Morgan Stanley

Research
India

Economics Chartbook

May 28, 2009

India Economics

Gradual Recovery Underway

Growth trend close to 16-year lows: Industrial production growth touched a 16-year low of -2.3% YoY in March 2009 from the peak of 13.6% YoY during the quarter ended January 2007. Exports (dollar terms) also remained weak, declining 23.6% YoY during the quarter ended March 2009.

Recovery to begin in June-July: We expect industrial production growth to start recovering only gradually, to reach 8% by March 2010. Lagged impact of monetary policy and fiscal policy response should support a gradual acceleration in private consumption and increase in infrastructure spending. Leading indicators such as US ISM new orders index also imply a potential recovery in exports. We expect GDP growth of 5.8% and 6.8% in F2010 and F2011, respectively.

Positive political developments to enhance the scope of recovery : We see a two-staged boost to the macro outlook due to a change in political environment. In our view, just the improvement in sentiment due to the formation of a stable government is having an immediate positive impact on growth as this development has opened the doors for capital market funding for India. A second-stage boost can come from execution of reforms. Any quick aggressive policy response will mean upside to our forecasts.

Full recovery to 8-9% growth will be difficult: Three reasons why: 1) our economics team expects a tepid recovery in G7 economies. 2) The starting point of a higher level of the government's revenue deficit and public debt implies some payback will be inevitable in the form of reduced government consumption spending. 3) The domestic banking system's ability to deliver strong credit growth is likely to be constrained in the near term due to a sharp rise in non-performing loans.

Risks to our base-case estimates: We believe that any variation in global growth will influence India's outlook via its impact on capital inflows in the country and external demand. Based on G7 bull-bear case estimates, we see bull scenario growth for India at 6.8% in F2010 and 7.8% in F2011 and bear case at 4.7% in F2010 and 6% in F2011.

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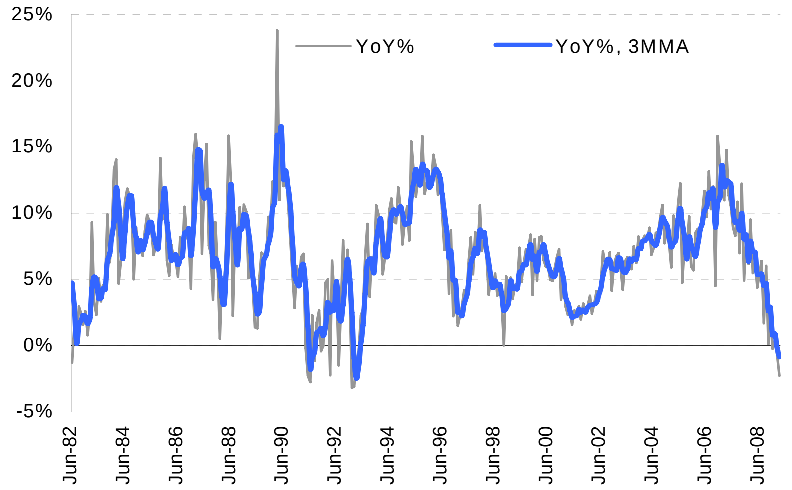
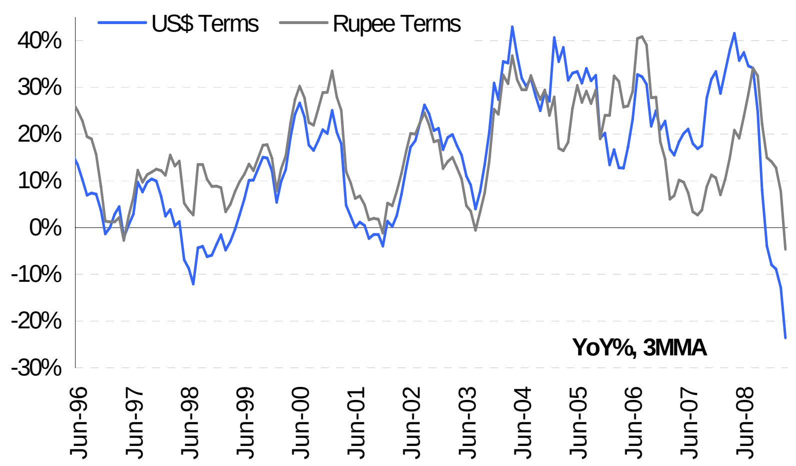
Industrial Production (IP) Close to 16-year Lows



Source: CSO, CEIC, Morgan Stanley Research

Export Growth at an All-time Low



Source: Ministry of Commerce, Morgan Stanley Research

- **Industrial production to remain close to zero over the next two months:** Industrial production growth touched a 16-year low of -2.3% YoY in March 2009 from the peak of 13.6% YoY during the quarter ended January 2007.
- **Unprecedented external demand shock:** India's exports (dollar terms) declined by 23.6% YoY during the three months ended March 2009 from the peak of 41.5% YoY registered during the three months ended April 2008.

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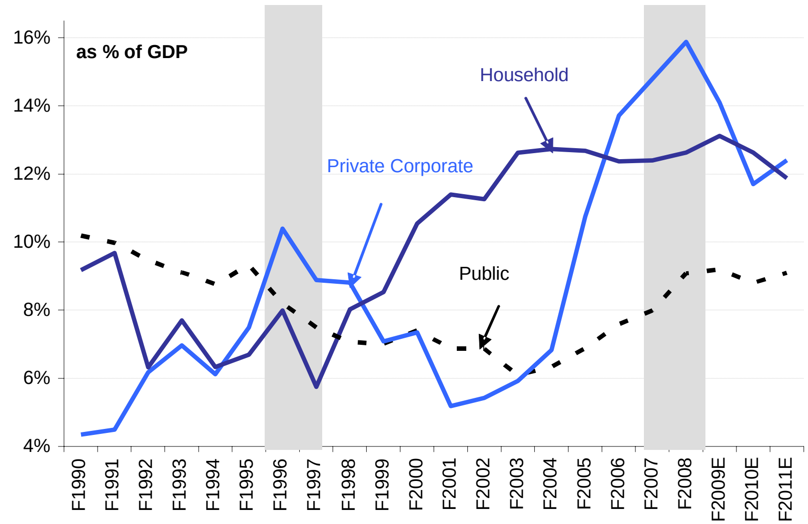
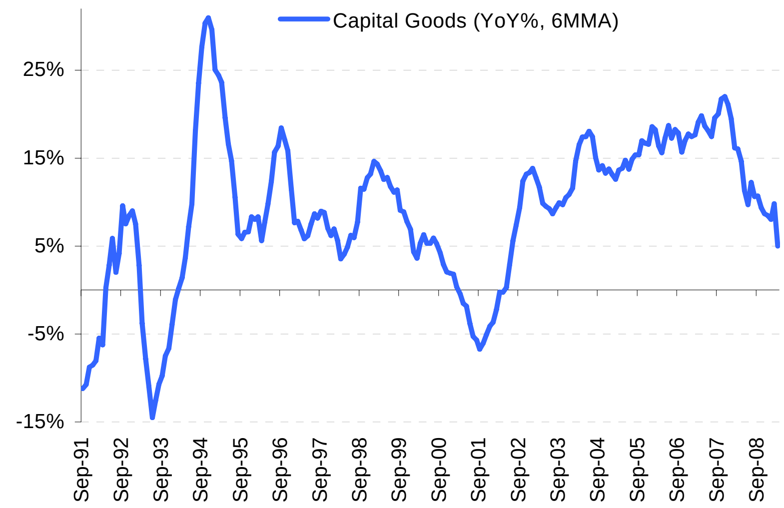
Private Corporate Capex – The Weakest Link

Private Corporate Capex Is a Major Drag



E = Morgan Stanley Research estimates; Source: CSO, Morgan Stanley Research

Capital Goods Production Growth Decelerating

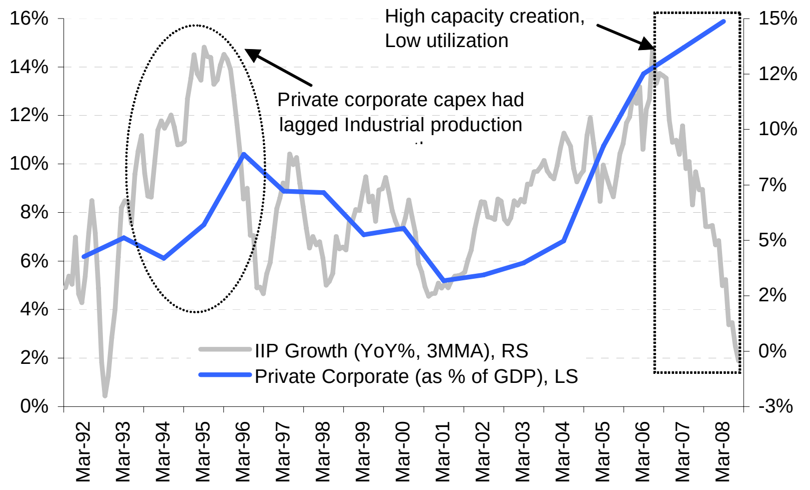


Source: CSO, CEIC, Morgan Stanley Research

- **A number of indicators show that investments growth has decelerated sharply over the last 12 months**. Capital goods output growth slowed to 6.2% YoY during the three months ended March 2009 from the peak of 24.2% YoY during the three months ended October 2007.
- **Capex growth to weaken further:** Private corporate capex, which was one of the main drivers of overall investment growth, is taking the biggest hit. Private corporate sector capex is estimated to have declined to 14.1% of GDP in F2009 and should decline further to 11.7% in F2010 from the peak of 15.9% in F2008.

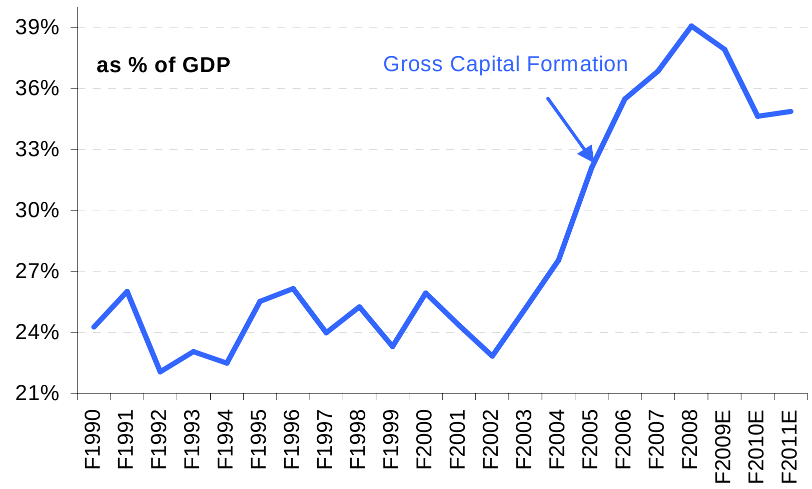
Operating Leverage Will Still Be a Burden in F2010

Private Corporate Capex and Industrial Production



Source: CSO, CEIC, Morgan Stanley Research

Private Corporate Capex to Drag Total Investments Down

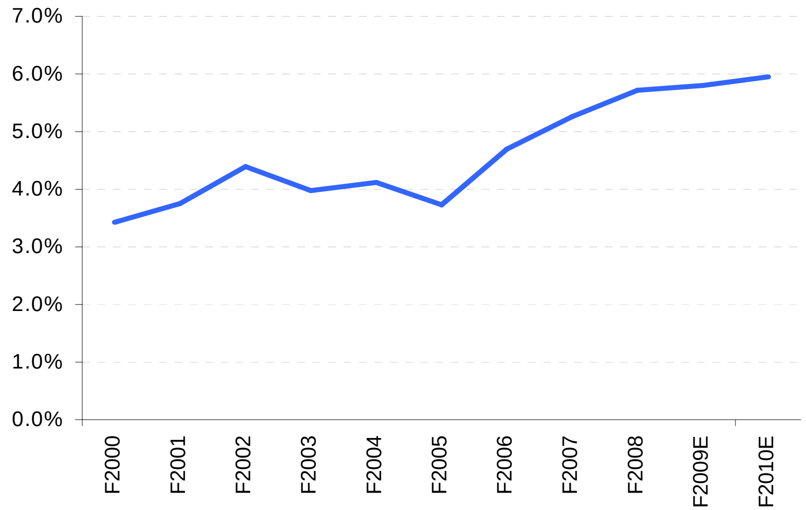


E = Morgan Stanley Research estimates
Source RBI, CEIC, CMIE, CSO, Morgan Stanley Research

- **Capex growth will likely decelerate for longer as capacity utilization remains low:** The corporate sector is suffering from large operating leverage. The gap between corporate capacity for growth and realized growth is expected to be much wider in the current cycle than in the mid-1990s; the capex binge has been much larger in the current cycle. Private corporate capex to GDP increased to 15.9% as of F2008 from 6.8% in F2004. However, industrial production, which is a proxy for utilization of capacity created, contracted 2.3% YoY in March 2009 from the peak of 13.6% YoY during the quarter ended January 2007.

Infrastructure Spending to Remain Supportive

India: Infrastructure Investment (% of GDP)



E= Morgan Stanley Research estimates; Source: Morgan Stanley Research

India: Projected Infrastructure Spending (US$ billion)

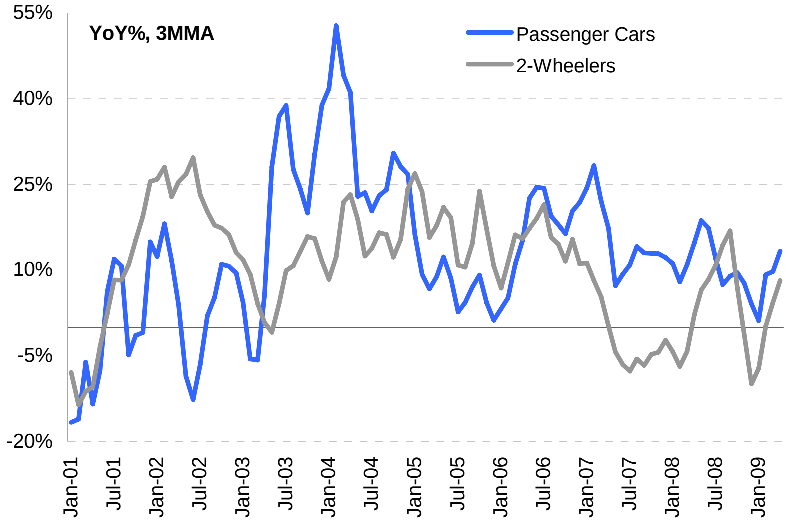
Sector	F2006	F2007	F2008	F2009E	F2010E
Electricity, Gas and Water	18.5	22.2	27.9	28.5	32.2
Railways	3.5	4.0	5.9	6.1	7.8
Communication	7.4	10.3	18.2	17.4	16.6
Roads	5.4	5.8	7.8	7.6	8.3
Ports	1.3	1.8	1.9	2.1	2.2
Airports	0.5	1.1	1.5	1.7	2.2
Urban Infrastructure	1.6	2.9	3.9	4.7	5.6
Total	**38.1**	**48.0**	**67.1**	**68.1**	**75.0**
As % of GDP	**4.7%**	**5.3%**	**5.7%**	**5.8%**	**6.0%**

E= Morgan Stanley Research estimates; Source: Morgan Stanley Research

- **Increase in infrastructure spending:** While low capacity utilization is resulting in weak private industrial capex, infrastructure spending has held up better. As per our estimates, infrastructure spending in India would have been about 5.8% of GDP in F2009. We believe the new government will increase effort to accelerate the infrastructure spending from the second half of F2010, particularly for sectors such as roads, electricity, and railways.

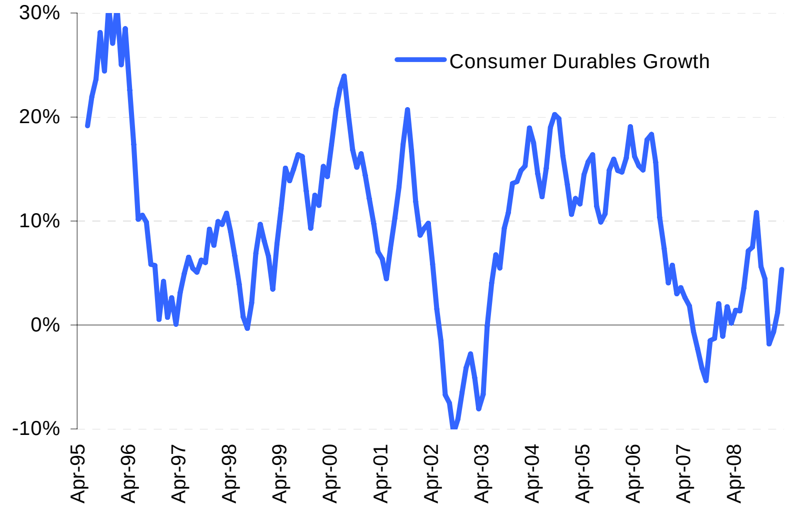
Consumption Showing Signs of Improvement

Discretionary Consumption Spending Improving on the Margin – Auto Sales



Source: Bloomberg, Morgan Stanley Research

….Consumer Durables Production



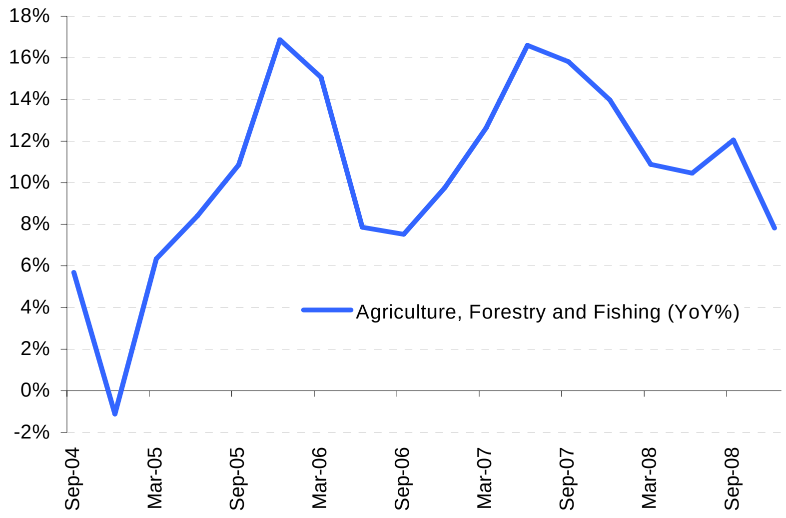
Source: Bloomberg, Morgan Stanley Research

- **Household spending, a key driver of growth, is improving:** Two-wheeler sales increases accelerated to an average of 8.2% YoY over February-April 2009 numbers compared with a decline of 9.9% YoY in October-December 2008. Passenger car sales accelerated to 13.3% YoY over the three months ended April 2009 compared with growth of 1.2% YoY registered in the previous three months. Similarly, after a decline of 1.8% YoY during the quarter ended December 2008, consumer durables production growth accelerated to 5.4% YoY during the quarter ended March 2009.

II. What Is Helping Consumption Improvement?

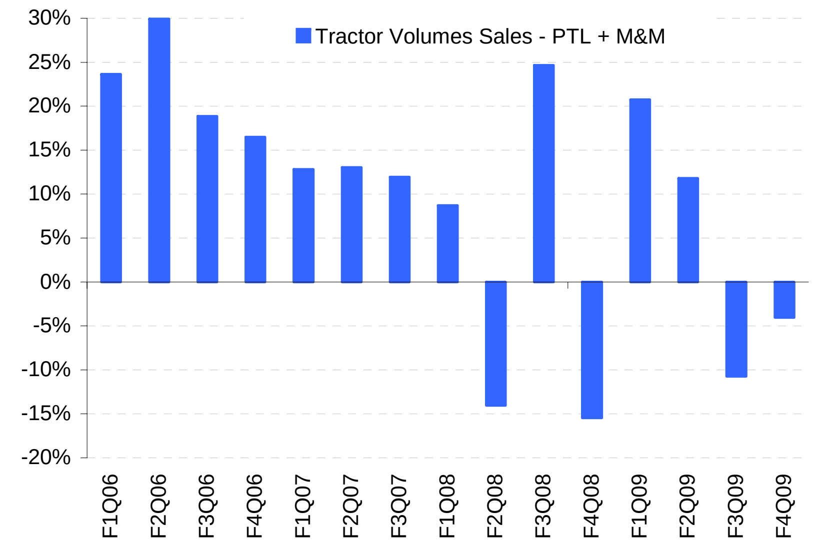
Is It Driven by Traditional Income Sources of Rural Demand ?

