

# DEMONETIZATION: SUCCESS OR FAILURE

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## Abstract

On November 8th, 2016, the Government of India announced demonetisation and declared to withdraw two high value currency notes. The exercise made 86 percent of cash in circulation illegal tender overnight. The major objectives of demonetisation: was to flush black money, eliminate Fake Indian Currency Notes (FICN), to convert non-formal economy into a formal economy to expand tax base and employment and to give a big boost to digitalization of payments to make India a less cash economy. The present study empirically analysed how far the stated objectives were achieved. Tax base and acceptance of digital infrastructure has grown after demonetisation.

**Keyword:** Demonetization, Counterfeit notes, Currency in circulation, GDP

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## 1. Introduction

Two years ago, Government of India (GoI) declared to withdraw two high denomination currencies, viz. Rs 500 and Rs 1,000, from circulation, and announced to replace by two new Rs 500 and Rs 2,000 currency notes (Arunachalam, 2017). In support of their decision, the Ministry of Finance argued that, during 2011 to 2016 the economy had grown only by 30 percent, while the two high denomination bank notes of Rs 500 and Rs 1,000 increased by 76.38 per cent and 108.98 percent, respectively. Further the revenue department reported that the shadow economy<sup>2</sup> in India increased from 20.7 percent in 1999 to 23.2 percent of the GDP in 2007<sup>3</sup>. Thus, to tackle with problem of increasing share of black money and to check the circulation of fake currencies, Prime Minister Narendra Modi announced the withdrawal of two currencies i.e Rs 500 and Rs 1,000 on November 8, 2016 (RBI, 2017). Later on, GoI justified Demonetization as a move to advance financial inclusion and to increase in digital transactions (Daya and Mader, 2018).

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<sup>2</sup> Economy where black money transactions do not leave any audit trail.

<sup>3</sup> Did PM Modi Not Wait for RBI's Nod on Demonetization Before Rollout? RTI Response Raises Questions, published on March 11, 2019, <https://www.news18.com/news/india/did-pm-modi-not-wait-for-rbis-nod-on-demonetization-before-roll-out-rti-response-raises-questions-2062883.html>, retrived on 11<sup>th</sup> March 2019.

The present study tries to analyse the extent to which demonetization exercise is justified in terms of its stated objectives, announced on November 8<sup>th</sup>, 2016. Several studies have been conducted to analyse the impact of demonetization on various sectors of the Indian economy. The former chief economic adviser Arvind Subramanian discussed the economic and political perspectives of demonetization. Former Finance minister P. Chidambaram said that demonetization resulted in 1.5 per cent loss of GDP in terms of growth. Whereas, some argued that demonetization achieved its objectives substantially (to name some, SC Garg, economic affairs secretary and Arun Jaitley, Finance Minister of India)<sup>4</sup>. The recent events, such as RBI's declaration about the return of 99.3 per cent of junked notes to bank (RBI Annual Report, 2018), and the disclosure of demonetization minutes after the Central Information Commission (CIC's) show cause notice under RTI ACT<sup>5</sup> has reignited the debate on the success of the demonetization exercise. With this background, the present study analysed the success and failure of the Government's demonetization move.

## 2. Review of literature

Demonetization is a monetary step in which a currency unit's status as a legal tender is declared invalid (Kumar, 2016). Sometimes, a country completely replaces the old currency with new currency (Shahare 2017). This is usually done whenever there is a change of national currency, replacing the old unit with a new one. The concept of demonetization is not new, several countries such as Ghana (in 1982), Nigeria (in 1984), Myanmar (1987), Australia (in 1996) opted for it (Pradeep, 2017). There could be many causes of demonetization in any country, viz. to check excess liquidity, inflation, curb black money and sometimes to completely exchange old bank notes with new notes (Verma and Jain, 2017). Zimbabwe, Fiji, Singapore and Philippines were other countries which opted for currency demonetization.

