22 February 2015 | 26 pages

Emerging Markets
Asia

India Macroscope

Budgeting for Beyond

- **'This' Budget matters** — The government has made a good start: with many low hanging fruits, some hard decisions and plenty of market goodwill. But the budget now matters more than ever; sets direction for the rest of the term on: (1) fiscal approach; (2) ability to generate new ideas, demonstrate execution; and (3) the nitty-gritty on taxes: for credibility, detail and direction. The platform's ready; the risk lies in already high expectations, and delivery being 'generic' rather than 'detailed'.

- **Expectations – on a 'high' rope** — Within the budget we expect (1) fiscal consolidation (deficit target likely at 3.6%-3.8%), as well as fiscal support. There's some cushion that's built in on subsidies – direct transfers and oil; (2) attempts to stimulate the economy, including incentives for manufacturing and the govt's 'Make-In-India' program; (3) clarity on taxation – new (GST) and existing (retrospective).

- **Out-of-the-box ideas** — The market will look for some thing to excite, differentiate. We have a bucket list: inflation targeting framework; fiscal accounting; infra spending/facilitation – quasi-sovereign bond issuance; oil reserves/SWFs; cooperative federalism.

- **An age of surprises** — The Indian economy has already had surprises on the macro front (Macroscope - Surprises in Store) and on data (GDP, CPI revisions). Change is clearly underway. While the real econ cycle is 'currently' slow, continued dynamism and policymaking could speed things up.

- **Macro forecasts** — (1) **GDP:** Investment and consumption resulting in growth pick-up from 7.4% in FY15 to 8.1% in FY16; (2) **Inflation and Rates:** Supportive commodity trends/policies to result in CPI averaging 5% providing room for ~75bps easing; although policy makers' interpretation of 'new' potential growth is key (3) **CAD:** Sub 1% of GDP through FY17; resulting in overall BoP surplus of ~US$70bn (4) **Fiscal:** Revenue and expenditure reforms to result in fiscal consolidation.

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Figure 1. Macro Snapshot (%)

Year -end 31 March	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
GDP at mkt prices (%)	**8.5**	**10.3**	**6.6**	**5.1**	**6.9**	**7.4**	**8.1**	**8.4**
Agriculture	0.8	8.6	5.0	1.2	3.7	1.1	3.6	3.0
Industry	9.2	7.6	7.8	2.4	4.5	5.9	7.2	8.2
Services	10.5	9.7	6.6	8.0	9.1	10.6	9.9	10.1
Consumption	8.4	8.2	8.9	4.9	6.5	7.6	8.0	8.2
Gross Fixed Capital Formn	7.7	11.0	12.3	-0.3	3.0	4.1	6.5	7.5
Fiscal Deficit (Centre+States)	-9.3	-6.9	-8.1	-7.2	-6.9	-6.7	-6.1	-5.5
Current Account Deficit (%)	-2.8	-2.7	-4.3	-4.8	-1.7	-1.2	-0.2	-0.8
CPI (Average)	12.3	10.5	8.4	10.2	9.5	6.5	5.0	5.0
INR/USD (Average)	47.4	45.6	48.1	54.0	60.4	62.0	63.0	63.0

Source: CSO, RBI, Budget Documents, Citi Research estimates

Contents

Statistical Snapshot

Figure 2. India Macroeconomic Summary FY04 – 17E

Fiscal Year to 31 March	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
National Income Indicators														
Nominal GDP(Rs bn)	28,617	32,422	36,934	42,947	49,871	56,301	64,778	77,841	88,320	99,885	113,451	126,538	142,988	161,576
Nominal GDP (US$ bn)	623	720	834	950	1,241	1,224	1,367	1,708	1,836	1,850	1,878	2,041	2,270	2,565
Per Capita GDP (US$)	582	662	754	847	1,090	1,061	1,168	1,440	1,528	1,520	1,498	1,628	1,783	1,986
Real GDP growth – mkt prices (%)	**8.4**	**8.5**	**9.3**	**9.3**	**9.8**	**3.9**	**8.5**	**10.3**	**6.6**	**5.1***(4.7)*	**6.9***(5.0)*	**7.4***(5.6)*	**8.1**	**8.4**
By Demand (%YoY)														
Consumption	5.4	1.9	8.7	7.7	9.4	7.7	8.4	8.2	8.9	4.9*(5.2)*	6.5*(4.7)*	7.6*(5.6)*	8.0	8.2
Pvt Consumption	5.9	1.7	8.6	8.5	9.4	7.2	7.4	8.7	9.3	5.5*(5.0)*	6.2*(4.8)*	7.1*(5.5)*	7.8	8.3
Public Consumption	2.6	3.4	8.9	3.8	9.6	10.4	13.9	5.8	6.9	1.7*(6.2)*	8.2*(3.8)*	10.0*(6)*	9.0	8.0
Gross Fixed Capital Formation	13.6	20.7	16.2	13.8	16.2	3.5	7.7	11.0	12.3	-0.3*(0.8)*	3.0*(-0.1)*	4.1*(2.5)*	6.5	7.5
Cons; Invst, Savings * (%GDP)														
Consumption	75.0	70.1	69.2	68.0	67.2	68.6	69.1	67.5	68.8	69.8	71.0	72.1	72.1	72.0
Gross Capital Formation	26.9	32.8	34.7	35.7	38.1	34.3	36.3	36.5	38.2	36.6	32.3	31.4	31.7	31.4
Gross Domestic Savings	28.7	32.4	33.4	34.6	36.8	32.0	33.7	33.7	32.0	30.5	30.5	30.8	31.0	0.0
By Activity (%YoY)														
GVA (%YoY)	**8.1**	**7.0**	**9.5**	**9.6**	**9.3**	**6.7**	**8.6**	**8.9**	**6.7**	**4.9***(4.5)*	**6.6***(4.7)*	**7.5***(5.6)*	**8.1**	**8.4**
Agriculture growth (%)	9.0	0.2	5.1	4.2	5.8	0.1	0.8	8.6	5.0	1.2*(1.4)*	3.7*(4.7)*	1.1*(0.5)*	3.6	3.0
Industry growth (%)	7.3	9.8	9.7	12.2	9.7	4.4	9.2	7.6	7.8	2.4*(1.0)*	4.5*(0.4)*	5.9*(3.9)*	7.2	8.2
Services growth (%)	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.7	6.6	8.0*(7.0)*	9.1*(6.8)*	10.6*(7.5)*	9.9	10.1
Real Indicators (%YoY)														
Commercial vehicle sales	36.2	22.4	10.1	33.3	4.2	-21.4	39.2	27.0	19.5	-1.9	-20.2	-4.5	11.6	15.0
Car sales	27.2	17.8	7.7	20.7	12.1	0.3	25.7	29.2	3.9	2.4	-6.7	1.7	10.6	19.0
Two-wheelers	11.3	15.7	13.6	11.5	-7.8	2.7	25.9	25.8	13.9	2.9	7.3	10.0	10.0	15.0
Diesel consumption	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	8.0	6.7	-1.0	4.0	4.0	0.0
Mobile Tele density	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	87.9	78.0	80.0	81.0
Monetary Indicators (% YoY)														
Money supply	16.7	12.0	21.1	21.7	21.4	19.3	16.9	16.1	13.5	13.6	13.2	16.0	17.0	17.5
Inflation – WPI (Avg)	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	7.5	5.9	3	2.5	2.5
CPI (Avg)	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	10.2	9.5	6.5	5.0	5.0
Bank credit growth	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	14.1	16.7	14.0	15.0	15.0
Deposit growth	17.5	13.0	24.0	23.8	22.4	19.9	17.2	15.9	13.5	14.2	17.2	14.0	14.0	14.0
Fiscal Indicators (% GDP)														
Centre's fiscal deficit)	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.8	-5.7	-4.8	-4.6	-4.1	-3.6	-3.0
State fiscal deficit	-3.9	-3.4	-2.5	-2.1	-1.4	-2.3	-2.9	-2.1	-2.4	-2.3	-2.2	-2.6	-2.5	-2.5
Combined deficit (Centre+State)	-8.2	-7.2	-6.5	-5.4	-4.0	-8.3	-9.3	-6.9	-8.1	-7.2	-6.9	-6.7	-6.1	-5.5
Off Balance Sheet Items			-0.5	-0.9	-0.6	-1.7	-0.2							
Combined liabilities (dom+ext)	90.0	88.8	84.6	79.9	76.1	76.8	75.5	70.2	69.5	69.3	70.4	69.2	67.3	65.8
External Sector (% YoY)														
Exports (US$bn)	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	306.6	318.6	331.4	342.9	365.2
% YoY	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-1.0	3.9	4.0	3.5	6.5
Imports (US$bn)	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	502.2	466.2	467.1	460.1	501.6
%YoY	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	0.5	-7.2	0.2	-1.5	9.0
Trade deficit (US$bn)	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-195.7	-147.6	-135.8	-117.2	-136.3
Invisibles (US$bn)	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	111.6	107.5	115.2	110.8	111.5	116.7
Current Account Deficit (US$bn)	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-88.2	-32.4	-25.0	-5.7	-19.6
% to GDP	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.3	-4.8	-1.7	-1.2	-0.2	-0.8
Capital Account (US$bn)	16.7	28.0	25.5	45.2	106.6	7.4	51.6	62.0	67.8	89.3	48.8	80.5	74.5	82.5
% GDP	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.6	3.6	4.8	2.6	3.9	3.3	3.2
Forex Assets (incl gold) (US$bn)	110.3	140.9	151.6	199.2	309.2	252.3	277.0	303.5	294.4	292.6	303.7	359.2	428.1	491.0
Months of imports	16.5	14.2	11.6	12.5	14.4	9.8	11.1	9.6	7.1	7.0	7.8	9.2	11.2	11.7
External Debt (US$bn)	112.7	134.0	139.1	172.4	224.4	224.5	260.9	317.9	360.8	409.4	442.2	455.9	470.9	485.9
Short Term Debt (US$bn)	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	78.2	96.7	89.2	94.2	99.2	104.2
Exchange Rate														
US$/INR - annual avg	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	54.0	60.4	62.0	63.0	63.0
% depreciation	-5.2	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	12.3	11.9	2.6	1.6	0.0

* At current prices. FY13-15 GDP data represented as: New GDP series *(Old GDP series)*
Source: CSO, RBI, Ministry of Finance, Citi Research estimates

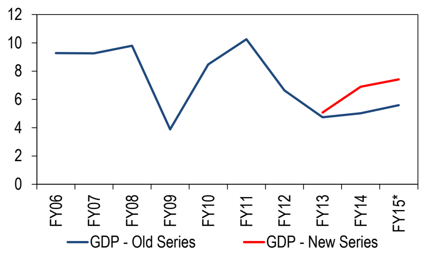
Sustaining Growth – Budget, Reforms Key

Strong GDP Growth Doesn't Preclude Pro-Growth Policies

GDP revised up to 7.4% in FY15 but "on the ground" still appears weak: India's growth story got a boost with the rebasing of GDP data. Based on the new series, the real GDP growth stands at 7.4% in FY15 and 6.9% in FY14 i.e. ~180bps higher than earlier estimates. While the data shows that growth recovery has been swift and substantial, several "on the ground" high frequency indicators suggest that activity is still sub-par. For example, growth in industrial output (2.2% in FY15YTD), credit (10.4%), net tax revenues (5.4%) are still close to multi-year lows. Even within the revised GDP data, fixed capital formation has been weak at 4%YoY in FY15.

Pro-growth reforms to continue, Budget will be key: Given the sub-par real economy trends, the Ministry of Finance's "mid-year economic analysis' noted that that the government should pursue a counter-cylical fiscal policy. But, the compositional changes in the new GDP data and lack of time-series analysis make it difficult to ascertain the cyclical component in economic growth. Nonetheless we believe that the government will continue to implement pro-growth structural reforms – including fiscal reforms such as GST, direct benefit transfers, subsidy rationalization etc. - while continuing on the path of fiscal responsibility. We believe the first full budget of Modi govt. will aim to spur investments and job creation in the economy.

Figure 3. Real GDP at Market Prices (%YoY)



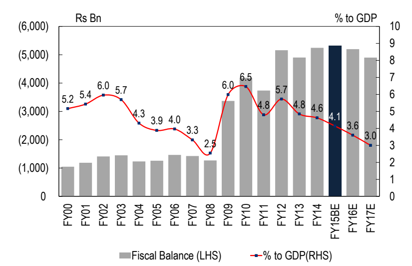
*FY15 Old series is based on 1HFY15 data, Source: CSO, Citi Research

Budget Preview: Fiscal Consolidation; Make in India

FY15: Fiscal targets challenging but likely to be met: The FY15 fiscal deficit target has proved to be an uphill task for the government largely due to sub-par growth in revenues. Data so far indicates that the govt has already exceeded its full year targets in the Apr-Dec period. However, similar to the last two years, we expect an expenditure compression to the tune of ~Rs700bn to enable the govt contain the FY15 fiscal deficit at 4.1%±0.1% of GDP.

FY16: Fiscal consolidation to continue: In line with the amended FRBM[1] rules, FM Jaitley in the July 2014 budget presented a medium term fiscal policy statement, which outlined a fiscal consolidation path of 3.6% and 3% of GDP in FY16 and FY17. With growth trends still sub-par, there has been chatter on the need for higher government spending to kick-start growth. However, we expect government to broadly adhere to the fiscal consolidation path (3.6%-3.8%) largely on account of (1) on-going revenue and expenditure reforms (2) revival in the economy and (3) a benign crude outlook.

