

Cashless Economy: An Abstract Idea or a Panacea for Indian Economy in General and Banks in Particular

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ABSTRACT

Demonetisation was introduced by Prime Minister Narendra Modi in November 2016. The main objective stated was to curb the menace of black money in India and to counterfeited the use of cash to fund illicit activities like Terrorism. As the Economy baffled with cash crunch by moving towards the transactions through banking, it spurred a lot of debate over the benefits and prospects of India going cashless or less cash economy. A less cash economy comes with its own advantages. Cost of transactions, time and cost of accounting; and the cost of printing cash go down. With better documentation, there is stringent compliance. As India has a largest public distribution system, this step is welcome to plug in loopholes in the same. For the given reason, there could be better tax monitoring and better tax collection. In India, the data reveals that the cash cost is 0.25% that of its GDP. All these points make the idea of cashless economy alluring but with India having 90 % of its transactions done through cash (whereas on an average only 20-25% transactions take place through cash in developed countries), high 12% cash to GDP ratio as compared to 3.9% in Brazil and 3.7% in South Africa, growth of 50 % in note circulation from 2013-2015; wiping out of the cash is important but seems unimaginable. Although, growth of using banking in transactions has grown at a tremendous rate (1521.22% in the period 2013-2015), there is lack of infrastructure to materialise the idea. Also, the access and knowledge are limited to the few. The paper examines the current state of the Indian Economy in this regard and the prospects and; gives suggestions. Also, as cashless economy depends largely on the banking system and as it is widely contended that the cost of functioning of banks will reduce with going cashless, the paper tries to examine the relationship between the efficiency of banks and the volume of various modes of electronic transfer from 2005-2006 to 2014-2015.

Keywords: Cashless economy, Digitisation in banking, Demonetisation

JEL Classification: E50, E52, E61, E62

1.0 INTRODUCTION

The idea of turning India into a cashless society was hinted with the Prime Minister Narendra Modi's announcement of Jan Dan Yojana in August 2014. The debate, however, gained momentum after the demonetisation of Rs. 1000 and Rs. 500 notes in November 2016 by the Prime Minister which was announced as a tool to fight the menace of black money, tax evasion and terrorism in India. With the announcement coming into effect, 86% of the total currency (amounting to 14 trillion INR) in circulation was abruptly revoked from the economy. In addition, restrictions were imposed on the amount which customers could withdraw and deposit through platforms such as bank branches and ATMs. Apart from creating a lot of problems for a common man and a lot of pressure for the banks, the value of transactions through e-wallets witnessed 301% growth during the period from 8 November to 27 December 2016. The number of transactions through POS saw a massive 95% increase during the same period. Further, the number of transactions through RuPay cards shot up by 425%. The government also announced some incentives for going cashless. For example, it was announced that no service tax will be charged on digital transactions up to 2,000

INR. Digital payments made for buying petrol and diesel was given a discount of 0.75%. The suburban railway network also announced a discount of up to 0.5% to customers for monthly or seasonal tickets booked through digital transactions. In addition, life and general insurance policies and renewal premiums on public sector undertaking (PSU) insurers' websites provided an 8% and 10% discount, respectively. For payments at toll plazas on national highways using RFID card/Fast Tags, a discount of 10% was made available to users in the year 2016-17. In a way it demonstrated the cashless economy for a brief period and spurred a debate for the prospects of India becoming a cashless economy. A cashless society is the society where all the transactions are done using cards or digital means. The circulation of physical currency is minimal. It is a society where no one uses cash, all purchases being made by credit cards, charge cards, cheques or direct transfer from one account to another. Paper money revolutionised the economy when it was introduced (in Europe during the 17th century, though it was around from the end of the first millennium in China) however now it is getting old. World is increasingly moving towards a cashless society. Now, what advantages does a cashless Economy promise in general and in India particular?

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