



ICSI

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Empowering Service Industry

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**Service Industry
Voice of India**

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Effect of Demonetization on Indian Economy

At the stroke of the hour on midnight of 9th November 2016, India lost 86% of its monetary base. The print, electronic and social media has been praising Prime Minister's masterstroke by which he has reportedly destroyed the base of corruption in India. In this single move, the Government has attempted to tackle all the three issues affecting the economy i.e. a parallel economy, counterfeit currency in circulation and terror financing. There is no doubt that Prime Minister has pulled out a major coop and substantially enhanced his reputation as a strong leader.



The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step.

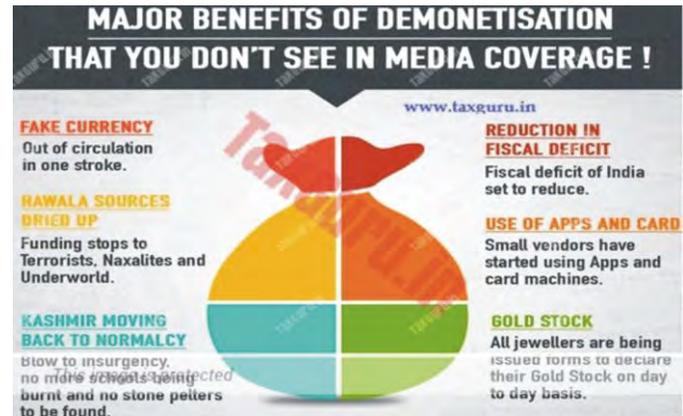
Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation. This is not tackle corruption per se or the Government is not saying that 100% corruption will be tackled. If announcement and time would have been given, this step might not have been successful in controlling black money and counterfeit currency in circulation coming from Pakistan, Nepal or other countries.

People are facing problems because the limit of withdrawal has not been kept at a higher level. If this would have been kept at a higher level, there were chances that the recycling of black money might begin. The ideal money in circulation has to come to the banking channels.

It is also being said that what is being attempted is replacement of currency and not demonetization itself which was unnecessary. This is a terrible setback for the international standing of the Indian economy. At this time, the economy is struggling with slowdown. There is demand sluggishness in the economy leading to practically no private sector investment and stagnant industrial growth

So far, it can be said that this is a historical step and should be supported by all. One should look at the bigger picture which will definitely fetch results in the long term. This is what the people have been asking for a long time which has finally happened.

Source: <http://www.insightsonindia.com/2016/11/16/big-picture-impact-demonetization/>



Source: <http://taxguru.in/rbi/6-major-benefit-demonetisation-do-not-see-media-coverage.html>

Demonetization Will Hit the Economy But Only For a While

The demonetization of the 500 rupee note and the 1,000 rupee note the two highest currency denominations available in India will likely hit the economy hard in the short term. The surprise move is expected to grind the consumption activity in the Indian economy to a virtual halt. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit.

India's economic growth

Growth in the Indian economy remained solid in the quarter from April to June 2016 (the latest available). In India, a financial year begins in April and ends in March of the following year. The previously mentioned quarter is the first quarter of fiscal 2016-2017. During that period, the GDP (gross domestic product) rose 7.1%, while the GVA (gross value added) rose 7.3%. The relationship between the GDP and GVA is:

$GDP = GVA + \text{taxes on products} - \text{subsidies on products}$

The base year for calculating the GVA is 2011/2012.

The fall in economic activity due to demonetization could last from two to three quarters. As a result, GDP and GVA growth in the quarters from September to December 2016 and January to March 2017 could be significantly lower than previous years. Some bounce back should be seen in the first quarter of fiscal 2017/2018. In the medium term, the Indian economy can grow considerably after curbing the debilitation caused by counterfeit money and an increase in economic activity.

Source: <http://www.morningstar.in/posts/38493/impact-of-demonetization-on-residential-real-estate.aspx>

SECTORIAL ANALYSIS

ORGANISED RETAIL SECTOR TO BENEFIT

The use of plastic money and transactions through online payments will continue to release the money into the retail market. As Indian retail segment generates a lot of cash transactions, there might be reduction in the sales over the next one or two quarters. However, the impact is felt more by the small traders and the unorganised retailing segment, rather than the organised retailers.

However, the use of plastic money and transactions through online payments will continue to release the money into the retail market.



