Citi Research
Economics

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Emerging Markets
Asia

India Macroscope

'Four' Sights for Fourteen (2014)

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With thanks to
Abha Agarwal

- **2014: A Slow Recovery Year** — India should start recovering in 2014 – slowly, but likely steadily. We see growth up, inflation down, the currency and rates largely stable – and diminishing volatility in the macro. It's improving, but slowly – with diminishing global tail-risks likely to benefit.

- **'Four'sights for Fourteen** — The pillars of India's problems should be its legs for recovery; now warming up. We see (1) external re-balancing: Past the post, and now needing to consolidate; (2) Inflation: still bad on numbers, but under-lying gains more than headlines … could be the year's surprise. (3) Investments: the big hope, possibly bottomed, but a likely slow grind ... and the drug (4) Politics: the year has come – could invigorate, or overdose, the recovery's legs for 2014.

- **Markets & Mood: Critical, but it's not 2013** — 2013 was a classic; between global taper and domestic economics-politics, there was huge see-sawing in markets and expectations - trading rooms and TV shows ruled, and will continue to matter; but we see more moderate top-down/sentiment swings. India's taper defense is higher, political expectations, still high, are now a little more moderate (local elections, debutant party effect) and monetary policy, largely enunciated and pillared.

- **Our Numbers: Pretty Much the Same** — (1) **GDP:** maintain estimates of modest upturn from 4.8% in FY14 to 5.6% in FY15 (2) **Inflation:** both WPI and CPI to head lower and average 6% and 8.3% in FY15 (from 6.5% and 10% in FY14) with policy rates higher by 25bps and staying elevated (3) **CAD:** to be contained at 2.3% of GDP in FY14 and FY15 with gold, ores and coal key and the INR in the Rs60-63 range. (4) **Fiscal:** consolidation to continue but expect higher borrowing in FY15 as redemptions are set to rise.

- **The beginning? 2014 should be the recovery year –** Sounds great, but the earliest part of the recovery is typically the hardest, and the shock absorbers are only limited (No Room for Complacency). You should be optimistic about India in 2014, look out for the 'FOUR' sights for Fourteen, but no High 'FIVES' just yet.

Figure 1. Statistical Snapshot (%)

Year -end 31 March	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Real GDP growth (%)	9.3	6.7	8.6	9.3	6.2	5.0	4.8	5.6
Agriculture growth (%)	5.8	0.1	0.8	7.9	3.6	1.9	4.8	3.0
Industry growth (%)	9.7	4.4	9.2	9.2	3.5	2.1	1.5	4.4
Services growth (%)	10.3	10.0	10.5	9.8	8.2	7.1	6.3	6.7
Fiscal Deficit (Centre+States)	-4.0	-8.3	-9.4	-8.0	-8.1	-7.0	-6.9	-6.7
Current Account Deficit (%)	-1.3	-2.3	-2.8	-2.7	-4.2	-4.8	-2.3	-2.3
WPI (Average)	4.8	8.0	3.6	9.6	8.8	7.4	6.5	6.0
INR/USD (Average)	40.2	46.0	47.4	45.6	48.1	54.0	61.1	62.3

Source: CSO, RBI, Budget Documents, Citi Research

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Statistical Snapshot

Figure 2. India Macroeconomic Summary FY02 – 15E

Fiscal Year to 31 March	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
National Income Indicators														
Nominal GDP(Rs bn)	23,676	25,500	28,617	32,422	36,934	42,947	49,871	56,301	64,778	77,953	89,749	100,206	112,932	128,743
Nominal GDP (US$ bn)	496	527	623	720	834	950	1,241	1,224	1,367	1,710	1,866	1,856	1,848	2,066
Per Capita GDP (US$)	477	499	582	662	754	847	1,090	1,061	1,168	1,442	1,552	1,521	1,471	1,644
Real GDP growth (%)	**5.5**	**4.0**	**8.1**	**7.0**	**9.5**	**9.6**	**9.3**	**6.7**	**8.6**	**9.3**	**6.2**	**5.0**	**4.8**	**5.6**
Agriculture growth (%)	6.0	-6.6	9.0	0.2	5.1	4.2	5.8	0.1	0.8	7.9	3.6	1.9	4.8	3.0
Industry growth (%)	2.6	7.2	7.3	9.8	9.7	12.2	9.7	4.4	9.2	9.2	3.5	2.1	1.5	4.4
Services growth (%)	6.9	7.0	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.8	8.2	7.1	6.3	6.7
By Demand (%YoY)														
Consumption	5.3	2.3	5.4	1.9	8.7	7.7	9.4	7.7	8.4	8.1	8.1	3.9	4.9	6.4
Pvt Consumption	6.0	2.9	5.9	1.7	8.6	8.5	9.4	7.2	7.4	8.6	8.0	4.0	4.5	6.5
Public Consumption	2.3	-0.4	2.6	3.4	8.9	3.8	9.6	10.4	13.9	5.9	8.6	3.9	7.0	6.0
Gross Fixed Capital Formation	7.4	6.8	13.6	20.7	16.2	13.8	16.2	3.5	7.7	14.0	4.4	1.7	2.5	5.5
Cons; Invst, Savings * (%GDP)														
Consumption	78.9	77.2	75.0	70.1	69.2	68.0	67.2	68.6	69.1	67.2	68.0	68.7	69.1	68.8
Gross Capital Formation	22.3	24.6	26.9	32.8	34.7	35.7	38.1	34.3	36.3	37.0	35.4	35.6	36.0	36.0
Gross Domestic Savings	22.6	25.4	28.7	32.4	33.4	34.6	36.8	32.0	33.7	34.0	30.8	30.2	30.5	30.8
Real Indicators (%YoY)														
Commercial vehicle sales	-4.5	40.4	36.2	22.4	10.1	33.3	4.2	-21.4	39.2	27.0	19.5	-1.9	-12.0	5.0
Car sales	3.2	5.3	27.2	17.8	7.7	20.7	12.1	0.3	25.7	29.2	3.9	2.4	-5.0	3.6
Two-wheelers	15.3	15.8	11.3	15.7	13.6	11.5	-7.8	2.7	25.9	25.8	13.9	2.7	5.0	10.0
Diesel consumption	-3.7	0.3	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	5.0	6.8	0.0	4.0
Mobile Tele density	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	87.9	89.7
Monetary Indicators (% YoY)														
Money supply	16.0	16.1	13.0	14.0	15.9	20.0	22.1	20.5	19.2	16.2	15.8	13.4	17.0	18.0
Inflation – WPI (Avg)	3.6	3.4	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	7.4	6.5	6
CPI (Avg)	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	10.2	10.0	8.3
Bank credit growth	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	14.1	15.0	15.0
Deposit growth	14.6	16.1	17.5	13.0	24.0	23.8	22.4	19.9	17.2	15.9	13.5	14.3	13.5	14.0
Fiscal Indicators (% GDP)														
Centre's fiscal deficit)	-6.0	-5.7	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.8	-5.7	-4.9	-5.0	-4.5
State fiscal deficit	-3.6	-3.5	-3.9	-3.4	-2.5	-2.1	-1.4	-2.3	-2.9	-3.2	-2.3	-2.1	-1.9	-2.2
Combined deficit (Centre+State)	-9.6	-9.2	-8.2	-7.2	-6.5	-5.4	-4.0	-8.3	-9.4	-8.0	-8.1	-7.0	-6.9	-6.7
Off Balance Sheet Items					-0.5	-0.9	-0.6	-1.7	-0.2	0.0	0.0	0.0	0.0	0.0
Combined liabilities (dom+ext)	87.2	90.7	90.0	88.8	84.6	79.9	76.1	76.8	75.5	70.1	69.9	70.4	69.3	67.7
External Sector (% YoY)														
Exports (US$bn)	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	306.6	323.4	355.8
% YoY	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-1.0	5.5	10.0
Imports (US$bn)	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	502.2	482.1	525.5
%YoY	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	0.5	-4.0	9.0
Trade deficit (US$bn)	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-195.7	-158.7	-169.8
Invisibles (US$bn)	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	111.6	107.5	115.9	122.6
Current Account Deficit (US$bn)	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-88.2	-42.8	-47.2
% to GDP	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-4.8	-2.3	-2.3
Capital Account (US$bn)	8.6	10.8	16.7	28.0	25.5	45.2	106.6	7.4	51.6	62.0	67.8	89.3	56.6	63.6
% GDP	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.6	3.6	4.8	3.1	3.1
Forex Assets (excl gold) (US$bn)	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	260.9	264.7	278.4	294.8
Months of imports	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	6.3	6.3	6.9	6.7
External Debt (US$bn)	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	260.9	305.9	345.8	392.1	388.5	403.5
Short Term Debt (US$bn)	2.7	4.7	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	78.2	96.7	96.8	
Exchange Rate														
US$/INR - annual avg	47.7	48.4	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	54.0	61.1	62.3
% depreciation	4.4	1.5	-5.2	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	12.3	13.1	2.0

