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Impact of the USA's Tariffs on India's Exports and Key Sectors

– **Jahanwi Singh,** *Asst. General Manager*
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Background

The USA introduced a Reciprocal Tariff Matrix in April 2025, proposing country-specific tariffs on imports from its trade partners, with select exclusions on products such as pharmaceuticals, critical minerals and select electronics. This was followed by a 90-day pause on implementation of the proposed tariff hike, placing all countries, except China, under a flat 10% tariff band.

In early July 2025, the USA postponed the tariff hike until August 1, 2025. On July 31, 2025, the USA announced a 25% tariff on its imports from India. Following this, on August 6, 2025, the USA, announced an additional duty of 25% on Indian goods imported into the USA, w.e.f August 27, 2025. Accordingly, the USA's tariff on India's exports have increased to over 50% on select goods.

The USA is also an important destination for e-commerce exports from the country. The USA has eliminated the US$ 800 de minimis rule w.e.f August 29, 2025, an exemption that allowed low-value shipments to enter the country duty-free and with minimal paperwork. This change will have major implications for e-commerce exporters.

Recent Trends and Perceptions amid the US Tariffs

The escalation in protectionist measures by the USA has prompted Indian exporters to recalibrate their short-term and long-term strategies to safeguard market share and maintain competitiveness. Early evidence suggests concerted efforts by exporters to frontload shipments, diversify supply chain models, target higher-margin and customised segments, and expand into new markets. Some of the key trends and perceptions amid the US tariff hike include:

- **Frontloading of Exports:** Indian exporters are frontloading shipments for short-term mitigation of the impact from US tariffs. In fact, India's exports to the USA have increased by over 18% y-o-y during April-August 2025, as compared to a growth of 2.5% in merchandise exports from India.

- **Shift in Supply Strategy of e-Commerce Exporters:** e-Commerce exporters that have relied on the de minimis threshold, especially those using postal networks, drop shipping models or DDU shipping strategies, are changing their supply models. Exporters are increasingly exploring shift from direct-to-consumer shipping of small parcels to bulk shipping with local warehouse fulfilment in the USA, thereby reducing the frequency of customs clearance.

- **Focus on High-Margin, Customised Products, and Bundled-Pricing:** Exporters are focusing on higher-value, customised variants of existing export lines such as premium technical textiles and specialty chemicals. Exporters are also negotiating bundled pricing deals such as textiles and accessories to absorb some tariff cost and maintain shelf-price competitiveness.

- **Long-term Off-take Agreements:** Several medium and large exporters have secured long-term offtake agreements with major US importers such as Amazon, Walmart and Target. Exporters are prioritising such agreements to stabilise demand and margins.

Preliminary data on absorption of tariff impact reported by Goldman Sachs indicates that exporters have absorbed just 14% of the cost of all tariffs implemented through June 2025, though this figure is expected to rise to 25% with the more recently implemented tariffs. Consumers have absorbed an estimated 22% of tariff costs, while American companies have taken on 64%.

Impact of the USA's Tariffs on India's Exports and Key Sectors

Against this backdrop, an attempt has been made to analyse the impact of the tariff hike on India's exports. Analysis of India's overall exports indicates that nearly 47% of India's exports in FY 2024-25 came from the services sector, which would not be affected by tariffs. However, merchandise exports are expected to be affected, as the USA is India's topmost export destination, accounting for nearly 19.8% of India's merchandise exports during 2024-25, although the effects may vary across sectors, depending on the tariff incidence and dependence on the USA market.

Goods in the Exempted Category: The hike in tariff does not apply to select articles that are set forth in Annex II to Executive Order 14257 of April 2, 2025, as also on articles that are excepted by 50 U.S.C. 1702(b), which comprises electronic goods such as smartphones. This includes nearly 558 products (at HS 6-digit level). India's exports of these products to the USA amounted to US$ 27.26 billion, accounting for nearly 29.9% of India's total merchandise exports in 2024. Exim Bank analysis indicates that over 99.7% of India's pharmaceuticals exports to the USA and over 81.3% of organic chemicals exports to the USA would fall under the exempted category.

Major Sectors where Exports are in Exempted Category

HS Code	HS Description	Share in India's Exports to USA (FY 2025)	Share of Exports Exempted from Tariffs	Share of Exports that Would Remain Competitive despite Tariffs[1]	Share of Exports that would be Uncom-petitive
85	Electrical and Electronics Machinery	18.4	49.6**	2.5	47.9**
30	Pharmaceutical products	11.3	99.7	0.3	0
27	Mineral fuels	4.9	100	0.0	0
29	Organic chemicals	3.1	81.3	1.7	17.1

***While several categories of electronics are in exempted category, machinery products are not in exempted category.*

Sources: Ministry of Commerce and Industry, ITC TradeMap, Whitehouse.gov, Exim Bank Research

India to Retain Price Competitiveness in Select Products: Exim Bank's analysis indicates that India is expected to remain price competitive in the USA market across 713 products (at HS 6-digit level), which accounted for about 13.9% of India's merchandise exports to the USA. In these products, analysis of unit value of exports indicates that India is expected to remain price competitive in the USA's market, despite a 50% hike in tariff.

Major Sectors where Exports are Expected to Remain Competitive

HS Code	HS Description	Share in India's Exports to USA (FY 2025)	Share of Exports Exempted from Tariffs	Share of Exports that Would Remain Competitive despite Tariffs[2]	Share of Exports that would be Uncom-petitive
71	Gems and Jewellery	11.5	0.2	60.3	39.5
42	Articles of leather	0.9	0	55.4	44.6

Sources: Ministry of Commerce and Industry, ITC TradeMap, Whitehouse. gov, Exim Bank Research

Select Export Categories to be Negatively Affected: As per Exim Bank's estimates, the USA's tariff hike is expected to negatively affect India's exports of over 4,038 products (at HS 6-digit level)

[1] Based on analysis of unit value price of Indian goods compared to the average unit value price of the USA's imports of the product
[2] Ibid.

where India's price competitiveness is expected to be significantly impacted. India's exports of these products accounted for 56.2% of India's merchandise exports to the USA, valued at nearly US$ 51.3 billion in 2024. India's exports of these products could potentially decline by (-) 17.0% during 2025[3]. Some of the sectors that are expected to witness a sharp decline in exports from India include machinery and mechanical appliances, textiles, automotive, articles of iron and steel, furniture, and marine products, among others.

Major Sectors where Exports are Expected to Be Negatively Affected

HS Code	HS Description	Share in India's Exports to USA (FY 2025)	Share of Exports Exempted from Tariffs	Share of Exports that Would Remain Competitive despite Tariffs*	Share of Exports that would be Uncom-petitive
84	Machinery and Parts	7.7	0	15.9	84.1
73	Articles of iron or steel	3.6	0	24.5	75.5
63	Other made-up textile articles	3.4	0	0.4	99.6
62	Apparel and clothing (not knitted)	3.1	0	3.7	96.3
61	Apparel and clothing (knitted)	3.1	0	0.3	99.7
87	Transport Vehicles	3.0	0	20.3	79.7
3	Fish and crustaceans	2.4	0	0.7	99.3
39	Plastics and articles	1.9	11.6	6.0	82.4
57	Carpets and floor coverings	1.4	0	0.0	100
38	Miscellaneous chemical products	1.4	15.6	5.9	78.5
94	Furniture	1.3	0	2.0	98
68	Articles of stone and plaster	1.1	0	7.6	92.4
90	Optical, photographic, equipment	1.1	0	19.7	80.3
40	Rubber and articles	1.1	0.5	21.6	77.9
76	Aluminium and articles	1.0	0	14.4	85.6
16	Preparations of meat and fish	0.7	0	0.0	100
72	Iron and steel	0.7	20.7	1.2	78.1
33	Essential oils	0.6	0	42.2	57.8
48	Paper and articles	0.5	0.2	23.2	76.6

Sources: Ministry of Commerce and Industry, ITC TradeMap, Whitehouse.gov, Exim Bank Research

Overall Impact on Exports: India's overall exports to the USA is likely to sustain a y-o-y growth of 6.1% during 2025. This is because nearly 43.8% of India's exports to the USA is expected to remain insulated from the tariff hike. This includes the exempted products as well as products where India is expected to remain price competitive. Further, exporters have frontloaded shipments to the US market.

