

DEMONETIZATION IN INDIA – SIGNIFICANT BOOST TO DIGITAL PAYMENTS

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ABSTRACT

Black Money has been a major issue since a decade in India. On the other hand terrorism and illegal activities has been increasing in India day by day. The present currency in the form of Black Money being a bigger source of finance to these terrorist activities. To face this challenge wash out of old currency was became a necessity for the country. Therefore, Demonetization was a great initiative by Indian Prime Minister to curb black money. Demonetization in India on 8th November 2016 was a historic step in Indian economy by PM Narendra Modi. In his decision PM Modi banned the 500 and 1000 notes to remove fake currency and deposit them by 31st December 2016 in the banks and was also announced to print new 500 and 2000 notes. By this sudden announcement a lots of disruptions were faced by people of the India because of cash shortages and various other sectors of the economy have positive and negative impact. The GDP growth rate also declined from 8% to 7.1% in 2017 because of country industrial production reduced because of shortage of cash. On the other hand shortage of cash gave a boost to digital payments as digital payments transactions increased 58% from last year. This paper aims to discuss the various positive and negative impact of demonetization on Indian economy and how demonetization have given a significant boost to digital payments in India.

Keywords: - Black Money, Demonetization, Digital Payments

INTRODUCTION

In India Demonetization took Place on 8th November 2016 midnight which was the decision taken by Prime Minister Narendra Modi to ban the 500 and 1000 currency notes to remove fake currency from Indian economy and to curb the black money from those Indians who use this money in unorganized trading, share market and Business of Real State. Demonetization is not a

new concept in Indian economy, before 2016 it took place 2 times in India, firstly in 1946 and secondly in 1978. At that time the aim was to combat tax evasion with the help of “Black Money” which is kept outside the economic system. In 2012, central board of direct taxes (CBDT) in its recommendation was against demonetization. According to CBDT Demonetization cannot be a solution for the curbing black money because it is held in the form of benami property, bullion and jewelry. Only 6% or less cash is kept by the black money holders. In past BJP was also not in favour of Demonetization as those people will be affected who are illiterate and have no access to banking facilities. In June 2016 Government reviewed its income declaration scheme for providing the opportunity to those people who are holding black money to having undeclared assets to avoid tax. Government decided that citizens can declare their asset and pay tax before 30 September 2016. After that a penalty of 45% will be levied. But still the Government was not getting positive results. Therefore the Government decided to wash out the old currency from the country. The decision of demonetization for banning 500 and 1000 notes was kept secret by the government. Only 10 people were aware about the decision. Finally demonetization was announced by Prime Minister Shri Narendra Modi on 8th November 2016 through a unscheduled live televised address to the nation at 20.15 IST. After the announcement Urjit Patel, the RBI Governor, and Shaktikanta Das Secretary of Economic Affairs in a press conference explained the purpose of this decision was to control terrorism funded by illegal money. According of RBI Governor, Supply of notes increased by 40% between 2011 and 2016 and the percentage increase in 500 notes was 76% and 1000 notes was 109% during this period which resulted increase in forgery and counterfeit notes.

LITERATURE REVIEW

E. Kamatchi Muthulakshami, Dr. G. Kalaimani concluded that demonetization is a great step for curbing black money in India. Although general public is impacted adversely to some extent but it is regarded as positive step in interest of Indian economy.

Dr. Partap Singh and Virender Singh (2016), concluded that this step has its both positive and negative impact on the society. It will have positive impact on increasing use of e-commerce, fin tech, payment gateways and e-wallets. It will have Negative impact on agriculture, luxury goods, and real state commodities.

CMA Jai Bansal (2017) concluded that demonetization has affected various sectors in the economy. GDP of economy has slightly decreased. It is a sort of like a dialysis more of short term cleaning up than a solution of problem.

K.Veerakumar (2017) In his study he concluded that people of different demographic background has been affected differently due to demonetization. Demonetization also lead to increasing use of e-wallets, online transactions etc.

DISCUSSION OF LITERATURE

The above studies indicated that Demonetization is a great step of Government of India for curbing Black Money and it has shown impact on the whole economy differently. This step is taken for the short term cleaning up of the economy. Demonetization has also given rise to online transactions. Thus it is regarded as a great step by PM Narendra Modi.

