



INDIA

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

Anushka Shah
Mumbai

India Econ Flash

Fitch Revises India's Local Currency Outlook to Negative; But Retains Rating at BBB-

✳ **Fitch lowers local currency outlook:** Fitch has revised its outlook on local currency to Negative, from Stable earlier. However, the agency has retained its BBB- (investment grade) rating on both local and foreign currency, as well as its Stable outlook on foreign currency. With rating agencies sending out feelers about revisions to India's sovereign ratings over recent weeks, the move has been largely on the cards. Last week, a report by Standard and Poor's (S&P) cited rising inflation and '*worsening fiscal and current account deficits*' as risks to the sovereign rating, but did not change its ratings or outlook.

✳ **Oil the key culprit:** There are three key reasons behind the outlook revision. As we have pointed out earlier, the common cause behind the current economic scenario can be traced to higher oil prices, (*see Macroscope- Party Sp'OIL'ed for Sure, But It's Not Over <https://www.citigroupgeo.com/pdf/SAP17431.pdf>*) which also indicates that things could change if the oil prices reverse.

1. **Fiscal position:** Fitch has cited '*considerable deterioration in the central government's fiscal position in FY09*' as a key behind the outlook revision. Briefly, the government is likely to meet its fiscal deficit target of 2.5% for FY09 on paper. However, including various off-balance-sheet items (oil bonds, farm waiver, pay commission, fertilizer subsidies- *80% of these are due to the oil shock*) which account for close to 4% of GDP; the central gov't's deficit would likely come in at 6.5%. This would bring the combined deficit to ~ 9% of GDP.

2. **A rising trade deficit,** due to higher oil imports. While this is a concern, Fitch expects the current account deficit (CAD) to remain largely unchanged in FY09. Key factors in India's favor: the relatively easy financing of the CAD, coupled with strong external debt indicators and buoyant FX reserves.

3. **Mounting Inflation,** likely to remain in the double-digit range-would warrant further monetary tightening, even at the cost of lower growth. Coupled with higher real interest rates, this would '*affect the fiscal outturn and further undermine international capital flows*'

✳ **Market Impact:** The outlook revision is largely negative from the point of view of sentiment, and may result in near-term rupee weakness. However, the key point to note, as mentioned above, is that the outlook revision is largely due to the oil shock and would thus depend on how oil prices pan out.

Note Released: 15-Jul-08

RATINGS: A QUICK GUIDE

Investment Grade:

Moody's: Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3

S&P/Fitch: AAA, AA+, AA, A+, A, BBB+, BBB, BBB-

Non-Investment Grade:

Moody's: Ba1, Ba2, Ba3, B1, B2, B3

S&P/Fitch: BB+, BB, BB-, B+, B, B-

India: Key Sovereign Ratings

	S&P*	Moody's**	Fitch***
Long Term Ratings			
Foreign Currency	BBB-	Baa3	BBB-
Local Currency	BBB-	Ba2	BBB-
Long Term Outlook			
Sovereign outlook (FC)	Stable	Stable	Stable
Sovereign outlook (local)	Stable	Stable	Negative

*Ratings and outlook effective Jan 2007. ** Ratings effective Jan 2004, Outlook effective May 2006. ***Ratings effective Aug 2006, Outlook Effective July2008. Source: Moody's, Fitch Ratings, S&P

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 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 AVAILABLE UPON REQUEST

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.

LIQUIDITY PROVIDER DISCLOSURE

Citi is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. Citi regularly trades in the securities of the subject company(ies) discussed in this report. Citi may engage in securities transactions in a manner inconsistent with this report and, with respect to securities covered by this report, will buy or sell from customers on a principal basis. For securities recommended in this report, in which Citi is not a market maker, Citi is a liquidity provider in the issuer's financial instruments and may act as principal in connection with such transactions.

VALUATION METHODOLOGY AND OTHER DISCLOSURES

"Relative Value"-based recommendations is the principal approach used by Citi's Fixed Income Strategy and Analysis ("FISA") and Economic & Market Analysis ("EMA") divisions' strategists/analysts when they make "Buy" and "Sell" recommendations to clients. These recommendations use a valuation methodology that is principally driven by opportunistic spread differences between the appropriate benchmark security and the security being discussed: (1) that have different maturities within a unique capital structure, (2) that have different collateral classes within a unique capital structure, or (3) that reflect a unique opportunity associated with a debt security. In addition, it is also not uncommon for a strategist/analyst to make an "Asset Swap" recommendation, such as a "Buy" and "Sell" recommendation between two securities from the same issuer/tranche/sector.

OTHER GENERAL DISCLOSURES

This research report was prepared by Citigroup Global Markets Inc. ("CGMI") and/or one or more of its affiliates (collectively, "Citi"), 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 Citi 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.

Citi research analysts may communicate with sales and trading personnel and other Citi 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), as 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 Citi personnel who do not function as research analysts, including sales and trading personnel, may provide oral or written market commentary or trade ideas to Citi's customers or proprietary trading desks that differ from the views expressed in this report. Citi's proprietary trading and asset management businesses may make investment decisions that are different from the recommendations contained in this report.

Citi 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 Citi (unless expressly stated otherwise): (1) are not insured by the Federal Deposit Insurance Corporation or any other body; and (2) are not deposits or other obligations of Citibank, N.A. or any other insured depository institution.

Citi 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 Citi 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 Citi'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 Citi entity located in their own jurisdiction unless applicable governing law permits otherwise.

AUSTRALIA: The Product 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 Citi Smith Barney 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. BRAZIL: The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. 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 (China) Co., Ltd. Beijing Branch, 16F Tower 1 Bright China Chang-an Bldg., 7 Jianguomen Nei Avenue, Beijing, 100005 P.R. China. Citibank (China) Co., Ltd. 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 Příkopě 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: The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. JAPAN: This report is being distributed in Japan by Nikko Citigroup Limited. If this report was prepared by a Citi affiliate of Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If this report was prepared by NCL, it may be based in part on a report produced by one of its affiliates under license. If this report was prepared by NCL and is being distributed in other jurisdictions by other Citi affiliates, or by Nikko Cordial Securities Inc., it is being distributed by them under license. NCL is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. 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: In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. 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 that 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-US affiliate of CGMI, CGMI accepts responsibility for its contents (subject to the notices above). If this report covers non-US securities, US investors should be aware that non-US 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-US companies may be less liquid and their prices may be more volatile than securities of comparable US companies. Exchange rate movements may have an adverse effect on the value of an investment in non-US securities and its corresponding dividend payment for US 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 Citi's FISA and EMEA 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.

© 2008 Citigroup Global Markets Inc. (© Nikko Citigroup Limited, if this Product was prepared by it). 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 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.