Farm Sector Nominal GDP growth



Source: CEIC, Morgan Stanley Research

Tractor Sales Volume

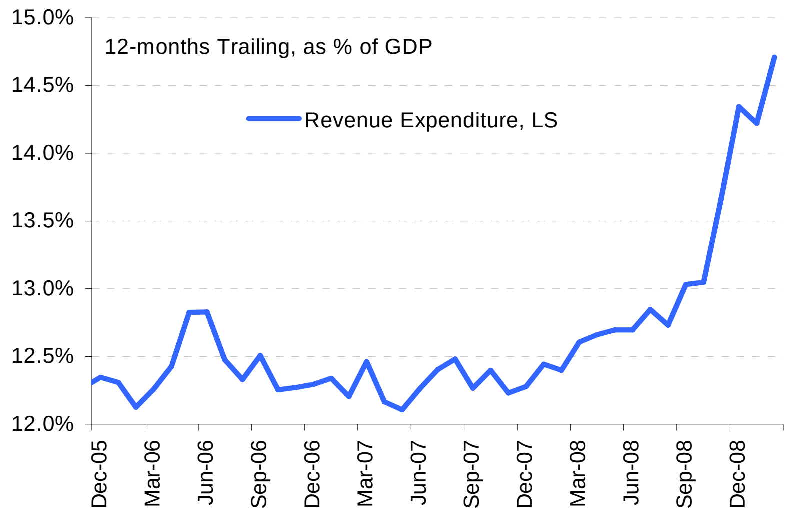


** Punjab Tractors and Mahindra & Mahindra . These two roughly accounts for ~40% of total market share Source: CRISIL, company data, Morgan Stanley Research*

- **Traditional sources of rural income have remained steady:** Recent slight improvement in the private consumption trend has raised a question about the drivers for such a trend. We believe that the indigenous sources of rural income are unlikely to have witnessed acceleration considering the trend in nominal farm income growth (see chart above).

More Likely Fiscal Policy….

Central Government Revenue Expenditure



Source: Ministry of Finance, RBI, Morgan Stanley Research

India's Consolidated Fiscal Deficit

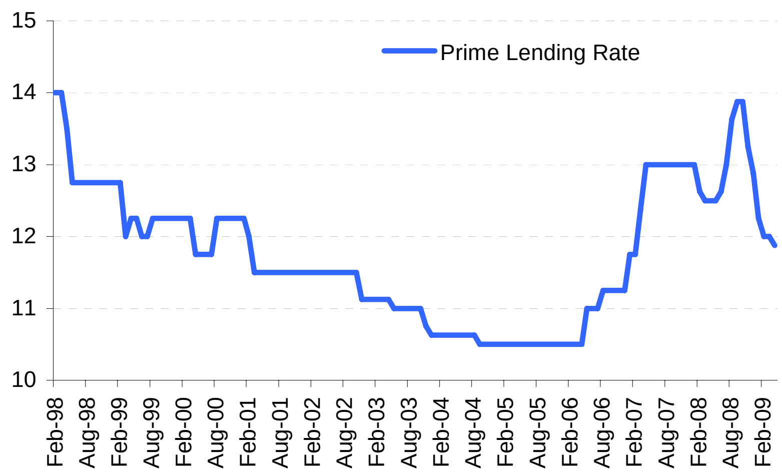
(As % of GDP)	F2007	F2008	F2009E	F2010E
Central Fiscal Deficit	3.5%	2.7%	6.0%	6.0%
State Fiscal Deficit	1.9%	2.3%	3.5%	3.3%
Sub-total	**5.3%**	**5.0%**	**9.5%**	**9.3%**
Inter-government adjustments	0.3%	-0.1%	-0.1%	-0.1%
Combined Headline Deficit	**5.6%**	**4.9%**	**9.4%**	**9.2%**
Major Off-budget expenditure items	1.8%	1.9%	2.9%	0.3%
Overall Fiscal Deficit	**7.4%**	**6.8%**	**12.4%**	**9.5%**

**Here the off-budget items include expenditure on food, fertilizer, oil and waiver of farm loans. We have included the full amount of farm loan waiver in the year in which the expenditure has been incurred i.e. F2009. The government has planned to amortize the cost over the period of four financial years. Source: RBI, Economic Survey, Ministry of Finance, Morgan Stanley Research; E= Morgan Stanley Research estimates*

- **Government policy response supporting domestic demand:** We think that the slightly better-than-expected performance in certain domestic demand-driven sectors is due to the sharp increase in government spending from October 2008. The government's revenue expenditure growth accelerated from an average of 25.2% during April-September 2008 to 67.1% during the quarter ended December 2008, and 51.7% during the two months ended January-February 2009.
- Consolidated fiscal deficit (including off-budget expenditure) is estimated at 12.4% of GDP in F2009 (12 months ended March 2009) compared with 6.8% of GDP in F2008. A large part of the expansion in deficit came through in the last six months of the financial year.

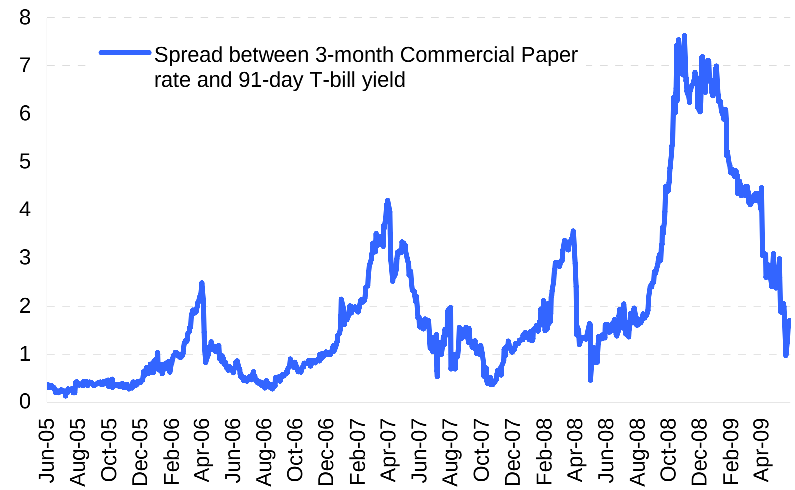
…and Monetary Policy

Prime Lending Rate



Source: CEIC, Morgan Stanley Research

Spreads: Commercial Paper Rate over 91-day T-bill yield



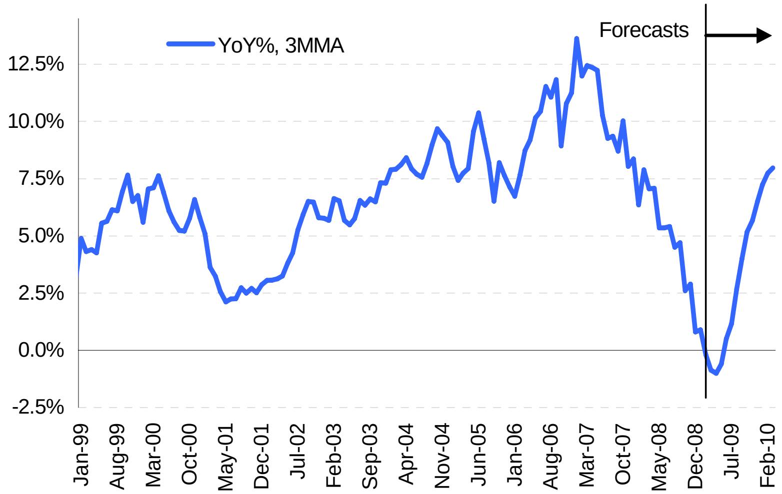
Source: Bloomberg, Morgan Stanley Research

- **Monetary policy traction also supporting gradual recovery in discretionary consumption:** The aggressive monetary policy measures of the Reserve Bank of India (RBI) are also beginning to gain traction. Although initially banks were reluctant, over the last two months they have been cutting lending rates across the board. The improving liquidity environment is also reflected in narrowing spreads. The spread of three-month CP rates over 91-day T-bill yields have compressed to 163bp currently from the peak of 763bp at end-October 2008.

III. What Will Be the Pace of Recovery?

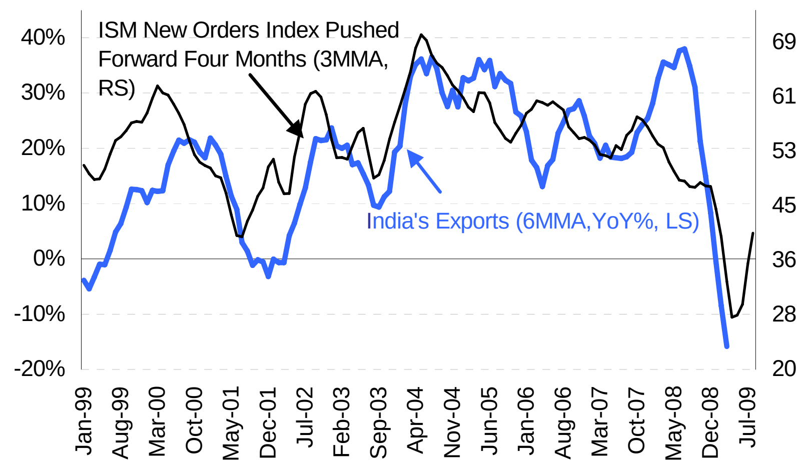
Recovery to Begin in June-July

Industrial Production to Recover in Next Two Months



Forecasts are Morgan Stanley Research estimates
Source: CSO, CEIC, Morgan Stanley Research

India's Exports vs. US ISM New Orders Index



Source: Ministry of Commerce, Bloomberg, Morgan Stanley Research

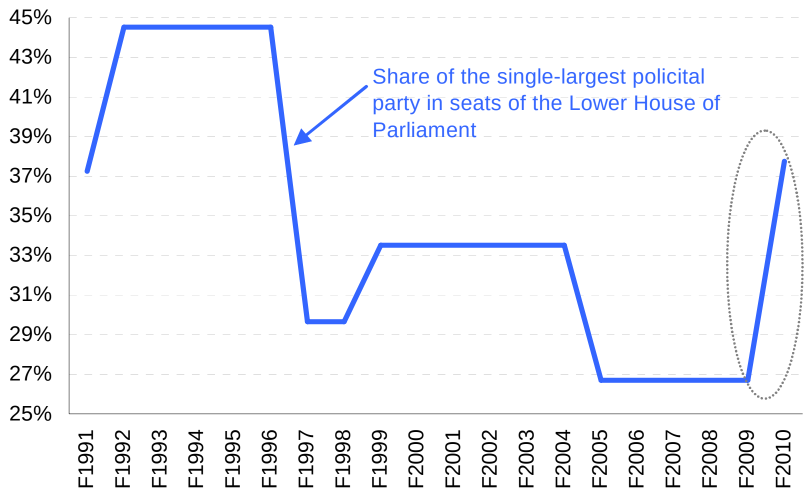
- **IP growth recovery to begin in June-July:** We expect industrial production growth to start recovering only gradually, to reach 8% YoY by March 2010. The lagged impact of monetary policy and fiscal policy response should support a gradual acceleration in private consumption, infrastructure spending, and less bad exports trend.

- **External demand – worst is likely behind us:** While we maintain our view that exports will remain weak due to a global slowdown over the next three to four months, we expect the YoY decline to narrow from here (i.e., exports would still decline but by a smaller extent). The second-order derivative for the US ISM New Orders Index (three-month moving average), which leads export growth by about four months, has improved for the fourth consecutive month (40.5 in April 2009 vs. 35.8 in March and 29.8 in February 2009).

IV. General Elections Result Will Enhance the Scope of Recovery

General Elections Result – A Huge Surprise

Share of Single Largest Party in the Parliament Seats Has Increased



Expecting Progress in Key Macro Reforms

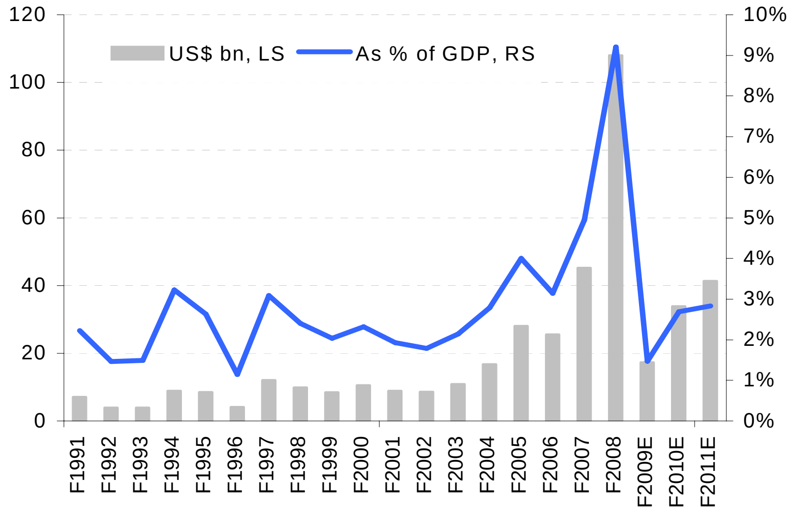
Reforms	Description
Improvement in management of public finances	We believe that the new government will ensure that the public finances start correcting over the next 12-18 months reducing the risk of crowding out private investments.
Increase in infrastructure spending	We believe the new government will increase efforts to accelerate the infrastructure spending from the second half of F2010, particularly for sectors such as roads, electricity, and railways.
Augmentation of Government Resources	The current high level of fiscal deficit will likely make it difficult for the government to increase its spending to support the economic growth. It will need to augment its financial resources through divestment of its stakes in government companies.
Increase in Share of Stable Capital Inflows	About 85% of the total US$207 billion capital flows that India received over the four years ending March 2008 were in the form of less-stable non-FDI flows. The increase in the pace of reforms will enhance the country's ability to attract stable capital inflows.
Other reforms	Pension reforms, insurance sector, voting rights to foreign investors in banks, FDI in retail, etc.

Source: Election Commission of India, Morgan Stanley Research

- **The 2009 general elections outcome** announced on May 16 was the best outcome in terms of strength of the leading party's tally since 1991 elections. Indeed, this is the first time since the 1960s that any Prime Minister will return for a second consecutive term in office. We believe this strong political mandate will allow the new government to accelerate the pace of reforms.
- **Some of the key areas where we expect progress are:** 1) the government's effort to improve public finances; 2) acceleration in infrastructure spending; 3) augmentation of government resources through privatization (divestment of stake in government companies); 4) improvement in share of stable capital inflows; and 5) implementation of some of the long-pending deregulation measures for the pension funds, banking and retail sector.

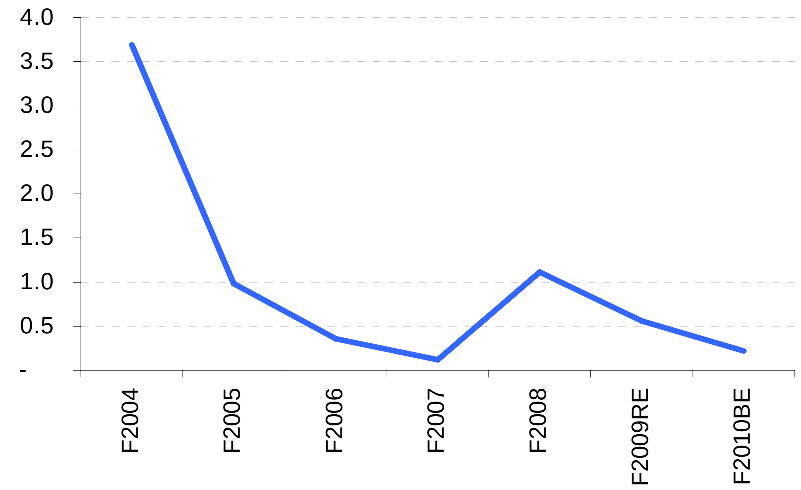
Positive Election Outcome to Provide Two-Stage Boost to Macro Likely

Capital Flows into India to Recover Further



E = Morgan Stanley Research estimates
Source: RBI, CEIC, Morgan Stanley Research

SOE Divestment Proceeds (US$ bn) – Likely to Rise



Source: RBI, Government Budget Documents, Morgan Stanley Research
RE= Government Revised estimates; BE= Government Budget estimates

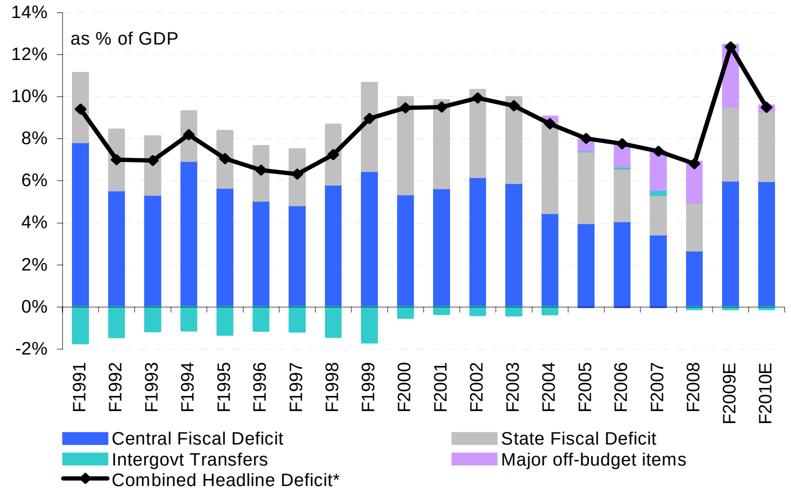
- **First stage - Higher capital market funding:** In our view, just the improvement in sentiment due to the formation of a stable government is having an immediate positive impact on growth as this development has opened the doors for capital market funding for India. India's macro, as we have been arguing, is capital market-funding dependent. Our slightly higher-than-consensus forecast builds in higher capital inflows, improvement in liquidity (risk capital) supply, faster repair of banks, and corporate balance sheets.

- **Second stage – Implementation of reforms:** Our current growth estimates are not building in a whole lot from potential implementation of reforms in the next 12 months. So any quick aggressive policy response will mean upside to our forecasts. For a detailed discussion on key reforms that we expect the government to focus on see *Theme 1: Expecting Progress in Addressing Key Macro Issues,* slide 26 onward.

