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Gems & Jewellery: A Sector with High Potential

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Focus of the Month: Gems & Jewellery: A Sector with High Potential

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FOREWARD

Chandrajit Banerjee
Director General, CII

India's Gems and Jewellery (G&J) sector contributes approximately about 7.0 per cent to India's GDP and provides employment to more than 40 lakh people. It is one of the largest sectors globally, contributing 29 per cent to the global jewellery consumption. The sector is globally recognised for the craftsmanship and variety that it offers. Over the last three decades, this industry has undergone transformation, driven by industry initiatives, supported by some Government policies. The sector has immense scope for growth, fueled by both domestic demand as well as exports. To further bolster India's Gem & Jewellery brand, both within India as well as globally, the industry needs to build advanced manufacturing capabilities, focus on skill development and strengthen the retail infrastructure. Government support and enabling policies have gone a long way in ensuring that India's Gem & Jewellery Sector thrives and contributes to the economy. For instance, the Gem & Jewellery Export Promotion Council (GJEPC) and the Gem & Jewellery Skill Council of India (GJSCI) have been set up over the last couple of years, helping to strengthen the ecosystem.

India's current account stayed in surplus in the second quarter of FY2021 (Q2 FY21) but the quantum of surplus moderated to US$15.5 billion which translates into 2.4 per cent of gross domestic product (GDP) from US$19.2 billion (3.8 per cent of GDP) in the previous quarter. The reduction in surplus was driven by a widening goods trade deficit, even as imports started recovering from record lows. On the capital account front, the second quarter saw record net FDI inflows—the highest ever post-liberalisation. However, this is expected to narrow sharply in the second half, driven by continued recovery in import growth. While export recovery has been uneven, import growth has consistently improved, as domestic demand is normalising. Meanwhile, there is encouraging news coming from the high-frequency data points as they continued to show a recovery for December. Manufacturing PMI recorded expansion for the fifth consecutive month in December, while GST collections for the month also rose to a record high, growing by 11.6 per cent on a sequential basis.

As the availability of a vaccine has become a reality globally, OECD in its latest Economic Outlook has projected the global growth to contract by a less severe 4.2 per cent in 2020, as against the earlier projection of a 4.5 per cent decline in output. However, the multilateral organization warned that governments will have to continue using their policy instruments actively, with better targeting to help those hit hardest by the pandemic. India is expected to see a decline in output to the tune of 9.9 per cent before bouncing back to 7.9 per cent growth in the next fiscal. There is some grim news on the quality of growth expected though with India dropping two ranks in the latest United Nations' Human Development Index rankings. It ranked 129 out of 189 countries which saw Norway topping the charts.

Chandrajit Banerjee
Director General, CII

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KEY MONTHLY DEVELOPMENTS

DOMESTIC TRENDS

- **Industrial Production:** The index of industrial production expanded for the second consecutive month in October 2020 as output accelerated to a higher-than-expected 3.6 per cent, as compared to a growth of 0.5 per cent (revised higher) seen in September.
- **Manufacturing PMI:** The Nikkei Manufacturing Purchasing Managers' Index remained stable at 56.4 in December 2020 from its value of 56.3 in the previous month. This reading further lends credence to the fact that the economy is on a mend supported by enabling policy measures.
- **Inflation:** Consumer price index (CPI)-based inflation softened to 6.9 per cent in November 2020, after having reached a 77-month high of 7.6 per cent in October 2020, led primarily by food prices, which have subsequently cooled off.
- **Bank credit:** Scheduled commercial banks credit stayed stable at 5.7 per cent in November 2020. The credit demand has recovered from the lows of 5.1 per cent seen in September 2020 and is indicative of revival in the domestic demand.
- **EXIM:** Merchandise exports moderated for the second consecutive month in November 2020, exhibiting a steeper contraction of 8.7 per cent as compared to -5.1 per cent in the previous month, while imports slumped further to -13.3 per cent from -11.5 per cent seen in the previous month.
- **Current account:** The current account surplus moderated from US$19.2 billion (3.8 per cent of GDP) in Q1FY2021 to US$15.5 billion (2.4 per cent of GDP) in Q2FY2021, primarily on account of a rise in the merchandise trade deficit.
- **Foreign flows:** Foreign direct investment (FDI) inflows climbed to US$6.9 billion in October 2020 from US$4.3 billion seen in the previous month, in contrast, ECB flows moderated to US$2.0 billion during the comparable time period.
- **CII Business Confidence Index:** The CII Business Confidence Index (CII- BCI) for Oct-Dec 2020 maintained the uptrend, recording another quarter of upbeat business sentiment. The index soared to the level of 62.9 during the Oct-Dec 2020 quarter, recording an improvement of 25 per cent over the previous quarter’s reading of 50.3.

GLOBAL TRENDS

- **OECD Economic Outlook:** Organisation for Economic Co-operation and Development (OECD) expects GDP growth to contract by a less severe 4.2 per cent in 2020, as against the earlier projection of a 4.5 per cent decline in output, mainly on the prospects of vaccination campaigns, concerted health policies and fiscal support raising hopes of a quicker recovery.
- **Asian Development Bank Outlook:** Asian Development Bank (ADB) projects developing economies in Asia to contract by 0.4 per cent in 2020, lower than the earlier forecast of 0.7 per cent contraction.
- **Global Trade in Merchandise and Services:** The latest trade data by UNCTAD reveals that global merchandize trade is expected to decline by 5.6 per cent in 2020- marking the biggest fall in merchandize trade since 2009. However, this projection is slightly more optimistic than the earlier forecast of a 9 per cent contraction.
- **Human Development Index 2020:** The latest Human Development Index, by the United Nations Development Program UNDP has ranked Norway in the top spot, while Ireland and Switzerland are jointly placed in the second spot with equal HDI scores. India's rank on the Index fell 2 places, to stand at 131, despite a relative improvement in HDI score over last year.
- **Human Freedom Index 2020:** As per the recent Human Freedom Index, New Zealand continues to hold the prime position as the freest economy of the globe for the seventh consecutive year, followed by Switzerland and Hong Kong. India has slipped 5 spots on the index to rank at 111 amongst 162 countries.
- **Global Terrorism Index 2020:** The annual Global Terrorism Index report which is published annually by the Institute for Economics and Peace (IEP), continues to place Afghanistan in the numero uno position. India's rank remain unchanged at the 8th position, among 163 countries globally.

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FOCUS OF THE MONTH

Gems & Jewellery: A Sector with High Potential

The gems and jewellery sector plays a significant role in the Indian economy, contributing around 7 per cent to country's GDP and 15 per cent to India's total merchandise export. India's gems and jewellery sector is one of the largest in the world, contributing 29 per cent to the global jewellery consumption. The sector is home to more than 300,000 gems and jewellery players. Its market size will grow by US$103.06 billion during 2019-2023.

Given this potential the industry has taken the lead in building a brand for India's gem & jewellery sector. The focus is on collectively positioning the favourable aspects of the sector, especially in the context of the new and emerging global as well as domestic demand. The industry needs to be aware of its strengths and weaknesses and highlight the strengths. For example, India is known for the it's cutting and polishing in gems & jewellery. Though this is because of the availability of cheap labour, the strength itself needs to be emphasized, while the weaknesses are addressed over the next 3 to 4 years.

Further, the gem & jewellery sector has the potential for India to fuel the Atma Nirbhar Mission while making India for the world. Unfortunately, this shining gem of India has been slowly losing its sheen and has been unable to harness its full potential. The sector faces several challenges such as lack of industry status, inadequate talent retention programmes, unorganized nature of market, access to finance, lack of transparency among others, that need to be addressed. These challenges encompass industry level issues as well as policy related matters. Addressing these will require concerted efforts from the sector's stakeholders such as manufacturers, retailers and the Government. It will also require industry-government collaboration.

Given the importance of the gem & jewellery sector for India's economy, this month's Focus of the Month has analysis of the growth drivers and challenges facing the sector.

Economic Integration of the Business of Gold

Mr. Rajesh Khosla
Chairman, Sub-Group on Gold Policy under CII Task Force on Gems & Jewellery and Chairman Emeritus, MMTC Pamp

Introduction of the Gold Control Act in 1962 had the effect of killing the official gold market. For close to thirty years gold got associated with black money and corruption. Repealing the Gold Control Act in 1990 and liberalising import of gold in 1997 as part of the liberation policy were signs of restoring economic respectability to gold, culminating with Niti Aayog's 2018 magnum opus on Transforming India's Gold Market.

While liberalization was largely a success, the imports of two commodities in particular—crude oil and gold—exposed India to an account deficit from which it has never recovered. Oil is an everyday necessity. Gold, on the other hand—notwithstanding the cultural affinity for it, or the numbers employed in the jewellery manufacturing and retail sector—is seen as a luxury good. As an alternative to paper currency, gold is often favoured for money laundering and illicit trade. It is a high-value, easy-to-transport mineral, making it vulnerable to smuggling and an ideal target for armed groups.

When viewed as an asset class, gold jewellery provides safety and security for women, and liquidity under difficult circumstances. Because of the huge demand for gold jewellery, gold is also a large industry, with employment potential for a country like India where unemployment is large.

However, since India does not produce gold domestically, the Indian economy will always have to pay for gold through dollar outflows. More significantly, the industry is largely an informal sector, the business practices of which are associated with economic ills of tax evasion and money laundering, bringing the entire trade into disrepute.

India's large gold holdings, estimated at 25,000 tonnes or so, make it the largest above-ground gold mine in the world. The ability to mobilise some of these above-ground holdings can address reducing non-essential imports like gold, help manage its current account deficit better, while simultaneously encouraging Make in India in this sector.

Thus, India's struggle to find a policy coherence that balances the cultural thirst for gold with macro-economic pressures and enforcement vulnerabilities that enable illicit activity.

Economic integration of the gold value chain transcends a pro-gold or pro-gold business policy. What does economic integration mean exactly? For India most importantly it must mean a market that has trust and credibility, quality and conformity throughout the business value chain.

The participants in the value chain, viz. Banks, Refiners, Nominated Agencies, Bullion Merchants, Jewellers, Artisans, Assay & Hallmarking Centres, Trade Associations, need to adopt a proactive mind set to take the lead in the journey of gold's economic integration. Key areas of an industry driven proactive approach are:

i) Gold of today is associated with smuggling, tax avoidance and money laundering. Gold of tomorrow must demonstrate engaging with tax more effectively. Industry associations have the ability, responsibility and commitment to play a significant role in enhancing tax compliance in a largely unorganised sector and must take the lead.

ii) Gold of tomorrow must be an economic powerhouse, leading the charge with value-add exports and import substitution. Increased value addition on exports of gold jewellery, as distinct from merely increasing low value-addition export volumes, is key. Higher value addition requires greater focus on design, craftsmanship, consistency in quality, all of which get translated to enhanced skills in the domestic market, which in turn will enable more exports.

iii) Gold of today lacks financial inclusion. Currently financial inclusion is limited to pledging gold jewellery as collateral for a Rupee loan. Yet to reach double digits, digital purchase of gold is becoming increasingly popular among the digital savvy millennials, who value its convenience. Gold Savings Account is still in its infancy and has some time to go before it is features as a regular portfolio investment. The key is to unlock the value of digital gold holding by making it on par with any other financial instrument, i.e. converting it into a tradeable financial asset. Lots more regulatory homework needed, but definitely the way forward.

iv) Gold jewellery industry is still primarily an unorganised sector, with poorly trained resources, leading to leakage and low quality. Industry needs to introspect, recognise and develop business practices at par with global trade practices. Jewellery trade associations must take the lead in organising workshops for skill development of karigars, including exposure to new manufacturing techniques.

v) With Bureau of Indian Standard (BIS) finalising its standard for Good Delivery Gold and Silver bars, industry must create and manage the Good Delivery eco-system, a self-regulating mechanism drawn on the lines of the globally accepted benchmark, the London Bullion Market Association Good Delivery system. This is a key enabler for financial inclusion.

vi) Almost twenty percent of the world's mined gold raw material is produced by artisanal miners and their informality, and in many cases illegality, make them vulnerable to corruption and violence. The refinery industry needs to be cognizant of the reputational risks associated with the likely sources of raw material. If gold is being illicitly mined or traded along its journey from a producing country to India—whether or not it picks up legal paperwork along the way—it remains a tainted product. Sourcing practices should align with the OECD Due Diligence Guidance.

