % of high denomination notes returned back and its amount is Rs. 15.28 lakh crore. The total amount of banned notes were Rs. 15.45 lakh crore

Multidimensional Aims of Demonitisation

The basic aim of demonetisation was to retire the unprecedented high denomination cash stock and to check an unmanageable future economic crises through proper measures which are discussed below:

- To check black money and to check its unscrupulous growth.
- To expand the tax payers base.
- To arrest the spurious rate of high stocked assets price.
- To bring down the unprecedented high demonetised cash stock.
- To absorb the excess cash with the public to create a parallel economy to the banking system.
- To bring down the interest rate and increase the share of savings of households.



- To crash the unaffordable land prices to make housing affordable.
- To change the unorganized sector to be an organized sector.
- To shift from a jobless high growth economy to provide jobs for a real economy.
- To eliminate the fake currency and bold the black money stock to stop terrorism and Naxalism etc. in the country.

Multidimensional success of Demonetisation

The extremely critical aspects regarding demonetization was absolutely challenged by the oppositions, economists and common people in the country. It is a high time to debate about its pros and cons. Some of the findings about its success can be dictated on this ground as:

- Demonetisation increases the individual tax base by 20 % with an advance tax payment of 42 % for the year 2017-2018. The self assessment tax paid in 2016-2017 is 34 % in the country.
- An amount of 3.35 lakh crore known as unmonitored cash came into tax account which is under tax evasion last year.
- The great achievement of cash reduction in the total cash stock has declined from Rs. 17.1 lakh crores to Rs. 15.1 lakh crore. If there will be no declaration of demonitisation it would have increased to Rs. 22 lakh (Gurumurthy, 2017).
- The increase in bank deposits from Rs. 97 lakh crore to Rs. 114.2 lakh crore in 2016 to 2017 may reduce the black money in the way that money came from unorganized sector to organised sector.
- A huge rise in lendable money after demonetisation, which relieves the bank that were suffering from illiquidity. The Gross National Disposable Income (GNDI) increased steeply from an average of 10.5 % in 2016 to 11.8 % in 2017 which indicates the expansion of cash in the banks and households saving.
- Withdraw of cash, no doubt adversely affected the GDP growth but the onslaught must shift the jobless growth to a job with growth economy in near future.
- The impact of drawing money from public and isolating it in banks have crash the land price which is a visible positive symptom in reality and housing sector where as set price rise in land had stagnated.

Impetus for Less Cash Economy

A special drive has also been undertaken jointly with Ministry of Labour & Employment and States Administration to open bank accounts for unorganized labour by holding camps at various locations, a total of 2,73,919 camps have been organized so far in which 24.54 lakh accounts have been opened.

There are 30 crore RuPay Debit Cards which have been issued, including those issued to Jan Dhan Account holders. There was a growth of nearly 300 per cent in use of RuPay cards in 12 days. To facilitate the use of this debit card, the banks have decided to waive transaction charges (MDR) up to 31st December, 2016. National Payments Council of India (npci) has already waived switching charges for RuPay Cards. Together, these steps will improve the acceptance of debit cards at different establishments.

To promote greater use of debit cards, public sector banks and some of the private sector banks have decided to waive the MDR charges till 31.12.2016. Other private sector banks are expected to do likewise. Consequently, the transaction charges including the charges for switching services were waived till 31.12.2016.

To promote greater usage of payments through e-wallets, RBI has decided to increase the monthly transaction limit for individuals from Rs. 10,000 to Rs. 20,000. Similar enhancements have also been announced by RBI for merchants.

For convenience of passengers, Indian Railways had decided not to levy service charges of Rs. 20 for second class and Rs. 40 for upper classes on purchase of reserved-tickets upto 31st December, 2016. This would facilitate and encourage the passengers to buy e-tickets instead of across the counter purchase through cash.

Daily average number of passengers buying e-tickets online is 58 percent and across the counter in cash is 42 percent of the total purchase of tickets. The effort now is to increase the purchase of e-tickets. It is expected that the above measure will encourage people to migrate to cashless transaction.

TRAI has decided to reduce the USSD charges from the current Rs. 1.50 per session to Rs. 0.50 per session for transactions relating to banking and payments. They have also increased the stages from current five to eight. The telecom companies also agreed to waive the above 50 paise USSD charge per session for the period up to 31.12.2016. Consequently, USSD charges up to 31.12.2016 were NIL. This provided a very cost effective method of digital financial transaction, especially to the poor people with feature phones (which are currently 65 per cent of the total phones in the country).



