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Asia Pacific

India Macroscope

The Capital Question

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With thanks to
Abha Agarwal

- **Rising Need of Capital Flows —** India's capital requirements across the government and private sector have risen, with overall Debt-GDP ratios at 136%. While public debt/GDP has moderated from 88% to 70%, private sector leverage has risen faster from 33% of GDP to 66% currently, with growing recourse to external sources of funding. The current sweet spot in equity/debt flows is positive and has helped boost markets but given record high current account deficits, fundamentally India's dependence on capital flows has gone up.

- **Domestic Capital Is as Critical and as Much of a Challenge –** While foreign capital flows get the headlines, domestic flows are just as important as (1) Savings rates have fallen, (2) There is a continued shift to physical savings and (3) Most recent deposit growth numbers are at near historic lows of 11% YoY. Recent steps on the debt market are positive, but more needs to be done given its impact on the domestic and external front. **The need for and pressure on capital will only rise, which highlights** (a) the dilemma of the RBI of responding to industry demands of lowering rates to boost growth and (b) the need for reining in the fiscal deficit and consequently inflationary expectations. Under these circumstances, monetary easing in 2013 will likely be limited to 75bps.

- **Incremental Reform Momentum Positive –** The winter session was relatively better than expected with the passage of banking/companies bill and the cabinet approving the committee on investment. A key test is how it would manage the current roads controversy. While the passenger rail-fare hike and the possibility of further reform on fuel pricing is positive, key to note that crucial bills on GST, land bill and FDI in insurance/pensions are still pending.

- **Maintain Estimates on the Macro** — (1) Maintain our 5.4% and 6.2% GDP estimates for FY13 and FY14, (2) Deficits, both current account and fiscal, to remain elevated in FY14, keeping the INR in a Rs54-56 range, (3) WPI Inflation to average 6.5%-7%. Decontrol of diesel would increase WPI by 1%.

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	-4.0	-3.5
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

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Statistical Snapshot

Figure 2. Macro Economic Summary (FY01- FY14E)

	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	624	721	834	950	1241	1224	1362	1684	1,841	1,878	2,180
Per Capita GDP (US$)	469	474	500	582	662	754	847	1,090	1,061	1,164	1,420	1,532	1,539	1,734
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 Consumption	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 Consumption	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 Formation	0.0	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	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	256.2	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	40.4	20.9	-6.0	8.0
Imports (US$bn)	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	383.5	499.5	479.6	508.3
%YoY	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	27.6	30.3	-4.0	6.0
Trade deficit (US$bn)	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-127.3	-189.8	-188.4	-193.8
Invisibles (US$bn)	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	79.3	111.6	112.4	116.5
Current Account Deficit (US$bn)	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-48.1	-78.2	-76.0	-77.3
% to GDP	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.9	-4.2	-4.0	-3.5
Capital Account (US$bn)	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	51.6	63.7	67.8	77.6	79.6
% GDP	1.9	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.8	3.7	4.1	3.7
Forex Assets (excl gold) (US$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	264.7
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	6.2
External Debt (US$bn)	101.3	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	260.9	305.9	345.4	360.4	375.4
Short Term Debt (US$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: Capital

India's Deficits Woes = Rising Capital Requirements

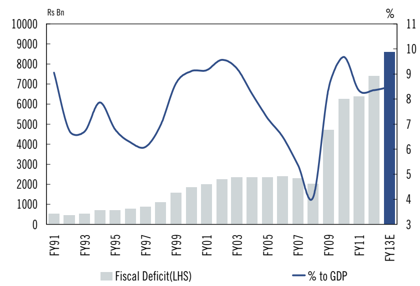
India has always had deficits, but now they are no longer small…

… The rise in deficits resulted in a de-rating of the India story and rating agencies – S&P & Fitch revising their outlook to negative.

Early last year (see Deficits – Not Twins, But Quadruplets), we discussed how the rise in each of the four deficits. (1) current account, (2) fiscal, (3) governance and (4) liquidity, had led to the de-rating of India's story and that these weak parameters are likely to feed on each other unless a determined effort is made to correct them. Fortunately, since Sept 12, we have seen measures which have broken the ~2-year policy log-jam.

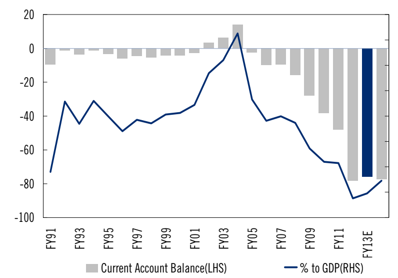
However, the fiscal and current account (CAD) seem as problematic as before. As discussed in the latest update on deficits, data on the fiscal and the current account indicate a record high 2QFY13 CAD at 5.4% of GDP, while the Apr-Nov fiscal deficit was at 80% of budget estimates. We expect some improvement in FY14, but deficits should remain high, making capital raising a priority.

Figure 3. Trends in Combined Fisc Deficit (%)



Source: Budget Documents, Citi Research

Figure 4. Trends in Current A/C Deficit (%)



Source: RBI, Citi Research

Debt Rises – Internal + External; Private more than Public

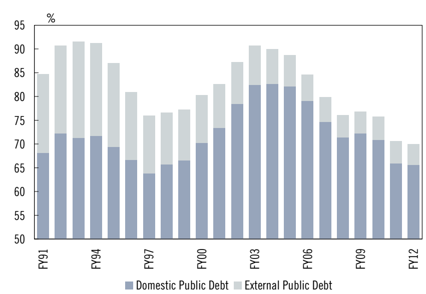
High deficits have led to more borrowing and consequently rising debt. India's total debt works out to 136% of GDP – up from 113% in the early 1990s. This is due to a sharp rise in private debt from 33% of GDP earlier to 66% currently. Much of this is domestic private debt, reflecting an increase in bank credit/corporate debt. External private debt has also seen a rise due to higher recourse to accessing cheaper funding overseas.

Public debt, on the other hand, has moderated from 88% to 70% currently. But, this has happened largely because of high nominal GDP growth and would break down if growth collapses and goes back to levels seen in the 70s. However, key points that differentiate India's public debt to most other EM's are (i) debt being largely domestic and (ii) presence of a captive demand for government bonds.

Despite high deficits, rising nominal GDP has resulted in a stabilisation of India public debt/GDP ratio at ~70% from 90% earlier….

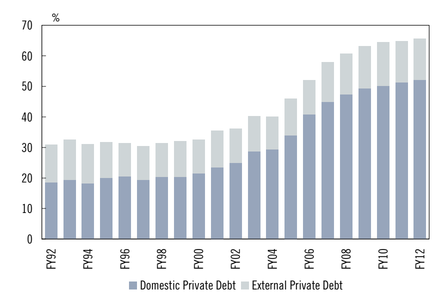
….In contrast, private debt has risen from 36% of GDP in FY02 to 66% in FY12.

Figure 5. Trends in Public Debt (%)



Source: Budget Documents; RBI

Figure 6. Trends in Private Debt (%)



Source: MoF; RBI

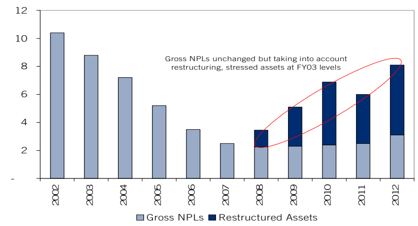
Rising Debt Taking its Toll – Both Domestic and Externally

Domestic – Public Finances; Stressed Assets

- **Public Finances:** While nominal debt-GDP ratio's have stabilized, rising debt has resulted in a sticky interest bill – with interest accounting for around a quarter of total expenditure. Moreover, there is no room for complacency as India so far has managed to 'grow its way out of public debt' due to higher nominal GDP growth rate. A sudden weakening of nominal GDP growth could cause its public debt-GDP ratio to rise unless its underlying deficit is reduced.

- **Domestic Banking Sector:** Trends in stressed assets (NPLs+ restructured loans) have been deteriorating over the last few years. While gross NPLs remain unchanged, taking into account restructured assets, stressed assets are at FY03 levels. As mentioned earlier, this is not a systemic issue[1], nonetheless, this does deserve to be watched, given the rise in the restructuring pipeline.

Figure 7. NPLs + Stressed Assets (%)



Source: RBI:

External: Investment Income Outflows to Moderate Invisible Earnings

India's external liquidity risks are still relatively low in both measures i.e. (1) FX reserves to short-term debt by remaining maturity and (2) FX reserves to total external financing requirements. However, its external debt ratios have deteriorated in the last few years as reflected in rising short-term debt and forex reserves to total debt which is down to 83% from 130% in FY08. An added concern is the changing composition of debt – wherein there is a sharp decline in concessional debt and a rise in commercial private sector debt.

Consequently, as seen in the BoP data, in the recent past there has been a sharp increase in investment income outflows – primarily led by higher interest payments – a result of growing recourse to external sources of financing. This is taking a toll on invisible earnings, which in the past provided a substantial cushion to the rising trade deficit (see page 14 for details).

