ECONOMIC AND MARKET ANALYSIS: INDIA

Economics

15 June 2007

Rohini Malkani
+91-22-5631 9878
rohini.malkani@citigroup.com
Mumbai

Anushka Shah
Mumbai

India Macroscope

Focus on Luxury and Wellness Industry As Plutonomy Arrives

- **India's retail boom is spanning across both ends of the spectrum – with the trickle-down impact to the rural segment being as strong as the growing demand for luxury/wellness products...**
- **...The latter being fueled by globalisation, strong growth, wage inflation and positive demographics...**
- **As a result wellness and luxury products are now occupying a growing share of the consumption pie for those at the top end of the pyramid**
- **Our macro forecasts are unchanged – we maintain our 9.3% GDP estimate, which factors in one more rate hike and our rupee appreciation view**

Asia Pacific

Citigroup Global Markets

Contents

Investment Summary

The June Macroscope discusses a small but rapidly growing segment within the retail frame-work – the luxury and the wellness industry – and its impact on the economy. On growth, we maintain our 9.3% GDP estimate, which factors in one more rate hike

India's retail boom – Across both ends of the spectrum

A combination of favourable demographics and rising household incomes has resulted in India becoming one of the largest consumer markets in the world. Interestingly, India's retail boom appears to be spanning across both ends of the spectrum – with the trickle-down impact to the rural segment being as strong as the growing demand for niche products. In this month's macroscope we discuss the latter which reflects the fact that as incomes grow, patterns of consumption will also see a shift, from spend on necessities to a growing share of discretionary items and luxury products as well as 'well-being assets'**.**

Plutonomy – Creating a demand for niche products

Plutonomy, a term coined by our strategists in 2005, is defined as an economy where growth is powered by and largely consumed by a wealthy few. While India has historically been a nation where wealth has been concentrated in a small percentage of the population, positive demographics, buoyant economic growth coupled with the effects of wage inflation have resulted in India registering one of the fastest increase in high net worth individuals (HNIs) in the world. This coupled with increasing globalisation is resulting in economies such as China, India and Russia beginning to embrace the features of plutonomies, which will likely result in a growing spend on luxury products.

How does one play this theme in India

While the current way of playing the luxury segment is via retail/real estate with developers intending to set up luxury malls and domestic corporates intending to bring in the big name brands; another way is via the nascent wellness industry – which again is a result of rising incomes coupled with the desire to build 'well-being assets'.

Growth – Maintain our 9.3% GDP estimate

While the interest-sensitive sectors such as autos and retail lending near-term outlook appear to be impacted by the stepping up of the RBI tightening stance since last October; we expect GDP growth to sustain at 9% levels in FY08; given the continuation of the key growth drivers, an uptrend in savings and investment and productivity gains.

Inflation, Interest Rates and Currency

With inflation now below 5%, but with the RBI having lowered its medium-term target for inflation from 5.0-5.5% to 4.0-4.5%, we believe that it has kept a window open for one more rate hike in FY08. Though we expect policy rates to peak soon, we believe that the RBI will continue to use the Cash Reserve Ratio to absorb liquidity arising due to capital flows. However, not wanting to upset the growth momentum, we could see a reduction in the SLR in 2H FY08. While near-term USD/INR movements are likely to be choppy, we maintain our 12M estimate of Rs40/US$.

Statistical Snapshot

Figure 1. India — Macroeconomic Summary, FY98-08 (Percent)

Year -end 31 March	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08E
National income indicators											
Nominal GDP (Rs bn)	15,288	17,481	19,520	21,024	22,811	24,581	27,655	31,266	35,672	41,257	46,621
Nominal GDP (US$ bn)	411	414	450	460	475	509	603	695	805	919	1117
Per Capita GDP (US$)	423	420	451	457	467	495	584	673	769	864	1035
Real GDP growth (%)	4.8	6.5	6.0	4.4	5.8	3.8	8.5	7.5	9.0	9.4	9.3
Agriculture growth (%)	-2.4	6.2	0.5	-0.2	6.3	-7.2	10.0	0.0	6.0	2.7	3.0
Industry growth (%)	4.3	3.7	4.1	6.3	2.7	7.1	7.4	9.8	9.6	10.9	10.0
Services growth (%)	9.8	8.4	10.8	5.7	7.2	7.4	8.5	9.6	9.8	11.0	11.0
Consumption & Investment (% GDP)											
Total Investments (% to GDP)	25.2	23.1	25.9	24.0	22.9	25.2	28.0	31.5	33.8	34.0	35.0
Public Investments	7.3	7.3	7.4	6.9	6.9	6.1	6.3	7.1	7.4	7.5	7.6
Pvt Invstmts (Pvt Corp+Hshld Sector)	16.8	15.6	17.9	16.5	16.3	18.4	19.4	21.3	23.6	25.0	26.5
Total Consumption % to GDP	74.0	75.9	77.2	76.4	76.5	74.7	73.0	70.6	69.2	66.0	65.0
Public Consumption	11.3	12.2	12.9	12.6	12.4	11.9	11.2	11.0	11.3	11.0	11.0
Private Consumption	62.7	63.7	64.2	63.7	64.1	62.8	61.8	59.7	57.9	56.0	55.0
Gross Domestic Savings	23.5	21.9	24.8	23.4	23.5	26.4	29.7	31.1	32.4	33.7	34.8
Real indicators (% Y/Y)											
Cement dispatches	10.6	6.4	14.1	0.1	8.6	11.1	6.5	9.3	10.3	10.0	10.0
Commercial vehicle sales	-33.2	-11.2	22.0	-11.9	-4.5	27.9	38.1	24.0	13.0	24.0	7.0
Car sales	1.1	-0.9	54.9	-6.9	4.5	7.6	32.8	18.7	7.0	15.0	12.0
Two-wheelers	-3.7	5.0	-5.4	-28.1	-3.1	-13.1	10.6	16.8	15.0	14.0	10.0
Diesel consumption	3.5	3.7	5.5	2.0	-3.5	3.0	4.5	5.5	3.0	5.0	5.0
Tele-density	1.9	2.2	2.8	3.5	4.3	5.2	7.4	9.4	12.7	16.2	17.2
Monetary indicators											
Money supply	18.0	19.4	15.0	16.4	14.1	14.7	16.7	12.3	21.2	18.0	18.0
Int rate PLR - year end	13.0	12.0	11.3	11.5	11.3	10.8	10.3	10.0	10.3	11.5	11.5
Inflation - WPI	4.4	5.9	3.3	7.2	3.5	3.4	5.4	6.5	4.5	5.3	4.5
CPI	6.8	13.1	3.4	3.8	4.3	4.0	4.0	4.5	4.0	6.0	6.0
Bank credit growth	16.4	13.8	18.2	17.3	15.3	23.7	15.3	30.9	37.0	27.6	20.0
Deposit growth	18.4	19.3	13.9	18.4	14.6	16.1	17.5	13.0	24.0	23.0	15.0
Fiscal Indicators											
Centre's fiscal deficit	4.8	5.1	5.4	5.6	6.2	5.9	4.5	4.0	4.1	3.7	3.5
State fiscal deficit	2.9	4.3	4.7	4.3	4.2	4.2	4.5	3.5	3.2	2.7	2.5
Combined deficit (Centre+State)	7.1	8.9	9.4	9.5	9.9	9.6	8.5	7.5	7.4	6.2	6.0
Combined domestic liabilities	61.8	62.7	66.6	71.0	76.4	80.7	81.5	82.4	78.7	75.3	72.9
Combined o/s guarantees	9.7	9.8	11.1	12.2	11.5	11.2	11.0	9.9			
External Sector											
Exports (US$bn)	35.7	34.3	37.5	45.5	44.7	53.8	66.3	85.2	105.2	125.7	144.5
% YoY	4.5	-3.9	9.5	21.1	-1.6	20.3	23.3	28.5	23.4	19.5	15.0
Imports (US$bn)	51.2	47.5	55.4	57.9	56.3	64.5	80.0	118.9	157.0	193.1	219.2
%YoY	4.6	-7.1	16.5	4.6	-2.8	14.5	24.1	48.6	32.0	23.0	13.5
Trade deficit (US$bn)	-15.5	-13.2	-17.8	-12.5	-11.6	-10.7	-13.7	-33.7	-51.8	-67.4	-74.7
Invisibles (US$bn)	10.0	9.2	13.7	9.8	15.0	17.0	27.8	31.2	42.7	52.8	59.3
Current Account Deficit (US$bn)	-5.5	-4.0	-4.1	-2.7	3.4	6.3	14.1	-2.5	-9.2	-14.6	-15.4
% to GDP	-1.3	-1.0	-0.9	-0.6	0.7	1.2	2.3	-0.4	-1.1	-1.6	-1.4
Forex reserves (excl gold) (US$bn)	26.0	29.5	35.1	39.6	51.0	71.9	106.1	135.1	145.1	191.9	213.0
Months of imports	6.1	7.5	7.6	8.2	10.9	13.4	15.9	13.6	11.1	11.9	11.7
Exchange rate											
Rs/US$ - annual avg	37.2	42.2	43.4	45.7	48.0	48.3	45.9	45.0	44.3	44.9	41.8
% depreciation	4.8	13.4	2.8	5.3	5.0	0.6	-5.0	-2.0	-1.6	1.4	-7.0
Rs/US$ - year end	39.52	42.4	43.6	46.5	48.9	47.5	43.6	43.8	44.6	43.5	40.0
% depreciation	10.4	7.3	2.8	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.5	-8.0

Source: CSO, RBI, Ministry of Finance, Citigroup estimates

Theme: India's Growing Luxury and Wellness Industry

- **A unique combination of favourable demographics and rising household incomes has resulted in India becoming one of the largest consumer markets in the world**
- **Interestingly, India's retail boom appears to be spanning across both ends of the spectrum – with the trickle-down impact to the rural segment being as strong as the growing demand for niche products**
- **In this month's macroscope we discuss the latter which reflects the fact that as incomes grow, patterns of consumption will also see a shift, from spend on necessities to a growing share of discretionary items and luxury products[1] as well as 'well-being assets'**

India's retail revolution – well on track

In our year ahead piece "India in 2005 – Positive Base Case; Presenting Scenario Analysis", we discussed a couple of themes including the retail boom that were likely to drive growth. The story is now well-known - growing urbanisation, positive income and age demographics, changing consumption habits and spending patterns have all fuelled a retail boom in the country. Though the share of organised retail in total has risen from barely 2% in 2004 to close to 5% today, low penetration coupled with continuing rise in disposable income (as per Hewitt estimates, average wage increase in India has been over 14% for the last three consecutive years) bodes well for continued growth in this sector. Interestingly, India's retail boom appears to be spanning across both ends of the spectrum - with the trickle-down impact to the rural segment being as strong as the growing demand for niche products. In this month's macroscope, we look at a miniscule but rapidly growing segment within the retail framework i.e., the luxury and wellness industry and its impact on the economy.

