Focus of the Month: Impact of COVID-19 on MSMEs

Articles by:

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The MSME sector has been one of the most adversely affected sectors due to the ongoing coronavirus crisis. The sector is set to lose steam underpinned by a plethora of problems including severe disruptions in cash flows, lack of adequate working capital for wage bill payments & inventory management and delayed payments among others. Given the widespread pain which the sector is currently facing, the Atmanirbhar Economic Stimulus Package rightfully focussed on ameliorating its duress by announcing a host of noteworthy measures for the sector. The most significant of the lot were the provision of collateral-free automatic loans with 100 per cent government credit guarantee and change in definition of MSME. Encouragingly, the Rs 3 lakh crore collateral free loan for MSMEs has taken off well, with loans of around Rs 1.4 lakh crore sanctioned so far. In addition, the government’s clarion call for ‘Vocal for Local’ too carries the potential of transforming local businesses.

On the domestic front, recent high frequency indicators have indicated a material improvement as compared to the multi-year lows seen in April 2020. This could be an evidence of a return to positive growth in coming months as economic activity gathers pace. Though still early, these are indeed promising signs, pointing towards a recovery in the immediate aftermath of the lockdown. However, in order to nurture the nascent signs of recovery, it is important to continue with growth supportive measures. CPI Inflation has shown a persistent upward swing since December 2019 till now, underpinned primarily by rising food prices. This fiscal so far (April-June), CPI inflation has averaged 6.5 per cent as compared to 3.1 per cent in the same period last year. Notwithstanding the upward pressure on CPI inflation visible currently, we expect the pressures to abate going forward as kharif harvest hits the market coupled with favourable base effect kicking in the second half of the year and weak domestic demand keeping core inflation under check.

COVID-19 pandemic has struck a devastating blow to an already-fragile global economy. The fresh data trickling in from the major global economies has started to show the profound impact of the pandemic. However, as the economies are resuming their business operations after re-opening from the lockdowns, the high-frequency indicators coming in have started to show some signs of nascent recovery. Global manufacturing PMI improved to 47.8 in June 2020 from a low of 39.6 in April 2020. Services PMI also recorded an improvement to 48.0 from 23.7 over the comparable time periods. Baltic dry index, an indicator of global freight activity, has also moved up sharply in July 2020. However, it will remain to be seen, how sustainable this recovery will prove to be, given the fact that globally the count of Coronavirus cases is on a constant rise.

Chandrajit Banerjee
Director General, CII
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KEY MONTHLY DEVELOPMENTS

DOMESTIC TRENDS

- **Industrial Production:** Index of Industrial production fell 34.7 per cent in May 2020 as against the revised 57.6 per cent fall registered in April, recording some level of sequential improvement. On the sectoral front, there was a modest resumption in activity, especially in the second half of the month.

- **Manufacturing PMI:** The IHS Markit India Manufacturing PMI improved to the level of 47.2 in June 2020, from 30.8 recorded in May. Though the index continued to indicate a decline in the manufacturing sector health, the rate of fall was much softer than in previous two months.

- **Inflation:** Retail inflation (CPI) remained elevated in June 2020, standing at 6.1 per cent, as price of certain food articles, particularly cereals, milk and fish & meat among others, increased drastically in June. Wholesale inflation, on the other hand, remained in deflationary zone for the third consecutive month in June, though at a decelerated pace of 1.8 per cent.

- **Bank credit:** Bank credit growth stood at an anemic 6.1 per cent in 1QFY21 as compared to a robust 12.0 per cent in the same period last fiscal, mirroring muted demand and rising risk aversion.

- **EXIM:** The pace of contraction of merchandise exports narrowed sharply in June 2020 from the deep declines seen in Apr-May 2020, while imports continued to post large declines. Consequently, the trade balance turned surplus for the first time since 2002, at US$0.8 billion in June 2020.

- **Rupee movement:** Rupee is trading with an appreciation bias against the US dollar in July so far, despite remaining largely range-bound in the last couple of months. Rupee has strengthened by 0.8 per cent till 21st July from its end-June figure on robust FII flows.

- **CII Business Outlook Index:** The CII Business Confidence Index (CII- BCI) for Apr-Jun 2020 quarter fell sharply to its lowest level in more than 10 years, plunging to the level of 41.0 in Apr-Jun 2020 quarter as against the level of 53.4 recorded in the previous quarter.

GLOBAL TRENDS

- **IMF World Economic Outlook:** The IMF further lowered global growth projections in its recent World Economic Outlook (WEO) June 2020, by expecting the world output to contract by 4.9 per cent in 2020 as against the 3.0 per cent contraction forecasted in the April WEO update.

- **Gold Prices:** Gold prices have recorded a sustained northward trajectory since the start of the global spread of the novel coronavirus crisis. Price of the safe haven asset has increased from US$1,474 per troy ounce at their March 2020 low to stand above US$1,800 in July, recording a 22 per cent jump within a span of four months.

- **Global PMI:** All the major economies around the globe registered an improvement in their manufacturing and services sector activity in June 2020, when compared to May 2020, as businesses began to reopen amid looser COVID-19 restrictions.

- **Global Manufacturing Risk Index, 2020:** As per the annual Manufacturing Risk Index (MRI), by Cushman & Wakefield, China and US continued to be the most suitable destinations for manufacturing followed by India.

- **Global Peace Index 2020:** The latest Global Peace Index revealed that Iceland continued to remain the most peaceful country in the world followed by New Zealand, Portugal, Austria and Denmark. India’s rank on the index improved two places to the 139th spot.
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The MSME sector is one of the principal sectors that has been adversely affected due to the ongoing coronavirus crisis. The sector is set to lose steam and a significant drop in economic activities, due to the present pandemic, as travel curbs and closure of malls, theatres and educational institutes, are among steps aimed to control the COVID-19 outbreak in India. The sector is facing plethora of problems including severe disruptions in cash flows, lack of adequate working capital for wage bill payments & inventory management and delayed payments among others.

In order to assuage the pain of the MSMEs, a slew of measures was announced in the ‘Atmanirbhar Economic Stimulus Package’. Following is a brief snapshot of the measures announced for the MSME sector:

- **Emergency Credit Line** in the form of collateral-free, automatic loans worth Rs 3 lakh crore to Businesses/MSMEs from Banks and NBFCs. Upto 9th July, banks had so far disbursed Rs 61,987 crore (52 per cent of sanctioned) under this scheme to the MSME sector.

- **Rs 20,000 crore subordinate debt scheme for stressed MSMEs** in which promoters of the MSME will be given debt by banks, which will further be infused by promoter as equity in the Unit. Two lakh MSME units are likely to benefit from this scheme.

- **Equity infusion worth Rs 50,000 crore for MSMEs** through Fund of funds (FoF). FoF with a corpus of Rs 10,000 crore to be set up and operated through a Mother Fund and few daughter funds to help support viable MSMEs with growth potential.

- **Definition of MSMEs** revised. The revised MSME classification is as follows:
  - **Micro firms**: Investment<Rs 1crore and Turnover < Rs 5 crore
  - **Small firms**: Investment<Rs 10 crore and Turnover < Rs 50 crore
  - **Medium firms**: Investment<Rs 50 crore and Turnover < Rs 250 crore

- **Global tenders will be disallowed in Government procurement tenders up to Rs 200 crores**. This will be a step towards Self Reliant India and support Make in India.

