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POLICY PULSE

A MONTHLY NEWSLETTER

In This Volume:

FIRST TAKE

Overview

Moving forward in 2022, but cautiously

Happy New Year to all the readers of Policy Pulse!

We begin 2022 with a sense of caution as the Omicron variant has spread fast and wide across the globe. However, as of now, governments and businesses have resisted a lockdown as economic recovery was slowly but surely gaining ground across markets in the last few months.

With vaccines in place and medicines too seeing approvals, there is a sense of optimism that the third wave may not lead to many hospitalizations. However, the central and state governments in India and nations across continents are refusing to take chances and are ramping up infrastructure to meet an emergency, if required.

The World Health Organization has also warned people against taking the Omicron variant lightly.

On the economic front, policy analysts and economists are cautiously optimistic about 2022. While agencies and central banks have been alert to the spread of the virus, they have predicted growth in 2022.

On trade agreements, a lot is at stake for India in 2022. The India-Australia early harvest list under the FTA was due for conclusion in December 2021. But it has now been shifted to early 2022 for a possible decision on the list of products. The India-UK FTA, too, is expected to see reasonable progress this year with the possibility of an early harvest.

Please find updates on many issues that impact the industry in this issue of Policy Pulse. Happy Reading!

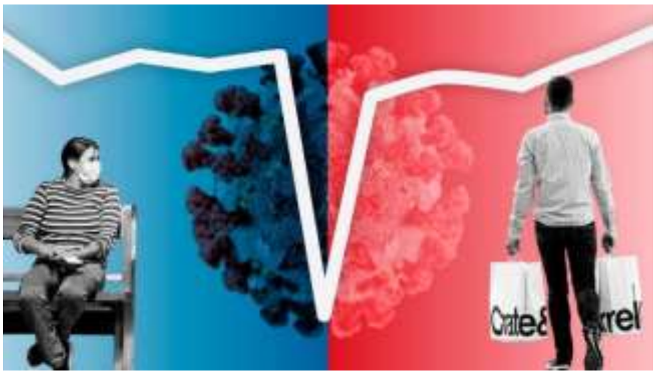
IN THIS ISSUE

ECONOMIC SNAPSHOT

GLOBAL ECONOMY

How different will be 2022?

We entered 2021 under the pressure of the COVID pandemic, but with the availability of vaccines, as the year progressed, economic activity picked up and businesses across the country started re-opening with a renewed sense of optimism. As the year progressed countries opened up and consumer confidence witnessed a rebound and the holiday shopping season seemed poised to boost retail sales.



Oxford Economics has said that the health implications of the new variant are still unclear. Against this uncertain backdrop, it has lowered the global GDP forecast from 5.7% this year to 4.3% in 2022. For now, experts believe that with the emergence of the new variant, it can be assumed that there will be a modest re-imposition of some activity restrictions, most notably on foreign travel and an increase in supply-chain disruptions. This may dampen growth due to lost activity.

Fitch Ratings has cut its 2021 growth forecasts for developed markets such as the US, Germany, and Japan, predicting supply-chain-related disruptions to possible fall in industrial production. Fitch has trimmed the world growth forecast for 2022 to 4.2% from 4.4%.

S&P Global in its projections said that rising inflation fears may overshadow a robust rebound in 2022. "The global economy is in the midst of robust growth but an uneven rebound from the pandemic, with demand growth overtaking supply growth and rising inflation may overshadow the rebound. Though COVID-19 is present, the economic impact of the virus is weakening, at least for new terms. The GDP growth forecasts are broadly unchanged with the US and Eurozone; China has slowed to below 5% as the government prioritizes financial stability."

GDP Growth Projections (%)				
	2020	2021	2022	2023
World	(3.3)	5.7	4.2	3.7
USA	(3.4)	5.5	3.9	2.7
Eurozone	(6.5)	5.1	4.4	2.4
China	2.3	8.0	4.9	4.9
Japan	(4.7)	1.9	2.3	1.2
UK	(9.7)	6.9	4.6	2.2
India	(7.3)	9.5	7.8	6.0
Brazil	(4.4)	4.8	0.8	2.0
Russia	(3.0)	4.2	2.7	2.0

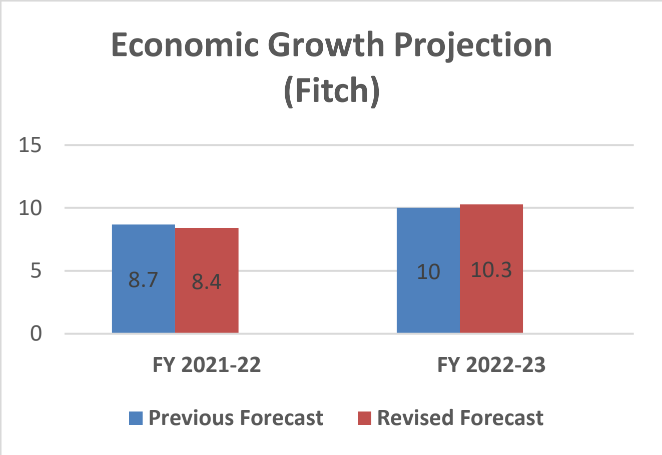
Source: S&P Global ratings

Some senior economists are of the view that the emergence of the Omicron variant is a reminder of the uncertainties, which remain due to the global pandemic. Despite these uncertainties, they expect 2022 to be a year of modest growth as the global economy continues to show some signs of recovery. However, they see growth cooling in 2022 following a strong 2021, as the massive support offered by governments and central banks during the pandemic's initial stages begins to fade. "Inflation should be moderate, but policymakers and investors will face a difficult period in the interim." The majority of economists forecast global GDP growth at 5.6% in 2021 followed by 4% in 2022. Global inflation is expected at 3.4% for 2021 and rise to 3.8% in 2022.

In brief, economists predict that for the global economy:

- 2022 maybe a year of moderate growth and the recovery is likely to remain uneven.
- Anticipated withdrawal of emergency levels of support by Governments will play an important role in shaping the outlook.
- Risks include higher-than-expected inflation and weaker growth.

