JUNE 2018

Confederation of Indian Industry

ECONOMY MATTERS

Volume 22 No. 04

EMPOWERING MSMEs

Inside This Issue

- Focus of the Month: **Empowering MSMEs**

  Articles by:
  - *Mr. Shreekant Somany, Chairman, CII MSME Council & CMD, Somany Ceramics Ltd.*
  - *Mr. Nalin Kohli, Co-chair, CII MSME Council & CEO, Araina Enterprises Pvt. Ltd.*
  - *Mr. Ashok Saigal, Member, CII MSME Council & MD, Frontier Technologies Pvt. Ltd.*
  - *Mr. Kuntal Sensarma, Economic Adviser, DIPAM, Ministry of Finance, Government of India*
- **Domestic Trends**
- **State of the States**
- **Global Trends**
- **Policy Focus**

FOREWORD

Chandrajit Banerjee

Director General, CII

Micro, Small and Medium Enterprises (MSMEs) sector is the backbone of the national economic structure and has acted as the bulwark for the Indian economy, providing it resilience to fend off global economic shocks and adversities. The development of the sector is extremely critical to meet the national imperatives of financial inclusion and generation of significant levels of employment across urban, rurban and rural areas and to catalyse socio-economic transformation. Easy access to credit and finance remains one of the many challenges faced by the sector. Hence, in view of the sector's importance in the overall economic landscape, it is critical the MSME sector develops through the concerted efforts of various stakeholders, including banks and financial institutions, equity funds, industry majors and MNCs, regulators across various ministries at the Center and in the States, and trade associations, together, to create a forward-looking framework and ecosystem. The competitiveness of the MSME sector is critical for sustaining economic growth.

On the domestic front, the upswing in GDP growth in 4QFY18 is encouraging and reinforces CII's own assessment that the economy is back on track and is set for a strong recovery after the period of disruptions sparked by demonetisation and GST implementation. A key highlight of the data release was the bounce back of industrial capex and we can expect fresh investments as well as capacity creation in FY19 as the demand cycle improves further based on tailwinds created by factors such as prognosis of a good monsoon, improved rural consumption on the back of rising rural wages, increased government spending and better export performance. Overall, we expect GDP growth to come in a range of 7.3-7.7 per cent in FY19 supported by these factors.

The increase in the Federal funds target range to 1.75-2.00 per cent in mid-June 2018 was widely expected. The repercussions of a rate hike by the US on emerging economies like India are manifold. Firstly, it will likely result in a further decrease in the interest rate differential which will drive away the FII flows and put downward pressure on the rupee. To be sure, the Indian rupee has depreciated by over 6 per cent against the dollar since the beginning of 2018, making it one of the worst performing currencies amongst the major Asian currencies. Apart from the US interest rate, the secular rise in global oil prices is also building up the pressure on the rupee due to its impact on the current account deficit. The drop in the value of the rupee taken together with the volatile and rising global oil prices has proved to be a double whammy for the economy, given its impact on domestic inflation.

Chandrajit Banerjee
Director General, CII

Contents

KEY MONTHLY DEVELOPMENTS

DOMESTIC

- **GDP:** Real GDP grew at an impressive rate of 7.7 per cent in 4QFY18 aided by a robust showing by private, government and investment spending. For FY19, we expect GDP growth to come in a range of 7.3-7.7 per cent.

- **Industrial Production:** Industrial output picked up pace in April 2018 after showing a sharp moderation in the previous month. The rebound in industrial output augurs well for the return of broad-based recovery in industrial performance during the year.

- **Inflation:** Both CPI and WPI indices galloped in May 2018 mostly led by fuel inflation. CPI inflation is inching closer to 5 per cent. Going forward, the movement of inflation indices will be dictated mainly by the staggered impact of HRA revisions by state governments in addition to the trajectory of the South West (SW) monsoon.

- **RBI policy:** The Reserve Bank of India (RBI) raised the policy repo rate by 25 bps to 6.25 per cent in its policy meeting held on June 6th, 2018 while maintaining a neutral stance. The increase in rates were driven by sharper-than-anticipated core inflation and revival of domestic growth.

- **Trade:** In some encouraging news, merchandise exports growth picked up to 20.2 per cent in May 2018 after four months of subdued growth while growth in merchandise imports also accelerated. Going forward, the ascent in oil prices and the uptick in consumption spending of households due to 7th pay commission handouts will keep import growth higher than export growth.

- **Exchange rate:** The rupee has depreciated against the US dollar by close to 3 per cent in May 2018 on m-o-m basis and around 6 per cent since January 2018 on net FII outflows during this period. In view of the rising crude oil prices and increased protectionism, we can see the USD/INR pair depreciating further in the near-term.

- **CII Business Confidence Index:** The CII Business Confidence Index (CII-BCI) for April-June 2018 quarter improved marginally, standing at the level of 60.1 from 60.0 recorded in the previous quarter. The uptick in the index for the third consecutive month, even though marginal, is an indicator that business sentiment is improving.

GLOBAL

- **US Fed rate:** US Fed raised the key interest rate to a range of 1.75-2.00 per cent in June 2018 and signaled that two additional increases were on the way this year, as officials expressed confidence that the US economy was strong enough to withstand a rise in borrowing costs without choking off economic growth.

- **India in the World:** India has moved up to 44th position on the IMD's World Competitiveness. Ranking 2018, up one rank from last year. However, India is among the bottom five countries–177 among 180 countries–on the Environmental Performance Index 2018, plummeting 36 points from 141 in 2016.

- **Crude prices:** Crude prices have cooled down a bit from the highs posted in May 2018. The moderation came in the wake of Saudi Arabia and Russia's intent to increase supply, to offset the output shortfall from Iran and Venezuela.

FOCUS OF THE MONTH

EMPOWERING MSMEs

Globally, MSMEs play a leading role in propelling economic growth and promoting equitable regional development. In India too, MSMEs contribute significantly to employment intensive growth and account for a major share in industrial production and exports. Indeed, a technologically vibrant and internationally competitive MSME sector is crucial for rapid growth and for integration with major global value chains. On the employment front, India has the unique advantage of demographic dividend which is expected to last for the next few decades. Owing to the high rate of unemployment in the agricultural sector, it falls on the MSMEs to provide opportunities of gainful employment to the nation's youth. Rising to the challenge, MSMEs are increasingly contributing towards employment generation, especially in the rural areas.

It is heartening to note the positive interventions of the government in promoting sustainable growth of MSMEs through an array of schemes targeted towards the sector. The Make in India initiative and its accent on increasing the share of manufacturing in GDP from the present 15 per cent to 25 per cent by 2022 has the potential to transform the fortunes of the MSME sector. In this context, concerted efforts to enhance the productivity and global competitiveness of MSME manufacturing units will have a major bearing on India's manufacturing growth. In fact, the government envisions a key role of this sector for providing an impetus to the Make in India initiative.

However, in spite of their significance, these enterprises face an assortment of challenges and constraints. Some of these include poor access to finance, shortage of skilled manpower, technological obsolescence, regulatory issues, etc. In view of the importance of the MSME sector in enabling the domestic growth process, this month's Focus of the Month is on the MSME sector, wherein sectoral experts present their insights into some of the pertinent issues plaguing the sector.

Changing Paradigm of MSMEs

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

Micro, Small and Medium Enterprises (MSMEs) constitute the lifeline of the Indian Economy. Apart from contributing to economic growth, these also help in overall socio-economic development of the country. This is corroborated by the NSS data (73rd round) which reports the total number of establishments in the country to be 63.4 million providing employment to about 117 million people. Around 51 per cent of these enterprises are in rural areas while the rest, 49 per cent, are in urban areas.

The potential of the sector in the holistic development of the country has been well acknowledged by the government and this bottom-up approach has been elemental in the present policy paradigm for economic growth. The thrust of these policies is towards nurturing, reviving and bolstering the micro, small and medium enterprises. It has also been endorsed in the form of initiating various forward-looking policies promoting the MSME sector like Make in India, Digital India, Skills India and more. These flagged schemes have contributed towards the growth of the sector by 7 per cent in the last decade. The sector accounted for 28.77 per cent of the national GDP during the year 2015-2016.[1] The MSME sector constituted 6.11 per cent of the manufacturing GDP, 24.63 per cent of services, 33.4 per cent of India's manufacturing output and 34 per cent of total exports.[2]

Some of the recent policies which have impacted the sector, are mentioned here under:

Policies to Check Irregularities in the Banking Sector

The decision of the RBI to recently ban letter of Undertaking (LoU), as a step to check the irregularities in credit disbursal by the banking sector, has adversely impacted genuine importers, especially in the MSME sector. The traders and units which have been conducting business through this instrument have been made to necessarily shift their transactions to Bank Guarantees thereby raising their borrowing cost.

While the ban did not have any direct implications on those MSMEs whose business model did not involve imports, the sector still felt the heat as the banks have become defensive when it comes to loan disbursal to this sector. Besides, the banning of LoUs by the RBI has increased the working capital requirement of small and medium industries resulting in higher cost of production. Though easy credit availing instruments facilitated by the government are present, banks remain a vital part of the credit framework for availing larger quantum of credit. Nevertheless, subsequently the difficulties in procuring credit by the MSMEs have been addressed broadly by increasing the credit cap of prevailing schemes and increased lending by NBFCs.

Addressing Demonetization

While demonetisation initially impacted the day to day business activities of the micro and small enterprises due to acute cash crunch in the market, it had long term benefits of including the small industries into the formal system of lending. The move compelled the banks to consider the MSMEs as their prospective clients. Post demonetization, the liquidity shortage in the marketplace made borrowing from banks much easier than from the market. Collateral free credit facilities through Credit Guarantee Fund Scheme attracted greater number of micro and small enterprises to the formal credit system. The launch of micro credit schemes like Mudra, specially designed to cater to micro and small enterprises, has further drawn small informal enterprises into the formal credit system.

Other than formalizing credit systems of micro and small enterprises, the initiative is promoting financial literacy and financial inclusion at the grassroot level. The rise in the number of Jan-Dhan accounts and Public Provident Fund accounts since demonetization can be attributed to increased acceptance and adoption of financial products.

---

1 *https://msme.gov.in/sites/default/files/MSME-AR-2017-18-Eng.pdf*

2 *http://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECvTuNuXK6QP3tp4gPGuPr/xpT2f*

'GST'- Boon or bane

The roll out of GST has helped to boost the competitiveness of the MSME sector by facilitating ease of doing business through the creation of a seamless market and by reducing logistics costs. However, in so far as compliances are concerned, it has both positive and negative implications for MSMEs, which are as under:

On the positive side, GST has made it easier to start a new business and processes have been standardized. GST has played a significant role in MSME market expansion as seamless input tax credit (ITC) is available and uniform tax rate is applicable on products across the country. Earlier, large corporations procured goods based on the locality of MSMEs to reduce overheads. Consequently, they preferred to limit the customers within the state to save on the burden of tax and as a result lose out on this customer base. In the present scenario, this will be nullified and the tax credit will get transferred. This has made it possible for MSMEs to expand across borders. Another significant benefit of GST is that, being tax neutral, it has eliminated the cascading effect of tax and accordingly reduced costs. Further, border tax procedures and check posts have been eliminated. This will promote hassle-free supply of goods across borders thereby reducing logistics cost and transportation time. This has provided a breather for all and especially MSMEs.

Under GST, the entire amount of input tax paid on capital goods can be credited in the year of purchase / receipt of capital goods whereas earlier only 50 per cent of the amount was available in the year of purchase and the balance in subsequent years which has saved the working capital. This policy is a firm step towards the "Make in India" campaign.

Having said so, the reduction in threshold exemption limit for tax purposes for the manufacturing sector from Rs 1.5 crore under erstwhile central excise to Rs 20 lakhs under GST is an area of major concern. This reduction in threshold has significantly affected the MSMEs' working capital.

Further, the filing of multiple returns and state wise registrations for service providers has also adversely impacted the compliance costs. MSME manufacturers have also been adversely affected as imports of consumer goods have become cheaper under GST. Further, in the transitional period, the delay in refund of IGST paid on exports impacted working capital of MSME exporters.

Despite this, the Goods and Service Tax has been a major milestone in the economic map of India due to a simpler tax structure and other fringe benefits. Further, the government's focus on digitalization, technology upgradation, single window clearance, online approvals, etc. will help to simplify business processes and regulations. Moreover, the various benefits in the Union Budget for the MSME sector will further help the units to become competitive. The MSME sector is well-equipped to fulfil its role as the backbone of Indian economy and is poised to make "Make in India" campaign a reality in the near future.

PPP- boosting MSMEs

The Public Policy Recruitment order, 2012, was government's novel step towards promoting MSMEs. The initiative mandated the PSUs and other government agencies to meet 20 per cent of their annual demand through procurement from MSMEs. The order came into force in 2012 and since then the total procurement from MSMEs by the government agencies have grown by 11.29 per cent in 2016. The initiative addressed one of the fundamental challenges of marketing faced by the MSMEs. Opening of marketing channels also rendered financial stability to the MSMEs.

Public Procurement (preference to Make in India) Order, which was released in 2017, further strengthened the public procurement policy. By mandating manufacturing at local level, it ensured business to local SMEs and facilitated employment generation. The initiative further gave priority to local SMEs even in the process of bidding. Additionally, it mandated fifty per cent manufacturing to be done by local SMEs in case the bid is won by any non-local enterprise.

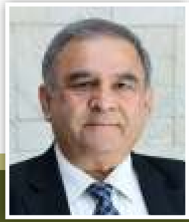
Through the launch of the web portal MSME- Sambandh, the government has ensured that the benefits are accrued by the MSMEs on real time basis. Apart from monitoring the procurement process, the portal ensures accountability and transparency.

Digitization- carving future of MSMEs

As per the NSSO survey, there are almost 6.34 crore MSMEs spread across the length and breadth of the country. Digitization in MSMEs would be a boon to provide a two-way interface for information dissemination regarding technical updates, innovations, financial updates as well as for grievance redressal. The digital drive makes such information available at the reach of one click thereby helping better equipped enterprises to take advantage of the changing global business practices to stay ahead. Digitization will also facilitate newer marketing channels through e-commerce for MSMEs. Research studies suggest that adoption of ICT tools by the Indian SMEs can compound the overall revenues of the sector by almost Rupees three lakh crores and provide avenues for about 11 lakh jobs. In addition, it would en-route effective communication channels thus enabling the government to take quick action on the issues inhibiting the growth of MSMEs.

Promoting Exports- future of MSMEs

The Make in India drive has been aggressively pushing for improving exports. The government has introduced various schemes and policies to promote exports among the MSMEs. To name a few, the Merchandise Exports from India Scheme (MEIS), Services Export from India Scheme (SEIS), Interest Equalization Scheme on Pre- and Post-Shipment Rupee Export Credit, Special Advance Authorisation Scheme, Niryat Bandhu Scheme and the Export Promotion Capital Goods Scheme are playing a pivotal role in promoting exports by MSMEs by easing out the stringent norms and regulation of export and relaxing short-term import levy. Additionally, it has also reduced export obligations by 25 per cent which would encourage procurement of capital goods from indigenous manufacturers for export.



Digitisation- MSME's Road to Sustenance and Stability

Mr. Nalin Kohli
Co-chair, CII MSME Council &
CEO, Araina Enterprises Pvt Ltd.

Digitalization offers a wide window of opportunity by assimilating the entire globe in a single interface. Owing to its far-reaching benefits, the demand for digitalisation has been growing enormously. India is not far behind in the race, with approximately 462,124,989 internet users reported in December 2017, accounting for 34.1 per cent penetration as per IAMAI.[3] The BCG-Google study anticipated the growth of internet users to almost 650 million users[4], IBEF predicted an increase in the number of inter users to 730 million[5] by 2020. The growth can be attributed to deep penetration of internet enabled phones if not smartphones and the expanding web of internet connectivity.