GoI has demonetized currency for three times till date, first in 1946, second in 1978 and third on 8th November 2016 (Shankaran, 2016). In 1946, the RBI demonetized the then circulated Rs1,000 and Rs10,000 denomination notes, second in 1978, the RBI demonetised Rs 1,000, Rs 5,000 and Rs 10,000 denomination notes. However, the impact of demonetization was less visible during these periods as the currency of higher denomination was barely in circulation. On 8th November 2016, GoI demonetised high currency denomination notes of Rs. 500 and

<sup>4</sup> Confiscation of currency was not the aim: Jaitley on impact of Demonetization, published on 08 Nov 2018, <https://www.livemint.com/Politics/o39vPkcXTxllstOUllmqZK/Demonetization-a-step-in-formalisation-of-economy-says-Jait.html>, retrived on 10<sup>th</sup> March 2019.

<sup>5</sup> <http://humanrightsinitiative.org/blog/rbi-compelled-to-disclose-Demonetization-meeting-minutes-after-cics-penalty-show-cause-notice-under-rti-act>

Rs. 1,000 worth nearly Rs 15.4 lakh crore, constituting about 86 percent of the currency in circulation at that point of time (RBI, 2017). The move was aimed to bring back unaccounted black money in the formal banking system, to reduce the menace of counterfeit currency, the extent of cash in circulation and to increase tax collection currencies. In addition, demonetization was aimed to promote cashless transactions through digitisation, increased the scope for financial inclusion, etc. (Daya and Mader, 2018).

Soon after the announcement economists started arguing on the benefits and costs of demonetization exercise (Uke, 2017). Extant of literature is available on the immediate impact of demonetization on various sectors of economy viz. impact on economic growth, real estate, small and medium enterprises, agriculture sector, informal economy, wages, employment and digital transactions. RBI (2017) analysed the impact of demonetization on various sectors including organised sector, informal sector and financial sector. Nataraj (2017) in her paper concluded that the effects of demonetization on the economy are neutral and, in some cases, positive effects of demonetization far outweigh the negative outcome. Pradeep (2017) observed that demonetizing alone will not affect growth rate of India. The author conducted econometric tests to justify the exercise of demonetization to curb illegal hoarding of cash and fake currency. Dasgupta (2016), Beyes and Bhattacharya (2017) narrated the benefits of demonetization. The research report published by Rao et. al (2016) analysed the impact of demonetization on the availability of credit, spending, level of activity and government finances. Bisen, et al. (2017); Chand and Singh (2017) and Shahare (2017) analysed the impact of demonetization on farmers, traders and consumers. They found that, due to demonetization small and marginal farmers were most affected in contrast to large farmers. Mohindra and Mukherjee (2018) argued the negative consequences of demonetization, especially on the health of the poor. Vyas (2018) reported that demonetization caused substantial loss of jobs and wages for lower income group. Thousands of small and medium enterprise (SME) units were shut down and lakhs of jobs were destroyed due to demonetization. This may be due to the fact that the rural and unorganized sector depended mainly on cash for daily transactions. Prior to demonetization, about 78 per cent of all consumer payments in India were occurring in terms of cash transactions (RBI, 2017). The sudden withdrawal of 86 per cent of currency in circulation created liquidity challenge for several small businesses (RBI 2017). Shahare (2017) suggested the need of proper preparation on government part is needed before implementation of any such major change

Further, the financial institutions which include banks, cooperatives, and microfinance institutions (MFIs) were severely affected by the sudden announcement of demonetization (Rao et. Al, 2016). On the banking sector, demonetization has had a significant impact on the size and composition of bank's balance sheets (RBI, 2017). Decline in currency in circulation on account of demonetization led to high liquidity in the banking system, resulted in larger cash reserves (Mulye, 2017). The deposits in Pradhan Mantri Jan Dhan Yojana (PMJDY) increased many folds. Post-demonetization, 23.3 million new accounts were opened under the PMJDY, bulk of which (80 per cent) were with public sector banks. However, only after nine to twelve months of demonetization, the banks were able to deploy these funds profitably (Mulye, 2017). The microfinance institutions (MFIs) which extend credit to rural population temporarily stopped providing credit and collecting repayment from their customers, as the microfinance transactions were mostly in direct cash mode (CARE, 2017). Inadequate currency supply and disruption in borrower cash flows led to a sharp dip in MFIs' collection efficiencies (Radhika, et al., 2017). By the year ending March 2017, the microfinance sector recovered from the shock of demonetization and reported 30 percent increase in client base from the financial year 2015-16 (Sriram, 2017). The gross loan portfolio increased by 25 percent and portfolio at risk greater than 90 days declined to 4.78 per cent in Q3 of 2017-18 from 5.48 percent in Q2 of 2017-18 (MFIN 2017-18). With the improvement in cash availability, the collection efficiency of the MFIs was marginally improved to 90.61 percent in March 2018 (The Bharat Microfinance Report, 2018). However, demonetization has no striking impact on the returns of the S&P (Standard & Poor's) BSE SENSEX index (Upadhyay and Suvarna, 2018).

