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The Indian Toy Industry: Vocal for Local

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

The global toy industry has evolved in recent times to become a powerhouse of innovation, entertainment, and economic growth. Besides being instrumental in preserving and promoting local crafts, traditions, and cultural heritage, the industry is also increasingly contributing to the academic learning and holistic development of children.

A growing population of children that translates into a vast market for toys, rising disposable incomes, upcoming consumer segments, and technological advancement to incorporate innovation and sustainability are major growth drivers for the global toy industry.

On a global scale, China has a dominant presence in the toy industry, accounting for over 70% of the global toy production. Its global toy exports have increased from US$ 10 billion in 2003, holding a share of 30% in global exports to US$ 83.3 billion in 2022, accounting for a formidable share of 65% in global exports of toys. In the same year, other major toy exporters were the US with exports worth US$ 4.6 billion, followed by Germany (US$ 4.5 billion) and the Czech Republic (US$ 3.7 billion).

India's Toy Industry

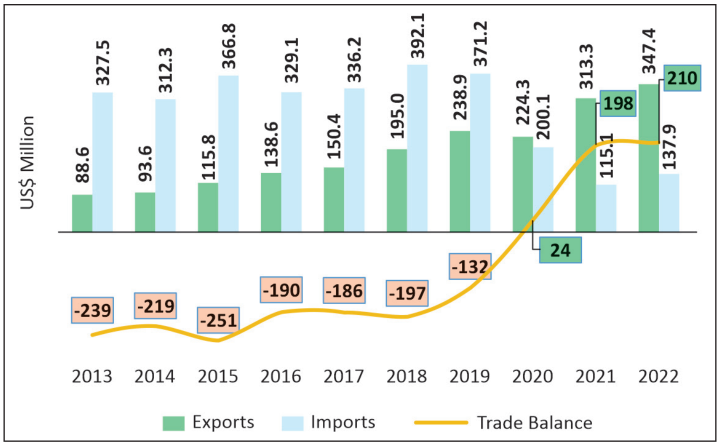
The Government of India, in line with its vision to 'Make in India' for an 'Aatmanirbhar Bharat', has identified the toy sector as one of its champion sectors with untapped export prospects, thus, aiming to establish India as a dominant toy manufacturing hub in the global landscape. Owing to a myriad of changes in the global toy industry, major global toy manufacturers have also been seeking to diversify their production hubs and are laying greater emphasis on sustainability, quality, and good governance. This too offers ample opportunity for India to capitalize on, thereby expanding its toy manufacturing capabilities and increasing toy exports from the country.

In 2022, India's toy market was estimated to be valued at about US$ 1.5 billion, and is expected to reach US$ 3 billion by 2028, growing at a compounded annual growth rate (CAGR) of 12% over 2023-28. The sector is highly fragmented, dominated by the unorganised sector which holds about 90% of the market share. Apart from the presence of globally established market players such as Mattel and Lego, India's toy manufacturers are predominantly the MSMEs. Crossing over 4000 in number, domestic toy manufacturing units are concentrated mainly in NCR Delhi, Maharashtra, Karnataka and Tamil Nadu, among few other clusters spread across the country. In terms of toy product segments, in 2023, plastic toys, construction sets and models, toys for toddlers, dolls and stuffed toys were among the top segments in India. Overall, product segments like dolls, soft toys and board games which are highly labour-intensive in nature, hold substantial manufacturing potential in India.

In the policy space, the Government of India has been providing major policy push and incentives to tap into the potential of India's toy industry. Few of the policy initiatives being implemented include introducing the *National Toy Action Plan* to provide comprehensive support to make India a global toy manufacturing hub; *Scheme of Funds for Regeneration of Traditional Industries* (SFURTI); creation of *Common Facility Centres* with the latest machines, design centres and skill development; mandatory quality certification; hike in import duty for toys; and the *District as Export Hubs* initiative, among others.

Over the time period of 2013-2022, India's foreign trade performance in toy products has undergone dramatic change with the industry registering a consistent trade surplus from 2020 onwards. Exports of toys from India increased from US$ 88.6 million in 2013 to US$ 347 million in 2022, growing at an annual average growth rate (AAGR) of 17.1% during the period. However, India's exports still constituted a meagre share of 0.3% in global exports of toys in 2022, highlighting the need for further intensifying exports in the sector.

India's Trade Trends in Toys



Source: ITC Trade Map; India Exim Bank Research

India's toy imports, on the other hand, have fallen from US$ 327.5 million in 2013 to US$ 137.9 million in 2022, owing partly to the increase in Basic Customs Duty (BCD) on HS 9503 from 20% to 60% in February 2020. The BCD was reduced later to 70% in March 2023. States like Karnataka, Uttar Pradesh and Maharashtra are few names that dominate the state-wise toy exports of India.

Destination-wise, the US has increasingly become a booming export market for India, with its share in India's toy exports increasing from 29% in 2013 to 47% in 2022. European nations like the Netherlands, Denmark and Sweden have also emerged among the top ten toy export destinations for India in 2022. Notably, the UK, despite remaining as the second largest export destination, has seen a reduction in its share in India's total exports from 19% in 2013 to 8% in 2022.

For its toy imports, India's sources have diversified in recent years. As compared to 2013, when 92% of the toy imports originated from China, its share in 2022 fell to 57% with the Netherlands, Sri Lanka, the UAE, and the US emerging as upcoming major import sources for toys.

Segment wise, India's exports have been the highest in wheeled toys, dolls, recreational models, puzzles and others (HS 9503). India's exports of these products increased from US$ 39.9 million in 2013 to US$ 167.2 million in 2022, witnessing an AAGR of 18.8%. Festival, carnival and other entertainment articles (HS 9505) also exhibited a US$ 121.7 million trade surplus, showing significant export prospects.

Strategies to Enhance India's Toy Industry

Boosting Exports of GI Tagged Toys

Geographical Indicators (GI) tagged toys of India like the vibrant Channapattana toys of Karnataka and the Kondapalli toys of Andhra Pradesh, despite holding immense cultural significance are yet to leverage their GI status. To bolster the export potential of these toys and strengthen the livelihoods of artisans, a multifaceted approach is required. This includes focusing on investments in quality control measures; standardisation to meet international safety standards; providing training and capacity building programs for artisans; international collaborations and obtaining necessary certifications to instil confidence among international buyers. Travel packages for experiencing toy clusters may also be designed at district level to provide cultural experiences to tourists.

Moving Towards Sustainable Toys

India should increasingly shift towards more eco-conscious toys that are made of renewable materials such as wood, bamboo, wool, among other such materials thus aiding the reduction of carbon footprint and creating a circular economy within India's toy industry. Sustainable practices that can be integrated into the industry include the re-purposing of single use plastic through recycling; adopting sustainable packaging that uses biodegradable materials. The push for sustainability also provides impetus for the growth of India's traditional toys which are made from locally available eco-friendly raw materials. Modern toy manufacturers should also introduce policies modelled around various sustainability goals.

Greater Market Access through FTAs

India may continue to push for duty free access for its toy exports in future trade agreement negotiations like those provided by the India-UAE Comprehensive Economic Partnership Agreement (CEPA) and the India-Australia Economic Cooperation and Trade Agreement (ECTA). Greater market access through tariff reduction may be focused on in upcoming Free Trade Agreement (FTA) reviews like that with the Association of Southeast Asian Nations (ASEAN), for instance. Further on, country-focused export strategies may be implemented creating synergy between the top imported product categories in those countries and export competitive product categories in India. This applies more so in trade agreements wherein Indian toy exports have seen no substantial growth despite facing 0% effectively applied tariff (AHS), like in the India-Japan CEPA and the India-South Korea CEPA.

Focusing on Markets with High Toy Demand

The potential export markets are identified for Indian toys based on select criteria namely, the percentage of total population under the age, of 14 years in the country, its AAGR of global toy imports for the last decade, global toy imports in 2022 as well as India's toys exports to that country in the same year. Accordingly, the key import markets identified are the Netherlands, the UAE, South Africa, and Mexico, among others. Greater focus may thus be given by Indian toy makers towards targeting these exports markets.