Economic integration is the outcome of dedicated effort across the value chain, based on achieving demonstrable goals with sincerity and commitment. Industry-led initiatives, sincerity of effort and results achieved will facilitate a sympathetic regulatory environment and will enable gold to restore its rightful place in India's economy.

An Overview of Gems & Jewellery Sector in India

The Gem & Jewellery sector is truly India's sparkling gem that contributes about 7.0 per cent to the country's Gross Domestic Product (GDP), employs over 4.64 million people and is responsible for about 16.0 per cent of the country's total merchandise export. Being one of the largest exporting sectors, the gems and jewellery (G&J) industry plays a key role in India's economy, contributing a large percentage of the total foreign reserves of the country. During Financial Year, 2020 the net exports of the sector stood at US$29.01 billion. Industry experts estimate that import duties on gold alone contribute close to Rs 56,000 crores per annum to the exchequer.

As the world's largest centre for cut and polished diamonds, annually India processes about 1 billion pieces of diamonds valued at US$23 billion. India is deemed to be the hub of the global jewellery market because of its low costs and availability of cheap labour.

Not only does India export 75 per cent of the cut and polished diamonds, the country also contributes to 29 per cent of the global jewellery consumption. The sector is home to more than 300,000 gems and jewellery players. Several of these players have developed capabilities for mass produced diamond jewellery designed for Europe or US as well as exquisitely crafted designer jewellery in plain gold or studded with diamonds and coloured gemstones.

India also counts amongst the largest gold jewellery exporters of the world, with almost 160 countries buying from India. India boasts of close to 20 unique jewellery making styles. Globally, thus, the sector is renowned for its handmade jewellery, with specialisation in areas such as kundan, temple and meenakari, not available anywhere else in the world. India's gold jewellery exports of US$11.99 million, thus largely comprise of handmade jewellery. Whereas India's imports of about US$290.36 million comprise of high-end or machine-made jewellery.

Pre-COVID growth estimates for the sector stood at a market size of US$103.06 billion by 2023, with the domestic jewellery market growing at a CAGR of 5.6 per cent during FY18-23. The cumulative foreign direct investment (FDI) in diamond and gold ornaments stood at US$1.17 billion between April 2000 and March 2020, with domestic companies also increasingly investing in India by expanding their business.

However, the sector continues to remain besieged by a host of challenges which has prevented the sector from realising its true potential. Addressing these will require concerted efforts from the sector's stakeholders such as manufacturers, retailers and the Government. It will also require industry-government collaboration. The key challenges faced by the sector have been captured below:

1) **Fluctuating Gold Prices:** Fluctuating gold prices amid increasing gold smuggling have led to increased prices, which is further impacting sales. In an already negatively charged environment, retailers are expecting export order cancellations, specially from USA, UAE and other large buying markets.

2) **Transparency & Trust:** Since a jewellery purchase is often an expensive affair and is considered an investment by the buyer, trust, transparency and fair price become major decision-making factors. It does not help that this sector in India largely fragmented comprising mainly of small, unorganized players. The perceived lack of transparency, customer doubts and lack of knowledge on how to assess value

of the product purchased add to the buyer's discomfort. Implementation of hallmarking introduced by the Government of India and collection of data remain a challenge given the unorganised nature of the sector.

3) **Unorganized, Fragmented Nature:** The fact that G&J sector is not considered a manufacturing activity and is also counted as a luxury item, makes it a low priority on the government's agenda. This is one of the reasons for this sector to continue to remain largely unorganised and fragmented. However, in the recent years, India is now beginning to move towards branded jewellery and modern retail formats, bringing in a semblance of an organised sector. However, national level retail chains are only about 4 to 5 with another 10 to 15 regional chains totalling bringing in their fold about 1500 stores.

4) **Lack of Industry Status:** Since this sector has not been granted a manufacturing industry status, thousands of workers are often deprived of benefits such as ESI, PF. It also restricts G&J companies' access to banking finance. Granting it a priority sector status, would encourage growth through increased financial credit availability. Though small, often jewellery companies fall out of the ambit of MSMEs definition, given that this is a high value item. A specific definition of MSMEs for this sector is thus necessary to give a boost to the sector.

5) **Talent Upgradation and Retention:** The unorganized and fragmented nature of the industry has made it difficult to retain talent and attract new talent to the sector. The industry's biggest assets – the kaarigars, often have to work in very difficult conditions and are often not entitled to benefits and government welfare schemes. Moreover, most karigars develop visual problems due to the intricate nature of work. Due to all these reasons, the younger generation of Karigars prefer to work in other domestic services instead of being craftsmen.

   Moreover, increasing buyer inclination towards custom, machine made jewellery requires kaarigar skill upgradation, to enable them to work with new technologies. They need to acquire certifications for the new skills, while retaining their traditional expertise and artistic appeal for the industry to remain globally relevant. However, smaller companies often do not have the resources to invest in Karigar training, leaving much to be desired.

6) **Manufacturing Capability:** Globally, jewellery is considered a luxury item and therefore a non-essential purchase. Thus, buyers often defer their purchase or buy cheaper substitutes such as custom/designer jewellery, when in a situation where they really need to buy. This has led to an increased share of international purchases shifting to Thailand and China, where manufacturers have changed their man-machine mix to deliver customized-handmade jewellery.

   While India has made a small start, deploying more machines in both precious and semi-precious jewellery is now a necessity for survival. Lack of technological advancement impacts productivity, design capabilities, product quality & standardisation. Indian companies need to draw a balance between low-cost, high-volume, machine-made jewellery and high-value handmade jewellery.

7) **Government Policy:** Unlike countries such as China and Vietnam, India has not been able to use its Special Economic Zones (SEZ) policy to either move up the value chain into high-value manufacturing or increase exports, attract greater FDI or integrate into the global value chains. The sector has thus been recording a declining trend since the beginning of FY 2019-20 due to various domestic as well as global challenges such as rise in import duty on precious stones, tightening of lending terms by banks, stringent customs inspection procedures, sluggish import demand and withdrawal of GSP benefit by USA amongst others.

8) **Access to Finance:** All these challenges together become a roadblock in G&J companies' access to finance, which further creates a slew of challenges

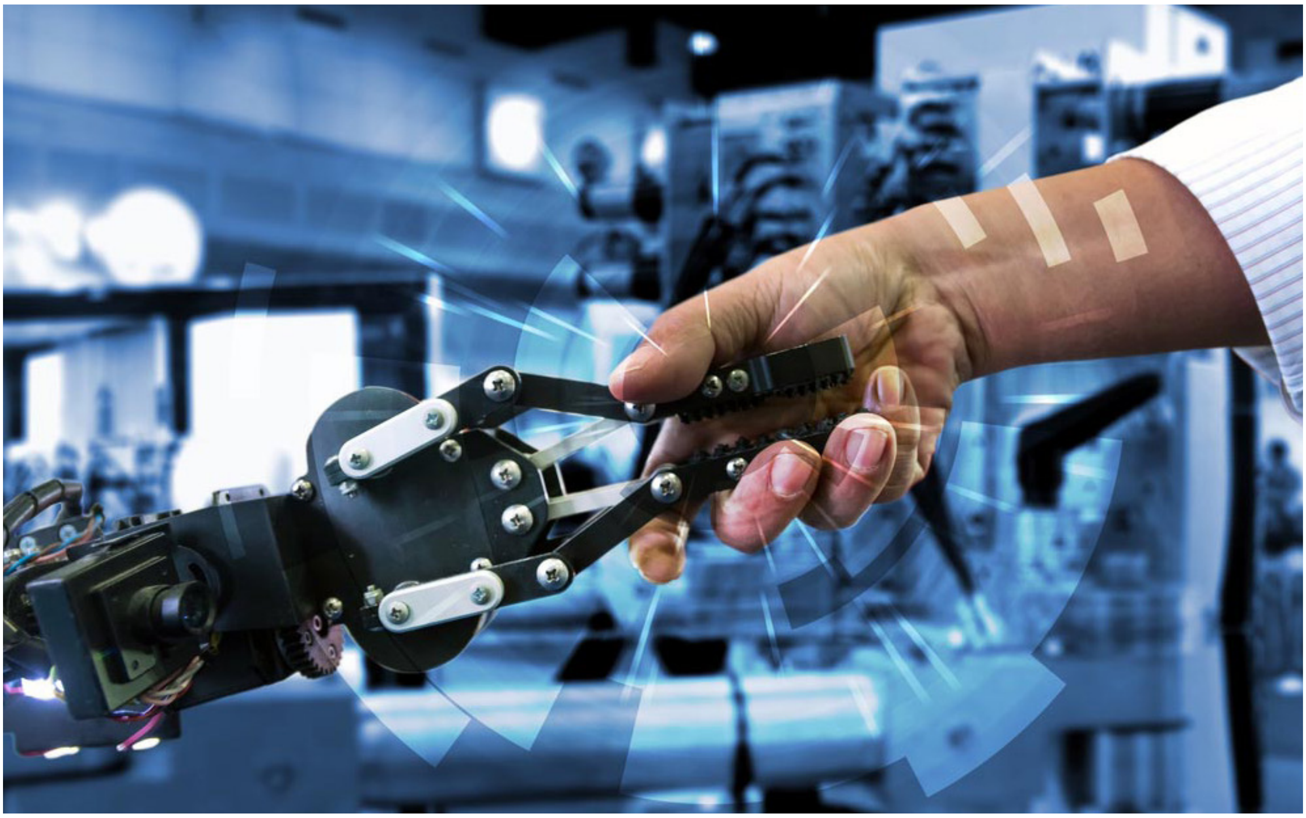
such as lack of investment in technology upgradation, expansion and skill development, limiting the sector's growth. Even as companies work to overcome these challenges, the financing fraternity remains wary of lending to the Gem & Jewellery sector. With inadequate understanding of this sector's functioning and the nuances, Bankers are unable to correctly assess the risks of lending to companies from this sector. Those who do are prompted to lend at unaffordable interest rates, due to the assumed risks of lending to this sector.

9) **Lack of Customer Awareness:** While building customer trust and enhancing transparency are a challenge for the gem & jewellery industry, the lack of customer education and awareness make it a more difficult task. While a customer would normally not accept a white good purchase without a bill, they are somehow comfortable buying jewellery without one, often to save the taxes. Additionally, even after two decades of it being around, there is little or no consumer awareness about what hallmarking is and how to read it. Thus, running campaigns to build consumer awareness will not only help win customer trust but also address the data capturing challenge, accelerate hallmarking implementation and push the industry towards becoming more organised.

10) **Global Pandemic:** The situation has been further exacerbated by the COVID pandemic. The sales of this sector have already plunged with demand dying down. According to the Gem & Jewellery Export Promotion Council (GJEPC), after the COVID-19 outbreak, the declining rate of gem & jewellery exports doubled to (-)11.32 per cent during December-February 2020 as compared to (-)5.53 per cent registered in April-Nov 2019. Moreover, the lakhs of Kaarigars (artisans) employed in the sector who are often not paid a fixed salary/wage have been adversely impacted and their migration back to their villages will place further production challenges on the sector.