In this month’s Focus of the Month, sectoral experts discuss the challenges and opportunities for the MSME sector in order to navigate its way out of the present crisis.
Self-Reliant India: The Call of Vocal for Local

Mr. Shreekant Somany
Chairman, CII National MSME Council and Chairman & Managing Director, Somany Ceramics Ltd.

After the clarion call by the Hon’ble PM for making a strong pitch on Vocal for Local and focussing on the importance of using products that are made in India, he asserted that the country needs a boost to its economy that can also simultaneously transform local businesses, khadi and village industries being a point in case. Immediately two thoughts came to my mind. On one hand there is a strong connect with the national theme and on the other hand it will have a great economic impact. The thought has already found significant traction within the business community.

In times of distress, it is important to step up and do everything we can to help revive the Indian economy and work towards equipping our businesses with the tools to tide through such circumstances. The best way to do this is by being completely self-reliant and calling for a new form of globalisation. By helping revive the Indian economy, we are helping create more jobs, transform business processes and strengthen efficiency.

There needs to be a greater focus on supporting local products. These products shouldn’t just be purchased but also actively promoted and marketed globally. We need to encourage local manufacturing to improve supply chains across the country and boost the economy.

As we start coming out from the pandemic, the market realignments are emerging strongly, and it would be quite prudent to work around this and revive the trust and confidence in our domestic industry. We have made several adventures since 1950 when we went the public sector way followed by the capital-based globalisation route of 1991. While that had put the country on a strong economic footing, entry of China into the manufacturing space put severe pressure on local businesses. Advent of Chinese goods put several industries out of business and China firmly established itself as the global manufacturing hub. Several aspiring nations missed the bus in the wake of this onslaught and were reduced to assembling. This pain has been felt globally.

While the current pandemic has hurt economies no end it has handed nations an opportunity to realign and redesign their global supply chain. The voice for plus one strategy has found a global resonance and India is seen as by many countries as a right fit which has been vying for this space for long. India under the current dispensation has been gradually moving towards this. The strong call of vocal for local is the right one at the right time which if implemented well will no doubt usher in growth and help job creation to a large extent.

If we look back at the last years, India has not been signatory to any noteworthy free trade deal and getting out of RCEP was also an important indication of sorts. We must admit the great resolve of this regime despite limited gains emerging out of Make in India. The fact that they have remained steadfast in their approach to promote indigenous manufacturing is praiseworthy and through vocal for local this has been taken to an altogether different level. The focus on Atmanirbhar Bharat has given a new dimension and revived the interest in Make in India although it has been misconstrued by many as smacking of protectionism. Atmanirbhar has two very important and distinct undertones….to take pride in domestic manufacturing and become globally competitive.

To my mind we aren’t rejecting globalisation while being vocal for local. This new vision is neither exclusionary nor isolationist. It is very important to note here that it is the local which has helped us survive this pandemic. By improving our local manufacturing and productive efficiency, we can compete with the world as well as help the world.

Is it difficult to make this happen? My answer to this question is yes. We have tried but may not have succeeded previously when this was an option. We have to succeed now because this has been forced upon us and failing is no longer an option. If we have to leverage this opportunity like many a nation has done during this pandemic, we need to seize this and do whatever it takes for us to succeed. The current opportunity is not just about China, but the stakes are much bigger and prominent this time.
The opportunity of global realignment when most of the nations are looking at spreading their risks is massive and will have far-reaching consequences for the future of all those nations vying for the alternate spot of manufacturing for the world. Japan has become the first country to acknowledge this over-reliance and has announced a package of 2.2 billion dollars to Japanese manufacturers to help them relocate their overseas factories, including bringing them back home. China has been entangled in a fierce trade war with the United States (US) which has led to a steep rise in the price of its goods in the US. India being the trusted partner of US for so many years, must capture this opportunity of inviting American companies to manufacture in India which will lead to enormous job creation in various areas of manufacturing. Every opportunity comes with its own set of challenges and the road to becoming the world’s factory is not all that easy for India. India is not alone in this economic race and a few other developing countries since the past few years have seen their manufacturing sectors accelerate and have been quietly going through economic booms. One of them is Vietnam, which has seen enormous growth over the past few years riding on its flourishing manufacturing sector and all this has happened in the last 20 years.

The opportunity is now, and we need to act fast. The mantra is to make industry competitive so that they can compete globally. While Government has taken significant steps for ease of doing business it is important that cost of doing business is also addressed on a war footing. Quality of Indian products has never been in question but the cost of doing business makes Indian products uncompetitive. Brand India storyline has to be promoted strategically across important markets for immediate wins. These wins will be critical in positioning Indian manufacturing globally. The time has come to usher in policies which promote local manufacturing and gives them wings to compete globally.
Tech Adoption and Digitization Imperative for MSMEs Rebound from COVID-19

Mr. Sameer Gupta
Co-Chairman, CII National MSME Council & Chairman & Managing Director, JAKSON GROUP

This year has brought the worst global crisis of the new millennium, leaving the world gasping and forcing restructuring of the global economic order. The growth path is driven by unique blend of surprises that have sprung up due to supply-demand mismatch and pre-existing conditions of the global macroeconomy.

MSMEs across the globe are the most hit and it is important for them to quickly recover from losses, cash flow and labour related challenges to compete both in domestic and international markets.

It is a well-known fact that leveraging technology is the only sustainable solution in all the aspects of the ecosystem including engagement with stakeholders, marketing, supply chain management, product innovation etc. We need to work on technology and reap benefit of the existing digital infrastructure of the country which can have positive ripple effects on the GDP growth and create large number of jobs.

Technology will play an important role in helping MSMEs to rebound fast and this challenging time actually offers opportunities in disguise, provided we have eye on the top spot. Our agility to reorient fast can actually lead to an increase of market share globally and we can re-position oursevles for greater success in this journey of recovery.

There has been a paradigm shift in the role of technology from just being an enabler of process and productivity to a more strategic role of being a key influencer so that we have competitive advantage.

Today, SMEs across the globe are focusing on innovations to build their path of competitiveness. It is critical for Indian MSMEs to focus on innovations which has potential to not only disrupt the global supply chain but also to have a strong footprint in global market.

Accessing latest technologies

The most formidable problem faced by MSMEs in India has been access to latest technologies to become globally competitive. We need to focus on development of affordable and commercially viable technological solutions for MSMEs in India which currently is at very nascent stage. Inability to upgrade to the latest technologies proves to be a major barrier for Indian MSMEs to integrate with global value chain.

The current adoption level of technology among MSMEs is not only slow but is also not up to the mark. The Technology Centers, Tool Rooms and R&D centers are neither easily accessible nor are modern enough to help MSMEs improve their competitiveness. We need to upgrade and customize them as per the industry needs as topmost priority.

Challenges in India on promoting Innovation and Technology Adoption

MSMEs in India need to look at technology as long-term investment and they need to understand the Return on Investment on technology adoption. The financial institutions need to bring special focus to work out an adequate funding mechanism which promotes investment by MSMEs in technology and they should be easily accessible. Non availability of information on credible database of technologies and source of technology providers, whether through government or private players remains a concern. Skill deficiencies because of lack of in-house skilled manpower and inefficient learning practices within the organizations are also a hinderance for growth of the enterprise.