Resolving Taxation Issues

Irregularities in the Goods and Services Tax (GST) rates imposed on different toy segments is hindering the growth of the industry. For instance, HS 9503 (tricycles, similar wheeled toys) alone attracts three slabs of GST – 5%, 12% and 18%. Other concerns include a high rate of import duty imposed on several equipment and the re-classification of non-electronic toys to electronic toys upon the slightest of product modifications, thereby attracting a higher GST rate.

Boosting E-commerce Exports

Given the dominance of MSMEs in the toys industry in India, e-commerce exports pose tremendous opportunities for both traditional and non-traditional toy segments. Some of the measures include organising e-commerce training workshops at toy clusters, ensuring access to adequate digital infrastructure, develop a Global Champion Programme wherein selected companies are provided with all rounded support such as Research and Development (R&D), marketing, additional interest subvention on credit, facilitation in export clearance for e-commerce, and logistics support, among others.

Enhancing R&D

India may step up R&D investment through the increased establishment of toy-related Common Facility Centres as well as the incorporation of new features and technologies such as artificial intelligence (AI), augmented reality (AR), virtual reality (VR). Educational and STEM (Science, Technology, Engineering and Mathematics) toys also may receive increased investments owing to the National Education Policy's emphasis on integrating the toy usage in the academic curriculum. Discussion regarding the introduction of a Production Linked Incentive (PLI) scheme for the toy industry is also underway.

Setting up Toy Export Promotion Council

The export promotion of toys in India may be better facilitated by the establishment of a dedicated '*Toy Export Promotion Council*' given that currently India's toy products are partly covered by two separate export promotion councils namely, the Export Promotion Council for Handicrafts (EPCH) and the Sports Goods Export Promotion Council (SGEPC). Streamlining promotion activities for toy products under one dedicated body is expected to bring more clarity to the concerned stakeholders about the export ecosystem. The proposed council may provide support in focus areas like facilitating participation in toy trade fairs, and capacity building programmes; information dissemination by acting as a one-stop shop for trade information pertaining to India's export procedures and documentation; and lastly, ensuring adherence to international safety standards by providing assistance to the exporters in meeting the safety standards of the destination markets and in keeping them abreast with the latest developments in the area.

In conclusion, timely policy focus for the industry is required to improve India's toy manufacturing capabilities enabling it to compete with other toy manufacturing giants, more so given the growing trend of global toy manufacturers aiming to diversify their supply base. Coupled with other growth drivers such as fostering toy innovation and designing, bolstering domestic toy demand and tapping into the export potential of the industry will also assist India to establish itself as a global toy manufacturing hub. ■

Trade as a Tool for Economic Empowerment of Women

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

International trade and gender are intricately linked. Trade plays a crucial role in promoting economic empowerment of women by creating opportunities for income generation, employment, and entrepreneurship. A recent report by the International Monetary Fund (IMF) indicates that enterprises engaged in international trade tend to employ more women. Furthermore, greater trade openness is associated with increased paid employment for women workers. As India positions itself as a major player in the global economy, it is essential to understand how trade policies and practices can be leveraged to enhance women's economic empowerment. This is critical to achieving inclusive growth and sustainable development

Scenario of Women's Participation in the Indian Economy

The female labour force participation in India is substantially below that of males. According to the Periodic Labor Force Survey (PLFS) data, in 2022-23, the female labour force participation in India in usual status stood at 27.8%, which is nearly half that of the male labour force participation of 56.2%. Among G20 countries, the average female labour force participation during 2015-2021 is the lowest in India. Data from the PLFS also suggests that a substantial 37.5% of female workers in India (rural and urban combined) are engaged as unpaid helpers in household enterprises, which is significantly higher when compared to 9.3% of male workers engaged as unpaid helpers in household enterprises. Meanwhile, only 15.9% of female workers in the country (rural and urban combined) are engaged in regular wage/ salaried employment, which is lower when compared to 23.2% of male workers engaged in regular wage/ salaried employment. Besides, nearly 27.8% of females are own account workers/ employers, as against 44.3% of own account workers/employers among males during the same period. This signals a critical gap in women's economic agency and ownership, underscoring the imperative for initiatives aimed at fostering women-led businesses and entrepreneurial ventures.

Female Labour Force Participation in Export-Intensive Sectors

Exim Bank's analysis of female participation in export-intensive sectors in India, based on an in-house 'Employment Intensity Index', indicates that there are only five sectors that have both a higher proportion of female employment compared to the all-India level as well as a higher export intensity compared to all-India level. These export-intensive sectors include segments where India's exports have traditionally been competitive, including wearing apparel, textiles, pharmaceuticals, and leather products. Out of the five export-intensive sectors with relatively better proportion of female employment than the all-India level, only two sectors exhibit a higher employment intensity for females compared to males. These sectors include wearing apparel and textiles. The proportion of females working in these two sectors relative to the total female workforce across all sectors is higher than the proportion of males working in these sectors relative to the total male workforce.

It is noteworthy that majority of these sectors are resource-intensive or low value-added exports sectors. Low value-added and resource-intensive exports sectors are highly susceptible to external shocks. Higher concentration of female employment in these sectors, therefore, makes them more vulnerable to commodity cycles. In contrast, the share of female employees engaged in several high technology intensive industries such as transport equipment, machinery and equipment, electrical equipment and computer, electronic and optical products, etc., in the total of female employment is substantially lower compared to the proportion of male employment.

State-level analysis

Exim Bank's analysis of female employment intensity across different States/Union Territories (UTs) in India, based on an in-house state-level employment intensity index, indicates that 21 out of the 33 states/UTs considered for the analysis have relatively favourable employment intensity of females as compared to the all-India level. These 21 states/UTs jointly accounted for nearly 80.6% of India's merchandise exports in 2022- 23. This includes some of the top exporting states such as Gujarat, Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, and Odisha, among others. These states with high exports and a relatively higher female participation in the workforce could implement policy measures focussing on sustaining and further improving female participation across export sectors, particularly in technology-oriented sectors. Meanwhile, among top 10 exporting states, Uttar Pradesh, Haryana, West Bengal have relatively low employment intensity of females when compared to all-India level. This indicates that while these states have enabling policies for enhancing exports, there is a need for such policies to have a gendered lens to enhance female participation in export sectors.

Strategies for Utilising Trade as a Tool for Women's Economic Empowerment

Mainstreaming Gender Considerations in India's Trade Agreement

Gender issues have been increasingly integrated into regional trade agreements (RTAs) over the recent decades. The WTO's database on gender provisions in RTAs highlights that globally, almost one-third of RTAs currently in force contain gender-related provisions. On a country level, nearly 153 counties have at least one gender-specific provisions in their RTAs. However, none of India's 14 Free Trade Agreements (FTAs) and 6 Preferential Trade Agreements (PTAs) have even one gender-specific provision or gender chapter. India needs to consider renegotiating existing FTAs for including gender provisions or gender chapter in its FTAs. The inclusion of such provisions in trade agreements can encourage positive changes at the domestic level and help women access economic opportunities once put into action. India could consider making its trade agreements more gender inclusive by including aspects such as gender-explicit preamble in trade agreements; training and capacity-building programmes; minimum legal standards; gender committees; research and impact assessment; joining international gender and trade arrangements; seeking tariff relaxation in women employment intensive sectors; and promoting women as suppliers through public procurement channels, etc.

Enhancing Implementation of Women-Centric Measures in India's Trade Facilitation

There is a need for India to work towards enhancing the implementation of measures related to "women in trade facilitation". In addition to these measures, some other trade facilitation measures with a gender-sensitive approach that could be implemented in India include simplifying administrative procedures and establishing support services tailored to women traders, such as gender-responsive trade facilitation centres and capacity-building programmes. India could consider implementing some of the global best practices such as the SheTrades South America project, under which women entrepreneurs are provided with customised training programmes; access to critical market intelligence, trade opportunities and trade-related regulations; and networking opportunities; etc.

