India Macroscope

2013 – Will This Be a Lucky or Unlucky 13?

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

With thanks to
Abha Agarwal

- **2013 is a Crucial Year** — Key issues (1) Economically – will the economy respond to recent reform measures; and (2) Politically – will the government be able to pass legislation given its minority status; will a pre-election year take its toll on the fiscal?
- **There are Plenty of Shifting Dynamics** — (1) The macro should improve at the margin; (2) Politics will tend to be more dominant but could swing either way; (3) Policy execution would play a key role in economic outcomes; (4) The global influence will remain on the currency - risk appetite and oil prices are key.
- **We Think the Worst is Over** — We expect some traction on investments and fiscal measures – cash transfers and tax reforms. That apart, our estimates remain the same: (1) GDP growth at 5.4% in FY13E and 6.2% in FY14E. (2) WPI averaging ~7% and repo rates to be eased 75bps to 7.25% by FY14E. (3) Deficits will likely remain elevated – centre's fiscal deficit at 5.9% in FY13E and 5.5% in FY14E; Current account at 3.7% in FY13E and 2.8% in FY14E. This presumes a soft global environment – lower oil prices and global growth at 2.6%.
- **But There are Risks** — There will be risks both domestically and globally. On the domestic front – continued policy paralysis, no fiscal correction and further rise in stressed assets – all of which could tilt the odds of a rating action. Global dynamics (US fiscal cliff; Euro Area uncertainty, Middle East geo-politics and China issues) will play its role as India's dependence on global capital and risk appetite remains high.
- **…and a Few Possible Positive Surprises** — The macro could get a boost through the National Investment Board and focus on roads and railways. Lower commodity prices could result in lower inflation - providing more leeway for monetary policy. Lastly, subsidy rationalization and tax reform could offset pre-election year fiscal slippages.

Figure 1. India – Macro Snapshot (%)

Year -end 31 March	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Real GDP growth (%)	9.6	9.3	6.7	8.4	8.4	6.5	5.4	6.2
Agriculture growth (%)	4.2	5.8	0.1	1.0	7.0	2.8	0.5	3.0
Industry growth (%)	12.2	9.7	4.4	8.4	7.2	3.4	3.2	4.4
Services growth (%)	10.1	10.3	10.0	10.5	9.3	8.9	7.5	7.8
Fiscal Deficit (Centre+States)	-5.4	-4.1	-8.4	-9.7	-8.3	-8.4	-8.4	-8.0
Current Account Deficit	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-3.7	-2.8
WPI (Average)	6.5	4.8	8.0	3.6	9.6	8.8	7.5-8	7.0
USD/INR (Average)	45.2	40.2	46.0	47.4	45.6	48.1	54.0	53.5

Source: CSO, Budget Documents, RBI, Citi Research

Contents

Statistical Snapshot

Figure 2. India – Macroeconomic Summary, FY01-14E (%)

Calendar Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Fiscal Year to 31 March	**FY01**	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13E**	**FY14E**
National Income Indicators*														
Nominal GDP (Rs bn)	21,840	23,676	25,500	28,617	32,422	36,934	42,947	49,871	56,301	64,574	76,741	88,558	101,399	116,609
Nominal GDP (US$ bn)	478	493	528	623.5	720.5	833.7	950.2	1240.6	1223.9	1362.3	1683.7	1,841	1,844	2,159
Per Capita GDP (US$)	469	474	500	582	662	754	847	1,090	1,061	1,164	1,420	1,532	1,511	1,718
Real GDP growth (%)	4.3	5.5	4.0	8.1	7.0	9.5	9.6	9.3	6.7	8.4	8.4	6.5	5.4	6.2
Agriculture growth (%)	0.0	6.0	-6.6	9.0	0.2	5.1	4.2	5.8	0.1	1.0	7.0	2.8	0.5	3.0
Industry growth (%)	6.0	2.6	7.2	7.3	9.8	9.7	12.2	9.7	4.4	8.4	7.2	3.4	3.2	4.4
Services growth (%)	5.4	6.9	7.0	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.3	8.9	7.5	7.8
By Demand * (%YoY)														
Consumption	3.0	5.3	2.3	5.4	2.3	8.6	7.9	9.3	7.6	8.1	8.1	5.4	5.0	5.7
Pvt Consm	3.4	6.0	2.9	5.9	2.1	8.5	8.7	9.2	7.1	7.0	8.1	5.5	5.0	5.5
Public Consm	0.9	2.3	-0.4	2.6	3.4	8.9	3.8	9.6	10.4	14.3	7.8	5.1	5.0	7.0
Gross Fixed Capital Formn	-0.1	7.4	6.8	13.6	20.7	16.2	13.8	16.2	3.5	6.8	7.5	5.5	4.5	6.0
Cons; Invst, Savings ** (%GDP)														
Consumption	78.5	78.9	77.2	75.0	70.1	69.2	68.0	67.2	68.6	69.4	68.4	67.7	67.1	66.2
Gross Capital Formation	23.8	22.3	24.6	26.9	32.8	34.7	35.7	38.1	34.3	36.1	35.8	35.5	35.4	35.1
Gross Domestic Savings	23.2	22.9	25.7	29.1	32.4	33.4	34.6	36.8	32.0	33.8	32.3	32.0	31.8	31.5
Real Indicators (%YoY)														
Cement dispatches (domestic)	-1.9	9.8	8.7	5.8	8.1	10.1	10.2	9.8	8.5	11.2	5.2	7.0	8.0	9.0
Commercial vehicle sales	-11.9	-4.5	40.4	37.5	25.5	12.3	32.2	5.8	-22.3	39.2	27.0	19.5	1.2	12.9
Car sales	-5.3	3.2	5.3	32.1	19.2	7.4	19.7	11.7	7.0	25.7	29.3	3.9	2.9	22.0
Two-wheelers	0.7	15.3	15.8	12.6	16.8	15.0	12.1	-4.8	4.7	25.8	25.8	13.9	5.0	11.0
Diesel consumption	-3.4	-3.7	0.3	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	8.0	8.0	8.0
Mobile Tele density	0.3	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	80.0
Monetary Indicators (% YoY)														
Money supply	15.9	16.0	16.1	13.0	14.0	15.9	20.0	22.1	20.5	19.2	16.0	16.0	16.0	17.0
Inflation – WPI (Avg)	7.1	3.6	3.4	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	7.5-8	7.0
CPI (Avg)	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	8.0	7.0
Bank credit growth	17.3	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	17.0	17.0
Deposit growth	18.4	14.6	16.1	17.5	13.0	24.0	23.8	22.4	19.9	17.0	16.0	16.0	16.0	16.0
Fiscal Indicators (% GDP)														
Centre's fiscal deficit)	-5.4	-6.0	-5.7	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.9	-5.9	-5.9	-5.5
State fiscal deficit	-4.0	-4.0	-3.9	-4.2	-3.3	-2.4	-1.8	-1.5	-2.4	-2.9	-2.7	-2.5	-2.5	-2.5
Combined deficit (Centre+State)	-9.2	-9.6	-9.2	-8.2	-7.2	-6.5	-5.4	-4.1	-8.4	-9.7	-8.3	-8.4	-8.4	-8.0
Off Balance Sheet Items	-	-	-	-	-	-0.5	-0.9	-0.6	-1.7	-0.2	-	-	-	-
Combined liabilities (dom+ext)	77.1	82.0	85.5	85.4	85.2	83.0	79.3	76.1	76.1	75.0	71.3	70.5	69.2	69.2
External Sector (% YoY)														
Exports (US$bn)	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	291.2	314.5
% YoY	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-6.0	8.0
Imports (US$bn)	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	479.6	508.3
%YoY	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	-4.0	6.0
Trade deficit (US$bn)	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-188.4	-193.8
Invisibles (US$bn)	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	111.6	118.4	131.7
Current Account Deficit (US$bn)	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-69.9	-62.1
% to GDP	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-3.7	-2.8
Capital Account (US$bn)	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	51.6	62.0	67.8	71.6	65.6
% GDP	1.9	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.7	3.7	3.8	3.0
Forex Assets (excl gold) (US$bn)	39.6	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	260.9	262.5	266.0
Months of imports	8.2	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	6.3	6.6	6.3
External Debt (US$bn)	101.3	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	260.9	305.9	345.7	360.7	375.7
Short Term Debt (US$bn)	3.6	2.7	4.7	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	78.2	83.2	88.2
Exchange Rate														
US$/INR - annual avg	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	54.0	53.5
% depreciation	5.3	5.0	0.6	-5.0	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	12.3	-0.9

** At current prices.
Source: CSO, RBI, Ministry of Finance, Citi Research Estimates

Theme: Prospects for 2013

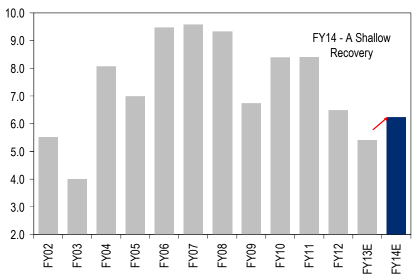
Base Case – Worst is behind Us

2012 was a year of two distinct halves, with the despair seen in 1H reversed to optimism following the slew of government measures post September. However, while the reform announcements have led to a revival in investor sentiment and "bought" India time to avoid a rating downgrade, implementation is critical.

2013 is thus a crucial year for the economy (1) Economically - will the economy respond to recent measures; and (2) Politically – will the govt be able to pass legislation given its minority status; will a pre-election year take its toll on the fisc?

Base Case Assumptions and Forecasts: Our base case assumes (1) A relatively benign global environment with growth at 2.6%; (2) Steps towards reversing the decline in investments (i.e progress towards setting up the National Investment Board); (3) Measures on the fisc in particular – a move towards cash transfers and a gradual implementation of tax reforms; (4) Stable/lower commodity prices; (5) Continuation of measures to attract capital flows; and (6) No early elections.

Figure 3. Trends in GDP (%)



Source: CSO: Citi Research

Figure 4. Macro Estimates under the Base Case

Year -end 31 March	FY12	FY13E	FY14E
Real GDP growth (%)	6.5	5.4	6.2
Fiscal Deficit (Centre)	-5.9	-5.9	-5.5
Current Account Deficit	-4.2	-3.7	-2.8
WPI (Average)	8.8	7.5-8	7.0
Repo Rates	8.5	7.5	7.25
USD/INR (Average)	48.1	54.0	53.5

Source: CSO; RBI: Budget Documents: Citi Research

Four Risks: Global; Politics; Housing; Ratings

1. Global Growth – US Fiscal Cliff; Euro Area Uncertainties; China

- Following a 2.5% growth in 2012, Citi's base case is for global growth of 2.6% in 2013E and 3.1% in 2014E. See Prospects for Economies and Financial Markets in 2013 and Beyond, dated Nov 26, 2012 for details. Evolving dynamics in 2013 include:

- **US Fiscal cliff:** Our US team says that the fiscal cliff is the key uncertainty in the forecasts which tends to dampen an otherwise improving cyclical backdrop. If unaddressed, large-scale income tax hikes and spending restraint set to be implemented threaten to drive GDP down by our estimates at a 2½% rate in the first half of next year. The current forecast factors in 1¼% of drag on 2013, led by the expiration of the payroll tax holiday and emergency jobless benefits, which together slash nearly US$150 billion from household disposable income.

- **Euro Area:** As regards the Euro Area, our team expects that incremental fiscal tightening, structural reforms, tight financial conditions and the ‘uncertainty overhang’ will continue to weigh strongly on domestic demand and keep the EA in recession until 2014. The forecasts factor in Italy and Spain to enter sovereign bail-out programmes in 2013. As regards Greece, Citi's base case is that Greece exits the euro area with a 60% probability in the next 12-18 months.

- **China:** Our team expects a mild re-bound of growth at 7.8% in 2013. Following the leadership change, the Central Economic Work Conference scheduled in mid-Dec is expected to keep the current macro policy mix, i.e., proactive fiscal policy and prudent monetary policy, to support a growth rebound.

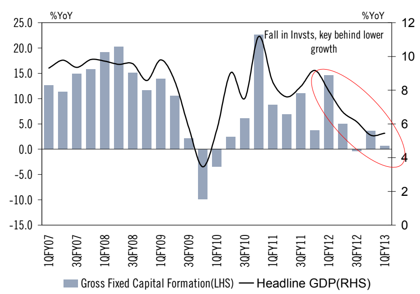
Figure 5. Citi's Global Growth Forecasts (%)

	2012F	2013F	2014F
Global	**2.5**	**2.6**	**3.1**
Based on PPP weights	3.0	3.2	3.7
Industrial Countries	**1.2**	**0.9**	**1.5**
United States	2.2	1.6	3.0
Japan	1.6	0.7	0.7
Euro Area	-0.4	-0.7	-0.4
Germany	0.9	0.5	0.3
United Kingdom	-0.1	0.8	1.0
Emerging Economies	**4.7**	**5.3**	**5.5**
China	7.7	7.8	7.3
India	**5.4**	**6.2**	**6.9**
Indonesia	6.2	6.1	6.3
Korea	2.3	3.4	4.0
Russia	3.6	3.2	3.8
Turkey	2.8	4.0	4.3
South Africa	2.2	2.5	3.4
Brazil	1.4	3.9	4.0
Mexico	3.9	3.6	3.8

Source: GEOS – Nov 26, 2012, Citi Research
For India: 2012=FY13

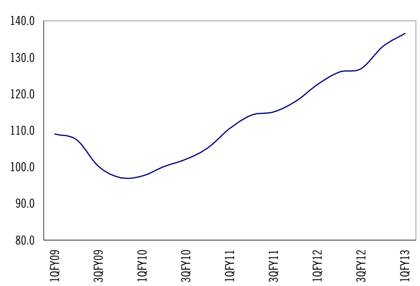
What if things don't go as envisaged? – Implications for India: India's real economy is relatively insulated from global developments due to its domestic demand and low exports/GDP. However, given its external funding requirements, the financial economy is intrinsically linked to global developments. In times of risk aversion, India comes on the radar due to its twin deficits and dependence on external capital which take a toll on the currency. Lastly, a growing worry is the limited maneuverability due to (1) Deficits near all time highs; (2) The economy slowing to a 10 year low of 5.4%; and (3) Inflation well above the RBI's comfort level.