Overall Impact based on Export Orientation, Dependence on US Market and Impact on Exports: The dependence of Indian exporters on the US market for each product category and the export orientation of the sector has been mapped to understand the overall impact on the sectors. On an overall basis, marine products, characterised by both high export orientation as well as high dependence on the USA market is expected witness a high impact of the tariff hike by the USA. On the other hand, sectors like pharmaceuticals, organic chemicals, petroleum products and electronics are likely to witness low impact, as these are exempted from the tariff hike. Among the non-exempted sectors, automotive and non-ferrous metals sector are also expected to witness low impact, owing to the relatively lower export orientation and relatively less dependence on the USA market. The remaining sectors are expected to witness moderate impact of tariff hike.

LOW OVERALL IMPACT

- Non-Ferrous Metals and products
- Auto and Auto Components

MEDIUM TO HIGH OVERALL IMPACT

- Marine Products
- Gems & Jewellery
- Articles of Leather
- Textile and Apparel
- Rubber Products
- Misc. Chemical Products
- Wood and Wood Products
- Plastic Products
- Electrical and Non Electrical Machinery
- Ferrous Metals and Products
- Paper and articles
- Cement and Granite
- Misc. Manufactured articles

[3] Calendar Year

India's Need to Secure Critical Minerals for Energy Transition

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

Critical minerals broadly refer to non-fuel minerals that fulfil the criteria of holding both, economic significance and a high risk of supply disruption. These minerals that include, inter alia, copper, lithium, nickel, cobalt, graphite and rare earth elements (REE), are vital inputs to key industries of any economy like telecommunications, electronics, defence and aerospace. They also facilitate shift towards a low carbon economy given their role in the production of mineral-intensive clean energy technologies like wind turbines, solar panels, batteries for electric vehicles (EV), to name a few.

Currently, a surge in the global demand for critical minerals - driven by widespread adoption of *'Net Zero'* commitments across countries - is intensifying the fragility of an already strained supply chain. This vulnerability is largely due to the heavy geographic concentration of mineral mining and refining in a few countries, particularly in China. This calls for mineral-import dependent countries like India which aims to decarbonise energy to 50% and achieve 500 gigawatt (GW) of fossil fuel-free generating capacity by 2030, to strengthen efforts towards securing its critical minerals supply requirements with growing urgency.

Global Scenario

In 2023, the demand for critical minerals saw a robust jump – lithium grew by 30%, while demand for nickel, cobalt, graphite and REEs all saw growth in the range of 8%-15%. In the same year, the total global demand for critical minerals used for the production of clean energy technologies – the largest growth driver for critical minerals sector - amounted to 10,111.5 kilotons (kt). In this, copper recorded the highest demand at 6371.7 kt with electricity networks and solar PV being the highest consuming segments. Lithium saw almost 60% of its global demand originating from the adoption of clean energy technologies alone, led by the EV industry.

On the supply side, there remains a high geographic concentration in a handful of countries, both in terms of critical mineral mining as well as refining. China alone plays an outsized role, particularly in the midstream and downstream portions of the critical mineral supply chain. It remains the world's largest mineral refining hub and the largest importer of critical minerals. China accounts for 100% of the refined supply of natural graphite and dysprosium, 70% of cobalt, and about 60% of lithium and manganese supply, reflecting its dominance in the industry.

Indian Scenario

In 2023, the Ministry of Mines through an inter-ministerial committee, identified 30 critical minerals for India based on select parameters, under the broad determinants of *'economic importance (EI)'* and *'supply risk (SR)'*. Accordingly, cobalt, lithium, nickel and graphite, among others, have been identified to be of both, high EI as well as high SR. Out of these 30 critical minerals, India shows 100% import dependency for 10 minerals.

Against this background, the Government of India is broadly pursuing two policy paths to build resilient critical mineral supplies – one of increasing domestic exploration and mining, and the other of acquiring overseas mineral assets. The Union Budget 2025-26 identified the mining sector as one of the 6 domain areas for transformative reforms in the next 5 years. The elimination of Basic Customs Duty (BCD) on scrap and waste of 12 critical minerals was also announced. In January 2025, the Union Cabinet approved the launch of the National Critical Mineral Mission (NCMM) with an expenditure of ₹ 16,300 crore and an expected investment of ₹ 18,000 crore by Public Sector Undertakings (PSUs), and other entities. The Mines and Minerals (Development and Regulation) Act, 1957 was also amended in 2023 to increase exploration and mining of critical and deep-seated minerals, through greater private sector participation, auctioning mineral concessions for critical minerals, and by introducing *Exploration Licences* (EL) to attract foreign direct investment (FDI), among others. As of March 2024, the Central Government, through 4 tranches, has successfully auctioned 24 mineral blocks out of the 48 blocks put up for auction spread across the country with Arunachal Pradesh seeing the maximum number of auctioned blocks. The Government has also set up Khanij Bidesh India Limited (KABIL) specifically to guide India's overseas critical mineral acquisition.

In FY 2024, India imported critical minerals from a variety of sources like, but not limited to, lithium from Belgium and Ireland, nickel from Australia and Japan, cobalt from China and Belgium, and graphite from Madagascar and China. It is worth noting that India turned into a net importer of copper only post 2018.

Recommendations & Way Forward

Develop Mineral Recovery and Recycling Market

India may focus on developing its mineral recovery and recycling market with the dual objective of creating a secondary source of mineral supply as well as minimising the adverse environmental and social impacts of sustained mineral mining. A focused policy on 'urban mining' can be explored given the rise in e-waste generation in India to recover key critical minerals from mobile phones, plastic and construction waste. A Production Linked Incentive (PLI) scheme may also be introduced to fast-track mineral recycling along with other interventions like increasing investments in recycling infrastructure and explore direct subsidies to mineral recycling companies.

Build on Mineral Processing Technology

The high degree of geographical concentration for mineral processing necessitates India to build its domestic large-scale mineral processing capacity and downstream value-addition technologies. The capital-intensive nature of mineral processing technologies requires scaling up of investments for mineral processing facilities. Gaining expertise in processing through technology transfers from leading industry players, or the joint development of these facilities in proximity to India's overseas mineral assets, is also crucial. Setting up of 'Critical Mineral Processing Parks' in mineral rich states will also assist in scaling up India's mineral processing capacity and reduce import reliance.

Accelerate International Partnerships

Partnering with mineral-rich countries across the different stages of the critical minerals supply chain is vital for India. A national stockpiling system for critical minerals may be introduced to safeguard mineral supplies, either bilaterally or with friendly regional blocs. Other potential areas of partnership may include offtake agreements and other agreements pertaining to areas of mineral exploration and mining. Infrastructure projects like the Lobito Corridor rail link can also be capitalised on to form international partnerships by easing potential logistical issues in the supply chain.

Empowered Committee for Overseas Critical Minerals Supply

An Empowered Committee is key to making prudent decisions and direct the required policy actions, especially when it comes to overseas critical mineral transactions of India. Presently, while several PSUs and related offices report to the Ministry of Mines, other entities of the sector like IREL (India) Limited, functions under the administrative control of the Department of Atomic Energy. Therefore, such a committee would warrant that strategic issues related to critical minerals is deliberated on with consensus drawn amongst the multiple related ministries representation.

Use of Emerging Technology for Critical Minerals

India should focus on integrating emerging technologies like Internet of Things (IoT), Artificial Intelligence (AI), and Machine Learning (ML) into its mining sector to enhance efficiency and productivity across the critical mineral supply chain. The use of these advanced technologies has the benefits of real time analysis of geological data, enhanced compliance with Environmental, Social, and Governance (ESG) standards, predictive maintenance of mining equipment, transparent traceability of mineral supplies, and increased worker safety due to automation, to name a few. Application of emerging technologies in the proposed Critical Mineral Processing Parks will assist in optimisation and centralization of the critical minerals supply chain in India.

Improve ESG Framework for India's Mining Sector

With growing emphasis on sustainable industrial practices, India must prioritise improving ESG principles within its mining sector. Given that global investors are pushing for greater adoption of green energy solutions and alignment with global standards on part of mining companies, India can introduce directives to enforce stricter adherence to ESG principles to attract foreign investments into this sector. Setting up of a dedicated working group that focuses on drawing up sector specific principles may also be fruitful.

Focus on Funding Mechanisms

India could pursue public-private partnerships (PPP) setup to fund mining projects both domestically and overseas through say, a Special Purpose Vehicle (SPV) to isolate financial risks. Other alternate funding mechanisms may include offtake agreements with private companies that offer advanced technology for production and mineral recycling; an innovation fund for mineral processing, in particular, given the R&D intensive nature of this stage of supply chain; and the use of green bonds to catalyse the mineral recovery and recycling market. Countertrade mechanisms may also be explored by India with mineral rich economies for which a comprehensive countertrade policy may be formed.

