
Study on Demonetization and Digitalization

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Abstract

On 8th November 2016, When the sun descended below the horizon and the daylight faded and people were returning back to their home after a long day at work , an indistinct light o new economy was emerging over the country. A news blew the minds of the People saying that all Rs.500 and Rs.1000 notes will no longer be used as legal tender in India.

The word DEMONETISATION has become much more than a household name ever since the old currency notes of Mahatma Gandhi series have been ceased. Modi government stated that this move of demonetisation was an effort to stop the fraudulent imitation of the currency notes which were used allegedly for funding terrorism and to squeeze out black money in the country that was being circulated and used over years. The move was claimed to be an effort that will reduce corruption in the county.

Demonetisation in India brought different effects in various Sectors, which were both positive and negative. But India witnessed and unsual and prodigious growth in connectivity, broadband and data which has metamorphosised the country into a knowledge economy.

Digitalization has saddled the strength of connecting people, data and process which transformed the county's industries and brought a change to work and to serve the citizens of the county in a better way .

DEMONETISATION TO DIGITALIZATION

INTRODUCTION

❖ What is demonetisation?

DEMONETISATION is an economic term which means ‘scrapping’ of old currency notes and stripping a currency of its status as legal tender, usually when a new currency is being introduced in the economy of the country. It is a standard practice followed by all major economies of the world for various reasons.

❖ What is digitalisation?

DIGITALISATION is a process in which the information is converted into a digital format. The result is called digital representation, more precisely, a digital image of the object and a digital form of the signal received. Systems which perform such transformations are embedded in computers, televisions, digital cameras and smart phones, and these are termed as digitizers.

OBJECTIVES OF THE STUDY

-) To present the impact of demonetisation on the economy of the country, unaccounted money and terrorism.
-) To determine how different sectors are been effected by demonetisation.
-) To study the role of digitalization in demonetisation and its effects on digital payments and digital industry.
-) To expand digitalization and make India a cashless economy.

DEMONETISATION.

Demonetisation has been implemented in 9 countries till now, which are:

1. GHANA

2. MYANMAR
3. NIGERIA
4. NORTH KOREA
5. AUSTRALIA
6. ZIMBABWE
7. PAKISTAN
8. SOVIET UNION
9. INDIA

❖ **Demonetisation in India:**

Prime Minister of India, Narendra Modi announced demonetisation to the nation in an unscheduled live telecast on 8th November, 2016 at 20:15 IST. Modi declared circulation of all banknotes of Rs.500 and RS.1000 as invalid effective from past midnight and announced to introduce new notes of Rs.500 and RS.2000 in exchange of the old notes.

Time granted to exchange old notes and withdrawal limits :

The Government of India allowed banks and post offices to exchange the demonetised banknotes by 30 December, 2016. The banknotes could be exchanged up to limit that varied over the days.

- i. At the beginning, the limit to exchange the notes was fixed as Rs. 4000 from 8th to 13th of November.
- ii. Later the limit was increased to Rs. 4500 from 14th to 17th November per person.
- iii. At the end the limit was reduced to Rs.2000 from 18th November.
- iv. International airports were instructed to exchange the notes amounting to a total value of Rs.5000 for foreign tourists.

Cash withdrawals from banks were limited to Rs.10,000 per day and Rs.20,000 per week, per person and the limit was increased to Rs. 24,000 per week from 14th November, 2016.

❖ **History of demonetisation in India:**

Earlier the Indian government had demonetised banknotes twice:

- i. The first was when Rs.1000 and Rs. 10,000 were demonetised in January 1946 before independence.
- ii. The second was by the leader of Janata Party, Morarji Desai, in 1977 which was coalition government, where Rs.5000, Rs.1000 and RS.10, 000 notes were demonetised to combat black money.

❖ **Objectives of demonetisation:**

The five main objectives of demonetisation were,

- i. To eliminate fake currency.
- ii. To stop financing of terrorism.
- iii. To convert non-formal economy into a formal one.
- iv. To increase the tax base and employment.
- v. To expand digitalisation and make India a less cash economy.

❖ **Impact of demonetisation in India:**

Positive effects:

❖ **Unaccounted/ Black money**

Black money is referred as Cancer to any country, it weakens the foundation of any country. The total amount of black money to be estimated in India was Rs.3 lakh crore which came into account by the master stroke of demonetisation.

❖ **Real estate cleansing**

It is said that the real estate industry is built on black money. The circulation of black money in this sector is said to be very huge. According to the latest report 40% of real estate transactions are being done through black money and demonetisation has helped to curb the flow of black money involved in real estate sector.

➤ **Government Finances**

The unaccounted money has made a way to move towards a formal channel, which has increased income tax collections. This has raised the government's revenue and helped to reduce fiscal deficit in the coming fiscal year/ years'. Formalization of unaccounted money has also facilitated the implementation of GST scheme.

❖ **Hawala transactions**

Demonetisation has affected the hawala transactions badly. It is the process of transferring of money without without any actual money movement. Hawala route is mainly used to ease terror financing and money laundering. Due to demonetisation the black money has been wiped out from the market making hawala transactions to come at a halt.

❖ **Kashmir unrest**

According to intelligence reports amount worthing Rs.1000 crore is received by separatists annually from Pakistan to cause unrest in Kashmir. These transactions are carried through Hawala route which has been choked by demonetisation. Due to this separatists are now clueless because the funding has been stopped and they are unable to pursue the youth to agitate against army and the state.