To conclude, in a highly competitive global environment, with the biggest competitors being USA and China, India's sparkling gem is making every effort to thrive. It is a unique industry, with India being a proud global leader in terms of heritage, designs and craftsmanship. However, for it to remain a sparkling gem, a strong global push to positioning Indian Jewellery as an aspirational brand that bears a mark of quality is critical. The sector also needs a more enabling domestic environment to not only give the industry a boost but also empower it to continue to support the Government's 'Make in India' and Aatmanirbhar Bharat initiatives.

DOMESTIC TRENDS



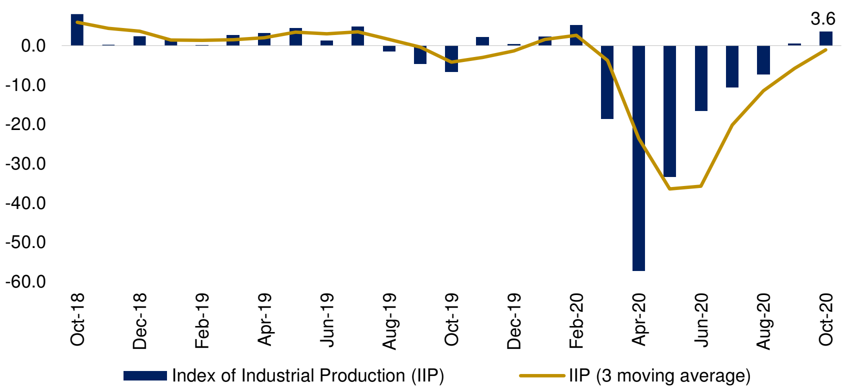
Industrial output – measured by the Index of Industrial Production – rose 3.6 per cent in October 2020, after rising by 0.5 per cent in September 2020, indicating a strong recovery. manufacturing growth was back to positive territory after a gap of seven months of contraction, while electricity also returned to double-digit growth in October after February 2020. However, mining lost sheen, contracting mildly after only a month of positive growth. Consumer goods- both durables as well as non-durables showed robust growth in October on the back of festive season and pent-up demand. While this IIP print is a welcome surprise, a sustained uptrend will be more important to support growth unequivocally. The surge in consumption propensity will also reflect in the November number, as will the loss of working days, given the festive season.

On the inflation front, headline inflation for November fell to 6.93 per cent as compared to highs of 7.6 per cent, driven by food inflation, even while core inflation remained flat. Food prices fell assisted by moderation in perishables and cereals group. This trend is expected given fall in prices in winter months for the former and robust crop production in the latter. Other food groups saw elevated inflation though slight moderation was seen on a sequential basis. Given the combination of tepid improvement in economic activity and high inflationary pressures, the Monetary Policy Committee (MPC) held on the policy rate in its policy review held in first week of December 2020 and maintained its accommodative stance.

Merchandise exports contracted for the second consecutive month in November 2020 as a recurrence of COVID in major trading partners dampened demand. Imports slumped further too, at -13.3 per cent as compared to -11.5 per cent. Import decline was mainly led by oil and gold. However, the rate of decline in core imports (i.e., non-oil nongold imports) continued to narrow, signaling continuing recovery in domestic demand. Trade deficit came in at US$9.9 billion, US$1.2 billion higher on-month, but US$2.9 billion lower on year-on-year basis.

Industrial output gathers momentum in October 2020

Growth in Index of Industrial Production (y-o-y%)



- The index of industrial production expanded for the second consecutive month in October 2020 as output accelerated to a higher-than-expected 3.6 per cent, as compared to a growth of 0.5 per cent (revised higher) seen in September.
- The significant uptick in industrial production was attributed to higher demand during the festival period, low base effect, and further easing of restrictions imposed to contain the spread of the novel coronavirus.

Double-digit output growth cheer for the electricity sector

- On sectoral basis, electricity output posted strong growth, with output rising by 11.2 per cent in October 2020 as compared with 4.9 per cent in the previous month. The mining industry, on the other hand, saw a reversal in its fortune as output declined by 1.5 per cent in October after a positive print of 1.4 per cent in the previous month.
- However, the surprise this month came from the manufacturing sector, which not just expanded after seven months of contraction, but posted a 3.5 per cent jump in output.

Broad Components of Industrial Production

Growth, y-o-y%

	Overall	Manufacturing	Mining	Electricity	IIP-3 MA
Oct-19	-6.6	-5.7	-8.0	-12.2	-4.2
Mar-20	-18.7	-22.8	-1.3	-8.2	-3.8
Apr-20	-57.3	-66.6	-26.9	-22.9	-23.6
May-20	-33.4	-37.8	-20.4	-14.9	-36.5
Jun-20	-16.6	-17.0	-19.5	-10.0	-35.7
Jul-20	-10.5	-11.4	-12.7	-2.5	-20.2
Aug-20	-7.4	-7.9	-9.0	-1.8	-11.5
Sep-20	0.5	-0.2	1.4	4.9	-5.8
Oct-20	**3.6**	**3.5**	**-1.5**	**11.2**	**-1.1**
Apr-Oct FY20	0.1	0.0	-0.4	1.6	
Apr-Oct FY21	**-17.5**	**-19.7**	**-13.3**	**-5.6**	

Volatile capital goods output turns a corner in October 2020

Use-based Classification of Industrial Production

Growth, y-o-y%

	Primary	Capital	Intermediate	Infrastructure	Consumer Durables	Consumer Non-Durables
Oct-19	-6.0	-22.4	8.7	-9.7	-18.9	-3.3
Mar-20	-4.0	-38.8	-18.6	-24.3	-36.8	-22.3
Apr-20	-26.6	-92.7	-63.9	-85.0	-95.7	-48.1
May-20	-19.6	-65.9	-39.7	-39.0	-70.3	-9.7
Jun-20	-14.5	-37.4	-20.7	-18.3	-34.8	6.9
Jul-20	-10.8	-22.8	-10.7	-8.2	-23.7	1.8
Aug-20	-10.8	-14.8	-6.0	-1.6	-9.6	-2.3
Sep-20	-1.5	-1.3	-1.0	2.5	3.4	2.4
Oct-20	**-3.3**	**3.3**	**0.8**	**7.8**	**17.6**	**7.5**
Apr-Oct FY20	0.2	-12.1	9.4	-2.7	-7.2	3.9
Apr-Oct FY21	**-12.7**	**-34.4**	**-19.7**	**-20.8**	**-31.8**	**-5.9**

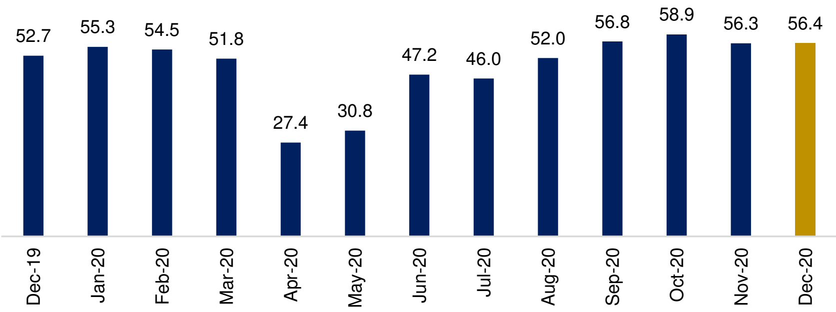
Source: Central Statistics Office (CSO) and CII estimates

- On a use-based classification, the highly volatile capital goods segment has shown significant upturn over September-October, as increased industrial traction has manifested in the economy. Infrastructure goods output also accelerated significantly in October owing to both a low base, as well rise in construction activities.
- Both consumer durables and non-durables improved substantially in October 2020, with festive demand and general pandemic fatigue leading to consumption on a large scale. The double-digit growth clocked by consumer durables was last seen in October 2018.

Manufacturing activity ends 2020 on a moderate note

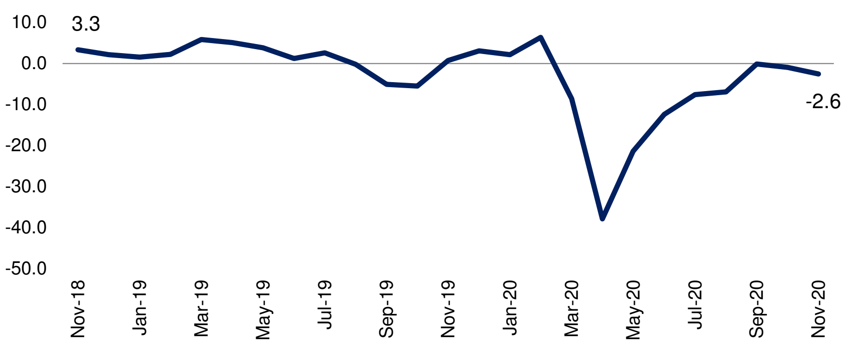
- The Nikkei Manufacturing Purchasing Managers' Index remained stable at 56.4 in December 2020 from its value of 56.3 in the previous month. This reading further lends credence to the fact that the economy is on a mend supported by enabling policy measures.
- As per IHS Markit which compiles the index, both new orders and output continued to grow strongly, albeit at a slower pace during the month. New export orders rose at the slowest pace in four months as a recent surge in coronavirus cases dampened overseas demand.

NIKKEI India Manufacturing Purchasing Manager's Index (PMI)



Core sector output records a weak performance in November 2020

Core Sector Growth (y-o-y%)



- Core sector industrial production in declined by 2.6 per cent on year-on-year basis in November 2020, at a more steeper rate than the 0.9 per cent decline seen in the previous month.
- On a cumultative basis, in Apr-Nov FY21 so far, the industries' output declined by 11.4 per cent as compared to a growth of 0.3 per cent seen during the same period last year.

Broad-based moderation seen across all sub-sectors of core

- Among the sub-sectors, while coal, fertilisers, cement and electricity recorded positive growth, crude oil, natural gas, refinery products and steel registered negative growth in the month under review.
- After rising to a 8-month high in October 2020, electricity production moderated sharply to 2.2 per cent in November 2020 despite a low base of last year. In contrast, natural gas output has now shrunk for 17 months in a row.

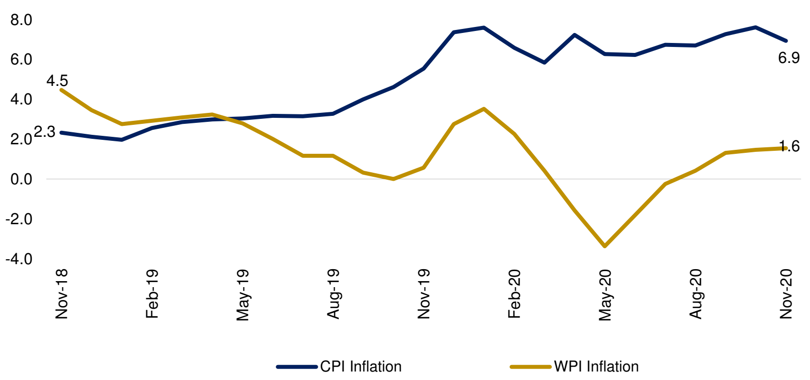
Broad Components of Core Sector Output (y-o-y%)

	Coal	Crude Oil	Natural Gas	Petroleum Refinery Products	Fertilizers	Steel	Cement	Electricity
Oct-19	-17.6	-5.1	-5.6	0.4	11.8	-0.5	-7.7	-12.2
Apr-20	-15.5	-6.4	-19.9	-24.2	-4.5	-82.8	-85.2	-22.9
May-20	-14.0	-7.1	-16.8	-21.3	7.5	-40.4	-21.4	-14.8
Jun-20	-15.5	-6.0	-12.0	-8.9	4.2	-23.2	-6.8	-10.0
Jul-20	-5.7	-4.9	-10.2	-13.9	6.9	-6.5	-13.5	-2.4
Aug-20	3.6	-6.3	-9.5	-19.1	7.3	0.5	-14.5	-1.8
Sep-20	21.2	-6.0	-10.6	-9.5	-0.3	2.8	-3.5	4.8
Oct-20	11.7	-6.2	-8.6	-17.0	6.3	4.0	3.2	11.2
Nov-20	**2.9**	**-4.9**	**-9.3**	**-4.8**	**1.6**	**-4.4**	**-7.1**	**2.2**
Apr-Nov FY20	-5.4	-5.9	-3.1	-1.1	4.0	6.7	0.0	0.8
Apr-Nov FY21	**-2.6**	**-6.0**	**-12.1**	**-14.9**	**3.8**	**-19.4**	**-19.5**	**-4.7**

Source: Markit Economics and Ministry of Commerce & Industry

CPI inflation moderates on cooling food prices

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



- Consumer price index (CPI)-based inflation, which was persistently high over the last few months, appears to have peaked for now. In November 2020, it softened to 6.9 per cent, after having reached a 77-month high of 7.6 per cent in October 2020, led primarily by food prices, which have subsequently cooled off.
- Despite the softening seen in November, the headline inflation continues to be outside the upper limit of the Reserve Bank of India's (RBI's) band of 2-6 per cent for the eighth consecutive month. Hence, the central bank continues to keep a close tab on the print.