Plutonomy characteristics – slowly being seen in India

Plutonomy, a term coined by our strategists in 2005[2], is defined as an economy where growth is powered by and largely consumed by a wealthy few. In simple terms, rich consumers that are few in number but comprise a disproportionate share of total income and consumption, drive spending. The report cites six key drivers of plutonomy: (1) an ongoing technology/biotechnology revolution, (2) capitalist-friendly governments and tax regimes, (3) globalization that re-arranges global supply chains with mobile well-capitalized elites and immigrants, (4) greater financial complexity and innovation, (5) the rule of law, and (6) patent protection.

[1] From '*Bird of Gold- The Rise of India's Consumer Market*', McKinsey Global Institute , May 2007

[2] Please see '*Plutonomy: Buying Luxury, Explaining Global Imbalances*', published 14 October 2005

While the US, UK and Canada are world leaders in plutonomy, Japan, Scandinavia, France, Germany and Continental Europe other than Italy are non-plutonomies. A classic example of a plutonomy is the United States economy, where the top 1% of households account for 20% of total US income, slightly smaller than the bottom 60% of the households put together. On the back of increasing globalization, economies such as China, India and Russia have begun to embrace many of the six drivers of plutonomy, and we are likely to see growing spend on luxury products from these countries in the future. Supporting this is recent article which highlights that China, Russia and India helped fuel a vintage year for the luxury goods market in 2006[3].

Profiling the luxury goods market in India

While India has historically been a nation where wealth has been concentrated in a small percentage of the population, positive demographics, buoyant economic growth coupled with the effects of wage inflation[4] have resulted in India registering one of the fastest increase in high net worth individuals (HNIs) in the world. HNIs or individuals with financial assets over US$1mn have risen to 83,000 a growth rate of 19.3% yoy.

A study by Technopak "India Luxury Trends" estimates that currently there are 1.6mn households earning over Rs4.5mn (US$100,000) p.a spend Rs0.4mn (US$9000) of their income each year on luxury products; thus resulting in a market size of about US$14.4bn for such products.

Key growth areas

The increase in HNIs coupled with changing spending patterns – with more spending on discretionary items such as personal products, health care, and recreation coupled with cultural changes and willingness to take on debt/credit card loans have resulted in global players in the luxury space recognizing India as an emerging player in this niche market. Over recent months, a number of luxury-marketing companies- such as the Luxury Marketing Council (LMC- a collaboration of 700 luxury goods and services companies from across the globe) and the World Luxury Council have set up chapters in India to help catalyze further growth in the segment. The key focus areas are apparels, time-wear accessories, branded jewellery and gourmet food and wines[5].

Road Ahead: Future potential and barriers to growth

While overall macro conditions and the absence of a strong counterfeit industry are conducive to rapid growth in the luxury products sector, the key deterrents include high tariff rates on imports (e.g., import duties on watches are as high as 50%). Further, although the government has permitted foreign direct investment to the tune of 51% in single-brand retail, the absence of luxury retail environments is another impediment to growth. So far, most of the entrants have been housed in five-star hotels, which provide for most facilities and do not compromise on exclusivity.

---

[3] Look east to the rising appetite for luxury goods – Scotland on Sunday May 13, 2007. Also see Economist dated May 31, 2007 – Maharajas in the shopping mall

[4] Average salaries saw a 14% increase during 2005 and a projected 13.5% increase during 2006; according to a survey by Hewitt Associates.

[5] Some recent entrants include Louis Vuitton (LVMH), D&G, Versace, Moschino, Hugo Boss and Cavalli in the apparel space, Cartier, Christian Dior, Swatch in time-wear and accessories; Rolls Royce and Porsche in the auto space; Bang & Olufsen in the electronics space; and Lladro and Villeroy and Booth (Porcelain/Home accessories)

How does one play this theme domestically?

While one way to play the luxury segment is via retail/real estate with developers intending to set up luxury malls and domestic corporates intending to bring in the big name brands; another way is via the nascent wellness industry – which again is a result of rising incomes coupled with the desire to build 'well-being assets'.

The Wellness Industry: A new sunrise sector

Rising disposable incomes coupled with an increase in lifestyle-induced illnesses is gradually resulting in a wellness boom in India. While the *high end* health care industry is an obvious play given rising affordability of quality healthcare and changing disease profiles (Apollo Hospital, Fortis and Wockhardt Hospitals); the wellness industry is pro-active (i.e., people voluntarily become customers to 'feel healthier') and is thus emerging as another way to play this niche theme.

Globally, health, wellness and the beauty industry is already a competitive one. In India, the industry is still in its nascent stages, but there are all signs of an emerging boom, with the Confederation of Indian Industry (CII) estimating the size of the industry at US$9bn. This explains mushrooming gyms, spas, holistic centers and a growing interest in yoga and other forms of alternative medicine across the country.

Impact on the economy

While one can say that the growth of the luxury sector would lead to conspicuous consumption and further widen the growing inequality in making the difference between the haves and have-nots even higher, another way of looking at it, is that the steady growth in the wellness industry in particular could have a far-reaching impact on the economy and across sectors.

For instance, spiritual tourism – closely linked with the wellness industry - is amongst the fastest-growing segments of the tourism sector. The Ministry of Tourism is promoting spiritual tourism through its *Incredible India* marketing campaign that focuses on yoga, ayurveda and other spirituality-related concepts. The impact of attractively-packaged campaigns is most apparent in Kerala which has been touted as the home of Ayurvedic medicine and a centre for holistic healing. Other destination spas in India include the Ananda Spa in the Himalayas, Amatra Spa in Delhi, Golden Palms in Bangalore, and Sereno Spa in Goa.

The wellness industry has also begun making inroads in the retail food industry, with several industry majors such as Dabur venturing into specialty retail and launching a range of organic food and skincare products. Other forays include HLL's chain of Lakme beauty salons across the country; while Marico operates Kaya Skin Clinic - a chain which offers a range of dermatological procedures. Pantaloon Retail India is planning to launch 'Health Village' - a brand which will offer beauty salons, a pharmacy and fitness centers (*reports suggest that Pantaloon has signed an agreement with India's largest and oldest chain of health centres- Talwalkars*[6]). VLCC- a chain of grooming and fitness centers- has also chalked out a rapid expansion plan. The growth of the wellness industry bodes well for the economy in terms of job-creation, potential for food-processing and exports.

---

[6] India Retail Report 2007 (Images F&R Research)

Real Indicators

- **The interest-sensitive sectors appear to be impacted by the stepping up of the RBI tightening stance since last October**
- **Our 9.3% GDP estimate has factored in a moderation in industry and one more rate hike**

FY07 GDP comes in at 9.4% beating estimates – Will it sustain?

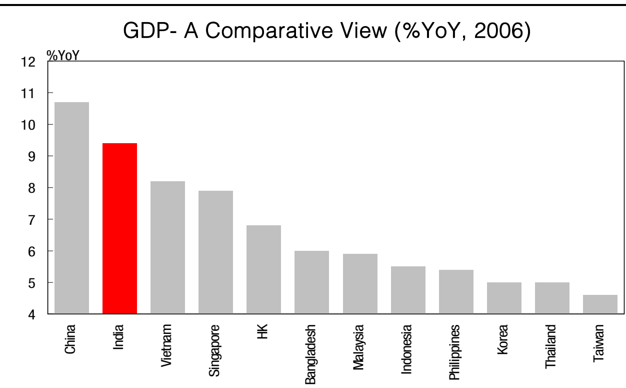
FY07 GDP growth came in at 9.4%, higher than the government's first estimate of 9.2%[7]. Growth was led by the continuation of double-digit non-farm growth with industry recording a rise of 10.9% and services rising 11%; while agriculture was up 2.7% yoy. While the interest-sensitive sectors such as autos and retail lending near-term outlook appear to be impacted by the stepping up of the RBI tightening stance since last October; we expect GDP growth to sustain at 9% levels in FY08; given the continuation of the key growth drivers, an uptrend in savings and investment, and our expectations that inflation and interest rates are close to peaking.

Figure 2. Annual and Quarterly Trends in GDP

		FY06	FY07				Full Year		
	Wts	Q4	Q1	Q2	Q3	Q4	FY06	FY07	FY08E
Agriculture	**25.3**	**6.2**	**2.8**	**2.9**	**1.6**	**3.8**	**6.0**	**2.7**	**3.0**
Industry	**25.4**	**10.4**	**10.6**	**11.3**	**10.6**	**11.2**	**9.6**	**10.9**	**10.0**
Manufacturing	14.7	9.4	12.3	12.7	11.8	12.4	9.1	12.3	10.7
Mining	2.3	5.2	3.7	3.9	5.5	7.1	3.6	5.1	4.5
Electricity	2.5	6.1	5.8	8.1	9.1	6.9	5.3	7.4	8.0
Construction	5.9	16.1	10.5	11.1	10.0	11.2	14.2	10.7	10.5
Services	**49.2**	**11.1**	**11.7**	**11.8**	**11.0**	**9.9**	**9.8**	**11.0**	**11.0**
Trade, hotels, communication	21.6	11.8	12.4	14.2	13.1	12.4	10.4	13.0	13.6
Financing, insurance	13.0	14.2	10.8	11.1	11.2	9.3	10.9	10.6	11.1
Community services	14.7	7.2	11.3	8.3	6.7	5.7	7.7	7.8	6.0
GDP at factor cost	**100.0**	**10.0**	**9.6**	**10.2**	**8.7**	**9.1**	**9.0**	**9.4**	**9.3**

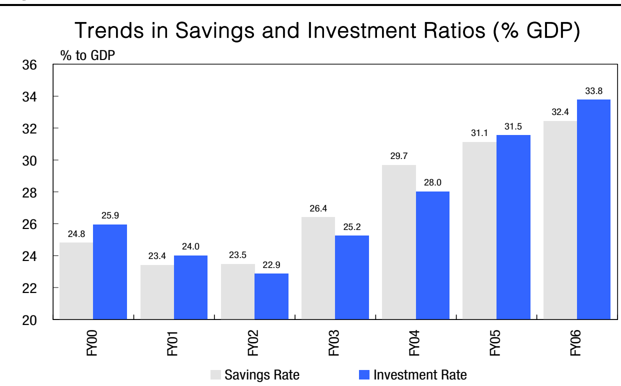
Source: CSO, Citigroup estimates

Figure 3. GDP – India and the Region (%)



Source: CSO, Citigroup

Figure 4. Uptrend in savings and investment – Positive for the growth story



[7] The CSO releases four sets of GDP data each year- Advance, Updated Advance, Quick and Revised estimates. The **Advance** estimates are released in February - two months before the close of the year for the current FY. These estimates are revised in May

April Industrial Production – Momentum continues

Industrial production in April 07 rose 13.6% beating expectations and higher than the 9.9% growth seen in April 06. Growth was led by manufacturing up 15.1%, electricity (+8.7%) and mining (+3.4%). While trends in the use based classification are in line with past trends with capital and consumer goods, up 17.7% and basic and intermediate goods up 8.9% and 12.6%, what remains a mystery is growth in wood products sustaining in the 80-125% range for the last four months. Food products also registered a more than disproportionate growth coming in at 55%.

