



POLICY PULSE

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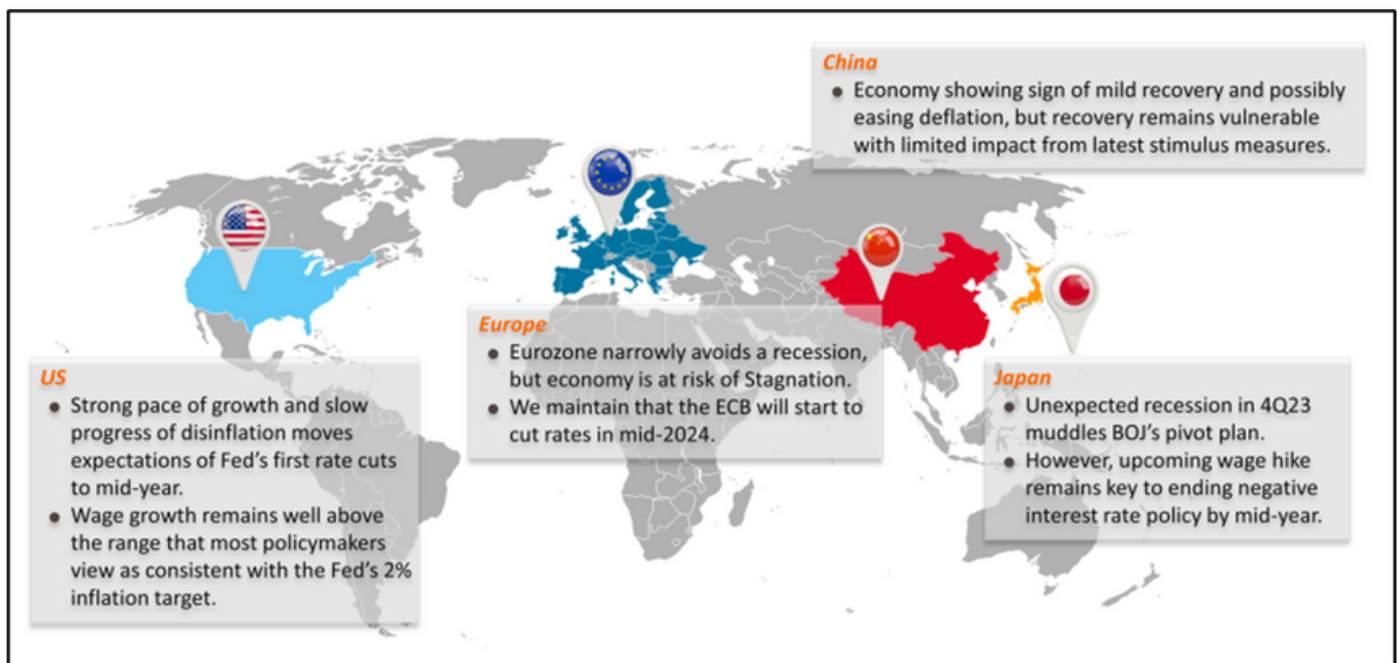
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NAVIGATING UNCERTAINTIES AMIDST SLOWDOWN

In the month of February 2024, the global economy stands at a crossroads, grappling with a complex interplay of factors that include inflation dynamics, geopolitical tensions, and the aftermath of disruptions to trade. While the world has witnessed a considerable slowdown in inflation, the pace of disinflation has stalled, adding a layer of uncertainty to the economic trajectory. This article provides an overview of the current state of the global economy, focusing on key regions and factors influencing economic dynamics.



Source: Krungsri

The global economic landscape is characterized by a significant deceleration in inflation, particularly in advanced economies (AEs). However, the recent attacks against shipping in the Red Sea have introduced new uncertainties around the inflation trajectory for the year. Despite policy rates being at restrictive levels, weak growth, and progress in curbing inflation, major advanced economy central banks are expected to implement rate cuts in 2024, excluding Japan.