Digital technology works towards bridging the knowledge gap by keeping the users abreast of latest technological developments, learning about innovations and making them aware of relevant policies and information. Other than being a source of information, it also poses as a platform for marketing and a tool supporting digital payments. Relaxed regulatory framework for digital transactions by the government like relaxed KYC norms, exemption from two factor authorisation, linking of Aadhar to bank accounts and launching of UPI has moved India into a path of digital revolution.

Taking cognisance of the array of opportunities the digital technology provides, the government of India has been vociferously pushing the Digital India campaign especially for the Micro, Small and Medium Enterprises. The importance of MSME sector to the Indian economy is evident from its contribution to the overall GDP. Analysis of the data suggests that it contributed approximately 30 percent to the India's GDP from FY12 to FY15. There are approximately 63.4 million operational MSME in the country which provide employment to over 117 million people[6]. The sixth economic commission-MSMEs reported that over the intervening period of fifth and sixth economic census of MSME i.e. within eight years, MSMEs registered a growth of 41.79 per cent[7]. The demand for MSMEs as a viable opportunity for income generation is evident from its growth. Its significance to the economy can be measured by its contribution to GDP along with its role to drive the country's socio-economic indicator.

Given the relevance of the sector to propel the growth trajectory of India, adoption and acclimatization of the MSMEs to the digital ecosystem is of paramount importance. Based on analysis of data from ITOPS and a primary telephonic survey by Kantar IMRB in November 2016 of 504 SME, it was found that SME who adopt digital technologies,

- Grow profit upto two times faster than the offline SMEs
- 51 per cent of digitally enabled SMEs sell beyond city boundaries as compared to 29 per cent of offline SMEs
- Employ upto five times more people than the offline SMEs[8]

While mobile phones and internet access have enveloped almost the entire geographical expanse, application of technology for business has still miles to go. A report by KPMG states that only two per cent of the SMEs were actively engaged in digital business while 30 per cent of the SMEs were partially engaged in conducting business through the digital platform. A staggering 68 per cent of the SMEs were reported to be completely offline and still depending on the archaic methods of business dealings.

---

3 *https://www.internetworldstats.com/asia.htm*
4 *https://media-publications.bcg.com/BCG-Google-Digital-impact-in-FMCG-Sep2017.pdf*
5 *https://www.ibef.org/industry/information-technology-india.aspx*
6 *https://msme.gov.in/sites/default/files/MSME-AR-2017-18-Eng.pdf*
7 *http://mospi.nic.in/sites/default/files/economic-census/sixth_economic_census/all_india/5_Highlights_6ecRep.pdf*
8 *https://assets.kpmg.com/content/dam/kpmg/in/pdf/2017/01/Impact-of-internet-and-digitisation.pdf*

With the intent of encouraging the use of digital network as a platform for business along with utilizing it to reach out to the MSMEs, the government of India has come up with a number of digital solutions, some of which are mentioned hereunder:

- **Udyog Aadhaar Memorandum** which eases out the registration process of the MSMEs. It requires the entrepreneurs to fill an online form to get a unique Udyog Aadhar Number.
- **MSME Databank** is an online portal of information where the MSMEs are required to furnish information relating to their enterprises. This will help the government to streamline and monitor the data along with transferring the benefits to the MSMEs directly. It also facilitates the public procurement process by updating product information on the portal.
- **My MSME** is a web based module which will allow the entrepreneurs to avail benefits of various schemes and monitor their applications.
- **Direct Benefit Transfer** aids in electronic transfer of funds to the beneficiaries' account under various schemes meant for MSMEs.
- **Digidhan Mission** promotes digital transactions through spreading awareness about different methods of cashless transactions. As a part of the mission different apps and portals like UPI, BHIM and Bharat QR has been designed and promoted. Similarly, all concerned departments of the Ministry of MSMSE have been adopting digital payments as a preferred mode of financial transaction.
- **Centralized Public Grievance Redress and Monitoring System** (CPGRAMs) is an online portal for grievance monitoring
- **MSME SAMADHAAN** has been launched as a platform to monitor and address delayed payment to the MSMEs by the concerned department directly.
- **MSME SAMBANDH** has been launched as a portal to aid in effective implementation of the Public Procurement Process. The portal updates information about the status of the targeted procurement and procurement done by the CPSEs from the MSEs.
- **Technology Centre Systems Programme** has been initiated to address the growing need for technological upgradation of the MSMEs to thrive in the competitive market. Other than building physical infrastructure for information dissemination, a digital portal has been created to meet various technological demands of the MSME sector across the country.

A study by Google- BCG anticipated internet users in rural India to grow by almost 16 per cent by 2020. The digital payments industry is also forecasted to grow to 500 billion dollars by 2020 contributing to 15 per cent of the GDP[9].With wave of internet enveloping the entire nation, the time is apt for actively pushing the digitization drive to reap maximum benefits by the MSMEs.

While we propagate the expansion of digitization drive, there are certain impediments which inhibit the adoption of digitization. Some of the broad constraints are:

- Lack of awareness of the benefits accrued through going digital with business dealings
- Lack of clarity on the process of utilizing the platform to its optimum. This inhibits the enterprises which are already digitally active to use the platform regularly.
- Limited capability of the organization for going digital due to infrastructural limitations.

Nevertheless, the efforts of the governmenttowards aggressively pushing digital revolution as well as the growing preference of the masses towards adoption of digital platform is paving the path for a universally digitised India. A robust digital network would connect the entire business ecosystem like neurons. This will result in sustainable growth of MSMEs through interfacing with the latest technological innovations, efficient and fast payment method and a stable market system through e-commerce.

---

[8] *https://www.bcg.com/en-in/d/press/25July2016-digital-payments-2020-making-500-billion-ecosystem-in-india-39417*

Ease of Doing Business- Making the Most of the Opportunity for Indian MSMEs

Mr. Ashok Saigal
Member, CII MSME Council &
Managing Director, Frontier Technologies Pvt Ltd

Many years ago, when the concept of Ease of Doing Business had not caught the attention of many in key positions in the Government, there was a feeling that whenever Industry spoke of Ease of Doing Business they were in fact advocating for Ease of Making More Profits. And Profit was a dirty word!

It was the legendary CEO of Avis, Robert Townsend, who wrote in 1970 about business, "If you are not in it for fun or profit, what the hell are you doing there anyway."

It was a revolutionary opinion for the times, just as it would have been in India till the 1980s.

Fortunately, times have changed. Businessmen in India are no longer seen as only exploiters of the masses (with a few exceptions), but as creators of wealth for the nation and economic opportunities for its citizens. The tremendous economic growth and increasing prosperity in India is not seen as emanating from the direct success of the public sector alone, but from the tremendous enterprise of the private sector, which has created both wealth and employment opportunity for millions.

With this has come the realisation that if business is, and has to continue be a major engine for growth, Ease of Doing Business is essential. The latest ranking released by World Bank in October 2017 shows that India has jumped 30 ranks in the current ranking of Ease of Doing Business and for the first time India has been placed in the league of top 100 nations in terms of business friendliness. The Government of India has further set a target of improving this to being amongst the top 50 nations.

The Indian MSME Sector has been recognised as having a key role to play in the growth projection of India achieving the goal of becoming a US$5 trillion economy by 2025 with the GDP growing at 8.5 per cent. Currently, there are around 63.4 million micro, small and medium enterprises across various industries, employing 117 million people in India. The sector accounts for 45 per cent of India's industrial output and 40 per cent of exports. To be able to meet the needs of India's large population, the country needs to create around 15 million jobs every year, and the MSME sector can contribute significantly to employment generation and development of the economy.

With the current government initiatives in place that revolve around helping enterprises in the MSME sector, starting a business today is a lot simpler as compared to the last decade. Procedures have been simplified and disseminated through web-sites to reduce the time required to complete formalities of registrations and permissions. Then there are numerous programs at the policy level such as Start-up India and Stand-up India and funding schemes like Mudra and Central Credit Guarantee Scheme to act as accelerators, investors, incubators and mentors available to handhold a business just to ensure they see the future of every business.

However, despite this, complex rules and reporting systems make many very small enterprises shy away from joining the formal economy. MSME units just do not have and cannot afford a cushion of available systems or expertise or the number of managerial manpower that can generate the complicated and voluminous compliance reports and data. At the local level the process of compliance and getting timely decisions has the potential to be eased significantly. So many MSMEs prefer to operate below the radar in the "unorganized" sector than make themselves visible to the plethora of inspectors and inspecting agencies. In the process the Government is also deprived of reliable data which can help make better decisions. A major side benefit of Ease of Doing Business will be the resulting increased compliance and reporting by the MSME Sector.

In recognition of the key role played by the MSME Sector, the Government of India has been driving various visionary initiatives and economic reforms to make it easier for the MSME to do business. The MSME Sector, with active support from the MSME Ministry and various other Ministries, has found that it is given a patient and sympathetic hearing to their suggestions on simplifying required procedures. In most interactions with policymakers it is quickly acknowledged that there are problems that need to be addressed. At the same time the MSME representatives find that the problems they bring to the table are not unknown to the officials they speak with.

The MSME Sector can take maximum advantage of this favourable climate by going beyond stating the problems, but proposing the solutions. And it is the practicality of making the process simpler and easier, and empowering the decision makers to make decisions that has long been the stumbling block. It requires a deep study of the existing process to come up with specific suggestions and present these in a way that facilitate their acceptance. Fortunately, the MSME Sector is in a good position to do so. Unlike the large-scale sector where layers of subordinates deal with such operational complexities, the senior management of the MSME Sector directly face the difficulties.

Some of the proposals that CII has made to the Government seek to eliminate the need for frequent repetitive resubmission of information already available in the Government domain, though perhaps in another department. Linking of these data electronically, and submission and acknowledgements on line with automatic monitoring of action taken through the automatically generated time-stamps has increased. Yet at the ground level many departments still ask for hard copy submissions. Such bottlenecks and lagging areas need to be identified and worked on. Many tax audits and cross verification of data have been automated, but many others need to be brought into this practice. Efforts to ease Trade across borders and customs procedures have had significant inputs from the CII MSME members, and faster clearance and simplification has resulted from them. Generation of employment being a major benefit seen from the growth of MSMEs for which labour reforms need to be accelerated and implemented.

At its own level CII has taken many initiatives to make business easier for MSMEs by providing Centres of Excellence to enable scaling up of technology and operations. Many workshops and webinars are aimed at creating awareness of best practices and educating MSMEs. Industry clusters have helped create synergies.

CII has given importance to the Ease of Doing Business initiative through a special National Level Committee for it. This Committee has given special opportunity to MSMEs by having a place for a Member nominated by the CII SME Committee. Within the SME national Committee too the Chairpersons have been giving it great importance by having a Sub-Committee dedicated to it. It is therefore the responsibility of the CII MSME Members to continue to play their part in helping themselves and the country by identifying the areas where simplification is possible, identifying workable alternatives, and proposing them persuasively through these channels.

Are Flagship MSME Schemes Benefitting the States Uniformly ?

An Analysis of the Distribution of Benefits/ Funds Across States

Mr. Kuntal Sensarma
Economic Adviser, Department of Investment & Public Asset Management (DIPAM)
Ministry of Finance, Government of India

Introduction

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic development of a nation. The contribution[10] and share of MSMEs in India's GDP and employment are significant. In 2014-15, the share of MSME manufacturing in India's total manufacturing output was 33.4 per cent while the contribution of the MSME sector as a whole to India's GDP during the same year was 30.74 per cent at 2011-12 prices.

Performance of Major Schemes/Programmes for MSMEs in India

The latest data available from the Ministry of MSME covers primarily the registered segment of the industry. With effect from 18th September, 2015, the Ministry of MSME launched the Udyog Aadhaar Memorandum (UAM) system which is a one-page registration form wherein the MSME are required to self-certify its existence, bank account details, promoter/ owner's Aadhaar details and other basic information including the social category of the entrepreneur or owner. The registration can be done at the Udyog Aadhaar website (www.udyogaadhaar.gov.in). The UAM registration will enable the unit to apply online for various services/ schemes being offered by the Ministry.

Major Schemes for MSMEs

Two of the most popular schemes being implemented by the Ministry of Micro, Small and Medium Enterprises, Government of India are the Credit Linked Capital Subsidy Scheme (CLCSS) and Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE). Both these schemes are implemented by the Office of the Development Commissioner (MSME) and were launched in the year 2000-01 and targeted at the micro and small enterprises only.

1. Credit Linked Capital Subsidy Scheme (CLCSS)

The objective of the Scheme is to facilitate technology up-gradation in Micro and Small Enterprises (MSEs) by providing an upfront capital subsidy of 15 per cent (on institutional finance of upto Rs 1 crore availed by them) for induction of well-established and improved technology in the specified 51 subsectors/ products approved. In other words, the major objective is to upgrade their plant & machinery with state-of-the-art technology, with or without expansion and also for new MSEs which have set up their facilities with appropriate eligible and proven technology duly approved under scheme guidelines. MSEs having a valid Udyog Aadhaar Memorandum (UAM) number are eligible to avail of benefits under this scheme.

At present, the Scheme is being implemented by 12 nodal banks/agencies including Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD). Except for SIDBI and NABARD, all the nodal banks/agencies would consider proposals only in respect of credit approved by their respective branches. In respect of other Primary Lending Institutions (PLIs) approved under the guidelines, SIDBI and NABARD are the nodal agencies for release of subsidy under this Scheme. Online application and tracking system has been introduced w.e.f. 1.10.2013 and the SME units need to upload their subsidy claim application through their PLIs.

2. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) Scheme

Availability of bank loan without any collateral is a major requirement for boosting first generation entrepreneurship in India. In order to help millions of first generation entrepreneurs start their business with a bank loan (without the hassles of collateral), the Ministry of Micro, Small & Medium Enterprises (MSME) had launched the CGTMSE Scheme in the year 2000. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) is operationalized by SIDBI and the Government of India.

The main objective of the CGTMSE scheme is that banks should give importance to project viability or business model validation and secure the loan facility only based on

[10] *Annual Report 2016-17, Ministry of MSME*

the assets financed by the bank loan. In the event a Micro or Small Enterprise (MSE), which availed loan under the CGTMSE scheme, fails to repay the loan commitment to the bank, the CGTMSE organization would make good the loss incurred by the bank. The limit of guarantee provided is to the extent of 75 per cent / 80 per cent of the sanctioned amount of the credit facility for credit facilities upto Rs. 50 lakh. For credit amount upto Rs. 5 lakh to micro enterprises, the guarantee cover is 85 per cent. The 80 per cent limit for loan amount upto Rs. 50 lakh is applicable for (i) micro & small enterprises owned by women and (ii) for North East Region. The extent of guarantee reduces to 50 per cent for loans above Rs. 50 lakh and upto Rs. 2 crore. A credit facility which has already become NPA is not covered.

Under the CGTMSE scheme, a bank loan of upto Rs.2 crore (limit raised from Rs. 1 crore to Rs. 2 crore in January 2017) provided to a startup or an existing business in the form of term loan or working capital or both can be covered. Businesses in the manufacturing sector and service sector are eligible. However, retail trade, educational institutions, agriculture, Self Help Groups (SHGs) and training institutions will not be eligible to obtain a loan under CGTMSE Scheme. Recently, the guarantee coverage has been extended to loans from NBFCs. Also, the corpus of CGTMSE has been increased significantly from Rs. 2500 crore to Rs. 7500 crore.

The present study covers 28 States[11] /UT.

A. Performance of CLCSS

Table 1 below brings out the cumulative inter-state share of MSE units supported by CLCSS and subsidy provided by the government under the scheme (from inception of the scheme till 30.6.2017).

J &K, Punjab, Haryana, H.P.,Delhi& Rajasthan (North zone), Goa, Gujarat & Maharashtra (West zone), Telangana, Andhra Pradesh, Karnataka, Kerala & Tamil Nadu (South zone), Chhattisgarh, M.P. & U.P. (Central zone), Bihar, Odisha, Jharkhand & West Bengal (East zone) and 7 Northeastern States.