The April industrial productions numbers are positive – but a bit surprising given that higher rates appear to have taken a toll on interest-sensitive sectors such as autos and retail lending. We maintain our macro forecasts of a 9.3% GDP estimate and the possibility of one more rate hike later this year.

Agriculture – The Achilles heal in India's growth story

While growth in industry and services have crossed double-digit levels, agriculture growth has been coming in much below the governments' optimum desired rate of 4% - which is necessary not only to ensure food security but also to enable "inclusive growth." One of the key reasons for this is stagnation not only in area under production but also in productivity. At the recently held National Development Council meeting, the FM said that during the period FY99-FY07, area under food-grains has stagnated between 120-125mn hectares while productivity of wheat has stagnated at 2,700kgs/hectare and that of rice at 1,950kgs/hectare.

Why is Indian agriculture stagnating?

In his speech at the NDC, the PM cited that besides the well-known issues of a weak public distribution and marketing system, fragmented and small landholdings, coupled with poor quality of inputs and seed varieties, '***technology fatigue'***- or the absence of any major breakthroughs in agricultural production technology in recent years is the key reason behind agricultural stagnation. This is reflected in difference between **'yield gaps'** (or the difference between actual yield and technologically feasible yield) across states. For instance, for wheat, the yield gap is just 6% in Punjab, but 84% in Madhya Pradesh. Likewise, for maize, the gap is 7% in Gujarat but 300% in Assam. This suggests that there remains potential for wheat production to increase by 8mn tonnes, rice by 10mn tonnes, and pulses by 2mn tonnes by the end of the 11th Plan.

Measures toward improvement:

In order to achieve the 4% growth rate in agriculture targeted by the 11th Plan, the PM has suggested that state-specific strategies be developed based on the individual soil, climactic conditions and water availability in each state; in order to bridge yield gaps. To this end, the government intends to introduce a Central Assistance Scheme, whereby states would receive flexible assistance to support agricultural development plans, provided they meet a base-line expenditure level. Further the government is also considering the launching of a Food Security Mission for raising production of wheat, rice, pulses and edible oil. Going forward, we expect to hear and see a lot more of news on the agri sector in the run-up to the next general elections in 2009.

Monetary Indicators

- **Higher rates have taken its toll on retail lending resulting in a credit growth slowing to 26% levels while deposits remain strong**
- **In line with expectations, headline inflation has fallen below 5% levels – a result of the base effect, monetary and fiscal measures. We expect inflation to remain benign this fiscal**

Banking Trends: Credit growth slows to 26.3%; deposits up 22.1%

While first quarter fiscal year numbers in the banking indicators often reflect the impact of window-dressing in the last quarter (banks shore up their deposit and loans), trends this year indicate that **incremental credit** this fiscal year (April 1-May 25) at –Rs367bn, up 26.3% as compared with a contraction of Rs136bn in the same period last year. While this is still marginally higher than the RBI's new targeted growth of 24-24.5% envisaged this fiscal, growth has moderated from 31% levels seen during FY07.

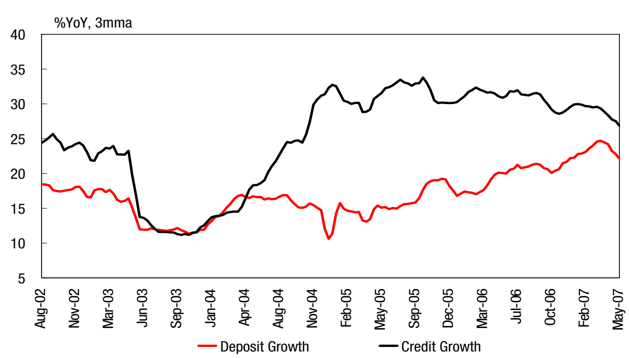
Interestingly despite higher interest rates, **incremental deposits** have been muted with deposits rising Rs144bn during April 1- May25 vs. Rs280bn seen in the same period last year. However, growth in deposits has been running over 20% levels for close to a year. While growth in **money supply** has decelerated to 19.6% from over 20% levels seen last fiscal, it is still running higher than the RBI's new M3 target of 17-17.5%, with a large part of the expansion in monetary base a result of dollar buying by the RBI.

Figure 5. Trends in Bank Credit and Deposits (Rupees in Billions, % YoY)

	Outstanding	Incremental to date		YoY%	Total			
	March 07	FY08	FY07		FY07	FY06	FY05	FY04
Bank Credit	**19,232**	**-367**	**-136**	**26.3**	**4,161**	**3,961**	**3,114**	**1,116**
Food	465	-17	-16	14.9	58	7	41	-134
Non-Food	18,767	-350	-120	26.6	4103	3954	3074	1251
Bonds & Debentures	620	-49	-30	-10.5	-47	-135	15	-4
Deposits	**25,943**	**144**	**280**	**22.1**	**4,852**	**3,875**	**2,807**	**2,236**
GOI Investments	7,922	249	284	9.5	747	-116	617	1,300

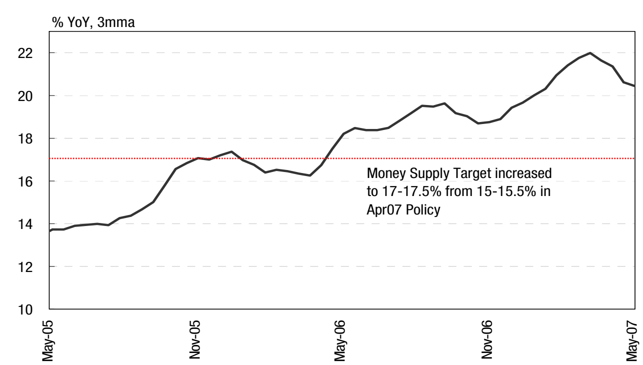
Source: RBI.

Figure 6. Trends in Deposit and Credit Growth (%YoY, 3mma)



Source: RBI

Figure 7. Trends in Money Supply (%YoY, 3mma)



Source: RBI

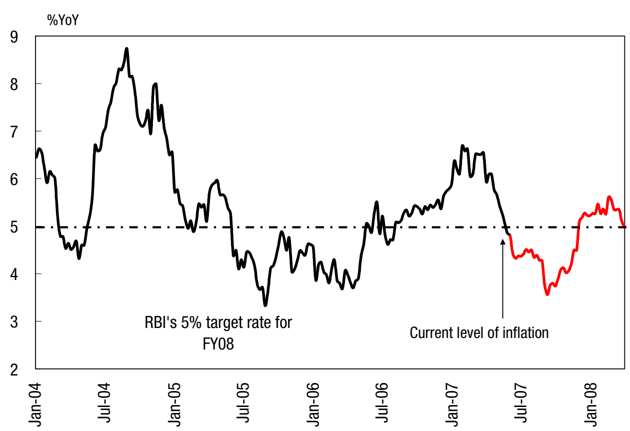
Inflation – Falls below 5%

Inflation as measured by the WPI which crossed the 5.5% level in December 06 and touched a high of 6.69% on January 27, 2007 prompted a stepping up in the RBI's tightening stance coupled with a series of fiscal measures (import duty reductions, export and price controls etc). On the back of monetary and fiscal measures coupled with a strong base effect, headline inflation has fallen below 5% levels coming in at 4.85% for the week ended May 25, in line with expectations[8]. While growth in primary articles was up 8.6% yoy, the index for manufactured products rose by 5.1% while the fuel index was up 0.5%. Going forward, we expect inflation to remain at sub-5% levels over the coming months which would be in line with the RBI's 5% target for inflation in FY08.

Policy Implications:

Having lowered its medium-term target for inflation from 5.0-5.5% to 4.0-4.5%, we believe the RBI has kept a window open for one more rate hike in FY08. While we expect policy rates to peak soon, we believe that the RBI will continue to use the Cash Reserve Ratio to absorb liquidity arising due to capital flows. However, not wanting to upset the growth momentum, we could see a reduction in the Statutory Liquidity Ratio in 2H FY08.

Figure 8. Likely Trends in Inflation (%YoY, 3mma)



Source: Office of the Economic Advisor, Citi Forecasts

Figure 9. Composition of Inflation (%) – As on May 26, 2007

	FY94=100	%YoY
I. Primary Articles	**22.0**	**8.60**
(A) Food Articles	15.4	7.30
(B) Non-Food Articles	6.1	13.00
(C)Minerals	0.5	43.44
II. Fuel, Power Light & Lubricants	**14.2**	**0.50**
III. Manufactured Products	**63.7**	**5.14**
(A) Food Products	11.5	2.30
(B) Beverage Tobacco & Tobacco Products	1.3	10.20
(C)Textiles	9.8	0.90
(D)Wood & Wood Products	0.2	7.10
(E) Paper & Paper Products	2.0	2.30
(F)Leather & Leather Products	1.0	5.60
(G)Rubber & Plastic Products	2.4	9.20
(H)Chemicals & Chemicals Products	11.9	3.90
(I) Non-Metallic Mineral Products	2.5	8.30
(J) Basic Metals, Alloys & Metal Products	8.3	10.30
(K)Machinery & Machinery Tools	8.4	8.00
(L)Transport Equipment & Parts	4.3	1.60
All Commodities	**100.0**	**4.85**

Source: Office of the Economic Advisor

[8] For more details please see our note dated 2nd March 07 at https://www.citigroupgeo.com/pdf/SAP03261.pdf

Fiscal Indicators

> ➤ **Continued buoyancy in revenues bodes well for the government in meeting its fiscal targets. Strong capital flows could prompt another increase in the ceiling for market stabilisation bonds**

Public Finances – Starting on a good note

Buoyant revenues coupled with a containment in expenditure resulted in the recently released final estimates on government finances for FY07 indicating the deficit during FY07 coming in at 1,428bn (3.5% of GDP); as compared with the government's revised budget estimate of Rs at 1,523bn (3.7% of GDP).

Looking ahead, the deficit for FY08 has been targeted at 3.3% of GDP, which is in line with the FRBM targets. We maintain our view that the budget arithmetic, which assumes gross tax collections rising by 17% and nominal GDP growth of 13%,[9] is realistic and actually provides for a cushion for unforeseen expenditures.