Figure 6. Trends in GDP and GFC (%)



Source: CSO; Citi Research

Figure 7. Trends in Housing Price Index



Source: Cushman and Wakefield

Figure 8. Trends in Sovereign Ratings

	S&P	Moody's	Fitch
LT Foreign Currency	BBB-	Baa3	BBB-
LT Local Currency	BBB-	Baa3	BBB-
Outlook (FC)	Negative	Stable	Negative

Source: Rating Agencies

2. Politics and Policies – Winter Session is Crucial

One key reason for the sharp deceleration in growth from 8%+ to 5%+ levels was the ~2 year long policy log-jam. The reform measures announced in Sept/Oct are positive, but most need parliamentary approval. (See pg 17). Thus the ongoing Winter Session of parliament is a crucial window to implement necessary reforms.

Key to note is that with eight states going to the polls and general elections in 2014, the winter session is possibly the last chance for the govt to push through legislation. There is a concern that just as the previous session was obstructed by the CAG audit and coal block controversy, the ongoing one could be hindered by dispute over FDI in retail. However, one ray of light is the reduced risk of early elections as the Trinamool Congress' (TMC) attempt to move a motion of no-confidence was unsuccessful.

3. Real Estate – Far from a bubble, but Needs a Watch

In contrast to the slowdown in the real economy, as seen in Figure 7, land and housing prices continue to rise unabatedly. This is despite the fact that latest data indicates that residential absorption in key cities of India has declined ~16% YoY in 1HFY13 while commercial absorption has come off 29% in 1HFY13. This is attributed to the slowdown in economy, rising interest rates and affordability issues.

Rising prices and lower absorption is resulting in inventory build-up. If this persists, it could eventually result in (1) A slowdown in construction activity thus impacting GDP; and (2) Rise in stressed assets (NPLs + restructured loans) from building companies.

However, given the current dynamics reflected in the fact that (1) most buyers in India are end-users; (2) LTV as mandated by RBI is low at ~80%; (3) typical mortgage repayment is 8-9 years; and (4) there is pent up demand for housing, the India property sector is far from a bubble, but clearly needs a watch.

4. Ratings Action

Earlier this year, both S&P and Fitch revised India's sovereign outlook from Stable to Negative. In a recent review, S&P has re-iterated a one-third likelihood of a downgrade in 24 months if political, economic, fiscal or external factors deteriorate. While Moody's has retained India's outlook at Stable, it has stressed that failure to narrow deficits could endanger India's credit strengths and has said that the stable outlook is predicated on some policy efforts to curtail the deficits.

We maintain our view that the recent reforms have "bought" India time to avoid a downgrade, but implementation and fiscal consolidation measures are key.

Four Opportunities: Growth; Inflation; Fisc and S&I

1. Growth – Led By Investments in Roads, Railways and PSUs

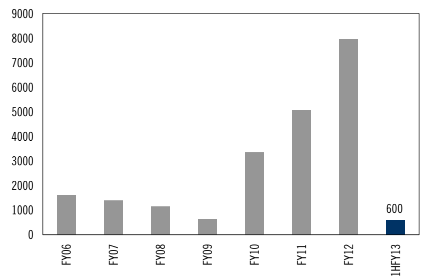
In addition to implementation of the National Investment Board which will aid project implementation (see pg 8 for details), sectors which would aid growth include:

- **Railways –** Could get a boost as (1) The govt is considering participative models to encourage private investment; (2) Multiple MoUs being signed with Belgium, Austria and China for modernization; and (3) Progress on the dedicated freight corridor.

- **Roads: Will it play catch up in FY14? –** In contrast to over 5,000km of road projects being awarded in FY11 and FY12, the NHAI has awarded a mere 600kms in FY13. This slowdown has largely been due to funding related issues – a result of aggressive bidding and many banks reaching their sector limits.

- **PSU Investments –** While many public sector undertakings (PSUs) are making losses, there are a few who are very cash rich. These PSUs have been instructed by the Finance minister to invest surplus cash. Failure to invest will result in companies paying special dividends to benefit the government.

Figure 9. Trends in Road Projects Awarded (kms)



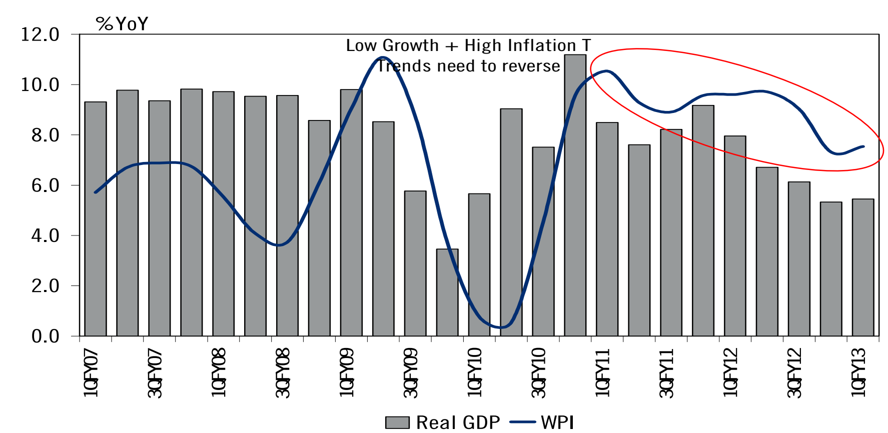
Source: NHAI

2. Inflation – Lower Commodity Prices Could Help

The global commodity price outlook for 2013 is benign – a combination of new supply surplus – not just in natural gas but critical industrial and bulk commodities and structural shifts in China which are also forcing a re-valuation of commodity demand. (For details pls see The New Abnormal – 2013 Commodities Outlook). As discussed on pg 10, this bodes well for WPI inflation in India, given that tradable account for ~57% of the WPI in India.

Bottom Line: If growth picks up and inflation moderates, it could reverse the macro consequences arising due to headline GDP coming in below WPI.

Figure 10. Trends in GDP and WPI (%)

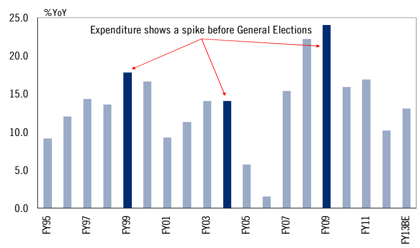


Source: CSO: Office of the Economic Advisor

3. Fisc – Could FY14 beat expectations of a "pre-election" year?

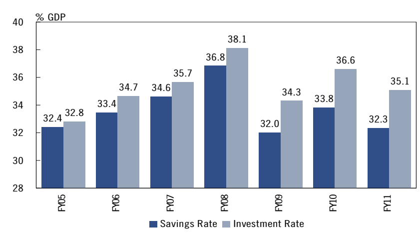
As seen in Figure 11, expenditures/deficits tend to rise in a pre-election year. While we do expect to see welfare schemes getting a boost, what could offset it would be moves towards both cash transfers and GST.

Figure 11. Trends in Expenditure (% YoY)



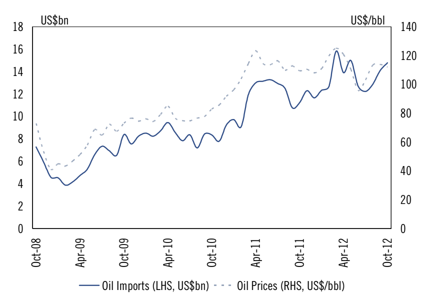
Source: Budget Documents

Figure 12. Trends in Savings & Investment (%)



Source: CSO

Figure 13. Trends in Oil Prices and Imports (US$/bbl, bn)



Source: CSO; Citi Research

- **Cash Transfers – Could be a Reality soon -** The Aadhaar-enabled system of direct cash transfer of subsidies and welfare payments is scheduled on Jan 1, 2013 and is expected to cover 18 states by end of FY13 and remaining 16 states by April '14. Given that it has received comparatively less opposition than reforms like FDI, it is more likely to be implemented. This would eliminate corrupt and inefficient practices that result in leakages and excess spending. In addition to subsidies, Aadhaar based payments are expected to cover pensions, scholarships and healthcare benefits. This is a significant step towards fiscal consolidation and a welcome transformation. For details pls see (India Macroscope - Right Turn, but Speed is Key, dated Oct 25, 2012)

- **GST -** The FM has been pushing for accelerated implementation of GST and announced his intention to implement GST in 2013. GST would replace all indirect taxes on goods and services at central and state levels and simplify the system, and reduce costs of administration and collection and could potentially add revenues to the tune of 1.2% of GDP. However, given the issues between Centre and State demands, the FM is taking steps to bridge this "trust deficit" and ensure smooth implementation.

4. Savings and Investments – Could the downturn be reversed?

Savings and investments have been on a declining trend since FY08. Overall decline in savings has largely been due to (1) Inflation impacting real interest rates on deposits and better returns on alternate assets like gold; (2) lower public sector savings impacted by fiscal stimulus measures.

Reversal in trends would be dependent on lowering inflationary expectations and steps towards fiscal consolidation, while those related to investment, particularly project clearance, could bring up investment rates.

Oil – Could this be a Positive, or Negative?

Near term negative…

Growing geo-political tension in the Middle East has led to concerns of the possibility of oil prices edging higher. As discussed in our earlier notes, given India's import dependence and inelastic oil demand, India is one of the most vulnerable economies to higher oil prices. The impact would be three-fold – i.e., (1) On the Balance of Payments – India imports 70% of its crude oil requirements; (2) On the Fisc – The subsidy bill could further bloat given that domestic retail prices of diesel, LPG and kerosene are well below international prices; and (3) On Inflation – Fuel has a weightage of 14% in the WPI basket.

Figure 14. "Suppressed" Inflation and WPI

	Weight in WPI	Current Price	Current Losses	Required Price Hikes	Impact on Inflation
Liquefied petroleum gas	0.90%	400	478.5	113%	1.02%
Kerosene fuel	0.70%	14.8	31.3	211%	1.48%
High speed diesel	4.70%	47	9.1	18%	0.83%
Overall impact	**6.30%**				

Source: Office of the Economic Advisor, Citi Research; Prices as on Nov 16

…But Long Term Positive

Given subdued global demand growth coupled with the "North American Supply revolution", oil prices are likely to come off. Our global commodities team estimates Brent prices to come off ~10% to US$99/bbl in 2013. This bodes well for the macro.

Real Indicators

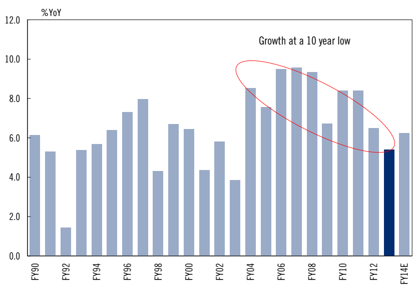
Growth to Remain Subdued in the 5%-6% range

India's top-down macro story has de-rated over the last two years with growth expectations now in the 5%-6% range, sharply lower than the 8%+ levels seen earlier. Although the reform measures earlier this fiscal led to a revival in investor sentiment, implementation of measures is key for any GDP upgrades.

Looking at GDP by activity, while agriculture is dependent on the vagaries of the monsoons, key steps that could help industrial growth would be setting up the National Investment Board to speed up project implementation. Given that this does not require parliamentary approval, we are hopeful of some progress on this front.

On the services side, service sector growth which had averaged ~10% during FY06-12 is likely to come in at ~7% levels in FY13 and FY14. This is partly cyclical and structural arising due to (1) Cyclical downturn in global trade; (2) Slowdown in banking services especially insurance premiums; (3) Structural slowdown in communications – given that cellular penetration levels have crossed 80%. But, key to watch in FY14 is community services which could get a boost by govt spending.

Figure 15. Trends in GDP (%)



Source: CSO: Citi Research

Figure 16. Trends in GDP (%)

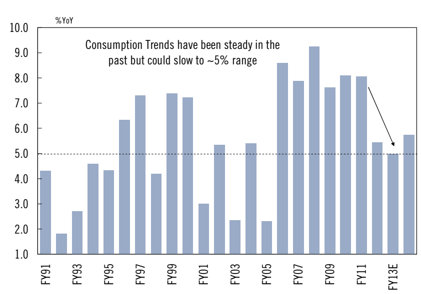
	Wts	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Agriculture	14.0	4.2	5.8	0.1	1.0	7.0	2.8	0.5	3.0
Industry	27.0	12.2	9.7	4.4	8.4	7.2	3.4	3.2	4.4
Services	59.0	10.1	10.3	10.0	10.5	9.3	8.9	7.5	7.8
Consumption	69.1	7.9	9.3	7.6	8.1	8.1	5.4	5.0	5.7
Pvt Consumption	57.9	8.7	9.2	7.1	7.0	8.1	5.5	5.0	5.5
Govt Consumption	11.2	3.8	9.6	10.4	14.3	7.8	5.1	5.0	7.0
Gross Capital Formation	37.9	13.4	18.1	-5.2	15.6	11.1	5.3	4.6	5.1
Gross Fixed Capital Formation	32.0	13.8	16.2	3.5	6.8	7.5	5.5	4.5	6.0
Real GDP	**100.0**	**9.6**	**9.3**	**6.7**	**8.4**	**8.4**	**6.5**	**5.4**	**6.2**

Source: CSO: Citi Research

Consumption – Pre-Election Year; Cash Transfers to Help

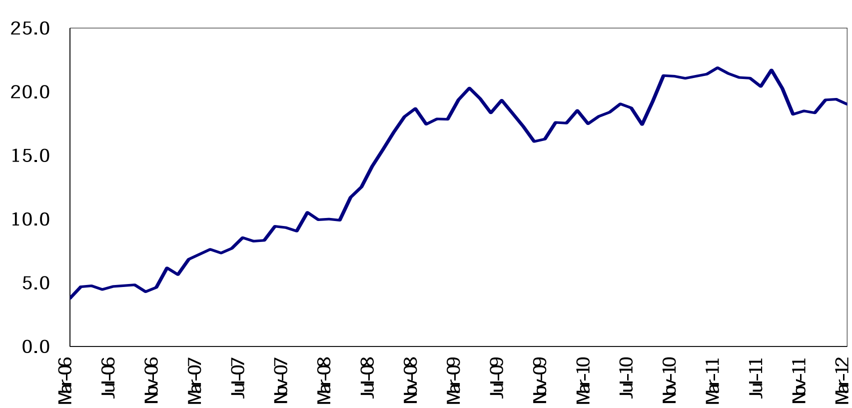
A key variable that could support headline GDP at ~5.5%-6% levels is consumption holding steady at 5%-6% levels. With 8 states going to polls and all eyes on the next general elections in 2014, one could expect continued focus on government welfare schemes. In addition to wage growth, a key support to consumption would be the introduction of "direct cash transfers" in lieu of product subsidies.

