

A New Era of Cashless Economy and Its Impact on Indian Economy

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“It’s time to go digital to make India a truly connected nation worldwide.”

-Nisha Nujumudeen

Abstract

Cashless society is not a new concept In India because traditionally the existence of Barter system of exchange was carried out without involvement of cash where transactions were carried out by means of exchange of goods in place of another goods. The present day conception of a cashless country or economy is entirely a new phenomenon where cashless transactions are made with the help of digital technologies and have extended up to the use of digital currencies like Bitcoin. Digital world is on the rise and recent trends shows that digital money which are reserved in mobile wallets will quickly supplant physical cash as well as credits cards. The rapid shifting of Indian economy to a digitalized nation by becoming cashless displays the fact that India by 2025 will be a \$1 trillion market for digital transactions, as per the report given by Economic Times on future payments in India. The main objective of this study is to understand the impact of Cashless Economy on various sectors of Indian economy and to identify its challenges. The research paper also attempts to provide valuable Suggestions and policy measures for a move towards digital India. The study is exploratory in nature, and the methodology adopted for this study is purely secondary data which are obtained from various published and unpublished sources which are related to the topic under study. Thus it is the need

of the hour to make India a digitally connected nation by making it a less cash economy initially to achieve the goal of becoming completely a Cashless economy in years to come.

KEYWORDS: Cashless economy, digital world, impact of cashless transactions, less cash economy, India, government

Introduction:

India is majorly a cash driven economy where cash still holds a monarch position in the Indian society. But over the years, with the introduction of information and communication technologies this scenario is changing and the economy is moving towards a cashless society. Cashless society is not a new concept in India because traditionally the existence of Barter system of exchange was carried out without involvement of cash where transactions were carried out by means of exchange of goods in place of another goods. The present day conception of a cashless country or economy is entirely a new phenomenon where cashless transactions are made with the help of digital technologies and have extended up to the use of digital currencies like Bitcoin.

The current Cashless economy has been an International topic of discussion in many countries of the world and almost some countries globally have already attained the status of being completely a cashless economy. An economy is said to be a cashless economy where transactions are done digitally via electronic methods rather than using currency notes for exchange between the transacting parties. Digital world is on the rise and recent trends shows that digital money which are reserved in mobile wallets will quickly supplant physical cash as well as credits cards. The rapid shifting of Indian economy to a digitalized nation by becoming cashless displays the fact that India by 2025 will be a \$1 trillion market for digital transactions, as per the report given by Economic Times on future payments in India. The Report also highlighted the fact that by 2025 all transactions in Indian economy will happen via mobile devices and the cash to non-cash ratio in our country will be the opposite of what it is seen today. Since digital transactions show a mounting phase, by 2020 the user base of transactions done digitally could triple to 300 million from the current user base of 90 million in India. All this clearly indicates that the potential for our economy to become cashless is huge thereby contributing to increase in GDP per capita leading to Economic growth and development. Thus, moving towards a less cash oriented society will bring more transparency and accountability in the system thereby reducing corruption and minimizing the harmful impacts of black money or parallel economy to a greater extent. It has become the need of the hour to transform every sector of our economy into a digitalized one where cash transactions are not involved and the positive impacts of cashless economy is explored.

Cashless Economy: A Theoretical background

Cashless economy does not mean eradicating the use of cash completely from the market economy. The main idea is to make the general public resort to digital payment methods for their entire transactions of goods and services without completely jettisoning the physical circulation of cash. When there is a situation of continuous price rise in the economy, known as Inflation, the circulation of money in the economy is reduced and such restricted movement of money ropes in to control the growth rate of inflation in the economy. The concept of cashless transaction can be connected to the Quantity Theory of Money (OTM) by the American Economist, Irving Fisher, (1911). *According to Fisher, "Other things remaining unchanged, as the quantity of money in circulation increases, the price level also increases in direct proportion and the value of money decreases and vice versa"*. Fishers Quantity Theory of Money can be better expressed in the form of an Equation which are as follows:

MV=PT or P= M/T (Fishers equation), where each variables denotes the following-:
M= Money Supply

V= Velocity of circulation (the number of times money changes hand)

P= General Price level

T= Volume of Trade (goods and services).

The Monetary Economist, Milton Friedman in 1950s came out with his new theory of Inflation stating that *"Inflation is always and everywhere a monetary phenomenon."* This statement clearly points out the fact that even the modern quantity theory of money given by Friedman leads to inflation just because of increase in excess growth of supply of money in the economy and nothing else. Proliferation of cashless Transaction or Economy leads to generation of less cash in the market economy and develop a greater scope for the progress of quantity theory of money thereby benefitting the economy in the long-run.

