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TODAY'S ANALYSIS

(25 February 2025)

TOPICS TO BE COVERED

- **C40 CITIES & UN HABITAT PARTNERSHIP**
- **IRDAI SETS UP PANEL TO REVIEW INSURANCE LAWS**
- **ECONOMIC SURVEY: CHAPTER 3**
 - **GLOBAL ECONOMIC UNCERTAINTY & INDIA'S EXTERNAL SECTOR**

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C40 CITIES & UN HABITAT PARTNERSHIP

C40 Cities & UN-Habitat join forces to drive bold action for more resilient, sustainable and inclusive cities



- **C40 Cities** and **UN-Habitat** have formed a landmark partnership aimed at transforming urban planning.
- **Objective:** To create a **new Urban Planning Accelerator** that helps cities reduce emissions by **25% by 2050**, while promoting **safer, fairer**, and more **inclusive urban environments**.
- **Focus:** The initiative prioritizes solutions that address climate challenges and create resilient, equitable urban communities.

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URBAN PLANNING CHALLENGES

- **Urban Expansion:** Urban areas are growing **50% faster** than population growth, particularly in **climate-vulnerable areas**.
- **Forecast:** Without intervention, cities could **triple in size by 2050**, exacerbating **emissions, urban sprawl**, and **inequality** (UNCCD, 2017).
- **Need for Action:** The partnership focuses on reshaping urban development to address these pressing issues.

KEY OBJECTIVES OF URBAN PLANNING ACCELERATOR

- **Prioritizing Compact Cities:** Promoting **regenerative urban areas** over urban sprawl.
- **Encouraging Mixed-Use, Connected Neighborhoods:** Aiming to reduce **car dependency** and foster **vibrant communities**.
- **Regulating Climate-Risk Areas:** Ensuring **sustainable construction** and **protecting natural ecosystems** to guard against extreme weather events.

EXPERT PERSPECTIVES

- **Mark Watts, Executive Director of C40 Cities:**
 - Urban planners play a key role in addressing **climate challenges**.
 - Compact, walkable cities are essential for cutting **pollution** and creating safer,

livable neighborhoods.

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- Collaboration with **UN-Habitat** empowers cities to act **decisively and equitably** for all residents.
- **Anacláudia Rossbach, Executive Director of UN-Habitat:**
 - Sustainable, resilient, and inclusive cities are essential for both **people** and the **planet**.
 - **Densification** and **regeneration** of urban areas are critical to **preserve ecological functions** while addressing the **global housing crisis**.
 - The collaboration aims to combat **informal settlements** and **slums**, which affect **1.1 billion** people globally.

THE URBAN SHIFT FORUM

- **Location:** The partnership was announced at the **Green & Resilient UrbanShift Africa Forum** in **Nairobi**.
- **Forum Goals:** To bring together stakeholders from **Africa**, including national and local governments, investors, and civil society organizations, to exchange best practices, foster **partnerships**, and advance **climate ambition**.

6. Future Developments

- **Announcement of the Accelerator:** Further details on the **Urban Planning Accelerator** will be announced later this year.

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ABOUT UN HABITAT

Overview of UN-Habitat

- **Role:** UN-Habitat is the **focal point** within the United Nations for all issues related to **urbanization** and **human settlements**.
- **Mandate:** The **UN General Assembly** has mandated UN-Habitat to promote **socially** and **environmentally sustainable** towns and cities, with the ultimate goal of ensuring **adequate shelter for all**.
- **Mission:** It works in partnership with various organizations to create **inclusive, safe, resilient, and sustainable cities** and communities.
- **Focus:** UN-Habitat views urbanization as a **positive force** that can transform lives, reduce **inequality**, combat **discrimination**, and help **eradicate poverty**.
- **Headquarters Location:** The headquarters of UN-Habitat is located in **Nairobi**, Kenya.

3 TIER GOVERNANCE STRUCTURE OF UN HABITAT

- **UN-Habitat Assembly:**
 - **Composition:** It consists of the **193 member states** of the United Nations.
 - **Frequency:** The Assembly convenes every **four years**.