Figure 8. Trends in External Debt (US$bn)

India's external debt	FY08	FY12	FY13 *
Multilateral	39.5	50.5	50.7
Bilateral	19.7	26.7	27.6
IMF	1.1	6.2	6.1
Trade Credit	10.3	19.0	19.0
Commercial Borrowing	62.3	104.9	109.0
NRI Deposits (> 1 year)	43.7	58.6	67.0
Rupee Debt*	2.0	1.4	1.3
Total Long term debt	**178.7**	**267.2**	**280.8**
NRI Deposits (1 yr)	-	-	-
FII Invst in T-Bills	0.7	9.4	8.2
Others (trade related)	41.9	65.1	74.5
Other	3.2	3.7	1.8
Total Short term debt	**45.7**	**78.2**	**84.5**
GROSS TOTAL DEBT	**224.4**	**345.4**	**365.3**

Source: *Sept: RBI; MoF

Figure 9. Trends in Current Account (US$bn)

	FY08	FY09	FY10	FY11	FY12	FY13E
a.Trade Balance	**-91.5**	**-119.5**	**-118.2**	**-127.3**	**-189.8**	**-188.4**
Exports	166.2	189.0	182.4	256.2	309.8	291.2
Imports	257.6	308.5	300.6	383.5	499.5	479.6
b. Invisibles	**75.7**	**91.6**	**80.0**	**79.3**	**111.6**	**112.4**
Services	38.9	53.9	35.8	44.1	64.1	62.0
Software Services	36.9	43.5	48.2	50.9	61.0	64.0
Non-Software Services	1.9	10.4	-12.5	-6.8	3.1	-2.0
Official Transfers	0.2	0.2	0.3	0.0	0.0	0.4
Private Transfers	41.7	44.6	52.1	53.1	63.5	67.0
Investment Income	-5.1	-7.1	-8.0	-18.0	-16.0	-17.0
Current Account (a+b)	**-15.7**	**-27.9**	**-38.2**	**-48.1**	**-78.2**	**-76.0**

Source: RBI, Citi Research

[1] Key Facts on the Indian Banking Sector (i) The government and regulator have had a dominant role/influence on the banking system with 70%+ of asset/liabilities held by government-owned banks, (ii) Reserve requirements are ~28% (iii) 90%+ loans/deposits are domestic, comprising mainly of plain vanilla loans and customer deposits, (iv) Loan to Deposit ratios are 77%, and (v) the average Tier 1 capital ratio is 9%+.

Capital Raising – Likely to Remain A Key Focus Area

Measures Taken…

On the external front, 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 boost dollar inflows. 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; (4) Further liberalization of the FDI norms and (5) Postponement of GAAR (General Anti Avoidance Rule) to 2016 .

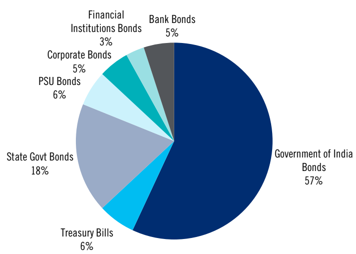
…But Much More needs to Be Done

Going forward, given India's financing needs, both external and internal, we expect capital raising to be a key priority for policy makers in 2013.

Increasing Focus on Debt Market

The size of the debt market is estimated at US$848bn, of which US$638bn is dominated by government bonds and US$210bn by corporate bonds. Despite the focus being given to bond market development, bonds continue to lag other forms of financing due to issues of liquidity, transparency and overall efficiency. This is reflected in a recent study by the National Institute of Public Finance, which indicates that bonds constitute a mere 3.9% of financing of large firms – similar to levels seen in FY01. More-over, total FII investment in bonds is limited at US$66bn, which indicates the room available to use debt markets to attract dollar inflows.

Figure 10. Indian Bond Market



Source: SEBI; CEIC

Figure 11. Structure of Funds

Component	FY01	FY11
Internal	**35.2**	**30.8**
Retained Earnings	5.7	21.1
Depreciation	29.5	9.7
External	**64.6**	**67.5**
New Equity	17.2	13.8
Banks	14.4	17.8
Bonds	3.5	3.9
Foreign	0.5	3.2
Current Liabilities	25.5	24.2

Source: NIPFP

Measures to incentivize the bond market include (1) Encouraging participation of retail investors, (2) Development of the CDS market to hedge credit risks, (3) Simplify investment by FII's into bonds – Certain limits have a lock-in period and are subject to residual maturity guidelines. Consequently this has resulted in FII investments at ~US$32bn v/s permitted levels of US$66.5bn. (4) Simpler disclosure/listing requirements and measures to reduce time and cost of public issuances, (5) Reduction/removal of with-holding tax on bonds held by FIIs and (6) Uniform system of applying stamp duties.

Recent Measures to help – These include (1) Raising FII limits in both corporate bonds and G-Secs, (2) Permitting credit default swaps on unlisted, but rated corporate bonds, (3) Allowing CPs, CDs and non-convertible debentures of <1yr to be allowed as collateral in a repo auction route. The positive impact of these measures is already evident wherein ~Rs3363bn was raised through bond issuances in 2012 vs ~Rs2109bn last year and is at a five-year high.

Figure 12. Debt Utilisation Status* (US$bn)

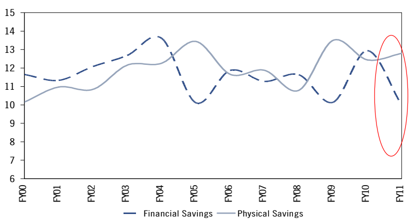
	Cap	Investment by FIIs
G-secs with no tenure restrictions	10	8.2
G-secs residual maturity 5 years	10	5.3
Corporate Debt - no restrictions	20	15.7
Corporate infra bonds - 1 year lock-in	12	3.0
QFI in debt mutual funds	3	
Corporate Debt - old	1	
Investment in infra debt funds	10	
Upper tier - II	0.5	
TOTAL	**66.5**	**32.4**

*Data as of 31 Oct'12; Source: SEBI (The govt announces the FII limits in USD terms, but for allocation and monitoring, the limits are converted into INR terms using the RBI reference rate)

Other Priorities – Fiscal; Physical vs Financial Savings

Savings – Addressing the Balance between Financial and Physical

Figure 13. Trends in Financial vs Physical Savings (%GDP)



Source: RBI

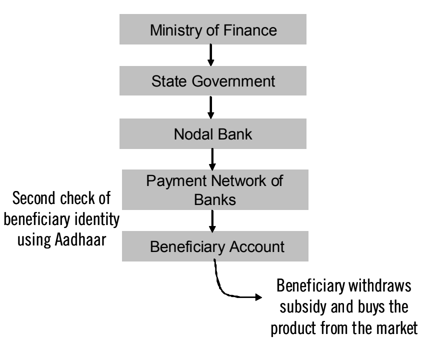
Over the last few years, there has been a sharp shift in savings from financial assets to physical assets with the latest data on savings indicating that net financial savings of the household sector declined to 7.8% GDP in FY12 from 9.3% in FY11 and 12.2% in FY10. This has largely been a result of negative real interest rate on deposits – a result of sticky inflation pressures and better returns on alternate assets like gold. This brings to the fore the dilemma of the RBI of responding to industry demands of lowering rates to boost growth and the need to keep the interests of savers into account.

Fiscal Consolidation: Cash Transfers; Divestment Flows

While the current fiscal situation is worrying, the govt is fortunately taking measures towards fiscal consolidation. While the 5-year fiscal consolidation plan, which aims at a gradual reduction in the fiscal deficit, from 5.3% of GDP in FY13 to 3% by FY17, does appear ambitious, positive steps taken in the last few months include:

Kelkar Committee and Divestments – While there is on-going discussion regarding the fuel subsidy – monthly/one-off hikes, on divestments, the government is considering the use of various instruments – such as Offer For sale (OFS), Call Option Model, Exchange Traded Fund to enable the government meet its divestment targets. The Kelkar Committee has also proposes the dissolution of SUUTI (Specialized Undertaking of UTI) which would entail the govt selling its shares in key blue-chips. Another proposal is its emphasis on the "use it or lose it" policy for cash-rich PSUs who should be asked to either invest their excess cash, or pay it as dividends to the govt.

Figure 14. Proposed Cash Transfer System



Source: Ministry of Finance

Cash Transfers: The Aadhaar-enabled system of direct cash transfer of subsidies and welfare payments is scheduled to roll out in 43 districts on 1 January 2013 and is expected to cover 18 states by end-FY13 and remaining 16 states by April 2014. The system would consist of transferring cash to a beneficiary's bank account linked to Aadhaar – a unique biometric ID issued by the government. The Direct Cash Transfer system will play an important rule in reducing inefficiency due to corruption, duplication, and high transaction costs in the transfer of payments to beneficiaries.

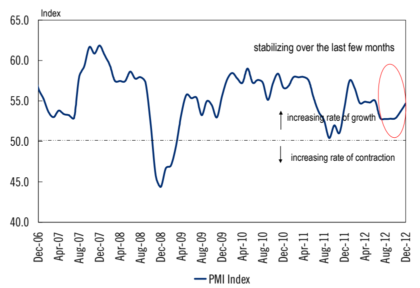
While the move to adopt this system is positive, there are a few concerns. These include (1) Current Aadhaar enrolment, which started ~3 years ago, is ~229mn – only one-fourth of the targeted population. (2) Currently only 40% of the population have a bank account. For details please see India Macroscope - Right Turn, but Speed is Key, dated 25 Oct 2012.

