10.48047/jocaaa.2022.30.02.63

DEMONETISATION IMPLEMENTATION & REPLACEMENT OF CASHLESS ECONOMY

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Abstract

Demonetization entails revoking a currencies designation as legal level tender. The current currency of India is being substituted by the new notes as well as coins. The notion of state of demonetization was first executed by Ghana globally in 1982 to address the issues of tax evasions. A crucial element of the country's digitalization is cashless transactions, which diminish the circulation of the liquid currency. Finance related transactions are conducted online rather than in physical form using notes and coins, utilizing various methods like as credit Vs. debit cards, internet banking, digital e-wallets like Paytm platform, Aadhar card oriented payment methods & gift Vs. forex e-cards. The Bharat QR codes, a mobile payment solution introduced by the Government of India, serves as a QR code-oriented alternative for merchant transactions, replacing the conventional use of credit or debit cards. In essence, this signifies that legal tender (currency) is present, although transactions are conducted in electronic digital format.

Keywords: Cashless, Economic Development, Demonetization, Adoption

INTRODUCTION

Cashless transactions have occurred since the traditional Era in the shape of the exchange system. The trend toward non-cash transactions commenced in the 1990s with the widespread adoption of electronic banking.

Table 1: Key Aspects of Demonetization and Digital Payment Transition in India

Aspect	Description
Global Digital Payment Trends (Pre-2010)	Digital payment systems such as PayPal and digital wallets by companies like Apple were widely adopted across many countries.
Reason for Promoting Digital Payments	Cash transactions were discouraged due to their role in facilitating corruption and terrorism financing.
Demonetization Announcement	On November 8, 2016, Prime Minister Narendra Modi declared Rs. 500 and Rs. 1000 notes invalid.
Objective of Demonetization	To promote a cashless economy, reduce corruption, eliminate black money, and curb terrorism funding.
Extent of Cash Dependency	Around 90% of daily transactions in India were conducted in cash before demonetization.
Currency Impact	The demonetized Rs. 500 and Rs. 1000 notes constituted approximately 86% of total currency in circulation (₹15.44 lakh crore).
Immediate Public Impact	Severe cash shortage; citizens faced difficulties in conducting daily transactions.
Government Response	Introduction of new Rs. 500 and Rs. 2000 currency notes.
Public Reaction	Long queues at banks and ATMs; rush to petrol pumps; some individuals destroyed unaccounted cash.
Overall Outcome (Short-term)	Economic disruption but accelerated shift toward digital payment systems.

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The name "Notebandi," commonly employed by the public, elicited varied responses, with some lauding the administration and others condemning it. Both groups of individuals are correct in their respective perspectives. The objectives of demonetization were the eradication of black cash and counterfeit Indian exchange notes the disruption of terrorism financing of the transition of the informalized economy to a formal economy by relocating firms, particularly small and medium enterprises, and jobs from the informal sector to the formal sector, the expansion of the tax base and employment, and the establishment of a cashless economy, i.e., digitalization. Near about 80% of the Indian laborer market is quite informal.

To attain a substantial GDP growth rate, it is essential to provide secure and lucrative employment opportunities for a significant portion of the informal economy. 10 Transactions are documented in digital payments. Cashless payments facilitate the documentation of expenditures and the flow of funds, so enabling the government to monitor the volume of illicit financial activities and black money circulating within the nation. 5 To deter illicit transactions, some countries have imposed restrictions or outright bans on private digital currencies like Bitcoin.

The RBI reported that during demonetization, the total circulation of high-value notes in the economy amounted to 15 trillion rupees, of which one-third, or 5 trillion rupees, was circulating outside the formal banking system as black funds due to tax evasions, thereby directly affecting governmental revenue. The RBI analysis indicates that demonetization significantly enhanced India's digital economy.

Digital Adoption for Payments

The adoption of digital payment methods and the rise in digital transactions have resulted in the digitization of the Indian economy. Cashless transactions were feasible as 99% of India's rural-oriented households possessed at least one banking account holder, 90%, i.e., owned a feature phone, and 40% had a smartphone. These utilize the Unified Interface to directly connect the user's bank account, facilitating digital payments that are more expedient, convenient, and secure. The volume of transactions conducted via debit cards, credit card system, wallets at POS terminals, mobile banking system & NEFT has risen significantly. A transition towards cashless purchases is clear, as around 60 to 70% of shops, local vendors, and tiny tea stall proprietors have been utilizing Paytm as a payment method.