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- **Role:** It serves as a universal body for decision-making within UN-Habitat.
- **Executive Board:**
 - **Composition:** The Board includes **36 member states**, which are elected by the UN-Habitat Assembly.
 - **Frequency:** It meets **three times a year**.
 - **Role:** The Executive Board enhances **oversight** by member states over the operations of UN-Habitat.
- **Committee of Permanent Representatives (CPR):**
 - **Composition:** Made up of permanent representatives from member states.
 - **Frequency:** The CPR meets **twice every four years** in an open-ended manner.
 - **Role:** The CPR ensures coordination and smooth functioning between UN-Habitat and its stakeholders.

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IRDAI SETS UP PANEL TO REVIEW INSURANCE LAWS

- The **Insurance Regulatory and Development Authority of India (IRDAI)** has established a **7-member committee** to review proposed amendments to the **Insurance Act, 1938**.
- The **committee** will be led by **Dinesh Khara**, the former chairman of **State Bank of India**.
- The committee's role is to suggest a framework for implementing the proposed amendments, which include raising the **Foreign Direct Investment (FDI)** limit in the insurance sector.

Committee Mandate

- The committee is tasked with:
 - Suggesting a **framework** and rules for implementing provisions like **100% FDI**, **composite licenses**, and **new entrants** in the insurance sector.
 - Reviewing how these provisions can be activated through **regulations** and **circulars**.

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KEY FACTS ABOUT INSURANCE ACT, 1938

- It serves as the **primary regulatory framework** for the **country's insurance industry** and led to the establishment of IRDAI.
- The Act defines the scope of life, general, and health insurance in the country and **regulates the role of insurance agents.**
- It regulates the relationship between an insurer, its **policyholders, shareholders, and the regulator - IRDAI.**

KEY FOCUS OF THE AMENDMENTS

- The FDI limit for the insurance sector was **26% in 2000.**
- It was raised to **49% in 2015.**
- It was raised to **74% in 2021.**

- **Increase in FDI Limit:** The government has proposed raising the **FDI limit** in the insurance sector from **74% to 100%.**
 - **Conditions:** This enhanced limit will be available for companies that invest the entire premium in India.
 - **Simplification:** The current rules and conditions related to foreign investment will be reviewed and simplified.

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- **Amendments to Key Acts:**

- **Insurance Act, 1938:** The principal law governing the insurance sector in India.
- **Life Insurance Corporation Act, 1956:** Relevant to Life Insurance Corporation of India.
- **Insurance Regulatory and Development Authority Act, 1999:** Governs the operations of IRDAI.

IMPACT OF THE AMENDMENTS

- **Boost to Sector Growth:** Increasing the FDI limit will encourage more investment in the insurance sector, leading to:
 - Higher **penetration** of insurance products.
 - Entry of new **players**, driving competition.
 - **Job creation** across the country.
- **Insurance Market Landscape:**
 - Currently, there are **25 life insurance companies** and **34 non-life insurance firms** in India, which include **Agriculture Insurance Company of India Ltd** and **ECGC Ltd**.

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ADDITIONAL REFORMS

- **FDI Rules and Profit Repatriation:** Along with the FDI amendment, the government will address the rules on how **investments** will be made and **profits repatriated**.
- **Composite Licenses:** The reforms will also include provisions for **composite licenses**, which allow companies to operate in both life and general insurance.

TIMELINE & NEXT STEPS

- **Internal Consultations:** The government has almost completed internal consultations on the amendments.
- **Next Steps:** The proposed amendments and rules will be included in a **Bill** that will be introduced in **Parliament** for approval.
- Once approved, the rules related to **FDI**, **composite licenses**, and other reforms will be notified to enable the changes.

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ECONOMIC SURVEY: (CHAPTER 3)

GLOBAL ECONOMIC UNCERTAINTY & INDIA'S EXTERNAL SECTOR (PART 3)

Part 14: Performance of Portfolio Flows

Foreign Portfolio Investment (FPI) Trends:

- **Positive Trend (June to September 2024):** FPIs turned net buyers in Indian equities, injecting substantial capital into the market after a period of selling in April-May 2024.
- **Reversal of Trend (October to November 2024):** A combination of factors such as slowing earnings growth, high valuations, geopolitical tensions, and developments in China led FPIs to withdraw significant funds. The outflows amounted to USD 11.5 billion in October 2024 and USD 2.5 billion in November 2024.
- **Renewed Optimism (November to December 2024):** Despite earlier outflows, FPIs became more optimistic about India's economic fundamentals, leading to a net inflow of USD 3.1 billion in December 2024. The optimism was driven by India's strong macroeconomic fundamentals, favorable business environment, and robust economic growth.

