

Impact of Demonetization on India's Service Sector with Special Reference to Online Tourism Services

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Abstract

Prime Minister, Narendra Modi on November 8, 2016 shocked the nation by announcing high denomination notes (INR 500 and INR 1000) as ceasing to be legal tenders. This move was directed to unearth black money hidden by tax evaders, traffickers and other illegal entities. New INR 500 and INR 2000 notes were introduced. Although this move caused much pain to the common man and various sectors were affected by the failure to replace the old currency in adequate measure. As seemed obvious, the real estate and the retail business were affected and the fallout of demonetization seems to have spilled over the tourism business as well.

Keywords : *Demonetization, inflation, tourism.*

Reference to this paper should be made as follows:

Priyanka Dalmia,
“Impact of Demonetization on India's Service Sector with Special Reference to Online Tourism Services,”
Journal Global Values,
Vol. VIII, No.1, pp. 1-7
http://anubooks.com/?page_id=2424

Introduction

Demonetization is the act of removing a currency unit as legal tender. It occurs whenever there is a need to change the national currency: The current forms of money are pulled from circulation and retired, often to be replaced with new currency. Sometimes, a country completely replaces the old currency with new.

There are multiple reasons why nations demonetize their local units of currency:

- to combat inflation
- to fight corruption and crime
- to discourage a cash-dependent economy
- to facilitate trade

India's Demonetization

In November 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; accounting for 86% of the country's circulating cash. With little warning, India's PM Narendra Modi announced to the citizens on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for new 2000 rupee and 500 rupee notes.

Chaos took place in the cash-dependent economy (about 78% of all Indian transactions are in cash), as long lines formed outside ATMs and banks, which had to shut down for a day. The new rupee notes have different specifications, including size and thickness, requiring re-calibration of ATMs. The government's restriction on the daily withdrawal amounts added to the misery, though a waiver on transaction fees did help.

The government's goal for the abrupt announcement was to combat India's thriving underground economy in several areas: to eradicate counterfeit currency, fight tax evasion (only 1% of the population pays taxes), eliminate black money gotten from money laundering and terrorist-funding activities, and to promote a cashless economy.

Long-Term Effects

Over 3 trillion rupees in old currency, was deposited with Indian banks in just the first week after demonetization. There was a concern that uncertainty would take some momentum off the Indian economy, the fastest-growing in the world; for sectors like real estate, notorious as a harbor for cash dealings and black money, were expected to take a hit, with property prices dipping by around 25-30%.

But experts believed any slowdown would only be short-lived once the systems adjusted to the new system, especially if the government heeded calls to lower interest rates by groups like the Federation of Indian Chambers of Commerce and Industry (FICCI).

Alternative Funds

Soon after the announcement, people rushed to buy gold, a demand that drove prices up, in some cases even to a 60% premium. The government emphasized the need to furnish PAN card details on purchases for accountability purposes, and many jewelry shops that were flouting the norms came under crackdowns.

Many Indians switched to alternative payment avenues – with only 25.9 million credit cards and 697 million ATM cards as of July 2016. The biggest gainers were mobile wallet companies that offer ease of transactions through a large network of partners. Alibaba (NYSE:BABA)-backed Paytm saw a sevenfold increase in overall traffic and a 10-fold jump in money added to Paytm accounts. It also saw the number of transactions double to five million a day.

App downloads for Paytm increased by 300%. Paytm rival MobiKwik also saw its app downloads quadruple and a 20-fold increase in money added to the wallets, MobiKwik Founder & CEO Bipin Preet Singh, told CNBC-TV18 on November 13.

Prepaid cash cards were another option that customers found useful, and that meant good news for companies like ItzCash. Other alternatives include mobile payments systems linked to e-commerce businesses like Ola Money, FreeCharge, Flipkart Wallet. Ola Money, the payment portal for popular transportation app Ola Cabs, reported a 1500% jump in money added to the accounts in less than four hours.

Effect on Travel and Tourism Sector

At 2.8%, the travel and tourism sector in India grew faster last year than it did worldwide (2.3 percent). It contributed to 6.3% of the country's gross domestic product (GDP)—including direct, indirect and induced contributions — and translated to Rs 8.3 lakh crore in 2015, according to this 2016 report by the World Trade And Tourism Council (WTTC), a forum for the travel and tourism industry.

Tourism is also a labour-intensive sector, creating 78 jobs for every million rupees invested, according to tourism ministry data. The agriculture sector creates 45 jobs for the same investment, and manufacturing, only 18. Ever since 2009, the share of tourism in employment has consistently been over 10% of India's workforce

of 500 million workers. This means that the sector employs almost 50 million people.

Tourist woes: Cash crunch, long queues, exchange limits

In the weeks following *notebandi*, it was reported that foreign tourists were being inconvenienced. Governments of several countries, including the UK, Australia, and Canada, have issued travel advisories to their citizens about the money trouble they might encounter in India due to demonetization. .

The cap on withdrawal has affected incoming as well as outgoing tourists, as *Scroll* reported on 2 December 2016. Visitors were unable to withdraw more than Rs 2,000 in foreign currency, which is inadequate.

