Current Affairs - 08 September 2024

INDIA OVERTAKES CHINA AS MOST ATTRACTIVE EMERGING MARKET FOR INVESTING

Over the last decade, India emerged from being a “fragile 5” economy to become the fifth-largest economy of the world.

This is driven by a continuous focus on development, a range of structural reforms and anti-corruption initiatives.

- India's stock market has surged by 46% over the past three years, outpacing global equities' 20% gain and the -13% decline in emerging market equities. Only the U.S. has performed similarly.
- This strong growth has drawn global attention, prompting some investors to question if they've missed the opportunity.

What’s driving the Indian market?

- **Labor**
  - India’s labor force underpins exciting prospects for manufacturing growth.
  - According to Bloomberg, over 48 million medium-skilled workers, largely in the manufacturing sector, could retire from China and developed economies from 2020-2040.
  - On the other hand, India could add over 38 million such workers.
- **Capital**
  - With a surge of infrastructure projects underway and $1.7 trillion expected to be invested by 2030, India is well-positioned to capitalize on these inflows.
- **Economic growth and fiscal prudence**
  - The government’s focus on high economic growth with increased spending on infrastructure is helping India maintain a rapid pace of development.

        - The country's economic fundamentals, coupled with its rising weight in global indices, make it an attractive destination for long-term investors.
    - **Political stability**
        - Political stability has played a significant role in driving India's growth and enhancing investor confidence in recent years.
    - **Benefited from global investors turning negative towards China**
        - India, to some extent, benefited from global investors turning negative towards China.

Challenges

- **Productivity ad reforms**
    - India's favorable labor and capital conditions support growth, but sustainable progress depends on productivity improvements through reforms.
    - Key areas include education and skills training to help workers transition from primary to secondary industries.
    - **Urbanization** (36% vs China's 64%) also needs improvement to rehouse rural workers more efficiently.
    - **Cutting red tape** and offering incentives for manufacturing have attracted business investment and should continue to drive growth.
- **Inflation**
    - Increasing inflationary pressures present a short-term risk.
    - This is potentially resulting in tighter monetary policies, higher interest rates, declining asset prices, and currency depreciation in India.
- **Geopolitical tensions**
    - Russia-Ukraine war and instability in the Middle East has created various challenges such as trade disruption, migration etc.
- **Global warming and climate change**
    - It is posing significant risk to agricultural productivity, biodiversity and infrastructure, with implications for investments in India.

INDIA-GCC FOREIGN MINISTERS' MEETING

Why in news?

External Affairs Minister S Jaishankar arrived in Saudi Arabia's capital, Riyadh, to attend the First India-Gulf Cooperation Council (GCC) Foreign Ministers' Meeting.

Gulf Cooperation Council (GCC)

- It is a political and economic alliance of six countries in the Arabian Peninsula: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE.
- Established in 1981, the GCC promotes economic, security, cultural and social cooperation between the six states.
- It holds a summit every year to discuss cooperation and regional affairs.

India and GCC Relation

  - The Gulf constitutes the immediate neighborhood of India separated only by the Arabian Sea.
  - The GCC has emerged as a major trading partner for India and it also has a vast potential as an important investment partner.
- **Geostrategic:** GCC countries sit across the Persian Gulf, which is an important sea lane for global trade. From the strategic point of view, India and GCC share the desire for political stability and security in the region.
- **Political Dialogue**
  - The first-ever India-GCC Political Dialogue was held on the sidelines of the United Nations General Assembly in 2003.
  - India and GCC signed an MoU on the Mechanisms of Consultations in Sept 2022.
- **Economic and Commercial Relations**
  - Currently, the region is expanding beyond the energy sector into other fields, such as tourism, construction and finance. This opens up the opportunities for trade and investments for countries like India.

