

Impact of demonetization on Hotel Industries

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Abstract

Over the short and medium terms, the demonetization drive will have varied effects on the many sections of the hospitality industry in the country, but in the long term will positively impact the growth of the hospitality sector. Demonetization is the current biggest challenge in business of hospitality and tourism sector in India have described in this paper. After a tumultuous fortnight for the entire country ever since the government declare the partial demonetization of the higher value rupee notes. The service industry has definitely confront a short term effect of this, as spends are adjourn towards immediate needs. The most challenging period of demonetization sits fairly in the active season for the tourism industry. There was a slump in hotels and related services bookings in the initial week after the paper money withdrawal. Although, the premium hotel segment has not seen much effect as bookings are mainly done in advance and online. So the knock has mostly been confined to the unorganized sector. The paper draws facts from the existing articles and other reports. Also analyze the implementation of demonetization and its impact on hospitality and tourism sector which are based on the results collected through survey method from the owners of small to medium tour & travel and hotel business of various cities in India. This paper brings out key findings after interaction with industry professionals as to incorporate real-time, relevant and contemporary data.

KEYWORDS: Demonetization, Hospitality and Tourism, Challenges, Unorganized Inventory

I Introduction

The demonetization drive will benefit the organized hospitality sector in India the most. Combined with the general uptake in the sector, the movement of customers to the organized sector due to ease of alternate modes of payment will positively impact the market. However, given the larger base of hotel rooms in the country is in the unorganized sector, we anticipate the general performance of the industry to witness some stress in the short term. The hospitality and the tourism markets are renowned for their ability to create a large number of direct and indirect jobs in the country. With the inability of customers / tourists to easily spend on frills due to lack of available currency, the unorganized industry will suffer the most in its ability to create new jobs. The impact of demonetization will also be felt by the suppliers of consumable goods, who often work on cash transactions with their wholesale counterparts. The unorganized inventory of hotels in the industry will be most impacted by this move. In addition, the leisure sector hotels and restaurants segment will see a higher impact on account of the discretionary nature of spending in this sector, and the substantially larger base of cash transactions that occur in its when compared to mainstream business hotels. Also, the restaurants business – both in hotels and standalone – will see a short-term slowdown in growth on account of the reduced availability of cash and the generally high

usage of cash spending in restaurants. The organized banqueting business will witness growth, as customers move from the almost cash-only unorganized sector of standalone party venues and farm houses to hotels for want of non-cash means of payment. The weddings business will also return to Indian hotels from their overseas counterparts, as unofficial channels for offshore transfers of cash have dried up, forcing the cancellation of many Indian weddings from foreign locales back to hotel venues in India. The tourism and hospitality sectors are intrinsically tied to the economic conditions of any country. The boost provided by the demonetization move to the macro economy of the country will effectively trickle down to the industry. With banks being flush with liquidity, we anticipate a major reduction in interest costs, which augurs well for the growth of the industry. As more liquidity enters the organized sector along with some further softening of land rates and gradual movement towards cleaner real estate transactions, we anticipate investments into the sector to increase from the organized players who have, in the past, shied away due to complexities associated with underlying real estate.

II. Literature Review

Balamurugan S. And Hemalatha B.K. (2016), the study focused on highlighting the long term & short term effect of demonetization on the various organized and unorganized sectors depending upon the extent of cash availability, credit availability, spending & government finances. They stated that medium and large scale businesses are unaffected by such ban where as small scale establishments were deeply affected by demonetization. Ambalika Sinha and Divya Rai (2016), Stated in their article that informal sectors were suffering mostly where minimal cashless transactions are used in Indian economy. They have indicated the microeconomic effects and macroeconomic effects of demonetization. The microeconomic effects are beneficial i.e. uncollected revenue increased & political move on terror financing was restrained, whereas the macroeconomic effect was not beneficial i.e. due to the problems faced by the people. Sandeep Kaur (2016), mention in their article about the effects of demonetization on Indian economy and system. This move would be positive for sectors like banking and infrastructure in the medium to long term and negative for sectors like consumer durables, luxury items, gems and jeweler, real estate and allied sectors. This move also aims at lower corruption, lower inflation, better fiscal balance, complete elimination of fake currency and economic growth in the longer term. Sujatha (2016), quoted in her article that the this step given too much pain to the common man and so many sectors in the country have been affected by the failure to replace the old currencies in adequate measures. The fallout of the Demonetization now looks to have spilled over into the tourism and hospitality business as well. Anumeha Chaturvedi (2016), quoted that the Government decision is aimed at reducing corruption, terrorism, black money and counterfeit notes. The move will create problems for the travel and hospitality sector, luxury brands, already reeling under slowing sales and tighter income tax regulations, may face more problems. Prabhurajan. B. S (2016), stated in his article that the number of people going to restaurants has declined largely & the hotel industry here feels to improve at least mid-December. The hospitality sector's earning had seen a continual fall since September and it is drastically declining. Despite the fall in revenue the costs-involved in running hotels & restaurants has remained the same. Mandeep Lamba (2016), said that the organized banqueting business will witness growth. The weddings business will also return to Indian hotels from their overseas counterparts. Over the