Figure 4. Trends in Fiscal Deficit (% GDP)



Source: Budget Documents, Citi Research

Net borrowing likely unchanged: With the govt likely to adhere to the fiscal consolidation path, the govts "net" borrowing is likely to remain broadly unchanged for the fourth consecutive year at ~Rs 4600bn i.e. a decline of an avg 0.5% of GDP annually. Lower government borrowing is likely to create space for private credit.

Figure 5. Trends in Govt. Borrowing (Rs bn)

	FY13	FY14	FY15BE	FY16E
Fiscal Deficit	4,902	5,245	5,311	5,197
Net Mkt borrowings*	4,674	4,539	4,612	4,639
Redemptions	906	950	1,388	1,756
Gross borrowings	5,580	5,489	6,000	6,395

*After adjusting for net buy-backs, Source: Budget Documents, Citi Research

Will it be a "Make in India" Budget? As discussed in our last Macroscope, the govt has identified 25 manufacturing sectors to cater to domestic/international demand. Since this is the first full budget after the "Make in India" inititative, we could see measures to incentivize investments. (See pg 6 for details).

[1] The Fiscal Responsibility and Budget Management act (FRBM) Act of 2003 had originally mandated the central government to reduce fiscal deficit to 3% of GDP by FY08. However, the timelines were deferred due to the global financial crisis and growth slowdown.

Likely Fiscal Reforms – Revenue & Expenditure

Revenues: Restoring Tax Buoyancy; Clarity on GST

LOWER TAX BUOYANCY COULD CAUSE REVENUE SHORTFALL

Tax buoyancy is the ratio of revenue growth to the growth in nominal GDP.

The mid-year economic analysis, observed that overestimation in nominal growth and tax buoyancy could imply a revenue shortfall of Rs 1.05trillion or 0.8% of GDP in FY15.

Figure 6. Historical Tax Buoyancy* Trends

	FY03-08	FY09-FY14	FY15BE
Corporation tax	2.5	0.9	1.3
Income tax	1.6	1.1	1.6
Excise duty	0.8	0.4	1.3
Import duty	1.3	0.6	1.3
Service Tax	4.6	1.6	2.7
Gross tax	**1.6**	**0.8**	**1.6**

Source:Budget Documents

– **Revenue buoyancy:** Historical trends indicate a drop in tax buoyancy from an average of 1.6 in FY03-08 to 0.8 in FY09-14. The high tax buoyancy in the pre global crisis period was attributed to administrative and tax structure reforms such as introduction of VAT in 2005. There was no such catalyst in the period FY09-14. Another metric that reflects this similar trend is central govt revenues as % of GDP, which declined from pre-crisis (FY03-08) average of 11% to less than 10% of GDP post crisis. Restoring tax buoyancy would entail widening the base, improving compliance and implementation of structural reforms such as goods & services tax.

– **GST – On track to implementation:** While GST[2] is aimed to be implemented by April 2016, preparatory measures such as budgetary provision for compensation to states may start earlier. Key features of the amended GST bill include (1) center to compensate states for five years for losses arising from GST (100% for 3 years, 75% in the 4th, 50% in the 5th) (2) states allowed to levy an additional 1% non-vatable tax on inter-state supply of goods for the first two years.

Expenditure – Quality over Quantity; Direct Benefit Transfers

LEVERAGING AADHAAR FOR JAN-DHAN & DBT

Aadhaar has been an enabler for government's Jan-Dhan Scheme and Direct Benefit Transfers.

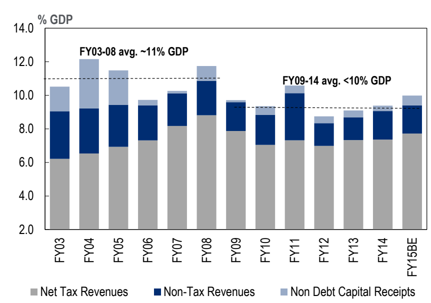
Jan-Dhan Status: 125mn accounts opened, every household has a bank account now

Aadhar Status: 750mn UID created i.e. 60% of total population

– **Shift from revenue to capital expenditure:** As seen in the charts below, while capital expenditure has stayed below 2% of GDP from FY09 onwards, expenditure towards subsidies have consistently been > than 2% of GDP in the same period. The jury is still out on the higher public investment as one of the key engines of growth going forward.

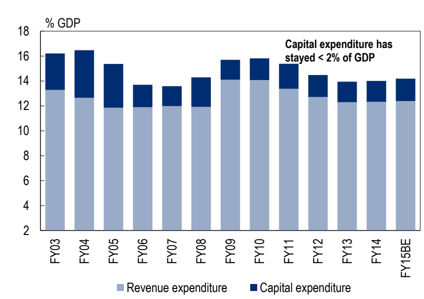
– **Direct benefit transfers:** Following diesel de-regulation we expect continued measures on subsidy rationalization (LPG; Kerosene, Fertilisers and Food) through direct benefit transfers. In this regard, PM Modi's Jan-Dhan Yojana has been a game changer in the area of financial inclusion, with almost every household now having access to banking services. Subsidy rationalization and implementation of DBT could result in fiscal savings of 0.5-0.8% of GDP.

Figure 7. Central Govt. Revenues (% GDP)



Source: Budget Documents, Citi Research

Figure 8. Central Govt. Expenditure (%GDP)



Source: Budget Documents, Citi Research

2 The bill to implement GST was tabled in the Winter Session of Parliament. GST is a single, value-added tax across all goods and services that would replace the multitude of indirect taxes currently in place. Unlike the previous tax system which was origin-based, the GST would be destination-based – thus reducing cascading taxes / double taxation. It would not only simplify the tax system, but is also expected to boost revenues and add 1-2% to GDP growth.

Budget Expectation:"Make in India" in Focus

Fiscal Consolidation to Continue

- **FY16 Fiscal Deficit 3.6-3.8% of GDP**
- **Progress on Goods & Services Tax**
- **Subsidy rationalization – Move towards Direct Beneift Transfer**

The government's flagship scheme is likely to be the basis for policies outlined in the budget.These would extend across the 25 sectors identified where India could develop manufacturing capabilities. In the table below, our analysts have listed the measures they expect across some of these sectors that aim to incentivize investments, boost production and increase demand. Besides the sectors below, other focus areas include railways , defence manufacturing – where FDI limits have been increased to 49% from 26%

Figure 9. Citi Budget Expectations

Sector	Expectations	Impact
Autos	Clarity on excise duty. It was cut in Feb'14 to 8% and hiked again in Dec'14 to 12%	Roll back of excise cuts resulted in ~4% increase in prices. Any further cut could result in price cuts
	Impetus to agricultural sector	Higher rural income
	Any form of tax incentives to consumers	Increases disposable income
Banking	Announcements on low cost housing/smart cities	Provide an impetus to demand for mortgages
	Capital commitments for Govt Banks	Ease capital pressures for PSU Banks
	Incentives for investing in insurance and mutual funds	Increase flows into AMCs and Insurance firms
	PSU Bank reforms - on increasing independence/cutting govt shareholding	Smoother functioning of PSU banks, lower interference
	Incentives for savings: higher tax deductions for investments etc	Higher savings through MFs/insurance
Cement	More allocation to infrastructure and housing schemes/projects	Will provide a boost to cement demand
Consumer	Extent of hikes in cigarette excise duties	This is key to cigarette volumes / earnings; a sharp increase like the past 2-3 yrs is negative. <10% wt avg increase is more managable.
	Reduction in import duties on gold; Other measures on gold imports	Lower duties could aid demand marginally; newsflow on gold imports could impact supply / costings
	Any form of tax incentives for consumers / increase in tax slabs	Could boost demand
Healthcare	MAT exemption to SEZ	Will lead to higher investments & savings
	Infrastructure status for Healthcare	Better access to funding at lower cost
	Increase medical insurance premium under tax rebate	Higher medical insurance cover for individuals -to enable more people opt for better healthcare benefitting the hospital companies
Industrials	Further reduction in excise duty on capital goods such as construction equipment, textile machinery and electrical equipment.	Will provide boost to all industrial companies
	Continuation of accelerated depreciation for wind sector	Will support wind energy projects
Infrastructure	More allocation to infrastructure schemes/projects.	Will provide a much needed boost to roads, ports, airports and water
	Exemption from MAT (18.5%) under 80IA for Infrastructure projects.	Help reduce the cash outflow in the initial years of the project
IT	Extend provisions on deduction for employment and skill development and R&D credits	Makes companies more competitive globally
	Increase in allocation for IT related expenditure, particularly in healthcare and education	Bigger opportunities for IT companies in the domestic market
	Roadmap and investments for "Digital India"	Bigger opportunities for IT companies in the domestic market
	Tax breaks and further easing of land acquisition	Incentivization of expansion into such towns and cities for spreading employment opportunities
Metals & Mining	Higher import duty for aluminium	Safeguard against imports, better pricing power as Indian producers ramp up volumes
	Higher import duty on steel; anti dumping measures	Safeguard the domestic industry as imports have accelerated
	Reduction in the export duty for low grade iron ore, currently at 30%	Improve the profitability of ore exporters as international prices have plumeted
Oil & Gas	Clarity on extension of tax holiday u/s 80 IB for gas too	Will incentivise E&P companies
	Exemption of LNG imports from customs duty for all uses (and not just power)	Would make LNG imports cheaper
	Declared goods status to natural gas and LNG	Will trigger a lower sales tax rate as against the prevalent rate that varies across states
	Increase in customs duty on crude oil	Higher realisations for upstream companies; lower refining margins for downstream companies
	Roadmap for reduction of LPG and kerosene subsidies	Will lead to further rationalisation of fuel subsidies
Real Estate	Infrastructure status to the real estate industry	Gives better access to funding.
	Increase in income tax exemption limit for interest paid on home loan and repayment of principal.	Helps boost retail, end-user demand
	Further clarity on REITs	Easier Funding, Capital Access
Telecom	Incentives including tax breaks, correction of inverted import tariffs, and interest rate subsidies for promoting domestic manufacturing of electronics such as mobile phones, tablets and network equipment	In the medium-run, this should help to reduce dependance on imports and help keep trade deficit in check
	Investment-linked tax benefits under section 35AD of Income Tax Act for manufacturing of telecom equipment and by telecom infrastructure providers	Reduce cost of network equipment and incentivize investment in network, and broadly, increase penetration of mobile and Internet
Utilities	Extension of 10-year tax holiday (Sec 80IA) beyond 2017	Beneficial to 13th plan projects

Source: Citi Research

Fiscal Consolidation to Continue

- **FY16 Fiscal Deficit 3.6-3.8% of GDP**
- **Progress on Goods & Services Tax**
- **Subsidy rationalization – Move towards Direct Beneift Transfer**

Figure 10. Ease of Doing Business Rank

	2014	2013
Starting a Business	179	177
Dealing with Construction Permits	182	183
Getting Electricity	111	110
Registering Property	92	91
Getting Credit	28	24
Protecting Investors	34	32
Paying Taxes	158	159
Trading Across Borders	132	129
Enforcing Contracts	186	186
Resolving Insolvency	121	119
Ease of Doing Business Rank	**134**	**131**

Source: World Bank

Bottom Line: High Expectations; Out-of-the-Box Ideas

The markets are pinning a lot of hope on the first full budget of Modi government and rightly so considering that this budget will reflect the reformist ideologies of the think tank led by Finance minister Arun Jaitley. We believe, there would be (1) fiscal consolidation (deficit likely at 3.6%-3.8%), as well as fiscal support. There's some cushion that's built in on subsidies – direct transfers and oil; (2) attempts to stimulate the economy including incentives for manufacturing and and the govt's "Make-In-India' program; (3) clarity on taxation – new (GST) and existing (retrospective).

We also look at some of the ideas which could potentially feature in the budget – though not our base case. The bucket list includes the following.

1. **Inflation targeting framework –** There could be further progress on monetary policy framework in the budget session this year. Flexible inflation targeting and a set up of monetary policy committee could be the key highlight.

2. **Step back from retrospective taxation –** Improving tax administration will be key for India's ranking in ease of doing business. In that regard, govt could aim to provide more clarity and timelines for reversal of retrospective taxation rules.

3. **Fiscal accounting –** Govt may consider moving from cash based accounting to an accounting method called modified cash basis which will ensure that subsidy costs are not rolled over to subsequent fiscal years.

4. **Sovereign/quasi-sovereign bond issuance –** The govt may look to augment domestic financing by issuing such bonds to finance long gestation infrastructure projects while also taking advantage of global low interest rates.

5. **Oil strategic reserves/sovereign wealth funds –** Given large import dependency, the govt may consider building up strategic buffers to take advantage of low prices. A sovereign wealth fund could also be proposed in the event of large sustained BoP surplus.

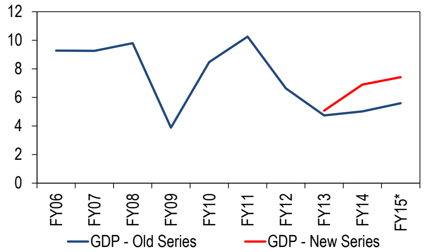
6. **Large-scale infrastructure spending/facilitation –** The govt may choose to enhance public spending in infra sector with suitable checks and balances in place. Interest rate subvention for new projects announcement/Make in India initiatives could be another way to incentivize capacity creation

7. **Watch out for a shift towards fiscal federalism[3] –** Given PM Modi's desire to promote "*cooperative federalism*" and similar objectives of Niti Aayog, it will be interesting to see if there is a shift towards larger devolvement to states.

To conclude: Budget is important, but reforms are a continuous process – Lastly, we note that the budget isn't the only occasion for government to push through structural reforms and announce pro-growth measures like those mentioned above. It's the policy direction as well as government's ability to take difficult decisions that will reassure investors.

