Indian Economy · GS - III

Digital payments are considered an important instrument for promoting financial transparency and formalisation of the Indian economy. Examine their potential in reducing corruption and black money, along with the challenges associated with reducing dependence on high-denomination currency.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 10/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Digital economy, financial inclusion, demonetisation, cash transactions, black money, UPI, transparency, cybersecurity, digital divide, monetary policy.

Model Answer

Introduction

Digital payments have transformed India's financial ecosystem by enabling faster, traceable and convenient transactions. They can support economic formalisation and improve transparency.

Potential Benefits

1. **Transparency:** Digital transaction records improve auditability and reduce dependence on unaccounted cash.
2. **Formalisation:** Electronic payments encourage businesses to enter the formal financial system.
3. **Financial inclusion:** UPI and other payment platforms facilitate access to financial services.
4. **Governance:** Digital transfers can reduce leakages in welfare delivery.

Challenges

- Limited digital literacy and internet connectivity in rural areas.
- Cyber fraud, phishing and data privacy concerns.
- Dependence on digital infrastructure and electricity.
- Continued cash preference in informal economic activities.

Restricting high-denomination currency alone cannot eliminate corruption, as illicit wealth can also be held through assets and other financial channels.

Way Forward

Strengthen cybersecurity, digital literacy, financial inclusion, tax compliance and transparent political funding mechanisms.

Conclusion

A balanced transition towards digital payments, rather than reliance on currency restrictions alone, is essential for building a transparent and inclusive economy.

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