Real Indicators

Growth – Signs of Bottoming Out

Monthly data in industrial activity have been volatile, with the latest factory output reading at -0.1%. However, most high-frequency data including 3mma trends in industrial activity clearly indicate a bottoming out, with growth at 2.5% vs near zero readings earlier this fiscal. This is in line with the PMI data, which have stabilized over the last four months.

Figure 15. Trends in PMI



Source: Markit

Investments – CCI Approved, But With Far Less Teeth

The much-awaited "National Investment Board" now re-named the "Cabinet Committee on Investments (CCI)" was finally approved by the Cabinet in December. The CCI will look at projects over Rs10bn and be chaired by the Prime Minister and will include ministers of all the infrastructure-related industries.

Key to note is that, unlike the proposed NIB which was expected to have "appellate powers", individual line ministries are expected to retain their individual power. But the CCI will have the authority to intervene where there are delays and will give timelines for projects within which ministries would take decisions.

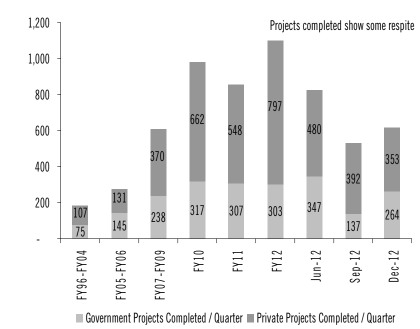
While the proposed CCI clearly appears tamer than the NIB, the delta change is positive. Hopefully, this will help stem the current dismal project investment trends.

Latest Trends in Projects – Remains Disappointing

As analysed by our infrastructure analysts Venkatesh Balasubramaniam and Atul Tiwari, latest trends for the quarter ending Dec 12 indicate that new project announcements declined -8% QoQ and -74% YoY in 3QFY13. While government new project announcements were almost non-existent, private new project announcements recovered a bit sequentially, but absolute levels remain weak.

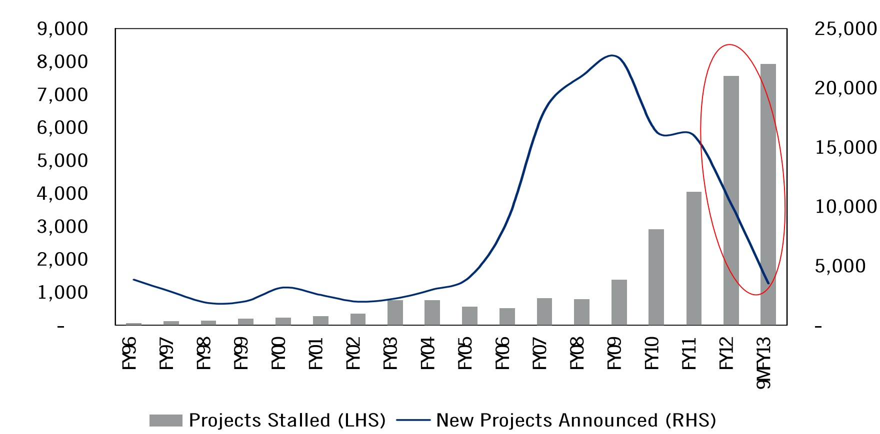
Moreover, execution challenges remain high, with stalled projects (both in absolute terms and as a % of under implementation projects) continuing to inch up, rising 7%QoQ and 31%YoY in 3QFY13. The only ray of light in the latest round of data is that completed projects have gone up QoQ (see Figure 16). This could be a positive for GDP growth in the near term and probably means that some of effort in removing the roadblocks may be working.

Figure 16. Projects Completed (Rs bn)



Source: http://capex.cmie.com (Centre for Monitoring Indian Economy), Citi Research

Figure 17. Projects Announced vs Projects Stalled (Rs bn)



Source: Source: http://capex.cmie.com (Centre for Monitoring Indian Economy), Citi Research

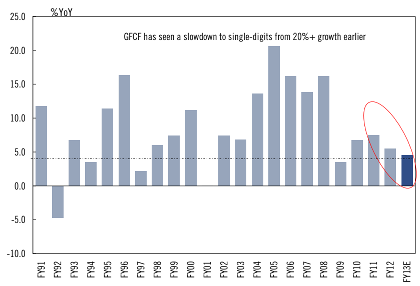
Current Roads Controversy to Be a Test for the CCI

Early this year, GMR, a domestic infrastructure company, sent a notice to the NHAI (National Highways Road Authority) to cancel its participation in the Kishangarh – Udaipur – Ahmedabad BOT project, citing delays in approvals. Another player, GVK, has also withdrawn from the Shivpuri-Dewas highway in Madhya Pradesh.

This has resulted in a blame game between two government bodies - the NHAI and the MoEF (Ministry of Environment and Forests). The charges/counterchanges being levied by the two wings of government on each other highlight some of the key issues that have resulted in a near collapse in the investment story, including roads. The NHAI has blamed MoEF for failing to comply with an earlier Supreme Court order to delink environmental clearance and forest clearance processes, while the MoEF has said that "Environment and Forest Clearances go hand in hand".

Key to watch is whether the CCI intervenes and to what extent – given that it does not have "appellate" powers to over-ride, the key here would be whether the CCI intervenes to solve issues between different ministries and state governments.

Figure 18. Trends in Capital Formation (%)



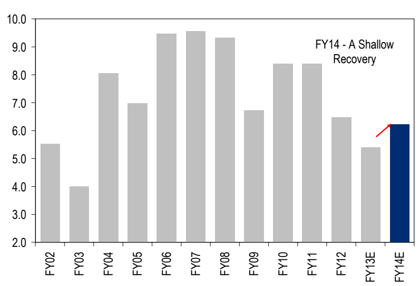
Source: CSO: Citi Research

Bottom Line: Maintain FY13/FY14 GDP at 5.4% and 6.2%

We are maintaining our FY13 and FY14 GDP estimates of 5.4% and 6.2% respectively.

- **Looking at GDP by activity**, while agriculture is dependent on the vagaries of the monsoons, industrial growth could be aided by the CCI. 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 the cyclical downturn in global trade, slowdown in banking services, especially in insurance premiums and a structural slowdown in communications – given that cellular penetration levels have crossed 80%. However, key to watch in FY14 is community services which could get a boost by govt spending.
- **On the investment side**, while the reforms including the setting up of the Cabinet Committee on Investments are positive, the CCI needs to be operationalised. Moreover, key to note is that, with the general elections due in FY14, things could slow down a bit a few months prior to the polls.
- **As regards consumption**, with eight states going to the polls and all eyes on the next general elections in 2014, one could expect a continued focus on government welfare schemes. In addition to wage growth, the introduction of direct cash transfers would support consumption.

Figure 19. Trends in GDP (%)



Source: CSO; Citi Research

Figure 20. 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 Form	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**

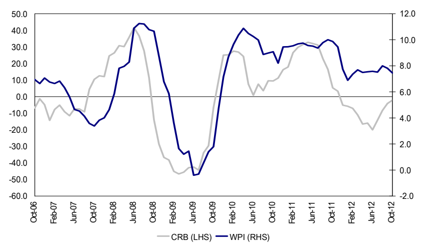
Source: CSO: Citi Research

Monetary Indicators

WPI Inflation Moderates to a 3 year Low…

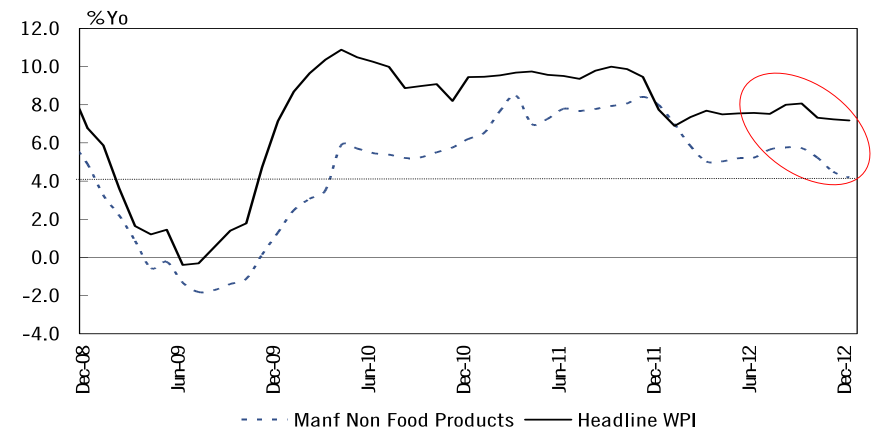
India's headline WPI continued to surprise positively and edge lower for the third consecutive month, with the December reading at 7.2%. More importantly, manufactured non-food product inflation - the RBI's proxy to core - edged closer to the RBI's comfort zone of 4%, with the latest reading at 4.2% as compared to 8% readings a year ago.