[3] In India, the Centre has the main revenue-raising powers, whereas states are in charge of major expenditure functions. The constitution has a provision for inter-governmental transfers to relocate resources from the Centre to states in the form of tax-sharing, grants-in-aid and loans.

Figure 11. Real GDP at mkt prices (%YoY)



Source: CSO, Citi Research

Real Economy

CSO Revises GDP Data ; Pegs FY15 Growth at 7.4%

Earlier this month, the Central statistical organization (CSO) rebased the GDP data series which now shows that India's growth revival has been more swift and substantial than previously estimated. Based on the new series, the GDP growth (at market prices) stands at 7.4% in FY15 and 6.9% in FY14 i.e. ~180bps higher than earlier estimates. Nominal GDP on the other hand was left broadly unchanged

The key changes in the new GDP series include (1) Base year: reference year for national accounts has been revised from 2004-05 to 2011-12 (2) Methodological Changes: Wider dataset for industry i.e. MCA21 databse, shift towards value addition vs production based approach earlier, inclusion of sales and services tax data to impute activity (3) International standards: move towards stating headline GDP at market prices instead of factor cost earlier.

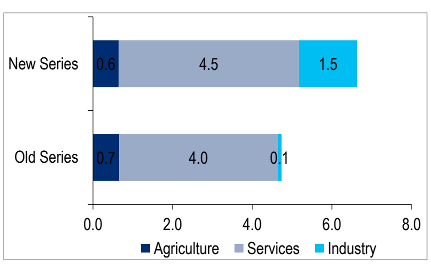
Figure 12. Trends in Headline GDP – Real and Nominal (Rs bn, %YoY)

	Old 2004-05 Series		New 2011-12 Series			
	FY13	FY14	FY13	FY14	FY15 Adv.	FY16E
REAL						
GVA	54,821	57,418	85,992	91,698	98,577	106,528
%YoY	*4.5*	*4.7*	*4.9*	*6.6*	*7.5*	*8.1*
GDP at Mkt Prices	**58,998**	**61,958**	**92,808**	**99,211**	**106,569**	**115,174**
%YoY	*4.7*	*5.0*	*5.1*	*6.9*	*7.4*	*8.1*
NOMINAL						
GVA	93,889	104,728	92,521	104,771	116,897	132,094
%YoY	*11.9*	*11.5*	*12.9*	*13.2*	*11.6*	*13.0*
GDP at Mkt Prices	**101,133**	**113,551**	**99,885**	**113,451**	**126,538**	**142,988**
%YoY	*12.2*	*12.3*	*13.1*	*13.6*	*11.5*	*13.0*

Source: CSO, Citi Research

New GDP Highlights – Industrial Sector the Big Delta

Figure 13. Contribution to FY14 Growth (New 2011-12 Series vs. Old 2004-05 Series)



Source: CSO, Citi Research

As a result of revisions, the real GDP growth for FY14 and FY15 increased by 180bps of which industrial sector contributed ~130bps (see fig12). Also, the share of industrial sector in the GDP has gone up to 31% in the new series vs 25% earlier. According to CSO, the value added in manufacturing sector now incorporates MCA21 database and is derived from the enterprise based approach as against establishment based approach earlier. The services sector growth has improved too reflecting strong growth in sales and services tax. From the expenditure side, the share of consumption and investments have largely remained unchanged.

Figure 14. GDP by Expenditure (%YoY)

	Wts	FY13	FY14	FY15*	FY16E
Consumption	**68.5**	**4.9**	**6.5**	**7.6**	**8.0**
Private	57.3	5.5	6.2	7.1	7.8
Public	11.2	1.7	8.2	10.0	9.0
GCF	**33.0**	**2.6**	**-4.0**	**5.9**	**6.6**
GFCF	29.8	-0.3	3.0	4.1	6.5
Valuables	1.6	3.3	-48.7	28.2	10.0
Net Exports	**-1.4**	**-3.3**	**69.0**	**19.5**	**24.2**
Exports		6.7	7.3	0.9	2.5
Imports		6.0	-8.4	-0.5	1.0
Discrepancies					
GDP MP	**100**	**5.1**	**6.9**	**7.4**	**8.1**

* as per CSO's first advance estimate; Source: CSO, Citi Research ; wts based on Real GDP

Figure 15. GDP by Activity (%YoY)

	Wts	FY13	FY14	FY15*	FY16E
Agriculture	**16.2**	**1.2**	**3.7**	**1.1**	**3.6**
Industry	**31.2**	**2.4**	**4.5**	**5.9**	**7.2**
Mining	2.9	-0.2	5.4	2.3	5.8
Manufacturing	18.0	6.2	5.3	6.8	7.7
Electricity	2.4	4.0	4.8	9.6	8.0
Construction	8.0	-4.3	2.5	4.5	6.5
Services	**52.6**	**8.0**	**9.1**	**10.6**	**9.9**
Trade,Hotel,Trans	18.9	9.6	11.1	8.4	9.5
Fincl Svcs, etc.	20.9	8.8	7.9	13.7	12.0
Public Adm, Def	12.8	4.7	8.0	8.8	7.5
GVA	**100**	**4.9**	**6.6**	**7.5**	**8.1**

*as per CSO's first advance estimate; Source: CSO, Citi Research; wts based on Real GDP

Investment Pipeline Builds as Reforms Gain Momentum

Figure 16. PMG Progress so far

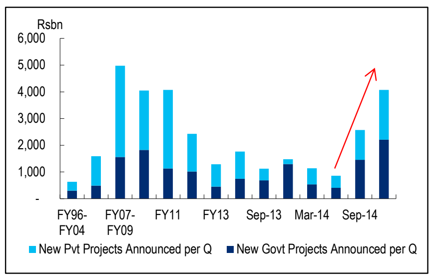
Sector	Number		US$bn	
	Resolved	Remaining	Res	Rem
Power	100	89	73	92
Road Transport	15	22	3	6
Petrol and Natural Gas	17	31	7	53
Steel	7	44	6	76
Railways	9	16	3	4
Shipping	8	11	2	4
Chemicals	0	1	0	1
Fertilizers	0	3	0	3
Mines	3	5	1	6
Civil Aviation	2	0	4	0
Coal	29	50	2	21
TOTAL	197	297	105	294

Source: www.cabsec.nic.in

Investments: Projects announced show a sharp uptick – The impasse in projects was the main drag behind the collapse in investments in FY13 and FY14 . After falling over the past two years, new projects announced, both private and government, were up significantly (+176%), for the second consecutive quarter in Dec'14. The positive projects data, coupled with reform momentum and continued PMG progress, would help revive investments in FY16-FY17.

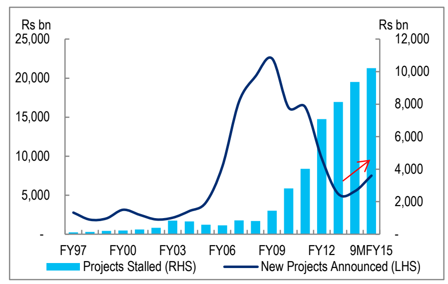
Reform momentum and "Make in India" – The government's recent usage of the ordinance route to pass reforms in key issues such as land acquisition, coal auctions, mining and FDI in insurance reflects its conviction behind reforms and willingness to act outside of conventional avenues. Govt's flagship initiative 'Make in India' aims to promote manufacturing which currently constitutes only ~18% of GDP vs targeted 25%. India's unique combination of democracy, demography, and demand would also help make it a suitable manufacturing destination.

Figure 17. Trends in New Projects Announced (Rs bn)



Source: www.capex.cmie.com

Figure 18. Trends in Projects Stalled (Rs bn)



Source: www.capex.cmie.com

Bottom Line: 8%+ in FY16E; Potential Growth - A Question

Links to our notes on Revised GDP:

CSO Pegs FY15 GDP at 7.4%; What will Policymakers do?

GDP Revised Up or Down? Depends on How One Looks at It; Upsides to Industry Estimates, but Ratios Largely Unchanged

Given the growth trends and compositional changes in the new GDP data, the potential growth estimates could likely be revised higher (previously at 6.5-7%) once the historical back-casted series is made available. While we await further clarity on the past data, we expect economic activity to improve further in the near term on the back of (1) ongoing economic reforms; (2) de-bottlenecking of investments; and (3) supportive monetary policy. Incorporating new series, we revise our FY16 GDP growth to 8.1% from our earlier estimate of 6.5% based on old series.

Figure 19. GDP Snapshot (%)

	FY13	FY14	FY15	FY16E	FY17E	FY18E
Agriculture	1.2	3.7	1.1	3.6	3.0	3.0
Industry	2.4	4.5	5.9	7.2	8.2	8.5
Services	8.0	9.1	10.6	9.9	10.1	10.2
GVA	4.9	6.6	7.5	8.1	8.4	8.6
Consumption	4.9	6.5	7.6	8.0	8.2	8.7
Pvt	5.5	6.2	7.1	7.8	8.3	8.6
Public	1.7	8.2	10.0	9.0	8.0	9.0
GCF	2.6	-4.0	5.9	6.6	7.4	8.4
GFCF	-0.3	3.0	4.1	6.5	7.5	8.5
Net Exports	-3.3	69.0	19.5	24.2	32.0	-4.5
GDP Mkt Prices	5.1	6.9	7.4	8.1	8.4	8.6

Source: CSO, Citi Research estimates

Monetary Indicators

Change in CPI Data Series – Another Positive Surprise

Feb 2015 has been the month of revisions in data series. Following the changes in the new GDP series, which led to an upward revision of ~200bps, the CSO released a new CPI series. This surprised positively as well with the Jan CPI coming in at 5.1%YoY i.e. ~40bps lower than expectations. Key features of the new CPI: (1) base year revised to 2012 from 2010, (2) weights based on expenditure survey 2011-12 vs 2004 -05, (3) geometric instead of arithmetic mean for price relatives.

Figure 20. CPI Weights – Old and New

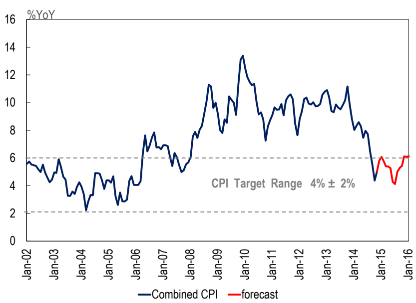
	Old	New
Food and beverages	47.6	45.9
Pan, tobacco, intoxicants	2.1	2.4
Clothing and Footwear	4.7	6.5
Housing	9.8	10.1
Fuel and Light	9.5	6.8
Miscellaneous	26.3	28.3
Total	**100.0**	**100.0**

Source: CSO

Inflation – Has the Back Been Broken?

Headline CPI falls from 10% to 5% – As seen in fig 20, prior to FY09, headline inflation had trended in the 4%+-2 range. However, for the next six years (FY09-FY14), India's CPI inflation was stubbornly high averaging 10%. It was only through a combination of RBI's strong anti-inflationary stance, the government's supply side measures and softer international commodity prices that the latest print on CPI is down to 5.1% in Jan-15. Encouragingly, key to note that core CPI has also softened to 3.9% – an indication of subdued demand pressure.

Figure 21. Trends in CPI (%YoY)



Source: CSO, RBI

Headline WPI in the red – Similar to trends in the CPI, headline WPI which had averaged 7.5% during FY09-FY14 has fallen sharply with the latest reading at -0.4%. The relatively sharper fall in WPI v/s CPI is primarily due to tradables which represent ~57% of WPI v/s 33% of CPI.

Figure 22. Trends in CPI and WPI – Headline and Core

		Monthly							Apr-Jan	
	Wts	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	FY15	FY14
Headline CPI	**100**	**8.4**	**8.1**	**6.7**	**5.6**	**4.2**	**4.7**	**5.1**	**6.7**	**9.8**
Food and Beverages	45.9	9.7	9.6	7.6	5.6	3.1	4.5	6.1	7.2	11.5
Fuel and Light	6.8	4.3	4.0	3.3	3.3	3.3	3.2	3.7	4.0	7.6
Core CPI (ex-food ex-fuel)	**47.3**	**7.7**	**7.2**	**6.1**	**6.0**	**5.5**	**4.8**	**3.9**	**6.6**	**8.1**
Headline WPI	**100**	**5.4**	**3.9**	**2.4**	**1.7**	**-0.2**	**0.1**	**-0.4**	**3.0**	**6.1**
Primary Articles	20.1	6.8	3.7	2.0	0.8	-1.6	2.2	3.3	4.0	10.4
Fuel Index	14.9	7.4	4.5	1.3	0.5	-4.5	-7.8	-10.7	2.0	10.1
Core WPI (non-food mfg)	**55**	**4.0**	**3.6**	**3.1**	**2.6**	**2.0**	**1.5**	**0.9**	**3.0**	**2.7**

Source: CSO, Office of the Economic Advisor, Citi Research

Drivers of Lower Inflation – Policies, Wages, Expectations

MSPs

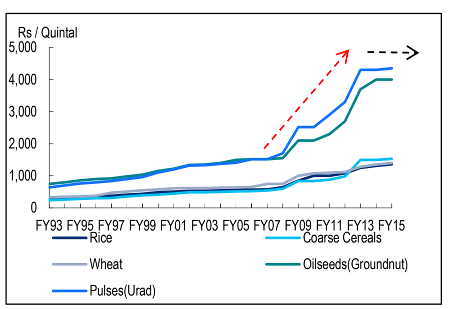
After double digit growth in MSPs during 2009-13 period, the increase was muted for the second consecutive year in 2015 - rice up 3.8%, wheat up 3.6%

BUFFER STOCKS

Govt has been off-loading food stocks to keep food grain inflation in check

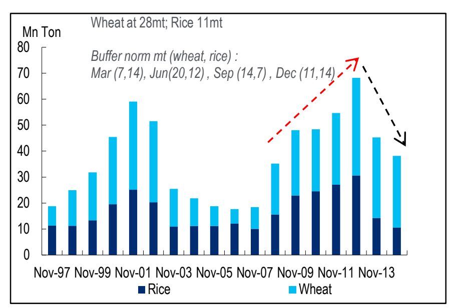
Govt food policies: Following hikes in minimum support prices at a CAGR of 15% during 2009-13, the govt. has kept MSPs flat for last 2 years. This, coupled with govt offloading excess food stocks, has helped lower food and farm wages inflation

Figure 23. Trends in Minimum Support Prices



Source: CACP, Citi Research

Figure 24. Trend in Food Stocks (MnT)



Source: FCI, Citi Research

Rural wages and household expectations: A combination of three factors (lower MSPs, flat spend on MGNREGS and construction activity) has resulted in rural wage inflation easing to 3.8% in Nov after averaging at double digits for over five years. All these trends reflect structural shift in India's inflation dynamics which in turn is reflected in a sharp drop in HH inflation expectations.

