

# EXIMIUS: EXPORT ADVANTAGE

## In this Issue

- Impact of Exchange Rate Movements on India's Exports
- Promoting Ties between India and New Zealand
- India-Qatar Trade and Investment: Strengthening Global Synergies
- Essays on Exchange Rate and Economic Performance
- India's Medical Devices Sector

### Editorial team:

Dr. Viswanath Jandhyala, Asst. General Manager

Ms. Alfiya Ansari, Deputy Manager

### A Quarterly Publication by:



Centre One Building, Floor 21,  
World Trade Centre Complex,  
Cuffe Parade, Mumbai - 400 005.

Tel.: 022 2217 2600

Email: [ccg@eximbankindia.in](mailto:ccg@eximbankindia.in)

[www.eximbankindia.in](http://www.eximbankindia.in)

[www.eximmitra.in](http://www.eximmitra.in)



## Impact of Exchange Rate Movements on India's Exports

– Jahanwi Singh, Chief Manager  
Neha Raman, Manager

### Background

An exchange rate is the price of a country's currency relative to the currencies of other countries. There are three aspects of exchange rate which can have plausible impact on exports—the level of exchange rate, fluctuation in the rates, and the direction of the movement in exchange rates. Empirical and theoretical studies indicate that the impact of currency movements on international trade is multi-faceted and may differ across countries. Against this background, the current article analyses the impact of currency volatility and appreciation/ depreciation on India's exports both at an overall level and sectoral level.

### India's Exchange Rate Regime

Exchange rate regime in India has changed several times since independence. During the 1950s, India followed a par value system, under which exchange rate was fixed in terms of gold with pound sterling as the reference. For maintaining stability of the exchange rate and overcoming the weaknesses associated with single currency peg, the exchange rate regime was changed to a basket peg during 1970s and 1980s, before becoming market determined during March 1992-February 1993. However, since 1993, India has maintained a managed floating exchange rate, with no fixed target.

The exchange rate in India is largely determined by market forces, with intervention from the Reserve Bank of India (RBI) only for managing excessive volatility. Such a regime is important from the perspective of the Indian economy on account of the characteristics of its balance of payments. India depends on large capital flows to fund its current account deficit, which is often lumpy in nature, and makes the foreign exchange market in India subject to substantial volatility. Timely interventions from the RBI prevent such undue volatility.

### Trends In Indian Rupee

From 2014 to 2023, the Indian Rupee (INR) showed a consistent depreciation against major currencies, particularly the US dollar (US\$) and Euro (EUR). The INR depreciated

from 61.0 in 2014 to 82.6 in 2023 against the US dollar, largely due to factors like India's current account deficits, inflation differentials, and global capital flow volatility.

Nonetheless, it is noteworthy that the INR has been relatively stable compared to other emerging market currencies. According to the RBI's Monetary Policy Report for October 2024, the INR has been the least volatile among major emerging market currencies in recent months. As per the Economic Survey 2023-24, despite facing depreciation pressures, the INR has demonstrated resilience, with a coefficient of variation (CV) of 0.58 in 2023-24—its lowest in recent years. This relative stability, even amidst challenges such as global geopolitical risks, rising interest rates, and volatile commodity prices, reflects India's sound macroeconomic fundamentals, financial stability, and improved external position. Steady foreign inflows and manageable trade deficits are expected to continue supporting the INR, keeping it within a comfortable range.

Over the recent years, India's Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) experienced phases of appreciation and depreciation. Both NEER and REER appreciated from 2014 to 2017 due to low inflation, strong investor confidence, and stable economic conditions. From 2018, NEER depreciated steadily, reflecting global trade uncertainties, rising oil prices, and the COVID-19 pandemic, while REER remained stable due to controlled domestic inflation. In 2021, as the global economy began recovering from the pandemic, REER saw a slight rebound. However, NEER experienced a modest decline, likely due to rising domestic inflation, which reduced India's competitiveness. In 2023, both NEER and REER sharply depreciated, driven by factors such as interest rate hikes in the USA, which strengthened the dollar, as well as India's widening trade deficit and domestic inflationary pressures which impacted India's real competitiveness. Going forward, India's inclusion in global bond indices could attract foreign investment, thereby stabilising the rupee, reducing borrowing costs, and boosting economic resilience. However, managing capital inflow volatility will be crucial.

### **Effect of Exchange Rate on India's Exports**

Exim Bank's analysis of the impact of exchange rate movements on India's real exports through an Autoregressive Distributed Lag (ARDL) model suggests that an appreciation of the Indian Rupee exerts a positive influence on India's real exports to the world. A 1% increase in REER (indicating

appreciation of the domestic currency) translates into a 1.07% increase in India's real exports to the world. Typically, an increase in REER would be expected to reduce exports due to reduced price competitiveness. The contrary trend in case of India could be on account of the high import dependence across industries. Several export-oriented sectors in India rely on imported inputs, and a currency appreciation (higher REER) can reduce the cost of these imports, leading to lower production costs and improved competitiveness for exports. This is in fact the case with India, wherein import intensity of raw material in overall manufacturing sector in India stood at nearly 33.4% in FY23, while export orientation was lower at only 6.5%. Analysis also indicates that nearly 56.2% of India's merchandise exports come from industries where the import intensity of raw material is greater than the overall manufacturing average of 33.4%. Hence, an appreciation of Indian Rupee may benefit the real exports from the country.

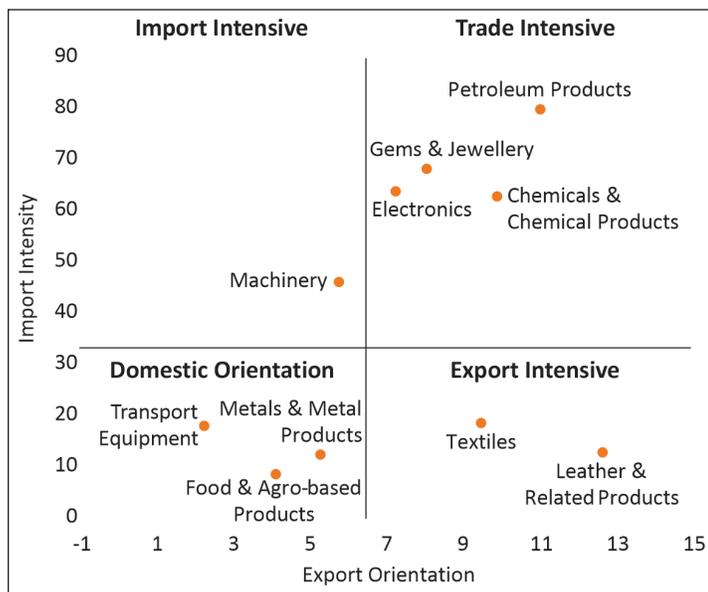
With regard to responsiveness of India's exports to change in global demand, Exim Bank's analysis indicates that a 1% increase in real GDP of the world, i.e. demand from the world, would lead to an increase of 4.15% in India's real exports in long term. This means that as real GDP of the world rises, it significantly boosts India's real export performance. As far as the volatility parameter is considered, Exim Bank's analysis finds that a 1% rise in real exchange rate volatility amounts to a 0.20% improvement in India's real exports in the long-run. The long-term positive impact of exchange rate volatility on real exports underscores resilience of India's exports, indicating that exporters are able to command risk-adjusted premium prices, enabling them to effectively navigate business in volatile environments.

### **Sectoral Impact of Exchange Rate Movements**

An analysis based on the export orientation and import intensity of ten major industries was undertaken by Exim Bank, for understanding the impact of fluctuations in the Indian Rupee on the performance of the industries. The sector-level data on import intensity of raw materials and export orientation for the ten major industries has been benchmarked with the average for the manufacturing sector as a whole, to arrive at four categories viz. i) Trade Intensive (High Export Orientation– High Import Intensity) sectors; (ii) Import Intensive (Low Export Orientation – High Import Intensity) sectors; (iii) Domestic Orientation (Low Export Orientation – Low Import Intensity) sectors; and (iv) Export Intensive (High Export Orientation – Low Import Intensity)

sectors. Exim Bank's analysis indicates that sectors such as gems and jewellery, electronics, petroleum and chemicals are trade intensive sectors. Machinery sector is import intensive. Transport equipment, food and agro-based products, and metal and metal products are domestically oriented sectors, characterised by both low export orientation and low import intensity, while textiles and leather industries fall under export intensive category, characterised by high export orientation and relatively low dependence on imported inputs.