❖ **North-East insurgency and Naxalites**

Demonetisation has badly hit Maoists and Naxalites. The decline has reached the highest since demonetisation was announced, as the money which they have collected over the years have been left with no value and it has caused them to reach to this declination.

❖ **Bond Market**

The ban on currency has increased the demand for government bond in the market. Demonetisation improved cash deposits in Banks which eventually led to higher statutory liquidity ratio demand.

❖ **Fake currency**

Fake currency notes started coming into circulation because of the fact that humans are always looking at ways to become rich. Among the major reasons of deciding to go with demonetisation was the rising number of fake currency notes in India. Majorly, people who fall prey to these problems are those who are living in villages who are unaware of the security features that notes come with. During his speech on 8th November, 2016 he stated the fake currency notes are used in funding terrorist activities and banning of currency notes might stop that to some extent.

It has helped the common man by putting an end to the increase in Higher Education, Real Estate and Healthcare transactions.

Negative effects:

➤ **Cash Shortage**

The scarcity of cash due to demonetisation led to a big chaos and most people holding banknotes faced difficulties exchanging them due to endless lines outside banks and ATM's across India.

➤ **Stock Market Crash:**

After demonetisation the stock market indices dropped to an around six-month low in the week following the announcement. The day after the announcement BSE SENSEX crashed nearly 1,689 points and NIFTY 50 dived over 541 points.

➤ **Transportation**

After the announcement truck drivers were affected due to scarcity of cash and thousands of trucks were stranded at major highways across India. Long queues formed as toll plaza operators refused to collect the old currency notes.

➤ **Agriculture**

Agricultural sector is highly depended on cash and it was adversely affected by demonetisation. Due to scarcity of currency notes, farmers had insufficient money to purchase fertilisers, seeds, pesticides necessary for plantation. The gradual decrease in demand led to a crash in prices of crops, due to unavailability of cash. Farmers were unable to recover the costs they spent for production and dumped vegetables and food grains on roads in agitation.

➤ **Attempts of evasion:**

➤ **Gold purchases-** Sale of gold increased. Jewellery stores hanged boards out of their shops and showrooms with a notice "We accept Rs.1000 and Rs.500 notes", even after they were not valid.

➤ **Donations** – In India the cash deposits in religious places like temples and gurudwaras are exempted from inquiry, this exemption was misused by money launderers. After the ban of currency there was a hike in donations in the form of demonetised notes.

➤ **Multiple bank transactions-** People were hired to exchange large amounts of demonetised currency on their behalf. People deceived the restrictions imposed by conducting multiple transactions at different banks.

➤ **Railway bookings**

After demonetisation a large number of people started booking tickets, specially in classes 1A and 2A longer distance, to get rid of unaccounted cash. The Railway Ministry responded quickly and decided that refund and cancellations of tickets costing more than Rs. 10,000 by cash will not be allowed. The payment should be only through electronic payment or cheque.

➤ Demonetisation didn't affect the black money in foreign accounts and the money held in stock markets and bank accounts.

➤ At first the bankers were lauded for working on holidays and long hours helping people to deposit the currency notes soon they became villains of allegedly laundering black money.

❖ **Finance Minister, Arun Jaitley's Words On RBI Report**

FM Arjun Jaitley, said that note ban had a positive impact on their objectives of attack on unaccounted money, cashless and formalisation of economy, after the demonetisation figures were released by the Reserve Bank of India. The report says that 99 per cent of demonetised notes were returned by the public to the banking system.

“It's not about how much we gained. The objective of demonetisation was formalisation of the economy, attack on unaccounted money, making the system less dependent on cash, blow to terrorist activities...All of these areas have received extremely positive effect due to demonetisation”, Jaitley told reporters.

Jaitley stressed on the fact that the move has also helped in expanding the tax base of the country. Both direct and indirect taxes have increased.

“Those dealings in cash were now compelled to deposit notes. The anonymity with cash is now gone”, he said adding to that it can now be identified easily as to who the money belongs to.

Another objective of demonetisation, besides the integration of formal and informal economies, was expansion and growth of digitalization.

DIGITALIZATION.

As explained in the introduction before:

Digitalisation is the process of converting information into digital format, in which the information is converted into bits.

Digitalization has crucial importance in data processing, storage and transmission, as it allows information of all kinds in all formats to be recorded with the same efficiency and can also be intermingled.

Demonetisation till now is the single greatest positive disruptive action taken in India which is worthy in entering textbooks for a reason- this action has affected all the matters of nation for worse or better.

The benefits are obvious and it has made a way for the nation towards a cashless economy ensuring improved Direct Benefit Transfers, transparency, curbing unaccounted money and illegal activities.

Coming to the disadvantages for a period of time it had disrupted the lives of people making them wait around ATM's and banks.

Demonetisation has also given rise to a positive subject/a remarkable boost to e-transactions and made digital India much larger than it was imagined.

❖ **THE DIGITAL SPARK**

Economically developed countries across the globe are thriving on plastic money. Astonishingly, some countries are way ahead of India when coming to e-transactions. Meanwhile, in Kenya people have been

paying for goods through mobile phones for more than a decade now. Whereas, in India still 90% of transactions are made through cash.