The United States continues to be a standout performer, with its economic growth surpassing that of other advanced economies. Treasury Secretary Janet Yellen attributes the robust U.S. growth to the Biden administration's policies supporting businesses impacted by the COVID-19 pandemic and investments in manufacturing, clean energy, and infrastructure. The U.S. economy grew by 3.1% in 2023, exceeding expectations, while inflation declined significantly.

Yellen emphasizes the importance of U.S. economic strength in underpinning global growth. The International Monetary Fund (IMF) slightly revised its global growth outlook to 3.1% in 2024, acknowledging a "soft landing" on the horizon. However, challenges persist in various economies, as highlighted by Yellen without specifying the countries facing difficulties.

Despite the challenges and uncertainties, the global economy is anticipated to expand by 2.8% in 2024, slightly higher than the previous projection of 2.7%. This revision is attributed to stronger-than-anticipated growth in the United States, providing a more robust base for overall global growth. Nevertheless, this growth rate remains the weakest since 2002, excluding the extreme outliers of the Global Financial Crisis and the initial wave of COVID-19.

Looking way ahead to 2025, a modest improvement is expected, with global growth projected to reach 3.0%. However, this remains below the long-term average of 3.4% observed between 1980 and 2022. Several uncertainties persist, including the potential continuation of disinflation, which could impact policy rate cuts and subsequent growth in 2025. Geopolitical tensions, including the Russia-Ukraine war, Middle East conflicts, and U.S.-China tensions, add further complexity to the economic outlook.

As we navigate through the complexities of the global economic landscape in February 2024, the resilience of the global economy is evident despite challenges. The United States stands as a key driver of growth, contributing significantly to the better-than-expected performance in 2023. However, uncertainties loom, emphasizing the need for careful monitoring of inflation, geopolitical developments, and the potential impact on policy decisions by major central banks. The path forward requires a delicate balance to sustain and enhance global economic resilience in the face of evolving challenges.

INDIAN ECONOMY IN FEBRUARY 2024: STEADY GROWTH AMIDST GLOBAL CHALLENGES

In February 2024, the Indian economy is navigating a landscape marked by both global and domestic influences. The global economy is expected to maintain stability, while India, with its strengthening domestic economic activity, is poised for growth. This article delves into the assessment and outlook for the Indian economy, analyzing factors such as GDP growth, inflation, and the monetary policy stance set by the Monetary Policy Committee (MPC).

Domestic Economic Activity: According to the first advance estimates (FAE) released by the National Statistical Office (NSO), India's real gross domestic product (GDP) is projected to grow by 7.3% year-on-year in 2023-24. This growth is underpinned by robust investment activity, with gross value added (GVA) expanding by 6.9% in 2023-24, driven by the manufacturing and services sectors.

Looking ahead to 2024-25, factors such as recovery in rabi sowing, sustained profitability in manufacturing, and the underlying resilience of services are expected to support economic activity. Household consumption is anticipated to improve, private capex is on an upturn, and government thrust on capital expenditure remains. Despite these positive drivers, risks linger, including geopolitical tensions, financial market volatility, and geo-economic fragmentation.

GDP Growth Projection: The Reserve Bank of India projects the real GDP growth for 2024-25 at 7.0%. The quarterly breakdown suggests a Q1 growth of 7.2%, Q2 at 6.8%, Q3 at 7.0%, and Q4 at 6.9%. While the outlook is optimistic, risks are evenly balanced, reflecting the uncertainties in the global and domestic environment.

Inflation Dynamics: Consumer Price Index (CPI) inflation, after reaching 4.9% in October 2023, increased to 5.7% by December. The rise was primarily driven by food inflation, specifically y-o-y increases in vegetable prices. Core inflation, excluding food and fuel, softened to a four-year low of 3.8% in December.

Looking forward, the trajectory of inflation will be shaped by the evolving food inflation outlook. Factors such as rabi sowing surpassing last year's levels, seasonal corrections in vegetable prices, and effective supply-side responses may keep food price pressures in check. The pass-through of monetary policy actions and crude oil price volatility remain important considerations.

