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Economic Opportunities for India in East Africa

– **Alfiya Ansari,** *Deputy Manager*
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The East Africa region is one of the most dynamic and fastest growing regions within the African continent, with growth projected to rise to 5.1% in 2024 and 5.7% in 2025 from an estimated 3.5% in 2023. East Africa accounted for the highest number of countries in Africa, with GDP growth exceeding 5% in 2023, underscoring its continued strong performance and diversified economies. The East African Community (EAC) is a regional intergovernmental organisation of 8 countries in the region - Burundi, Democratic Republic of Congo (DR Congo), Kenya, Rwanda, South Sudan, Uganda, Tanzania and Somalia, with its headquarters in Arusha, Tanzania.

The EAC is one of the most integrated regional economic communities of the African Union. The EAC has an estimated 317.9 million population, of which over 30% remains urban population. With a land area of 5.4 million square kilometres and a combined estimated gross domestic product (GDP) of US$ 344.7 billion in 2023, the EAC bears great strategic and geopolitical significance. Among member countries, Rwanda, DR Congo and Kenya witnessed the highest growth during 2023, while South Sudan remained in recession.

India's Merchandise Trade with EAC Countries

India and EAC merchandise trade has shown significant growth in the last decade. Total trade which stood at US$ 9.7 billion in 2013 has grown to reach US$ 12.9 billion in 2022. India's exports to the EAC which were at US$ 8.6 billion in 2013 increased to US$ 9.4 billion in 2022. India's imports from the EAC were a modest US$ 1 billion in 2013, since then, imports have registered consistent growth, and merchandise imports peaked at US$ 3.5 billion in 2022. India runs a positive trade balance with the EAC, with the trade surplus recorded at US$ 5.8 billion in 2022.

Tanzania, with a share of 43.6% was the largest market for India's exports in the region in 2022. Kenya, with a share of 31.4%, Somalia (9.8%) and DR Congo (6.7%) were the second, third and fourth largest export markets for India's exports in 2022, respectively. India's imports from the EAC in 2022 stood at US$ 3.5 billion. Tanzania, with a share of 80.1% was the largest source of imports for India among the EAC countries. Other major EAC countries supplying to India in 2022 were Uganda (with a share of 13.1%), Kenya (3.5%) and DR Congo (1.6%).

India's major export item to the EAC in 2022 was mineral fuel and oils, with a share of 33.7% in total exports to the region amounting to US$ 3.2 billion. Other major export categories for India were pharmaceutical products (10.5% of total exports in 2022), vehicles other than railway or tramway (7.6%), machinery and mechanical appliances (6.4%), sugar and sugar confectionery (6.1%) and cereals (4.4%). In 2022, copper and articles accounted for 40.5% of India's total imports from the region. Other major imported products in the same year were pearls, precious stones and metals (40.1%), edible fruits and nuts (4.5%), edible vegetables (4%), coffee, tea, mate and spices (1.9%) and cocoa and cocoa preparations (1.6%).

India - EAC Bilateral Trade in Services

India's services exports to the EAC stood at US$ 943 million in 2021, increasing by a compound annual growth rate (CAGR) of 4% from 2012 when it was at US$ 636 million. Kenya's share in India's exports to the EAC was the highest at 42.9% in 2021, followed by exports to Uganda, DR Congo and Tanzania. India's services imports from the EAC increased from US$ 315 million in 2012 to US$ 520 million in 2021, growing by a CAGR of 5.1%, with Tanzania accounting for 49.6% of India's services imports from the region in 2021. Transport and travel services dominate India's services trade with the EAC countries.

Revealed Comparative Advantage Analysis of India and EAC

To identify the products based on their export competitiveness in the EAC, a four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their normalized revealed comparative advantage (NRCA) and mapping them against the AAGR of global imports of the EAC for all products. The quadrants are drawn by comparing the overall AAGR of global imports of the EAC for all products during 2012-2022 (which was 9.4%), to the NRCA of India's exports to the EAC during the same period. This exercise aims to identify those products where imports in the EAC over the period 2012-2022 have performed better than the overall average of the EAC for all products during this period, implying that the share of such products in the EAC's import basket has witnessed an increase, a reflection of their rising demand and dynamism.

At 6-digit HS Code, with minimum exports of US$ 1 million from India to the EAC, 577 products have been identified with total exports from India to the EAC amounting to US$ 8.5 billion while the total world imports to the EAC in the same products stood at US$ 55.3 billion in 2022. Out of the 577 items at the HS 6-digit level, 305 items fell into the category of the product champions. The combined exports of these items from India to the EAC were US$ 5.7 billion in 2022, representing approximately 67.2% of India's exports to the EAC in 2022. Major product champions include mineral oil preparations, rice, motor cars, motorcycles, wheat flour and machinery, among others. These products are low hanging fruits for India and can be targeted in the short to medium term. The total number of products in winners in declining sectors category is 93, with India's exports amounting to US$ 1.6 billion, accounting for a share of 18.9% in India's exports to the EAC in 2022. These are the product items in which India has attained a significant share in the EAC's import basket, but the EAC's import demand for these products has been falling in the last decade. This was followed by underachievers with 139 items with India's exports worth US$ 993.2 million from India to the EAC. These products constitute a marginal share of 11.7% in India's total exports to the EAC. These are the product items in which import demand in the EAC is rising, but India has limited competitiveness in the export of these items. The Underachievers category broadly includes light oils and preparations, semi-finished products of iron or non-alloy steel and self-propelled mechanical shovels.

Foreign Direct Investment in EAC and Bilateral Investment with India

Total capital investment of India in the EAC region stood at a cumulative amount of US$ 1.8 billion through 59 projects in the region. During 2013 - 2023, Kenya received 35.8% of India's outward direct investments in the region, followed by Tanzania (29.5%), Uganda (18.9%), DR Congo (10.7%) and Rwanda (5.2%). During 2013-2023, communications sector received the largest share of approved investments from India into the EAC countries (35.1% of total investments received by the EAC), followed by transportation and warehousing (9.5%), non-automotive transport OEM (7.6%), industrial equipment (6.4%), real estate (6.1%), leisure and entertainment (5.9%) and healthcare (5.6%).

Investments from the EAC to India have been tepid over the last decade, with 12 projects and US$ 748.8 million in total capital investment during 2013 - 2023. All the 12 projects have been invested by majorly Kenya (98.9%) and Tanzania (1.1%), in software and IT services sector and communications sector.

Investment Opportunities for India in EAC Countries

East Africa is a region overflowing with potential – from agriculture to mining to tourism to energy – with investment avenues abound. There is no investment agreement between the EAC members, although their objective is to promote the Community as a single investment area. The 2006 EAC Model Investment Code remains the reference guide for the design of national investment policies and laws. However, it does not have any binding effect on countries. It provides for national treatment of, and non-discrimination against, foreign investors. Furthermore, it also provides for the free transfer of assets, and protection from uncompensated expropriation. Major investment opportunities for India exist in the following sectors:

- Burundi - Renewable energy and Manufacturing
- DR Congo - Energy and Mining
- Kenya - Information and Communication Technology and Healthcare sectors
- Rwanda - Agriculture and Infrastructure
- Somalia – Livestock and Farming
- South Sudan - Agri and Agribusinesses and Infrastructure
- Tanzania - Cotton Textile and Manufacturing
- Uganda – Tourism and Mineral Value Addition

Way Forward

The East African Community has made great strides in recent years towards integrating the economies of its partner states. The positive trajectory in India-EAC trade and investment in recent years reflects the growing interest from Indian private sector companies in the region. Hence, a strategy to enhance trade and investment relations with countries in the EAC region would entail an integrated approach comprising a trade and investment related development agenda focussing on meeting development challenges in the region and increasing cooperation in areas of competitiveness. Some of the areas for collaboration between India and the EAC would include strengthening partnership in strategic minerals, facilitating financial inclusion, defence cooperation, collaboration in pharmaceutical sector, digital trade and infrastructure and exploring counter trade opportunities.