Figure 21. Trends in the CRB Index and WPI (%YoY)



Source: Bloomberg, Office of the Economic Advisor

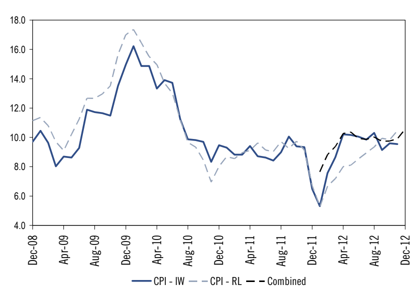
Figure 22. Trends in Headline WPI and Manufactured Non-Food Product Inflation (% YoY)



Source: Office of the Economic Advisor

But CPI Remains Sticky

Figure 22. Trends in CPI – IW, RL, Combined (%YoY)



Source: CSO, Labour Bureau

While trends in WPI have seen moderation, all measures of the CPI remain elevated. Latest trends indicate that the new combined CPI continued to inch higher in Dec coming in at 10.6% ~70bps higher than the 9.9% reading last month. This was primarily due to higher food prices, which were up 13% vs the 11.8% print last month. Besides the combined CPI, all other measures of CPI – industrial workers and rural workers also stand elevated at over 9% levels

Outlook — As mentioned earlier, our house view is for a benign commodity price outlook in 2013. Admittedly certain elements of inflation are sticky, in particular food and the persistent rise in wage growth. However, given that ~57% of India's WPI basket is tradable, provided the INR stays stable, lower commodity prices bode well for headline WPI. We thus expect the headline WPI to come in at 6.5%-7% in FY14 v/s the 7%-8% readings in FY13. A caveat to this would be the extent of fuel price hikes. As regards the CPI, given the structural factors driving food inflation and differing weights (Food wts: CPI 49.7%; WPI 20.1%), we expect trends in the CPI to remain higher than the WPI.

FUEL PRICE PROPOSALS

LPG: 2 phase hike of Rs65/cylinder each before Mar 31, with further hikes later

DIESEL: Either a Rs3-4.5/ltr hike or monthly hikes of Rs1-1.5ltr

KEROSENE: Either a monthly hike of Rs0.35/ltr or Rs 1/ltr per qtr till Mar 15

Figure 24. "Suppressed" Inflation and WPI

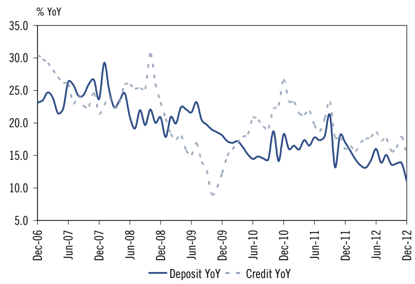
	Weight in WPI	Current Price	Current Losses	Required Price Hikes	Impact on Inflation
Liquefied petroleum gas	0.90%	423	490	116%	1.02%
Kerosene fuel	0.70%	15	31	207%	1.45%
High speed diesel	4.70%	51	9.	18%	0.83%
Overall impact	**6.30%**				**3.32**

Source: Office of the Economic Advisor, Citi Research; Prices as on Jan 14

And Deposit Growth Continues to Lag Credit Off-take

Sticky inflation has resulted in near negative returns on deposits with deposit growth falling to a near all time low of 11% YoY. On an incremental basis, deposits during Apr-Dec 12 stood at Rs 5,682bn vs Rs 6,245bn. Trends in loan growth remains unchanged at ~16% levels with incremental credit during Apr – Dec at Rs4,1546bn vs. Rs4,248bn last year.

Figure 23. Trends in Deposit and Credit Growth (%YoY)



Source: RBI

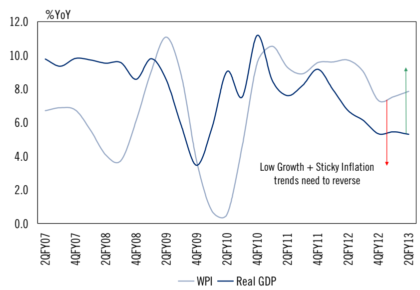
Figure 26. Trends in Bank Credit and Deposits (RsBn, %YoY)

	Outstanding	Increment to date		%YoY	Total			
	March-12	FY13	FY12	%	FY12	FY11	FY10	FY09
Bank Credit-Food	813	263	203	27.2	170	158	23	18
Non-Food	45,305	3,892	4,045	15.1	6527	6,781	4,670	4,063
Total Bank Credit	**46,118**	**4,154**	**4,248**	**15.7**	**6,697**	**6,939**	**4,692**	**4,081**
Deposits	**59,091**	**5,682**	**6,245**	**11.1**	**7,044**	**7,181**	**6,525**	**6,334**
GOI Investments	**17,366**	**2,018**	**1,932**	**14.6**	**2,366**	**1,153**	**2,183**	**1,947**

Source: RBI

Bottom Line – Monetary Easing Limited to 75bps in 2013

Figure 24. Trends in Inflation + GDP (%YoY)



Source: CSO; Office of the Econ Advisor

While WPI could surprise positively, elevated levels of CPI and consequently higher inflation expectations brings to fore the RBI's dilemma of reducing rates despite growth slowing to a 10 year low. Lower rates could lead to a further diversion of financial savings into physical savings. We thus maintain our view of a 75bps easing in 2013 and expect a 25bps cut in its policy on Jan 29.

Rate action in the Jan policy is pretty much consensus given that (1) headline WPI inflation has been below the RBI's projected levels of 7.5% for the third consecutive month and (2) The RBI in its Dec policy clearly stated "in view of inflation pressures ebbing, monetary policy has to increasingly shift focus and respond to the threats to growth from this point onwards and (3) The govt has been making continued progress on the reform front. Following the proceedings in the winter session of parliament (see Reforms – Lots of Incremental Positive News), the govt began 2013 by an across-the-board hike in passenger rail fares.

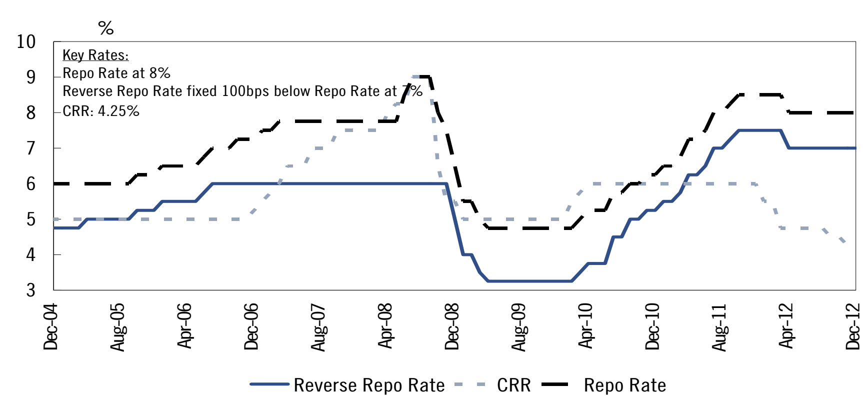
Key RBI policy measures in 2012:

CRR – cut four times, currently at 4.25% (vs. 6% before cuts)

SLR – cut 100 bps to 23% in August

Repo Rate and Reverse Repo– cut 50bps to 8% & 7% respectively in April, left unchanged since

Figure 28. India – Key Policy Rates



Source: RBI

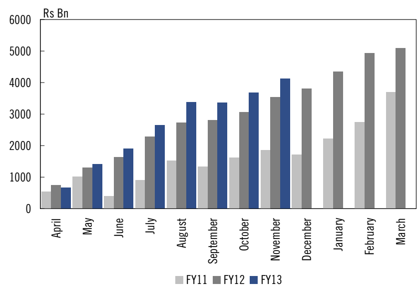
Fiscal Indicators

Apr – Nov Deficit: 80% of Budget Estimates

A sharp pick-up in revenues, both tax and non-tax, coupled with a deceleration in expenditure resulted in the Nov fiscal deficit coming in at Rs450bn, down -2.9% YoY. While this is positive, much more needs to be done to enable the government meet its 5.3% revised budget estimate for FY13 as cumulative trends (Apr-Nov) indicate that the deficit came in at Rs4,129bn up 17% and 80% of budget estimates.

Total revenues during Apr-Nov were Rs4,547bn, up 11.6% vs budget targets of 22.7%. This is on account of lower tax and non-tax revenues. We have factored in a slippage of Rs300bn on tax collections as the budget estimates are based on real GDP growth of 7.6%. Total expenditure during Apr-Nov was at Rs8,676bn, up 14.1% vs the budgeted growth of 13.1%. While trends in expenditure are encouraging, key to note is that the subsidy estimates are understated with little provision being made for fuel subsidy for FY13.

Figure 29. Trends in Fiscal Deficit (Rs bn)



Source: Budget Documents

Figure 30. Public Finances Snapshot – April-November FY13 (Rs Bn, %)

	Nov-12	%YoY	Apr-Nov FY13	%YoY	Budget Est. FY13	% to Total budget	Budgeted Growth Rate
a. Revenue receipts	415	25.4	4,458	13.5	9,357	47.6	22.0
Net tax revenues	357	23.3	3,696	15.3	7,711	47.9	20.1
Non-tax	58	40.5	762	5.4	1,646	46.3	32.0
b. Non-debt cap receipts	17	92.1	89	-38.7	417	21.4	40.0
c. Total receipts (a+b)	**432**	**27.1**	**4,547**	**11.6**	**9,773**	**46.5**	**22.7**
d. Revenue expenditure	758	7.4	7,653	13.7	12,861	59.5	10.7
e of which interest	270	26.3	1,828	10.2	3,198	57.2	16.0
f. Capital expenditure	124	-31.5	1,023	17.0	2,048	50.0	30.6
g. Total expenditure (d+f)	**882**	**9.8**	**8,676**	**14.1**	**14,909**	**58.2**	**13.1**
h. Plan Expenditure	184	-8.2	2,434	10.0	5,210	46.7	22.1
i. Non Plan Expenditure	697	15.8	6,243	15.7	9,699	64.4	8.7
j. Fiscal deficit (g-c)	**450**	**-2.9**	**4,129**	**16.9**	**5,136**	**80.4**	
k. Revenue deficit (d-a)	342	-8.5	3,195	13.9	3,504	91.2	
l. Primary Deficit (j-e)	180	-27.9	2,302	22.8	1,938	118.7	

Source: CGA, Ministry of Finance

How could the govt meet its 5.3% budgeted estimate?