V. Challenges for Quick Recovery to 8-9% GDP Growth

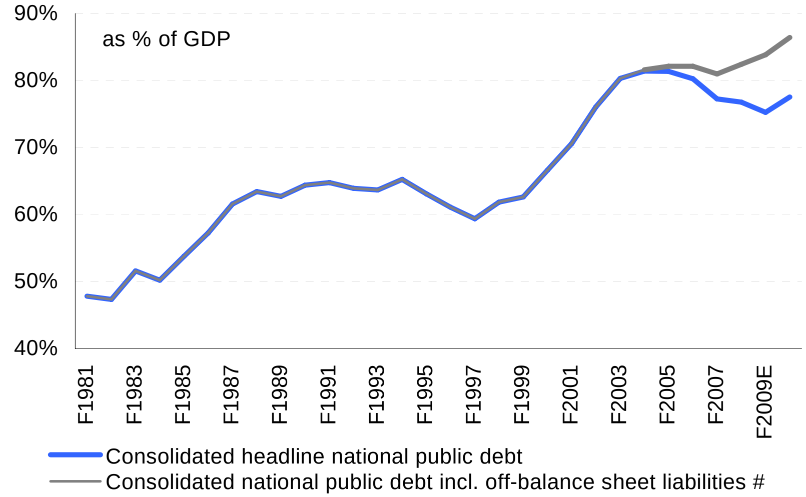
Challenge #1: High Level of Fiscal Deficit

India's Consolidated Fiscal Deficit



** The off-budget items include expenditure on food, fertilizer, oil and waiver of farm loans. We have included the full amount of farm loan waiver in the year in which the expenditure has been incurred i.e. F2009. The government has planned to amortize the cost over the period of four financial years. E= Morgan Stanley Research estimates*
Source: RBI, Economic Survey, Ministry of Finance, Morgan Stanley Research;

India's Public Debt (External + Internal), as % of GDP

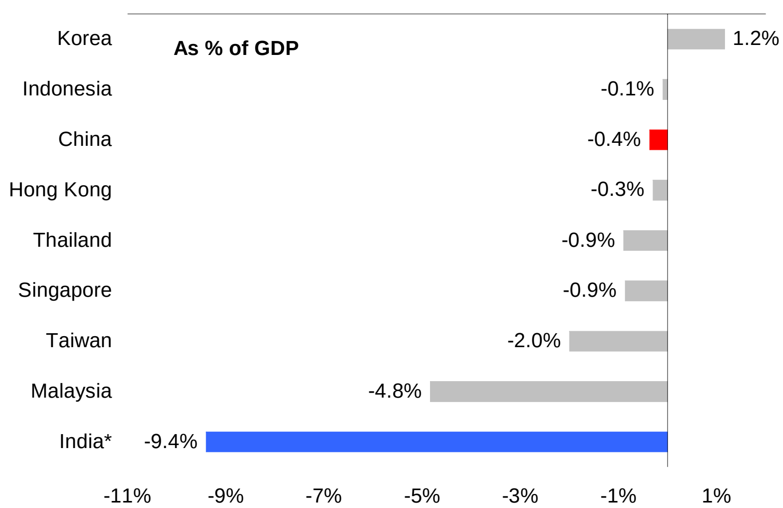


 # If off-balance sheet liabilities were funded by direct government borrowing. Note that this is just an estimate to illustrate the impact of off-balance sheet expenditures and should not be construed as an outstanding government liability. E= Morgan Stanley Research estimates; Source: RBI, Morgan Stanley Research

- **Some payback from past excesses in inevitable:** Over the last few years, while GDP growth has accelerated, the government continued to pursue pro-cyclical fiscal policy, taking deficit and public debt to higher levels. From the recent trough of 6.8% in F2008, consolidated fiscal deficit including off-budget items increased to 12.4% in F2009. Moreover, public debt to GDP is at an extremely high level of 83.9% of GDP (including off-budget items), as per our estimates. The starting point of high fiscal deficit and public debt implies some payback will be inevitable in the form of reduced government consumption spending.

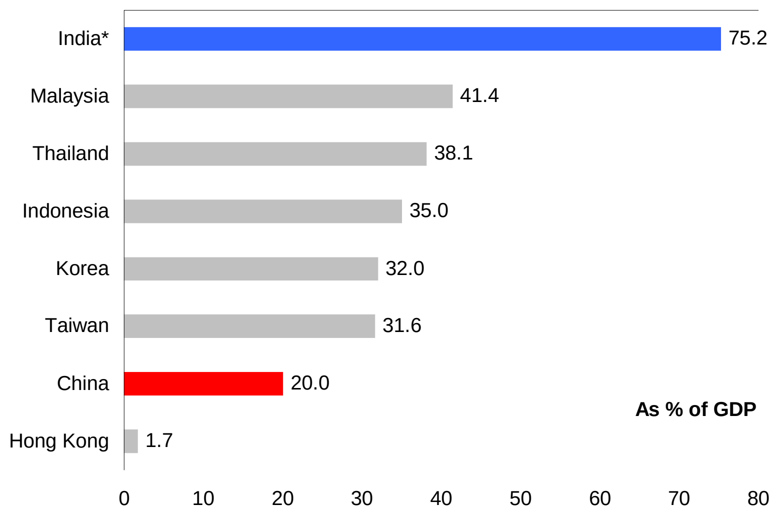
Challenge #1: High Level of Fiscal Deficit

AXJ Budget Balance (as % of GDP, 2008E)



*IMF, Morgan Stanley Research Note: * India data is as of F2009 (year-end March) E= Morgan Stanley Research estimates Source: CEIC, Central Bank websites*

AXJ Public Debt (as % of GDP, 2008E)



*Note: * India data is as of F2009 (year-end March) E= Morgan Stanley Research estimates Source: CEIC, Central Bank websites, IMF, Morgan Stanley Research*

- **India's deficit levels – one of the worst in the region:** India's headline fiscal deficit excluding off-budget items at 9.4% in F2009 was significantly higher than the rest of the region. Similarly, India's public debt to GDP excluding off-budget liabilities at 75.2% in F2009 was also higher than the average of 32% for the region.

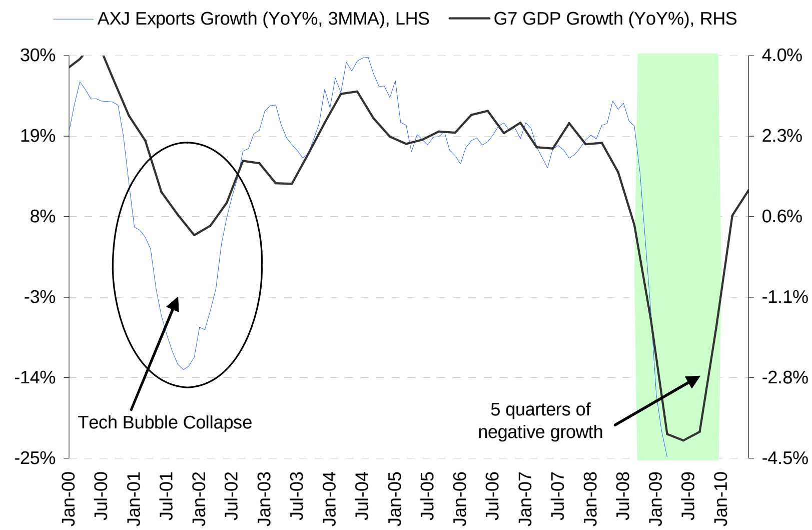
Challenge #2: Global Economic Outlook - Expect a Tepid Recovery

G7 Key Macro Economic Forecasts

Real GDP (YoY % Change)	2007	2008E	2009E	2010E
G7	**2.2**	**0.6**	**-3.5**	**1.4**
US	2.0	1.1	-3.1	2.0
UK	3.0	0.7	-2.5	1.7
Germany	2.5	1.3	-4.5	1.1
France	2.1	0.7	-2.6	0.5
Italy	1.5	-1.0	-3.0	0.7
Canada	2.7	0.5	-2.0	1.0
Japan	2.4	-0.6	-5.8	0.1

Source: Morgan Stanley Research E = Morgan Stanley Research estimates

Weak Global Growth Means Exports Recovery in the Region May Not Be Strong Enough

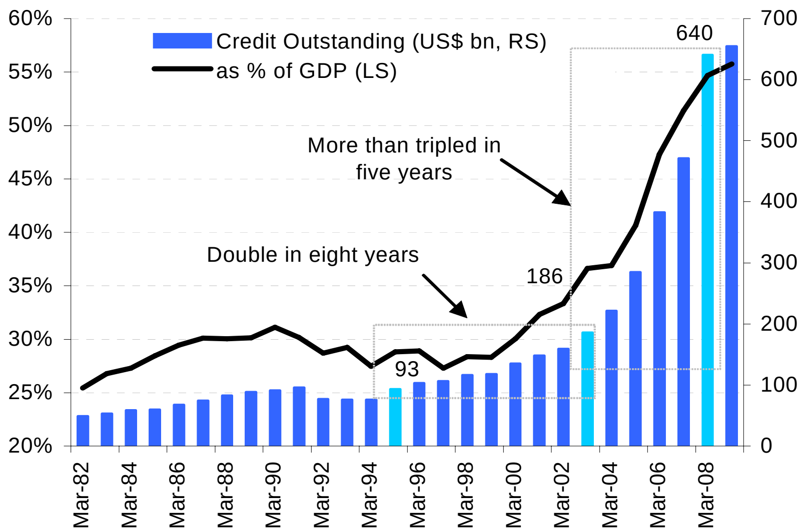


E= Morgan Stanley Research estimates
Source: CEIC, OECD, Morgan Stanley Research

- **Global growth unlikely recover soon to pre-credit crisis levels:** The global growth environment will likely remain poor over the next two years compared with the boom years of 2004-07. Our economics team expects a tepid recovery in G7 economies. They expect G7 growth of 1.4% YoY in 2010 compared with an average of 2.4% in 1997-2007 (10 years preceding the recent crisis).

Challenge #3: Payback from the Excesses of Strong Credit Growth During Boom Years

Credit Outstanding



Source: CEIC, Morgan Stanley Research

Which Sectors that Are Witnessing Increase in NPLs

*Real estate sector

*Unsecured personal loans

*Small and medium enterprise loans

*Export-oriented units like textiles, gems, and jewelry

*Non-bank financial entities

Source: Morgan Stanley Research

- **Strongest credit growth in history**: Bank credit outstanding has increased steadily to US$654 billion as of March 2009 from US$186 billion as of March 2003 when credit growth began to recover. As % of GDP, bank credit has increased from 36.6% in March 2003 to 55.7% in March 2009.
- **Banks' asset quality has been impaired**: Although the change in political outcome and consequent opening of capital market funding for the corporate sector will help reduce the tail risk of a sharp rise in NPLs, some damage is inevitable. We believe this will mean that banks will be somewhat more risk averse in the near term.

VI. Upside and Downside Risks to Our Estimates

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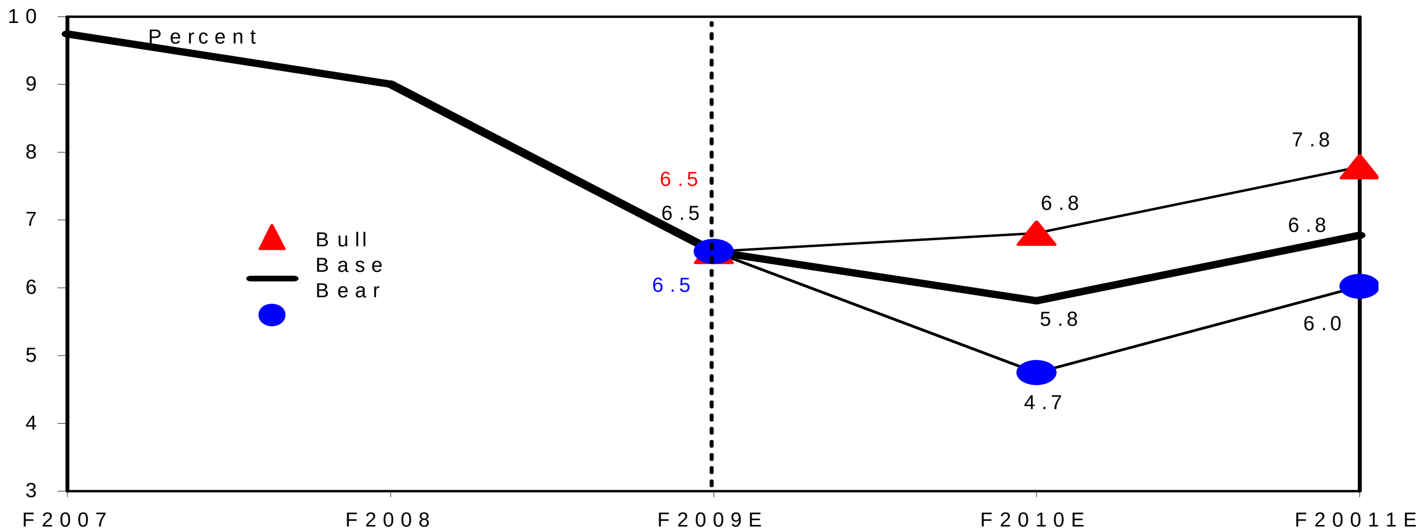
Key Risk Factors: Global Risk Appetite and External Demand

India's Real GDP Growth – Bull-, Base-, and Bear-case Scenario



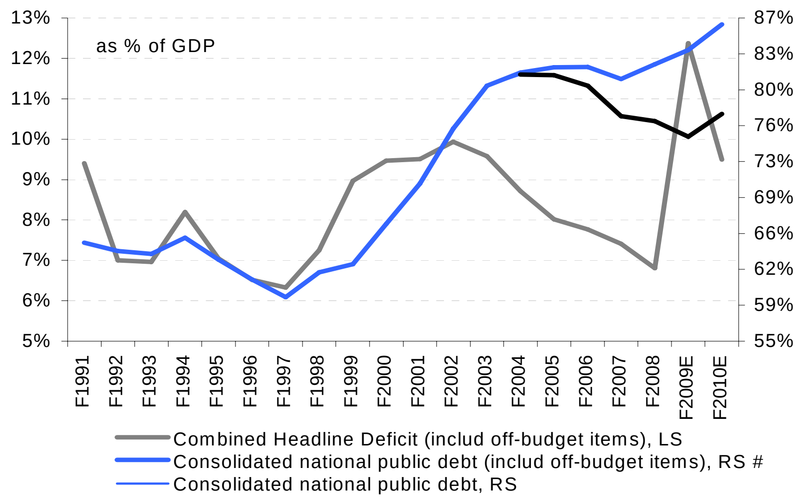
E = Morgan Stanley Research estimates Source: Morgan Stanley Research

- **Our framework for bull-bear growth scenarios:** The two most important factors we see for India's growth outlook will include global risk appetite, which will be reflected in the form of capital inflows in the country, and external demand. In our base case, we expect F2010 and F2011 GDP growth of 5.8% and 6.8%, respectively. The upside and downside risks to our India GDP growth estimates will depend on the influence of the global growth outlook on these two global factors. Based on this framework, we see bull scenario growth for India at 6.8% in F2010 and 7.8% in F2011 and bear case at 4.7% in F2010 and 6% in F2011. In the bear case, we assume continued risk aversion in global financial markets and therefore a sustained adverse trend in capital inflows and sharper fall in exports. In the bull case, we assume a recovery in capital inflows and exports growth. We have assumed the political environment to be neutral.

Macro Themes in Focus

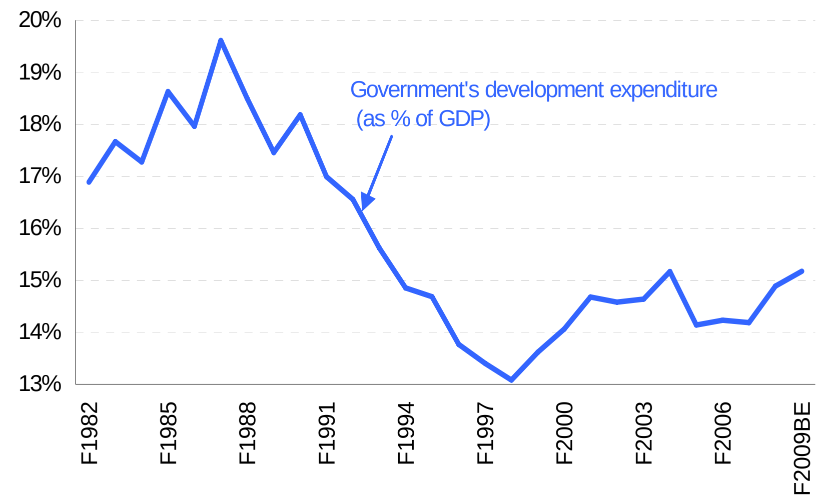
Theme I:
Expecting Progress in Addressing Key Macro Issues: Public Finances - Worst Is Behind Us

India's Consolidated Fiscal Deficit and Public Debt



E= Morgan Stanley Research estimates # If off-balance sheet liabilities were funded by direct government borrowing. Note that this is just an estimate to illustrate the impact of off-balance sheet expenditures and should not be construed as an outstanding government liability. Source: RBI, Economic Survey, Ministry of Finance, Morgan Stanley Research

Government's Development Expenditure

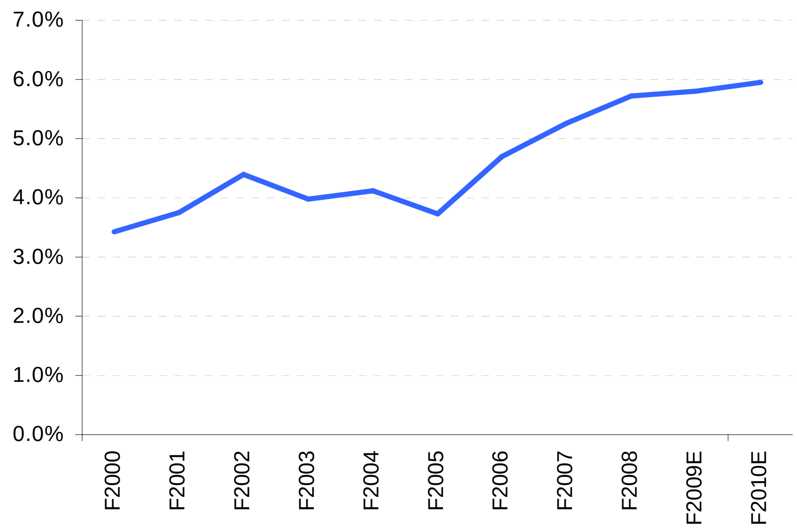


BE = Government budget estimates; Source: RBI, Morgan Stanley Research

(a) Improvement in management of public finances: We believe that the new government will ensure that the public finances start correcting over the next 12-18 months, reducing the risk of crowding out private investments. More important, we expect an improvement in the government spending mix with a further increase in the share of development expenditure. We believe the new government will have little incentive to take the risk of widening fiscal deficit and face a rating downgrade.

Theme I:
Expecting Progress in Addressing Key Macro Issues: Increase in Infrastructure Spending Is Likely

Infrastructure Spending Has Been Picking Steadily



E= Morgan Stanley Research estimates; Source: Morgan Stanley Research

Yet Lower than Desirable Levels

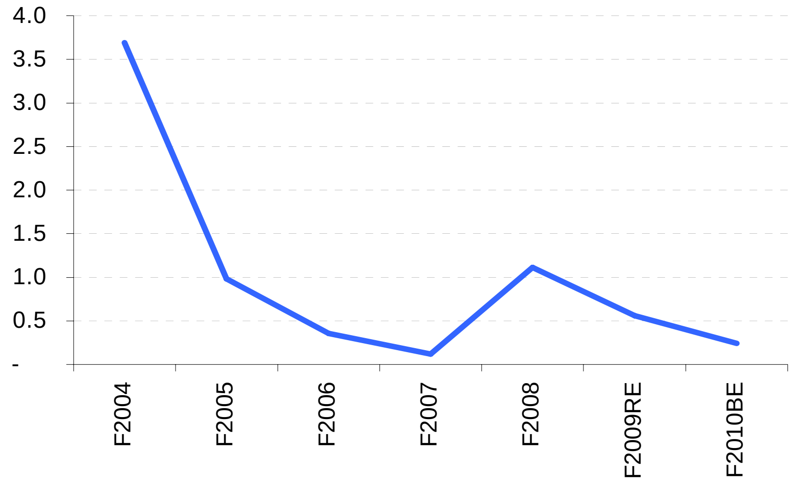
F2009E/2008	India		China	
	US$ bn	% of GDP	US$ bn	% of GDP
Transport	**17.5**	**1.5%**	**192.0**	**4.4%**
-- Railways	6.1	0.5%	58.8	1.4%
-- Roads	7.6	0.6%	107.3	2.5%
-- Ports	2.1	0.2%	17.3	0.4%
-- Airports	1.7	0.1%	8.5	0.2%
Communication	**17.4**	**1.5%**	**31.2**	**0.7%**
Electricity, Gas & Water	**28.5**	**2.4%**	**147.3**	**3.4%**
Urban Infrastructure	**4.7**	**0.4%**	**19.1**	**0.4%**
Total	**68.1**	**5.8%**	**389.6**	**9.0%**

E= Morgan Stanley Research estimates; Source: Morgan Stanley Research

(b) **New government likely to revive effort to increase infra spending:** For an emerging economy like India with a rising working population and a large unemployed work force, limitations on potential growth are determined by the pace of reform in the economic environment, which allows resources to operate productively. Although the government has taken some steps, actual infrastructure spending was lagging way below the required 9-9.5% of GDP for sustaining 8-9% GDP growth. As per our estimates, infrastructure spending in India would have been about 5.8% of GDP in F2009. We believe the new government will increase its efforts to accelerate infrastructure spending from the second half of F2010, particularly for sectors such as roads, electricity, and railways.