Food prices head southward as fresh kharif produce hits the market

- Food inflation, with 39.05 per cent weight in overall CPI, moderated to 9.4 per cent in November 2020 as compared to 11.0 per cent seen in October 2020. This was led by a sharp fall in vegetable prices from 22.1 per cent to 15.6 per cent during the month underpinned by the arrival of fresh kharif produce in the market.
- Core inflation moderated to 5.7 per cent in November 2020 from 5.8 per cent in the previous month. Core inflation seems to be becoming persistent as inflation in the idiosyncratic categories, i.e. personal care and effects and transport & communication has remained relatively static, whereas inflation in other core categories such health and education have been inching up.

Components of CPI Inflation (y-o-y%)

Average Inflation, y-o-y%

	CPI Inflation Components							
	Over-all CPI	Food	Food and Beverages (FB)	Pan, To-bacco and Intoxicants	Clothing and Foot-wear (CF)	Fuel and Light	Miscel-laneous	Core CPI
Oct-19	5.5	10.0	8.7	3.3	1.3	-1.9	3.7	3.4
Apr-20	7.2	11.7	10.5	5.9	3.5	2.9	5.4	4.7
May-20	6.3	9.2	8.4	6.3	3.4	1.6	5.8	4.8
Jun-20	6.2	8.7	7.9	11.3	2.7	0.5	6.1	5.2
Jul-20	6.7	9.3	8.5	10.5	2.8	2.7	6.8	5.4
Aug-20	6.7	9.1	8.3	11.2	2.8	3.2	7.0	5.4
Sep-20	7.3	10.7	9.8	10.7	3.0	2.8	6.9	5.3
Oct-20	7.6	11.0	10.1	10.6	3.1	2.1	6.9	5.8
Nov-20	**6.9**	**9.4**	**8.8**	**10.4**	**3.3**	**1.9**	**6.9**	**5.7**
Apr-Nov FY20	3.7	4.2	3.9	4.2	1.5	-0.1	4.4	3.9
Apr-Nov FY21	**6.9**	**9.9**	**9.0**	**9.6**	**3.1**	**2.2**	**6.5**	**5.3**

WPI inflation inches to fresh 9-month high in November 2020

Components of WPI Inflation (y-o-y%)

	Overall WPI	Food	Primary Food	Mfing Food	Primary	Primary Non-food	Fuel	Manufacturing
Oct-19	0.0	7.6	9.8	3.8	6.0	2.2	-8.1	-0.9
Apr-20	-1.6	4.4	3.8	5.3	-1.1	-3.0	-12.6	0.2
May-20	-3.4	2.7	1.7	4.8	-2.1	-3.9	-23.1	-0.3
Jun-20	-1.8	3.1	2.1	5.1	-0.1	-2.8	-16.2	0.1
Jul-20	-0.2	4.7	4.5	5.0	1.6	-3.8	-9.8	0.6
Aug-20	0.4	4.8	4.4	5.5	1.9	-3.3	-9.1	1.4
Sep-20	1.3	7.2	8.4	4.9	4.1	-1.8	-8.6	1.9
Oct-20	1.5	5.8	6.4	4.5	4.7	2.9	-10.9	2.1
Nov-20	**1.6**	**4.3**	**3.9**	**4.9**	**2.7**	**8.4**	**-9.9**	**3.0**
Apr-Nov FY20	1.4	6.1	8.0	2.7	6.4	4.0	-3.3	0.3
Apr-Nov FY21	**-0.3**	**4.6**	**4.4**	**5.0**	**1.5**	**-0.9**	**-12.6**	1.1

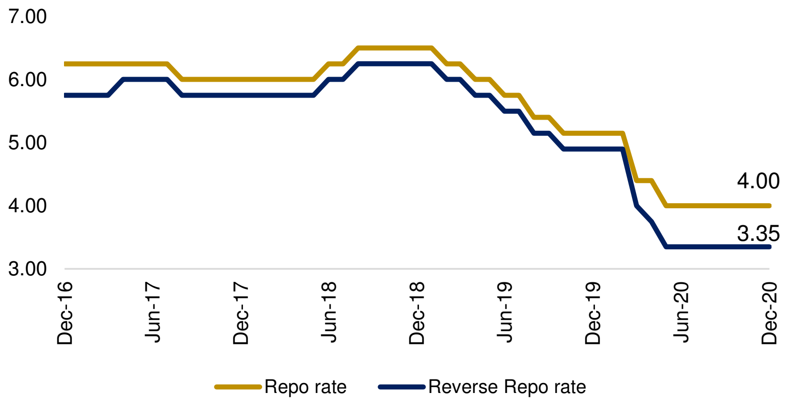
Source: Central Statistics Office and Ministry of Commerce and Industry

- Wholesale price based inflation continued to move up to a fresh nine-month high of 1.6 per cent in November 2020 as compared to 1.5 per cent in the previous month even as food inflation has now started to taper off from its highs.
- Manufacturing inflation rose to 3.0 per cent in November 2020 from 2.1 per cent on elevated manufacturing food inflation.

Stickiness of CPI inflation above RBI's target puts brakes on easing cycle

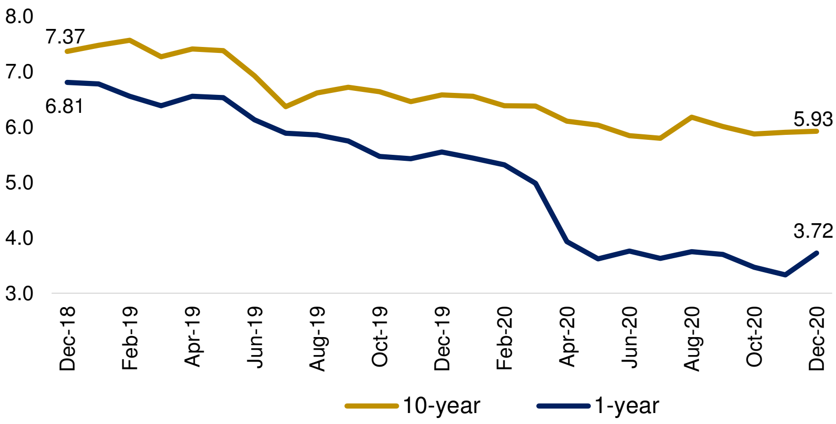
- Taking cognisance of the continued upward pressure on inflation, the RBI maintained status-quo on the key interest rates, putting brakes on the easing cycle. The fact that RBI gave adequate thrust to nurturing the growth impulses by maintaining an accommodative stance as long as conditions warranted is encouraging.
- It is also satisfying to note that the Central Bank now expects the second-half of the current fiscal to log a positive GDP growth, thus taking the full year GDP to stand at (-)7.5 per cent as compared to (-)9.5 per cent it had forecasted earlier.

Policy Instrument: Interest Rates (%)



Yield on the 10-year G-sec has remained below the 6.0 per cent mark

Debt Markets: Government Bond Yield (%)



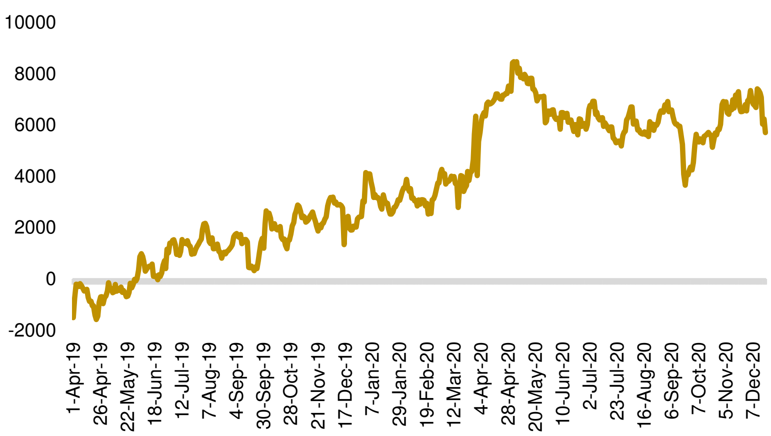
Note: G-s

- The yield on the 10-year G-sec paper has continued to remain below the psychological 6.0 per cent mark in December 2020 despite record level of government borrowings. This is owing to various central bank measures, including, OMOs and Operation Twist, which have had an impact on the yield curve.
- In contrast, the yield on the 1-year G-sec paper, has remained more-or-less stable, hovering in a range of 3.4-3.7 per cent on rising risk aversion.

Unconventional measures keep the systemic liquidity in surplus

- One of the challenges facing the Monetary Policy Committee (MPC) is the 'problem of plenty', with regard to systemic liquidity. Liquidity continues to remain in considerable surplus in December 2020.
- Surplus liquidity in the banking system is largely on account of: i) RBI's open market operations (OMOs) directed towards containing long-term government security yields; ii) low credit disbursal by banks and increased deposits; and iii) large foreign portfolio inflows.

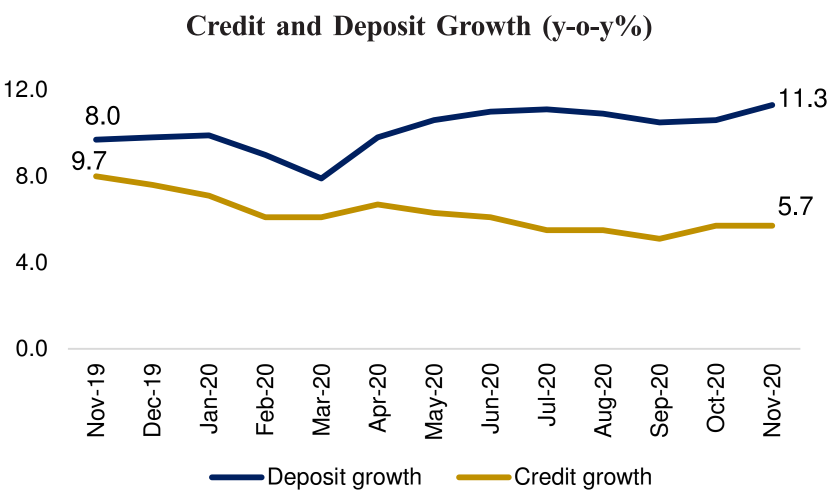
Banking Liquidity (Rs billion) (Deficit (-)/Surplus (+))



Note: Data for Dec is till 18th Dec, 2020 *Source: RBI and CII calculations*

Note: Net liquidity deficit =Total Reverse Repo-Total Repo-MSF (Marginal Standing Facility)-wStanding Liquidity Facility (SLF)

Credit off-take continues to show an uptick in November 2020



- Scheduled commercial banks credit stayed stable at 5.7 per cent in November 2020. The credit demand has recovered from the lows of 5.1 per cent seen in September 2020 and is indicative of revival in the domestic demand.
- In contrast, bank deposit growth has continued to remain in double-digits for the seventh consecutive month in November 2020. In wake of deposits outpacing credit, banks have been parking their surplus funds mainly in government securities.