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.

A successful re-auction in the telecom space could limit the slippage to 5.7%

Given the stickiness in non-plan expenditure (interest, wages, defence and subsidies)…

…the govt could further compress plan expenditure. Plan expenditure for Apr-Nov is currently <50% of BE. This could limit the deficit to 5.5%

Figure 31. Likely deficit based on current trends in govt finances (Rs bn)

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

What to Watch – Telecom; Divestments; Fuel Subsidy

– **Fuel Subsidy – Change in Mechanism or Rationalisation:** 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, losses being made by oil companies are estimated at Rs1,670bn. While our base case assumes the govt's share at 60% (i.e Rs1000bn) and a 50% deferral to FY14 (Rs500bn), the deficit could be lower if the govt changes the subsidy sharing mechanism and/or undertakes measures towards fuel subsidy rationalisation. There is talk that the govt could (1) raise diesel prices in a phased manner and/or (2) implement dual pricing – where-in bulk consumers would pay a higher price.

– **Telecom – A successful re-auction:** The govt was able to raise a mere Rs94bn vs an anticipated amount of Rs400bn from the 2G spectrum auction. The key reason for this was the high spectrum prices which resulted in muted bidding and no bidding in four key circles. The govt has now lowered the price and scheduled the re-auction for March 11, 2013. Timelines look stretched for this fiscal, but if it 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/ETF 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 vs the budgeted target of Rs300bn. 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. Another proposal doing the rounds is a public sector ETF. This would enable investors to buy a basket of PSUs rather than a specific stock.

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

Figure 33. How could the govt meet its revised "5.3%" fiscal deficit target?

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 – Assumes a successful re-auction	100
Total Under-recoveries	1000
Less:	
Under-recoveries Deferred	700
Expenditure Cuts	200
Food/Fertiliser Subsidies deferred	100
SUTTI/Public Sector ETF	240
Total fiscal deficit	**5351**
Nominal GDP estimate	101,399
Fiscal deficit as % of GDP	**5.3**

Source: Citi Research

Bottom Line – Ratings Remain Key Event Risk for 2013

We re-iterate our view that while the reform announcements in Sept/Oct 12 have "bought" India time to avert a ratings downgrade, the next 6-9 months are crucial. Key things to watch for include (1) The implementation of the cash transfers scheduled to start from Jan 1, 2013, (2) Budget and its assumptions due on Feb 28 and (3) Measures to attract capital inflows.

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

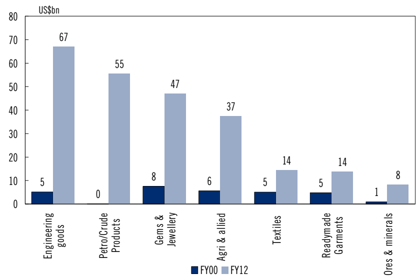
Source: Rating Agencies

External Sector

CAD Deficit – Not Just Oil and Gold; Invisibles Moderate

Trade Deficit – To Remain Elevated: On the trade account, in line with expectations, the global slowdown is taking its toll on exports (both merchandise and software). As mentioned earlier, given the changing composition of India's exports, exports are more sensitive to global demand rather than the INR. As regards imports, despite the economy being on a lower growth trajectory, India's inelastic oil demand and rising gold prices have resulted in the trade deficit remaining elevated. A quick re-cap, oil accounts for ~30% of India's import bill while gold currently accounts for ~10% of the bill.

Figure 35. Composition of Exports



Source: DGCI&S

Invisibles – Begin to Moderate: While India's trade deficit – led by oil and gold was key to the deterioration in the CAD to 4.2% in FY12, the moderation in invisible earnings in FY13 is an unpleasant surprise. Historically, invisibles, led by remittances and software exports, have partly cushioned the impact of a rising CAD. However, in addition to the slowdown in software services – a result of global developments, given the rise in external private sector debt - investment income outflows, primarily interest payments, have more than doubled in the last few years.

FY12 CAD at 4.2% was primarily due to a sharp increase in trade deficit.

FY13 CAD to remain elevated at 4% as growth in invisibles moderates.

Figure 25. Trends in India's Current Account Deficit (US$bn)

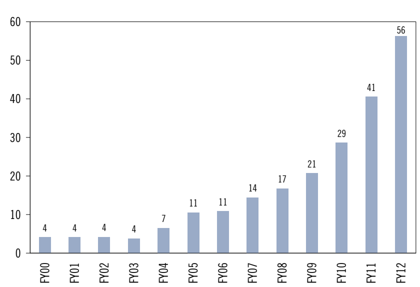
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Exports	**85.2**	**105.2**	**128.9**	**166.2**	**189.0**	**182.4**	**256.2**	**309.8**	**291.2**	**314.5**
%YoY	28.5	23.4	22.6	28.9	13.7	-3.5	40.4	20.9	-6.0	8.0
Imports	**118.9**	**157.1**	**190.7**	**257.6**	**308.5**	**300.6**	**383.5**	**499.5**	**479.6**	**508.3**
%YoY	48.6	32.1	21.4	35.1	19.8	-2.6	27.6	30.3	-4.0	6.0
Of which Oil	29.8	44.0	56.9	79.6	93.7	87.1	103.9	155.6	170.0	170.0
% YoY	45.1	47.3	29.5	39.9	17.6	-7.0	19.3	49.8	9.3	0.0
Of which Gold	10.5	10.8	14.5	16.7	20.7	28.6	40.5	56.2	50.0	45.0
% YoY	61.7	2.8	33.5	15.6	23.9	38.2	41.6	38.7	-11.1	-10.0
a. Trade balance (RBI)	**-33.7**	**-51.9**	**-61.8**	**-91.5**	**-119.5**	**-118.2**	**-127.3**	**-189.8**	**-188.4**	**-193.8**
% of GDP	-4.7	-6.2	-6.5	-7.4	-9.8	-8.7	-7.6	-10.3	-10.0	-8.9
b. Invisibles	**31.2**	**42.0**	**52.2**	**75.7**	**91.6**	**80.0**	**79.3**	**111.6**	**112.4**	**116.5**
Non-factor services	15.4	23.2	29.5	38.9	53.9	35.8	44.1	64.1	62.0	64.1
Of which: Software Services	16.4	22.7	29.0	36.9	43.5	48.2	50.9	61.0	64.0	69.1
Investment income	-5.0	-5.9	-7.3	-5.1	-7.1	-8.0	-18.0	-16.0	-17.0	-17.0
Remittances	20.5	24.5	29.8	41.7	44.6	52.1	53.1	63.5	67.0	69.0
Official transfers	0.3	0.2	0.3	0.2	0.2	0.3	0.0	0.0	0.4	0.4
1. Current a/c balance (a+b)	**-2.5**	**-9.9**	**-9.6**	**-15.7**	**-27.9**	**-38.2**	**-48.1**	**-78.2**	**-76.0**	**-77.3**
% of GDP	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.9	-4.2	-4.0	-3.5

Source: RBI: Citi Research

RBI Report on Gold – Key Takeaways

A quick re-cap, India is among the largest importers of gold – in quantum terms, imports have risen from 462 tonnes in FY00 to 975 tonnes in FY11. In dollar terms, imports are up from US$4.2bn in FY00 to US$56.2bn in FY12 or 10% of total.

Figure 26. Trends in Gold Imports (US$bn)



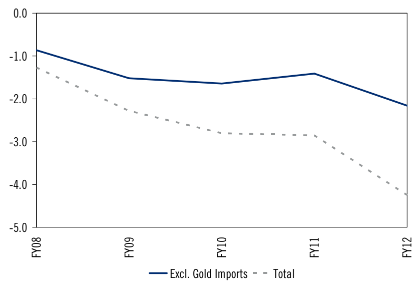
Source: RBI

Figure 27. Trends in Net Oil and Net Gold Imports (US$bn, except where specified)

Year	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Gold Imports –Tonnes	761	704	609	749	933	838	687	700
Gold Prices $/oz	629	765	868	1,025	1,295	1,633	1,679	1655
Actual Imports	14.5	16.7	20.7	28.6	40.5	56.2	50.0	45
Precious Stone Import	7.5	8.0	16.6	16.2	31.3	28.6	30.0	30
Total Gold Imports	21.9	24.7	37.3	44.8	71.8	84.9	80.0	75.0
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**	**31.0**	**43.3**	**45.0**	**39.0**

Source: Citi Research; CMIE; World Gold Council

Figure 28. Current Account Balance excl. Net Gold Imports (%GDP)



Source: RBI

Following the surge in gold imports, the RBI constituted a Working Group to study the issues related to gold and gold loans by NBFCs and its implications on external and financial stability. The report indicated that India's CAD, which touched a record high of 4.2% in FY12, would have come in at 2.1% excluding gold. While recognizing that the demand for gold may not be fully amenable to policy changes, measures that could temper gold imports include:

(1) Temper demand via further import duty hikes, introduce savings schemes that provide real returns, introduce gold linked products – such as deposit schemes, linked accounts, pension and accumulation plans – to reduce the demand for physical gold.