Devising Distinct Support Measures for Women in India's Foreign Trade Policy

India's Foreign Trade Policy 2023 introduces focussed interventions for MSMEs and e-commerce exporters, but there are currently no such distinct provisions/ support measures for women exporters. The Government of India (GOI) could consider introducing specific provisions to support women in existing schemes. For example, GOI could consider lower thresholds for women in export promotion schemes that are based on annual turnover categorisation. State governments could also bring in policy measures to encourage exports from women-owned enterprises including i) additional capital investment subsidy for women entrepreneurs engaged in export business; ii) additional interest subsidy for women exporters on total loan availed from public financial institutions / banks; iii) reimbursement of the guarantee fee charged under the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme; iv) establishment of exclusive zones in industrial park for exporting women entrepreneurs, among others.

Enhancing Women's Access to Finance for Exports

In order to address the gaps in trade finance for women, banks in India could enhance participation in women-centric trade finance programmes of multilateral development banks (MDBs) such as the International Finance Corporation (IFC). The IFC's "Banking on Women (BOW) - Global Trade Finance Program (GTFP)" that partners with 240 partner banks in more than 80 emerging markets to increase financing to women entrepreneurs involved in trade. However, currently only 3 Indian banks are participating under the IFC initiative. More Indian banks need to partner with MDBs in such initiatives.

Besides, a tailored financing programme for women-owned/led enterprises in India could be developed, particularly focussed on export finance. In this context, India could learn from the best practices in countries such as Canada, the USA, Tunisia and Zambia, that have specific programmes that support women entrepreneurs and exporters.

Addressing Gaps in Gender-Disaggregated Data

Formal trade statistics published by national statistics offices and international agencies such as UNCTAD's COMTRADE database capture directional trade flows. However, these data are not typically disaggregated by gender. Furthermore, while labour force data are more frequently disaggregated by gender and are available in the public domain, there is no coverage of trade aspects in these data in India. Further, in India, comprehensive data on business registration disaggregated by gender are also not available in the public domain. The Ministry of Corporate Affairs (MCA), GOI collects details of registered, active, non-active, closed companies/ limited liability partnership (LLP) firms and publishes the same in the form of a monthly information bulletin. However, gender-disaggregated data is not included in these statistics. The MCA could consider making available such data in the public domain. The GOI could consider focussing on estimation and publishing of gender-related trade data. To that end, tax administration and customs records could act as an important source for identifying women enterprises involved in international trade. For informed policy making and impact assessment, the GOI could collect national gender-disaggregated data as part of its existing GST and Customs data collection. The same could also be made accessible to the public for research and policy analysis.■

Rising Global Sovereign Debt: Recent Trends

– **Sara Joy,** *Chief Manager*
Srejita Nandy, *Deputy Manager*

Since the onset of the COVID-19 pandemic, fiscal deficits and public debt across countries have exceeded their pre-pandemic levels. Rising interest rates have driven up interest expenses, while spending on social benefits, subsidies, and transfers remained elevated due to the continuation of support measures introduced during the pandemic and in response to energy price shocks resulting from the Russia-Ukraine conflict. While inflation has been easing, its return to target remains uncertain.

Financing conditions are influenced by inflation, interest rates, and fiscal policies in major economies. Loose fiscal policies and rising debt, alongside tighter monetary policy, have driven up long-term government bond yields and increased volatility in the US, with spillover effects elsewhere. Slowing growth and financial instability in China could also impact global trade, creating fiscal challenges for its major trade partners.

In 2023, global public debt, comprising domestic and external general government debt, reached US$ 97 trillion, a US$ 5.6 trillion increase from 2022[1] and accounts for 93.2% of global gross domestic product (GDP) **(Table 1)**. According to the IMF, the global public debt burden will continue to grow over the medium term, however, marked by significant regional disparities. Among the developed countries, the US accounted for the highest public debt at US$ 33.4 trillion, followed by Japan at US$ 10.6 trillion.

Table 1: Trends in General Government Gross Debt (% of GDP)

Region/Country	2019	2020	2021	2022	2023[e]	2024[f]	2025[f]
Advanced Economies	103.9	122.4	116.2	111.2	111.0	111.2	112.4
United States	108.1	132.0	125.0	120.0	122.1	123.3	126.6
Emerging Market and Developing Economies	55.0	64.6	63.9	64.0	68.0	69.4	71.3
China	60.4	70.1	71.8	77.1	83.6	88.6	93.0
India	75.0	88.4	83.5	81.7	82.7	82.5	81.8
Low-Income Developing Countries	42.9	49.4	49.2	50.5	53.2	51.8	50.0
Sub Saharan Africa	49.7	57.0	56.2	57.2	60.1	58.5	56.8
World	**84.2**	**99.4**	**94.7**	**91.3**	**93.2**	**93.8**	**95.1**

Source: IMF and India Exim Bank Research

In 2023, public debt in developing countries reached US$ 29 trillion, accounting for 30% of the global total. This is a substantial increase from a 16% share in 2010 and reflects the rapid growth of public debt in developing countries. Over three-quarters of this debt is owed by countries in Asia and Oceania, while Latin America and the Caribbean accounts for 17% and Africa for just 7%. Within Asia, China recorded the highest public debt at US$ 14.8 trillion, followed by India at US$ 3 trillion.

Although historically high global inflation at 8.7% in 2022 (9.8% in emerging market and developing economies) have moderated to 6.7% in 2023 (8.3% in emerging market and developing economies), amidst rising nominal and real interest rates, debt service payments remain challenging for many emerging market and developing economies.

Emerging market and developing economies have particularly witnessed significant increases in government debt levels as compared to their pre-pandemic levels. The debt burden soared for countries with a high share of foreign currency borrowing, as their exchange rates depreciated. In addition to the multiple shocks that have occurred since the pandemic, some international debt relief measures have expired, such as the Debt Service Suspension Initiative (DSSI) that ended in 2021. Some low-income developing countries, including Chad, Ethiopia, Ghana and Zambia have asked for debt relief under the Group of Twenty (G20) Common Framework. Sri Lanka has also requested for debt relief with the Official Creditor Committee (OCC), China and External Commercial Creditors.

Surging interest rates, coupled with the above challenges, have led to a significant increase in sovereign defaults among developing countries. In the last three years, 18 countries have defaulted on their debts, which far exceeds the total number of defaults in the previous two decades. Interest payments have also quadrupled over the past decade. The IMF has identified nine low-income countries as currently in debt distress, while 25 more are at high risk. These countries are facing higher costs for refinancing their debts and are under pressure to prioritize debt service payments over investments in crucial areas like health, education and infrastructure. Developing countries, on an average paid 8.8% of their government revenues or 6.3% of their export revenues as external public debt service in 2022. Developing regions borrow at rates that are 2 to 4 times more than those of developed countries.

[1] A World of Debt Report 2024, UN Trade and Development (UNCTAD)

Trends in Sovereign Default

A sovereign debt crisis would have significant implications on geopolitical risk. Unpaid sovereign debt can strain relationships between debtor countries and their creditors, prompt international aid, lead to domestic political instability, and potentially drive irregular migration trends. All of these factors can have wide-ranging effects on the affected countries and regions, and the global political and economic landscape.

The total value of sovereign debt in default reached US$ 523 billion in 2023, constituting about 0.5% of the overall public debt worldwide, higher than the pre-pandemic level of 0.4%. It is lower than US$ 530 billion (0.6%) of sovereign debt default in 2022 but continues to remain higher than US$ 413.6 billion reported in 2021. The number of sovereigns in default stood at 92 declining from 98 in 2022 and 99 in 2021. This shift was primarily propelled by the more stringent financing conditions that had an impact on numerous Heavily Indebted Poor Countries (HIPCs) and emerging/frontier market sovereigns. Debt defaults in advanced economies reduced to zero as Puerto Rico finished its debt restructuring in 2022 and the UK repaid a long-standing obligation to Iran.