Figure 10. April 2007: Fiscal Data (Rs Bn, %YoY)

	Apr-07	% YoY	FY08BE	Ytd of B
a. Revenue receipts	81	-14.1	4,864	1.7
Net tax revenues	54	-20.1	4,039	1.3
Non-tax	27	1.5	826	3.2
b. Non-debt cap receipts	3	-25.9	432	0.7
c. Total receipts (a+b)	**84**	-14.6	**5,296**	**1.6**
d. Revenue expenditure	341	-25.4	5,579	6.1
e. Capital expenditure	22	-37.1	1,226	1.8
f. Total expenditure (d+e)	**362**	-13.3	**6,805**	**5.3**
Plan Expenditure	90	47.7	2,051	4.4
Non-Plan Expenditure	272	-23.8	4,754	5.7
g. Fiscal deficit (f-c)	**278**	**-13.0**	**1,509**	**18.4**
h. Revenue deficit (d-a)	260	-15.8	715	36.3

Source: Controller General of Accounts, Budget Documents

Tax collections: Start on a healthy note

The government has budgeted gross tax collections increasing 17.2% in FY08 as compared with 28% in FY07. While direct taxes (corporate and income) often see refunds taking place in the first quarter, current trends in indirect taxes – both excise and customs are positive and in line with current growth momentum.

Figure 11. April 2007: Tax Collections (Rs Bn, %YoY)

	Apr-07	Apr-06	%YoY	FY08BE	% of B	Budgeted Growth Rate
Corporate	23	37	-36.2	1,684	1.4	15.0
Income	35	36	-4.1	988	3.5	19.8
Customs	71	55	30.1	988	7.2	20.7
Excise	8	6	29.6	1,302	0.6	11.0
Others	21	16	29.6	520	3.9	30.6
Gross Taxes	**157**	**149**	**5.4**	**5,482**	**2.9**	**17.2**
Devolvement to States	103	81	27.1	1,443	7.1	18.4
Net Taxes	**54**	**68**	**-20.1**	**4,039**	**1.3**	**16.7**

Source: Controller General of Accounts, Budget Documents

[9] Under the **FRBM Act**, beginning FY05, the central government has to reduce its fiscal and revenue deficit by 0.3% and 0.5% of GDP a year so as to eliminate the revenue deficit by 2009. Nominal GDP growth assumptions are based on real GDP of 8.5-9% and inflation of 5-5.5%

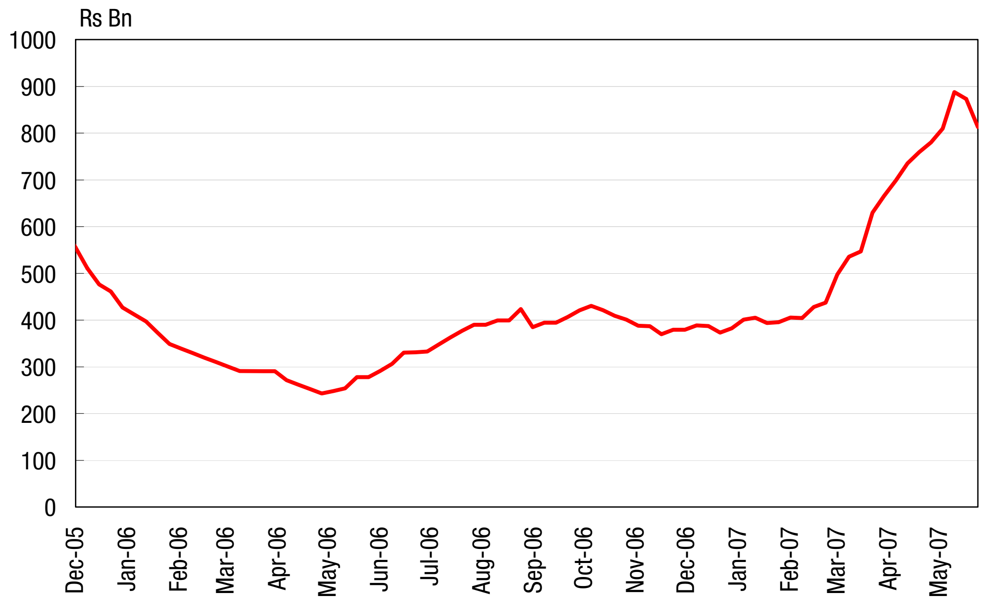
Market Stabilization Scheme:

With liquidity management remaining a concern on the back of strong trends in capital inflows, the RBI continues to rely on the market stabilization scheme (MSS)[10] to mop up excess liquidity. However, in order to expand the scope of the MSS as a liquidity management tool, the RBI has taken a number of measures in the recent past. These include:

1. Raising the ceiling for outstanding MSS issuances to Rs1.1trn, with the threshold limit for further revision at Rs950bn. MSS outstandings currently stand at Rs813bn.
2. It modified the scheme to include a mix of both treasury bills as well as government dated securities.

Looking ahead, if capital flows remain strong, besides another hike in the cash reserve ratio, we could see the RBI further revise the ceiling for MSS issuances.

Figure 12. Trends in Outstanding MSS (Rs Bn)



Source: RBI

[10] In a bid to keep inflationary pressures in check and minimize the cost of sterilization the RBI launched a Market Stabilization Scheme to absorb additional liquidity from the markets arising due to capital flows. With this tool the RBI issues treasury bills and dated securities with a maturity of less than one year to absorb liquidity in the system.

External Sector

➤ **India's trade deficit is likely to widen further in FY08 due to a deceleration in exports but flows remain strong to finance the deficit**

April trade deficits widens to US$7bn

Following four consecutive months of single-digit export growth, partially aided by the base effect, exports rose 23% in April to touch US$10.6bn. However, growth in imports was significantly higher at 40.7% with non-oil imports rising 54.3% resulting in the import bill coming in at US17.6bn thereby resulting in the trade deficit touching a monthly all time high of US$7bn.

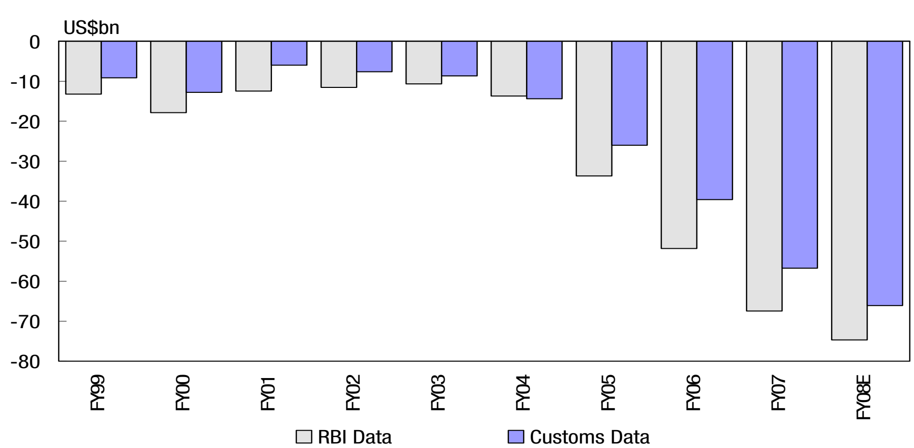
Figure 13. India Trade – Customs Classification: (US$bn, %YoY)

	Apr07	YoY	FY07	YoY	FY08E	%YoY
Exports	10.6	23.0	124.6	23.9	143.6	15.2
Imports	17.6	40.7	181.4	29.4	209.6	15.6
Oil	4.4	11.4	57.3	30.8	57.0	-0.5
Non-oil	13.2	54.3	124.1	28.7	152.6	23.0
Trade Balance	7.0		-56.7		-66.1	

Source: DGCI&S; Citigroup estimates

Going forward, we maintain our view that the government's target of exports rising US$160bn in FY08 (+28%) is very optimistic. We think that growth is likely to decelerate to the sub-15% yoy level due to a moderation in the US, a high base effect coupled with the lack of new export initiatives. In addition, the recent rupee strength could impact sectors such as textiles, gems and jewellery. However; imports too are also likely to slow to the 13.5% level. This assumes stable oil prices (oil at US$65/bbl) but also the continuation of 20%+ non-oil imports. While we expect the customs trade deficit to widen to US$66.1bn in FY08 v/s US$56.7bn in FY07, we expect higher invisible inflows (software exports and remittances) coupled with strong capital flows to limit the rise in the CAD to 1.5% of GDP in FY07 and FY08, and should keep the currency on an appreciating trend.

Figure 14. Trends in Trade Deficit* (US$bn)



*Difference between RBI and customs trade balance is a proxy for defence importsSource: DGCI&S; RBI

External Commercial Borrowings (ECBs)[11] -

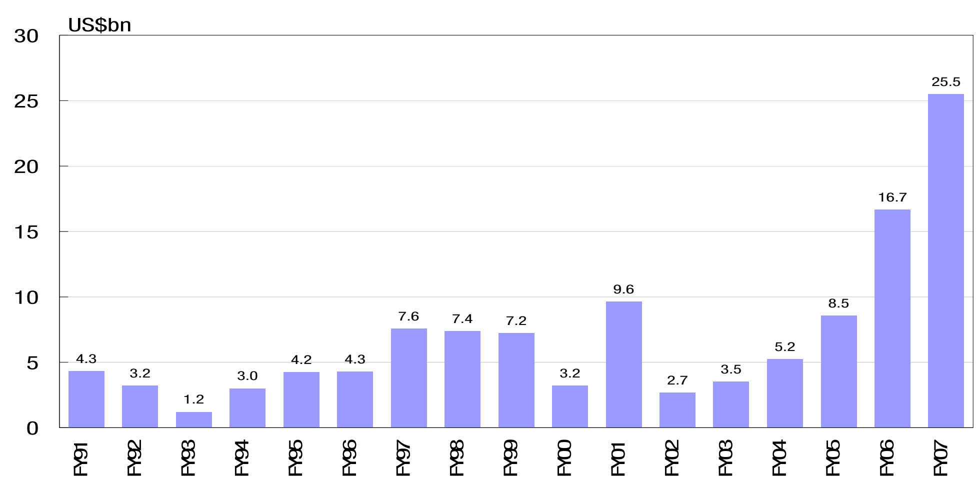
Given the backdrop of an unfolding capex cycle and rising investment spend across industries such as infrastructure, telecom, cement and financial services; ECBs have emerged as a significantly cheaper corporate financing strategy especially under the current scenario of tighter domestic interest rates and a steady appreciation in the rupee. Latest data ECBs indicates that corporates raised a record US$25.3bn during FY07, over 50% higher than the amount raised during FY06, and breaching the annual cap of US$22bn fixed by the Finance Ministry. ECBs during March 2007 totaled as much as US$5bn - the highest-ever borrowing in a single month.

New Regulations make ECBs less attractive.

While overseas borrowings make commercial sense for most companies in the current backdrop, they have posed as a liquidity concern given that higher foreign inflows have resulted in more dollars coming into the system, thus creating inflationary worries. In order to manage capital flows, in-addition to the already stringent end-use ECB norms where ECBs are only permitted for import of capital goods, infrastructure, and overseas investments in joint ventures/wholly owned subsidiaries, the RBI recently imposed new regulations that would make ECBs less attractive.