On the positive side, demonetization forced greater use of digital modes of transaction and lesser use of cash and increased the collection of tax (FORUM 2017). Scarcity of cash acted as a catalyst towards initiating a paradigm shift for both the demand and supply side of the Indian banking sector (Schueth 2017). Microsave (2017) conducted a study to understand the impact of Demonetization on the income, expenses and cashless solutions adoption of 147 respondents spread across rural, semi-urban and urban geographies. They observed that post Demonetization, the transaction volume via cheques, debit card at POS and m-wallet increased, whereas the average transaction value through the cheques, debit cards has decreased. A study conducted by Centre for Digital Financial Inclusion (2018) reported that after Demonetization there was rapid rise in digital transactions. The study recommended creating awareness on the benefits of digital payments and allaying concerns on digital payments.

### 3. Statement of the problem:

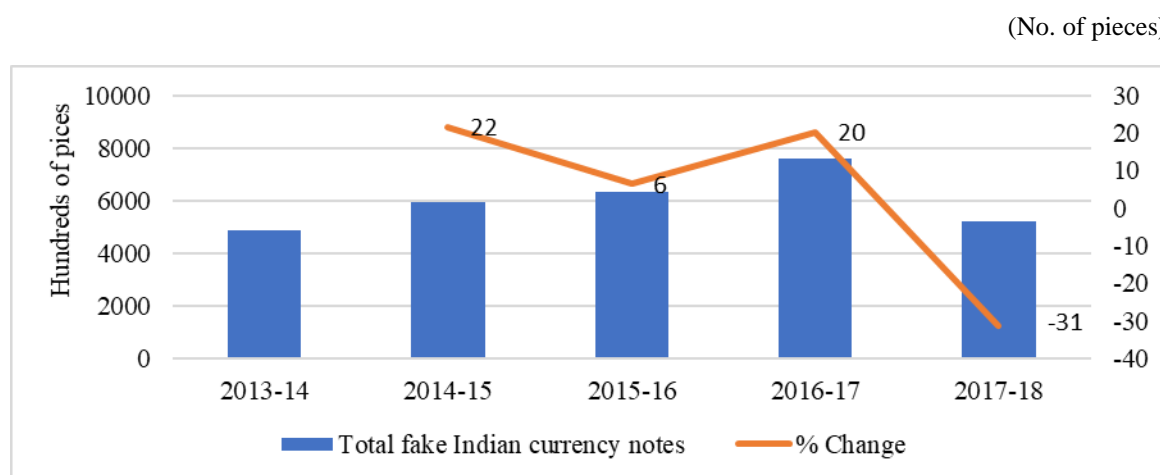
The present paper will analyse how far the objectives of demonetization announced by GOI are achieved. The study will closely examine the impact of demonetization on expanding tax base, increase use of digital means of transaction, or less cash economy, etc. The data or information for the study is collected from various reports, magazines and newspaper articles on demonetization. For instance, Economic Survey, Report on trend and progress of banking in India for last three financial years (2016-18) will be analysed for analysing circulation of currency in India.

### 4. Analysis

#### 4.1. Counterfeit notes

One of primary justification for demonetization, was increase in fake or counterfeit currency in circulation. In the year 2014-15 there was a steep rise of 22 per cent in fake Indian currency notes (FICN), from that of the previous year (Figure 1). As per the RBI data, the number of counterfeited Rs 500 notes were most common (ranges between 51 to 41.3 per cent from 2013-14 to 2015-16), followed by Rs 1000 notes (22 to 33 per cent from 2013-14 to 2015-16). Thus, to tackle the problem of increasing fake currency, in 2016, government of India announced demonetization of high currency notes i.e Rs 500 and Rs 1000.