**Chart 1: Quadrant Analysis of Sectors**



Source: CMIE Industry Outlook, Exim Bank Research

Exim Bank's analysis finds that impact of currency movements on exports and trade balance varies across sectors based on their export orientation and import intensity. Depreciation in nominal exchange rate generally boosts the value of exports in sectors like electronics, chemicals, machinery, and petroleum products, as evidenced by strong positive correlations with the exchange rate. However, high import dependence in these sectors leads to an increase in import costs, thereby offsetting gains from exports and widening trade deficits. In gems and jewellery sector, the value of export reduces, and trade deficit widens due to depreciation in nominal exchange rate, potentially due to the high import dependence in the sector. Food and agro-based products is the only sector where depreciation is correlated with both increase in exports and improvement in the trade balance, plausibly on account of the low import dependence in this area. In transport equipment, weaker rupee is associated with worsening of trade balance. Weaker rupee has a moderate correlation with exports of metals and metal products. Lastly, in the labour-intensive,

export-oriented sectors of textiles and leather, a depreciating currency may lead to moderate negative impacts on trade balance. However, there is also a moderate correlation of depreciation with increase in exports in case of leather.

**Table 1: Correlation of Currency Movements, Global Demand and Trade Dynamics over (2014-2023)**

Sectors	Correlation between Exports and Nominal exchange rate	Correlation between Exports and Global Import Demand	Correlation between Trade Balance and Nominal exchange rate
Electronics	0.93	0.88	-0.81
Chemicals & Chemical Product	0.92	0.95	-0.40
Machinery	0.92	0.97	-0.23
Food & Agro-based Products	0.76	0.97	0.37*
Petroleum Products	0.63	0.97	-0.60
Metal & Metal Product	0.62	0.90	-0.26
Transport Equipment	0.31	0.84	-0.60*
Textile	-0.24	0.33	-0.65*
Gems & Jewellery	-0.51	-0.32	-0.56
Leather and Related Products	-0.67	0.64	-0.72*

Note: 1. Nominal exchange rate is calendar year average (INR/US\$)

2. Cells highlighted in light green indicate sectors with positive correlation between exports and exchange rate and negative correlation between trade balance and exchange rate; cell highlighted in dark green indicate sector with positive correlation between both exports and exchange rate and trade balance and exchange rate; and cells highlighted in orange indicate sectors with negative correlation between both exports and exchange rate and trade balance and exchange rate.

\* Indicates sectors with trade surplus, whereby a positive correlation would mean improved trade surplus due to currency depreciation and vice versa.

## Conclusion

India's exports are responsive to changes in exchange rate and contrary to expectations, a currency appreciation is expected to bode well for real exports from India. The analysis also indicates that India's trade performance is influenced by sector-specific dynamics, including currency fluctuations, global demand, and import intensity. Aligning the policies and interventions to these nuances can support export growth and improve trade balance. ■

## Promoting Ties between India and New Zealand

– Vanlalruata Fanai, Deputy General Manager  
Alfiya Ansari, Deputy Manager

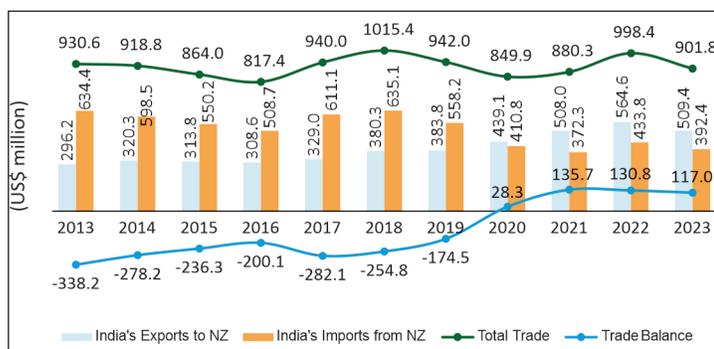
New Zealand is a sovereign island country located in the southwestern Pacific Ocean. New Zealand is the second-largest economy in Oceania and a member of the Organisation for Economic Co-operation and Development (OECD). New Zealand's economy is primarily dominated by the services sector, which accounted for 79.9% of gross domestic product (GDP) in 2022, followed by industry at 21.4%, and agriculture, forestry and fishing sector at 6.2%.

While New Zealand's economy grew by an estimated 0.03% in 2024, driven initially by a surge in migrant arrivals in late 2023, it is expected to pick up in 2025, driven by consumption. New Zealand is also expected to gain some export traction in other markets due to new free trade agreements (FTAs) and multilateral trade partnerships, with the annual real GDP growth averaging at 2.6% during 2025-2028.

### India's Bilateral Merchandise Trade with New Zealand

India's bilateral trade in goods with New Zealand crossed US\$ 1 billion for the first time in 2018 but remained below this threshold thereafter, in spite of recovery in the post COVID period. Bilateral trade peaked at US\$ 998.4 million in 2022 before settling at US\$ 901.8 million in the following year (**Chart 1**).

**Chart 1: Bilateral Merchandise Trade between India and New Zealand**



Source: ITC Trade Map and India Exim Bank Research

Despite these fluctuations, the trade balance with New Zealand has shown remarkable improvement, shifting from a deficit in the past years to a surplus since 2020, mainly reflecting the combination of India's strategic economic decisions and trade

policies aimed at promoting export growth and reducing import dependency.

Over the decade, India's exports to New Zealand have risen significantly primarily driven by mineral fuels, machinery and mechanical appliances, pharmaceuticals, and natural or cultured pearls. Conversely, India's imports from New Zealand witnessed declining trends after it peaked at US\$ 635.1 million in 2018, mainly reflecting decline in imports of woods and articles of wood and paper and its articles.

### India's Bilateral Services Trade with New Zealand

As per the latest available data, bilateral trade in commercial services between India and New Zealand experienced a significant decline recently, falling from US\$ 771 million in 2019 to US\$ 378 million in 2022, mainly reflecting a decline in travel services, which have now gradually picked up post COVID pandemic. While India's commercial services imports from New Zealand broadly reflect the bilateral trade trends, falling from US\$ 612 million in 2019 to US\$ 162 million in 2022, India's commercial services exports to New Zealand have increased during the same period, from US\$ 159 million in 2019 to US\$ 216 million in 2022.

### Revealed Comparative Advantage Analysis of India and New Zealand

To identify the products based on their export competitiveness in New Zealand, a four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level. This analysis involved calculating the Normalized Revealed Comparative Advantage (NRCA) of India's exports to New Zealand and mapping them against the annual average growth rate (AAGR) of New Zealand's global imports of all products. The quadrants are created by comparing the overall AAGR of global imports of New Zealand for all products during 2013-2023, which was 3.2%, with the NRCA of India's exports to New Zealand of the same products during the same period.

With a threshold of minimum exports of US\$ 500 thousands from India to New Zealand, 182 products at 6-digit HS Code have been identified, with the total exports from India to New

Zealand amounting to US\$ 390.4 million. New Zealand's global imports of these products stood at US\$ 14.6 billion in 2023. Out of the 182 items at the HS 6-digit level, 122 items fell into the category of the '*product champions*'. The combined exports of these items from India to New Zealand were US\$ 274.8 million in 2023, representing approximately 70.3% of India's exports to New Zealand in 2023.

The total number of products in '*winners in declining sectors*' category is 48, with India's exports to New Zealand amounting to US\$ 96.3 million, constituting a share of 24.7% of India's exports to New Zealand in 2023. These are the product items in which India has attained a significant share in New Zealand's import basket, but New Zealand's import demand for these products has been falling in the last decade. This was followed by '*underachievers*' with 9 items and India's exports worth US\$ 10 million to New Zealand. These products constitute a marginal share of 2.6% in India's total exports to New Zealand in 2023. These are the products in which import demand in New Zealand market is rising, but India does not have the required competitiveness in the export of these items

### India-New Zealand Bilateral Investment

According to Financial Times' fDi Markets, from January 2013 to December 2023, New Zealand received a total envisaged FDI capital expenditure of US\$ 26.1 billion from 728 projects, generating 46,709 jobs in the country. During this period, maximum envisaged FDI capital expenditure in New Zealand was from the US, accounting for 41.4% of total capex invested in the region. Australia was the second largest investor, contributing 17.3%, followed by the UK at 6.3%, China at 6.1% and Germany at 5.1%. India accounted for 0.7% of the total investment in New Zealand during the same period.