Credit offtake to the mining sector shows an impressive jump in October 2020

- The industry-wise data shows that the critical sectors of construction and mining were seen to be leading the recovery in credit disbursal in October 2020.
- In contrast, credit disbursal to the gems & jewellery, infrastructure, engineering & basic metals sector stood in the negative territory in October 2020. The negative rate of credit disbursal of infrastructure during the month will need to be monitored carefully as we go forward.

Industry-wise Sectoral Deployment (y-o-y%)

(y-o-y% growth)	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Mining & Quarrying (incl. Coal)	4.3	7.6	1.2	-0.03	**4.3**
Food Processing	4.2	6.0	6.9	4.3	**3.2**
Basic Metal & Metal Product	-0.5	-2.6	-1.3	-3.1	**-3.8**
All Engineering	-10.5	-14.2	-16.3	-14.2	**-17.7**
Gems & Jewellery	-15.9	-17.4	-18.3	-15.3	**-8.6**
Construction	5.6	7.5	8.1	4.5	**5.1**
Infrastructure	4.2	1.9	1.8	1.1	**-2.0**

Trade sub-sector leads services sector increase in credit growth in October 2020

Sectoral Deployment of Gross Bank Credit (y-o-y%)

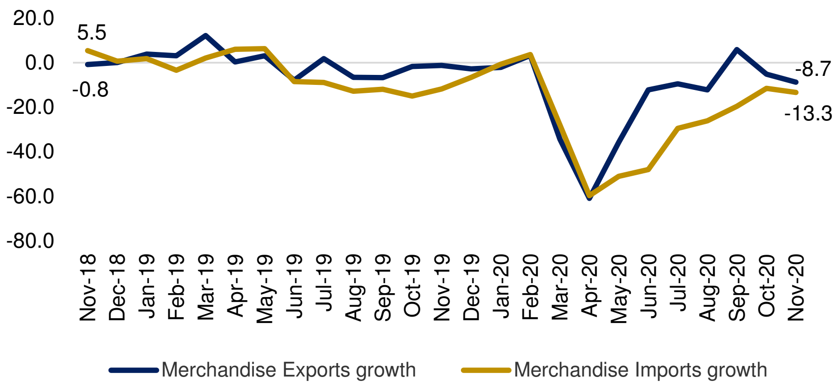
S. No.	Sector	Jul-20	Aug-20	Sep-20	Oct-20
1	**Agriculture & allied**	**5.4**	**4.9**	**5.9**	**7.4**
2	**Industry**	0.8	0.5	0.0	**-1.7**
2.1	Micro & Small	-1.9	-1.2	-0.1	**0.7**
2.2	Large	1.4	0.6	-0.6	**-2.9**
2.3	Medium	-3.1	2.8	14.5	**16.7**
3	**Services**	**10.1**	**8.6**	**9.1**	**9.5**
3.1	Computer software	16.2	7.0	5.6	**1.7**
3.2	Tourism, hotel and restaurants	18.7	17.6	19.7	**12.0**
3.3	Trade	9.2	12.5	11.5	**14.0**
3.4	Commercial real estate	11.8	6.6	5.5	**3.5**
3.5	NBFC	24.6	17.1	12.5	**9.2**
4	**Personal Loans**	**11.2**	**10.6**	**9.2**	**9.3**

- The credit off-take to the services sector saw an uptick to 9.5 per cent in October 2020 as compared to the previous month underpinned by higher credit disbursal in its sub-component of trade. In contrast, the remaining components of services such as NBFC, computer software saw a sharp moderation in credit off-take during the month.
- Credit off-take to the industry sector further slowed down in October 2020 as compared to the previous month. This was mainly attributable to weaker credit off-take to the large industries. Credit off-take to agri sector meanwhile has continued to remain relatively healthy.

Merchandise exports witness moderation for second consecutive month in November

- Merchandise exports moderated for the second consecutive month in November, exhibiting a steeper contraction of 8.7 per cent as compared to -5.1 per cent in the previous month. This was mainly attributable to dampened demand due to recurrence of COVID case-load in major trading partners.
- Merchandise imports slumped further too, at -13.3 per cent in November 2020 as compared to -11.5 per cent in the previous month. Import decline was mainly led by oil and gold.

Merchandise Trade Growth (y-o-y%)



Decline in imports driven by steeper contraction in oil and moderation in gold imports

Trade Performance

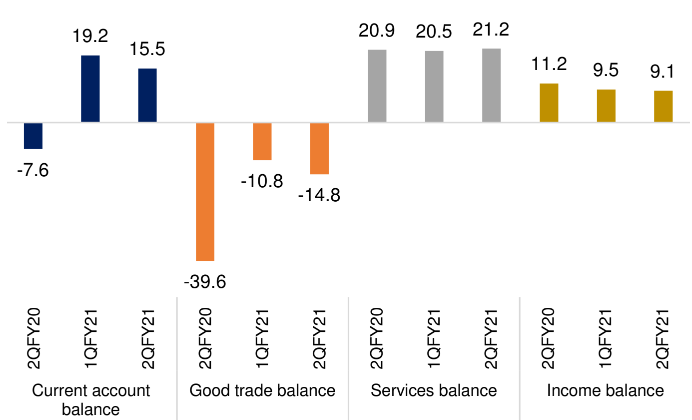
				April-Nov	
	Nov-19	**Oct-20**	**Nov-20**	**FY20**	**FY21**
	(US$ billion)				
Exports	25.8	24.9	**23.5**	211.2	**173.8**
Imports	38.5	33.6	**33.4**	324.6	**216.5**
Oil Imports	11.1	6.0	**6.3**	86.0	**44.2**
Non-oil Imports	27.5	27.6	**27.1**	238.6	**172.3**
Trade Balance	-12.8	-8.7	**-9.9**	-113.4	**-42.7**
	(y-o-y%)				
Exports	-1.2	-5.1	**-8.7**	-2.3	**-17.7**
Imports	-11.8	-11.5	**-13.3**	-7.3	**-33.3**
Oil Imports	-18.1	-38.5	**-43.4**	-12.0	**-48.6**
Non-oil Imports	-8.9	-2.2	**-1.2**	-5.4	**-27.8**
Trade Balance	-27.5	-25.9	**-22.6**	-15.2	**-62.4**

- Import decline in November 2020 was driven by a steeper rate of decline in petroleum products (-43.4 per cent as compared to -38.5 per cent) and a sharp slowdown in gold (+2.6 per cent as compared to +35.9 per cent).
- Exports performance deteriorated due to contraction in outbound shipments of engineering goods (-8.0 per cent), petroleum products (-60 per cent), leather & products (-30 per cent) and organic & inorganic chemicals (-8 per cent). This was largely due to a major second wave of COVID-19 and consequent restrictions imposed in major export destinations.

Current account deficit narrows in 2QFY21 on wider trade deficit

- As per the recently balance of payments (BoP) data, the current account surplus moderated from US$19.2 billion (3.83 per cent of GDP) in 1QFY21 to US$15.5 billion (2.45 per cent of GDP) in 2QFY21, primarily on account of a rise in the merchandise trade deficit.
- On the capital account front, both net FDI and net portfolio investment recorded a sharp accretion in the second quarter as gradual unlocking of global economies rekindled the risk appetite of investors.

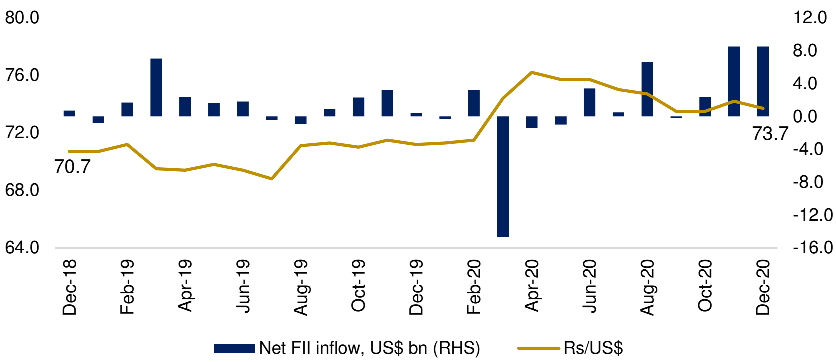
Components of Current Account (US$ billion)



Source:Ministry of Commerce & RBI

Unabated flows to India encouraging the Rupee to strengthen

Net FII Inflows and Average Monthly Exchange Rate



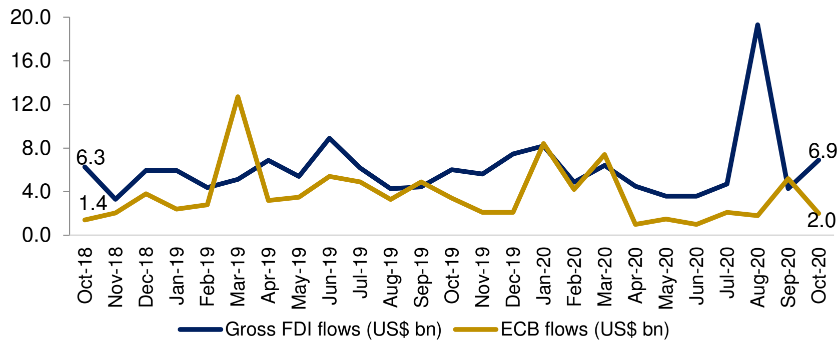
Note: Data for December 2020 for both exchange rate and FII flows is till 24th Dec

- The Indian Rupee has strengthened considerably against the US Dollar since mid-November 2020 post the turmoil in the days following the US elections and uncertainty about the results. Healthy FII flows have supported the strengthening of the rupee against the greenback.
- Net FII inflows have continued to stay robust in December 2020 on the back of global liquidity flush, hefty foreign flows, positive domestic data and hopes of a vaccine arrival.

Gross FDI flows have hit a record high this year so far

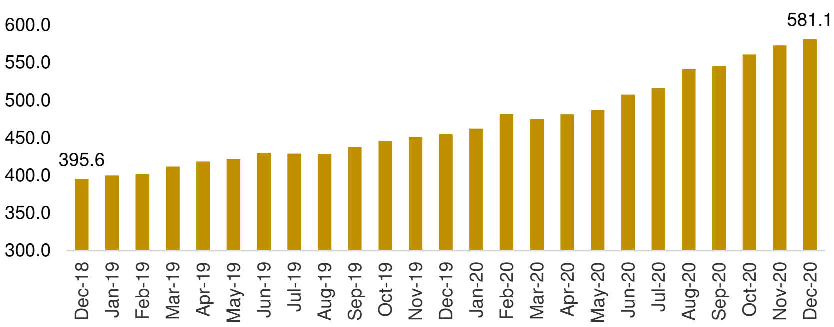
- Foreign direct investment (FDI) inflows climbed to US$6.9 billion in October 2020 from US$4.3 billion seen in the previous month. The steps taken in the last few years to liberalise FDI policy have borne fruit as is evident from the ever increasing volumes of FDI inflows being received into the country.
- ECB flows moderated to US$2.0 billion in October 2020 as compared to US$5.2 billion in September 2020. This year, till date (Apr-Oct), ECB flows have stood at US$14.6 billion as compared to US$28.6 billion seen in the same period last year.