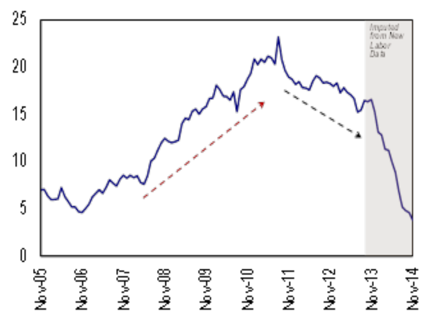
RURAL WAGES

Rural wages see a sharp deceleration in trends, now sub-4% levels.

INFLATION EXPECTATIONS

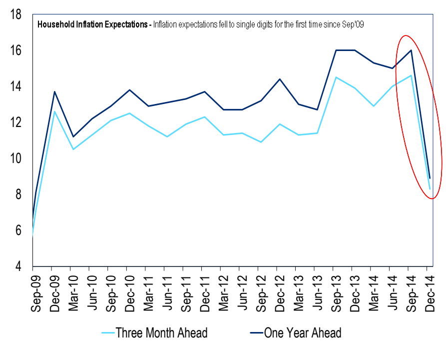
Following five years of double-digit trends, HH Inflation expectations are now at ~9%

Figure 25. Trends in Rural Wages (%YoY)



Source: : Labor Bureau, Citi Research

Figure 26. Household Inflation Expectations



Source: RBI

Expect CPI to Stay Benign at 5% in FY16: Crude, MSP

Following the CPI print of 5.1% in Jan and incorporating the changes in CPI methodology (adoption of GM) and rejig in weights, we expect CPI to consistently undershoot RBI's 6% target through 2015 and average 5% in 2016. While monsoon is a risk factor, the softer prints should continue on account of (1) lower commodity prices,(2) moderate MSP hikes and (3) deceleration in rural wages

Crude update: Note that while a 10% decline in crude could lower India CPI by 20-30bps, the transmission is impeded due to tax hikes. (Excise duties on petrol and diesel are Rs 9/ltr and Rs8/ltr). E.g.Petrol prices are down 20%YoY v/s a 40% YoY decline in Brent crude.

Figure 27. Fuel Sensitivity of Inflation

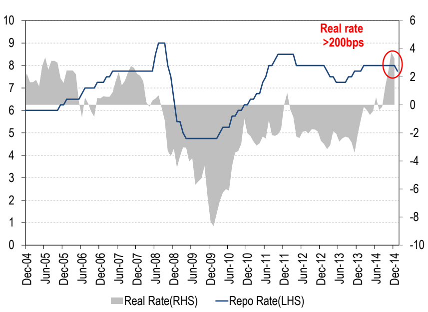
	WPI weight	CPI weight*
Crude Petroleum	0.90%	0%
Diesel	4.67%	0.15%
Petrol	1.09%	2.18%
other mineral oil	2%	0.05%
Bus/Tram/Taxi fare	0	1.36%
Total	**8.66%**	**3.74%**

Source: Office of Economic Advisor, NSSO, Citi Research, *Based on new CPI (2011-12) series

<u>Bottom Line:</u> Maintain Rate View of Further 75bps Easing

RBI cuts repo by 25bps to 7.75%: The RBI commenced its easing cycle with an inter-meeting cut on Jan 15. This was not entirely unexpected given the RBI's Dec policy statement of the possibility of acting "*outside the policy review cycle*". While keeping rates unchanged in the Feb policy, the RBI reiterated its guidance, "*further easing will be dependent on data that confirm continuing disinflationary pressures and sustained high quality fiscal consolidation*".

Figure 28. Trend in Real Rates (Repo-CPI)



Source: RBI, Citi Research

Maintain rate view of likely 75bps cut by FY16 — Given our outlook on CPI averaging at 5% in FY16 and RBI's comfort range for real rates at 150-200bps, we "currently" maintain our view of a further 75bps easing on (1) benign inflation, (2) Feb budget reinforcing fiscal consolidation, (3) global factors. This would take the repo rate to 7% from 7.75% currently and real rate (Repo-CPI) to 150bps from 275bps currently

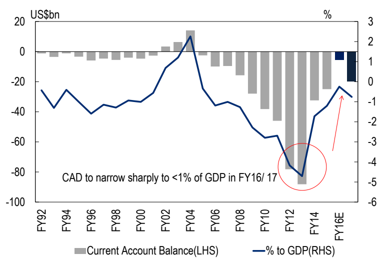
However, as is well documented, the recent GDP data has introduced uncertainty about the output gap in the economy. Thus while we "currently" maintain our view of cumulative 75bps easing we await RBI's interpretation of the GDP data/output gap.

External Sector

Current Account Deficit – Sub 1% of GDP in FY16/17

Following the downward revision in commodity forecasts by our global team, and sluggish trend in exports, we expect FY16E and FY17E CAD estimates at 0.2% and 0.8% of GDP from over 1% of GDP earlier. Our assumptions include (1) crude price averaging US$60/bbl in FY16 and US$70/bbl in FY17 (2) gold imports at 850 tonnes in FY16 and 875T in FY17 (3) non-oil non-gold imports recording strong 10% growth in FY16 and 9% in FY17.and (4) exports growth moderating to 3.5% in FY16 and 6.5% in FY17 (this assumes a 22% contraction in petro-product exports).

Figure 29. Current Account Deficit (US$bn, %YoY)



Source: RBI, Citi Research

CAD – WHAT TO WATCH

FY15 – US$25bn (-1.2% GDP)
Oil at US$86/bbl, Gold 790 tonnes

FY16 – US$5.7bn (-0.2% GDP)
Oil at US$60/bbl, Gold 850 tonnes

FY17 – US$19.6bn (-0.8% GDP)
Oil at US$70/bbl, Gold 875 tonnes

Figure 30. Trends in Current Account (US$bn)

	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
a.Trade Balance	**-118.2**	**-130.6**	**-189.8**	**-195.7**	**-147.6**	**-135.8**	**-117.2**	**-136.3**
Exports	182.4	250.5	309.8	306.6	318.6	331.4	342.9	365.2
Imports	300.6	381.1	499.5	502.2	466.2	467.1	460.1	501.6
Of which : Gold	28.8	40.7	56.5	53.8	28.9	31.0	33.0	34.3
Oil	87.1	106.0	155.0	164.0	164.8	137.7	98.3	113.8
Non-oil Non-gold	172.4	223.1	277.9	272.9	256.6	282.2	310.4	338.4
b. Invisibles	**80.0**	**84.6**	**111.6**	**107.5**	**115.2**	**110.8**	**111.5**	**116.7**
Services	36.0	48.8	64.1	64.9	73.0	72.6	77.7	83.8
Transfers	52.0	53.1	63.5	64.0	65.3	66.2	67.9	68.9
Investment Income	-8.0	-17.3	-16.0	-21.5	-23.0	-28.0	-34.0	-36.0
1. Current Account (a+b)	**-38.2**	**-45.9**	**-78.2**	**-88.2**	**-32.4**	**-25.0**	**-5.7**	**-19.6**
% GDP	-2.8	-2.7	-4.2	-4.8	-1.7	-1.2	-0.2	-0.8

Source: RBI, Citi Research

Commodity Windfall – Net Oil Imports Down US$45bn

Net crude imports to decline to US$57bn: India imports 80% of its crude oil requirements and crude oil imports constitute 30% of India's total import bill. After factoring in petro product exports, a US$1/bbl decline in oil prices reduces the trade deficit by US$900m annually. Given the changes in the crude price assumption we expect "net" oil import bill to come in at US$57bn in FY16, which represents ~US$45bn decline over last two fiscal years.

INDIA's NET OIL IMPORT BILL

FY15: US$84.3bn (US$86/bbl),
FY16: US$57bn (US$60/bbl)
FY17: US$70bn (US$70/bbl)

A decline in the Indian crude basket of US$1/bbl reduces the current account deficit by US$0.9bn

Figure 31. Trends in Crude Imports (MnT, US$bn)

	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Crude oil production (Mn Tonnes)	33.7	37.7	38.1	37.9	38.9	41.1	43.4	43.4
Crude oil Imports(Mn Tonnes)	159.3	163.6	171.7	184.8	189.6	201.0	212.1	212.0
Crude Oil Requirements (A+B)	**192.9**	**201.3**	**209.8**	**222.7**	**228.6**	**242.1**	**255.5**	**255.5**
In Volume Terms (Mn T)								
Consumption of Petrol Products	137.8	141.0	148.1	157.1	158.2	165.8	172.4	179.3
Petro Product Exports (Mn T)	51.2	59.1	60.8	63.4	68.4	68.8	80.2	73.3
In Value Terms (US$bn)								
C. Total Imports (US$bn)	87.1	106.0	155.0	164.0	164.8	137.7	98.3	113.8
D. Petro Product Exports (US$bn)	28.2	41.5	56.0	60.9	63.2	53.4	41.3	43.6
Net Oil Import Bill	**58.9**	**64.5**	**98.9**	**103.2**	**101.6**	**84.3**	**57.0**	**70.2**
Average Oil Price (Indian Basket)	69.8	85.1	111.9	108.0	105.5	86.0	60.0	70.0

Source: PPAC, Citi Research estimates

Gold imports to remain in check: A series of policy measures helped reduce gold imports to US$28.9bn in FY14 from abnormally high levels of >US$50bn in FY12 and FY13. As CAD trends normalized, the govt has lifted the quantitative restrictions on gold imports and in due time we expect import duties to be cut. Consequently, we expect gold imports to rise from 790 tonnes in FY15E to 850-875 in FY16/17E as (1) jewelry demand persists at ~650-700T, (2) investment demand for gold,

which had risen sharply during FY09-FY12, is likely to moderate due to positive domestic real rates and lower expected returns on gold.

Figure 32. Trends in Gold Imports (Tonnes, US$bn)

	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Gold Imports (Tonnes)	**875**	**976**	**1,066**	**1,012**	**678**	**790**	**850**	**875**
Gold Prices $/oz	1,025	1,295	1,649	1,654	1,326	1,260	1,250	1,260
Gold Imports (US$bn)	**28.8**	**40.7**	**56.5**	**53.8**	**28.9**	**31.0**	**33.0**	**34.3**
Gems/Jewelry Export (US$bn)	29.0	40.5	44.8	43.4	41.1	40.0	38.0	42.0
Gold Exports (US$bn)	4.3	6.1	6.7	6.5	6.2	6.0	5.7	6.3
Net Gold Imports (US$bn)	**24.5**	**34.6**	**49.8**	**47.3**	**22.7**	**25.0**	**27.3**	**28.0**

Source: WGC, RBI, Citi Research

Capital Flows Strong at >3% GDP; Composition to Change

While the govt's "Make in India" and enabling policies will likely aid FDI flows, other components of the capital account could moderate due to (1) global weakness, (2) ~70% utilization of limits exhausted on total portfolio debt and (3) repayment of FCNR (B) deposit schemes in FY17. On balance, we expect capital flows to the tune of US$75bn in FY16 and US$82bn in FY17.