Table 1: State-wise Share of Units covered & CLCSS Subsidy since 2000-01 (inception year) till 30.6.2017

States	Share in Number of Units Covered (in per cent)	Share in CLCSS Subsidy (in per cent)
North Zone		
Delhi	0.99	1.18
Haryana	5.16	6.05
Himachal Pradesh	0.06	0.07
Jammu & Kashmir	0.00	0.00
Punjab	8.65	8.73
Rajasthan	5.40	5.91
West Zone		
Goa	0.10	0.09
Gujarat	31.13	30.78
Maharashtra	14.31	14.88
South Zone		
Andhra Pradesh	3.88	5.12
Karnataka	9.14	7.76
Kerala	0.49	0.61
Tamil Nadu	13.92	10.77
Telangana	0.44	0.67
East Zone		
Bihar	0.06	0.09
Jharkhand	0.34	0.41
Odisha	0.71	0.73
West Bengal	0.49	0.77
Central Zone		
Chhattisgarh	0.72	0.82
Madhya Pradesh	0.78	0.92
Uttar Pradesh	2.08	2.39
North Eastern States	0.04	0.06

Source: *Calculated from cumulative data*

[11] *J &K, Punjab, Haryana, H.P., Delhi & Rajasthan (North zone), Goa, Gujarat & Maharashtra (West zone), Telangana, Andhra Pradesh, Karnataka, Kerala & Tamil Nadu (South zone), Chhattisgarh, M.P. & U.P. (Central zone), Bihar, Odisha, Jharkhand & West Bengal (East zone) and 7 Northeastern States.*

It is evident from Table 1 that five States- Gujarat, Maharashtra, Tamil Nadu, Karnataka, and Punjab together had a share of over 77 per cent of the total MSE units covered under CLCSS for grant of subsidy. These five States together had also more than 73 per cent of the share of subsidy released over the last 17 years since the inception of the scheme in 2000-01. The four States of East zone taken together received only 2 per cent of the subsidy as also Chhattisgarh & Madhya Pradesh in the Central zone which received less than 1 per cent of the subsidy. If one considers, the Northeastern States (NES), the status is appalling (coverage was not even 0.1 per cent both in terms of share in proposals and subsidy released). Jammu& Kashmir poses a pathetic picture with only 0 per cent share (actually only 1 unit availed of subsidy during this entire period of 17 years). The status of coverage in Bihar is almost similar with not even 0.1 per cent share in coverage.

Table 2 below attempts to capture the relation between CLCSS Subsidy released to MSE units in different States and the contribution of the manufacturing sector in the gross domestic product of the State (GSDP). It is evident that for each of the 3 years – 2012-13, 2013-14 and 2014-15, the contribution of manufacturing sector to GSDP was highest in Maharashtra, followed by Gujarat, Tamil Nadu, and Karnataka. A high positive correlation between subsidy released and size of GSDP from manufacturing is on expected lines. Better technology is the key to higher productivity and higher output. Although the correlation coefficient does not per se imply any causation between the variables, however, the high positive correlation (varying from 0.73 to 0.78 for each of these years) implies a strong positive association which means that micro and small enterprises in the more industrialised States are availing of CLCSS subsidy for technology upgradation and thereby contributing to higher manufacturing output. This is amply reflected by the fact that the two highly industrialised States of Gujarat and Maharashtra cornered the maximum benefits under CLCSS. Incidentally, the correlation coefficient remains similar if instead of subsidy amount, the number of units assisted is considered.

Table 2: State-wise Distribution of CLCSS Subsidy and GSDP from Manufacturing (in Rs. Lakh)

States	CLCSS Subsidy 2012-13	GSDP (M) 2012-13	CLCSS Subsidy 2013-14	GSDP (M) 2013-14	CLCSS Subsidy 2014-15	GSDP (M) 2014-15
Delhi	494	22,24,419	611	23,15,186	366	24,52,498
Haryana	2,020	63,49,760	2,545	67,65,323	3,413	69,87,402
Himachal Pradesh	33	19,24,071	36	20,52,197	73	22,38,899
Jammu & Kashmir	0	7,43,851	0	7,60,705	0	7,89,800
Punjab	4,095	38,92,533	4,003	40,72,839	3,255	42,61,467
Rajasthan	1,952	53,62,722	3,003	55,49,813	2,489	58,82,925
Goa	22	13,89,382	29	10,16,189	37	10,69,516
Gujarat	10,909	1,93,38,449	13,175	1,98,38,758	18,023	2,13,26,664
Maharashtra	4,652	2,66,67,940	7,868	2,81,80,094	7,328	2,94,72,034
Andhra Pradesh	1,653	40,18,820	2,194	3,85,748	1,221	41,64,888
Karnataka	2,604	1,03,55,690	2,422	1,08,79,255	2,549	1,17,13,701
Kerala	274	38,46,915	243	36,68,087	214	37,58,140
Tamil Nadu	3,603	1,70,07,020	3,181	1,67,96,887	2,323	1,70,94,248
Telangana	0	52,98,254	0	52,89,860	271	57,25,215
Bihar	4	9,71,402	28	18,89,284	0	19,01,006
Jharkhand	167	36,14,824	125	33,56,361	99	37,16,292
Odisha	217	39,99,269	231	47,97,958	141	52,97,939
West Bengal	198		279		314	
Chhattisgarh	216	26,60,179	313	35,88,922	463	40,65,674
Madhya Pradesh	291	39,67,354	565	37,01,507	358	39,16,538
Uttar Pradesh	710	91,44,724	767	1,04,18,284	1,275	1,09,68,287
North Eastern States	15	20,76,268	15	22,44,870	15	23,39,250
Correlation coefficient	0.75		0.78		0.73	

Source: *(a) GSDP(M), Handbook of Statistics on Indian States 2017, RBI;*
(b) CLCSS Subsidy, Office of DC(MSME)

B. Performance of CGTMSE Scheme

In respect of the CGTMSE scheme, it is essential to point out that there is no direct flow of funds to micro and small units, however, distribution of benefits can be gauged from the coverage of units under credit guarantee (for availing of collateral-free loans from banks) and the amount of guarantee cover provided against such loans.

Table 3 indicates the relative share of individual States in total credit proposals covered and the amount of guarantee cover. Certain interesting facts that emanate from this Table are:

(i) All the four States in the East zone had 4 to 5.5 per cent share both in total proposals covered and amount of guarantee cover;

(ii) Although the NES as a group received nearly 5 per cent share of proposals covered, however, with the removal of data of Assam (with 95,949 proposals), the share of the remaining 6 States in the region fell to a mere 1.55 per cent;

(iii) Apart from the 6 NES, Chhattisgarh, Goa, Himachal Pradesh and Jammu & Kashmir had low coverage;

(iv) Kerala despite having more than 9 per cent share in total proposals covered had less than 5 per cent share in the amount of guarantee provided, possibly implying a larger share of loans of smaller size getting covered;

(v) Punjab and Haryana which were important States in receiving benefits of CLCSS had relatively smaller shares under CGTMSE scheme implying that micro and small enterprises in Haryana and Punjab did not avail of the benefits of CGTMSE;

(vi) 14 major States had at least 3 per cent of their micro & small enterprises' loan proposals covered under CGTMSE and about 12 States had a share of more than 3 per cent in the guaranteed amount individually; and

(vii) Overall the benefits under CGTMSE scheme were better distributed among the States.

Table 3: State-wise Share of Loan Proposals Covered and Credit Guarantee Amount under CGTMSE (since inception till 30.6.2017)

States	Share in Loan Proposals covered under Guarantee (%)	Share in Amount of Credit Guarantee Approved (%)
North Zone		
Delhi	1.28	2.65
Haryana	1.35	2.07
Himachal Pradesh	1.74	1.95
Jammu & Kashmir	2.33	1.09
Punjab	2.24	2.51
Rajasthan	3.19	3.35
West Zone		
Goa	0.60	0.78
Gujarat	3.87	6.80
Maharashtra	8.02	11.65
South Zone		
Andhra Pradesh	3.18	1.88
Karnataka	8.90	9.58
Kerala	9.13	4.74
Tamil Nadu	10.00	8.33
Telangana	2.08	2.35
East Zone		
Bihar	4.90	4.41
Jharkhand	3.88	4.90
Odisha	4.68	4.14
West Bengal	5.53	5.57
Central Zone		
Chhattisgarh	1.38	1.47
Madhya Pradesh	3.72	4.13
Uttar Pradesh	11.15	9.76
North Eastern States		
Arunachal Pradesh	0.24	0.24
Assam	3.36	2.47
Manipur	0.24	0.17
Meghalaya	0.29	0.28
Mizoram	0.14	0.12
Nagaland	0.25	0.18
Tripura	0.37	0.27

Source: *Office of CGTMSE, Mumbai*

Suggestions & Way Forward for the MSME Sector in India

The state-wise analysis of data on subsidy released under CLCSS and loan proposals covered under CGTMSE clearly indicates that there is scope for improvement in the distribution of benefits under the respective schemes. In case of CLCSS, the concentration of benefits in few industrialized States is obvious. The benefits were distributed better among States in case of the other scheme, namely, CGTMSE.

Incidentally, both these schemes are demand driven and it is, therefore, often argued that there will be more demand from the industrialized States. However, ensuring a more equitable distribution in the growth of MSME units across the States along with a better spread of the benefits/ funds is a major challenge for the Government. For this purpose, the Ministry of MSME/ Office of Development Commissioner and its field offices (30 MSME Development Institutes and 28 Branch Institutes) along with SIDBI (as the main promotional agency) should play a more pro-active role.

Industry associations need to play a major role in generating awareness about these schemes for credit support and for technology upgradation. The associations should convince the member enterprises about the advantages of credit rating in facilitating bank loans. The associations must also impress upon all MSMEs including those in the unorganized sector to get themselves registered on the UdyogAadhaar portal for accessing the benefits of government measures.

There is no dearth of interventions on the part of Government of India to simultaneously address the non-financial constraints faced by the MSMEs including obsolete technology, lack of access to market, shortage of skilled labour, regulatory and taxation issues. However, such measures/ programmes need to be monitored more closely for efficacious results.

It is essential that all stake holders must address the constraints faced by the MSMEs (including the lack of finance) in a coordinated manner to ensure a greater contribution of this critical sector to India's GDP and employment in various States/ UTs.

(Views expressed are personal)

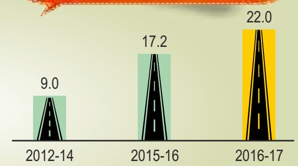
INFOGRAPHICS

Road Transport & Highways

- India has the second largest road network in the world at 5.4 million km.
- This road network transports more than 60 per cent of all goods in the country and 85 per cent of India's total passenger traffic.

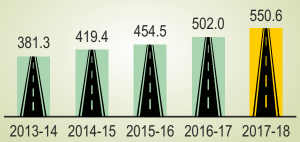
The Pradhan Mantri Gram Sadak Yojana (PMGSY), was launched by the Govt. of India to provide connectivity to unconnected habitations as part of a poverty reduction strategy

Road Built per Day (Km/day)



Source: Ministry of Road Transport and Highway (MORTH)

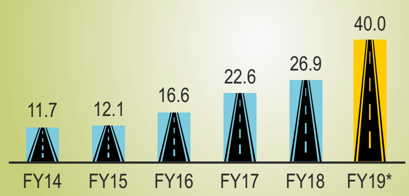
Rural Roads Constructed ('000 length/km)



Source: PMGSY

Highway Construction (Km/Day)

National Highways constructed at record average of about 27Km/day at a cost of over US$18 Billion. Target of constructing highways at 40Km/Day in FY19.



Source: MORTH
*Note: *Projected*

- US$82 billion to be invested for 34,800 km of highways by 2022 under Bharatmala Pariyojna
- 100% FDI allowed through automatic route

Recent Developments in the Sector

Bharatmala
66,100 km of national highways to be constructed

Newer Modes of Participation
Hybrid Annuity Model | Toll-Operate-Transfer

Electronic Toll Collection
NHA | facilitating the availability of FASTags for Electronic Toll Collection

Rising Institutional Investments
Sovereign Wealth Funds | Pension Funds | Private Equity

Growth Drivers For The Sector

01 Key Govt. Priority
US$100 billion allotted for infrastructure in 2018-19

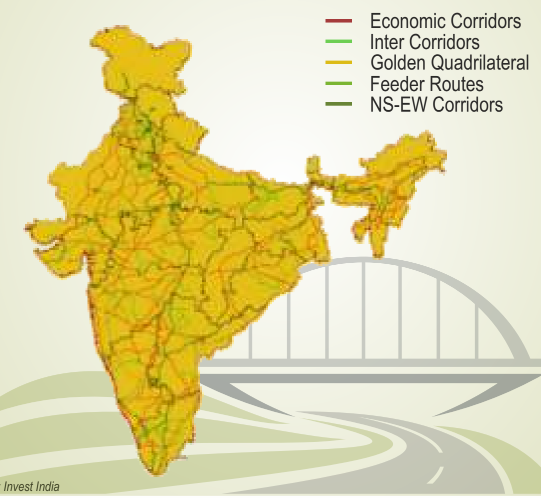
02 Infrastructure Development
Length of national highways to reach 200,00 km

03 Growing Demand
Production of passenger vehicles, commercial vehicles, 3 & 2 wheelers reached 26 million

04 Policy Support
Standardised process for tolling & bidding

Source: Invest India

Bharatmala Pariyojana



Source: Invest India

DOMESTIC TRENDS

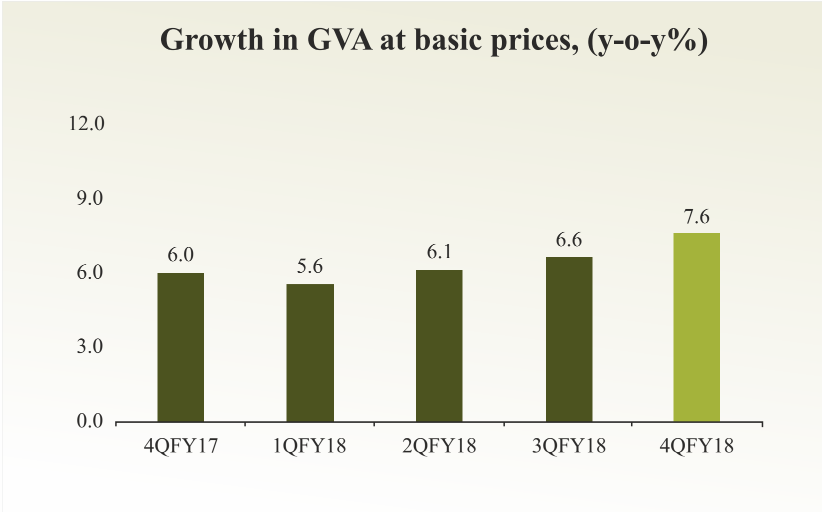
The economy continued its upward growth momentum as real GDP growth spurted to an eight-quarter high of 7.7 per cent in Q4FY18, up from 7 per cent (revised downward from 7.2 per cent earlier) in Q3FY18 aided by a robust showing by private, government and investment spending. Meanwhile Gross Value Added (GVA) growth for Q4FY18 also picked up to a seven-quarter high 7.6 per cent thanks to the robust performance by all its three sub-components. In contrast, on an annual basis, both GDP and GVA growth moderated in FY18 as compared to FY17. Apart from EXIM performance and services sector, all sectors posted moderation in growth in FY18 vis-à-vis FY17. For FY19, we expect GDP growth to come in a range of 7.3-7.7 per cent supported by factors such as uptick in private consumption, increased government spending and better export performance.Industrial output evidenced an uptick in April 2018 after showing a sharp moderation in the previous month. Notwithstanding these episodes of moderation, the visible improvement in industrial output since November 2017 augurs well for the return of broad based recovery in industrial performance during the year.