OBJECTIVES OF THE STUDY

1. To discuss the impact of Demonetization in India.
2. To discuss the significant boost to digital payments in India after demonetization.

RESEARCH METHODOLOGY

The study is descriptive in nature. For explaining facts secondary data from various internet sources is taken.

LIMITATIONS OF THE STUDY

Due to time constraints primary data cannot be collected, therefore secondary data is used for explaining.

IMPACT OF DEMONETIZATION ON INDIA

As Demonetization in India was an unpredictable decision for the general public by Prime Minister Narendra Modi. Initially lots of problems were faced by public as cash currency which they were having with them is no more legal tender. So it became difficult for them to make their day to day needs due to lack of cash. There were long queue at the ATM's because a limited amount of Rs. 2000 was allowed to withdraw till 14th November 2016 and Rs. 2500 till 31st December and the limit was increased to Rs. 4500 per day from January 1 and again to Rs. 10000 from January 16, 2017. Retail sector was the most affected sector after the sudden announcement of Demonetization as sale of small vendors was decreased due to shortage of cash with customer. The small and medium enterprise sector was also affected mostly. As with the shortage of cash labours remain unpaid of wages which resulted in increase in unemployment. Various other sectors related with SME's were also affected negatively. For example, restaurants, transport operators also impacted negatively. Farmers also faced problem in selling their products as well as the mandis and other fruit sellers were having the payment problem. Decreased consumer demand resulted in declined industrial production which affected employment generation adversely.

After one year Demonetization has shown tremendous impact on Indian Economy. Ceasing of 500 and 1000 note is legal tender helped in curbing black money and cleaning of Indian Financial System. Companies and general public who were having a lot of black money in the form of cash has to deposit their money into banks. 99% of the ceased currency was deposited by people in the banks by August 2017.

Demonetization has also helped in increasing tax collection of Indian Government as compared to 2015-2016. In 2016-2017 the no. of tax payers increased from 66.53 lakhs to 84.21 Lakhs that is 26.6 increments. Number of E- Returns also increased from 2.35 crore to 3.01 crore from 2016-2017 to 2017-2018. Demonetization has also helped in formalizing of payment of wages by amendment of payment of wages act for direct payment in bank account. In one year 50 Lakhs new bank accounts opened for cashless transaction of wages.

Demonetization has also shown a decrease in terrorism in India due to ceasing of funds supply.

BOOST TO DIGITAL PAYMENTS

Digital Payment is that way of payment which is done through digital modes. In digital payment digital modes are used to send and receive money. Transaction takes place online and no hard cash is received. The amount is debited in payers and is credited in payee account after the transaction. It is instant and convenient method of payment. Unified payment interface is a payment mode which is used to make funds transfer through the mobile app. BHIM, SBI UPI App, HDFC UPI App, Phone Pe etc., Cards , Rupay Debit Card, E Wallet are different types of digital modes which are used to transfer funds digitally.