RBI regulations also declared that foreign tourists could only exchange currency worth upto Rs 5,000 a week until December 15, 2016. However, earlier, foreign passport holders were able to exchange as much as \$3,000 (Rs 200,000). This means that visiting foreigners could now only exchange 2.5% of what they could before *notebandi*.

Tourists were, however, allowed to use a “pre-paid instrument” in exchange for foreign currency tendered. But this doesn't help those who have run out of foreign currency. Tourists leaving the country post-demonetisation have been unable to change more than Rs 5,000 into their own currency, although the average demand for re-encashment is Rs 20,400.

The peak tourism season in India lasts from October to January. Most of the domestic travelers visit Rajasthan, Maharashtra, Gujarat and Karnataka in October and November, thousands visit shrines such as Sabarimala in December. Year-end party seekers look forward to a break in Goa and Maharashtra in late December and early January. These tourist destinations have seen a drastic reduction in the bookings this year.

According to a recent study by the Assocham, there has been a 65% drop in Christmas and New Year bookings made this year. Tourists who usually spend their vacations at various spots have decided to stay back at home instead of taking their annual break. International travel to India has also dropped by 45%, following the travel advisory issued by most countries following the demonetization.

Literature Review

Alvares, Clifford (2009) reports “The problem regarding fake currency in India.” It is said that the country's battle against fake currency is not easy and many fakes go undetected. It is also stated that since counterfeiters had restricted printing facilities which made it easier to discover fakes. Ashish Das, and Rakhi Agarwal,

(2010) in their article “Cashless Payment System in India- A Roadmap” Cash as a mode of payment is an expensive proposition for the Government. The country needs to move from the cash-based system towards a cashless/electronic payment system. This will help reduce currency management cost, track transactions, check tax avoidance, fraud etc., enhance financial inclusion and integrate the parallel economy with main stream. Jain, P.M (2006) in the article “E-payments and e-banking” opined that e- payments will be able to check black”. Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of e-payments and communication networks. The Nikkei India Services Purchasing Managers’ Index (PMI), which tracks services sector companies on a monthly basis, stood at 46.7 in November, down from 54.5 in October. The Index slipped into contraction territory for the first time since June 2015 and pointed to the sharpest reduction in output for almost three years. On other hand if we talk about Banking Sector this is the only sector which was benefited by that decision in many aspects, this move pulled a large chunk of first time users to banks, who will have to use the system at least once to exchange their old notes for new ones. According to a study conducted by Moody’s, people tend to continue using banking services once they have crossed the ‘first-time user’ mark. This development will increase bank deposits by 1 to 2 percent compared to what they were before the demonetization scheme.

The online travel industry, which is significantly smaller to the offline sector (run by conventional travel agents) has also seen some impact. “In the first few days after the demonetisation, we saw a decline in traffic to our site. Things are coming back to normalcy though it is a bit slow. The larger impact is on domestic travel where usually last minute bookings happen,” said Sharat Dhall, president at Yatra, a leading online travel company. Dhall said inbound travellers are being advised to change money at the airport so that they have enough Indian currency.

Travellers to India have faced a lot of problems during their trip as these tourists are more likely to use cash, rather than cards. Exchange of currency has become a task and with the unavailability of the currency, it was very difficult to find a good bargain. It is not convenient for these travellers to use their credit or debit cards because of the exorbitant transactional charges levied by their home banks. Many travellers also complained that their e-cards were not activated for international transactions as well. In the same way, travellers moving out of India are faced with

similar issues due to currency exchange.

Indians already travelling within India have faced severe problems for obvious reasons. Firstly, they have faced severe issues in payments because of the sudden ban of notes. Hotels and restaurants have not been accepting the defunct currencies and all ATMs haven't been configured for the new notes.

Many travellers have procrastinated their travel plans due to many reasons, the most important one being liquidity of funds. They also prioritised the bank work before travel, due to government's stringent deadlines on cash deposit and currency exchange.

Research Methodology

Type of Data

The present study is quantitative in nature and secondary data will be used for the purpose of analysis.

Source of Data

The present study is based on secondary data. The sources of data include the facts released by Reserve Bank of India (RBI), Exchange, Central statistics office India and Different tourism websites, online journals and books.

Conclusion

The initial few days after the note ban have seen a severe impact on the online travel agency's traffic. The visits to the tourism websites had suddenly dropped initially. However, it was just a temporary side effect. The unexpected ban has seen a severe impact on airline booking as well, with a lot of travellers postponing or cancelling their plans. Now with the economy being more liquid, the bookings have picked up.

On the other side, the travel industry has seen a lot of transactions done electronically. However, this has been limited to places where POS and online payments are available.

While most of these side-effects are temporary, it is believed that in due course the pendulum will be back to normal. Travel is very optimistic about its pick up. This change is expected to positively impact the travel scene. With a shift towards digital money, we hope that it will make transactions safer for travellers. The ease of plastic money is stimulated towards building a cleaner and safer India for travellers.

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