

Demonetization- A Push to cashless India and Its Impact on Crypto-Currency

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Abstract- *Though Demonetization is not a big exigency like over-all global banking and financial sector crisis as of year 2007; but at the same time, it acts as a liquidity shock that disturbs economic activities and the impact of demonstration on crypto-currency is may not visualized directly but it has undeniably triggered interest in most of cashless stuffs, including bitcoins. Populaces have become a wee bit apprehensive about fiat money and they've seen how the worth of currency can grind down when there is interpolation from the top. Bitcoin interests them because it is not controlled or regulated by anyone. Beyond that, this payment method is safest, instantaneous, zero or minimal transaction fee and most secure as it uses sophisticated encryption and decryption algorithms [4]. Contemplating the estimates of one the prime bitcoin exchange financial company in India- Zebpay, mutual bitcoin trading dimensions (at all exchanges) in India could be in the range of Rs 150–200 crore per month [1]. Coarsely Rs 1,200-1,500 crore worth of bitcoins are traded in the country every year. Demonetization could just be an unintended and unexpected trigger. Bitcoins in India were trending at a exceptional to US prices. The demonetization proclamation stoked the caucus and presented a good selling prices opportunity of bitcoin in India and have remained firm in a tight upper range of Rs 59,000-Rs 61,000 a piece since the early days of demonetization process taking over.*

Mutually considering the situation on the one side demonetization and on the other hand exponentially rising trend of crypto-currency it is very evident the future of global economic market is holding the lions share in crypto-currency. As merchants have started accepting bitcoin payments since it can be liquidated with a minimal transaction fee, bitcoin has materialized as an investment substitutive that is inexpensive and proficient. The eight-year old cybernetic exchange, with no central authority, is observed as a safest haven from wild economic ebb and flows. It is the new game simulator in the era of the cashless economy, offering billions of Indians the opportunity to go cashless using digital currencies.

Keywords- Crypto-Currency, Bitcoin, Cashless Economy, Digital India, Legality and taxes.

I. INTRODUCTION

Demonetization effects since Indian economy is comprehensively dependent on cash, as only less than half the populace uses banking system for monetary transactions, demonetization has knockout trade and consumption hard. With populaces clambering for cash to pay for merchandises and amenities, the move is possibly to take a giant toll on the country's progression and yield during the current fiscal [5]. Consumption makes up for around 56% of India's GDP and as per the predictions of economists it may also lead to behavioral changes in households' savings and their consumption patterns.

Demonetization affects the economy on the liquidity aspect and its impact is electrified because nearly 86% of currency value in circulation was withdrawn without supplanting majority of it. As a result of the withdrawal of Rs 500 and Rs 1000 currency notes, huge gap is transpired huge gap in the currency composition as after the decision Rs 100 and Rs 2000 currency notes are the only denomination and option with the individuals [1].

Quarter 3 growth is expected to decline by 4.1% even in a best case scenario and it may dip to as low as 1.5% in Quarter 3 if this contraction unexpectedly merges into manufacturing, professional services, construction and trade. In this case the growth is expected to recover gradually in the fourth quarter (Q4) of 2016-17 and in the first quarter (Q1) of 2017-18 before returning to its normal trajectory thereafter [5]. It is also expected firmly that liquidity may increase in the banking and financial sector which will eventually increase the GDP growth originating in this sector, with its actual share of around 6% in GDP and an increase in growth of 0.5 and 1.0 percentage other factors in; this sector's growth in Q3 and Q4, respectively, its overall impact on GDP growth evaluated may not be substantial.

The influence of stress-free handiness of credit to the formal sector on account of this superfluous liquidity may take some time to materialize, and in Q3 and Q4 it may not be

significant. Further, a decline in demand in general may also keep the demand for investible funds at adequate levels [5].

A crypto-currency is a digital currency that is generated and managed through the use of advanced encryption techniques known as cryptography. Cryptography comprises the process to secure the transactions and also controls the creation of new coins. The first ever crypto-currency developed was Bitcoin and was created by developer named Satoshi Nakamoto in 2009. Bitcoin uses SHA-256, which is a set of cryptographic hash functions designed by the U.S National Security Agency. A crypto-currency is a medium of exchange of base currencies of country and this exchanging is performed in the form of exchanging digital information, electricity converted into lines of code with monetary value through a process made possible by certain principles, protocols and complex algorithms of cryptography. Since evolution of bitcoin in the crypto-currency world the trend not remained silent and expands its horizon to other hundreds of crypto-currencies, often referred to as Altcoins and they have their corresponding monetary values in the economy of cyber world [4].

After recent demonetization in India people are tend to move on wither the cashless transactions using the various modes of available in the Indian market scenario such as Net-banking and mobile banking which also leads to the generation of many new mobile apps such as UPI (Unified Payment Interface) and UPI based apps such as BHIM Bharat Interface for money transfer. Furthermore, the overall wind is blowing in the favour of cashless transactions, considering the crypto-currency analytical benefits over the traditional cash transactions like nominal or no transaction fee, instant and secure transactions, accessible by anyone anywhere round the clock and no interference or governance of any centralized or reserve governing authority. The Indian government's resolve to work on bitcoin and the blockchain framework before 2018, along with the mounting consciousness of bitcoin in the world's next most populous country could push it to an inclining point.