Release of Indian Exim Bank Publication in Africa-India Partnership Day

India Exim Bank organised the Africa-India Partnership Day (AIPD), as part of the events associated with the Annual Meetings of the African Development Bank Group (AfDB). The Event focussed on India's Role in Africa's Transformation. The Bank has been organising the AIPD starting with Marrakech (in 2013), and followed by Kigali (in 2014), Abidjan (in 2015), Lusaka (in 2016), Ahmedabad (in 2017), Malabo (in 2019), Accra (in 2022), and Sharm El Sheikh (in 2023). All the AIPD events focused on '***Sharing of India's Development Experiences***', especially, through the Public-Private Partnership (PPP) mode of development. In conjunction with the event, India Exim Bank's publication, titled "***Exploring Economic Opportunities for India in East Africa***," was released by Dr. Vivek Joshi, Secretary, DFS and Ms Harsha Bangari, MD, India Exim Bank. The publication covers various aspects of India-East Africa relations over the last decade and shed light on potential areas for collaboration between both partners.

Augmenting Exports from Telangana: Trends and Policy Perspectives

– Jahanwi Singh, *Chief Manager*
Neha Raman, *Manager*

Telangana, the only landlocked state in southern India, has distinct advantages across agriculture, industry, and services sectors. The state is among the fastest growing states in the country, with its GSDP (at constant prices) estimated to have registered stronger y-o-y increase than India's GDP during 2021-22 and 2022-23. Telangana's merchandise exports also have grown steadily over the recent years, registering a robust CAGR of 12.3% during 2018-19 to 2022-23 to reach US$ 11.4 billion in 2022-23. Merchandise exports from Telangana have remained remarkably resilient to external shocks, including the Covid-19 pandemic. In 2019-20 and 2020-21, while India witnessed two consecutive years of decline in merchandise exports, Telangana's merchandise exports registered y-o-y growth rates of 2.7% and 18.3%, respectively. Telangana's merchandise exports continued to increase during 2021-22 and 2022-23, registering a y-o-y increase of 26.3% and 3.8%, respectively, to reach US$ 11.4 billion in 2022-23. The trend has continued in FY 2023-24 as well. During April-December 2023-24, Telangana's merchandise exports were estimated at US$ 9.4 billion, witnessing a y-o-y increase of 12.1%.

Despite the strong growth, favourable policy environment and robust transport infrastructure in the state, the share of state in India's merchandise exports stood at only 2.5% in 2022-23. Moreover, the share of merchandise exports in Telangana's GSDP (at current prices) also stood at only about 6.9% in 2022-23, much below the share of merchandise exports in India's GDP of 13.3% in 2022-23, indicating substantial scope for further enhancing exports from the State.

Key Products and Markets for Merchandise Exports

Drug formulations, biologicals is the topmost exported product category from Telangana, accounting for a share of 35.2% in Telangana's merchandise exports, followed by residual chemical and allied products (share of 10.2% in Telangana's merchandise exports), bulk drugs, drug intermediates (6.5%), organic chemicals (5.7%), spices (3.6%) and electric machinery and equipment (3.4%), among others.

Telangana is the largest exporter of 'fertilisers crude' and 'fruits/ vegetable seeds' in India, accounting for shares of 22.9% and 22.1%, respectively, in India's overall exports of these products during 2022-23. Telangana is also a key exporter of 'drug formulations, biologicals' and 'bulk drugs, drug intermediates' in the country, with shares of 20.7% and 15.7%, respectively, in India's total exports of these products during 2022-23.

The USA is the largest destination for exports from Telangana, accounting for a share of nearly 30.0% in the merchandise exports from the state during 2022-23, followed by China (share of 5.8%), the UAE (4.9%), Belgium (3.0%), and the UK (2.5%), among others.

Services Exports from Telangana

Based on Exim Bank estimates, Telangana accounted for at least 10% of the services exports from India, which is much higher than the state's contribution to the merchandise exports from the country. The state has established itself as a leader in the IT and ITeS sector. The state's IT/ITeS exports reached a staggering ₹ 2,41,275 crores during 2022-23 from ₹ 1,83,579 in 2021-22, registering double-digit y-o-y growth of 31.4%. The increase of ₹ 57,706 crore in 2022-23 is the highest annual rise in IT and ITeS exports since the formation of the State. Tourism is another major category of services export from the state, with foreign exchange earnings for Telangana from foreign tourist visits estimated to have reached US$ 135.4 million during 2022. Tourism and IT sector together jointly generated more than US$ 30 billion in export revenues for the state during 2022-23.

Strategies for Exports Promotion

In order to achieve a higher level of exports, there is a need for Telangana to adopt a robust export strategy, built upon six essential dimensions of diversification of products and markets, infrastructure leverage and strengthening, capacity building, fiscal incentives, devising an export promotion campaign, and institutional streamlining.

Diversification to Focus Products and Markets

Analysis by India Exim Bank indicates that while merchandise exports from the state witnessed an upsurge during the recent period, it remains concentrated in a few products. Analysis of Telangana's merchandise exports indicates that the top 10 export items and top 10 destinations accounted for shares of nearly 72.1% and 56.4%, respectively, of the total merchandise exports from Telangana during 2022-23. There is a need for exporters from Telangana to diversify towards higher value-added segments and lesser explored geographies.

India Exim Bank's analysis suggests that Telangana has comparative advantage in exports of products in sectors such as pharmaceuticals; organic chemicals; electrical machinery and equipment; coffee, tea, mate and spice; gems and jewellery; machinery and mechanical appliances; and cereals etc. In the short to medium term, Telangana can focus on leveraging the opportunities arising in these segments, as these are low hanging fruits for the state.

In the medium to long term, the state needs to encourage development of capacities in the segments where the state lacks comparative advantage, but there exists strong global demand. This includes several high value-added products such as other food preparations; immunological products; plates and sheets of polyethylene; articles of plastics; new pneumatic tyres for cars; gaskets and washers; parts of turbo jets; parts of gas turbines; parts of air conditioning machines; static converters; and medical devices, etc. These products could be targeted to impart resilience to the state's exports in the face of declining global demand and price fluctuations.

Besides, analysis also highlights that in several of the identified product categories, the top global importers do not feature among the top export destinations for Telangana. There remains substantial scope for exporters from the state to diversify towards key global markets including several developed economies such as Germany, Japan, France, Singapore, Italy, the Netherlands, Italy etc. There is need for a market entry strategy for enhancing the reach of products from Telangana in these top markets.

Infrastructure Leverage and Strengthening

The state needs to upgrade the existing export infrastructure, including transportation, storage infrastructure as well as infrastructure for the services sector. In the area of transportation, there is a need for setting up of air cargo facilities (ACF) and inland container depots (ICDs) in the State. Currently, the State has only 1 ACF and 2 ICDs, which is substantially below that of several other southern states and landlocked states of comparable economic size.

Besides, the state also needs to substantially increase the warehousing and cold storage capacities, given that there are considerable exports from sectors such as agriculture and allied activities and pharmaceuticals from the state. Comparison of the warehousing capacity of Telangana with other states indicates that Telangana has the lowest warehousing capacity among southern states and landlocked states taken under consideration for the analysis. Likewise, the state's cold storage capacity is the second lowest among the states analysed. The state can utilise the support under the Central Government's Trade Infrastructure for Export Scheme (TIES) for developing and strengthening the ICDs, CFSs, warehousing and cold storage facilities, and other essential export infrastructure in the state.

Capacity Building

Telangana has a total of 16 Geographical Indications (GIs), of which 2 GIs belong to the agriculture sector, 1 GI is for a food stuff, and the rest 13 GIs belong to the handicraft sector. Telangana needs to develop a branding strategy for these products with GI status to ensure that all products marketed under the GI brand adhere to minimum specific standards. Initiatives are also needed for identifying more products from the state which can be accorded GI status. This could include culinary delicacies that are unique to the state such as 'Sarva Pindi', 'Sakinalu', 'Golichina Mamsam', as well as beverages like 'Pachi Pulusu', etc. GI tags could enhance the popularity of these food items and thereby boost exports of these products from the state. Obtaining GIs for these prepared food stuffs could also be helpful in promoting culinary tourism in the state.