Thus, as highlighted, critical minerals are essential components for the purposes of economic growth and national security, and the limited access to these minerals leave economies exposed to risks of vulnerable supply chains. This propels India to bolster its efforts towards building a resilient critical mineral supply base to achieve growth across industries deemed to be vital for its economic sovereignty as well as smoothen its transition towards a low carbon economy. ■

Exploring Trade and Investment Relations Between India and Central Asia

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

Central Asia, comprising Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, is a rapidly developing region with a combined GDP of US$ 458 billion and a population of 79 million in 2023. Despite a shared Soviet past, Central Asian countries remains economically and culturally diverse, with regional growth surpassing global and emerging market trends. Kazakhstan leads in economic output and living standards, while Uzbekistan is the most populous. Kazakhstan, Uzbekistan, and Turkmenistan dominate regional GDP and export hydrocarbons, whereas Kyrgyzstan and Tajikistan primarily export metals and ores. All five nations maintain open economies, with Kyrgyzstan being the most trade exposed.

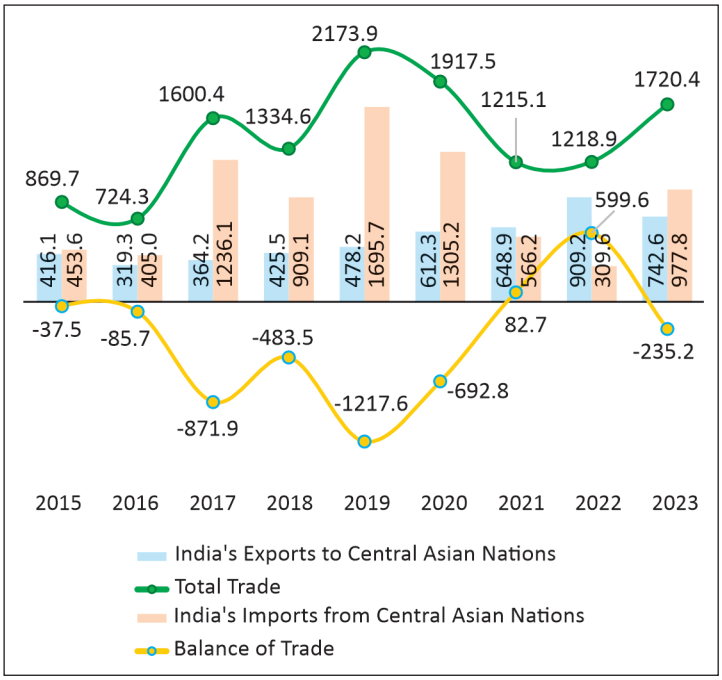
India, home to 1.4 billion people, became the world's most populous nation and ranked fifth globally by nominal GDP at US$ 3.6 trillion in 2023. It was the fastest-growing major economy that year, expanding by 8.2%, driven by strong domestic demand and investment. India plays a significant role in global trade, ranking 17th in merchandise exports and 8th in imports, contributing 2.3% to the total value of global merchandise trade.

India's Bilateral Trade Relations with Central Asian Countries

Central Asia's strategic location acts as a land bridge between Asia and Europe imbues it with undeniable geopolitical significance for India. Central Asia's wealth of energy resources and minerals, along with its fertile yet underutilized farmland, offers India major opportunities. India could meet its energy and industrial needs while also boosting agricultural collaboration, especially by applying its advanced agribusiness expertise to transform farming in the region. This partnership encompasses a broad spectrum of shared interests, including security, energy, and other economic and commercial opportunities.

India's trade relationship with Central Asian nations has exhibited an upward pattern, ranging between US$ 490.1 million in 2010 and US$ 1,720.4 million in 2023. Notably, Indian exports have demonstrated greater consistency throughout the observed period, increasing from US$ 272.3 million in 2010 to US$ 742.6 million in 2023, achieving an annual average growth rate (AAGR) of 10.6% during this period. In contrast, India's imports from Central Asia displayed greater volatility during this timeframe, increasing from US$ 271.8 million in 2010 to US$ 977.8 million in 2023 with an AAGR of 39.6%. India's trade balance with the region showed a small surplus of US$ 54.5 million in 2010, but shifted to a deficit from 2014 to 2020, peaking at US$ 1.2 billion in 2019. Post-pandemic, this reversed with surpluses in 2021 and 2022, driven by rising exports.

India's Bilateral Trade with Central Asian Nations (US$ million)



Source: ITC Trade Map and India Exim Bank Research

Pharmaceutical products accounted for 37.9% of the total exports to the Central Asian region in 2023, followed by electrical machinery and equipment (12.1% of the total exports), machinery and mechanical appliances (10.4%), edible meat (5%), and fruits and nuts (3.2%), among other goods. Mineral fuels and oils were the major commodity imported by India, accounting for 35.3% of total imports from the region, followed by fertilizers (21.3% of total imports), inorganic chemicals (13%), salts, lime and cement (7.2%) and ores, slag, and ash (7.1%) in 2023.

India's trade dynamics with Central Asia have shifted notably over the past decade. Uzbekistan became the top export destination, accounting for 45.3% of India's exports to the region, overtaking Kazakhstan, which held the lead until 2017 and now stands at 35%. Tajikistan, Kyrgyzstan, and Turkmenistan follow with smaller shares. India's imports from Central Asia in 2023 were led by Kazakhstan, contributing 64.5%. Turkmenistan followed with 21.7%, while Uzbekistan accounted for 10.6%. Tajikistan and Kyrgyzstan had smaller shares of 2% and 1.2%, respectively.

India's Bilateral Investment Relations with Central Asian Countries

According to the Financial Times' fDi Markets, from January 2010 to December 2023, India was the 16th-largest investor in Central

Asia, with a total envisaged capital expenditure of US$ 1.5 billion in 10 projects. Kazakhstan was the top recipient, attracting 78.4% of Indian investment during this period. Tajikistan followed with 17.8%, and Uzbekistan received 3.7% of the total investment from India.

The Central Asian resource sector proved attractive to Indian investors, with the coal, oil, and gas industry receiving the largest share of investment at US$ 1,014.7 million. Renewable energy followed at a distant second with US$ 276.6 million. Other sectors attracting Indian investment, though to a lesser extent, included textile, pharmaceuticals, financial services, and hotels and tourism.

FDI inflows into India from Central Asia have been modest. According to the Ministry of Commerce and Industry, GoI, FDI statistics from April 2000 to March 2024, Kazakhstan invested around US$ 27.3 million in India. This was followed by Tajikistan (US$ 1.4 million), Kyrgyzstan (US$ 0.003 million), and Turkmenistan (US$ 0.002 million). According to the statistics, Uzbekistan has no investments in India so far.

Key Policy Recommendations

India and the Central Asian countries offer natural synergy for expanding economic cooperation due to their bilateral complementarities across a spectrum of sectors. India's bilateral engagements with countries in Central Asia have been modest owing to limited connectivity, when compared to other partner countries of the region. This relationship could, however, be bolstered by collaboration in sectors like agribusiness, renewable energy, healthcare and pharmaceuticals, IT and ICT, besides the traditional oil and gas sector.

Enhancing Trade Based on Identified Potential

Based on a structured analysis of the import-export basket at the 2-digit HS code level, the study has identified significant opportunities to enhance bilateral trade between India and Central Asia. India's export potential to the region lies in sectors such as electrical equipment, machinery, transport vehicles, and pharmaceutical products, which align with the import demand of Central Asian economies. On the other hand, Central Asia's export potential to India lies in mineral fuels and oils, precious stones and metals, iron and steel, and inorganic chemicals—commodities that support India's industrial and energy requirements. These complementary trade profiles present a strategic opportunity to deepen economic cooperation and diversify trade flows between the two regions.

Facilitation of Market Entry through Joint Ventures and Technological Collaboration

To boost market access for Indian companies in Central Asia, awareness of Indian products and services must be enhanced through joint ventures and technical collaborations. Key sectors include petrochemicals, renewable energy, textiles, tourism, agriculture, healthcare, pharmaceuticals, chemicals, engineering, logistics, and transportation. Knowledge transfer and investments are essential to build a strong image. India and Central Asian nations should develop a comprehensive industrial cooperation plan to support joint projects in areas of mutual interest and foster long-term economic partnerships.