Foreign Inflows (US$ billion)



There is no stopping the accretion to forex exchange reserves

Foreign Exchange Reserves (US$ billion)



Note: Data for December 2020 is till 18th December, 2020

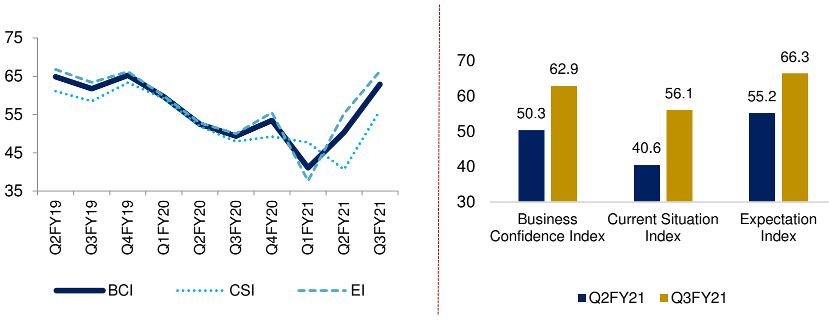
Source: RBI

- Foreign exchange reserves scaled new heights as they hit a fresh lifetime high of US$581.1 billion in December 2020 (data taken till 18th Dec). The bulk of the increase was attributable to a rise in foreign currency assets (FCAs), a major component of the overall reserves.
- Apart from indicating relative stability in the external sector, record-high forex reserves are also due to the sluggish imports which have kept the demand for foreign exchange contained.

Business sentiment maintains its uptrend in Oct-Dec quarter as per CII Business Outlook Index

- The CII Business Confidence Index (CII- BCI) for Oct-Dec 2020 maintained the uptrend, recording another quarter of upbeat business sentiment. The index soared to the level of 62.9 during the Oct-Dec 2020 quarter, recording an improvement of 25 per cent over the previous quarter's reading of 50.3.
- The BCI continued to recover in the Oct-Dec quarter, mainly on the back of a broad-based improvement in both the current situations index (CSI) and the Expectation Index (EI).

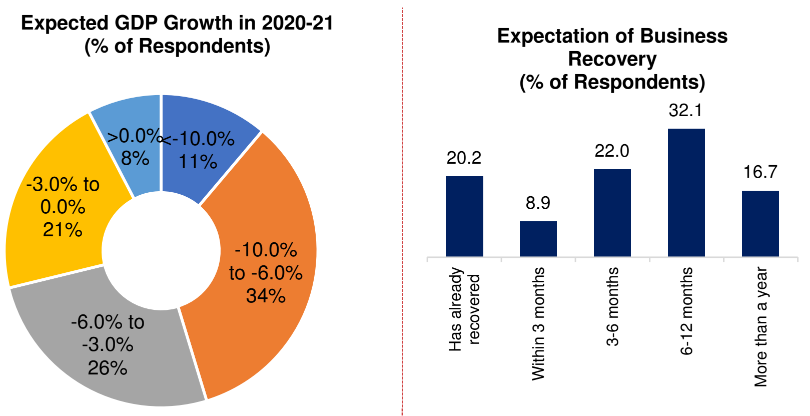
CII 113th Business Confidence Index



Note: BCI is Business Confidence Index, CSI is Current Situations Index and EI is Expectation Index

34 per cent of the respondents expect GDP to contract by 6-10 per cent in FY21

Growth and Expectations of Business Activity in 2020-21

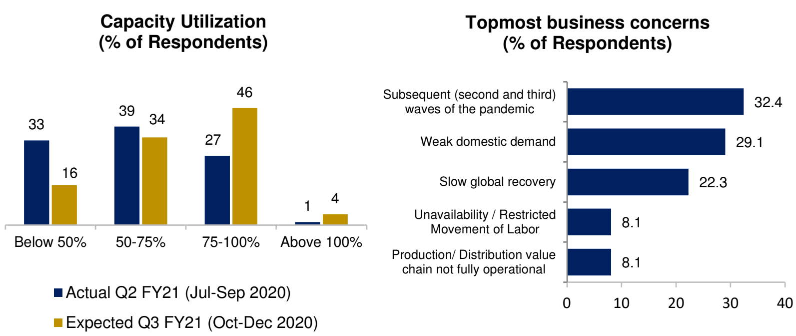


- More than third of the respondents (34 per cent) felt that India's GDP will record a contraction ranging from -10 per cent to -6 per cent during FY21, followed by 26 per cent of respondents anticipating a decline in GDP growth ranging from -6 per cent to -3 per cent.
- Nearly a third of the respondents (32 per cent) foresee a recovery in their business condition in the next 6-12 months, while about 17 per cent of the respondents felt that it may take more than a year to achieve normalcy.

Capacity utilization expected to improve as indicated by the CII Survey

- Even though a large share of the respondents (39 per cent) witnessed capacity utilization levels in the 50-75 per cent range during the Jul-Sep quarter, nearly half of the respondents (46 per cent) foresee an improvement in capacity utilization levels to 75-100 per cent range in Oct-Dec 2020 quarter.
- Nearly a third of the respondents (32.4 per cent) have indicated the subsequent waves of the pandemic as the topmost business concern over the next six months, followed by 29 per cent who cited weak domestic demand as the biggest risk to business confidence during the said period.

Capacity Utilisation Levels and Topmost Business Concerns



Source: 113th CII Business Outlook Survey (Oct-Dec 2020)

STATE OF STATES

Export Preparedness Index

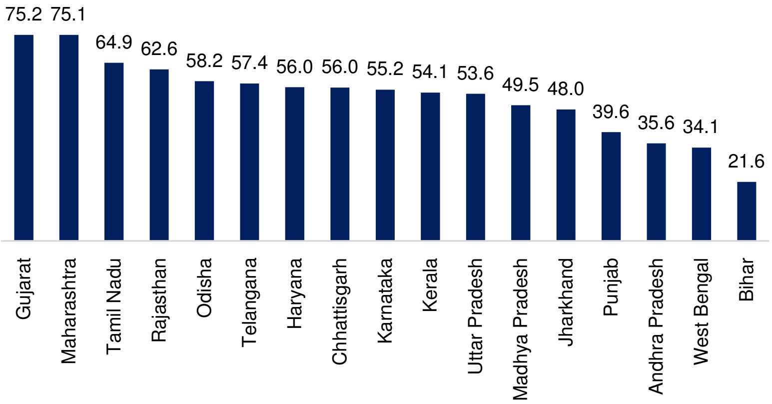
NITI Aayog in partnership with the Institute of Competitiveness released the Export Preparedness Index (EPI) 2020 for the Indian states. It is the first report to examine export preparedness and performance of Indian states, EPI intends to identify challenges and opportunities; enhance the effectiveness of government policies; and encourage a facilitative regulatory framework. The structure of the EPI includes 4 pillars – **Policy; Business Ecosystem; Export Ecosystem; Export Performance**. Overall, most of the Coastal states were the best performers. Gujarat, Maharashtra and Tamil Nadu occupied the top three ranks, respectively. Six of eight coastal states feature in the top ten rankings, indicating the presence of strong enabling and facilitating factors to promote exports. In the landlocked states, Rajasthan has performed the best, followed by Telangana and Haryana.

To achieve the target of making India a developed economy by focusing on 'Atmanirbhar Bharat', there is a need to increase exports from all the states and union territories. The EPI provides invaluable insights on how states can attain this goal. The rapid growth of exports is a crucial component for long-term economic growth. A favourable ecosystem enables a country to contribute significantly to global value chains and reap the benefits of integrated production networks, globally.

The state/UT in focus for this issue is **Puducherry**. The growth of the city-state decelerated to 8.1 per cent in 2019-20 as compared to 8.5 per cent in the previous year, mainly on account of moderation noted in agri and industrial sector. Despite the slowing growth seen in 2019-20, the growth rate of the UT has averaged above 8.0 per cent in the last three years. However, despite its impressive performance over the years, Puducherry has fared poorly in the BRAP's ease of doing business rankings. The city's ranking remained unchanged at 27 in 2019 from the previous year. On the socio-economic indicators front, Puducherry has made impressive improvements in the various indicators such as infant mortality rate and literacy rate over the years.

Gujarat tops Niti Aayog's Export Preparedness Index 2020

Export Preparedness Index

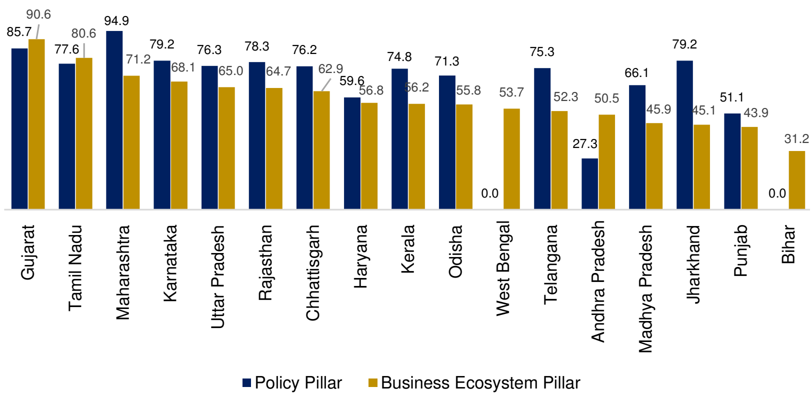


- As per the Export Preparedness Index (EPI) 2020 released by NITI Aayog in partnership with the Institute of Competitiveness, most of the Coastal States were the best performers. Gujarat, Maharashtra and Tamil Nadu occupied the top three ranks, respectively.
- Six of eight coastal states featured in the top ten rankings, indicating the presence of strong enabling and facilitating factors to promote exports. In the landlocked states, Rajasthan performed the best, followed by Telangana and Haryana.

The landlocked states do well on most of the pillars of the index

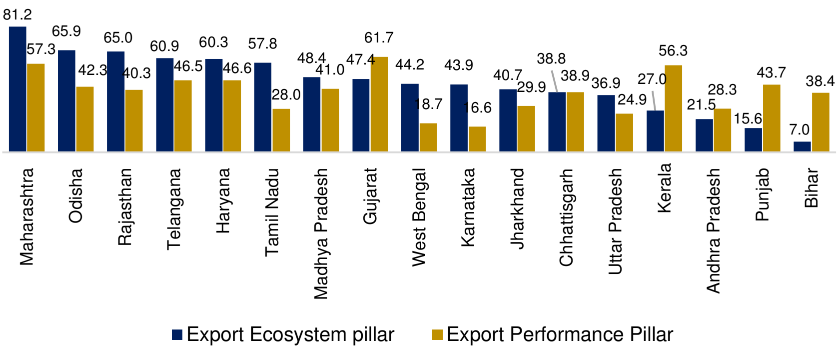
- The structure of the EPI includes 4 pillars – Policy; Business Ecosystem; Export Ecosystem; Export Performance. On the first two pillars Policy and Business Ecosystem, once again the three landlocked states of Gujarat, Tamil Nadu and Maharashtra topped the list.
- It is useful to point here that Bihar and West Bengal scored a naught in the Policy Pillar due to lack of policy mechanism such as Export Promotion Policy and adequate Institutional Framework in place in the two states.