II. DEMONETISATION- A PUSH TO CASHLESS INDIA

Bank branches enlarged 5% annually, while automated teller machines (ATMs), debit cards and card-swiping machines have folded in four years and online transactions have grown 20 times in six years to 2016, according to the Reserve Bank of India (RBI) and this trend is likely to be greatly boosted by demonetization [3].

Denominations of Rs 500 and Rs 1,000 currency increased by 50% over three years (from Rs 9.6 lakh crore in 2012-13 to Rs 14.1 lakh crore in 2015-16), while India's gross domestic product (GDP) increased 22%, and per capita income rose 18% over this period [3].

Comparing cashless transactions of October 2015 and October 2016, there is a considerable rise of 22% in the cashless payments which is a direct impact of demonetization done for the prime purpose of withdrawal of 86% of the value of countries currency in circulation in November 2016 which clearly indicated that Indian's are accepting various digital modes since last year. This impact is such an expressional, that the currency transfer using mobile banking and immediate payment system where the money is transferred instantly by just the use of one text message or online banking, indicated the uppermost increase in over 12 months by the completion of October 2016. Transactions through mobile banking raises to 175%, and money transacted using mobile banking grew 369% from October 2015 to October.

According to the RBI Bulletin published on their official portal www.rbi.org.in; there is 116% of rise in IMPS transactions and the overall growth of IMPS transfers raises to 150% over 12 months ending October 2016 and the volume of transactions through prepaid payment instruments (PPIs) that include e-wallets doubled in a year in the same period.

During this event of demonetization transactions through cheques remained unchanged, while transactions using NEFT- national electronic funds transfer wherein money is transferred in batches after the sending and receiving bank approval and transaction through POS- Point of Sale terminals using the debit and credit card swipe machine grew by 16% and 35% respectively in 2016. Taking in view consumption of goods and services in the second quarter of the financial year 2016-17 it grew to 2.8% over the previous quarter [3].

Comparing over the similar period, online or electronic payments–NEFT, IMPS, PPI, mobile banking, point of sale (PoS) terminals and National Automated Clearing House (NACH)–rose by 6%, advocating the growth of digital transactions which rose faster than consumption. The National Automated Clearing House is used in bulk transactions towards distribution of subsidies, bonuses, interest, earnings, annuities, pensions etc and for bulk transactions as in case of collection of payments pertaining to loans, electricity, telephone and water bills, insurance premiums and investments in mutual funds [3].

Considering remote areas where banks do not have sufficient branches, banking correspondents approaches

directly to the people, and use the Aadhaar Enabled Payment System (AEPS) to transfer money under government schemes, such as old age pensions, Mahatma Gandhi National Rural Employment Guarantee Scheme (NREGA) etc. and hence, contributing towards the online payment systems.

The total of 1,32,834 bank branches of India, of which 38% (50,554) are rural and Rural branches rose 28% from 39,368 in 2013 to 50,554 in 2016. However, in the last couple of years, the rate of rising of rural bank branches has slackened while the rate of rising of urban branches has remained fairly constant.

III. DEMONETISATION- UNKNOCKED GROWTH OF THE CYRPTO CURRENCY

Contrasting centralized banking, like the Federal Reserve System, where governments control the value of a currency like USD through the process of printing fiat money, government has not at all any control over crypto-currencies as they are fully decentralized. Demonetization in year 2016 accounted for 86% of the total economy and leads to Indian Financial and Banking sector experience a high instability. Where on one hand the banks and ATMs are followed by long queues in this scenario of cash crunch all-around encapsulating every individual in grip of demonetization affect the other hand Bitcoin demand shows the sharp rise in value in local crypto market since people want to park their bread in Bitcoin [4].

Through all this turbulence caused by demonetization, Bitcoins and Bitcoin Communities in Indian market get a perfect timing and huge space surprising populaces with the tremendous price stunt. There are four major Bitcoin exchanges in India, Coinsecure, Zebpay, BTCXIndia & Unocoin at the moment and average rate was almost 34% higher than average global Bitcoin price during the last week of Nov 2016; where the price of Bitcoin was Rs 70,573 equivalent to approx. \$1040 USD while International prices touched max of \$ 777, which was the highest price for the last three years [2].

Comparing to the predicted future price value of Bitcoin which is supposed to touch 3000 USD by or before December 2017 and this rise in monetary value will keep the ball rolling to 10,000 USD by Dec 2019. Referring to the graph Graph-1: Price of Bitcoin from Jan 2016 to Dec 2016 as shown is almost more than double as seen in January 2016 the price was 27952.85263 INR on January 01, 2016 and at the end of the year 64212.11157 INR on December 31, 2016 [2]. The demand on of crypto currency was too high that the price in market was about 15% more than the international prices.

More and more Indians are aware and getting attentive towards Bitcoins and know its advantages and use. India is on the verge of getting fully digitized and crypto-currency is bound to get its share. Government has also shown its concern over increase in crypto-currency prices in Indian market as they very well comprehend why prices are going up. This spark can lead to a big fire in Indian subcontinent since India holds the potential and competent world market. Once this market is triggered, it has the prospective of becoming largest market for any commodity or product, leave aside crypto-currencies.

IV. CRYPTOCURRENCY: LEGALITY & TAXES

While crypto-currencies are legal in most countries, Vietnam and Iceland being an exception – Iceland primarily due to their suspension on foreign exchange, they are not free from protocols and constraints. China has banned financial institutions from handling crypto-currencies and Russia, while saying crypto-currencies is legal, has made it illegal to purchase goods with any currency other than Russian rubles [6].

United States has also ruled that crypto-currencies is to be treated as property for tax purposes, making crypto-currencies subject to capital gains tax. The Financial Crimes Enforcement Network (FinCEN) has issued recommendations for crypto-currencies. The hand out guidelines comprehend an important caveat for Bitcoin miners; it warns that anyone creating crypto-currencies and trading them for fiat currency are not necessarily beyond the reach of the law and any person that creates units of convertible virtual currency or sells those units to another individual(s) for real currency or its equivalent is engaged in transmission to another location and is a money transmitter. Miners seem to collapse into this category, which could theoretically make them liable for MTB classification. This is a bone of contention for bitcoin miners, who have asked for clarification. This issue has not been publicly addressed in a court of law to date.

V. LEGAL STATUS OF CRYPTOCURRENCIES IN INDIA

RBI has currently not regulated crypto-currencies and has not yet given legal validity or specified any constraints / protocols for its usage in India. In fact, RBI has time and again raised concerns over the usage of crypto-currencies and the probable risks associated with them. From the outlook of foreign exchange control laws, purchase of crypto-currencies by an Indian inhabitants, can be viewed as import of a software/computer program into India, requiring acquiescence with applicable foreign exchange control laws including RBI's

Master Direction on import of goods and services into India, with respect to imports being made in non-physical form [7].

In continuance to its earlier issued guidelines in 2013 where it was cautioning the users, holders, traders of crypto-currencies, Reserve Bank of India vide its Press Release Dated February 1, 2017, evidently stated that it has not given any license / consent to any entity/company to maneuver such schemes or deal with any crypto-currencies. RBI also added, that the user, holder, investor, trader, etc. dealing with crypto-currencies will be doing so at their own risk. While currently crypto-currencies are not per se considered 'illegal' in India under the extant regulatory regime due to lack of any legislation, directive or recommendation prohibiting or governing its practice/tradeoff, it appears that the use, creation, trading or dealing in crypto-currencies is glowered upon by regulatory authorities and has initiated investigations against some of these entities [8].



Graph-1: Price of Bitcoin from Jan 2016 to Dec 2016

Figure 1. Graph-1: Price of Bitcoin from Jan 2016 to Dec 2016

VI. CONCLUSION

Demonetization proven to be a big step towards digitization of India directly or indirectly as overall cashless transactions increased by 22%, in October 2016 compared to October 2015. Mobile banking transactions grew 175%, while money transacted using mobile banking grew 369% from October 2015 to October 2016, according to an analysis of Reserve Bank of India (RBI) data while Cheque transactions remained largely unchanged over 2016. Money transfers using national electronic funds transfer (NEFT)—where money is transferred in batches, after approval from the sending and receiving banks, money—and transactions over Point of Sale terminals (debit card swipe machines) grew 16% and 35%, respectively, in 2016.

Comprehended Bitcoin value from \$570.00 to more than \$2500.00 in just a year the big-picture dynamics about the Bitcoin price prediction are clear enough for anyone to

declaim. A micro analysis only reinforces our belief that Bitcoin can reach \$3000.00 before the end of 2017 and \$10,000 by the end of year 2018. There are numerous indicators which, when patched together, expose wider acceptance of crypto-currency technology. Bitcoin has less than a decade to seep into the public realization, not to mention build a market cap of \$10.0 billion. In the market of digital currencies, Bitcoin is beyond the market expectations. It is in a captivating position by virtue of being the most decipherable, the most reliable, and the most stable.

Crypto-currencies, as a mode of currency, are not recognized under Indian laws, and no specific guidelines governing crypto-currencies has been introduced in India. Reserve Bank of India has not declared dealing in crypto-currencies as illegal nor has it introduced any regulatory framework governing crypto-currencies. But still few companies in India are operating Bitcoin exchange/trading platforms dealing in buying, selling, storing, using and accepting Bitcoins such as Zebpay, Unocoin and Coinsecure. Recently, the Union Minister of State for Finance, in a written reply in Rajya Sabha, made a statement that the absence of counter parties in usage of crypto-currencies (comprising Bitcoins) for illicit and illegal activities in anonymous/pseudonymous systems could subject the users to unintentional breaches of anti-money laundering and combating the financing of terrorism laws. This statement, particularly the linkage being drawn to breach of anti-money laundering laws, is effusive of the admonitory view of the Government of India towards crypto-currencies, thereby further increasing the risks attached with their operations in India.

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