Enhancing Access to Trade Finance

According to ADB, 57% of trade finance applications by MSMEs in Central Asia are rejected, compared to 33% in other Asian economies. Limited correspondent banking, worsened by global bank withdrawals since 2019, hampers cross-border payments. This reflects capacity challenges in local banks. To address the gap, development finance institutions could introduce financial instruments or credit enhancement mechanisms such as risk participation and transaction guarantees to support non-traditional confirming banks and improve access to trade finance in Central Asian countries.

Trade and Border Crossing Facilitation in the Central Asian Republics

Trade and border-crossing facilitation in Central Asia plays a crucial role in promoting economic growth in the region, as Central Asia is located at the crossroads of major trade routes in the Eurasian region. Improving trade facilitation measures and developing transport infrastructure could provide Central Asia with rapid economic growth, intensify mutual trade, capitalize on its strategic location, integrate the region into the global supply chain, and help it to become a vibrant transport and logistics hub.

Improving Transport and Logistics

Transport and logistics remain major challenges in India–Central Asia trade, with no operational land routes and limited air connectivity, suitable only for high-value or perishable goods. Until 2022, most cargo moved via Suez and Black Sea ports. The expansion of the International North-South Transport Corridor (INSTC), especially its Eastern route through Iran, Turkmenistan, and Kazakhstan, aims to improve connectivity to the landlocked region. This development is expected to attract global investments, enhance prosperity, and promote sustained growth. The INSTC also has the potential to transform partner nations into key logistics hubs, significantly boosting regional trade and enabling India and Central Asia to access each other's growing markets.

To boost bilateral trade and investment, Central Asia needs hard infrastructure upgrades like railway electrification, road modernization, logistics hubs, and improved border crossings. Attracting investment in transport infrastructure is key. Additionally, enhancing soft infrastructure through harmonization, coordination, and digital transformation can significantly increase economic engagement and regional opportunities. ■

India's Defence Equipment Industry

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

The world today is increasingly becoming multipolar, marked by a sense of uncertainty in the geopolitical landscape. The importance of developing robust defence capabilities has heightened, driven by emerging technologies that are reshaping the conventional norms. Governments are allocating more resources to modernise military capabilities.

The global military expenditure rose to a record high of US$ 2.7 trillion in 2024, recording a 9.4% increase from the previous year. Military spending increased in all world regions, with particularly rapid growth in both Europe and the Middle East. The top five military spenders—the US, China, Russia, Germany, and India—accounted for 60% of the global spending, with combined spending of US$ 1.6 trillion[1]. India's expenditure as a percentage of GDP in 2024 stood at 2.3% which was higher than China and Germany, but lower than countries like Saudi Arabia, Russia, and US.

Top Countries by Military Expenditure

Country	Expenditure in 2023 (US$ billion)	Expenditure in 2024	Y-o-Y Change	Expenditure as % of GDP in 2024
US	916.0	(US$ billion)	8.9%	3.4%
China	296.8	313.7	5.7%	1.7%
Russia	109.2	149.0	36.4%	7.1%
Germany	67.3	88.5	31.5%	1.9%
India	82.3	86.1	4.7%	2.3%
UK	75.3	81.8	8.6%	2.3%
Saudi Arabia	77.8	80.3	3.3%	7.3%
Ukraine	64.9	64.7	-0.3%	34.5%

Source: Stockholm International Peace Research Institute (SIPRI) Database

Defence Equipment Industry In India

India recognises that developing and integrating defence manufacturing and related technologies, though a complex and expensive process, is crucial for enhancing national security and self-reliance. For bolstering the defence equipment industry, the Government is focusing on rapid indigenisation of the sector through greater procurement from both public and private players in the country.

Production: India's defence production has been on an upward trajectory during FY 2016-17 to FY 2024-25, with total production growing from ₹ 740.5 billion in FY 2016-17 to ₹ 1.5 trillion in FY 2024-25. India's defence production is predominantly attributable to the public sector entities. In FY 2024-2025, at ₹ 1166.1 billion, public sector entities including joint ventures, accounted for a share of 77.4% in India's defence production, followed by production of ₹ 339.8 billion by the private sector.

India's Defence Production (in ₹ billion)

Year	Old Defence Public Sector Under-takings	New Defence Public Sector Under-takings	Other Public Sector Under-takings/Joint Ventures	Defence Private Companies	Total Production
FY 2017	404.3	148.3	47.0	141.0	740.5
FY 2018	434.6	148.3	51.8	153.5	788.2
FY 2019	453.9	128.2	55.7	173.5	811.2
FY 2020	476.6	92.3	63.0	158.9	790.7
FY 2021	467.1	146.4	60.3	172.7	846.4
FY 2022	557.9	119.1	72.2	199.2	948.5
FY 2023	634.7	170.0	71.4	210.8	1086.8
FY 2024	744.3	195.5	67.7	266.8	1274.3
FY 2025	866.0	218.2	81.9	339.8	1505.9

Source: Department of Defence Production, Ministry of Defence

Among the products manufactured in India are armoured vehicles; heavy vehicles; fighter aircrafts and helicopters; warships; missiles; electronic equipment; and earth moving equipment.

Foreign Trade: India's defence exports touched ₹ 23,622 crore in FY 2024-25, a 12% rise from the previous year. Wide range of items from ammunition, sub-systems/systems and parts & components have been exported to around 80 countries in FY 2024-25. India has set a defence export target of ₹ 50,000 crore by FY 2028-29.

India's Defence Exports (in ₹ Cr)

Year	Export Authorisations to Private Companies	SCOMET Issued by DGFT	Contract Value and Other Exports by DPSU	Total Exports
FY 2017	194.4	0.0	1327.5	1521.9
FY 2018	3163.2	0.0	1519.2	4682.4
FY 2019	9812.9	0.0	932.9	10745.8
FY 2020	8007.8	203.0	904.7	9115.6
FY 2021	7271.3	178.9	984.6	8434.8
FY 2022	5965.0	6.7	6842.8	12814.5
FY 2023	9050.8	351.3	6516.0	15918.2
FY 2024	13119.0	2090.4	5873.9	21083.4
FY 2025	13968.4	1264.3	8389.3	23622.0

Source: Department of Defence Production, Ministry of Defence

[1] SIPRI Database

India's exports of aerospace equipment increased to US$ 7.4 billion in 2024, a substantial rise from US$ 1.9 billion in 2023. The imports rose from US$ 11.8 billion in 2023 to US$ 12.6 billion in 2024. India's exports of powered aircraft equalled US$ 6.0 billion in 2024 while the imports were to the tune of US$ 11.7 billion, leading to a trade deficit of US$ 5.7 billion in powered aircraft. In aircraft parts and spacecraft, India had a trade surplus of US$ 601.8 million with exports at US$ 1.4 billion and imports at US$ 782.6 million.

Boosting India's Defence Equipment Manufacturing and Export Capabilities

To fulfil the vision of self-reliance and achieve target of ₹ 3 trillion in production and ₹ 500 billion in exports by FY 2028-29, dedicated focus needs to be accorded to India's defence equipment industry

- ***Enhancing Strategic Engagement with Potential Countries:*** Several countries across Africa, Middle East, Europe, and South and Southeast Asia offer unexplored markets for India's defence systems. With military advanced economies, India may leverage export opportunities by focusing on supplying defence-related parts and sub-systems/components as they often outsource the labour-intensive parts of the defence supply chain to developing countries. With developing nations, India has the potential to supply indigenously manufactured complete systems and defence platforms.

  Accordingly, India may push for securing export contracts for its major defence systems like the Light Combat Aircraft Tejas, BrahMos cruise missile, Akash Surface-To-Air Missile systems, among others to developing countries. India may also prioritise pushing for greater exports in the naval space. Export potential of India's naval systems like Offshore Patrol Vessels and Autonomous Underwater Vehicle (AUV), among others may also be focused on.

- ***Enabling Greater Export Facilitation:*** There is an ongoing proposal towards setting up a much-needed export promotion council to accelerate India's defence export growth and provide holistic support to the industry. To enhance its effectiveness, the council could focus on capacity building through workshops and seminars and could serve as a one-stop hub for defence trade information. Establishing export help desks in Indian embassies and establishing a robust ecosystem among the domestic stakeholders like DPSUs, private manufacturers, and the MoD would further bolster its role.

