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India 2014 outlook: Focus on inflation, investment, and elections

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We expect the Indian economy to reaccelerate gradually over the next few years, with real GDP growth rising to 5.5% in FY15 due to higher exports and an increase in investment demand.

We remain above consensus on inflation, with our FY15 CPI inflation forecast at 8.3% and WPI forecast at 6.3% driven by increases in administered prices, and elevated inflation expectations.

We expect the Reserve Bank of India to continue to hike rates due to persistent inflation. We see the repo rate moving up to 8.5% by mid-2014, as the central bank moves to targeting the CPI.

We forecast the current account deficit to remain under 3% of GDP in FY14-FY16, close to sustainable levels, driven by better exports alongside weaker oil and gold imports.

While structurally we expect the rupee to continue to depreciate gradually due to higher inflation than trade partners, the improvement in the current account and balance of payments may limit the magnitude of depreciation. Our 3-, 6-, and 12-month USD/INR forecasts are 64, 65, and 65 respectively.

We see risks on both sides of our forecasts. Domestically, potential upside risks would be a jump in investment activity after elections, and/or a sharper-than-expected fall in inflation. Downside risks include the possibility of an unclear verdict in the elections which would exacerbate investor uncertainty.

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India 2014 outlook: Focus on inflation, investment, and elections

A tough year ends, more hopes from 2014

2013 has turned out to be a tough year for India's economy. The year started promisingly, with the first quarter seeing growth recovering, inflation on a downward trajectory, the Reserve Bank of India (RBI) easing policy rates, and capital inflows positive. From early May, however, India was buffeted by strong headwinds due to market expectations that the Fed would begin to "taper" asset purchases in September and potentially hike the policy rate earlier than previously expected. A rise in US longer-term interest rates led to capital outflows from Indian bonds. Investors were focused on India's large current account deficit and financing needs. This led to a very sharp depreciation in the rupee (INR). The RBI had to intervene to defend the INR, and increased the marginal cost of borrowing by 300bp. The resultant tightening in liquidity effectively choked the economic recovery, in our view. Domestically, structural reforms did not proceed at the pace expected by markets, as bottlenecks continued to hamper investment projects, particularly in the critical power sector. Inflation remained elevated, in part due to FX depreciation and, increases in administered prices, but also due to deeply entrenched inflation expectations.

Since early September, external pressures have eased somewhat, in large part due to the postponement of "tapering" by the US Federal Reserve, which helped to stabilize global interest rates. This has led to a return of capital inflows. Simultaneously, the RBI took a number of measures to boost reserves, while the government has acted to reduce the current account deficit and shore up investor confidence. Indeed, the current account deficit has shrunk quite remarkably from a high of 4.9% of GDP in Q2, 2013 to a forecasted 0.2% in Q3 2013. As a result, the INR has recovered, and asset prices have moved higher.

We think that 2014 will likely be a transition year for India. This is primarily due to the important Parliamentary elections expected in April-May 2014. Greater reform momentum combined with a removal of uncertainties could propel the economy forward and improve its diminishing growth potential. On the other hand, an unclear verdict or a weak government could potentially continue the drift in economic performance. Key to watch will be developments in inflation and investment. The former will determine the amount of RBI tightening and the trajectory of macro imbalances. The latter will be key for growth and investment opportunities.

The global backdrop for the 2014 outlook is quite benign. Our Global Economics team expects world GDP growth to accelerate to 3.6% from 2.8% in 2013, driven largely by a stronger recovery in developed markets (see *Global Economics Weekly*: 13/38 - Showtime for the DM recovery, November 20, 2013). In our forecasts, the US sees a significant growth recovery to 2.9% due to reduced fiscal drag, increases in consumer and capital spending. We expect the major central banks to remain in easing mode, with the Fed not hiking rates till early 2016. While we expect the Fed to taper QE in March, we think the impact on emerging markets (EM) such as India may not be as large as in the summer of 2013 as asset prices already having moved considerably, in particular, we think that US long-term rates are closer to what macro fundamentals would suggest, and some domestic adjustments being made, especially in reducing the current account deficit. We also expect the commodities outlook to remain benign, with our forecast of Brent at US$105/barrel for end-2014.

Thus, the global backdrop of stronger developed markets (DM) growth, policymakers on hold, and weaker commodity prices are generally positive for India, in our view.

Exhibit 1: Our main forecasts show a gradual recovery

Fiscal Year (% yoy)	FY13	FY14E	FY15E	FY16E	FY17E	FY18E
GDP	5.0	4.3	5.5	6.5	6.7	7.0
Agriculture	1.9	4.5	3.1	3.0	3.0	3.0
Industry	1.2	1.2	4.5	6.6	6.8	7.3
Services	6.8	5.1	6.3	7.2	7.3	7.7
Nominal GDP	11.7	11.2	12.7	13.7	13.2	13.4
WPI Inflation	7.4	6.5	6.3	6.0	5.5	5.3
CPI Inflation	10.2	9.7	8.3	7.5	7.0	6.5
Current Account Balance (% of GDP	-4.8	-2.7	-2.6	-2.7	-2.9	-3.0
Fiscal Deficit (% of GDP)	4.9	5.4	5.1	4.8	4.3	4.0
Calendar Year	**2012**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**
Repo Rate (%)	8.00	7.75	8.50	8.00	7.50	7.50
FX (USD/INR, EOP)	54.8	64	65	67	69	71
World GDP (% yoy)	3.1	2.8	3.6	4.0	4.1	4.1
Brent (US$/bbl, EOP)	110	110	105	100	100	100