These include: (1) lowering interest rate ceilings on ECBs under the automatic route[12] thus making it difficult for companies with lower credit quality to access overseas markets; (2) Banning ECBs for integrated townships for100 acres or more thereby further tightening funding towards real estate. While the new norms will help limit borrowings, given the uptrend in FDI, we are maintaining our full year balance of payments estimates of a reserve accretion to the tune of US$21.5 and our rupee appreciation view.

Figure 15. Annual Trends in ECBs (Gross)



Source: RBI

[11] ECBs include loans, buyers/suppliers credit, securitized instruments and Foreign Currency Convertible Bonds (FCCBs) have been a growing source of funding for corporates and have a minimum average maturity of 3 years (for ECBs below US$20mn) and 5 years (for ECBs over US$20mn).

[12] All in cost ceilings for ECBs with a maturity **of 3-5 yrs** have been **reduced from 200bps over 6 month Libor to 150bps**; while those for ECBs **over 5 years** have been **reduced from 350bps to 250bps**. For policy guidelines see link: http://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=2402

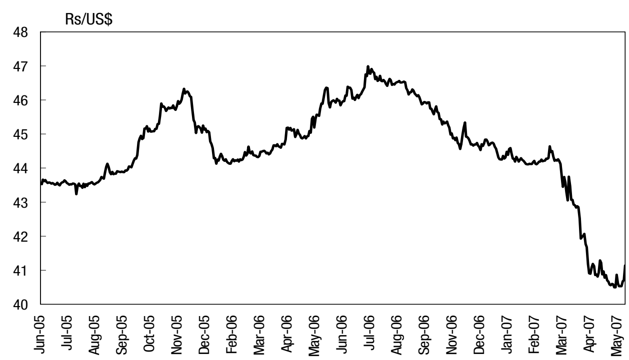
Financial Markets

- **While near-term USD/INR movements are likely to be choppy, we maintain our long-term rupee appreciation view**
- **On rates, we maintain that the RBI will continue to use the CRR to keep liquidity tight, but could lower SLR in 2H07 to ensure credit availability for the real sector**

Forex Markets

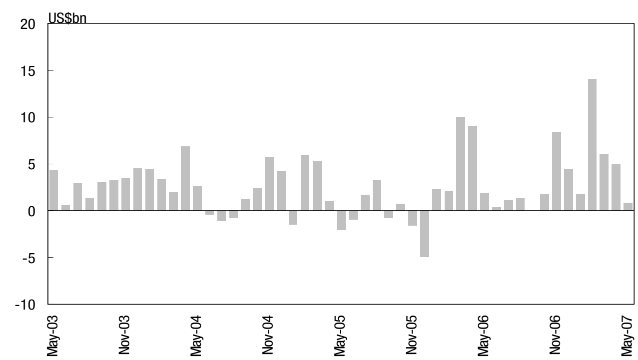
- **INR Review:** Following the sharp appreciation seen during end March early April, the rupee moved in the Rs40.3/US$ to Rs41.3/US$ range in the last month. Continuation of strong dollar inflows saw the rupee touch a 9-year high before intervention by state-run banks pulled back the unit. Tightening of the ECB norms had a negative impact on sentiment but didn't have much impact on flows. However, the rally in global yields raised doubts on future flows which saw the rupee fall below past Rs41/US$ levels.
- **Premiums and Reserves:** Premiums dropped sharply to 2.14% from 5.96%, but were volatile due to volatility in both call money rates and spot exchange rate levels. Initially, the liquidity deficit pushed premiums higher, but receiving interest emerged on the back of the decline in call rates and the rally in the rupee. Forex reserves including gold have risen by US$9.2bn in the current fiscal and currently stand at US$208bn. (Excluding gold reserves stand at US$201bn).
- **Outlook:** A slew of overseas public issuances are likely to be rupee positive in the near term. While the medium-term outlook is clouded due to a strong exporters lobby coupled with the recent tightening of norms for companies accessing funds overseas, given the overall surplus on the balance of payments coupled with our house view on the CNY, we expect the rupee to stay on a long-term appreciation path and maintain our 12M estimate of Rs40/US$[13].

Figure 16. Trends in the Rupee (INR/USD)



Source: RBI.

Figure 17. Monthly Increase in Foreign Exchange Reserves



Source: RBI.

[13] See our report "India Rupee: Forecast Revisions" dated 24th April 07 –click https://www.citigroupgeo.com/pdf/SAP04744.pdf

Financial Markets

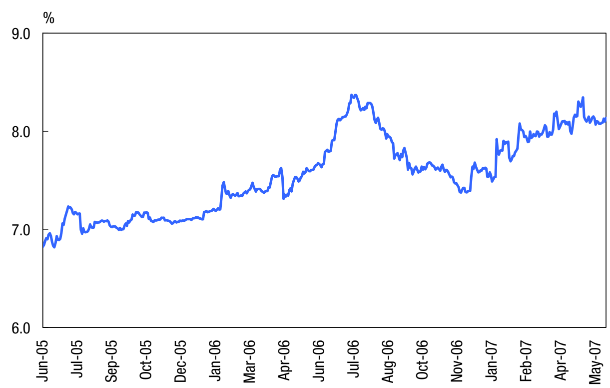
- **Liquidity:** Bids for reverse repos under the Liquidity Adjustment Facility (LAF) shot up to above Rs1trn, reflecting the sharp improvement in liquidity conditions. The improvement in liquidity was largely on account of dollar purchases to stem rupee appreciation and bond redemptions.
- **Call money rates:** The improvement in liquidity conditions coupled with the recently imposed cap[14] of absorbing not more than Rs30bn through the reverse repo window saw call money rates falling to a low of 0.01%. This was in sharp contrast to the situation in April/May where call money rates had touched a high of 80% - due largely to the higher-than-expected advance tax collection figures.
- **Bonds:** The benchmark 10-year yield traded in a wide range of 8.05-8.19% last month. The yield came off from 8.19% levels and traded at 8.1% levels in the latter half last month as liquidity improved and call money rates fell to 10-year lows. However, this capped the rally as there were concerns that excess liquidity would prompt the RBI to suck out surplus cash either via further bond sales or a hike in the CRR. This coupled with the rise in global yields impacted sentiment and resulted in yields moving back up again.

Figure 18. India Market Monitor

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	0.35	0.70	4.75	5.65	5.60
1 year Treasury Bill	%	7.69	7.80	7.75	7.73	6.43
1 year OIS	%	7.68	7.77	8.50	7.74	6.37
1 year MIFOR	%	8.32	8.33	10.23	8.32	6.61
5 year Corp AAA spread over GOI	%	1.89	1.88	1.72	1.51	0.83
10 year GOI	%	8.08	8.08	8.11	8.00	7.67

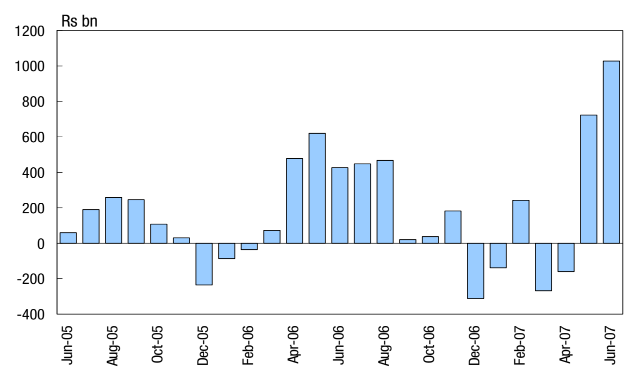
Source: RBI.

Figure 19. India — Trends in the 10-Year GOI Bond (Percent)



Source: RBI, Citigroup.

Figure 20. India — Trends in Reverse Repos/Repos (Rs bn)



Source: RBI, Citigroup.

[14] On March 2, 2007 the RBI imposed a cap of not accepting more than Rs30bn from the reverse-repo window. The imposition of the cap resulted in short term rates coming down sharply which in turn helps discouraging hot money flows.

What's New

Indo-US Nuclear Deal: In doldrums again?

The Indo-US nuclear deal was back in focus once again as President Bush and PM Singh met on the sidelines of the G-8 summit in Germany. The deal faced a roadblock last year, as there was disagreement on what facilities that would come under IAEA safeguards.[15]. However, the issue was resolved with India opening 14 of its 22 civilian nuclear reactors to safeguards. Negotiations have once again reached a stalemate over disagreement on India's right to reprocess spent fuel and conduct nuclear tests[16]. The nuclear deal is also critical from a political standpoint given that the Left parties (UPA's allies in the coalition) are against it, and general elections are due to be held in 2009. But, what is positive is that both the US and India have agreed that the deal is achievable and are confident of carrying it through the end.

The Nuclear Pact: A Brief Update

A quick update, the nuclear deal was signed in Aug 05, as a joint statement between President Bush and PM Singh; where the President stated that *"as **a responsible state with advanced nuclear technology**, India should acquire the same benefits and advantages as other states and that he would seek agreement from Congress to adjust US laws and policies to enable full **civil** nuclear energy cooperation and trade with India."* This would end three decades of nuclear isolation. In effect, the deal granted India with all the rights and advantages of a Nuclear Weapons State; without being formally classified as one. In exchange for safeguards and inspections of key civilian nuclear facilities, the deal would allow India to benefit from the sale and transfer of nuclear equipment and fuel.

What the deal will mean for energy in India

The biggest gain from the agreement should thus come from enhanced levels of energy security, as permitting trade in civil nuclear energy (including fuel) would allow India to develop its nuclear facilities for electricity generation. This is a big positive given the rising demand for demand for power in India. Despite a rise in investment, the power sector still suffers from a wide demand–supply gap, with shortfalls of about 7% (energy deficit) and 11% (peak deficit). While over half the resources for electricity are powered by coal, coal reserves are limited. Moreover, the geopolitical risks associated with crude oil imports continue to rise, and reduced dependence on this source will only be beneficial.

Currently nuclear energy accounts for less than 3% of electricity generation. However, given that India has declined to sign the Nuclear Non-Proliferation Treaty, it has been largely excluded from trade in nuclear plants or materials. As a result India's nuclear power program has so far been largely without fuel or technological assistance from other countries resulting in the plants operating at sub-optimal capacities. However, this could change with the possibility of technology transfer.