Further lack of compelling collaboration between industry, R&D institutions and academic institutions, incubation centers and start-ups make it difficult for MSMEs to self-innovate or invest in innovative solutions. Today, there is virtually no “matchmaking” or integration between large firms / OEMs and MSMEs that can catalyze technological adoption in MSMEs.

CII’s Initiative for Technology Adoption & Deployment for MSMEs: Project CII TechSaksham

To bridge the existing gaps in technology adoption,
CII TECHSAKSHAM is a project that has been conceptualized to bring together technology companies to address the technological barriers faced by MSMEs and through their ecosystem support, provides affordable solutions, training and handholding for the MSMEs’ growth and expansion.

Aligned with the Ministry of MSME’s aspiration of generating value-added employment, the stated vision of TECHSAKSHAM aims to accelerate technology adoption for MSMEs so as to provide an impetus for them to be competitive on a global scale, increase their contribution to country exports and leverage cost efficiencies.

The TechSaksham project is working with all the stakeholders on a three pronged strategy: (i) Support in policy advocacy and interventions for better digital adoption among MSMEs, (ii) build a technology adoption awareness campaign and support indigenized technologies for MSMEs for adoption, (iii) handhold MSMEs with training, finding best fit solutions and support deployment of solutions.

**Policy Advocacy:** The CII National MSME Council has been engaging with the Government and specially Ministry of MSME to take forward the dialogue on accelerating Tech upgradation among MSME sector in India. We are advocating for well-structured and implementable policy initiatives as well as financial incentives for adopting emerging technologies.

In our recent discussions with the Government, we have put forth the following policy inputs for consideration:

- **Need for more Industry specific Technology Centers (TCs):** Ministry of MSME has a successful model of Technology Centres for providing short term and long-term training programmes apart from providing tools, consultancy and common facility support to MSMEs. It is also important that Public Private Partnership are formed to establish Technology centres, Tool rooms, and Research centres for MSMEs. This can be led by Ministry of MSME at Cluster level.

- **Start Ups – MSME Partnership:** To further promote R&D, CII recommends that the Government carves out a deep tech fund that can support start-up in emerging technology areas that require patent capital. These technologies produced by Start-ups can then be adopted by MSMEs at a subsidized cost through Digital MSME Scheme of Ministry of MSME and, such emerging technologies can be kept out of the ambit of investment in plant & machinery in the new MSME definition.

- **Making Third-Party Testing facilities** of global standards, available through government and large enterprises labs at subsidized cost for MSMEs

The U K Sinha committee report to RBI has suggested some excellent recommendations on accessing technology for MSMEs in India and CII TechSaksham will work with government to implement some of the action agendas. The committee has recommended for a **Technology Mission** for MSMEs, driven by Ministry of MSME and we are further suggesting naming it as **Technology Adoption Mission** for converging the efforts of various stakeholders for the technology upgradation of the MSMEs across the country.

Some of the aspects that CII TechSaksham can work with Ministry of MSMEs are:

a) Help develop a credible database of Technology Providers from Government Institution, Private organizations, Incubation centers, R&D centers, Testing laboratories, Starts-Ups which can be used by the MSMEs

b) Develop a Digital Maturity level assessment index on technology usage among MSMEs which can be used to evaluate MSMEs in various sectors and a rating mechanism can also be developed on the current technology penetration.

c) Leveraging CII’s international reach to identify current overseas foreign technologies and customise or indigenise them against the needs of the MSMEs in clusters.

d) Assisting the MSMEs who are willing to enter into collaboration with companies/ institutions having latest technology for transfer of design, training, etc.

e) There is an immediate need across all sectors in the MSME to reskill its entire workforce on new age technologies and digital tools that can increase their work efficiency, profitability and overall competitiveness. TechSaksham with its partners are working on creating modules on such advanced technologies

f) With the move towards digital transformation, the government needs to continue boosting its existing cybersecurity framework to be prepared against new breed of cyber-attacks. This can
be done by having innovative solutions based on stricter data security laws, stricter policies around cybercrimes, more awareness amongst industry and consumers and collaboration with technology security service providers.

g) Promoting environment friendly technologies and address issues relating to pollution control by industry including MSMEs such as common effluent treatment plants and promote energy efficient models.

**Awareness on Tech Upgradation:** There is a need to create a massive campaign around the objective of adopting emerging technologies. Adding to the objectives of the campaign, to address the challenges of MSMEs and have a functional interface for the Small & Medium enterprises, an online portal (www.ciitechsaksham.in) has been developed as well which is part of the project, which provides resources from technology providers, solutions to the challenges, case studies / testimonials, etc.

CII is also willing to work with the Ministry of MSME and Government to develop the **Technology Adoption Mission** which aims in changing the India MSME brand across the globe.

**Technology Adoption, Training and Handholding:** The use of advanced technology is directed to help the MSMEs reduce their operational cost, get better market access, automate their workflow and thereby increase their global competitiveness and ease their integration into the global value chain systems. The project has been working at MSME unit level in finding the best fit solutions, help & Banks have so far disbursed Rs 61,987 crore (52 per cent of sanctioned) under Emergency Credit Line Guarantee Scheme (ECLGS) for the MSME sector to train MSMEs, and handhold till adoption is completed.

CII is supporting this initiative through its 66 offices PAN India to address technology related challenges and handholding MSMEs.
The sequential improvement in industrial activity and exports, along with a host of other high-frequency indicators such as railway freight traffic, GST collections, peak power demand, indicate green shoots of economic recovery, which if nurtured well could help turn the tide and convert the current crisis into an opportunity. However, some indicators like index of industrial production still reflect the weakness imparted by the outbreak of COVID-19.

Industrial activity maintained the downward trend and continued to contract for the third consecutive month in May 2020, given that much of the economy was under varying degree of lockdown during the month. Index of Industrial production fell 34.7 per cent in May 2020 as against the revised 57.6 per cent fall registered in April 2020, recording some level of sequential improvement. On the sectoral front, there was a modest resumption in activity, especially in the second half of the month, as a result of which all the three sectors, manufacturing, mining and electricity generation, posted a less severe fall in output as compared to April 2020. On a use-based classification, a sharp uptick on a sequential basis was seen for capital goods, infrastructure/construction goods and consumer goods in the month of May 2020.

Retail inflation (CPI), meanwhile, remained elevated in June, standing at 6.1 per cent, as price of certain food articles, particularly cereals, milk and fish & meat among others, increased drastically in June. For April and May 2020, CSO estimated inflation rate of 7.2 per cent and 6.3 per cent respectively based on the methodology recommended by the Inter-Secretariat Working Group on Price Statistics in May 2020. Wholesale inflation, on the other hand, contracted for the third consecutive month in June 2020, though at a decelerated pace of 1.8 per cent. On the external front, merchandise trade posted a smaller sequential contraction in June 2020 as it fell by 12.4 per cent, to stand at US$21.9 billion. Imports too registered a decline in June, but the fall in imports was much steeper than exports, as inbound shipments contracted by 47.6 per cent, to stand at a meagre US$21.1 billion. Consequently, India’s merchandise trade balance turned to a surplus of US$0.79 billion in June 2020, a first in nearly two decades.
Sequential improvement in industrial output noted in May 2020

Industrial production improved on a sequential basis in May 2020, while still remaining lackluster, as much of the economy faced a lockdown with varied degrees of easing.