After demonetisation farmers, local vendors and people living in rural areas are gradually getting used to digital transactions. As they have got used to it they have realized that it is a mode of advancement and a good measure to prevent fraud. The urban citizens of India have already been in a digital fold for few years now.

Demonetisation has sparked the upscaling of digital platforms. Example, the increase in e-transactions led TechProcess, one of India's largest cash payment and management solutions firms.

Government initiatives such as Jan Dhan Yojana, Aadhar are also boosting companies to upgrade themselves to empower cashless transactions on a massive scale.

❖ **BRIDGING THE GAP BETWEEN URBAN AND RURAL INDIA**

There is certain digital distance between Rural and Urban India and demonetisation has been a mean in bridging the gap through an increased number of mobile transactions. People have increased the use of mobile wallets for transactions. Mobile services are becoming the gen-next Point of Sale (PoS) machines. E-transactions have taken over Cash on Delivery (CoD) as well. Mobile has just not become the mode of communication but has also become the key mode of transactions between consumers and businesses.

❖ **EFFECT ON DIGITAL INDUSTRY**

➤ **E-WALLETS BAGGED GOOD PROFITS**

Where major e-commerce services suffered a decrease in sales as well as order, e-wallet companies utilized the opportunities and experienced their biggest business boost yet.

➤ **MARKETING PERFORMANCE TAKES A HIKE**

Cash Crux among people has become so bad that major e-commerce players have removed CoD options from their payments gateway. Most of them have stopped the digital campaigns. While small vegetable and grocery vendors saw huge decrease in their sales, e-tailers experienced a big hit in direct traffic, sometimes exceeding their operating capability. So many of them stopped their campaigns too. In both cases, lead generation networks suffered.

➤ **DIGITAL PAYMENTS; INDIA'S NEW CURRENCY**

MUMBAI: Surrounded by the ongoing raging debate on benefits of demonetisation there has been a rapid growth in digital payments and transactions in these months since the currency ban was announced.

Digital transactions have quadrupled in volume and value in various modes from wallets to cards. Card transactions at PoS terminals at merchant locations have increased showing a positive growth for the economy as more public has started using their debit/credit cards for payments instead of withdrawing cash. Debit card transactions have risen to more than 1 Billion from 817 Million last year. ATM transaction have remained constant, whereas incremental growth has been seen in card swipes at PoS terminals.

➤ **BHIM AND UPI**

Modi government's BHIM (Bharat Interface for Money) app announced by PM on 31st December 2016 has seen a remarkable growth in past few months. Named after icon Bhimrao Ambedhkar the digital payment app was also launched for non-smart phone users on April, 2017. In the initial first nine months of operation BHIM has shown transactions which are worth more than Rs.11000 crores and now consist of almost half of all the United Payment Interface (UPI) transactions in India.

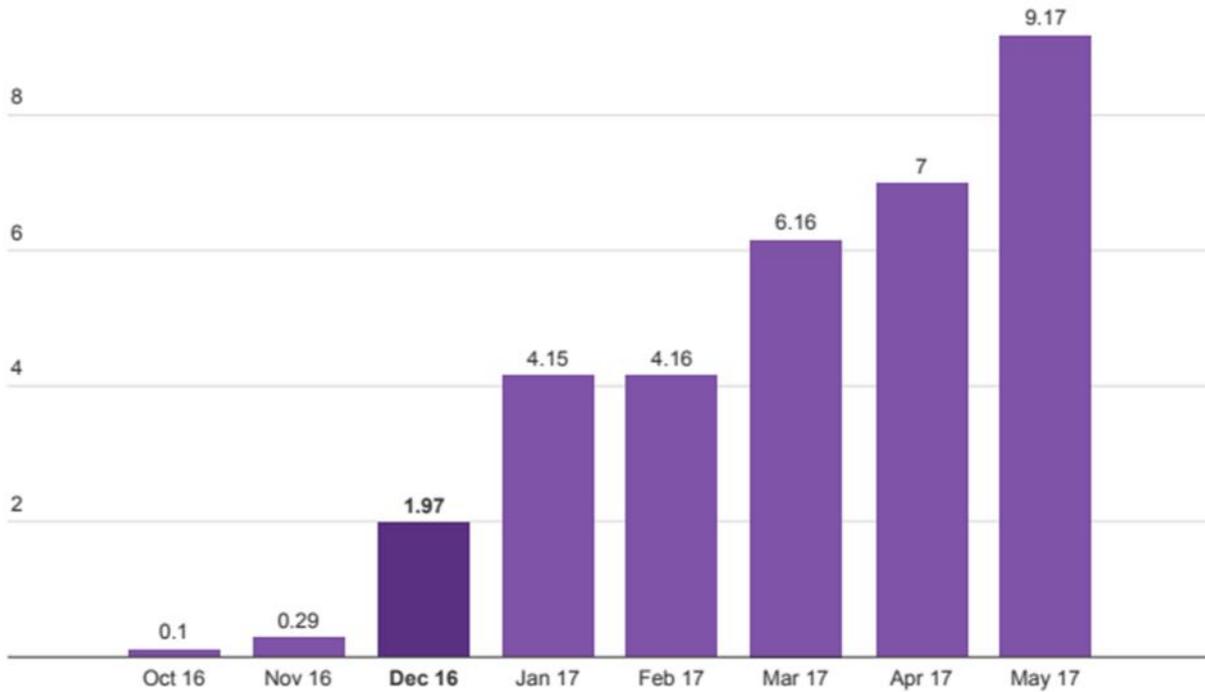
BHIM is an initiative to enable secure, fast cashless payments through your smart phones. BHIM is an interoperable app with other UPI applications, for immediate money transfers. BHIM applications was developed by NCPI and made in India.