CPI Inflation Projection: For 2023-24, CPI inflation is projected at 5.4%, with Q4 at 5.0%. Assuming a normal monsoon in the following year, CPI inflation for 2024-25 is projected at 4.5%, with Q1 at 5.0%, Q2 at 4.0%, Q3 at 4.6%, and Q4 at 4.7%. Again, risks are evenly balanced, highlighting the importance of monitoring various factors influencing inflation.

Monetary Policy Stance: The MPC, in its recent meeting, acknowledged the resilience of domestic economic activity and expressed optimism backed by investment demand, positive business sentiments, and rising consumer confidence. However, it remains vigilant about large and repetitive food price shocks, geopolitical events impacting supply chains, and volatility in international financial markets.

Despite the risks, the MPC decided to keep the policy repo rate unchanged at 6.50%, with a focus on actively maintaining disinflation to anchor inflation expectations. The committee remains committed to aligning inflation with the target while supporting growth.

In February 2024, the Indian economy stands at the cusp of steady growth, driven by domestic factors and navigating global uncertainties. The resilience shown in economic indicators and the proactive monetary policy stance contribute to a cautiously optimistic outlook. As India continues to tread the path of recovery, monitoring key factors such as inflation, investment, and external risks will be crucial for sustaining and strengthening economic resilience.

FREE TRADE AGREEMENT/ BILATERAL DISCUSSIONS

INDIA/WORLD

India on verge of signing FTA deals



India is negotiating FTA with the UK, European Union, Oman and Peru and renegotiating the deals with ASEAN & South Korea.

With the EU, India recently had a seventh round of talks, which was focused on services and investment. Also, talks included key issues of India's disputes with the WTO regarding products like mobile phones and components and integrated circuits & optical instruments.

The FTA negotiation with Oman is poised to conclude shortly, given its strategic significance for India owing to Oman's geographic location. New Delhi aims to secure lowered tariffs on exports such as rice, pharmaceuticals, petroleum, and steel products while also advocating for improved entry opportunities for Indian professionals such as doctors, nurses, and engineers. Conversely, Oman is striving for increased access to goods like downstream petroleum products, fertilizer, and iron and steel products within the Indian market.

UAE expanding its reach through trade agreements



The UAE has signed GCC Free Trade Agreements with several countries and trade groups across the world to enhance its position as a global trade hub and major destination for investments.

The UAE has limited free trade agreements outside its immediate geographic area, primarily through the Gulf Cooperation Council. The UAE has signed GCC Free Trade Agreements within the GCC framework with many countries, including New Zealand, Singapore, and EFTA countries.

UAE is aiming to seal a deal with Malaysia and Peru. With Malaysia, the UAE expects to conclude a free trade agreement by the end of June. Following the agreement, Malaysia hopes that the UAE will invest in its energy, digital economy, electric vehicle and chip sectors. Mubadala Investment Co., one of Abu Dhabi's three sovereign wealth funds, is already an investor in Malaysia.

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Conversely, discussions with Peru are set to commence in the third quarter of 2024. This announcement was made on the sidelines of a WTO meeting in Abu Dhabi. Bilateral trade between the two countries amounted to slightly over US\$1 billion last year. Peru exported US\$1.03 billion worth of goods, predominantly gold, to the UAE and imported US\$44 million from the Gulf state.

MEPs approved the EU-Chile Advanced Framework Agreement

MEPs have approved the agreement, which replaces the existing Association Agreement between the EU and Chile, with the aim of strengthening the EU's political and economic ties with Chile, the third-largest trading partner in Latin America for the EU.



These agreements establish a framework for deeper and broader political and economic cooperation between aligned partners on global issues, including foreign and security affairs, sustainable development, environmental protection, climate change, sustainable energy, rule of law, and human rights. Notably, for the first time in an EU agreement, there is a dedicated trade and gender chapter, with both sides committing to eliminating discrimination against women.

Under the trade pillar, around 99.9% of EU exports will be tariff-free, except for sugar, which is expected to increase EU exports by EUR 4.5 billion. The most sensitive agricultural products are exempt from full liberalization. This includes meat, certain fruits and vegetables, and olive oil.