On a month-on-month basis, the index number improved to 88.4 in May from a lower (revised) 53.6 in April 2020. Going forward, though there might be more sequential improvement on cards, but modest demand and disrupted supply chains will be the bugbear.

Resumption of business activity bodes well for industrial output

On a sectoral basis, sectors displayed an improved performance across-the-board in May as compared to April as there was a modest resumption in activity, especially in the second-half of the month.

Within the manufacturing sector, a few industries achieved more than 75 per cent of their May 2019 production index level in May 2020. These include manufacture of food products, coke & refined petroleum, chemicals, and pharmaceuticals.

Sequential improvement seen in most of use-based categories

On a use-based classification, a sharp uptick on a sequential basis was seen for capital goods, infrastructure/construction goods and consumer goods in the month of May 2020.

High-frequency indicators have shown traction in June 2020 as compared to April-May 2020, as economic activity has picked up on an incremental basis. A clutch of indicators including GST collections, railway freight traffic, petrol consumption, peak power demand, electronic toll collections among others have all mirrored the incipient signs of recovery.

Use-based Classification of Industrial Production

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<th>Month</th>
<th>Primary</th>
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<th>Intermediate</th>
<th>Infrastructure</th>
<th>Consumer Durables</th>
<th>Consumer Non-Durables</th>
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</tr>
</tbody>
</table>

Source: Central Statistics Office (CSO) and CII estimates
Manufacturing PMI witnesses traction in June 2020

- India’s Manufacturing PMI stood at the level of 47.2 in June 2020, up from the reading of 30.8 in May- indicating that the manufacturing sector is moving towards stabilisation, with both output and new orders contracting at much softer rates than seen in April and May.

- Overall demand received little support from international markets, with new export orders falling for the fourth month in a row.

Core sector output showing signs of bottoming out

- The contraction in core sector output narrowed to -23.4 per cent in May 2020 from -38.1 per cent seen last month, thus signalling the bottoming out of production as economy is slowly limping back to normalcy.

- Going forward, we can expect the core sector to improve further as India entered into 'Unlock-1' phase from June onwards.

Aside from fertilizers, all sub-sectors record contraction in May 2020

- Of the eight sectors, only fertiliser production showed growth at 7.5 per cent after two consecutive months of contraction. The shrinkage in steel and cement showed the steepest decline at 48.4 per cent and 22.2 per cent, respectively in May 2020.

- Apart from crude oil, all other sub-sectors recorded an improvement in the magnitude of their sequential decline during the month.
CPI inflation breaches the RBI's upper end of target band

Consumer Price (CPI) and Wholesale Price (WPI) Inflation (y-o-y%)

CPI inflation in June 2020 came at 6.1 per cent, slightly above the upper end of the Reserve Bank of India's (RBI) target band of 2-6 per cent. However, this is down from 6.3 per cent and 7.2 per cent in May and April, respectively.

Notwithstanding the upward pressure on CPI inflation visible currently, we expect the pressures to abate going forward as kharif harvest hits the market coupled with favourable base effect kicking in the second half of the year and weak domestic demand keeping core inflation under check.

Even as food inflation sees moderation led by lower vegetable prices

- Food inflation fell to 7.9 per cent in June 2020 from 9.2 per cent for last month. The decline in food inflation was led by sharp fall in vegetable inflation – to 1.9 per cent in June from a high of 23.6 per cent in April when the nationwide lockdown had kicked in, resulting in massive supply disruptions.

- Core inflation as per our estimates is around 5.3 per cent in June 2020 as compared to 4.8 per cent in the last month. This is essentially driven by a rise in inflation in the healthcare index.

WPI inflation remains in disinflationary zone for the last three months

WPI inflation has remained in deflationary zone for the last three months now. In June 2020, deflation in WPI stood at -1.8 per cent as compared to -3.2 per cent in the previous month.

WPI inflation has remained in deflationary zone mainly due to large decline seen in fuel inflation. Inflation in primary products too has been in negative zone for the last three months now.
RBI has cut repo rate by 115 bps since February 2020 to stimulate growth

- The Reserve Bank of India has cut the key repo rate by a cumulative 115 basis points since February till June 2020 to reinvigorate the economy. Currently, the repo rate stands at a historic low of 4.0 per cent. Reverse repo, too, has been cut by a cumulative 155 basis points in the comparable period.

- However, the bank lending remains muted despite significant reduction in the policy rates by the RBI. Hence, the need of the hour is to reduce risk aversion in the banking system which will not be achieved by a further reduction in the policy rates.

10-year G-sec yields remain stable on surplus liquidity

- The banking system has been awash with surplus liquidity as a result of the liquidity infusion measures undertaken by the RBI in the aftermath of COVID-19 crisis. As a result, yields on the 10-year G-sec paper has remained largely stable, shrugging off fiscal concerns.

- In contrast, the yield on the 1-year G-sec paper, moved down marginally in July 2020 as risk aversion led investors to demand the shorter tenure paper.

Systemic banking liquidity remains in abundance

- Banking system liquidity continued to remain in a surplus position in July 2020 due to the liquidity infusion measures undertaken by the RBI in the aftermath of COVID-19 crisis.

- However, in July 2020, a narrowing of the liquidity surplus was seen from the highs seen in the earlier months.
Credit growth remains tepid on high risk aversion

Bank credit growth has continued to tread downwards reflecting muted demand and rising risk aversion. It stood at an anemic 6.1 per cent in 1QFY21 as compared to a robust 12.0 per cent in the same period last fiscal.

In contrast, bank deposits have remained healthy at 11.1 per cent in 1QFY21. In wake of deposits outpacing credit, banks have been parking their surplus funds in government securities and reverse repo window among others.

However, critical sectors are showing sequential improvement in credit offtake

The industry-wise data shows that the critical sectors of construction and infrastructure have now moved into the positive territory in May 2020. This is an encouraging sign and bodes well for economic recovery.

Credit disbursal to the gems & jewellery sector continues to languish in negative territory since March 2019. Credit to food processing also remains sluggish.

NBFC sector continues to see healthy credit disbursal trends

Credit off-take to the NBFC sector continued to remain healthy in the first two months of the current fiscal. This could be attributed to the fact that in funding crunch in the commercial paper markets, NBFCs have turned to the banks for their funding.

Credit off-take to the industry sector was stable at 1.7 per cent in May 2020 from the previous month. While credit off-take to the large industries showed an uptick in May 2020, micro, small & medium have been displaying tepid trend since the start of this fiscal.

Source: RBI
Domestic Trends

Pace of contraction in exports narrows in June 2020

- The pace of contraction of merchandise exports narrowed sharply in June 2020 from the deep declines seen in Apr-May 2020. Exports contraction stood at -12.4 per cent in June as compared to -36.2 per cent in the previous month.