INDIAN ECONOMY



Fitch Ratings in December 2021 cut India's economic growth forecast to 8.4% for the current fiscal year ending March 31, 2022, saying the rebound after the second wave of COVID infections has been far subdued than expected. Fitch, which had previously forecast a GDP growth of 8.7% in 2021-22 (April 2021 to March 2022), however, raised the economic growth projection for the next financial year (FY 2022-23) to 10.3% from previously forecast 10%.

Growth in the manufacturing sector is constrained by ongoing supply shortages, but the supply bottlenecks are expected to ease in the coming months. Carmakers are signaling a ramp-up of production while domestic coal production is increasing to make up for shortages.

An increasing share of the population that is being fully vaccinated has reduced the risk of future disruptive outbreaks and will support consumer confidence. But, risks to the recovery remain, especially in the near term. On inflation, the price rise is largely driven by domestic factors. The inflation rate has consistently hovered above the upper-band of the Reserve Bank of India's target since the onset of the pandemic, initially pushed up by pandemic-related disruption to local supply chains and increasing food prices. Core price pressures (excluding food and energy) have been gradually rising: core inflation has hovered around 6% in recent months.

As per OECD, after the second infection wave that peaked in May 2021 in India, economic recovery is gaining momentum, and GDP is projected to grow at 9.4% in fiscal year (FY) 2021-22 before falling to 8.1% in FY 2022-23 and 5.5% in FY 2023-24. Inflation has remained close to the upper band predicted by RBI but should recede as supply chain disruptions are overcome. Financial markets remain strong and capital inflows support the build-up in foreign exchange reserves. The appearance of a new virus variant, especially if combined with a relaxation of attitudes, is the major downside risk, together with a less supportive global economic and financial environment.

As per IMF, India's economy is poised for a rebound after enduring a second wave this year that further constrained activity. India's broad range of fiscal, monetary, and health responses to the crisis supported its recovery. According to IMF, India's economic reforms are helping to mitigate a longer-lasting adverse impact of the crisis. Though policy steps helped mitigate the pandemic, it's still likely to result in increased poverty and inequality. Vaccination rates have risen to surpass a billion doses; however, the resurgence of the new variant is still hovering thereby creating bottlenecks and uncertainty.

FREE TRADE AGREEMENTS/ BILATERAL DISCUSSIONS

India-Taiwan

India and Taiwan are enhancing their bilateral trade relationship. At the beginning of 2021, the two countries set up four groups for achieving agreements on free trade and bilateral investment, creating a semiconductor manufacturing hu,b and educating and training a highly specialized workforce for the industry. The two sides have initiated talks for a free trade agreement and the creation of a semiconductor manufacturing hub in the country. India's need for semiconductors is projected to grow around US$100 billion by 2025 from US$2 billion at present. To meet this demand, India is looking at Taiwan's semiconductor giants to set up their facility in India. India has proposed several sites for setting up the facility by Taiwan. A decision is pending.

India – Australia

India and Australia are negotiating a Free Trade Agreement in goods and services- 'Bilateral Comprehensive Economic Cooperation Agreement.' The two countries had aimed to secure an early-harvest deal by end-December 2021. However, as the deadline has been missed, the two countries are looking at expediting the negotiations in the first quarter of 2022. In FY21, the merchandise that was predominantly traded between the two sides were pharmaceutical products, organic chemicals, mineral fuels, gems, and jewelry.

India – Russia

President Vladimir Putin paid a working visit to India on 6th December 2021 for the 21st India-Russia Annual Summit with Prime Minister Narendra Modi. Both sides expressed satisfaction with the progress in their 'Special and Privileged Strategic Partnership' despite the COVID-19 situation. Also, both welcomed the first meeting of the 2+2 Dialogue of Foreign and Defence Ministers and the meeting of the Inter-Governmental Commission on Military & Military-Technical Cooperation.

The leaders talked about regional and global developments, particularly the global economic recovery following the COVID - 19 Pandemic and the situation in Afghanistan. They agreed that both countries had similar perspectives and concerns about Afghanistan, and they appreciated the bilateral roadmap for dialogue and cooperation on Afghanistan that was mapped out at the NSA level. They decided to expand collaboration at multilateral fora, including the UN Security Council, because both sides had common stances on numerous international problems.

The Joint Statement titled India-Russia: Partnership for Peace, Progress and Prosperity aptly covers the state and prospects of bilateral ties. Coinciding with the visit, several Government-to-Government Agreements and MoUs, as well as those between commercial and other organizations of both countries, were signed in different sectors such as trade, energy, science & technology, intellectual property, outer space, geological exploration, cultural exchange, education, etc.

USA - Australia - Clarifying lawful oversees Use of Data

The United States, under its Clarifying Lawful Overseas Use of Data (Cloud) Act, has signed an agreement with Australia. The deal will allow the law enforcement agencies of both countries to demand data from overseas tech giants based on existing warrants. The data will help in the prevention, detection, investigation, and prosecution of serious crimes, including terrorism.

EU – Azerbaijani

European Union and Azerbaijani are expected to sign a bilateral agreement in 2022. The negotiations on an agreement involve engagement in areas such as political security, trade, economy, etc. Azerbaijani Foreign Minister Jeyhun Bayramov has stated that the priorities of bilateral cooperation until 2024 between the two entities have been already been approved.

China – Cyprus

On the 50th anniversary of establishing diplomatic relations, China and Cyprus formally established their strategic collaboration on November 30, 2021. Both countries have agreed to elevate their bilateral relationship to a strategic partnership and strengthen Cyprus-China collaboration. The two countries will collaborate in sectors such as commerce and trade, telecommunications, transportation, and renewable energy, as well as encourage cultural and educational exchanges.

US-EU Technology Cooperation

The US and the EU have decided to deepen their commitment to boost technology cooperation and develop concrete and commercially meaningful outcomes that strengthen transatlantic tech collaboration. The two sides also met in December 2021 to explore opportunities to enhance the security of networks across both markets, including through existing market players as well as the development of open radio access networks (ORAN). In addition, they underscored the importance of expanding collaboration on semiconductors and committed to identifying ways to advance mutually supportive research and development in this sector.

British companies found it increasingly difficult over the course of this year to trade with the European Union under the terms of the Brexit trade deal struck with the bloc.