Figure 17. Trends in Consumption (%)



Source: CSO: Citi Research

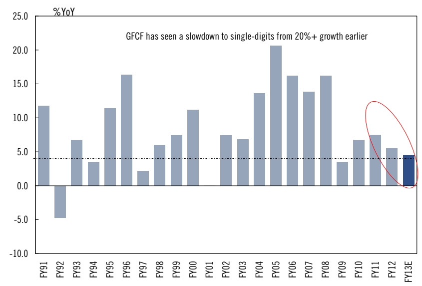
Figure 18. Trends in Wages of Unskilled Laborers (%YoY)



Source: RBI, Labour Bureau

Investments – NIB Could Be a Game Changer

Figure 19. Trends in Capital Formation (%)

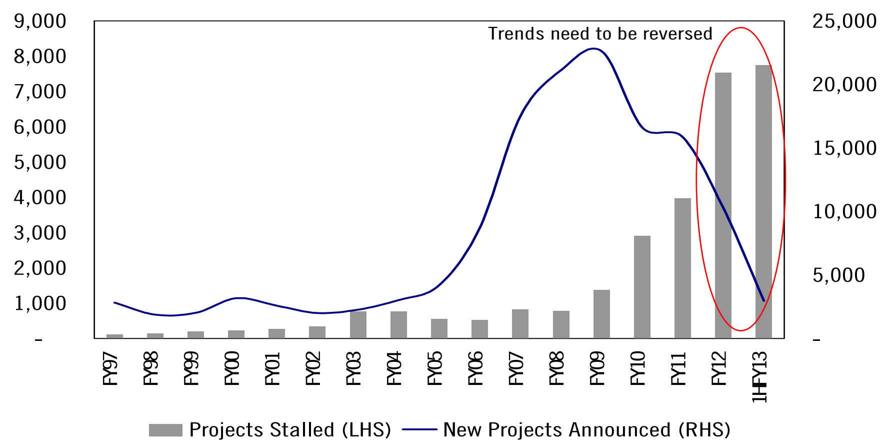


Source: CSO: Citi Research

As is now well known, the key factor that has led to the deceleration in GDP growth from >8% levels to the last quarterly print of 5.5% is a near collapse in investments. This is clearly evident in Figure 20 below, where data from CMIE indicates a rising trend in projects stalled and a falling trend in new project announcements. As mentioned in our earlier notes, this is a result of an amalgamation of factors: (a) lack of sufficient coal/gas; (b) land acquisition/environmental clearance concerns; and (c) lack of major government project announcements.

The recurring delay in implementation of important infrastructure projects is partly due to presence of multiple ministries to take decisions on a single project. To this end, the proposal to make final decisions on investment projects be vested in one single authority – i.e., The NIB is clearly positive, in our view, as the Board would be responsible for (1) Identifying key projects in each sector; (2) Setting and enforcing timelines for clearances/approvals from various ministries; (3) Monitoring project progress; (4) Taking up the case if ministry/dept fails to act within the stipulated timeline; and (5) Resolving inter-ministry/department disputes.

Figure 20. Projects Announced vs. Projects Stalled (Rs bn)



Source: CMIE, Citi Research

What to Watch: Risks of GDP Downsides

1Q FY13 GDP came in at 5.5%, with industry at 3.6%. IIP growth in 1Q was -0.8%.

Earlier this year, rainfall deficiency in the key sowing months of the summer crop was a worry, but the recovery in the monsoons bode well for the winter crop. However, trends in industrial production have been weaker than expected. While production numbers are lower than the value-add GDP numbers, continuation of weak IIP trends (0.2% growth in IIP during 1HFY13) could put our FY13 GDP estimate of 5.4% at risk.

Figure 21. Trends in GDP – Sensitivity of Industry (%)

	Wts*	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E Base Case	FY13E Weak Indus
Agriculture	14.0	5.1	4.2	5.8	0.1	1.0	7.0	2.8	0.5	0.5
Industry	27.0	9.7	12.2	9.7	4.4	8.4	7.2	3.4	3.2	2.0
Services	59.0	10.9	10.1	10.3	10.0	10.5	9.3	8.9	7.5	7.5
GDP	**100.0**	**9.5**	**9.6**	**9.3**	**6.7**	**8.4**	**8.4**	**6.5**	**5.4**	**5.1**

Source: *Wts are for FY12; CSO; Citi Research

Monetary Indicators

Lower Commodity Prices – Bodes well for Inflation

Our global commodities team believes that the commodity super-cycle is over. They say that what first occurred in US natural gas – a marshalling of capital and a new supply surplus – is being replicated across most commodities, including critical industrial and bulk commodities and in other longer-lead time products such as oil, even with risks to supply disruptions. Further, structural shifts in China are also forcing a re-valuation of commodity demand; including lower-paced growth and a far less commodity-intensive economy.

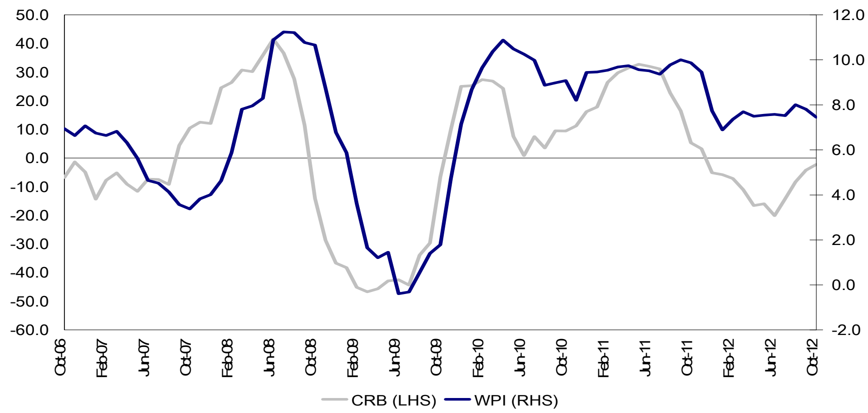
While certain elements of inflation are sticky, in particular food and the persistent rise in wage growth, given that ~57% of India's WPI basket is tradable, provided the INR stays stable, lower commodity prices bode well for headline WPI.

Figure 22. Tradables in the WPI (wts)

A. Primary Articles	**4.5**
Food Items	
Rice	1.8
Wheat	1.1
Maize	0.2
Pulses	0.7
Non-Food Items	
Cotton	0.7
B. Manuf. Food Articles	**4.8**
Sugar	1.7
Edible Oils	3.0
C. Manuf. Non-Food Articles	**36.0**
Rubber	3.0
Iron and Steel	8.3
Transport Equipment	5.2
Electrical Machinery except electronic	4.2
Machinery except electric and electronic	3.1
Fertilizers	2.7
Organic Chemicals	2.0
Artificial Resins, Plastic Materials, etc..	1.9
Manufacture of metals	1.3
Inorganic Chemicals	1.2
Pulp and Waste paper	1.0
Non-ferrous metals	1.0
Electronic goods	1.0
Gold	0.4
D. Fuel	**12.4**
Petroleum, Crude, and products	10.3
Coal, coke and briquettes	2.1
Total Tradables (A+B+C+D)	**57.7**

Source: RBI

Figure 23. Trends in the CRB (Commodity Price) Index and WPI (%YoY)



Source: Bloomberg, Office of the Economic Advisor

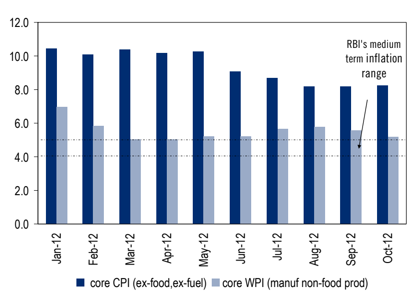
…But Easing Limited to 50-75bps

A combination of cyclical and structural factors has resulted in inflation remaining well above the RBI's comfort zone of 4%-5% over the last three years. The latest readings of the WPI and CPI stand at 7.5% and 9.7% respectively.

While the RBI is concerned about growth, in its latest policy it has said that "managing inflation must remain the primary focus of monetary policy", and remains concerned about the upward pressures to inflation arising from wage growth, suppressed inflation and global uncertainty impacting the INR.

Given the downtrend in commodity prices, rising negative output gaps and low capacity utilisation levels, we expect inflation to moderate to ~7% levels in FY14. However, despite the moderation, inflation should still be above the RBI's comfort zone thus leaving limited room for much monetary easing. We thus maintain our view of the RBI likely to ease policy rates by 50-75bps in the coming months taking repo rate to 7.25%.

Figure 24. Trends in Core CPI and Core WPI

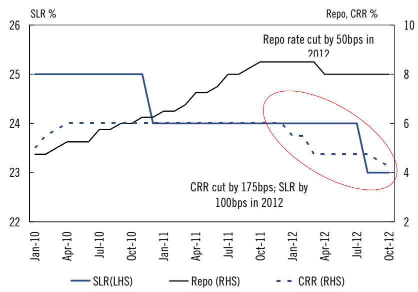


Source: Office of the Econ Advisor; Labour Bureau

Market Rates Down By ~175bps but No More Room

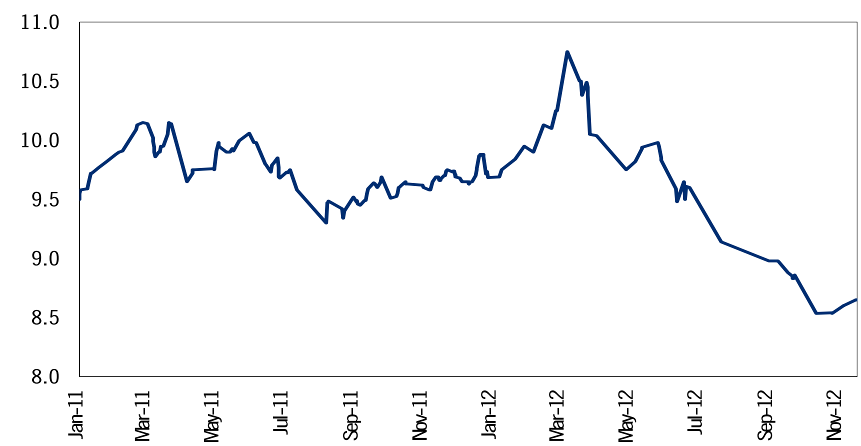
A quick re-cap, during 2012, the RBI has (1) cut the repo rate by 50bps from 8.5% to 8%; (2) Lowered the SLR by 100bps from 24% to 23%; and (3) Reduced the CRR by 175bps from 5.5% to 4.25%. This coupled with recent policy directing banks to restrict mobilization of bulk deposits and CDs to 15% of total deposits has resulted in market rates coming by ~150-175bps despite policy rates being eased by 50bps. Going forward, a further decline in market rates would depend on monetary easing.

Figure 25. Trends in Repo; CRR & SLR (%)



Source: RBI

Figure 26. Trends in I year CD rates (%)

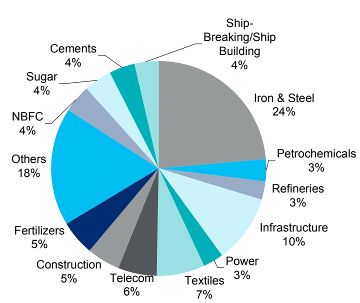


Source: Primary Deals

What to Watch: Stressed Assets

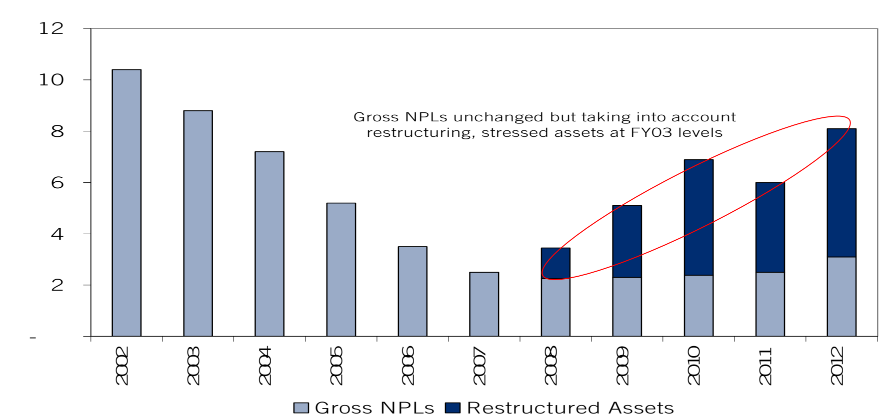
Trends in stressed assets (NPLs+ restructured loans) have been deteriorating over the last few years. However, it is not a systemic issue as most of the restructured loans sit on the public sector banks – and in particular on the smaller lenders. None-the-less, this does deserve a watch in 2013 given the rise in restructuring pipeline. More-over, the sectoral mix seems to be widening as well – recent data suggests pipeline build-up in steel, media and infrastructure.