Figure 1: Pattern in number of counterfeit Notes detected across five financial years



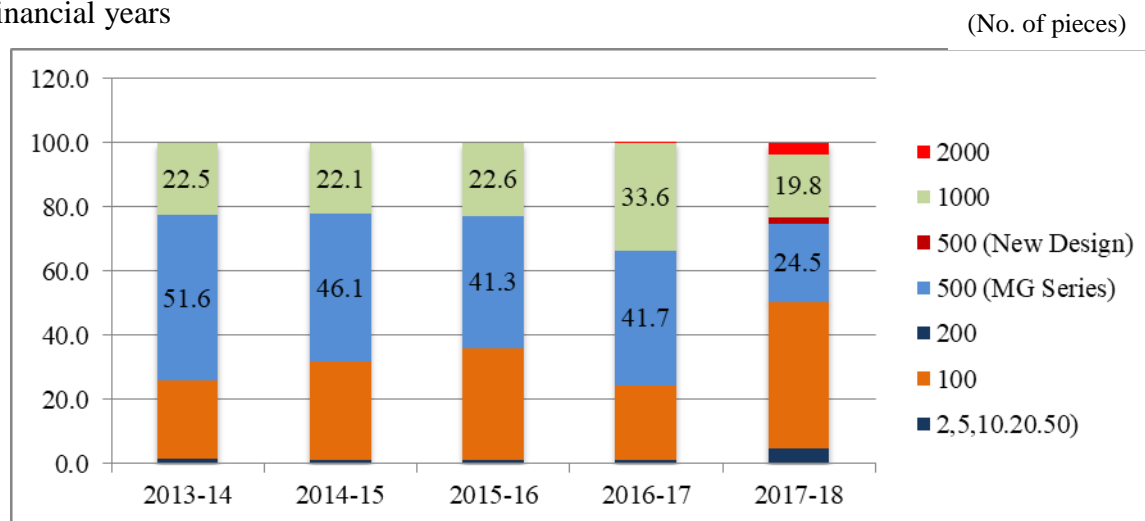
Source: RBI Annual Reports of various financial years

Immediately, after demonetization the total fake currency increased by only six per cent from the previous year, whereas detection of counterfeit Rs 500 and Rs 1,000 notes increased notably (Figure 2). This may be due to the panic, which forced people to deposit money in banks or other financial institutions. Whereas, in 2017–18, the detection of counterfeit currency lowered by 31.4 per cent in comparison to 2016-17. There is a decline in fake Rs 500 (59.7 per cent) and Rs 1,000 (59.6 per cent) from that of the previous year, as this

comprised only the residual part of Specified Bank Notes (SBN) deposits processed during the year 2017-18 (RBI 2017-18). This is one of the direct positive impact of Demonetization that is clearly visible (ECOWRAP 2018).

However, it is important to note that there is 35 per cent increase in fake Rs 100 and 154 per cent increase in Rs 50. In addition, there is a significant increase in counterfeit Mahatma Gandhi (New) Series of banknotes in the denominations of Rs 500 (new) and Rs 2,000 (Figure 2) which were 9,892 and 17,929 as against 199 and 638, respectively during the previous year. Given the current trends, it is expected that the number of counterfeit notes in the denomination of Rs 500 (new) and Rs 2000 may increase further (ECOWRAP 2018). To tackle this, RBI declared to increase the security features of the new notes in 2018 <sup>6</sup>.

Figure 2: Pattern in number of counterfeit Notes denomination wise detected across five financial years



#### 4.2 Black money and Demonetization

Curbing black money was one of the prime objective of demonetization exercise. Black money refers to the money generated by bypassing taxation system and incomes which are taxable but not reported to the tax authorities (Rao et.al 2017). The government on the day of demonetization announced that nearly Rs three lakh crore had remained out of the banking system, which will be deposited in banks post-demonetization. They claimed that over Rs. two lakh crore of black money reached banks through various efforts of GoI (Dutta 2018).

Large numbers of raids were conducted by Government agencies after demonetization announcement. The number of searches increased by 158 percent from 447 groups in FY 2015-16 to 1,152 groups in FY 2016-17 (Department of Revenue, Central Board of Direct

<sup>6</sup> The security features such as security threads with colour shift and moving images, colour shifting inks, foil patch, security fibres, ink and paper based taggants, advanced watermark and micro-perforation will be added (RBI 2017-18).