Coming to inflation, both CPI and WPI based inflation showed an upswing in May 2018, pushed higher by core and fuel inflation. Going forward, upside risks to CPI inflation remain in the form of uncertainty over the proposed MSP increase, possible second-round impact of HRA and firming up of crude oil prices. However, the prognosis of a normal monsoon this year by the IMD will help in taming inflation. In view of the rising inflationary pressures, the Reserve Bank of India (RBI) hiked the policy rates by 25 basis points to 6.25 percent by a unanimous decision of the Monetary Policy Committee, in its second bi-monthly policy meeting held on 6th June 2018. This is the first-rate hike by RBI since January 2014.

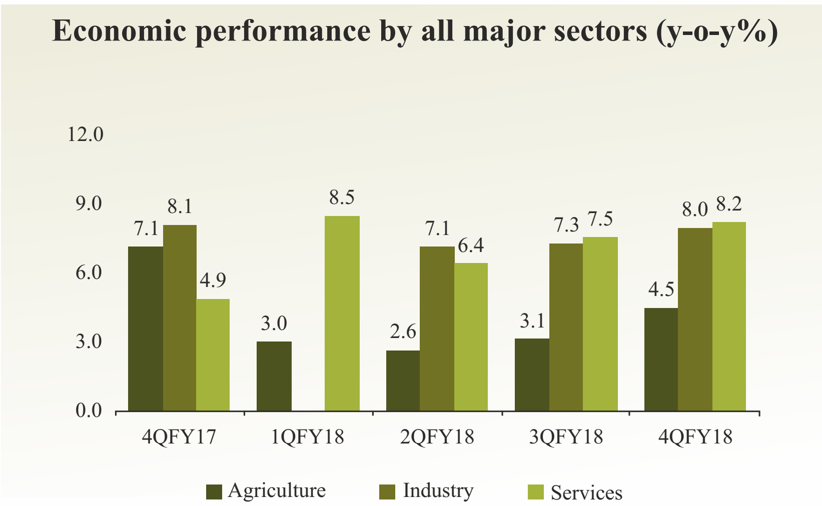
On the external front, in some encouraging news, merchandise exports growth picked up to 20.2 per cent in May 2018 after four months of subdued growth. Growth in merchandise imports also gathered pace, standing at 14.8 per cent in May 2018 as compared to an anemic 4.6 per cent in the previous month. As a result, merchandise trade deficit stood at US$14.6 billion, which is only slightly higher than in the previous month-year. In comparison with the previous year, trade deficit is expected to widen further in the current fiscal as the ascent in oil prices and the uptick in consumption spending of households due to 7th pay commission handouts will keep import growth high. In this context, the pick-up in export growth despite rising protectionism and persisting GST-related disruptions is indeed good news.

GVA growth picks up sharply in 4QFY18 on robust performance by all its components

- Gross Value Added (GVA) growth for Q4FY18 picked up to a seven-quarter high of 7.6 per cent on account of the stellar performance evidenced by all its three sub-components namely agriculture, industry and services.
- CII welcomes the significant expansion in GVA print. The rebound in growth reinforces CII's own assessment that the economy is back on track and is set for a strong recovery after the period of disruptions sparked by demonetization and GST implementation.



Both industry and service sectors show healthy growth in 4QFY18



- Agriculture growth clocked a four-quarter high while industrial sector has posted a broad-based recovery.
- Within industry, manufacturing continued to outperform, backed by faster rise in output and positive sentiment as reflected by manufacturing PMI in Q4, with stronger factory production levels.

The upswing in construction sector is an encouraging sign

- Of the four services sectors, growth slowed sequentially for two sectors (Trade, hotels and financing, real estate) in Q4FY18 due to a combination of overhang of regulatory measures and glitches arising from GST implementation.
- Higher government spending in 4QFY18 found a reflection in higher growth of public administration, defence and other services sector.

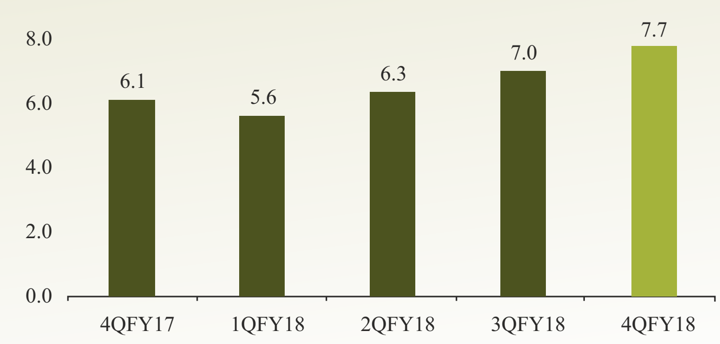
Sectoral break-up from the supply-side (y-o-y%)

	FY17	FY18	1QFY18	2QFY18	3QFY18	4QFY18
GVA at basic prices	**7.1**	**6.5**	**5.6**	**6.1**	**6.6**	**7.6**
Agriculture	**6.3**	**3.4**	**3.0**	**2.6**	**3.1**	**4.5**
Industry	**8.7**	**5.5**	**-0.4**	**7.1**	**7.3**	**8.0**
Services	**6.7**	**7.6**	**8.5**	**6.4**	**7.5**	**8.2**
Mining & Quarrying	13.0	2.9	1.7	6.9	1.4	2.7
Manufacturing	7.9	5.7	-1.8	7.1	8.5	9.1
Electricity, gas & water	9.2	7.2	7.1	7.7	6.1	7.7
Construction	1.3	5.7	1.8	3.1	6.6	11.5
Trade, hotels, transport	7.2	8.0	8.4	8.5	8.5	6.8
Financing, real estate & professional serv	6.0	6.6	8.4	6.1	6.9	5.0
Public admn, def & other serv	10.7	10.0	13.5	6.1	7.7	13.3

Source: *Central Statistics Office,* ***Note:*** *Construction is included under Services sector*

GDP growth shows a fillip in 4QFY18; FY19 prognosis remains positive

Real GDP Growth (y-o-y%)



- The economy continued its upward momentum as real GDP spurted to an eight-quarter high growth of 7.7 per cent in Q4FY18, up from 7.0 per cent (revised downward from 7.2 per cent earlier) in Q3FY18 aided by robust showing by private, government and investment spending.
- For FY19, we expect GDP growth to come in a range of 7.3-7.7 per cent supported by factors such as prognosis of a good monsoon, uptick in private consumption, increased government spending and better export performance.

Final consumption expenditure improves in Q4FY18 mostly aided by government spending

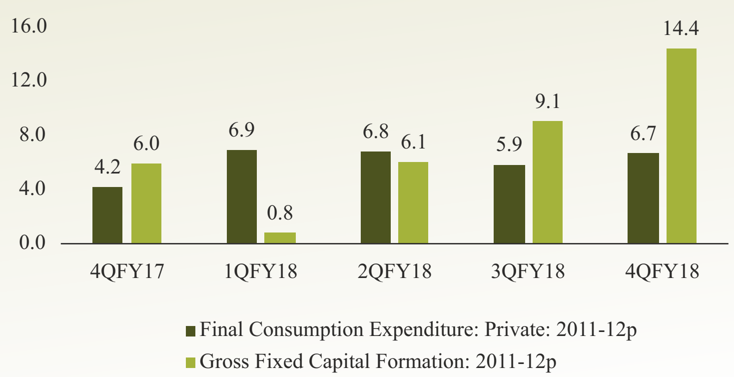
- Final consumption expenditure improved to 8.1 per cent in Q4, from 6 per cent in Q3, mostly supported by the 16.8 per cent rise in government consumption expenditure. This could be attributed to pay commission hikes being implemented by different states.
- The external sector remains a drag on GDP, with imports rising 10.9 per cent in Q4FY18, compared with a muted growth of 3.6 per cent in exports.

Sectoral break-up from the demand-side (y-o-y%)

	FY17	FY18	1QFY18	2QFY18	3QFY18	4QFY18
GDP	**7.1**	**6.7**	**5.6**	**6.3**	**7.0**	**7.7**
Final consumption expenditure	8.0	3.5	8.7	6.3	6.0	8.1
Private consumption	7.3	6.6	6.9	6.8	5.9	6.7
Government consumption	12.2	10.9	17.6	3.8	6.8	16.8
Gross fixed capital formation	10.1	7.6	0.8	6.1	9.1	14.4
Exports	5.0	5.6	5.9	6.8	6.2	3.6
Imports	4.0	12.4	18.5	10.0	10.5	10.9

Investment spending on an upswing; while private consumption spending also improves

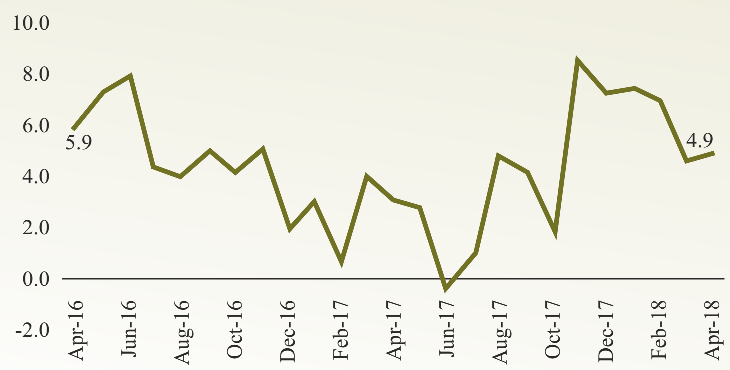
Domestic Demand Drivers (y-o-y%)



- Private consumption gained some traction, with growth at 6.7 per cent in 4QFY18 mainly on the back of improved rural consumption.
- GFCF grew by 14.4 per cent in 4QFY18 presumably aided by substantial government spending amid its push for infrastructure creation.

Industrial Output Gathers Some Lost Steam in April 2018

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



- Industrial output growth quickened to 4.9 per cent in April 2018 as compared to 4.6 per cent posted in the previous month.
- The rebound in industrial output augurs well for the return of broad-based recovery in industrial performance during the year.

Manufacturing sector remains the main growth driver of IIP growth

- Growth in April 2018 was supported by manufacturing, which rose 5.2 per cent (compared with 4.7 per cent in March) and a 5.1 per cent growth (3.1 per cent in March) in mining.
- Within manufacturing, 16 out of 23 industry groups showed positive growth on an annual basis, with some new entrants in both the high and low growth zone.

Broad Components of Industrial Production

	Growth, y-o-y%				
	Overall	Manufacturing	Mining	Electricity	IIP-3 month moving average
Apr-17	3.2	2.9	3.0	5.4	2.7
Aug-17	4.8	3.8	9.3	8.3	1.8
Sep-17	4.1	3.8	7.6	3.4	3.3
Oct-17	1.8	2.0	-0.2	3.2	3.6
Nov-17	8.5	10.4	1.4	3.9	4.8
Dec-17	7.3	8.7	1.2	4.4	5.9
Jan-18	7.5	8.7	0.3	7.6	7.8
Feb-18	7.0	8.5	-0.4	4.5	7.2
Mar-18	4.6	4.7	3.1	5.9	6.3
Apr-18	**4.9**	**5.2**	**5.1**	**2.1**	**5.5**
FY18	**4.4**	**4.6**	**2.3**	**5.3**	**4.2**

Strong rural consumption supports consumer durables growth, while capital goods growth remains volatile

Use-based Classification of Industrial Production

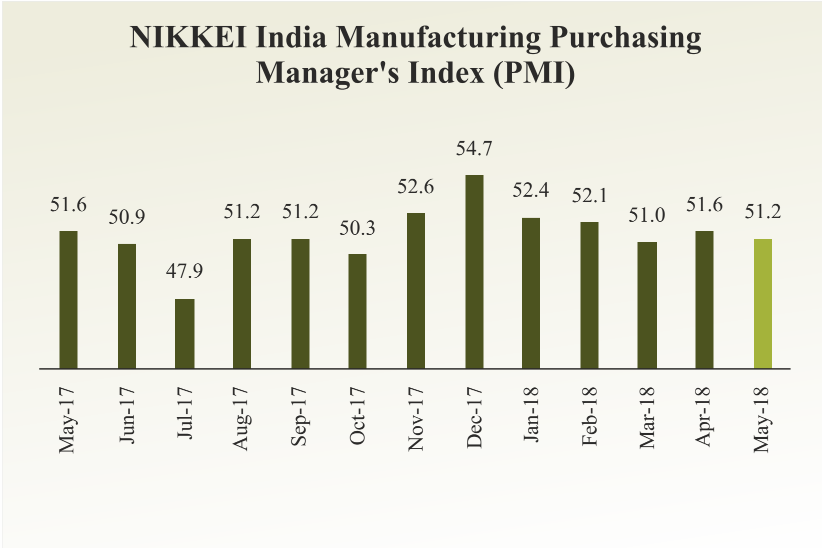
	Growth, y-o-y%					
	Primary	Capital	Intermediate	Infra-structure	Consumer Durables	Consumer Non-Durables
Apr-17	3.0	-4.8	3.5	4.7	-0.7	8.8
Aug-17	7.1	7.3	-0.5	2.7	4.3	7.2
Sep-17	6.6	8.7	2.1	0.5	-4.1	10.5
Oct-17	2.4	3.5	0.2	5.8	-9.0	8.2
Nov-17	3.3	5.7	6.5	13.7	3.1	23.7
Dec-17	3.8	13.2	7.5	6.5	2.1	16.8
Jan-18	5.9	12.4	5.4	7.5	7.6	10.7
Feb-18	3.7	19.5	3.2	12.6	7.5	7.3
Mar-18	3.0	-5.7	2.3	8.9	4.1	12.7
Apr-18	**3.1**	**13.0**	**1.6**	**7.5**	**4.3**	**7.0**
FY18	**3.7**	**3.9**	**2.2**	**5.6**	**0.7**	**10.4**

- According to use-based classification, capital goods growth jumped to 13.0 per cent in April 2018 after contracting in the previous month mainly powered by a supportive base of last year.
- Buoyant rural consumption supported the growth of consumer durables sector during the month.

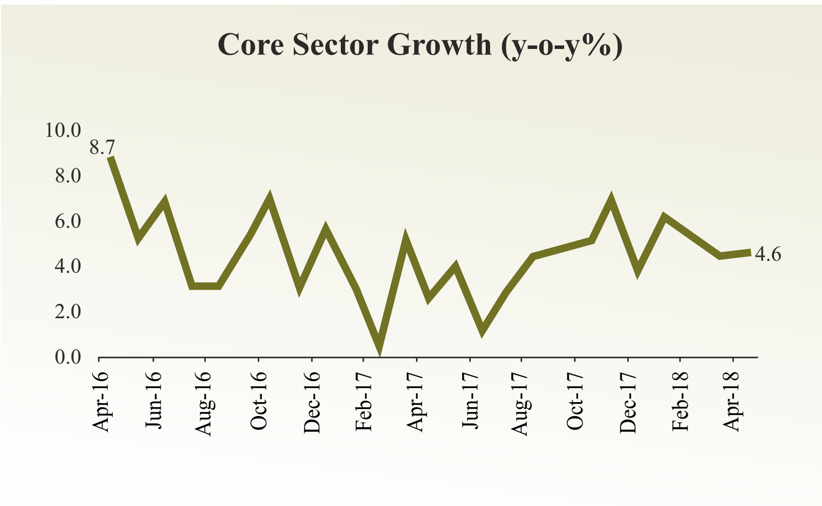
Source: *Central Statistics Office (CSO) and CII estimates*

Business conditions improve, but at a slower pace in May

- The latest NIKKEI PMI survey signalled a marginal improvement in the manufacturing sector performance in May 2018.
- This is due to weaker expansions in output, employment and new business. On the other hand, the gain in new orders from overseas markets was the strongest since February 2018.



Core sector output quickens in April 2018; a promising sign for the IIP growth



- The output of eight core infrastructure sectors rose marginally to 4.6 per cent in April 2018 as compared to 4.4 per cent growth in March 2018.
- Core sector output growth serves as an important precursor of the overall industrial output movement.