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

Theme: 'Four' Sights for Fourteen (2014)

2013 – a quick recap

Figure 3. Citi GDP Forecasts

	2012	2013F	2014F	2015F
GLOBAL	**2.6**	**2.4**	**3.1**	**3.3**
Industrial Economies	**1.4**	**1.1**	**2.0**	**2.1**
United States	2.8	1.7	2.7	3.1
Japan	2	1.8	1.6	0.9
Euro Area	-0.6	-0.4	0.9	1.0
Emerging Markets	**4.6**	**4.6**	**4.9**	**5.0**
Brazil	0.9	2.6	2	2
China	7.7	7.6	7.3	7
India	**5**	**4.8**	**5.6**	**6.7**
Indonesia	6.2	5.7	5.3	5.5
Mexico	3.8	1.2	3.8	4
South Africa	2.5	1.9	2.8	3.5
Turkey	2.2	3.5	3.5	3.6

As of Dec 2013; Source: Citi Research estimates

2013 has been a tough year for the Indian economy. GDP growth remained at sub 5% levels in the last four quarters, and inflation, after dipping temporarily to a near four-year low, raised its ugly head thanks to a sharp spike in vegetable prices. As regards the deficits, fiscal consolidation remains clouded by smoke and mirrors (cuts in plan expenditure; subsidy rollovers), while the current account deficit saw a sharp compression – thanks to measures to contain gold/non-essential imports.

All of the above, coupled with "taper tantrums", took a toll on financial markets. The INR was among the worst performing currencies with the unit down 11% (key to note is the unit had fallen 20% to Aug and has now recovered 9% since its lows). Bonds had their worst year since 2009, with the benchmark yield rising ~80bps.

On the political front, while the state election results were largely in line with expectations with the BJP forming a government in three states – Rajasthan, MP and Chhattisgarh, a key development was the success of the debutant Aam Aadmi Party (AAP) led by anti-corruption activist Arvind Kejriwal. This is resulting in a change in political dynamics.

2014 – diminishing global tail risks

As we head into 2014, the global story is a bit clearer. Taper has begun and, while our team expects it to conclude by Sept 2014, it expects US monetary policy to continue being highly accommodative. Moreover, the size of the Fed's balance sheet (the key variable determining the resulting stimulus) will likely expand through most of the year.

For our Global reports on 2014 outlook, Please See:

Global Economic Outlook and Strategy

Asia Macro and Strategy Outlook

Emerging Markets Macro and Strategy Outlook

On growth, our team expects global real GDP growth measured at market exchange rates to rise from 2.4% in 2013 to 3.1% in 2014. While emerging markets (EM) growth will continue to outpace developed markets (DM) growth in 2014, as in every year since 1999, key to note is that the EM-DM growth gap in 2014 is likely to be the smallest since 2002. This is mainly due to (1) DM growth may not be as import sensitive as it has been in previous years and (2) Asia's market share of exports have begun to plateau – a result of disruptive technologies altering Asia's hardware-heavy tech beta.

More importantly, as highlighted by our team, "is that the likelihood of severe downside tail events, which could paralyze the global economy, seems to have diminished significantly (though not disappeared). Granted, the euro-area is still work in progress, China presents meaningful question marks, Congressional gridlock in the US could still throw sand in the federal fiscal wheels and geopolitics can always surprise. But, enough progress has been made that all of these issues seem less threatening today than 12 months ago".

