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Digitalization – Solution of demonetization

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Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender. demonetization represents much more than destabilization. Demonetization is the tool of government to eliminate the currency. This paper tells about how demonetization effects on businessman, shopkeeper, retailer etc. and with lack of money how consumer pay without cash and digital payment, internet banking.

Keywords: Demonetization, Digital payment, Cashless system, Digitalization.

1. Introduction

Demonetization is the instrument of government to eliminate the black money. The currency unit that has been demonetized is withdrawn from circulation. Demonetization can also be referred to as the process of moving people from a cash based system to a cashless system (Digital System).

Digitalization is the integration of digital technologies into everyday life by the digitalization of everything that can be digitized and the process of converting information into digital format.

On November 8, Prime Minister Narendra modi announced demonetization of high value currency notes of rs. 500 and rs. 1000, in an attempt to clamp down on black money, among other things. Subsequently, as a fallout of this decision, focus also shifted to urging people to go digital and move towards a cashless form of transaction. Moving towards a cashless India is moving towards an India where every transaction is accountable. I believe it is a good step which will bring transparency – especially in accounting sales tax from the street vendor who sells goods and services without providing a proper bill. Going cashless and using e-payments will make the vendors accountable, each person whether he / she is working as a tea vendor or as a corporate executive, must contribute towards the development of the country. In this paper we will discuss impact of demonetization on digitalization.

Objectives of the Study

- 1) To study impact of demonetization
- 2) To outlet advantages of digitization
- 3) To study effect of demonetization on different categories
- 4) To analyze demonetization effect on digital payment

Research Methodology

- The descriptive methodology has been used to collect data
- Secondary data has been collected from various published source and website
- The explanation of data is more qualitative than on quantitative terms.

Causes of Demonetization

- 1) Introduction of new currency
- 2) Black marketing
- 3) Currency storage
- 4) corruption
- 5) Excess of fake currency in the economy

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Demonetization history and background in India

This is not the first time when Indian currency demonetized in India, the first instance was in 12th January 1946 (Saturday) and second in 16th January 1978 (Monday), 3rd time on 8th November 2016 (Tuesday). In the second time demonetization was done by the first known – Congress government in independent India by Morarji Desai – led Janta Party in January 1978.

Demonetization Effects on Various Categories

- a. The wholesaler denied to extend the credit span of time
- b. Shopkeeper started paytm and cheque facilities for consumers
- c. There has been a drop of thirty percent customers footfall
- d. Brand like Parle, Coke, Pepsi demand effective only 20 percent due to brand loyalty
- e. Spend per customer per visit drop by 40 percent.
- f. Chocolate sales decrease by 50%
- g. Salty snack sales decrease by 10%
- h. Biscuit sales decrease by 20%
- i. Juice / fruit drinks are decreased by 20%
- j. Gold sale increase by 70%
- k. Durable goods sale decreased by 60%
- l. Mobile phones and PC sales decrease by 70%
- m. Toilet soaps sales decrease by 10%
- n. Cigarette sales decrease by 10%

Impact of Demonetization on Economy

From the ancient time, money has played any important role in our lives. The recent currency demonetization announcement as failed many mobile wallet company to drive Indian to adopt digital payment and thus accelerate away from cash and other alternatives.

- Demonetization has pushed million of new users with digitalization
- Bank deposits also increase and interest rate on home loan reduce with the impact of demonetization.
- Black money eliminates and fake currency notes become redundant.
- Many government department migrating their system and services online.
- Digitalization and cash lessens has clearly increase the banked population in the economy.
- 90% of the total cash in circulation has come back into the banking system
- due to higher deposits in bank more taxes being collected
- The GDP growth rate has held up at more than 7%

Effects of Demonetization on Digital Payment

- ✓ After demonetization villagers, local vendors and farmers are slowly getting used to digital transactions.
- ✓ Government initiatives such as Aadhar, Jan Dhan Yojana are also encouraging fintech companies to upgrade themselves.
- ✓ Government has also been promoting Smartphone – based transactions through the unified payment interface (UPI)
- ✓ Bharat interface for money (BHIM) use the immediate payment service (IMPS) network of the national payment corporation of India.

- ✓ UPI and Bharat QR have been revolutionary initiatives driven by RBI and adopted by the Indian banking system.
- ✓ Mobile wallets which first disrupted the payment space in the country, playing a crucial role for digital payment.
- ✓ Digitalization in India started with e-commerce, start-ups such as Paytm, Flipkart, Snapdeal, Jabong and Amazon etc.

Positive Impact of 2D's (Demonetization and Digitalization)

Effect on Money Supply:- Scrap of older 500 and 1000 rupee notes and circulation of new 500 and 2000 rupee notes, has reduced the money supply in the short run. So that black money doesn't re-enter the system. However, as the new notes get circulated in the market and the disparity gets corrected, money supply will pick up.

Effect on Demand:- The overall demand is likely to be affected to an extent. The demand is impacted particularly in the area of real estate and property, consumer goods and luxury goods, and automobiles.

Effect on Prices:- Price level has been lowered due to control of demand. The effect of demand in fall of prices could be understood as follows:

Consumer goods: - Due to moderation in demand, prices are expected to fall slightly, as use of cards and cheques would compensate for some purchases.

Real Estate and Property: - Prices in this segment are largely expected to drop, especially for sales of properties where main work is of cash based, rather than based on cheque transaction or banks transfer. However after sometime the prices in this sector could regain some level as developers rebalance their prices (Probably by charging more on cheque)

Effect on Online Transactions and alternative modes of payment:-

With cash transactions facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand.

Financial/business impact: - People with large amount of black money are using unscrupulous means to convert it into legitimate currency. A taxpayer has to stand in queues to withdraw his hard-earned money. Online companies are having the last laugh as most of the white income class is resorting to online. Small medium sized business relying on cash transaction is seeing a total demand collapse. Gem and jewellery business will be hard hit. Banks will be having a tough time. They will be flooded with cash.

Political impact: - BJP will gain tremendously. Modi's portrait could replace Gandhi's portrait in coming time on the walls of government offices. All parties will join hands to paint the demonetization scheme as a big scam.

Social impact: - Low-income people have been impacted as their payments are delayed. Cashiers and bankers will get due respect in society. Marriages to become cheap. Death of dowry. Big blow to gambling. All medicines in white money. This is the first time that rs. 2000 currency note is being introduced.

Conclusion

No doubt Demonetization has generated lots of debates and discussions among economists, media personnel and politicians. Its short-term consequences have been quite Noticeable in the economy. Though, its medium and long term effects are yet to be seen. In order to capitalize its medium and long term benefits, a number of complementary measures are required to be adopted. The government has adopted some measures to control black income and improve transparency in the economic transactions even before the commencement of demonetization. For example, it brought The Benami Transactions (Prohibition) Amendment Act, 2016 to curb the purchases of property in other person's name or fictitious name. JDY is another initiative taken by the government for financial inclusion of marginalized section of society so that they may have access to banking facilities. The government's drive towards promotion of use of digital technology in money transactions will help to track the transactions and reduce the tax evasion, which may help the government to get more tax revenue even by lowering the tax rate. But, the major challenge in the post-demonetization regime of the economy is how to introduce the cashless system of transactions particularly in the informal economy, where most of the transactions are still made in cash. Inadequate digital technology infrastructure, poor internet access, and lack of access to smart phones to large number of people are the major constraints.

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