Table 2: Total Sovereign Debt in Default by Creditor (US$ billion)

Creditors	2019	2020	2021	2022	2023	Share in 2023 (%)
IMF	2.0	2.1	1.3	0.0	0.0	-
IBRD	1.0	1.0	1.0	1.2	1.4	0.3
IDA	1.8	1.9	1.6	0.6	0.6	0.1
IADB	2.2	2.2	2.3	2.4	2.5	0.5
Multilateral Creditors	***7.0***	***7.2***	***6.3***	***4.2***	***4.5***	***0.9***
Paris Club	43.6	48.6	50.4	78.3	78.5	15.0
China	19.4	46.1	35.8	39.0	49.8	9.5
Other official creditors	57.2	62.7	68.1	81.4	82.2	15.7
Bilateral Creditors	***120.3***	***157.4***	***154.3***	***198.6***	***210.5***	***40.2***
Foreign Currency bank loans	15.2	15.6	15.4	18.0	22.8	4.4
Foreign Currency bonds	102.5	224.1	148.2	251.5	227.5	43.5
Other private creditors	33.7	24.1	34.3	41.7	31.7	6.0
Local Currency debt	4.4	5.4	0.4	16.2	26.6	5.1
Total Debt in Default by Creditor	**283.0**	**433.9**	**358.9**	**530.1**	**523.5**	**100.0**

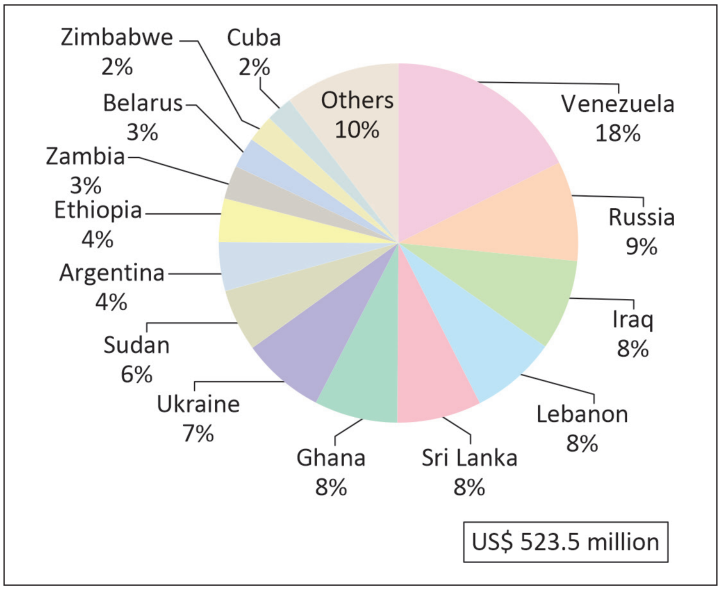
Note: Other official creditors include non-Paris Club G20 creditors (such as India, Saudi Arabia) and other government development agencies. Private creditors refer to external bondholders, banks and suppliers.

Source: BoC–BoE Sovereign Default Database and India Exim Bank Research

Defaults towards multilateral creditors, including entities like the IMF, the World Bank, and the Inter-American Development Bank have declined from US$ 7.0 billion in 2019 to US$ 4.5 billion in 2023. On the other hand, when it comes to bilateral creditors, defaults have surged in recent years, increasing by US$ 90.2 billion between 2019 and 2023 **(Table 2)**. Among the private creditors, foreign currency bonds have emerged as the major source of debt facing defaults during the recent years. It accounted for the highest share of sovereign defaults at 43.5% in 2023, higher than the cumulative share of bilateral official creditors at 40.2%. This shows the increasing shift among countries towards external private debt.

Defaults on local currency sovereign debt jumped by 65% in 2023 to nearly US$ 27 billion from US$ 16 billion in 2022. This is the highest level since 1999 and largely reflects the ongoing restructurings in Ghana and Sri Lanka. Argentina, Liberia and Suriname recorded smaller defaults. The distribution of defaults in 2023 is highly concentrated in terms of value, with fourteen sovereigns accounting for almost 90% of the value of global debt in default **(Chart 1)**.

Chart 1: Country- wise Sovereign Default in 2023



Source: BoC–BoE Sovereign Default Database and India Exim Bank Research

Conclusion

The increase in interest rates by central banks worldwide since 2022 is having a direct impact on public budgets. Developing countries' interest payments are not only growing fast, but they are outpacing growth in critical public expenditures such as health and education. Coupled with the souring debt burden due to currency depreciation, interest payments are constraining spending across developing countries. The global public debt burden is expected to continue to grow over the medium term partly due to elevated nominal interest rates and debt service payments. ■

General Agreement on Trade in Services

– **Sara Joy,** *Chief Manager*
Alfiya Ansari, *Deputy Manager*

The General Agreement on Trade in Services (GATS), a framework agreement for international trade in services (with some sectoral annexes, including on financial services), is an integral part of the 1994 Marrakesh Agreement for the establishment of the WTO. India played a significant role during the closing phase of the negotiations of the Uruguay Round, when the framework of the General Agreement on Trade in Services (GATS) was conceptualized and negotiated. The significance for India of the GATS can be gauged by the fact that 44% of the negotiating proposals (42 out of 95) on trade in services during the Uruguay Round had been made by just four delegations – the US, European Communities, Brazil and India. India's contributions in the final text of the GATS on increased participation of developing countries (Article IV) and progressive liberalization (Article XIX) served the interests of developing countries in becoming active participants in the growing global trade in services after 1995.

The GATS, in force since 1995, was the first trade agreement to cover services on a multilateral basis. It is designed to ensure that the laws and regulations that WTO member countries apply to services trade are transparent and fair. Its key market-opening element is the Schedule of Specific Commitments that each signatory annexed to the GATS as an integral part of the Agreement. In these schedules, signatories identified the extent to which they would accord full market access and national treatment in specific service sectors.

The GATS adopts what is called a positive list or bottom-up approach to members making commitments in sectors and sub-sectors that they specify in a schedule. This means that members agree to accept commitments to liberalize and provide market access for trade in services in specified sectors and sub-sectors. For each service sector or sub-sector that is listed, the schedule indicates any limitations on market access or national treatment which are to be maintained with respect to each of the four modes of supply viz. cross-border trade, consumption abroad, commercial presence, and presence of natural persons. A commitment therefore indicates the presence or absence of market access or national treatment limitations with respect to each mode of supply.

The standard format of schedule contains the sector or sub-sector which is the subject of the commitment; limitations on market access; limitations on national treatment; and any additional commitments which are not subject to scheduling under market access or national treatment. Commitments are generally classified into two categories: (1) "none," implying that no restrictions are applied on either market access or national treatment for a given mode of supply or sector, and (2) "unbound", the country wished to make no commitments to accord market access or national treatment.

For example, under the limitations on national treatment for all sectors included in the schedule, India has committed that in case of collaboration with public sector enterprises or government undertakings as joint venture partners, preference in access will be given to foreign service suppliers/ entities which offer the best terms for transfer of technology.

The schedules, however, were only a first step in the complex process of liberalizing services trade, and many countries continue to impose limitations and conditions on both market access and national treatment. These restrictions are specified in each country's schedule. Continuing services negotiations that are taking place under the GATS are aimed at removing these limitations and conditions.

The 13^{th} WTO Ministerial Conference (MC13) held in Abu Dhabi saw the entry into force of new disciplines on services domestic regulation, which is expected to lower trade costs by over US$ 125 billion worldwide. The disciplines seek to mitigate unintended trade-restrictive effects of measures relating to licensing requirements and procedures, qualification requirements and procedures and technical standards. It seeks to make the regulatory environment more conducive to business and can help particularly micro, small and medium-sized enterprises as well as women entrepreneurs. It includes the first-ever commitment in a WTO agreement to ensuring non-discrimination between men and women when they seek permits to supply services.

GATS - Scope and Coverage

All services are covered by the GATS, except those that are supplied by governments on a non-commercial basis (such as central banking or social security). The GATS applies not just to the provision of services across borders to consumers in other countries, but also to the provision of services within countries by foreign suppliers.

In the GATS, the supply of services is defined based on the location of the supplier and consumer at the time when the transaction takes place. The GATS defines trade in services as the supply of a service through the following four modes of supply:

Mode 1: Cross-border supply from the territory of one WTO member country into the territory of another.

Mode 2: Consumption abroad, service is supplied 'in the territory of one member to the service consumer of any other member.

Mode 3: Commercial presence - takes place through the supply of a service 'by a service supplier of one member, through a commercial presence in the territory of any other member'.

Mode 4: The presence of "natural persons" for a limited period of time in another country.

Obligations under GATS

Obligations contained in the GATS may be categorized into two broad groups: general obligations that apply to all members and services sectors, as well as obligations that apply only to the sectors inscribed in a member's schedule of commitments.