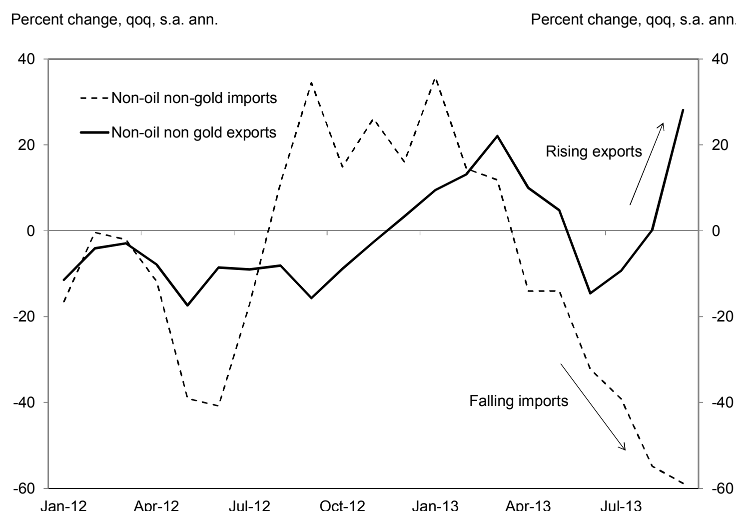
**Our forecasts in this table were first published last week, see Asia Economics Analyst: 13/43 - Diverging fortunes—the emerging Asia outlook for 2014, November 21, 2013.*

Source: CEIC, Goldman Sachs Global Investment Research.

Growth—a gradual recovery

We expect GDP growth to pick up gradually to 5.5% in FY15, a tad higher than our earlier forecast of 5.4%, from a decadal low of 4.3% in FY14. The improvement is to be driven by better exports and an improvement in investment spending. Exports are already showing an uptick (Exhibit 2), and our forecast of a pickup in global growth will further support exports. Moreover, the recent INR depreciation will also help.

Exhibit 2: Export growth has picked up in recent months



Source: Haver, Goldman Sachs Global Investment Research.

We think investment spending will likely pick up from a very low base due to the removal of election uncertainty, and policy moves to de-bottleneck projects. Upcoming elections may have delayed investment decisions by firms as they await the policies of the new government. In both the previous election years of 2004 and 2009, industrial activity improved significantly in the six months following elections compared to the six months prior to the elections.

Further, attempts by the government to remove bottlenecks for projects through 2013, will help in 2014. Although slower than expected, the Cabinet Committee on Investment has cleared 103 projects amounting to US$57bn, which we expect will progressively come on-stream beginning in 2014, and should contribute to a recovery in investment activity for the next few years.

Exhibit 3: Projects cleared in 2013 can come on stream in 2014

The progress report of the Cabinet Committee on Investment (CCI) in last one year

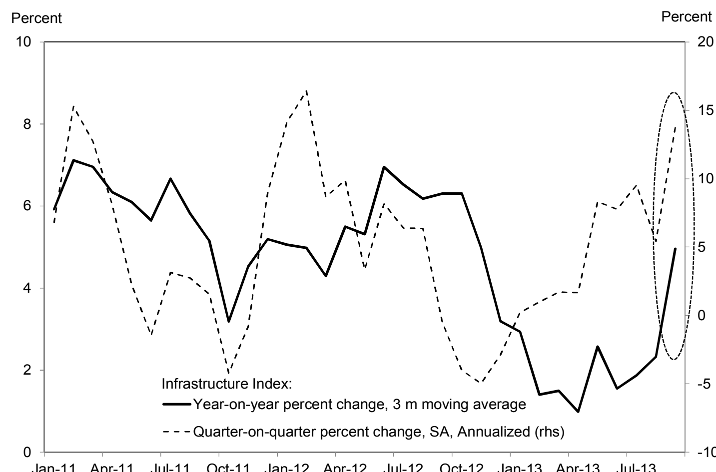
US$ billion	Projects accepted for consideration	Projects fully cleared
Power	129	51.1
Steel	58	0.2
Oil & Gas	39	0.2
Mines	6	1.1
Roads & Highways	6	0.5
Coal	5	0.4
Others*	25	3.3
Total	**267**	**57**
As % of GDP	**14.6**	**3.1**

** Others include railways, shipping, civil aviation & other industrial activities. As of September 11, 2013.*

Source: Cabinet Secretariat, Goldman Sachs Global Investment Research.

Indeed, the infrastructure sector is already showing an uptick driven by eight core sectors such as coal, steel, and electricity (Exhibit 4). Order inflows for industrial companies have also turned positive from the June quarter, after several quarters of negative growth.

Exhibit 4: An uptick in infrastructure growth in recent months



Source: Haver, Goldman Sachs Global Investment Research.

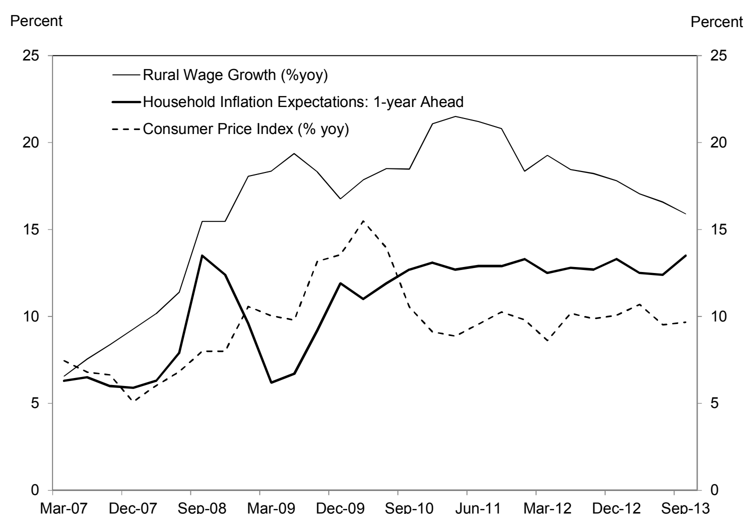
We expect consumption demand to be driven primarily by rural demand, due to a better monsoon and significant rural spending by the government. In contrast, urban demand is likely to remain tepid due to a weak employment outlook. We also expect some fiscal consolidation by the new government in FY15, given the elevated level of the deficit and some improvement in revenues due to the gradual pickup in activity.