Figure 27. Composition of outstanding CDRs (%)



Source: Corporate Debt Restructuring Cell of India

Figure 28. Trends in Stressed Assets (Gross NPLs + Restructured Assets)



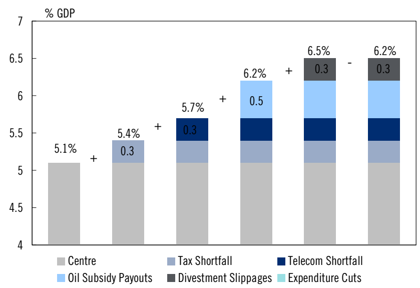
Source: RBI, Corporate Debt Restructuring Cell of India, Citi Research

Fiscal Indicators

Fiscal Arithmetic – Just Not Adding Up

Accounting for expenditure and revenue slippages, we maintain our view of the fiscal deficit coming in at 5.9% of GDP vs. the govt's target of 5.1%. These numbers factor in expenditure cuts and a 50% deferral in fuel subsidies to FY14. However, if the govt "further" plays around with the quantum of subsidies deferred or changes the subsidy sharing mechanism, the deficit could be capped at 5.3%

Figure 29. Fiscal Deficit in FY13



Source: Budget Documents; Citi Research

Figure 30. Fiscal Deficit – Base Case

Budgeted fiscal deficit for FY13	**5,136**
Fiscal deficit as % of GDP	**5.1**
Add:	
Shortfalls in tax revenues	300
Shortfalls in divestments	50
Shortfalls in telecom revenues	306
Total Under-recoveries	1000
Less:	
Oil Subsidies (Under-recoveries) deferred	500
Expenditure Cuts	200
Food/Fertiliser Subsidies deferred	100
Total fiscal deficit	**5,997**
Nominal GDP estimate	101,399
Fiscal deficit as % of GDP	**5.9**

Source: Citi Research

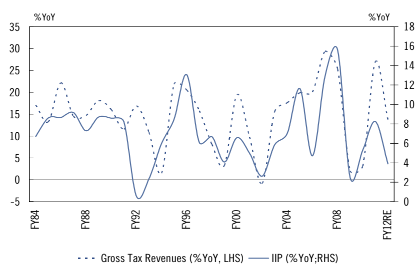
Fiscal Deficit – Best Case

Budgeted fiscal deficit for FY13	**5,136**
Fiscal deficit as % of GDP	**5.1**
Add:	
Shortfalls in tax revenues	300
Shortfalls in divestments	50
Shortfalls in telecom revenues	100
Total Under-recoveries	1000
Less:	
Under-recoveries Deferred	500
Expenditure Cuts	200
Food/Fertiliser Subsidies deferred	100
SUTTI	440
Total fiscal deficit	**5351**
Nominal GDP estimate	101,399
Fiscal deficit as % of GDP	**5.3**

Source: Citi Research

Revenues – Expect a Shortfall of Rs450bn

Figure 31. Tax Collections and IIP Growth



Source: Budget Documents; CSO

- **Tax Revenues:** The positive trend in tax collections seen earlier this fiscal year has dissipated with tax collections running below budget estimates. However, as mentioned earlier, this is not really a surprise given the deceleration in economic activity. The budget estimates are based on FY13 GDP growth at 7.6%. We thus expect a slippage of Rs300bn (30bps).
- **Market Related Revenues: Telecom and Divestments Dependent on Market**
  - **Telecom – Could Plan B Work?** The much awaited 2G spectrum came in way below expectations with the govt being to be able to raise a mere Rs94bn v/s an anticipated amount of Rs400bn. The key reason for this was the high spectrum prices which resulted in muted bidding and no bidding in 4 key circles. There are talks of lowering the price and having a re-auction. Timelines look stretched for this fiscal, but if this auction is successful, the govt could raise Rs100bn. This could then be used as a benchmark for excess spectrum charges which could raise an additional Rs100bn.
  - **Divestments/Stake Sales – SUUTI could help:** The govt has cleared stake sales in a couple of public sector undertakings, but key to note is that the divestment proceeds are expected to bring in Rs150bn. The budgeted target for FY13 is Rs300bn and is dependent on market conditions. However, one of the Kelkar Committee Recommendations on fiscal consolidation was the proposed dissolution of SUUTI (Specialized Undertaking of UTI) which would entail the govt selling its shares in key blue-chips. If implemented, this could raise Rs440bn, which would then help in reducing the slippage.

Rs1200bn Expenditure Overrun to be limited to Rs500bn

Figure 32. Subsidy Sharing Mechanism (Rs Bn)

	FY10	FY11	FY12	FY13E
Under-recoveries	**461**	**782**	**1385**	**1670**
Diesel	144	365	812	1030
LPG	143	220	300	320
Kero	174	197	273	320
Less: upstream co's	**144**	**303**	**550**	**668**
% of Total	31%	39%	40%	40%
Less: oil bonds/cash	**260**	**410**	**835**	**1002**
% of Total	56%	52%	60%	60%
Net under-recoveries	56	69	0	0
Brent Crude (US$/bbl)	71.5	87%	115	110
USD/INR	47.5	45.6	48	54

Source: Ministry of Petroleum and Natural Gas, Citi Research

- **Subsidy Slippages Priced in:** As stated earlier, the budget has factored in a 12.2% contraction in subsidies which we believe is unrealistic.
  - **Fuel:** The FY13 outlay of Rs436bn on fuel subsidies has been utilized to the tune of Rs385bn as payment of FY12 dues. Given current oil prices, under-recoveries - losses being made by oil companies - are expected to touch Rs1,670bn. Assuming no change in the subsidy sharing agreements, the govt's share of this would be Rs1000bn. However, similar to the past, we expect a 50% deferral to FY14
  - **Food and Fertiliser:** The FY13 budget estimate pegs the food subsidy at Rs750bn. However, we could see a slippage given (1) The increase in procurement; (2) Increase in cost due to hike in MSPs; (3) Larger stockholdings by Food Corporation of India. Fertiliser subsidies are also expected to overshoot due to higher prices.
- **Expenditure Cuts:** As seen on pg 22, plan expenditure is budgeted to increase by 22%. However, we could see cuts that would result in savings of Rs200bn.

Figure 33. Trends in Subsidies (Rs Bn)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12RE	FY13BE
Food	231	240	313	438	584	638	728	750
Fertilizer	185	262	325	766	613	623	672	610
Fuel	27	27	28	29	150	384	685	436
Total	**475**	**571**	**709**	**1,297**	**1,414**	**1,734**	**2,163**	**1,900**
%YoY	3.4	20.2	24.2	82.9	9.0	22.7	24.7	-12.2
% GDP	1.3	1.3	1.4	2.3	2.2	2.3	2.4	1.9

Source: Budget Documents

What to Watch: Ratings Downgrade or Rays of Light

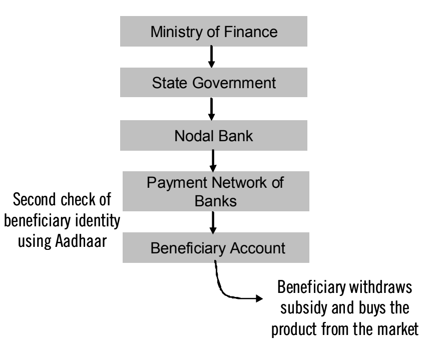
Figure 34. India's Sovereign Rating

	S&P	Moody's	Fitch
LT Foreign Currency	BBB-	Baa3	BBB-
LT Local Currency	BBB-	Baa3	BBB-
Outlook (FC)	Negative	Stable	Negative

Source: Rating Agencies

- **Rating Action:** Earlier this year, both S&P and Fitch revised India's sovereign outlook from Stable to Negative. In a recent review, S&P has re-iterated a one-third likelihood of a downgrade in 24 months if political, economic, fiscal or external factors deteriorate. We maintain our view that the recent reforms have "bought" India time to avoid a downgrade, but implementation and fiscal consolidation measures are key
- **Expenditures – Cash Transfers Led By Aadhaar, a Reality:** While total expenditure has crossed the Rs14trn mark in FY13E, encouragingly, the Govt is turning to direct cash transfer to effectively funnel subsidy payments to the intended beneficiaries through the use of direct electronic payments, leveraging Aadhaar - a unique biometric-based individual identification number being issued by the Unique Identification Authority of India (UIDAI) to all Indian residents.
- **Revenues – Moves to GST, Closer Than Before:** The Goods and Services Tax, a unified tax rule across the country is estimated to increase revenues by 1-2% of GDP. The FM has been pushing for accelerated implementation of GST and announced his intention to implement GST by March 2013. Currently, the Bill is being vetted by the Parliamentary Standing Committee on Finance. The Constitutional Amendment Bill for GST was tabled in Budget Session of 2011-12. The key provisions involve (1) allowing the states to tax services; and (2) the centre taxing goods at the consumption stage.

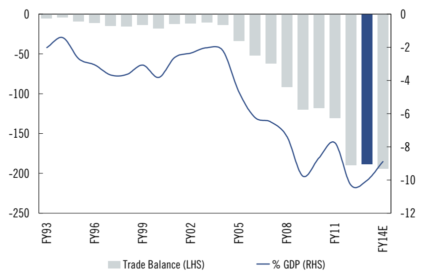
Figure 35. Proposed Cash Transfer System



Source: Ministry of Finance

External Sector

Figure 36. Trade Deficit (US$bn, % to GDP)



Source: RBI; Citi Research

In a bid to lower gold imports, the RBI is looking at introducing gold linked products – such as deposit schemes, linked accounts, pension and accumulation plans – to promote the use of gold as a financial asset.

Deficit Remains High due to Oil and Gold

On the external account, in line with expectations, the global slowdown is taking its toll on exports (both merchandise and software). As regards imports, despite the economy on a lower growth trajectory, India's inelastic oil demand and rising gold prices have resulted in the trade deficit coming in higher than expectations. This is likely to keep the current account deficit (CAD) elevated at 3.7% of GDP in FY13 and 2.8% in FY14.

Figure 37. Trends in Net Oil and Net Gold Imports (US$bn, except where specified)

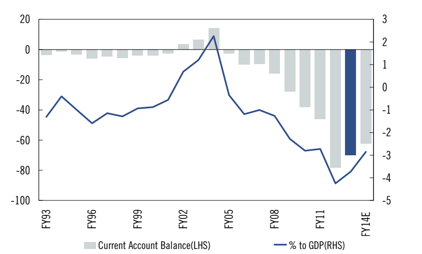
Year	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
OIL								
Oil Price (Indian basket $/bbl)	63.4	80.2	89.0	70.0	80.0	115.0	107.0	96.0
A. Oil/ Product Imports	59.7	84.7	95.5	89.2	106.8	159.4	157.4	153.8
B. Petroleum product exports	17.8	27.6	27.2	30.5	40.0	60.1	57.7	61.8
Net oil import bill (A-B)	**41.9**	**57.2**	**68.3**	**58.7**	**66.8**	**99.3**	**99.7**	**92.0**
GOLD								
Gold Imports –Tonnes	761	704	609	749	933	838	687	650
Gold Prices $/oz	629	765	868	1,025	1,295	1,633	1,679	1,749
Actual Imports	14.5	16.7	20.7	28.6	33.9	51.4	40.0	38
Precious Stone Import	7.5	8.0	16.6	16.2	31.3	28.6	30.0	31
Total Gold Imports	21.9	24.7	37.3	44.8	65.1	80.0	70.0	69.0
Gems/Jewelry Exports	16.0	19.7	28.0	29.0	40.8	41.6	35.0	36.0
Net Gold Imports	**6.0**	**5.0**	**9.4**	**15.8**	**24.3**	**38.4**	**35.0**	**33.0**

Source: Citi Research; CMIE; World Gold Council

Forex – Import Cover to Continue to Trend Lower

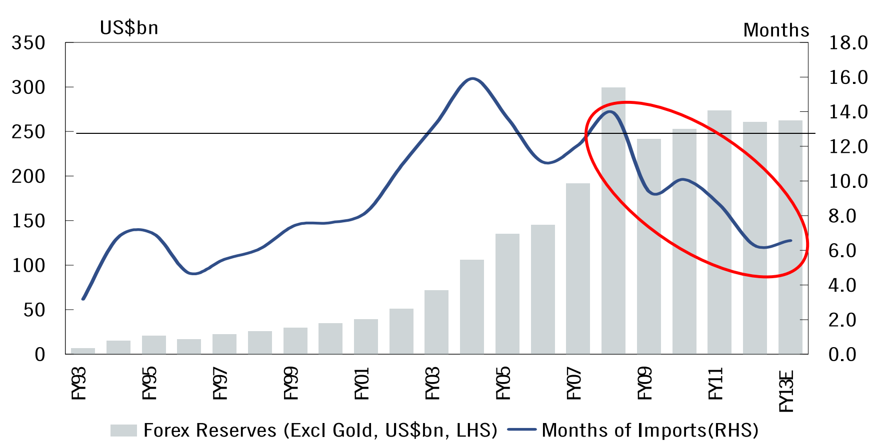
Since the global financial crisis, India's CAD has risen sharply - thanks to oil and gold which comprise ~40% of India's import bill. Capital flows, though buoyant have been barely sufficient to finance the CAD. Consequently, forex accretion during the last four years has been minimal. We expect this trend to continue in FY13 and FY14. As a result, the FX import cover is likely to remain ~7 months significantly lower than trends seen in the past. This is likely to keep the currency under pressure.

Figure 38. Trends in CAD (US$bn, % to GDP)



Source: RBI: Citi Research

Figure 39. Trends in Forex Reserves and Import Cover (US$bn; Months of Imports)



Source: RBI; Citi Research

Capital Flows – Could See Further Easing

Following the weakness in the currency, since November 2011, policy officials – both the RBI and the Ministry of Finance – have been taking several steps to stem the depreciation in the INR. These include (1) Encouraging NRI deposits by de-regulating interest rates; (2) Relaxing ECB norms; (3) Permitting wider participation in FII flows and increasing FII debt limits (Govt bonds at US$20bn; Corporate bonds at US$20bn); and (4) Raising import duties on gold to temper imports. Going forward, given India's external financing needs, we could see a further liberalization of measures regarding ECBs and higher debt limits.

