

## DEMONETISATION: A PUSH TOWARDS CASHLESS ECONOMY

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## ABSTRACT

*To combat counterfeit currency, terror financing, corruption, and black money, the Government of India decided to ban Rs 500 & Rs. 1000 notes effective from 8 November, 2016 followed by capping withdrawals from ATMs and banks. Prime Minister Narendra Modi proposed the initiative of a cashless society. This was an innovation unthought of by India's public sector; it was the beginning of an economic revolution which pulled millions of new users into the country's digital monetary grid by virtual fiat. India expects to create a more transparent and cleaner economy through digitalisation. It is expected that the impact of demonetisation will be felt in the reconstruction of India's payment structure, reduction in the banking service charges and also help in curtailing banking related corruption. This study makes an attempt to understand how demonetisation has paved way for a digital and cashless economy in India. To understand the impact of demonetisation on making India embrace a cashless form of payment system, analysis of digital transactions as well as certain payment system indicators has been done for pre and post demonetisation period. The study also focuses on the various challenges India would face in its attempt to go cashless.*

*Keywords: demonetisation, cashless, digital, economy.*

## I. INTRODUCTION

In a cashless economy all the transactions are completed using digital means and the circulation of hard currency is minimal. The surprise demonetisation on 8<sup>th</sup> November 2016 thrust millions of new users into India's digital economy grid which was for all these decades characterised by its very cash-centric economy. Cash accounted for more than 95% of all transactions, 90% of traders didn't have card readers or any means of receiving electronic payments, 85% of labour were paid in cash. Under these conditions India was not prepared for a cashless revolution that was brought about by demonetisation. India is presently in the midst of a big movement to refashion the way payments are done which is evident from the opening of new bank accounts at a heightened rate, brisk growth of e-payment services as well as the boom of the digitally focused online business. Even the street vendors have Paytm accounts where the buyers can scan their bar code and make payments. These changes signify towards a more comprehensive society in the future.

No economy can go entirely cashless. This will require plenty of ecosystem construction even to attain a tangible threshold. India culturally trusts in cash and a concept change in mindset will need both time and resources. Whether intentionally or not, this mindset change towards a cashless economy was initiated by the Government of India on 8<sup>th</sup> November, 2016. Cashless is now the buzzword in India and the juggernaut is rolling as the largest cash economy persists going digital.

## II. LITERATURE REVIEW

Raul L. Katz and Pantelis Koutroumpis (2013) in their research described the paradigm shift in digitisation as a social alteration triggered by the substantial adoption of digital methods to generate, share, process and transact information. The results present strong support for the outcomes of digitisation across all development generating metrics.

Worthington (1995) in his research described a cashless society as the system where hard cash is substituted by efficient e-payments initiated by different types of plastic cards. The study outlines the justification of those who are eager to promote a cashless society and the repercussions for marketers intending to win consumer acceptance for compensation by plastic cards.

Hock-Han Tee and Hway-Boon Ong (2016) scrutinized the effects of implementing cashless payment systems in five countries within the EU namely, France, Austria, Belgium, Portugal and Germany for the period 2000 to 2012. The effects of adopting cashless payments on the economic growth are only significantly viewed in the long run. Hence, any strategy that promotes cashless transactions will not impinge on the economy immediately.

Raja. Velmurgan and Seetharaman (2008) examined the growth and evolution of e- technologies which can offer more progressive technical support for electronic transaction systems. The focus of the research was to identify and describe the different schemes of e-payment accessible to the mass population.