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- **Cumulative Flows (April to December 2024):** The total FPI inflows during this period were USD 10.6 billion, down from USD 31.7 billion during the same period in FY24. The volatility underscores how susceptible equity and bond markets are to global developments.

Factors Affecting FPI Flows:

- **Global Influences:** The shifts in FPI sentiment were largely influenced by global factors such as high valuations, geopolitical risks, and economic conditions in major markets like China.
- **India's Long-Term Appeal:** Despite short-term volatility, India's economic fundamentals continue to attract long-term investment in the equity market.

Part 15: Impact of Indian Government Bonds (IGBs) Inclusion

Bond Market Activity Post-Inclusion:

- **Global Bond Index Inclusion (October 2023):** The inclusion of Indian Government Bonds (IGBs) in global indices, such as JP Morgan's Emerging Market (EM) Bond Index, has significantly boosted debt inflows.

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- **Debt Segment Flows (Oct 2023 to Nov 2024):**

- **Heightened FPI Activity:** Between October 2023 and June 2024, cumulative debt flows totaled ₹ 1.1 lakh crore.
- **Post-Inclusion Inflows (July to November 2024):** From the effective date of inclusion, FPIs invested ₹ 62,431 crore into the debt segment.
- **FAR Securities:** India's Fully Accessible Route (FAR) securities crossed the USD 20 billion mark within nine months after their inclusion in the JP Morgan EM Bond Index.
- **FY25 Inflows (up to December 15, 2024):** India's FAR bonds saw a net inflow of USD 3 billion, with assets under custody standing at USD 28 billion.

Interest Rate Differentials:

- **India vs. US Yield Gap:** The yield differential between India and the US has played a significant role in driving FPI debt flows.
- **Widening Yield Differential (Nov 2023 to March 2024):** As the yield differential widened in favor of India, FPI inflows surged.
- **Narrowing Yield Gap (May to July 2024):** Despite the narrowing yield gap, India's strong growth and stable inflation kept it attractive to foreign investors.

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Part 16: Government Securities (G-Secs) Demand

Increase in G-Secs Demand:

- **Positive Impact on Borrowing Costs:** The rising demand for Indian G-Secs is expected to lower borrowing costs for the government, as yields soften due to higher demand and limited supply.
- **Foreign Investor Confidence:** The inclusion of Indian bonds in global indices signals a growing appetite among foreign investors to include Indian government securities in their portfolios, reflecting trust in India's growth prospects and financial stability.

Part 17: Other External Sector Developments

Non-Resident Indian (NRI) Deposits and ECBs:

- **NRI Deposits (FY25):** NRI deposits saw significant growth, with net inflows rising to USD 10.2 billion in H1 FY25, up from USD 5.4 billion in the same period of FY24.
- **External Commercial Borrowings (ECBs):** Net ECB inflows rose sharply to USD 9.2 billion from USD 2.8 billion in the previous year, reflecting greater appetite for borrowing from foreign sources.

Forex Reserves and Buffer Against External Shocks:

- **Forex Reserves (Dec 2024):** India's foreign exchange reserves stood at USD 640.3 billion, enough to cover approximately 90% of external debt.

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- **Reserve Adequacy:** India's reserves provide a robust buffer against external vulnerabilities. The import cover, a key indicator of external sector stability, stood at 10.9 months as of December 2024, well above the IMF's recommended three-month import cover.

Part 18: Foreign Exchange Trends

Indian Rupee (INR) Performance:

- **INR Depreciation (FY25):** The INR depreciated by 2.9% in the first nine months of FY25, performing better than several major currencies such as the Canadian Dollar, South Korean Won, and Brazilian Real.
- **Impact of Global Factors:** The depreciation of the INR was largely driven by the strengthening of the US dollar amidst geopolitical tensions and uncertainty around the US elections.

Effective Exchange Rate Trends:

- **Nominal Effective Exchange Rate (NEER):** The INR's NEER remained stable in the 90-92 range from April to November 2024, indicating a relatively stable currency amidst global uncertainties.