Further, the state could consider providing support in the form of refund of expenses incurred by exporters in the state for obtaining statutory certifications/accreditation for promoting exports, such as the WHO-GMP certification for augmenting pharmaceutical exports, and the Conformite Europeene (CE), China Compulsory Certificate (CCC), Good Manufacturing Practices (GMP) certification, etc. for promoting exports from high technology sectors in the state.

Fiscal Incentives

Fiscal incentives in the form of refunds/ reimbursements and concessions could be a major step for mitigating the cost burden and enhancing the price competitiveness of exporters in Telangana. The state government could consider extending freight subsidy for subsidising the freight component in exports of key products from the state, with special focus on districts that are far from the port. Moreover, in order to assist manufacturers, particularly MSMEs, to acquire and evolve cutting-edge technologies, catalyse growth and compete in global market, technology acquisition support could also be extended by the Government of Telangana.

Export Promotion Campaign

Telangana needs to relentlessly push its export promotion campaign. Export promotion efforts of the state government should focus on various industrial clusters in the state. In this context, a mechanism for assessment of the existing clusters could be developed. Upon assessment of the clusters, relevant capacity building activities can be undertaken by the state government. Additionally, a brand equity fund could also be set up by the state government for building globally competitive brands for products originating from the state. Besides, a state-level market development assistance (MDA) scheme could also be put in place for further encouraging participation of exporters from the state for assisting exporters in for participating in trade delegations/ buyer-seller meets/ fairs/ exhibitions abroad.

Institutional Streamlining

To streamline the activities pertaining to export promotion in the state, a single platform would be essential for exporters and stakeholders in the state. The overall institutional ecosystem in Telangana needs to be framed in a manner that facilitates the various schemes proposed for exports, allows regular monitoring of the proposed targets, and thereby propels the state to a higher export trajectory. In this context, the state could set up a Telangana Export Promotion Council (TEPC) under the Department of Industries, Government of Telangana, with the objective of providing a robust institutional mechanism for export promotion. ■

Exploring New Frontiers in India-US Bilateral Relations

– **Siddharth Nema,** *Deputy Manager*
Vishakha Bhagwat, *Officer*

The United States (US) dominates the global economic landscape, boasting a substantial GDP of approximately US$ 25.4 trillion in 2022, accounting for roughly 25% of the total global GDP. Notably, the US economy is driven primarily by a robust service sector and a culture of high consumer spending. In fact, the service industry forms the backbone of the US economy, contributing an impressive 80.7% of the gross value added in 2022. This stands in contrast to the industrial sector's contribution of 18.3%, and the agricultural sector's contribution of only 1.1%.

India-US Merchandise Trade

The economic relationship between India and the US is flourishing, with bilateral trade in goods exceeding US$ 132 billion in 2022. The US is a critical export market for India, receiving 17.7% of total Indian exports and playing a key role in India's ambitious export target of achieving US$ 2 trillion of goods and services exports by 2030. Compared to the US, India's economy is more trade-reliant, with trade constituting 50% of its GDP compared to the US' 27.4% of GDP. The US is not only India's biggest export destination but also its third-largest import source. India's exports to the US have steadily grown, from US$ 37.2 billion in 2012 to US$ 80.2 billion in 2022, primarily driven by pearls, precious stones and metals; pharmaceuticals and mineral fuels and oils. Conversely, India's imports from the US have also risen to US$ 51.8 billion in 2022, with similar categories dominating the import basket alongside machinery and electrical equipment.

India-US Services Trade

India and the US are powerhouses in the global service trade. In 2022, the US reigned supreme as the world's leading exporter of services, while India secured a strong position at number seven. This dominance extends to service imports as well, with the US holding the top spot and India growing strong at number nine. Notably, the India-US trade relationship is significant within the service sector. In 2022, India emerged as the seventh-largest source of service imports for the US and the eleventh largest service export destination for the US.

The India-US total services trade has witnessed a steady rise from US$ 29.9 billion in 2012 to US$ 59.1 billion in 2022. However, the pandemic resulted in a significant reduction of over 20% year-on-year, bringing the total services trade down to US$ 42.5 billion in 2020. Following the pandemic, services trade rebounded strongly, reaching an all-time high of US$ 59.1 billion in 2022. This upsurge was driven by the US exports to India reaching a record US$ 25.9 billion and imports from India amounting to US$ 33.2 billion. Notably, the US has consistently had a service trade deficit with India, ranging from US$ 7.5 billion in 2012, with the largest deficit recorded at US$ 10.5 billion in 2021 and finally US$ 7.4 billion in 2022. Services exports from the US to India have exhibited a consistent upward trend, rising from US$ 11.2 billion in 2012 to a peak of US$ 25.9 billion in 2022. Travel services hold the largest share (47.8%) in US' export to India, with education-related travel leading the pack at 27.6% of total service exports. Other significant sectors contributing to US service exports to India include charges for the use of intellectual property, personal, cultural, and recreational services, and financial services. Within the broader category of "other business services" (10.4%), professional and management consulting services dominates. The US consistently imports more services from India than it exports. This trend has continued, with imports rising from US$ 18.7 billion in 2012 to a record US$ 33.2 billion in 2022. Notably, the pandemic's impact on service imports from India was less severe compared to the decline in exports. Post-pandemic recovery in 2022 saw a significant surge of 14.4% in imports, reaching an all-time high. The vast majority of service imports by the US from India in 2021 fell under the broad category of "other commercial services." Diving deeper into the data for 2022, computer services within the telecommunications, computer, and information sector take the lead, accounting for 36.3% of all service imports. "Other business services" form another significant share (42.9%) of the US imports from India. This category is further disaggregated into specific sectors like professional and management consulting (17.6%), research and development (13.2%), and technical, trade-related, and other business services (12.1%).

India-US Bilateral Investment

The US is a dominant source of foreign direct investment for India. From 2014 to 2023, an estimated

US$ 131.7 billion flowed into India, accompanied by over 1500 US companies establishing a presence. This significant capital infusion has primarily targeted the Indian software and IT services sector, which received 25.9% of the total FDI. Other attractive sectors for US investment include consumer products, communications, financial services, and renewable energy. India has also emerged as a noteworthy investor in the US. During 2014 to 2023, Indian companies cumulatively invested US$ 19.9 billion in the US. Interestingly, India ranks first in terms of the number of projects and companies it has invested in within the US. Indian capital primarily flows into the metals sector (accounting for 23.4% of total investments), followed by the software and IT services sector (21.7%).

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 US 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$ 1 million from India to the US in 2022. The study identified a total of 1,774 products, representing US$ 75.9 billion in Indian exports to the US. Notably, the total global imports of these same products by the US in 2022 reached US$ 2,143.5 billion.

Product Champions (787 items): These products represent India's most competitive exports to the US. Combined exports of these items amounted to US$ 53.5 billion in 2022, constituting roughly 10.3% of India's total exports to the US.

Winners in Declining Sectors (283 items): While India holds a significant share (US$ 13.6 billion or 15.7% of total exports to the US in 2022) in the US import basket for these products, import demand for these items has been declining over the past decade.

Underachievers (556 items): These products represent a missed opportunity. Import demand in the US market for these items is rising; however, India lacks sufficient competitiveness in exporting them. 556 items of India's exports under this category amounting to US$ 7.3 billion in 2022.

Lagging in Declining Sector (148 items): India's exports to the US in 2022 amounted to US$ 1.7 billion consisting of 148 items. The high range of export under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future.

India-US Tariff Analysis

The tariff structures of the US and India differ significantly. The US, a developed economy, has generally lower tariffs than India. In 2021, almost half of US imports from India faced zero tariffs, while India imposed tariffs between 1-10% on over half of its imports from the US in 2021.