Taxes, 2017 August). There was 38 per cent increase in admission of undisclosed income from Rs. 11,226 crores in FY 2015-16 to Rs. 15,496 crores in FY 2016-17. An amendment was made in the Income Tax Act in 2017 which made it easier for I-T officers to conduct a search and survey operation (Clause 50 of the Bill)<sup>7</sup>. They were not required to disclose their 'reason to believe' or 'reason to suspect' before conducting the raid. As a result of the amendment, there was 183 percent increase in number of surveys (from 4422 to 12520) and 44 percent increase in undisclosed income detected (from Rs. 9654 crores to Rs. 13920 crore) from FY 2015-16 to FY 2016-17 (Table 2).

Table 1: Data on Search and Seizure operations		
Financial Year	No. of groups searched	Undisclosed income admitted (in Rs crore)
FY16	447	Rs 712
FY 17	1,152	Rs 1,469.62
FY18	582	Rs 952.52

Table 2: Data on Survey operation		
Financial Year	No. of surveys	Undisclosed income admitted (in Rs crore)
FY16	4,422	9,654
FY17	12,520	13,920
FY18 (upto September 2018)	2,371	1,643

Source: Department of Revenue, Central Board of Direct Taxes

Further, the GOI opened three compliance windows to deposit undisclosed income (Table 3). The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act<sup>8</sup> was opened from 1<sup>st</sup> July to 30<sup>th</sup> September 2015, under which 650 declarations were made of worth Rs 4,100 crore. The second window was provided by the government is the Income Declaration Scheme (IDS)<sup>9</sup>, between June 1, 2016 to September 30, 2016, where 71,726 declarations disclosing undisclosed income of Rs 67,382 crore were made by black money holders. The Pradhan Mantri Garib Kalyan Yojna (PMGKY)<sup>10</sup>, was the last window, opened from December 17 and 31<sup>st</sup> March 2017, assets worth Rs 5,000 crore were disclosed by

<sup>7</sup> The Finance Bill, 2017 proposes to include an explanation to sub-sections (1) and (1A) of section 132 and sub-section (1) of section 132A of the Income tax Act "to declare that the 'reason to believe' or 'reason to suspect', as the case may be, shall not be disclosed to any person or any authority or the Appellate Tribunal".

<sup>8</sup> The black money (undisclosed foreign income and assets) and imposition of tax act, 2015 act no. 22 of 2015 [26th May, 2015.] An Act to make provisions to deal with the problem of the Black money that is undisclosed foreign income and assets, the procedure for dealing with such income and assets and to provide for imposition of tax on any undisclosed foreign income and asset held outside India and for matters connected therewith or incidental thereto.

<sup>9</sup> Around 21,000 people disclose Rs 4,900 crore black money under PM Garib Kalyan Yojna: Official, <https://indianexpress.com/article/india/over-21000-people-disclose-rs-4900-crore-black-money-under-pm-garib-kalyan-yojna-official-4833387/>

<sup>10</sup> <https://pmyojana.online/sarkari-yojana/pradhan-mantri-garib-kalyan-yojana/>

21,000 people<sup>11</sup>. In total, Rs 71,482 crore was recovered under the Black Money and Imposition of Tax Act and IDS, and Rs 5,000 crore under PMGKY.

The Benami Transactions (Prohibition) Act<sup>12</sup> of 1988 was amended in 2016 with the aim to curb benami transactions. As on June 30, 2018, provisional attachments have been made in more than 1,600 benami transactions involving benami properties valued at over Rs 4,300 crore<sup>13</sup>. In another move, the GOI signed an agreement with Switzerland for automatic exchange of information<sup>14</sup> about Indian account holders in Swiss banks from September 2019 onwards. After, the agreement the Indian money in Swiss bank dropped by 34.5 per cent (from \$800 million in 2016 to \$524 million in 2017).