Brexit Impact for British Companies

The British Chambers of Commerce said in a recent announcement that 45% of companies surveyed in October 2021 found it very or relatively difficult to trade goods with the EU, up from 30% in January 2021 when the Trade and Cooperation Agreement (TCA) came into effect. For British exporting companies, the figure was 60%.

"These data certainly do illustrate that the issues with the TCA are not 'teething problems' but more structural defects that, whilst fixable, if not attended to will lead to long term damage to our import and export sectors," said Shevaun Haviland, Director General of the British Chambers of Commerce. The proportion of businesses reporting difficulty in trading services with the EU also increased, to 23% from 14%. The survey of around 1,000 businesses - with a heavy weighting of manufacturers at 41% of respondents - was conducted between Oct. 7 and Oct. 31.

POLITICAL SNAPSHOT (ELECTION)

States, Elections, and Issues

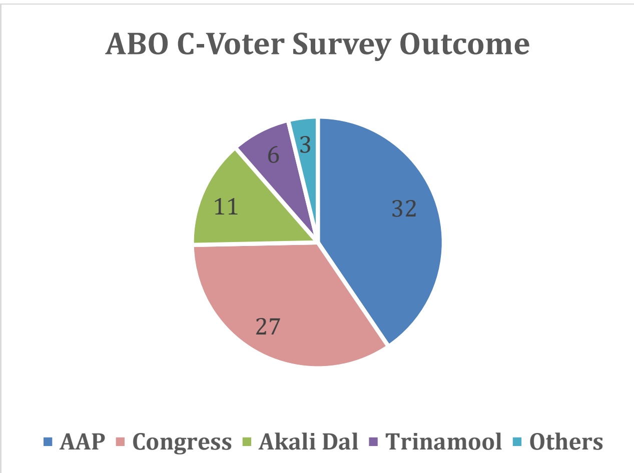
This edition of policy pulse captures the issues pertaining to Punjab and Manipur.

Punjab

Punjab will have its state election in February or March 2022. Importantly, the state has been witnessing several political realignments in recent months. On September 18, Former Chief Minister of the state, Captain Amarinder Singh resigned following political unrest and tensions within his then political party- the Congress. He then resigned from Congress and has formed his own party- Punjab Lok Congress.

In the election, the Punjab Lok Congress is likely to join hands with the Bhartiya Janata Party (BJP). After the central government repealed the farm laws the coalition is hopeful of making strong inroads in the state. The Aam Aadmi Party (AAP) has been making a strong pitch to succeed in the state by promising subsidies in various areas. Interestingly, On 25th December 22 farm bodies in Punjab announced their new political front - Sanyukt Samaj Morcha to contest the State polls.

Voter surveys, till now, predict AAP will have the highest vote share and Congress is expected to be its biggest opponent. But a Hung Assembly is also projected by some of the analysts.



Punjab: Issues tracker

- Punjab is ranked first in the 'Sustainable Cities and Communities' Index and 'Affordable & Clean Energy' Index of Sustainable Development Goal (2020-21).

- The Capital (that is shared with another state, Haryana) – Chandigarh ranks third in Urban Index 2021-22.

- At present, merely 5.59% of the population in Punjab live in multi-dimensional poverty.

- Punjab's contribution to the development of the agriculture sector is very important and the sector is crucial for the state's rural development. The benefits from the green revolution have reached their saturation point in Punjab. The State needs a revamp of its agricultural practices and it has been a pressing issue in the State. The average Y-o-Y growth rate of the Agricultural and Allied sector in Punjab from the year 2011-12 to 2019-20 has been just 2.19 percent.[4]

- The State ranks eighth in India in the latest Health Index (2019-20). Its performance has increased by 1.74 points from 2018-19 to 2019-20.

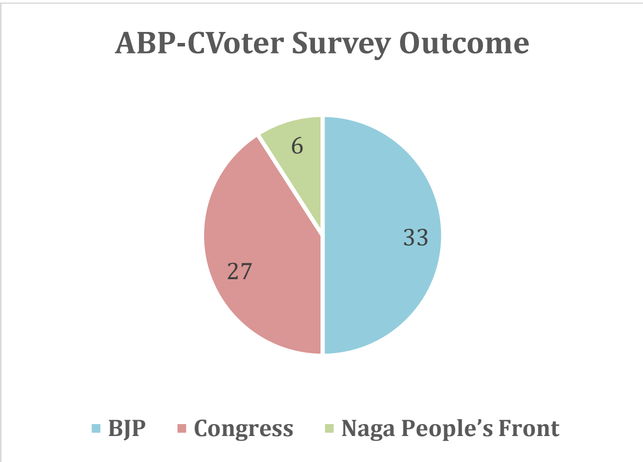
- The State has the 10th position among the 17 major states in the Indian Innovation Index 2020.

- The state is ranked 19th on the States' Ease of Doing Business Ranking index and the ranking is based on its implementation of a business reform action plan involving areas such as single window system, labour reforms, environmental policies, and access to information, etc.

- The State's performance has dropped in areas such as quality of education, gender equality, clean water and sanitation, life on land, peace, and justice, strong institutions, climate action, and economic growth as measured under the UN Sustainable Development Goals (SGD) 2020-21.

Manipur

The North-eastern state of India, Manipur will hold an election in 2022. The state has high aspirations for development as it has an abundance of natural resources. In Manipur, agro-based industries, handicrafts, and handlooms are important for growth. The State has a strong entrepreneurial spirit, especially among women. Manipur is an important gateway to Myanmar and other South Asian Countries for expansion of trade activities. The Voter Surveys project that BJP is likely to win the elections but will face close competition from Congress.



Manipur: Issues tracker

- The contribution of the Service Sector in State Gross Domestic Product (SGDP) is the highest in Manipur among all the Northeastern States.

- The performance score of the State in Quality Education Index (63) is above the National Average of 57. It has also achieved the target of 100% enrolments at the elementary level.

- The Capital, Imphal, ranks 12th on the Decent Work and Economic Growth Index.

- Among 8 Smaller States, Manipur is ranked 6th on the Health Index 2019-20. Its performance has dropped by 5.73 points from 2018-19 to 2019-20.

- About 17.89 percent of the population in Manipur live in multidimensional poverty.