From January 2013 to December 2023, India invested a total of US\$ 192.6 million in New Zealand across 14 projects, supporting 396 jobs in the country. The largest share of India's capital investments during this period was in biotechnology (51.0%), followed by software & IT services (34.0%), business services (13.0%), hotels and tourism (1.0%) and real estate (1.0%). The majority of the projects were found in software and IT services (22 projects), followed by business services (14) and consumer products (11) during the same period.

On the other hand, New Zealand's entities made a total outward envisaged FDI capital expenditure of US\$ 17.2 billion across 540 projects during the same period, supporting 38,085 jobs across the globe. FDI outflows from New Zealand, which stood at US\$ 2.6 billion in 2013, moderated to US\$ 0.7 billion in 2021.

However, FDI outflows recovered to US\$ 1.9 billion in 2022 and settled at US\$ 1.5 billion in 2023.

During the same period, India received US\$ 2.6 billion in foreign direct investment (FDI) from New Zealand, spread across 10 projects and supporting 4,530 jobs. The most significant investment occurs in 2014, with capex investments worth US\$ 2.5 billion in the transportation and warehousing sector as part of the logistics, distribution and transportation project in India.

### Way Forward

The bilateral relationship between India and New Zealand has entered a renewed phase of vigour, marked by efforts to strengthen trade, investment, and economic ties. Mutual Recognition Agreements (MRAs) are key to reducing technical trade barriers, ensuring regulatory coherence, and enhancing trade efficiency across sectors, including pharmaceuticals, agriculture, and automobiles. Specific MRAs between agencies like the Bureau of Indian Standards and Standards New Zealand can streamline certification processes, fostering smoother trade. Similarly, collaboration on sanitary measures, particularly for agricultural and processed food products, can further optimize trade flows. These measures not only reduce costs but also deepen trust and cooperation between the two nations.

Enhanced civil aviation cooperation is another key area for strengthening ties. Establishing direct air connectivity between India and New Zealand can significantly boost tourism, facilitate cultural exchange, and ease travel for the diaspora. Steps like revising bilateral air service agreements, conducting market feasibility studies, and incentivizing airlines are critical to realizing this potential. Similarly, the agriculture and dairy sector offers immense scope for collaboration, with New Zealand's expertise in advanced dairy technologies complementing India's vast agricultural resources, thus driving productivity, enhancing food security, and opening new markets.

Information technology, education, and skill development represent promising avenues for bilateral engagement. While India excels in software development and IT services, New Zealand offers innovative digital solutions and cybersecurity advancements. Collaborative efforts in these areas can enhance technological capabilities and market reach. Additionally, New Zealand's high-quality education system and India's youthful population provide opportunities for academic exchanges, scholarships, and joint research initiatives, addressing global challenges like climate change and public health. ■

## India-Qatar Trade and Investment: Strengthening Global Synergies

– Siddharth Nema, Deputy Manager  
Visahakha Bhagwat, Officer

Qatar is a small, yet hydrocarbon-rich nation strategically located at the crossroads of Asia, Africa, and Europe. This strategic location provides it with access to 80% of the world's population and expanding markets. In 2023, Qatar boasts one of the highest GDPs per capita globally, reaching US\$ 78,696. As a major supplier of liquefied natural gas (LNG), the country plays a crucial role in the global energy landscape, controlling a significant portion of the LNG export value chain. While Qatar's rapid GDP growth has historically been driven by its vast oil and natural gas reserves, the country is now focusing on building a more diversified future.

### India-Qatar Merchandise Trade

India and Qatar have fostered a long-standing commercial relationship for decades, characterized by bilateral trade, investments, and cooperation across various sectors. India was Qatar's fourth largest import source in 2023, only followed by the US, China and Italy and third largest export destination following China and South Korea. The total value of exports from India to Qatar has risen from US\$ 994.7 million in 2014 to US\$ 1,652.1 million in 2023, while imports amounted to US\$ 12.7 billion, of which 88.5% constituted of mineral fuels and oils mainly, liquified natural gas, liquified propane and liquified butanes. Within exports, cereals had the highest share of 9.6% amounting to US\$ 158.2 million, followed by mineral fuels and oils, and pearls, precious stones and metals among others. As of December 2023, there were over 8,35,000 Indian nationals residing in Qatar, comprising the largest expatriate community in the country, accounting for around 27% of total population of Qatar.

### India-Qatar Services Trade

India's total services trade with Qatar has seen a remarkable rise from US\$ 872 million in 2012 to US\$ 1,455 million in 2021, despite slight moderation in 2020 due to the pandemic. India has seen a consistent services trade surplus with Qatar, which peaked at US\$ 721 million in 2021. In terms of India's services exports to Qatar, research and development (R&D) services, professional and management consulting services, and technical, trade-related and other business services, dominated the basket in 2021. Meanwhile, India's services

imports from Qatar consist primarily of transport services that hold a dominant share of 73% of India's total services imports from Qatar in 2021.

### India-Qatar Bilateral Investment Relations

Foreign Direct Investment (FDI) plays a pivotal role in strengthening economic ties between India and Qatar. According to the Qatar Chamber of Commerce and Industry (QCCI), over 15,000 Indian companies, ranging from small enterprises to large corporations, operate in Qatar, either as wholly owned entities or joint ventures. Between 2014 and 2023, Qatar invested US\$ 264.8 million in India across seven projects, creating 1,474 jobs, with the majority of the investment focused on financial services (56.8%), hotels and tourism, and non-automotive transport OEM. In contrast, India's investment in Qatar totaled US\$ 326.9 million through 62 projects, generating 2,732 jobs, with key sectors including consumer products (34.7%), hotels and tourism, and software and IT services.

### India's Revealed Comparative Advantage Analysis and Trade Potential

Successful bilateral trade hinges on identifying products where India holds a comparative advantage that aligns with Qatar's import demand. Revealed Comparative Advantage (RCA) is a widely used tool to assess a country's export potential. The analysis focused on HS 6-digit codes with a minimum export value of US\$ 250 thousand from India to Qatar, 568 products have been identified, with the total exports from India to Qatar amounting to US\$ 1.5 billion while the total world imports by Qatar in the same products stood at US\$ 11.8 billion in 2023.

Out of the total items at the HS 6-digit level, 151 items fell into the category of the '*product champions*'. The combined exports of these items from India to Qatar were US\$ 764 million in 2023. The total number of products in '*winners in declining sectors*' category is 298, with India's exports amounting to US\$ 653.9 million. These are the product items in which India has attained a significant share in Qatar's import basket, but Qatar's import demand for these products has been falling in the last decade. This was followed by '*underachievers*' with 59 items, with exports worth US\$ 50.3 million from India to

Qatar. These are the product items in which import demand in the Qatari market is rising, but India does not have the required competitiveness in the export of these items.

### India-Qatar Tariff Analysis

According to the WTO, the average most favoured nation (MFN) tariff rate for Qatar was 4.6% for non-agricultural goods and 5.4% for agricultural goods in 2022, while the average rate of all products is 4.7%. The gap between the bound and applied rates remains large. The simple average bound tariff is estimated at 15.6%, which is more than three times higher than the simple average applied MFN rate of 4.7%. Although applied rates are in most cases considerably lower than bound rates, it appears that the applied MFN rates exceed the corresponding bound rates for few bound lines, related to items containing alcohol, which is sold at a single store under a license regime.

On analyzing the effectively applied tariff rates of all products at 6-digit HS Code level that Qatar imports from India for the year 2022, based on WITS data, reveals that Indian exporters face effectively applied tariff while exporting to Qatar. There are 308 tariff lines (at 6-digit HS code) that has effectively applied tariff rate of 0%, which amounted to total imports of US\$ 397.6 million in 2022, and this corresponds to 19.6% of the total imports of Qatar from India in 2022. There are 42 tariff lines under the 1- 4% bracket and 2922 lines under 5% effectively applied tariff rates, respectively, and it amounts cumulatively to 79.8% share in Qatar's total imports from India.