Figure 33. FII Debt Investment

	Limit	Limit	Invst	% limits
	US$bn	Rs bn	Rs bn	used
Government Debt	**30**	**1,535**	**1,395**	**90.9%**
Auction Route	25	1244	1202	96.6%
On Tap*	5	291	193	66.3%
Corporate Debt	**51**	**2,443**	**1,159**	**47.4%**
Comm. Papers	2	100	90	90.2%
Total	**81**	**3,978**	**2,554**	**64.2%**

As of 16th Jan 2015; Source: NSDL

Figure 34. Trends in Capital Account (US$bn)

	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
c. Loans	**12.4**	**28.4**	**19.3**	**31.1**	**7.8**	**15.0**	**15.0**	**19.0**
d. Foreign Investment	**50.4**	**39.7**	**39.2**	**46.7**	**26.4**	**56.6**	**47.6**	**62.6**
Portfolio Investments	32.4	30.3	17.2	26.9	4.8	32.0	20.0	30.0
FDI	18.0	9.4	22.1	19.8	21.6	24.6	27.6	32.6
e. Banking Capital Net	**2.1**	**5.0**	**16.2**	**16.6**	**25.4**	**9.0**	**12.0**	**1.0**
of which NRI deposits	2.9	3.2	11.9	14.8	38.9	8.0	11.0	0.0
f. Other capital	**-13.2**	**-11.0**	**-6.9**	**-5.0**	**-10.8**	**0.0**	**0.0**	**0.0**
g. Rupee debt service	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Capital Account (c:g)	**51.6**	**62.0**	**67.8**	**89.3**	**48.8**	**80.5**	**74.5**	**82.5**
Overall Balance	**13.4**	**13.1**	**-12.8**	**3.8**	**15.5**	**55.5**	**68.9**	**62.9**

Source: RBI, Citi Research

Figure 35. Trends in External Debt (US$bn)

India's External Debt	**FY12**	**FY13**	**FY14**	**FY15**
Multilateral	50.5	51.6	53.4	53.4
Bilateral	26.9	25.2	24.7	23.4
IMF	6.2	6.0	6.1	5.9
Trade Credit	19.0	17.7	15.9	15.4
Commercial Borrowing	120.1	140.2	147.6	161.4
NRI Deposits (> 1 year)	58.6	70.8	103.8	108.7
Rupee Debt*	1.4	1.3	1.5	1.5
Total Long term debt	**282.6**	**312.7**	**353.0**	**369.5**
FII Invst in T-Bills	9.4	5.5	3.2	0.2
Others (trade related)	65.1	86.8	81.7	81.8
Total Short term debt	**78.2**	**96.7**	**89.2**	**86.4**
GROSS TOTAL	**360.8**	**409.4**	**442.2**	**455.9**

Source: RBI; Citi Research

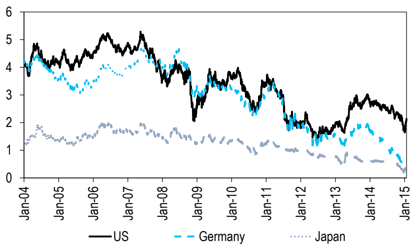
Bottom Line: BoP Surplus of US$69bn; Sterilization Likely

FX reserves to go up by US$60-70bn annually; sterilization likely: Given an annual BoP surplus of ~US$60bn and consequent rise in RBI's FX reserves (FX reserves are up US$70bn over the past one year after adjusting for forward positions), there could be a need to sterilize excess liquidity arising from the same. Sterilization tools that could come into play include OMO sales and MSS issuances.

No room for complacency – external debt at US$456bn: External Debt rose to US$456bn in Dec'14 from US$442bn in FY14, mainly due to longer-term debt – particularly in commercial borrowing and NRI deposits. The elevated level of debt remains a concern, especially ahead of Fed normalization

Financial Markets

Figure 36. 10 Year Bond Yields in Adv Economies (%)



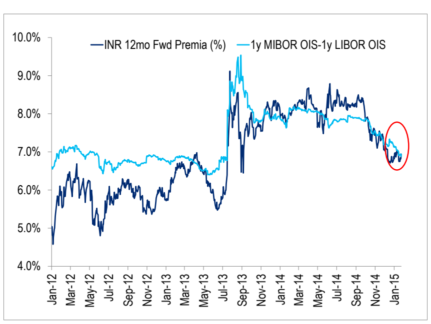
Source: Bloomberg, Citi Research

Figure 37. Trends in RBI's FX Reserves & Forwards (US$bn)

	Fx Reserves	Forwards
Sep-13	277.2	-9.6
Oct-13	281.5	-14.5
Nov-13	290.7	-32.5
Dec-13	293.9	-32.6
Jan-14	291.1	-31.8
Feb-14	294.4	-31.3
Mar-14	304.2	-31.0
Apr-14	311.0	-32.1
May-14	312.2	-11.5
Jun-14	316.1	-0.2
Jul-14	319.8	5.4
Aug-14	318.4	5.8
Sep-14	314.2	8.4
Oct-14	315.9	10.2
Nov-14	**315.6**	**13.3**
Dec-14	320.6	6.9
Jan-15	328.7	
Feb-15	330.2	

Source: RBI, Citi Research

Figure 38. Trend in INR Forwards



Source: RBI; Citi Research

AE Monetary Policy Remains Easy; Fed Timing Is Key

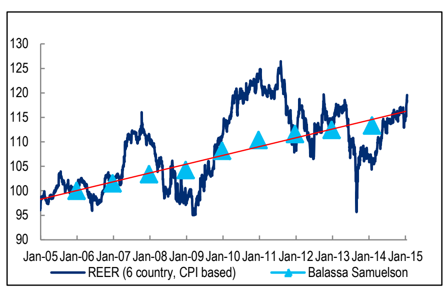
ECB to begin €1.1trillion QE from Mar'15 – Our global team notes that with very low inflation (or even negative inflation) and some slack remaining, advanced economies will continue to loosen monetary policies. The ECB has announced monthly purchases of €60bn in the period Mar'15-Sep'16 and our team thinks that it could possibly extend beyond Sep'16. Similarly BoJ is likely to expand its QE program around mid-year. As regards the Fed, while our team still holds their view of the Fed likely to hike in late 2015, prudential reasons could prompt it earlier.

India still an attractive carry play – With monetary policy continuing to loosen in advanced economies, G4 bond yields have been trending lower e.g. 10yr UST at 2.1%, 10yr German bund at 0.4%, 10yr JGB at 0.4%. The yield pick-up in India remains attractive (10yr India bond yield 7.7%), especially in the light of stable external sector and INR trends. In addition, the ongoing reforms and the cyclical recovery in the economy continue to attract investors towards equity market as well.

Rupee to Converge Towards 62-64.5 Range

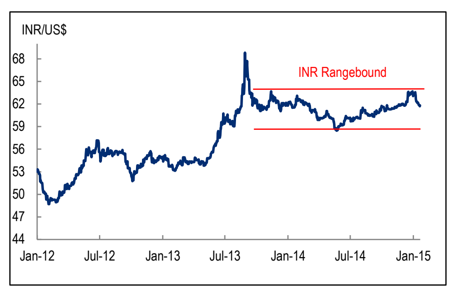
Rupee likely to converge towards 62-64.5 range – While the rupee appears overvalued by >15% based on six-country REER (~10% based on 36-country REER), it remains fairly valued after adjusting for productivity differentials (Balassa-Samuelson effect[4]). Thus, while there could be bouts of EM risk aversion, we expect INR to display relatively lower volatility due to on-going macro stabilization i.e. lower CAD, benign inflation, rising FX reserves and on-going reforms. Given the need to keep the currency competitive relative to its trading partners, we expect the INR to stabilize close to its fair value range of 62-64.5 based on productivity adjusted REER terms.

Figure 39. Trends in INR-REER



Source: RBI; Citi Research

Figure 40. Trends in INR/US$



Source: RBI; Citi Research

Forward premia trends lower – The 12-month forward premia continues to trend down (currently at 7.1%) reflecting the expected easing in the domestic interest rates relative to US rates. But given the stable trends in INR and elevated forward premia, the importers and foreign currency borrowers have only partially hedged their exposure. The unhedged positions could potentially be a source of risk in the event of currency volatility.

[4] As per Balassa-Samuelson (1963), rapid economic growth is accompanied by real exchange rate appreciation because of differential productivity growth between tradable and non-tradable sectors. To adjust for this effect, we look at relative change in GDP per capita in PPP terms (Word Development Indicators Database) for India and its major trading partners.

Bonds to Rally on Rate Cuts: But How Much Is Priced In?

Liquidity measures: While the RBI maintained status quo on rates in its Feb policy, it (1) Cut the SLR from 22% to 21.5% of NDTL and (2) discontinued Export Credit Refinance (ECR) facility. **Impact muted:** The impact of these two measures would not be felt in the short-term as SLR in the banking system continues to be elevated at >28% of NDTL and the usage of ECR has reduced to <0.1% of NDTL.

The reduction in SLR and removal of Export Credit Refinance are consistent with banking reforms and moving away from sector-specific liquidity facilities in line with recommendations of Dr Urjit Patel Committee

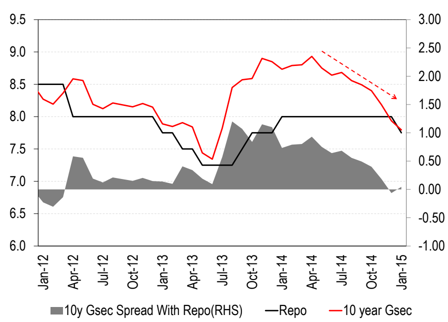
Figure 41. New Liquidity Framework

Instrument	Quantum, Timing
Overnight Fixed Rate Repos (at repo rate)	0.25% of NDTL, bank-wise, Daily 9:30-10:30
Variable Rate 14 Day Term Repo Auctions	0.75% of system-wide NDTL, 4 times during a fortnight
Overnight Variable Rate Repo Auction	Variable, Ad-hoc, Greenshoe , 3-3:30PM
Overnight Fixed Rate Reverse Repo.	No restriction on quantity, 7-7:30PM
Overnight Variable Rate Reverse Repo Auctions	Variable, Ad-hoc, 3-3:30PM
Overnight Marginal Standing Facility	Excess SLR+2% below SLR, 7-7:30PM
Export Credit Refinance (at repo rate)	Discontinued now, earlier limit 15% of eligible credit, 10-5PM

Source: RBI; Citi Research

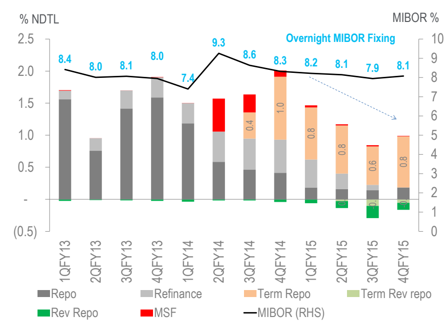
Swaps pricing in big cuts; bonds have room to rally – While the yield curve in unfunded swap market remains sharply inverted pricing in cuts of 50-100bps over the next one year, the yield curve in the funded bond market is largely flat. The five year G-sec currently trade at 7.70% i.e. close to 100bps above the traded levels on 5 OIS. Two reasons that explain the divergence are: (1) Lack of incremental FII demand for bonds as limits have been used up (2) Swaps tend to be more volatile/speculative. Given our view of another 75bps cut in the repo rate by end of FY16, we believe there is further room for bonds to rally towards 7.25%-7.5%

Figure 42. Trend in 10yr Spread



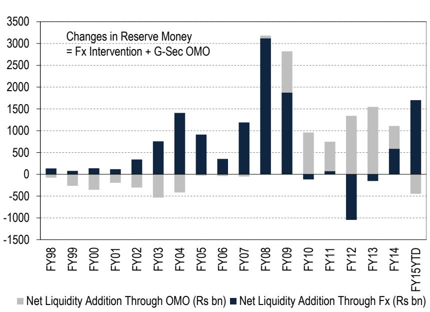
Source: Bloomberg

Figure 43. Liquidity in Banking System(%NDTL)



Source: RBI, Citi Research

Figure 44. RBI's Primary Liquidity Injection (Rs Bn)



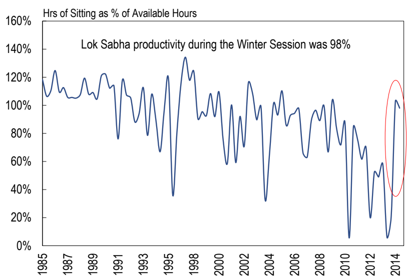
Source: RBI

Supply/demand for bonds will be key – Factoring in a fiscal deficit of 3.6% of GDP for FY16, we believe that the net supply of government bond will remain largely unchanged from last year at ~Rs 4.6trn. However due to redemption of ~Rs 1.75trn of securities, the gross supply will be 7% higher than last year. The supply could go up in the 2HFY16 in the event RBI resorts to OMO sales to sterilize its Fx intervention. As regards demand, domestic investors- banks, insurance and provident funds will continue to be large holders and we also expect FII limits to be opened up by ~US$5bn in FY16 to retain the distribution of g-sec holding.

Bottom Line: Strong Market Performance to Continue

Global conditions remain supportive for Indian assets given that India is one of the few emerging markets with an improving macro outlook and continued reforms.

Figure 45. Lok Sabha Productive Hours (%)



Source: www.prsindia.org

Policy Watch

The Budget Session – What to Expect

Not just the Budget…Outcome of ordinances, GST also in focus – The Budget Session is scheduled to begin on February 23rd and end on May 8th. There will be a recess between March 20th and April 20th. While the highlight of the session will be the Modi government's first budget on Feb 28th, there is a lot more to look out for.

Firstly, the outcome of the ordinances implemented after the Winter Session depends on the upcoming Budget Session – they could (1) be passed by both houses of parliament separately, (2) be passed in a joint session of both houses (3) lapse without approval or (4) be re-promulgated.

Secondly, the GST bill was tabled in the Lok Sabha during the last Winter Session. If it makes progress on gaining approval in the Upper House, it could meet the govt's roll out deadline of April 2016.

Recap: Govt takes the ordinance route – Post the winter session at the end of December, the government passed key legislations as *ordinances* – including land acquisition, coal block auctions, FDI in insurance, and mining. The government's usage of the ordinance route reflects its conviction behind reforms and willingness to act outside of conventional avenues. However, ordinances are only temporary and eventually legislations do require parliamentary approval to become a law.

Quick primer on ordinances – As per Article 123, an ordinance is promulgated by the President when Parliament is not in session. It has the same force and effect as an Act. However, key to note the ordinances must be validated by both houses of parliament within six weeks from the start of the next parliament session, or it shall lapse/need to be reintroduced i.e re-promulgated.