…Four domestic factors to look out for

1. Politics – high election leverage

See State Elections Update

The BJP, the main opposition party, gained significant ground after it announced Narendra Modi as its prime ministerial candidate for the general election in 2014. This was also reflected in BJP's performance in the November assembly elections where the party won a maximum of seats in in all four states - Madhya Pradesh, Rajasthan, Delhi and Chhattisgarh. Except for Delhi, the BJP has formed a government in all three states. In Delhi, a debutant party named Aam Aadmi Party (AAP) led by anti-corruption activist Arvind Kejriwal has formed a minority government with support from the Congress.

The spectacular surge of AAP in just a year of its existence has resulted in political equations changing rapidly. The task is now tougher for BJP, as it is no longer the sole claimant of anti-incumbency votes against Congress. The ruling Congress party has also shown that it is capable of taking tough decisions – the recent parliament session saw passage of highly debated bills like land acquisition, companies bill, FDI in pension, etc (see page 19).

What to watch – AAP and changing political arithmetic

– **Changing Political Dynamics:** With the AAP now likely to contest the general elections, earlier political arithmetic on likely election outcomes would need to be re-visited. We believe that markets' priority will be a single-party-led and stable alliance, with acceleration in economic policy making. The markets' biggest concern is an unstable alliance, which will hinder the policy acceleration and project execution that the economy needs.

All the "Fragile 5" have important upcoming elections.

However, thanks to the entry of the debutant AAP party, earlier political arithmetic that India seemed to be the only one among the Fragile 5 with an election outcome that could be market-positive is now in doubt.

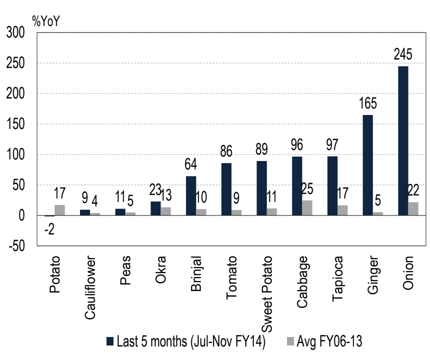
Please see [Emerging Markets Macro and Strategy Outlook] for more details

Figure 4. Elections in the "Fragile Five"

Country	Election Details	Outlook
Brazil	Presidential Elections in October 2014	Dilma Rousseff's re-election is the most likely outcome do not expect significant deterioration in macro variables (GDP, inflation) between now and elections
India	General Elections in May 2014	Incumbent government seems to be losing favor and the main opposition, which is perceived to be more economy and market-friendly appears to be gaining popularity.
Indonesia	Legislative elections in April 2014 Presidential elections in July	No risk of change in economic policies with new presidency Political environment during the election year may hamper reforms in the near term
Turkey	Local Elections in March 2014 Presidential elections in August 2014 General Elections in June 2015	Election environment likely to delay tighter policy framework Low domestic savings; competitiveness gap, poor inflation track record will continue to overshadow macro stability
South Africa	National Elections in April 2014	Ruling party is aware of the service delivery failure Watchful of popularity of parties like EFF which have mobilized members to protest against service delivery failure

Source: Emerging Markets Macro and Strategy Outlook; Citi Research

Figure 5. Vegetable Inflation (YoY)



Source: Citi Research

2. Inflation – the curious case of food inflation

As highlighted in our recent interaction with investors (See Global Trip Tales), the biggest enigma for most investors was rising food inflation despite a good monsoon, and whether anything could be done about it. Encouragingly, the last few weeks have seen some promising developments.

- **Easing Veggie prices:** As discussed in detail in the monetary section (see page 10), during the last five months (Jul-Nov), vegetable inflation has averaged 78%YoY. However, prices have come down sharply in December, including onions (-50%MoM), brinjal (-60%MoM), cabbage (-60%MoM), tomato (-40%MoM). This will likely result in a ~100bp reduction in WPI and ~200bps drop in CPI inflation numbers in the coming months.

- **Genetically Modified (GM) Seeds**: Production data available to FY13 on vegetables which displayed triple-digit inflation suggest stagnant or declining total production. In this regard, the new Environment Minister is expected to favor GM food crops, thus overturning the position of his predecessors.

APMC: Why Farmer Realizations are Lower

Mandi-Based System: Compulsory for farmers to sell produce in specific geographies

Market Fees: 0.5% to 2% of the sale value of product.

Commission charges: 1% to 2.5% in food grains and 4% to 8% in case of fruit and vegetables.

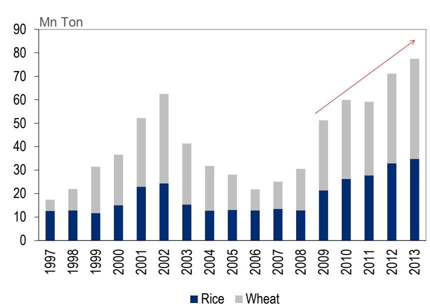
- **APMC relaxation in some states**: The ruling Congress party at the center has advised the Congress-ruled states (currently 12) to take fruit and vegetables out of the Agriculture produce and Marketing Committee (APMC) act and allow direct sale of produce to end-users and wholesalers. This is likely to reduce the intermediation chain and bring down the prices of vegetables.

What to Watch: Urjit Patel Recommendations; Food Stocks

– **Urjit Patel Committee recommendations on monetary policy framework**: The recommendations are due shortly and key to note would be the weighting it attaches to the CPI inflation data. Given the limited history and possible data issues, we do not expect a complete transition to the new CPI benchmark. Instead, a gradual roadmap to move to CPI/Core CPI, and a FOMC style voting-based decision making could be a good step.

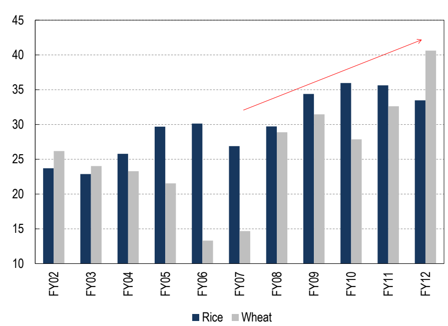
– **Food Stocks:** Additional measures that could help lower inflation include releasing food stocks. As seen in Figure 6 below, food-stocks lying in the government granaries are well ahead of the buffer norms. Releasing some of this into the open market could result in a step reduction in inflation– just as gold measures helped the CAD. In time, measures to remove the MSP "put" option – i.e. increasing the quantum of government food-grain procurement and at higher minimum support prices would help.