In the medium-to-long run, domestic consumption will be stable owing to India's strong economic base and favourable demographics. Also, as more retailers encourage alternative/digital payment solutions, the market ecosystem will become more transparent and structured going forward.

Demonetization has resulted in visibly reduced low footfalls in shopping malls, but this effect is temporary and will turn around in few weeks as more currency circulates in the system and improves the purchasing power and appetite of the consumers.

The long-term growth story of the Indian retail sector continues to be one of resilience and growth.

Source:

<http://www.indiaretailing.com/2016/11/22/retail/expert-speak-impact-demonetization-indian-retail/>

THE HOSPITALITY INDUSTRY WILL BENEFIT ULTIMATELY

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.**

Often, the strong season for the hospitality sector in the country extends from October to March, which to a large extent defines the success for the industry in any given year. The lack of available currency will force some hospitality customers to either postpone / cancel their travel and accommodation or to **use hospitality products that easily allow the use of the other modes of payments.**

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.

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.**

Source: <http://jillapsites.com/real-estate-compass/2016/11/impact-demonetization-hospitality-industry/>

IMPACT OF DEMONETIZATION ON RESIDENTIAL REAL ESTATE FOR GOOD

The real estate sector will definitely be affected by the demonetization exercise, as it has traditionally seen a very high involvement of black money and cash transactions.

However, **almost all such incidences have been in the secondary sales market, where cash components have traditionally been a veritable 'must'. In other words, the resale properties segment will take a big hit.**

However, short-term pain is inevitable when we look for any eventual long-term cure for the disease. **There has for long been a strident demand to bring transparency in the sector so that it becomes more organized, and cash dealings must necessarily be the first symptom of the disease to be dealt with.**

The luxury and high-end segments of residential real estate will also see a major impact from this exercise, since it is another area which has seen a lot of payments done in cash. The legal banking/financing channels have accounted for only a small part of all transactions in this space. **The demonetization move is likely to result in luxury property prices dipping by as much as 25-30% as sellers struggle to offload properties to generate liquidity. This means that luxury home buyers will suddenly have a much wider bandwidth of options to choose from.**

With black money suddenly being wiped out of the market, a lot of investors who have been investing in projects with unaccounted-for money - and raising prices to book profits - will be eliminated from the system, thereby aiding a much-needed correction.

The primary market - or, more specifically, the market formed by projects undertaken by reputed and **credible developers in the top 8 Indian cities - will remain more or less unaffected.** This is because buyers into such projects take the home loans/finance route to buy their homes, and transactions are done through legal channels. Therefore, there will not be any major impact on sales in this segment.

In the past one year, there have been a few positive and potentially long-lasting changes in the Indian real estate. The passing of RERA (Real Estate Regulation and Development Act 2016), the Benami Transactions Act and now the demonetization move will ensure that going forward, the sector will lose much of its historic taint and become more transparent.

Only players who conduct their business with integrity will survive. This bodes well for end-users, who will be aware of their rights, have the assurance of not being cheated and will no longer need to contend with constantly rising prices. **They will be able to buy properties of their choice at affordable prices, in projects which will assuredly be delivered on time.**

The demonetization exercise was a very necessary step which was bound to bring with it a tremendous shake-up wherever black money has played a major role. Over the long term, the Indian real estate sector will emerge stronger, healthier and capable of long periods of sustained growth. As of now, there is no reason for developers and investors who have conducted their dealings transparently and legally to panic. It will essentially be business as usual for them.

EXPERT SPEAK

Demonetisation to Benefit Economy in Long Run, Says Arvind Panagariya

Niti Aayog Vice-Chairman Arvind Panagariya today said the government's demonetisation drive will leave a "very positive" impact on the economy in the long term as more people will move towards digital transactions. "You see its (demonetisation) impact in the long term. It will be very positive," he told reporters on the sidelines of Global Energy Dialogue organised by CII. In contrary to the Panagariya's views, many economists and analysts have expressed apprehensions that demonetisation may pull down the economic growth in the second half of this fiscal. Elaborating further, Panagaria said, "Financial intermediation has increased after deposits in bak accounts. This means the capital which was privately invested will now be invested through financial institutions.