Table 3: Various schemes introduced by government to report undisclosed income

Period	Number of declarations	Money deposited (in crore)
Income tax search and survey operation		Rs 35,460
From July 1 to September 30 in 2015	650	Rs 4,100
June 1, 2016-September 30, 2016	71,726	67,382
Income Declaration Scheme (IDS) in 2016		
Pradhan Mantri Garib Kalyan Yojana (PMGKY) launched in December 2016,	21,000	Rs 5,000
Benami Transactions (Prohibition) Act		Rs 4,300
<b>Total</b>		<b>Rs 1,14,110</b>

Adopted from: Kapoor (2018)<sup>15</sup>

**Widening of tax base:** Among various measures, one of the aims of demonetization was to bring more Indians under tax net (Economic Survey, 2018). It is believed that, people involved in black money transaction do-not file tax or they do not declare their income correctly (Nagaraj, 2010). Singh and Baagchi (2018) in their paper outlined the relation

<sup>11</sup>Only Rs 5,000 cr deposited under Pradhan Mantri Garib Kalyan Yojana: Hasmukh Adhia,

<sup>12</sup>[https://dea.gov.in/sites/default/files/Benami%20Transaction\\_Prohibition\\_%20Act1988.pdf](https://dea.gov.in/sites/default/files/Benami%20Transaction_Prohibition_%20Act1988.pdf)

<sup>13</sup>Benami properties worth Rs 4,300 crore attached: Government, <https://timesofindia.indiatimes.com/business/india-business/benami-properties-worth-rs-4300-crore-attached-government/articleshow/65119484.cms>

<sup>14</sup> Which include account number, name, address, date of birth, tax identification number, interest, dividend, receipts from insurance policies, credit balance in accounts and proceeds from sale of financial assets.

<sup>15</sup>Kapoor, Mudit (6<sup>th</sup> August 2018): Black Money Report Card: Modi govt unearthed Rs 1.14 lakh crore in 4 years, but it's not enough, <https://www.businesstoday.in/current/economy-politics/what-has-pm-modi-done-to-fight-black-money-an-explainer/story/280890.html>



between percentage of tax payer and black economy in seven countries. They concluded that countries with small black economy, the percentage of tax paying population is high. In contrast, in India, the size of black economy was much higher than the tax paying population. In 2015-16, only 4.4 per cent of the total population in India pay taxes. In contrast, other countries such as Canada (84 per cent of population), USA (46.2 per cent of population), have much higher number of taxpayers. Finance Minister in his budget speech on 1<sup>st</sup> March, 2017 said that India is a “tax non-compliant society and too many people evade taxes”.

However, the scenario completely changed after demonetization announcement. Two years prior to demonetization the growth of Income Tax collections was 6.6 per cent and 9 per cent. Whereas, post-demonetization, the collections increased by 14.5 per cent (from 2015-16 to 2016-17) and 18 per cent (from 2016-17 to 2017-18) in the next two years (Table 4). The number of income tax returns filed increased by 80 percent and gross tax revenue increased by 51.3 per cent from 2014-15 to 2017-18 (Economic Survey, 2018).

Table 4: Number of returns filed and tax revenue in last three years

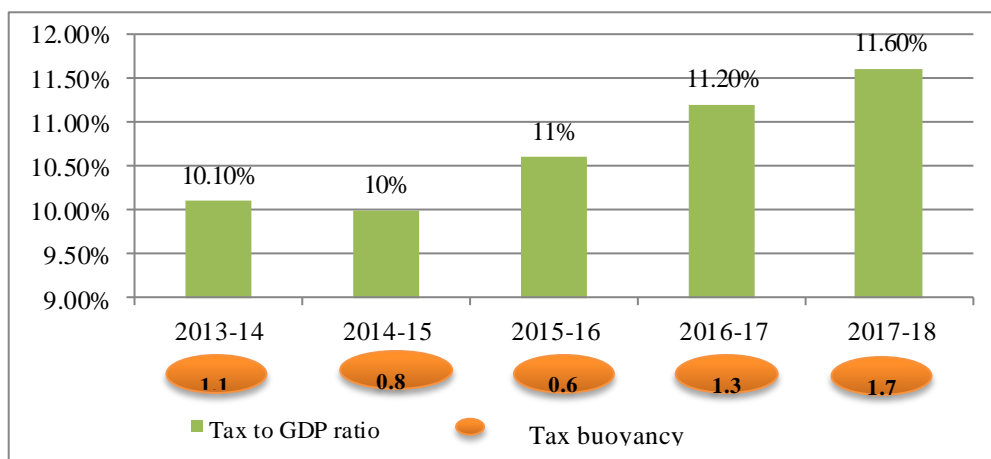
	Number of returns filed	Tax revenue (in Rs)
2017-18	6.84 crores	10.03 lakh crore
2016-17	5.57 crores	8.49 lakh crore
2015-16	4.63 crores	7.41 lakh crore