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- **Real Effective Exchange Rate (REER):** The REER appreciated from 103.2 in April 2024 to 107.2 in December 2024, reflecting improved competitiveness in India's tradable sector relative to foreign markets.

Part 19: External Debt Position of India: Economic Survey 2024-25

Stability of External Debt:

- **Stability:** India's external debt has remained stable over the past few years, contributing to external sector stability. This stability is especially significant amid geopolitical challenges worldwide.

External Debt to GDP Ratio:

- **Ratio Increase:** The external debt to GDP ratio rose slightly from 18.8% at the end of June 2024 to 19.4% at the end of September 2024.

Short-Term Debt:

- **Decrease in Share:** The share of short-term debt (maturity of up to one year) decreased to 18.8% at the end of September 2024 from 19.4% at the end of June 2024.
- **Short-term Debt Ratio:** The short-term debt ratio to foreign exchange reserves decreased to 18.9% from 20.3% in the same period.

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Currency Composition:

- **External Debt Denomination:**

- **US Dollar:** 53.4%
- **INR:** 31.2%
- **SDR:** 5%
- **Euro:** 3%

Current Account and Merchandise Trade:

- **Merchandise Exports:** Showed moderate growth due to a slowdown in external demand.
- **Merchandise Imports:** Increased significantly due to strong domestic demand.
- **Services and Remittances:** Net services receipts and growing remittances helped cushion the rise in the merchandise trade deficit.

Capital Inflows:

- **Positive Net Capital Inflows:** Observed in the economy.
- **FDI:** Gross FDI inflows grew in the first eight months of FY 25 compared to the previous year, but net FDI growth was restrained by an increase in repatriation.

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- **FPI:** Foreign Portfolio Investment inflows were volatile in FY25, showing mixed trends.

Global Trade Dynamics:

- **Shift from Globalization to Protectionism:** The shift has increased uncertainty in global trade.
- **India's Strategic Roadmap:** India needs a new strategic trade roadmap to remain competitive and enhance participation in global supply chains.
- **Reducing Trade Costs:** Improving facilitation is crucial for boosting export competitiveness.
- **Continuous Investment in Quality:** Necessary for sustained growth.

Role of Governance and Private Sector:

- **Focus on Quality and Efficiency:** Government and private sector need to focus on improving quality and efficiency.
- **Expanding Market Share:** Despite global trade challenges, improving these factors will help India expand its share in overseas markets and generate resources for higher capital formation.
- **Sustaining Economic Growth:** This approach will enable India to sustain higher economic growth rates over time.

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MCQs

1. The Urban Planning Accelerator established by UN Habitat & C40 Cities aims at which of the following?

1. Help Cities reduce emissions by 25% by 2030.
2. Promoting safer, fairer, and more inclusive urban environments.

- (A) Only 1
(B) Only 2
(C) Both 1 & 2
(D) Neither 1 nor 2

Ans. (B)

3. Consider the following statements wrt UN Habitat and mark the correct one:

1. UN Habitat is a specialised agency under the UN system.
2. It is headquartered in Kenya
3. It aims at eradicating poverty among other aims of it.

- (A) Only 2
(B) Only 1 & 2
(C) Only 2 & 3
(D) All of the above.

Ans. (C)

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3. Consider the following statements and mark how many of them is/are correct?
1. 100% FDI is allowed in Insurance Sector in India
 2. IRDAI, the regulating authority of the insurance sector is a statutory body.
 3. The Insurance Act, 1938 regulates the relationship between an insurer, its policyholders, shareholders, and the regulator - IRDAI.
- (A) Only 1 statements is correct.
- (B) Only 2 statements are correct.
- (C) All the statements are correct.
- (D) None of the statements are correct

Ans. (B)

4. Which of the following factors impact the FPI flows in India?
1. Economic conditions in major markets like China & USA.
 2. Long term appeal of India.
 3. Geopolitical Uncertainties.
- (A) Only 2
- (B) Only 1 & 3
- (C) Only 2 & 3
- (D) All of the above.

Ans. (D)

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5. In which currency is India's highest amount of External Debt denominated?

(A) US Dollar

(B) Euro

(C) INR

(D) SDR

Ans. (A)



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