- ***Developing Vendor Development Programmes:*** The MoD may formulate a Vendor Development Programme that identifies, assesses, and enlists potential vendors through a meticulous assessment process encompassing evaluation criteria like field visits, evaluation of infrastructure, technology capabilities, production capacity, and quality control measures. The identified potential vendors may then be classified based on their capabilities and the list such prepared may be made accessible to the relevant stakeholders and serve as a comprehensive database for easy reference during vendor selection.

- ***Increasing Budgetary Allocation for R&D in Defence:*** India's defence R&D constituted a share of about 5.9% its total defence budget in 2021-22, much lower than the global norm of 10-15%. Further, in the Union Budget 2024-25, the budgetary allocation for Defence Research and Development Organisation (DRDO) accounted for less than 4% of the total defence budget, a concern flagged by the Standing Committee on Defence (2023-24). Given DRDO's crucial role as the R&D wing of MoD, increased budgetary allocation for DRDO's R&D operations are imperative for fostering innovation and enhancing India's indigenous defence capabilities.

- ***Encouraging Cutting Edge Dual-use Technologies:*** There is a concerning gap in R&D intensity in India's defence industry, as demonstrated by a notably low R&D intensity of Indian defence firms (1.2%) vis-à-vis the global average (3.4%)[2]. To cultivate a more vigorous R&D climate at the firm level, the Government may encourage more companies to explore and invest in emerging cutting-edge technologies such as cybersecurity technologies, augmented reality and virtual reality, robotics and automation, among others.

- ***Designing Defence-specific Financing Programmes:*** Financial institutions (FIs) may offer tailored financial programmes specifically designed for defence companies to address their unique financing needs. These may include extending early-stage support for defence companies, including campus-based startups. The FIs may partner with incubators engaged with defence companies to identify and support promising companies. Besides given that many startups typically lack the financial literacy necessary to identify and leverage appropriate funding products, FIs may fill this knowledge gap by incorporating financial advisory services in the support offered. Furthermore, for companies to scale their operations, invest in research and development, and expand to new segments, FIs may offer growth finance in the form of long-term debt that is mapped with their growth cycles.

- ***Encouraging Financing Support by Defence OEMs to their Suppliers:*** Given the limited financial support offered by defence OEMs to their suppliers, the Government may facilitate a conducive framework wherein the OEMs, in collaboration with banks could offer structured financing programs, to meet the financing needs of the suppliers such as longer payment terms for cash flow management, guarantees etc. These practices are commonplace in countries like the USA. Supplier credit programmes wherein OEMs offer loans to suppliers; performance-based incentives; revolving credit lines; equity investments; and establishment of factoring arrangements of OEMs with factoring institutions are some of the ways OEMs may provide financial support to their suppliers and in return benefit from more robust supply chains. ■

[2] FAST India and IIFL Securities. State of Industry R&D in India. 2024.

Global Integration and the Effects of Protectionist Measures

Export-Import Bank of India (India Exim Bank) instituted the BRICS Economic Research Annual Citation (BRICS Citation) in 2016. The objective of the Citation is to promote advanced doctoral research in international economics, trade, development and related financing, by nationals of any of the member nations of BRICS, from any University/ educational institution globally. This study is based on the doctoral dissertation titled "Global Integration and the Effects of Protectionist Measures" selected as the winning entry for the India Exim Bank BRICS Economic Research Annual Citation (BRICS Citation) 2025, written by Dr. Anirban Sanyal, currently Assistant Adviser, Reserve Bank of India, Mumbai. Dr. Sanyal received his doctoral degree in 2023 from the University of California Santa Cruz, USA.

The World as a "Global Village" was first envisaged by Marshall McLuhan, a media and communication theorist, in 1964. In today's world, we live in a global economy inter-connected by trade, capital flows and technology. The unprecedented integration among economies which started since 1990 was blamed for contagion effects of the global financial crisis in 2008 (IMF, 2012). Different countries responded with various policy measures to counter the spillover impacts. While import tariffs were used as policy tool to protect domestic interests (UNCTAD, 2013), capital controls along with other macro prudential measures, were used to safeguard domestic economies from global financial uncertainties (Korinek & Sandri, 2015). The study focuses on the implication of such policy measures on the inter-connectedness of economies, mainly highlighting the impact of tariffs on trade and the effect of capital control measures on international capital flows. The chapters of the study are briefly described in the following section.

The first chapter of the study focuses on the empirical evidence of trade diversion from the recent trade war between the US and China for India. The recent trade dispute between the US and other trade partners resulted in higher tariffs imposed by the United States Trade Commission on other trade partners. The tariff imposition happened between 2018 and 2020. A majority of tariffs during this trade war targeted imports from China. China retaliated with similar large tariffs on significant imports from the US. This opened up an opportunity for other trade partners like India. In this chapter, the trade diversion effect on India is evaluated on account of the higher tariffs between US and China. The empirical analysis studies the change in trade intensity between 2017 and 2019 using detailed product level trade flows of India with the US and China. The average change in trade intensity to India is estimated using a difference-in-difference regression. Due to the short-term nature of the trade war tariffs, the average effect of trade intensity can be grossly under-estimated due to differing levels of elasticity of substitution across different product categories. Hence, the framework is refined with triple interactions by introducing product level heterogeneity in the specification. For that, three broad categories of product classifications is considered namely (i) final goods vs intermediate goods (ii) homogeneous goods vs differentiated goods and (iii) highly elastic vs less elastic goods. The intermediate goods, used for final goods production, are not easily substitutable compared to final goods. Hence, one can expect that any short run effect of trade diversion is likely to increase trade intensity in final goods products, compared to intermediate goods products. Similarly, differentiated goods are hard to be substituted for and are the less elastic goods. The empirical findings suggests that India benefitted from the higher tariffs on China as India's export intensity increased to the US. However, no such effect was observed in India's export to China. This finding suggests that Indian manufacturers benefitted from the higher tariffs on China due to similar or comparable comparative advantages in products targeted under US tariffs on China. However, India does not have similar comparative advantages with the US manufacturers on products targeted by China (like soybean, agriculture products, and electronics, among others). The empirical findings of average impact on imports was not statistically significant. Further, the findings suggest significant product heterogeneity in trade diversion for India. More specifically, India's export intensity to the US increased in final products, homogeneous goods and highly elastic goods.

The second chapter analyzes changes in trade policy uncertainty (TPU) and its effect on global trade flows using a structural model. The recent literature on the trade war observed that different trade partners experience varying degree of trade diversion on account of higher tariffs between US and China. During the same period of trade war, the trade policy uncertainty index scaled to historical high values due to lack of clarity on the trade war scenarios. Researchers have attributed the heterogeneity in trade diversion to the change in trade policy uncertainty. In this chapter, the impact of trade policy uncertainty is examined on global trade flows by introducing trade policy uncertainty in a

multi-country Ricardian trade model. The proposed model uses multi-country multi-sector trade model proposed by Eaton & Kortum (2002) and builds in the uncertainty component. The trade policy uncertainty is drawn from two sources - first, the uncertainty around trade policy changes and second, stochastic uncertainty around the tariff sizes. The trade policy uncertainty affects the price distribution which translates to demand uncertainty. The rationale behind using these two sources of uncertainty is drawn from the experience in global protectionism like Brexit and US trade war. The policies adopted under these episodes increased uncertainty about trade environment as the trade partners were unsure about the possibility of trade policy changes and the effect of the trade policy changes on trade costs. Such uncertainties in trade policy creates challenges for trade partners due to the high adjustment cost in production planning. The trade partners make their production plans when there is lack of clarity about the future trade policy and allocates the factors of production accordingly. However, the trade policies are announced at later stage when it becomes difficult to modify the factor allocations. The trade policy uncertainty is introduced in the model by adding a distribution of beliefs about future trade policy. Each partner has beliefs about the probability of a trade policy change and the possible change in tariff sizes on account of the policy change. The stochastic nature of tariff sizes and the probability of the policy change translates into the trade partners' assessment of final demand conditions which can be very different from actual tariff scenario (after trade policy is announced). The model establishes the effect of trade policy uncertainty using analytical derivations and quantitative calibration of the model. The analytical derivations shows that the possible heterogeneity in trade diversion is driven by the stochastic choice of trade partners about future policy. Further, it also provides the boundary conditions of different trade diversion scenarios given trade partners' belief. Later, the model is extended to the analytical model to full scale calibration using two stage approach. The trade policy uncertainty is calibrated under different scenarios of tariff sizes and probability of policy changes. Lastly, a full scale model is demonstrated to reciprocate other scenarios where uncertainty may appear due to other externalities like lockdown imposed by China.