Figure 6. Trends in Grain Stocks (Mn T)



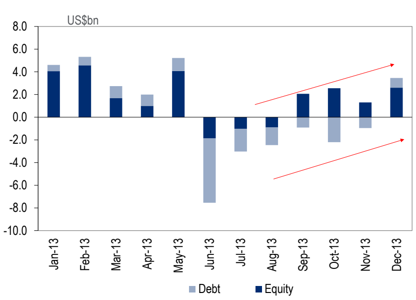
Source: FCI

Figure 7. Trends in Grains Procured (%)



Source: FCI

Figure 8. Trends in Portfolio Flows ($bn)



Source: SEBI

3. External sector – rebalancing under way

One of the key concerns most investors have is that of the future of capital flows to EM: will Fed 'tapering' and the prospect of US monetary tightening cause sustained outflows from EM? Our team points out that given the rise in cross border financing, it would probably be prudent to assume that further increases in US Treasury yields will remain a source of stress for EM currencies and bond markets and capital outflows from EM could pick up again. (Banks tend to fund themselves at the shorter end of the US curve, and so their willingness to continue extending cross-border credit to EM might be constrained as we get closer to rising short term US rates).

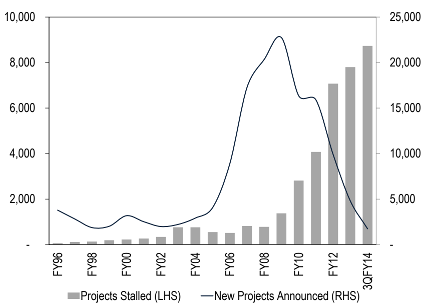
As regards India, hard work on the policy front with measures aimed at bringing down the CAD from a high of US$88bn or 4.8% of GDP in FY13 has resulted in India being in a better position to face the taper. Admittedly, the likely reduction in the CAD (Citi: US$42.5bn or 2.3% of GDP in FY14) has been primarily driven by a compression of gold/non-essential imports. But we expect trends to sustain as the resumption of iron ore exports and potentially lower coal/metal scrap imports would offset a pick-up in gold and/or capital goods (see page 14).

Figure 9. Trends in Gold Imports (US$bn)

	FY12	FY13	FY14E	FY15E
Gold Imports (T)	**1076**	**1006**	**722**	**800**
Gold Prices $/oz	1,645	1,660	1,330	1,250
Gold Imports	**56.2**	**53.8**	**30.0**	**35.0**
Jewelry Exports	44.9	43.4	40.0	40.0
Gold Exports	6.7	6.5	6.0	6.0
Net Gold Imports	49.5	47.3	24.0	29.0

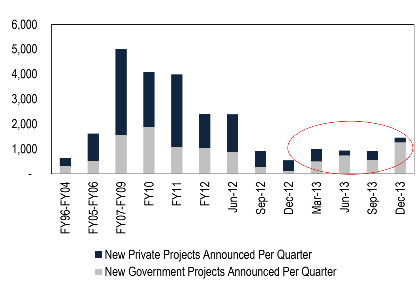
Source: RBI, World Gold Council, Citi Research

Figure 10. Projects Announced + Stalled



Source: www.capex.cmie.com

Figure 11. New Projects Announced (Rsbn)



Source: www.capex.cmie.com

What to watch: gold; sovereign wealth funds; global bond indices

– **Gold:** Govt and RBI measures to clamp down gold imports have proved effective. Gold imports in FY14 so far (Apr-Nov) are at US$22bn, significantly lower than US$32bn during the same period last year. Incorporating current price trends, we thus expect gold imports to be contained at US$32.5bn in FY14 and US$35bn in FY15.

– **Capital flows:** Given the two event risks (taper + elections), we are more constructive on INR over a 6-12 month horizon. In addition to a lower CAD is the likelihood of augmentation of flows via sovereign wealth funds and possibility of including India government bonds in the EM benchmark indices. This could lead to some portfolio rebalancing in favor of INR.

4. Investments – the good and the bad news

As has been well documented, the sharp fall in investments has been the key reason for GDP growth collapsing from 8-9% levels to sub 5% currently. Latest printed data on investment remain dismal (1HFY14 Capital Formation at 0.7%). Moreover, most of the data-points in CMIE's capex database (updated to Dec 2013) continue to be disappointing. For instance:

- **New project announcements and stalled projects:** While total new project announcements rose 167% YoY/ 57% QoQ in 3QFY14, this was due to an increase in government projects. Private project announcements are at historically low levels– down 54% YoY / 49% QoQ. Further, the quantum of under-implementation but stalled projects rose 10% YoY / 9% QoQ in 3QFY14. This shows that government measures have so far had limited impact.

- **Four developments that could aid investments in the coming months:** As discussed on pages 8-9, four developments that could aid investments in the coming months include (1) progress by the Project Monitoring Group (PMG). Since its inception in June 2013, the PMG has resolved issues in 122 projects or ~3.5% of GDP. (2) Headway on the Delhi-Mumbai Industrial Corridor; (3) integration of the southern grid with the national grid and (4) Inroads into clearing the project financing pipeline.

What to watch - Project implementation

– **Elections and Investments**: The increase in project announcements last quarter was driven by government projects. However, any major uptick in capex in India is usually driven by the private sector. Furthermore, even new government project announcements could decline as soon as election dates are announced. Going forward, while the PMG is making steady progress in clearing projects, a stable government would be key for actual implementation.

Bottom Line – no room for complacency

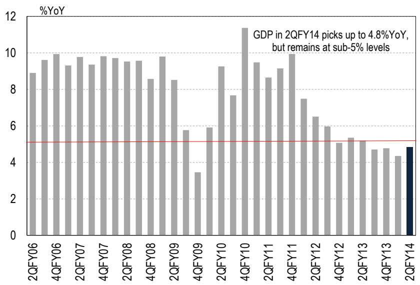
As mentioned in the November Macroscope, India Has Got 'Some' Time, due to hard work on the domestic policy front and compression in the current-account deficit (CAD) ahead of expectations to counter taper fears. However, its fortunes go well beyond the taper. These lie in (1) the direction of the fiscal deficit, (2) sustained compression in the CAD, (3) monetary policy – and its ability to contain inflation and (4) the economy's response to these and other policy measures.