A lot of time spent by vehicles at the check posts and toll plazas. While GST will address the problem at the check posts, certain measures are necessary for ease of payment at the toll plazas on the National Highways is therefore advising the automobile manufacturers to provide ETC complaint RFID in all new vehicles.

All Government organizations, Public Sector Undertakings (PSUs) and other government authorities have been advised to use only digital payment methods such as internet banking, unified payment interface, cards, Aadhar enabled payment system etc. to make payments to all stakeholders and employees. At the point of disbursing the payments, it will be necessary for the authorities to provide the option of payments through cards, internet banking, unified payment interface, cards, Aadhar enabled payment system etc.

To further accelerate this process of digital transactions through use of credit/debit cards and mobile phone applications/ e-wallets etc., the Central Government has also declared a package of incentives and measures for promotion of digital and cashless economy in the country.

These Incentives/Measures are mentioned below:

1. The Central Government Petroleum PSUs shall give incentive by offering a discount at the rate of 0.75 per cent 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 customer out of which nearly 20 per cent was being paid through digital means. In the month of November 2016 it had increased to 40 per cent and the cash transaction of RS. 360 crore per day shifted to cashless transaction of methods. The incentive scheme had the potential of shifting at least 30 per cent more customer to digital means which would 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 each 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/ agriculture input dealers to facilities 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 the facility to transact cashlessly in their villages for their agri needs.
3. The Central government through NABARD will also support Rural Regional Banks and Cooperative banks to issue “ RuPayKisan Cards” to 4.32 crore Kisan Credit Card holders to enable them to make digital transactions at PoS machines/ Micro ATMs/ATMs.
4. Railways, through its suburban railway network, shall provide incentive by way of discount upto 0.5 per cent to customer for monthly or seasonal tickets from January 1,2017, if payment is made through digital means.
Nearly 80 lakh passengers use seasonal or monthly tickets 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 railways passengers buying online tickets shall be given free accidental insurance cover of upto Rs. 10 lakh.
Nearly 14 lakh railway passengers are buying tickets everyday out of which 58 per cent tickets are bought online through digital means. It is expected that another 20 per cent passengers may shift to digital payment methods for 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 a discount of 5 per cent for payment of these services through digital means. All the passengers travelling on railways availing these services may avail the benefit.
7. Public sector insurance companies will provide incentive, by way of discount of credit, upto 10 per cent of the premium in general insurance policies and 8 per cent 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 Department 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 Government are being advised that State Governments and its organizations should also consider to absorb the transaction fee/ MDR charges related to digital payment to them and the consumer should not be asked to bear it.
9. Public sector banks are advised that merchants 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 merchants on board the digital payment eco system. Nearly 635 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 transaction upto 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 percent will be available to users in the year 2016-17.

Conclusion

S. Gurumurthy an eminent commentator on political and economic affairs has the opinion that demonetisation has an impact on wealth effect- led-growth where a huge volume of cash withdrawn hampers the economic growth but implicit in demonetisation itself. It worked in the property market, the quantity of growth which regarded as the index of real growth. For general person it is an unnecessary expensive in futility as the GDP growth shrunk to 6.1 % during fourth quarter of year 2017 and also further down to reach 5.7 % during the preceding quarter. But government claimed the short run-trade-offs as small as compared to its lofty objectives, Finance Minister's view that "Money has now identified with its owner, The Finance Minister claims that demonetisation is not a failure rather a success after facing the opposition. He defended by saying, "the objective of note ban was to bring down cash in the economy, bring digitalization, expand tax base and fight black money". Dr. SoumyaKantiGhose the chief economic adviser has the opinion that, "one should take a holistic view and not just for returned of bank notes. The benefit includes expansion in tax base, formalization of the economy and future incoming unaccounted income".

No doubt, RBI gained Rs. 16000 crore but it lost Rs. 21000 crore which includes printing of new notes. In adding to this the share of newly introduced Rs. 2000 banks notes in circulation and total value of currency was 50.2 % at the end of march-2017 (The Hindu, 31st Aug. 2017). We have seen improvement in lives and livelihood of the people in country. But, still we need to wait for a long term effects too.

With measures of promoting Less Cash Economy, it is expected that the decision of the present Government to withdraw the legal tender status/ character of old Rs. 500 and Rs. 1,000 notes will go a long way in expediting and pushing the process of digital banking to new heights in shortest possible time through use of latest technology and increased level of financial literacy.

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