(2) Supply management measures which include putting the gold with Indian ETFs to productive use

(3) Steps to monetise gold by liberalizing gold loans by banks and NBFCs such that it is given for all productive purposes.

Gold Import Duties – The Story So far: In a bid to contain the import bill and stem rupee depreciation, in Jan 2012, the govt raised the import duty on gold to 2% of the value from Rs300/10g earlier; and on silver to 6% of the value from Rs1500/kg earlier. The govt hoped that import duties being linked to prices, the move could temper imports in an environment of rising prices. However, the rise in imports continued un-abated resulting in the govt further hiking duties to 4% in March 2012.

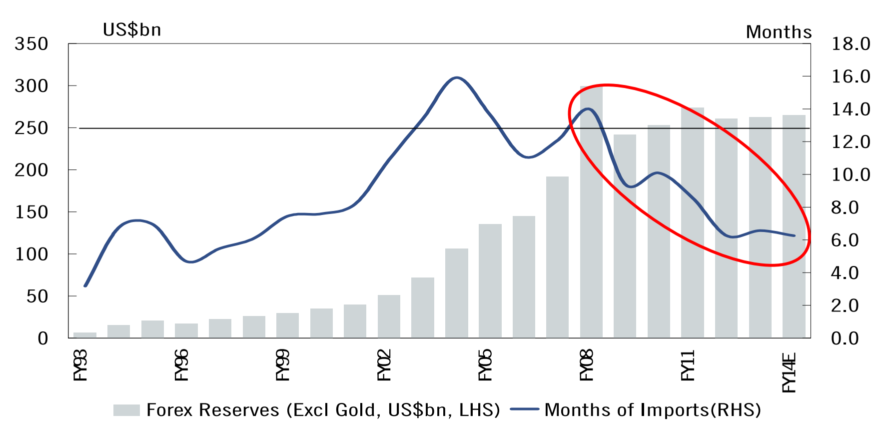
Bottom Line – Import Cover to Remain Below Trends

As has been highlighted in the past, since the global financial crisis, India's CAD has risen sharply from US$30-35bn to US$75bn+. While exports have slowed, the primary reason has been India's rising import bill - thanks to oil and gold which comprise ~40% of imports. 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 FY14E thus resulting in the FX import cover at around six months – sufficient to finance short-term debt but significantly lower than trends seen in the past. This is likely to keep the currency under pressure.

The RBI in its recently released report on gold has voiced concern that the current trend in gold imports is putting pressure on the balance of payments…

… which in the absence of adequate capital flows could have implications on "maintaining adequate FX reserves buffer".

Figure 40. Trends in Forex Assets and Import Cover

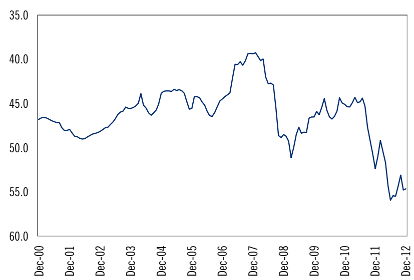


Source: RBI; Citi Research

Financial Markets

INR – Elevated CAD the Key Headwind

Figure 41. Trends in USD/INR



Source: CEIC

The most frequently asked question over the last month has been "**Why hasn't the rupee appreciated despite such strong dollar inflows and positive reform momentum?".** The one answer to this is India's rising external financing requirements – i.e. its current account deficit and debt service payments. In absolute terms, India's CAD has ~doubled to US$77bn from US$40bn a few years ago.

What to Watch: Despite strong capital inflows (see Figure 42), the INR has remained in the Rs54-55 range. Moreover, latest data on RBI's forward sales of dollars indicate a sharp increase in dollar sales despite strong inflows. This brings to the fore a growing concern of India's increasing dependence on global capital and risk appetite and the possible impact on the INR if capital flows moderate.

Figure 42. Trends in Capital Flows (US$bn)

							Apr-Nov*	
	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	FY13	FY12
FDI	2.4	3.9	5.1	3.3	2.4		24.4	35.5
ECBs	1.1	2.4	2.8	4.3	1.3		20.0	22.4
NRI Deposits	0.9	0.9	1.1	0.7	1.1		11.2	6.4
FIIs	1.9	1.9	3.6	2.2	1.7	4.6	15.5	0.2

*for FII until Dec'12; Source: RBI

Outlook: From a 6-12 month perspective, taking into account the relatively high growth story and capital inflows being just about sufficient to finance the CAD, we maintain our view of the unit trading in the Rs54-56 range. As mentioned earlier, given the elevated levels of CAD, we do not expect the unit to retrace back to 2011 levels. We also do not expect a blow-out as (1) policy makers have enough ammunition to attract capital flows and (2) lower commodity prices bode well for the INR. But, as mentioned earlier, the oscillation in risk on/off environment could result in periods of the unit under/overshooting the estimates.

Bonds – Largely a Supply-Driven Rally

Figure 43. Trends in 10yr G-Sec Yield (%)

Source: Bloomberg

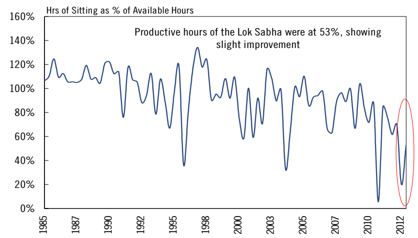
Rally So Far: The 10-year bench mark bond yields which were trading in the 8.2% – 8.4% range during 2012 edged lower to 8.15% levels post the RBI's Dec meeting due to statements that " with ebbing inflation pressures, monetary policy has to increasingly shift focus and respond to the threats to growth from this point onwards". The rally was further accentuated by the postponement of the Rs120bn auction from Jan to Feb. In addition to favorable supply dynamics, an additional factor supporting bonds is the continued recourse to OMO's. All of this has resulted in the 10-year benchmark trading at the 7.8% levels.

Outlook: In addition to the fiscal outlook and liquidity conditions, the key factor influencing the outlook is interest rate expectations. Our house view is that of the RBI easing 75bps in 2013 with a 25bps cut in the Jan 29 policy. However, following the Dec WPI print of 7.2%, a section of the market is pricing in a 50bps cut. This, however, has been partially negated with recent comments by the Governor Subbarao "Inflation has come down but it is still high". Gaurav Garg, our fixed income strategist, continues to believe in being long bonds going into the policy meeting. A 25bps cut would likely result in the 10-year trading in the 7.7-8% range while a 50bps cut could result in yields in the 7.6%-7.8% range.

Politics and Policies

Reforms – A Quick Recap

Figure 44. Productive hours of Lok Sabha



Source: PRS

Re-igniting interest with the first phase of reforms in September (fuel prices, FDI and divestments), the government announced several more measures in early October (FDI in insurance, pension, SEB restructuring, raising urea prices, and reducing with-holding tax rates). These measures have broken the ~2-year policy logjam and are sentiment-positive.

Winter Session of Parliament – Better than Expected

The Winter Session of Parliament was off to a rocky start with delays due to disagreements over FDI in retail. While this matter did not require parliamentary approval, it was put to a vote in both Houses. The government was able to win despite being a 'minority', and FDI in retail was passed.

Parliament then picked up some momentum, passing multiple key bills like the Enforcement of Security Interest and Debt Recovery Bill, Banking Laws (Amendment) Bill, and Companies Bill.

Key to note is that, during this period, the Cabinet also approved key policies to drive investments like (1) set-up of CCI (Cabinet Committee on Investments), (2) the Land Acquisition Bill, and (3) Finalizing the 2G spectrum reserve price (for more details, please see Reforms – Lots of Incremental Positive News)

Railways – Bites the Bullet

In an unexpected move, earlier this year, the Railway Minister announced an across-the-board hike in passenger fares for all classes- the first of its kind in ten years. This measure will be effective starting 21 January, and is expected to boost revenues by ~Rs12 bn or 20% in 4QFY13 (Jan-Mar) and ~Rs66 bn in FY14. Key to note is that freight rates have not been revised in this announcement. The formal Rail budget will be announced in February. Nonetheless, this hike is another positive sign that the government is willing to take tough decisions to revive the economy despite it being a minority in Parliament. There is also discussion on a possible decision to rationalize fuel subsidies – via a phased increase in diesel prices and/or dual pricing wherein bulk users would pay a higher price

Figure 45. Reforms – What's Been Announced Since Sept 12

Announced / Passed Reforms	Key Features
Fuel Price Hike	Diesel price raised by Rs 5/ltr, Subsidised LPG cylinders capped at 6/household
FDI	
Multi-Brand Retail	51% FDI permitted subject to State approval
Single- Brand Retail	FDI beyond 51% requires 30% sourcing locally from MSMEs,cottage industries etc.
Broadcasting Services	74% FDI allowed in teleports, mobile tv and sky broadcasting services
Power Exchanges	49% FDI allowed
Civil Aviation	49% FDI in scheduled and non-scheduled air transport services
Divestment in PSUs	Divestment proceeds of approximately Rs 150 bn
Security Interest and Debt Recovery Bill	Amends the process for recovery of secured loans
Banking Laws (Amendment) Bill	Addresses issues on capital raising, voting rights, mandatory approval from RBI for acquiring 5% + stake
SEB loan restructuring	US$38bn of loans restructured/ converted to state debt
Overseas Loans	Withholding tax lowered from 20% to 5%
Companies Bill (Amendments)	Ensures more transparent corporate governance
Urea Price Hike	Price raised by Rs 50pmt.
Govt. UTI sale in select Stocks	Stock sales could raise a total holding ~Rs 440bn
Rail Hike	Across the board hike in passenger fares

Source: PRS, Citi Research

Figure 29. Upcoming State Elections

State	Ruling Party	Seats LS	Seats RS	Date
Meghalaya	Congress	2	1	Mar-13
Tripura	CPI(M)	2	1	Mar-13
Nagaland	NPF	1	1	Mar-13
Karnataka	BJP	28	12	Jun-13
Madhya Pradesh	BJP	29	11	Dec-13
Mizoram	Congress	1	1	Dec-13
NCT Delhi	Congress	7	3	Dec-13
Rajasthan	Congress	25	10	Dec-13
Chattisgarh	BJP	11	5	Jan-14

Source: PRS, Election Commission

What Lies Ahead?