The latest data of NCPI shows that the UPI transactions made a giant step from just 1, 03,060 transactions in the month of October 2016 to 91,67,277 transactions in May, 2017 presenting a stupendous growth of 89 times.

The graph below shows the phenomenal growth in UPI transactions, which is based on NCPI data.

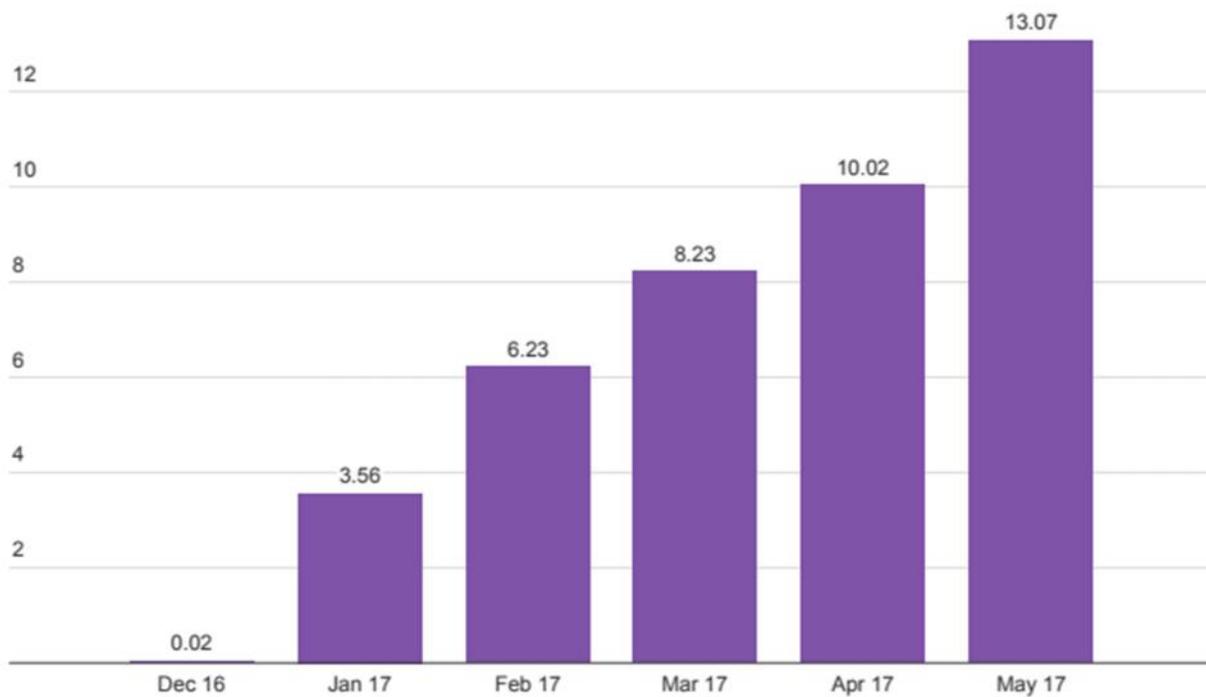
UPI Transactions

Volume of transactions in millions



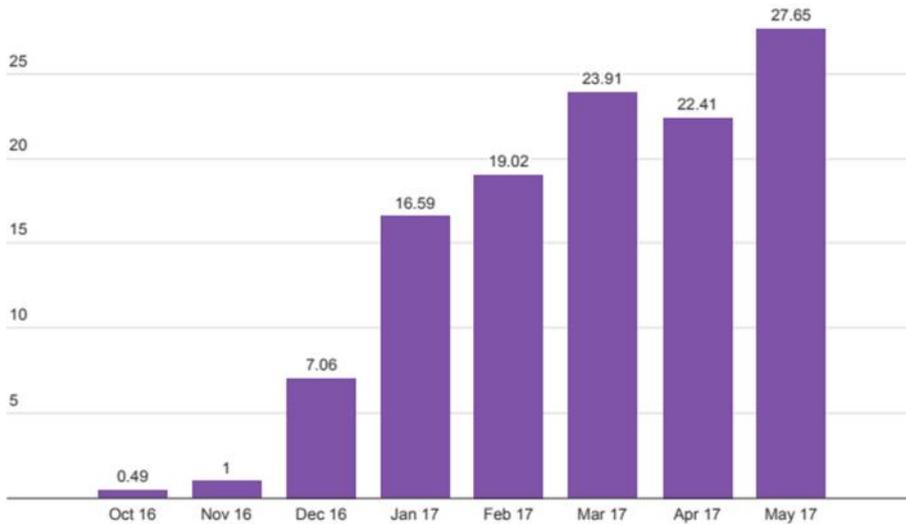
BHIM - Monthly Growth

Amount of transactions in billion rupees



UPI Transactions

Amount of transactions in billion rupees



Narendra Modi introduced BHIM (Bharat Interface for Money) on 30th December, 2106. A mobile app developed by NCPI, based on the interface of UPI. BHIM recorded growth in transactions which was increased by 2.3 times (from 17,17,696 in January, 2017 to 39,75,750 in May, 2017). BHIM has recorded growth from, Rs.3.56 billion to Rs. 13.07 billion. In terms of digital transactions both UPI and BHIM made a giant leap.