The third chapter investigates the heterogeneous effect of capital controls on the gross capital flows across sectors. Capital controls are macro-prudential policies adopted by different countries to safeguard their domestic interest from the volatility of capital flows. Often times these policies include taxation on foreign investments, volume restrictions on foreign inflows, legislative steps on foreign investment etc. Generally, advanced economies invest in emerging markets in search for higher yields. However, as the domestic and global investment conditions deteriorate in the destination countries, the direction of capital flows reverses towards advanced economies and other emerging market economies. Such sudden reversal of the foreign capital flows destabilizes the domestic currency, worsens the trade balance, widens the debt burden and de-stabilizes the growth potentials of the emerging market economies. Most Latin American economies and South-East Asian economies faced currency crisis on account of the volatile capital flows during 1990's. In response, the International Monetary Fund (IMF) prescribed capital controls as suitable macro-prudential policy measures to safeguard the emerging market economies from the volatile capital flows from advanced economies. Capital controls are used as macro-prudential policy to safeguard domestic economy from the volatility of external capital flows. The effects of capital controls are studied across many dimensions. Beyond the intended consequence of capital controls, the indirect effects of such policies are often highlighted by the investors. The survey of investors, carried out by Forbes et. al. (2016), observed that the capital control policies send a signal to the global investors about the state of domestic economy. Such signalling effect of capital control interacts with the intended effect and can lead to heterogeneous outcome on gross capital flows across different institutional sectors. The institutional sectors, namely government, banks and private corporates, have different risk profiles and the portfolio allocations across these sectors are driven by the risk profile heterogeneity. Following investors assessments about the domestic economy, one can expect that the signalling effect of capital controls can trigger heterogeneous effects on capital flows across these institutional sectors.

Further, the framework is extended to examine such heterogeneity in the direct and spillover effects of capital control on gross capital flows using cross- 15 country international capital flows data across various sectors. The direct effect of capital control captures the effect of capital control on gross capital flows across these sectors. The spillover effect, on the other hand, is mainly driven by the network effect of capital flows restrictions on capital flows among different recipient nations. In this chapter, a theoretical underpinning of the possible signalling effects is provided and then, the reduced form is validated for identifying the heterogeneity using sector level global capital flows data. First, the signaling effect of capital controls is introduced in a portfolio choice model with a multi-country set up to demonstrate the possible heterogeneity in the direct effect and the spillover effect on gross capital flows as one country increases capital taxation on capital inflows. The direct effect and spillover effect of capital control can be heterogeneous on capital inflows due to the signalling effect of capital controls. To validate the heterogeneity, the spatial regression framework is estimated on quarterly capital flows data to different institutional sectors in a spatial econometric framework. The empirical findings indicate that the domestic direct effect of capital controls moderates portfolio inflows to the public sector whereas the portfolio inflows to banks and the corporate sector does not respond to the domestic capital control measures. The spillover effect of capital controls increases capital inflows to all sectors in other countries. ■

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 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.

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 India Exim Bank as the operating vehicle of the GOI.

Under the LOCs, India 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).

As on September 21, 2025, the Bank has extended 288 LOCs, covering 62 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over USD 26.12 billion and INR 4,850 crore (pertains to Rupee denominated Umbrella LOC to Govt. of Maldives), available for financing exports from India. LOCs are thus an effective instrument for promoting and facilitating India's exports of projects, goods and services.

For further information on India Exim Bank Lines of Credit, please contact:

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Success Story

India Exim Bank's Government of India supported Line of Credit (LOC) of US$ 23.37 million to the Government of the Cooperative Republic of Guyana.

Project Details:

India Exim Bank has extended a Government of India supported LOC of US$ 23.37 million to the Government of the Cooperative Republic of Guyana for procurement of two Hindustan 228-201 aircraft from Hindustan Aeronautics Ltd. (HAL), the only aircraft manufacturer in India. The scope of the supply contract included, inter alia, supply of two (2) Hindustan 228-201 aircraft, Ground Handling Equipment (GHE), Ground Support Equipment (GSE), Technical Publications, Manufacturer Recommended List of Spares (MRLS), etc. by HAL to the Guyana Defence Force.

Project Cost: US$ 23.37 million

Project Completion: The Project has been successfully completed and the aircrafts were officially commissioned into the Guyana Defence Force (GDF) Air Corps on November 18, 2024.

Prime Minister Mark Phillips along with Indian High Commissioner to Guyana, HE Dr Amit Telang, members of Cabinet and other officials at the launch on Sunday

The Quarter That Was

Contributed by: **Corporate Communications Group**

India Exim Bank announces the winner of the BRICS Economic Research Citation for 2025

In the context of India's Chairmanship of the BRICS Forum during 2016, and under India Exim Bank's Presidency of the BRICS Interbank Cooperation Mechanism (ICM), Export-Import Bank of India (India Exim Bank) instituted the BRICS Economic Research Citation in March 2016. The objective of the Citation is to stimulate and encourage advanced doctoral research on economics related topics of contemporary relevance to the member nations of BRICS. India Exim Bank's BRICS Economic Research Citation 2025 was presented to the Citation winner, Dr. Anirban Sanyal during the 15th BRICS Interbank Cooperation Mechanism (ICM) Annual Meeting hosted by the Brazilian Development Bank (BNDES) in Rio de Janeiro on July 08, 2025 in the presence of heads of member development banks of the BRICS ICM.

The Annual Meeting saw the participation of the heads of member development banks of the BRICS Interbank Cooperation Mechanism viz. the BNDES; State Development Corporation VEB.RF; China Development Bank (CDB); India Exim Bank and Development Bank of Southern Africa (DBSA). Exim Bank's Occasional Paper titled *"Global Integration and the Effects of Protectionist Measures"* based on the Citation winner's doctoral thesis was also released during the Forum at the hands of Ms. Harsha Bangari, Managing Director, India Exim Bank, and Mr. Aloizio Mercadante Oliva, President, BNDES.

India Exim Bank's study highlights the immense opportunities for increasing bilateral economic cooperation between India and Brazil

India Exim Bank's recent research publication titled *"Strengthening India-Brazil Economic Relations through Sustainable Cooperation"*, was released at the hands of Shri Hansraj Singh Verma, Consul General of India in São Paulo and Ms. Harsha Bangari, Managing Director, Export-Import Bank of India, on July 10, 2025, at India Exim Bank's newly opened Representative Office in São Paulo, Brazil. India Exim Bank's first Representative Office in the Latin America and Caribbean (LAC) region was earlier virtually inaugurated by Smt. Nirmala Sitharaman, Hon'ble Minister of Finance and Corporate Affairs, Government of India, during India Exim Bank's Trade Conclave on the theme *'Building Export-led Growth for Viksit Bharat'* on June 24, 2025, in New Delhi.

With India and Brazil being strategic partners sharing wide complementarities, the study also points out that that beyond trade there are immense opportunities for collaboration in mutually rewarding areas such as digital infrastructure, digital payment systems, IT services, research and technological innovation, and sustainable and renewable energy, particularly biofuels. The study suggests that to unlock the potential for increased trade and investment, expanding the scope of the India-MERCOSUR Preferential Trade Agreement into a comprehensive free trade agreement could be considered.

India Exim Bank transfers ₹ 325 crore balance of net profit to Government of India

Ms. Harsha Bangari, Managing Director, along with Mr. Tarun Sharma and Ms. Deepali Agrawal, Deputy Managing Directors, India Exim Bank, presenting the receipt for transfer of balance of net profit of ₹ 325 crore to Smt. Nirmala Sitharaman, Hon'ble Minister of Finance and Corporate Affairs, Government of India, in presence of Shri M. Nagaraju, Secretary, Department of Financial Services, Government of India.

During FY 2024-25, 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 ₹ 3243 crore in FY 2024-25, registering an increase of 29% over the previous year. The Bank's paid-up capital is entirely subscribed by the Government of India.

EDB–India Exim Bank webinar highlights natural synergy and trade finance potential in India–Central Asia economic cooperation

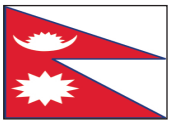
In a significant step towards enhancing regional economic integration, the Eurasian Development Bank (EDB) and India Exim Bank co-hosted a webinar on September 10, 2025, marking the first collaborative initiative between the two institutions. This strategic engagement aims to deepen economic and financial ties between India and the Central Asian region, focusing on promoting greater cooperation in trade, investment, and development finance.

