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| Impact of 2016 Demonetization on Indian Tourism and Hospitality Sector |
| MA in International Tourism Hospitality and Event Management, 2018 |
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| BERLIN SCHOOL OF BUSINESS AND INNOVATION |

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# Introduction

## Background to the study

On 8th November 2016, a masterstroke was delivered to the people of India by Narendra Modi, the Prime Minister of India. Demonetization of Rs 500 and Rs 1000 notes was done, these denominations accounted to 86% of cash circulation in India (Reserve Bank of India, 2016) (Aleem, 2016). The government was well aware of the repercussions of this decision, as India has cash driven economy and around 90 to 98% of the transactions are through cash (Ray, 2016). This demonetization turned out to be one of the biggest economic events. It was done as an exercise to clean the economy with major problems like black money, corruption, funding the terrorist activity and counterfeit currency (Kumar, 2016).

This resulted in the fall of cash transactions and paved way for transition from cash driven economy to a cashless economy. However, it caused a lot of disruptions in the society, among which smaller businesses hotels, tour and travel, tourist guides, restaurants and food and beverage operations etc. had a major hit as these were based on transactions made by cash.

India has a rich and diverse culture and heritage that attracts tourists not only within the country but also international tourists. One of the major reasons for the growth of hospitality and tourism Industry in India is because it has different types tourism like cultural tourism, heritage tourism, religious and spiritual tourism, medical, sports, business tourism, which attracts all kinds tourists (Sourabh Dev Tiwari, 2017). Indian hospitality and tourism sector had a temporary impact due to demonetization. In long term it will have a positive impact hospitality and tourism industry, but there will be a short term slowdown in the growth. (Balamurugan S and Hemalatha B.K, 2016)

Therefore, demonetization had short term and long term effects on all industries across India. Fortunately for the tourism and hospitality sector it was the former. The initials goals with which the government set out during the implementation are yet to be achieved.

## Scope

An in depth study of the impact of demonetization on tourism and hospitality sector and by considering fluctuations in hotel revenues from 2014 to 2018.

## Purpose of the study

Demonetization has been implemented in several counties throughout the history. In India alone this is the third implementation, previously it was done in 1946 and 1978. The short term results have either been unsuccessful or no change in all occasions. The purpose of this study is to learn about both positive and negative effects of demonetization and how the hospitality sector coped up to the situation and bounced back to find stable ground. This research will also show the fluctuations in the RevPAR (Revenue per available room) of the Indian hotel industry and the country’s tourist inflow through 2014 to 2018.

## Problem Statement

The 2016 demonetization has had both positive and negative impacts on the tourism and hospitality industry. This study intent to identify the fluctuations in the RevPAR (Revenue per available room) of the Indian hotel industry and the country’s tourist inflow through 2014 to 2018.

## Research Objectives

* To identify the positive and negative impact of demonetization on tourism and hospitality industry.
* To determine the fluctuations in RevPAR and Tourist inflow before and after the event of 2016 demonetization
* To study the steps taken by the tourism industry to cope up with the short term effects of demonetization.

## Research Question

How the 2016 Demonetization did impact the fluctuations in RevPAR and Tourist inflow?

## Hypotheses

H1: Demonetization has positive impact on RevPAR

H0: Demonetization has negative impact on RevPAR

# Literature Review

## History of Demonetization

Many countries have implemented demonetization to create and stronger, clean and transparent economy. As per Indian economic history, 2016 demonetization was the third time, it occurred first time in 1946 and second time in 1978 (Pimputkar, 2016). If we take a look at the literature reviews, we can see that majority of the countries have seen failure in demonetizing. In the history of the world apart from USA and Australia rest all the countries failed. These countries include Nigeria, Soviet Union, Ghana, Myanmar, North Korea, Zimbabwe and Pakistan. There are also examples where country like Britain saw a success when it implemented demonetization; however it failed when it tried to do the same in other countries (Jangid, 2017). Therefore, we can say that the results of demonetization are highly unpredictable.

## Mixed reviews on Demonetization

In an article written for International conference by Dr Sonia Sakshi Girdhar, 2017, it mentioned the demonetization had a mixed impact on tourism and hospitality industry. It saw a downfall during the peak seasons, due to lack of availability of currencies people had to cancel or postpone their travel and hotel bookings. However, this impact was only on small businesses, the premium hotel businesses did not have much of an impact as they mostly had advance bookings and online payments. According to the article of Balamurugan S and Hemalatha B.K (2016), small scale businesses had a major impact due to demonetization, whereas medium and large scale businesses had very little or no impact at all. Banking and infrastructure sector have had a positive impact, however sectors such as luxury items, gems, jewelers, real estate, consumer durables and allied sectors have seen a negative impact (Sandeep Kaur, 2016).