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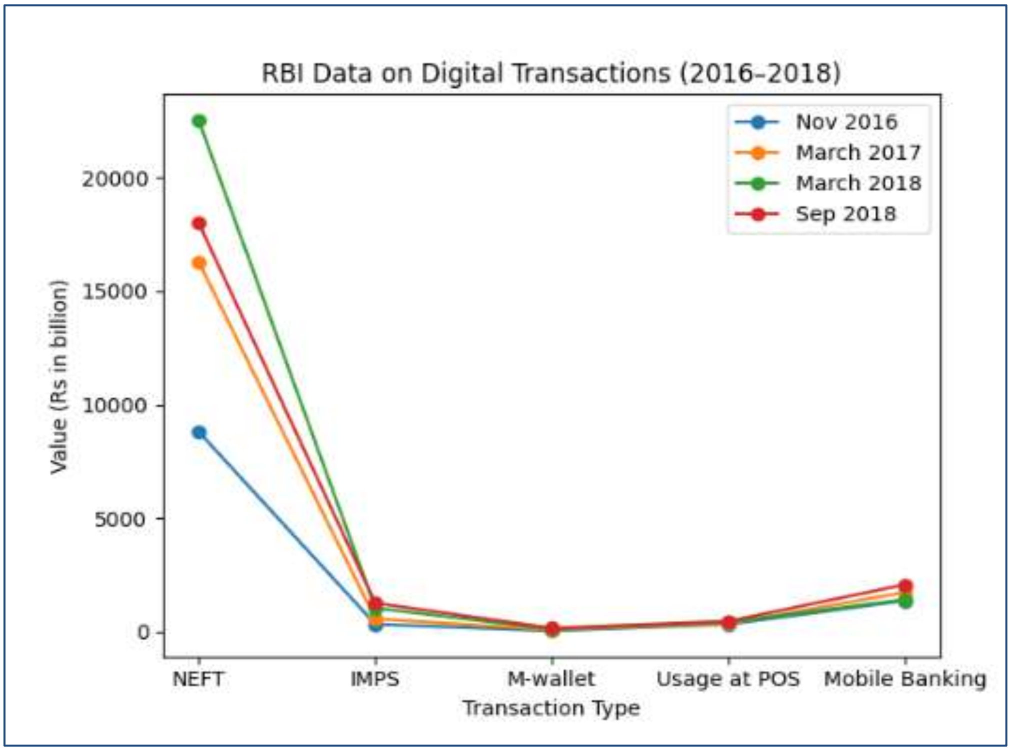

Figure 1
Source: P.Kumar in Jan 07, 2018

The data indicates that NEFT-oriented transactions rose from Rs. 8807.881 billions in Nov. 2016 to Rs 22540.770 billions in Mar. 2018, subsequently decreasing to Rs 18,015.5 billions in the first half of FY2019, specifically by the end of Sep. 2018.Correspondingly, transactions utilizing IMPS escalated from Rs 324.811 billions in November 2016 to Rs 1,256.4 billions by the conclusion of Sept. 2018. The utilization of mobile banking and debit card transactions at ATMs significantly surged following demonetization. The volume of digital transactions has exceeded threefold growth. Between 2015 & in 2017, digital transactions increased in volume by 55.0 percent and in value by 24.20 percent .

Over a period of five years, the percentage of the adult population holding bank accounts rose to 65 percent. The levels of cash in circulation might vary among various countries. For instance, India possesses the biggest volume of cash in circulation, as indicated in figure 2, while Sweden ranks the lowest.