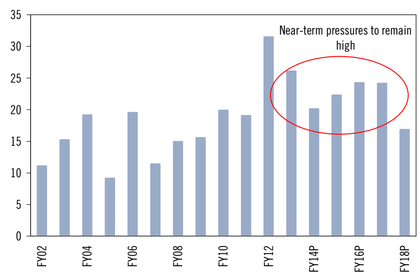
What to Watch - Composition of Debt and Repayments

While India's external debt ratios are comfortable with debt-GDP at 20%, key changes seen over the last few years include:

- **Rapid Increase in Private Sector Debt:** As seen in Figure 41 below, public sector as reflected in multilateral/bilateral debt has been coming off while private sector debt – external commercial borrowings, trade credit and NRI deposits has been increasing. Repayments of these add to volatility in the exchange rate.

- **Growing short-term liabilities:** Short term debt by residual maturity has been inching up over the years and now account for ~34% of total reserves.

Figure 40. Trends in Debt Servicing (US$bn)



Source: Ministry of Finance

Implications: Persistent current account deficits, rising private sector debt coupled with repayments to the tune of ~US$20bn annually make the economy vulnerable to capital flows. Thus while the real economy is largely domestic-oriented, given its dependence on capital flows, India is a high beta economy in terms of global risk appetite. Last but not the least is the implication of a ratings downgrade. Unlike the past, given the growing reliance of the private sector on external sources of funding, negative rating action would increase the cost of borrowing for India Inc.

Figure 41. Trends in External Debt

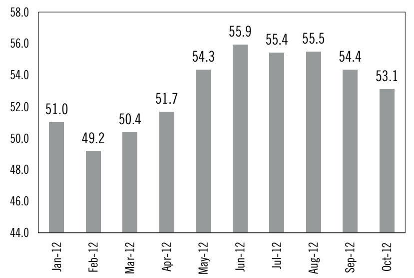
India's external debt ($bn)	FY07	FY08	FY09	FY10	FY11	FY12
Multilateral	35.3	39.5	39.5	42.9	48.5	50.5
Bilateral	16.1	19.7	20.6	22.6	25.7	26.7
IMF	1.0	1.1	1.0	6.0	6.3	6.2
Trade Credit	7.2	10.3	14.5	16.8	18.6	19.0
Commercial Borrowing	41.4	62.3	62.5	70.7	88.6	105.2
NRI Deposits (Beyond 1 year)	41.2	43.7	41.6	47.9	51.7	58.6
Rupee Debt*	2.0	2.0	1.5	1.7	1.6	1.4
Total Long term debt	**144.2**	**178.7**	**181.2**	**208.6**	**240.9**	**267.5**
NRI Deposits (up to 1 year)	-	-	-	-	-	-
FII Invst in T-Bills	0.4	0.7	2.1	3.4	5.4	9.4
Others (trade related)	26.0	41.9	39.9	47.5	58.5	65.1
Other	1.8	3.2	1.3	1.5	1.1	3.7
Total Short term debt	**28.1**	**45.7**	**43.3**	**52.3**	**65.0**	**78.2**
GROSS TOTAL DEBT	**172.4**	**224.4**	**224.5**	**260.9**	**305.9**	**345.7**
1.Short-Term (Original Mat)	28.1	45.7	43.3	52.3	65.0	78.2
2.Long-Term Debt obligations maturing within 1 year	8.3	9.1	14.2	13.0	23.0	21.4
Short-Term Debt Residual Maturity (1+2)	**36.5**	**54.8**	**57.5**	**65.3**	**88.0**	**99.6**
as a % of FX reserves	18.3	17.7	22.8	23.4	29.0	33.8

Source: RBI, Ministry of Finance

Financial Markets

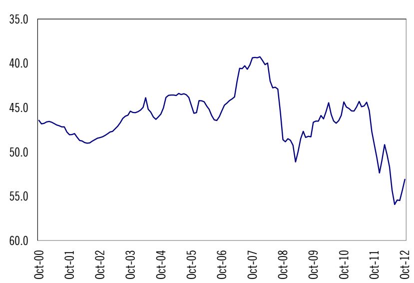
Tracking the INR

Figure 42. Monthly Avg. USD/INR in 2012



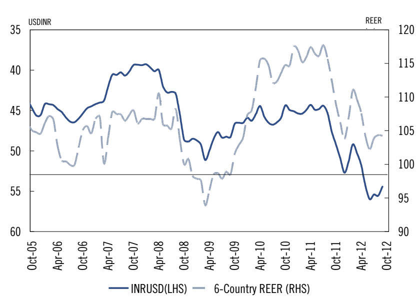
Source: RBI

Figure 43. Long Term Trends in USD/INR



Source: RBI

Figure 44. Trends in REER vs. USD/INR



Source: RBI, CEIC

The story so far: The rupee has been among the worst performing currencies this year with the USD/INR unit currently trading at Rs55 levels from Rs51 levels in Jan. This is largely due to a combination of the poor macro setting – i.e. low growth - high inflation mix, persistence of twin deficits, falling FX coverage ratios, probability of ratings downgrade. Given the economies dependence on capital flows, the unit has a high beta in terms of global risk appetite.

Short Term Pop: Following the domestic reform announcements and QE3 announcements in mid-Sept, the INR retraced ~5% since its lows from Rs55.7 to Rs51.1 by mid October. However this was short-lived with concerns on implementation of reforms and the weak domestic macro environment taking centre stage again.

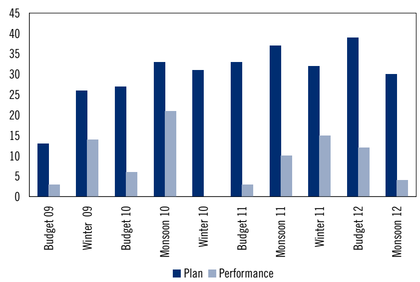
What Next – Short Term Outlook? With the USD/INR currently trading at Rs55 levels, the key near term driver would be how the on-going parliament session plays out. If the govt is able to pass through some legislation and we see further liberalization of the capital account, this could result in the INR once again partially re-tracing its losses.

Medium term (6-12M) View: From a 6-12M perspective, taking into account the relatively high growth story and capital inflows being sufficient to finance the CAD, we expect the INR to remain in the Rs54 trading range. The oscillation in risk on/off environment could result in periods of the unit overshooting the estimates to Rs56 levels.

- **Why not a stronger INR?** Despite a relatively high growth and an attractive carry, we do not expect the unit to re-trace back to levels seen in 2011. The reasons being (1) the political situation is fluid and reforms are yet to be implemented; (2) the macro remains weak as seen in the growth-inflation mix, the twin deficits and falling FX coverage ratios; and (3) Rating agencies still on vigil.
- **Why not a blow-out?** While the macro is clearly far from comfortable, at current USD/INR levels, the risks look priced in. More-over, the RBI appears to have enough ammunition to attract capital flows including further liberalizing the window under external commercial borrowings and increasing FII debt limits for bonds. Lastly, given the commodity outlook, the INR should be supported by falls in oil prices.
- **What are the differentiating factors?** With its high fiscal deficit, elevated current account deficit, India is one of few Asian economies that shares similar features with the more heavily indebted European economies. The low growth-high inflation mix adds to one's concerns. However, the solace is that India has a relatively closed capital account, a domestically financed fiscal deficit and a captive market for govt bonds which insulates both the bond market and banks to a great extent.
- **What does the REER say?** The current round of INR depreciation can be viewed as a catch-up with fundamentals with the six-country trade-based REER.

Politics and Policies

Figure 45. Bills Passed in the Lok-Sabha



Source: Citi Research

Implementation of Policies Rests on Winter Session

The Winter Session of Parliament which started from 22nd November is scheduled to end on 20th December. This session is being keenly watched given the recent reform announcements.

While the first few days have been adjourned due to discussion over FDI in retail, two encouraging developments include (1) The TMC's attempt to move a motion of no-confidence was unsuccessful – this allays fears of an early election atleast for the next six months. (2) The TMC, BSP and SP appear to be taking a slightly "softer stand" on FDI in retail since the start of the Winter session.

As mentioned earlier (India Macroscope - Right Turn, but Speed is Key), while the measures have broken the ~2 year policy logjam, key to note is that many of them require parliamentary approval to be implemented.

Reforms pending approval during this session are especially important because they focus on 2 key areas that are crucial for accelerating growth and averting a rating downgrade. (1) Fiscal consolidation particularly tax reforms and (2) Incentivising investments – particularly land/mining.

Issues that could also be debated this session, but do not require Parliamentary approval include (1) FDI in Multi-Brand Retail; and (2) Setting up the National Investment Board (NIB). This session is also critical in terms of how it plays out in terms of reforms/legislative process in India.

Figure 46. Agenda for the Winter Session '12

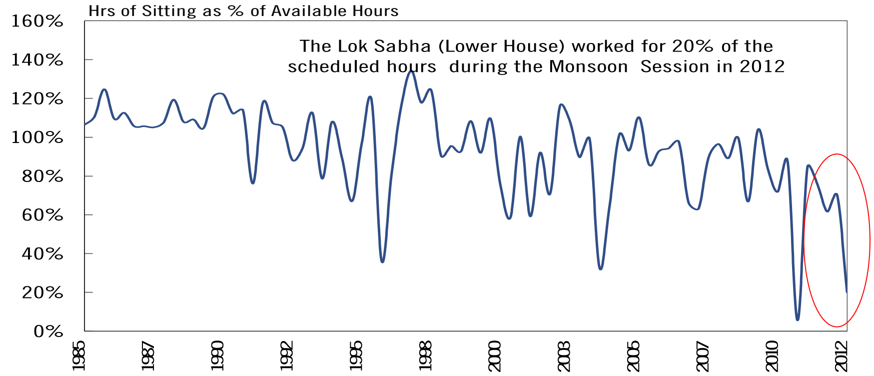
On the Agenda	Key Features
FDI Insurance	49% FDI allowed, public sector insurance cos can get listed with government stake at at least 51%
FDI Pension	49% FDI, has one term 'return scheme' action, gives statutory power to regulatory authority
Competition Bill	All sectors under the purview of competition law, merger of weak/ failing banks excluded
Companies Bill (Amendments)	Ensures more transparent corporate governance
Forward Contract Regulation Act (FCRA)	Facilitate entry of institutional investors, introduce commodity options and derivatives trading
Land Acquisition Bill	For commercial land acquisition, and rehabilitation
National Food Security Bill	Provides for food and nutritional security by providing specific entitlements to certain groups
Public Procurement Bill	Regulate public procurement to further transparency, accountability, and probity in the procurement process
Mines and Minerals Bill	Consolidates and amends the law relating to the scientific development and regulation of mines and minerals
Goods and Services Tax (GST)	Landmark Change - for efficiency, GDP and tax collections
Direct Taxes Code (DTC)	A simplified Tax platform
Lok Pal Bill	Establishment of a system for looking into complaints of corruption against public servants
Banking Laws (Amendment) Bill	Addresses issues on capital raising, proposes changes in voting rights, mandatory approval from RBI for acquiring 5% + stake

Source: PRS, Citi Research

Politics and Reform - A Rocky Ride

The last session of Parliament in September was not productive, with the Lok Sabha having worked for only 20% of the scheduled hours thus resulting in only 4 of 30 bills that were on the agenda being passed. Parliament proceedings were being continuously disrupted by the Opposition, mainly due to the CAG audit and coal block allocation controversy. The new reforms, notably FDI in retail, could offer the opposition yet another opportunity to obstruct parliament proceedings.

Figure 47. Hours of Sitting in the Lok Sabha as a % of Available Hours



Source: PRS

Parliamentary Uncertainty and Challenges to Persist

The reforms had a political price where-in the UPA's biggest ally, the Trinamool Congress (TMC), withdrew its support. Going forward, we maintain our view that as the UPA government is currently in a "minority", and there is a possibility that reviewing of key reform bills would not be an efficient process. For more details on politics, parliamentary procedures in India pls see Politics & Macro – All Eyes on the Winter Session of Parliament

Figure 48. Current Composition of Lok Sabha

Party	Seats	Party	Seats
Indian National Congress(INC)	205	Bharatiya Janata Party(BJP)	114
Dravida Munnetra Kazhagam(DMK)	18	Janata Dal (United) (JD(U))	20
Nationalist Congress Party(NCP)	9	Shiv Sena(SS)	11
J&K National Conference(JKNC)	3	Shiromani Akali Dal(SAD)	4
Indian Union Muslim League (IUML)	2	Telangana Rashtra Samithi(TRS)	2
Rashtriya Lok Dal(RLD)	5	Biju Janata Dal(BJD)	14
Others/ Independents	13	AIADMK	9
UPA	**255**	Telugu Desam Party(TDP)	6
Supporting Parties		Janata Dal (Secular) (JD(S))	3
Samajwadi Party(SP)	22	All India Trinamool Congress TMC	19
Bahujan Samaj Party(BSP)	21	Jharkhand Vikas Morcha JVM (P)	2
Rashtriya Janata Dal(RJD)	4	Left Demo. Front	25
Total:	**47**	Others	11
		Total Opposition	**240**
UPA Incl. Outside Support:	**302**	**TOTAL LOK SABHA**	**542**

Source: www.loksabha.nic.in

Figure 49. Current Composition of Rajya Sabha

Party	Seats	Party	Seats
Indian National Congress(INC)	70	Bharatiya Janata Party(BJP)	49
DMK	7	Janata Dal (United) (JD(U))	9
Nationalist Congress Party (NCP)	7	Shiv Sena(SS)	4
J&K National Conf (JKNC)	2	Shiromani Akali Dal(SAD)	3
Rashtriya Lok Dal(RLD)	5	India National Lok Dal (INLD)	1
UPA	**91**	Biju Janata Dal(BJD)	7
Supporting Parties		Asom Gana Parishad (AGP)	2
Samajwadi Party(SP)	9	Telugu Desam Party (TDP)	5
Bahujan Samaj Party(BSP)	15	AIADMK	5
Rashtriya Janata Dal(RJD)	2	Left Parties	12
Bodoland People's Front (BPF)	1	All India Trinamool Congress TMC	9
Lok Janasakti Party (LJP)	1	**Total Opposition**	**106**
Mizo National Front (MNF)	1		
Nagaland People's Front (NPF)	1	Nominated	10
Total:	**30**	Other Parties/ Independents	7
UPA Incl. Outside Support:	**121**	**TOTAL RAJYA SABHA**	**244**