Coal and cement sectors were the star performers in April 2018

- Coal and cement sectors were the star performers of the month as they grew by double-digits, however their growth was mainly driven by the low base of last year.
- Cement sector is likely to witness de-growth in the coming months with the onset of the monsoon season. Meanwhile, the output of crude oil has continued to stay in the negative territory for the last five months now.

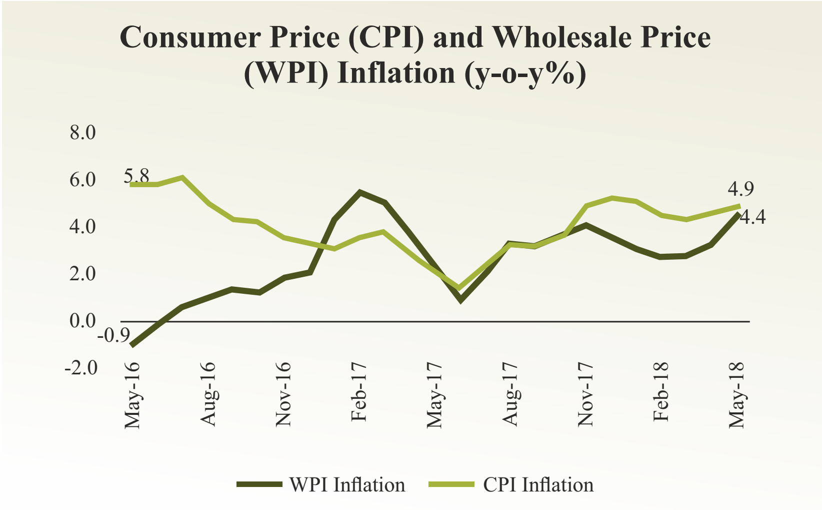
Broad Components of Core Sector Output (y-o-y%)

	Coal	Crude Oil	Natural Gas	Petroleum Refinery	Fertilizers	Steel	Cement	Electricity
Apr-17	-3.3	-0.6	2.1	0.2	6.2	9.0	-5.2	5.3
Aug-17	15.4	-1.6	4.4	2.4	-0.7	2.1	0.7	8.3
Sep-17	10.4	0.1	6.3	8.1	-7.7	3.7	0.1	3.4
Oct-17	3.9	-0.4	2.9	7.5	3.0	8.6	-1.3	3.2
Nov-17	0.8	0.2	2.4	8.2	0.3	14.5	16.9	3.9
Dec-17	0.4	-2.1	1.1	6.6	3.0	0.4	17.7	4.4
Jan-18	3.7	-3.2	-1.2	11.0	-1.6	1.7	19.6	7.6
Feb-18	1.3	-2.3	-1.4	7.9	5.1	5.0	23.0	4.5
Mar-18	9.1	-1.6	1.0	1.1	3.3	4.8	13.0	5.9
Apr-18	**16.0**	**-0.9**	**7.2**	**2.7**	**4.6**	**3.5**	**16.6**	**2.2**
FY18	**2.6**	**-0.9**	**2.9**	**4.6**	**0.02**	**5.6**	**6.3**	**5.3**

Source: *Markit Economics and Ministry of Industry*

Inflation Indices Gain Momentum Mostly Led by Fuel

- Both indices of inflation, CPI and WPI moved higher in May 2018 underpinned by an uptick seen across all the major categories of CPI, especially fuel. The pick-up in fuel inflation was inevitable with Brent crude oil prices rising 6.8 per cent m-o-m in May 2018.
- Going forward, the movement of inflation will be dictated by the following factors: (i). The staggered impact of HRA revisions by various state governments (ii). The uncertainty regarding the impact of the revision in the MSP formula and (iii). The trajectory of the monsoon.



Core CPI inflation touches 6 per cent indicating the passing of higher input costs to consumers

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

Average Inflation, y-o-y% CPI Inflation Components	Overall CPI	Food	Food and Beverages (FB)	Pan, Tobacco and Intoxicants	Clothing and Footwear (CF)	Fuel and Light	Miscellaneous	Core CPI
May-17	2.2	-1.0	-0.2	6.2	4.4	5.5	3.8	4.3
Aug-17	3.3	1.5	2.0	6.8	4.6	5.0	3.8	4.4
Sep-17	3.3	1.2	1.8	7.0	4.6	5.6	3.8	4.6
Oct-17	3.6	1.9	2.3	6.9	4.7	6.4	3.5	4.5
Nov-17	4.9	4.4	4.4	7.9	5.0	8.2	3.7	4.9
Dec-17	5.2	5.0	4.9	7.8	4.9	7.9	3.8	5.1
Jan-18	5.1	4.7	4.6	7.6	4.9	7.7	3.8	5.0
Feb-18	4.4	3.3	3.5	7.3	4.9	6.9	3.8	5.0
Mar-18	4.3	2.8	3.1	7.7	4.9	5.7	4.2	5.2
Apr-18	4.6	2.8	3.0	7.9	5.1	5.2	5.0	5.8
May-18	**4.9**	**3.1**	**3.4**	**8.0**	**5.5**	**5.8**	**5.3**	**6.1**
Apr-May 18	**4.7**	**2.9**	**3.2**	**8.0**	**5.3**	**5.5**	**5.2**	**5.9**

- Among the various segments of CPI, food inflation moved higher to 3.1 per cent from 2.8 per cent posted in the previous month primarily driven by higher prices of vegetables and meat & fish.
- Core inflation (ex food and fuel) moved up further by 25 bps to touch 6.1 per cent, on the back of high sequential momentum seen in pan, tobacco and clothing & footwear categories.

WPI inflation rises to 14-month high in May 2018 on higher fuel inflation

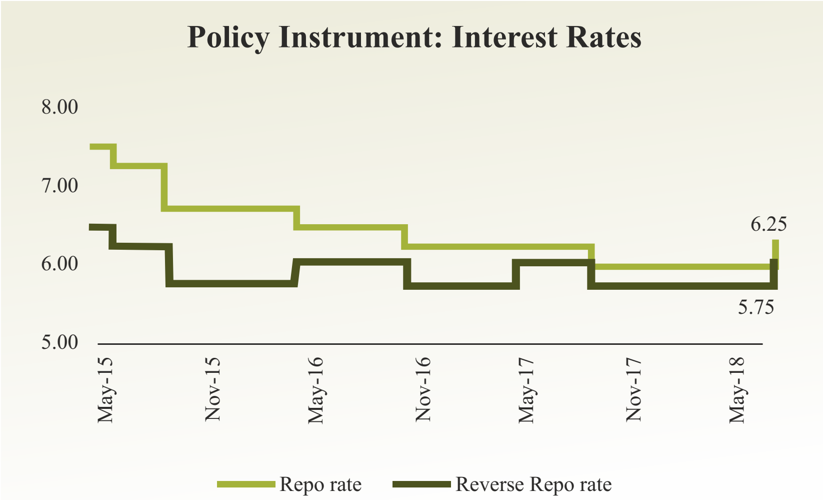
- Among the components of WPI, fuel inflation rose to double-digits while food inflation also witnessed an uptick.
- Within vegetables, potato saw the maximum price increase (81.9 per cent), while inflation in fruits was also in double\digits at 15.4 per cent in May 2018.

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

	Overall WPI	Food	Primary	Primary Food	Primary Non-food	Fuel	Manufacturing	Mfing Food
May-17	2.3	0.1	-1.7	-2.1	-0.9	11.8	2.6	4.5
Aug-17	3.2	4.5	3.0	5.8	-3.4	9.9	2.4	1.9
Sep-17	3.1	2.1	0.7	2.0	-2.6	10.5	3.0	2.0
Oct-17	3.7	3.2	3.7	4.3	-1.3	10.9	2.6	1.2
Nov-17	4.0	4.4	5.6	6.4	-0.5	8.4	2.7	0.6
Dec-17	3.6	2.9	3.9	4.7	-0.2	8.0	2.8	-0.2
Jan-18	3.0	1.7	2.5	3.2	-1.3	4.7	3.0	-0.9
Feb-18	2.7	0.2	0.8	1.0	-2.6	4.6	3.3	-1.1
Mar-18	2.7	0.0	0.9	-0.2	-1.5	4.7	3.1	0.5
Apr-18	3.2	0.7	1.4	0.9	-1.8	7.9	3.1	0.3
May-18	**4.4**	**1.1**	**3.2**	**1.6**	**-0.6**	**11.2**	**3.7**	**0.2**
Apr-May 18	**3.8**	**0.9**	**2.3**	**1.2**	**-1.2**	**9.5**	**3.4**	**0.3**

Source: *Central Statistics Office and Ministry of Industry*

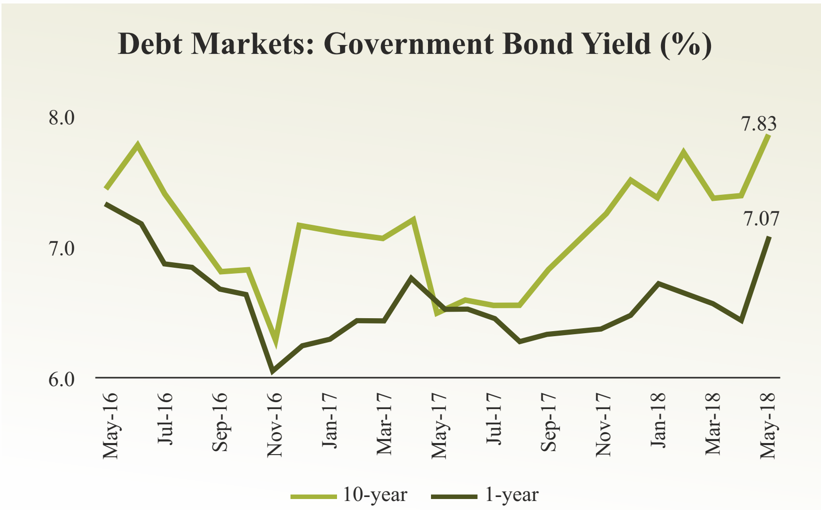
RBI bites the bullet; raises repo rate by 25 bps



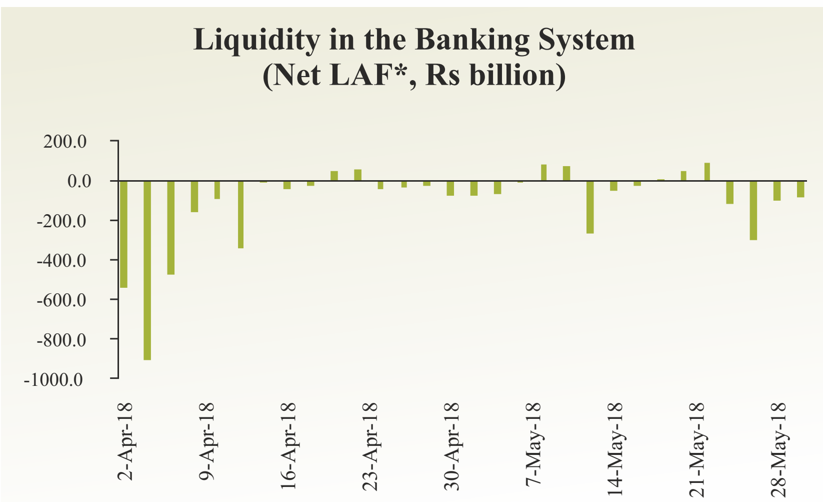
- The Reserve Bank of India (RBI) raised the policy repo rate by 25 bps to 6.25 per cent in its policy meeting held on June 6th, 2018 while maintaining a neutral stance. Rates had been kept on hold since the last rate cut in August 2017.
- The decision to increase interest rate was primarily driven by two factors: a) a sharper-than-anticipated pick-up in core inflation (headline excluding food and fuel) and rise in crude oil prices, and b) evidence on soundness of domestic growth revival.

G-sec yields remain high; on higher inflation concerns

- The 10-year G-sec yields inched up in May 2018 as the rise in crude oil prices strengthened fear of higher inflation and hence increasing the chances of a rate hike by the RBI.
- The yield across the shorter end of maturity curve also rose resulting in a steeper yield curve during the month.



Liquidity remains in surplus in April-May 2018 due to higher government spending

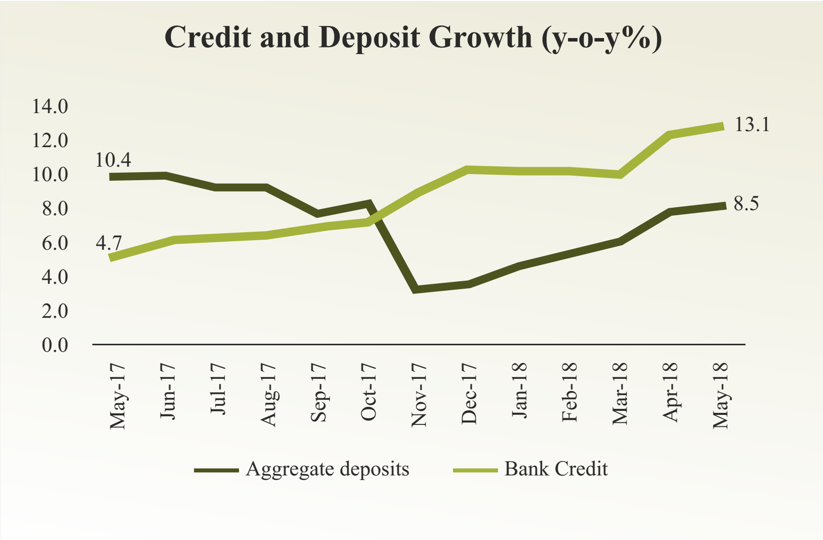


- Liquidity in the system remained generally in surplus during April-May 2018.
- During April, the Reserve Bank absorbed surplus liquidity of Rs 496 billion on a daily net average basis due to increased government spending, especially in the second half of the month.

**Net Injection (+)/Net Absorption (-)*

***Source:** RBI, **Note:** G-sec yields are end of the month, * includes only fixed rate repo and reverse repos*

Double-digit growth seen in banking credit in line with economic recovery



- The double-digit run-up in banking credit continues, with growth printing at 13.1 per cent year-on-year in May 2018, supported by an improvement in economic growth and resolution of big-ticket stressed assets.
- Deposit growth has also started to pick-up with data print standing at 8.5 per cent in May 2018.

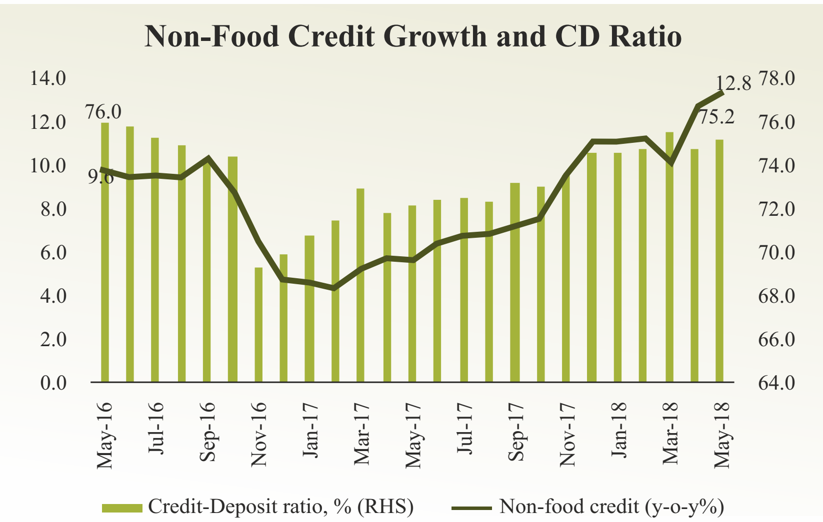
Construction sector sees robust credit off-take; auguring well for investment revival

- Mining & quarrying has seen the highest deployment of credit in recent months, while industries such as basic metal and gems & jewellery has seen anemic growth in credit off-take.
- Credit growth has also picked to double-digits in critical industry such as construction which is critical for laying the foundation of a concrete path for economic recovery. However, credit off-take in infrastructure sector has remained weak.