Real Indicators

Agri and exports to aid 5%+ growth in 2hfy14

Following four consecutive quarters of sub 5% growth and a 4.6% print in 1HFY14, we expect growth to pick up to 5.1% in 2HFY14. While current trends in industry remain sub-par (core infrastructure output up 0.5%YoY in Oct-Nov, continued contraction in autos), on the brighter side, export growth and trends in the summer harvest/winter sowing have been encouraging. Consequently, we maintain our 4.8% GDP estimate for FY14 with growth likely to rise to 5.2% in 3QFY14 due to the summer harvest and later moderate to 5% in 4QFY14 on the back of the containment in govt spending to meet budget targets. Going forward for FY15, we maintain our 5.6% GDP estimate with investments likely to be the key delta.

Figure 12. Trends in Quarterly GDP (%YoY)



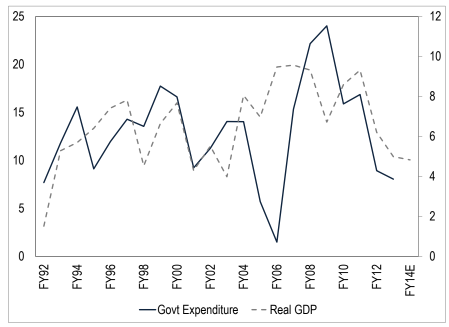
Source: CSO

Figure 13. Foodgrain Production Est (MnT)

Crop	FY13 1st Est.	FY13 4th Est.	FY14 1st Est.	%YoY 4thEst
Foodgrains	**117.2**	**128.2**	**129.3**	**0.9**
Rice	85.6	92.8	92.3	-0.5
Pulses	5.3	5.9	6.0	1.9
Coarse Cereals	26.3	29.5	31.0	5.1
Oilseeds	18.8	20.9	24.0	14.6
Sugarcane	335.3	339.0	341.8	0.8
Cotton*	33.4	34.0	35.3	3.8
Maize	14.9	16.0	17.8	11.1

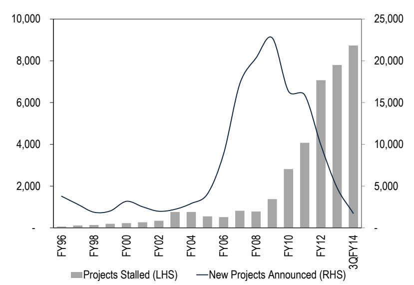
*in Mn bales, Source: PIB

Figure 14. Govt Expenditure and GDP (%YoY)



Source: CSO, Budget Documents, Citi Research

Figure 15. Projects Stalled vs Projects Announced (Rs bn)



Source: www.capex.cmie.com

If all goes well, investments could surprise in FY15

Although the latest printed data on investments remain dismal (1HFY14 Capital Formation at 0.7%YoY) and most of the datapoints in CMIE's capex database (updated to Dec 2013) remain worrying, we see four encouraging developments that could aid investments in the coming months. These include:

1. Project Monitoring Group: The PMG has made significant progress, resolving issues in 122 projects or ~3.5% of GDP.

WHAT COULD WORRY?

While the PMG has resolved issues in projects of US$67bn, it is important to note that several projects were on the verge of clearance and work on them had already commenced. Thus, these would not contribute much to "new" investment

More-over, private project announcements, the key driver behind capex, have fallen to historical lows.

Figure 16. PMG Progress on Projects so far

Sector	By Number Resolved	By Number Remain	By Value (Rs Bn) Resolved	By Value (Rs Bn) Remain	By Value (US$bn) Resolved	By Value (US$bn) Remain
Power	84	77	3486	5079	56	82
Road Transport and Highways	4	31	45	480	1	8
Petroleum and Natural Gas	7	35	127	2266	2	37
Steel	3	28	33	4390	1	71
Railways	3	21	71	380	1	6
Shipping	3	14	18	253	0	4
Chemicals and Petrochemicals	1	0	50	0	1	0
Fertilizers	0	3	0	192	0	3
Mines	1	6	70	326	1	5
Civil Aviation	1	0	120	0	2	0
Coal	19	43	109	849	2	14
Commerce and Industry-DIPP/Comm	1	19	35	751	1	12
Textiles	0	1	0	13	0	0
TOTAL	**127**	**278**	**4,163**	**14,978**	**67**	**242**

As of 6th Jan 2014; Source: http://www.cabsec.nic.in/cci_acceptedprojects.php

Key Features of the DMIC

The DMIC passes through six states: U.P, Madhya Pradesh, Haryana, Rajasthan, Gujarat and Maharashtra

It has nine 'mega industrial zones', one dedicated freight line, three ports,six6 airports, a six-lane expressway connecting Delhi and Mumbai, and a 4000MW power plant

2. Delhi-Mumbai Industrial Corridor and Dedicated Freight Corridor: The DMIC is an infrastructure project extending from Delhi to Mumbai, valued at US$90bn. Industrial estates and hubs would be developed along the corridor, thus potentially attracting foreign investment. Japanese firms have thus far invested US$4.5bn in DMIC projects and hold a 26% equity stake.

Progress: Currently, land acquisition is under way in Haryana, Rajasthan, Gujarat, and Maharashtra. Going forward, the DMIC is expected to positively impact the region's (1) industrial output, (2) employment potential and (3) exports as a manufacturing and trading hub.

3. Integration of the southern grid : A recent key development is the commissioning of Power Grid's Raichur-Solapur 765 kv single-circuit transmission line which connects the southern grid with the national grid. This will help improve transmission in the power-short southern region and will likely help the industrial sector in southern states.

4. Project financing pipeline– will the clog be cleared? Stalled projects in sectors like steel, infrastructure, and power currently make up a significant portion of banks' distressed assets as well as its restructured debt. Thus, when it comes to funding new long-term infrastructure projects, banks have a pre-existing risk / tight liquidity conditions that make taking on the new risk of a long-term asset difficult.

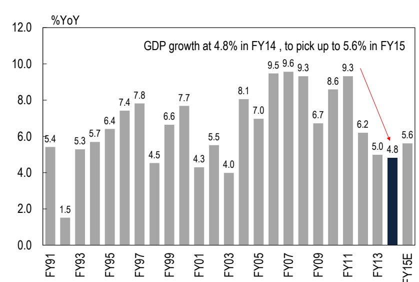
See RBI Discussion Paper on NPAs

In order to improve the funding environment / availability of funds for long-term infrastructure projects, the RBI and SEBI have taken steps towards (1) tackling non-performing assets – RBI released a discussion paper on NPAs, with prospective measures for both borrowers and lenders to prevent further asset deterioration, (2) facilitating use of infrastructure debt funds (IDFs) – by allowing foreign investor participation and more favorable treatment of infra loans.