The tariffs imposed by India on imports from Qatar at 6-digit HS code level shows that there are 29 tariff lines (at 6-digit HS code) on which India imposes the effectively applied tariff of 0%, imports for which amounts to US\$ 0.7 million in 2022. There are 212 tariff lines with imports amounting to US\$ 2.7 billion under the 5%-9% effectively applied tariff, which corresponds to 15.6% of India's imports from Qatar in 2022. There are 9 tariff lines under the category of unspecified ratings, amount to 1.5% of the total share of imports. These products mainly include petroleum oils and woven cotton fabrics that are printed.

### Exposure of Exim Bank in GCC Region

The Bank has been supporting Indian Companies by giving project related guarantees in Qatar for different infrastructure related projects. As of September 30, 2024, the Bank's Joint Venture/Overseas Investment Finance (JV-OIF) facilities in

the West Asian region, particularly in the UAE, Saudi Arabia, and Oman, totalled ₹4,006.6 crore. The primary sectors of investment included metals and metal processing (both ferrous and non-ferrous), ports and infrastructure, as well as agro and food processing. Notable borrowers in this region included JSW Terminal (Middle East) FZE, Essar Steel Middle East FZE, J.K. Cement Works FZC, Karuturi Global Limited and L&T Global Holdings Limited, among others

Under Trade Facilitation, transactions aggregating US\$ 18.6 million have been executed so far in the GCC region (Kuwait and UAE) to facilitate export of motor vehicles and construction material for Infrastructure projects. This support has been extended through guarantees and credit enhancement, ensuring smooth execution of trade transactions.

### Way Forward and Recommendations

India and Qatar have witnessed a new dynamism in their relationship in recent times, with both economies looking forward at enhancing their economic partnership. It is time for India and Qatar to build on their solid trade and investment engagements and take this relationship to newer heights. India needs to expand its production and trade in products in which it has comparative advantage with Qatar. This would help in expansion of trade and improve trade balance with Qatar. As per the RCA Analysis, it is suggested to strengthen the existing products in the category of Product Champions to exploit the full potential in short run and in the medium to long run, efforts and investments are to be enhanced in underachievers category products to develop capacities in these products.

The two nations could also explore Mutually Recognized Agreements (MRA) that may streamline trade by allowing countries to accept each other's product testing and certification results. These agreements could encompass areas like regulatory standards, accreditation processes, and professional qualifications. By reducing trade barriers, MRAs can boost Indian exports, improve price discovery in partner countries, and facilitate the movement of skilled professionals. Further, the formation and promotion of financial integration between India and Qatar remains one of the essential cooperation areas to integrate Qatar National Vision 2030 into India's Middle East strategy. Opening of banking and insurance sectors and capital markets, encouraging local currency settlement system, easing digital payments and facilitation of co-financing of major infrastructure, energy, and technology projects, can thereby leverage each institution's strengths and sharing of financial risks. ■

## Essays on Exchange Rate and Economic Performance

*This article is based on the doctoral dissertation titled “Essays on Exchange Rate and Economic Performance”, which is selected as the winning entry for the Export-Import Bank of India’s BRICS Economic Research Annual Citation (BRICS Citation) 2024. The dissertation was written by Dr. Hugo Carcanholo Iasco Pereira, currently Professor, Federal University of Paraná, Brazil, under the supervision of Professor Fabrício José Missio. Dr. Pereira received his doctoral degree in 2021 from the Federal University of Minas Gerais, Brazil.*

The exchange rate represents the price of the domestic currency in terms of other foreign currency. As a relative price, associated with the prices of imported and exported goods, this variable is linked with economic performance concerning short-run aspects (as demand growth, jobs creation, inflation) as well as regarding medium- and long-run aspects (as income distribution, structural change, the composition of national income in terms of consumption, saving, investment, and net-exports). In this regard, the exchange rate may boost, or hamper, the long-run growth. When used as a policy oriented for the economic development, the exchange rate can trigger important drivers of long-run growth. Yet, when used as a tool merely associated with other aspects – as nominal anchor, policies of artificial risings in real wages (decoupled from the labor productivity growth), the exchange rate can exert a devastating impact on the aforementioned drivers of long-run growth.

Many studies showed the importance of managing the exchange rate as an oriented policy for economic development. There is an extensive literature that indicates robust evidence – theoretically and empirically, that a devalued real exchange rate (RER, henceforth) may exert a positive influence over the long-run growth. Various authors have been suggested possible transmission channels through which the RER influences economic development/growth (as it was discussed in detail throughout the study). Making the RER misaligned in relation to its long-run fundamentals (a more competitive RER) sparks a prosperous process of economic development grounded on international competition, exports, capital accumulation and, ultimately, on the labour productivity growth.

However, a development strategy based on pursuing a competitive RER implies making renunciations in the

short-run in order to reach a more developed society in the medium and long-run. In the short-run, the inflationary pressures induced by a weak national currency require a lower real wage to do not corrode the gains of international competitiveness via a strengthened inflationary process. Put differently, assuming the existence of a lower and controlled inflation, in the short-run, an exchange rate policy oriented for the economic development reduces consumption, at detriment of a greater investment, saving and exports. In the medium and long-run, nonetheless, into the extent that the labour productivity grows, induced by the greater pace of capital accumulation, it opens the rooms for greater real wages in a sustainable path, without incurring in a profit-squeeze situation.

It turns out that there is no guarantee that the greater labour productivity growth will be passed on into the real wages in the medium and/or long-run. There might well be that the fruits of the economic development are not shared equally in the medium and long-run. This applies especially to developing countries, in which the heterogeneous productive structure co-exists with numerous people unemployed, or even engaged in informal activities. In fact, this is the Achilles’ heel of this growth-story: there is no guarantee that economic growth, induced by a growth-strategy based on a competitive RER, and its fruits will be shared with all individuals of society in the medium and long-run.

On the other hand, literature suggests that the influence of RER on economic development is not confined to the picture designed above. As a relative price associated with sectoral profitability, the RER is associated with the structural composition of the economy. Pursuing a competitive RER leads to a more industrialized and complex productive structure, benefiting the export sectors. The

economy becomes outward-oriented. As a result, the external constraint eases as exports increase and the productive structure becomes less dependent on imports and oriented to produce export goods more sophisticated. Moreover, by making the national firms to compete with the more efficient foreign firms in international markets, this development-strategy leads to national firms more efficient and productive.

It was considering this growth-narrative that the study has been thought. The main goal was to study the effects, theoretically and empirically, of pursuing a competitive RER, as an economic policy, on the economic development in a broad sense. For the sake of clarity and organization, it should be stressed that the study was structured in six essays independent of each other. Although each essay has specific objectives with different subjects of analysis, the common background of the essays was the idea of measuring and understanding the influence of exchange rate on the economic system.

In the theoretical field, the specific goal was to comprehend the effects of a devalued RER on long-run growth from the Kaldorian point of view. The novelty was to understand this relation via the natural growth rate of economy, and not via the actual growth rate (Thirlwall's law), as it is usual in this literature. The Kaldorian approach developed in this study comprehended that the influence of RER on economic growth occurs through the interaction between demand growth and labour productivity growth, considering the intensity of the Kaldor-Verdoorn mechanism endogenous to the technological progress induced by devaluations of RER.

The justification for this new theoretical framework derived from the fact that the usual approach, in the Kaldorian growth theory, accounts for the effects of the RER on the growth in terms of Thirlwall's law. The fundamentals of long-run growth, in this perspective, come down to the magnitude of income-elasticities of exports and imports. Various studies have explored the endogeneity of the income-elasticities in relation to aspects of the supply-side. In particular, a large body of this literature has endogenized the long-run growth fundamentals of Thirlwall's law, concerning the changes in productive structure induced by the RER. The argument is that pursuing a competitive RER

promotes a structural change towards the manufacturing sectors. This process increases the importance of the more complex and modern sectors within the productive structure, increasing (reducing) the income-elasticity of exports (imports).

It turns out that Thirlwall's law provides a limited comprehension of the effects of RER on growth even though it is worth noting an important aspect of Thirlwall's law.