Source: www.rajyasabha.nic.in

Monthly Monitor

Figure 50. India — Key Monthly Indicators (percent change from a year ago unless otherwise stated)

	Aug11	Sept11	Oct11	Nov11	Dec11	Jan12	Feb12	Mar12	Apr12	May12	Jun12	Jul12	Aug12	Sept12
Consumption Trends														
Two-Wheelers	16.1	22.7	1.8	25.0	8.5	13.6	12.0	8.0	10.8	11.2	9.2	7.2	-4.8	-13.3
Passenger Car Sales	-10.1	-1.9	-24.3	6.0	7.2	6.3	11.8	18.4	3.4	2.8	8.6	7.3	-18.2	-5.1
Commercial Vehicle Sales	23.5	18.8	21.6	37.2	16.7	15.0	20.0	16.4	5.6	10.1	4.7	1.2	3.9	0.1
LCV	36.1	36.6	19.8	52.4	23.0	16.9	34.0	35.6	18.2	26.5	19.3	12.7	13.3	11.6
MHCV	9.8	1.8	23.9	18.8	9.1	12.7	5.3	-1.3	-11.6	-10.6	-13.4	-14.6	-8.8	-14.6
Investment Trends														
Infrastructure Index	3.8	2.5	0.4	7.8	4.9	0.7	6.9	2.3	3.2	4.0	3.8	1.1	2.3	5.0
Cement Dispatches	6.7	1.8	-1.0	19.0	13.8	9.9	10.7	7.2	6.2	12.8	8.7	1.1		
Diesel Consumption	6.4	9.8	7.7	16.4	6.0	7.5	11.7	10.8	7.9	9.3	13.7	13.1	10.4	7.5
Steel Production	-11.6	6.7	5.4	2.2	4.5	1.5	0.0	11.0	5.2	3.5	5.9	-1.2	7.9	-2.9
Manufacturing PMI*	52.6	50.4	52.0	51.0	54.2	57.5	56.6	54.7	54.9	54.8	55.0	52.9	52.8	52.8
Output	56.0	51.1	52.7	50.5	55.8	62.9	60.5	56.3	56.1	56.4	58.5	54.7	52.7	53.2
New Orders	53.1	51.3	53.7	52.8	57.9	62.2	62.8	58.1	61.1	59.6	58.5	54.9	54.3	54.4
Industrial Production Index														
General	3.4	2.5	-5.0	6.0	2.7	1.0	4.3	-2.8	-1.3	2.5	-2.0	-0.2	2.3	-0.4
Manufacturing	3.9	3.1	-6.0	6.6	2.8	1.1	4.1	-3.6	-1.8	2.6	-3.2	-0.4	2.4	-1.5
Mining	-5.5	-7.5	-5.9	-3.5	-3.3	-2.1	2.3	-1.1	-2.8	-0.7	-1.1	-1.6	1.9	5.5
Electricity	9.5	9.0	5.6	14.6	9.1	3.2	8.0	2.7	4.6	5.9	8.8	2.8	1.9	3.9
Use Based Basic Goods	5.8	5.3	1.2	6.5	5.5	1.9	7.6	1.1	1.9	4.4	3.6	1.0	3.4	3.5
Capital goods	4.0	-6.5	-26.5	-4.7	-16.0	-2.7	10.5	-20.1	-21.5	-8.6	-27.7	-4.5	-3.4	-12.2
Intermediate goods	-1.0	-1.4	-8.4	1.3	-1.5	-2.5	1.0	0.0	-1.8	3.4	0.9	-1.2	2.7	1.8
Consumer goods	2.1	5.7	0.1	12.8	10.1	2.5	-0.4	1.1	3.7	4.4	3.7	0.5	3.3	-0.3
Consumer Durables	5.5	8.9	-0.4	10.4	5.1	-7.5	-6.2	1.2	5.4	9.7	9.1	0.6	0.6	-1.7
Consumer Non-Durables	-0.7	2.7	0.5	15.0	13.8	10.6	4.4	1.0	2.3	-0.1	-0.5	0.3	5.8	1.1
Services														
Major Port traffic	3.5	-4.4	-7.4	-0.7	-6.5	-5.7	-6.2	-8.5	-6.5	-5.7	-5.0	-3.0	2.6	-2.0
Railway freight	2.0	-1.8	-1.3	5.9	8.7	5.4	9.0	5.6	3.5	5.6	5.3	3.1	3.5	8.2
Tourist arrivals ('000)	402	401	563	637	715	681	677	623	452	372	432	525	456	415
Cellular subscriber Adds (Mn)	7.5	8.0	7.9	3.7	9.2	9.9	8.6	8.1	6.8	8.4	-0.3	-20.6	-5.0	-2.1
Banking Trends														
Money supply(M3)	17.0	16.3	14.9	15.6	15.9	14.7	13.7	12.9	13.0	13.3	15.6	13.7	13.9	13.4
Loan(Credit) growth	20.4	18.9	18.9	18.0	16.9	16.7	15.6	16.6	18.0	18.3	18.6	17.2	16.7	15.7
Deposit growth	18.1	16.6	15.4	16.9	17.4	16.4	14.6	13.6	13.6	14.1	16.0	13.8	14.1	13.8
Non-food credit	20.2	23.1	17.5	17.6	15.8	16.1	15.4	16.8	16.8	17.2	18.3	16.9	17.4	15.4
Inflation														
CPI –Industrial Workers	9.0	10.1	9.4	9.3	6.5	5.3	7.6	8.6	10.2	10.2	10.1	9.8	10.3	9.1
WPI	9.8	10.0	9.9	9.5	7.7	6.9	7.4	7.7	7.5	7.5	7.6	7.5	8.0	7.8
Manufactured Products	7.9	8.0	8.0	8.2	7.6	6.7	5.8	5.2	5.3	5.2	5.4	5.9	6.4	6.3
Primary Products	12.5	12.2	11.0	8.9	3.6	2.8	7.1	10.4	9.6	10.3	9.7	10.5	11.2	8.8
Fuel Index	12.9	14.0	14.8	15.5	15.0	14.6	13.6	12.8	12.1	11.5	10.3	8.4	8.7	11.9
Interest rates (Average, %)														
Call money rate	7.9	8.0	8.1	8.3	8.5	8.8	9.0	8.8	8.6	8.6	8.07	8.0	8.0	7.9
91-day T-Bills	8.4	8.4	8.6	8.8	8.5	8.7	9.1	9.0	8.4	8.4	8.3	8.2	8.0	7.9
Corp Bond Spreads (5y GOI-AAA)	0.9	0.9	0.8	0.7	0.8	1.0	0.9	0.9	0.8	0.9	1.1	1.4	1.2	1.3
10-year government bond	8.3	8.3	8.7	8.9	8.5	8.3	8.2	8.4	8.6	8.6	8.2	8.1	8.2	8.2
Trade - customs data														
Exports(%YoY)	47.2	45.9	31.8	4.6	6.7	10.1	4.3	-5.7	3.2	-4.3	-5.4	-14.8	-9.7	-10.8
Imports(%YoY)	47.6	34.7	26.8	34.9	19.8	20.3	20.6	24.3	3.8	-7.2	-13.5	-7.6	-5.1	5.1
Oil	73.9	27.9	34.6	57.8	26.1	26.8	39.5	32.4	7.0	14.0	-4.4	-5.5	3.0	30.7
Non-oil	38.0	37.4	24.2	26.4	26.2	17.6	13.5	19.9	2.1	-15.9	-17.8	-8.6	-8.7	-4.5
Trade Deficit (US$bn)	-15.3	-13.2	-17.5	-16.4	-12.7	-14.8	-15.2	-13.9	-13.5	-16.3	-10.3	-15.5	-15.6	-18.1
Brent Prices ($/bbl)	110.0	109.8	108.8	110.3	107.7	111.6	119.1	124.4	120.5	110.2	95.9	103.1	113.4	113.4
Foreign investment (US$ mn)														
FII	-1,766	-342	634	-586	4,195	5,087	7,164	387	-927	597	209	2,463	1,996	3,682
FDI	5,206	967	2,619	1,647	780	871	484	244	1,614	1,137	1,222	1,569	3,024	4,237
Exchange rate and reserves														
US$ exchange rate average	45.3	47.7	49.2	50.9	52.6	51.3	49.2	50.4	51.9	54.5	56.0	55.4	55.6	54.4
US$ exchange rate month end	46.1	49.0	48.7	52.2	53.1	49.5	49.0	50.9	52.7	56.1	55.6	55.7	55.5	52.9
Forex reserves incl.gold (US$bn)	319.2	311.5	320.4	304.4	296.7	293.9	295.0	294.4	295.4	288.3	290.0	288.6	290.5	294.8

* Values over 50 indicate expansion. ** Only GSM subscribers available: CSO, RBI, Ministry of Finance, Markit

Balance of Payments

Figure 51. India – Trends and Forecasts in the Balance of Payments (US$Bn, %)

	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	Comments
CURRENTACCOUNT								
Exports(RBI)	**166.2**	**189.0**	**182.4**	**250.5**	**309.8**	**291.2**	**314.5**	
Y/Y%	28.9	13.7	(3.5)	37.3	23.7	(6.0)	8.0	While a weak currency helps exports, the impact is muted
% of GDP	13.4	15.4	13.4	14.9	16.8	15.5	14.4	Due to changing composition and global slowdown
Exports–Customs*	**162.9**	**185.3**	**178.8**	**251.1**	**303.7**	**285.5**	**314.0**	
Y/Y%	28.9	13.8	(3.5)	40.5	20.9	(6.0)	10.0	
Imports(RBI)	**257.6**	**308.5**	**300.6**	**381.1**	**499.5**	**479.6**	**508.3**	
Y/Y%	35.1	19.8	-2.6	26.7	31.1	-4.0	6.0	
%to GDP	20.8	25.2	22.1	22.6	27.1	25.5	23.3	
Imports-Customs*	**251.4**	**310.3**	**288.3**	**369.7**	**488.6**	**469.7**	**499.7**	
Y/Y%	35.4	23.4	-7.1	28.2	32.2	-3.9	6.4	
Of which Oil	79.6	93.7	87.1	103.9	155.6	170.0	170.0	Crude at US$111/bbl in FY12; US$108/bbl in FY13E
Y/Y%	39.9	17.6	-7.0	19.3	49.8	9.3	0.0	**∆US$1/bbl in oil prices=US$900m impact on deficit**
Non-Oil	171.8	216.6	201.2	265.8	333.0	299.7	329.7	
Y/Y%	33.4	26.1	-7.1	32.1	25.3	-10.0	10.0	
a. Trade balance (RBI)	**-91.5**	**-119.5**	**-118.2**	**-130.6**	**-189.8**	**-188.4**	**-193.8**	**Lower oil prices; lower gold dd will lower deficit**
% of GDP	-7.4	-9.8	-8.7	-7.8	-10.3	-10.0	-8.9	
Trade Balance(Customs)	-88.5	-125.0	-109.6	-118.6	-184.9	-184.2	-185.6	
Difference bet. RBI and Customs Data	-2.9	5.5	-8.6	-12.0	-4.9	-4.1	-8.2	Difference normally represents defense imports.
b. Invisibles	**75.7**	**91.6**	**80.0**	**84.6**	**111.6**	**118.4**	**131.7**	
Non-factor services	38.9	53.9	35.8	48.8	64.1	65.1	70.4	
Of which: Software Services	36.9	43.5	48.2	53.3	61.0	67.1	75.4	
Non-Software Services	1.9	10.4	-12.5	-4.4	3.1	-2.0	-5.0	
Investment income	-5.1	-7.1	-8.0	-17.3	-16.0	-15.0	-11.0	
Remittances**	41.7	44.6	52.1	53.1	63.5	68.0	72.0	
Official transfers	0.2	0.2	0.3	0.0	0.0	0.4	0.4	
1.Currenta/cbalance (a+b)	**-15.7**	**-27.9**	**-38.2**	**-45.9**	**-78.2**	**-69.9**	**-62.1**	
% of GDP	-1.3	-2.3	-2.8	-2.7	-4.2	-3.7	-2.8	Current a/c to narrow to 3.7 % of GDP in FY13E
CAPITALACCOUNT								
c. Loans	40.7	8.3	12.4	28.4	19.3	19.0	18.0	Global developments could impact bank loans
External assistance	2.1	2.4	2.9	4.9	2.3	2.0	2.0	
Commercial borrowings***	22.6	7.9	2.0	12.5	10.3	11.0	10.0	
Short-term credit	15.9	-2.0	7.6	11.0	6.7	6.0	6.0	
d. FDI(Net=a-b)	15.9	19.8	18.0	9.4	22.1	16.0	21.0	Policy clarity will help FDI in FY14
(a)FDI-To India	34.7	37.7	33.1	25.9	33.0	28.0	36.0	
(b)FDI-Abroad	-18.8	-17.9	-15.1	-16.5	-10.9	-12.0	-15.0	
e. Portfolio Invst(FII+ADRs/GDRs)	27.4	-14.0	32.4	30.3	17.2	20.0	15.0	Recent reforms bode well for flows
f. Banking Capital	11.8	-3.2	2.1	5.0	16.2	16.0	11.0	
Of which NRI deposits	0.2	4.3	2.9	3.2	11.9	15.0	10.0	
g. Rupee debt service	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4	
h. Other capital******	11.0	-4.0	-13.2	-11.0	-6.9	1.0	1.0	
2.Capitala/c(c+d+e+f+g+h)	**106.6**	**6.8**	**51.6**	**62.0**	**67.8**	**71.6**	**65.6**	
Errors & Omissions	1.3	1.1	0.0	-3.0	-2.4	0.0	0.0	
Overall balance(1+2)	**92.2**	**-20.1**	**13.4**	**13.1**	**-12.8**	**1.7**	**3.5**	
Forex								
Forex assets	299.1	241.6	252.8	273.7	260.9	262.5	266.0	
FCA to months of imports	13.9	9.4	10.1	8.6	6.3	6.6	6.3	
Exchange rate								
Rs/US$-annual avg	40.2	46.0	47.4	45.6	48.1	54.0	53.5	
%depreciation	-11.1	14.4	3.0	-3.8	5.5	12.3	-0.9	