## Demonetization has positive impact on a long term

Considering the article by MandeepLamba (2016), it describes that there will be a growth in the organized banqueting business. It also states that the demonetization has various short term and medium term effects on various sections of tourism and hospitality sector, however there will be a positive impact in the growth of this sector in long term.

A Chitra Balasubramaniam(2017), concentrates about cashless economy. She stated that India is slowly switching from cash driven economy to cashless economy and has started focusing on electronic transactions, this move will have initial negative impact on some hotel businesses, but will have a positive outcome in the long run.

RamphulOhlan (2017), mentions about the resilience of the Indian tourism sector to the government’s sudden demonetization move. Investigating on the stationary status of the arrival of international tourists, he uses root test, a recently developed break-point unit to obtain the information of international tourist from 2013 to 2017, and confirms that the arrival of international tourists has remained stationary.

## Demonetization had negative impact

Considering the article Sujatha (2016), it primarily quoted that due to failure in the replacing the old currencies in subsequent measures, many sectors very affected and the common man had to go thru a lot of hardships. This in turn resulted in the downfall of tourism and hospitality business.

Anumeha Chaturvedi (2016), mentioned in an article that the major aim of demonetization was to reduce corruption, terrorism, black money and counterfeit notes, this move might however, create a temporary disturbance in the travel and hospitality sector.

Prabhurajan.B. S (2016), in his article he states that the number of people going to restaurants has largely declined and the same has been the case in the hotel bookings. The hospitality sector has seen a steady decline since September 2016. Despite the fall in revenue the operational costs of running a hotels and restaurants remained same.

CD Equisearch Pvt ltd (2017), this article focused on the effect of demonetization on various sectors. This move showed a dark shadow cast on the tourism sector and the tough times faced by the industry. From November to January India witnesses the maximum number of international tourist flow, due to demonetization there was a 65% drop in Christmas and New Year bookings. Cash crunch has affected the liquidity of foreign currency exchanges in India.

Jai Bansal(2017), mentions about classification of industries in India. Indian industry is classified into three sectors - agriculture sector, manufacturing sector and service sector. The demonetization crashed down the manufacturing and service sector, but had a very positive impact on agriculture sector.

## Research gap

Multiple factors have been considered to provide a general opinion on the impact of demonetization. However, RevPAR factor is not considered, RevPAR factor will provide the specific numerical, which can be used in determining the percentages of positive impact and negative impact of demonetization on tourism and hospitality industry.

# Methodology

## Research Methods and Design

The fluctuations in RevPAR and Tourist inflow shall be analyzed using existing statistical and numerical data resources. This refers to Quantitative method of research approach.

## Sample

For this research a set a known groups have been considered as samples as this is a Quantitative approach. The Samples for this research are the Hotel, Government records, Banks and Tourist Centers.

## Data Collection

A Quantitative method has been chosen and as such, data collection will rely upon official sources. These include the Indian Tourism Department, Central Bank, Federation of Associations in Indian Tourism & Hospitality, Open Government Data (ODG), national statistics institutions and educational platforms.

## Data Analysis

Quantitative data Analysis is to be used to turn raw numbers into meaningful data to help support our hypothesis. This shall be achieved through the application of rational and critical thinking.

## Ethics in Research

As only secondary data is be used for research there is no issue of informed consent, privacy policy or deception. The data being used are ideas of publishers and websites, they have been given credit and the same is shown through Harvard style referencing.

# Time scale milestones forecast

|  |  |  |  |
| --- | --- | --- | --- |
| TASK | START DATE | DURATION | END DATE |
| Planning the required data | 28-04-2019 | 17 | 15-05-2019 |
| Collection of more information | 15-05-2019 | 17 | 01-06-2019 |
| Understanding the data | 01-06-2019 | 19 | 20-06-2019 |
| Data Analysis | 20-06-2019 | 30 | 20-07-2019 |
| Write up- Draft | 20-07-2019 | 26 | 15-08-2019 |
| Presentation and Referencing | 15-08-2019 | 5 | 20-08-2019 |
| Finalization and reviewing | 20-08-2019 | 5 | 25-08-2019 |
| Final Submission | 26-08-2019 | 0 | 26-08-2019 |

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# Appendix

History of demonetization –

Table 1

|  |  |  |
| --- | --- | --- |
| **Country** | **Year** | **Result** |
| Nigeria | 1984 | Failed |
| Soviet Union | 1991 | Failed |
| Ghana | 1982 | Failed |
| Myanmar | 1987 | Failed |
| North Korea | 2010 | Failed |
| Zimbabwe | 2010 | Failed |
| Australia | 1996 | Successful |
| Britain | 1971 | Failed in other countries |
| Zaire | 1990 | Failed |
| USA | 1969 | Successful |
| Pakistan | 2015 | Failed |

(Jangid, 2017)