The agreement is anticipated to secure improved access to raw materials and clean fuels like lithium, copper, and hydrogen. It will provide equal investment opportunities for EU companies and fair access to electricity grids. Additionally, the agreement incorporates binding commitments on social, labor, and environmental obligations aligned with International Labour Organization standards and the Paris Agreement.

Furthermore, the agreement safeguards 216 EU geographical indications (GIs) in Chile, including names like Parmigiano Reggiano and Bayerisches Bier, ensuring that products can only be sold under these names in Chile if they originate from the corresponding region.

Draft guidelines for Prevention and Regulation of Greenwashing



Greenwashing is the practice of making misleading or false environmental claims about a product or service to make it appear more environmentally friendly than it is. The consequences of greenwashing can be detrimental to both the environment and consumers. This issue has become widespread in India, particularly in FMCG, textiles, and home appliances.

A study by the Advertising Standards Council of India (ASCI) revealed that a staggering 79% of green claims made in advertisements in India were misleading or exaggerated. Similarly, a market research firm YouGov survey found that 71% of Indian consumers have encountered greenwashing, with 60% expressing concerns about it. Moreover, a report by the consulting firm Accenture highlighted that only 29% of Indian consumers trust companies to provide truthful environmental claims.

The Central Consumer Protection Authority (CCPA) issued Guidelines for Prevention and Regulation of Greenwashing in 2024.

The guidelines aim to address the issue of unsubstantiated environmental claims made by businesses in their advertisements. The guidelines aim to address the issue of unsubstantiated environmental claims made by businesses in their advertisements.

Key points from the guidelines include:

- No person or organization should indulge in greenwashing.
- All green claims must be backed by verifiable evidence.
- Disclosures regarding green claims should be made either directly or through QR codes or web links.
- Generic claims such as "environmentally friendly," "green," or "clean" cannot be made without ample substantiation.
- Specific environmental claims such as carbon offsets, carbon neutral, compostable, degradable, free-of, sustainability claims, non-toxic, 100% Natural, Ozone-Safe, Ozone-Friendly, Recyclable, Refillable, Renewable must be supported with credible certification, reliable scientific evidence, or independent third-party verification.
- Aspirational or environmental claims can be made only when a clear and actionable plan outlines how these objectives will be achieved.
- Comparative environmental claims that compare one product or service to another must be based on verifiable and relevant data.
- Vague terms such as "green," "eco-friendly," "eco-consciousness," "good for the planet," "crucial-free," and similar assertions should be used only with adequate disclosures.

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- Avoid selectively presenting data to highlight environmental claims while hiding unfavourable aspects favourably.
- Clearly define the scope of environmental claims, specifying whether they relate to products, manufacturing processes, packaging, product usage, disposal, services, or service provision processes.

The guidelines also prescribe various disclosures that should be made by companies that are making green claims. The guidelines apply to all advertisements and communications for any product or service. Violations of these guidelines may attract penalties, including imprisonment and fines.

Greenwashing may offer short-term advantages for the company. Still, in the long run, it can result in detrimental consequences such as a decline in consumer trust and increased difficulty for genuinely environmentally friendly companies to distinguish themselves in the marketplace.

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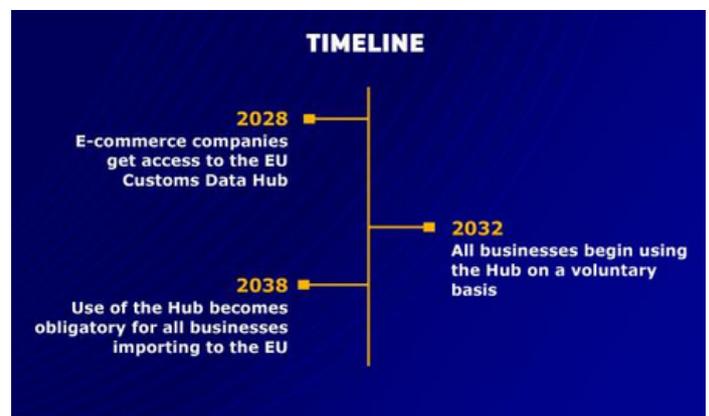
EU Internal Market Committee proposes reforms in the Custom Code