- The State is ranked 3rd among the ten North Eastern and Hill States in Indian Innovation Index 2020.
- Manipur is ranked 31st among the 36 states and union territories in the National Ease-of-Doing Business Ranking. Experts say that essentially, the state's regulatory environment needs improvement.

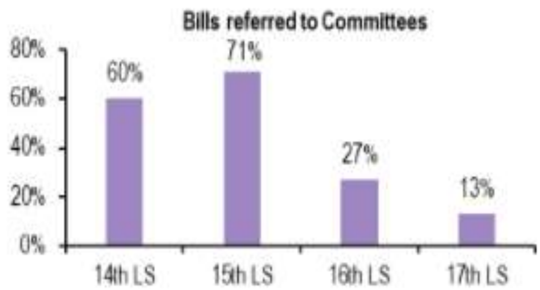
WINTER SESSION OF PARLIAMENT (2021)

The winter session of Parliament was scheduled from 29th November 2021 to 23rd December 2021 but was adjourned sine a die on 22nd December 2021. This session witnessed more sittings than the Monsoon Session. During the winter session, Lok Sabha sat for 77% of the scheduled sittings, while Rajya Sabha sat for 43%.

<u>Status of Bills in winter session</u>

During the winter session, ten bills were passed and six bills were introduced. These include - the Farm Laws Repeal Bill, 2021, and the Election Laws (Amendment) Bill, 2021. The Dam Safety Bill, 2019, and the Surrogacy (Regulation) Bill, 2019, were both outstanding bills from prior sessions that were passed during this session. The Prohibition of Child Marriage (Amendment) Bill, 2021, and the Mediation Bill, 2021, were two of the four bills referred to Committees.

As compared to the previous Lok Sabha session, only 13% of Bills in the current Lok Sabha have been referred to Committees which is the lowest percentage of referrals in the recent past.



Source: PRS

During this session, Question Hour functioned for 66% of the scheduled time in the Lok Sabha and 26% of questions were answered orally. In Rajya Sabha, Question Hour functioned for 38% of the scheduled time while 21% of questions were answered orally.

POLICY – REGULATORY BRIEF

INDIA

NITI Aayog's State Health Index

NITI Aayog's fourth edition of the [State Health Index for 2019-20] was released with the focus on measuring & highlighting the overall performance and improvement of states and UTs over the period 2018-19 and 2019-20.

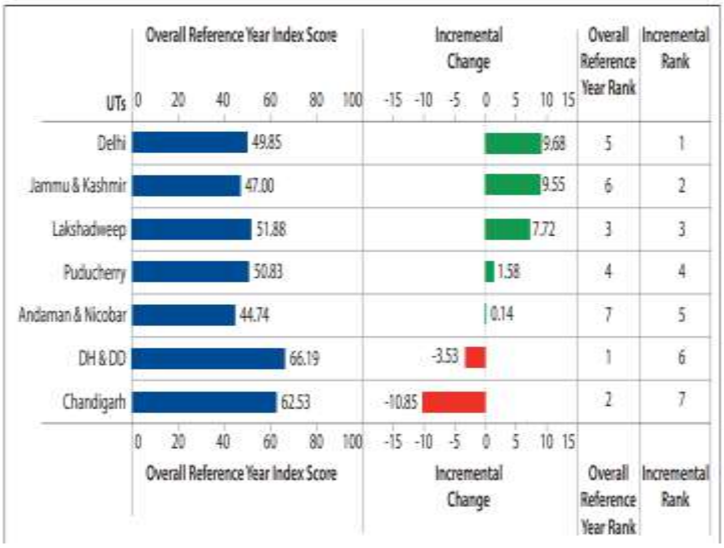
The health index is a composite of 24 indicators covering key aspects of health performance. These indicators are comprised of three domains:

a) Health Outcomes;
b) Governance and Information; and
c) Key Inputs and Processes

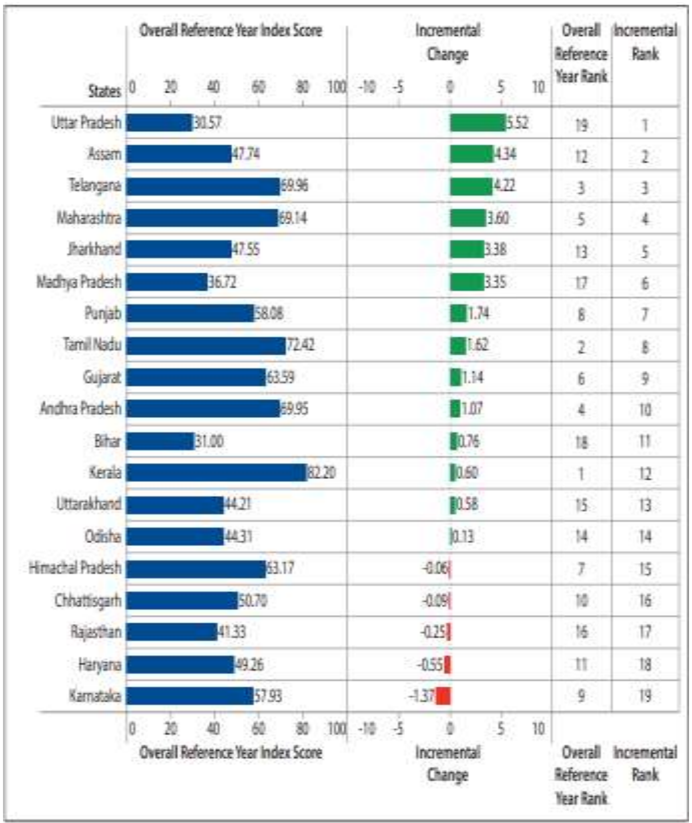
The index is divided into larger states, smaller states, and UTs. From the learning of the last three editions, three new indicators are added for larger states – Maternal Mortality Ratio (MMR), the proportion of pregnant women who received 4 or more antenatal care checkups (ANC), and level of registration of deaths.

Key Results: Overall Reference Year (2019-20) Index Scores and Incremental Change from Base Year (2018-19) to Reference Year (2019-20), with Overall Reference Year and Incremental Ranks.