- In contrast, merchandise imports decline remained steep at -47.6 per cent in June 2020, almost similar to -52.4 per cent in May. Subdued domestic demand underpinned the weakness in imports.

Trade surplus in June 2020, after a gap of 18 years

<table>
<thead>
<tr>
<th>April-Jun</th>
<th>(US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jun-19</td>
</tr>
<tr>
<td>Exports</td>
<td>25.0</td>
</tr>
<tr>
<td>Imports</td>
<td>40.3</td>
</tr>
<tr>
<td>Oil Imports</td>
<td>11.0</td>
</tr>
<tr>
<td>Non-oil Imports</td>
<td>29.3</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>-15.3</td>
</tr>
</tbody>
</table>

With a sharper decline in imports relative to exports, the trade balance turned surplus for the first time since 2002, at US$0.8 billion in June 2020 compared with a deficit of US$3.2 billion in the previous month.

Decline in oil imports moderated to -55.3 per cent in June 2020 from -72.3 per cent in the previous month driven by recovery in crude prices. Gold imports also saw a lower rate of decline of -77.4 per cent compared with -98.4 per cent the previous month.

Pain eases across major export sectors

- The magnitude of contraction eased across most of the major exporting sectors in June 2020. Agriculture and chemical products posted a positive export growth during the month.

- Exports recovered as domestic industrial activity partially resumed and many countries relaxed their lockdowns. Oxford Stringency Index noted that significant relaxations were noted in several economies in June.

Key Commodities-wise Export Performance (y-o-y%)

<table>
<thead>
<tr>
<th>Key Commodities-wise Export Performance (y-o-y%)</th>
<th>Apr-June</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jun-19</td>
</tr>
<tr>
<td>Agri &amp; Allied products</td>
<td>-14.6</td>
</tr>
<tr>
<td>Gems &amp; Jewellery</td>
<td>-10.7</td>
</tr>
<tr>
<td>Chemical products</td>
<td>3.2</td>
</tr>
<tr>
<td>Electronic goods</td>
<td>43.8</td>
</tr>
<tr>
<td>Engineering goods</td>
<td>-2.7</td>
</tr>
<tr>
<td>Textile products</td>
<td>-12.6</td>
</tr>
<tr>
<td>Petroleum &amp; Crude oil</td>
<td>-32.8</td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce, RBI & CII Research
Domestic Trends

Rupee appreciates against the US dollar in July

Net FII Inflows and Average Monthly Exchange Rate

Note: Data for June 2020 for both exchange rate and FII flows is till 21st July

COVID-19 takes the bite off FDI and ECB flows

- Gross FDI flows moderated in May 2020 from the previous month as the slowdown in investments due to COVID-19 put a brake on the flows. However, large flows coming under the various Jio platforms is expected to support FDI, going forward.

- ECB flows, too, have sharply slowed down to US$2.5 billion in Apr-May FY21 from US$6.6 billion in same period last year. This is mainly due to risk aversion to NBFCs and corporates.

Healthy foreign exchange reserves provide the much-needed cushion to the economy

- Strong inflow of foreign exchange has resulted from a trade surplus along with sustained inflows into the capital markets. As a result, the country’s foreign exchange reserves have climbed to above US$500 billion.

- The burgeoning reserves have ensured macroeconomic stability and the RBI has ensured that the exchange rate has not appreciated too sharply despite such strong inflows.
**CII’s business confidence index plunges to its lowest level in more than 10 years**

- The CII Business Confidence Index (CII-BCI) for Apr-Jun 2020 quarter fell sharply to its lowest level in more than 10 years, plunging to the level of 41.0 in Apr-Jun 2020 as against the level of 53.4 recorded in the previous quarter.

- The sharp slump in the BCI in the Apr-Jun quarter, was attributable to the even sharper decline in the Expectation Index (EI), which fell 32 per cent quarter-on-quarter, to the level of 37.7, as the COVID-19 led disruption in economic activity and demand made the outlook highly uncertain.

**COVID-19 has taken the wind out of Indian economy sails**

**Growth and Employment Expectations in 2020-21**

- **Expected GDP Growth in 2020-21 (% of Respondents)**
  - 16.8
  - 11.0
  - 10.4
  - 7.9

- **Expectation of Job loss in sectors in 2020-21 (% of Respondents)**
  - 18.1
  - 20.7
  - 28.2
  - 17.2
  - 15.5

- A major share of the respondents (40 per cent) felt that GDP growth will lie in the 0 per cent to 2 per cent range in 2020-21. On the other hand, a combined 47 per cent of the respondents were of the view that GDP growth may fall below 0 per cent.

- More than four out of five respondents (82 per cent) felt that job losses are inevitable in their sector in 2020-21, out of which, a major share (28 per cent) foresee 10 per cent to 20 per cent cut in employment.

**Capacity utilisation level remain subdued on lower demand**

- While a major share of respondents witnessed capacity utilization levels in the 75-100 per cent range in Jan-Mar 2020 quarter, more than half of the respondents (55 per cent) felt that capacity utilization would have dropped below 50 per cent in the Apr-Jun 2020 quarter.

- Major share of the respondents (33 per cent) were of the view that company operations are likely to become normal in the next 6 to 12 months while 38 per cent of the respondents had the same timeline in mind with regards to the normalcy in domestic demand conditions.

**Capacity Utilisation Levels and Expectation of Normalcy**

- **Capacity Utilization (% of Respondents)**
  - Below 50%
  - 50-75%
  - 75-100%
  - Above 100%
  - 28
  - 29
  - 28
  - 14
  - 4

- **Expectation of Normalcy (% of Respondents)**
  - Within 3 months
  - 3-6 months
  - 6-12 months
  - More than a year

Source: 111th CII Business Outlook Survey (Apr-Jun 2020)
Trends in Literacy Rate Across States

Literacy populace is a critical ingredient for gauging the developmental status of any country. Latest data of Periodic Labour Force Survey (PLFS) released for 2018-19, puts India’s adult literacy rate at 78.1 per cent as compared to 76.9 per cent in 2017-18. Importantly, based on literacy levels, unemployment rate for persons with secondary and above education level stood at 11.0 per cent during 2018-19 as against 11.4 per cent in 2017-18. The survey was conducted during July 2018-June 2019, covering 1,01,579 households (55,812 in rural areas and 45,767 in urban areas) and surveying 4,20,757 persons (2,39,817 in rural areas and 1,80,940 in urban areas).

Among the major states, Bihar and Punjab recorded lower literacy rate in 2018-19 as compared to the previous year, while Telangana and Andhra Pradesh were at the other end of the spectrum. However, it is pertinent to note here despite a healthy rate of increase in literacy rates, both Telangana and Andhra Pradesh saw lower rates than the overall national figure of 2018-19. In contrast, Kerala, at 95.0 per cent, saw the highest literacy rate among the major states in the country.