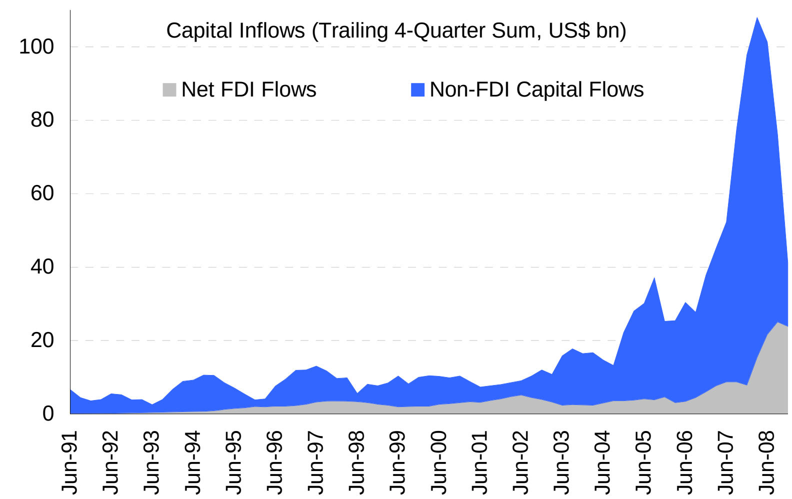
Theme I:
Expecting Progress in Addressing Key Macro Issues: Augmentation of Financial Resources

Divestment Proceeds Likely to Increase (US$ bn)



Source: RBI, Government Budget Documents, Morgan Stanley Research; BE= Government Revised Estimates; BE= Government Budget Estimates

Share of Stable Capital Should Improve



Source: RBI, CEIC, Morgan Stanley Research

(c) Augmentation of government resources: Given the current high level of fiscal deficit, we believe the government will need to augment its financial resources though divestment of its stakes in government companies in order to increase its spending to support the economic growth. Although we do not expect aggressive privatization in the form of transfer of management to the private sector, the new government is likely to initiate more divestments.

(d) Increase in share of stable capital inflows: About 85% of the total US$207 billion capital flows that India received over the four years ending March 2008 were in the form of less-stable non-FDI flows. This compares with the ratio of 31% for other top 10 emerging markets. The improved sentiment for the country's macro outlook should help India increase its overall share in capital flows allocated to emerging markets.

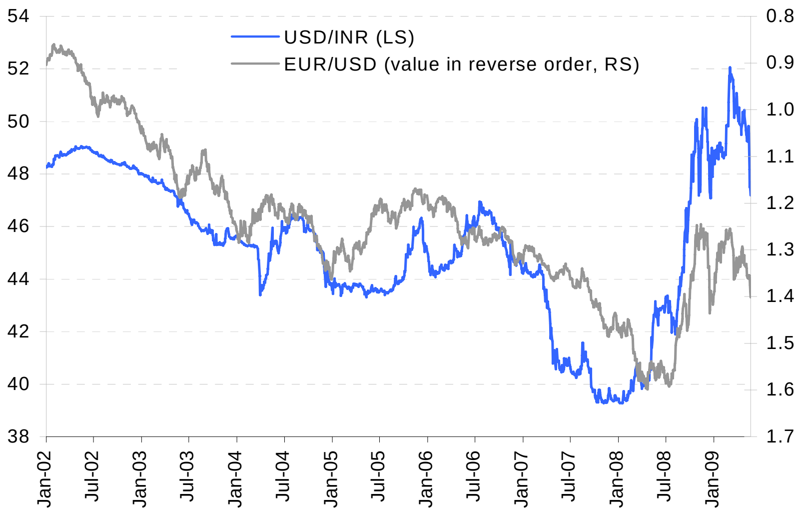
Theme I:
Expecting Progress in Addressing Key Macro Issues: Some Long-pending Reforms Could See the Light of Day

(e) Some Long-pending Reforms Could See the Light of Day: We believe the government is also likely to bring to the fore some of the reforms that had been held back due to opposition from the left parties. If not all, we believe some of these reforms will be implemented over the next 12-18 months:

- **Pension reforms:** The government may initiate measures to increase penetration of pension products in India, which is currently low, and to attract domestic private sector as well foreign investment in the sector.
- **Insurance sector:** The government has been working on increasing the foreign investment cap in the insurance sector to 49% from 26%. A bill to implement this change was initiated a few year years back and is still pending.
- **Voting rights to foreign investors in banks:** The government has for long held back amendments in the banking regulations that would allow it to raise the voting rights of foreign investors, currently capped at 10% irrespective of their stakes in private banks.
- **FDI in retail:** A draft cabinet note to allow FDI in specialty retail sectors like electronics, sports goods, and stationery has been pending for some time.

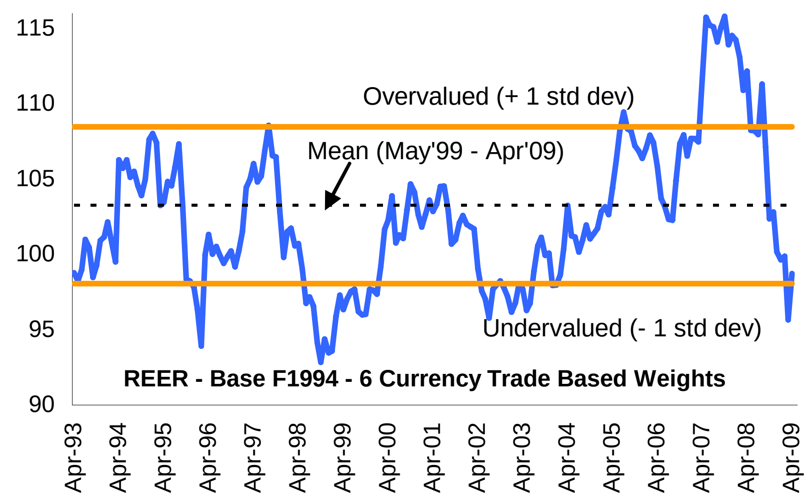
Theme II:
Exchange Rate: Bottomed Out

Rupee Has Depreciated Significantly Against USD



Source: Bloomberg, Morgan Stanley Research

REER Basis Rupee Is Trading Below 10-year Mean



Note: REER = Real Effective Exchange Rate Source: RBI, Morgan Stanley Research

- **REER-basis rupee is trading below 10-year mean:** Since April 2009, the rupee has appreciated 5.3% after depreciating 28% against the US dollar in F2009 (12 months ended March 2009). On a real effective exchange rate (REER) basis (six-currency trade-weighted exchange rate adjusted for inflation differentials with trade partners), the rupee has moved to 4.4%, below the 10-year mean as of mid-April. We expect the appreciation bias in the rupee to continue, driven by an improved outlook for policy reform and economic growth. Moreover, with G7 growth likely to move into recovery mode by the last quarter of 2009, we believe that the capital inflows to India should also start improving, supporting a slight appreciation bias.

Theme III:
Balance of Payments – Rise in Capital Inflows to Drive Surplus

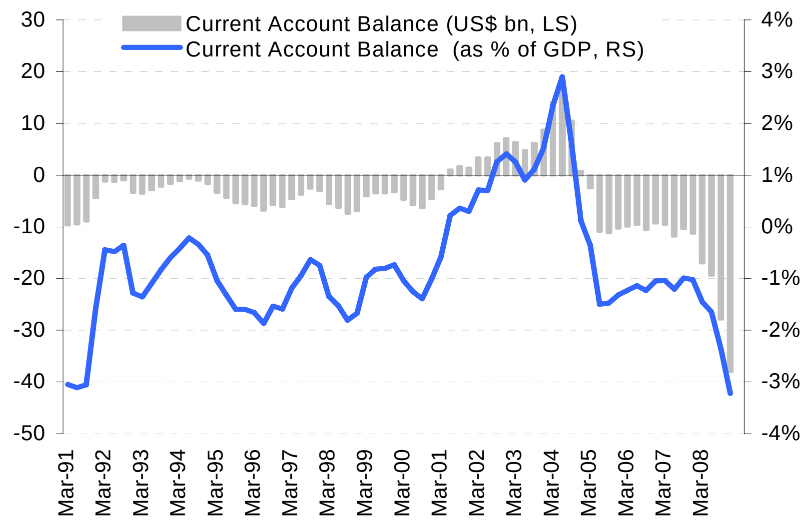
Summary

- **Current account deficit to narrow**: Decline in non-oil imports (reflecting weakening in domestic demand) and a fall in net oil import burden would help in narrowing the current account deficit. We expect the current account deficit to narrow to US$15 billion (1.2% of GDP) in F2010 and US$14.3 billion (1% of GDP) in F2011 compared to US$33.1 billion (2.8% of GDP) (estimated) registered in F2009 (YE March 2009).
- **Capital inflows recovering from the lows:** In line with the deterioration in the global capital market environment, capital inflows into India declined during the quarter-ended December 2007, despite the attractive long-term investment story. We expect improvement in capital flows to US$33.9 billion in F2010 and US$41.3 billion in F2011 compared to US$17.3 billion (estimated) in F2009.
- **Balance of payments to turn into surplus from quarter ending March 2009**: Based on a trend in foreign exchange reserves, we estimate that balance of payments was in deficit at about US$15-17 billion in F2009. However, we believe that the balance of payments will be positive, although it is unlikely to return to levels seen pre-Lehman event soon. We expect the balance of payments to turn into surplus of US$19.2 billion in F2010 and US$27.5 billion in F2011.

Morgan Stanley

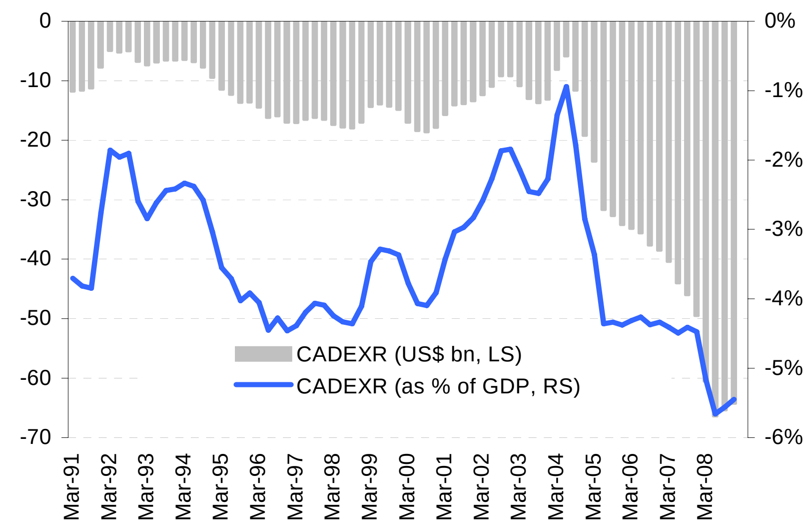
Theme III: Current Account Deficit to Narrow

Trailing Four-Quarter Sum, Current Account Balance



Source: CEIC, Morgan Stanley Research

Trailing Four-quarter Sum, Current Account Deficit Excluding Remittances (CADEXR)



Source: CEIC, Morgan Stanley Research

- **Domestic demand weakness and declining imports to help reduce current account stress:** On a trailing four-quarter sum basis, the current account deficit widened to 3.2% of GDP as of December 2008, while the current account deficit excluding remittances (a better measure to assess the implications of the currency's valuation for trade competitiveness) remained high at around 5.5% of GDP. However, we believe the compression in domestic demand and, consequently, non-oil imports and fall in oil imports will help narrow the current account deficit from the quarter beginning July 2009.

Theme III:
Trend in India's Current Account Balance

Trailing Four-quarter Sum, Current Account Balance (US$ bn)

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
-Trade Balance	**-47**	**-52**	**-55**	**-57**	**-61**	**-62**	**-67**	**-72**	**-82**	**-92**	**-100**	**-117**	**-128**
As % of GDP	*-6.0%*	*-6.4%*	*-6.6%*	*-6.7%*	*-6.9%*	*-6.7%*	*-6.8%*	*-6.9%*	*-7.4%*	*-7.8%*	*-8.5%*	*-10.0%*	*-10.8%*
--Exports	**102**	**105**	**111**	**119**	**124**	**129**	**134**	**139**	**149**	**166**	**181**	**190**	**186**
YoY%	*31.1%*	*23.4%*	*21.3%*	*21.6%*	*21.1%*	*22.6%*	*20.5%*	*17.4%*	*20.6%*	*28.9%*	*35.4%*	*36.8%*	*24.6%*
--Imports	**149**	**157**	**166**	**176**	**185**	**191**	**200**	**211**	**231**	**258**	**281**	**308**	**314**
YoY%	*41.0%*	*32.1%*	*23.7%*	*22.4%*	*23.8%*	*21.4%*	*20.9%*	*20.0%*	*24.9%*	*35.2%*	*40.3%*	*45.7%*	*35.8%*
-Invisibles	**37**	**42**	**45**	**47**	**52**	**52**	**55**	**62**	**70**	**75**	**81**	**90**	**90**
As % of GDP	*4.7%*	*5.2%*	*5.4%*	*5.4%*	*5.8%*	*5.7%*	*5.6%*	*5.9%*	*6.4%*	*6.4%*	*6.9%*	*7.6%*	*7.6%*
Current Account	**-10**	**-10**	**-10**	**-11**	**-9**	**-10**	**-12**	**-10**	**-11**	**-17**	**-19**	**-28**	**-38**
As % of GDP	*-1.3%*	*-1.2%*	*-1.1%*	*-1.2%*	*-1.0%*	*-1.0%*	*-1.2%*	*-1.0%*	*-1.0%*	*-1.5%*	*-1.6%*	*-2.4%*	*-3.2%*

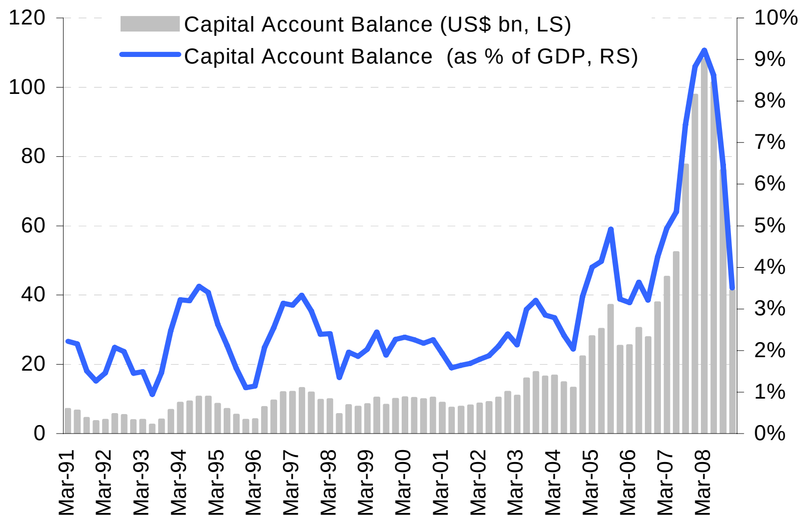
Quarterly Current Account Balance (US$ bn)

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
-Trade Balance	**-13**	**-12**	**-17**	**-16**	**-16**	**-12**	**-22**	**-21**	**-26**	**-22**	**-31**	**-39**	**-36**
--Exports	**26**	**31**	**30**	**33**	**31**	**36**	**34**	**38**	**41**	**53**	**49**	**48**	**37**
YoY%	*22.5%*	*10.8%*	*23.6%*	*30.8%*	*20.5%*	*16.7%*	*15.8%*	*17.0%*	*33.0%*	*47.2%*	*43.0%*	*24.6%*	*-10.4%*
--Imports	**38**	**42**	**47**	**49**	**47**	**48**	**56**	**60**	**67**	**75**	**80**	**86**	**73**
YoY%	*17.3%*	*22.0%*	*22.8%*	*26.8%*	*23.3%*	*13.5%*	*20.9%*	*22.2%*	*41.9%*	*55.8%*	*41.3%*	*44.9%*	*8.9%*
-Invisibles	**8**	**16**	**13**	**10**	**13**	**17**	**15**	**17**	**22**	**21**	**22**	**26**	**22**
Current Account	**-5**	**4**	**-4**	**-6**	**-4**	**4**	**-7**	**-4**	**-5**	**-2**	**-9**	**-13**	**-15**
As % of GDP, annualized	*-2.5%*	*2.2%*	*-2.1%*	*-2.7%*	*-1.6%*	*1.8%*	*-2.7%*	*-1.6%*	*-1.6%*	*-0.5%*	*-3.1%*	*-4.4%*	*-5.0%*

Source: CEIC, CSO, RBI Morgan Stanley Research

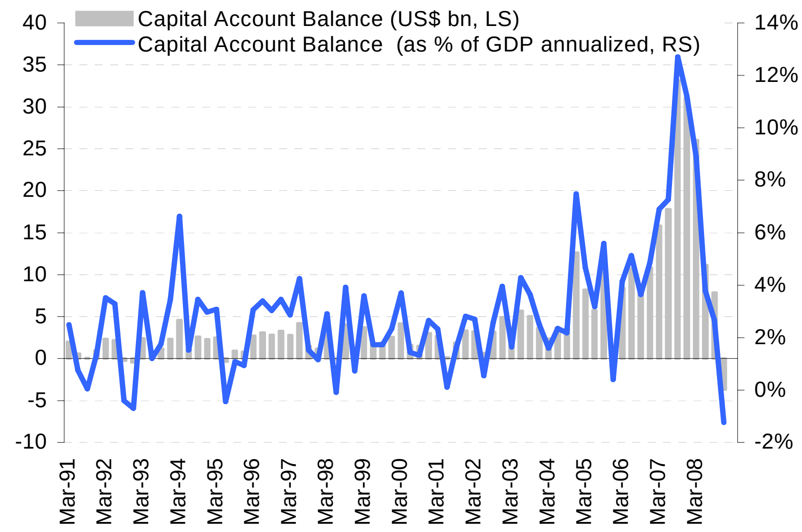
Theme III:
Capital Account Balance – Recovering from the Lows

Capital Account Balance (Trailing Four-quarter Sum)



Source: CEIC, Morgan Stanley Research

Capital Account Balance (Quarterly)



Source: CEIC, Morgan Stanley Research

- **Capital flows into India to improve over the coming quarters.** The improved sentiment for the country's macro outlook driven by strong political mandate and economic reforms expectations should help India increase its overall share in capital flows allocated to emerging markets. According to the Securities Exchange Board of India, since January 2009, India has seen inflows of US$3.7 billion in cash equities compared to outflow of US$12.8 billion registered in 2008.

