

# DIGITAL REMONETIZATION OF INDIAN ECONOMY

Dr. A. Shanker Prakash and Mr. Sanjiv Singh Bhadauria

Assistant Professor, Amity University Madhya Pradesh, Gwalior.

## Abstract

*On November 08, the sudden announcement to de-monetization the high denomination currency notes of Rs. 1000 and Rs. 500 sent tremors all across the country. Given the timing, and socio-economic and political repercussions of the decision, many termed it a 'financial emergency'. Demonetization is followed by remonetization to replace the old discontinued currency with a new currency in the economy. Remonetization after demonetization is an uphill task initiated by Government to make India Digital. The Digital India programme is a leading programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of stated role of Digital India. A surge in non-cash transactions through digital options such as mobile wallets and debit cards is a clear sign that India is gradually embracing the cashless economy, but it remains to be seen if this will continue when new currency notes come into circulation. However, one of the major concerns would be digital security. It may be noted that to have a smooth transition to a digital economy, the government needs to have a policy of digital security. A strong digital security and low risk will enhance the spread of digital/cashless economy.*

**Keywords:** November 08, Demonetization, Remonetization, Digital Remonetization, digital/cashless economy.

## I. Introduction

With effect from 8th Nov. 2016 Tuesday Midnight PM Shri Narendra Modi Ji Banned the Currency notes of 500 and 1000. It is a strict decision of banning regular 500 and 1000 rupee notes from circulation which is a result of finding 1.25 lakh crore black money. Within 3 days of that striking decision: - 35000 Crore Rs. Deposited in banks and approximate 1500 Crore Rs Black Money were destroyed. Given high proportion of these notes in circulation (over 86 percent), 'demonetization' led to most economic activities, particularly employment, affected in a big way. Political parties, however, seemed divided on the issue, i.e. those in favor of the decision feel it will help to curb the galloping size of black money, fake currency, cross boarder terrorism, etc. In sharp contrast, the others believe it is a purely un-thoughtful, decision, based on no or poor understanding of 'black economy', and hence is only politically motivated in wake of the assembly elections due in a couple of states particularly UP. In addition, they also believe, the given decision of 'demonetization' is far from ground reality, and hence is unlikely to fetch anything tangible except causing miseries to millions of people by making them stand in queue day in and day out.

In an important move, this measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same.

As a probable consequence of this decision on various economic variables and entities are enumerated as follows:

### 1) Effect on parallel economy

The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks,

- Temporarily stall the circulation of large volume of counterfeit currency and

- curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

## 2) Effect on Money Supply

With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

## 3) Effect on Demand

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
- 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.

## 4) Effect on Prices

Price level is expected to be lowered due to moderation from demand side. This demand driven fall in prices could be understood as follows:

- 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.
- 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. In the medium term, however the prices in this sector could regain some levels as developers rebalance their prices (probably charging more on cheque payment).

## 5) Effect on various economic entities

With cash transaction lowering in the short run, until the new notes are spread widely into circulation, certain sections of the society could face short term disruptions in facilitation of their transactions. These sections are:

- Agriculture and related sector
- Small traders
- SME
- Services Sector
- Households
- Political Parties
- Professionals like doctor, carpenter, utility service providers, etc.
- Retail outlets

The nature, frequency and amounts of the commercial transactions involved with these sections of the economy necessitate cash transactions on more frequent basis. Thus, these segments are expected to have the most significant impact post this demonetization process and the introduction of new notes in circulation.

## 6) Effect on GDP

The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in festival demand is expected to offset this fall in overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal.

### **7) Effect on Banks**

As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage.

### **8) Effect on Online Transactions and alternative modes of payment**

With cash transactions facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand. This should eventually lead to strengthening of such systems and the infrastructure required.

As mentioned above, among all implications of 'demonetization', its impact on employment is important, particularly in a situation when majority of wage payments are made in cash form. Given the nature of huge informal employment, more than 95 percent of total transactions in India are in cash form. The decision of sudden 'demonetization' therefore led the labor market dynamics changed significantly by rendering millions of workers exposed to increased uncertainty in employment; they resorted to 'reverse migration'. For employment growth, economic growth is one of the important factors. In a situation, when the recession phase caused by global crisis of 2009 had hardly dimmed away, the recent move of 'demonetization' will push growth downward as predicted by most economic agencies including RBI and IMF. The prediction of decline in GDP ranges from 0.5 percent to 2 percent. Theoretically, a unit declines in growth rate results a decline in employment growth rate, a concept called as employment elasticity (EE) of output. So, labour market, particularly informal in nature, will be most affected by the move.

## **II. Demonetization to Digital Remonetization**

Demonetization is followed by remonetization to replace the old discontinued currency with a new currency in the economy. Remonetization after demonetization is an uphill task initiated by Government to make India Digital. The Digital India programme is a leading programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of stated role of Digital India. As a part of promoting cashless transactions and converting India into less-cash society, various modes of digital payments are available such as Banking cards, USSD (the Unstructured Supplementary Service Data), AEPS (Aadhaar Enabled Payment System), UPI, Mobile wallets, Banks Pre-paid Cards, Points of Sale, Internet Banking, Mobile Banking and Micro ATMs.