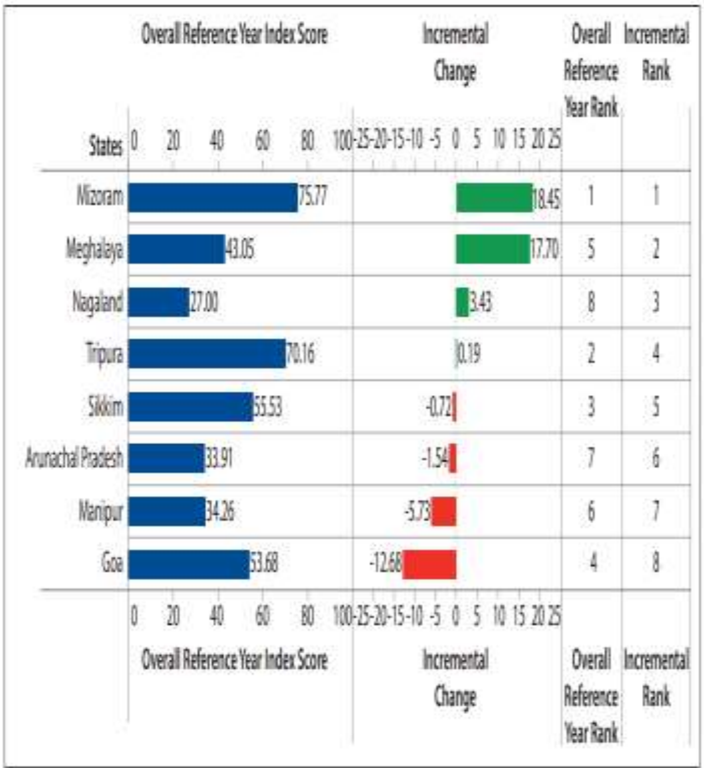
❖ **Union Territories**



❖ **Larger states**



❖ **Smaller State**



AIM, NITI Aayog & UNCDF – South-South Innovation platform on AgriTech

The Atal Innovation Mission (AIM), NITI Aayog, and the United Nations Capital Development Fund (UNCDF) have announced the first cohort of their ambitious AgriTech Challenge program, which aims to help smallholder farmers in Asia and Africa overcome their issues after the COVID-19.

In July 2021, AIM, NITI Aayog, UNCDF, Bill & Melinda Gates Foundation, and Rabo Foundation launched a South-South innovation platform to facilitate the cross-border exchange of innovations, insights, and investments. Through this platform, cross-border collaborations among emerging markets across India, Indonesia, Malawi, Malaysia, Kenya, Uganda, and Zambia would be enabled.

The Cohort represents a diverse range of solutions across the value chain of the smallholder farmer, including soil analysis, farm management & intelligence, dairy ecosystem, carbon credits, solar-based cold storage, digital marketplace, fintech, livestock insurance, among others.

Madhya Pradesh: Government of India & Germany Development Bank (KFW) signed an agreement for energy reform

The Government of India and the German Development Bank Kreditanstalt für Wiederaufbau (KfW) signed agreements for a €140 million (US$158.63 million) reduced interest loan and €2 million (US$2.27 million) grant for an energy reform program in Madhya Pradesh.

The project is focused on implementing smart meters and advanced metering infrastructure and separating agriculture and non-agriculture feeders. By improving and strengthening distribution networks in Madhya Pradesh, the project will contribute to a more stable, secure, climate-friendly, and environmentally friendly energy supply in India. Further, it will contribute to an effective, technically, economically efficient, and socially and ecologically sustainable energy supply.

RBI allows Infusion of Capital in Overseas Bank Branches

The Reserve Bank of India has allowed banks incorporated in India to infuse capital without prior approval. In a recent statement, RBI said, banks incorporated in India currently seek prior approval of RBI for infusing capital in their overseas branches and subsidiaries as well as for retention and repatriation/transfer of profits from these centres. On a review it has been decided to provide operational flexibility to banks. It has been decided that banks meeting the regulatory capital requirements may, with the approval of their Boards, infuse capital in their overseas branches and subsidiaries; retain profits in these centres; and repatriate/transfer profits therefrom, without prior approval of RBI, subject to post facto reporting.

Deepening financial penetration in India

The RBI has decided to deepen financial penetration in the country by bringing a higher number of feature phone users into the mainstream of digital payments. In a recent statement RBI said that the country has a large mobile phone consumer base of about 118 crores, of which about 74 crore have smartphones indicating that there is a significant number of feature phone users in the country. However, RBI said that feature phone users still have limited access to innovative payment products. Therefore, "to deepen financial penetration, it is important to bring feature phone users into the mainstream digital payments."

In the first cohort of RBI Regulatory Sandbox, some innovators had successfully demonstrated their solutions for feature phone payments, under the theme of ‘Retail Payments’. These products, coupled with other complementary solutions, will facilitate UPI-based digital payment solutions on feature phones to promote wider digitisation. It is proposed to launch a UPI-based payment product for feature phone users soon, RBI said.

WORLD

US Senators seek WTO Challenge to India's rice and wheat subsidies

American rice and wheat producers are operating at a "clear disadvantage compared to their competitors, primarily from India," where the government is subsidizing more than half of the value of production for rice and wheat, instead of the 10% allowable under the World Trade Organization rules, according to a letter from 18 US senators, news reports said.

As a result, the senators asked Secretary of Agriculture Tom Vilsack and U.S. Trade Representative Katherine Tai to pursue a WTO case against India's domestic support for rice and wheat production. The letter notes beginning in 2018, the U.S. highlighted the problem of non-compliance in India through counter-notifications at the WTO Committee on Agriculture. Using virtually the same methodology endorsed by the WTO panel in the China domestic support case, the counter-notifications demonstrated that India is non-compliant with its commitments because of price supports alone. Further, India has raised support prices multiple times since the counter-notifications were first submitted, the Senators said.

Europe to restrict the use of toxic 'forever chemicals'

The European Union is a step closer to restricting some uses of so-called "forever chemicals" next year, said news reports. Forever chemicals, technically known as per- and polyfluoroalkyl substances (PFAS), earned this nickname because they are considered nearly indestructible. The industry is opposed to this move.