RESEARCH OBJECTIVE

The main objective of this study is to understand the impact of Cashless Economy on Indian economy and its challenges. The specific objectives of this research study can be further divided as follows:

- To give an Overview about the Importance of cashless transactions in Indian Economy
- To study the Impact of Cashless Economy on various sectors of Indian economy.
- To provide valuable Suggestions and policy measures for a move towards digital India

RESEARCH METHODOOOGY

The study is exploratory in nature, and the methodology adopted for this study is purely secondary data which are obtained from various published and unpublished sources which are related to the topic under study. The published sources are mainly government publications and reports, Economic survey and data's from international agencies.

Review of Literature

- Kausalya and Shankar (2018) in their article elucidates about understanding the need and significance of having cashless transaction in India. This paper brings out the fact that cashless economy will create a positive impact on Indian economy especially on the financial segment and the payment systems in India will be restructured.
- Dr Rashmi Gujarati (2017), in her paper titled " *India's March towards faceless, paperless, cashless economy*" attempts to explain about the pros and cons of cashless economy and the researcher also focuses on the importance of having a cashless economy as it brings along with it a lot of benefits in spite of the challenges which can be rectified with proper measures over a period of time.
- Thilagavathi and Santhi (2017), in their research article "*Impact and Importance of cashless transactions*" focuses on the need and impact of cashless transactions in Indian economy. The authors stress on the positive impacts of having a cashless economy in spite of its challenges as those negative impacts can be snubbed if the improvement from affirmative influence is well thought out.

Global Scenario of cashless Economy

In developed countries like Canada, United Kingdom, France, Belgium etc, the method of cashless transactions are more protuberant and the populaces of these advanced nations mostly depend upon E-currency rather than cash transactions. But for a developing economy like India, where cash is still the king of the Economy, even today more than 95% of total Economic transactions are carried out through physical cash. But if we take a look at some of the other developing nations of the world like Nigeria and Brazil, cashless methods are employed extensively to promote cashless transactions in such economy thereby moving towards

a less cash society for their growth and development. These nations not only aim for making their economy cashless but at the same time the government of these economies with the help of cashless transactions agenda are trying to eradicate the social and economic problems such as terrorism, tax evasion, parallel economy etc, and the outcomes proved to be successful in Nigeria as well as Brazil. In this 21st century, India in spite of being one of the most emerging economies of the world, has a lower position in terms of cashless transactions when compared to other countries. Henceforth, in order to make our country, India stand in line with other countries for cashless transactions, proper initiatives must be implemented by the government along with little of private participation. The top cashless economies of the world can be shown with the help of a table which are as follows:

Table no: 1 –Total cashless transactions in Developed and developing countries

COUNTRIES	CASHLESS TRANSACTION %
Singapore	61%
Netherlands	60%
France	59%
Sweden	59%
Canada	57%
Belgium	56%
United Kingdom	52%
USA	45%
Australia	35%
Germany	33%
South Korea	29%
Spain	16%
Brazil	15%
Japan	14%
China	10%
India	2% (2016 DATA) Now Nearly 4%

Source: <http://m.businesstoday.in/story/here-are-the-top-cashless-countries-in-the-world/1/241430.html>

As shown in the above table no: 1, the tremendous growth in digital technologies has elicited many countries of the world to adopt cashless transactions methods for faster growth of their economies. Many countries like Singapore, Canada, France, Sweden, Netherlands, and United Kingdom have registered more than 50% of cashless transactions while other countries like Germany, Japan, China, Spain and Brazil are on the rise for such a move towards digital world. Out of all the listed countries above, India has a very low share of 2% in 2016 and now nearly 4% percentage in cashless transaction indicating the need for steering the country towards a cashless economy for its future development process and in order to withstand international competition from rest of the world. One such move towards less cash society was the introduction of demonetization by the Indian government in 2016. But taking into consideration the current scenario, a lot more efforts have to be roped in for complete digital transformation of our economy.

Significance of Cashless Transactions in Indian Economy

Moving towards a cashless economy is very imperative for the progress of Indian economy as it directly helps in curbing the generation of black money thereby reducing corruption and purging the parallel economy simultaneously. Cashless transactions facilitate the government to keep a systematic and accurate record of all transactions thereby ensuring transparency and accountability in the system. Since, cash is the principal method of dealings for some social evil activities like terrorism financing and money laundering, the introduction of cashless transactions in the economy will discourage such activities in the economy. Some of the most important benefits of having a cashless economy are as follows:

- **Cost reduction and risk reduction thereby making it convenient-** The costs associated with printing, storing and carrying of cash is reduced due to the emergence of a cashless system. It also reduces the risk associated with theft of money as going digital will involve the use of cards (debit/credit) and it's easy to block in case of theft.
- **Taxation** – Limiting the availability of physical form of cash from the general public by reducing the circulation of money supply and encouraging more transactions via bank prevents evasion of tax by the tax payers. When the number of tax payers increase automatically it will lead to a lesser rate of taxation for the entire Economy.
- **Formalization of the informal sector-** Formalization of the informal sector has been a long-term goal of the government. Currently, majority of the Indian households with low income normally access credit through various informal systems such as private lenders. Compelling these households to shift to cashless payment platforms will immediately increase the formalization of such sectors.