While we expect a gradual recovery, our FY15 GDP forecasts remain a touch below consensus expectations compiled by Consensus Economics, and still below potential growth, which we estimate at 6%. Balance sheets of corporates and banks have been negatively impacted by the economic slowdown, sharp increase in rates, and INR depreciation. Corporate leverage, as measured by net debt to equity is the highest in Asia. Stressed assets (NPLs plus restructured assets) for the banking system as of the first quarter of FY14 stood at 10% of outstanding loans, the highest since FY02. For FY14, our Banking Research team estimates stressed assets to increase 25% yoy for its coverage. The need to heal balance sheets suggests to us that rapid expansion will be difficult.

Inflation—still elevated and highly persistent

Our forecasts of FY15 WPI inflation at 6.3% (compared to 5.8% previously) and FY15 CPI at 8.3% are significantly above consensus expectations of 5.7% and 7.6% respectively. We think that inflation will remain elevated in FY15, after a year in which it has already been high. Rural wage growth still remains high at nearly 16%, despite easing somewhat in recent quarters. Inflation expectations have continued to increase, with 1-year ahead expectations at 13.5% (Exhibit 5). Services inflation remains high and widespread, and pricing power of firms in the service sector remains high. A large number of inflation measures suggest elevated inflationary pressures (see *EM Macro Daily* – India: What are the different measures of inflation saying?, November 7, 2013). Our analysis of household inflation expectations suggest that they are adaptive (or backward looking) in nature. Therefore, it may require a period of significant decreases in CPI inflation for household inflation expectations to moderate.

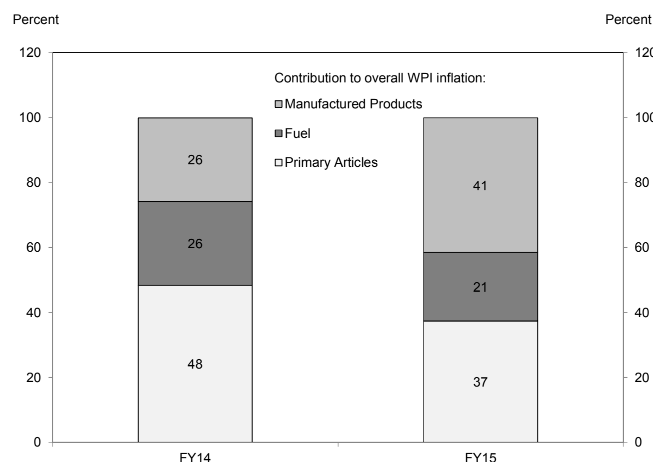
Exhibit 5: Inflation and inflationary expectations are still high



Source: RBI, CEIC, Goldman Sachs Global Investment Research.

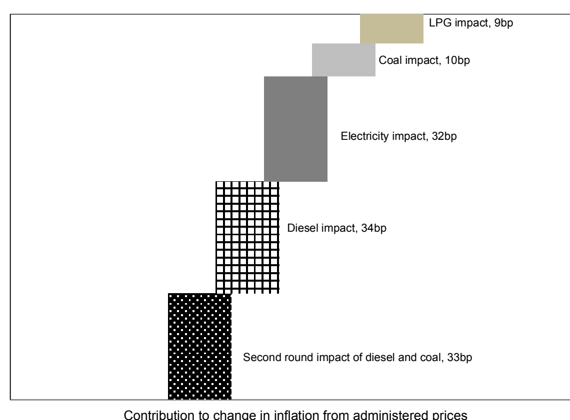
We expect some moderation in food and fuel prices in FY15 due to our expectation of weak commodity prices and a gradual attenuation in food prices from very high levels. In 2013, while the summer rains were good in aggregate, the uneven spatial and temporal distribution caused some damage to crops—vegetables in particular, leading to a surge in their prices. Going forward, we expect some normalization in food prices, absent any weather-related shocks. The winter crop is expected to be good due to adequate ground moisture levels. However, we think that manufactured prices have likely bottomed, given that we expect activity to gradually pick up through the course of 2014 (Exhibit 6). In addition, increases in administered prices of diesel, coal, and electricity may continue to impart inflationary pressures (Exhibit 7).

Exhibit 6: Manufactured products may be a bigger contributor of inflation in FY15



Source: CEIC, Goldman Sachs Global Investment Research.

Exhibit 7: Increases in administered prices to impart inflationary pressure



Source: CEIC, Goldman Sachs Global Investment Research.

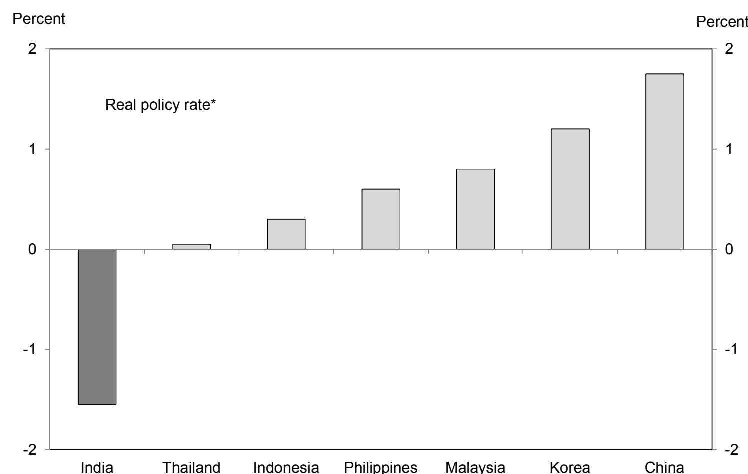
The RBI to remain in tightening mode

We continue to expect the RBI to remain in tightening mode given inflationary pressure. The central bank is increasingly using the new CPI for policy purposes, and has communicated this through its policy statement on October 29. We think the RBI is in a period of transition in terms of its inflation measures until early 2014, when a committee created to address the issue of the appropriate measure of inflation is due to submit its report. At the moment, we think it is looking at both the WPI and CPI in framing policy. Eventually, we think it will move to some measure of CPI (headline or core) as an inflation target, something that we have long advocated (see *Global Economics Paper*: No: 216 - India needs a formal Inflation Target, October 15, 2012).