Policy and Business Ecosystem Pillar



Maharashtra, Odisha and Rajasthan top in the export related pillars of the index

Export Ecosystem and Export Performance Pillar



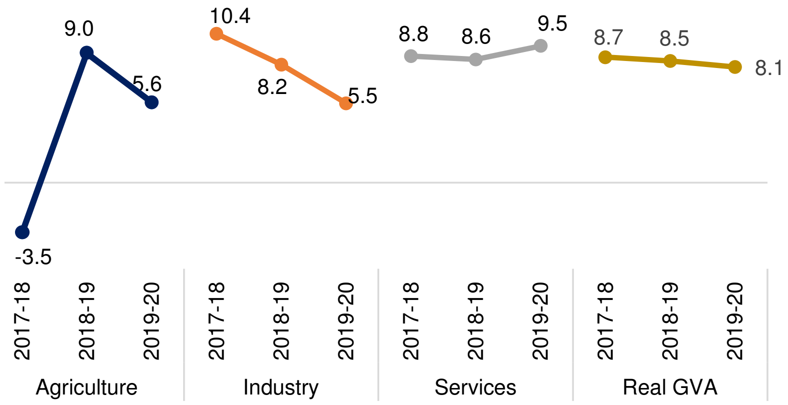
Source: NITI AAYOG

- On the Export Ecosystem pillar which aims to assess the business environment, which is specific to exports, Maharashtra, Odisha and Rajasthan were the top three states, while Bihar and Punjab were the laggards.
- The findings of the report also highlight that export orientation and preparedness are not just restricted to prosperous states. Even emerging states such as Uttar Pradesh, Rajasthan, Chhattisgarh etc, can undertake dynamic export policy measures, and synchronize with national logistical plans to grow their exports.

Puducherry sees moderation of growth in 2019-20 on lower agri and industrial growth

- Puducherry saw its real growth decelerating to 8.1 per cent in 2019-20 as compared to 8.5 per cent in the previous fiscal. The moderation was underpinned by a slowdown noted across the agri and industrial sectors.
- A stellar performance by the service sector as it grew by 9.5 per cent was the major contributor to the growth in 2019-20. In industry, the sub-sector of Construction was the major driver of growth as it grew by 14.2 per cent during the year.

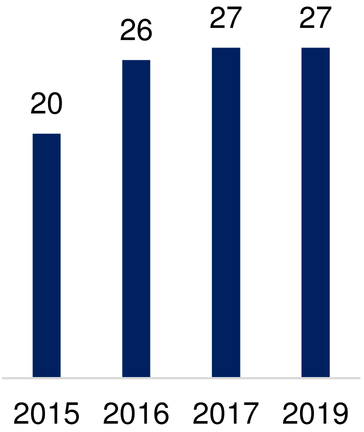
Real GSDP by Economic Activity (y-o-y%)



Puducherry is a laggard in the BRAP's EoDB rankings

Ease of Doing Business in the State

Ease of Doing Business Rankings



Provision of Infrastructure

	Per capita availability of power (KwH hour)	Length of roads (in kms)
2014-15	1909.3	2890
2015-16	1951.8	3020
2016-17	2045.9	3072
2017-18	2139.1	3174
2018-19	2210.6	3242

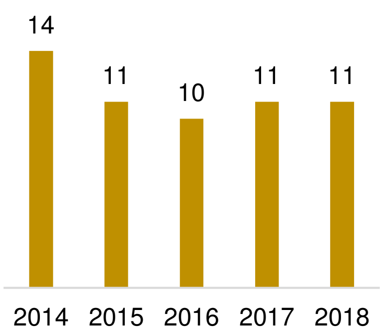
- Puducherry has been stuck at 27th position out of 36 in the ease of doing business state rankings, 2019, prepared by the Department for Promotion of Industry and Internal Trade (DPIIT). Puducherry fared poorly as the government implemented just 61 reforms while failing to make any headway in executing the 300 reforms as advocated by the Union Govt.
- Infrastructure as proxied by per capita availability of power and length of roads has seen an improvement over the years in the Union Territory. This mirrors the efforts being made by the administration to improve the infrastructure over the years.

Impressive improvements seen in various socio-economic indicators of Puducherry

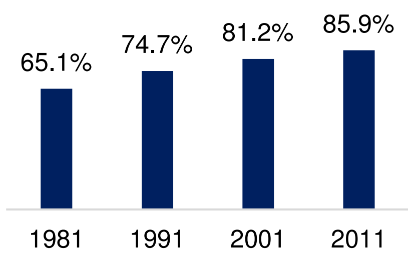
- Puducherry has seen a sharp improvement in its infant mortality rate (IMR) over the years as the number has decreased from 14 per thousand in 2014 to a low of 11 per thousand in 2018. This was possible due to effective, comprehensive, quality antenatal, intra-natal, prenatal, and postnatal care, in all the primary health centres, community health centres, district hospitals in the UT.
- Literacy rate, too, has seen a sharp improvement, with the latest reading standing at 85.9 per cent in 2011 as compared to 81.2 per cent and 74.7 per cent in the previous two decades respectively.

Socio-Economic Indicators in the State

Infant Mortality Rate (Per Thousand)

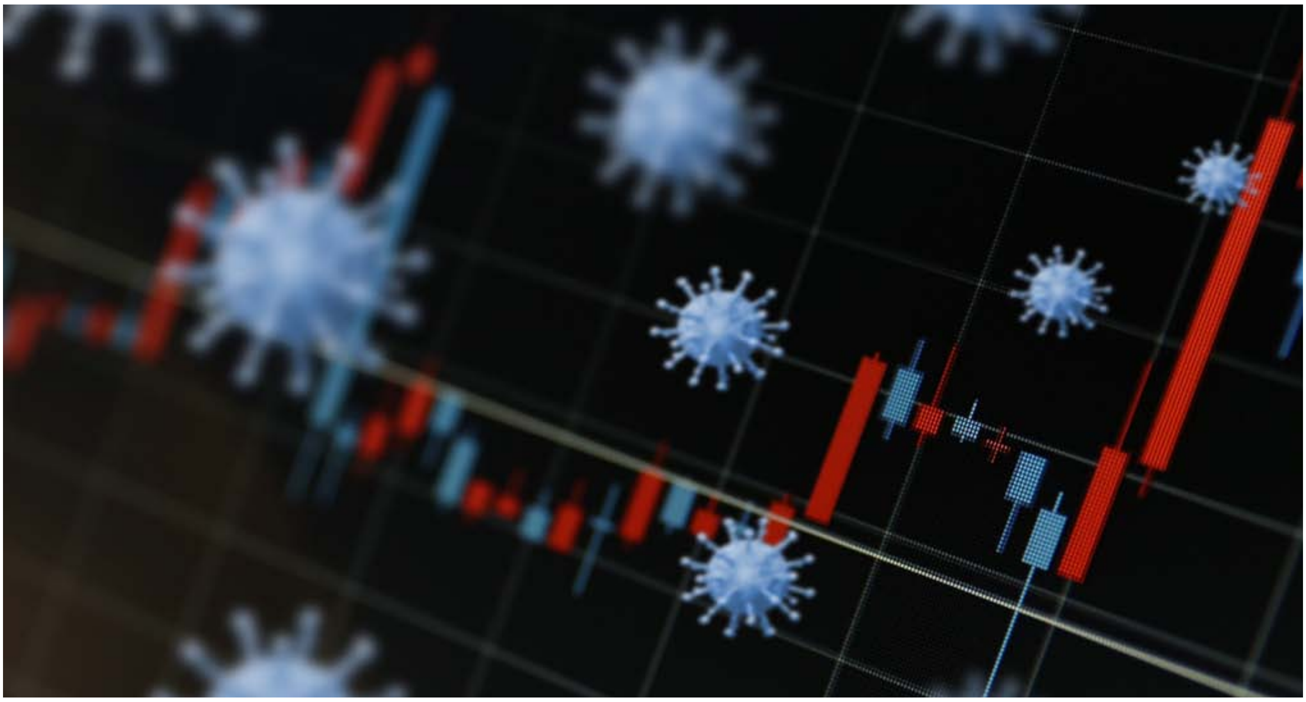


Literacy Rate (%)



Source: RBI & CSO

GLOBAL TRENDS



As the global economy slowly crawls back to life and people get attuned to living with the virus, the prospects of multiple vaccines becoming available in the next few months have not only raised hopes of an imminent end to the virus but have also perked up growth prospects- with several multilateral agencies raising their GDP projections for 2020.

According to the recent OECD Economic Outlook, global growth is expected to contract by a less severe 4.2 per cent in 2020, as against the earlier projection of a 4.5 per cent decline in output. During the next two years, global economy is expected to gain momentum, expanding by 4.2 per cent in 2021 and 3.7 per cent in 2022, and the global GDP is expected to reach pre-pandemic levels by the end of 2021. However, while the outlook is highly uncertain with both upside and downside risks, economic recovery is likely to be extensively uneven across countries and may even lead to lasting changes in the world economy, given that the pandemic has already damaged socio-economic fabric of countries all over the world.

The Asian Development Bank (ADB) has also released a supplement to its Asian Development Outlook and projects developing economies in Asia to contract by 0.4 per cent in 2020, as against the previous forecast of 0.7 per cent contraction envisaged in the September update. However, the paths of recovery are expected to diverge within the region. While 2020 growth projections for East Asia and South Asia have been revised upwards, to 1.6 per cent expansion in East Asia and a less severe contraction (-6.1 per cent) in South Asia, the recovery in Southeast Asia is expected to lag, and growth forecasts have been downgraded further to -4.4 per cent- as virus containment measures continue to hamper economic activity. For Central Asia and the Pacific, growth forecasts have been kept unchanged from the September Update.

As per the latest World Trade projections by the UNCTAD, the volume of global merchandize trade is set to face the sharpest decline since the end of the global financial crisis, falling by 5.6 per cent in 2020. While the forecast for merchandize trade was upgraded, from 9 per cent projected earlier, the UNCTAD has downgraded its forecast for the service sector to a contraction of 15.4 per cent during 2020. The sector has been hit hard due to the steep decline in travel, transport and tourism activity owing to the pandemic and is likely to record its worst contraction since 1990s.

OECD raises global growth forecasts to -4.2 per cent for 2020 from -4.5 per cent

- Organisation for Economic Co-operation and Development (OECD) expects GDP growth to contract by a less severe 4.2 per cent in 2020, as against the earlier projection of a 4.5 per cent decline in output, mainly on the prospects of vaccination campaigns, concerted health policies and fiscal support raising hopes of a quicker recovery.
- During the next two years, global economy is expected to gain momentum, expanding by 4.2 per cent in 2021 and 3.7 per cent in 2022, and the global GDP is expected to reach pre-pandemic levels by the end of 2021. However, this recovery is likely to be highly uneven across countries.

OECD Economic Outlook, December 2020

	2020	2021 (F)	2022 (F)
World	-4.2	4.2	3.7
Euro Area	-7.5	3.6	3.3
G20	-3.8	4.7	3.7
US	-3.7	3.2	3.5
UK	-11.2	4.2	4.1
Japan	-5.3	2.3	1.5
China	1.8	8.0	4.9
India	**-9.9**	**7.9**	**4.8**

Developing Asia to contract by 0.4 per cent in 2020 as per ADB latest outlook

Asian Development Outlook, December 2020

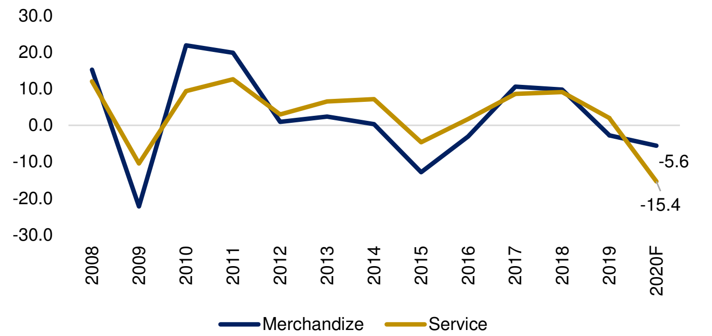
Developing Asia	5.1	-0.4	6.8
Central Asia	4.9	-2.1	3.8
East Asia	5.4	1.6	7.0
South Asia	4.3	-6.1	7.2
India	**4.2**	**-8.0**	**8.0**
Southeast Asia	4.4	-4.4	5.2

- Asian Development Bank (ADB) projects developing economies in Asia to contract by 0.4 per cent in 2020, lower than the earlier forecast of 0.7 per cent contraction. For 2021, growth is expected to rebound to 6.8 per cent, however output would remain below the level envisioned prior to the pandemic.
- Further, the paths of recovery are expected to be divergent within the region with improved outlook for East Asia (1.6 per cent) and South Asia (-6.1 per cent) — mainly driven by China and India — while Southeast Asia expected to lag (-4.4 per cent).