The policy action in the past couple of months has been positive and has clearly "bought" time from the rating agencies to avert a downgrade to junk. Pending issues particularly regarding fiscal consolidation – such as the eventual move to a GST and successful implementation of cash transfers – would be key in allowing India maintain its current investment-grade rating.

Figure 30. Reforms – What's Pending

Pending Reforms	Key Features
Land Acquisition Bill	For commercial land acquisition, and rehabilitation
National Food Security Bill, 2011	Provides for food and nutritional security by providing specific entitlements to certain groups
Public Procurement Bill, 2012	Regulate public procurement to further transparency, accountability, and probity in the procurement process
Mines and Minerals Bill, 2011	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
FDI	
Insurance	49% FDI allowed, public sector insurance cos can get listed w government stake at at least 51%
Pension	49% FDI, has one term 'return scheme' action, gives statutory power to regulatory authority

Source: PRS, Citi Research

Upcoming State Elections

As mentioned earlier, the reforms had a political price where-in the UPA's biggest ally, the Trinamool Congress (TMC), withdrew its support. Going forward, we believe that the next 3-6 months are crucial for economic decision making given (1) Upcoming state elections, (2) General elections in May 2014 – which normally results in limited "economic" action ~6-8 months prior to the polls. For more details on politics, parliamentary procedures in India please see Politics & Macro – All Eyes on the Winter Session of Parliament.

Figure 31. 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 32. 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)

	Oct11	Nov11	Dec11	Jan12	Feb12	Mar12	Apr12	May12	Jun12	Jul12	Aug12	Sept12	Oct12	Nov12
Consumption Trends														
Two-Wheelers	1.8	25.0	8.5	13.6	12.0	8.0	10.8	11.2	9.2	7.2	-4.8	-13.3	12.0	1.0
Passenger Car Sales	-24.3	6.0	7.2	6.3	11.8	18.4	3.4	2.8	8.6	7.3	-18.2	-5.1	24.5	-7.5
Commercial Vehicle Sales	21.6	37.2	16.7	15.0	20.0	16.4	5.6	10.1	4.7	1.2	3.9	0.1	8.0	-7.3
LCV	19.8	52.4	23.0	16.9	34.0	35.6	18.2	26.5	19.3	12.7	13.3	11.6	31.9	9.4
MHCV	23.9	18.8	9.1	12.7	5.3	-1.3	-11.6	-10.6	-13.4	-14.6	-8.8	-14.6	-22.9	-33.1
Investment Trends														
Infrastructure Index	0.4	7.8	4.9	0.7	6.9	2.3	3.2	4.0	3.8	1.1	2.3	5.0	6.5	1.8
Cement Dispatches	-1.0	19.0	13.8	9.9	10.7	7.2	6.2	12.8	8.7	1.1				
Diesel Consumption	7.7	16.4	6.0	7.5	11.7	10.8	7.9	9.3	13.7	13.1	10.4	7.5	6.9	1.7
Steel Production	5.4	2.2	4.5	1.5	0.0	11.0	5.2	3.5	5.9	-1.2	7.9	-2.9	2.7	4.1
Manufacturing PMI*	52.0	51.0	54.2	57.5	56.6	54.7	54.9	54.8	55.0	52.9	52.8	52.8	52.9	53.7
Output	52.7	50.5	55.8	62.9	60.5	56.3	56.1	56.4	58.5	54.7	52.7	53.2	52.7	55.4
New Orders	53.7	52.8	57.9	62.2	62.8	58.1	61.1	59.6	58.5	54.9	54.3	54.4	54.9	55.8
Industrial Production Index														
General	-5.0	6.0	2.7	1.0	4.3	-2.8	-1.3	2.5	-2.0	-0.1	2.3	-0.7	8.3	-0.1
Manufacturing	-6.0	6.6	2.8	1.1	4.1	-3.6	-1.8	2.6	-3.2	0.0	2.4	-1.5	9.8	0.3
Mining	-5.9	-3.5	-3.3	-2.1	2.3	-1.1	-2.8	-0.7	-1.1	-3.5	1.9	2.3	0.0	-5.5
Electricity	5.6	14.6	9.1	3.2	8.0	2.7	4.6	5.9	8.8	2.8	1.9	3.9	5.5	2.4
Use Based Basic Goods	1.2	6.5	5.5	1.9	7.6	1.1	1.9	4.4	3.6	1.0	3.4	2.8	4.1	1.7
Capital goods	-26.5	-4.7	-16.0	-2.7	10.5	-20.1	-21.5	-8.6	-27.7	-5.8	-3.4	-12.9	7.5	-7.7
Intermediate goods	-8.4	1.3	-1.5	-2.5	1.0	0.0	-1.8	3.4	0.9	0.1	2.7	1.7	9.3	-1.1
Consumer goods	0.1	12.8	10.1	2.5	-0.4	1.1	3.7	4.4	3.7	0.7	3.3	-0.1	13.7	1.0
Consumer Durables	-0.4	10.4	5.1	-7.5	-6.2	1.2	5.4	9.7	9.1	0.8	0.6	-1.7	16.9	1.9
Consumer Non-Durables	0.5	15.0	13.8	10.6	4.4	1.0	2.3	-0.1	-0.5	0.6	5.8	1.6	10.7	0.3
Services														
Major Port traffic	-7.4	-0.7	-6.5	-5.7	-6.2	-8.5	-6.5	-5.7	-5.0	-3.0	2.6	-2.0	0.1	-3.3
Railway freight	-1.3	5.9	8.7	5.4	9.0	5.6	3.5	5.6	5.3	3.1	3.5	8.2	8.0	0.8
Tourist arrivals ('000)	563	637	715	681	677	623	452	372	432	525	456	415	576	690
Cellular subscriber Adds (Mn)	7.9	3.7	9.2	9.9	8.6	8.1	6.8	8.4	-0.3	-20.6	-5.0	-2.1	-1.8	-13.6
Banking Trends														
Money supply(M3)	14.9	15.6	15.9	14.7	13.7	12.9	13.0	13.3	15.6	13.7	13.9	13.4	13.1	13.4
Loan(Credit) growth	18.9	18.0	16.9	16.7	15.6	16.6	18.0	18.3	18.6	17.2	16.7	15.7	16.2	17.9
Deposit growth	15.4	16.9	17.4	16.4	14.6	13.6	13.6	14.1	16.0	13.8	14.1	13.8	13.8	13.8
Non-food credit	17.5	17.6	15.8	16.1	15.4	16.8	16.8	17.2	18.3	16.9	17.4	15.4	13.8	17.5.
Inflation														
CPI –Industrial Workers	9.4	9.3	6.5	7.6	8.8	9.4	10.3	10.4	9.9	9.9	10.0	9.7	9.8	9.9
WPI	9.9	9.5	7.7	6.9	7.4	7.7	7.5	7.5	7.6	7.5	8.0	8.1	7.5	7.2
Manufactured Products	8.0	8.2	7.6	6.7	5.8	5.2	5.3	5.2	5.4	5.9	6.4	6.5	5.9	5.4
Primary Products	11.0	8.9	3.6	2.8	7.1	10.4	9.6	10.3	9.7	10.5	11.2	9.2	8.2	9.4
Fuel Index	14.8	15.5	15.0	14.6	13.6	12.8	12.1	11.5	10.3	8.4	8.7	12.0	11.7	10.0
Interest rates (Average, %)														
Call money rate	8.1	8.3	8.5	8.8	9.0	8.8	8.6	8.6	8.07	8.0	8.0	7.9	8.04	8.02
91-day T-Bills	8.6	8.8	8.5	8.7	9.1	9.0	8.4	8.4	8.3	8.2	8.0	7.9	8.1	8.2
Corp Bond Spreads (5y GOI-AAA)	0.8	0.7	0.8	1.0	0.9	0.9	0.8	0.9	1.1	1.4	1.2	1.3	1.1	0.9
10-year government bond	8.7	8.9	8.5	8.3	8.2	8.4	8.6	8.6	8.2	8.13	8.21	8.18	8.2	8.2
Trade - customs data														
Exports(%YoY)	31.8	8.3	6.7	10.1	4.3	-5.7	3.2	-4.3	-5.4	-14.8	-9.7	-10.8	-1.6	-4.2
Imports(%YoY)	26.8	35.6	19.8	20.3	20.6	24.3	3.8	-7.2	-13.5	-7.6	-5.1	5.1	7.4	6.4
Oil	34.6	59.6	26.1	26.8	39.5	32.4	7.0	14.0	-4.4	-5.5	3.0	30.7	31.6	16.8
Non-oil	24.2	26.7	26.2	17.6	13.5	19.9	2.1	-15.9	-17.8	-8.6	-8.7	-4.5	-1.7	1.5
Trade Deficit (US$bn)	-17.5	-15.8	-12.7	-14.8	-15.2	-13.9	-13.5	-16.3	-10.3	-15.5	-15.6	-18.1	-21.0	-19.3
Brent Prices ($/bbl)	108.8	110.3	107.7	111.6	119.1	124.4	120.5	110.2	95.9	103.1	113.4	113.7	112.0	109.6
Foreign investment (US$ mn)														
FII	634	-586	4,195	5,087	7,164	387	-927	597	209	2,463	1,996	3,682	3,646	1,805
FDI	2,619	1,647	780	871	484	244	1,614	1,137	1,222	1,569	3,024	4,237	1,646	1,219
Exchange rate and reserves														
US$ exchange rate average	49.2	50.9	52.6	51.3	49.2	50.4	51.9	54.5	56.0	55.4	55.6	54.4	53.1	54.8
US$ exchange rate month end	48.7	52.2	53.1	49.5	49.0	50.9	52.7	56.1	55.6	55.7	55.5	52.9	53.8	54.3
Forex reserves incl.gold (US$bn)	320.4	304.4	296.7	293.9	295.0	294.4	295.4	288.3	290.0	288.6	290.5	294.8	295.3	294.5