The US Generalized System of Preferences (GSP) program provided duty-free benefits for Indian exports, but these benefits were withdrawn in 2019. This resulted in higher tariffs for Indian goods entering the US market. In 2021, nearly half of Indian exports to the US faced zero tariffs, but several key product categories lost their preferential treatment after GSP removal. An analysis of the impact of GSP removal highlights that, 11 Indian product categories (at 2-digit HS-Code) have started facing non-zero tariffs in the US market. Some of these categories, like aircraft parts, plastering material, lead and articles and cork products, also saw a decline in total export value to the US, possibly due to the combined effect of tariff increase due to GSP removal and pandemic disruptions.

Cross country tariff analysis reveals that India is at a disadvantage compared to other developing nations like Mexico and the Philippines when exporting to the US. Mexico enjoys 0% AHS tariffs across all 96 product categories stemming from its FTA with the US and Philippines benefits from this rate in 24 categories (due to GSP) but India only receives 0% in 7 categories.

Way Forward and Recommendations

The US-India economic relationship holds immense potential for growth. Both nations possess a diverse range of economic, social, and cultural connections. By capitalizing on their strengths and aligning their strategic goals, they can forge a more robust partnership that fosters shared prosperity and innovation.

Restoring India's Generalized System of Preferences (GSP) benefits would facilitate increased trade, particularly for India's top exports to the US. Leveraging its large diaspora (over 4.4 million in 2023) can further enhance India's soft power and trade ties. Additionally, India can improve its trade position by focusing on enhanced marketing for existing products and expanding its offerings of Geographically Indicated (GI) goods. Broader cooperation avenues include establishing a Social Security Agreement (SSA), pursuing Mutual Recognition Agreements (MRAs), collaborating on digital data protection and financial technology (FinTech), fostering critical emerging technology development, and pursuing joint energy initiatives and secure global supply chains. ■

Fostering Collaboration: A Roadmap for Enhancing India-Saudi Arabia Economic Relations

– **Srejita Nandy,** *Deputy Manager*
Vishakha Bhagwat, *Officer*

Saudi Arabia is the largest country in terms of economic size and population within the Gulf Cooperation Council (GCC) union, a six-nation regional economic bloc, with a sizable young population and dynamic investment flows. According to the IMF, the oil-rich nation accounted for a nominal Gross Domestic Product (GDP) of US$ 1,108.2 billion in 2022, and a real GDP growth of 8.7% in 2022, highest among the major G20 economies. While the oil sector witnessed a substantial 15.3% year-on-year growth in 2022, the non-oil sector saw steady growth of 4.8% in 2022 fueled by private consumption and investments. Industry, driven by mining, manufacturing, and utilities, forms the bedrock of the Saudi economy, contributing over 56.2% of the gross value added (GVA) in 2022. Services and agriculture make up the remaining portions (41.3% and 2.5% respectively). In 2023, the real GDP growth rate moderated to 0.8% given a decline in the crude oil prices and geopolitical uncertainties globally.

International Trade Landscape of Saudi Arabia

Saudi Arabia has been rapidly increasing its influence in the global trade of merchandise and services. Despite its oil-reliant economy, Saudi Arabia has made significant strides in diversifying its trade activities. As of 2022, it ranked as the 20th largest exporter and 32nd largest import market globally, with total merchandise trade exceeding US$ 600 billion. This represents a steady growth from 2013 to 2022, with exports increasing at an average annual growth rate (AAGR) of 4.9% and imports at an AAGR of 3.1%.

While oil remains the major export (nearly 80% in 2022), its share has been gradually decreasing. This diversification is reflected in the growing presence of other commodities in the export basket, such as plastics, chemicals, and fertilizers. In contrast, Saudi Arabia's import basket exhibits greater variety due to the demand for consumer and industrial goods. Machinery and mechanical equipment, vehicles other than railways, and electrical machinery and equipment top the list of imported products, reflecting the country's need for these resources to support its development. China, India, and Japan have emerged as the top export destinations, while China, the United States, and the United Arab Emirates are the primary sources of imports in 2022.

Saudi Arabia's service exports are booming (24.5% annual growth 2013-2022) reaching US$ 31.9 billion in 2022, while service imports grew modestly at 3% to US$ 82.8 billion in 2022. This has shrunk the service trade deficit from US$ 64.8 billion in 2013 to US$ 50.9 billion in 2022. Travel dominates services exports (74%), followed by transport. Imports are diversified with transport and travel leading the way, followed by "other commercial activities" like business services, construction, insurance and pension services. The US is the top services trade partner, followed by China, UAE, UK. India ranks as the seventh-largest export destination and fifth-largest import source for services.

Trade Landscape between India and Saudi Arabia

India and Saudi Arabia enjoy a strong historical relationship underpinned by economic and cultural ties. In 2022, India emerged as the 2nd largest export destination and fourth-largest import source for Saudi Arabia, while Saudi Arabia was India's ninth -largest export destination and fourth-largest import source.

Total trade between the two nations has increased from US$ 49 billion in 2013 to US$ 56.3 billion in 2022. Mineral fuels and oils dominate the bilateral trade, with India importing crude oil from Saudi Arabia and exporting refined petroleum products to Saudi Arabia in return. India's exports witnessed a 5.4% AAGR between 2013 and 2022, while imports grew at a faster pace (8.5% AAGR). This has resulted in a widening trade deficit for India, increasing from US$ 24.2 billion in 2013 to US$ 36 billion in 2022.

India's trade with Saudi Arabia is heavily tilted towards oil. While refined petroleum products dominate Indian exports (around 20%), Saudi Arabia mostly sells crude oil to India (82% of imports). However, there's some diversification on both sides. India exports chemicals, cereals, vehicles, and machinery, while also importing fertilizers, plastics, and other chemicals from Saudi Arabia.

Despite steady growth, India and Saudi Arabia's service trade remains underdeveloped at US$ 3.8 billion in 2021. Interestingly, India has a consistent surplus, exporting

US$ 3.3 billion (2.1% of its total service exports) while importing only US$ 481 million in 2021. India's service exports are dominated by technical expertise (telecommunication, computer, and information services at 20.8%) and infrastructure support (transportation and construction). Saudi Arabia's service exports to India, mainly transportation (35.8%), offer potential for further collaboration in travel and other sectors.

Foreign Investment Trend in Saudi Arabia

To achieve its ambitious Vision 2030 goals, Saudi Arabia is actively courting foreign investment. The plan aims to attract significant FDI, increasing it to 5.7% of GDP and boosting the private sector's contribution to GDP. Despite a decline in 2022 (US$7.9 billion), FDI inflows have shown promise, with capital expenditure inflows steadily growing at a 14.5% CAGR to US$28.9 billion in 2023. The US, China, UAE, and France are the top source countries, with chemicals, coal/oil/gas, and real estate attracting the most investment.

Meanwhile, Saudi Arabia is also emerging as a global investor itself, ranking 17th globally with US$18.8 billion in outflows in 2022. Egypt, China, South Korea, and the US are the top recipients. Interestingly, while coal/oil/gas remains the dominant target sector for outward FDI (42.1% share), there's a significant allocation towards renewable energy (US$ 33.7 billion), reflecting a strategic shift. This dual focus on attracting and deploying capital underscores Saudi Arabia's commitment to economic diversification and establishing itself as a major player in the global investment landscape.

India-Saudi Investment Landscape

Over the past decade, India has been a major investor in Saudi Arabia, ranking 6th with US$ 5.4 billion invested across 62 projects (3.1% of India's total planned investments). Metals attracted the most investment (74.7%), followed by real estate (12.1%). In contrast, Saudi Arabia's investments in India were more modest at US$1.1 billion, ranking 19th as a source and focused on a fewer project. Here, energy (coal, oil & gas, and renewables - 59.6%) dominated, along with transportation and chemicals. With India's booming economy offering a multitude of attractive sectors like manufacturing, infrastructure, and technology, Saudi Arabia has a unique opportunity to leverage its vast resources and become a major player in India's development story.

