

## Opportunities and Challenges of Demonetization

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### Abstract

A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. Indians use too much cash for transactions. The number of currency notes in circulation is also larger than in other large economies. On eighth November 2016 the Prime Minister of India took a brave step of demonetization of INR 500 and INR 1,000 currency notes. Currency of Rs 500 & Rs 1000 notes was withdrawn from the economy. Today online payment option is popular in urban areas as compared to rural areas. Our society is mainly based on cash transactions and most of the people are not aware to digital payment methods. This move will achieve the twin objectives of economic growth and financial inclusion. It will help to fight the problem of counter currency. The result of it would be known in near future but there are various challenges to be faced by people. The global average Internet connectivity speed is 7 Mbps, according to the Akamai report. South Korea leads the APAC countries with the highest average Internet speed of 26.1 Mbps, and India with 5.6 Mbps of average connectivity speed. This creates hurdle to make online transaction. The infrastructural facilities should be made better to facilitate online transactions/banking transaction without using currently physical form.

**Keywords:** APAC- Asia Pacific Region, Cashless economy.

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## **1. INTRODUCTION**

Cashless Economy can be defined as a situation in which the flow of cash within an economy is non-existent and all transactions must be made through electronic channels such as direct debit, credit cards, debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India. It is believed that moving from cash to cashless economy has numerous benefits. As Per the World Payments Report (2015), global non-cash transactions reached 358 billion in 2013, an increase of 7.6% over 2012. Further, European Central Bank (ECB) data on access and use of payment instruments and terminals show steady increase cashless payments.

The total number of non-cash payments in the EU increased by 2.8% in 2014 over 2013 and by 6.0% in 2013 over 2012. During the period 2000–2014, while credit transfers and direct debits increased, card payments also increased. Moody's Analytics (2013) studied the impact of card usage on gross domestic product (GDP) of 51 countries, found that electronic card usage added USD 1.1 trillion paperless banking transaction for private consumption and GDP from 2003 to 2008.

On line transaction system has become a necessary component of business strategy management and a strong tool for achieving cashless economy and economic development. India, as one of the developing countries, is lacking behind in reaching the expected level in global economy and banking system, so there is a need to improve on the banking system and any other financial industries. The drastic digitalization over the past few years has indeed affected almost every sphere of our lives. One of the most recent effects has been the move towards a cashless economy in India. Starting with the note ban in November 2016 due to the sudden withdrawal of the currency notes of Rs. 500 and Rs. 1000 denominations from the economy overnight. Thus, the Indian economy is going cashless. In other words, least paper transactions will be involved, substituted by more digital transactions with the help of internet banking, digital wallets, Point-of-Sale machines, credit and debit cards, etc.

## **2. CHALLENGES TO CASHLESS ECONOMY IN INDIA**

It would help to transform the lives of 131 billion people of India and Indian economy as a whole. But the availability of basic infrastructural facilities like electricity supply and internet facilities in the rural as well as urban areas are some of the challenges that needs to be addressed adequately. The cashless economy will make vulnerable hacking of the personal information over the internet such as credit and debit card numbers, PINs, passwords and other sensitive information due to an increase of digital transactions. Cyber crimes will increase if proper internet security measures are not taken on time. The poor section of India and the majority population is not covered under banking system, so they are totally dependent on cash for their daily wages. Various sectors such as real estate, retail, restaurants, cement and other Medium Small Enterprises, where huge cash transactions are involved, going to be affected badly. Inadequate internet availability, low internet speeds, limited smartphones and broadband penetration, very less Point of Sale machines are the biggest hurdles in achieving full digitalization as they are the main substitute for cash transactions. Funds will always be in control of the third party such as Government, banks, payment interfaces, etc. which lead to extreme uncertainty.

### **3. PROSPECTS OF CASHLESS ECONOMY IN INDIA**

Cashless transactions will help to reduce corruption to a large extent and to eliminate counterfeit currency. The Central Government is making efforts for online and card-based transactions in the country to achieve its target of becoming a largely cashless economy. There is drastic growth of e-payment start-ups in the country providing job opportunities to unemployed youth. Launching of Unified Payments Interface (UPI) to facilitate cashless transactions. A cashless economy will help in making payment digitally. One can use mobile as a one-stop solution for all kinds of transactions such as bill payments, fees payments, funds transfer, recharge, etc. It will ensure a 'black-money free India' or wiping out so-called 'parallel economy' where people are in the habit of keeping money in their homes instead of the banks to avoid tax. Crime rates have already started declining due to cash ban as most of the terrorist activities are funded with black money. In addition to this, other crimes such as burglary, extortion, bank robbery, etc. are also declining. One of the major benefits is the increase in the income tax collection. Due to least involvement of cash, transactions have to be done through banks where proper Know your customer (KYC) verifications are now required prior to banking transactions and hence, it will be easier for the Government to monitor and mend the income tax evasion by the people. It will help in increasing the revenue of the government.

The present Government had absolute clarity from day one that it would move against the shadow economy and black money. Its first decision was to constitute SIT under the directions of the Supreme Court. The Prime Minister had proposed to the G-20 at Brisbane that international cooperation in sharing information with regard to base erosion and profit shifting should be expedited. The arrangement with the United States furthered this object. The Government completed its agreement with Switzerland that w.e.f. 2019; details of assets held by Indian citizens in Switzerland and *vice versa* would be provided to each other. Since 1996, the Double Taxation Avoidance Treaty with Mauritius was being renegotiated. The treaty effectively incentivised round-tripping. It was renegotiated. Similar treaties with Cyprus- and Singapore have also been renegotiated. The Black Money Law dealing with illegal assets outside India opened a-window for disclosure with 60 per cent tax and provides a ten year imprisonment.

According to a Moody's report the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because increased velocity of money.

### **4. CONCLUSION**

A cashless economy can only be possible with sufficient infrastructure and planning that are required for supporting an economy like India. The latest World Bank report has mentioned that the demonetisation will not have any long-term adverse effect on the health of Indian Economy. Rather it will prove beneficial with growth of the Indian economy rising to 7.6% in fiscal year 2018. Liquidity expansion in the banking system post-demonetisation has helped the banks to lower lending rates, which in turn is bound to lift economic activity. The benefits of this move will change the habit of people and more people will use to digital method of receiving and making payment. India is gradually transitioning from a cash-centric to cashless economy. Digital transactions are traceable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is undergoing the process of modernisation in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even

street vendors, are now accepting electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before.

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