- **Reduces Bureaucracy and Red Tapism** -Cashless transactions through electronic means reduces red Tapism and bureaucracy, which helps in curbing corruption and improves the service time.
- **Real estate prices slopes down**-Cashless transactions reduces the prices of real estate market mainly due to curb in black money because most of the black money is invested in real estate transactions.
- **Reduced cash leads to more data**-when transactions are digitalized, accounts are maintained in a systematic manner which enables the government to make use of such data regarding cashless dealings to recuperate and examine their policies. Officials can make use of such data for forecasting purpose thereby improving various sectors of the economy.
- **Universal accessibility of banking services**- Cashless economy is also vital as it pave way for worldwide accessibility of banking services due to digitalization of the sector. People can receive money and make payments globally with much of ease.
- **Benefits of government initiatives**- The beneficiaries of various government initiative are falling under the category of DBT (Direct benefit transfer) where all their payments are made directly into their bank account as a part of financial inclusion process.
- **Reducing counterfeit notes**- In India, circulation of Fake currency is on the rise and if we have a look at it closely, one in seven notes are supposed to be counterfeit, which has a huge negative impact on the growth of our economy. The idea of cashless transactions in a full-fledge way leads to accountability of coins and notes thereby preventing fake currency circulation.

Thus, in the perspective of Quantitative Easing and Negative Global Inflation, cashless dealings have shown marked improvement.

Major Challenges in cashless Economy

In spite of the above mentioned benefits of cashless economy, our country India is faced with a lot of challenges in progressing towards a cashless economy in a full-fledged manner. Even today, majority of Indian population lives in rural India and it is not easy for this sector to become cashless effortlessly due to lot of constrains. Moreover, the biggest challenge for an emerging economy like India is that most of the transactions are solely dependent on cash and every section of people mostly prefer cash transactions rather than digitalized ones., so that they are not accountable to the government even if the limit exceeds. Thus, it is highly a currency denominated economy and the circulation of cash totals to around 13% of India's GDP. Some of the notable challenges associated with cashless economy are as follows:

- **Lack of financial Literacy and Digital Literacy:** This is one of the major challenge in India because financial literacy is based on the adoption and usage of a digital currency systems which are technology based and it needs the basic knowledge of operating certain electronic mediums such as computers, mobile, internet etc. In India, the total literacy rate is around 74.04%, as per the 2011 census data which clearly states the fact that many people especially in rural areas lack the skills and knowledge or information about the use of such financial instruments. Again for the effective use of such digital technologies high speed internet connection is required without any disruptions and should be cost-effective both in urban as well as rural India.
- **Lack of proper Infrastructure:** There are still many remote areas of our country where Bank is still a distant dream and people in order to carry out their money transactions in the banks have to travel even kilometers which makes it very difficult for them and hence discourage the use of such banking activities. It is tough to find more number of ATMs in Rural areas and if so, those ATMs will have less facilities and many a times proper electricity backup will not be there. It is very important for the government to provide its citizens with such basic infrastructure facilities to promote cashless transactions in the economy.
- Many a time nearly 92% of ATMs cards are used for withdrawing cash and not for settling online transactions.
- Existence of cyber frauds and lack of cyber security is another disadvantage of cashless economy where people always have the fear of losing their hard earned money to various online scams and hacking of bank accounts etc
- Another encounter is the restricted obtainability of POS (Point of sale) only to urban and semi -urban regions of our economy along with weaker penetration of internet connectivity and mobile usage in rural India, thereby making it very challenging to divulge the use of plastic money throughout the country.
- The lack of customer awareness on different aspects of cashless transactions like transaction fee, service tax and the high cost of swiping machines etc is yet again some of the other challenges for moving towards a completely a cashless society in near future.