(a) General obligations

Most Favoured Nation Treatment (Article II): Under Article II of the GATS, members are held to provide most favoured nation (MFN) treatment commitments, which is used to ensure that firms legally established and authorised in a foreign market should be subject to 'most favoured nation treatment', meaning "treatment no less favourable than that accorded to like services and services suppliers of any other country". Unlike national treatment and market access commitments, which apply only when a country has formally adopted them, the MFN commitment is a general obligation in the GATS. For example, if a WTO member country has not made any specific commitments on accounting services, the country may maintain or introduce in this sub-sector any restrictions it considers necessary. However, if the country removes a restriction with regard to the provision of accounting services from another country, it has to remove it for all members, by virtue of Article II.

Furthermore, the GATS allows groups of members to enter into economic integration agreements or to mutually recognize regulatory standards, certificates and the like if certain conditions are met. For example, Article V of the GATS titled "Economic Integration" imposes the conditions on WTO members pursuing preferential trade arrangements. Similarly, Article VII of the GATS allows WTO members to enter into mutual recognition agreements with regard to education or experience obtained, requirements met, or licenses or certificates granted.

Transparency (Article III): GATS members are required, among other things, to publish all measures of general application and establish national enquiry points mandated to respond to other members' information requests.

(b) Specific commitments

Market Access (Article XVI): Market access commitments can be used to restrict the use of quotas or caps with respect to local contracting, employment or output, economic needs tests or local ownership requirements attached to the right to establish authorised entities for the provision of services in a market. The list of restricted measures should be based on the terms of GATS Article XVI, but customised and refined as required to ensure that tests, caps or quotas of any kind and measures do not act as de facto checks on foreign firms participating in local markets.

National Treatment (Article XVII): National treatment commitments can be used to ensure that foreign firms are treated no different from local firms of the same type and profile in the conduct of supervision or any other regulatory treatment. The key requirement is not to modify, in law or in fact, the conditions of competition in favour of the member's own service industry. For example, if domestic suppliers of audiovisual services are given preference in the allocation of frequencies for transmission within the national territory, such a measure discriminates explicitly on the basis of origin of the service supplier and thus constitutes formal or *de jure* denial of national treatment.

However, the extension of national treatment in any particular sector may be made subject to conditions and qualifications (for example, by placing additional conditions or requirements on foreign computer professionals). In banking sector, India's commitment states that foreign banks are required to constitute Local Advisory Boards consisting inter alia of professionals and persons having expertise in areas such as small-scale industry and exports. The appointment of Chairman and members of the Board requires the Reserve Bank of India's approval. Deviations from national treatment are to be listed and included in a country's schedule of commitments.

Members are free to tailor the sector coverage and substantive content of such commitments as they deem fit. The commitments thus tend to reflect national policy objectives and constraints, overall and in individual sectors. While some members have scheduled less than a handful of services, others have assumed market access and national treatment disciplines in over 120 out of a total of 160-odd services.

The existence of specific commitments triggers further obligations concerning, among other things, the notification of new measures that have a significant impact on trade and the avoidance of restrictions on international payments and transfers. ■

A New Era of Cooperation: India's Relationship with EFTA

– **Sara Joy,** *Chief Manager*
Siddharth Nema, *Deputy Manager*

The European Free Trade Area (EFTA) was established by the Stockholm Convention on January 4, 1960. EFTA was founded by seven countries: Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom (UK). Iceland and Liechtenstein joined EFTA in 1970 and 1991, respectively. Denmark, the UK, Portugal, Austria and Sweden left EFTA to join the European Union (EU) between 1973 and 1995.

India and EFTA together accounted for around US$ 5 trillion GDP, in 2023 with India's GDP being more than 2.5 times more than the GDP of EFTA. India's population is enormous in comparison to the EFTA, representing a large market for goods and services.

India's exports to EFTA increased marginally to US$ 1.9 billion in 2023 as compared to US$ 1.8 billion in 2022. In 2023, India's imports from EFTA increased to US$ 20.4 billion from US$ 17.3 billion, largely due to 23.7% increase in gold imports from Switzerland and 44.7% decline in crude oil imports from Norway. Historically, India has been witnessing a trade deficit with EFTA, which increased from US$ 20.6 billion in 2014 to US$ 29.9 billion in 2021. Due to sharp decline in imports, it narrowed to US$ 18.5 billion in 2023.

Among the EFTA members, Switzerland is the largest trading partner of India and accounted for 94.3% of India's total trade with EFTA in 2023, followed by Norway, with a share of 5.7% in India's total trade with EFTA.

In 2023, India was the 10th largest export destination and the 29th largest import supplier for EFTA. There exists immense potential for enhancing bilateral economic relations between India and EFTA. To harness the untapped potential, India and EFTA signed Trade and Economic Partnership Agreement (TEPA) on March 10, 2024, after rigorous discussions for 16 years and 21 formal rounds of negotiations.

India-EFTA Trade and Economic Partnership Agreement

The agreement comprises 14 chapters with main focus on market access related to goods, rules of origin, trade facilitation, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, investment promotion, market access on services, intellectual property rights, trade and sustainable development and other legal and horizontal provisions.

Major Commitments under TEPA

- EFTA has committed to promote investments with the aim to increase the stock of Foreign Direct Investments in India by US$ 100 billion in the next 15 years, and to facilitate the generation of 1 million direct jobs, through such investments. The underlying factor is that the investments do not cover Foreign Portfolio Investments (FPIs), signifying the permanent nature of the prospective investments.
- For the first time in the history of FTAs, TEPA includes a legal commitment about promoting target-oriented investment and creation of jobs. A closer look at the legal text reveals that for the promised investments and jobs to materialise, two conditions need to be met: India growing at a fast rate of 9.5%, and the return on EFTA investments in India exceeding 16% annually over the 15-year timeline. If not, both sides may lower their level of ambitions. If India is not satisfied, it can pull back its tariff concessions in a proportionate manner after 18 years.
- The investment chapter is not subject to dispute resolution and is overall a statement of positive intent, and its benefits will be dependent on the private sector's responsiveness to the TEPA.
- EFTA has offered 92.2% of its tariff lines which covers 99.6% of India's exports. The EFTA's market access offer covers 100% of non-agriculture products and tariff concession on Processed Agricultural Products (PAP).
- India has offered 82.7% of its tariff lines which covers 95.3% of EFTA's industrial exports to India (excluding gold). The effective duty on gold remains untouched. Switzerland will also have tariff-free access to the Indian market for selected agricultural products after a transition period of up to ten years.
- Critical sectors for India such as dairy, soya, coal and sensitive agricultural products have been kept in exclusion list.
- In the services sector, India has offered 105 sub-sectors to EFTA and secured commitments in 128 sub-sectors from Switzerland, 114 from Norway, 107 from Liechtenstein, and 110 from Iceland.
- Services offers from EFTA include better access through digital delivery of Services (Mode 1), commercial presence (Mode 3) and improved commitments and certainty for entry and temporary stay of key personnel (Mode 4).
- TEPA has provisions for Mutual Recognition Agreements in Professional Services like nursing, chartered accountants and architects, among others.
- India's interests in generic medicines and concerns related to evergreening of patents have been fully addressed.

Legal Provisions under TEPA

- TEPA requires that a product must fulfil at least one of the following origin criteria in order to qualify for preferential trade with reduced tariffs:
  - The product has been wholly obtained in one of the parties (India/EFTA).

  or

  - Non-originating materials used in the working or processing of that product have undergone sufficient working or processing in one of the parties.
- Preferential origin of products needs to be confirmed by a proof of origin. For this purpose, the parties to the agreement have different options:
  - An origin declaration completed by an approved exporter established in an EFTA State or India.
  - A movement certificate EUR.1 issued by a customs authority of an EFTA state.
  - Indian exporters can use 'EFTA-India Certificate of Origin' issued by the designated Indian authority or issued under the self-declaration of origin process.