The RBI is clearly concerned about high inflationary pressures. It emphasized that CPI inflation remained high, and that core CPI was too high for comfort. It also said that second-round effects from already high food and fuel inflation could put upside pressures on prices for other commodities and services. Real policy rates in India remain negative, and significantly lower than in the rest of the region (Exhibit 8). Governor Rajan has indicated that he would like to achieve positive real rates, to incentivize households to shift savings to the financial sector. We therefore think the RBI may need to continue to hike the policy repo rate to move to positive real rates. We forecast the repo at an above-consensus 8.5% by end-June 2014.

That said, the RBI's policy action on October 29 was not as hawkish as expected (see India: Reserve Bank of India raises repo, cuts MSF in line with expectations, October 29, 2013). Moreover, in the post-policy conference call with analysts, the Governor mentioned that the RBI was not in rate hiking mode, and would instead prefer to see incoming data. He also said that if the RBI tightens significantly now, it may over-tighten given the lags in monetary transmission. This suggests to us that the RBI will likely not hike at its December policy meeting. In 2014, however, we expect that higher-than-expected prints in the CPI and WPI can keep pressure on the RBI to continue raising rates. The central bank will also need to move gradually from the Marginal Standing Facility rate to the repo rate as liquidity conditions ease. We expect this to happen in the first half of 2014.

Exhibit 8: Real policy rates in India remain negative



Source: CEIC, Consensus Economics, Goldman Sachs Global Investment Research.

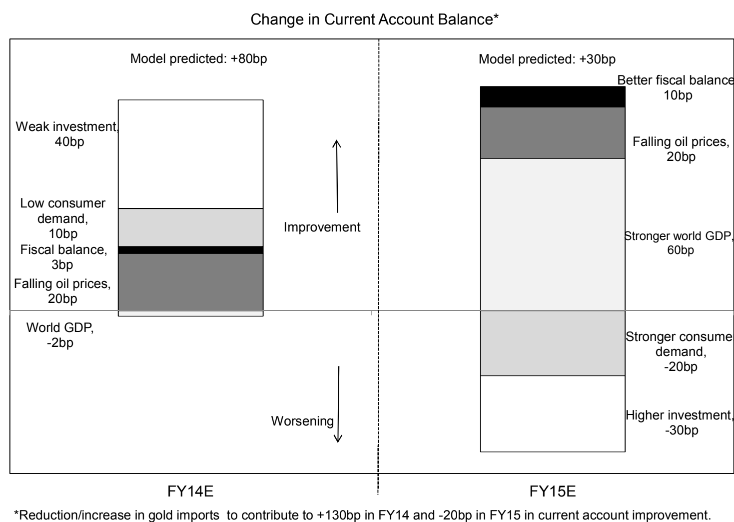
As real rates turn positive, due to an increase in nominal rates, and some decrease in headline inflation, we expect that the RBI may start easing policy from the second half of 2015 onwards.

Current account—a remarkable turnaround

We expect the current account deficit to shrink from a historic high of 4.8% of GDP in FY13 to 2.7% of GDP in FY14. India's large current account deficit was one of the key vulnerabilities which precipitated a large outflow of capital and sharp INR depreciation in 2013. While, we were expecting the current account deficit to improve (see *Asia Economics Analyst*: 13/20 - India: What next for the INR and the current account? June 14, 2013) due to better exports and weak domestic demand, the shrinking has been even larger than expected. While weak domestic demand and a pickup in exports helped, it was the sharp reduction in gold imports (from US$27bn in April to October of FY13 to US$21bn over the same period in FY14) that have been a key driver of the improvement. This is partly due to the restrictions on gold imports imposed by the government and RBI, as well as gold prices remaining weak. A sharp fall in the volume of oil imports after domestic administered prices were raised, also contributed to the improvement.

In FY15, we expect the improvement in the current account deficit to be maintained. Our current account deficit model suggests that better global demand, stable oil prices, and a reduction in the fiscal deficit balance out better consumption and investment demand. We assume that gold imports may pick up a tad as restrictions are relaxed. However, we don't see a large pickup in gold demand, especially as our Commodities Research team forecasts gold prices to fall further in 2014 from US$1300/troy ounce to US$1050/troy ounce. Overall, we see a small further improvement in the current account deficit in FY15.

Exhibit 9: The drivers of improvement in the current account balance



Source: CEIC, Goldman Sachs Global Investment Research.

We estimate India's sustainable current account deficit at 2.5% of GDP, the level that keeps external debt stable (see *EM Macro Daily* - How big an adjustment for current account deficit countries?, October 3, 2013). Our forecasts suggest that the actual current account deficit may come quite close to sustainable levels.

With a shrinking of the current account deficit, the outlook for the overall balance of payments also looks more improved, even with conservative assumptions on capital inflows. Only a small improvement in FDI flows, portfolio flows remaining constant, and overseas borrowings picking up a tad are enough to have a significant surplus in the balance of payments. The recent RBI action to boost reserves through FX swaps, and the swap facilities agreed with Japan, as well as the BRICs contingency fund, all act as a buffer against a reversal in capital flows.

Exhibit 10: The current account deficit seems adequately financed in FY14 and FY15

US$ billion	2011/12	2012/13	2013/14F	2014/15F
Current account				
Merchandise exports	310	304	326	348
Merchandise imports	500	500	478	513
Service exports	141	145	148	159
Service imports	77	81	82	85
Income and transfer	47	43	38	40
Current account balance	-78	-90	-49	-51
As a share of GDP (%)	**-4.2**	**-4.9**	**-2.7**	**-2.6**
Capital account				
Foreign direct investment	22	21	22	24
Portfolio investment	17	27	15	15
Loans - all	19	31	24	25
Others*	9	13	5	0
Capital account balance	68	92	66	64
As a share of GDP (%)	**3.6**	**5.0**	**3.6**	**3.3**
Basic balance of payments**	-39.0	-42.2	-12.0	-12.1
As a share of GDP (%)	-2.1	-2.3	-0.7	-0.6
Overall balance (US$ bn)	**-12.8**	**3.8**	**16.6**	**12.9**

**Others include banking capital, rupee debt service and others.*
***BBOP = Current account balance + FDI + FII*

Source: CEIC, Goldman Sachs Global Investment Research.