Potential for Enhancing India's Trade with Saudi Arabia

An analysis has been undertaken to identify potential items of exports which could be targeted by Indian exporters, to Saudi Arabia. In the short term, it is suggested to strengthen the existing products in the category of Product Champions to harness the full potential for the products which are already showing a robust growth in Saudi Arabia, where India's exports also hold a comparative advantage. These are mainly rice, passenger vehicles, goods vehicles, automotive parts like engines and tyres, frozen boneless bovine meat, ceramic items, wires of copper / aluminium, chemical compounds, cotton T-shirts, among others. In the medium to long run, efforts and investments could be enhanced in the Underachievers category products to develop capacities in these products, which will help in meeting the demands of Saudi Arabia in a more competitive manner. These include light oil and preparations, smart phones for wireless network, articles of jewellery, aluminium alloy, butter, women's dresses, air condition machines, electric apparatus, chocolate preparation and articles of plastic, commercial vehicles, among others.

Way Forward and Recommendations

The economic relationship between India and Saudi Arabia is promising. Both economies are growing rapidly, and Saudi Arabia's move away from oil dependence aligns well with India's strength in cost-effective technology. Currently, India exports manufactured goods and refined oil to Saudi Arabia, while importing oil and chemicals. To improve the trade balance (currently skewed towards Saudi Arabia), India can focus on expanding exports of its competitive products. Saudi Arabia's growing economy presents a good market for Indian engineering goods and services like IT and construction.

There's further potential for collaboration. Saudi Arabia could consider local currency settlements with India to streamline transactions and enhance predictability of trade. The surplus currency could be utilised in various investment opportunities in mutually agreed areas. Mutual recognition of professional qualifications would allow easier movement of skilled workers. Additionally, both countries can partner on infrastructure projects in Africa, leveraging their expertise and resources. Finally, joint ventures and technical collaborations in various sectors like healthcare, agritech and processed food, and renewable energy can benefit both economies. By working together, India and Saudi Arabia can forge a mutually beneficial economic partnership. ■

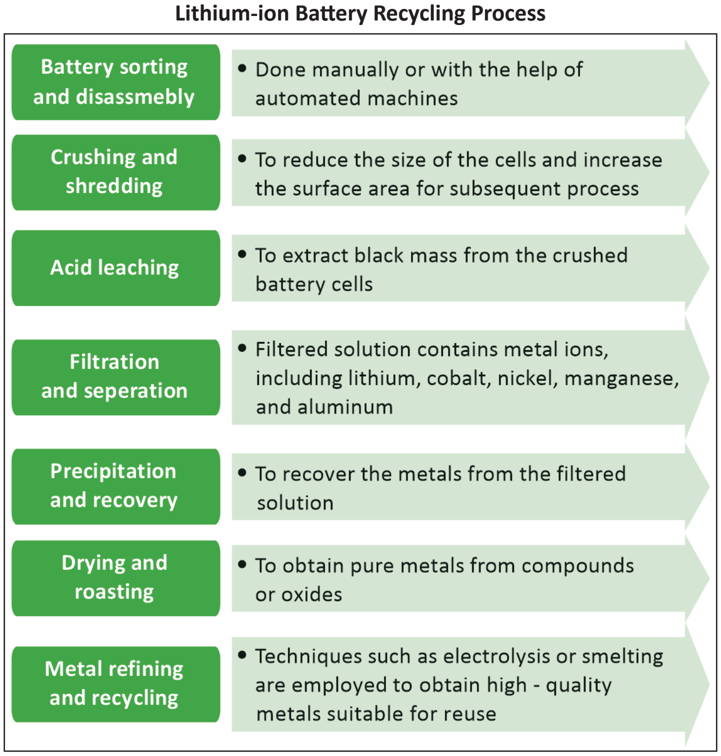
India's Booming Lithium-Ion Battery Recycling Market

– **Rahul Mazumdar,** *Deputy General Manager*
Dhitika Shah, *Officer*

Lithium-ion batteries have become ubiquitous in today's world, powering everything from electronic goods to electric vehicles (EV) and grid-scale energy storage systems. With growing concern worldwide with regards to a rising carbon footprint, the promotion of EVs, in particular, is expected to play a vital role in the transition towards green energy by assisting in the decarbonisation of road transportation. However, this comes at a cost of hazardous waste in the form of used lithium-ion batteries that have a limited lifespan and eventually require replacement, which necessitates battery recycling and reuse.

The process of recycling lithium batteries through effective procedures results in the extraction of valuable minerals, the demand for which is rapidly expanding given the increasing uptake of clean energy. Thus, recycling used batteries becomes essential for, inter alia, reducing the environmental impact of disposal, recovering critical minerals, and reducing the extraction of new materials.

Lithium-ion Battery Recycling Process

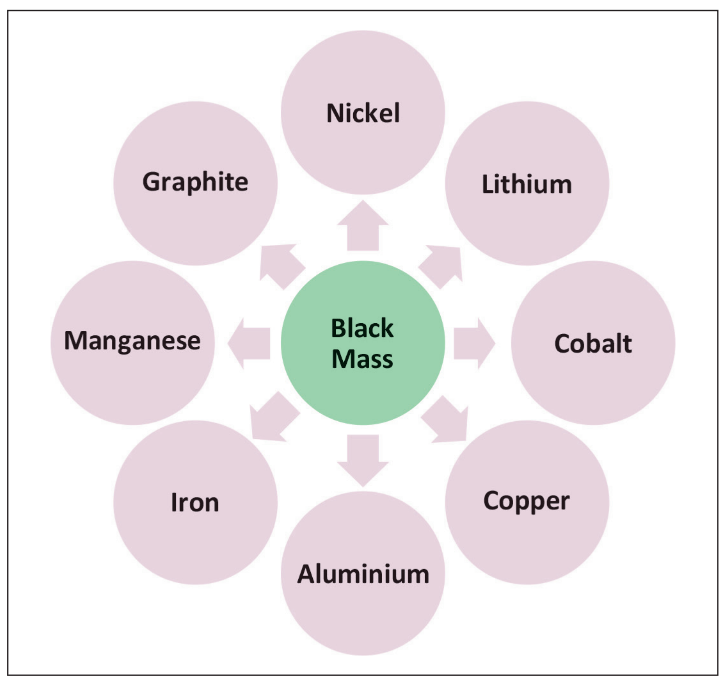


One of the crucial stages of battery recycling is the creation of black mass, which is rich in lithium, nickel, cobalt, and manganese, the primary metals used to create cathode active materials. The two primary methods used to recover the metals out of black mass include a heat-based smelting process (pyrometallurgy) and a liquid-based leaching process (hydrometallurgy).

Recovery of Select Metals

	Natural Resources	Recycled Batteries
One tonne of battery-grade cobalt obtained from	200 tonnes of ore	5-15 tonnes of recycled lithium-ion batteries
One tonne of battery-grade lithium obtained from	250 tonnes of ore and 750 tonnes of brine	28 tonnes of lithium-ion batteries

Source: U.S. Department of Energy Vehicle Technologies Office

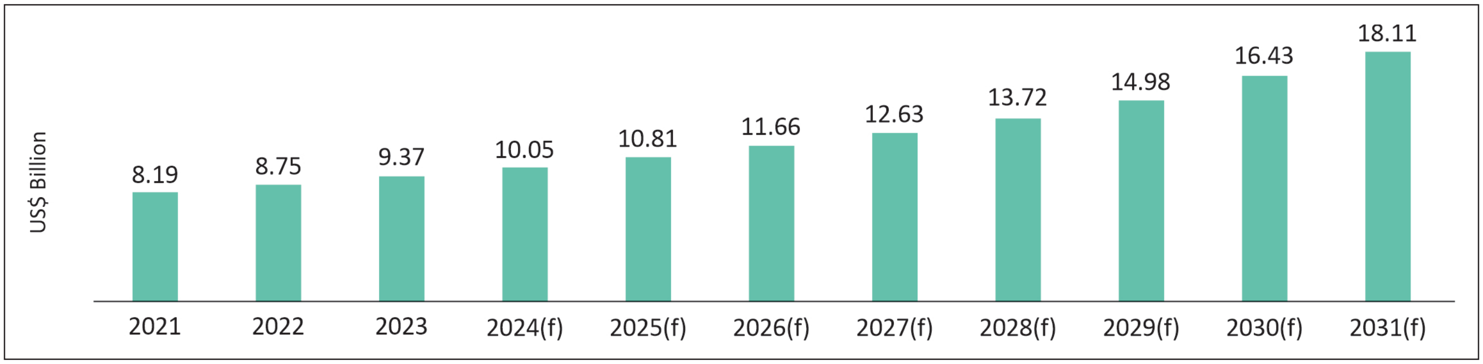


Battery Recycling Market

Global

The global lithium-ion battery recycling market was valued at US$ 9.4 billion in 2023, and it is expected to grow at a

Global Lithium-ion Battery Recycling Market



CAGR of 8.6% to reach US$ 18.1 billion by 2031. The growth in the market is attributed to the increasing demand for EVs, portable electronics, and renewable energy storage systems.

