

 <p>ISSN NO. 2320-5407</p>	<p>Journal Homepage: - www.journalijar.com</p> <p>INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)</p> <p>Article DOI: 10.21474/IJAR01/xxx DOI URL: http://dx.doi.org/10.21474/IJAR01/xxx</p>	 <p>INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR) ISSN 2320-5407</p> <p>Journal Homepage: http://www.journalijar.com Journal DOI: 10.21474/IJAR01</p>
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RESEARCH ARTICLE

EFFECTS OF DIGITALIZING THE INDIAN ECONOMY DURING COVID-19

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Manuscript Info

Manuscript History

Received: 25 August 2020

Final Accepted: 28 September 2020

Published: October 2020

Abstract

Coronavirus outbreak, which was first reported in Wuhan, China on December 31, 2019 has been sending ripples across the globe and has amplified to the stature of an international health crisis. With lakhs of deaths and new cases being reported in a span of six months in varied countries, the virus has forced governments and administrations to take precautionary measures such as complete lockdown of the cities, and strict isolation for the reported cases. In this regard, my project seeks to study the devastating effect that this isolating and threatening lockdown has had on the Indian Economy, as well as the role of digital connectivity in supporting the economic base of India during the crisis. For this, I have studied the economic effects of digitalisation on the existing structures of Indian businesses, and have analyzed them in light of various factors that determine growth. The project is not just aimed at conducting a first-hand study of this rare crisis that the world is facing, but is also an innovative attempt to gauge the digital potential of Indian economy and present the data for the industries to revise and review their digital structures.

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Introduction:-

The ongoing spread of COVID-19 has become one of the biggest threats to the global economy and financial markets. To contain the impact of the coronavirus outbreak, India, like many countries across the globe, is taking several measures, including a nationwide lockdown; limiting movement of the entire population; shutting down public places and transport; and urging the public to stay indoors, maintain social distance, and work from home. The resulting economic disruption is huge and the short term decline in activity for businesses, both large and small, considerable. COVID-19 has been a largely disruptive factor when it comes to the economics of India.

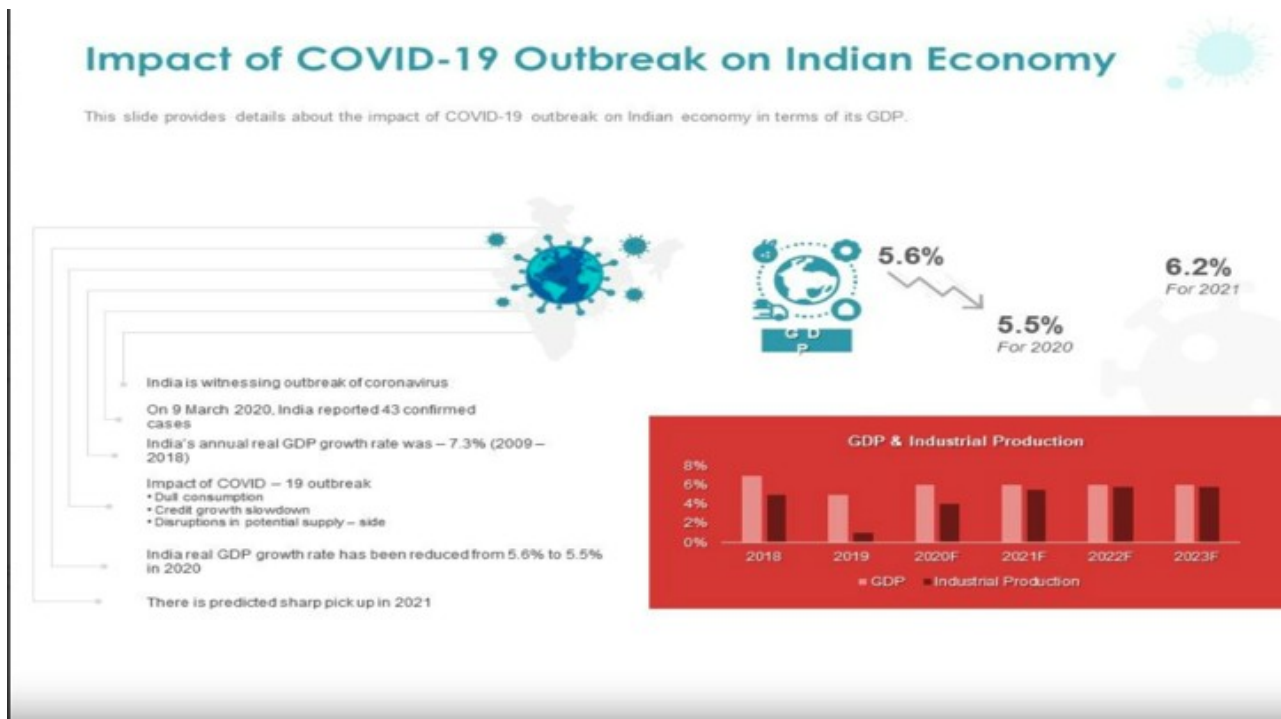
In the fourth quarter of the 2020 fiscal year, India's growth went down by 3.1%, according to the Ministry of Statistics. The Chief Economic Advisor to the Government of India has stated that this drop is the effect of the main causality, the widespread presence of SARS-CoV-2. The coronavirus pandemic has had a negative impact on the economy of the nation. Notably enough, the country had been experiencing a pre-pandemic slowdown economically as well, and the pandemic has helped in magnifying pre-existing risks present in India's economic outlook, as said by the World Bank.