The PFAS group is made up of more than 4,700 man-made chemicals, which are widely used across dozens of industries to make products such as cookware, food packaging, and cosmetics. Over time, some of these substances have been found in soil, drinking water, food, animals, and even humans, raising concerns over widespread contamination, health risks to humans, and related-economic costs in several member states that have long called for an EU action plan, the reports said. A small group of PFAS chemicals is already banned in the EU, and the European Chemical Agency (ECHA) is expected to restrict its use in fire-fighting foams in early 2022.

EU Supports minimum corporate tax under a global deal

The European Commission has proposed new legislation to implement an effective global minimum tax rate for large companies, news reports said. The EU proposal includes a common set of rules on putting into practice the globally agreed 15 percent minimum tax rate for large companies - those with annual turnover above €750m and that have a parent or subsidiary company in the EU.

EU finance ministers will discuss the proposal in January. The commission is aiming for an agreement between the EU governments and the European Parliament under the upcoming French EU presidency. The goal is to meet the globally-agreed deadline of 2023 for the entry into force of the new rules. "In October of this year, 137 countries supported a historic multilateral agreement to transform global corporate taxation," said Economic Commissioner Paolo Gentiloni to newspersons.

China tightens rules for IPOs

China plans to tighten rules on the overseas listing of fast-growing start-ups as part of a long regulatory campaign to govern the technology sector. According to the proposed guidelines, companies that want to sell their shares abroad must register with the national securities regulator. Securities regulators will assess company listing plans and coordinate with other authorities to verify compliance with Chinese laws such as data security. The proposals would empower authorities with the right to prevent corporations from listing overseas if they believe the sales would jeopardize national security, as well as prohibit companies from holding foreign share offerings if they had internal disputes or other unsettled issues.

"Domestic enterprises issuing and listing overseas shall strictly abide by laws, regulations and relevant provisions on national security such as foreign investment, cybersecurity, and data security, and earnestly fulfill the obligations of national security protection," the China Securities Regulatory Commission said in its proposal.

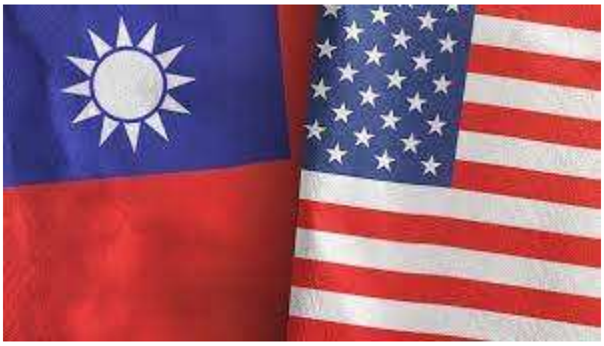
Japan new 'Economic Security Law'

The Japanese government is debating proposals on 'economic security law' to be submitted in National Parliament in 2022. The economic security law aims to bolster supply chains for important commodities, ensure the safety of core infrastructure, nurture high technology and protect patents.

The new regulation reflects the fragility of Japan's economy and the severity of the international environment surrounding the country. Japan has strategies to counter global competitiveness and also change the global security environment – intelligence, security, and innovation. The new economic security legislation will act as both an offense and a defensive mechanism. Japan must take a hybrid approach, identifying areas where domestic production can meet demand while also identifying areas where the economy should be further opened up to attract companies from like-minded allies.

In addition, this strategy will facilitate the research and development of artificial intelligence and other important technologies. This will plan investment in the development of data centers in rural areas. Further, it will also strengthen Japan's cybersecurity safeguards for electric power firms, financial institutions, and other critical infrastructures related to economic security.

Taiwan votes against reimposing US pork ban



Taiwan has voted against reimposing a ban on US pork in a contentious referendum that tested trade ties with Washington as the island seeks to expand its international presence, news reports said. President Tsai Ing-wen's ruling party had campaigned against reinstating a block on all imports of pork containing ractopamine, an additive used by American farmers that enhances the growth of lean meat. The substance is banned in places including the European Union, China, and Russia. The referendum proposal failed to pass with more than 4.13 million people voting "no" against around 3.94 million in favour. It required nearly 4.96 million "yes" votes to reimpose the ban. Taiwan had lifted restrictions on ractopamine pork last year, angering local farmers in a move widely seen as a bid to make headway in trade talks with Washington.

OPINION COLUMN

The Resiliency of Supply Chains

Geopolitics
Behind the Clutter
Anjali Mahto

The Pandemic has exposed the fragility of our global supply chains. When the pandemic hit the world in 2020, countries closed their borders and imposed severe lockdown measures and travel restrictions. Globalization took a huge back seat. Global trade plunged and crippled down the world economies.

In the second quarter of 2020, the global merchandise trade volume saw a decrease of 15 percent (year-on-year). India, the third-largest exporter of medicine, suffered from supply shortages of active pharmaceutical ingredients (API), mainly outsourced from China. More than 70% of bulk drug manufacturing in India depends on Chinese Suppliers. The experience from the pandemic has taught a fundamental lesson to businesses – resiliency of supply chains is a more significant competitive advantage than the manufacturing cost reduction.

However, we continue to see the repercussions of unsustainable supply chains as we are yet to prioritise adaptation and resiliency. During the pandemic, seafarers who support about 90 percent of global trade that happens through maritime supply chains are left in a precarious situation. They are not being recognized as critical workers exempted from certain restrictions that would help them in safe crew changes operations. Many seafarers have been stranded for months on sea, despite World Economic Forum urging countries to cooperate and support these workers. The consequences can be devastating and the agility of our global supply chains can suffer badly. The disruption of maritime supply chains, labour shortages, and difficult COVID situations, etc., has led to an unprecedented increase in shipping costs. On December 16, the World Container Index was up by 169 percent, at $9,292.39 per 40 ft. The high shipping cost is responsible for increasing the cost of imports and inflation.

Meanwhile, the emergence of the Omicron Variant of Coronavirus has raised a lot of concern on the possibility of the world being thrown into the next wave of pandemic. Developing a resilient supply chain is an urgency in a world whose concern is now not 'if the Pandemic happens' but 'when the pandemic happens!' A resilient supply chain – will be better responsive to future uncertainty, agile, well networked, short, and simple, and involve trusted players.