Theme III:
Trend in India's Capital Account Balance

Trailing Four-quarter Sum, Capital Account Balance (US$ bn)

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
--Net Debt Inflows	12	21	24	28	33	37	42	37	31	22
--Net Foreign Direct Investment	4	6	8	9	9	8	15	22	25	24
--Net Portfolio Investment	9	10	7	15	24	35	30	18	6	-15
--Banking Capital	2	0	2	-4	4	8	12	15	11	6
----NRI Deposits	5	5	4	3	2	0	0	1	1	3
--Others	1	2	4	4	8	10	9	9	3	5
Capital Account	**28**	**38**	**45**	**52**	**78**	**98**	**108**	**101**	**76**	**41**

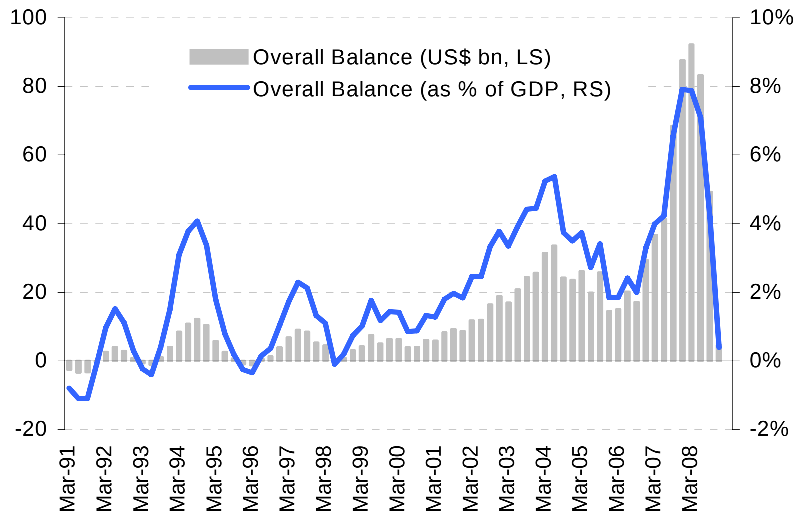
Trailing Four-quarter Sum, Capital Account Balance (as % of GDP)

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
--Net Debt Inflows	1.3%	2.3%	2.7%	2.9%	3.2%	3.4%	3.6%	3.2%	2.7%	1.9%
--Net Foreign Direct Investment	0.5%	0.7%	0.8%	0.9%	0.8%	0.7%	1.3%	1.8%	2.1%	2.0%
--Net Portfolio Investment	1.0%	1.1%	0.8%	1.5%	2.3%	3.2%	2.5%	1.5%	0.5%	-1.3%
--Banking Capital	0.2%	0.0%	0.2%	-0.4%	0.4%	0.7%	1.0%	1.3%	0.9%	0.5%
----NRI Deposits	0.6%	0.6%	0.5%	0.3%	0.2%	0.0%	0.0%	0.1%	0.1%	0.3%
--Others	0.1%	0.2%	0.4%	0.4%	0.7%	0.9%	0.8%	0.8%	0.3%	0.4%
Capital Account	**3.2%**	**4.2%**	**4.9%**	**5.3%**	**7.4%**	**8.8%**	**9.2%**	**8.6%**	**6.5%**	**3.5%**

Source: CEIC, CSO, RBI, Morgan Stanley Research

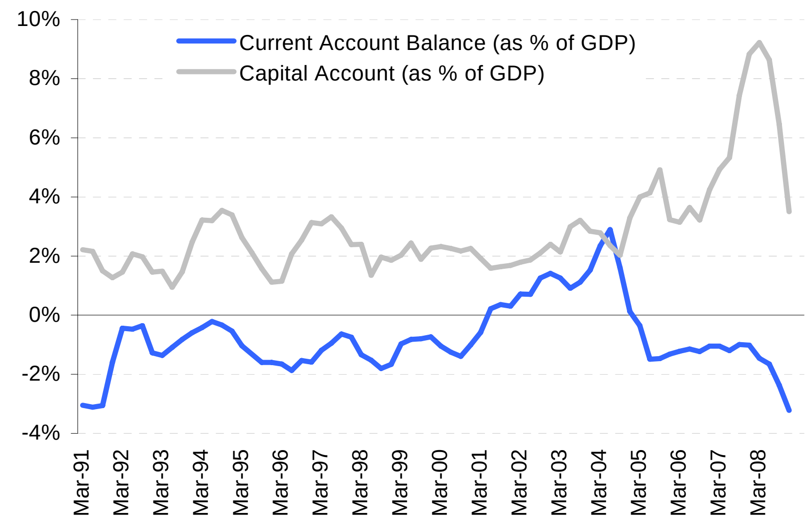
Theme III:
Balance of Payments – To Turn into Surplus

Balance of Payments (Trailing Four-quarter Sum)



Source: CEIC, Morgan Stanley Research

Current and Capital Account Balance (Trailing Four-quarter Sum)



Source: CEIC, Morgan Stanley Research

- **Balance of payments to turn into surplus from quarter ending March 2009:** Based on the trend in foreign exchange reserves, we estimate that the balance of payments was in deficit of about US$15-17 billion in F2009. However, we believe that the balance of payments will be positive, although it is unlikely to return to the levels seen pre-Lehman event soon. We expect the balance of payments to turn to a surplus of US$19.2 billion in F2010 and US$27.5 billion in F2011.

Theme III:
Balance of Payments Forecasts Summary (US$ million)

	F2005	F2006	F2007	F2008	F2009E	F2010E	F2011E
A. Current Account	**-2470**	**-9902**	**-9565**	**-17034**	**-33059**	**-15017**	**-14318**
As % of GDP	*-0.4%*	*-1.2%*	*-1.0%*	*-1.5%*	-2.8%	-1.2%	-1.0%
-Trade Balance	**-33702**	**-51904**	**-61782**	**-91626**	**-120366**	**-93945**	**-110823**
--Exports	**85206**	**105152**	**128888**	**166163**	**169337**	**160006**	**185801**
---Oil Exports	6979	11610	18477	24525	30977	19116	28793
---Non oil Exports	78227	93542	110411	141638	138360	140889	157008
--Imports	**118908**	**157056**	**190670**	**257789**	**289703**	**253950**	**296624**
---Oil Imports	29148	44388	58336	78922	87307	59990	75570
---Non oil Imports	89760	112668	132334	178867	202396	193961	221055
-Invisibles	**31232**	**42002**	**52217**	**74592**	**87307**	**78927**	**96505**
As % of GDP	*4.5%*	*5.2%*	*5.7%*	*6.4%*	*7.4%*	*6.3%*	*6.6%*
--Services	**15426**	**23170**	**29469**	**37565**	**47625**	**44205**	**53362**
--Transfers	**20785**	**24687**	**30079**	**41944**	**44473**	**39222**	**45643**
--------Transfers: Private	20525	24493	29825	41705	44271	39102	45513
--Income	**-4979**	**-5855**	**-7331**	**-4917**	**-4791**	**-4500**	**-2500**
B. Capital Account	**28022**	**25470**	**45203**	**107993**	**17280**	**33850**	**41300**
As % of GDP	*4.0%*	*3.1%*	*5.0%*	*9.2%*	*1.5%*	*2.7%*	*2.8%*
-Foreign Investment	**13000**	**15528**	**14753**	**44957**	**5687**	**23500**	**26500**
-- Foreign Direct Investment	3713	3034	7693	15401	17028	17000	18000
-- Portfolio Investment	9287	12494	7060	29556	-11341	6500	8500
- Loans	**10909**	**7909**	**24490**	**41930**	**10022**	**8000**	**11000**
--External Assistance	1923	1702	1775	2114	2361	1000	1000
--Loans: Commercial Borrowings	5194	2508	16103	22633	8114	5000	7000
--Short Term Credit to India	3792	3699	6612	17183	-453	2000	3000
-Banking Capital	**3874**	**1373**	**1913**	**11757**	**-1129**	**1000**	**2000**
-Rupee Debt Service	**-417**	**-572**	**-162**	**-121**	**-200**	**-150**	**-200**
-Other Capital	**656**	**1232**	**4209**	**9470**	**2900**	**1500**	**2000**
Overall Balance of Payments	**26159**	**15052**	**36606**	**92164**	**-15479**	**19233**	**27482**
Errors and Omissions	*607*	*-516*	*968*	*1205*	*300*	*400*	*500*

E = Morgan Stanley Research estimates   Source: CEIC, RBI, Ministry of Commerce Morgan Stanley Research

Theme IV: Long-term Growth Outlook: An Interplay of Three Macro Factors

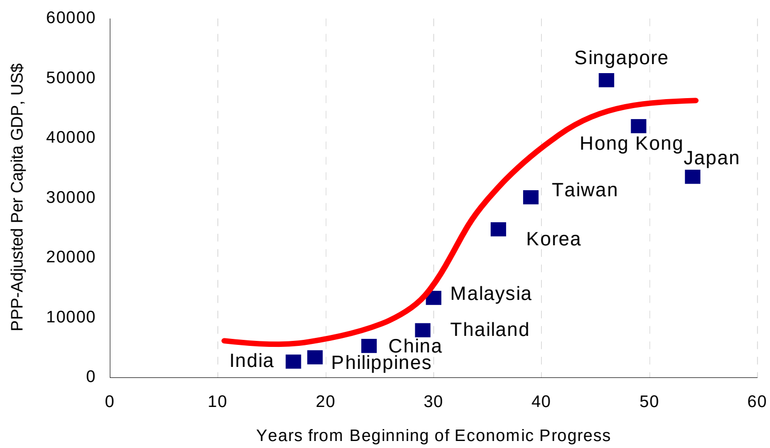
Long-term Growth Outlook: An Interplay of Three Macro Factors

- **Growth Driven by an Interplay of Three Macro Factors:** The interplay of three key macro factors – demographics, reforms, and globalization – justifies a gradual speeding up in India's pace of growth, in our view.
  - ***Demographics:*** The proportion of dependents in India's population fell from 64% in 2000 to 59.6% in 2005 (the working-age population proportion has risen), and is likely to continue to drop to 55% by 2010, according to forecasts from the United Nations.
  - ***Reforms*:** A positive demographic trend may be a necessary condition for strong growth, but it is not a sufficient one. Favorable demographics need to be converted into a virtuous cycle. The government's implementation of gradual but progressive reforms has improved the utilization of the working-age population, a key resource.
  - ***Globalization*:** A backdrop of strong globalization has enabled growth in job opportunities to accelerate. India's exports rose to 22.7% of GDP as of 2008 from 13% as of 2000.

This interplay of demographics, reforms, and globalization is crucial for the virtuous cycle of faster growth in productive job creation – income growth – savings – investments – higher growth.

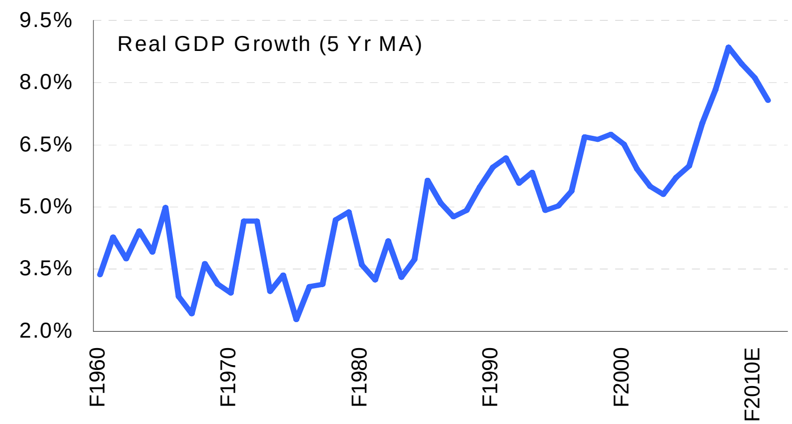
Theme IV:
Long-term Growth Outlook: An Interplay of Three Macro Factors

S-curve for Income Growth in Asia



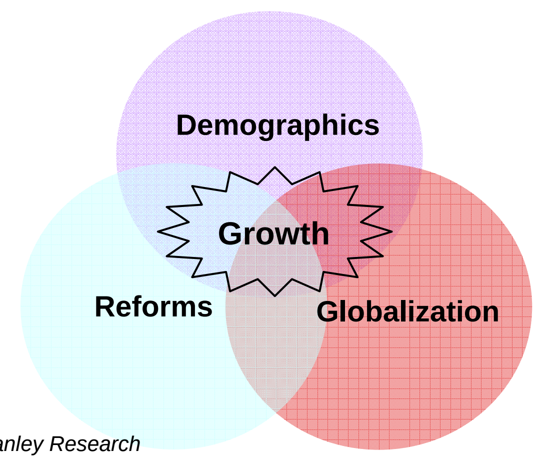
Source: IMF, Morgan Stanley Research

India Is Transitioning to Higher Growth Path



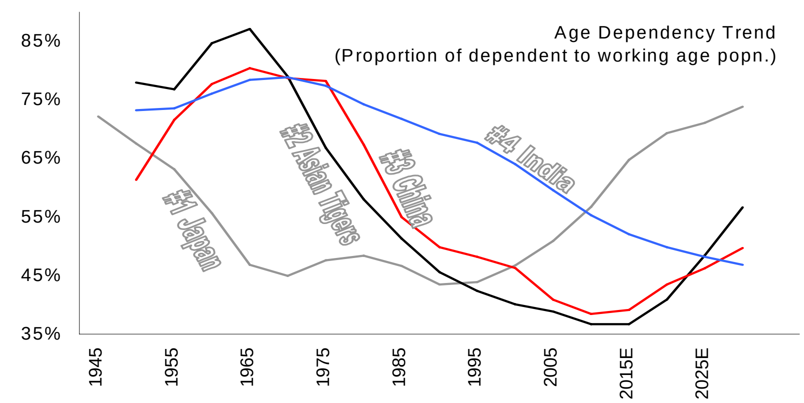
E= Morgan Stanley Research estimates
Source: RBI, CSO, Morgan Stanley Research

Growth Driven by an Interplay of Three Macro Factors



Source: Morgan Stanley Research

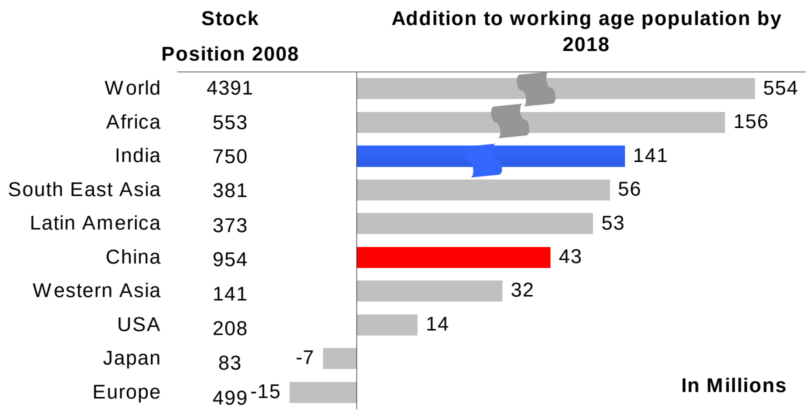
India Is Asia's Fourth Demographic Wave



UE= United Nations Research estimates Source: UN, Morgan Stanley Research

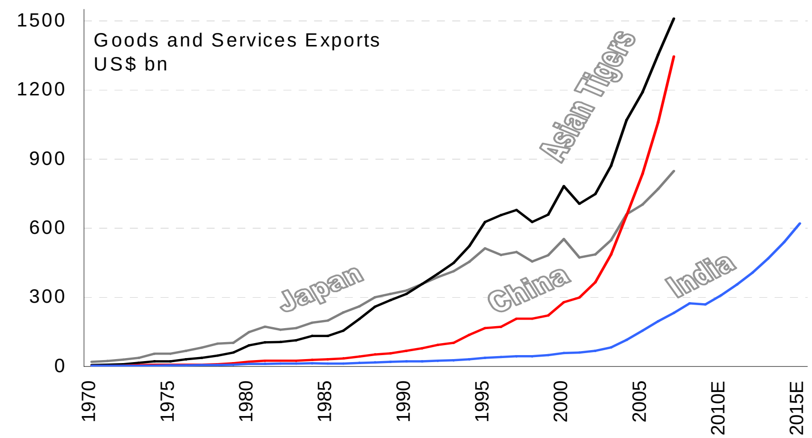
Theme IV:
Long-term Growth Outlook: An Interplay of Three Macro Factors

India the Largest Contributor to Growth in the Working Population Over the Next 10 Years



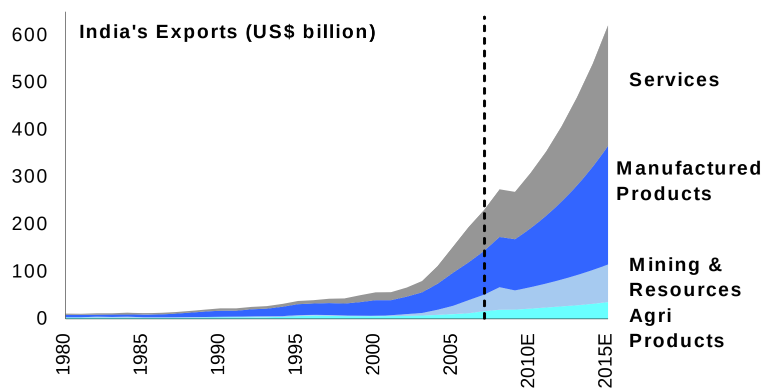
Source: UN, Morgan Stanley Research

Trend in Exports



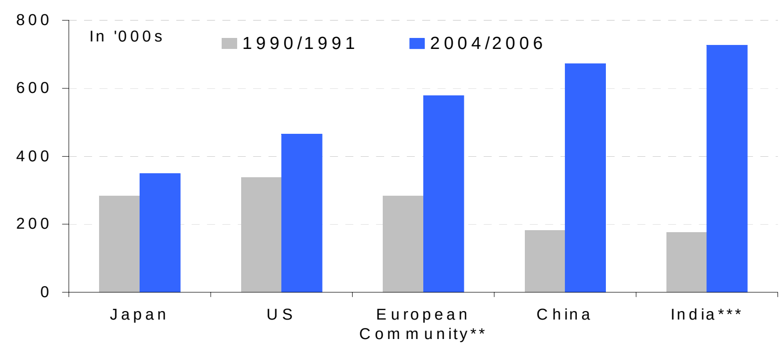
Source: WTO, Morgan Stanley Research; E= Morgan Stanley Research estimates

India Has Taken the Lead in High-end Commercial Services



E = Morgan Stanley Research estimates Source: CSO, Morgan Stanley Research

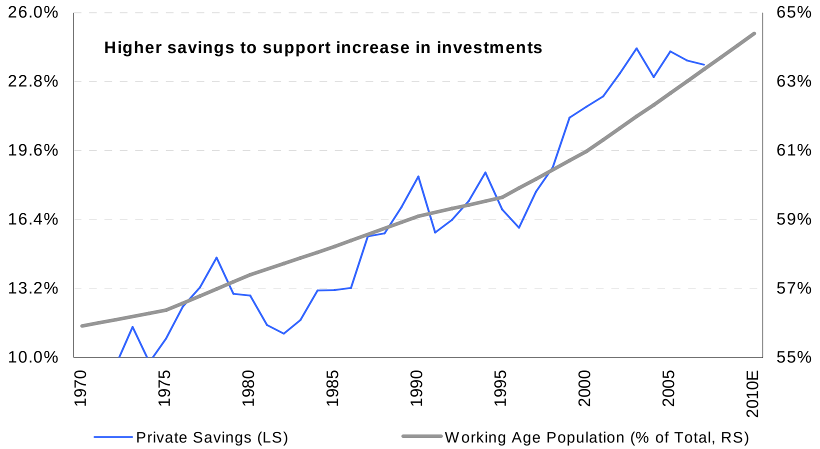
Delta in Global Supply of Science & Engineering Students Graduating in a Year* ('000s)



** Includes people with first university degree in science and engineering; ** Includes Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain and United Kingdom; *** Note: India data do not include engineering diploma holders; the data are for the latest year available (i.e., the current data for different countries range over various years from 2004 to 2006.) Source: National Science Foundation, NASSCOM, Morgan Stanley Research*

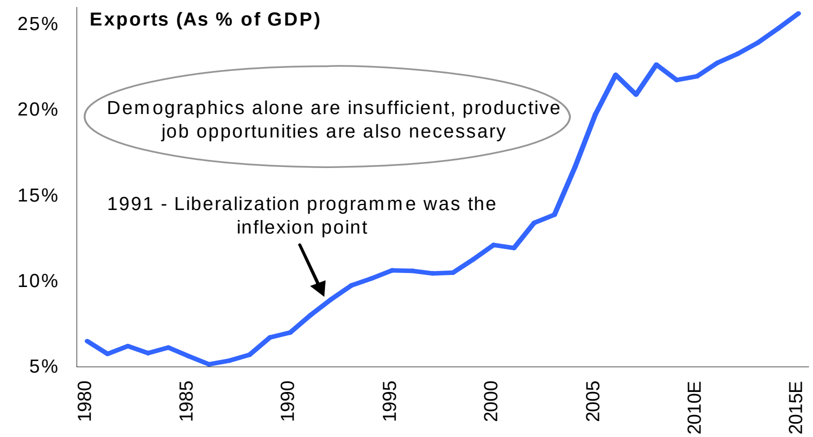
Theme IV:
Long-term Growth Outlook: An Interplay of Three Macro Factors

Private Savings Should Keep Rising, Driven by Improving Share of Working Age Population and …



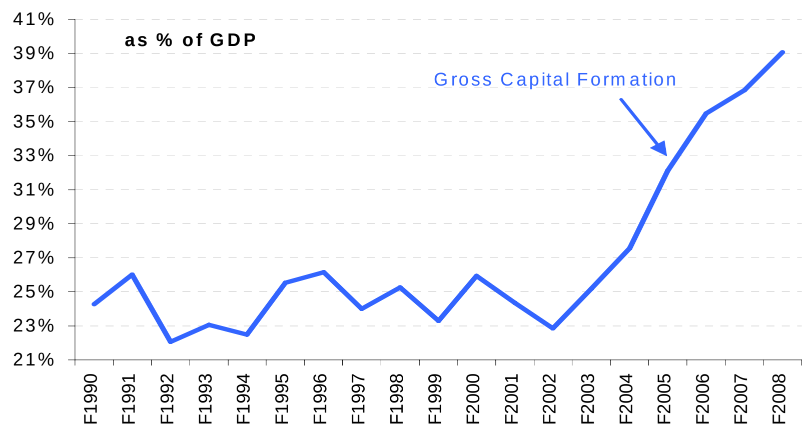
Source: CSO, UN, Morgan Stanley Research E= United Nations Research estimates