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

(y-o-y% growth)	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Mining & quarrying	-2.3	5.1	16.9	19.7	6.3
Food processing	11.6	9.2	11.4	6.8	5.6
Basic Metal & Metal Product	0.1	0.0	-1.0	-1.2	-0.9
All engineering	3.0	2.2	2.4	3.8	4.4
Gems & jewellery	0.6	2.1	0.3	5.4	-1.4
Construction	9.0	9.0	4.8	9.6	10.6
Infrastructure	-0.7	-2.9	-1.9	-1.7	-1.3

Non-food credit growth is picking up; boding well for economic recovery



- Non-food credit growth has shown an uptick since May 2017 in line with economic recovery which is currently underway.
- Credit-deposit ratio has risen to 75.2 per cent in May 2018 from 74.7 per cent posted in April 2018.

***Source:** RBI*

Merchandise export growth bounces back in May 2018

- In some encouraging news, merchandise exports growth accelerated to 20.2 per cent in May 2018 after four months of subdued growth.
- Growth in merchandise imports also picked up pace, standing at 14.8 per cent in May 2018 as compared to an anemic 4.6 per cent in the previous month.

Merchandise trade deficit widens to four-month high in May 2018

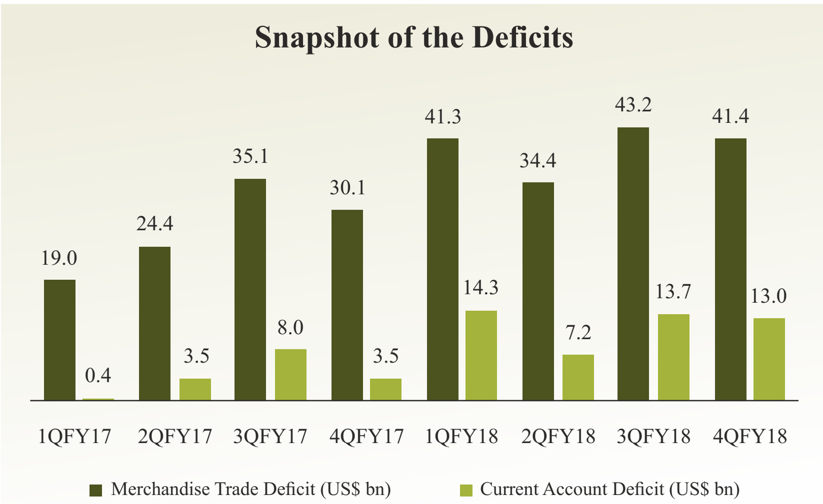
Trade Performance

				April-May	
	May-17	**Apr-18**	**May-18**	**FY18**	**FY19**
(US$ billion)					
Exports	24.0	25.9	28.9	48.7	54.8
Imports	37.9	39.6	43.5	75.7	83.1
Oil Imports	7.7	10.4	11.5	15.1	21.9
Non-oil Imports	30.2	29.2	32.0	60.7	61.2
Trade deficit	13.8	13.7	14.6	27.1	28.3
(y-o-y%)					
Exports	7.2	5.2	20.2	4.0	12.6
Imports	33.8	4.6	14.8	-0.2	9.7
Oil Imports	28.2	40.7	49.5	4.8	45.6
Non-oil Imports	35.3	-4.8	6.0	-0.3	0.8
Trade deficit	135.4	1.5	5.6	-8.6	4.6

- Oil imports has continued its upward trajectory in May 2018 due to 50.68 per cent rise in global Brent prices in May 2018 on y-o-y basis while non-oil imports growth moved to the positive territory during the month.
- In comparison with the previous year, trade deficit is expected to widen further in the current fiscal as the ascent in oil prices and the uptick in consumption spending of households due to 7th pay commission handouts will keep import growth high.

Widening trade deficit puts pressure on current account deficit

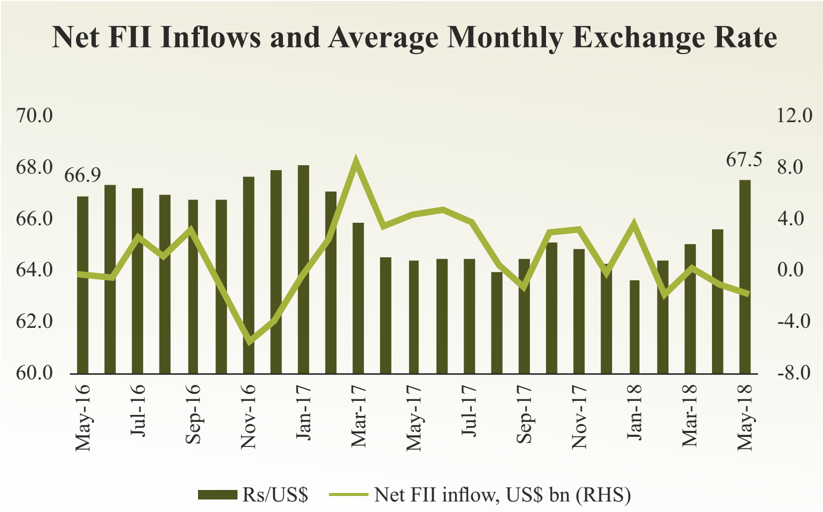
- Merchandise trade deficit stood at US$14.6 billion in May 2018, which is only slightly higher than in the previous month-year.
- Current account deficit widened in annual terms in Q4FY18 on a sharply higher trade deficit. Capital flows were robust in Q4FY17 as against Q4FY16 due to FDI flows.



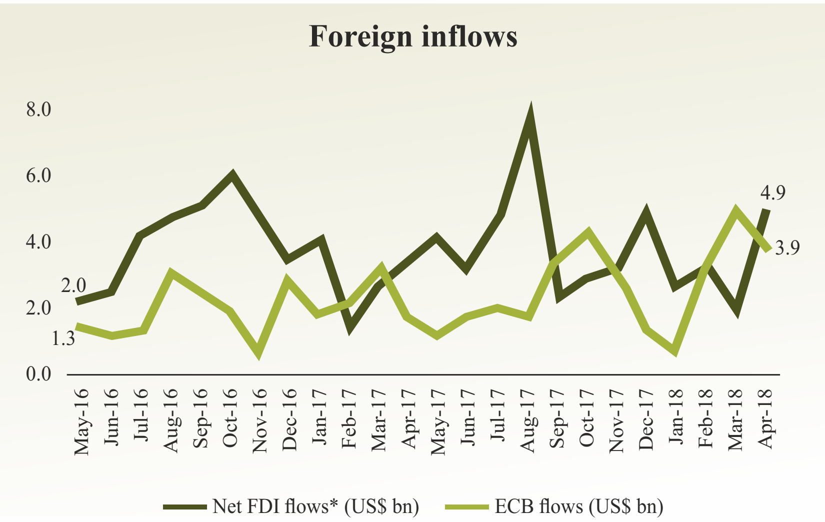
Source: *Ministry of Commerce, RBI*

Rupee continues to depreciate as net FII outflows mount

- Rupee depreciated against the US dollar by close to 3 per cent in May 2018 on m-o-m basis and around 6 per cent since January 2018 on net FII outflows during this period.
- In the current scenario of rising crude oil prices and increased protectionism, we can see the USD/INR pair depreciating further in the near-term. However, the RBI could step-up intervention to ensure that depreciation is not disorderly.



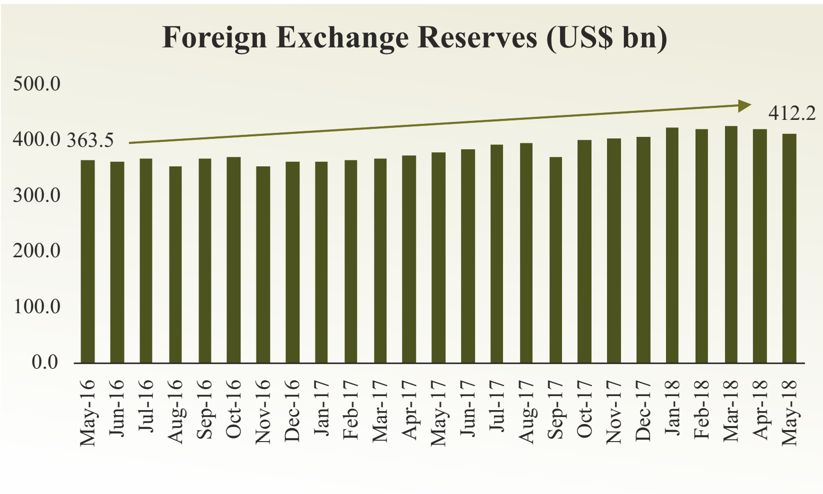
Net FDI flows pick up pace, while ECB flows remain tepid



- After a temporary blip in March 2018, the more stable FDI flows picked up sharply in April 2018 to US$4.9 billion as compared to US$1.8 billion in March 2018.
- ECB flows moderated a bit to US$3.9 billion during April 2018 as compared to healthy US$5.1 billion in the previous month.

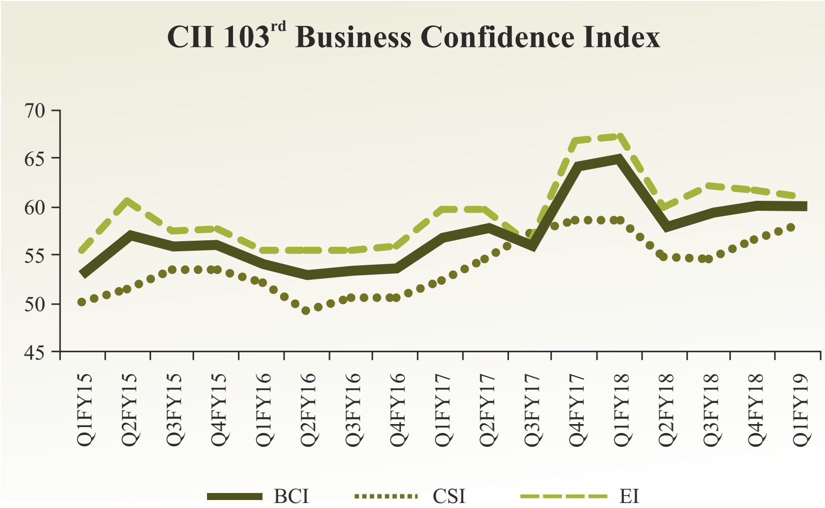
Forex reserves stay high; resulting in a healthy import cover

- Foreign exchange reserves stood at US$412.2 billion in May 2018 and were equivalent to around 11 month of imports cover.
- Robust foreign exchange reserves bode well for the external sector stability of the country.



Source: *RBI, DIPP,* ***Note:*** *The monthly figures of FDI inflow reflect the equity component only*

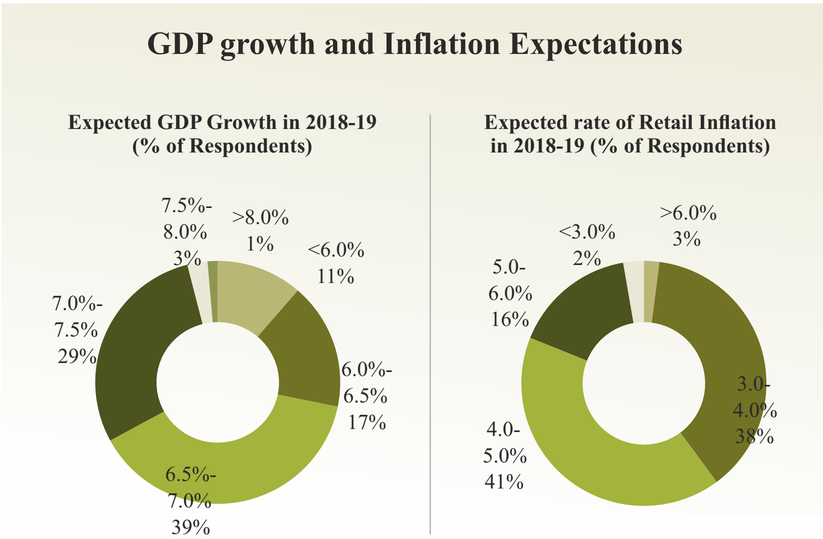
CII-BCI records a marginal improvement in April-June 2018 indicating that business sentiments remain upbeat



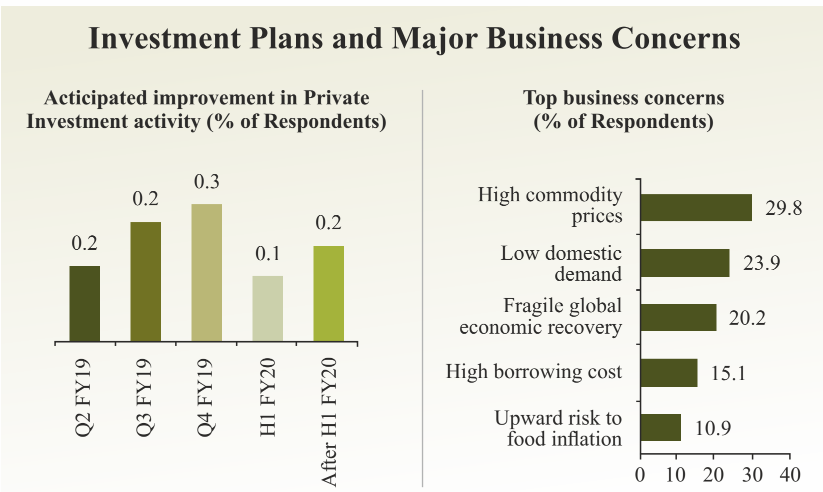
- The CII Business Confidence Index (CII- BCI) for April-June 2018 quarter improved marginally, standing at the level of 60.1 from 60.0 recorded in the previous quarter. The uptick in the index for the third consecutive month, even though marginal, is an indicator that business sentiment is improving continuously.
- CII's 103rd Business Outlook Survey was conducted from April-June 2018, covering more than 150 firms of varying sizes.

Growth revival on the cards, while inflation likely to remain subdued

- A significant proportion of respondents (68 per cent) feel that GDP growth will lie in the range of 6.5-7.5 per cent in 2018-19. Among them a large share (39 per cent) expect GDP growth to lie in the range of 6.5-7.0 per cent range.
- Large share of respondents (41 per cent) feel that inflation will lie in the 4.0-5.0 per cent range in 2018-19, closely followed by a similar proportion of respondents (38 per cent) who feel that inflation may range between 3.0-4.0 per cent.



Private investment activity revival on the anvil while high commodity costs is the biggest deterrent to business



- Majority of respondents expect an improvement in private sector investment activity, with about two thirds of the respondents expecting a pickup in the remaining quarters of FY19.
- More than half of the respondents (54 per cent) consider high commodity prices and low domestic demand to be the top concerns this quarter.