Before the pandemic, rating agencies had revised India's economic growth for the fiscal year of 2021 as one of the lowest figures India has encountered since the 1990s economic liberalization of the country. However ever since the announcement of the economic package in mid-May, India's GDP estimates were downgraded further into the

negative figures, signalling a deep recession for the nation. CRISIL has announced that this could be India's worst recession period ever since its independence in the year of 1947.

State Bank of India's research has concluded that there may be over a 40% contraction in India's GDP, and may vary all over the country depending on the sector and state, among other parameters. Between the months of March and April, unemployment in the nation rose from 6.7% to 26%, by a factor of almost four times larger than pre-pandemic numbers. An estimated 140 million citizens have lost their employment status during the heavy lockdown that India was under for nearly three-month and continues to experience sporadically in certain states and regions.

Stock markets have a mind of their own, formed by the collective emotions and intelligence of millions. They are often skewed and aren't the best indicators of the underlying economy. Stock markets will have a strong recovery, not due to the fundamentals strength, but due to global liquidity which is available for almost free (as interest rates tend to near zero). Availability of debt capital will be scarce in India, whilst equity capital will be available in plenty over a period of time.



Business Impact:

The adverse effects of the COVID-19 pandemic are trickling down to major sectors of the Indian economy, with manufacturing, auto, retail, aviation and hospitality bearing the brunt of the lockdown. This in turn has affected fast-growing digital payments which are closely linked to the aforementioned sectors. Shut shops, travel bans and reduced discretionary spends by consumers (on dining out, movies and entertainment and so on) are further negatively impacting digital payments.











Digital payment volume declines are seen in airlines, tourism, hospitality, hotels, entertainment, e-commerce (non-essentials) and restaurants, among other sectors.





Further, cross-border payments, be they B2B or C2B, have significantly declined owing to the temporary shutting down of borders further, resulting in restricted movement of goods. International remittances too have been affected and have reduced.

However, there are also a few areas that are seeing an uptick in digital payments by way of increased adoption during the lockdown. These include online grocery stores, online pharmacies, OTT players (telecom and media), EdTechs, online gaming, recharges and utility/bill payments.

Digital payment volumes are also receiving a boost through the Government, which has pledged monetary assistance to the poor via direct transfers to bank accounts. The finance minister and the CEO of the National Payments Corporation of India have also urged people to increase the use of digital payments in order to make payments contactless. Digital payments, once a convenience, have become a necessity in these times. With a majority of the sectors that contribute to digital payments still in a state of flux, it is still too early to ascertain the long-term impact of COVID-19 on digital payments.