Source: Income Tax Department, GoI

However, some argued that the increase in tax collection is a normal phenomenon, not due to demonetization. Krishnan (2018) evaluated direct tax buoyancy<sup>16</sup>, which is measure by dividing the growth in tax collections for each year by the nominal GDP growth. Higher the value of tax buoyancy, the better the compliance. Prior to demonetization the tax buoyancy was 0.6 times in FY 2016, which doubled in FY 2018 (1.3 times) and increased by 1.7 times in FY 2018. This indicates that from 2016-17 the gross tax revenues increased more than proportionately in response to a rise in GDP figures. The result is supported by the Economic survey 2018, which stated that demonetization helped in increasing the India's tax base, which increased the tax-to-GDP ratio over the last two years (Figure 3).

<sup>16</sup> Tax buoyancy is an indicator to measure efficiency and responsiveness of revenue mobilization in response to growth in the Gross domestic product or National income. A tax is said to be buoyant if the tax revenues increase more than proportionately in response to a rise in national income or output.

Figure 3: Tax buoyancy and tax to GDP ratio in five financial years



Form Table 3, it can be concluded that the Modi government has so far undisclosed black money worth around Rs 1,14,110 crore, includes money disclosed under the government's income disclosure scheme, benami transactions and income tax raids. Also, demonetization increased the tax base in India (Economic survey 2018).

#### 4.3. Demonetization and Currency in circulation (CiC)

India's currency in circulation is growing after demonetization. As of March 2018, the value of bank notes in circulation was Rs 18,037, increased by 10 per cent from that of 2016 (RBI, 2017-18). Immediately after demonetization, the value of bank notes declined by 20.2 per cent over the year to Rs13,102 billion as at end-March 2017 (RBI, 2017). Whereas, the value of banknotes in circulation increased by 37.7 per at the end of 2018.

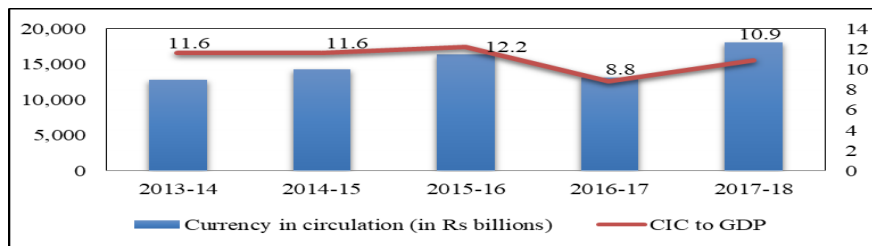
Table 5: Change in value and volume of higher denomination currency in last three years

Financial year	Percentage of higher denomination currency (Rs 500 and Rs 2,000/1,000)	
	Value	Volume
2015-16	86	24.4
2016-17	73.4	9.2
2017-18	80.2	18.4

In terms of denomination, the value of higher currency (500+2000) notes declined by 13 per cent from 2016 to 2017. However, the same is also lower in the year 2018 in comparison to 2016 (Table 5). Thus, there is a 5.8 per cent per Rs one lakh crore shift in favor of small denomination currency notes (ECOWRAP 2018). Further, the supply of banknotes was lower in 2017-2018 than that in the previous years (RBI, 2018). Also, the value share of Rs 2000 notes has come down, as their volume remain same in last two financial years. Understandably the value share of 2000 denomination notes have come down as their volume

has remained almost constant going from Mar'17 to Mar'18. The availability of 200 denomination notes is still low going by the volume numbers (1.8 billion pieces).

Figure 4: Currency in circulation and CiC to GDP ratio



The cash to GDP ratio which is an indicator of transactions done in cash mode declined marginally from 12.2 per cent in 2016 to 10.9 per cent in 2018. Though the ratio is declining, still cash continues to be in strong demand (TCPSL report, 2018). The lower cash to GDP ratio may be due to other factors such as- lower currency supply, shrinkage in cash-dependent enterprises due to the note ban, and shortage of cash in pockets of the economy (Verma, 2017).