On February 22, 2024, the Internal Market Committee of the European Union (EU) finalised its stance on the reform of the EU Customs Code, outlining significant changes to the operational framework of customs authorities within the EU. The proposed reforms include (i) a new approach to e-commerce for goods coming from outside the EU,

(ii) more efficient customs checks and targeted controls and (iii) a new EU DataHub for the submission of information to EU customs authorities.

The EU Customs Code reform proposal was first presented in May 2023 to the EU Commission. The package contains three separate legal acts:

1. The main regulation, which establishes the EU Customs Code and the EU Customs Authority
2. Council regulation on simplified tariff treatment for the distance sales and elimination of the customs duty relief threshold
3. Council directive on a special scheme for distance sales of goods imported from third countries and import value-added tax (VAT)



The proposed reform aims to relieve customs authorities that have come under pressure due to the exponential growth of e-commerce and many new product standards, bans, obligations and sanctions that the EU has put in place in recent years.

In addition, this reform will significantly impact businesses by simplifying customs procedures, reducing administrative burdens, and introducing

new measures to enhance trade efficiency.

Some key changes include the establishment of a new EU Customs Data Hub and EU Customs Authority, which will streamline customs processes and improve risk management. Trusted traders will benefit from reduced administrative burdens and simplified customs formalities, while e-commerce platforms will be designated as deemed importers, shifting responsibilities for customs duties.

Moreover, the reform also abolishes the exemption for goods valued under €150, simplifies duty calculation for low-value goods, and introduces a more transparent e-commerce regime. These changes aim to make EU Customs fit for a greener, more digital era, contribute to a safer Single Market, and generate additional customs revenues of around €1 billion annually.

Getting Inside Economics

Aditya Sinha

Understanding the Marginal Propensity to Consume: a Key Player in Economic Dynamics

In the realm of macroeconomics, the Marginal Propensity to Consume (MPC) plays a pivotal role in shaping the economic conditions of a nation. This concept, rooted in the principles of Keynesian economics, helps us comprehend how changes in income influence consumer spending patterns. The MPC is a critical parameter that not only guides fiscal and monetary policies but also reflects the pulse of the broader economy.

Defining the Marginal Propensity to Consume:

The Marginal Propensity to Consume is a measure that illustrates the proportion of additional income that individuals or households are likely to spend rather than save. It is expressed as a fraction or percentage, indicating the marginal change in consumption for a unit change in income. For example, an MPC of 0.8 suggests that for every additional dollar earned, the individual is likely to spend 80 cents and save the remaining 20 cents.

Importance of MPC in Economic Conditions:

- **Multiplier Effect:** The MPC is directly linked to the multiplier effect, a phenomenon where an initial change in spending triggers a series of subsequent changes in income and output.

A higher MPC leads to a larger multiplier, amplifying the impact of initial changes in investment or government spending on the overall economy. This can result in increased production, employment, and income.

- **Consumer Spending and Economic Growth:** Consumer spending is a major driver of economic activity. Understanding the MPC helps policymakers gauge the potential impact of changes in income on consumer behaviour. A higher MPC indicates that consumers are more likely to spend additional income, boosting demand for goods and services and contributing to economic growth.
- **Monetary and Fiscal Policy Tools:** Central banks and governments utilize the MPC to formulate effective monetary and fiscal policies. By assessing how changes in interest rates or government spending affect the MPC, policymakers can fine-tune their strategies to stimulate or cool down the economy. For instance, during economic downturns, a higher MPC suggests that consumers are likely to spend a larger share of any tax cuts, making fiscal stimulus more effective.
- **Savings and Investment:** The MPC also provides insights into the relationship between savings and investment. A lower MPC implies that individuals save a larger portion of their income, reducing immediate consumption but potentially leading to higher investment

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in financial assets. On the other hand, a higher MPC signifies a greater emphasis on immediate consumption, impacting savings and long-term investment.