Figure 46. Reforms – Announced and Pending

ANNOUNCED	
Energy	Diesel price has been de-regulated; Gas Price increased to US$5.6 per mmBtu from US$4.2 per mmBtu on GCV basis and to US$6.2 on NCV basis Rollout of modified direct benefit transfer for LPG in 54 districts in Nov and all India from 1st Jan
FDI	Railways: 100% FDI in railway infrastructure; Defence: Increase in limit to 49% from 26% Make in India: aggressive campaign to get FDI
Labor	Presidential assent for labor laws in Rajasthan, thereby providing some flexibility ; Shram-Suvidha Portal to allow single online return for 16 laws; Transparency in Labor inspection – decided by computer draw, reports to be uploaded within 72 hrs; Universal account number for EPF accounts Parliament passes Apprentices (amendment) Bill
Land Acquisition	Govt promulgates ordinance for new land acquisition bill - exempts 5 sectors (defense, rural infra, affordable housing, industrial corridors and infra projects where ownership of land vests with government) from social impact study and consent clause
Mining	Cabinet passes mining auction ordinance for coal and other minerals Ministry of Coal commences e-auction process for 24 coal mines The Coal Mines (Special Provisions) Bill passed in Lok Sabha – specifies method for allocation mines, enables pvt companies to mine coal
Finance	Banking Financial Inclusion plan; Expenditure management commission Insurance: increase in FDI limit to 49% from 26% promulgated as an ordinance Govt plans to reduce stake in PSU banks 27 PSBs to 52 per cent vs current red line of 56 per cent.
Economic Planning	Planning Commission replaced by 'NITI Aayog' – National Institution for Transforming India – think tank to provide centre, state govts strategic advice
Corporate	Companies (Amendment) Bill passed by Lok Sabha, aims to improve ease of doing business in India
IT	1bn enrollment target for Adhaar (UID)
Rural Development	Integrated project-based infrastructure development
Environment	Clearance process (environment and forest) online
Food Inflation	Hoarding made non-bail able offense. Rs5bn price stabilization fund; Continued moderation of MSPs and offloading food stocks
PENDING	
Finance	GST introduced in Lok Sabha; Amendments to retrospective tax laws
Energy	Modification in incentive regime for hydrocarbon exploration (from cost-recovery to revenue-sharing model)
Food	National common market for agricultural produce
Investments	Single-window clearance for capital intensive steel, coal and power projects

Source: Govt, media reports and Citi Research

Low Numbers in the Upper House, AAP Victory in Delhi… What Could Help?

Low numbers in the Rajya Sabha (Upper House) could hinder reform momentum – While the BJP majority in Lok Sabha facilitates passing of key legislations, the low numbers in the Rajya Sabha (60 of 243 seats) is an obstacle for the same. This was evident in the recent winter session wherein Rajya Sabha's productivity was 58% of its hours vs the Lok Sabha at 98%. Going forward, worries on the Rajya Sabha numbers could subside given ~70 non-BJP members are scheduled to retire over the next two years. **A quick re-cap on the Rajya Sabha:** Rajya Sabha representatives are elected by the elected members of the Legislative Assembly of that State. Also note that while the Rajya Sabha is a permanent house and is not subject to dissolution, one-third of its members retire after every second year. A member who is elected for a full term serves for a period of six years.

Figure 47. Rajya Sabha Membership

Party	Seats	Party	Seats
NDA + support	**61**	**Opposition**	**164**
BJP	46	INC	67
TDP	6	SP	15
SAD	3	Janata Dal (United)	12
SS	3	AITC	12
NPF	1	AIADMK	11
Kerala Cong.	1	Left Parties	11
RPI	1	BSP	10
Total	**61**	BJD	7
		NCP	6
		DMK	4
		JKNC	2
		RJD	1
		BPF	1
		INLD	1
		JMM	1
		TRS	1
		JD(S)	1
		Total Opposition	**164**
		Nominated	10
		Others / Independents	7
		Total Rajya Sabha	**241**

Source: Rajya Sabha

Legislative powers are defined in the constitution and divided into three lists: union list (96 items), states list (60 items) and concurrent list (47 items). Residual powers remain with the centre.

AAP gains majority in Delhi – After BJP's strong performance in key state elections, the recent Delhi election results were a disappointment for the ruling party which managed to get only 3 out of 70 state assembly seats with the AAP gaining absolute majority of 67 seats. On the brighter side,the AAP victory could be an impetus for BJP to perform.

What else could help? Joint session, presidential assent – In the event of a deadlock between the two houses of parliament, wherein both have opposite stances, the President may call a joint session of both houses during which a the issue is resolved by a simple majority vote. Given that the BJP and its allies have a majority in the Lok Sabha (336 of 543 members), a joint session could help the government pass legislations that are stuck in/ opposed by the Upper House.

As regards items on the concurrent list, another way out is the presidential assent route – recently used in Rajasthan for labour laws. Legislations on concurrent list items passed by the state governments will come into effect if they receive assent from the President. In this way, such reforms facing a logjam at the centre can be implemented at the state level.

Figure 48. Rajya Sabha Retirement Schedule

	2015	2016	2017	2018	2019	2020	2021	Grand Total
INC	2	21	3	19	2	19	1	67
BJP		**14**	**2**	**16**		**13**	**1**	**46**
SP		3		6		6		15
JD(U)		5		4		3		12
AITC			3	4		4		11
AIADMK		2	1		4	4		11
BSP		6		2		2		10
NOM.	2	3		4		1		10
Grand Total	**6**	**73**	**10**	**69**	**8**	**71**	**4**	**241**

Source: www.rajyasabha.nic.in

Bottom Line: Time to Move from Ordinances to Legislation

While reform momentum has been positive and markets have received it positively, material progress will only happen when reforms are implemented as actual laws. While this could be difficult due to low BJP/ally numbers in the Upper House, the Finance Minister has recently been meeting members of other parties to gain support on bills in the Upper House. Going forward, there may be enough support for bills like GST, insurance. However, issues like Land Acquisition and mining could continue to face opposition.

Monthly Monitor

Figure 49. India — Key Monthly Indicators (percent change from a year ago unless otherwise stated)

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
Consumption Trends														
Two-Wheelers	3.9	9.1	9.3	21.0	13.2	19.3	13.9	17.2	19.0	23.6	-1.0	7.9	5.5	1.6
Passenger Car Sales	-4.8	-6.7	-0.5	-5.0	-10.8	0.2	14.0	1.2	5.6	-3.4	-1.6	11.3	17.7	5.5
Tractors	13.0	16.5	15.2	5.4	-10.7	0.1	5.5	-5.9	-4.5	7.0	-12.3	-32.3	-28.9	
LHCVs	-23.7	-20.8	-29.0	-23.0	-25.4	-15.1	-10.6	-15.4	-11.3	3.2	-12.2	-2.0	-10.8	-7.2
MHCVs	-26.3	-14.1	-17.5	-13.1	-11.8	-4.6	2.4	-1.1	12.1	22.4	26.0	43.5	60.3	36.1
Investment Trends														
Infrastructure Index	2.1	1.6	4.5	2.5	4.3	2.3	7.2	2.6	5.8	1.8	6.3	6.7	2.4	
Diesel Consumption	-2.3	-2.6	-0.1	-1.8	-3.5	1.3	3.3	6.3	1.4	-0.2	-3.1	3.0	9.8	26.1
Steel Production	5.0	2.9	4.5	5.1	2.9	0.0	2.6	0.6	13.3	4.2	2.2	2.0	-1.1	
Manufacturing PMI*	50.7	51.4	52.5	51.3	51.3	51.4	51.5	53.0	52.4	51.0	51.6	53.3	54.5	52.9
output	51.3	52.6	54.0	52.2	51.7	51.7	52.4	54.9	54.1	52.3	53.3	56.0	57.0	55.4
Industrial Production Index														
General	0.1	1.1	-2.0	-0.5	3.7	5.6	4.3	0.4	0.5	2.5	-4.2	3.8	1.7	
Manufacturing	-1.1	0.3	-3.9	-1.3	3.0	5.9	2.9	-1.0	-1.3	2.5	-7.6	3.0	2.1	
Mining	2.6	2.7	2.3	0.5	1.7	2.5	4.8	1.2	2.0	0.7	5.2	3.4	-3.2	
Electricity	7.5	6.5	11.5	5.4	11.9	6.7	15.7	11.7	12.9	3.9	13.3	10.0	4.8	
Use Based Basic goods	3.0	2.8	4.5	4.6	8.6	7.5	10.2	7.4	9.2	5.1	5.8	7.0	2.4	
Capital goods	-2.5	-3.9	-17.6	-11.5	13.4	4.2	23.3	-3.9	-9.8	11.6	-2.3	6.5	4.1	
Intermediate goods	5.2	4.3	4.0	1.3	3.0	3.5	2.6	3.0	-0.1	1.8	-3.1	4.3	0.1	
Consumer goods	-4.6	-0.5	-5.2	-2.2	-4.8	4.6	-8.8	-7.7	-6.5	-4.0	-18.6	-2.2	0.7	
Consumer Durables	-16.4	-8.3	-9.8	-11.8	-7.7	3.6	-23.3	-20.9	-15.0	-11.3	-35.2	-14.5	-9.0	
Consumer Non-Durables	2.8	4.5	-2.0	5.0	-2.7	5.2	1.9	2.4	-0.4	1.5	-4.3	6.0	5.7	
Services														
Port traffic	5.8	-3.1	-1.3	7.6	8.8	0.9	3.7	0.8	1.5	9.5	8.1	10.3		
Railway freight	4.2	4.1	4.0	2.2	6.1	4.0	2.6	4.3	6.0	2.2	8.4	8.5	3.9	1.4
Tourist arrivals ('000)	822	759	738	669	504	421	492	572	569	495	656	750	877	790
Cellular subscriber Adds (Mn)**	6.8	8.6	10.3	8.3	5.0	6.2	6.5	4.9	5.5	6.1	6.3	-92.0	8.2	
Banking Trends														
Money supply(M3)	14.8	14.5	14.6	13.2	13.9	13.2	11.8	12.4	12.8	12.4	12.3	11.2	11.1	11.2
Loan(Credit) growth	14.2	15.7	15.7	16.7	13.8	12.5	12.8	12.8	10.4	9.6	11.7	11.3	10.5	9.3
Deposit growth	15.4	16.2	16.6	17.2	14.7	13.4	11.7	12.5	12.9	12.4	12.4	11.7	11.5	11.0
Non-food credit	14.5	15.9	16.1	17.0	14.2	12.8	13.0	12.8	10.5	9.7	11.7	11.4	10.8	9.6
Inflation														
CPI	9.9	8.8	8.1	8.4	8.7	8.5	7.5	8.4	8.1	6.7	5.6	4.2	4.7	5.1
Core CPI	**8.1**	**8.7**	**8.5**	**8.4**	**8.4**	**8.3**	**7.6**	**7.7**	**7.2**	**6.1**	**6.0**	**5.5**	**4.8**	**3.9**
WPI	6.4	5.1	5.0	6.0	5.5	6.2	5.7	5.4	3.9	2.4	1.7	-0.2	0.1	-0.4
Core WPI	**3.3**	**3.4**	**3.8**	**4.0**	**3.9**	**4.0**	**4.1**	**4.0**	**3.6**	**3.0**	**2.6**	**2.0**	**1.6**	**0.9**
PMI - Input Prices	57.8	57.7	61.0	57.2	54.6	54.0	55.8	59.6	57.9	53.8	51.8	54.3	51.0	50.3
PMI - Output Prices	51.8	52.4	51.4	51.0	50.9	51.1	52.5	50.7	50.4	50.1	50.5	52.2	50.7	50.6
Interest rates (Average, %)														
Daily MIBOR	8.2	8.3	8.4	8.4	8.4	8.2	8.2	8.5	8.1	7.9	7.8	7.9	8.2	8.1
1 yr CD	9.3	9.3	9.7	9.5	9.2	9.1	8.9	9.0	9.1	9.1	8.9	8.7	8.6	8.6
91-day T-Bills	8.8	8.7	8.9	8.9	8.9	8.8	8.6	8.6	8.7	8.7	8.5	8.3	8.2	8.0
Corp Bond Spreads	0.9	0.9	0.8	0.8	0.8	0.8	0.6	0.9	0.7	0.7	0.6	0.5	0.7	0.7
10-year government bond	8.8	8.7	8.8	8.8	8.9	8.8	8.6	8.7	8.6	8.5	8.4	8.2	7.9	7.8
Trade - customs data														
Exports(%YoY)	3.7	4.0	-5.7	-0.7	-0.4	10.0	8.9	7.8	1.0	2.7	-5.0	7.3	-3.8	-11.2
Imports(%YoY)	-14.8	-18.9	-17.9	0.8	-13.6	-10.3	9.1	5.0	1.4	26.0	3.6	26.8	-5.0	-11.4
Oil	1.2	-10.1	-3.0	16.8	1.1	2.4	10.7	14.5	-15.0	9.7	-19.1	-9.7	-28.6	-37.5
Gold	-77.9	-80.2	-75.8	-18.4	-74.1	-71.9	63.2	-26.4	175.6	470.8	280.4	571.9	7.4	9.4
Non-Oil Non-Gold	-9.0	-5.2	-12.9	-5.5	-3.6	3.0	3.3	3.1	7.0	22.1	5.6	27.7	9.4	3.1
Trade Deficit (US$bn)	-10.3	-9.5	-8.3	-11.0	-11.5	-12.0	-12.4	-12.4	-10.9	-14.2	-13.4	-16.9	-9.4	-8.3
Brent Prices ($/bbl)	110.8	107.5	108.8	107.6	107.9	109.7	111.9	107.0	102.0	97.3	87.5	78.6	62.1	49.0
Foreign investment (US$ mn)														
FII	3,460	2,187	2,054	5,175	76	5,701	5,188	6,018	3,646	3,460	2,730	4,134	1,998	5,453
FDI	1,861	-559	-666	2,133	2,072	3,898	2,197	3,696	1,660	2,659	2,784	1,767	3,459	
Exchange rate and reserves														
US$ exchange rate average	61.8	62.1	62.2	60.9	60.3	59.3	59.7	60.1	60.9	60.9	61.4	61.7	62.7	62.1
US$ exchange rate month end	61.9	62.5	62.1	60.1	60.3	59.0	60.1	60.2	60.5	61.6	61.4	62.0	63.3	61.8
Forex reserves incl.gold (US$bn)	295.7	291.1	294.4	303.7	309.9	312.4	315.8	320.6	318.6	314.2	315.9	316.3	319.7	319.5