---

[15] IAEA safeguards broadly involve verification that nuclear programs are not misused to assemble nuclear weapons. Monitoring and verification activities focus on those nuclear materials that are crucial to weapons manufacturing, such as Uranium 233 and 235, and Plutonium 239. For more information please visit http://www.iaea.org/OurWork/SV/Safeguards/index.html

[16] Source: Eurasia Group – 'Window of Opportunity is Closing on India-US Nuclear Deal'

Monthly Macro Monitor

Figure 21. India —Key Monthly Economics Indicators (Percent Change from a year ago unless otherwise stated)

Monthly Macro Snapshot								FY07						
	Apr 06	May 06	Jun 06	Jul 06	Aug06	Sept06	Oct06	Nov06	Dec06	Jan07	Feb07	Mar07	Apr07	May07
Consumption Trends														
Two-Wheelers	12.7	20.4	23.6	19.7	3.5	19.1	10.3	14.5	6.9	10.9	4.9	-0.2	-4.0	
Passenger Car Sales	19.9	25.8	25.4	20.5	13.9	19.8	15.9	25.8	25.7	24.2	37.2	6.0	8.4	
Commercial Vehicle Sales	77.1	41.2	30.9	38.6	28.9	33.1	22.6	44.3	42.9	33.6	22.3	10.9	9.1	
Investment Trends														
Infrastructure Index	7.1	7.1	7.7	10.8	6.5	10.5	9.8	9.5	8.5	8.2	7.5	10.0	7.4	
Cement Dispatches	10.7	6.9	12.6	13.6	3.7	17.9	8.3	13.5	8.1	8.0	5.9	5.9	6.1	
Diesel Consumption	10.4	15.1	-2.9	3.9	-1.2	15.0	3.5	10.8	7.0	8.2	1.3	11.6	8.5	
Steel Production	8.3	7.9	6.0	15.6	6.8	8.4	7.7	9.1	10.0	8.3	13.4			
Aluminum Production	22.7	21.9	15.6	27.9	19.8	22.4	26.1	26.2	28.2	28.0	13.1			
Ind. Production Index														
General	9.9	11.7	9.7	13.2	10.3	12.0	4.5	15.8	13.4	11.6	10.8	14.5	13.6	
Manufacturing	11.0	13.3	10.7	14.3	11.9	12.7	3.8	17.2	14.5	12.3	11.9	15.9	15.1	
Basic Goods	9.3	9.1	8.5	10.0	4.8	11.5	10.5	12.1	12.4	12.0	10.6	11.7	8.9	
Capital Goods	19.6	21.4	21.6	18.3	16.6	9.5	6.5	29.4	26.2	16.3	18.5	18.2	17.7	
Intermediate Goods	8.5	12.5	11.2	10.7	8.7	13.8	5.9	17.9	12.7	13.7	12.2	14.3	12.6	
Consumer Goods	8.9	10.5	6.1	16.8	15.0	12.1	-2.8	13.5	10.7	8.2	7.6	16.0	17.7	
Services														
Port Traffic	-3.0	5.1	14.2	6.5	5.4	6.6	9.7	17.0	10.6	13.2	14.1	11.6		
Railway Freight	11.0	7.6	11.0	11.7	7.3	10.8	10.0	11.0	7.5	6.5	6.8	8.9		
Tourist Arrivals ('000)	310	259	273	349	303	281	394	472	547	515	463	444	335	272
Cellular Subscribers (Mils.)	72.1	75.3	78.5	82.4	86.6	91.0	95.5	100.8	105.4	110.4	115.3	121.4	121.6	130.3
Banking Trends														
Money Supply	18.2	18.3	18.3	19.2	19.5	19.2	18.8	19.0	19.8	20.8	21.6	21.6	20.6	19.9
Loan Growth	32.1	30.7	31.8	31.4	31.5	30.6	28.9	28.6	29.6	29.9	29.5	28.8	27.7	26.7
Deposit Growth	19.8	20.0	20.5	20.8	21.3	20.8	20.3	21.0	22.2	22.9	24.0	24.2	23.0	22.3
Non-Food Credit	32.0	32.5	32.9	33.0	32.9	33.0	30.1	30.0	30.7	30.3	30.4	29.9	26.8	26.9
Inflation														
CPI (IW)	5.0	6.3	7.7	6.7	6.3	6.8	7.3	6.3	6.9	7.1	7.6	6.7	6.7	
WPI	3.5	4.5	5.2	5.0	5.7	5.9	5.4	5.2	5.4	5.7	6.1	6.2	6.6	5.5
Mfg Products Inflation	1.5	2.4	2.9	3.5	4.0	4.3	4.6	4.5	4.9	5.8	5.9	6.3	6.1	5.3
Interest Rates (Avg, %)														
Call Money Rate	6.2	5.9	6.0	6.1	6.3	7.2	7.4	7.3	12.3	10.6	8.7	40.1	14.5	9.4
91-Day T-Bills	5.6	5.7	6.1	6.4	6.4	6.5	6.6	6.7	7.0	7.3	7.7	7.7	7.5	7.5
10-Year Government Bond	7.5	7.6	7.9	8.3	8.1	7.7	7.6	7.5	7.6	7.7	7.9	8.0	8.1	9.1
Trade - Customs Data														
Exports	13.1	26.1	31.9	40.8	24.6	27.0	14.8	35.7	7.7	5.5	7.9	8.8	23.1	
Imports	16.4	17.2	24.9	27.7	18.8	34.2	44.4	37.5	31.1	23.2	25.1	14.5	40.7	
Oil	28.6	28.4	54.5	54.7	27.2	25.8	28.1	48.3	29.6	15.1	-1.2	9.8	11.4	
Non-Oil	11.6	13.1	13.7	15.8	14.8	38.3	53.6	32.8	31.8	27.3	39.8	16.4	54.3	
Brent Prices ($/bbl)	70.5	69.7	68.6	73.7	72.9	61.4	57.2	58.3	63.0	53.8	57.6	62.2	63.2	
Foreign Investment (US$ Mils.)														
FII	118	-1,630	106	252	1,000	1,166	1,736	2,037	-797	113	1,620	-244	1,516	942
FDI	661	538	523	1,127	619	916	1,698	1,151	5,130	1,921	698	603		
Exchange Rate and Reserves														
US$ Exchange Rate Average	45.0	45.4	46.0	46.5	46.5	46.1	45.4	44.8	44.6	44.3	44.2	44.0	42.1	40.8
US$ Exchange Rate Mnth End	45.0	46.4	46.1	46.6	46.5	45.9	45.0	44.7	44.3	44.2	44.3	43.5	41.2	40.6
Forex Res Inc.Gold (US$ Bils.)	160.7	164.5	162.9	164.0	165.3	165.3	167.1	175.5	177.3	179.1	193.1	199.2	204.1	204.9

Source: CSO; CMIE, RBI, DGCI&S; CMA; SIAM.

Summary of Balance of Payments

FY08E KEY POINTS

Export ***growth likely to decelerate to 15% levels in FY08***

Oil price assumptions: US$65/bbl Dubai crude in FY08)

Difference between RBI and Customs data is a proxy for defense imports

Invisibles ***remain healthy due to software exports and remittances***

But due to a high trade deficit, the current account is likely to remain in the red, at 1.6% of GDP in FY08E

Commercial borrowings ***increase due to attractive market conditions***

Policy reform could boost FDI

Banking Capital ***will likely see a big upside given new RBI norms on hybrid capital+ more banks borrowing money from overseas***

…As a result, total Capital Flows sufficient to offset rising CAD

Forex reserves ***also continue to provide strong cushion against external shocks, @US$200bn currently***

Figure 22. Trends and Forecasts in the Balance of Payments (US$Mn, %)

	FY01	FY02	FY03	FY04	FY05	FY06	FY07E	FY08E
CURRENT ACCOUNT								
Exports (RBI)	**45,452**	**44,703**	**53,774**	**66,285**	**85,206**	**105,152**	**125,657**	**144,505**
Y/Y%	21.1	(1.6)	20.3	23.3	28.5	23.4	19.5	15.0
% of GDP	9.9	9.4	10.6	11.0	12.3	13.1	13.0	13.0
Exports- Customs	44,560	43,827	52,719	63,843	80,700	100,600	120,720	139,069
Y/Y%	21.0	-1.6	20.3	21.1	26.4	24.7	20.0	15.2
Imports (RBI)	**57,912**	**56,277**	**64,464**	**80,003**	**118,908**	**156,993**	**193,101**	**219,170**
Y/Y %	4.6	-2.8	14.5	24.1	48.6	32.0	23.0	13.5
% of GDP	12.6	11.8	12.7	13.3	17.1	19.5	21.1	19.7
Imports-Customs	50,576	51,448	61,385	78,200	106,700	140,200	179,000	206,290
Y/Y %	1.9	1.7	19.3	27.4	36.4	31.4	27.7	15.2
of which:								
Oil	15,676	14,048	17,685	20,600	29,900	43,800	56,000	55,000
Y/Y %	24.1	-10.4	25.9	16.5	45.1	46.5	27.9	-1.8
Non-Oil	34,900	37,400	43,700	57,600	76,800	96,400	123,000	151,290
Y/Y %	-5.7	7.2	16.8	31.8	33.3	25.5	27.6	23.0
a. Trade balance (RBI)	**-12,460**	**-11,574**	**-10,690**	**-13,718**	**-33,702**	**-51,841**	**-67,445**	**-74,665**
% of GDP	-2.7	-2.4	-2.1	-2.3	-4.9	-6.4	-7.4	-6.7
Trade Balance (Customs)	-6,016	-7,621	-8,666	-14,357	-26,000	-39,600	-58,280	-67,221
Difference	-6,444	-3,953	-2,024	639	-7,702	-12,241	-9,165	-7,444
b. Invisibles	**9,794**	**14,974**	**17,035**	**27,801**	**31,232**	**42,655**	**52,800**	**59,300**
Non-factor services	1,692	3,324	3,643	10,144	15,426	23,881	32,000	37,000
Of which: Software	5,750	6,884	8,863	11,750	16,400	22,262	27,605	34,230
Investment income	-5,004	-4,206	-3,446	-4,505	-4,979	-5,510	-4,500	-4,000
Remittances	12,854	15,398	16,387	21,608	20,525	24,102	25,000	26,000
Official transfers	252	458	451	554	260	182	300	300
1. Current a/c bal (a+b)	**-2,666**	**3,400**	**6,345**	**14,083**	**-2,470**	**-9,186**	**-14,645**	**-15,365**
% of GDP	-0.6	0.7	1.2	2.3	-0.4	-1.1	-1.6	-1.4
CAPITAL ACCOUNT								
c. Loans	**5,264**	**-1,261**	**-3,850**	**-4,364**	**10,909**	**6,113**	**13,500**	**9,000**
External assistance	410	1,117	-3,128	-2,858	1,923	1,682	1,500	1,000
Commborrowings*	4,303	-1,585	-1,692	-2,925	5,194	2,723	10,000	6,000
Short-term credit	551	-793	970	1,419	3,792	1,708	2,000	2,000
d. FDI (Net = a-b)	**3,274**	**4,734**	**3,217**	**2,388**	**3,713**	**4,730**	**9,000**	**11,000**
(a) FDI - To India	4,031	6,125	5,036	4,322	5,987	7,661	11,000	13,000
(b) FDI - Abroad	-757	-1,391	-1,819	-1,934	-2,274	-2,931	-2,000	-2,000
e. Portfolio investment	**2,590**	**1,952**	**944**	**11,356**	**9,287**	**12,494**	**6,500**	**6,500**
f. Banking Capital	**-1,961**	**2,864**	**10,425**	**6,033**	**3,874**	**1,373**	**6,500**	**6,000**
Commercial Banks (Net)	-4,277	110	7,447	2,391	4,838	442	4,000	3,500
NRI deposits	2,316	2,754	2,978	3,642	-964	2,789	2,500	2,500
g. Rupee debt service	**-617**	**-519**	**-474**	**-376**	**-417**	**-572**	**-400**	**-400**
h. Other capital**	**292**	**781**	**578**	**1,699**	**656**	**-738**	**1,000**	**1,000**
2.Capital a/c (a::h)	**8,842**	**8,551**	**10,840**	**16,736**	**28,022**	**23,400**	**36,100**	**33,100**
Errors & Omissions	-305	-194	-200	602	607	838	0	0
Overall balance (1+2)	**5,871**	**11,757**	**16,985**	**31,421**	**26,159**	**15,052**	**21,455**	**17,735**
Forex								
Forex assets (excl gold)	39.6	51.0	71.9	107.5	135.6	145.1	191.9	213.1
months of imports (Rhs)	8.2	10.9	13.4	15.9	13.6	11.1	11.9	11.7
Exchange rate								
Rs/US$ - annual avg	45.7	48.0	48.3	45.9	45.0	44.3	44.9	41.8
% depreciation	5.3	5.0	0.6	-5.0	-2.0	-1.6	1.4	-7.0
Rs/US$ - year end	46.5	48.9	47.5	43.6	43.8	44.6	43.5	40.0
% depr/(-) appreciation	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.5	-8.0