About the Methodology:

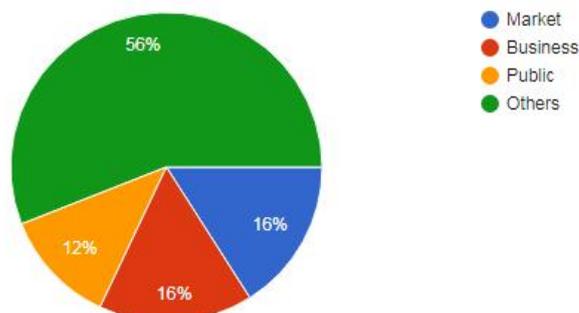
The Survey has been conducted and analyzed in three ways .i.e, from the point view of impact of demonetisation and digitalization on public and people relating to business and market.

The analysis was done on the form of a questionnaire which contained questions associated with the- Support of people for the move, their views, benefits and difficulty faced by them during demonetisation and the assistance provided by digitalization during and after the move. The analysis was done with a sample size of 25 numbers of respondents.

FIGURE:1

Profession:

25 responses

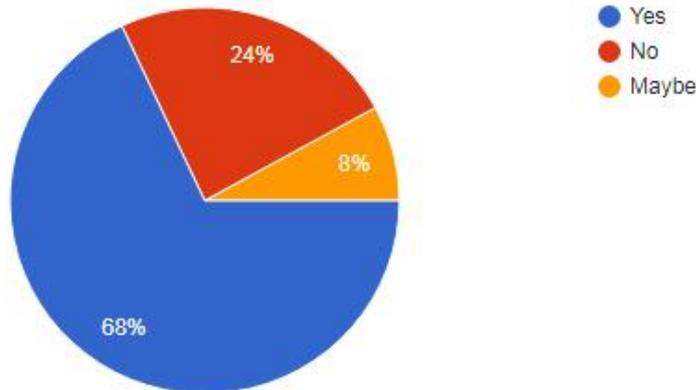


Source: Own Computation Primary Data

FIGURE:2

1. Do you support PM Narendra Modi's move to demonetise Rs.500 & Rs.1000 notes?

25 responses

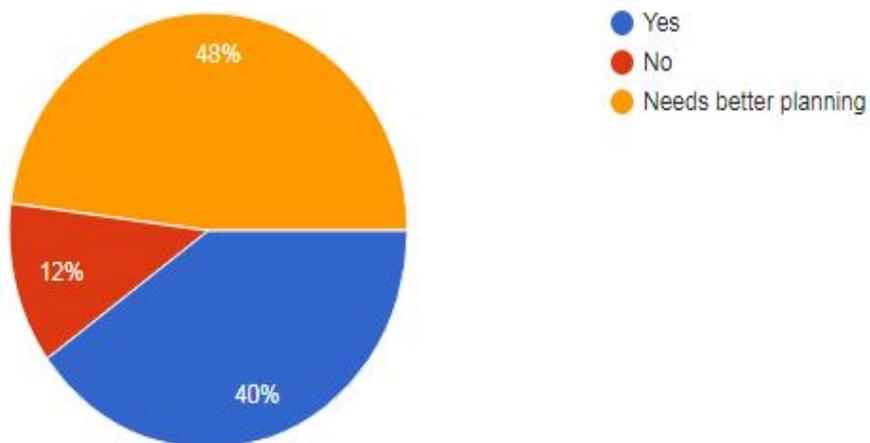


Source: Own Computation Primary Data

FIGURE:3

2. Do you think the ban of currency by Indian government on 8th November, 2016 was the right move to curb black money?