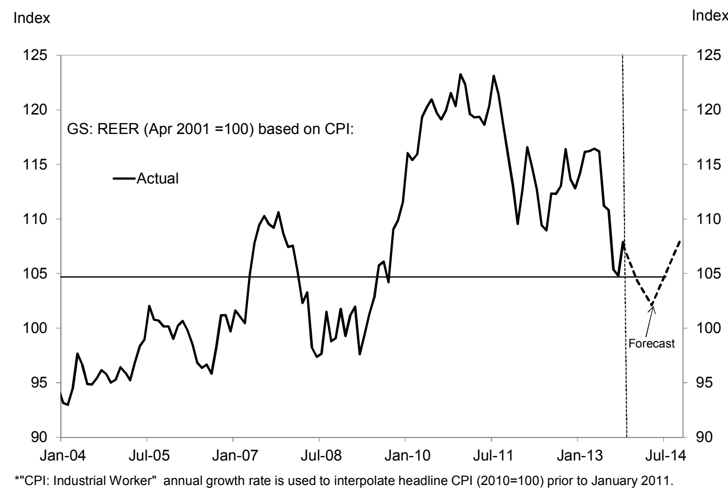
INR—more depreciation, but gradual

While we think that higher inflation compared to trading partners may keep the INR on a structurally depreciating path, an improving balance of payments may limit the extent of depreciation in the near term. If we look at the INR in CPI REER terms, then it does not seem to be significantly over or undervalued (Exhibit 11). It did look overvalued in early May, from a CPI perspective, but the recent correction may have reduced the extent of overvaluation. Inflation differentials with partners may continue to put pressure for nominal depreciation. There are two additional sources of depreciation pressure—Fed taper and putting oil companies' demand for FX back in the market.

Against these are an improving balance of payments picture, significant carry costs and RBI's aversion to a sharp depreciation. Any downside surprise to commodity prices can also help. Further, the tail risk has certainly diminished for the INR as the RBI has been able to recuperate some reserves through its FX swaps and enter into swap arrangements with other central banks.

On balance, we expect a gradual depreciation in the INR. Our 3-, 6- and 12-month USD/INR targets are now at 64, 65 and 65 respectively, compared to our earlier forecasts of 70, 72, and 70.

Exhibit 11: The CPI REER is close to its historical average



Source: CEIC, Goldman Sachs Global Investment Research.

Reforms—more misses than hits

While structural reforms looked promising at the start of 2013 (see *EM Macro Daily* - India's reforms: Moving up a gear, December 4, 2012), the implementation remained patchy through the course of the year.

- The Cabinet Committee on Investment managed to completely clear only a few projects, as they were stuck in various ministries and at the state-level.
- The Food Security Bill was passed, guaranteeing subsidized food to two-thirds of the population, and in our view, putting significant upward pressures on the fiscal deficit.
- Forward movement on the Goods and Services Tax, or on the unique ID program was slower than expected. The land bill that was passed added additional layers of clearances, which may not expedite the acquisition of land to a pace we expected.
- The pace of reforms in the power sector was especially slow compared to expectations. While Coal India signed fuel supply arrangements with power producers, there were still problems with the availability of coal and appropriate policies to pass-through higher input prices to consumers.
- However, there was some movement on awarding contracts for the freight corridor, financial restructuring of power distribution companies made some progress, the Pension Reform Bill was passed by Parliament, and diesel prices continued to be raised to reduce the quantum of fuel subsidy.

Short-term measures taken by the new RBI Governor Rajan as well as the government in response to the rapid INR depreciation were more impactful. These included measures to restrict gold imports to reduce the current account deficit, encourage greater FX inflows, through FX swap arrangements, financial market reforms to incentivize financial savings, and to open the banking sector to greater competition (Exhibit 12).

Exhibit 12: Authorities have taken several measures to deal with market pressures

Measures taken by government/RBI	Implications
Measures to improve the current account	
Banned gold coin/bullion imports	Gold imports fell from US$16bn in June to US$4bn in September 2013
Hiked import duty on gold, silver and platinum to 10%	
Sale of gold by importers to jewelers/bullion traders/banks only on upfront cash payment	
Measures to boost capital inflows	
Swap facility on non-resident deposits and bank borrowings	US$25bn of capital inflows so far
Swap agreement with Japan of US$50bn; formation of US$100bn BRICS currency reserve funds	Boost confidence in FX reserves
FX swap window for oil marketing companies	Reduced daily USD demand in the FX markets
Financial markets reform measures	
Cash settled 10-year interest rate future contracts by end-2013	To hedge bond portfolio
Introduce CPI-linked savings certificates to retail investors by end-2013	Incentivize financial savings
Banking sector reform measures	
Domestic banks can expand branches freely across country	To reduce red-tape
Foreign banks allowed to expand branches if they set up wholly-owned subsidiaries, greater flexibility in M&A	More competition in sector
New bank licenses by early 2014	More competition in sector

Source: RBI, Goldman Sachs Global Investment Research.

Risks

We see risks on both sides to our forecasts. On the positive side, a sharp jump in investment demand after elections due to removal of uncertainty and/or a bigger fall in inflation reducing the need for RBI tightening, could boost growth. On the negative side, an unclear verdict in the elections which prolongs investment uncertainty, persistent inflationary pressures, and a repeat of 2013 driven by capital outflows and a considerably weaker INR, could push back the economic recovery. On balance, while we think the risks are slightly tilted towards the downside, there is considerably more hope for 2014 than 2013.

