

Moving Towards Cashless Economy: Challenges and Opportunities for India

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ABSTRACT

The major issues in India are corruption and Terrorism and the root cause of these issues is black money, which is playing a havoc role in deprivation of the country. The government has implemented a major change in the economic environment by demonetising the high value currency notes and replacing them with new. The aim of the action was to curb corruption, counterfeiting, terrorist funding and accumulation of black money and make a clean cashless and transparent economy. The digital transaction systems, E-Wallets and Apps, usage of Plastic Money (debit and credit cards), E-banking online transactions, etc., are substantial increase in demand. This will bring more transparency in systems. The objective of this research study is to discuss the reasons and challenges for India to become a cashless economy and its effect on the sustainable development of the country

Key Words: Black Money; Cashless; Demonetization; Development; Economy.

I. INTRODUCTION

Economic transformational events are very rare. The government has implemented a major change in the economic environment on 8th November 2016, by demonetising the high value currency

offered for demonetisation were to stop funding of terrorism and unlawful activities fake currency needs to be eliminated i.e., to control counterfeit notes that could be contributing to terrorism, in national security concern and second, to undermine or eliminate the black economy. However, stringent measures and monitoring is required, like discouraging high value cash transactions and

Table (a). Currency Notes in Circulation till 2016

Rs. 500 and Rs. 1000 currency note circulation						
Denomination (Rs)	Value (Rs lakh crore)			Volume (Pieces crore)		
	Mar-14	Mar-15	Mar-16	Mar-14	Mar-15	Mar-16
500	5.7	6.6	7.9	1141	1313	1571
(% share)	44.4	45.9	47.8	14.7	15.7	17.4
1,000	5.1	5.6	6.3	508	561	633
(% share)	39.6	39.3	38.5	6.6	6.7	7.0
500 and 1000 together	10.8	12.2	14.2	1649	1874	2203
(% share)	84.1	85.2	86.4	21.3	22.4	24.4
Total of all notes	12.8	14.3	16.4	7733	8358	9027

SOURCE: RBI

notes of Rs 500 and Rs 1000 denomination. The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. The reasons

encouraging electronic based transactions instead of cash based, keeping tax levels moderate and simple and transparent administration, combating corruption, closer monitoring of real estate and bullion transactions, ensuring greater transparency

in public procurement, giving Government benefits in a seamless manner by direct benefit transfer with beneficiary database seeded with Aadhaar numbers etc.,. The measures, taken together with high use of advance Information Technology and stricter vigilance will take the country to newer heights through reducing income disparities and help realize the dream of inclusive growth and cashless economy more sooner than later.

II. NEED FOR CASHLESS AND TRANSPARENT ECONOMY

RBI data in 2015-2016 revealed that in commercial banks almost 6.5 lakh counterfeit notes were traced out of which 4 lakh were in Rs. 1000 and Rs. 500 category. Due to this context the government wanted to demonetize Rs.500 and Rs.1000 note and introduce new denominations.

In Indian economy 86% of the currency value were Rs.1000 and Rs. 500 denominations. According to RBI database about 17,54000 crore worth of notes were in circulation, out of which Rs.1000 note constituted 39% of the circulation while 45% of currency circulation constituted Rs.500

Table(b): History of Demonetisation in India

Year	Details
12 Aug 1946	To control black money Rs. 500, Rs. 1000 and Rs. 10000 notes were demonetized.
1954	Rs. 1000, Rs. 5000 & Rs. 10000 High denomination notes were reintroduced.
16 Jan 1978	Control menace of black money denomination higher than Rs.100 demonetized.
1987	Issued note of Rs. 500.
1995	Re.1 and Rs. 2 notes were eliminated from circulation
2000	Reintroduced note of Rs. 1000.
2011	25 paise and all paise coins were removed

Source: RBI

denomination. As per RBI information, on 31st march 2014 the circulation of Rs.500 notes were 1141 crore and on 31st march 2016 circulation number was 1571, a huge increase of 38% in just two years. Similarly, the circulation of Rs. 1000 notes has increased 24.5% from 508 crore to 633 crore during the same period. The currency notes together taken a jump of 33.6% over the period of two years.

However, as a percent of total currency share, Rs.500 note in circulation has hiked from 14.7% to 17.4%, whereas Rs.1000 note was at 6.6% in circulation on 31st march 2014 and stood 7% on 31st march 2017. In terms of value, on 31st march 2016,

Rs.1000 and Rs.500 notes together reported for Rs.14.2 lakh crore which is 86.4% of total value. There was an increase from the past fiscal year 2014 as the accounted value for these denomination was 10.8 lakh crore which is 84.1% of the total value. To become corruption free, the cash circulation needs to be reduced. The government of India has given these reasons behind demonetisation of high denomination notes Rs. 500 and Rs. 1000.

III. REVIEW OF DEMONETISATION IN INDIA

Demonetization also has a valid place in the Indian law books. The legal basis for the order demonetizing currency can be found in Section 26 of the Reserve Bank of India Act, 1934. Under subsection (2) of this Section, the Union Government is given the power to declare that any notes issue by the Reserve Bank will no longer be legal tender. The only procedural requirement is that the Board of the RBI recommends the same to the Union Government. In fact, in 1978, demonetization was carried out under a special legislation, namely the High Denomination Bank Notes (Demonetisation) Act, 1978. India's Demonetization action is not unprecedented in its own economic history, there

were few instances in the past, but not having any significant effect on cash, discussed in table(b).