It is noteworthy to stress that the theoretical model developed in the study is more closely related to be a complementary approach than a disowning of Thirlwall's law. Indeed, both perspectives should be taken together. There is no way to boost the long-run growth of an economy under an effective external constraint. The supply-side of the economy (in the Kaldorian sense) requires an ease external constraint in order to act as a boosting vector of long-run growth. However, a growth theory that does not incorporate the supply-side, in the Kaldorian manner, is a meaningless approach because it does not really explain growth.

Motivated by these considerations, the new theoretical approach developed in this study sought to understand the effects of pursuing a competitive RER over the long-run growth via the supply-side of the economy (in the Kaldorian way). The argument was that pursuing a competitive RER exerts influence on the long-run growth through two channels: i) by affecting the income distribution and, then, the effective demand growth; ii) by influencing the firms' decisions of making new investments, which changes the intensity of the circular and cumulative causation: i.e., a faster pace of capital accumulation, induced by a competitive RER, enlarges the parameters of the productivity regime (the Kaldor-Verdoorn mechanism becomes more intense). In both cases, pursuing a competitive RER may spur long-run growth under certain conditions.

The chapter titled, "*Kaldorian Growth Models: a critical discussion*", is more a discussion about the long-run growth in the kaldorian perspective, with an appointment of an agenda of theoretical research, than an original contribution to literature.

The chapter titled, “*Endogenous Productivity Regime and the Impact of Devaluations of Real Exchange Rate on Economic Growth*”, delivered an original contribution to the theoretical literature. The leading question of this analysis was: What is the effect of devaluations of RER over the long-run growth in a Kaldorian growth model of cumulative and circular causation when the productivity regime is endogenous regarding the RER? The new approach endogenized the parameters of the productivity regime to capture the influence of RER over the capital accumulation/ technological progress on the labour productivity with the demand growth.

The contribution of this study to the existing literature was not limited to theoretical discussion. In the empirical field, the study tested the influence of RER on the economy from a broad perspective. A specific goal was to study empirically the direct impact of pursuing a competitive RER on the long-run growth. For that, the chapter, “*Exchange Rate and Growth: empirical evidence (1995-2018)*”, studied the empirical association between the RER and economic growth.

The remaining specific goals of this study are associated with testing the influence of pursuing a competitive RER on drivers of long-run growth. In other words, it was tested the indirect influence of a competitive RER on long-run growth.

The chapter, “*Exchange Rate and Structural Change: a study using aggregated and sectoral data*”, tested the association between the RER and structural change using both aggregated as sectoral database. The basic questions addressed by this essay were: a) Why does the RER matter for the composition of productive structure? b) How does the RER influence the structural change? c) Are the devaluations of RER a driver of the structural change towards an industrialized and more complex productive structure? d) What is the influence of RER over the sectoral performance in terms of job creation for developing countries? e) Are the degree of outward-orientation, technological regime and labor costs of the sectors associated with such possible influence? The results suggested that a competitive RER promotes a structural change, mainly towards the manufacturing and more complex activities.

The chapter, “*Exchange Rate and Prices: an extended Kaleckian approach for Brazilian manufacturing sectors (2010-2019)*”, investigated the effects of pursuing a competitive RER on the prices of industrial sectors of the Brazilian economy over the period between 2010 and 2019. This essay was guided by the following research problems: a) What determines the inflationary effects of exchange rate devaluations using the Kaleckian cost-push approach? and when it is used an extended approach that considers the structuralist idea of neutral inflation? b) What are the variables that influence the magnitude of the exchange rate pass-through into prices? c) What is the magnitude of the exchange rate pass-through into the prices of manufacturing sectors of Brazilian economy? d) What are the explanations for the differences of exchange rate pass-through into the prices across the sectors? A theoretical model was developed to extend the Kaleckian approach in order to understand the exchange rate pass-through onto prices. The model indicated that the exchange rate pass-through is associated with the share of imported inputs/ wages in all costs, the influence of RER over the mark-up rate, and structural composition of the economy. The time-series evidence indicated that a competitive exchange rate has costs in terms of inflation, even that this influence is partial and varies across the sectors.

The chapter, “*Real Exchange Rate and Growth: identifying transmission channels*”, addressed the effects of pursuing a competitive RER on some possible transmissions channels from RER into economic growth. The research problem of this study was: a) How does the income distribution (functional and personal), as well as the composition of national income between investment, saving, consumption and net exports, social capability, and total factor productivity correlate with misalignments of RER? Is this possible correlation different for developing countries? The regressions indicate that pursuing a competitive RER worsens the functional income distribution, while it reduces the income inequality in terms of the personal income distribution. Plus, the results also suggested that pursuing a competitive RER makes the consumption smaller to the detriment of a larger saving/investment and boosts the net exports directly and indirectly (via the smaller labor costs). The study also revealed that increases in the social capability and productivity growth are associated with a competitive RER. ■

## India's Medical Devices Sector

- **Rahul Mazumdar**, Deputy General Manager  
**Sakshi Garg**, Deputy Manager

The medical devices sector in India plays a crucial role in supporting the healthcare system, enabling prevention, diagnosis, treatment, and management of medical conditions, diseases, and disabilities. The sector has been recognised as a priority sector under the 'Make in India' initiative. The sector encompasses a wide range of product categories, including:

- **Electronics Equipment:** Devices such as imaging machines, monitors, and diagnostic equipment
- **Implants:** Tools for various bodily implantations, like orthopaedic or cardiovascular implants
- **Consumables and Disposables:** Single-use items like syringes, gloves, and gauze
- **IVD Reagents:** In-vitro diagnostic reagents for lab-based testing and analysis
- **Surgical Instruments:** Tools used for performing surgeries across diverse medical fields

India is amongst the top 20 global medical devices markets and is the 4<sup>th</sup> largest medical devices market in Asia after Japan, China, and South Korea<sup>1</sup>. The Indian medical device market has a significant presence of multiple multi-national companies with about 80% of the sales generated from imported medical devices<sup>2</sup>. India's medical device market is valued at approximately US\$ 14 billion and is expected to grow to US\$ 30 billion by 2030<sup>3</sup>.

Based on the survey of Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, Government of India, as of February 2023, there were about 21 medical devices clusters in the country spanning 9 states. The highest number of medical clusters (6) are in Uttar Pradesh, followed by 4 each in Maharashtra and Haryana, 2 in Karnataka, and one each in Andhra Pradesh, Gujarat, Rajasthan, Tamil Nadu and Telangana. There are around 736 companies in operation with an average of 35 units per cluster. Of these, about 126 are export oriented companies. Majority of the domestic manufacturers in India are operating in the consumables segment and catering to local consumption with limited exports. MNCs lead the high technology end of the medical devices market with extensive service networks.

**Foreign Trade:** India's exports of medical devices during FY 2023-24 stood at US\$ 3.9 billion while imports were to the tune

of US\$ 8.9 billion, leading to a trade deficit of (-) US\$ 5.0 billion. Despite domestic production of medical devices witnessing a growth, most imports of medical devices are largely high-value and low-volume devices while the domestic production is of largely low-value and high-volume diagnostic tools.

Among the categories, 'medical and scientific Instruments' was the top exported category by India in FY 2023-24 with exports of US\$ 2.4 billion, followed by optical items (US\$ 732.2 million), and surgicals (US\$ 699.7 million). India's imports during the year were the highest for medical and scientific instruments (US\$ 6.99 billion) followed by surgicals (US\$ 1.1 billion) and optical items (US\$ 777.4 million). India's key export destinations for medical devices are the USA, Germany, China, the UAE, and the Netherlands. The major import sources are the USA, China, Germany, Ireland and Japan.

### Growing Policy Support

- **Scheme for Strengthening the Medical Device Industry:** A scheme for "Strengthening the Medical Device Industry" was launched in November 2024, with an outlay of ₹ 500 crore. The scheme targets critical areas of the medical device industry covering manufacturing of key components and accessories, skill development, support for clinical studies, development of common infrastructure, and industry promotion.
- **National Medical Devices Policy 2023:** The policy aims to make India a global leader in the manufacturing and innovation of medical devices. Key components of the policy include infrastructure development, skill development, robust R&D and Innovation, attracting investments, and streamlining regulations to ensure safety and quality standards.
- **PLI Scheme for Medical Devices:** PLI scheme for promoting domestic manufacturing of medical devices with total financial outlay of ₹ 3,420 crore is in force with tenure from FY 2020-21 to FY 2027-28. The financial incentive is given to selected companies at the rate of 5% on incremental sales of medical devices manufactured in India in the four target segments of radiotherapy, imaging devices, anaesthesia, cardio-respiratory & critical care, and implants.