The state in focus for this issue is Uttarakhand. The hill state saw its economic growth moderating to 6.9 per cent in 2018-19 as compared to 7.8 per cent in the previous year on the back of sharp deceleration witnessed in the industrial growth. The latter slowed down from a healthy 9.0 per cent in 2017-18 to 5.1 per cent in 2018-19. Despite a moderation seen in its overall growth, the state government has taken major steps to improve the investment climate in the state, because of which, the ease of doing business ranking of Uttarakhand has improved over the years. Its performance on the various socio-economic indicators has remained mixed though, with infant mortality rate seeing an increase, while an improvement seen in the literacy levels.
Kerala continues to be have the highest literacy rate among the major states

<table>
<thead>
<tr>
<th>States</th>
<th>Literacy Rate (2017-18)</th>
<th>Literacy Rate (2018-19)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>65.9</td>
<td>69.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Bihar</td>
<td>72.5</td>
<td>72.4</td>
<td>-0.1</td>
</tr>
<tr>
<td>Chhattisgarh</td>
<td>77.1</td>
<td>77.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Gujarat</td>
<td>82.8</td>
<td>83.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Haryana</td>
<td>79.2</td>
<td>80.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>71.8</td>
<td>73.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Karnataka</td>
<td>75.7</td>
<td>78.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Kerala</td>
<td>94.5</td>
<td>95.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>74.0</td>
<td>75.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>82.0</td>
<td>82.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Odisha</td>
<td>76.2</td>
<td>76.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Punjab</td>
<td>82.2</td>
<td>81.7</td>
<td>-0.5</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>71.0</td>
<td>72.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>82.7</td>
<td>83.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Telangana</td>
<td>67.9</td>
<td>71.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>71.9</td>
<td>72.9</td>
<td>1.0</td>
</tr>
<tr>
<td>West Bengal</td>
<td>79.8</td>
<td>81.5</td>
<td>1.7</td>
</tr>
<tr>
<td>All-India</td>
<td>76.9</td>
<td>78.1</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Rajasthan has the worst gender gap in literacy rate in the country

- While the gender gap in literacy has narrowed substantially over the years, the male literacy rate still surpasses the female literacy rate by 14.1 percentage points. To put these numbers in perspective, the current gender-gap in literacy in India is more than twice the 2017 global average.

- Among the major states, Rajasthan is the worst performer in terms of the literacy gender gap, followed by Bihar and Uttar Pradesh. Kerala, West Bengal and Punjab are at the other end of the spectrum.

Higher education attainments still eludes most Indians

<table>
<thead>
<tr>
<th>States</th>
<th>Not literate</th>
<th>Literate &amp; upto primary</th>
<th>Middle to higher secondary</th>
<th>Diploma, graduate and above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>34.4</td>
<td>16.3</td>
<td>36.4</td>
<td>13.0</td>
</tr>
<tr>
<td>Bihar</td>
<td>35.3</td>
<td>16.3</td>
<td>42.2</td>
<td>6.0</td>
</tr>
<tr>
<td>Chhattisgarh</td>
<td>25.9</td>
<td>17.4</td>
<td>48.7</td>
<td>8.0</td>
</tr>
<tr>
<td>Gujarat</td>
<td>19.3</td>
<td>19.7</td>
<td>46.4</td>
<td>14.7</td>
</tr>
<tr>
<td>Haryana</td>
<td>22.7</td>
<td>15.0</td>
<td>46.2</td>
<td>16.0</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>32.7</td>
<td>15.4</td>
<td>43.2</td>
<td>8.8</td>
</tr>
<tr>
<td>Karnataka</td>
<td>24.3</td>
<td>16.0</td>
<td>52.3</td>
<td>13.7</td>
</tr>
<tr>
<td>Kerala</td>
<td>5.4</td>
<td>16.0</td>
<td>59</td>
<td>19.6</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>29.5</td>
<td>19.1</td>
<td>42.3</td>
<td>9.1</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>19.7</td>
<td>13.4</td>
<td>52.3</td>
<td>14.6</td>
</tr>
<tr>
<td>Odisha</td>
<td>27.5</td>
<td>18.8</td>
<td>45.6</td>
<td>8.1</td>
</tr>
<tr>
<td>Punjab</td>
<td>20.6</td>
<td>16.7</td>
<td>50.9</td>
<td>11.7</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>32.9</td>
<td>15.9</td>
<td>39.4</td>
<td>11.9</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>19.3</td>
<td>17.4</td>
<td>45.3</td>
<td>18.1</td>
</tr>
<tr>
<td>Telangana</td>
<td>32.6</td>
<td>7.9</td>
<td>43.4</td>
<td>16.1</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>31.8</td>
<td>12.6</td>
<td>43.8</td>
<td>11.7</td>
</tr>
<tr>
<td>West Bengal</td>
<td>21.0</td>
<td>27.6</td>
<td>42</td>
<td>9.4</td>
</tr>
<tr>
<td>All-India</td>
<td>25.4</td>
<td>16.7</td>
<td>45.4</td>
<td>12.3</td>
</tr>
</tbody>
</table>

Literacy is one of the most essential indicators of the quality of a country’s human capital. The latest PLFS data for 2018-19 puts India’s adult literacy rate at 78.1 per cent, an improvement of 1.2 percentage points over the previous year.

On the state-wise front, Telangana, Andhra Pradesh and Karnataka are the top three states in terms of seeing maximum improvement in their literacy rates in 2018-19 over the previous year.

Despite significant education reforms over the years, still, only a small percentage (12.3 per cent) of persons go on to study beyond the middle to higher secondary levels in India, as revealed by the PLFS data for 2018-19.

Among the states, Bihar has the lowest percentage of persons studying beyond the higher secondary levels, while the state also has the highest percentage of persons under the 'not literate' category. Kerala lies at the other end of spectrum for these parameters.
A lacklustre industrial sector pulls down growth of the hill state in 2018-19

- Economic growth in Uttarakhand decelerated to 6.9 per cent in 2018-19 as compared to 7.8 per cent in the previous year mainly on account of sharp moderation in industrial growth to 5.1 per cent, which has a major contribution in GDP.
- Agriculture sector growth increased to 1.9 per cent in 2018-19 as compared to 1.5 per cent in the previous year. Likewise, services sector growth also accelerated to 9.1 per cent during the said year.

Uttarakhand has made impressive improvement in its EoDB rankings

Ease of Doing Business Rankings

Provision of Infrastructure

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita availability of power (KwH hour)</th>
<th>Length of roads (in kms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>1136</td>
<td>52628</td>
</tr>
<tr>
<td>2014-15</td>
<td>1193.3</td>
<td>58714</td>
</tr>
<tr>
<td>2015-16</td>
<td>1252.9</td>
<td>60427</td>
</tr>
<tr>
<td>2016-17</td>
<td>1283.7</td>
<td>62945</td>
</tr>
<tr>
<td>2017-18</td>
<td>1327.1</td>
<td>61018</td>
</tr>
</tbody>
</table>

- The hill state has taken rapid strides in improving its investment climate and making it investor friendly. For example, it has implemented a web based single window clearance system for investors. Consequently, its ease of doing business rankings has shown a sharp improvement over the years.
- In conjunction with an impressive improvement in its ease of doing business rankings, Uttarakhand has also step-upped the provision of infrastructure over the years.