First, on 12th Aug 1946, Rs. 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender and new notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954. Second on 16th January 1978, the Morarji Desai led-Janata Party demonetized banknotes of Rs. 1000, 5000 and 10000. The RBI had introduced a new banknote of Rs. 500 into the economy in 1987 to contain inflation. Recently, on 8th November 2016, the old banknotes of Rs. 500 and Rs. 1000 were barred from being legal tender and new notes of Rs. 2000 were introduced

Also, Denominations of 1, 2, 3, 5, 10, 20 & 25 paise were in circulation till June 30, 2011 but were then withdrawn. 50 paise coins are still in circulation and are called small coins (Internet desk, 2016). Other denominations called as rupee coins.

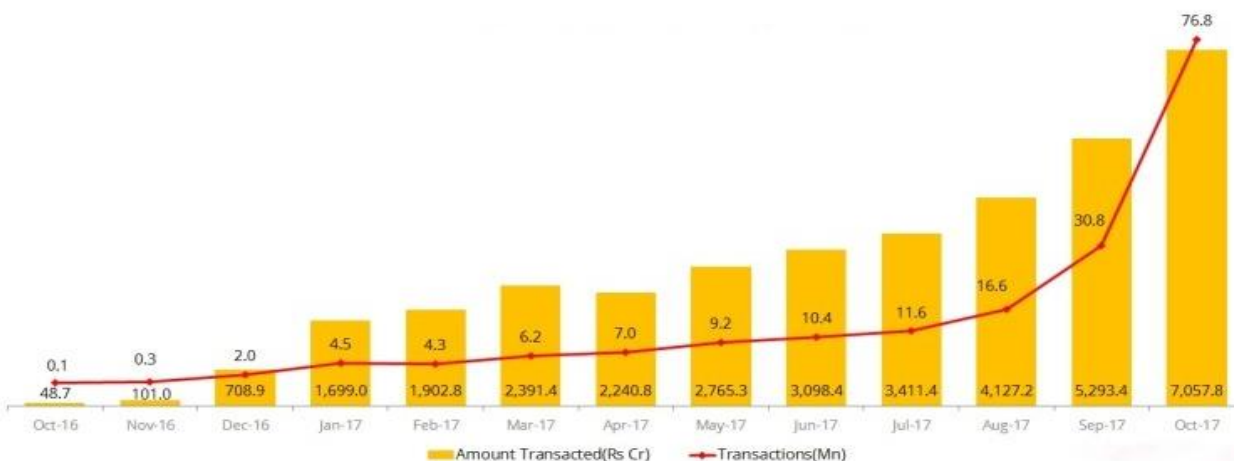
IV. MEASURES TAKEN BY THE GOVERNMENT OF INDIA AND ITS EFFECTS

To curb the menace of black money, various initiatives have been taken by the Government of India includes (i). Constitution of a Special Investigation Team (SIT), (ii). The Black Money and Imposition of Tax Act, 2015' to deal with black money stashed abroad, (iii). Introduction of Benami Transactions Amendment Bill 2015, (iv). PAN numbers for

demand. The digital transaction systems, E-Wallets and Apps, Online Transactions using E Banking, usage of Plastic Money (debit and credit cards), etc., are substantial increase in demand. This will bring more transparency in system and can track online money transactions easily.

By banning Rs. 500 and Rs. 1000 notes the government of India has busted the illegal racket of black activities completely because most of the fake currencies used were in the denominations of Rs. 500 and Rs. 1000 and huge sums of money especially in hard cash in the high denominations and was used to fund Islamic terrorists, Naxalites and other unlawful activities. These organizations will suffer from shortage of funds most of these terrorist organization used

Figure (i): Increase in Online Transactions after demonetisation



high value transactions, (v). Constitution of Multi Agency Group under Member (Investigation), CBDT investigations against Indian persons having undisclosed foreign assets, (vi). Introduction of PMJDY- Pradhan Mantri Jan Dhan Yojana and IDS- Income Disclosure Scheme.

It is practically impossible to have a 100% cashless economy but cash-less transactions are experiencing huge increase and this trend will gather momentum. However, proportion of hard cash in the economy will decrease gradually and our economy will get more digitized.

The government has put some limitation for cash withdraw from bank accounts and people have go for online payments, and started using PayTM or other online payment m for buying goods or making payments. There was more use of debit and credit card. The cash transactions facing a reduction, alternative forms of payment will see a surge in

these funds for buying arms and weapons is an extremely difficult task now. The overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly: Consumer goods, Real Estate and Property, Gold and luxury goods and Automobiles (only to a certain limit). All these mentioned sectors are expected to face certain moderation in demand from the consumer side, owing to the significant amount of cash transactions involved in these sectors. Price level is expected to be lowered due to moderation from demand side. Real Estate and Property: Prices in this sector are largely expected to fall, especially for sales of properties where major part of the transaction is cash based, rather than based on banks transfer or cheque transactions. Consumer Goods: Prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases.

V. CONCLUSION

The newer forms of payment have been developed which hold significant potential to move towards a cashless economy. These include (i) Unified Payments Interface (UPI) used to transfer funds to any other person from mobile phone through internet, (ii) Digital wallets, like SBI Buddy wherein money can be uploaded to mobile wallets (E-batua) and transferred to any other person (iii) Pre-Paid, Debit or Credit Cards which can be used at ATMs, Point of Sales (POS) Machines, (iv) Aadhaar Enabled Payment Systems (AEPS) wherein money can be transferred using Aadhaar numbers and (v) Unstructured Supplementary Service Data (USSD) wherein funds can be transferred from mobile phones by dialling *99#. In the long run, this would provide a significant boost to the economy and more informal methods of business transactions migrate to the formal sector paving way for cashless economy and greater transparency, financial inclusion (both on deposits and credit side), better tax compliance and a sustainable growth and progress of the country and economy.

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