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

Government Finances

Figure 50. Snapshot of Indian Government Finances (Rs bn)

	FY09	FY10	FY11	FY12	FY13	FY14RE	FY15BE	
a. Gross Tax Revenue	**6,053**	**6,245**	**7,931**	**8,892**	**10,359**	**11,589**	**13,645**	**Revenues**
% to GDP	10.8	9.6	10.2	9.9	10.2	10.2	10.6	**Key Budget Assumptions- FY15**
% YoY	2.0	3.2	27.0	12.1	16.5	11.9	17.7	Income Tax: +17.8%
Corporation tax	2,134	2,447	2,987	3,228	3,563	3,936	4,510	Corporate: +14.6%, Customs +15.2%
Income tax	1,060	1,224	1,391	1,645	1,965	2,362	2,782	Excise: +15.4%; Service: +31%
Excise duty	1,086	1,030	1,377	1,449	1,758	1,788	2,064	
Import duty	999	833	1,358	1,493	1,653	1,751	2,018	**Apr-Dec Trends**
Service tax	609	584	710	975	1,326	1,649	2,160	Income Tax: +8.4%
b. (-) Devolvement to States & UTs	**1,620**	**1,680**	**2,232**	**2,594**	**2,944**	**3,229**	**3,872**	Corporate: +6.6%, Customs +9.4%
c. Net tax revenues (a-b)	4,433	4,565	5,699	6,298	7,415	8,360	9,773	Excise: 0.2%; Service: +8.5%
d. Non tax revenues	969	1,163	2,186	1,217	1,374	1,932	2,125	
e. Net revenue receipts (c+d)	**5,403**	**5,728**	**7,885**	**7,514**	**8,792**	**10,292**	**11,898**	
f. Non-debt capital receipts	67	332	353	369	410	366	740	
Recovery of loans	61	86	124	189	151	108	105	
Divestments/Other	6	246	228	181	259	258	634	
g. TOTAL REVENUES (e+f)	**5,470**	**6,060**	**8,237**	**7,884**	**9,202**	**10,659**	**12,638**	
%YoY	**-6.6**	**10.8**	**35.9**	**-4.3**	**16.7**	**15.8**	**18.6**	
h. Revenue expenditure	**7,938**	**9,118**	**10,407**	**11,458**	**12,435**	**13,995**	**15,681**	**Expenditures**
Interest (1)	1,922	2,131	2,340	2,732	3,132	3,801	4,270	
Defense	733	907	921	1,030	1,113	1,248	1,344	
Subsidies	1,297	1,414	1,734	2,179	2,571	2,555	2,607	Food: Rs1150 bn; Fuel: Rs730bn; Fert: Rs634bn
Pensions	329	561	574	612	695	741	820	
Grants to States	382	459	498	515	480	616	699	
Admin and social services	927	1,107	1,198	1,053	1,153	1,315	1,406	
Plan expenditure	2,348	2,539	3,142	3,337	3,292	3,719	4,535	
i. Capital expenditure	**902**	**1,127**	**1,566**	**1,586**	**1,669**	**1,909**	**2,268**	
Defense	410	511	621	679	705	789	946	
Loans	87	121	298	120	119	83	107	
Plan expenditure	405	495	648	786	844	1,037	1,215	
j. Plan expenditure	**2,752**	**3,034**	**3,790**	**4,124**	**4,136**	**4,755**	**5,750**	Plan expenditure to rise 20.9%
k Non Plan expenditure	**6,087**	**7,211**	**8,183**	**8,920**	**9,967**	**11,149**	**12,199**	Apr-Dec: up 0.4%
l. TOTAL EXPENDITURE (h+i): (j+k)	**8,840**	**10,245**	**11,973**	**13,044**	**14,104**	**15,904**	**17,949**	Non-plan expenditure to rise 9.4%
% YoY	**24.0**	**15.9**	**16.9**	**8.9**	**8.1**	**12.8**	**12.9**	Apr-Dec: up 8.8%
Deficit trends								
m. Fiscal Balance (g-l)	**-3,370**	**-4,185**	**-3,736**	**-5,160**	**-4,902**	**-5,245**	**-5,311**	FY15 fiscal deficit to be contained at 4.1% GDP vs.
% to GDP	-6.0	-6.5	-4.8	-5.7	-4.8	-4.6	-4.1	estimates of 4.5%in FY14
n. Revenue Balance (e-h)	**-2,535**	**-3,390**	**-2,523**	**-3,943**	**-3,643**	**-3,703**	**-3,783**	
% to GDP	-4.5	-5.2	-3.2	-4.4	-3.6	-3.3	-2.9	
o. Primary Deficit (m-1)	**-1,448**	**-2,054**	**-1,396**	**-2,428**	**-1,770**	**-1,444**	**-1,041**	
% to GDP	-2.6	-3.2	-1.8	-2.7	-1.8	-1.3	-0.8	
Financing the deficit								
Market borrowings (Net)	2,336	3,984	3,254	4,362	4,674	4,539	4,612	
PPF & special deposits	80	161	125	108	109	100	120	
Small savings	-13	133	112	-103	86	116	82	
Net external assistance	110	110	236	124	72	54	57	
Others	418	-189	-56	828	471	286	268	
Cash Drawdown	438	-14	64	-160	-510	150	172	
Total financing	**3,370**	**4,185**	**3,736**	**5,160**	**4,902**	**5,245**	**5,311**	
Memo items (% to GDP)								
Centre	-6.0	-6.5	-4.8	-5.7	-4.8	-4.6	-4.1	
State	-2.3	-2.9	-2.1	-2.4	-2.3	-2.2	-2.6	
Combined	**-8.3**	**-9.3**	**-6.9**	**-8.1**	**-7.2**	**-6.9**	**-6.7**	
Off Balance Sheet Items	-1.7	-0.2	0.0	0.0	0.0	0.0	0.0	
Total Deficit	**-10.0**	**-9.5**	**-6.9**	**-8.1**	**-7.2**	**-6.9**	**-6.7**	
Combined liabilities	76.8	75.5	70.2	69.6	69.8	69.8	69.8	

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

Balance of Payments

Figure 51. Balance of Payments Snapshot (US$bn)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E	Comments
CURRENT ACCOUNT										
Exports (RBI)	**189.0**	**182.4**	**250.5**	**309.8**	**306.6**	**318.6**	**331.4**	**342.9**	**365.2**	**KEY ASSUMPTIONS**
YoY %	13.7	(3.5)	37.3	23.7	(1.0)	3.9	4.0	3.5	6.5	Exports up 3.5% in FY16, 6.5% in FY17
% of GDP	15.4	13.3	14.6	16.6	16.5	17.1	16.0	15.0	14.1	non-petro exports would remain relatively flat
Exports (Customs)	**185.3**	**178.8**	**251.1**	**306.0**	**300.4**	**314.0**	**326.6**	**338.0**	**360.0**	
YoY %	13.7	(3.5)	40.5	21.8	(1.8)	4.5	4.0	3.5	6.5	
Imports (RBI)	**308.5**	**300.6**	**381.1**	**499.5**	**502.2**	**466.2**	**467.1**	**460.1**	**501.6**	
YoY %	19.8	-2.6	26.7	31.1	0.5	-7.2	0.2	-1.5	9.0	
% to GDP	25.2	22.0	22.3	26.8	27.1	25.0	22.6	20.1	19.4	
Imports-Customs	**303.7**	**288.4**	**369.8**	**489.3**	**490.7**	**450.1**	**450.9**	**441.7**	**486.4**	Oil and gold are key as they account for 40% imports
YoY %	21.2	-5.0	28.2	32.3	0.3	-8.3	0.2	-2.0	10.1	
of which: Oil	93.7	87.1	106.0	155.0	164.0	164.8	137.7	98.3	113.8	Crude assumption ~US$86/bbl in FY15,
YoY %	17.6	-7.0	21.6	46.2	5.9	0.4	-16.4	-28.6	15.8	US$60/bbl in FY16, US$70/bbl in FY17
Gold	20.7	28.8	40.7	56.5	53.8	28.9	31.0	33.0	34.3	FY15 demand~ 790tonnes; FY16- 850 t; FY17- 875t
YoY %	23.9	39.0	41.1	39.0	-4.7	-46.3	7.2	6.7	3.8	
Non-oil Non-gold	189.3	172.4	223.1	277.9	272.9	256.6	282.2	310.4	338.4	
YoY%	22.1	-8.9	29.4	24.5	-1.8	-6.0	10.0	10.0	9.0	
a. Trade balance (RBI)	**-119.5**	**-118.2**	**-130.6**	**-189.8**	**-195.7**	**-147.6**	**-135.8**	**-117.2**	**-136.3**	
% of GDP	-9.8	-8.6	-7.6	-10.2	-10.5	-7.9	-6.6	-5.1	-5.3	
Trade Balance (Customs)	-118.4	-109.6	-118.6	-183.4	-190.3	-136.1	-124.3	-103.7	-126.5	
Difference b/w RBI and customs	-1.1	-8.6	-12.0	-6.4	-5.3	-11.5	-11.5	-13.5	-9.9	Difference normally represents defense imports
b. Invisibles	**91.6**	**80.0**	**84.6**	**111.6**	**107.5**	**115.2**	**110.8**	**111.5**	**116.7**	
Non-factor services	53.9	36.0	48.8	64.1	64.9	73.0	72.6	77.7	83.8	
Investment income	-7.1	-8.0	-17.3	-16.0	-21.5	-23.0	-28.0	-34.0	-36.0	Rising recourse to external funding results in outflows
Remittances**	44.6	51.8	53.1	63.5	64.3	65.5	66.5	67.5	68.5	
Official transfers	0.2	0.3	0.0	0.0	-0.3	-0.2	-0.3	0.4	0.4	
1. Current a/c balance (a+b)	**-27.9**	**-38.2**	**-45.9**	**-78.2**	**-88.2**	**-32.4**	**-25.0**	**-5.7**	**-19.6**	**CAD at 1.2% of GDP in FY15, 0.2% in FY16, 0.8% in FY17**
% of GDP	-2.3	-2.8	-2.7	-4.2	-4.8	-1.7	-1.2	-0.2	-0.8	
CAPITAL ACCOUNT										
c. Loans	8.3	12.4	28.4	19.3	31.1	7.8	15.0	15.0	19.0	
External assistance	2.4	2.9	4.9	2.3	1.0	1.0	2.0	2.0	2.0	Upside potential on infrastructure if
Commercial borrowings	7.9	2.0	12.5	10.3	8.5	11.8	10.0	12.0	14.0	PSU Institutions raise quasi sovereign bonds
Short-term credit	-2.0	7.6	11.0	6.7	21.7	-5.0	3.0	1.0	3.0	
Foreign Investment (d+e)	**8.3**	**50.4**	**39.7**	**39.2**	**46.7**	**26.4**	**56.6**	**47.6**	**62.6**	
d. FDI (Net = a-b)	**22.4**	**18.0**	**9.4**	**22.1**	**19.8**	**21.6**	**24.6**	**27.6**	**32.6**	Possible upside in FDI if policies are supportive
(a) FDI - To India	41.7	33.1	25.9	33.0	27.0	30.8	32.6	37.6	42.6	
(b) FDI - Abroad	-19.4	-15.1	-16.5	-10.9	-7.1	-9.2	-8.0	-10.0	-10.0	
e. Portfolio invst	**-14.0**	**32.4**	**30.3**	**17.2**	**26.9**	**4.8**	**32.0**	**20.0**	**30.0**	Portfolio flows to slow in FY16 on limited room for debt
f. Banking Capital	**-3.2**	**2.1**	**5.0**	**16.2**	**16.6**	**25.4**	**9.0**	**12.0**	**1.0**	investment
NRI deposits	4.3	2.9	3.2	11.9	14.8	38.9	8.0	11.0	0.0	NRI deposits to dip on FCNR repayment in FY17
g. Rupee debt service	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	
h. Other capital*	**-5.9**	**-13.2**	**-11.0**	**-6.9**	**-5.0**	**-10.8**	**0.0**	**0.0**	**0.0**	
2.Capital a/c (c+d+e+f+g+h)	**7.4**	**51.6**	**62.0**	**67.8**	**89.3**	**48.8**	**80.5**	**74.5**	**82.5**	
Errors & Omissions	0.4	0.0	-3.0	-2.4	2.7	-0.9	0.0	0.0	0.0	
Overall balance (1+2)	**-20.1**	**13.4**	**13.1**	**-12.8**	**3.8**	**15.5**	**55.5**	**68.9**	**62.9**	
Forex										
Forex Reserves (incl gold)	252.3	277.0	303.5	294.4	292.6	303.7	359.2	428.1	491.0	
FCA to months of imports (Rhs)	9.8	11.1	9.6	7.1	7.0	7.8	9.2	11.2	11.7	
Exchange rate										
Rs/US$ - annual avg	46.0	47.4	45.6	48.1	54.0	60.4	62.0	63.0	63.0	
% depreciation	14.4	3.0	-3.8	5.5	12.3	11.9	2.6	1.6	0.0	

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.. *** 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, %)