Envisaged Benefits and Potential under India-EFTA TEPA

- The prospective investments channelled through TEPA are expected to drive the objectives of "Make in India" and Atmanirbhar Bharat by promoting domestic manufacturing across various sectors including infrastructure, manufacturing, pharmaceuticals, chemicals, and food processing, among others.
- Despite India's efforts to boost local production in sectors like medical devices and pharmaceuticals, there's room for growth. EFTA's keen interest in joint ventures presents opportunities for India to reduce its dependency on Chinese imports. While certain clauses like data exclusivity are not part of the agreement, both pharmaceutical and medical devices sectors stand to gain significantly, contributing to import diversification strategies for both EFTA and India.
- The Intellectual Property Rights (IPR) commitments within TEPA are aligned with TRIPS standards, indicating a high level of commitment to IPR protection. The IPR chapter, particularly with Switzerland, renowned for its stringent IPR standards, underscores the strength of India's IPR regime.
- In the services sector, TEPA offers significant potential for India to integrate into EU markets via EFTA. Switzerland, with over 40% of its global services exports directed towards the EU, can serve as a strategic gateway for Indian companies seeking to expand their market reach.
- Bilateral trade in services between the EFTA and India could significantly benefit post TEPA. For Mode 1 and Mode 4, the commitment under the agreement is likely to emerge as a medium for India to gain wider market access in the EFTA, especially for the services in Mode 1 category like KPOs and BPOs.
- To complement the cross-border trade in services enabled by Mode 1, improved commitments around Mode 4 could allow services delivered through the movement of workers as service providers. The latter could bolster the participation of India's skilled professionals across domains like engineering, architecture, and information technology, in the EFTA's labour market and facilitate higher remittances to India.
- EFTA's commitment to promote investments with ambitious goals would open new arenas of investment opportunity. The investments would be of mutual benefit to both India and EFTA, these will provide the EFTA with lucrative investment opportunity in India while also adding to India's capabilities. Increased investments also lead to better integration of market, as well as facilitate transfer of skills and technology.

India and EFTA economic engagement hold significant promise for fostering economic collaboration and mutual benefit. Both parties have a shared interest in enhancing trade and economic ties, TEPA has the potential to create a robust framework for cooperation, stimulating economic growth, and facilitating the exchange of goods and services to the mutual advantage of India and the EFTA Member States. It is imperative for both sides to maintain a constructive dialogue for timely ratification to establish a comprehensive and mutually beneficial trade and economic partnership.

Way Forward

This is an opportune moment for India and EFTA to leverage this agreement for increased trade and investment relations and elevate this partnership to unprecedented levels. The following policy catalysts could enhance bilateral cooperation further.

A data adequacy agreement between India and EFTA would enhance data flow and strengthen trade relations, given EFTA's stringent data protection standards. Similar to the India-Singapore UPI-PayNow link, integrating payment systems between India and EFTA would streamline cross-border transactions, making them faster and cost-effective for businesses and consumers.

EFTA countries are global leaders in innovation, offering collaboration opportunities in sectors like renewable energy, biotechnology, and advanced manufacturing. India could leverage EFTA's R&D strengths in fields such as health sciences, precision engineering, and renewable energy for mutual economic growth.

Switzerland excels in pharmaceuticals, banking, and innovation, while Liechtenstein focuses on R&D-driven technology. Iceland's fishing expertise could benefit Indian fisheries, and Norway's maritime technology complements India's maritime potential, exemplified by their collaboration on the Green Voyage 2050 project and green shipbuilding initiatives. ■

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 IDEAS.

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 the 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 September 30, 2024, the Bank has extended 295 LOCs, covering over 68 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US$ 27.60 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.

New LOCs signed:

(i) LOC of US$ 180 million with Government of Socialist Republic of Vietnam for Procurement of 4 Offshore Patrol Vessels (OPV).

(ii) LOC of US$ 120 million with Government of Socialist Republic of Vietnam for Procurement of High-Speed Guard Boats.

The above LOC Agreements were exchanged in the presence of Hon'ble Prime Ministers of India and Vietnam on August 1, 2024.

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The Quarter That Was

Contributed by: **Corporate Communications Group**

Ms. Deepali Agrawal takes charge as Deputy Managing Director of India Exim Bank

Ms. Deepali Agrawal took charge as the Deputy Managing Director of the Export-Import Bank of India (India Exim Bank). Prior to this, she was the Chief Financial Officer of the Bank. With close to three decades of experience, she has worked in different capacities, at both domestic and international offices of the Bank. Having worked in diverse areas like treasury and accounts, corporate banking, project exports, communications and brand management, upliftment of grassroots enterprises, human resources management and recovery, she has successfully delivered the organisational goals. Ms. Agrawal has also headed the Bank's Western Region Regional Office and Singapore Representative Office.

India Exim Bank transfers ₹ 252 crore balance of profit to GOI

Ms. Harsha Bangari, Managing Director, Exim Bank presented the transfer receipt of ₹ 252 crore to Hon'ble Minister of Finance and Corporate Affairs, Smt. Nirmala Sitharaman, representing the balance of net profit for the financial year ended March 31, 2024 transferred to the Government of India.

During FY 2023-24, 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. The Bank posted a net profit of ₹ 2518 crore in FY 2023-24, registering an increase of 62% over the previous year. In the last five years, the Bank has transferred an aggregated amount of ₹ 519.34 crore as balance of net profit to the Government of India. The Bank's paid-up capital is entirely subscribed by the Government of India.

India Exim Bank forecasts India's merchandise exports to amount to US$ 111.7 bn and non-oil exports to amount to US$ 89.8 bn for Q2 (July-September) of FY2025.

India Exim Bank forecasts India's total merchandise exports to amount to US$ 111.7 bn, witnessing a year-on-year (y-o-y) growth of 4.2%, while non oil exports are forecast to amount US$ 89.8 bn, with a y-o-y growth of 6.26%, during Q2 (July-September) 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, expected global monetary easing and improving demand prospects in trading partners. The outlook is, however, subject to risks of uncertain prospects for advanced economies, geopolitical shocks, the middle east crisis, global supply chain disruptions and deepening geoeconomic fragmentation, among other factors. The positive growth rate in total merchandise exports and non-oil exports, as witnessed in the previous three quarters, are likely to continue.

India's famed Khurja pottery gets a digital makeover

India Exim Bank, under its Grassroots Initiatives for Development (GRID) programme, has engaged with Khurja Pottery Manufacturers Association (KPMA) to establish a 3D Design Studio. Earlier this year, the Bank organised a design development workshop for 25 master artisans, in association with National Institute of Design, working in this sector in Khurja. The objective of the programme is to empower local pottery makers and artisans in Khurja with advanced design skills and technologies for making their products globally competitive. Khurja boasts over 300 manufacturing units engaged in tableware crockery and technical ceramics, that provide employment to more than 30,000 skilled and unskilled workers.

The design studio was inaugurated by Ms. Harsha Bangari, Managing Director, Exim Bank, in the presence of Mr. Ravi Rana, President, KPMA; Mr. Darshan Chhatwal, Vice President, KPMA; Mr. Savan Kumar Sharma, Scientist & Head of Central Glass and Ceramic Research Institute, Khurja Centre (CGCRI); Mr. Ashutosh Singh, General Manager, District Industry Centre; and Ms. Deepali Agrawal, Deputy Managing Director, Exim Bank.

India Exim Bank inks pact with Nedbank Limited, South Africa

India Exim Bank has signed a Master Risk Participation Agreement (MRPA) with Nedbank Limited (Nedbank), South Africa, under India Exim Bank's Trade Assistance Programme (TAP), for supporting trade transactions. The agreement was signed on September 2, 2024, in Johannesburg, South Africa by Mr. T.D. Sivakumar, Chief General Manager of India Exim Bank and Mr. Yudhvir Harrilal, Divisional Executive, International Financial Institutions (IFI), Nedbank.

India Exim Bank, through its global network of offices and wide range of financial, advisory and capacity building activities, has strived to play a catalytic role, as a key player, in promoting India's international trade and investment relations with partner countries, while contributing to the internationalisation endeavours of Indian businesses.