25 responses

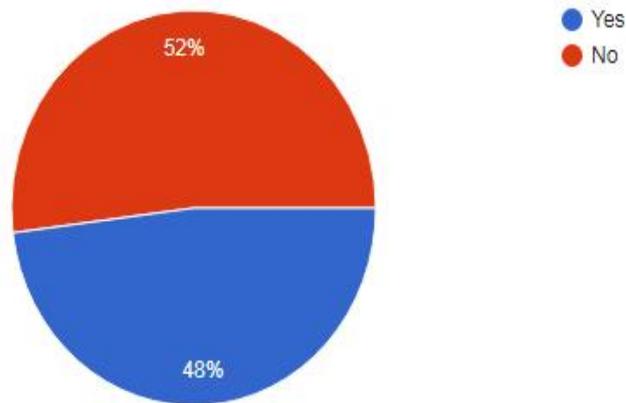


Source: Own Computation Primary Data

FIGURE:4

3. Do you think the ban of currency has affected the poor, middle class and rich equally?

25 responses

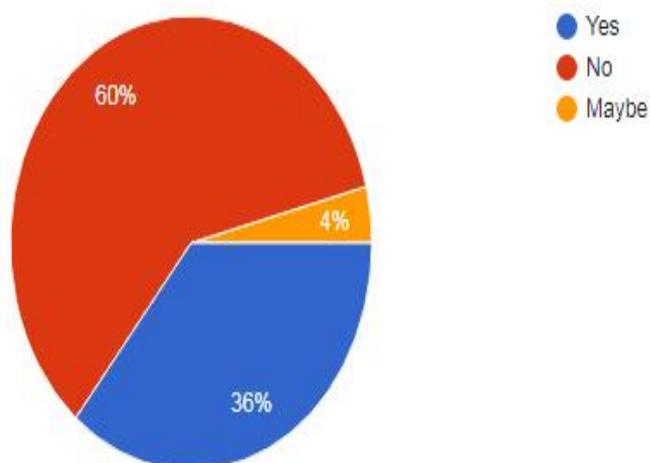


Source: Own Computation Primary Data

FIGURE:5

4. Are you still facing any difficulty in using new notes Rs.2000 in market?

25 responses

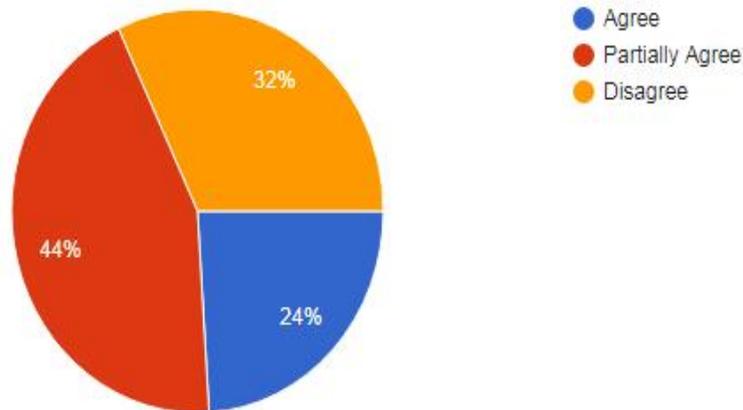


Source: Own Computation Primary Data

FIGURE:6

5. Do you think Demonetisation has improved the life of a common man in India in this span of 1 year?

25 responses

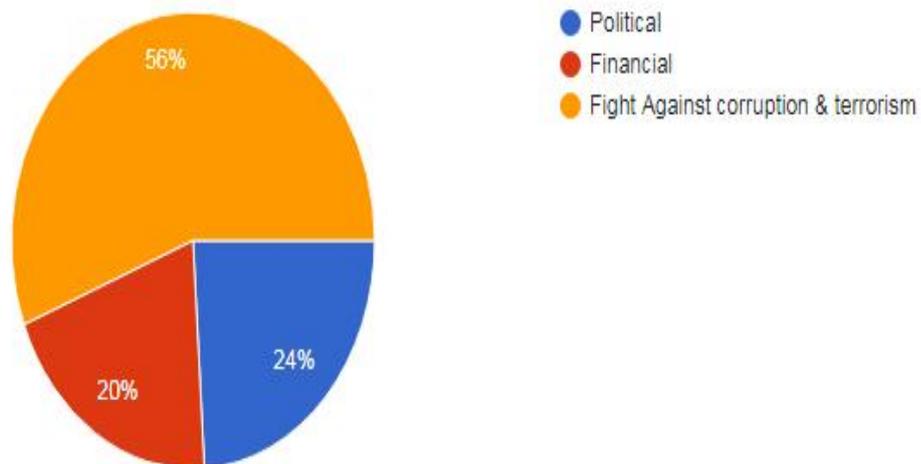


Source: Own Computation Primary Data

FIGURE:7

6. What do you think the primary motive of this ban of currency was?

25 responses

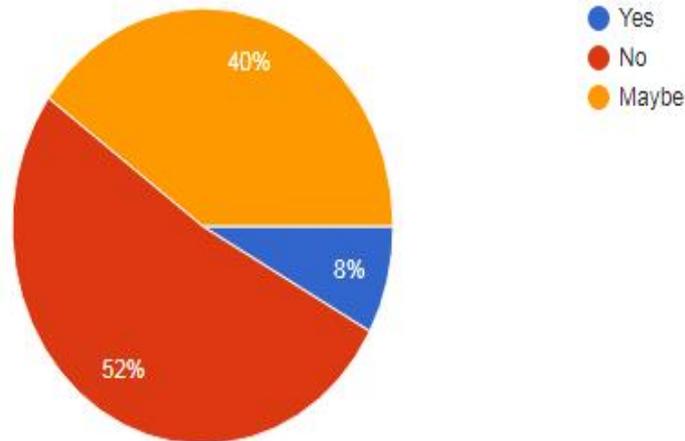


Source: Own Computation Primary Data

FIGURE:8

Demonetisation the last resort to clean the economy?

