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# Demonetization: A Step towards Cashless Economy

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**Abstract-** *Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as valid currency. Not for single political advantages the government of the country has banned the currency it includes so many advantages for the economy of the country. Demonetization can be deployed to obtain the cashless economy of the country or major changes in the currency of that country or replacing old currency with new currency. Digital payment is the best options to overcome the problems occur during demonetization. Digital payment options require a little training for performing the action. Use of cashless transaction has their own advantage for the society & the nation also. We should increase the use of digital payments & go towards cashless economy.*

## I. INTRODUCTION

Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as valid currency. On Nov. 8, 86% of India's currency was nullified in a great demonetization effort that aimed to clean out the black market's cash supply and counterfeit notes which completely disrupted the social, political, and economic spheres of the world's second largest emerging market [4]. All 500 and 1,000 rupee notes were instantaneously voided, and a 50-day period ensued where the population could redeem their canceled cash for newly designed 500 and 2000 rupee notes or deposit them into bank accounts. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit.

## II. HISTORY OF DEMONETIZATION

India has done this before. In 1946, all 1,000 and 10,000 rupee notes were recalled. In 1978, 1,000, 5,000, and 10,000 rupee notes were demonetized.

In 2015, the Zimbabwean government demonetized the Zimbabwean dollar to come back the country's hyperinflation that was recorded at 231,000,000%. The 3-month process involved expunging the Zimbabwean dollar from the country's financial system. One more example of demonetization occurred when the European Monetary Union nation adopted the euro in 2002 and switched to the euro, authorities first fixed exchange rates for the varied national currencies into euros. When the old national currency was demonetized then the euro was introduced. However, the old currencies remained convertible into euros for some time that made a smooth transition through demonetization would be assured. The demonetization of silver to adopt the gold standard as a legal tender was introduced under the coinage act of 1873 in the United States. The withdrawal of silver from the economy resulted in a contraction of the money supply, and affected the economy of the country for 5 years as economic depression in the country. In response to the dire situation and pressure from silver miners and farmers, the Bland-Allison Act demonetized silver as legal tender in 1878.

## III. TRANSACTION ISSUES DURING DEMONETIZATION

There are several transition issues that need to be managed for this transition to be effective demonetization.

### A. Infrastructure Issues

Upgradation of the existing banking system & network connectivity should be available everywhere to increase the use of digital payments methods.

Telecom service providers are providing the internet connectivity to POS machines to perform the cashless transaction. Banking systems are also CBS now all the banking systems are totally dependent on availability of connectivity on network. In those areas where network & internet connectivity is not available in that area cashless transaction is difficult, so to support cashless economy we should establish infrastructure to support cashless economy.

### B. Consumer Behaviour Issues

People's behaviour should also be changed to support the cashless economy. Peoples are using mostly used method of payment like cash transaction. Every individual should know about the methods of digital payments and they should learn that how to perform digital payments. Many digital payments companies are providing promotional offers to the users of digital payment users. Digital payment companies should keep their agents in the society who trained people for digital payments.

### C. Accessibility In Language

As we know that in India so many regional languages are spoken & people from different region knows different languages. All the digital payment modes should be available in popular regional language also so that people who are not able to use the digital payment mode in English they can use the digital payment mode in their regional language.

## IV. EFFECT OF DEMONETIZATION

Demonetization has its various advantages & disadvantages. Some of the advantages & disadvantages are discussed here.

### A. Advantages of Demonetization

#### 1) Attack on Black Money Holders

- a) Those people who are holding undeclared amount of money they will be in problem.
- b) Their black money in hard cash is now a pile of trash.
- c) After the implementation on demonetization if a Black money holder Want to Deposit Money in Banks they must show their details.
- d) There Will Be 200 % Penalty on Income Tax Amount .

### B. Death Knell to Fake Currency Rackets

- 1) After the Demonetization, the use of running fake currency in the marked completely become useless+.
- 2) By banning Rs. 500 and Rs. 1000 notes, the government has stopped all the unethical rackets completely.
- 3) Existing fake money become scruff.

### C. End of Terrorist Funding

- 1) Huge sums of money especially in hard cash of Rs. 500 and Rs. 1000 was used to fund Islamic terrorists, Naxalites and other non-state actors.
- 2) Now, these Organizations will suffer from shortage of fund.
- 3) Most of These terrorist, Maoist Organization Used These Funds for Buying Arms and Weapons
- 4) Buying arms is an extremely difficult task now after this ban.

### D. Transparency

- 1) Online transaction = More transparency = Financial Intelligence Unit Will track All Online transactions
- 2) Now there Will be More Transparency in Real Estate Sector

### E. End of Huge Donations

- 1) Huge amounts of donation that is taken in the private education and healthcare sectors would be stopped.
- 2) Schools, engineering and medical colleges and hospitals (private ones) used to take huge amounts of money as donations especially in the form of hard cash after the demonetization the huge donation decreased.
- 3) After the demonetization, the people who are running these organizations scare about keeping undeclared amount of money in their homes & bank accounts.
- 4) Same applies to the real estate sector.

### F. Towards A Cashless Economy:

- 1) While it is little difficult to say 100% cashless economy , the proportion of hard cash in the economy will decrease and our economy will get more digitized .
- 2) This will result in greater transparency.