Bottom Line: investments key for pick-up in growth

A stable government post elections and a continued push to resolve execution bottlenecks remain the key to a capex revival. Recent efforts are positive, but forward-looking trends like private project announcements are weak and stalled projects remain elevated. This is unlikely to change before the general elections. Thus, while we expect improvement on the investment horizon, we recognize that it will be more evident post the general elections.

Figure 17. Trends in Real GDP (%YoY)



Source: CSO, Citi Research estimates

Figure 18. Trends in GDP (%YoY)

	Wts	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Agriculture	13.7	5.8	0.1	0.8	7.9	3.6	1.9	4.8	3.0
Industry	26.7	9.7	4.4	9.2	9.2	3.5	2.1	1.5	4.4
Services	59.6	10.3	10.0	10.5	9.8	8.2	7.1	6.3	6.7
GDP at factor cost	**100.0**	**9.3**	**6.7**	**8.6**	**9.3**	**6.2**	**5.0**	**4.8**	**5.6**
Consumption	71.0	9.4	7.7	8.4	8.1	8.1	3.9	4.9	6.4
Pvt Consumption	59.6	9.4	7.2	7.4	8.6	8.0	4.0	4.5	6.5
Govt Consumption	11.3	9.6	10.4	13.9	5.9	8.6	3.9	7.0	6.0
Gross Capital Formation	39.1	18.1	-5.2	17.3	15.2	0.5	6.5	1.0	4.5
Gross Fixed Capital Formation	33.2	16.2	3.5	7.7	14.0	4.4	1.7	2.5	5.5
GDP at market prices		**9.8**	**3.9**	**8.5**	**10.5**	**6.3**	**3.2**	**4.0**	**5.6**

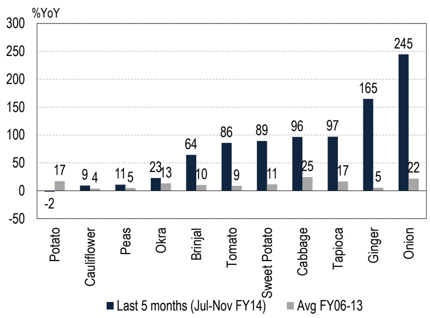
Source: CSO, Citi Research estimates

Monetary Indicators

Inflation – headline WPI and CPI hit by "veggie" shock

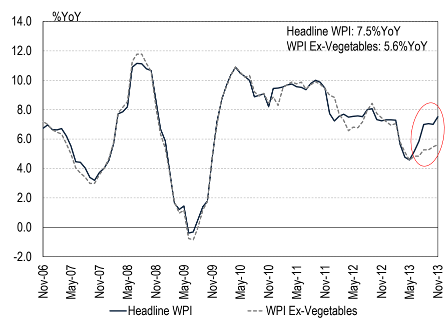
Following a ~4 year low of 4.6% in May, headline WPI inflation has steadily inched up, with the latest print coming in at 7.5% in November. The new combined CPI also saw a rise from 9.3% in May to 11.2% in Nov. The surge in headline inflation has been caused by a transient surge in vegetable prices. As seen in Figure 19, during the last five months (Jul-Nov), vegetable inflation has averaged 78%YoY, making it a longest spell of such high inflation. In the previous episode of the "onion" shock in Dec 10, the high vegetable inflation lasted only two months (the vegetable index contributed 180bps in Nov WPI of 7.5% and 300 bps in CPI of 11.2%).

Figure 19. Vegetable Inflation (YoY)



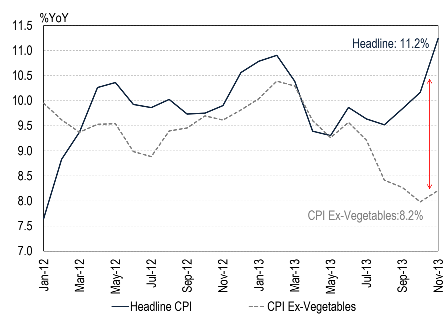
Source: Office of Econ Advisor, Citi Research

Figure 20. WPI & WPI Ex-Vegetables, YoY



Source: Office of Econ Advisor, Citi Research

Figure 21. CPI & CPI Ex-Vegetables, YoY



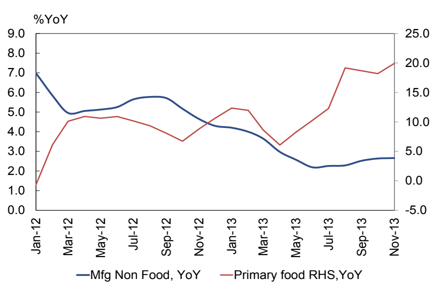
Source: CSO, Citi Research

Policy conundrum – diverging trends food; core WPI/CPI

As seen in Figure 22, despite an increase in global commodity prices in INR terms (CRB-INR up ~7%), core WPI currently at 2.7%YoY has remained below RBI's threshold of 3% for a seventh consecutive month in Nov. The momentum in core inflation (3m/3m SAAR) also declined to 4.7% in Nov after rising to 7.5% in Sep. On the other hand, despite a good monsoon, food inflation surged 20% YoY.

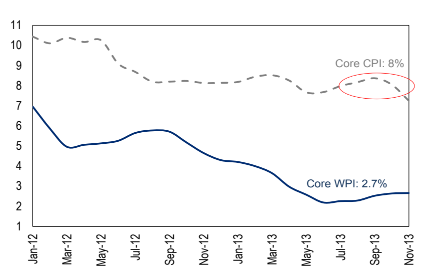
In addition to diverging trends in prices of manufactured goods and food items, another conundrum for policy makers is that, while core WPI has remained below the RBI's comfort zone of ~3%, core CPI remains elevated at 8%YoY in Nov. Excluding the sticky CPI-housing inflation (range 10.3%-10.8%) since Jun'12, core CPI would have been 7.2% in Nov.