Data on exports and imports differ from those given by DGCI&S on account of differences in coverage, valuation and timing (e.g. RBI data on imports includes defence).** ** Remittances - 50% are for family maintenance; balance is local withdrawal from NRI rupee deposits. ***Commercial Borrowings include US$4.1bn of the Resurgent Bond Issue repaid in September 2003 and repayment of India Millennium Bonds in FY06. * Other capital refers to leads and lags in exports, advances received pending issue of shares, funds held abroad. Source: RBI, Citi Research

Direction and Composition of Trade

Figure 52. India — Composition of Imports (US$bn, %)

	FY08	FY09	FY10	FY11	FY12	FY13*
Petroleum crude& products	79.7	91.5	86.8	105.8	154.9	39.2
% to total	31.9	30.6	30.2	28.6	31.7	34.4
% YoY	39.6	14.8	-5.1	21.9	44.6	-0.5
Capital goods	49.8	48.5	44.5	51.7	66.1	15.1
% to total	20.0	16.2	15.5	14.0	13.5	13.2
% YoY	61.9	-2.8	-8.2	16.3	20.9	0.8
Gold & Silver	17.9	22.8	29.6	42.5	61.3	9.5
% to total	7.1	7.6	10.3	11.5	12.5	8.3
% YoY	22.1	27.8	29.8	43.4	54.1	-47.8
Pearls precious stones	7.3	16.6	16.2	34.6	30.5	5.7
% to total	2.9	5.5	5.6	9.4	6.2	5.0
% YoY	-2.0	126.5	-2.6	113.8	0.6	-39.3
Chemicals, related products	18.7	29.2	23.5	28.3	36.7	7.8
% to total	7.5	9.8	8.2	7.7	7.5	6.9
% YoY	34.8	56.7	-19.7	20.7	25.4	2.4
Electronic Goods	20.2	23.4	21.0	26.6	32.6	7.5
% to total	8.1	7.8	7.3	7.2	6.7	6.6
%YoY	26.7	15.8	-10.3	26.6	24.2	-4.1
Food & related items	5.3	5.8	10.0	10.1	13.2	3.7
% to total	2.1	1.9	3.5	2.7	2.7	3.3
% YoY	8.8	8.3	72.9	1.4	30.1	31.6
Other non-POL items	42.7	52.2	46.8	57.6	78.7	19.9
% to total	17.1	17.4	16.3	15.6	16.1	17.5
% YoY	26.2	22.4	-10.4	22.9	36.7	
Other commodities	5.8	6.8	6.7	9.0	11.4	4.5
% to total	2.3	2.3	2.3	2.4	2.3	3.9
% YoY	28.3	17.3	-0.5	33.8	18.0	78.2
TOTAL IMPORTS	249.8	299.3	287.6	369.4	489.3	114.0
% YoY	35.0	19.8	-3.9	28.4	32.4	-7.2

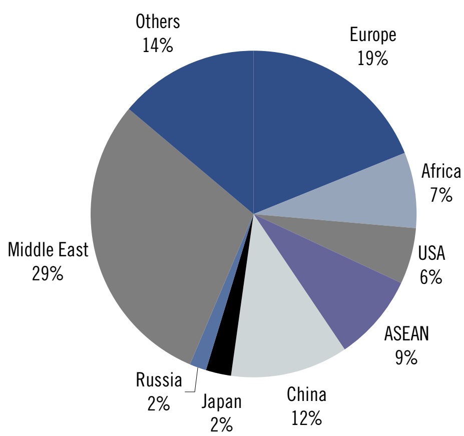
* Apr-Jun12 Source: CMIE ,RBI

Figure 53. Composition of Exports (US$bn, %)

	FY08	FY09	FY10	FY11	FY12	FY13*
Engineering goods	37.2	47.0	38.1	58.1	66.9	16.7
% to total	22.8	25.7	21.4	23.1	22.0	22.9
%YoY	26.4	26.3	-18.9	52.3	13.9	-6.9
Petroleum, crude prods	28.4	26.9	28.0	41.4	55.4	12.3
% to total	17.4	14.7	15.7	16.5	18.2	16.9
%YoY	52.0	-5.3	4.3	47.8	51.8	-19.2
Gems & Jewellery	19.7	28.0	29.0	40.5	46.9	10.8
% to total	12.1	15.3	16.3	16.1	15.4	14.8
%YoY	23.3	42.2	3.6	39.5	46.9	-7.7
Agri, allied products	18.4	17.6	17.7	24.2	37.4	11.7
% to total	11.3	9.6	10.0	9.7	12.3	16.0
%YoY	45.5	-4.8	1.1	36.4	53.0	73.7
Chemicals & related	15.6	17.3	17.4	21.3	26.9	6.9
% to total	9.5	9.5	9.7	8.5	8.8	9.5
%YoY	28.3	11.3	0.4	22.7	27.9	13.1
Textiles (incl RMG)	19.4	20.0	19.9	24.2	28.0	6.6
% to total	11.9	10.9	11.1	9.7	9.2	9.1
%YoY	11.9	3.2	-0.9	21.9	22.7	-12.1
Ores & minerals	9.1	7.8	8.7	8.6	8.1	1.9
% to total	5.6	4.3	4.9	3.4	2.7	2.6
%YoY	30.4	-14.4	11.0	-0.4	-18.4	-0.1
Other manuf goods	11.1	11.0	10.9	13.9	18.0	4.3
% to total	6.8	6.0	6.1	5.5	5.9	5.9
%YoY	11.7	-1.4	-0.7	27.6	29.6	-76.1
Other commodities	4.0	7.5	8.6	18.6	16.7	0.5
% to total	2.5	4.1	4.8	7.4	5.5	2.0
%YoY	30.5	86.9	15.2	115.0	-36.5	-66.9
TOTAL EXPORTS	163.0	183.1	178.3	250.8	304.3	73.0
% YoY	29.1	12.3	-2.6	40.6	21.3	-4.5

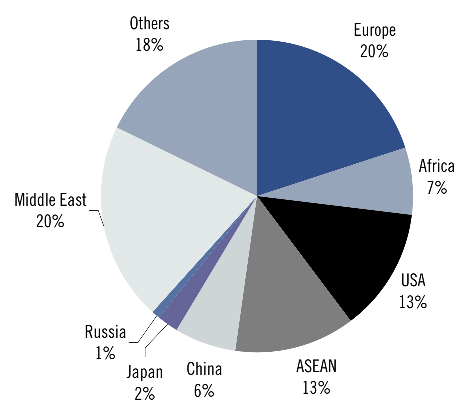
* Apr-Jun12 Source: CMIE, RBI

Figure 54. Direction of Imports FY12



Source: DGCI&S, CMIE

Figure 55. Direction of Exports FY12



Source: DGCI&S, CMIE

Snapshot of Govt Finances

Figure 56. India – Snapshot of Central Government Finances (Rs Bn, %)

	FY07	FY08	FY09	FY10	FY11	FY12RE	FY13BE	BUDGET FY13– KEY HIGHLIGHTS
a. Gross Tax Revenue	**4,735**	**5,931**	**6,053**	**6,245**	**7,931**	**9,017**	**10,776**	
% to GDP	11.0	11.9	10.8	9.7	10.3	10.1	10.6	**Revenues**
% YoY	29.3	25.3	2.0	3.2	27.0	13.7	19.5	Key Assumptions: Income Tax +13.9%,
Corporation tax	1,443	1,929	2,134	2,447	2,987	3,277	3,732	Customs +22%, Excise +29.1%,
Income tax	751	1,026	1,060	1,224	1,391	1,667	1,899	Corporate +13.9%, Service +30.5%
Excise duty	1,176	1,234	1,086	1,030	1,377	1,501	1,937	
Import duty	863	1,041	999	833	1,358	1,530	1,867	Increase in service taxes from 10% to
Service tax	376	513	609	584	710	950	1,240	12%, negative list introduced
b. (-) Devolvement to States & UTs	**1,223**	**1,536**	**1,620**	**1,680**	**2,232**	**2,594**	**3,065**	Excise duties also raised from 10% to
c. Net tax revenues (a-b)	3,512	4,395	4,433	4,565	5,699	6,423	7,711	12%
d. Non tax revenues	832	1,023	969	1,163	2,186	1,247	1,646	
e. Net revenue receipts (c+d)	**4,344**	**5,419**	**5,403**	**5,728**	**7,885**	**7,670**	**9,357**	
f. Non-debt capital receipts	**64**	**439**	**67**	**332**	**353**	**298**	**417**	Divestment targets appear more realistic
Recovery of loans	59	51	61	86	124	143	117	
Divestments/Other	5	388	6	246	228	155	300	
g. TOTAL REVENUES (e+f)	**4,408**	**5,858**	**5,470**	**6,060**	**8,237**	**7,967**	**9,773**	
%YoY	22.7	32.9	-6.6	10.8	35.9	-3.3	22.7	
h. Revenue expenditure	**5,146**	**5,945**	**7,938**	**9,118**	**10,407**	**11,619**	**12,861**	**Expenditures**
Interest (1)	1,503	1,710	1,922	2,131	2,340	2,756	3,198	
Defense	517	543	733	907	921	1,048	1,138	
Subsidies	571	709	1,297	1,414	1,734	2,163	1,900	Fuel subsidies appear understated
Pensions	221	243	329	561	574	562	632	
Grants to States	357	358	382	459	498	553	642	
Admin and social services	553	647	927	1,107	1,198	1,075	1,146	
Plan expenditure	1,424	1,736	2,348	2,539	3,142	3,462	4,205	
i. Capital expenditure	**688**	**1,182**	**902**	**1,127**	**1,566**	**1,568**	**2,048**	
Defense	338	375	410	511	621	661	796	
Loans	75	493	87	121	298	102	247	
Plan expenditure	274	315	405	495	648	804	1,005	
j. Plan expenditure	**1,699**	**2,051**	**2,752**	**3,034**	**3,790**	**4,266**	**5,210**	Plan exp budgeted to rise 22.1%YoY
k Non Plan expenditure	**4,135**	**5,077**	**6,087**	**7,211**	**8,183**	**8,921**	**9,699**	Non-plan exp slated to rise 8.7%
l. TOTAL EXPENDITURE (h+i): (j+k)	**5,834**	**7,127**	**8,840**	**10,245**	**11,973**	**13,187**	**14,909**	
% YoY	15.4	22.2	24.0	15.9	16.9	10.1	13.1	
Deficit trends								
m. Fiscal Balance (g-l)	**-1,426**	**-1,270**	**-3,370**	**-4,185**	**-3,736**	**-5,220**	**-5,136**	**Fisc Deficit for FY13 budgeted at 5.1%**
% to GDP	-3.3	-2.5	-6.0	-6.5	-4.9	-5.9	-5.1	**from 5.9% in FY12RE**
n. Revenue Balance (e-h)	**-802**	**-526**	**-2,535**	**-3,390**	**-2,523**	**-3,950**	**-3,504**	We expect a slippage of ~80bps to 5.9%
% to GDP	-1.9	-1.1	-4.5	-5.2	-3.3	-4.4	-3.4	
o. Primary Deficit (m-1)	**77**	**441**	**-1,448**	**-2,054**	**-1,396**	**-2,464**	**-1,938**	
% to GDP	0.2	0.9	-2.6	-3.2	-1.8	-2.8	-1.9	
Financing the deficit								
Market borrowings (Net)	1,104	1,318	2,336	3,984	3,254	4,364	4,790	Market Borrowings are up 9.8%YoY
PPF & special deposits	52	39	80	161	125	100	120	
Small savings	0	-113	-13	133	112	-103	12	
Net external assistance	85	93	110	110	236	103	101	
Others	140	204	418	-189	-56	1,000	112	
Cash Surplus	45	-271	438	-14	64	-245	0	
Total financing								
Memo items (% to GDP)								
Centre	-3.3	-2.5	-6.0	-6.5	-4.9	-5.5	-5.1	
State	-1.8	-1.5	-2.4	-3.3	-2.5	-2.5	-2.5	
Combined	**-5.4**	**-4.1**	**-8.4**	**-9.6**	**-8.3**	**-8.0**	**-7.7**	
Off Balance Sheet Items	-0.9	-0.6	-1.7	-0.2	1.0			
Total Deficit	**-6.3**	**-4.7**	**-10.1**	**-9.8**	**-7.3**	**-8.0**	**-7.7**	
Combined liabilities	79.3	76.1	76.1	75.0	71.3	70.0	69.0	

*Includes proceeds of transfer of RBI's stake in SBI. RE: Revised Estimates; BE: Budgeted Estimates, based on the government's nominal GDP forecast of Rs101599bn or 14%YoY. Source: Budget Documents, Citi Research