Sectoral Impact:

Sector	Impact	Remarks
Aviation		An acquirer with large exposure to the aviation industry is at risk due to the threat posed by increased refunds and chargebacks as flights are cancelled across the board.
Tourism and hospitality		Acquirers having large exposure to the hospitality industry will face headwinds as complete the lockdown restricts business to a very large extent.
Electronics and consumer durables		Volumes of payment companies having clients in the electronics and consumer durables segment will take a hit owing to the disruption in supply chains, delivery and demand.
Hotels and restaurants		The lockdown has caused severe loss of business for restaurants and hotels. The restrictions on travel have hampered the peak season for many. This in turn will have an adverse impact on payment volumes.
Physical retail (non-essential)		Non-essential physical retail has also taken a hit as forced closure has resulted in loss of business. Payment companies will see a marked decline in these transactions.
E-commerce (non-essentials)		Non-essential e-commerce businesses will be adversely affected as they prioritise essentials given the limited delivery bandwidth due to the lockdown.
Small and medium businesses and capital loans		Players with exposure to SMB and capital loans will be negatively impacted as working capital dries up for many players owing to temporary closure of businesses, impacting repayments and increasing the possibility of non-performing assets (NPAs).
Cross-borderpayments		Payment companies with large cross border transactions will be impacted as supply-side uncertainties, factory closures and trade barriers are affecting cross border trade.
Internationalremittances		International remittances will decrease as wages of Indians abroad would be negatively affected.
Payment fees – card schemes		Major card schemes have delayed the roll-out of their new interchange fee structure. Sectors like real estate and auto would see rate decreases, while growth sectors like e-commerce and mobile ordering would see a hike in fees. Overall network fees would decrease for card schemes.
Physical retail (essentials)		With concerns of transmission of the virus through the exchange of physical currency, digital payments at local grocery stores have increased. Payment players having exposure to this category stand to gain.
Telecom		Telecom companies will also see an increase in transactions as payments and recharges shift to digital channels. Further, the boost in demand for broadband internet services will also fuel the rise in transactions.
Insurance		Owing to the COVID-19 pandemic, insurers have seen a rise in digital payments as new and renewal policy payments are made online.
EdTech		The lockdown and shutdown of schools and educational institutions have proved to be a boon for EdTech companies, with an increase in demand for their services enabled by online payments.

Domestic remittances		The lockdown has caused severe loss of business for restaurants and hotels. The restrictions on travel have hampered the peak season for many. This in turn will have an adverse impact on payment volumes.
Healthcare/pharma		Payment players associated with the healthcare/pharma sector will see an increase in digital payments due to the COVID-19 pandemic.
E-commerce (essentials)		Players catering to online selling of essential items have seen a surge in transactions due to the lockdown. Payment processors having exposure to such retailers stand to gain in relative terms considering the current situation.
Government		Payments involving the Government(s) would increase on two counts: firstly, the financial aid provided by the Government via Direct Benefit Transfer (DBT) (G2P); and secondly, donations made to Government funds like PM CARES and PMNRF. P2G would contribute to an increase in digital transactions.

Economic Impact of COVID-19 on Different Sectors of India

This slide provides details about the economic impact of COVID-19 outbreak on several sectors of India. The impact is categorized in three categories, low, medium and high. Several sectors that are analyzed such as banking, investments, travel and tourism, retail, etc.



Adversely Affected Sectors:

1. Apparel & Textile will get hit adversely due to disruption in labour supply, raw material unavailability, working capital constraints and restricted demand due to limited movement of people and purchasing ability.
2. Auto sector (which includes automobiles and auto parts) will continue to face challenges on account of lack of demand, global recession and falling income levels.
3. Aviation & Tourism is one sector which has the highest probability of going under without direct government intervention. In the next 12 months, it's highly unlikely people will travel for leisure apart from very essential travel.
4. Shipping and Non-Food Retail – Non food retail chains and global shipping businesses will find this 12 month period very challenging.