Source: *103rd CII BCI Survey*

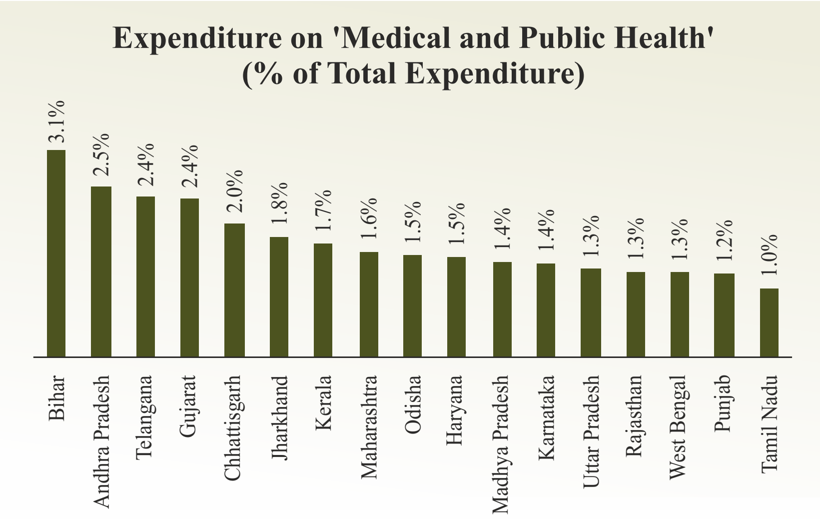
STATE OF THE STATES

Health infrastructure and services are crucial not only for improving the quality of lives of the people, but also for all round economic development. India's record in overall Human Development parameters are less than impressive and health related indicators are an important parameter which pull India down. In this issue we highlight the expenditure by states on 'medical and public health' as reflected in respective budget documents. There is wide divergence in terms of share of health expenditure in total expenditure. A positive outcome is the increased focus on health expenditure by some of the states which traditionally fare poorly in health parameters

NITI Aayog has recently launched a 'Health Index' which ranks the states on a range of health related parameters and reflects the all round performance of states. The Index shows that relatively developed states of Kerala, Punjab, Tamil Nadu and Gujarat are at the top while usual laggards like Odisha, Bihar, Rajasthan and Uttar Pradesh are at the bottom. Encouragingly, the story reverses when we look at 'incremental change' amongst states between FY15 and FY16, reflecting that not only it is more difficult for more developed states to bring about incremental change but also the improved focus of backward states towards improving health outcomes

In this issue, the 'State in Focus' is Bihar, which has notched up very impressive growth rates in recent years. The state was one of the fastest growing at 10.3 percent in 2016-17. The service sector dominates the GDP, while share of agriculture is reducing, much like India. Yet, more than three-fourth of Bihar's population depends on agriculture for livelihood. Dependence on rainfall in the absence of agri/infrastructure coupled with periodic floods continues to bring volatility to the sector, which impacts livelihoods and inflicts poverty on its populace. A reality, the state is trying hard to unshackle itself from.

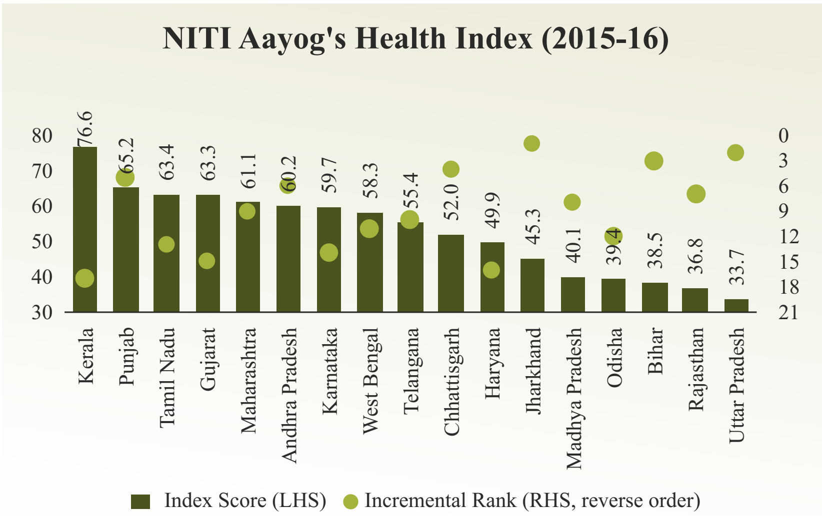
J&K and Himachal Pradesh among the top spenders on health



- The graph shows that there is a wide variation between states on the parameter of health spending and even the performance of the states which have performed well do not match the levels seen in some of the Asian countries.
- Jammu & Kashmir, Himachal Pradesh, Bihar, Andhra Pradesh and Telangana were the top 5 states in terms of health spending while Uttar Pradesh, Rajasthan, West Bengal, Punjab and Tamil Nadu were at the bottom in terms of share of health to total expenditure in 2015-16.

Jharkhand and J&K get the highest 'incremental score' in NITI Aayog's Health Index of States

- According to the NITI Aayog 's Health Index, the relatively developed states such as Kerala, Punjab, Tamil Nadu and Gujarat are among the best performing states while the traditionally less developed states like Odisha, Bihar, Rajasthan and UP were at the bottom of the index scores.
- NITI Aayog's Health Index is a weighted composite index based on indicators of three domains- health outcomes, governance and information and key processes and evaluates the outcome of health spending by states



Availability of health infrastructure is poor is most of the major states

State of Health Infrastructure in Major States*

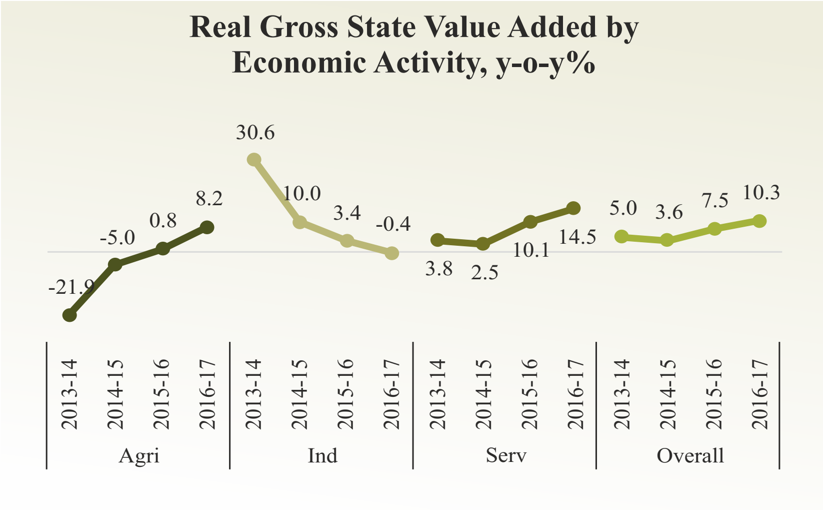
	Total Hospitals (Government)		Provisional / Projected Population as on reference period in (000)	Average Population Served Per Government Hospital	Average Population Served Per Government Hospital Beds
	No.	Beds			
Andhra Pradesh	278	19848	51684	185915	2604
Bihar	1436	11552	101526	70701	8789
Gujarat	385	27928	61329	159297	2196
Haryana	159	7664	26675	167768	3481
Karnataka	494	49558	61797	125095	1247
Kerala	1278	38400	35258	27588	918
Madhya Pradesh	451	28839	78181	173350	2711
Maharashtra	585	163865	117189	200323	715
Odisha	1750	16683	44004	25145	2638
Punjab	240	11804	28846	120192	2444
Rajasthan	3145	46669	70969	22566	1521
Tamil Nadu	563	58258	78140	138792	1341
Uttar Pradesh	964	59945	214671	222688	3581
West Bengal	1566	78566	91920	58697	1170

- Even states which have reported a higher health spending ratio suffer from paucity of health infrastructure thereby implying that the public health infrastructure has not been able to keep up with the rising population and resulting demand for healthcare facilities.
- The state governments should develop a holistic policy for improving healthcare outcomes. Some such measures include encouraging greater public-private partnership, providing infrastructure status to healthcare, among others.

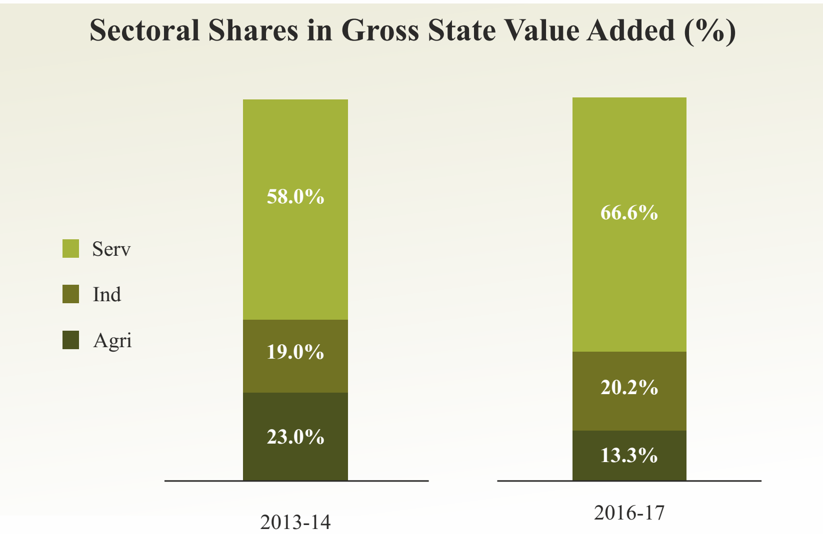
Source: *Various Issues of RBI State Finances Report, NITI Aayog and Health & Family Welfare Statistics in India 2017*
Note: ** Reference period is mix from 2015 and 2016*

Bihar one of the fastest growing states in 2016-17

- Bihar grew at a modest average rate of 6.6 per cent in the period FY13-FY17, which is lower than the national average of 7.3 per cent for the comparable period.
- Out of the major components of GDP, agriculture sector staged a remarkable recovery in FY17 after contracting in FY14 and FY15. In contrast, industry growth has been on a declining trend, while service sector has been the star performer.



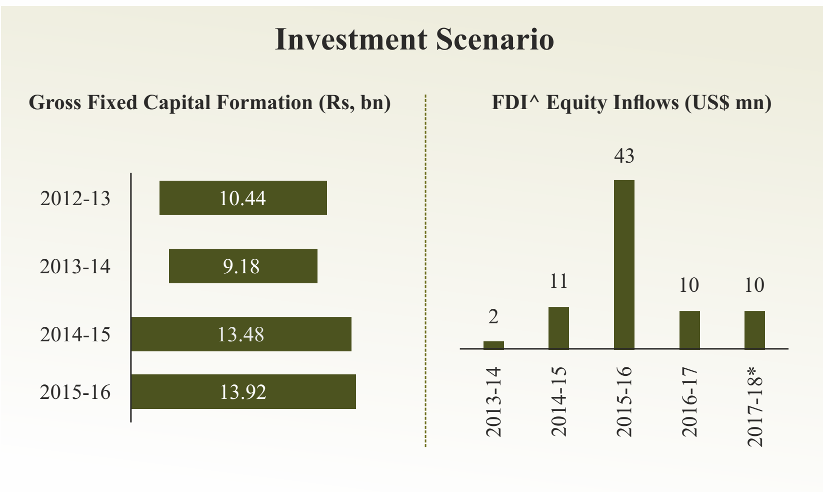
Service sector has the highest share; while agri share has declined



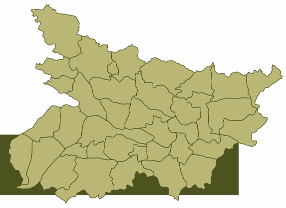
- Service sector growth performance has shown less volatility over the years and this has contributed to its increasing share in the overall GSDP.
- Since agriculture is still the main source of livelihood for a vast majority of population in the state, its volatile growth performance reflects the dependence on monsoon as well as the vulnerability of the population dependent on agriculture for their livelihoods.

Robust increase in capital formation kept the growth momentum going

- Gross fixed capital formation in Bihar increased at an annual rate of 10.1 per cent between FY13 and FY16. This boded well for the state as it managed to grow in the vicinity of 7 per cent despite wide fluctuations in agriculture and industrial sector growth during this period.
- Bihar is trying to attract investments in the field of religious tourism and has mega religious theme parks in the pipeline.



Source: *RBI's Handbook of Statistics of Indian States (2018), IBEF,* ***Note:*** ** (Apr 17-Dec 17), ^ includes Jharkhand*



GLOBAL TRENDS

US Federal Reserve chose to hike the key interest rate to a range of 1.75-2.00 per cent in June 2018 once again in mid-June 2018, the highest level since 2008, amongst evidence of a recovery taking place in the US. The Fed also signaled that two additional increases were on the way this year, one more than previously predicted. In the accompanying statement, the economic activity was described as 'solid' compared to 'moderate' in the previous meet. This change was presumably done to reflect the impact of the fiscal stimulus driving growth higher. In view of this, the growth projections for 2018 were revised up from 2.7 per cent to 2.8 per cent while the projections for 2019 and 2020 were kept at 2.4 per cent and 2.0 per cent respectively. Federal Reserve Chair Jerome Powell elucidated in his post-meeting press conference that job gains were boosting income and confidence, while foreign expansion and tax cuts were supporting additional growth. One of the likely impact of the Fed rate hikes on emerging economies like India is that it is going to result in the narrowing of the interest rate differential which will likely result in capital outflows and put pressure on the rupee movement.

In other global news, the crude oil prices have cooled down from their recent highs. Brent reached a 3.5 year high above US$80 a barrel in May 2018 but has fallen sharply to around US$74-75 per barrel levels by mid-June 2018 as Saudi Arabia, the de facto leader of OPEC, has signaled that it intends to raise production to stabilize prices and to offset the output shortfall from Iran and Venezuela. Meanwhile, supply disruptions in Libya have recently occured which could be critical for prices in the near term. The crude movement will be influenced by these outages too.

India has fared well across various global rankings released in the last few months. Specifically, India's position in the IMD's World Competitiveness rankings 2018 moved up to 44th, up one rank from last year. The rankings elucidated that some of the challenges which India has to face in year 2018 would be skilling of manpower and employment generation, streamlining the implementation of goods and services tax and balancing high growth with sustainable development goals. The report which accompanied the rankings further noted that "digital literacy and adequate bandwidth at rural areas and mobilisation of resources for infrastructure development needs are few more key areas where the government needed to concentrate".

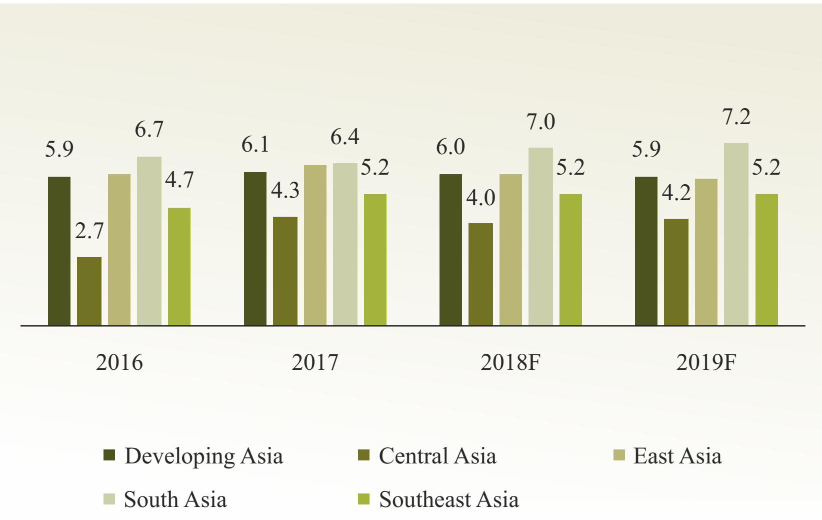
The Fed interest rate hike is on expected lines

- US Fed raised the key interest rate to a range of 1.75-2.00 per cent in June 2018 and signaled that two additional increases were on the way this year, as officials expressed confidence that the US economy was strong enough to withstand a rise in borrowing costs without choking off economic growth.
- In its quarterly Summary of Economic Projections (SEP), growth projections for 2018 were revised up from 2.7 per cent to 2.8 per cent while the projections for 2019 and 2020 were retained at 2.4 per cent and 2.0 per cent respectively.

