



http://deadpresident.blogspot.com

INDIA

India Economics

Monetary Policy: Rates Unchanged; Growth Back in Focus

Rohini Malkani
+91-22- 6631-9876
rohini.malkani@citigroup.com
Mumbai

Anushka Shah
Mumbai

Note Released: 24-Apr-07

- RBI leaves rates unchanged for now: The RBI has left all interest rates...
Stance of the Policy – Growth back in the picture: Interestingly, the stance of the policy appears to have reverted from reinforcing just price stability...
Managing Capital Flows: With forex reserves crossing US\$200bn, the RBI as expected announced a number of measures pertaining to capital flows:
1. Reduction in interest rates on NRI deposits: In a bid to reduce inflows from Non-Resident Indian Deposits...
2. Initiatives to encourage outflows: Rather than imposing draconian measures on external commercial borrowings, the RBI announced measures to encourage outflows...

Policy measures to encourage capital outflows

Table with 2 columns: Instrument, Measures. Rows include Overseas Investment Limit, Portfolio Investments, Mutual Funds Investments, External Commercial Borrowings (ECBs), and Remittances for Individuals.

Source: RBI

- RBI's Macro Outlook for FY08: While its GDP estimate of 8.5% appears conservative relative to our 9.3% estimate, what is positive is that the RBI has raised its money supply and loan growth estimates for FY08.

1. The Reverse Repo rate (6.0%) is the rate at which RBI absorbs liquidity from the system, while the Repo Rate (7.75%) is the rate at which it injects liquidity into the system.

2 To provide a brief recap, NRI Deposits are of two types- Foreign Currency deposits (FCNR) and rupee accounts (NRE).

Other measures

- ▶ **Measures towards inclusive growth:** To ensure that the poorer sections of society are not left out, the RBI has reduced risk weights on loans up to Rs0.1mn against gold and silver and announced relief measures for distressed farmers
- ▶ **To encourage mass housing,** the RBI has reduced risk weights on residential housing loans up to Rs2m from 75% to 50%.
- ▶ **Expansion of Hedging Facilities:** To enable domestic producers to hedge price risk on domestic purchases, the RBI has permitted domestic producers/users to hedge their price risk on aluminium, copper, lead, nickel and zinc in international commodity exchanges to take advantage of the depth and liquidity in these exchanges. In addition it has also permitted users of aviation turbine fuel to hedge their economic exposures in international commodity exchanges.
- ▶ **Repo Market widened to include corporate bonds:** In a bid to improve price discovery for corporate bonds, and as part of the move toward establishing a reporting platform for corporate bonds, the RBI has stated that the repo market would be widened to include corporate bonds once trading platforms stabilize and robust clearing and settlement systems are established.
- ▶ **Introduction of Credit Default Swaps:** Given that Basel II norms are now being implemented and risk management systems have strengthened the RBI has proposed to permit banks and primary dealers to transact in single-entity Credit Default Swaps; for which guidelines would be introduced by May 15, 2007.

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 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 Prikope 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 Comisión Nacional Bancaria y de Valores. Its address is Reforma 398, Col. Juárez, 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 Pilipinas. **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 Wartościowych i Giełd. 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 Gashka 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.

© Citigroup Global Markets Inc., 2007. All rights reserved. Smith Barney is a division and service mark of Citigroup Global Markets Inc. and its affiliates and is used and registered throughout the world. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world. CitiFx® is a service mark of Citicorp Inc.. Nikko is a service mark of Nikko Cordial Corporation. Any unauthorized use, duplication or disclosure is prohibited by law and may result in prosecution.