Globally China, South Korea and Japan are leaders in recycling lithium-ion batteries. The battery recycling capacity of China was 500 thousand tonnes, of the USA was 200 thousand tonnes and of Europe was 200 thousand tonnes as of December 2023.

India

India's ambition to scale up the EV programme and solidify local manufacturing face the challenge of securing adequate supply and access to raw material for battery cell production. Currently, the dependence on import for lithium-ion batteries and cells is significant as the local cell manufacturing is limited.

India's lithium imports consisting of products like lithium oxide and hydroxide (HS 282520), lithium cells and batteries (HS 850650) and lithium-ion accumulators (HS 850760) increased from US$ 1.2 billion in 2018 to US$ 2.7 billion in 2022. The import sources for lithium-ion accumulators are highly concentrated with China accounting for 73.2% of the total imports in 2022. This makes India's EV industry vulnerable to uncertainties in the global supply chain. Thus, recycling lithium-ion batteries poses as a critical component in India's quest for self-reliance.

According to Niti Aayog, the cumulative potential of lithium-ion batteries in India during 2022-30 is expected to be around 600 GWh across all segments under a base case scenario, and the recycling volume coming from these batteries would be 128 GWh by 2030. Out of this, almost 59 GWh or 46% would be from the EVs alone.

India's current recycling capacity stands at less than 30,000 tonnes, with the market leaning towards hydrometallurgy recycling given its success in Asian countries leading battery recycling[1]. According to JMK Research, India's Lithium-ion battery market is expected to reach 132 GWh by 2030, translating to a potential US$ 1 billion opportunity in the battery recycling sector.

Growth Drivers

The growing sales of EVs in India is likely to be a major growth driver with an estimated 447-517 thousand tonnes of waste batteries expected to reach recycling firms during 2022-2030. The government is also pushing market boost through the Battery Waste Management Rules 2022 that enforces Extended Producer Responsibility (EPR) for collection and recycling/refurbishment of waste batteries with a target of 90% recovery of material by 2026-27.

Other drivers include the National Electric Mobility Mission Plan 2020 which aims to promote hybrid and electric vehicles and the Production Linked Incentive (PLI) Scheme for Advanced Chemistry Cell (ACC) Battery Storage that promotes local manufacturing of batteries.

Booming Lithium-Ion Battery Market

Owing to rapid transition to clean energy, India's lithium-ion battery market is expected to reach US$ 13.1 billion by 2029, from an estimated US$ 4.7 billion in 2024.

While currently the lithium-ion battery recycling industry in India is at nascent stage, it stands on the brink of significant expansion, driven by escalating demand across EVs, renewable energy storage, and consumer electronics. A robust, formalised battery recycling industry is essential for India's sustainable energy transition. It is expected that India would witness large recycling capacities by 2027-2030.

[1] NITI Aayog

India Exim Bank Lines of Credit

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 Lines of Credits (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 (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).

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 June 30, 2024, the Bank has extended 293 LOCs, covering over 68 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US$ 27.30 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.

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The Quarter That Was

Contributed by: **Corporate Communications Group**

India Exim Bank reports 62% growth in profit. Corporate loan book records 49% y-o-y growth; loan assets grow by 17%.

India Exim Bank's Managing Director, Ms. Harsha Bangari, and Deputy Managing Director, Mr. Tarun Sharma, announced the Bank's results for the financial year 2023-24 at a press conference in Mumbai on Monday, May 13, 2024. Key highlights of the Bank's performance during 2023-24 are as under:

Financial Performance

Parameter	Performance in 2022-23	Performance in 2023-24	Change over 2022-23
A. Total Business (₹ cr)	2,92,257	3,44,182	17.77%
- Net Loan Portfolio	1,34,523	1,57,602	17.16%
- Total Borrowings	1,28,423	1,54,611	20.39%
B. Operating Profit (₹ cr)	3,599	3,750	4.20%
C. Profit After Tax (₹ cr)	1,556	2,518	61.83%
D. Gross Non-Performing Assets	4.09%	1.93%	(216) bps
E. Net Non-Performing Assets	0.71%	0.29%	(42) bps
F. Capital to Risk Assets Ratio	25.43%	21.18%	(425) bps

Business Performance

The Bank reported significant growth across key business performance parameters, reflecting the commitment to support India's trade and investment, and developmental priorities of partner countries. Evincing India's strong growth story and the increased credit demand, the Bank sanctioned fresh loans aggregating ₹ 1,06,312 crore. The loan portfolio grew by 17% in FY2023-24, driven by strong growth in sectors such as clean and renewable energy, automotive, engineering goods, pharmaceuticals, and telecommunications. The Bank also witnessed growth in strategically important sectors mainly e-mobility, high-tech, and aerospace. Net interest income (NII) increased by 4.6% to ₹ 3,540 crore for the FY2023-24, primarily on account of higher increase in interest income from loans and advances. In terms of the Non-Performing Assets (NPAs), with the improvement in asset quality and reduction in incremental slippages, the Gross NPAs declined significantly from 4.09% as on March 31, 2023, to 1.93% as on March 31, 2024, and the Net NPAs declined from 0.71% as on March 31, 2023, to 0.29% as on March 31, 2024

Workshop on Financial Services in Free Trade Agreements

India Exim Bank organised a workshop on "Financial Services in Free Trade Agreements". The Workshop aimed to foster a deeper understanding of the role of financial services within the context of Free Trade Agreement (FTA) negotiations and their implications for global trade and economic development. The workshop was inaugurated by Dr Vivek Joshi, Secretary, Department of Financial Services, Government of India. While inaugurating the Workshop, Secretary, Department of Financial Services, underscored India's ambitious export target and highlighted the role of financial services in India's export strategy.

In conjunction with the workshop, India Exim Bank's publication titled "Unlocking Opportunities: A Guide to Negotiating Financial Services in Free Trade Agreements" was released covering various aspects of FTAs. The workshop concluded with a commitment to continued engagement and collaboration among participants to further explore the multifaceted dimensions of financial services within the realm of FTAs.

India Exim Bank opens its East Africa Representative Office in Nairobi, Kenya

India Exim Bank on May 31, 2024, inaugurated the East Africa Representative Office in Nairobi, Kenya in the gracious presence of H.E. Dr. Musalia Mudavadi, Prime Cabinet Secretary and Cabinet Secretary for Foreign and Diaspora Affairs, Republic of Kenya; Dr. Vivek Joshi, Secretary, Department of Financial Services, Ministry of Finance, Government of India; H.E. Ms. Namgya C. Khampa, High Commissioner of India to Kenya; and Ms. Harsha Bangari, Managing Director, India Exim Bank.

India Exim Bank is the leading financial institution engaged in financing, facilitating & promoting India's International trade and investment, and also plays a critical role in policy formulation and project export finance under India's economic diplomacy. In addition to Kenya, the Bank also has offices in Abidjan, Côte d'Ivoire and Johannesburg, South Africa.