Source:

http://economictimes.indiatimes.com/articleshow/55704656.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

DEMONETISATION TO HAVE POSITIVE IMPACT ON ECONOMY:

ADI GODREJ

The Chairman of the Godrej group also welcomed the step saying it would help combat black money and reduce corruption, while having a positive result on the economic front. "As far as the effect on the economy is concerned, it will have a considerable negative effect in the first few days after the policy was announced in November. But since then the situation has improved quite considerably and we are seeing a strong pick up in demand of many of our products now,"

Source:http://economictimes.indiatimes.com/articleshow/55704656.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

DEMONETISATION WILL HELP THE ECONOMY IN LONG RUN:HDFC BANK CHIEF ADITYA PURI

HDFC Bank managing director Aditya Puri today termed the demonetisation as a "necessity" which will benefit the economy in the long run by way of rate cuts, stopping counterfeiting and broadening the tax base. "We, at HDFC Bank, feel this is a laudable objective which will provide benefits to the economy and people in the long run," he said in a note to bank account holders. He said the demonetisation exercise announced by Prime Minister Narendra Modi on November 8 is a "necessity" to root out counterfeit notes, which have a direct correlation with terror funding. Stating that an effort is being made to ensure that people conduct their business in a fair and transparent manner, the veteran banker said a country cannot progress if less than 10 per cent of the population pays income tax.

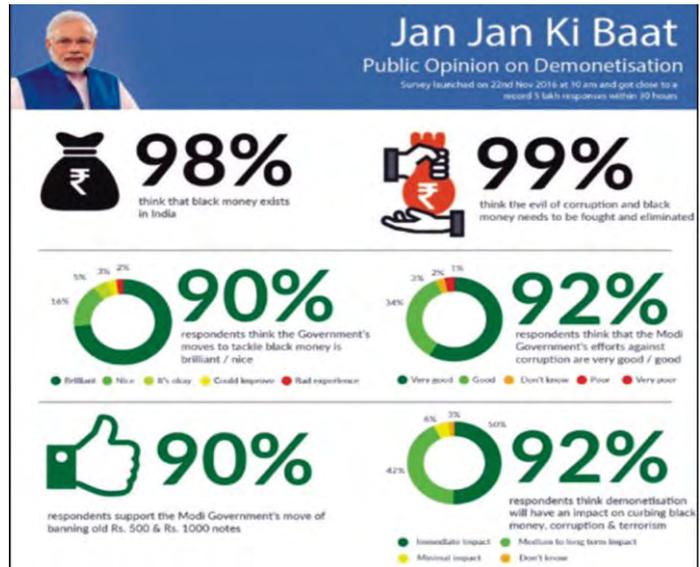
It will also help root out corruption and bring down the cost of banking services, he said. As part of the exercise, the government scrapped Rs 500 and Rs 1,000 banknotes from the midnight of November 9, and introduced new series of Rs 2,000 and Rs 500 notes. This has led to confusion and long queues to access own deposits.

Source:http://economictimes.indiatimes.com/articleshow/55579700.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

PUBLIC PERSPECTIVE FOR A CHANGE

'93 Per Cent' Backing Demonetisation on Narendra Modi App

Prime Minister Narendra Modi launched an app to survey public opinion regarding the demonetisation drive. As the results of the survey came up on Wednesday, it showed that majority of the people, as a matter of fact more than 90 per cent of them, were content with the Government's policy and believe that it is an effective measure to check black money.



Future of India After Demonetisation

Go Digital, Get Benefits

- Discount of 0.75% on digital payment at Central Government Petroleum PSUs
- 10% discount for toll payment on National Highways using RFID card/Fast Tags in 2016-17.
- Discount of 0.5% for monthly or seasonal tickets on digital payments from 1st Jan 2017 on suburban railway network
- Free accidental insurance upto Rs 10 lakh on buying online ticket in Railways
- Discount or credit of upto 10% on the insurance premium sold through the customer portals of public sector insurance companies on digital payment.
- Rural Regional Banks and Cooperative Banks to issue "Rupay Kisan Cards" to 4.32 crore Kisan Credit Card holders. Government will support this through NABARD.
- 2 POS devices will be deployed in 1 Lakh villages with population of less than 10,000. Government through NABARD will extend financial support.
- Central Government Departments & PSUs to bear transactions fee/MDR charges on digital payments. State Governments being advised to do the same.

Source: <https://twitter.com/narendramodi>