The growth of medical device sector in India is primarily driven by the growing and ageing population, increased per capita and disposable incomes, demand for healthcare infrastructure, rise in preventive testing, and spread of healthcare services and insurance. The sector is on the cusp of explosive growth driven by robust policy support and growing demand. ■

<sup>1</sup> Survey of Medical Devices Clusters, Government of India Ministry of Chemicals & Fertilizers Department of Pharmaceuticals

<sup>2</sup> DoP's Approach paper on Draft National Medical Devices Policy 2022

<sup>3</sup> PIB, Union Minister for Chemicals and Fertilizers Shri JP Nadda launches "Scheme for Strengthening the Medical Device Industry."

## India Exim Bank Lines of Credit

Contributed by: **Lines of Credit Group**

The Government of India (GOI), with a view, inter-alia, to promote India's trade and economic relations with developing countries in particular, launched the India Development Initiative (IDI), later renamed as the Indian Development and Economic Assistance Scheme (IDEAS), through General Budget for fiscal year 2003-04. The scheme attempts to promote India's strategic, political and economic interest abroad by positioning it as an emerging economic power, investor country and partner for developing countries, with sharing India's development experience through - capacity building and skills transfer, trade, and infrastructure development. The Bank, as a policy institution, serves as the financing instrumentality for the LOCs extended to overseas countries under the IDEA scheme.

The latest IDEAS guidelines have been revised and effective from March 31, 2022. Under the revised IDEAS guidelines, the Concessional Financing Scheme (CFS) of GOI, has been subsumed under the scheme; wherein GOI may provide concessional financing to any Borrowing Government or an entity owned or controlled by the Borrowing Government to support Indian Entities bidding for strategically important overseas infrastructure projects, if the said Indian entity succeeds in getting contract for the execution of a project tendered by such foreign entity. The strategic importance of a project to be eligible for this financing will be decided by GOI, on a case-to-case basis.

Since 2003-04, the LOCs extended to sovereign governments or their nominated agencies are being routed by the GOI, through Export-Import Bank of India (Exim Bank). LOCs enable Indian exporters to enter new geographies or expand their business in existing export markets without any payment risk from overseas importers. The Bank puts special emphasis on extending LOC as an effective market entry tool as well as a means of market diversification for Indian exporters. These LOCs are increasingly being extended to partner countries for large-scale and complex projects (project exports from India).

Exim Bank extends LOCs to sovereign governments, overseas financial institutions, regional development banks and government nominated entities overseas, to enable buyers in those countries to import developmental and infrastructural

projects, equipment, goods and services from India. While the GOI decides about the recipient of the LOC, the amount and terms of the LOC and the purpose thereof; the LOCs are funded, operated and monitored by Exim Bank as the operating vehicle of the GOI.

Under the LOCs, Exim Bank reimburses up to 100% value of contract on FOB/CFR/CIF/CIP basis to the Indian exporters. Goods and services (including consultancy services) for minimum 75% of the value of the contracts covered under these loans must be sourced from India (relaxation of 10% may be considered on a case-to-case basis). LOCs have enabled India to demonstrate its project execution capabilities in the emerging markets and have helped to gather considerable momentum in the recent years, especially in the developing countries of Africa, Asia, Latin America, Oceania and the CIS. LOCs also help to create the requisite political goodwill for India in the beneficiary countries besides promoting India's political, strategic and commercial interests while projecting India's growing economic strength as well as its willingness to contribute to infrastructure development and capacity building in the recipient developing countries. The Indian exporters obtain payment of eligible value from Exim Bank, without being exposed to risk on the buyer or the buyer's country, against negotiation of shipping documents / provision of services (as per approved payment terms).

As on December 31, 2024, the Bank has extended 306 LOCs, covering over 64 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US\$ 27.14 billion, available for financing exports from India. LOCs are thus an effective instrument for promoting and facilitating India's exports of projects, goods and services.

### **For further information, please contact:**

#### **Mr. Sanjay Lamba**

Deputy General Manager,  
Export-Import Bank of India,  
Office Block, Tower 1, 7<sup>th</sup> Floor,  
Adjacent Ring Road,  
Kidwai Nagar (East), New Delhi-110023,  
Telephone: (011) 24607700  
E-mail: [eximloc@eximbankindia.in](mailto:eximloc@eximbankindia.in) ■

## The Quarter That Was

Contributed by: Corporate Communications Group

### Exim Bank forecasts India's merchandise exports to amount to US\$ 107.5 billion and non-oil exports to amount to US\$ 91.7 bn for Q3 (October-December) of FY2025

Export-Import Bank of India (Exim Bank) forecasts India's total merchandise exports to amount to US\$ 107.5 billion, witnessing a year-on-year (y-o-y) growth of 1.85%, while non-oil exports are forecast to amount US\$ 91.7 billion, with a y-o-y growth of 7.39%, during Q3 (October-December) of FY2025. Non-oil and non-gems and jewellery exports are forecast to amount US\$ 82.7 billion, with a y-o-y growth of 7.8%, during Q3 (October-December) of FY2025. Positive growth in India's exports could be as a result of India's continued strong economic activity backed by sustained momentum in manufacturing and services sector, improving demand prospects in trading partners, supported by expected global monetary easing. The outlook is, however, subject to risks of global uncertain prospects in select advanced and emerging economies, geoeconomic fragmentation, the middle east and west Asia crisis, risk of intensification of protectionist policies, and global supply chain disruptions, among other factors. The positive growth rate in total merchandise exports, non-oil exports, and non-oil & non-gems and jewellery exports, are likely to continue in last quarter of the financial year.

As part of its continued research initiatives, Exim Bank has developed an in-house model to generate an Export Leading Index (ELI) for India to track and forecast the movement in India's exports on a quarterly basis. The ELI gauges the outlook for the country's exports and is essentially developed as a leading indicator to forecast growth in total merchandise and non-oil exports of the country, on a quarterly basis, based on several external and domestic factors that could impact exports of the country.

Forecast of growth in India's total merchandise exports and non-oil exports are released by Exim Bank on a quarterly basis, during the first fortnight of the months of May, August, November, and February for the corresponding quarters, based on its Export Leading Index (ELI) model. The next growth forecast for India's exports for the 4<sup>th</sup> quarter of FY 2025 (i.e., January-March 2024) would be released during the first fortnight of February 2024.

### India Exim Bank Announces the Winner of the BRICS Economic Research Citation for 2024

Ms. Harsha Bangari, Managing Director, India Exim Bank, announced Dr. Hugo Pereira as the winner of Exim Bank's BRICS Economic Research Citation for 2024, during the BRICS Financial Forum 2024, hosted by the State Development Corporation VEB.RF on October 21, 2024.

The Forum which was held in a hybrid format, saw the participation of the heads/ senior executives of member development banks of the BRICS Interbank Cooperation Mechanism viz. the Brazilian Development Bank (BILLIONDES); State Development Corporation (VEB.RF); China Development Bank (CDB); Export-Import Bank of India (Exim Bank) and Development Bank of Southern Africa (DBSA), along with the New Development Bank (NDB) and Bank Melli Iran. The Citation comprises prize money of Indian Rupees 1.5 million, and a medal, sponsored by Exim Bank. Exim Bank's Occasional Paper titled "*Essays on Exchange Rate and Economic Performance*" based on the Citation winner's doctoral thesis was also released during the Forum at the hands of Ms. Harsha Bangari, Managing Director, Export-Import Bank of India.

In the context of India's Chairmanship of the BRICS Forum during 2016, and under India Exim Bank's Presidency of the BRICS Interbank Cooperation Mechanism (ICM), India Exim Bank instituted the BRICS Economic Research Citation in March 2016. The objective of the Citation is to stimulate and encourage advanced doctoral research on economics related topics of contemporary relevance to the member nations of BRICS.