#### 4.4 Formalisation of Economy

Post-demonetization, the share of savings deposits in banks in 2017-18 declined to 2.9 percent from 6.3 percent from that of the previous year. Demonetization created a sudden increase of over 80 per cent of incremental deposits during 2016-17 were driven up by individuals. RBI (2018) in their article titled “Post-Demonetization Patterns of Deposits with Scheduled Commercial Banks: 2016-17 and 2017-18” discussed the impact of demonetization on savings deposits in various categories. They observed an acceleration in the share of saving deposits in total incremental deposits. The share increased to 66 percent in 2016-17, which declined by 20 percent in 2017-18. Also, the deposit by the household sector increased by 14 per cent in 2016-17, whereas the same increased by only 7.2 percent in 2017-18. The decline in bank deposits is partly due to the lower bank interest rate. Thus, money started flowing out of banks into other avenues, to capital markets. There a rise in capital market investment by in total households’ financial assets after demonetization.

Table 6: Composition of Changes in Financial Assets of Households (per cent)

Year	Currency	Bank deposits	Non-bank deposits	Life insurance fund	Provident and pension fund	Capital Market	Others	Total
2015-16	13.2	41.0	1.2	17.8	19.2	3.0	4.7	100.0
2016-17	-22.5	67.0	1.8	24.9	21.5	2.6	4.8	100.0
2017-18	25.0	25.3	1.1	17.4	18.6	8.0	4.6	100.0

Source: Data Base on Indian Economy, RBI.

#### **4.5 Digital Transaction**

Digital transactions increased substantially as a result of Government's measure in promoting less-cash transactions in post-demonetization period. The growth in Unified Payment System (UPI) mechanism, Point of Sale Debit and Credit (PoS) purchases, National Electronic Fund Transfer (NEFT), Immediate Payment Systems (IMPS) and mobile banking, are way above their pre-Demonetization trends. According to NPCI data the UPI transactions picked momentum during post-demonetization. In November 2017, UPI crossed 100 million transactions per month, which increased to 500 million monthly transactions in November 2018. Similarly, the total volume of real time gross settlement (RTGS) and National Electronic Fund Transfer (NEFT) transactions for November 2018 stood at 205.18 million, an increase of 18 per cent from a year earlier, and 56 per cent from the corresponding period of 2016 (NPCI). Transactions through mobile banking increased by 6.6 times from 72.3 million transactions in 2016 to 477.57 million transactions in 2017 (Ganguly, 2018).

Further, demonetization improved the financial inclusion agenda of the Government. In the first few weeks after Demonetization announcement, total deposits in Jan Dhan accounts increased tremendously. However, investigators observed that there is a potential misuse of the accounts for converting black money into white. At present 60 per cent deposits in Jan Dhan accounts are under scrutiny (Business Today 2018).

Though, after demonetization there has been a significant improvement in the use of digital modes of payments post Demonetization, the base is still small (FORUM 2017; RBI 2017; Microsave 2017; and Centre for Digital Financial Inclusion 2018). The rural population is still lagging behind and are not aware about various services. According to the study conducted by Tata Communications Payment Solutions Ltd (2018) out of the total population, 44 per cent of the urban population transacts online, whereas only 16 per cent of the rural population has taken to it. Hence, government and financial institutions need to take initiate financial literacy programs in rural areas to increase the number of digital transactions.

#### **5. Conclusion**

Demonetization to some extent able to achieve the set objectives. The prime objective of demonetization was to reduce corruption, which was successfully realized. The government has seized a sizeable amount benami property and closed down more than three lakh shell companies. Another, important aspect of corruption is availability of high cash. Demonetization to some extent able to reduce the use of cash. Also, the number of counterfeit currencies declined to a large extent. The digital modes of transaction increased many folds,

and at the same time people are adopting the new modes of transactions. The tax base increased tremendously after demonetization, which indicates that more money is available for developmental activities.

Demonetization is often criticised far and wide by its critics for destroying jobs. Some argue that the cost of demonetization exercise is much higher than its benefits. However, it is to be noted that cash is expensive to handle, need to replace in every one and half a year. Hence, moving towards digital modes of transaction to some extent reduce the printing expense of the GoI in future.

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