Under TAP, India Exim Bank provides credit enhancement to trade instruments, thereby augmenting the capacity of commercial banks/ financial institutions to undertake cross-border trade transactions involving markets where trade lines are constrained, or where the potential has not been harnessed. ■

Country Scan

Contributed by: **Research & Analysis Group**

Burkina Faso

Burkina Faso is a landlocked economy in West Africa, based on gold mining and agriculture (cotton and livestock). Burkina Faso's political landscape has been marked by instability and transitions in recent years, particularly due to two successive military coups in 2022 and violence in the region. The real GDP growth of Burkina Faso is expected to quicken from 3.6% in 2023 to 5.5% in 2024, owing to a strong pick-up in gold output at existing mines. Gold production is currently expected to increase by 7% in 2024 (after dropping by a combined 14.3% in 2022-23). Inflation is expected to accelerate to 2.1% in 2024, driven by elevated food prices, rising oil prices and robust growth. The price growth is likely to then ease to 2.0% in 2025, owing to falling global commodity prices, currency appreciation and a strong agricultural harvest. Despite rising in 2024, global oil prices are expected to be markedly lower than during their 2022 peak, which could limit the rise in import spending. As a result, the current-account deficit is expected to shrink from 7.3% of GDP in 2023 to 5.6% of GDP in 2024.

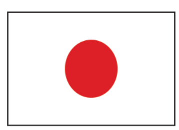
Venezuela

Venezuela has an undiversified economy that is mainly dependent on oil production. Although the country has the largest oil reserves in the world, its economy is in dire straits owing to continued democratic erosion and a corrupt, poorly managed state-led model. US sanctions is likely to prevent Venezuela from harnessing the fairly high oil price environment to spur macroeconomic stability. The real GDP is expected to grow by 3.2% in 2024, recovering from a 1.2% contraction in 2023. This reflects a temporary boost for the oil industry, and positive spill-over effects for the non-oil sector from sanctions relief in October-April. Inflation has fallen this year, with the 12-month rate easing to 43.6% in July (compared with a sky-high 398.2% in July 2023), reflecting a more modest pace of currency depreciation. Bolívar depreciation eased in late 2023 and continued to moderate in July, to just 0.2% (compared with 510% per month in mid 2023), taking the exchange rate to BsD36.6:US$1 by the end of that month. Despite a supportive current-account position policy mismanagement is likely to prevent the Central Bank of Venezuela (BCV) from accumulating reserves consistently.

Bangladesh

Amidst the long-running resentment over the quota system, the student protest forced the former PM Sheikh Hasina Wajed to resign and flee the country. Muhammad Yunus, a previously jailed Nobel laureate, was appointed "chief advisor" to the current interim government on August 8. Given the current shocks to Bangladesh's economy from the recent political unrest, the real GDP is expected to grow at 3.9% in 2024/25, a deceleration from 5.8% in 2023/24 hampered by the labour disruption and high cost of living. The headline inflation is expected to average 10.7% in 2024 due to elevated food and fuel prices and drive in imported inflation. After the adoption of crawling peg in May 2024, the Bangladeshi Taka is expected to depreciate to Tk115.4:US$1 over the remainder of 2024 driven by political instability, high policy rates in the US, and a persistent shortfall on the current account. The current account deficit for 2024 is expected at 0.6% of the GDP. In short run, the influence of radical Islamist groups may pose the risk of sporadic violence, particularly as state capacity remains weak and it could exacerbate international concern over human-rights abuses.

Japan



The Japanese economy is expected to remain under downward pressure and may expand by 0.5% in 2024, slowing from an estimated 1.7% in 2023. Japan is grappling with a worsening demographic crisis with the elderly making up an estimated 29.3% of the population and a dwindling number of working-age people being saddled with mounting healthcare and welfare costs for the elderly. The yen is likely to remain weak against the US dollar until late 2024. Despite the Bank of Japan's policy normalisation, interest rates in Japan may remain too low to make a meaningful impression on bilateral rate differentials. The exchange rate may reach ¥150:US$1 by end-2024, weaker than ¥140.5:US$1 a year earlier. Further, heightened geopolitical tensions and adverse weather conditions may keep energy and food prices elevated and the consumer prices are expected to increase by 2.5% on average in 2024. Japan's export sector, led by its machinery and automotive sectors, may retain a strong global position with the current-account surplus of 3.8% in 2024 owing largely to strong profit repatriation from overseas investments and a moderate goods trade deficit. ■

Currency Currents

Contributed by: **Treasury & Accounts Group**

United Arab Emirates Dirham

Dh The Emirati dirham was established in 1973 to replace the currencies of Qatar and Dubai. It was created to stabilize the economy, as oil exports were booming. The currency was initially pegged to the US dollar at a rate of 3.6725 AED to 1 USD.

The UAE's economy is the 4th largest in the Middle East (after Turkey, Saudi Arabia and Israel), with an average GDP of US$ 415 billion (AED 1.83 trillion) in 2021-2023. The UAE dirham holds a significant position in global finance as a reserve currency and is widely used in forex trading. Its stable exchange rate with the US dollar has helped maintain economic stability in the country and attract foreign investors. Most central banks in the Gulf region cut their benchmark interest rates, joining the US Federal Reserve in reducing the rate for the first time in four years. The UAE Central Bank reduced its base rate for the overnight deposit facility by 50 basis points to 4.90%. It maintained the interest rate applicable to borrowing short-term liquidity from the regulator at 50 basis points above the base rate for all standing credit facilities.

The closing rate of USD/AED as on September 26, 2024 is AED 3.67.

Iranian Rial

IR The Iranian Rial (Rls) is the weakest currency of the world. In 1945, the Rial was pegged to the US dollar at US$ 1 = Rls 32.25. The rate was US$1 = Rls 75.75 in 1957. Iran did not follow the dollar's currency devaluation in 1973, leading to a new peg of USD 1 = Rls 68.725. The dollar peg was dropped in 1975. The value of the rial declined precipitously after the Islamic Revolution because of capital flight from the country. Studies estimate that the flight of capital from Iran shortly before and after the revolution were in the range of US$ 30 to US$ 40 billion. In July 1999, US$ 1 equalled Rls 9,430.

In 2012, the U.S. Department of State stated that in response to Iran's continued illicit nuclear activities, the US and other countries have imposed unprecedented sanctions to censure Iran and prevent its further progress in prohibited nuclear activities, as well as to persuade Tehran to address the international community's concerns about its nuclear program. The unofficial Rial to US dollar rate underwent severe fluctuations in January 2012 that is, the Rial losing 50% of its value in a few days, eventually settling at Rls 17,000 per US dollar at the end of the period. The results of Iran's recent elections along with growing concerns about Trump's possible return to the US presidency have also led to an alarming fall in the value of the Iranian rial.

The closing rate of US$/RIs as on September 26, 2024 is RIs 42,105.

Australian Dollar

A$ Adopted in 1966, the Australian dollar (AUD) is the official currency of Australia and several countries and territories, including Christmas Island, Cocos Islands, Norfolk Island, Nauru, Tuvalu, and Kiribati. The Australian Dollar symbol is $, however, symbols such as A$ or AU$ are also used to distinguish the Australian dollar from other dollar-denominated currencies. The Australian dollar ranks as the fifth most traded currency in the world.

As Australia's major trading partner, China's economic maneuvers significantly influence the AUD. China's People's Bank of China (PBoC) recently announced a 50-basis point cut in banks' reserve requirements and hinted at further easing key lending rates, which initially weakened the yuan but supported the Australian dollar. Meanwhile, the Reserve Bank of Australia (RBA) is sticking to its current interest rate levels. This cautious stance by the RBA contrasts with broader market easing trends and highlights a wait-and-see approach as the global economic landscape evolves. It is expected that China's broad-based easing could potentially push the Aussie dollar up to 70 US cents by year-end, making it an attractive currency for investors.

The closing rate of USD/AUD as on September 26, 2024 is AUD 1.45.

Bangladeshi Taka

Tk The Bangladeshi Taka (BDT) is the official currency of Bangladesh. Following Bangladesh's independence, the Bangladeshi Taka initially ranged between Tk7.5 and Tk8.0 per US$1. The value of the taka against the US dollar declined annually from 1971 to 1987, except in fiscal year 1978. To address this, Bangladesh utilized the IMF's compensatory financing facility in 1974 and devalued the Taka by 56% in 1975. Between 1980 and 1983, the taka depreciated by around 50% due to balance of payments issues.