… Higher Exports



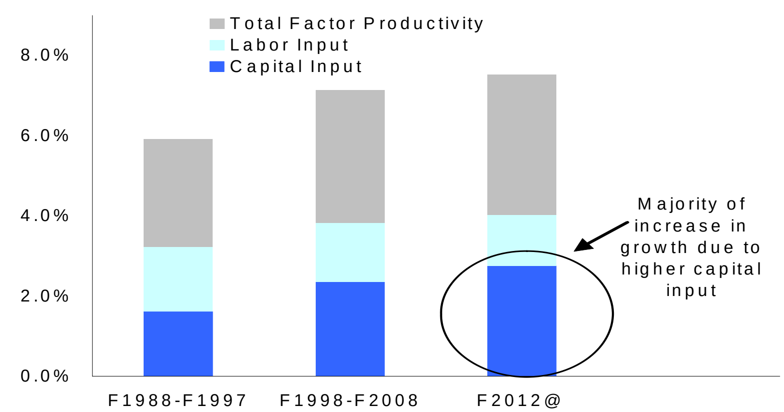
Source: WTO, Morgan Stanley Research; E= Morgan Stanley Research estimates

Rising Investments to GDP …



Source: CSO, Morgan Stanley Research

… Higher Capital (investments) Input Likely to Be Key Driver to Growth

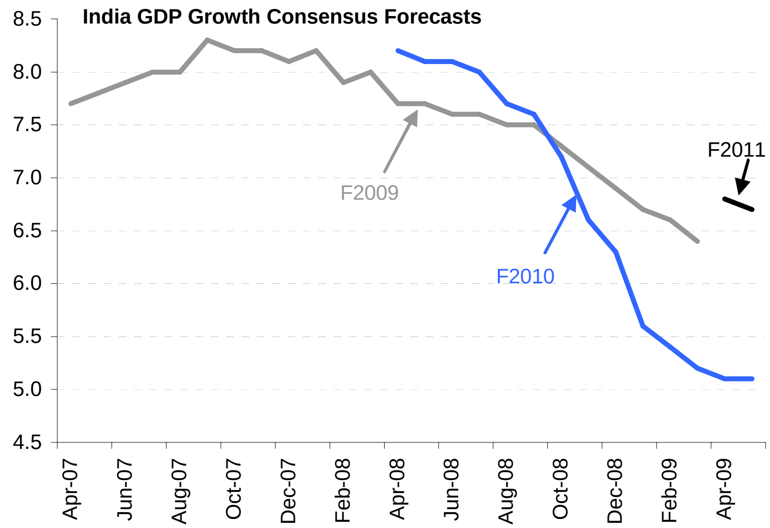


@ Likely scenario *Source: CSO, Morgan Stanley Research*

Facts and Figures

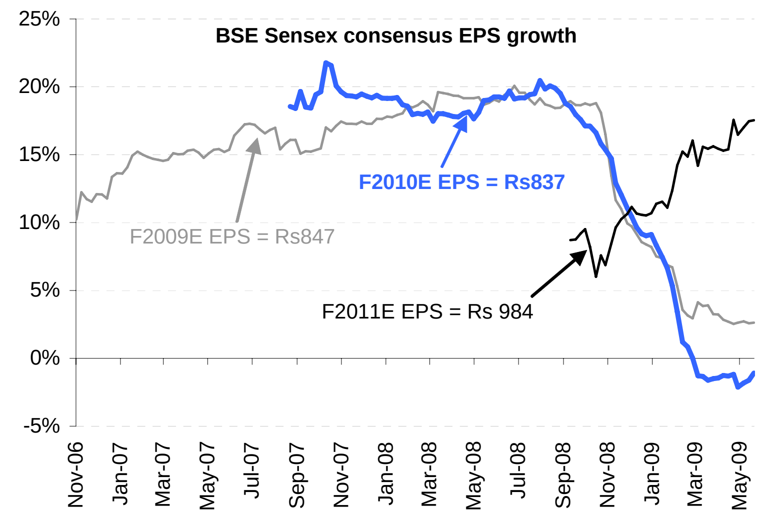
Facts and Figures: Consensus Expectations

Consensus GDP Growth



Source: Consensus Economics Inc, Morgan Stanley Research

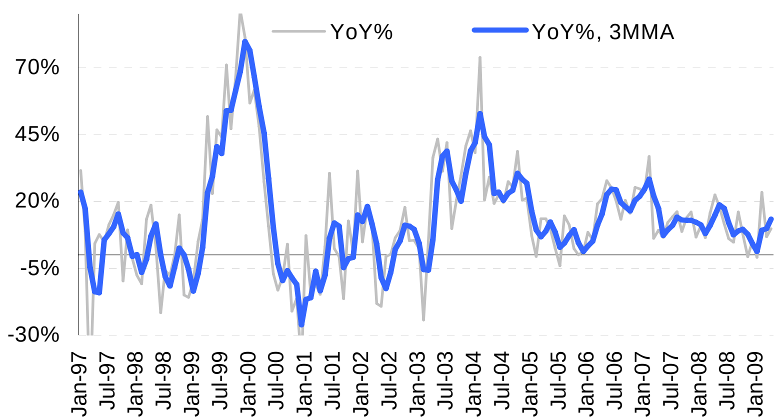
Consensus Earnings Estimates



Source: IBES, Bloomberg, Morgan Stanley Research

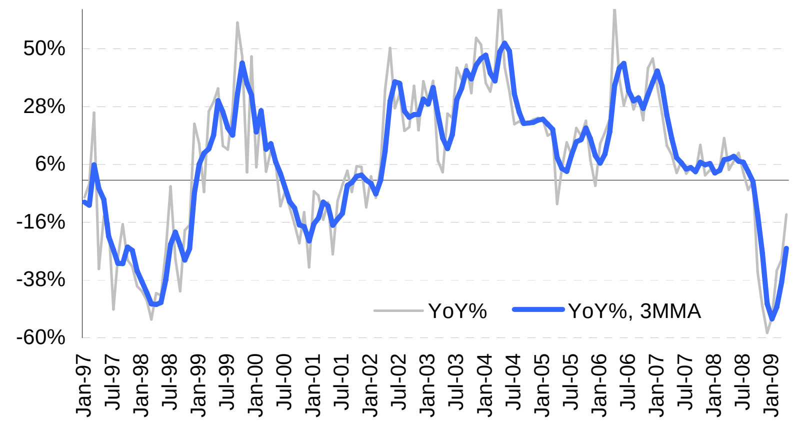
Facts and Figures: Growth Indicators

Passenger Car Sales (YoY% and YoY%, 3MMA)



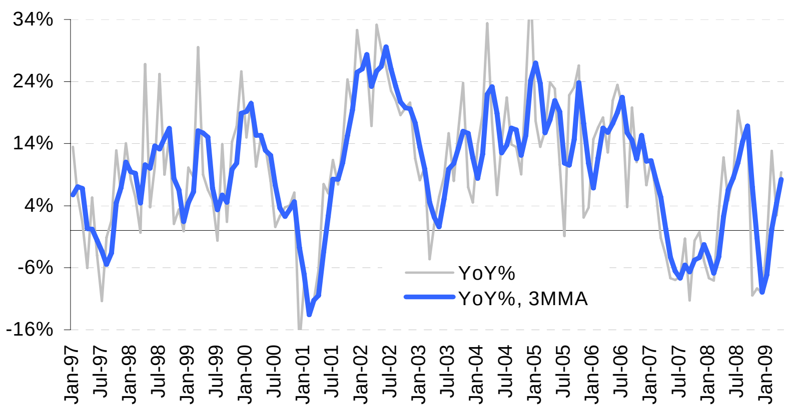
Source: SIAM, Bloomberg, Morgan Stanley Research

Commercial Vehicle Sales (YoY% and YoY%, 3MMA)



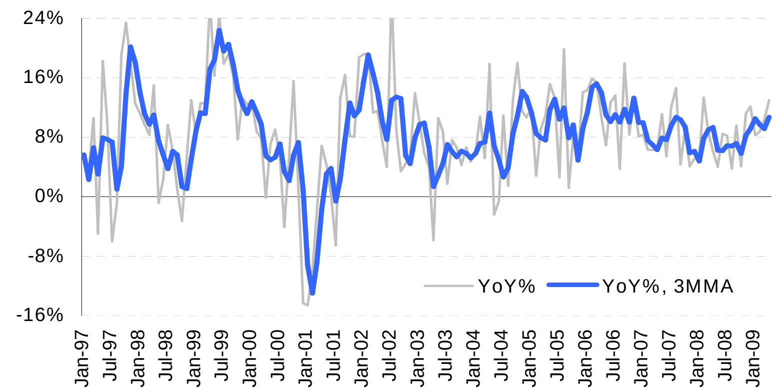
Source: SIAM, Bloomberg, Morgan Stanley Research

Two-wheeler Sales (YoY% and YoY%, 3MMA)



Source: SIAM, Bloomberg, Morgan Stanley Research

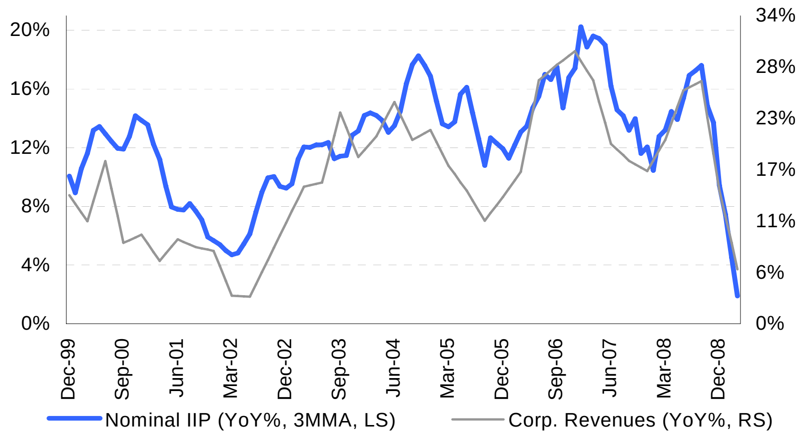
Cement Dispatches Growth (YoY% and YoY%, 3MMA)



Source: CMA, CMIE, Morgan Stanley Research

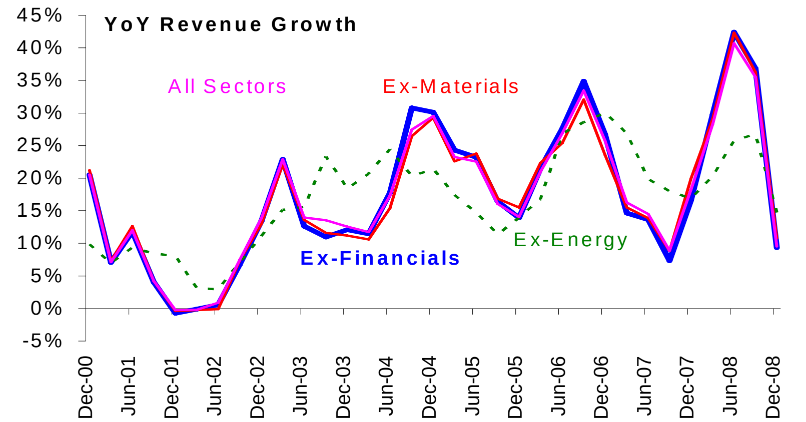
Facts and Figures: Corporate Performance

IP Growth vs. Corporate Rev. Growth (ex-Energy)



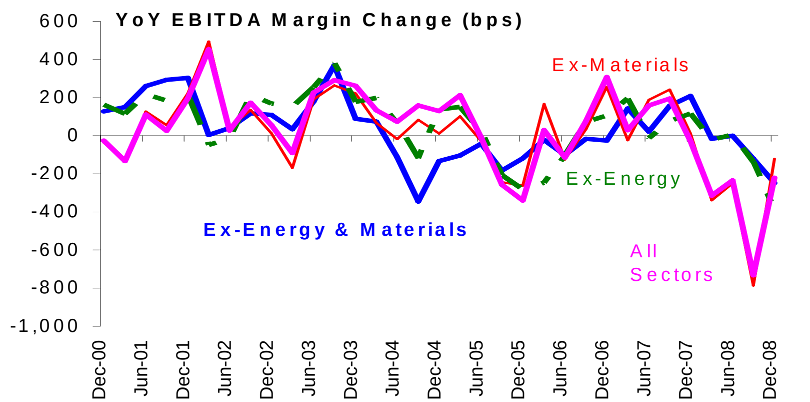
Based on a universe of 100 companies
Source: CSO, company data, RBI, Morgan Stanley Research

Revenue Growth at a 13-quarter Low



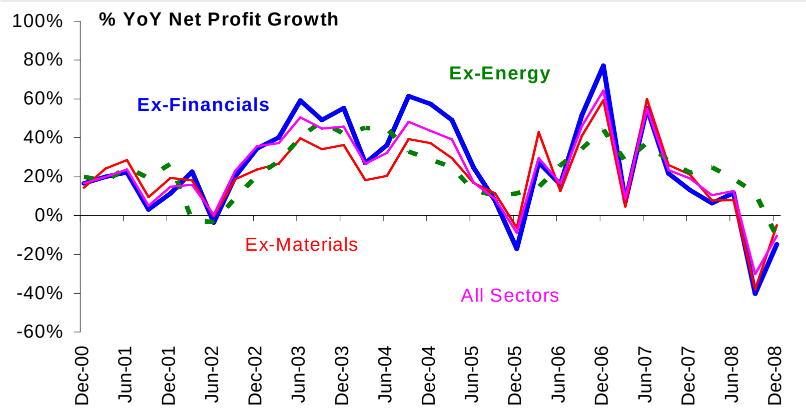
Based on a universe of 100 companies
Source: Company data, Morgan Stanley Research

EBITDA Margins Fall



Based on a universe of 100 companies
Source: Company data, Morgan Stanley Research

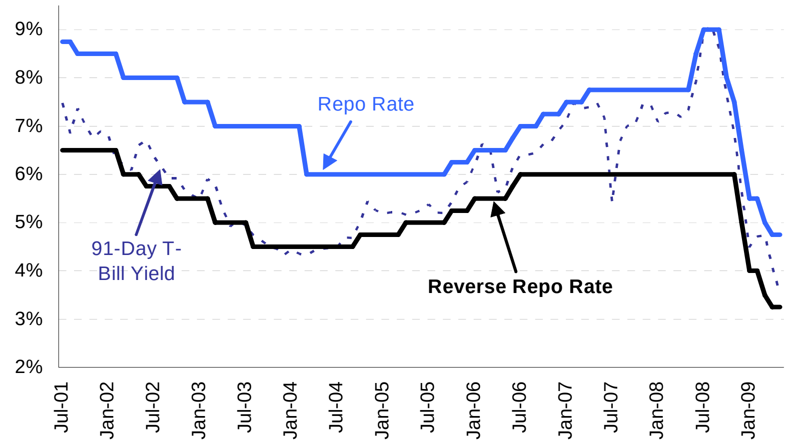
Profits Fall YoY



Based on a universe of 100 companies
Source: Company data, Morgan Stanley Research

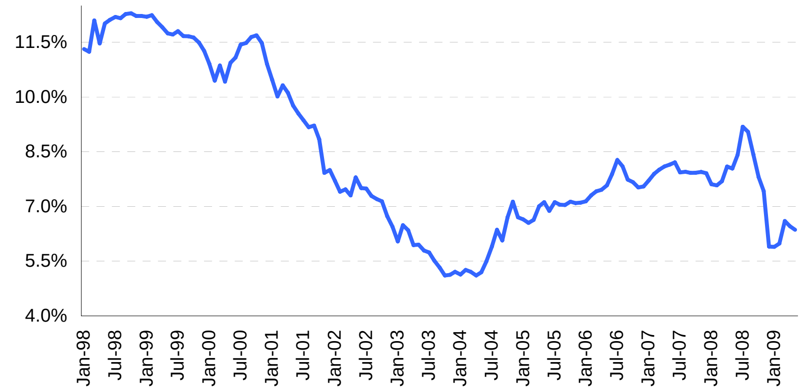
Facts and Figures: Interest Rate Environment

Short-term Policy and Market Rates



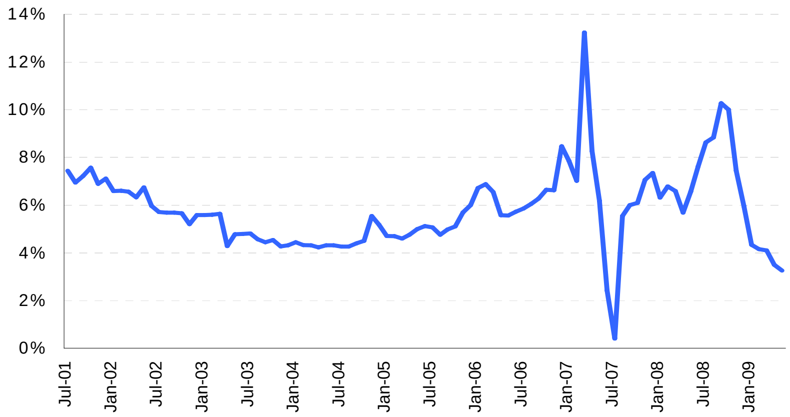
Source: RBI, Bloomberg, CEIC, Morgan Stanley Research

Nominal 10-year Bond Yield



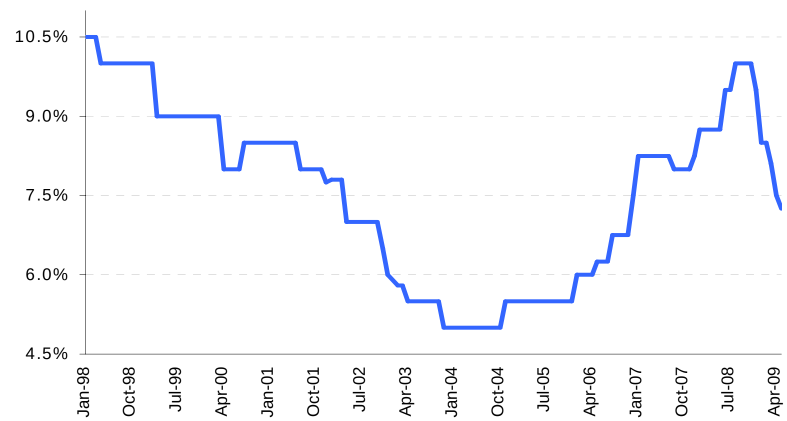
Source: RBI, Bloomberg, Morgan Stanley Research

Call Money Rate



Source: Bloomberg, Morgan Stanley Research

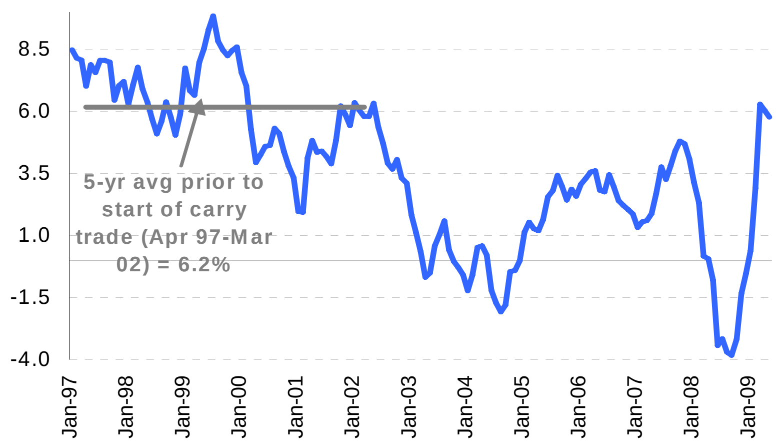
State Bank of India's One-year Bank Deposit Rate