Performance on socio-economic indicators remains mixed

- Uttarakhand has seen a deterioration in its infant mortality rate (IMR) over the years as it has increased from 32 per thousand in 2013 to 38 per thousand in 2016. This has prompted the state government to work assiduously to ramp-up its neonatal infrastructure.
- With levels of literacy rate (78.8 per cent) higher than the national average and the presence of institutes of international repute, the state has abundant availability of quality human resource.
In light of the higher than anticipated fall in global economic activity in the first half of 2020, the IMF has further lowered global growth projections in its recent World Economic Outlook (WEO) for June 2020. As per the latest WEO, the world output is expected to contract 4.9 per cent in 2020 as against the 3.0 per cent contraction forecasted in the April WEO update. A synchronized deep downturn is projected in 2020 for both advanced economies (-8 per cent) and emerging market and developing economies (-3 per cent), including a 4.5 per cent fall in output expected for India. Over 95 per cent of countries are projected to have negative per capita income growth in 2020.

Further, this health and economic crisis has created a jobs crisis far worse than the one in 2008 as peoples working hours have plummeted and unemployment rates are soaring. According to the annual OECD Employment Outlook 2020, unemployment is set to increase to 9.4 per cent on an average across OECD nations in 2020, as against 5.3 per cent last year. However, in case of a second pandemic wave in late 2020, unemployment rate may increase even further to 12.6 per cent. The crisis is having a greater impact on some workers than others, with young people and women at greatest risk of joblessness and poverty given that they have less secure, unskilled jobs and are highly represented among workers in industries most affected by the crisis, such as tourism and restaurants.

Looking ahead, the economic recovery in 2021 is projected to be more gradual than previously forecast as world output is expected to be lower than pre-COVID forecasts, even though global growth may bounce back to 5.4 per cent. Given the deep distress caused by the pandemic, The IMF has projected a cumulative loss of over US$12 trillion to the global economy over two years (2020–21) from this crisis. On the jobs front as well, projections by OECD indicate only a gradual recovery in 2021, with the unemployment level expected to reach 7.7 per cent by the end of 2021 without a second outbreak, and 8.9 per cent in case of a second wave.
IMF further downgrades global growth projections for 2020; foresees a slower recovery in 2021

- The IMF has further lowered global growth projections in its recent World Economic Outlook (WEO) June 2020, citing a more than anticipated negative impact on global economic activity in the first half of 2020 due to the pandemic. Effectively, the world output is expected to contract 4.9 per cent in 2020 as against the 3.0 per cent contraction forecasted in the April WEO update.

- Growth in the advanced economies is now expected to shrink by 8.0 per cent while emerging markets are set to contract by 3.0 per cent, including a 4.5 per cent fall in output expected for India as against the previously forecasted expansion of 1.9 per cent. Further, the recovery in 2021 is projected to be more gradual than previously forecast.

<table>
<thead>
<tr>
<th>IMF World Economic Outlook, June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF Forecast</td>
</tr>
<tr>
<td>World</td>
</tr>
<tr>
<td>Advanced Economies</td>
</tr>
<tr>
<td>United States</td>
</tr>
<tr>
<td>Euro Area</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>Emerging Market and Developing Economies</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>Russia</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>India*</td>
</tr>
</tbody>
</table>

OECD projects worse job crisis than 2008-09

- According to the annual OECD Employment Outlook 2020, the COVID-19 pandemic has created a jobs crisis far worse than the 2008 financial crisis. As per the OECD projections, unemployment is set to increase to 9.4 per cent on an average across OECD nations in 2020, as against 5.3 per cent last year. However, in case of a second pandemic wave in late 2020, unemployment rate may increase even further to 12.6 per cent.

- Further, projections by OECD indicate only a gradual recovery in 2021, with the unemployment level expected to reach 7.7 per cent by the end of 2021 without a second outbreak, and 8.9 per cent in case of a second wave.

Gold prices skyrocket in 2020, cross US$1,800 per troy ounce in July

- Gold prices have recorded a sustained northward trajectory since the start of the global spread of the novel coronavirus crisis. Price of the safe haven asset has increased from US$1,474 per troy ounce at their March 2020 low to stand above US$1,800 in July, recording a 22 per cent jump within a span of four months.

- The heightened uncertainty regarding the course of the pandemic, mounted by the fears of a global recession in 2020 and the weakness in the dollar on account of ultra low interest rates, have prompted investors to pledge their money on gold.

Gold Price, USD per Troy Ounce

Note: Data pertains till 10th of July in the chart. As of date, gold prices have crossed US$1,900 per troy ounce.
Business activity improves in major economies as restrictions ease

All the major economies around the globe registered an improvement in their manufacturing and services sector activity in June, when compared to May, as businesses began to reopen amid looser COVID-19 restrictions. However, activity remained in the contraction zone for most of these economies as underlying demand conditions remained weak and companies continued to cut staff amidst low levels of capacity utilization.

China was the only economy that recorded an expansion in both manufacturing and services sector activity in June as new orders increased backed by firmer demand conditions in the country.

China continues to lead Global Manufacturing Risk Index while India ranks 3rd

As per the annual Manufacturing Risk Index (MRI), by Cushman & Wakefield, China and US continue to be the most suitable destinations for manufacturing followed by India, based on their ability to restart their manufacturing sectors once confinement measures are relaxed and businesses start to return to normal. The 2020 index ranks 48 countries on three aspects namely cost competitiveness, operating conditions and risk.

Among the three MRI subindices, India ranks 3rd on two of them, namely cost competitiveness and operating conditions, while it holds the 30th rank in the risk index, indicating some levels of economic and political risk in the country.

Iceland retains the 'Most peaceful Country' tag while India's rank improves by 2 places

The latest Global Peace Index reveals that Iceland continues to remain the most peaceful country in the world followed by New Zealand, Portugal, Austria and Denmark. This year's report notes that peacefulness deteriorated in 2020, with average country score falling by 0.34 per cent, as the COVID-19 pandemic enveloped the world in a new wave of tension and uncertainty.

India's rank on the index improved two places to the 139th spot as its commitment to UN peacekeeping funding improved significantly while military expenditure as a percentage of GDP fell. However, the past year was also marked with an increase in communal tension with the amendment of the Citizenship Act in December 2019.
The important policy announcements made by the Government/RBI and other major regulators in the month of July 2020 are covered in this month's Policy Focus. Our endeavour, through this section, is to keep our readers abreast of the latest happenings on the policy front and the implications of the same on the industry so that they can take informed decisions accordingly.