The BRICS Economic Research Citation represents India Exim Bank's on-going efforts at promoting research in the area of international economics, trade & development and related financing. The Citation accepted as entries, doctoral thesis written by nationals of any of the ten member nations of BRICS, who have been awarded a doctorate or accepted for award of a doctorate from any University or academic institution globally. The details of the Citation were disseminated globally through advertisements in print and electronic media. ■

## Country Scan

Contributed by: **Research & Analysis Group**

### Germany



Germany's economy is the third largest globally, with a nominal GDP of US\$ 4.5 trillion in 2023, trailing only the US and China. However, recent global supply shocks and collapse of Germany's ruling coalition government in November 2024 have highlighted key structural vulnerabilities, such as an over-reliance on manufacturing and the impact of competition from China. In 2024, the economy is expected to contract by 0.1% due to challenges like low public investment, sluggish digitalization, slow adaptation in the automotive sector, and the green energy transition. Inflation is projected to moderate to 2.4% in 2024, down from 6% in 2023, driven by easing energy and food prices, and weak growth keeps demand-pull inflation low. However, external trade remains crucial because Germany's export-driven economy faces prolonged stagnation amid competitiveness issues. The current account balance is projected to rise slightly to 6.3% of GDP in 2024, from 6.1% in 2023. Germany's manufacturing and automotive sectors could face significant challenges through the imposition of import tariffs in 2025, particularly under the new administration in the US. The euro is expected to stay stable at €0.92:US\$1 through 2024.

### United States of America



Donald J. Trump is set to become the 47<sup>th</sup> President of the United States in January 2025. The US economy, accounting for 25% of the world GDP, is projected to grow at 2.7% in 2024, down from 2.9% in 2023 mainly due to sluggish household consumption and slowdown in the housing market. Inflation is expected to ease from 4.1% in 2023 to 2.8% in 2024, though a new energy shock driven by expanded Middle East conflicts could disrupt global oil supply and put upward pressure on domestic prices. The trade outlook seems complicated due to the potential for increased tariffs, as the new administration is likely to pursue more protectionist policies. While the exact effects will depend on tariff specifics, these measures could raise costs for American businesses and prices for the consumers. The current account deficit is projected to remain at 3.4% of GDP in 2024, driven by a strong US dollar, persistent structural imbalances, and the continued appeal of the US as an investment destination, contributing to a sustained trade deficit. In 2025, the US-China rivalry may continue to fuel trade uncertainty causing short-term disruptions to the domestic businesses and global spillover.

### Ethiopia



Ethiopia, with about 126.5 million people (2023), is Africa's second most populous country after Nigeria and has been among its fastest-growing economies over the past 15 years. However, recent instability and debt-sustainability risks have dampened its outlook. Agriculture, mining, and transport remain the core sectors, with coffee, flowers, khat, and gold as major exports. Key industries include food processing, beverages, textiles, leather, chemicals, metals processing, and cement. Civil conflict, high inflation, and low foreign reserves weigh heavily on the economy, preventing the government from achieving real GDP growth targets above 9% over the next 3-4 years. Growth in 2025 is expected to stem from investment and government consumption, supported by infrastructure projects and reforms attracting foreign investment. The real GDP is estimated to be at 7.4% in 2024 and increase to 7.8% in 2025. A new market-based foreign-exchange regime, adopted on July 29, 2024, devalued the currency by nearly 100% in August 2024. Coupled with planned fuel price hikes, inflationary pressures are expected to persist, averaging 23.3% in 2025. The current-account deficit and external financing needs is expected to remain high, partially offset by prospective debt-restructuring agreements.

### Maldives



Maldives is a Small Island Developing State located in South Asia with a narrow economic base and leans heavily on services sector, which makes up over three-quarters of GDP led by tourism services. The real GDP is expected to accelerate to 6.5% in 2025, from an estimated 5.7% in 2024. The recovery of outbound travel from China will play a crucial role in boosting the Maldives' tourism-dependent economy. Global commodity prices dominate inflationary trends in the Maldives, as domestic consumption, driven mainly by tourism expenditure, is met mostly through imports. However, delayed subsidy reform is likely to suppress inflation in 2024, hence inflation is expected to accelerate to 3.9% in 2025, from an estimated 1.4% in 2024. The value of merchandise imports in the Maldives exceeds that of exports, resulting in a wide trade deficit. The gap is only expected to widen in 2025-26 because of the continued dependence on imports for domestic construction and household consumption. The rufiyaa is pegged to the US dollar, with the currency trading at US\$:Rf15.4 in recent years. The currency peg is expected to be maintained in 2025-26, on account of anticipated bilateral financial assistance. ■

## Currency Currents

Contributed by: Treasury & Accounts Group

### European Euro - EUR

 The Euro (EUR) experienced significant volatility in 2022 due to investor concerns over a potential economic recession in Europe amid the ongoing war in Ukraine, surging borrowing costs, and persistently high inflation.

In 2024, the Euro's outlook appears more stable, having said that over the past four weeks (as of December 20), the EUR/US\$ exchange rate has dropped by 3.9%, as the dollar has recovered some bullishness after months of selloffs. The pair did manage to rise over 5% in the previous five months as the ECB took charge in adjusting its monetary policy to the softening in inflation and growth.

Expectations for the ECB rates in 2025 suggest a continued path of gradual easing in response to softening inflation and subdued economic growth across the eurozone. As of October 2024, the ECB has lowered its deposit rate to 3.25% with expectation of a shift toward a more neutral rate between 2.00% and 2.50% by mid-2025. This adjustment would align with the ECB's gradual reduction in borrowing costs as inflationary pressures are anticipated to ease further, potentially reaching below the ECB's 2% target. Predictions for 2025 also hinge on the pace of US Federal Reserve decisions, which could accelerate ECB rate cuts if US policy easing outpaces eurozone adjustments.

EUR closed at 1.04 against US dollar as on December 20, 2024.

### Russian Ruble

 The Russian Rouble continued to slide, dropping to its lowest since March 2022 against both the dollar and the yuan, and the Finance Minister indicated the government did not object to the currency's weakness, an advantage for exporters. The latest drop came just days after the US introduced sanctions against Gazprombank, Russia's third-largest bank, which played a key role in processing payments for the remaining Russian natural gas exports to Europe.

Inflation, which peaked at 9% in August, remains high. In response, Russia's central bank, besides halting all foreign currency purchases until 2025, is dumping large amounts of Chinese yuan, in hopes of boosting the ruble and stabilizing the economy. The ruble's weakening threatens to erode Russians' purchasing power by increasing the cost of imported goods and could further increase inflation. The rising inflation prompted the Central Bank last month to raise interest rates to 21%, their highest level in more than 20 years, and a further hike is expected.

The sharp depreciation of the Russian rouble and growing devaluation expectations have caused widespread concern among Chinese exporters, prompting many to suspend sales on Russian e-commerce platforms. There are about 150,000 Chinese cross-border e-commerce merchants active on several mainstream e-commerce platforms in Russia.

The closing USD/RUB rate as on December 20, 2024 was 103 per US dollar.

### United Kingdom - GBP

 The currency in the United Kingdom is the pound sterling, commonly called the British pound or GBP. It is the official currency of the country and is issued by the Bank of England.

From a technical standpoint, the GBP/US\$ forecast is leaning bearish again after rates hit resistance at around the 1.28 handle last week. The pair depreciates as the potential tariff threats from Trump's administration have boosted the US dollar (US\$) across the board and created a headwind for the risk-sensitive GBP.

While the European Central Bank and Swiss National Bank both cut interest rates last week, UK's sticky services inflation is likely to prevent the Bank of England from following its European counterparts. UK CPI y/y hit 2.6%, meeting forecasts and up from 2.3% previously. Core CPI rose to 3.5%, slightly below the expected 3.6%. However, the pound could still fall because of the potential that could see a more aggressive easing stance globally by spring of 2025. The GBP/US\$ will find additional pressure in the event the US dollar extends its rally.

The closing rate of US\$/GBP as on December 20, 2024 is 1.26 per US dollar.

### Chinese Yuan

 China has been the world's fastest-growing major economy since 1978, with annual growth rates averaging 10% over the past three decades. The country is home to four of the world's top ten most competitive financial centres, three of the top ten largest stock exchanges, and 129 Fortune Global 500 firms. Furthermore, China's budget deficit is projected to reach a record peak of 4% of its GDP in 2025, up from the previously forecasted 3% for 2024.

China's Yuan slid the most in a second week of December following a report that Beijing is considering allowing the currency to weaken next year in response to the threat of a trade war with the US. Adding to the pressure on the currency, Chinese long-term yields fell to record lows on monetary easing expectations, widening the yield disadvantage against the US to the biggest level in 22 years. A controlled, gradual adjustment is expected of the yuan rather than a sharp, unchecked depreciation that could destabilise financial markets.