Source: SBI, Morgan Stanley Research

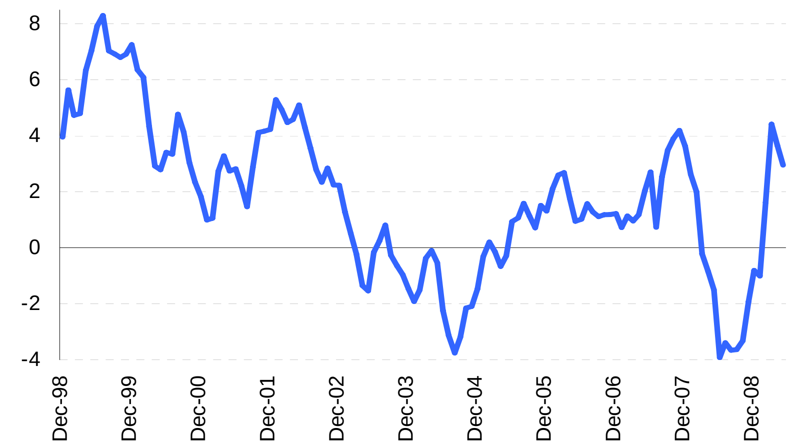
Facts and Figures: Interest Rate Environment

Real 10-year Government Bond Yield



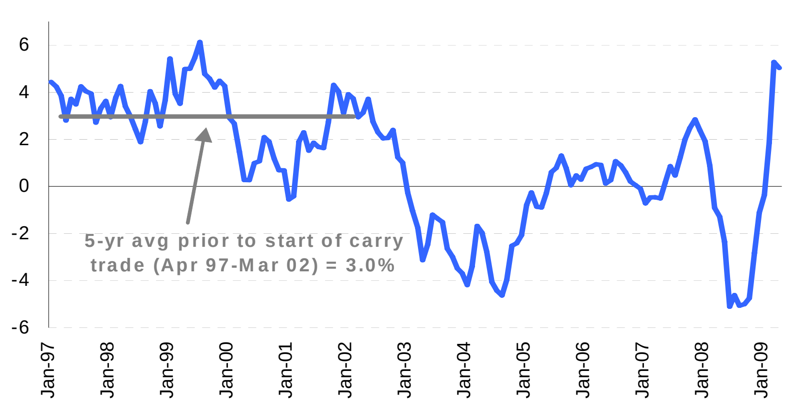
Source: RBI, Bloomberg, Morgan Stanley Research

Real 91-day T-Bill



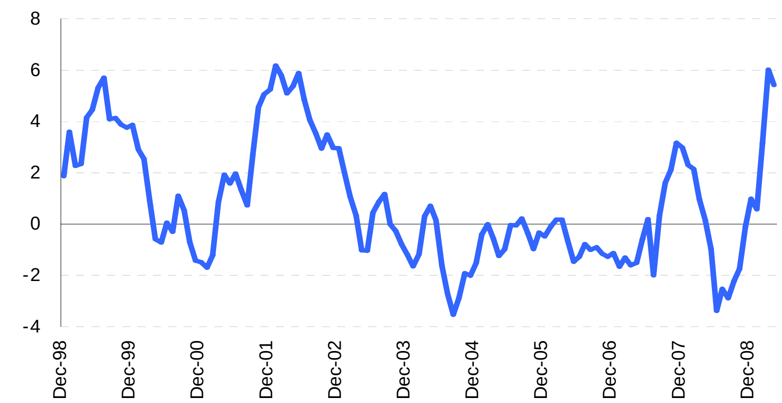
Source: RBI, Bloomberg, Morgan Stanley Research

Real Spread Between Long Rates (Indian and US 10-year Government Bond)



Note: Computed using WPI for India and core CPI for US. Source: RBI,CEIC, Bloomberg, Morgan Stanley Research

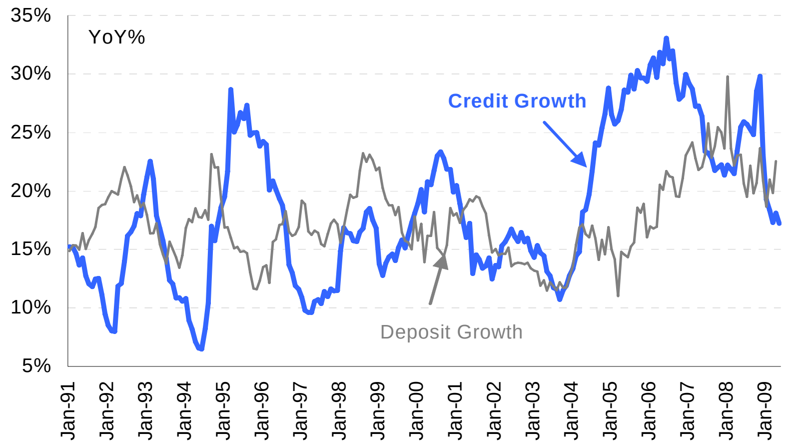
Real Spread Between Short Rates (Indian and US 91-day T-bill)



Note: Computed using WPI for India and core CPI for US. Source: RBI,CEIC, Bloomberg, Morgan Stanley Research

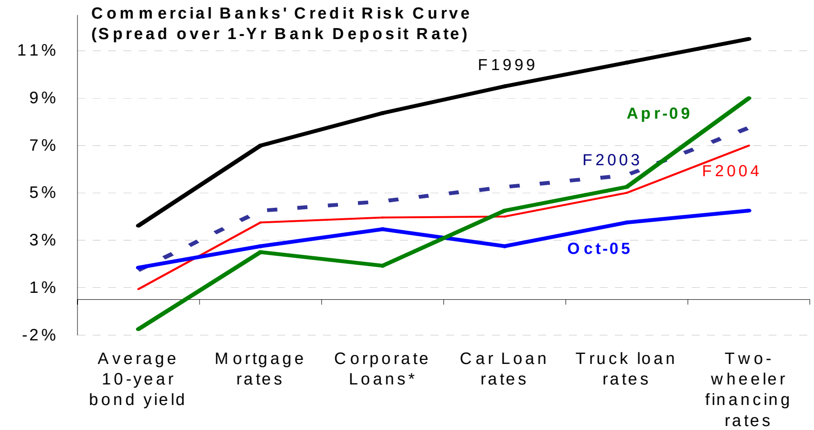
Facts and Figures: Monetary Indicators

Credit and Deposit Growth



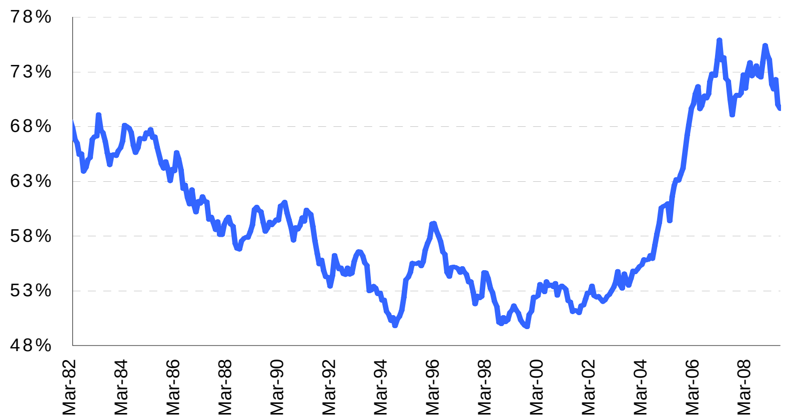
Source: RBI, Morgan Stanley Research

Commercial Banks' Credit Risk Curve (Spread Over One-year Bank Deposit Rate)



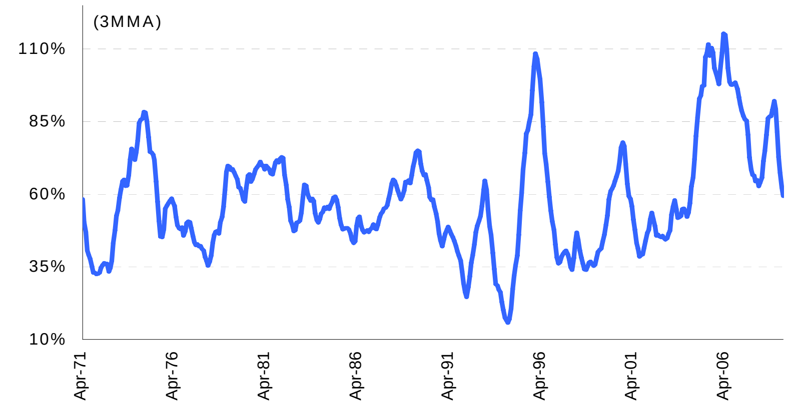
Using yield on an A-rated corporate bond as a proxy.
Source: Morgan Stanley Research

Credit-Deposit Ratio



Source: RBI, Morgan Stanley Research

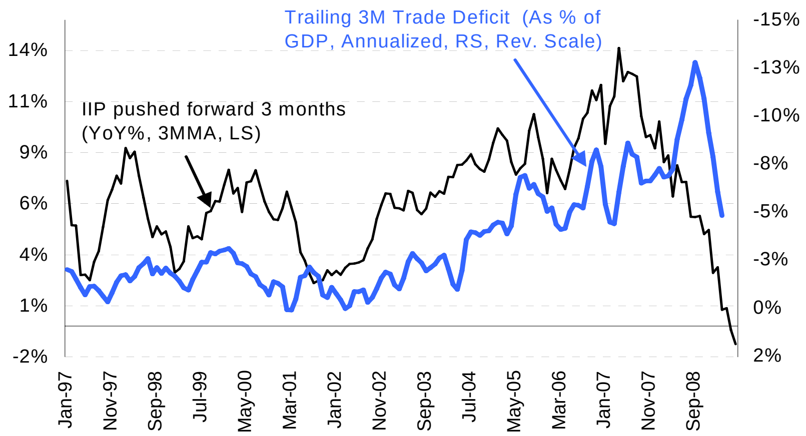
Incremental Credit-Deposit Ratio



Source: RBI, Morgan Stanley Research

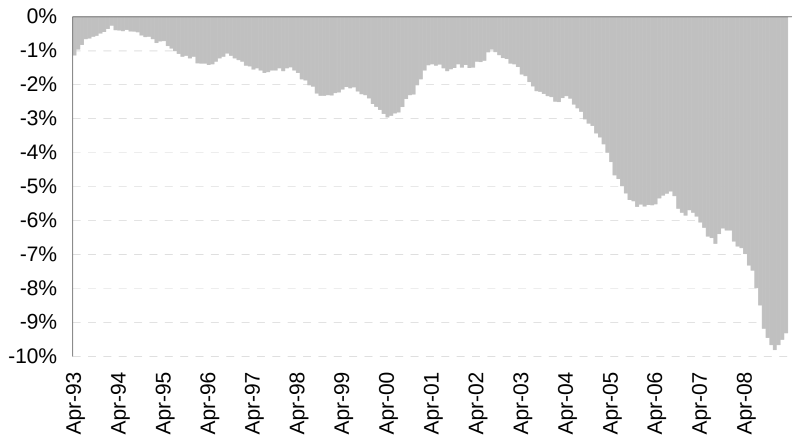
Facts and Figures: Foreign Trade

Trade Deficit vs. IP Growth



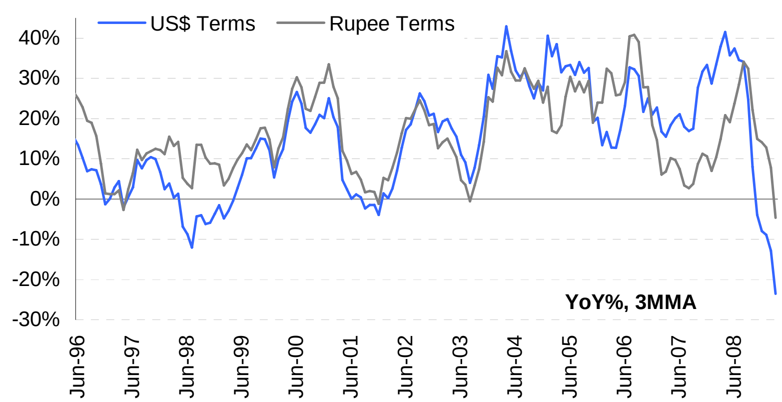
Source: Ministry of Commerce, CSO, RBI, Morgan Stanley Research

Trailing 12-month Trade Deficit (as % of GDP)



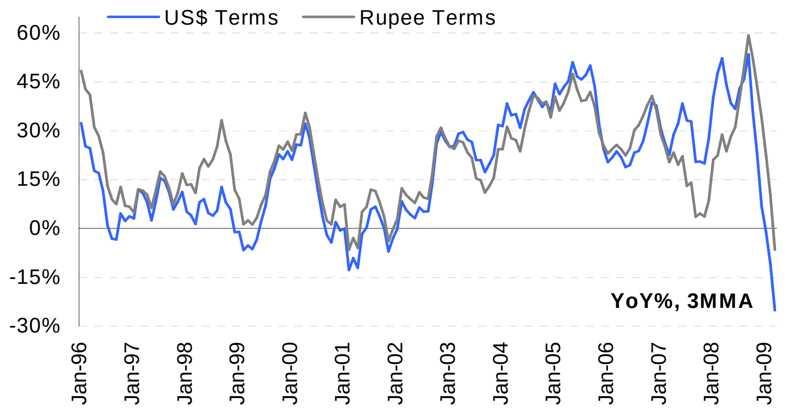
Source: Ministry of Commerce, CSO, RBI, Morgan Stanley Research

Export Growth (in USD and INR terms)



Source: Ministry of Commerce, Morgan Stanley Research

Import Growth (in USD and INR terms)



Source: Ministry of Commerce, Morgan Stanley Research

Loans as a % of GDP

Loan as a % of GDP: Regional Comparison (June 2008)

	China	India#	Indonesia	Vietnam	Thailand	Korea	Malaysia	Taiwan	Australia	Hong Kong	Singapore
Total Loans	**130%**	**48%**	**26%**	**62%**	**97%**	**80%**	**109%**	**169%**	**189%**	**147%**	**136%**
--Business Loans	106%	34%	15%	61%	73%	43%	52%	90%	76%	96%	65%
--Retail Loans	**23%**	**14%**	**11%**	**1%**	**24%**	**37%**	**57%**	**79%**	**114%**	**51%**	**72%**
-----Mortgage Loans	14%	8%	3%	0%	17%	23%	29%	55%	98%	39%	57%
-----Non-mortgage Loans	10%	6%	9%	1%	8%	14%	28%	25%	16%	12%	15%

Source: Morgan Stanley Research
Data corresponds to Scheduled Commercial Banks only. For the whole banking system in India, loan to GDP ratio is 55.7%

Facts and Figures: Balance of Payments

India's Overall Balance of Payments (US$ billion), F2Q2006 – F3Q2009 (YE March)

(US $ billion)	**F2Q06**	**F3Q06**	**F4Q06**	**F1Q07**	**F2Q07**	**F3Q07**	**F4Q07**	**F1Q08**	**F2Q08**	**F3Q08**	**F4Q08**	**F1Q09**	**F2Q09**	**F3Q09**
Current account														
Exports	25.0	25.6	30.6	29.7	32.7	30.8	35.7	34.4	38.3	41.0	52.5	49.1	47.7	36.7
Growth %	*32%*	*22%*	*11%*	*24%*	*31%*	*21%*	*17%*	*16%*	*17%*	*33%*	*47%*	*43%*	*25%*	*-10%*
Imports	38.4	38.3	42.4	46.6	48.7	47.3	48.1	56.3	59.5	67.0	74.9	79.6	86.2	73.0
Growth %	*34%*	*17%*	*22%*	*23%*	*27%*	*23%*	*14%*	*21%*	*22%*	*42%*	*56%*	*41%*	*45%*	*9%*
Trade balance	**-13.4**	**-12.7**	**-11.8**	**-17.0**	**-16.0**	**-16.4**	**-12.4**	**-22.0**	**-21.2**	**-26.1**	**-22.3**	**-30.5**	**-38.5**	**-36.3**
Invisibles, net	**8.7**	**7.8**	**16.3**	**12.5**	**10.3**	**12.8**	**16.6**	**15.3**	**16.9**	**21.5**	**20.8**	**21.5**	**25.7**	**21.7**
--Invisibles inward	19.1	23.2	28.4	24.9	24.9	29.7	35.1	29.9	34.0	39.6	45.2	38.4	45.2	39.3
----Software Exports	5.2	6.3	7.0	7.0	7.1	7.6	9.5	8.8	9.1	9.6	12.8	11.7	12.2	10.7
----Travel & Transportation	3.0	3.9	4.3	3.4	3.8	4.7	5.2	4.0	4.3	6.2	6.8	5.0	5.7	5.5
----NRI Remittances	5.1	6.5	7.4	7.1	6.1	8.7	9.0	8.5	9.6	11.2	14.2	12.2	13.7	11.1
----Investment income inflow	1.3	1.7	1.9	1.7	2.2	2.2	2.9	2.3	3.6	3.4	4.5	3.4	3.9	3.0
----Others	4.5	4.7	7.9	5.7	5.7	6.5	8.4	6.2	7.5	9.1	6.8	6.1	9.8	9.0
--Invisibles outward	10.4	15.3	12.2	12.4	14.6	16.9	18.4	14.6	17.1	18.0	24.3	16.8	19.5	17.6
----Investment income repat.	2.8	4.5	2.1	3.5	4.0	3.9	4.2	4.0	4.8	4.7	4.6	4.1	4.6	4.5
----Travel & Transportation	3.4	3.9	4.2	3.5	3.8	3.7	3.7	4.4	4.6	5.6	6.2	5.5	6.4	5.2
----Others	4.2	6.9	5.9	5.5	6.8	9.2	10.5	6.1	7.7	7.8	13.6	7.2	8.5	7.9
Current account balance (a)	**-4.7**	**-4.9**	**4.5**	**-4.4**	**-5.7**	**-3.6**	**4.2**	**-6.7**	**-4.3**	**-4.5**	**-1.5**	**-9.0**	**-12.8**	**-14.6**
Capital account														
Loans	4.3	-2.6	4.2	5.2	4.8	6.5	8.0	9.2	9.3	10.9	12.5	4.2	3.6	1.7
Foreign investment	5.5	4.1	3.6	1.2	4.3	6.5	2.8	10.3	13.0	16.9	4.8	4.8	4.3	-5.0
---FDI	1.8	2.3	2.7	3.4	4.4	9.8	5.1	7.5	4.7	7.9	14.2	11.9	8.8	6.7
---FIIs	4.4	2.7	4.3	-0.5	2.2	3.6	1.8	7.5	10.9	14.9	-3.7	-4.2	-1.3	-5.8
---FDI investment abroad	-0.8	-0.9	-3.4	-1.7	-2.3	-7.0	-4.1	-4.7	-2.6	-5.8	-5.7	-2.9	-3.2	-5.9
Banking Capital	2.0	-1.0	-0.4	5.1	-1.7	-3.1	1.7	-0.9	6.6	0.2	5.8	2.7	2.1	-5.0
---NRI Deposits	0.3	0.9	1.7	1.3	0.9	1.5	0.6	-0.4	0.4	-0.9	1.1	0.8	0.3	1.0
---Other	1.7	-1.9	-2.1	3.8	-2.6	-4.6	1.0	-0.5	6.3	1.1	4.7	1.9	1.9	-6.0
Rupee Debt Service	0.0	-0.3	-0.1	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Other Capital	-1.3	0.5	1.1	-0.7	0.5	1.0	3.4	-0.7	4.2	3.0	3.0	-0.5	-2.1	4.5
Total capital balance (b)	**10.5**	**0.8**	**8.4**	**10.7**	**7.9**	**10.8**	**15.8**	**17.8**	**33.2**	**31.0**	**26.0**	**11.1**	**7.9**	**-3.7**
Errors & Omissions (c)	-0.6	-0.5	0.4	0.1	0.2	0.3	0.4	0.1	0.4	0.3	0.5	0.1	0.2	0.4
Balance of Payments (a+b+c)	5.3	-4.7	13.2	6.4	2.3	7.5	20.5	11.2	29.2	26.7	25.0	2.2	-4.7	-17.9
Four Qtr Trailing Balance of Payments	25.7	14.5	15.1	20.2	17.2	29.4	36.6	41.4	68.4	87.6	92.2	83.2	49.2	4.6