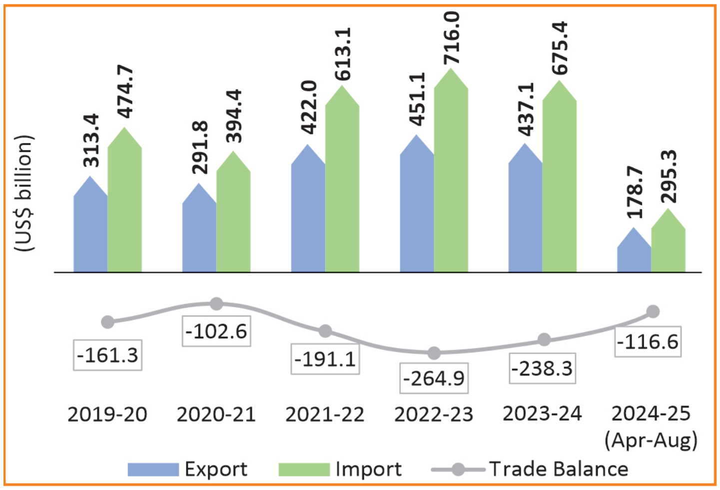
Former Prime Minister Sheikh Hasina's Awami League government, which ruled Bangladesh for 15 years, fell in the face of mass protests, against a controversial job quota rule on August 5, 2024. Bangladesh's economy has suffered due to the protests and clashes. The Central Bank of Bangladesh recently hiked the US dollar's selling rate at the interbank level by Tk 2.85. This decision comes as the central bank tries to put in place an exchange rate system driven by the market to help reduce the pressures on the forex reserves of the nation. The foreign currency reserves in the country have reduced by more than half. As of 2023, Bangladesh secured a loan worth US$ 4.7 billion from the IMF. According to the latest data released by the Bangladesh Bureau of Statistics, the country's inflation rate hit a record high of 11.66% in July, the highest in 12 years. Food inflation also soared to 14.10%, while the country recorded a non-food inflation rate of 9.68%.

The closing rate of USD/BDT as on September 26, 2024 is BDT 119.51. ■

Snippets on Indian Economy

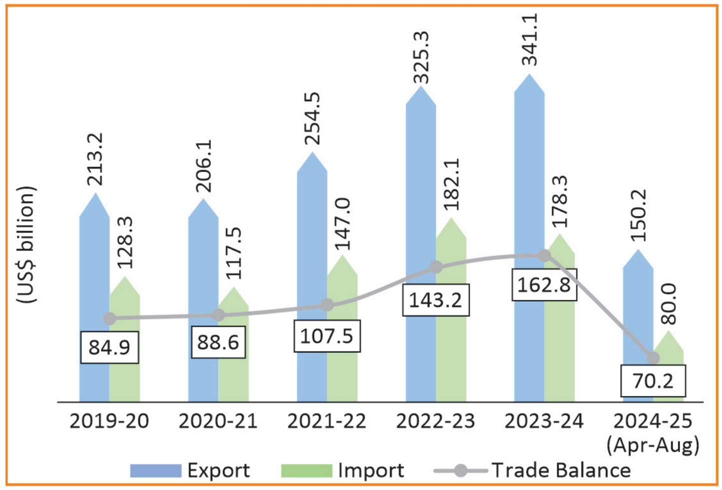
Contributed by: **Research & Analysis Group**

India's Merchandise Trade



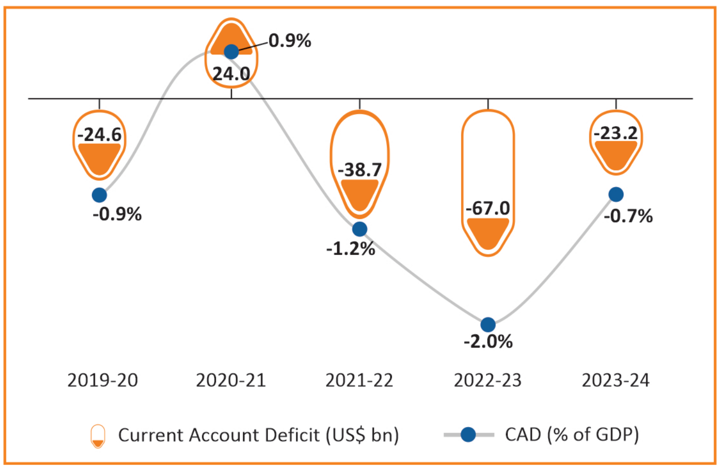
Source: Ministry of Commerce and Industry, Government of India

India's Services Trade



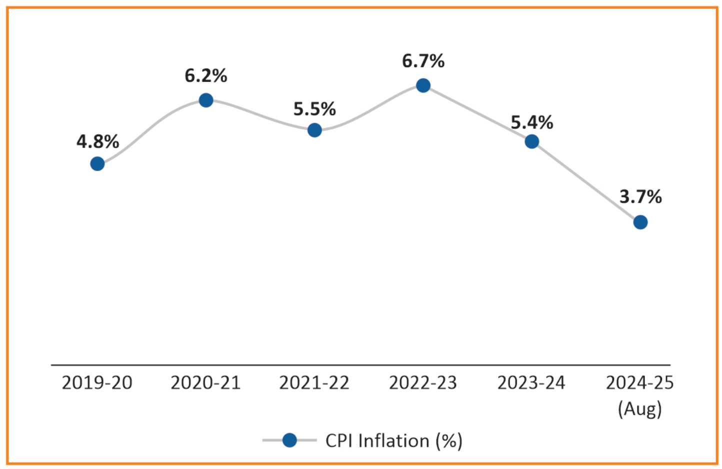
Source: Ministry of Commerce and Industry, Government of India

Current Account Deficit



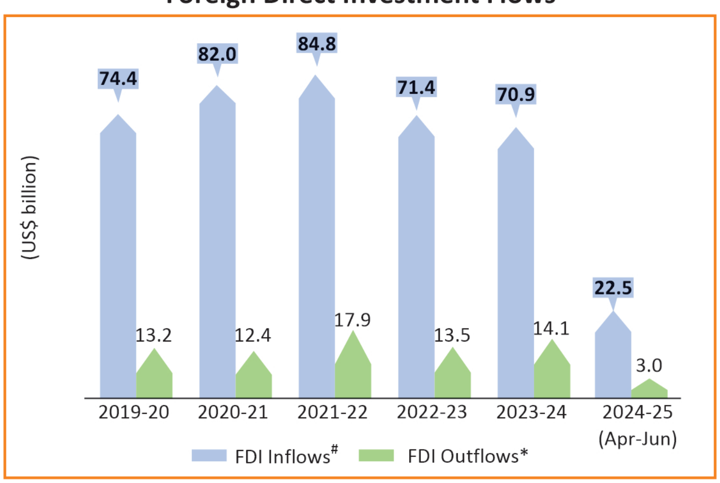
Source: Reserve Bank of India

Consumer Price Inflation



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

Foreign Direct Investment Flows

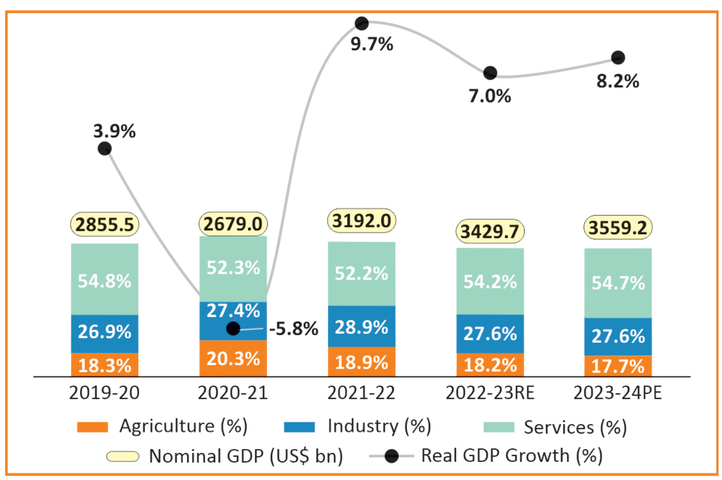


*Note: * - FDI Outflows reflect actual figures and include equity, loans and guarantees invoked*

 # - 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