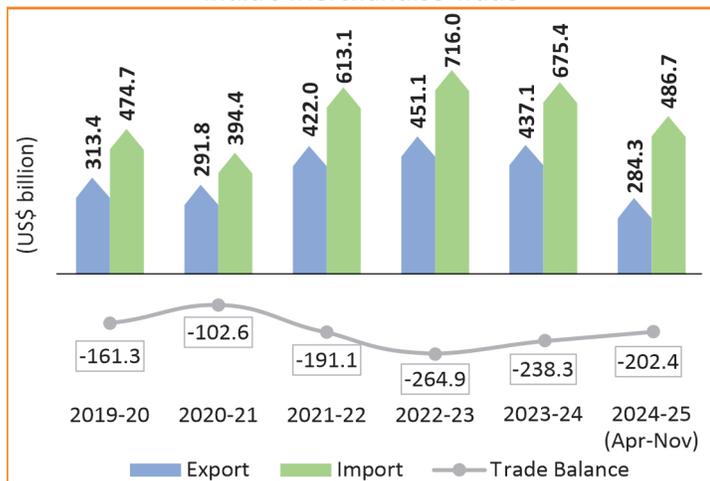
The new US President had already pledged 60% or higher tariffs on Chinese goods during his election campaign. The yuan would need to move to a level of 8.42 against the dollar to fully factor in 60% tariffs on all Chinese goods. Major investment banks and research firms project offshore Yuan to weaken to an average 7.51 per dollar through the end of 2025.

The closing rate of US\$/CNY as on December 20, 2024 was CNY 7.30 per US dollar. ■

## Snippets on Indian Economy

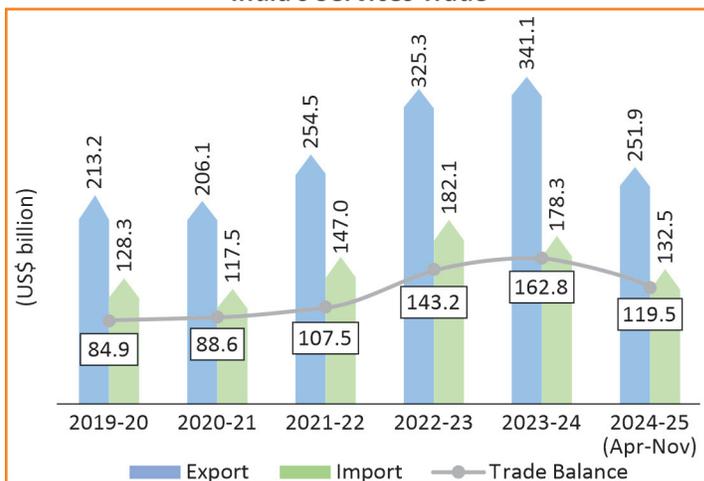
Contributed by: Research & Analysis Group

### India's Merchandise Trade



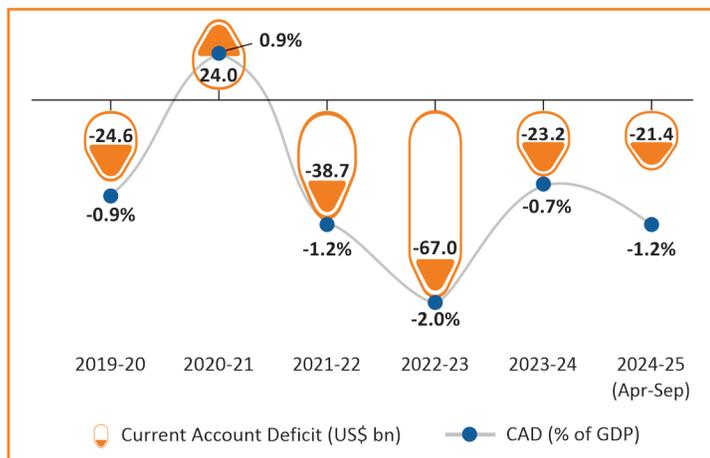
Source: Ministry of Commerce and Industry, Government of India

### India's Services Trade



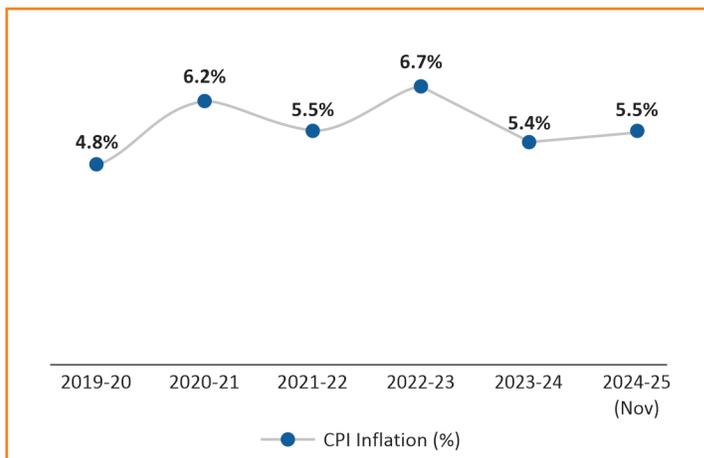
Source: Ministry of Commerce and Industry, Government of India

### Current Account Deficit



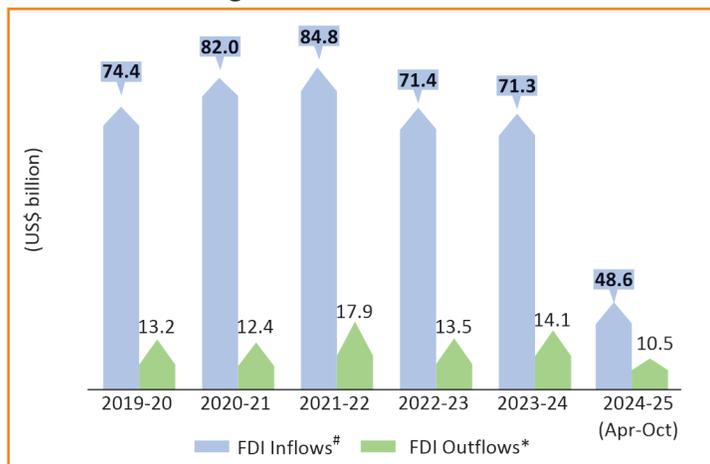
Source: Reserve Bank of India

### Consumer Price Inflation



Source: Ministry of Statistics and Programme Implementation, Government of India

### Foreign Direct Investment Flows

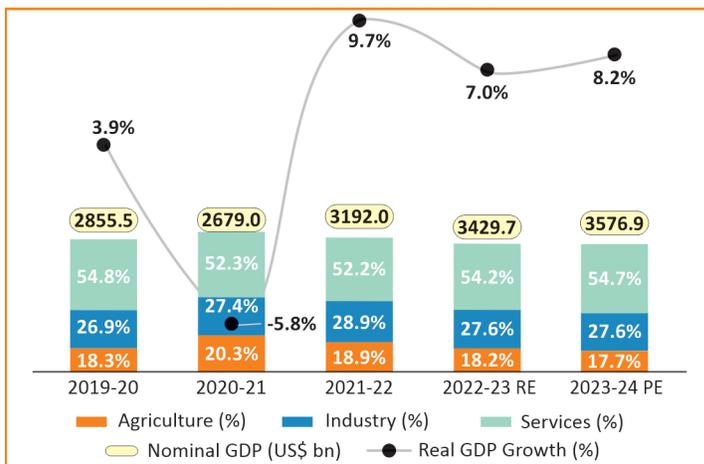


Note: \* - FDI Outflows reflect actual figures and include equity, loans and guarantees invoked

# - FDI Inflows include equity, re-invested earnings and other capital

Source: RBI and Ministry of Finance, Government of India

### India's Economic Growth



Note: Figures in yellow boxes represent Nominal GDP in US\$ billion; Sectoral percentage figures represent respective sectoral shares in the GDP. RE-Revised Estimate; PE-Provisional Estimates

Source: Institute of International Finance & Ministry of Statistics and Programme Implementation, Government of India