25 responses

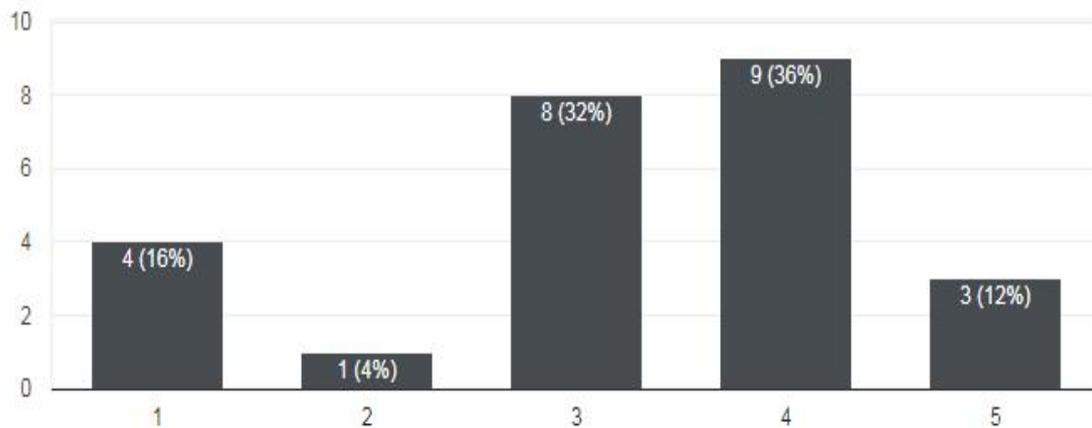


Source: Own Computation Primary Data

FIGURE:9

8. Where would you scale the effects of Modi's government against corruption through demonetisation so far? Scale 1-5?

25 responses

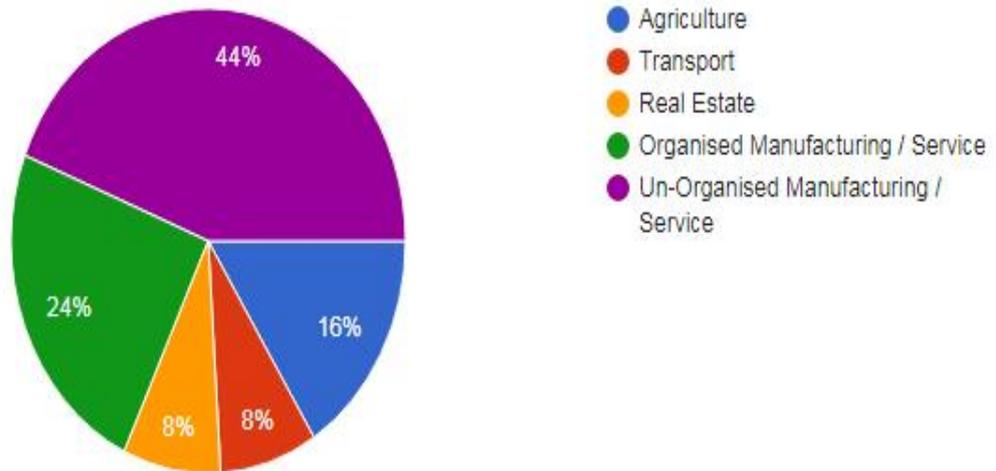


Source: Own Computation Primary Data

FIGURE:10

9. Which sector has been affected the most due to demonetisation?

25 responses

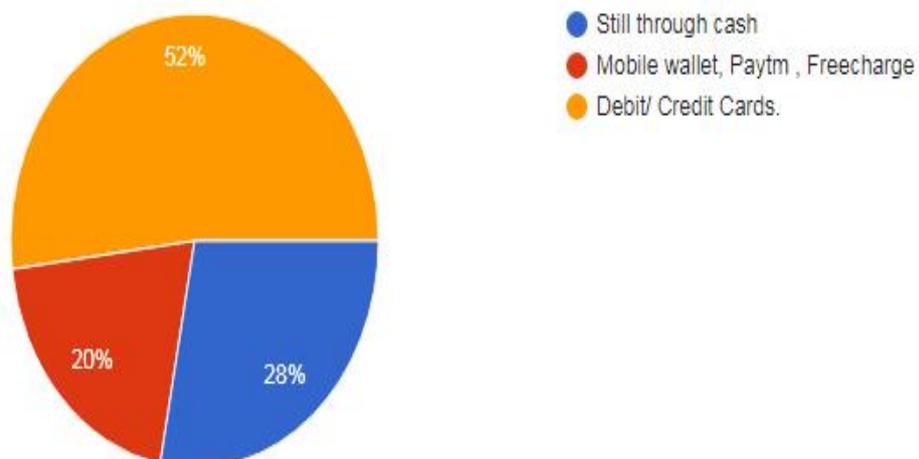


Source: Own Computation Primary Data

FIGURE:11

Change in buying behaviour of groceries, transport, vegetables, shopping and eating out after demonetisation ?

25 responses

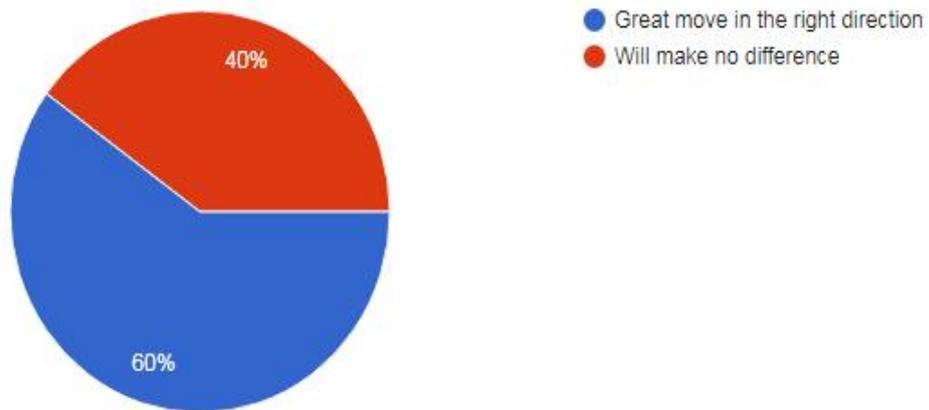


Source: Own Computation Primary Data

FIGURE:12

What do you think about the move of banning old Rs.500 & Rs.1000 notes by Modi Government?