*Includes US$4.1bn of the Resurgent Bond Issue repaid in September 2003 and repayment of India Millennium Bonds in FY06.
** Includes delayed export receipts, advance payments against imports.
Source: RBI, Citigroup estimates.

Snapshot of Government Finances

BUDGET FY08: KEY HIGHLIGHTS

No change in direct taxes, reduction in the peak customs tariffs from 12.5% to 10%. Additional surcharge of 1% for education + removal of exemptions will help shore up revenues

Tax Revenue growth assumption @17%yoy is conservative

****Privatization and Disinvestment estimates include Rs400bn on account of transfer of RBI's stake in SBI***

Higher Defense outlays, interest payments, subsidies and wages have driven up non-plan expenditure…

…however, outlays on expenditure on National Urban Renewal Mission, Bharat Nirman Project raised by 31% - will encourage 'inclusive growth'

FY08 Fiscal Deficit at 3.3% - in line with FRBM targets

Figure 23. India's Central Government Finances (Rupees in Billions, Percent to GDP)

	FY03	FY04	FY05	FY06	FY07RE	FY08BE
a. Gross Tax Revenue	**2,163**	**2,543**	**3,050**	**3,662**	**4,678**	**5,481**
% to GDP	8.8	9.2	9.8	10.3	11.3	11.8
Corporation tax	462	636	827	1,013	1,465	1,684
Income tax	369	414	493	636	825	988
Excise duty	823	908	991	1,112	1,173	1,302
Import duty	449	486	576	651	818	988
Service tax*	61	100	163	250	398	520
b. (-) Devolvement to States & UTs	577	674	802	959	1,219	1,443
c. Net tax revenues (a-b)	1,585	1,870	2,248	2,703	3,460	4,039
d. Non tax revenues	723	769	812	772	774	826
e. Net revenue receipts (c+d)	**2,308**	**2,639**	**3,060**	**3,475**	**4,233**	**4,864**
f. Non-debt capital receipts	373	841	665	122	60	432
Recovery of loans	342	672	620	106	55	15
Privatisation*	32	170	44	16	5	417
g. TOTAL REVENUES (e+f)	**2,682**	**3,480**	**3,725**	**3,597**	**4,293**	**5,296**
% YoY	21.3	29.8	7.0	-3.4	19.4	23.4
h. Revenue expenditure	**3,387**	**3,621**	**3,843**	**4,398**	**5,068**	**5,579**
Interest (1)	1,178	1,241	1,269	1,326	1,462	1,590
Defence	407	432	439	482	515	541
Subsidies	435	443	460	475	535	543
Pensions	144	159	183	203	222	235
Grants to States	133	137	148	305	362	384
Admin and social services	374	422	470	488	526	543
Plan expenditure	716	786	875	1,119	1,446	1,744
i. Capital expenditure	**745**	**1,092**	**1,139**	**664**	**749**	**1,226**
Defence	150	169	320	323	345	419
Loans	197	487	371	52	123	500
Plan expenditure	399	436	448	288	281	307
j. Plan expenditure on rev & cap a/c	1,115	1,223	1,323	1,406	1,727	2,051
k Non Plan expen on rev & cap a/c	3,018	3,490	3,660	3,655	4,089	4,754
l. TOTAL EXPENDITURE (h+i) = (j+k)	**4,132**	**4,713**	**4,983**	**5,061**	**5,816**	**6,805**
% YoY	14.1	14.0	5.7	1.6	14.9	17.0
Deficit trends						
m. Fiscal deficit (l-g)	**1,451**	**1,233**	**1,258**	**1,464**	**1,523**	**1,509**
% to GDP	5.9	4.5	4.0	4.1	3.7	3.3
n. Revenue deficit (h-e)	**1,079**	**982**	**783**	**923**	**834**	**715**
% to GDP	4.4	3.6	2.5	2.6	2.0	1.5
o. Primary deficit (m-1)	**273**	**-8**	**-12**	**138**	**61**	**-80**
% to GDP	1.1	0.0	0.0	0.4	0.1	-0.2
Financing the deficit						
Market borrowings	976	889	460	953	1,075	1,096
PPF & special deposits	139	50	-4	60	50	50
Small savings	0	0	0	0	30	105
Net external assistance	-119	-135	148	75	79	91
Others	436	468	736	584	180	167
Cash Surplus	19	-39	-82	-209	109	0
Total financing	**1,451**	**1,233**	**1,258**	**1,464**	**1,523**	**1,509**
Memo items (% to GDP)						
Centre	5.9	4.5	4.0	4.1	3.7	3.2
State	4.2	4.5	3.5	3.2	2.7	2.7
Combined	9.6	8.5	7.5	7.4	6.3	6.0

BE- Budgeted Estimated; RE- Revised Estimates. Source: Budget Documents.

Global Economic Forecasts

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E
United States	3.4	2.1	2.9	3.2	2.6	2.4	-6.5	-6.1	-6.4	-1.9	-1.4	-1.3
Japan	2.2	2.3	2.2	0.1	-0.1	0.3	3.9	4.2	4.1	-3.6	-3.0	-3.0
Euro Area	2.8	2.6	2.3	2.2	1.9	1.8	-0.2	-0.1	-0.1	-1.6	-1.2	-1.1
China	10.7	10.3	10.7	1.5	3.0	4.5	9.0	9.5	8.9	-1.0	-1.8	-2.0
India(Inflation is WPI)	9.2	9.3	9.4	5.3	4.5	4.5	-1.6	-1.4	-0.8	-6.3	-6.0	-6.1

Note: GDP and CPI are expressed as year-to-year percent change. Source: Citigroup estimates.

Short-Term Forecasts

	Vs. US$					Policy Rates (%)					Long-term Rates (%)				
	Current	1 Month Forecast	3 Month Forecast	6 Month Forecast	12 Month Forecast	Current	3Q07 Forecast	4Q07 Forecast	1Q08 Forecast	2Q08 Forecast	Current	3Q07 Forecast	4Q07 Forecast	1Q08 Forecast	2Q08 Forecast
United States	NA	NA	NA	NA	NA	5.25	5.25	5.00	5.00	5.00	4.98	4.80	4.85	4.90	4.95
Japan	121.18	119.00	123.00	123.00	121.00	0.50	0.50	0.75	0.75	1.00	1.89	1.70	1.75	1.80	1.85
Euro Area	1.35	1.36	1.34	1.32	1.32	4.00	4.00	4.00	4.00	4.00	4.46	4.35	4.40	4.45	4.50
China	7.65	7.58	7.42	7.28	7.10	6.57	6.84	6.84	7.11	7.11	3.46	3.20	3.30	3.50	3.50
Hong Kong	7.81	7.82	7.83	7.82	7.81	4.46	4.63	4.41	4.44	4.47	4.61	4.57	4.56	4.53	4.53
India	**40.68**	**40.60**	**40.70**	**40.20**	**40.00**	**7.75**	**8.00**	**8.00**	**8.00**	**8.00**	**8.14**	**8.00**	**8.00**	**8.00**	**8.00**
Malaysia	8,895	8,850	8,900	9,100	9,200	3.50	3.50	3.50	3.50	3.50	3.64	3.70	3.75	3.80	3.90
Philippines	3.44	3.38	3.36	3.33	3.28	7.50	7.50	7.50	7.50	7.50	5.83	5.95	5.79	5.62	5.50
Singapore	46.10	45.00	46.00	44.50	43.50	2.38	2.40	2.50	2.50	2.50	2.92	2.85	2.90	2.95	3.00
Korea	1.53	1.53	1.52	1.50	1.47	4.50	4.75	4.75	4.75	4.75	5.19	5.40	5.30	5.25	5.20
Taiwan	928	930	935	920	900	3.17	2.07	2.12	2.17	2.20	2.37	2.50	2.58	2.83	3.00
Thailand	33.04	33.00	32.80	32.50	32.20	3.50	3.50	3.50	3.50	3.50	4.11	3.50	3.75	3.75	3.75

Source: Citigroup estimates.

Long-Term Forecasts

	GDP Growth(%)					Exchange Rates(Average)					Long-term Rates(%)				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
United States	2.1	2.9	2.7	2.7	2.7	N/A	N/A	N/A	N/A	N/A	4.75	4.90	4.90	5.00	5.10
Japan	2.2	2.2	0.8	1.8	2.1	121	119	114	104	94	1.70	1.90	1.75	2.50	2.75
Euro Area	2.6	2.3	2.0	1.8	1.7	1.34	1.33	1.35	1.36	1.36	4.25	4.50	4.25	4.25	4.25
China	10.3	10.7	10.0	9.8	9.5	7.54	7.00	6.70	6.46	6.28	3.06	4.50	4.00	4.50	5.00
India	**9.3**	**9.4**	**9.8**	**9.7**	**9.7**	**41.80**	**40.00**	**39.00**	**37.05**	**36.00**	**8.00**	**7.50**	**7.50**	**7.50**	**7.500**

Source: Citigroup estimates.

India's Place in the World: GDP Rankings, Nominal and PPP Basis (Top 15 countries,2005,US$bn)

Ranking	Country	GDP-PPP Basis	Ranking	Country	Nominal GDP
1	United States	12,409	1	US	12,455
2	China	8,573	2	Japan	4,506
3	Japan	3,944	3	Germany	2,782
4	***India***	***3,816***	4	China	2,229
5	Germany	2,418	5	UK	2,193
6	United Kingdom	1,927	6	France	2,110
7	France	1,830	7	Italy	1,723
8	Italy	1,668	8	Spain	1,124
9	Brazil	1,627	9	Canada	1,115
10	Russian Federation	1,560	10	Brazil	794
11	Spain	1,134	11	Korea	788
12	Canada	1,061	***12***	***India***	***785***
13	Korea	1,056	13	Mexico	768
14	Mexico	1,052	14	Russian Fed	764
15	Indonesia	847	15	Australia	701

Source: World Development Indicators, 2005.