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

Balance of Payments

Figure 51. Balance of Payments

	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	Comments
CURRENTACCOUNT								
Exports(RBI)	**166.2**	**189.0**	**182.4**	**256.2**	**309.8**	**291.2**	**314.5**	
Y/Y%	28.9	13.7	(3.5)	40.4	20.9	(6.0)	8.0	While a weak currency helps exports, the impact is muted
% of GDP	13.4	15.4	13.4	15.2	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**	**383.5**	**499.5**	**479.6**	**508.3**	
Y/Y%	35.1	19.8	-2.6	27.6	30.3	-4.0	6.0	
%to GDP	20.8	25.2	22.1	22.8	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**	**-127.3**	**-189.8**	**-188.4**	**-193.8**	Oil and Gold are key as they account for 40% of imports
% of GDP	-7.4	-9.8	-8.7	-7.6	-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	-8.7	-4.9	-4.1	-8.2	Difference normally represents defense imports.
b. Invisibles	**75.7**	**91.6**	**80.0**	**79.3**	**111.6**	**112.4**	**116.5**	
Non-factor services	38.9	53.9	35.8	44.1	64.1	62.0	64.1	
Of which: Software Services	36.9	43.5	48.2	50.9	61.0	64.0	69.1	
Non-Software Services	1.9	10.4	-12.5	-6.8	3.1	-2.0	-5.0	
Investment income	-5.1	-7.1	-8.0	-18.0	-16.0	-17.0	-17.0	
Remittances**	41.7	44.6	52.1	53.1	63.5	67.0	69.0	
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**	**-48.1**	**-78.2**	**-76.0**	**-77.3**	
% of GDP	-1.3	-2.3	-2.8	-2.9	-4.2	-4.0	-3.5	Current a/c to remain elevated
CAPITALACCOUNT								
c. Loans	**40.7**	**8.3**	**12.4**	**29.1**	**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	12.2	10.3	11.0	10.0	
Short-term credit	15.9	-2.0	7.6	12.0	6.7	6.0	6.0	
d. FDI(Net=a-b)	**15.9**	**19.8**	**18.0**	**11.8**	**22.1**	**22.0**	**27.0**	Policy clarity will help FDI in FY14
(a)FDI-To India	34.7	37.7	33.1	29.0	33.0	34.0	42.0	
(b)FDI-Abroad	-18.8	-17.9	-15.1	-17.2	-10.9	-12.0	-15.0	
e. Portfolio Invst(FII+ADRs/GDRs)	**27.4**	**-14.0**	**32.4**	**30.3**	**17.2**	**20.0**	**21.0**	Recent reforms bode well for flows
f. Banking Capital	**11.8**	**-3.2**	**2.1**	**5.0**	**16.2**	**16.0**	**13.0**	
Of which NRI deposits	0.2	4.3	2.9	3.2	11.9	15.0	12.0	
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**	**-12.4**	**-6.9**	**1.0**	**1.0**	
2.Capitala/c(c+d+e+f+g+h)	**106.6**	**6.8**	**51.6**	**63.7**	**67.8**	**77.6**	**79.6**	
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**	**12.7**	**-12.8**	**1.6**	**2.3**	
Forex								
Forex assets	299.1	241.6	252.8	273.7	260.9	262.5	264.7	
FCA to months of imports	13.9	9.4	10.1	8.6	6.3	6.6	6.2	
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 estimates

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	80.0
% to total	31.9	30.6	30.2	28.6	31.7	34.1
% 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	29.2
% to total	20.0	16.2	15.5	14.0	13.5	12.5
% 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	21.2
% to total	7.1	7.6	10.3	11.5	12.5	9.1
% 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	10.2
% to total	2.9	5.5	5.6	9.4	6.2	4.4
% 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	18.1
% to total	7.5	9.8	8.2	7.7	7.5	7.7
% 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	15.6
% 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	7.7
% 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	38.9
% to total	17.1	17.4	16.3	15.6	16.1	16.6
% YoY	26.2	22.4	-10.4	22.9	36.7	
Other commodities	5.8	6.8	6.7	9.0	11.4	11.5
% to total	2.3	2.3	2.3	2.4	2.3	4.9
% 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	234.4
% YoY	35.0	19.8	-3.9	28.4	32.4	-3.7

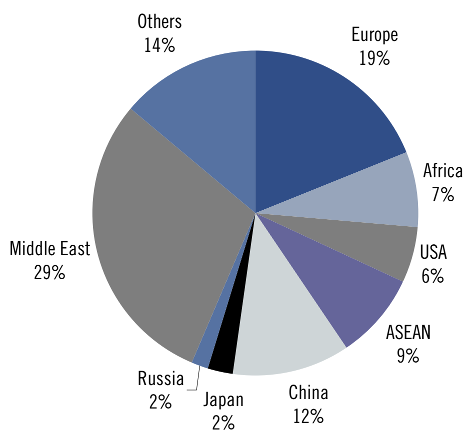
* Apr-Sept12 Source: CMIE ,RBI

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	32.0
% to total	22.8	25.7	21.4	23.1	22.0	22.6
%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	24.7
% to total	17.4	14.7	15.7	16.5	18.2	17.4
%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	22.1
% to total	12.1	15.3	16.3	16.1	15.4	15.6
%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	20.2
% to total	11.3	9.6	10.0	9.7	12.3	14.3
%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	14.1
% to total	9.5	9.5	9.7	8.5	8.8	10.0
%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	13.2
% to total	11.9	10.9	11.1	9.7	9.2	9.3
%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	3.0
% to total	5.6	4.3	4.9	3.4	2.7	2.1
%YoY	30.4	-14.4	11.0	-0.4	-18.4	-0.1
Other manuf goods	7.6	7.4	7.5	10.0	13.2	6.7
% to total	4.7	4.0	4.2	4.0	4.3	4.7
%YoY	9.8	-2.8	1.6	32.7	32.4	.
Other commodities	4.0	7.5	8.6	18.6	16.7	3.2
% to total	2.5	4.1	4.8	7.4	5.5	2.3
%YoY	30.5	86.9	15.2	115.0	-36.5	-65.4
TOTAL EXPORTS	163.0	183.1	178.3	250.8	304.3	141.6
% YoY	29.1	12.3	-2.6	40.6	21.3	-8.2

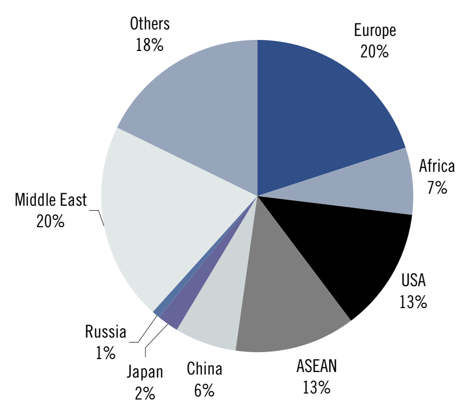
* Apr-Sept12 Source: CMIE, RBI

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 33. Inida Government Finances

	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 estimates

Global Forecasts

Figure 34. 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 estimates , *Global Economic Outlook and Strategy*, 26 November 2012

Figure 35. 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 estimates, *Global Economic Outlook and Strategy,* 26 November 2012

Figure 36. 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 estimates, *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 estimates, *Global Economic Outlook and Strategy, 26 November 2012*

Appendix A-1

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