Global trade set to suffer due to the pandemic

- The latest trade data by UNCTAD reveals that global merchandize trade is expected to decline by 5.6 per cent in 2020- marking the biggest fall in merchandize trade since 2009. However, this projection is slightly more optimistic than the earlier forecast of a 9 per cent contraction.
- Global services trade is projected to decline by a much greater 15.4 per cent in 2020- marking the biggest decline since 1990 and even greater than the 9.5 per cent fall seen during the 2009 Global Financial Crisis.

Global Trade in Merchandise and Services, December 2020



Note: F is Forecast

Source: OECD, ADB, UNCTAD

Norway retains top spot while India's rank slips 2 places in HDI Rankings for 2020

Human Development Index (HDI) 2020

Country	2020 HDI Rank	2020 HDI Score	Change in rank from 2019
Norway	1	0.957	▬
Ireland	2	0.955	▲
Switzerland	2	0.955	▬
Hong Kong	4	0.949	▬
Iceland	4	0.949	▲
Germany	6	0.947	▼
Sweden	7	0.945	▼
Australia	8	0.944	▼
Netherlands	8	0.944	▬
Denmark	10	0.94	▲
India	**131**	**0.645**	▼

- The latest Human Development Index (HDI) 2020 by the United Nations Development Program UNDP has ranked Norway in the top spot, while Ireland and Switzerland are jointly placed in the second spot with equal HDI scores. The Index ranks 189 countries on key dimensions of human development-health, education and standard of living.
- India's rank on the Index fell 2 places, to stand at 131, despite a relative improvement in HDI score over last year. India's gross national income per capita fell to US$6,681 in 2019 from US$6,829 in 2018 on PPP basis.

New Zealand remains world's most free country while India slips to 111th spot

- As per the recent Human Freedom Index (HFI), New Zealand continues to hold the prime position as the freest economy of the globe for the seventh consecutive year, followed by Switzerland and Hong Kong.
- The index assesses 162 countries on personal, civic & economic freedom and India has slipped 5 spots on the index to rank to stand at 111. While the overall score for India was 6.43, personal freedom received a score of 6.30 while economic freedom was rated at 6.56.

Human Freedom Index (HFI) 2020

Country	2020 HFI Rank	2020 HFI Score	Change in rank from 2019
New Zealand	1	8.87	▬
Switzerland	2	8.82	▬
Hong Kong SAR, China	3	8.74	▬
Denmark	4	8.73	▲
Australia	5	8.68	▲
Canada	6	8.64	▼
Ireland	7	8.62	▬
Estonia	8	8.54	▲
Germany	9	8.52	▲
Sweden	9	8.52	▼
India	**111**	**6.43**	▼

Afghanistan most impacted by terrorism while India ranks 8th globally

Global Terrorism Index (GTI) 2020

Country	2020 GTI Rank	2020 GTI Score	Change in Rank from 2019
Afghanistan	1	9.592	▬
Iraq	2	8.682	▬
Nigeria	3	8.314	▬
Syria	4	7.778	▬
Somalia	5	7.645	🔴
Yemen	6	7.581	🔴
Pakistan	7	7.541	🟢
India	**8**	**7.353**	▬
Dem. Rep. of Congo	9	7.178	🔴
Philippines	10	7.099	🟢

🔴 Means an inrease in ranking 🟢 Means a decline in ranking ▬ Means no change in ranking

Source: HDI-United Nations Development Program (UNDP), HFI-Cato Institute and Fraser Institute, GTI-Institute for Economics and Peace

- The annual Global Terrorism Index report published by the Institute for Economics and Peace (IEP), continues to place Afghanistan in the numero uno position. The country had the highest economic impact of terrorism equivalent to 16.7 per cent of GDP in 2019, despite a 22.4 per cent decline in terrorism related deaths during the year.
- India's rank remains unchanged at the 8th position, among 163 countries globally, despite a decline in its terrorism score-which was supported by a fall in both terrorist attacks and deaths from terrorism during 2019.

POLICY FOCUS

The important policy announcements made by the Government/RBI and other major regulators in the month of **December 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.

S. No	Area	Policy Announcement	Likely Impact
1.	**Banking and Finance**	The Reserve Bank of India (RBI) has clarified that borrowers opting for resolution of COVID-19 related stressed loans do not need to submit any specific resolution plans to the lending institutions and can invoke the resolution framework by merely submitting a request to the them. The lending institutions will then take an in-principle decision, as per their Board-approved policy, on invoking the Resolution Framework. After invocation of the Resolution Framework, the contours of the resolution plan will be decided by the lending institution in consultation with the borrower. For personal loans, the resolution plan would need to be implemented within 90 days from the date of invocation while for all other loans a period of 180 days has been prescribed.	The move is aimed easing the regulatory burden on businesses in stress due to the pandemic
2.	**Financial Markets**	The Securities and Exchange Board of India (SEBI) released norms related to core settlement guarantee fund (SGF), stress testing and default waterfall procedure for limited purpose clearing corporations (LPCCs). With regards to the core SGF, a contribution to the Fund will be made by the recognised limited purpose clearing corporation, the clearing members and issuers of the debt securities and any shortfall in the Fund will be replenished by the recognised LPCC to the threshold level as specified by SEBI. Further, SEBI has put in place some measures for stress testing of LPCCs too. Also, SEBI has prescribed default waterfall procedure, whereby clearing corporation applies different types of its financial resources to meet a default loss, such as margins brought in by defaulting participant, clearing funds and its own assets, in a systematic manner.	The move is aimed at enhancing the robustness of the risk management system in LPCCs.
3.	**Financial markets**	The SEBI has approved new shareholding norms for companies under Corporate Insolvency Resolution Process and has also decided to give relaxation in minimum promoter contribution in follow-on public offer. For companies that continue to remain listed due to implementation of the resolution plan under the Insolvency and Bankruptcy Code- they will be required to have at least 5 per cent public shareholding at the time of their admission to dealing on the stock exchange. Further, such companies will be provided 12 months to achieve public shareholding of 10 per cent and a further 6 months to reach 25 per cent public shareholding. Additionally, companies will be required to make additional disclosures, such as specific details of resolution plan including details of assets post-CIRP and details of securities continuing to be imposed on the companies' assets and other material liabilities imposed on the firm.	The move would ensure revival of the corporate debtor pursuant to the resolution plan.

S. No	Area	Policy Announcement	Likely Impact
4.	**Power sector**	The government has notified the Electricity (Rights of Consumers) Rules, 2020. The new rules provide for rights of consumers and obligations of distribution licensees, release of new connection and modification in existing connection, metering arrangement, billing and payment, etc. The new rules state that every distribution licensee must supply electricity on request made by an owner or occupier of any premises in line with the provisions of the Act. Further, a new connection has to be given within a maximum time period of seven days in metro cities, 15 days in other municipal areas, and 30 days in rural areas. The distribution licensee shall supply 24x7 power to all consumers, with the exception of some consumers like agriculture, and must ensure a robust grievance redressal mechanism.	The move will give consumers the right to a minimum standard of service for supply of electricity.
5.	**GST**	The government has launched the Quarterly Return filing & Monthly Payment of Taxes (QRMP) scheme for small taxpayers under GST system. Taxpayers who have an aggregate annual turnover of up to Rs 5 crore in the preceding financial year and have filed their October GSTR-3B (sales) return by November 30, 2020, are eligible for this scheme. Through this scheme, these taxpayers have the option of filing heir GSTR-1 and GSTR-3B returns quarterly beginning with January-March period. They can make GST payments through challan every month either by self-assessment of monthly liability or 35 per cent of net cash liability of previous filed GSTR-3B of the quarter. Further, quarterly GSTR-1 and GSTR-3B can also be filed through an SMS.	The move is aimed at improving the ease of doing business.
6.	**GST**	The Central Board of Indirect Taxes and Customs (CBIC) has made it mandatory to mention 8-digit HSN or tariff code for 49 chemical-based products while issuing Goods and Services Tax (GST) invoice. At present, businesses mention up to 4-digit tariff code while issuing invoices. HSN code or the Harmonised System of Nomenclature code is used across the globe for systematic classification of goods.	The move is aimed at curbing tax evasion.
7.	**GST**	The government has notified modifications in the GST rules as per which a business will now undergo in-person verification before it is registered under GST. Incase an applicant opts for Aadhaar authentication, they will undergo biometric-based Aadhaar authentication at one of the facilitation centres, notified by the commissioner. However, if registering without Aadhar, the GST administration would need biometric information and verification of KYC documents at designated verification centres. For existing registrants suspected of foul play, their registration can now be cancelled if Input Tax Credit (ITC) is claimed in violation of law. Further, taxpayers who could claim 10 per cent of ITC for invoices that were not uploaded by their supplier can now claim only 5 per cent ITC on such invoices. This rule will come into effect from January 1 next year. Additionally, certain businesses will now have to discharge at least 1 per cent of their tax liability through cash owing to restriction on using ITC for the full amount. These taxpayers are those whose GST turnover isn't commensurate with their income tax profile or the ones who supply goods and services worth more than Rs 50 lakh in a month.	The move is aimed at curbing GST credit fraud and fake invoicing.

S. No	Area	Policy Announcement	Likely Impact
8.	**Agricul-ture**	The government has issued guidelines for implementation of feeder-level solarisation under the PM-KUSUM scheme after consultation with state governments. The scheme consists of three components: 1. Component-A includes installation of decentralised ground mounted grid connected renewable power plants, 2. Component-B includes installation of standalone solar powered agriculture pumps and 3. Component-C includes solarisation of grid-connected agriculture pumps. After consultation with states, it has been decided to also include feeder level solarisation under Component-C of the Scheme. As per the guidelines, distribution company (discom)/power department will be the implementing agency for feeder-level solarisation in their respective area and the state may choose to install feeder-level solar power plants of capacity higher than capacity required for supplying power to agriculture feeder. However, the use of indigenously manufactured solar panels with indigenous solar cells and modules has been made mandatory.	The move would help in achieving economies of scale and ensure better efficiency.
9.	**Bilateral Agree-ments**	India and the US have signed a Memorandum of Understanding to co-operate on intellectual property examination and protection for the next 10 years and to strengthen the IP systems in both countries. The MoU was signed between the United States Patent and Trademark Office (USPTO) and Department for Promotion of Industry and Internal Trade (DPIIT) during a virtual meeting after and earlier MoU between the two countries expired nine years ago. The new MoU envisions work on two paths -- substantive, and administrative. Within the substantive pathway, the two countries will jointly build capacity in the full range of intellectual property disciplines, including patents, trademarks, copyright, and geographical indications. While on the administrative side, ideas and experiences will be shared on how to manage the operations of the respective IP offices, including the use of tools to enhance efficiency and productivity.	The move will strengthen IP systems of both the countries, enabling further innovation and growth.

Confederation of Indian Industry

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.

For 125 years, CII has been working on shaping India's development journey and, this year, more than ever before, it will continue to proactively transform Indian industry's engagement in national development. The premier business association has more than 9100 members, from the private as well as public sectors, and an indirect membership of over 300,000 enterprises from around 288 national and regional sectoral industry bodies.

With 68 offices, including 9 Centres of Excellence in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 394 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry
RESEARCH

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