Tushar Poddar, Vishal Vaibhaw

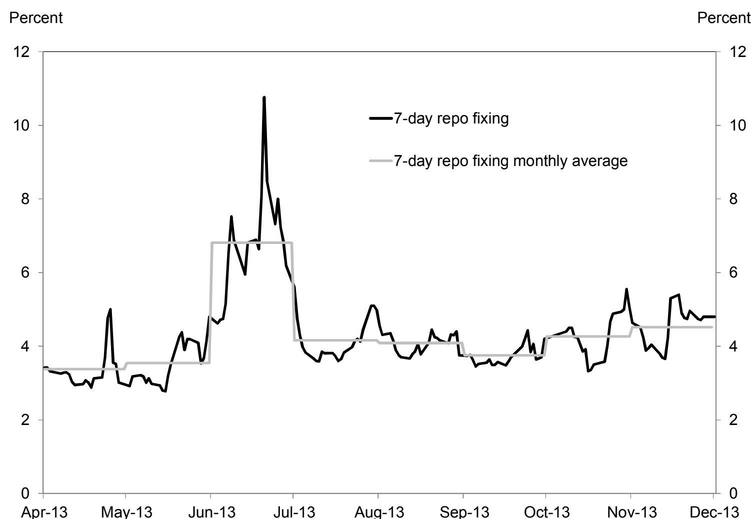
Regional recap: Mixed data on growth and inflation, BOT cut rate unexpectedly

Over the past week, Asian economies reported slightly softer data on growth and marginally higher inflation. The Bank of Thailand delivered an unexpected rate cut.

China's HSBC/Markit PMI flash reading was a touch weaker than that in October and below market expectations. Most indices showed signs of a cyclical slowdown, with the export orders index particularly weak. On the other hand, the production index inched up. We view the reading as an indication of moderating activity growth, but the final reading of the HSBC/Markit PMI as well as the official PMI (to be released on December 1) could change this view. The production index is quite helpful as a gauge of activity growth (compared with most other sub-indexes in the PMI survey) but can be a slightly lagging indicator—the difference between the flash and final readings of the HSBC/Markit PMI actually tends to be more correlated with current-month activity growth than the flash reading itself (see *EM Macro Daily* - Three more things to note on China's PMIs, September 18, 2013).

Meanwhile, the interbank interest rate has remained largely steady at an elevated level over the past week. The most frequently used 7-day repo rate has been at a high 4% - low 5% range. We view this trajectory as partially seasonal as we are getting close to the end of the month which typically sees stronger liquidity demand (see Exhibit 1). Also, the relatively high rate recently needs to be viewed in light of the relatively low level saw earlier in the month: the 7-day repo was as low as 3.5% on November 12 when the Third Plenum was being held, so the monthly average is still likely to be largely stable in the low-mid 4% range.

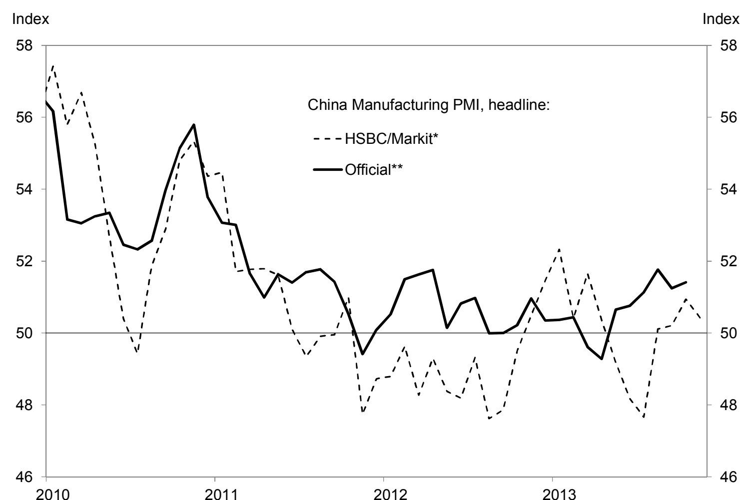
Exhibit 1: The 7-day repo rate tends to be low at the start of the month and high towards the end of the month



Note: Monthly average for November assumes stable rate in the rest of the month.

Source: CEIC.

Exhibit 2: The flash reading of the HSBC/Markit PMI moderated in November but its reading often diverges from IP and the official PMI



* Showing flash PMI with November reading.

** Re seasonally adjusted using X-12.

Source: Haver.

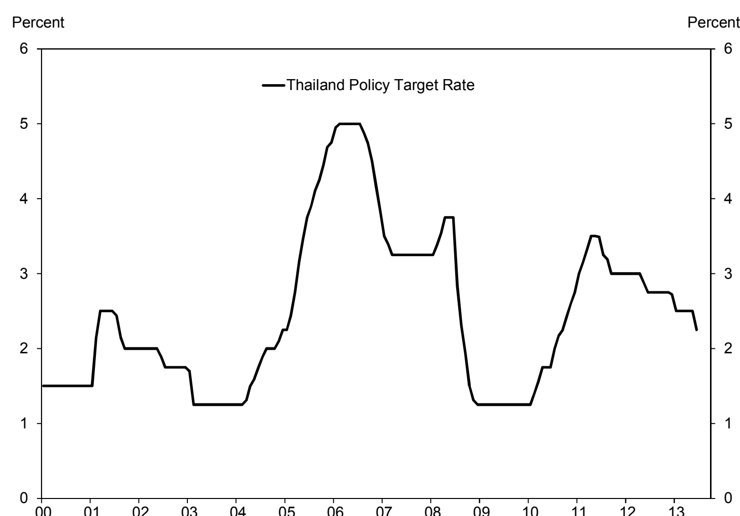
Korea's total headline exports for the first 20 days of November rose 2.5% yoy from 2.7% yoy for the first 20 days of October. The momentum weakened, however, with daily exports rising 2.5% yoy from 11.3% yoy in October and falling 5.2% mom from a rise of 2.3% mom in October. Total headline imports for the first 20 days rose 5.9% yoy in November from up 1.9% yoy in October, as an early sign of domestic demand recovery. The trade balance deteriorated with a deficit of US$0.7bn during the first 20 days of November from a surplus of US$0.2bn in October.