- **India-GCC Free Trade Agreement (FTA)**
  - India and the GCC signed a Framework Agreement for enhancing and developing economic cooperation between the two sides in New Delhi in August 2004.
  - The India-GCC FTA is under negotiation and may benefit from some renewed momentum following the **India-UAE FTA**.
- **Energy cooperation**
  - Together, the GCC countries possess almost half of the world's oil reserves.
  - GCC contributes to ~35% of India's oil imports and 70% of gas imports.
  - India is executing the second phase of its Strategic Petroleum Reserve (SPR). Several GCC countries have expressed their interest in the same.
- **Indian Diaspora and remittances**
  - According to latest figures, there are ~ 8.9 million Indian expats residing in GCC countries which is approximately 66% of non-resident Indians.

BANKING SECTOR STRUGGLING WITH SLOWER GROWTH

Analysing the Weak Deposit Growth in the Banking Sector:

- **Higher credit-deposit gap:**
  - In the quarter that ended in June 2024, bank deposits stood at 11.7%, while the bank credit growth stood at 15%, pointing to a higher credit-deposit gap.
  - The widening gap has concerned the government and the RBI, who **have asked lenders to focus more on deposit mobilisation through innovative products.**
- **Major reasons for a slower growth in deposits:**
  - **The outflow of household savings from banks to capital markets** is one of the major reasons for a slower growth in deposits in the banking system.
  - **After the Covid-19 pandemic**, the Indian capital markets have seen a surge in retail activity through **direct** (direct trading) and **indirect** (using mutual fund route) channels.

As per the Economic Survey 2023-24, the number of demat accounts with both depositories (NSDL and CDSL) rose from 11.45 crore in FY23 to 15.14 crore in FY24.

- **What has facilitated outflow of household savings from banks to capital markets?**
  - Higher returns, robust digital infrastructure and rapid smartphone penetration (which have eased the investment process) have facilitated the entry of more retail investors into capital markets.
  - A rise in retail participation was more substantial through the **indirect channels via mutual funds,** insurance funds and pension funds.

Concerns Over Slowing Bank Deposits and Efforts to Boost Them Up:

  - While bank deposits continue to remain dominant as a percentage of financial assets owned by households, **their share has been declining**.
  - This trend has led to concerns that banks are increasingly relying on more expensive funding sources **like Certificates of Deposit (CDs),** which could impact their profitability.
- **Efforts to boost bank deposits:**
  - To meet the systemic credit demand, banks are trying to raise capital through **innovative initiatives** such as special deposit schemes.
    - SBI launched '**Amrit Vrishti**', a scheme that offers 7.25% interest on deposits for 444 days.
    - Bank of Baroda also launched the '**Monsoon Dhamaka**' deposit scheme, offering interest rates of 7.25% for 399 days and 7.15% for 333 days.
- **Outlook:**
  - For the current financial year, **deposit tightness is likely to persist**, despite banks' efforts to strengthen their liability franchise.
  - The banking industry in India is working **hard to strike a delicate balance between continuing to support robust loan growth and charging higher interest rates for deposits**, which will probably keep banks' cost of funds high.

Current Affairs - 08 September 2024

WHAT IS INDIASIZE INITIATIVE?

The government will soon roll out the much-awaited 'INDIAsize' initiative, the Union Textiles Minister said recently.

INDIA size is an initiative of the **Ministry of Textiles** which aims to establish **standardized measurements designed to better suit Indian body types.**

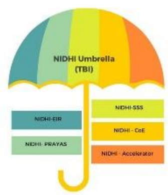
- **Need**:
    - Presently, **international and domestic brands** available in India use measurements from the **US or the UK for garments**, having **'small', 'medium' and 'large' sizes.**
    - However, Western body types differ from Indians in terms of height, weight, or specific measurements of body parts.
    - It fails to account for the diversity in Indian body types, leading to frequent fitting issues and consumer dissatisfaction.

The Ministry of Textiles sanctioned the INDIA size project to develop **standard body sizes for the Indian apparel** sector to address the prevailing disparities and inconsistencies in provided fits.