The African continent has been a key focus as part of India Exim Bank's strategy to promote and support two-way trade and investment. As a partner institution to promote economic development in Africa, the commitment towards building relationships with the African region is reflected in the activities and programmes of the Bank. ■

Country Scan

Contributed by: **Research & Analysis Group**

Mexico

Mexico got its first female president Ms. Claudia Sheinbaum in June 2024. Despite the strong governability and policy continuity expected in the next administration, Mexico's economy is likely to experience moderate growth of 2.3% in 2024, a deceleration from 3.2% in 2023. This slowdown is attributed to decreased investment and a moderating US economy, Mexico's primary trade partner. Service sector performance is also expected to be sluggish. However, inflation is anticipated to decline to 4.5% in 2024 from 5.5% the prior year, assuming favorable weather conditions and stable global commodity prices. The Mexican peso remains one of the strongest emerging market currencies, supported by nearshoring and positive GDP growth. However, a depreciation to PS 17.2:US$1 is expected in 2024, continuing through 2028 due to a widening productivity gap with the US Despite a potential rise in exports during the second half of 2024 due to increased US demand, the current account deficit is expected to remain within manageable limits at 0.3% of GDP.

Brazil

Brazil's economy is the largest in the South American region, however, it is burdened by a high public debt/GDP ratio and tepid growth. Economic growth is expected slow to 2% in 2024 (from 2.9% in 2023), owing to the lagged effects of the Brazil Central Bank's (BCB) aggressive monetary-tightening cycle in 2021-23. Disastrous flooding in late April and early May is expected to result in lost agricultural and industrial output and huge government spending on reconstruction and relief is likely to only partly offset the impact. Headline inflation (3.7% in April 2024) is within the BCB's 1.5-4.5% target range. Inflation is further expected to ease over the next 2 years, barring supply-side shocks. Although Brazil runs a sizeable current-account deficit, its structural trade surplus (stemming from huge agricultural exports), modest external debt ratio, solid foreign direct investment (FDI) inflows and comfortable reserves cushion could limit risks to the external position. The Brazilian currency 'Real' faces pressure from the BCB's monetary-easing and the government's looser fiscal targets. This pressure may ease when the US Federal Reserve reduces its policy rate in September.

South Africa

The 7th presidential elections held in May 2024 lacked clear majority to President, hinting towards a new coalition government in the Republic of South Africa. With some major policy changes anticipated, economic growth is forecast to rise to 1.6% in 2024, driven by a potentially stronger second half due to improved weather and easier credit access. Barring new domestic and global shocks, inflation is expected to fall to 4.8% with controlled monetary policy. However, the first half is likely to see sluggish growth due to high interest rates and weak consumer spending. The rand is projected to weaken further in 2024 (R 18.8:US$ 1) due to a strong dollar, high US rates, and softening mineral export prices reflecting global slowdown. The rand's vulnerability to adverse global developments may be perpetuated due to its dependence on commodities, its status as a widely traded currency, and its role as a proxy for emerging markets. Further on, the current account deficit is expected to decline to 2% of GDP in 2024, as the commodity prices remain under pressure owing to lacklustre global growth and heightened geopolitical tensions, which will impede trade flows for exports and imports alike.

Niger

Niger is a landlocked West African economy that is largely dependent on agriculture and uranium mining. Niger's real GDP grew at an estimated 1.4% in 2023 down from a high 11.9% in 2022, owing to a military coup in July 2023 that deposed the former president, and sanctions imposed by the Economic Community of West African States (ECOWAS). The lifting of sanctions by ECOWAS in February 2024 is expected to boost economic growth in 2024. The real GDP is projected to grow at 10.4% in 2024, owing primarily to the large-scale increase in oil output and exports from the Niger-Benin pipeline from May 2024. Average annual inflation decelerated to 3.7% in 2023 but has risen since August due to low agricultural production and border closures, with high inflationary pressures expected in 2024. The current-account deficit is expected to narrow to 5.1% of GDP in 2024, owing to the start of oil exports from the Niger-Benin pipeline, which could lead to a major surge in exports. The CFA franc, pegged to the euro, is expected to appreciate from CFAfr 606.6: US$ 1 in 2023 to CFAfr 596.3: US$ 1 in 2024 as the euro strengthens.

Currency Currents

Contributed by: **Treasury & Accounts Group**

Mexican Peso

Ps After the oil crisis in 1979, Mexico experienced years of inflation and debt defaults, leading to the replacement of the currency with the 'Nuevo' Mexican peso (MXN) in 1993, which is now the official currency of Mexico. The peso's strength has been its low volatility and Mexico's record-high interest rates, currently at 11%, which make it attractive to borrow in one currency and lend in pesos.

The election of Mexico's first woman president by AMLO's Morena party surprised investors who were concerned about proposed reforms that could increase state meddling in the economy and remove checks on the ruling party's power. The eighteen proposals presented include a reform of the Supreme Court, electoral reforms, and the dissolution of INAI, the transparency body of Mexico for open governance. The currency closed at 18.36 to US$ 1, about 10% below where it was the week before the election result. Market is also concerned about Mexico's current budget deficit, which is equivalent to 6% of GDP. It continues to struggle with high inflation despite high domestic interest rates. Morgan Stanley warns that an unorthodox government could undermine Mexican institutions and weaken the Mexican Peso, potentially causing it to weaken further.

The closing rate of USD/MXN as on June 20, 2024 is MXN 18.3716.

Japanese Yen

¥ Japanese Yen (JPY) is the third-most traded currency in the world and the most-traded currency in Asia. During the US occupation after World War II, the Yen was pegged to the US Dollar, so that 1 US dollar equaled ¥ 360. However, this arrangement lasted until 1971. The central bank policy rate in Japan stood at 0.05 percent in May 2024. In March 2024, the Bank of Japan raised short-term interest rates for the first time in 17 years, ending its negative interest rate policy.

JPY's tumble in value since 2022 has stemmed mainly from the gap between domestic and foreign interest rates, along with a growing trade deficit. The Japanese Finance Ministry spent a record JPY 9.8 trillion (US$ 62.2 billion) between April 26 and May 29 to support JPY in the foreign exchange market. This intervention came after the USD/JPY exchange rate reached a high of 160.21 in April, prompting the Bank of Japan to intervene and send the pair back down to 151.92 on May 3.

After the strong U.S. CPI data, expectations for Fed cuts have decelerated further and market now prices is only around 50 bps of cuts in 2024. As such, USD/JPY forecasts to 155 in June 2024, 154 in September 2024, 153 in December 2024 and 153 in March 2025.

The closing rate of USD/JPY as on June 20, 2024 is JPY 158.9320.

Kenyan Shilling

Ksh Introduced in 1966, Kenya Shilling (KES), a stable currency in east Africa, has weakened relative to the US dollar over the past decade. The World Bank reports that Kenya's GDP growth has increased, reaching 5.8% in 2016, ranking it as one of the fastest-growing economies in Sub-Saharan Africa.

On December 5, 2023, the central bank's monetary policy committee intervened by increasing the policy interest rate from 10.5% to currently at 13%, on the argument that the shilling had depreciated "more than necessary to re-establish equilibrium".

However, this action did not alter the market's expectations. The shilling continued falling, and, by February 25, 2024, the shilling had depreciated to 163/US$. This is probably because there were other reasons keeping the shilling weak, such as investors' fears about a possible default on Kenya's maturing Eurobond debt.

The shilling, a market-driven currency, is not free-floating and is often intervened in by the central bank to smooth fluctuations or stem further ones. Sentiment can influence currency values, as seen when Kenya paid off part of its Eurobond debt, potentially reducing the shilling's risk of a sovereign default.

However, these changes are not sustainable, as foreign currency reserves used for intervention are not limitless. Therefore, maintaining a strong shilling requires strong economic fundamentals.

The closing rate of USD/KES as on June 20th, 2024 is KES 128.21.

Brazilian Real

R The current currency, the Brazilian Real (BRL), replaced the Cruzeiro Real in July 1994, following two decades of high inflation and hyperinflation cycles. The central bank, Banco Central do Brasil (BCB), has been reducing interest rates to support recovery, currently standing at 10.50%. The labour market remains tight, allowing for strong wage growth and higher consumer spending. However, the BRL has weakened due to recent rate cuts by BCB, and with its value against the US dollar being lower compared to a previous year.