Advantage of Digital Payments

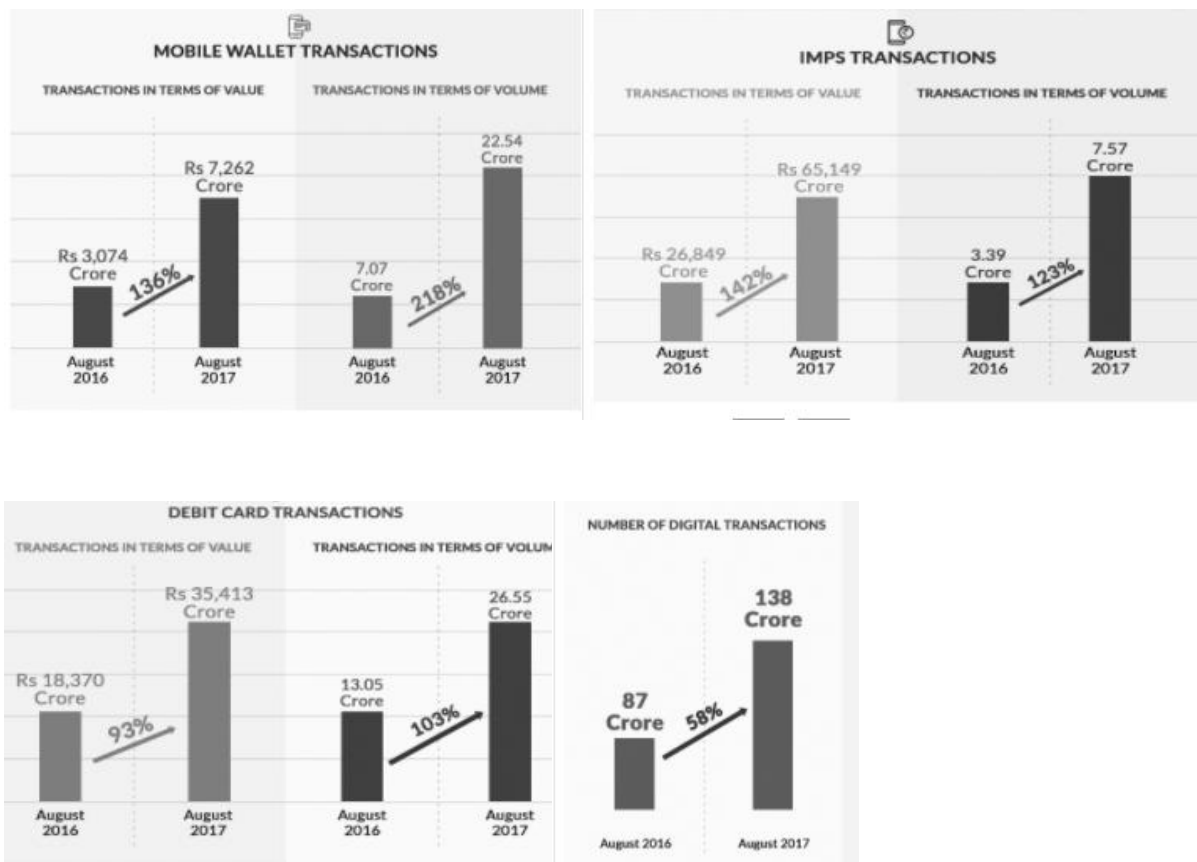
1. Digital payments are easy and convenient to use.
2. Money can be paid or send from anywhere.
3. It is less risky as cash is not required to carry from one place to another.
4. There types of payments are free from taxes in some cases.
5. Written record of payment can be generated from different apps.

Disadvantage of Digital Payments

1. It is very difficult for a non-technical person.
2. There is risk of data theft as hackers can hack the information from various apps.
3. These type of payments leads to overspending as money is not paid in cash.

Digital payments is not a new concept in Indian economy, it was in system before demonetization but after demonetization digital payments has increased day by day. As in

starting phase of demonetization limited amount of cash can be withdrawn from bank account and therefore cash was not easily available so people were left with the option of making their payments digitally. After that digital payments became part of their routine transactions as people started using mobile wallet, debit card and different apps provided by banks in their transactions. As demonetization has given a significant to digital payments in Indian economy various app has been introduced to make it convenient for the general public.



Source: www.narendramodi.com

Digital payment has shown a boost with the increase in mobile wallet transaction from Rs. 3014 crore in 2016 to Rs. 7262 crore in 2017. which is 136% increment after Demonetization.

IMPS Transactions increased from Rs 26849 crore in 2016 to Rs. 65149 crore in 2017. It has shown 142% boost to these transactions. Debit card transactions have increased from Rs.18370 crore in August to Rs.35413 crore in August 2017. It has shown 93% increment.

No. of total digital transaction increased from Rs.87 crore to Rs.138 crore that is 58% increment from last year.

CONCLUSION

As demonetization was a sudden announcement by Prime Minister Narendra Modi to curb black money from Indian economy. Initially lots of problem was faced by general public due to shortage of cash but on the other hand lots of other impacts have been seen after 1 year of demonetization. Tax collection of government has increased, 26.6% of the tax payers have increased as compared to last year. No of E returns have also increased. 50 lakhs new bank account of employees have also increased as compared to last year for making the payment system cashless. It has also resulted in decisive blow in terrorism. Demonetization has also given a significant boost to digital payments in India as no of mobile wallet transaction increased 136%, IMPS transactions increased 142% and debit card transaction increased 93%. Thus demonetization has moved India towards a cashless economy and brings a change in the economy by adoption of new technology.

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