25 responses

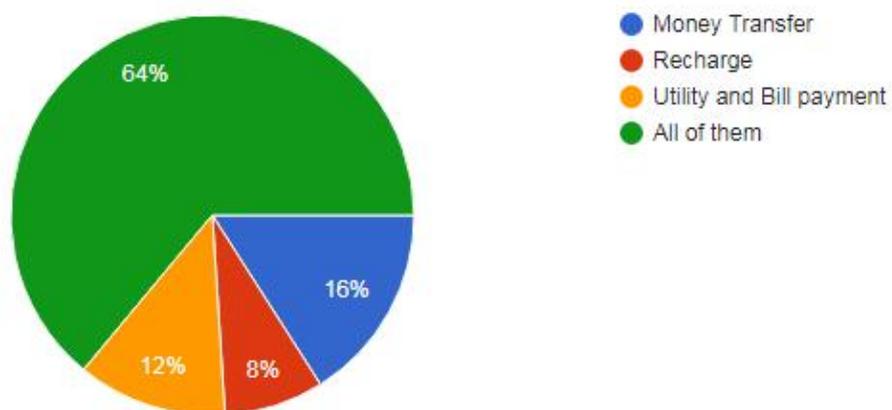


Source: Own Computation Primary Data

FIGURE:13

For what purpose do you use E-wallet ?

25 responses

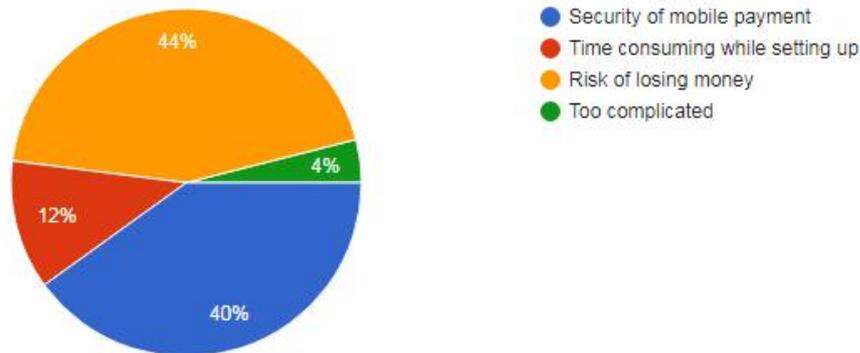


Source: Own Computation Primary Data

FIGURE:15

What obstacles do you face while using E-wallets?

25 responses

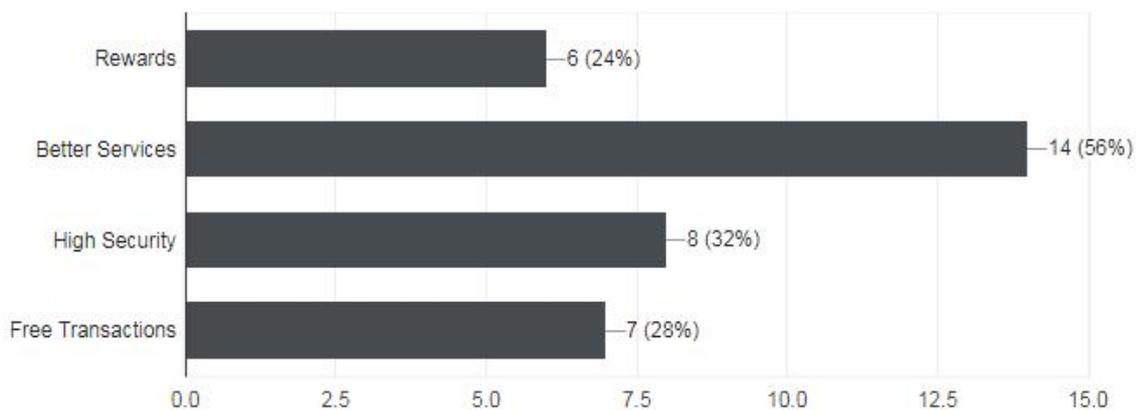


Source: Own Computation Primary Data

FIGURE:16

What would encourage you to use online banking services?

25 responses



Source: Own Computation Primary Data

LIMITATIONS OF THE STUDY:

-) Time constraint was one of the major limitations during the study.
-) The study was limited to little number of people.
-) Questionnaires were given to 30 people out of which 25 responded.
-) The study may not be relevant for the coming financial year i.e., 1st April 2018.
-) Respondents were unwilling to give complete information to certain questions.
-) Responses were influenced by personal bias.

❖ CONCLUSION

Meanwhile, the RBI is urging the citizens of the country to use the internet or mobile banking within the short-term as a means to relieve the pressure on physical currency.

According to the analysis of digital marketing, this latest monetary change will be the new economic era of India, with Indians having greater access to the benefits of transacting in a digitally empowered world.

Hence we find that **Demonetisation** has revolutionized the wheels of progress and oiled the wheels of production towards **Digitalization** by taking India, **Vikas Ki Aur**.

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