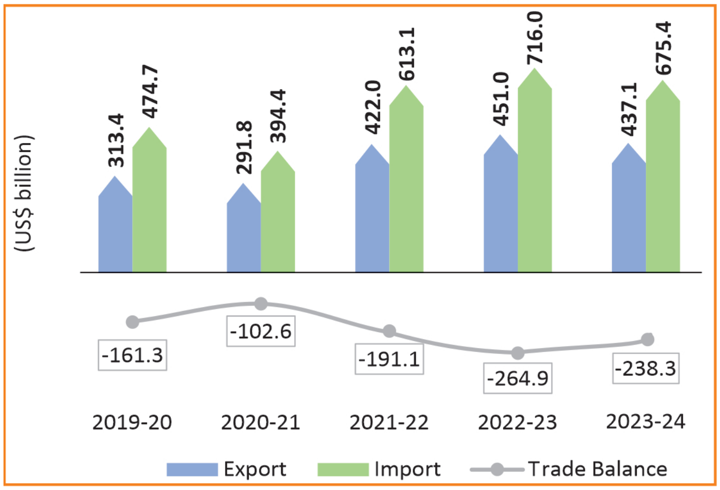
BRL weakened to over 5.4 per US dollar in June, an 18-month low, due to concerns of fiscal imbalances in Brazil and President Lula's promise to continue expanding public spending. Meanwhile, investors has also adjusted their expectations for inflation from 3.76% to 3.96% after the may inflation data.

The closing rate of USD/BRL as on June 20,2024 is BRL 5.4496. ■

Snippets on Indian Economy

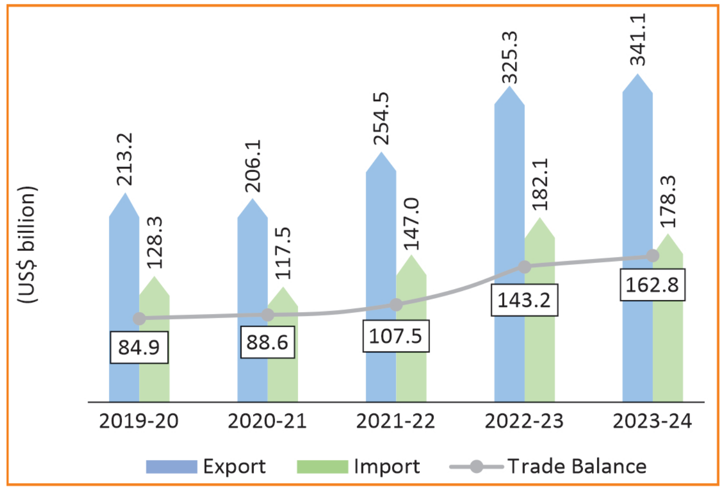
Contributed by: **Research & Analysis Group**

India's Merchandise Trade



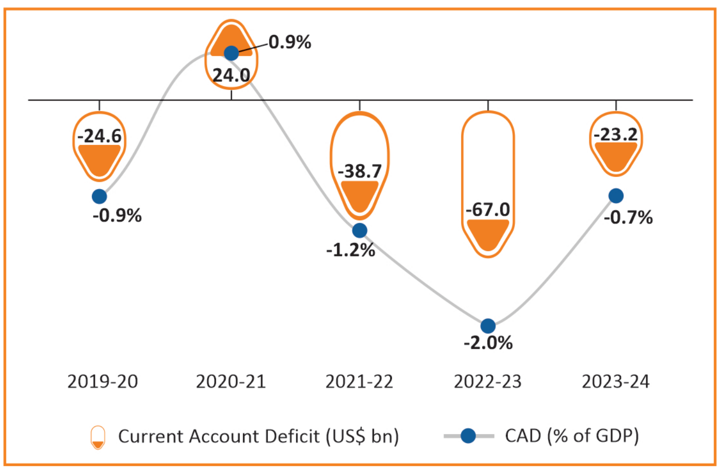
Source: Ministry of Commerce and Industry, Government of India

India's Services Trade



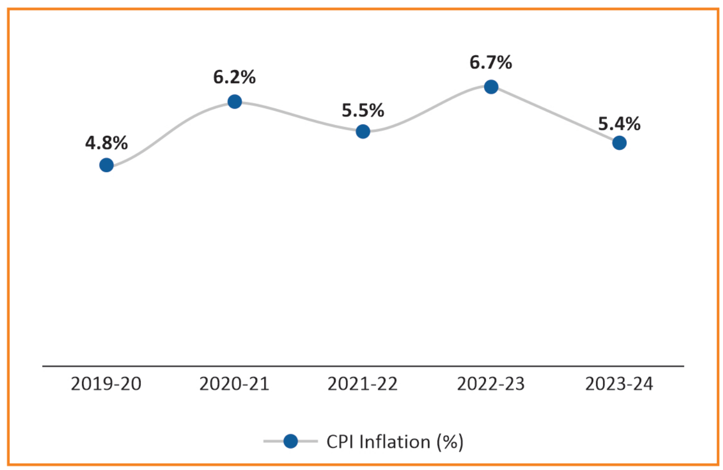
Source: Ministry of Commerce and Industry, Government of India

Current Account Deficit



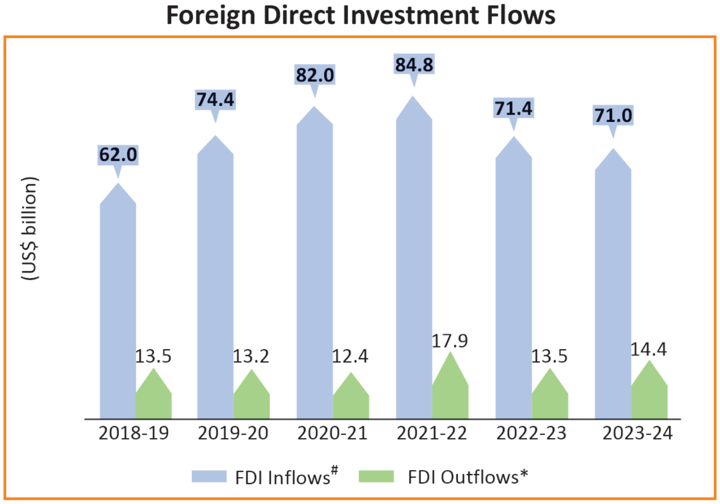
Source: RBI

Consumer Price Inflation



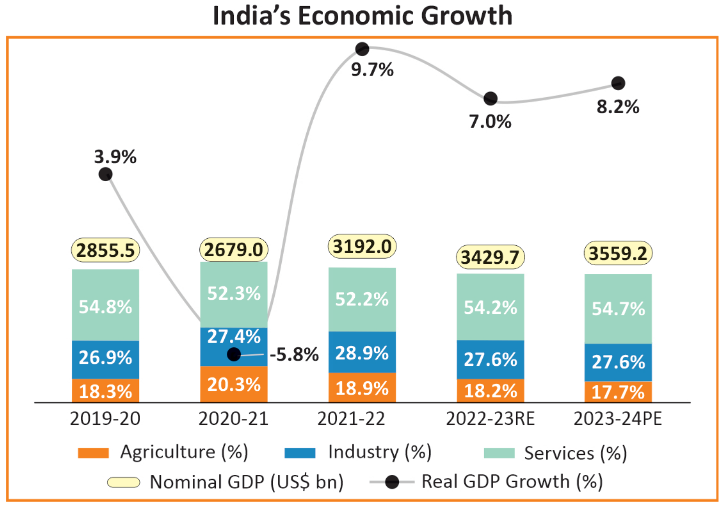
Source: Ministry of Statistics and Programme Implementation, Government of India

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, GoI

India's Economic Growth



Note: Figures in yellow represent Nominal GDP (US$ bn); RE-Revised Estimate; PE-Provisional Estimates
Source: Institute of International Finance & MOSPI, GoI