- **Income Inequality and Distribution:** The MPC can vary among different income groups. Understanding these variations is crucial for policymakers addressing issues of income inequality. Policies targeting the lower-income segments, where the MPC is often higher, can have a more direct impact on boosting overall demand and economic activity.

In the intricate web of economic indicators, the Marginal Propensity to Consume stands out as a key determinant of economic conditions. Its role in shaping consumer behaviour, influencing policy decisions, and driving the multiplier effect underscores its significance. As nations grapple with economic challenges and opportunities, a nuanced understanding of the MPC provides a valuable tool for policymakers and economists alike, aiding in the formulation of effective strategies for sustainable economic growth.

(The writer is an Senior Research Analyst at VeKommunicate)

Smart Manufacturing

Akriti Kumari

Smart Manufacturing: Lightweight Design

Lightweight design, also known as lightweight engineering or lightweight construction, is a concept focused on creating products and structures that are lighter in weight without compromising on performance, durability, or functionality. This approach is gaining increasing importance across various industries due to its potential to improve energy efficiency, reduce material usage, and enhance overall sustainability.

Key aspects of the lightweight design include:

- **Material Selection:** Utilizing advanced materials with high strength-to-weight ratios is fundamental to lightweight design. This includes materials such as carbon fiber composites, aluminum alloys, advanced polymers, and high-strength steel. These materials offer the strength required for structural integrity while keeping weight to a minimum.
- **Optimized Structural Design:** Lightweight design involves optimizing the structure and geometry of components to minimize material usage while maintaining structural integrity. This often involves sophisticated computer-aided design (CAD) and simulation techniques to achieve the desired balance between weight reduction and performance.
- **Integration of Components:** Integrating multiple functions into a single lightweight component can further reduce weight and complexity. For example, in automotive engineering, integrating structural components with crash absorption features can reduce overall vehicle weight while enhancing safety.
- **Advanced Manufacturing Processes:** Lightweight design often requires advanced manufacturing processes such as additive manufacturing (3D printing), precision machining, and automated assembly techniques. These processes enable the production of complex lightweight structures with high precision and efficiency.
- **Multi-Material Approach:** Combining different materials strategically, known as a multi-material approach, is common in lightweight design. This allows designers to leverage the unique properties of each material while minimizing their drawbacks, such as cost or processing complexity.
- **Environmental Considerations:** Lightweight design contributes to environmental sustainability by reducing energy consumption, emissions, and material waste throughout the product lifecycle. Lighter products require less energy to transport and operate, leading to lower carbon footprints.
- **Applications Across Industries:** Lightweight design principles are applicable across a wide range of

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industries, including automotive, aerospace, transportation, renewable energy, consumer electronics, and sporting goods. In each sector, the focus may vary, but the goal remains consistent: to achieve optimal performance with minimal weight.

Integration of Smart Manufacturing and Lightweight Design:

The integration of smart manufacturing and lightweight design enables manufacturers to achieve even greater efficiencies, cost savings, and environmental benefits. By leveraging advanced technologies and data analytics, manufacturers can optimize the lightweight design process, improve production efficiency, reduce material waste, and enhance product performance. For example, real-time data analytics can be used to optimize material selection, design parameters, and manufacturing processes, leading to lighter, stronger, and more sustainable products.

In conclusion, the integration of smart manufacturing and lightweight design represents a powerful synergy that is driving innovation and competitiveness in the manufacturing industry. By embracing these concepts, manufacturers can unlock new opportunities for growth, efficiency, and sustainability in an increasingly competitive global marketplace.