Geopolitical experts believe that diversification and regionalization of supply chains will make them shorter and more resilient. Some analysts are already observing a trend of regionalization of trade. For instance, the signing of the 'United States–Mexico–Canada Agreement' that will boost the trade in North America, the European Union embarking on reforming the fiscal policy framework that could be leveraged to strengthen trade among members, the adoption of Regional Comprehensive Economic Partnership Agreement (RCEP) framework by many Asian Countries. Even the Middle East is witnessing major political shifts (the formation of Western QUAD) that could expand trade in the region.

(The writer is an Account Executive at VeKommunicate)

Zero Budget Natural Farming

Agri - Economy
Shreesh Kaushik

Zero natural agricultural budget (ZBNF) is a non-chemical agricultural method that draws on traditional Indian practices.

It was originally promoted by Maharashtrian agronomist and Padma Shri recipient Subhash Palekar, who developed it in the mid-1990s as an alternative to the Green Revolution methods driven by chemical fertilizers and pesticides, and irrigation. He pointed out that the rising cost of these external raw materials is a leading cause of debt and suicide for farmers, and the chemical impact on the environment and long-term fertility is very detrimental. Without the need to spend money on these resources or to borrow money to buy them production costs can be reduced and farming can be made into a "Zero budget", breaking the debt cycle for many smallholder farmers.

Instead of commercially available chemicals, ZBNF promotes the use of jeevamrutha - a mixture of fresh cow dung and old desi cow urine, jaggery, pulse flour, water, and soil - on farms. This is a mature microbial culture that adds nutrients to the soil and acts as a catalytic agent to promote the activity of microorganisms and worms in the soil. About 200 liters of jeevamrutha should be sprayed twice a month per hectare of land; after three years, the system should be able to stand on its own two feet.
The same mixture, called bijamrita, is used to treat seeds, while the compounds use neem leaves and pulp, tobacco, and green peppers for pest and insect treatment. The ZBNF method also promotes soil penetration, slow irrigation, intercropping, bundles, and topsoil and prevents deep irrigation and deep ploughing.

According to data from the National Sample Survey Office (NSSO), about 70 percent of agricultural households spend more than they earn and more than half of all farmers are in debt. In states like Andhra Pradesh and Telangana, debt rates are almost 90%, with each household having an average debt of ₹ 1 lakh. To achieve the Central Government's promise to double the farmers 'money by 2022, natural farming approach such as the ZBNF should be considered which reduces farmers' dependency on loans to buy inputs.

(The writer is an Account Manager at VeKommunicate)

Key Highlights of Monetary Policy December 2021

Finance Column
Omar Pervez

A gradual tightening of the monetary policy is imminent and already in the process through the main parameters remain unchanged. The Monetary Policy Committee (MPC) met on 8th December 2021 to assess and deliberate on the current and evolving macroeconomic situation in India. It was agreed to extend the accommodative stance (5:1 vote in favor) and retain the status quo unanimously.

The policy repo rate under the liquidity adjustment facility (LAF) remained unchanged at 4% for the ninth consecutive time. The reverse repo rate continued at 3.35%. The Marginal standing facility (MAF) and the bank rate remain unchanged at 4.25%. These decisions were in line with the broadly stated objectives of MPC to revive and support growth on a durable basis, to mitigate the impact of COVID 19 while keeping the Consumer Price Index (CPI) inflation at 4% with an acceptable tolerance band of +/- 2%. The Repo rate is the rate at which banks borrow from RBI on a short-term basis, while the Reverse Repo rate is the rate paid by RBI to banks for additional funds maintained with it by the banks.

The projection for real GDP growth rate is retained at 9.5% in 2021-22 - 6.6% in Q3 (revised from 6.8% projected earlier for Q3) and 6.0% in Q4 of 2021-22. The outlook remains positive with real GDP projected at 17.2% for Q1:2022-23 and 7.8% cent for Q2:2022-23. CPI inflation is maintained at 5.3% for 2021-22 (5.1% in Q3:2021-22; 5.7% in Q4:2021-22) with risks broadly balanced. It is expected to ease to 5% in Q1: 2022-23 and stays at 5% in Q2:2022-23.

The risk posed by the surges in Covid-19 related infections across geographies, the discovery of omicron and its propensity to double in less than 3 days and faster mutations, continued supply chain disruptions, and high commodity and energy prices continue to take a toll on global economic activity. Disruptions in port services and logistics challenges, elevated freight charges and acute shortage of semiconductor chips have arrested the sharp rebound from the pandemic experienced just a few months back, dampening the future outlook of manufacturing trade and output. Headline inflation in several advanced economies (AEs) and emerging market economies (EMEs) have risen, leading to tightening of monetary policy by the central banks and consequent rise in bond yields. This has heightened uncertainties causing higher volatility in the global financial markets. Services continue to outperform manufacturing for the eighth consecutive month as per the composite global purchasing managers' index (PMI) which improved to a four-month high in November 2021

Data released by the National Statistical Office (NSO) on November 30, 2021, showed expansion in real GDP by 8.4% year-on-year in Q2:2021-22, preceded by a growth of 20.1% in Q1: 2021-22. Imports/Exports have exceeded the pre-COVID-19 levels signaling expansion in all constituents of aggregate demand. Gross value added (GVA) - on the supply side – registered an increase of 8.6% year-on-year in Q2:2021-22. Economic Activity is gaining traction with the release of pent-up and festival demand – reflected in surges in both rural and urban markets. Robust growth in high-frequency indicators like electricity demand, railway freight traffic, port cargo, toll collections, and petroleum consumption was observed in October/November over the corresponding months of 2019. Slight improvement in automobile sales, steel consumption, and air passenger traffic were observed in October, though they continue to remain below the pre-pandemic levels. Growth in exports was observed for the 9th month in a row with increased non-oil non-gold imports. India's foreign exchange reserves increased by US$ 58.9 billion in 2021-22 (up to December 3, 2021) to US$ 635.9 billion

Higher than expected inflation was because of a spike in vegetable prices in October among other factors. This was due to unseasonal rains in some parts of the country and is expected to normalize with the winters setting in. Hardening international energy and crude oil prices have kept fuel, domestic LPG, and kerosene prices elevated for nearly three quarters. Reduction in excise duty and VAT on petrol and diesel was a welcome step. Supply-side interventions by the Government to limit the impact of continuing high international edible oil prices have been mildly successful.