The webinar, titled *'Bridging Borders: Role of Trade Finance in Enhancing India–Central Asia Trade'*, explored how trade finance can unlock new opportunities for collaboration and economic growth in the region. While trade between India and Central Asia has shown consistent growth, substantial untapped potential remains. Both regions stand to benefit significantly from deeper economic engagement, particularly through the facilitation of cross-border trade and financial partnerships. The Webinar also featured a knowledge sharing session on the trade finance potential between India and Central Asia, by the respective experts from EDB and India Exim Bank. The webinar also had the release of a joint research report 'Exploring Trade and Investment Relations between India and Central Asia: Unlocking Economic Benefits'. The report analyses the untapped potential of mutually beneficial cooperation between the two dynamically growing economic centres. ■

Country Scan

Contributed by: **Research & Analysis Group**

Nepal

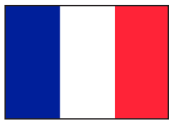


In early September 2025, Nepal's Gen Z ignited a nationwide uprising after the government banned 26 social media platforms, for failing to meet a deadline to register with Nepal's Ministry of Communication and Information Technology. Fueled by anger over prolonged corruption in the government, and inequality, protests turned deadly and forced the Prime Minister to resign and the government to dissolve. Meanwhile, Nepal appointed Ms. Sushila Karki, the former Chief Justice of Nepal as its first female interim Prime Minister. She will lead the country until the next Parliamentary elections, which are scheduled for March 2026. Economically, the Himalayan Nation is valued at US$ 43 billion, and is estimated to grow by 4.3% in 2025, up from 3.6%, driven by strong private consumption supported by remittances. Tourism may further boost growth, though global uncertainties pose risks. Inflation is expected at 3.4% in 2025, influenced by global commodity prices and the Indian rupee's performance. Despite depreciation of the Indian rupee against the US dollar, inflationary pressure might get offset by falling energy prices. The Nepali rupee remains pegged at NPR1.6:₹1, a rate unchanged since 1994. Remittance inflows have pushed the current account into surplus, expected to maintain surplus of 4.3% of GDP.

Senegal

Senegal, located in West Africa, remains politically stable. In 2024, its nominal GDP reached US$ 33.8 billion, with strong growth projected through 2025–2029, driven by oil and gas exports, infrastructure expansion, and business-friendly reforms. Agriculture is expected to grow steadily due to favorable weather and government support. The services sector may benefit from oil-related activity, especially in trade, transport, and finance. Inflation is estimated to ease from 0.8% in 2024 to 0.7% in 2025, supported by falling global commodity prices, subsidies, and a slight appreciation of the currency to CFAfr 588.3:US$1 in 2025, ensuring price stability. Despite signs of improvement, Senegal remains heavily dependent on both domestic and external borrowing to bridge its fiscal deficit. The IMF's March 2025 report highlighted weak budget controls and financial reporting, prompting urgent reforms. The 2025 budget includes a 9% cut in ministerial allocations and institutional spending reforms. Public debt stood at 125.7% of GDP in 2024, placing Senegal at moderate risk of debt distress. However, the risk of default remains high in the medium term, especially if political instability or social unrest escalates, potentially deterring the government from implementing necessary but unpopular fiscal measures.

France



France remains the EU's second-largest economy, with a services-driven base and competitive strengths in aeronautics and luxury goods. Recent labour, tax, and pension reforms have improved competitiveness, but political turmoil clouds the outlook. President Emmanuel Macron appointed Mr. Sébastien Lecornu as Prime Minister on September 9 after Mr. François Bayrou lost a no-confidence vote over his 2026 budget plan. The Prime Minister inherits a fragmented parliament, faces opposition from both left and far right, and governs without a majority, creating a risk of early government collapse and hampering legislation. Public finances are strained: debt reached about 113% of GDP and the fiscal deficit 5.8% in 2024, with little progress expected on consolidation before 2026. Real GDP growth is Projected to ease from 1.1% in 2024 to 0.7% in 2025, lagging the euro-zone average, before gradually recovering to 1.6% by 2029 as demand strengthens. Inflation is projected to slow sharply from 2.3% in 2024 to 1% in 2025, averaging 1.8% through 2029, reflecting weak domestic price pressures. Meanwhile, U.S. trade tensions and stronger euro-zone investment support a firmer euro, which is expected to average about US$1.15:€1 in 2025-26 before easing toward US$1.12:€1 later in the decade.

Djibouti

Djibouti's economy is driven by services, especially re-exports and logistics linked to Ethiopia, leaving it vulnerable to regional and global trade shifts. Real GDP growth is projected at 5.2% in 2025 and 5.4% in 2026, after an estimated 6.2% expansion in 2024, with the slowdown reflecting base effects from exceptional 2024 port revenues. Inflation remains subdued, deflation of about 0.6% is forecast for 2025, following an average 1.5% year-on-year decline in early 2025 and only 0.4% inflation in June, as external price pressures ease. The Djibouti franc stays firmly pegged at Dfr177.7:US$1, so exchange movements track the US dollar. Despite a current-account surplus above 10% of GDP, bolstered by fees from foreign military bases. Djibouti faces significant debt challenges. Debt-service payments to the Export-Import Bank of China are suspended under a moratorium until 2028, and negotiations are under way to restructure arrears, adjust interest rates, and extend maturities. Talks with India, its second-largest creditor, and Paris Club members are ongoing, with a restructuring deal expected by late 2025. While foreign-exchange reserves should average about four months of import cover and multilateral financing will support infrastructure, the country remains at high risk of debt distress without continued IMF and creditor support. ■

Currency Currents

Contributed by: **Treasury & Accounts Group**

JAPANESE YEN

¥ Historically, US$/JPY has followed the US-Japan interest rate differential, but Bank of Japan's recent rate hikes and expectations for more, combined with potential Fed easing, narrow this differential and make the carry trade less attractive. The Japanese Finance Ministry spent a record JPY 9.8 trillion (US$ 62.2 billion) between April 26, 2024 and May 29, 2024 to support JPY in the foreign exchange market. This intervention came after the US$/JPY exchange rate reached a high of 160.21 in April 24, prompting the Bank of Japan to intervene and send the pair back down to 151.92 on May 3, 2024.

The Bank of Japan (BoJ) raised its interest rate to 0.5% in January 2025, narrowing the gap with the Federal Reserve's higher rates. This reduces upward pressure on the US dollar and supports the Yen. The BoJ's July 2025 meeting kept the rate steady at 0.5%, but the central bank has signalled that future hikes are still possible depending on economic data, including inflation and wage growth. A shift in stance from either the Fed or the BoJ could be the catalyst for a larger move. Hawkish BoJ or Dovish Fed rhetoric could drag US$/JPY toward 145, while Dovish BoJ signals or Hawkish Fed rhetoric could drive the pair toward 149.358.

The closing rate of US$/JPY as on September 24, 2025 was JPY 147.6130 per US dollar. ■

BRAZILIAN REAL

R$ The Brazilian real (BRL) has experienced volatility after Mr. Luiz Inácio Lula da Silva was elected the next president of Brazil in a tight run-off race against incumbent President Jair Bolsonaro.

The BRL benchmark interest rate, known as the Selic rate, is currently 15% per year, as decided by the Central Bank of Brazil (Banco Central do Brasil) at their most recent meeting in September 2025. This marks the second consecutive meeting where the rate has been held steady at this level. The Central Bank chose to maintain this rate due to persistent inflation risks and ongoing uncertainty, even as economic growth moderates.

As of September 23, 2025, the Brazilian Real-to-Us Dollar rate is hovering near its 8-day EMA, hovering near its 21-day EMA, trading above its 50-day EMA by 1.29%, trading above its 100-day EMA by 2.4%. The 8-day EMA is sloping upward, indicating bullish momentum. The MACD line is above its signal line, indicating positive momentum and confirming an uptrend.

The closing rate of US$/BRL as on September 24, 2025 was BRL 5.3314 per US dollar. ■

MEXICAN PESO

Ps The peso's strength has been its low volatility and Mexico's record-high interest rates, which make it attractive to borrow in one currency and lend in pesos. The Bank of Mexico's (Banxico) benchmark interest rate is 7.75% as of August 7, 2025. This was the result of a 25-basis point reduction made by the central bank at that time, motivated by a decline in annual inflation. This cut was part of an ongoing easing cycle that began in 2024, gradually lowering the rate from a high of 11.25% in early 2024.