FICCI Business Impact Survey:

The Covid-19 pandemic is having a deep impact on the Indian economy and industries within the Indian commercial markets. The magnitude and speed of collapse in economic activity that India has seen over the last few weeks is unprecedented and there is tremendous uncertainty about what the future holds for businesses and enterprises. Almost 72% of the respondents to the 'FICCI-Dhruva survey' have reported that covid-19 is having a 'high to very

high' level of impact on their business. Further, a substantial majority of the respondents do not foresee a positive demand outlook for their business in this fiscal, with 70% of the surveyed firms expecting a degrowth in sales in the fiscal year 2020-21. A vast majority also foresee a reduction in their business cash flows and company's order book. The survey clearly highlights that unless a substantive economic package is announced by the government immediately, we could see a permanent impairment of a large section of industry, which may lose the opportunity to come back to life again. Jobs are also at risk over the coming months as nearly three fourths of the surveyed firms said that they may look at some reduction in manpower in their respective companies.

FICCI said in a statement, "The survey clearly highlights that unless a substantive economic package is announced by the government immediately, we could see a permanent impairment of a large section of the industry, which may lose the opportunity to come back to life again."

The survey found:

1. In respect to the approved expansion plans, around 61 per cent of the respondents expect to postpone such expansions for a period of up to 6 or 12 months, while 33 per cent expect it to for more than 12 months.
2. Surveyed firms of around 60 per cent have postponed their fund-raising plans for the next 6-12 months. Also, nearly 25 per cent of the firms have decided the same.
3. Surveyed firms around 43 per cent have reported that they do not predict an impact on exports. Further, 34 per cent said that exports would take a hit by more than 10 per cent.

Questionnaire:

1. Which country is your company based in?
2. How have your business operations been affected by the pandemic ?
3. Do you think there is a risk that your business will permanently shut down because of this crisis, and if so, when could this closure occur?
4. Has the coronavirus (COVID-19) pandemic affected the ability to purchase inputs for your enterprise and/or sell outputs?
 - a) Difficulty accessing inputs domestically
 - b) Difficulty importing inputs from abroad
 - c) Lower domestic sales to consumers
 - d) Lower domestic sales to businesses
 - e) Increased domestic sales
 - f) Difficulty exporting
 - g) Improved exporting
 - h) Don't know
5. Has the coronavirus (COVID-19) pandemic affected your enterprise in any of the following ways?
 - a) Temporary shutdown
 - b) Employee absences due to sickness or childcare
 - c) Clients not paying their bills
 - d) Reduced logistics services
 - e) Reduced certification services
 - f) New problems with infrastructure, e.g. internet or roads
 - g) Increased administrative bottlenecks
 - h) Reduced investment
 - i) None of the above
 - j) Other, please specify:
6. Have you adopted any of the following strategies to cope with the crisis?
 - a) Temporarily reduced employment
 - b) Laid off employees
 - c) Rescheduling of bank loans
 - d) Increase marketing efforts
 - e) Online sales
 - f) Customized / new products
 - g) Filed for bankruptcy
 - h) Other, please specify:

7. Please select the top three government measures that would be most helpful as you cope with the COVID crisis.
- a) Employment programmes (e.g. temporary unemployment programmes or social security waivers)
 - b) Financial programmes, such as low interest credit line or credit guarantees
 - c) Tax waivers or temporary tax breaks
 - d) Reduction of tariffs on imported inputs
 - e) Rent subsidies
 - f) Cash transfers
 - g) Support to self-employed
 - h) Other services, please specify:
8. Does the business participate in international trade?
- a) No, we buy and sell within our country only
 - b) We import but do not export
 - c) We export but do not import
 - d) We export and import

Conclusion:-

To conclude, Covid 19 has brought the world to its knees shattering the businesses and economies worldwide. However, these challenges provide an opportunity for new businesses to flourish based on a new digital reality – completely digital and contactless. Digitalization has found a new meaning and it is going to reach more and more newer areas. The world is thinking about implementing ways and means to minimize the disruption caused to humanity. This is the perfect time to focus on digital transformation by realizing the necessities accelerating it. This of course will lead to a ‘lesser direct human interactive’ society but may be this is the way ‘nature’ wanted to tame us – the human beings, who have been doing enough damage to the universe in all possible ways. Like in the past, human beings will find new ways to counter this, but the new World is not going to be the same anymore – the emotions and togetherness of contacts attached in the business relationships will disappear and pave the way for a completely mechanized and digital relationship.

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