## **III. Measures Taken By The Government**

Some of the incentives/measures taken by the Government are –

The Central Government Petroleum PSUs has initiated to give incentive by offering a discount at the rate of 0.75% of the sale price to consumers on purchase of petrol/diesel if payment is made through digital means. The incentive scheme has the potential of shifting at least 30% more customer to digital means which will further reduce the cash requirement of nearly INR 2 lakh crore per year at the petrol pumps.

In order to enhance the digital payment infrastructure in rural areas, the Central Government through National Bank for Agriculture and Rural Development (NABARD) will extend the financial support to eligible banks for deployment of 2 Point of Sale (POS) devices each in 1 Lakh villages with the population of less than 10,000. These POS machines are intended to be deployed at primary cooperative societies/milk societies/agricultural input dealers to facilitate agri-related transactions through digital means. This will further benefit farmers of one lakh village covering a total population of nearly 75 crore who will have facility to transact cashlessly in their villages for their agri needs.

The Central Government through NABARD will also support Rural Regional Banks and Cooperative Banks to issue “Rupay Kisan Cards” to 4.32 crore Kisan Credit card holders to enable them to make digital transactions at POS machines/Micro ATMs /ATMs.

Railway through its sub urban railway network shall provide incentive by way of discount upto 0.5% to customers for monthly or seasonal tickets from January 2017, if payment is made through digital means.

All railway passengers buying online ticket shall be given free accidental insurance cover of upto INR 10 Lakh.

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% for payment of these services through digital means. All the passengers travelling on railways availing these services may avail the benefit.

Public sector insurance companies will provide incentive, by way of discount or credit, upto 10% of the premium in general insurance policies and 8% in new life policies of Life Insurance Corporation sold through the customer portals, in case payment is made through digital means.

The Central Government Departments 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 Governments are being advised that the State Governments and its organizations should also consider to absorb the transaction fee/MDR charges related to digital payment to them and consumer should not be asked to bear it.

Public sector banks are advised that merchant should not be required to pay more than INR 100 per month as monthly rental for PoS terminals/Micro ATMs/mobile POS from the merchants to bring small merchant on board the digital payment eco system.

No service tax will be charged on digital transaction charges/MDR for transactions upto Rs.2000 per transaction.

For the payment of toll at Toll Plazas on National Highways using Radio-frequency Identification (RFID) card/Fast Tags, a discount of 10% will be available to users in the year 2016-17.

Further to above incentives provided, Government also announced new Yojana's post demonetization. As India move towards a digital and cashless economy, the Government announced two schemes lucky Grahak Yojana and Digi-Dhan Vyapar Yojana to give cash awards to consumers and merchants who utilize digital payment instruments for personal consumption expenditures. The prizes range from INR 1000 to INR 1 crore and the transactions permitted are from INR 50 to INR 3000 to keep the focus on the common man. The schemes will not only give a boost to cashless transactions, but will particularly bring the poor, lower middle class and small businesses into the digital payment fold, and new way of life.

#### **IV. Conclusion**

From the above analysis, it can be easily concluded that the year 2017 is an important milestone for India and would mark transition from a largely cash economy to a less cash and a more digital economy. But the buzzwords like “less cash”, “cashless” and “digital” do not really convey the range and diversity of the transition. It is actually a transition to a new social and behavioral pattern. Migrating from a cash economy to a digital economy requires a big behavioral and social shift, and a recast of the whole mindset. Making gadgets available to the society will not help unless we bring about a social and behavioral transformation.

The demonetisation undertaken by the government was a large shock to the economy. The impact of the shock in the medium term was a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be “black money” and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. A surge in non-cash transactions through digital options such as mobile wallets and debit cards is a clear sign that India is gradually embracing the cashless economy, but it remains to be seen if this will continue when new currency notes come into circulation.



However, one of the major concerns would be digital security. It may be noted that to have a smooth transition to a digital economy, the government needs to have a policy of digital security. A strong digital security and low risk will enhance the spread of digital/cashless economy.

## References

- 1) Gulati, Singh, Gurbir, (Jan. 2017) Impact of Demonetization on Textile industry, [www.indiaretailing.com](http://www.indiaretailing.com)
- 2) Das, Samantak, (Jan. 2017), impact of Demonetization on Real estate, Chief Economist and national director, Knight Frank, [www.livemint.com](http://www.livemint.com)
- 3) Padmini Sivarajah. (2016, Nov. 11). Demonetisation: Madurai Corporation makes record tax collection on a single day. The Times of India. Retrieved from <http://timesofindia.indiatimes.com/city/chennai/Demonetisation-Madurai-Corporation-makes-record-tax-collection-on-a-single-day/articleshow/55374378.cms>
- 4) PTI. (2016, Nov. 9). Demonetisation will benefit economy in long run: Jaitley. The Hindu Business Line. Retrieved from <http://www.thehindubusinessline.com/economy/demonetisation-to-increase-eco-size-enhance-revenue-base-says-jaitley/article9324312.ece>
- 5) Malik, Anghshu, (Jan. 2017), Impact of Demonetization on FMCG Products, Chief Operating Officer at Adani Wilmar Ltd., [www.livemint.com](http://www.livemint.com)
- 6) Kapoor, Mahimam, (2016), Impact of Demonetization on Banking Sector, [www.bloombergquint.com](http://www.bloombergquint.com)
- 7) Dec. 2016, PTI, New Delhi, [www.dnaindia.com](http://www.dnaindia.com)
- 8) Key Economic Indicators, Office of the Economic Advisor, [www.indiaspend.com](http://www.indiaspend.com)