Disclosure Appendix

Analyst Certification

This research report contains commentary and analysis by Rohini Malkani and Anushka Shah. Each of these individual analysts/strategists/economists hereby certifies that, with respect to the issuers about which they have provided commentary or analysis all of the views expressed in this research report accurately reflect the analyst's/strategists/economists personal views about the subject issuer(s) and its (their) securities. Each of the these individuals also certifies that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Other Disclosures

ADDITIONAL INFORMATION REGARDING THIS REPORT IS AVAILABLE ON REQUEST.

Citigroup research analysts receive compensation based on a variety of factors. Like all Citigroup employees, analysts receive compensation that is impacted by Citigroup's overall profitability, which includes revenues from, among other things, investment banking activities. Analyst compensation is determined by Citigroup research management and other senior management (not including investment banking personnel).

ISSUER-SPECIFIC DISCLOSURES

Citigroup, its officers, directors and/or employees, may from time to time have long or short positions in, act as principal in connection with, and buy or sell securities or derivatives (including options and warrants) discussed in this report. For purposes of your review of this report, you should assume that this is the case with respect to the securities covered herein.

Citigroup does and/or seeks to do business with many issuers, including through the provision of investment banking or other services. For purposes of your review of this report, you should assume that Citigroup has acted as a manager or co-manager of an offering of securities discussed in this report within the prior 12 months or has provided other services to the issuer within the prior 12 months for which it has received or expects to receive compensation.

Citigroup is an active market maker or liquidity provider for many fixed-income securities and from time to time takes principal positions in such securities or related derivatives. For purposes of your review of this report, you should assume that this is the case with respect to the securities covered herein.

OTHER GENERAL DISCLOSURES

This research report was prepared by Citigroup Global Markets Inc. ("CGMI") and/or one or more of its affiliates (collectively, "Citigroup"), as further detailed in the report, and is provided for information and discussion purposes only. It does not constitute an offer or solicitation to purchase or sell any securities or other financial products.

This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investing in securities and other financial products entails certain risks, including the possible loss of the entire principal amount invested. Certain investments in particular, including those involving structured products, futures, options and other derivatives, are complex, may entail substantial risk and are not suitable for all investors. The price and value of, and income produced by, securities and other financial products may fluctuate and may be adversely impacted by exchange rates, interest rates or other factors. Prior to effecting any transaction in options or options-related products, investors should read and understand the current Options Clearing Corporation Disclosure Document, a copy of which may be obtained on request from your Citigroup representative. Certain securities may not be registered with, or subject to the reporting requirements of, the US Securities and Exchange Commission or any comparable regulatory authority. Information available on such securities may be limited. Investors should obtain advice from their own tax, financial, legal and other advisors and only make investment decisions on the basis of the investor's own objectives, experience and resources.

The information contained in this report is based on generally available information and, although obtained from sources believed to be reliable, its accuracy and completeness is not guaranteed. The analysis contained in this report is based on a number of assumptions. Changes in such assumptions could produce materially different results. This communication is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results.

Citigroup research analysts may communicate with sales and trading personnel and other Citigroup personnel for the purposes of gathering and analyzing market information and may discuss with such personnel information regarding, among other things, market trends, economic trends, the market for bonds of a specific issuer and other market information (such as current prices, spreads and liquidity), so long as such communications do not impair the analyst's independent ability to express accurately his or her personal views about any and all of the subject securities or issuers. Other Citigroup personnel who do not function as research analysts, including sales and trading personnel, may provide oral or written market commentary or trade ideas to Citigroup's customers or proprietary trading desks that differ from the views expressed in this report. Citigroup's proprietary trading and asset management businesses may make investment decisions that are different from the recommendations contained in this report.

Citigroup has no duty to update this report and the opinions, estimates and other views expressed in this report may change without notice. No liability whatsoever is accepted for any loss (whether direct, indirect or consequential) that may arise from any use of the information contained in or derived from this report.

Securities recommended, offered or sold by Citigroup (unless expressly stated otherwise): (i) are not insured by the Federal Deposit Insurance Corporation or any other body; and (ii) are not deposits or other obligations of Citibank, N.A. or any other insured depository institution.

Citigroup does not provide tax advice and nothing contained herein is intended to be, or should be construed as, tax advice. Any discussion of US tax matters contained in this report was written to support the promotion or marketing of the transactions or other matters addressed herein and is not intended to be used, and must not be used by any recipient, for the purpose of avoiding US federal tax penalties. Recipients of this report should seek tax advice based on the recipient's own particular circumstances from an independent tax adviser.

This report is intended for distribution solely to customers of Citigroup in those jurisdictions where such distribution is permitted. No part of this report may be copied or redistributed by any recipient for any purpose without Citigroup's prior written consent.

Local law requirements may prohibit certain investors from effecting a transaction in the security or securities covered in this report. US persons wishing further information or to effect a transaction should contact a registered representative of CGMI in the United States. Non-US persons wishing further information or to effect a transaction should contact a Citigroup entity located in their own jurisdiction unless applicable governing law permits otherwise.

AUSTRALIA: This report is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citigroup Wealth Advisors Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), participants of the ASX Group, and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. **CANADA:** If this report is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. **CHINA:** This report is made available in China through Citibank, N.A. Beijing Branch, 16F Tower 1 Bright China Chang-an Bldg., 7 Jianguomen Nei Avenue, Beijing, 100005 P.R. China. Citibank, N.A. Beijing Branch is regulated by the China Banking Regulatory Commission. **CZECH REPUBLIC:** This report is being distributed within the territory of the Czech Republic by Citibank a.s. Citibank a.s. is a bank and securities broker/dealer regulated by the Czech National Bank, Na Príkope 28, Prague 1, Czech Republic. Unless expressly stated otherwise, Citibank a.s. is only distributing this report and, upon its distribution, it has not changed or amended the actual content of this report in any way (as such was prepared by respective entities and/or individuals as further detailed in the report). **HONG KONG:** If this report is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by the Hong Kong Securities and Futures Commission. If this report is made available in Hong Kong by Citibank, N.A., it is attributable to Citibank, N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank, N.A. is regulated by the Hong Kong Monetary Authority. **INDIA:** The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. **INDONESIA:** This report is made available in Indonesia through Citibank, N.A. Indonesia Branch, Citibank Tower Lt 7, Jend. Sudirman Kav 54-55, Jakarta. Citibank, N.A. Indonesia Branch is regulated by the Bank of Indonesia. **JAPAN:** This report is being distributed in Japan by Nikko Citigroup Limited. If this report was prepared by a Citigroup affiliate of Nikko Citigroup Limited, it is being distributed by Nikko Citigroup Limited under license. If this report was prepared by Nikko Citigroup Limited, it may be based in part on a report produced by one of its affiliates used under license. If this report was prepared by Nikko Citigroup Limited and is being distributed in other jurisdictions by other Citigroup affiliates, or by Nikko Cordial Securities Inc., it is being distributed by them under license. Nikko Citigroup Limited is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Akasaka Park Building, 2-20, Akasaka 5-chome, Minato-ku, Tokyo 107-6122. **KOREA:** The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Supervisory Commission and the Financial Supervisory Service. Address is Dadong 39, Jung Gu, Seoul, Korea, 100-180. **MEXICO:** This report is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, and Banco Nacional de México S.A. Acciones y Valores Banamex is regulated by Comision Nacional Bancaria y de Valores. Its address is Reforma 398, Col. Juarez, 06600 Mexico, D.F. Banco Nacional de México S.A. is regulated by the Comisión Nacional Bancaria y de Valores. Its address is Actuario Roberto Medellín 800, Col. Santa Fé, (01210) Mexico City, Mexico. **NEW ZEALAND:** This report is made available in New Zealand through Citigroup Global Markets New Zealand Limited (Company No. 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 11, 23 Customs Street East, Auckland, New Zealand. **PHILIPPINES:** This report is made available in the Philippines through Citibank, N.A. Philippine Branch, 8741 Paseo de Roxas, Makati City, Philippines. Citibank, N.A. Philippine Branch is regulated by the Bangko Sentral ng Pilpinas. **POLAND:** The Product is made available in Poland by Dom Maklerski Banku Handlowego SA, an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. **RUSSIA:** The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. **SINGAPORE:** The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd. and Citicorp Investment Bank Singapore Ltd. Citigroup Global Markets Singapore Pte. Ltd. is a Capital Markets Services License holder and regulated by the Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. Citicorp Investment Bank Singapore Ltd. is a Merchant Banking License holder and regulated by the Monetary Authority of Singapore. 3 Temasek Avenue, #17-00 Centennial Tower, Singapore 039190. **SOUTH AFRICA:** Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by the JSE Securities Exchange South Africa, the South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. **TAIWAN:** The Product is made available in Taiwan through Citibank, N.A., Taipei Branch, which is regulated by the Financial Supervisory Commission. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. F.8 No. 169, Section 4, Jen Ai Road, Taipei, Taiwan. **UNITED KINGDOM:** This report is being distributed in the United Kingdom by Citibank, N.A., London Branch, or Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, UK. This material is directed exclusively at market professional and institutional investor customers in the United Kingdom and is not for distribution to private customers in the United Kingdom as defined by the Financial Services Authority. Any investment or service to which this material may relate will not be made available to such private customers. This material may relate to investments or services of a person outside the United Kingdom or to other matters which are not regulated by the Financial Services Authority and further details as to where this may be the case are available on request in respect of this material. **UNITED STATES:** This report is being distributed in the United States by CGMI. If this report was prepared in whole or in part by a non-U.S. affiliate of CGMI, CGMI accepts responsibility for its contents (subject to the notices above). If this report covers non-U.S. securities, U.S. investors should be aware that non-U.S. companies may not be subject to uniform audit and reporting standards, practices and requirements comparable to those in the United States. Securities of some non-U.S. companies may be less liquid and their prices may be more volatile than securities of comparable U.S. companies. Exchange rate movements may have an adverse effect on the value of an investment in non-U.S. securities and its corresponding dividend payment for U.S. investors. CGMI is a member of the Securities Investor Protection Corporation. **EUROPEAN UNION:** Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by the Financial Services Authority. Many European regulators require that the firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publishing or distribution of investment research. The policy applicable to research analysts within Citigroup's Fixed Income Strategy and Analysis and Economic & Market Analysis divisions, as well as the investment research they produce, can be obtained by contacting Citigroup Global Markets Inc., 388 Greenwich Street 11th floor, NY NY 10013, Attention: Fixed Income Publishing.