Taiwan's Industrial Production Index (IP) expanded by 0.8% yoy in October, below Bloomberg consensus expectations of 1% yoy. September IP growth was revised by 50bp to 0.6% yoy from 1.1% yoy. In year-over-year terms the improvement was broad-based with production expanding in the consumer, producer and investment good segments. Sequentially too there was some improvement over the previous month with both the consumption and investment goods segments expanding in seasonally adjusted terms.

Malaysia reported October CPI inflation data which rose to 2.8% yoy from 2.6% yoy in September. The rise was driven mostly by a rise in transport costs. Another factor that drove headline inflation for this month was alcohol and tobacco due to the excise duty hike of 14% in late September. Our forecast for average CPI in 2014 is for an increase to 2.8% from 2.3% in 2013. This is at the higher end of the government's forecast of between 2-3% for average CPI in 2014.

Last but not least, the Bank of **Thailand** announced a 25bp reduction in its policy rate to 2.25%. This was a surprise decision with all of Bloomberg consensus, including us, forecasting rates to remain steady. The Monetary Policy Committee voted 6 to 1 for a 25bp cut, with one member voting for an unchanged stance. The policy statement cited lower-than-expected growth data recently and risks to domestic growth outlook from rising political uncertainty. We had expressed concerns that the uncertain political situation, which had deteriorated in recent days with the occupation of government ministry buildings by protestors, could mean delays to government spending and infrastructure investment plans (see *Asia Economics Analyst*: 13/43 - Diverging fortunes—the emerging Asia outlook for 2014, November 21, 2013). This led us to downgrade our growth outlook for Thailand next year, currently expecting 2014 GDP growth at 4.2% versus consensus of 4.4%. In additional comments from the central bank, the BOT also reduced its growth forecasts for next year, now expecting growth at "around 4%" down from the 4.8% it projected last month. We had recently pushed back our forecast of the first rate hike by the BOT to Q4 2014 from mid next year previously. Our expectation is for the BOT to keep rates on hold from here. The political situation remains fluid, however, and further deterioration on this front could see the central bank adopt a continued dovish stance to offset the additional downside risks to domestic growth.

Exhibit 3: Thailand policy target rate



Source: BOT, Haver.

Yu Song

Asia ex-Japan Economics Calendar

India real GDP (Nov 29): GDP growth is likely to improve in the September quarter, in part driven by relatively better industrial sector growth (Q3 2013: 1.7% yoy, Q2 2013: -1.0% yoy). We expect services sector growth to remain tepid at 5.6% yoy, due to sluggish consumption demand. Agriculture sector growth may also show an uptick.

Korea exports (Dec 1): We expect November exports to rise 3% yoy, from an increase of 7.2% yoy in October. High frequency data suggests that daily exports weakened in November, although it remained positive.

China manufacturing PMI (Dec 1): We expect China's official PMI to moderate slightly to 51.2. Unlike some other months, its November data showed no clear seasonal bias in the past. We believe the underlying sequential growth momentum probably has moderated after four months of strong recovery amid strong exports growth and inventory restocking.

Date Time (HKT)	Country	Indicator/Event	Period	GS Forecast	Bloomberg Consensus	Previous
Fri Nov 29						
7:00	**Korea**	**Industrial Production**	Oct	+1.5% yoy	+0.9% yoy	-3.6% yoy
15:30	Thailand	Foreign Reserves	22-Nov			US$169.8bn
15:30	Thailand	Current Account Balance	Oct			-US$534mn
17:00	Taiwan	Real GDP (Final)	Q3		+1.6% yoy	+1.6% yoy
20:00	**India**	**Real GDP**	Q3	+4.6% yoy	+4.6% yoy	+4.4% yoy
Sun Dec 1						
8:00	**Korea**	**Exports**	Nov	+3.0% yoy	+3.0% yoy	+7.2% yoy
8:00	**Korea**	**Imports**	Nov		+4.4% yoy	+5.1% yoy
8:00	**Korea**	**Trade Balance**	Nov		US$4.5bn	US$4.9bn
9:00	**China**	**Manufacturing PMI**	Nov	51.2	51.1	51.4

Source: Bloomberg, Goldman Sachs Global Investment Research.

Asia ex-Japan Economics Calendar (continued)

Date Time (HKT)	Country	Indicator/Event	Period	GS Forecast	Bloomberg Consensus	Previous
Mon Dec 2						
7:00	**Korea**	**CPI**	Nov	+1.0% yoy	+1.0% yoy	+0.7% yoy
9:45	**China**	**HSBC/Markit Manufacturing PMI**	Nov		50.5	50.9
12:00	Indonesia	CPI	Nov			+8.3% yoy
12:00	Indonesia	Exports	Oct			-6.9% yoy
12:00	Indonesia	Imports	Oct			+0.8% yoy
12:00	Indonesia	Trade Balance	Oct			-US$700mn
#	Thailand	CPI	Nov			+1.5% yoy
Tue Dec 3						
*	Indonesia	Foreign Reserves	Nov			US$97bn
Thu Dec 5						
7:00	Korea	Real GDP (Final)	Q3			+3.3% yoy
8:30	Taiwan	CPI	Nov		+1.0% yoy	+0.6% yoy
9:00	Philippines	CPI	Nov			+2.9% yoy
16:20	Taiwan	Foreign Reserves	Nov			US$415.6bn
Fri Dec 6						
12:00	Malaysia	Exports	Oct			+5.6% yoy
12:00	Malaysia	Imports	Oct			+2.8% yoy
12:00	Malaysia	Trade Balance	Oct			RM8.7bn
15:30	Thailand	Foreign Reserves	29-Nov			
#	Philippines	Foreign Reserves	Nov			US$83.6bn

Release time uncertain, time shown (if any) is the approximate typical release time.
* Release date uncertain, date shown is the first possible day of release:
Indonesia foreign reserves (Dec 3-9)

Source: Bloomberg, Goldman Sachs Global Investment Research.