- The project entails gathering anthropometric data pan India from **more than 25000 (Twenty-Five Thousand) male and female persons** between the age group of 15 years and 65 years using human safe 3D whole body scanning technology.
- The created body size chart will help national and international retailers and manufacturers to produce goods which are best suited for Indian body types and create a balance between demand and supply of well fitted garments.
- Once rolled out, INDIA size will serve as a benchmark for Indian and international fashion brands selling in the country.

Current Affairs - 08 September 2024

NIDHI PROGRAMME



The National Initiative for Developing and Harnessing Innovations (NIDHI) program was launched in 2016.

- It is an umbrella programme conceived and developed by the Innovation & Entrepreneurship division, Department of Science & Technology.
- **Aim:** To **nurture start-ups** through scouting, supporting and scaling innovations.
- **Key stakeholders:** Various departments and ministries of the central government, state governments, academic and R&D institutions, mentors, financial institutions, angel investors, venture capitalists and private sectors.
- **Funding:** It is funded by the **National Science & Technology Entrepreneurship Development Board (NSTEDB).**

Key Components of the Program

- The **NIDHI- PRAYAS** (Promoting and Accelerating Young and Aspiring Innovators and Startups) program at **Proof-of-Concept level** provides mentoring and financial support to innovator for converting their ideas into prototypes.
- **The NIDHI Entrepreneurs-In-Residence** (EIR) Program **provides fellowships** to the students opting for entrepreneurship.
- The **NIDHI Seed Support Program** provisions availability of early-stage seed support funding to startups and the NIDHI Accelerator program speeds up the investment readiness of the startups.
- The NIDHI program has been helpful in creating state-of-the-art infrastructure for incubating startups in technology sectors through Technology Business Incubators (TBIs) and Centres of Excellence (CoE).
- **NIDHI Accelerator:** An accelerator is typically a **3-6 months fast track structured** program helping ideas get accelerated to the next orbit.

What is i-Technology Business Incubators (i-TBIs)?

- i-TBIs (Inclusive TBI) is a **three-year duration initiative** supported by DST for **educational institutions** that are likely to foster innovation and entrepreneurship culture among the students, faculties, entrepreneurs and nearby communities.

WHAT IS FINANCIALISATION?

Chief Economic Adviser (CEA) recently cautioned that financialisation might distort India's macroeconomic outcomes.

Financialisation refers to **the increase in size and importance of a country's financial sector** relative to its overall economy.

- It is a process whereby financial markets, financial institutions and financial elites gain greater influence over economic policy and economic outcomes.
- It represents the shift from **traditional industrial or productive activities (like manufacturing) to financial activities** that involve the trading, management and speculation of financial assets.

  The term also describes the **increasing diversity of transactions** and market players as well as their intersection with all parts of the economy and society.
- It has occurred as countries shifted away from industrial capitalism.
- It impacts both the **macroeconomy and the microeconomy** by changing how financial markets are structured and operated, and by influencing corporate behavior and economic policy.
- Financialisation has also caused incomes to increase more in the financial sector than in other sectors of the economy.

GOODS TRADE BAROMETER

Indian merchandise exports could likely improve in the second half of the year, as the World Trade Organization (WTO) Goods Trade Barometer indicated an upturn in global trade volume.

Goods Trade Barometer was formerly known as the **World Trade Outlook Indicator.**

- It is developed by the **World Trade Organization** and provides **"real-time"** information on trends in world trade.
- It is a leading indicator that signals changes in world trade growth two to three months ahead of merchandise trade volume statistics.
- It combines a variety of trade-related component indices into a single composite index that highlights turning points in world merchandise trade and provides an indication of its likely trajectory in the near future.
- A reading of **100 indicates trade expansion** in line with recent trends. Readings **greater than 100** suggest **above-trend growth** while readings below 100 indicate below-trend growth.
- This Barometer is **updated** on a **quarterly basis.**

Current Trend

- The current value of the WTO Goods Trade Barometer, an early indicator of the trajectory of merchandise trade volume, stands at 103—above both the quarterly trade volume index and the baseline value of 100.
- This suggests that merchandise trade has been picking up in the third quarter of 2024.