- 3) Now government has put Some limitation for Cash Withdraw from bank Accounts. People Will go for online payments, They Will Use PayTM or other Online Payment Companies for Buying goods or Making payments.
- 4) More Use of Debit and Credit Card

#### *G. Hawala Transactions End*

- 1) Most Hawala transactions used to be carried out in the denominations of Rs. 500 and Rs. 1000.
- 2) With this ban, the government has delivered a fatal blow to the unethical Hawala traders as they can't trade anymore using denominations of Rs. 500 and Rs. 1000

#### *H. Disadvantages of Demonetization*

##### *1) Rush at Banks*

- a) Banks will be extremely over-crowded by people.
- b) People will forget everything else and throng to the places where the banned notes are being officially exchanged leading to a tremendous chaos.

#### *I. Shortage of Money to Common People*

- 1) There Will be Shortage of Money for Common people.
- 2) In very few rural areas banks are providing sufficient funds to the account holder of the bank.
- 3) Common people are facing problem of unavailability of cash in the banks.
- 4) Cash supplied to banks in improper manner or not supplied to all the banks on time.
- 5) ATM not working.

#### *J. Stock Market*

- 1) Due to currency being sucked out of the market, the mood at the stock market was completely bearish.
- 2) Sensex lost 1600 points at open. This can adversely have a negative effect on trade in general.

#### *K. Problem for House Wives*

- 1) Many Indian housewives store money secretly so that they could be of help during times of financial crisis in their households.
- 2) The accumulated money of our respected Indian housewives is of no use now until they exchange in the banks and post-offices.

#### *L. Short Term Inflation*

- 1) Due to shortage of money in the market, a short-term cost push inflation will occur.
- 2) The price of gold has already become sky high.
- 3) Prices of vegetables and fruits have also soared burdening the common man.

## **V. IMPACT ON ECONOMY OF INDIA**

Demonetization has significant impact on the economy of India. Demonetization has its long-term impact as well as short term impact. These measures have resulted in a significant decrease in liquidity in the short term, which is expected to ease gradually with the introduction and circulation of the new currency notes. Because of these measures and increased deposits with banks, the bank deposit base has increased significantly, and financial savings are expected to increase because of the shift from unproductive physical asset based savings to interest-bearing financial assets. This, in turn, is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes. An increase in the deposit base may also enable banks to lower the blended cost of funds as higher current accounts, savings accounts deposits enable replacement of higher borrowing costs and decrease overall cost of funds. Another method of digital payment such as e-wallet, online banking transaction, payments using credit card & debit card increased significantly after the awareness. These methods of payment increase the development of cashless economy. Reduced liquidity has also caused a sharp decline in the availability of disposable income, affecting spending patterns and consumption trends in the economy in the short term. These trends, together with certain industry-specific issues discussed below, are expected to affect India's GDP growth rates adversely in the fiscal year ending March 31, 2017. While rating agency Fitch has projected a decrease in India's GDP growth by approximately 50 basis points, other projections peg India's GDP growth rate for fiscal years

ending March 31, 2018 and 2019 lower by approximately 30 basis points. These forecasts indicate that an upgrade of India's credit ratings for the next two years remains unlikely, although India's current sovereign credit rating of 'BBB-' is expected to remain steady in the long term. The collection of tax is also increased after the demonetization because everyone should show the proof of the amount which is in their bank accounts so if everyone become honest about their taxes then definitely the economy of the India will become more strong.

## VI. CASHLESS TRANSACTION

Cashless transaction refers to the transaction of money without having cash. The government should promote the use of cashless transaction & also provide end user facilities using which the customer can move forward towards digital payments. A little training & security awareness is important to shift towards cashless transaction. Network connectivity should be available globally to avail the services of cashless transaction. So many modes of digital payments are also provided by few firms which can be used to make digital payment. Cashless transaction can be performed with proper knowledge of performing digital payments and network connectivity to provide the facility of digital payments. Government is providing so many interfaces to promote digital payment mode. Recently Honorable prime minister of India launches BHIM app for digital payment method which runs on both mode using the internet as well as USSD code. BHIM app can be used to make digital payments directly from banks even in those areas where internet connectivity is not properly available.

## VII. CONCLUSION

Demonetization initiative a sudden breakdown in India's market. Trade of all the economy become disrupted, and cash-centric areas like, fishing, agriculture market was virtually shut down, with many businesses and way of living going under completely shut down -- not to mention the economic impact of millions of people standing in line for hours to exchange or deposit canceled banknotes rather than working or doing business. however, although India's demonetization initiative was seemingly severely mismanaged, this doesn't mean that the entire endeavor was a complete failure. In few days, there are some positive indicators. The demonetization process has also repaired India's counterfeiting problem for the near to mid-term. It was previously estimated that 250 out of every million Indian bank notes were fakes. This recent culling of the bulk of the country's currency instantly rendered counterfeits as valuable as the paper they're printed on. The government of India & Reserve Bank of India reported that the new 500 and 2,000 rupee notes are less vulnerable to counterfeiting, having advanced security features. Overall, we can conclude that digitization is important to support the effect of demonetization & economy of the country also.

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