short and medium terms, the demonetization drive will have varied effects on the many sections of the tourism and hospitality sector in India, but in the long term there will be positive impact in the growth of the tourism and hospitality sectors. CD Equisearch Pvt. Ltd (2017), in this article, they have concentrated on effects of demonetization on various sectors. The move shed a dark shadow on the increasing of tourism and hospitality sector in India. These sectors are facing a tough time. November to January months generally witness the maximum number of international tourists inflow in India, due to ban there has been a 65% drop in Christmas & New Year bookings. Cash crunch has adversely affected the liquidity of currency exchanges in India. Ela Group (2017) article has concentrated on demonetization impact of Mysuru tourism sectors. For the next two years, this step will have a mixed effect on the tourism and hospitality sectors in India. Most of the tourism and hospitality business in the country are unorganized sector, tourists are forced to post pone or cancel their travel and accommodation due to less availability of cash. The Mysuru tourism department has a direct impact.

III. Methodology

The present study has been conducted based on both primary and secondary data. Secondary data used to understand the concept of demonetization and to analyze the existing review of literature about demonetization. 60 small to medium tour & travel and hotel business owners have been selected from various cities (Delhi, Jhansi, Gwalior, Orchha, Khajurajo, Ludhiana, Jalandhar, Indore, Bhopal, Lucknow, Bangalore, Hyderabad, Chennai, Guwahati, and Shillong) of India. The present study based on survey method. A structured questionnaire has been served to the owners of 60 small to medium tour & travel and hotel business to collect the opinion about the present demonetization and the problems and challenges faced by them. Descriptive statistics have been used to analyze the opinion collected from the respondents.

A SWOT ANALYSIS ON DEMONETIZATION:-

STRENGTHS:-

- Put an end to Black money economy of India.
- Stringent IT Department monitoring into individual bank accounts.
- Encourage cashless transactions.
- New security features in the newly introduced currency which makes it difficult to replicate.
- Too much of downfall in the crime rate and terror activities in the country.
- Avoid Counterfeits through new currency.

WEAKNESSES:-

- Re-calibration of ATM Machines on time.
- Insufficient available infrastructure with the current banking system.
- Sudden shortage of cash due to improper availability of cash.
- Improper channelization and distribution of cash across various cities.
- Rural area needs are completely ignored.
- Huge communication gaps in the promised deadlines.
- Supply chain, Retail and Procurement sectors hampered drastically due to the cash mode payment gaps within their process cycle.
- Small to medium tour & travel and hotel business are facing huge loss of revenue.
- Healthcare and Pharmaceutical sector hampered drastically due to improper instruction on channelizing the demonetized currency.
- Wedding Planners business put to halt for undecided time.
- Inflation may see a steep and steady hike due to delay in transportation of needful groceries on time to the market.
- Travel and tourism sector is running low

LONG TERM & SHORT TERM IMPACT DUE TO DEMONETIZATION:-

Key Point	Short-term impact	Long-term impact
GDP Growth	GDP growth to be negatively impacted by 0.5-1% due to drop in consumption	With a tax net widening after restriction on cash economy, GDP in the long-term likely to get a boost.
Inflation	Inflation likely to come down due to low demand owing to liquidity problem	Since effect of lower demand can have a lagging impact on inflation, prices may remain flat or fall in the long term.
Interest rates	With Banks flush with cash, interest rates may come down in the short-term	If demonetization boots formal banking and more cash continues to come in the system, interest rates may fall further
Fiscal Deficit	Unlikely to have much impact as most of the gains (RBI surplus, higher tax collections, penalties) will accrue after FY2017	With likely increase in the size of tax collections and formal economy would improve the country's fiscal situation.

Conclusion

The small to medium tour & travel and hotel business in various cities of India have been severely affected by the demonetization move. Most of the tour & travel and hotel owners think that the move is not beneficial at present but surely in the longer run it will benefit their business and most of them said that small to medium tour & travel and hotel faced huge loss of revenue in the initial weeks but when we talk about the large scale service providers they are not much effected due to demonetization because they are already using the online transactions and plastic money in their business run. They agree that the move of demonetization will help the Government to fight against black money, corruption, terrorism and counterfeit currency. Arms, smuggling, espionage and terrorist related activities will be choked due to lack of funding and loss to the common people because fake currency unintentional or earned by hard work is refused by the banks. The report of WTTC and IBEF shows that there is no effect of demonetization in the hospitality and tourism sector contribution in India's GDP. Indian tourism and hospitality sector not just contributing in India's GDP but also giving the revenue through the growth of foreign exchange earnings and foreign-tourist-arrivals in India. Sectors with a sizeable magnitude of cash transactions are expected to affect adversely. With the banks being flushed with high liquidity, we can expect reduction in interest costs and softening of land rates. This move has positive impact on sectors like Banking, Financial markets, E-Commerce, Pharmaceuticals, etc. negative impact on sectors like Real estate, Tourism and Hospitality, Automobiles, NBFC's and HFC's, jewellery, etc. and neutral impact on Power, Telecom, Oil and Gas, etc. The historical step taken by Modi Government will fetch results in long run and it supported by most of them. Indian tourism and hospitality sector is growing as Money life advisory shows that Hotels gain 2% in their 24th June 2017 weekly stocks.

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