Figure 22. Trends in Food & Core WPI (YoY)



Source: Office of Econ Advisor, CSO, Citi Research

Figure 23. Trends in Core CPI & WPI (YoY)



Source: Office of Econ Advisor,Citi Research

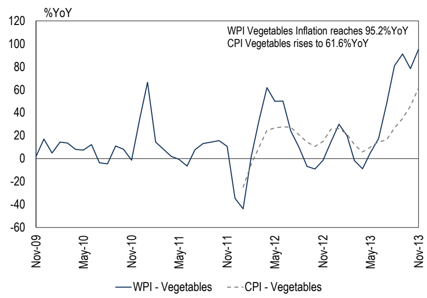
Figure 24. Trends in Inflation – WPI and CPI

		FY14								Apr-Nov	
	Wts	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	FY13	FY14
Headline WPI	**100**	**4.8**	**4.6**	**5.2**	**5.9**	**7.0**	**7.0**	**7.0**	**7.5**	**7.6**	**6.1**
Primary Articles	20.1	5.1	5.7	8.8	9.7	13.6	14.0	14.7	15.9	9.7	10.9
Fuel Index	14.9	8.3	7.3	7.5	11.4	12.7	11.7	10.3	11.1	10.8	10.0
Manufactured Products	65	3.7	3.3	2.9	2.6	2.3	2.4	2.5	2.6	5.7	2.8
Mfg Ex-Food (Core)		3.0	2.6	2.2	2.3	2.3	2.5	2.6	2.7	5.3	2.5
Overall CPI	**100**	**9.4**	**9.3**	**9.9**	**9.6**	**9.5**	**9.8**	**10.2**	**11.2**	**10.0**	**9.9**
Food, Beverages, Tobacco	49.7	10.7	10.7	11.7	11.0	11.0	11.3	12.4	14.5	11.2	11.6
Fuel and Light	9.5	8.1	8.5	8.6	8.4	7.5	7.7	7.0	7.0	8.7	7.8
Clothing, Bedding, footwear	4.7	10.3	9.7	9.6	9.3	8.9	9.3	9.1	8.9	10.9	9.4
Housing	9.8	10.6	10.7	10.7	10.6	10.5	10.4	10.4	10.3	11.8	10.5
Misc	26.3	7.0	6.1	6.2	6.7	7.1	7.4	6.9	6.9	7.4	6.8
Core CPI		8.3	7.7	7.7	8.0	8.2	8.4	8.0	8.0	9.1	8.0

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

Outlook – Inflation to ease on vegetable price correction

Figure 25. Trends in Vegetable Inflation, YoY



Source: Office of Econ Advisor, Citi Research

Near-term trajectory to depend on food prices: While prices of several vegetables have dropped sharply in December, notably onions (-50%MoM), brinjal (-60%MoM), cabbage (-60%MoM), tomatoes (-40%MoM) etc, prices of protein-based products such as egg, chicken etc. have risen. The decline in vegetable prices would likely result in a ~100bps reduction in WPI and ~200bps drop in CPI inflation numbers in the coming months. Overall, we expect WPI & CPI to average 6.5% and 10% in FY14 before easing to 6% and 8.3% in FY15.

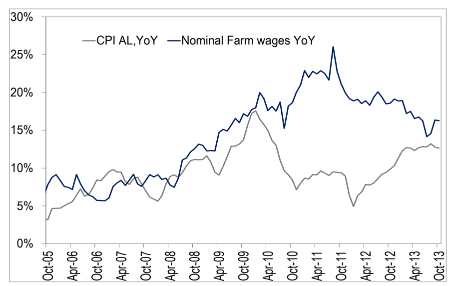
Structural factors to keep inflation elevated in medium term: Going forward for FY15, we expect headline WPI and CPI to average 6% and 8.3% respectively. We have factored in socio-political factors that continue to put upward pressure on food and fuel inflation even in the wake of weak aggregate demand conditions. These include (1) food grain policy - secular increase in minimum support prices and procurement, (2) indexation of rural wages and 3) suppressed fuel inflation ~450bp.

Figure 26. Trends in Suppressed Inflation

	Wt.	Price	Loss	Inflation
LPG (Rs/cyl)	0.90%	414	763	1.7%
Kerosene (Rs/ltr)	0.70%	14.96	37.3	1.7%
Diesel (Rs/ltr)	4.67%	54.34	9.2	1.0%
Overall Impact				**4.5%**

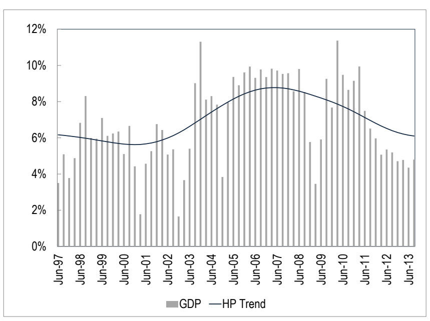
Source: Prices as on 3rd Jan, Citi Research

Figure 27. Rural Wages Growth vs CPI-AL,YoY



Source: RBI, Citi Research

Figure 28. Trends in GDP and Potential (%)



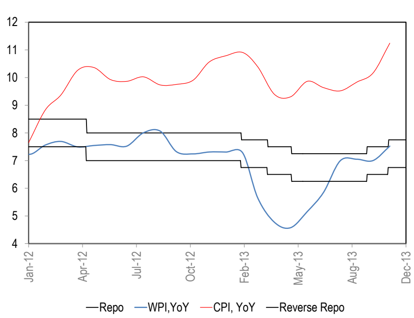
Source: CSO; Citi Research

Hurdle to hike rates is rising: monetary policy stance

The Central Bank abstained from hiking rates in Dec despite an unexpected surge in inflation data. We believe it was a pragmatic decision as it chose to look through the transient spike in vegetable prices and found merit in waiting for more inflation data.

The Central Bank said that it could act even outside the policy dates, if either (1) food inflation doesn't come down significantly or (2) core inflation doesn't come down in the next round of data releases. Yet, we believe that the hurdle to hike rates is rising, as the negative output gap has persisted for longer than anticipated. A likely expenditure cut by government in 4Q may put further downward pressure on growth.