Global Snapshot

Figure 57. Selected Countries — Economic Forecast Overview (Percent) 2012F-2016F

	GDP Growth					CPI					Short Term Interest Rates				
	2012F	2013F	2014F	2015F	2016F	2012F	2013F	2014F	2015F	2016F	2012F	2013F	2014F	2015F	2016F
Global	**2.5**	**2.6**	**3.1**	**3.6**	**3.8**	**2.9**	**2.8**	**3.0**	**2.9**	**2.8**	**2.35**	**2.23**	**2.47**	**2.82**	**3.24**
Based on PPP weights	*3.0*	*3.2*	*3.7*	*4.0*	*4.3*	*3.3*	*3.2*	*3.3*	*3.3*	*3.2*	*2.94*	*2.81*	*3.05*	*3.37*	*3.74*
Industrial Countries	**1.2**	**0.9**	**1.5**	**2.2**	**2.5**	**1.9**	**1.7**	**1.8**	**1.7**	**1.6**	**0.63**	**0.45**	**0.50**	**0.88**	**1.42**
United States	2.2	1.6	3.0	3.5	4.0	1.8	1.9	2.0	2.0	2.0	0.25	0.25	0.25	1.10	2.10
Japan	1.6	0.7	0.7	1.5	1.2	0.0	-0.3	1.6	0.5	0.2	0.07	0.07	0.13	0.10	0.27
Euro Area	-0.4	-0.7	-0.4	0.7	1.1	2.6	2.0	1.5	1.5	1.3	0.88	0.31	0.25	0.25	0.31
Australia	3.7	3.1	3.1	3.5	3.6	1.9	2.9	2.7	2.8	2.5	3.69	3.00	3.50	4.00	4.75
United Kingdom	-0.1	0.8	1.0	1.2	1.8	2.8	2.5	2.1	1.8	1.5	0.50	0.50	0.50	0.50	1.04
Emerging Markets	**4.7**	**5.3**	**5.5**	**5.5**	**5.6**	**4.4**	**4.6**	**4.7**	**4.6**	**4.5**	**5.21**	**5.02**	**5.37**	**5.60**	**5.73**
China	7.7	7.8	7.3	7.0	7.5	2.7	2.8	3.6	3.8	3.8	3.25	3.13	3.50	3.75	3.88
Taiwan	1.0	3.0	3.8	4.0	4.5	2.0	2.0	1.1	1.8	1.8	1.88	1.88	1.97	1.17	1.40
India	**5.4**	**6.2**	**6.9**	**7.3**	**7.4**	**7.5**	**7.0**	**6.0**	**6.0**	**6.0**	**7.80**	**7.50**	**7.50**	**7.50**	**7.50**
Indonesia	6.2	6.1	6.3	6.5	6.5	4.4	4.7	4.7	5.7	5.4	3.88	4.19	4.50	4.63	5.13
Korea	2.3	3.4	4.0	4.1	4.2	2.3	2.7	3.1	3.0	3.2	3.06	2.56	3.31	3.75	4.13
Czech Republic	-1.2	0.0	0.9	2.0	2.3	3.3	2.4	1.0	2.1	1.8	0.49	0.05	0.08	0.79	1.63
Hungary	-1.3	0.3	1.3	1.0	1.4	5.8	4.8	3.9	3.9	3.5	6.69	5.50	5.50	5.44	5.00
Poland	2.1	1.3	2.8	3.3	3.3	3.7	2.2	2.4	2.5	2.5	4.60	3.50	3.79	4.58	4.75
Russia	3.6	3.2	3.8	3.7	3.7	5.1	6.8	5.8	5.0	5.1	8.08	8.38	7.50	7.00	7.00
Turkey	2.8	4.0	4.3	4.6	4.5	9.2	7.3	6.3	5.9	5.4	5.75	5.13	6.88	8.00	8.00
Nigeria	7.4	6.5	7.2	6.9	7.2	12.2	10.9	9.9	9.5	9.0	12.00	11.50	11.00	10.00	9.50
South Africa	2.2	2.5	3.4	4.0	4.2	5.7	5.6	5.3	5.4	5.5	5.25	5.00	5.08	6.17	6.50
Argentina	2.3	3.0	3.0	2.0	-2.0	9.9	11.9	14.5	15.0	50.0	14.13	17.87	20.83	22.00	22.00
Brazil	1.4	3.9	4.0	3.5	3.5	5.4	5.3	5.4	5.2	4.8	8.46	7.46	8.75	9.50	9.88
Mexico	3.9	3.6	3.8	4.0	3.8	4.2	4.1	3.6	3.6	3.6	4.50	4.50	4.65	5.46	6.42
Venezuela	5.0	3.0	3.0	2.1	2.5	21.2	22.3	25.2	27.3	25.2	14.40	14.40	14.40	14.80	14.80

Source: Citi Research , *Global Economic Outlook and Strategy*, 26 November 2012

Figure 58. Selected Countries — Economic Forecast Overview (Percent) 2011-2015F

	Current Balance (Pct of GDP)					Fiscal Balance (Pct of GDP)					Government Debt (Pct of GDP)				
	2012F	2013F	2014F	2015F	2016F	2012F	2013F	2014F	2015F	2016F	2012F	2013F	2014F	2015F	2016F
Global	**0.2**	**0.1**	**-0.1**	**-0.3**	**-0.3**	**-4.5**	**-3.8**	**-3.2**	**-2.7**	**-2.4**	**89**	**90**	**89**	**88**	**87**
Based on PPP weights	*0.1*	*0.0*	*-0.2*	*-0.4*	*-0.5*	*-4.3*	*-3.8*	*-3.3*	*-2.9*	*-2.6*					
Industrial Countries	**-0.8**	**-0.7**	**-0.7**	**-0.7**	**-0.5**	**-5.9**	**-4.8**	**-3.8**	**-3.0**	**-2.7**	**117**	**121**	**122**	**123**	**123**
United States	-3.0	-3.0	-3.1	-3.2	-3.2	-8.3	-7.0	-5.0	-4.0	-4.0	106	110	112	112	112
Japan	1.0	1.1	1.6	1.5	1.5	-10.7	-8.1	-6.6	-6.2	-5.8	237	243	244	248	252
Euro Area	0.9	1.2	1.3	1.3	1.3	-3.3	-2.9	-2.4	-1.5	-0.9	94	98	96	95	93
Australia	-3.8	-4.7	-5.5	-3.5	-3.2	-3.0	0.1	0.1	0.2	0.4	29	29	27	26	23
United Kingdom	-3.9	-2.5	-2.2	-1.6	-1.0	-5.9	-5.0	-5.9	-5.1	-4.0	88	92	96	100	101
Emerging Markets	**1.8**	**1.2**	**0.6**	**0.1**	**-0.1**	**-2.0**	**-2.1**	**-2.3**	**-2.4**	**-2.2**	**42**	**41**	**40**	**40**	**39**
China	2.5	2.0	1.5	1.0	0.7	-2.4	-2.0	-2.0	-2.0	-1.5	44	43	41	39	37
Taiwan	8.7	8.4	8.0	8.0	8.0	-1.6	-1.6	-1.3	-1.0	-0.7	39	40	42	43	44
India	**-3.7**	**-2.8**	**-2.5**	**-2.5**	**-2.5**	**-8.5**	**-8.0**	**-7.5**	**-7.0**	**-6.5**	**69**	**68**	**67**	**66**	**65**
Indonesia	-2.3	-1.7	-1.5	-1.2	-0.9	-2.1	-1.5	-1.4	-1.0	-0.5	24	22	21	21	20
Korea	2.9	1.5	1.0	0.1	-0.7	0.8	1.3	1.6	1.5	2.2	34	33	31	29	27
Czech Republic	-1.5	-1.9	-1.2	-3.3	-2.3	-3.2	-3.2	-2.7	-2.2	-1.5	45	47	49	49	48
Hungary	1.3	1.7	2.1	2.4	2.5	-2.8	-2.9	-3.2	-3.0	-2.8	78	78	78	78	77
Poland	-3.6	-3.9	-4.7	-4.7	-4.2	-3.5	-3.5	-2.8	-2.5	-2.4	53	52	51	50	49
Russia	4.9	3.3	0.9	-0.6	-1.8	-0.1	-1.2	-2.4	-2.7	-3.0	9	10	11	12	14
Turkey	-7.0	-7.1	-7.1	-6.8	-6.2	-2.5	-2.7	-2.7	-2.7	-3.0	38	37	36	36	36
Nigeria	2.3	3.4	3.0	1.9	1.3	-2.9	-2.1	-2.6	-3.0	-2.6	NA	NA	NA	NA	NA
South Africa	-5.9	-5.6	-5.3	-4.5	-3.3	-4.7	-5.0	-4.6	-4.2	-3.7	40	42	42	42	41
Argentina	0.8	0.4	0.2	0.2	3.0	-2.4	-2.7	-2.9	-3.0	0.0	38	39	41	42	40
Brazil	-2.2	-2.5	-2.6	-2.8	-2.9	-2.6	-2.4	-2.1	-1.8	-2.0	54	55	55	56	56
Mexico	-0.4	-0.9	-1.2	-2.5	-2.7	-2.2	-2.1	-2.0	-2.0	-2.0	40	38	38	38	37
Venezuela	5.4	5.1	6.1	6.5	5.8	-5.0	-4.0	-4.0	-4.8	-4.6	40	46	40	41	42

Note: US debt and deficit figures are for the Federal government only. All other countries are general government debt and deficits.
Source: Citi Research, *Global Economic Outlook and Strategy,* 26 November 2012

Figure 59. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent) 2011-2015F

	10-Year Yields					Exchange Rates Versus U.S. Dollar*				
	2012F	2013F	2014F	2015F	2016F	2012F	2013F	2014F	2015F	2016F
Industrial Countries										
United States	1.80	2.10	2.80	3.25	3.50	NA	NA	NA	NA	NA
Japan	0.85	0.96	1.13	1.50	1.75	81	85	83	82	82
Euro Area	1.59	1.63	1.44	1.50	2.00	1.28	1.21	1.20	1.24	1.31
Australia	3.28	3.23	3.90	4.20	5.00	1.03	0.98	0.94	0.93	0.92
United Kingdom	1.90	1.90	1.75	1.75	2.50	1.59	1.54	1.51	1.57	1.66
Emerging Markets										
China	3.24	3.49	3.74	3.99	4.12	6.29	6.15	6.07	6.05	6.06
Taiwan	1.20	1.20	1.32	1.50	1.70	29.30	28.47	28.27	28.20	28.20
India	**8.25**	**8.25**	**8.25**	**8.25**	**8.25**	**52.99**	**53.66**	**53.58**	**52.64**	**51.47**
Indonesia	5.81	5.73	6.10	6.30	6.60	9469	9802	9703	9621	9567
Korea	3.22	2.89	3.76	4.48	5.00	1117	1065	1012	993	991
Czech Republic	2.82	2.88	3.42	3.82	4.00	19.7	21.3	21.1	19.6	17.8
Hungary	7.81	7.05	6.63	6.29	6.00	225	245	244	232	217
Poland	5.03	4.66	5.19	5.40	5.34	3.26	3.50	3.34	3.14	2.98
Russia	NA	NA	NA	NA	NA	31.1	33.4	34.3	33.5	32.0
Turkey	NA	NA	NA	NA	NA	1.80	1.86	1.90	1.91	1.91
Nigeria	NA	NA	NA	NA	NA	158	161	164	168	171
South Africa	7.19	7.19	8.15	9.15	9.20	8.29	9.15	9.42	9.61	9.76
Argentina	NA	NA	NA	NA	NA	4.58	5.46	6.74	9.75	16.58
Brazil	9.85	9.21	9.79	9.35	8.25	1.99	1.99	2.02	1.99	1.91
Mexico	5.73	6.44	6.84	6.99	7.29	13.0	12.7	12.6	12.6	12.8
Venezuela	11.40	11.55	11.85	15.50	15.50	4.30	6.50	6.50	9.75	10.50

* Per USD except Euro Area, Australia, United Kingdom. Source: Citi Research, *Global Economic Outlook and Strategy*, 26 November 2012

Figure 60. Foreign Exchange Forecasts (End of Period), as of 26 November 2012

	vs. USD						vs. EUR					
	Current	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Current	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14
United States	NA	NA	NA	NA	NA	NA	1.28	1.23	1.22	1.21	1.20	1.20
Japan	81	84	85	85	84	84	104	104	103	102	101	100
Euro Area	1.28	1.23	1.22	1.21	1.20	1.20	NA	NA	NA	NA	NA	NA
Canada	1.00	1.00	0.99	0.98	0.98	0.98	1.28	1.23	1.20	1.18	1.18	1.17
Australia	1.04	1.01	0.98	0.97	0.96	0.95	1.23	1.22	1.24	1.25	1.26	1.26
New Zealand	0.81	0.80	0.80	0.78	0.76	0.74	1.57	1.53	1.53	1.55	1.58	1.62
Norway	5.78	5.90	5.93	5.96	5.99	6.02	7.37	7.26	7.22	7.20	7.21	7.22
Sweden	6.78	6.82	6.82	6.84	6.88	6.91	8.65	8.40	8.30	8.26	8.28	8.30
Switzerland	0.94	0.98	0.99	0.99	1.00	1.00	1.21	1.20	1.20	1.20	1.20	1.20
United Kingdom	1.59	1.55	1.54	1.53	1.52	1.52	0.80	0.79	0.79	0.79	0.79	0.79
China	6.23	6.18	6.16	6.14	6.12	6.10	8.0	7.6	7.5	7.4	7.4	7.3
India	**55.0**	**53.1**	**53.7**	**54.0**	**53.9**	**53.8**	**70.2**	**65.4**	**65.4**	**65.2**	**64.8**	**64.5**
Korea	1087	1076	1072	1063	1048	1033	1388	1324	1305	1284	1262	1240
Poland	3.25	3.47	3.52	3.53	3.47	3.42	4.15	4.27	4.29	4.26	4.18	4.10
Russia	31.7	32.4	33.3	33.9	34.0	34.2	40.4	39.8	40.5	40.9	41.0	41.0
South Africa	8.85	9.06	9.12	9.18	9.25	9.32	11.30	11.15	11.10	11.09	11.14	11.19
Turkey	1.80	1.83	1.86	1.87	1.88	1.89	2.30	2.25	2.26	2.26	2.27	2.27
Brazil	2.09	2.04	1.98	1.96	1.98	2.00	2.66	2.51	2.41	2.37	2.38	2.40
Mexico	13.1	12.8	12.7	12.7	12.6	12.6	16.7	15.7	15.5	15.3	15.2	15.1

Source: Citi Research, *Global Economic Outlook and Strategy, 26 November 2012*

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets India Private Limited	Rohini Malkani

OTHER DISCLOSURES

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

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to Citi Research research reports.

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. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). 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 JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual