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# Towards A Less Cash Economy

From a discretionary administration to a policy-based one

NDIA has been weaving the mantra of digital economy and all efforts have been streamlined in this direction. The demonetisation of the physical economy translates to the remonetisation of digital economy. In addition to remonetising with bank account money and private economies, India should also remonetise the economy with 'digital India Rupee' to secure its monetary sovereignty and monetary policy effectiveness. The 2017-18 budget has been welcoming for the national agenda of digital India. With digital economy being one of the key focus areas in this budget, we are sure that India is set to embrace a radical change in achieving this vision. This budget shapes initiatives in transforming the country from discretionary-based to policy-based administration and from an informal to a formal economy, as indicated by Finance Minister Arun Jaitley.

The Union Budget 2017-18 is critical as it places high importance on improving the digital infrastructure of the country, while looking to explore the appointment of a payment regulator to revitalise the existing payment system along with other recommended structural reforms as per the Committee on Digital Payments. This is a welcome initiative towards efforts we are driving in the digital fiat currency (a legal tender backed by the government that issued it) space. These are the key recommendations made in the Watal Report that clearly indicates the way forward for digital India. This further reiterates the budget's focus on garnering a better reach to rural and semi urban India, which can be achieved through this digital fiat currency. While the budget has been optimistic in taking additional steps, we expect that radical changes will take place in the months to come. The budget further strengthens the vision of a cashless economy by capping cash transaction limits to Rs 3 lakh and ordering political donations in cash to be limited to Rs 2,000. With a view to creating transparency in the system and better regulation, these initiatives complement each other.

Any technological solution chosen to issue the digital India Rupee should ensure that the Ministry of Finance and Reserve Bank of India can discharge their legal responsibilities as the sole providers of coins and notes, and separate the role of the nation as currency issuer from the role of payment system

operator. No solution based on consensus of a network of peer-to-peer participants would fit this basic principle, let alone security, performance and cost considerations. Hence a sovereign digital currency has all the necessary prerequisites to be termed as a fiat currency.

The aspect of interoperability with a digital fiat currency bridges the gap between banks and non banking institutions with the common man. It brings more innovation and competition, can protect consumers better, and it means more open access; it can manage better systematic risks and functions with more regulatory transparency in digital economy. While the industry continues to stride for innovations and new payments systems for digitisation, it becomes critical to note that there is a cost for infrastructure that is required to support these systems for an efficient digital payment infrastructure and grievance handling systems. With a digital currency that can operate with the existing infrastructure under a secure environment, there will be ease in ensuring mass usage for such a currency.

According to IMF, India is one of the fastest growing economies in 2017, so transformational reforms, like mandates for a digital India, are the need of the hour. This government's initiative for financial inclusion and the JAM trinity has set a strong background for digital transactions. There is visible increase in digital push currently with the schemes driving the BHIM app, Aadhar pay, UPI, IMPS, NEFT, USSD and debit or credit cards.

The budget adoption of recommendations made by the Committee on Digital Payments, when fully implemented, will cumulate in the deployment of the digital Rupee. Further recommendations made by the Committee on Digital Payments as noted in the budget are being reviewed and will be implemented shortly. A digital India Rupee will contribute immensely to the key objectives of the 2017-18 budget by reducing black money, reducing tax evasion, providing better public service, protecting the digital money supply from cyber counterfeit and expanding the user base in rural areas for a truly digital economy. □

*(The author is former country head, India, Lehman Brothers and Credit Suisse, India)*

**A digital India Rupee will contribute immensely to this budget's objectives.**