	FY10	FY11	FY12	FY13	FY14	FY15*
Petroleum (Crude+Products)	87.1	106.0	155.0	165.1	165.1	116.5
%YoY	-7.0	21.6	46.2	6.5	0.7	-4.6
% Total	30.2	28.7	31.7	33.7	36.7	33.3
Electronic Goods	21.0	26.6	32.7	31.4	31.0	27.9
%YoY	-10.9	26.8	23.2	-4.0	-1.4	13.1
% Total	7.3	7.2	6.7	6.4	6.9	8.0
Gold	28.8	40.7	56.5	53.8	28.9	27.3
%YoY	35.1	41.1	39.0	-4.7	-46.3	10.1
% Total	10.0	11.0	11.5	11.0	6.4	7.3
Pearls, precious, semiprecious stones	16.3	34.6	29.4	22.7	24.0	18.8
%YoY	-3.2	112.4	-15.1	-22.9	5.9	-5.2
% Total	5.7	9.4	6.0	4.6	5.3	5.0
Machinery (ex electric)	19.7	23.9	30.2	27.7	23.7	12.5
%YoY	-9.8	21.0	26.6	-8.4	-14.3	-0.9
% Total	6.8	6.5	6.2	5.6	5.3	3.5
Coal, Coke, Briquettes	9.0	9.8	17.5	16.4	16.4	15.2
%YoY	-11.0	9.1	79.1	-6.2	-3.3	9.9
% Total	3.1	2.6	3.6	3.4	3.7	3.8
Organic Chemicals	8.6	11.6	13.4	14.5	15.8	10.5
%YoY	11.2	34.2	15.2	8.5	9.2	6.9
% Total	3.0	3.1	2.7	3.0	3.5	2.6
Metalliferrous ores, Metal Scraps	7.7	9.7	13.4	15.0	15.0	7.0
%YoY	-4.4	26.0	37.6	12.0	0	14.7
% Total	2.7	2.6	2.7	3.1	3.3	2.0
Transport Equipment	11.7	11.5	13.9	15.7	13.5	11.7
%YoY	-11.8	-2.0	21.5	13.0	-10.1	-19.5
% Total	4.1	3.1	2.8	3.2	3.0	3.3
TOTAL IMPORTS	**288.4**	**369.8**	**489.3**	**489.7**	**450.1**	**375.3**
% YoY	-5.1	28.2	32.3	0.1	-8.3	2.2

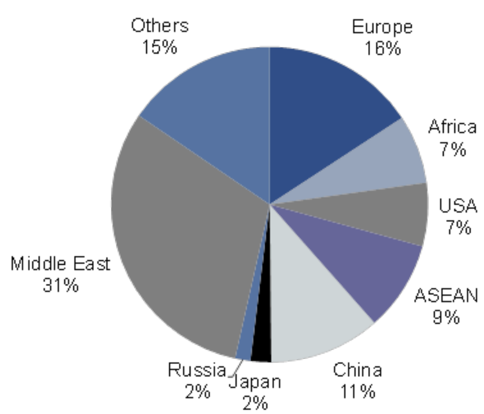
* Apr-Jan Source: DGCI&S, RBI

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

	FY10	FY11	FY12	FY13	FY14	FY15*
Petroleum Crude & Products	28.2	41.5	55.9	60.8	62.7	48.1
%YoY	2.3	47.2	34.8	8.7	3.0	-4.9
%Total	15.8	16.8	18.3	20.3	20.1	19.4
Gems and Jewellery	29.1	37.9	45.3	43.3	41.1	31.9
%YoY	2.4	30.5	19.5	-4.4	-5.2	1.0
%Total	16.3	15.4	14.8	14.4	13.2	12.2
Transport Equipment	9.8	16.7	21.4	18.5	21.4	16.6
%YoY	-12.9	70.1	28.2	-13.6	16.5	30
%Total	5.5	6.7	7.0	6.2	6.9	6.9
Machinery, Instruments	9.6	11.9	14.3	15.2	16.2	11.1
%YoY	-13.3	24.2	20.8	6.4	5.9	18.4
%Total	5.4	4.8	4.7	5.1	5.2	4.7
Pharmaceuticals, Chemicals	9.0	10.6	13.2	14.6	15.0	14.8
%YoY	2.1	18.6	24.1	10.7	2.6	3.9
%Total	5.0	4.3	4.3	4.9	4.8	5.4
Manufacture of Metals	5.5	8.6	9.5	10.0	9.7	
%YoY	-27.2	56.3	10.4	5.3	-3.7	
%Total	3.1	3.5	3.1	3.3	3.1	
Cotton yarn, Fabrics, etc	3.7	5.7	6.8	7.5	9.1	6.2
%YoY	-11.1	54.6	19.0	10.4	7.7	4.5
%Total	2.1	2.3	2.2	2.5	2.9	2.6
Readymade Garments	9.9	10.6	12.5	11.5	8.9	12.1
%YoY	-1.8	6.9	17.6	-7.9	18.1	14.7
%Total	5.6	4.3	4.1	3.8	2.8	5.0
Electronic Goods	5.6	8.5	9.4	8.4	7.6	5.4
%YoY	-21.5	51.7	9.8	-9.8	-5.3	-19.5
%Total	3.2	3.5	3.1	2.8	2.4	2.0
TOTAL EXPORTS	**178.5**	**247.0**	**305.4**	**300.0**	**312.6**	**258.7**
% YoY	-3.7	38.4	23.7	-1.8	4.1	2.4

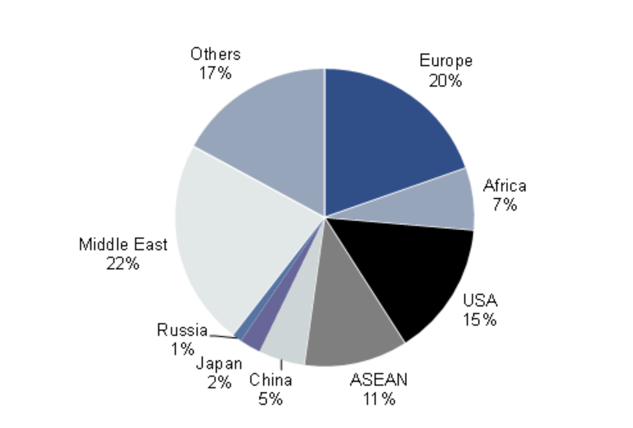
* Apr-Jan Source: DGCI&S, RBI

Figure 54. Direction of Imports FY14



Source: DGCI&S, CMIE

Figure 55. Direction of Exports FY14



Source: DGCI&S, CMIE

Global Forecasts

Figure 56. Selected Countries — Economic Forecast Overview (Percent) 2013F-2017F

	GDP Growth					CPI					Short Term Interest Rates				
	2014F	2015F	2016F	2017F	2018F	2014F	2015F	2016F	2017F	2018F	2014F	2015F	2016F	2017F	2018F
Global	**2.7**	**3.0**	**3.4**	**3.4**	**3.4**	**2.6**	**1.9**	**2.7**	**2.9**	**3.0**	**2.40**	**2.43**	**2.49**	**2.77**	**3.10**
Industrial Countries	**1.7**	**2.4**	**2.4**	**2.1**	**2.1**	**1.4**	**0.3**	**1.7**	**1.8**	**1.8**	**0.36**	**0.30**	**0.57**	**1.07**	**1.65**
United States	2.4	3.6	3.0	2.5	2.5	1.3	0.3	1.8	1.9	2.2	0.25	0.29	0.75	1.63	2.38
Japan	0.2	1.1	1.9	0.5	1.0	2.8	1.0	1.0	2.1	1.2	0.13	0.10	0.10	0.10	0.30
Euro Area	0.8	1.3	1.9	1.9	1.8	0.4	-0.1	1.6	1.5	1.4	0.16	0.05	0.05	0.07	0.50
Emerging Markets	**4.1**	**3.9**	**4.7**	**5.1**	**5.0**	**4.4**	**4.3**	**4.2**	**4.4**	**4.5**	**5.35**	**5.50**	**5.18**	**5.13**	**5.06**
China	7.4	6.9	6.7	7.1	6.8	2.0	1.5	1.9	2.7	3.0	2.97	2.38	2.25	2.38	2.63
India	**7.4**	**8.1**	**8.4**	**8.6**	**8.6**	**6.5**	**5.0**	**5.0**	**5.0**	**5.0**	**8.00**	**7.50**	**7.00**	**7.00**	**7.00**
Indonesia	5.1	5.1	5.3	5.6	5.9	6.3	6.8	4.6	4.3	4.3	5.75	5.75	5.75	5.75	5.38
Turkey	2.9	3.3	3.4	3.5	3.6	8.9	5.5	7.0	6.2	6.0	9.08	7.63	8.81	9.00	9.00
South Africa	1.6	2.4	2.8	3.4	3.5	6.1	5.1	5.0	5.5	5.4	5.57	5.75	6.17	6.75	7.00
Brazil	0.0	0.1	1.6	2.5	2.5	6.3	6.7	6.0	5.2	5.0	11.02	12.31	10.48	10.00	10.00
Mexico	2.2	3.4	4.4	4.5	4.6	4.0	3.6	3.6	3.6	3.6	3.21	3.08	3.94	5.00	5.75

Note: For inflation, we use the PCE deflator in the US, wholesale price index in India, GDP deflator in Ireland. For Indonesia we refer to the FasBI rate to reflect actual money market rates.
Source: Citi Research estimates, *Global Economic Outlook and Strategy, 21st January 2015*

Figure 57. Selected Countries — Economic Forecast Overview (Percent) 2013F-2017F

	Current Balance (Pct of GDP)					Fiscal Balance (Pct of GDP)					Government Debt (Pct of GDP)				
	2014F	2015F	2016F	2017F	2018F	2014F	2015F	2016F	2017F	2018F	2014F	2015F	2016F	2017F	2018F
Global	**0.6**	**0.6**	**0.4**	**0.4**	**0.3**	**-3.3**	**-3.4**	**-3.1**	**-2.8**	**-2.6**	**86**	**86**	**85**	**85**	**84**
Industrial Countries	**-0.2**	**0.1**	**-0.1**	**0.1**	**0.2**	**-3.7**	**-3.3**	**-3.1**	**-2.7**	**-2.5**	**112**	**111**	**111**	**110**	**110**
United States	-2.2	-1.4	-1.4	-0.8	-0.8	-4.4	-4.1	-4.5	-4.3	-4.4	106	106	106	106	106
Japan	0.6	2.7	2.4	2.0	2.0	-7.3	-6.6	-6.2	-5.4	-5.0	244	247	249	252	255
Euro Area	2.5	2.7	2.4	2.2	2.0	-2.5	-2.2	-1.8	-1.4	-1.0	95	95	94	93	92
Emerging Markets	**1.7**	**1.3**	**1.1**	**0.7**	**0.5**	**-2.8**	**-3.5**	**-3.1**	**-2.8**	**-2.7**	**46**	**48**	**48**	**49**	**48**
China	2.5	2.7	2.5	2.0	1.8	-2.1	-2.5	-2.5	-2.5	-2.5	53	54	55	55	55
India	**-1.2**	**-0.2**	**-0.8**	**-0.9**	**-0.9**	**-6.7**	**-6.1**	**-5.5**	**-5.0**	**-5.0**	**69**	**67**	**66**	**64**	**62**
Indonesia	-3.1	-2.6	-2.5	-2.8	-2.6	-2.4	-2.0	-1.8	-1.8	-1.7	26	27	27	27	27
Turkey	-5.6	-4.3	-4.8	-4.8	-4.7	-1.3	-1.5	-2.9	-3.3	-3.3	36	36	35	35	33
South Africa	-5.3	-4.4	-4.1	-3.3	-2.8	-4.1	-4.1	-3.5	-2.9	-1.9	50	51	51	51	48
Brazil	-4.0	-3.8	-3.7	-3.6	-3.5	-6.1	-5.3	-4.5	-3.9	-3.7	63	67	67	67	66
Mexico	-2.2	-2.2	-2.6	-2.6	-2.5	-3.6	-3.5	-3.5	-3.0	-2.5	42	43	43	43	42

Note: US debt and deficit figures are for Fed govt only. All other countries are general government debt and deficits. Source: Citi Research estimates, *Global Economic Outlook and Strategy, 21st January 2015*

Figure 58. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent) 2013F-2017F

	10-Year Yields					Exchange Rates Versus U.S. Dollar*				
	2014F	2015F	2016F	2017F	2018F	2014F	2015F	2016F	2017F	2018F
United States	2.55	2.30	2.65	2.70	2.70	NA	NA	NA	NA	NA
Japan	0.55	0.36	0.55	0.65	1.25	108	126	137	137	132
Euro Area	1.23	0.60	0.88	0.95	1.04	1.33	1.11	1.00	1.00	1.08
China	3.97	3.51	3.59	3.81	4.06	6.16	6.27	6.17	6.09	6.08
India	**8.50**	**8.00**	**7.50**	**7.50**	**7.50**	**61.02**	**63.52**	**64.33**	**62.44**	**58.87**
Indonesia	8.10	8.11	8.35	8.45	8.25	11866	13042	13067	12807	12474
Turkey	NA	NA	NA	NA	NA	2.19	2.45	2.57	2.61	2.63
South Africa	8.06	8.04	8.14	8.38	8.77	10.85	11.94	12.23	11.95	11.35
Brazil	12.00	12.25	12.75	11.88	10.75	2.35	2.85	2.97	3.00	3.00
Mexico	6.02	6.20	6.25	6.28	6.37	13.3	14.4	13.9	13.5	13.0

Source: Citi Research estimates; *Global Economic Outlook and Strategy, 21st January 2015*

Appendix A-1

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