Forecast Tables

Real GDP Growth (year-over-year)

	2012	2013		2014		Potential Growth*
		GS	*Consensus*	GS	*Consensus*	
Asia ex-Japan	6.3	*6.0*	*6.0*	*6.4*	*6.3*	
China	7.7	7.7	*7.6*	7.8	*7.5*	7.7
India	5.0**	4.3**	*4.6***	5.5**	*5.6***	6.0
South Korea	2.0	2.9	*2.7*	3.7	*3.5*	3.8
Hong Kong	1.5	3.2	*3.0*	3.7	*3.6*	4.0
Taiwan	1.3	2.4	*2.1*	3.8	*3.4*	3.7
ASEAN	5.7	4.9	*4.9*	5.0	*5.1*	
Singapore	1.3	3.2	*3.2*	3.8	*3.7*	4.0
Malaysia	5.6	4.7	*4.4*	5.0	*5.1*	5.0
Thailand	6.5	3.4	*3.4*	4.2	*4.4*	4.5
Indonesia	6.2	5.6	*5.6*	5.3	*5.6*	6.0
Philippines	6.8	7.0	*7.0*	6.3	*6.3*	6.0
USA	2.8	1.7	*1.7*	2.9	*2.6*	2.5
Euro area	-0.6	-0.4	*-0.4*	1.1	*0.9*	1.1
Japan	2.0	1.8	*1.9*	1.6	*1.6*	0.8

*GS estimates for annualized growth rate of potential output from 2013-16

**Fiscal year basis, 2013 is India FY14 (Q2 2013-Q1 2014).

Source: Consensus Economics, Goldman Sachs Global Investment Research.

Consumer Prices (year-over-year)

	2012	2013		2014		Inflation Target/Range
		GS	*Consensus*	GS	*Consensus*	
Asia ex-Japan	3.4	*3.6*	*3.1*	*3.8*	*3.7*	
China	2.7	2.6	*2.4*	3.1	*3.1*	3.5
India	7.4*	6.5*	*6.1**	6.3*	*5.7**	5.0*
South Korea	2.2	1.2	*2.4*	2.4	*2.4*	2.5-3.5
Hong Kong	4.1	4.0	*2.4*	3.3	*3.7*	-
Taiwan	1.9	0.8	*2.4*	1.4	*1.7*	-
ASEAN	3.5	4.8	*2.4*	4.5	*4.2*	
Singapore	4.6	3.0	*2.4*	3.3	*2.9*	-
Malaysia	1.7	2.3	*2.4*	2.8	*2.8*	-
Thailand	3.0	2.5	*2.4*	2.8	*2.7*	0.5-3.0 **
Indonesia	4.3	8.2	*2.4*	6.8	*6.3*	3.5-5.5
Philippines	3.2	3.2	*2.4*	3.8	*3.7*	3.0-5.0
USA	2.1	1.5	*1.5*	1.7	*1.8*	2.0
Euro area	2.5	1.4	*1.4*	1.1	*1.3*	2.0***
Japan	0.0	0.2	*0.2*	2.3	*2.3*	2.0

*WPI for India on fiscal year basis, 2013 is India FY14 (Q2 2013-Q1 2014); inflation objective rather than target

**Core inflation target

***ECB aims to maintain inflation rates "below, but close to, 2% over the medium term"

Source: Consensus Economics, Goldman Sachs Global Investment Research.

Forecast Tables (continued)

Policy Interest Rates (percent)

	Current	2013				2014			
	Nov 28	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Asia ex-Japan									
China	4.80	3.05	6.64	3.80	4.00	4.00	4.00	4.25	4.25
India	7.75	7.50	7.25	7.50	7.75	8.00	8.25	8.50	8.50
South Korea	2.50	2.75	2.50	2.50	2.50	2.50	2.50	2.75	3.00
Hong Kong	-	-	-	-	-	-	-	-	-
Taiwan	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.0	2.0
ASEAN									
Singapore	-	-	-	-	-	-	-	-	-
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.50
Thailand	2.25	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.50
Indonesia	7.50	5.75	6.00	7.25	7.50	7.75	7.75	7.75	7.75
Philippines	3.50	3.50	3.50	3.50	3.50	3.50	3.75	4.00	4.00
USA	0.07	0.14	0.09	0.08	0.13	0.13	0.13	0.13	0.13
Euro area	0.25	0.75	0.50	0.50	0.25	0.25	0.25	0.25	0.25
Japan	0.08	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10

Policy interest rates: China: 7-day repo, India: repo rate; Korea: 7-day repo; Malaysia: overnight policy rate;
Thailand: 1-day repo, Philippines: repo rate, Indonesia: 1-month SBI rate, Taiwan: rediscount rate; USA: Fed funds effective rate;
Euro Area: Main refinancing operations: fixed rate; Japan: Overnight call rate.

Source: Goldman Sachs Global Investment Research.

Exchange Rates (local currency units per USD)

	Current	3-Month Horizon		6-Month Horizon		12-Month Horizon	
	Nov 28	*Forward*	Forecast	*Forward*	Forecast	*Forward*	Forecast
Asia ex-Japan							
China	6.14	*6.13*	6.12	*6.14*	6.10	*6.15*	6.05
India	62.54	*64.26*	64.00	*65.78*	65.00	*68.34*	65.00
South Korea	1061	*1068*	1080	*1073*	1080	*1080*	1100
Hong Kong	7.8	*7.8*	7.8	*7.8*	7.8	*7.8*	7.8
Taiwan	29.6	*29.4*	29.8	*29.4*	29.5	*29.2*	29.0
ASEAN							
Singapore	1.25	*1.25*	1.20	*1.25*	1.18	*1.25*	1.15
Malaysia	3.21	*3.23*	3.18	*3.24*	3.17	*3.27*	3.15
Thailand	31.8	*32.1*	32.5	*32.3*	32.3	*32.6*	32.0
Indonesia	11482	*11795*	12000	*12045*	11900	*12535*	11800
Philippines	43.8	*43.6*	42.3	*43.5*	41.2	*43.5*	40.0
Euro area*	1.36	*1.36*	1.38	*1.36*	1.40	*1.36*	1.40
Japan	101.3	*101.3*	98.0	*101.2*	103.0	*101.0*	107.0

* USD per Euro

Source: Goldman Sachs Global Investment Research.

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