In a push to bolster capital outlays of the states, the Central government has relaxed the limit of additional market borrowings by states to 0.5% of gross state domestic product (GSDP) subject to certain CAPEX-related milestones. This is in addition to the decision to front-load tax devolution to the states. The government's focus on Capex is expected to pull in private investment that is crucial for recovery.

The RBI is expected to continue managing liquidity in a non-disruptive manner by adhering to a pre-disclosed plan. It is proposed to enhance the 14-day Variable Rate Reverse Repo (VRRR) auction amounts on a fortnightly basis - from the current ₹6.0 lakh crore to ₹6.5 lakh crore on December 17; and further to ₹7.5 lakh crore on December 31, 2021.
From January 2022 onwards, liquidity absorption will be undertaken mainly through the auction route. 14-day VRRRs will continue to be complemented by longer-term VRRRs, the size, and maturities of which will be decided based on continuous assessment of the evolving liquidity conditions.

The RBI recently conducted two auctions – one on 20th December for 3-day VRRR worth ₹2.0 lakh crore with a cut-off rate of 3.99% (total collected ₹81.16 Cr) and another on 21st December for 7-day VRRR worth ₹2.0 lakh crore with a cut-off rate of 3.97% (total collected ₹1.55 lakh Cr).

The RBI had started addressing excess liquidity through variable-rate reverse repo auctions in January 2021, but conducting a 3-day operation instead of a seven-day or fourteen-day auction is unique. It signifies a gradual change in a position away from the accommodative stance announced by the RBI at the beginning of the month. By offering an interest of 3.99% (the highest permissible cut-off rate for a reverse repo window in the prevailing interest rate structure) for parking three-day funds, the ultra-short interest rates have been driven up to within a shade of the prevailing repo rate of 4.00 percent. Thus a gradual tightening of the monetary policy is imminent and already in process.

Additional Steps Adopted:

- Infusion of capital in overseas branches and subsidiaries of Indian banks and retention/repatriation/transfer of profits by these entities is now allowed without prior approval of RBI provided they meet regulatory capital requirements.

- As a step for adopting global standards/best practices, a Discussion Paper on the Review of Prudential Norms for Investment Portfolio of Banks will be placed shortly on the RBI's website for comments.

- In a bid to curb high charges by credit cards, debit cards, prepaid payment instruments (cards and wallets), Unified Payments Interface (UPI), etc. for digital payments, a discussion paper is proposed that takes a holistic view of the issues involved and possible approaches to mitigate the concerns. The aim is to make digital transactions affordable to customers.

- Transition from LIBOR to Alternative Reference Rate (ARR) for External Commercial Borrowing (ECB)/Trade Credit (TC) is being encouraged. Guidelines for widely accepted interbank rate or alternative reference rate (ARR) transactions would be issued soon.

It is proposed to

- launch UPI-based payment products for feature phone users, leveraging on innovative products from the RBI's Regulatory Sandbox on Retail Payments;

- make the process flow for small value transactions simpler through a mechanism of 'ondevice' wallet in UPI applications; and

- enhance the transaction limit for payments through UPI for the Retail Direct Scheme for investment in G-secs and Initial Public Offering (IPO) applications from ₹2 lakh to ₹5 lakh

In conclusion, Omicron poses a grave risk and widespread lockdowns cannot be ruled out. The situation can intensify in form of a third wave. Otherwise, the Indian economy is well on its path to recovery.

(The writer is Advisor at VeKommunicate)

Climate Action and Business

Environment Equity
Saloni Goyal

The business sector is critical to the development of low-carbon, sustainable economies, and it has taken several voluntary climate change initiatives that can help India meet its NDC targets. India's involvement in the Kyoto Protocol's Clean Development Mechanism benefited the private sector, and going forward, Article 6 of the Paris Agreement gives more chances for addressing climate change and sustainable development goals.

Article 6 of the Paris Agreement- '*Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.*'

Businesses in India are adopting major voluntary climate change action. 57 Indian companies have established or committed to establishing Science-based Targets. Others have established goals for renewable energy and energy efficiency. According to CDP, Indian firms are rapidly putting an internal price on carbon to accomplish their climate goals, with 25 currently doing so and another 33 aiming to do so in the next two years.

At the same time, the industrial sector is a significant contributor to national greenhouse gas (GHG) emissions, accounting for a quarter of India's total yearly GHG emissions (including fuel-use and process emissions). In addition, the industry consumes more than half of the country's total electricity, accounting for an additional 40% of national GHG emissions. The industrial sector is expected to develop as India transitions from an agricultural to a manufacturing-based economy, emphasizing the need to decouple growth from emissions.

In November 2020, the Ministry of Environment, Forests and Climate Change (MoEFCC) conducted a similar India CEO Forum on climate change to "create long-term and sustainable collaboration between the Government and the private sector." During the Forum, a Declaration of the Private Sector on Climate Change was produced, which was endorsed by 24 business leaders and the MoEFCC. ITC, Reliance Industries, TATA, Piramal, Dalmia, Mahindra, ACC Ambuja, JSW Steel, Renew, Vedanta, Dr. Reddy's, and SUN Pharma were among the companies represented. During the Forum, both the government and private companies recognized a few set achievable GHG emissions reduction as well as energy efficiency improvement goals and voluntary targets within our own companies such as promotion of renewable energy; enhanced energy efficiency; water-efficient processes; sustainable and green mobility, etc.

The Indian government established an Apex Committee for the Implementation of the Paris Agreement to increase corporate action and adopt a more structured policy approach (AIPA). Under the chairmanship of the secretary, MoEFCC, this committee will oversee India's NDCs and monitor the contribution made by the corporate sector as well as multi- and bi-lateral agencies in the field of climate change. India is also a member of the European Commission's International Platform on Sustainable Finance, which was created in October 2019 with the goal of developing globally acceptable finance standards to help the mobilization of private funding for environmentally sustainable investments.

The steps taken by Indian companies with the Government are aligned with the COP26 India Commitment as well as achieving sustainable development goals.

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