Source: RBI, Morgan Stanley Research

Facts and Figures: Balance of Payments

Sources of Forex Accretion

(In US$ Billion)	F2001	F2002	F2003	Avg in F1998 to F2003	F2004	F2005	F2006	F2007	F2008	F2009 YTD (April-December 2008)
Current Account	**-3.6**	**0.8**	**6.3**	**-1.8**	**14.1**	**-2.5**	**-9.9**	**-9.6**	**-17.0**	**-36.5**
-Trade	-14.4	-12.7	-10.7	-14.3	-13.7	-33.7	-51.9	-61.8	-91.6	-105.3
-Invisibles	10.8	13.5	17.0	12.0	27.8	31.2	42.0	52.2	74.6	68.9
Capital Account	**10.0**	**10.6**	**12.4**	**10.3**	**17.3**	**28.6**	**25.0**	**47.0**	**109.2**	**16.1**
Foreign Investment	5.9	6.7	4.2	4.6	13.7	13.0	15.5	14.8	45.0	4.0
--FDI	3.3	4.7	3.2	3.2	2.4	3.7	3.0	7.7	15.4	15.4
--FII	2.6	2.0	0.9	1.7	11.4	9.3	12.5	7.1	29.6	-11.3
Banking Capital	0.8	5.6	8.4	2.2	6.0	3.9	1.4	1.9	11.8	-0.1
- Of which: NRI Deposits	2.3	2.8	3.0	1.8	3.6	-1.0	2.8	4.3	0.2	2.1
Short Term Credit	0.1	-0.9	1.0	0.1	1.4	3.8	1.7	6.6	17.7	0.5
Ext. Com. Borrowings	3.7	-1.6	-2.3	2.0	-2.9	5.2	2.5	16.1	22.6	7.1
Other capital items	NA	0.8	1.1		-0.9	2.8	3.8	4.3	11.0	4.5
Other Capital (Valuation Change)	**-1.9**	**0.0**	**4.4**	**0.0**	**0.0**	**2.4**	**-5.0**	**10.2**	**18.3**	**-33.4**
Total Forex Accretion	**4.5**	**11.6**	**21.3**	**7.5**	**31.4**	**28.6**	**10.1**	**47.6**	**110.5**	**-53.8**

Source: RBI, Morgan Stanley Research

Facts and Figures: Central Government Accounts (as % of GDP)

	F2002	F2007	F2008	F2009RE	F2010BE
Nominal GDP (US$ billion)	**478**	**913**	**1,173**	**1,182**	**1,162**
I] Revenue Receipts (a+b)	**8.8%**	**10.5%**	**11.5%**	**10.4%**	**10.1%**
(a) Tax Revenue (Net to Centre)	**5.9%**	**8.5%**	**9.3%**	**8.6%**	**8.3%**
-- Gross tax revenue	8.2%	11.5%	12.6%	11.6%	11.1%
Of Which:					
Indirect Taxes	5.2%	6.2%	6.3%	5.2%	4.8%
-- Customs	1.8%	2.1%	2.2%	2.0%	1.8%
-- Excise	3.2%	2.8%	2.6%	2.0%	1.8%
-- Service Tax	0.1%	0.9%	1.1%	1.2%	1.1%
Direct Tax	3.0%	5.3%	6.3%	6.4%	6.3%
-- Corporation tax	1.6%	3.5%	4.1%	4.1%	4.1%
-- Personal Income tax	1.4%	1.8%	2.2%	2.3%	2.2%
-- Less Share of States	2.3%	2.9%	3.2%	3.0%	2.8%
(b) Non -Tax Revenue	**3.0%**	**2.0%**	**2.2%**	**1.8%**	**1.9%**
-- Interest Receipts	1.6%	0.5%	0.4%	0.4%	0.3%
-- Dividends & Profits	0.8%	0.7%	0.7%	0.7%	0.6%
II] Revenue Expenditure	**13.2%**	**12.5%**	**12.6%**	**14.8%**	**14.1%**
Of Which:					
-- Interest payments	4.7%	3.6%	3.6%	3.6%	3.7%
-- Non-Interest Revenue Expenditure	8.5%	8.8%	9.0%	11.3%	10.3%
		-1.9%	-1.1%	-4.4%	-4.0%
III] Revenue Deficit (II minus I)	**4.4%**	**1.9%**	**1.1%**	**4.4%**	**4.0%**
IV] Capital Receipts (ex-borrowings)	**0.9%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**
-- Recoveries of Loans	0.7%	0.1%	0.1%	0.2%	0.2%
-- Disinvestment Proceeds	0.2%	0.0%	0.1%	0.0%	0.0%
V] Capital Expenditure	**2.7%**	**1.7%**	**1.8%**	**1.8%**	**1.7%**
VI] Total Expenditure	**15.9%**	**14.1%**	**14.4%**	**16.6%**	**15.8%**
Of Which:					
-- Plan Expenditure	4.4%	4.1%	4.3%	5.2%	4.7%
-- Non Plan Expenditure	11.5%	10.0%	10.0%	11.4%	11.1%
VII] Fiscal Deficit (VI - I - IV)	**6.2%**	**3.5%**	**2.7%**	**6.0%**	**5.5%**
VIII] Primary Deficit (VIII - Interest Payments)	**1.5%**	**-0.2%**	**-0.9%**	**2.5%**	**1.8%**

*Note: F2009 and F2010 numbers are as per Interim budget announced on February 16, 2009. RE = Government Revised Estimates, BE= Government Budget Estimate Note: Central Government Accounts have been adjusted for impact of debt swap scheme. *Disinvestment Proceeds in F2008 has been adjusted for one time transfer by RBI of the proceeds on account of transfer of its stake in SBI to Government of India Source: RBI, Budget Documents, Morgan Stanley Research.*

Facts and Figures: State Government Accounts (as % of GDP)

	F2002	F2006	F2007	F2008RE	F2009BE
Revenue Receipts	**10.9%**	**12.0%**	**12.9%**	**13.5%**	**15.6%**
Tax Revenue	**7.7%**	**8.5%**	**9.0%**	**9.3%**	**10.8%**
1. State Taxes	**5.6%**	**5.9%**	**6.1%**	**6.2%**	**7.1%**
------taxes on income	0.1%	0.1%	0.1%	0.1%	0.1%
------tax on property	0.6%	0.8%	0.9%	0.9%	1.0%
------taxes on commodities/ services	4.9%	5.1%	5.2%	5.2%	6.0%
--------sales tax	3.2%	3.6%	3.7%	3.8%	4.3%
2. Share in Central Taxes	**2.3%**	**2.6%**	**2.9%**	**3.1%**	**3.7%**
Non Tax Revenue	**3.2%**	**3.5%**	**3.8%**	**4.0%**	**4.4%**
-----Grants from centre	1.9%	2.1%	2.3%	2.6%	3.0%
-----States own non tax revenue	1.4%	1.3%	1.3%	1.3%	1.4%
EXPENDITURE	**15.1%**	**14.5%**	**14.8%**	**15.8%**	**15.6%**
Developmental Expenditure	9.3%	9.2%	9.5%	10.4%	11.8%
Non Developmental Expenditure	5.9%	5.3%	5.1%	5.1%	5.8%
------Interest Payments	2.7%	2.3%	2.3%	2.2%	2.3%
------Admin Services	1.2%	1.0%	0.9%	1.0%	1.3%
------Pensions	1.4%	1.3%	1.3%	1.3%	1.6%
Interest Payments as % of revenue receipts	24.7%	19.5%	17.5%	16.1%	14.7%
Pension as % of revenue receipts	13.1%	11.2%	9.9%	9.7%	10.1%
Revenue Expenditure	13.6%	12.2%	12.2%	12.8%	14.6%
Capital Outlay	1.4%	2.2%	2.4%	2.7%	3.1%
Loans and Advances	0.4%	0.4%	0.3%	0.4%	0.3%
Recoveries of Loans	0.3%	0.2%	0.2%	0.1%	0.1%
Fiscal Deficit	**4.1%**	**2.5%**	**1.9%**	**2.3%**	**2.1%**
Revenue Deficit	**2.7%**	**0.2%**	**-0.6%**	**-0.5%**	**-0.6%**

RE = Government Revised estimates, BE= Government Budget estimate *Source: RBI, State Budget Documents, Morgan Stanley Research*

Facts and Figures: Economy & Markets

Current Market Statistics (as of May 2009)	
Current Market Capitalization (US$ bn)	934
MSCI Weight (Asia Pacific ex Japan)	8.4
Average Daily Volumes (US$ bn)	
-- Cash	2.7
-- Derivatives*	8.4
Total Domestic Mutual Fund Assets (US$ bn)**	118.6
FII Ownership (% of Market Cap)#	16.7%

Savings and Investments	
Saving (F2008, % of GDP)	37.7
Gross Capital Formation (F2008, % of GDP)	39.1
Level of Gross FDI (F2008, US $bn)	34.2
Gross FDI as % of GDP, F2008	2.9%

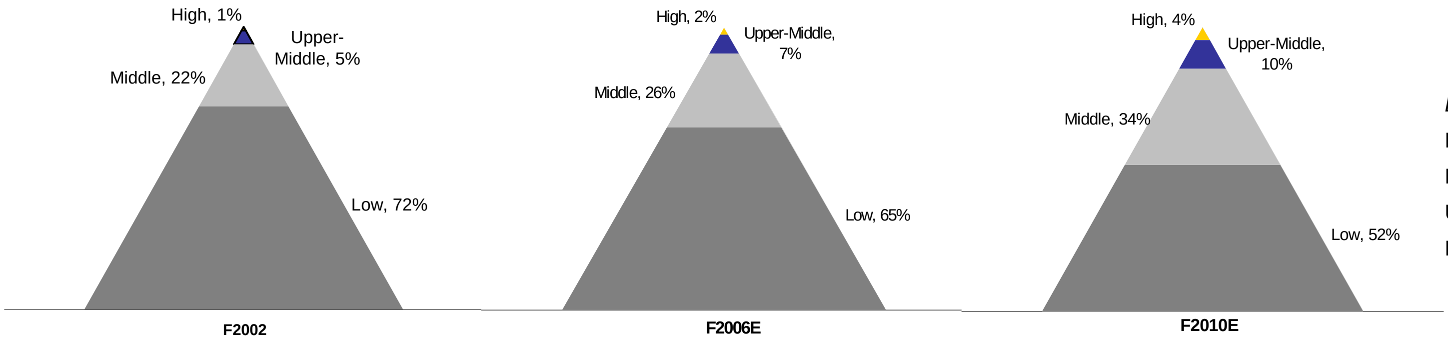
National Income Statistics	
Nominal GDP (F2008, US$ bn)	1173
Population (mn, F2008)	1138
Population Growth (% CAGR, F1994-2008)	1.8%
Per Capita GDP (F2008, US$)	1028
Nominal US$ GDP Per Capita Growth (%, F1994-F2008)	8.9%

Composition of GDP (%, F2008)	
Agriculture and allied activities	**19.8%**
---Agriculture	17.8%
---Mining & Quarrying	2.0%
Industry	**24.5%**
---Manufacturing	15.2%
---Electricity, gas & water supply	2.0%
---Construction	7.2%
Services	**55.7%**
---Trade, hotels, transport & communication	28.0%
---Financing, insurance, real est. & bus. services	14.6%
---Community, social & personal services	13.1%

*Note: * Only NSE, ** Data as of April 2009*
#Data as of March 2009, the data is for our sample of 75 companies
Source: CSO, RBI, BSE, MSCI, AMFI, company data, Morgan Stanley Research

Facts and Figures: Social

Growing Middle Class (% Share of Households)



188 mn households | 204 mn households | 222 mn households

Definitions (at F2002 prices):

Low	Up to US$ 2000
Middle	US$ 2000 - 4200
Upper-Middle	US$ 4200 - 10,500
High	US$ 10,500 & above

Source: NCAER; E= NCAER estimates

Demographic Comparison

	Year	India	China	S Korea	Russia
Per Capita Nominal Income, US$	2007	971	2461	19751	9075
Penetration Comparison					
Electricity (Consumption per capita kwh)	2007	704	2173*	7708	6879
Telephone Mainlines (per 1,000 people)	2007	35	281	454	290
Mobile Phones (per 1,000 people)	2007	206	421	897	1136
Household with Television (%)	2007	47	95	99	95
Personal Computers (per 1,000 people)	2007	24	65	673	221

** Data as of 2006 Source: Euromonitor, IMD Competitiveness, World Bank, Infraline, CEA, Morgan Stanley Research*

Facts and Figures: Government Debt, Trade

Public Debt Structure (% of GDP, F2008)	
Public Debt	76.8

External Debt Structure (% of GDP, F2008)	
External Debt	19.2
-Short Term Debt	4.0
---Debt Service Coverage Ratio	5.4

Trade Data (% of GDP, F2008)	
Goods Exports	13.5%
Goods Imports	21.2%
Trade Balance	-7.7%
Current Account Balance	-1.5%

India: Share of Global Goods Exports	
1953	1.3%
1963	1.0%
1973	0.5%
1983	0.5%
1993	0.6%
2001	0.7%
2005	1.0%
2007	1.0%

Source: WTO, RBI, Morgan Stanley Research

Facts and Figures: Sovereign Ratings

India: Foreign Currency Debt Ratings

S&P	Moody's	Fitch
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	**Baa3**	**BBB-**
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

Cut off for investment grade

India: Local Currency Debt Ratings

S&P	Moody's	Fitch
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	**BBB-**
BB+	Ba1	BB+
BB	**Ba2**	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

Source: Bloomberg, Morgan Stanley Research

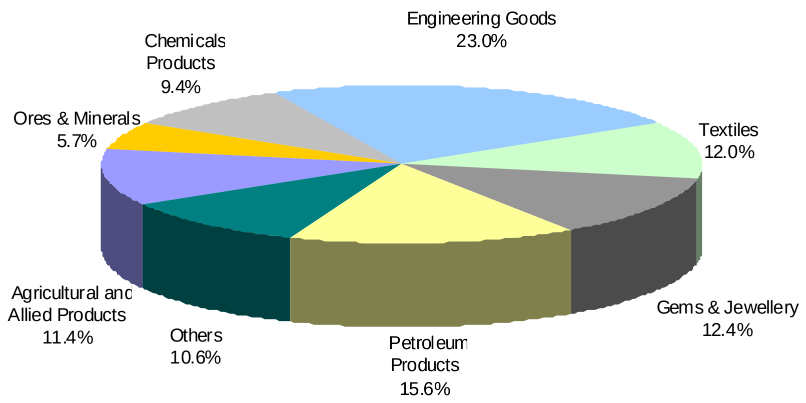
Facts and Figures: Trade

Main Export Origins, % of Total, F2008	
Asian Countries (Ex-Japan ex- China)	23.0
EU	20.2
USA	13.0
China	6.8
Japan	2.2

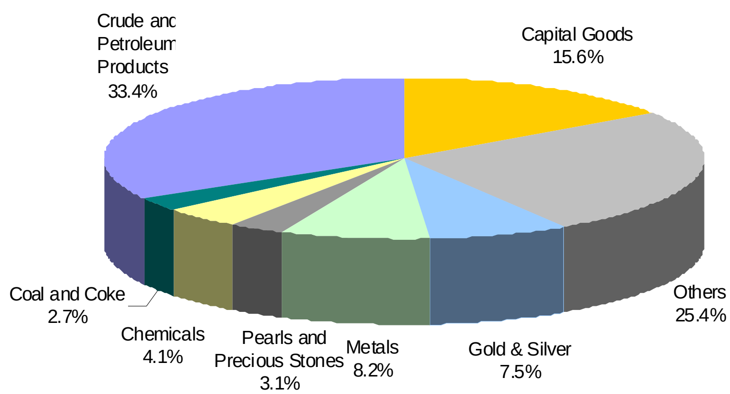
Main Import Destinations, % of Total, F2008	
Asian Countries (Ex-Japan ex- China)	15.3
EU	13.9
China	11.4
USA	5.5
Japan	2.7

Note: Data for imports by country do not include petroleum and crude products since a breakdown by country for this segment is unavailable.

Composition of Exports, F2008



Composition of Imports, F2008



Source: CMIE, Morgan Stanley Research

Facts and Figures: Balance Sheet

Balance Sheet of the Indian Corporate Sector*

	F2008
Liabilities	
Net Worth	62%
Loans	38%
Total Liabilities	**100%**
Assets	
Net Block	65%
Investment	16%
Net Working Capital	19%
Total Assets	**100%**

* Based on data for top 200 companies

Balance Sheet of Indian Households

(in US$ bn) At Cost	March 31, 2008	% Share
Physical Assets (Including gold and property)	**1102**	**51.5%**
Financial Assets	**1359**	**63.6%**
Currency	131	6.1%
Deposits	621	29.1%
Contractual savings	374	17.5%
Claims on the Govt.	152	7.1%
Equities	81	3.8%
Financial Liabilities	**-323**	**-15.1%**
Trade Debt	-3	-0.2%
Financial Liabilities	-319	-14.9%
Net Financial Assets	**1037**	**48.5%**
Total Assets	**2139**	**100.0%**

Source: RBI, CSO,Capitalline Morgan Stanley Research

Macroeconomic Forecasts: India

Years Ending March 31	F2005	F2006	F2007	F2008	F2009E	F2010E	F20011E
National Income							
GDP at Factor cost Rs bn	23,888	26,161	28,711	31,297	33,343	35,267	37,657
GDP (at current mkt prices) Rs bn	31,494	35,867	41,292	47,234	53,999	58,704	66,143
GDP (US$ bn)	700	810	913	1,173	1,174	1,257	1,456
Growth rates							
Gross domestic product	7.5%	9.5%	9.7%	9.0%	6.5%	5.8%	6.8%
Agriculture and Allied activities (incl. mining)	0.8%	5.7%	4.4%	4.7%	1.2%	3.1%	3.1%
Manufacturing, Constn, Electricity	10.5%	10.7%	11.2%	8.5%	3.9%	4.6%	7.2%
Services	9.1%	10.6%	11.2%	10.9%	9.6%	7.1%	7.8%
Money and Banking							
Money Supply (M3) growth (avg)	14.2%	16.1%	19.6%	21.8%	20.1%	18.0%	20.0%
Bank non-food credit (avg y-y increase)	27.5%	33.7%	31.3%	24.3%	24.0%	20.0%	23.0%
Interest rates							
91-Day T-Bill Yield (year-end)	5.2%	6.5%	7.4%	7.3%	4.7%	5.0%	6.8%
Repo Rate (year-end)	6.0%	6.5%	7.5%	7.8%	5.0%	4.8%	6.5%
Prices							
Wholesale price index (avg y-y increase)	6.5%	4.4%	5.4%	4.7%	8.3%	2.5%	6.0%
Consumer price index (avg y-y increase)	3.8%	4.2%	6.8%	6.2%	9.1%	5.4%	5.8%
External sector							
Current account							
Exports (US$ bn)	85	105	129	166	169	160	186
Imports (US$ bn)	119	157	191	258	290	254	297
Trade balance (US$ bn)	-34	-52	-62	-91.6	-120.4	-93.9	-111
Exports as % of Imports	71.7%	67.0%	67.6%	64.5%	58.5%	63.0%	62.6%
Invisibles, net (US$ bn)	31	42	52	75	87	79	97
Current account balance (US$ bn)	(2.5)	(9.9)	(9.6)	(17.0)	(33.1)	(15.0)	(14.3)
Current account Balance as a % of GDP	(0.4%)	(1.2%)	(1.0%)	(1.5%)	(2.8%)	(1.2%)	(1.0%)
Capital account							
Debt creating capital inflows (US$ bn)	6	7	22	25	13	7	10
Foreign investment (US$ bn)	13	16	15	45	6	24	27
Total capital -net (US$ bn)	28	25	46	108	17	34	41
Capital inflow as a % of GDP	4.0%	3.1%	5.0%	9.2%	1.5%	2.7%	2.8%
Reserves							
Foreign currency reserves (US$ bn)*	140	151	199	309	251	271	298
Foreign currency reserves as no. of months imports	14.1	11.5	12.5	14.4	10.4	12.8	12.1
External debt							
External debt (US$ bn)	123	138	170	225	240	248	259
External debt as a percentage of GDP	17.1%	17.1%	18.1%	19.2%	22.8%	19.2%	17.6%
Public Finance							
Fiscal deficit (As % of GDP)							
-----Central government	4.0%	4.1%	3.5%	2.7%	6.0%	6.0%	5.7%
-----State government	3.4%	2.5%	1.9%	2.3%	3.5%	3.3%	2.8%
-----Consolidated Deficit **	7.5%	6.7%	5.6%	4.9%	9.4%	9.2%	8.4%

E = Morgan Stanley Research Estimates; Source: RBI, CSO, Budget Documents, and Morgan Stanley Research

**Not adjusted for revaluation impact   ** Individual central and state deficits may not aggregate to consolidated deficit due to adjustments relating to inter-government transfers.*

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