Impact of cashless Economy on various sectors

There are positive as well as negative impact of cashless economy on various sectors of Indian economy. Some of the notable impacts on selected segments of the economy are discussed below:

- **Impact on Agriculture sector:** The primary sector of the economy is very important for the growth of the economy and majority of rural population depends upon this sector for their livelihood and this itself shows that agriculture sector associated with rural India mostly consists of negative impacts and challenges in making this core sector of the Economy cashless. The lack of 24 hours of electricity, non-availability of smart phones to every farmers, lack of proper internet connection to every village etc are some of the challenges associated in implementation of cashless economy in agriculture sector. The other associated negative impacts includes separation of farm income and non-farm income, lack of proper access to financial services, fear of cyber fraud and hacking as the farmers are not much aware about digital transactions etc.
- **Impact on business sectors-** The business sector witnessed positive impacts on making transactions cashless in the economy such as :
 - The businesses became very strong on a legal note.
 - There is proper auditing which prevents hidden excess liabilities.
 - The business sectors expansion led to the increase in the use of E-payments etc.
- **Impact on Education sectors-** There is only a minimal impact of cashless transaction on the education sector of the economy. As a result of demonetization of Indian economy, the education sector witnessed the following impacts:
 - When the central government decided to devalue the high value bank notes in order to curb the unaccounted money from the economy, many education institutions were at risk due to the hoarding of large amount of cash that they accepted in the form of donations or admission fees. All the institutions accepting donations from students which are illegal are now under the threat after demonetization as all the transactions hereafter have to be made via digital technologies thereby embracing the concept of cashless economy closely.
- **Impact on economic growth-** Going cashless, will benefit the entire economy to a greater extent and enable to withstand competition from rest of the world in terms of all economic and social indicators. In fact, it is the need of the hour to make utmost use of digital technologies and reduce the dependence on cash transactions in India thereby promoting cashless economy for the economic growth and development of our country leading to better employment opportunities, accountability and transparency in the systems and enabling the government to promote its goal of making India a fully digitally connected nation in near future.

Policy measures taken by government for cashless transactions.

Some of the initiatives adopted by the government for digitizing the economy and making it cashless are as follows:

- Initially, the first policy measure adopted by the government include Demonetization of Indian currency in 2016. During the time of devaluation of currency, India's cash to GDP ratio was around 13% as majority of transactions were based on cash. Gradually it came down to 9% of the GDP. But over time, India's cash to GDP ratio again started to increase at a slower pace but on a steady note and as per the latest 2019 report the ratio was around 11% of the GDP.
- Another policy measure by the government was the introduction of (NPCI) National Payments Corporation of India which generated the Unified payments Interface (UPI). The development of mobile apps such as phonepe, paytms PayPal etc was introduced by the private players thereby strengthening the digital infrastructure of the economy. Thus both public as well private parties are required in improving the financial conditions of the economy and enabling it to achieve the goal of becoming cashless economy.
- The government initiatives such as Digital India programme, upgradation of Aadhaar, introduction of goods and service tax network systems etc have promoted digitalization of Indian economy to a greater extent.

Suggestions and way forward for less cash society; A move towards digital India

A move towards digital India is very important for our country to move towards a progressed society. Some of the suitable suggestions and way forward for less cash society are as follows:

- Creating Digital awareness among the general public by conducting camps and other programmes especially in rural areas regarding the benefits of using cashless transaction and the opportunities they will get if they become digital is a very vital step for going cashless.
- There must be proper digital infrastructure facilities provided to the people to adopt such cashless transactions in an effortless way.

- There must be proper coordination between both public sector and private sector service providers in promoting digital services and spread financial and digital literacy to a greater extent especially in rural areas.
- Government should provide superfluous benefits on digital transaction payments and offer some incentives to the people by snowballing the rate of interest on cash savings by people in bank accounts, so more individuals will start saving their money via bank accounts thereby contributing towards financial inclusion of the economy.
- In order to speed up the process of digitalization of payments in the economy, initially for few years digital transaction charges can be reduced or exempted leading to a rise in cashless transactions.

Conclusion

From the above analysis, it's understood that even though India is a cash driven economy due to advancements in digital technologies, it is gradually moving towards a cashless economy and at present there is immense need for the country to adopt such cashless transactions due to its added advantages for economic growth and development. Day by day, cashless transactions system is emerging to full potential because it is safer and convenient as compared to the transactions made via cash and consumes less time as every deal is done on online basis using smart phones or other electronic systems. But still, in spite of all this, we can say that India has a long way to go to embrace cashless economy completely. The major reasons associated with this is lack of proper infrastructure facilities and poverty and misery of large number of Indians especially in rural areas. Thus, India must go for a less cash society initially where cash transactions as well as digital transactions are taking place rather than completely cashless economy because it will take a long run for a developing economy like India to become completely cashless due to the dependency ratio and monopoly of cash transactions in Indian society and also the mindset of the majority of population. Moving towards a Less-cash society is more practical, promising and much more competent than a completely cashless economy and a cash-based economy as people find it easier to adapt to such mid scenarios initially. A less cash economy will also boost the Indian economy by making it cost-effective in terms of making and handling paper currency. Thus, by marching towards a less cash economy over time will certainly lead an emerging nation like India towards its dream of achieving cashless economy which will be completely digitalized in imminent future.

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