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<th>Area</th>
<th>Policy Announcement</th>
<th>Likely Impact</th>
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<tbody>
<tr>
<td>1.</td>
<td>Banking &amp; Finance</td>
<td>The RBI has extended the enhanced borrowing facility provided to banks, under the marginal standing facility (MSF) scheme, till September 30, 2020. The RBI had increased the borrowing limit of scheduled banks from 2 per cent to 3 per cent of their Net Demand and Time Liabilities (NDTL) with effect from March 27, 2020 as a temporary measure and the scheme was further extended till June 30, 2020 in view ongoing economic crisis. As a result, banks can continue to access overnight funds under the MSF against their excess SLR holding. The MSF rate currently stands at 4.25 per cent. Cash Reserve Ratio (CRR) at 80 per cent for a further period of three months till September 25, 2020 in an attempt to reduce the hardships faced by the banks in terms of social distancing of the staff and consequent strains on reporting requirements.</td>
<td>The move will help banks meet their liquidity shortages.</td>
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<td>2.</td>
<td>Financial Markets</td>
<td>The SEBI has relaxed the pricing norms for preferential issues of listed companies. The new pricing formula will enable the issuance of new shares at recent stock prices, after numerous complaints from market participants that the discovered price under the earlier formula was too high and was discouraging promoters. The new pricing formula for allotment of shares under preferential issue will be a volume-weighted average of weekly highs and lows for 12 weeks or two weeks-whichever is higher. SEBI has said that the pricing relaxation will be valid for issuances made until December 2020, but the shares issued under the new pricing norms will be locked in for three years.</td>
<td>The move will ease capital raising process for listed companies</td>
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<td>3.</td>
<td>Agriculture</td>
<td>As a part of the Atmanirbhar Bharat Abhiyan, the government launched the PM Formalization of Micro Food Processing Enterprises (PM FME) scheme to support micro food processing enterprises. Under the scheme, micro enterprises will get 35 per cent subsidy on project cost, with a ceiling of Rs 10 lakh. The beneficiaries will have to contribute at least 10 per cent of the project cost while the balance will come from loans. Nearly 2 lakh micro enterprises will get credit-linked subsidy support and the scheme will be implemented for five years until 2024-25.</td>
<td>The scheme is expected to generate Rs 35,000 crore worth investment, 9 lakh jobs and help 8 lakh units.</td>
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<td>4.</td>
<td>Agriculture</td>
<td>The government has notified two ordinances for barrier free farm trading. The Farmers’ Produce Trade and Commerce (Promotion and Facilitation) Ordinance allows intra-state and inter-state trade of farmers’ produce outside the government notified mandis. The Ordinance also permits electronic trading of farmers’ produce in the specified trade area. Private players, farmer producer organizations or agricultural cooperative society can establish and operate such platforms. The Farmers (Empowerment and Protection) Agreement on Price Assurance and farm Services Ordinance provides for farming agreements with private players prior to production for sale of Agri-produce at pre-determined price, quality and period of delivery. The ordinance also provides a framework for protection and empowerment of farmers with reference to sale and purchase of farm products.</td>
<td>The move is a step in the direction of ‘One Nation One Agriculture Market’ and it will help in barrier-free trading of agriculture produce.</td>
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<td>5.</td>
<td>Small business</td>
<td>The government has approved a 2 per cent interest subsidy scheme for Shishu loan account holders under the Mudra Yojana. Under the Shishu category, lenders provide borrowers with collateral free loans of up to Rs 50,000 and this scheme is applicable to loans that are outstanding as on March 31, 2020 and are not in the Non-Performing Asset (NPA) category. The scheme will be implemented through the Small Industries Development Bank of India (SIDBI) and will be in operation for 12 months. For borrowers who have been allowed a moratorium under the COVID-19 Regulatory Package, the scheme would start after the completion of the moratorium period till a period of 12 months i.e. from September 1, 2020 till August 31, 2021. For other borrowers, the scheme would be effective from June 1, 2020 till May 31, 2021.</td>
<td>The move will help small businesses tide over the distress caused by the lockdown.</td>
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<td>6.</td>
<td>Consumer Protection Act, 2019</td>
<td>The Consumer Protection Act, 2019 has come into force with effect from July 20, 2020 and it replaces the Consumer Protection Act, 1986. The Act seeks to revamp the process of administration and settlement of consumer disputes, with strict penalties, including jail term for adulteration and misleading advertisements by firms. It also proposes setting up of a Central Consumer Protection Authority (CCPA) to promote, protect and enforce the rights of consumers as a class. Further, the act envisages simplified dispute resolution process and has provision for mediation and e-filing of cases. Additionally, under the Act, every e-commerce entity is required to provide information such as return, refund, exchange, warranty and guarantee, delivery and shipment, modes of payment, grievance redressal mechanism etc, which are necessary for enabling the consumer to make an informed decision at the pre-purchase stage on its platform.</td>
<td>The Act will help empower consumers and help them in protecting their rights.</td>
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<td>7.</td>
<td>Civil Aviation</td>
<td>The Ministry of Civil Aviation Ministry (MoCA) has set up a single-window clearance mechanism to expedite various investment proposals in the domestic aviation industry. A 10-member Investment Clearance Cell (ICC), headed by Amber Dubey, Joint Secretary in the aviation ministry, has been mandated to serve as a single-window system for attracting investment. The ICC’s terms of reference include accelerating investments, bringing projects to the Empowered Group of Secretaries (EGoS) which require special incentive, policy interventions, expeditious clearances and systematic references, among others. The ICC will also identify policy and regulatory issues that come in the way of investments and engage with potential investors to bring the proposal for consideration of EGoS.</td>
<td>The move will help in promoting investment in the civil aviation sector.</td>
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<td>8.</td>
<td>Tax</td>
<td>The Central Board of Direct Taxes (CBDT) has notified that income from dividend, interest and long-term capital gains of sovereign wealth funds (SWFs), the Abu Dhabi Investment Authority and pension funds, through investments made in infrastructure companies – via debt or equity – in India will be exempt from income tax. Further, the definition of infrastructure has been widened to include sub-sectors of transport, logistics, energy, water and sanitation, communication, social and commercial infrastructure. The notification will come into force from the April 1, 2021 and shall be applicable for AY 2021-22 and subsequent assessment years.</td>
<td>The move would incentivise foreign investors to invest in thirty-four defined infrastructure sectors directly or through vehicles such as Alternate Investment Funds (AIFs) or Infrastructure Investment Trusts.</td>
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<td>9.</td>
<td><strong>Insurance sector</strong></td>
<td>The government has shelved the merger of the three ailing public sector general insurance companies - Oriental Insurance Company, National Insurance Company, and United India Insurance Company - and will work towards making them profitable instead. The Union Cabinet has approved capital infusion of Rs 12,450 crore into the three firms, of which Rs 2,500 crore has already been infused in February, while Rs 3,475 crore will be released immediately the remaining Rs 6,475 crore will be infused later. Further, the Union Cabinet also approved raising the authorised capital of National Insurance Company to Rs 7,500 crore and that of United India Insurance to Rs 5,000 crore to give effect to the infusion.</td>
<td>Given the current scenario, the merger process would have been difficult, and the government would have netted lesser than expected capital by listing the merged entity.</td>
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<td>10.</td>
<td><strong>Insurance</strong></td>
<td>The Insurance Regulatory and Development Authority (IRDAI) has mandated that sale, purchase, and pledge of equity in excess of 5 per cent of an insurance company's paid-up capital would require prior approval of the authority and any violation will attract appropriate regulatory and legal action. Further, IRDAI added that the provisions related to sale and purchase of equity will also apply on the creation of pledge or any other kind of encumbrance over shares of an insurance company by its promoters. Additionally, application of transfer of shares has to be filed through the insurance company concerned and any proposal for acquisition must be submitted for prior approval to IRDAI though the insurance company. In case of transactions without prior approval, the transferee will not have any voting rights in the meetings of the company and will be required to promptly dispose of excess shares acquired, beyond the specified threshold limits.</td>
<td>The notifications brings clarity on the share transfer process for an insurance company.</td>
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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government, and civil society through working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry.

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