Median fed Macroeconomic Projections

	2018	2019	2020	Long term
GDP (y-o-y%)				
Mar-18	2.7	2.4	2.0	1.8
Jun-18	2.8	2.4	2.0	1.8
Unemployment Rate (%)				
Mar-18	3.8	3.6	3.6	4.5
Jun-18	3.6	3.5	3.5	4.5
PCE Inflation (y-o-y%)				
Mar-18	1.9	2.0	2.1	2.0
Jun-18	2.1	2.1	2.1	2.0
Median Fed Funds Rate				
Mar-18	2.125	2.875	3.375	2.875
Jun-18	2.375	3.125	3.375	2.875

India to grow 7.3 per cent this year, 7.6 per cent in the next as per ADB

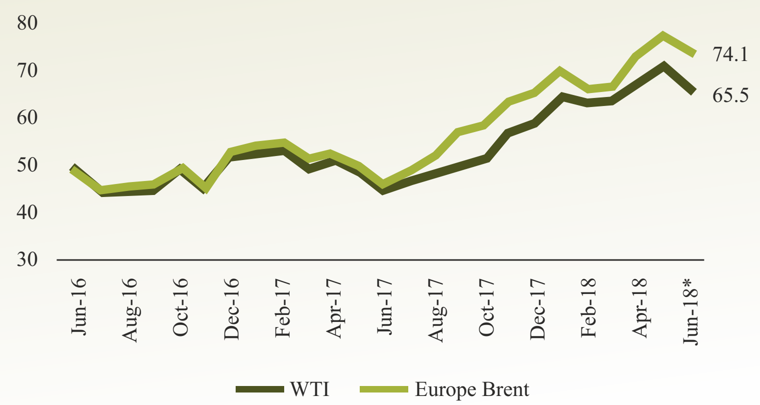


- As per ADB's latest forecast, developing Asia is forecast to expand by 6.0 per cent in 2018, and by 5.9 per cent in 2019 on the back of exports and domestic demand.
- Reversing two years of declining growth, the Indian economy is set to expand 7.3 per cent in 2018-19 and 7.6 per cent in 2019-20, aided by growth oriented new policy measures as per the latest ADB growth forecasts.

Crude oil prices have cooled down from its recent highs

- Crude prices have cooled down a bit from the highs posted in May 2018. The moderation came in the wake of Saudi Arabia and Russia's intent to increase supply, to offset the output shortfall from Iran and Venezuela.
- On the domestic front, rising global crude oil prices leads to higher import bill thus having an adverse impact on the merchandise trade deficit.

Crude Oil Movements (US$/barrel)



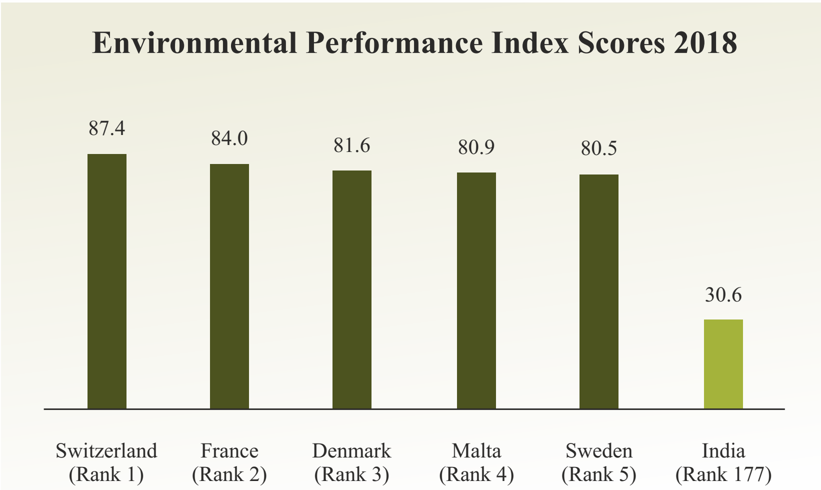
Source: *Statistical Bureau, Respective countries and Energy Information Administration (EIA), * Monthly avg till 15th June, 2018*

Indian ranks 44th in World Competitiveness ranking 2018

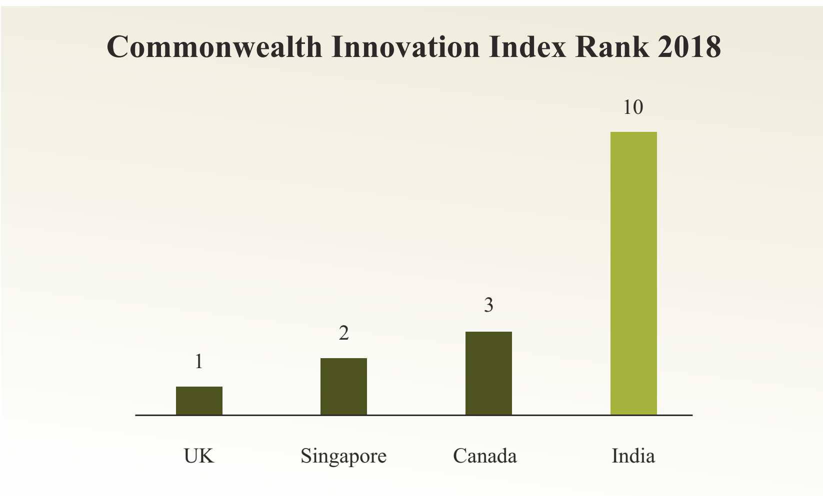
- India has moved up to 44th position on the IMD's World Competitiveness Ranking 2018, up one rank from last year. The US tops the latest ranking, followed by Hong Kong, Singapore, the Netherlands and Switzerland.
- The IMD rankings are based on a country's performance of four key pillars, namely economy, government efficiency, business efficiency and infrastructure.

India ranks 177 out of 180 in Environmental Performance Index 2018

- India is among the bottom five countries-177 among 180 countries- on the Environmental Performance Index 2018, plummeting 36 points from 141 in 2016, according to a biennial report by Yale and Columbia Universities along with the World Economic Forum. Switzerland topped the list.
- India's overall low ranking was linked to poor performance in the environment health policy and deaths due to air pollution categories.



India ranks 10th on the new Commonwealth Innovation Index



- India was ranked 10th on a new Commonwealth Innovation Index 2018, topped by the UK, Singapore and Canada. The index has been created in partnership with the UN World Intellectual Property Organisation (WIPO) and its annual Global Innovation Index (GII).
- The index is aimed at providing a tool that allows member states, organisations and citizens to benchmark themselves against 53 countries of the Commonwealth.

Source: *Various newspaper articles*


Godrej
No.1
3/4
sandal, turmeric & other ingredients that give your skin a natural glow.
No.1
Godrej
No.1
sandal
turmeric
natural oils

POLICY FOCUS

The important policy announcements made by the Government/RBI in the month of **May-June 2018** 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 so that they can take an informed decision accordingly.

StS. No	Area	Policy Announcement	Likely Impact
1.	Ease of Doing Business	An ordinance seeking amendments to the Insolvency and Bankruptcy Code was approved by the President in June 2018. The ordinance has sought the following changes prospectively: 1. Homebuyers to be recognized as financial creditors. 2. MSME promoters can bid for their own firm, if they are not declared willful defaulters. 3. Committee of creditors voting threshold, for approving resolution plan, lowered to 66 per cent from 75 per cent. 4. Exclusion criterion narrowed to accommodate pure-play financial entities. 5. Resolution plans admitted in NCLT can be withdrawn if 90 per cent of creditors agree.	This will help remove the hurdles around the insolvency and bankruptcy proceedings in the real estate and MSME sector.
2.	Ease of Doing Business	Ministry of Environment, Forests and Climate Change (MoEF) has relaxed the norms for importing used machinery by doing away with the requirement for explicit permission from the 'hazardous and other waste committee'. Companies seeking to import used plant machinery, having residual life of at least 5 years, for manufacturing electronics and electrical appliances can now do so by just submitting the necessary documents, without having to seek the committee's permission.	This will improve the business environment by reducing the clearance time for importing used machinery.
3.	Foreign Inflows	The RBI eased the investment norms for foreign portfolio investors (FPI) in debt, especially into individual large corporates. FPIs are now permitted to invest in G-secs, including Treasury bills and State Development Loans (SDLs) without any minimum residual maturity, subject to the condition that short-term investments by an FPI under either category shall not exceed 20 per cent of the total investment of that FPI in that category. In the corporate bond segment, the RBI has allowed FPIs to invest in corporate bonds with minimum residual maturity of above one year instead of the earlier limit of three years. However, it has kept a condition that short-term investments in corporate bonds by an FPI shall not exceed 20 per cent of the total investment of that FPI in corporate bonds.	The move can help attract more foreign inflows and improve demand for corporate bonds while at the same time help in arresting the fall in the rupee against the US Dollar.
4.	Foreign inflows	The RBI will introduce a Single Master Form (SMF), which will be an online form and would provide a facility for reporting total foreign investment in an Indian entity and also investment by persons resident outside India in an Investment Vehicle. Prior to the implementation of the SMF, the bank would provide an interface to the Indian entities, to input the data on total foreign investment in a specified format. This is a mandatory step and Indian entities not complying with this pre-requisite will not be able to receive foreign investment.	The move will integrate the existing reporting structures for various types of foreign investments in India.

StS. No	Area	Policy Announcement	Likely Impact
5.	Financial Markets	SEBI has proposed to allow Indian companies to directly list their shares on international exchanges and simultaneously allow foreign firms to directly list their shares on Indian exchanges. At present, Indian companies list their shares through depository receipts abroad while foreign companies have to list their shares through Indian Depository Receipt route. SEBI has decided to set up an expert committee to examine the economic case for permitting this direct listing and also to analyze the various legal, operational and regulatory aspects of this proposal.	This will help in the evolution and internationalization of the Indian capital markets.
6.	GST	As per a circular issued by Central Board of Indirect Taxes and Customs, IGST will now be levied and collected only at the time of final clearance of imported goods, kept in bonded warehouses, for home consumption. Earlier the goods kept in bonded warehouses were taxed twice, once when the goods are kept in the warehouses and second time when the goods are cleared from the warehouse for final sale	The provision has simplified the GST system and will benefit the firms that were doubly taxed earlier.
7.	MSMEs	At present, banks and NBFCs are allowed to classify loans to the MSMEs as NPA (180 days after the due date) only if the firms are registered under GST. However, the RBI has relaxed this criteria and extended the benefit to all MSMEs. These relaxation are subject to the condition that aggregate exposure of banks and NBFCs to the borrower does not exceed Rs 25 crore as on May 31, 2018. Also payment due from September 1, 2017 and falling due after December 31, 2018 must be paid within 180 days from their due date.	This would bring about uniformity in the NPA classification for the MSME sector.
8.	Sugar Industry	The Cabinet Committee of Economic Affairs approved Rs 8,500 crore bailout package for the sugar sector in order to help mills clear the arrears to sugarcane farmers which have crossed Rs 22,000 crore. The package includes- Rs 4,500 crore loan to mills for setting up ethanol production capacity, Rs 1,300 as interest subsidy on the loan, Rs 1,200 as carrying cost of creating of building a buffer stock (3 million tonnes of sugar) and Rs 1,540 as production-linked direct payment to help mills clear dues to farmers. The government has also fixed an MSP of Rs 29 per Kg for sugar mills in order to arrest the fall in prices.	The measure will help ease the distress in the sugarcane industry
9.	Banking & Finance	The RBI has raised the housing loans limits under the priority sector lending for economically weaker sections and lower income groups. Home loans up to Rs 35 lakh in metros (Rs 28 lakh earlier) and Rs 25 lakh in other centers (Rs 20 lakh earlier) now qualify as priority sector lending. However, the house cost should not exceed Rs45 lakh in metros and Rs 30 lakh elsewhere.	This will boost affordable housing and help the aspiring home buyers

StS. No	Area	Policy Announcement	Likely Impact
10.	Banking & Finance	The Reserve Bank of India has decided to make the NBFC regulations applicable to all government NBFCs, in addition to the private ones, thereby ending the special dispensation granted to government NBFCs previously. The central bank has defined a roadmap for these entities to meet the norms on asset classification, capital adequacy, provisioning, leverage, corporate governance and others till 2021-22.	This move would ensure that both private and government NBFCs are on an equal footing in terms of compliance with the regulations.
11.	Privatizatio n	The government is in the process of preparing a roadmap to lower its stake in all central public-sector enterprises (CPSEs) to 49 per cent in the next three years, except companies in the defence and oil sector-which are of strategic importance. There are over 250 companies in which the government holds a stake of more than 51 per cent and the planning body, NITI Aayog is in the process of identifying companies for dilution of stake.	The move will increase autonomy of these companies and improve efficiency by ensuring that the boards of these firms are more professionally managed.

BLUE STAR

There's only one VRF that can handle such heat.

VRF V PLUS

100% INVERTER

100% capacity at 43°C.
Non-stop cooling even at 56°C.

Blue Star VRF V Plus delivers 100% performance at 43°C and continues to cool non-stop even at 56°C. It's a 100% inverter VRF with an IPLV measure of 7, so it gives you the best energy efficiency and savings. Its operating voltage, 320V to 460V, is wider than that of any other VRF. In other words, the Blue Star VRF V Plus is superior in every way.

For more information, SMS 'EXPERT' to 57575. Email: coolingsolutions@bluestarindia.com or visit www.bluestarindia.com

10920181

Confederation of Indian Industry

ECONOMY MATTERS

The Facts

- Keeps readers abreast of global & domestic economic developments
- Monthly Journal of top management of 8000 companies
- Read by CII Members, Thought Leaders, Diplomats, Policy Makers, MPs and other decision makers

The Coverage

- Global Trends
- Domestic Trends
- Corporate Performance
- Sector in Focus
- Focus of the Month
- Special Feature
- Economy Monitor

CII invites full-page* Advertisements for this flagship document at an attractive rate of Rs 60,000 per issue and Rs 6 lakh for 12 issues.

For details and other feedback on the publication, please contact:

Ms. Shobha Ahuja, Director – Economic Policy and Research
Confederation of Indian Industry
The Mantosh Sondhi Centre, 23, Institutional Area, Lodi Road, New Delhi- 110003 (INDIA)
Tel: +91 11 457710000 Extn 415, Fax: +91 11 24626149, E-mail: Shobha.ahuja@cii.in

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 advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 9000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from around 265 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

As a developmental institution working towards India's overall growth with a special focus on India@75 in 2022, the CII theme for 2018-19, **India RISE : Responsible. Inclusive. Sustainable. Entrepreneurial** emphasizes Industry's role in partnering Government to accelerate India's growth and development. The focus will be on key enablers such as job creation; skill development; financing growth; promoting next gen manufacturing; sustainability; corporate social responsibility and governance and transparency.

With 65 offices, including 9 Centres of Excellence, in India, and 11 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, Iran, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 355 counterpart organizations in 126 countries, CII serves as a reference point for Indian industry and the international business community.

ABOUT CII Research

The CII Research team regularly tracks economic, political and business developments within India and abroad to comment on the emerging economic scenario for the Indian corporate sector. It tracks policy developments, offers comprehensive analysis of industries and comments on and analyzes the economic climate through its regular publications– Economy Matters, Business Outlook Survey and, Fortnightly Economic Updates.

We have in-house expertise in providing the most comprehensive, in-depth, unbiased and incisive analysis and forecasts on the Indian economy and various sectors. CII Research is also well versed and well equipped to offer customized research based consultancy services on any theme. It has been catering to the needs of various stakeholders including industries, business houses and government providing meaningful insights about the prevailing trends, outlook on likely future trends, factors behind these trends, existing government policies and policy recommendations with an objective to help stakeholders in better understanding of the issues at hand. The objective of CII Research is to assist stakeholders in taking more informed and strategic decisions with due focus on the attainment of short term as well as long term goals. For more details and to advertise in our products, write to us at deepali.sud@cii.in

Follow us on

cii.in/facebook | cii.in/twitter | cii.in/linkedin | cii.in/youtube

Published by Confederation of Indian Industry (CII), The Mantosh Sondhi Centre; 23, Institutional Area, Lodi Road, New Delhi 110003, India, Tel: +91-11-24629994-7, Fax: +91-11-24626149; Email: info@cii.in; Web: www.cii.in