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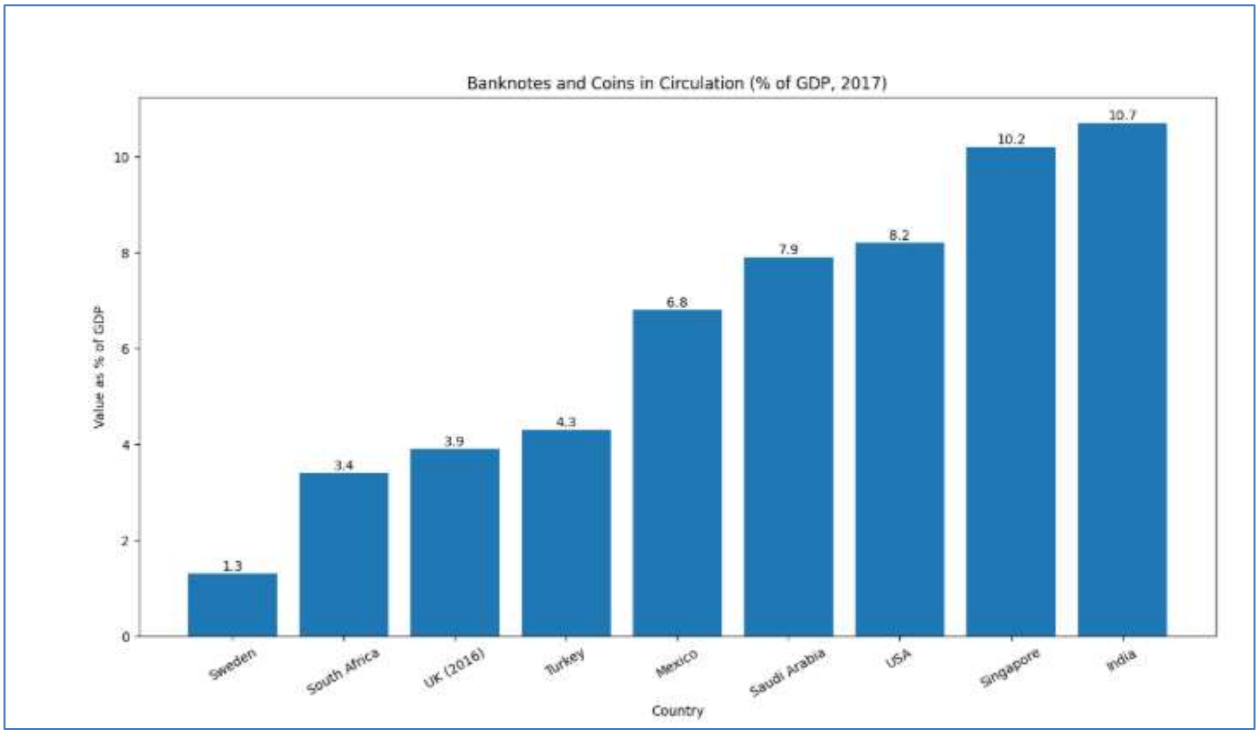

Figure 2
Source: P.Kumar in Jan 07, 2018

Despite a significant initial surge in cashless transactions, subsequent data from the RBI indicates a decline; cash remains predominant, constituting barely 5 percent of all transactions in India. Indians, particularly in rural areas, still like retaining cash on hand. Owing to restricted banking access in rural regions, over 90% of the rural populace conducts transactions with cash, rendering demonetization unacceptable to them. The misconception that digital payments are only for the educated and difficult to use results in limited adoption of cashless payment methods at numerous retail outlets.

The absence of security and prompt redressal measures constitutes a significant issue in legal aspects. Financial cyberattacks and digital crime are facilitated in a paperless environment. As payment transactions are saved on servers. Cyber attacks led to data and financial losses, causing a decline in customer trust and a subsequent avoidance of digital payments. Individuals are reluctant to engage in digital transactions due to the absence of legislation governing user data privacy and security assurances. The police are involved with cyber-cells, but the procedure is protracted and sluggish. A requisite insurance system must ensure payments to users up to a specified limit to foster confidence in digital payment services.

Conclusion

The government must ensure the broader acceptance of digital payments. We are among the rare nations where the utilization of cash is encouraged. This must be altered. Financial inclusion poses a significant challenge in India due to the substantial unbanked population. To improve the petition of digital imbursement instruments, managers must incentivize the operation of non-cash approaches, while the administration should adopt policies that streamline KYC necessities and reduce digital imbursement transactions extra user-friendly. Nonetheless, one

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cannot determine the achievement or disappointment of demonetization just grounded on the capacity of demonetized currency extracted from movement. The meagre act of putting demonetized money into a bank does not convert that cash into genuine funds, nor does it propose that one has avoided tax examination.

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