The Mexican peso (MXN) weakened toward 18.35 per US dollar, easing from its strongest level since July 2024, as the US dollar regained strength after the Fed's rate decision and expectations of Fed cuts beyond the near term were scaled back, which reduced the carry advantage. In Mexico headline, inflation in August was about 3.57% with core inflation near 4.23% which is relatively contained but still keeps Banxico cautious, limiting aggressive rate cuts. Meanwhile growth forecasts have softened, industrial output showed contractions and prospects for private spending have cooled, reducing demand for peso-denominated assets. External pressures such as higher US yields, plus some correction after a rapid run-up of MXN, also contributed to the weakening.

The closing rate of US$/MXN as on September 24, 2025 was MXN 18.40 per US dollar. ■

NEW TAIWAN DOLLAR

NT$ The New Taiwan Dollar (TWD) has been the currency of the island of Taiwan since 1949. Taiwan's economy is heavily export-oriented, with key sectors including semiconductors and electronics. The economy saw a strong performance in the first half of 2025, driven by demand for AI and emerging technologies. The Central Bank has maintained its benchmark discount rate at 2% since March 2024, citing a cautious approach amid global economic uncertainty and trade concerns. Inflation is a key concern, though the central bank expects it to moderate, forecasting a 2025 Consumer Price Index (CPI) of 1.76%.

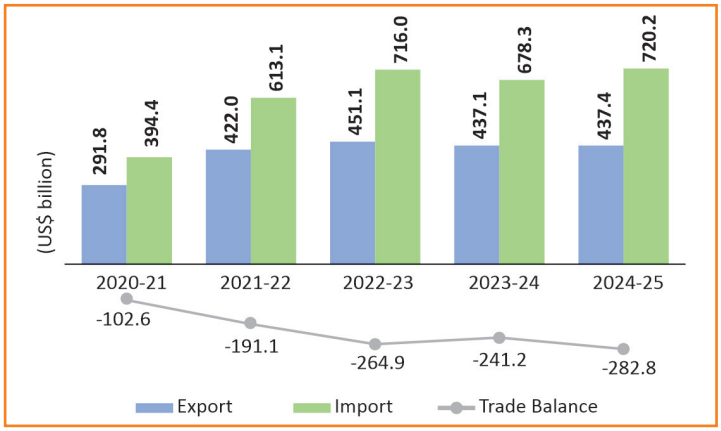
Taiwan's currency, recently experienced significant appreciation, reaching its highest level against the US dollar in two years, trading around NTD 29.795 earlier this May before stabilizing around NTD 30.15 per US dollar. This surge was partly attributed to a strategic move by Taiwan's central bank to allow market expectations for gains to play out and cool down speculation. Looking forward it is estimated to trade around NTD 30.44 in 12 months' time.

The closing rate of US$/TWD as on September 24, 2025 was TWD 30.353 per US dollar. ■

Snippets on Indian Economy

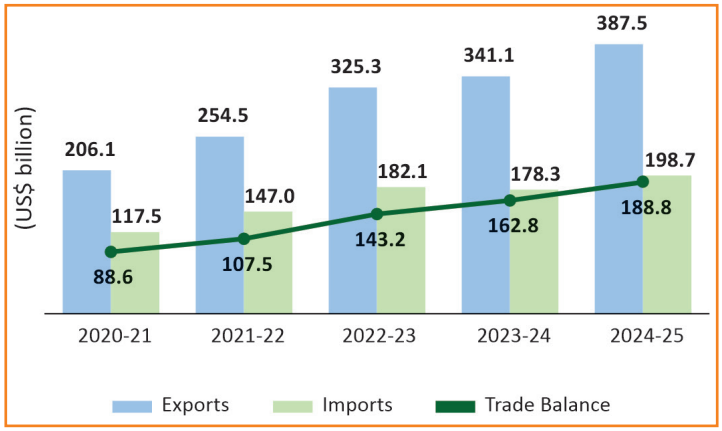
Contributed by: **Research & Analysis Group**

India's Merchandise Trade



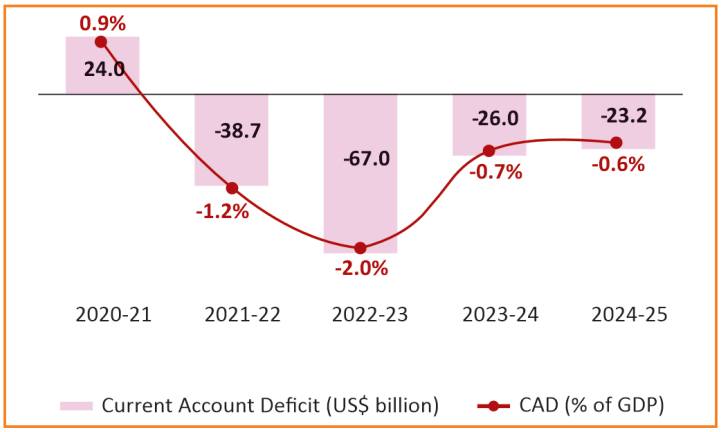
Source: Ministry of Commerce & Industry, Government of India

India's Services Trade



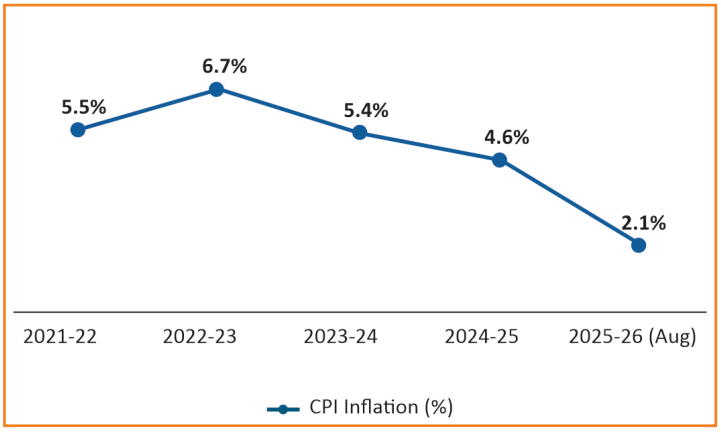
Source: Ministry of Commerce & Industry, Government of India

Current Account Deficit



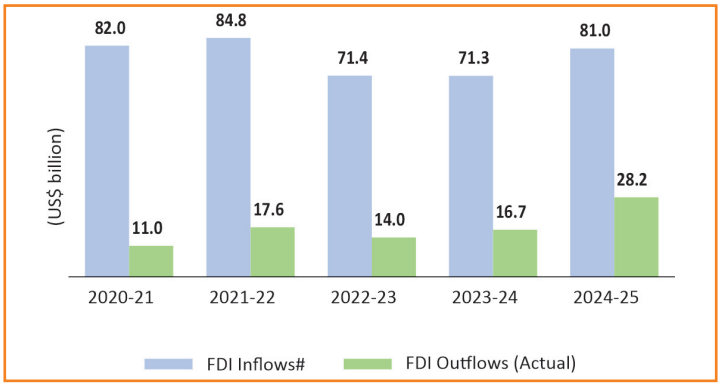
Source: Reserve Bank of India

Consumer Price Inflation



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

Foreign Direct Investment Flows

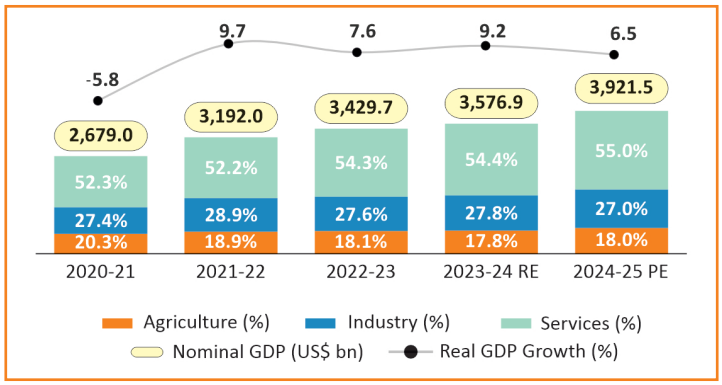


*Note: *- FDI Outflows reflect actual figures and include equity, loans, and guarantees invoked.*

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

Source: RBI and Ministry of Finance, Government of India

India's Economic Growth



Note: Sectoral percentage figures represent respective sectoral shares in the GDP.

RE – Revised Estimates; PE – Provisional Estimates

Source: Institute of International Finance (IIF) and Ministry of Statistics and Programme Implementation, Government of India