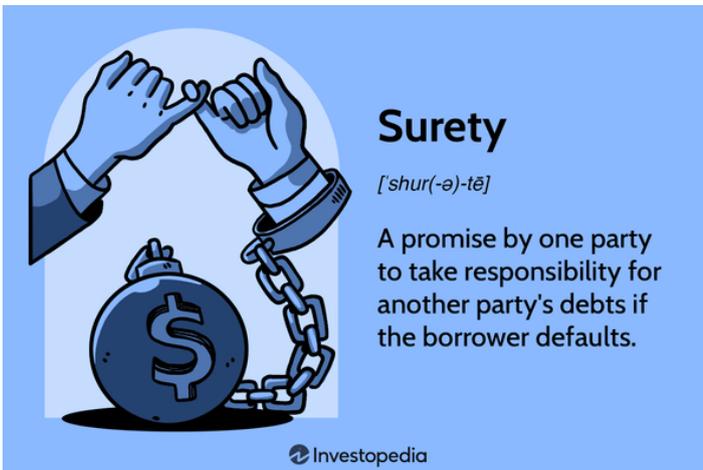
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Environment Equity

Saloni Goyal

Understanding the Significance of Surety Bonds for Business Operations

In a rapidly evolving economy like India, infrastructure development is paramount. Infrastructure projects often require contractors to provide financial guarantees to project owners, primarily the government. Traditionally, bank guarantees have been used for this purpose. However, they can lock in substantial capital that could have been better utilized for construction projects. This is where surety bonds come into play. Recently introduced in India, surety bonds provide a viable alternative to bank guarantees.



In November 2023, NHAI accepted the first Insurance Surety Bond as an innovative approach that is being used as a Bank Guarantee in the road infrastructure sector for monetization of bids. Insurance Surety Bond has been issued for the NHAI monetization bid of Toll-Operate-Transfer (TOT) bundle 14 @ 0.25% by the insurer, eliminating the requirement for any margin money. This initiative is expected to result in significant cost savings for Concessionaires, thereby boosting liquidity in the market and creating a favourable

environment for the growth and advancement of the road sector.

Surety Bonds

Surety bonds are a form of financial credit known as bond guarantees. They are legally enforceable contracts involving three parties: the principal (project owner), the contractor (obligor), and the surety provider (insurance company). They are designed to ensure that contractors abide by specific laws, providing the principal with a financial guarantee that the contractor's obligations will be fulfilled as per the agreed contract terms.

Mechanism of Surety Bonds

A surety bond protects the principal against losses resulting from the contractor's failure to fulfill their obligations. If the contractor defaults, the principal can claim the surety bond to recover the losses incurred. The surety bond insurer then assumes the liability. If a claim is paid, the insurer has the right to reimbursement from the contractor.

Forms of Surety Bonds in India

- **Unconditional Form:** In this form, any default leading to a liability on the contractor to make a payment under the contract is settled on demand. This form is similar to a bank guarantee.
- **Conditional Form:** In this form, any default leading to a liability on the contractor is settled at the discretion of the surety insurer based on the facts and circumstances of the case.

Types of Surety Bonds in India

- **Bid Bonds:** These are issued to contractors during the bidding process. They guarantee that the contractor will enter into a contract if their bid is accepted.
- **Performance Bonds:** These are issued after the contract is awarded and guarantee that the contractor will complete the project as per the contract terms.
- **Maintenance Bonds:** These bonds are used in certain projects where the contractor is responsible for project maintenance during the defect or maintenance period.

Acquisition Process of Surety Bonds in India

The process of obtaining surety bonds involves the contractor submitting a bond application to the surety bond insurer, along with required documentation such as financial statements, project details, and credit score. The insurer then evaluates the contractor's financial strength, risk profile, and track record before deciding on the bond amount and premium. Once the bond is issued, the contractor provides it to the principal as proof of financial security.

Benefits of Surety Bonds

- They provide additional protection to project owners, reducing their risk of financial losses due to delays or cost overruns.
- They free up funds that the contractor can use to increase revenues by bidding for additional tenders or new contracts.
- They help the contractor save bank limits to reduce debt, such as working capital fund expansion plans.

- They are a more cost-effective option than bank guarantees.

Conclusion

Surety bonds play a vital role in mitigating financial risks associated with large-scale projects. Globally, these bonds are being issued for construction, infrastructure development, power & renewable energy, manufacturing and other public projects. India may expand surety bonds to other sectors in the future.

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