Figure 29. Trends in Policy Rates (%)



Source: RBI, Citi Research

<u>Bottom Line</u>: rates to stay higher for longer

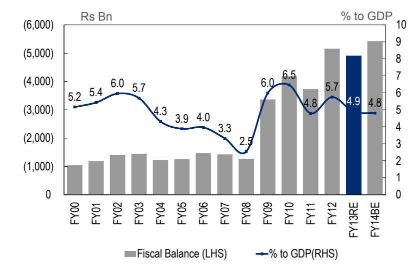
We expect the Central Bank to remain on guard against inflation but at the same time be mindful of the sources of inflation and persistence of the negative output gap. We retain our 25bps rate hike call so as to signal its commitment to keep household inflationary expectations in check. Key will be to watch for Urjit Patel Committee recommendations on the monetary policy framework and how much weight it attaches to the CPI inflation data. Given the limited history and possibly data issues (housing), we do not expect a complete transition to the new CPI benchmark. Instead, a gradual roadmap to move to CPI/Core CPI, and FOMC-style voting-based decision making could be a good step in our view.

Fiscal Indicators

Fiscal Deficit – red line challenging to meet in FY14

Latest fiscal trends remain worrisome with the deficit for the period April-Nov at Rs 5100bn or 94% of the FY14 budget estimates (BE). While expenditure remains within the budgeted growth rate of 18%, cumulative revenue growth for the period Apr-Nov at 12.5% remains far below the budgeted growth rate of 22%.

Figure 30. Trends in Fiscal Deficit (Rs bn, %GDP)



Source: Budget Documents, Citi Research

Figure 31. Latest Fiscal Snapshot – April-November FY14 (Rs Bn, %)

	Nov-13	%YoY	Apr-Nov FY14	%YoY	Budget Est. FY14	% to Total	Budgeted Growth
a. Revenue receipts	467	12.4	5,027	12.8	10,563	47.6	20.2
Net tax revenues	396	11.0	3,962	7.2	8,841	44.8	19.3
Non-tax	70	20.7	1,065	39.8	1,723	61.8	25.1
b. Non-debt cap receipts	9	-47.6	89	0.5	665	13.5	63.3
c. Total receipts (a+b)	**475**	**23.4**	**5,116**	**12.5**	**11,228**	**45.6**	**22.1**
d. Revenue expenditure	867	28.5	8,957	17.0	14,362	62.4	15.6
e. of which interest	300	-1.2	2,144	17.3	3,707	57.8	18.8
f. Capital expenditure	125	24.4	1,258	22.9	2,291	54.9	37.0
g. Total expenditure (d+f)	**992**	**32.2**	**10,215**	**17.7**	**16,653**	**61.3**	**18.1**
h. Plan Expenditure	229	43.8	2,910	19.6	5,553	52.4	34.0
i. Non Plan Expenditure	763	28.1	7,305	17.0	11,100	65.8	11.5
j. Fiscal deficit (g-c)	**517**	**47.7**	**5,099**	**23.5**	**5,425**	**94.0**	**10.7**
k. Revenue deficit (d-a)	400	39.9	3,930	23.0	3,798	103.5	4.5
l. Primary Deficit (j-e)	217	238.1	2,954	28.4	1,718	171.9	(3.5)

Source: CGA, Ministry of Finance

Figure 32. Tax Collection in FY14 (Rs bn)

	Apr-Nov	YoY	BE-FY14	BE %YoY
Corporate	1,817	11.5	4,195	17.7
Income	1,269	20.5	2,409	22.4
Customs	1,100	4.9	1,873	13.0
Excise	883	-6.2	1,968	11.9
Service	839	17.2	1,801	36.0
Others	63	9.3	112	19.7
Gross Taxes	**5,970**	**9.7**	**12,359**	**19.2**
Devolvement	1,983	14.9	3,518	19.0
Net Taxes	**3,962**	**7.2**	**8,841**	**19.3**

Source: CGA, Ministry of Finance

Revenues likely to miss budget estimates

Tax revenues: While trends in direct taxes have picked up in recent months, cumulative trends are still below budget estimates (BE). (Income Tax at 21%YoY v/s 22.4% BE and Corporate Taxes at 11.5% v/s 17.7% BE). The latest MoF release on direct tax data suggests that growth has remained weak in December as well. Cumulative indirect tax trends for the period Apr-Nov indicate a wider revenue gap. (Service tax at 17% vs 36% BE; Customs at 4.9% v/s 13% BE and Excise at -6.2% v/s 11.9% BE). An encouraging bit of news is that the amnesty scheme for service tax defaulters which ended 31 Dec has improved service tax collections and will likely be reflected in the upcoming data..

Other revenues (telecom +disinvestment): Trends in disinvestment have been far from encouraging, with government raising only Rs16bn to November against its target of Rs558bn. Activity has picked up steam recently, with media reports suggesting that government is exploring alternative ways, such as issue of bonus shares and higher dividend pay-outs from PSUs. On telecom spectrum, the government has accepted a lower base price to ensure better auction participation.

Figure 33. Trends in Subsidies (Rs bn)

		Apr-Nov		
	BE	FY14	%BE FY14	%BE FY13
Food Subsidy	908	853	94	95
Fertilizer Subsidy	660	530	80	91
Oil Subsidy	651	549	84	92
Total	**2219**	**1932**	**87**	

Source: CGA, Ministry of Finance

Expenditure cuts, subsidies rollover likely

Likely expenditure – As seen in Figure 31, while overall expenditure are well within the budgeted growth rate of 18%, the run-rate for non-plan expenditure at 17% is well ahead of BE of 11.7% while that of plan expenditure at 19.6% is below the BE of 34%. Looking into the amount spent by ministries to Nov, and considering that only 33% of max allocation could be spent in Q4, we estimate that a RS500bn-700bn reduction can be achieved in plan expenditure.

Subsidy rollover - Despite the monthly hike in diesel prices, our oil analyst Saurabh Handa expects gross under-recoveries (losses by oil marketing companies) to touch Rs1,428bn. Of this, the government subsidy burden is expected to be Rs722bn but ~Rs400bn could be rolled over to next fiscal.

Figure 34. Plan Expenditure (Rs Bn)

Ministry	FY14 BE	Apr-Nov FY14	%BE FY14	%BE FY13
Finance	1,231	497	40	37
Rural Devepmnt	802	487	61	49
Human Resource	659	392	59	62
Health & Family	327	175	53	49
Agriculture	270	164	61	54
Railways	260	173	67	62
Road,Transport	259	162	63	46
Women&Child	204	144	71	54
Water& Sanitation	153	57	38	44
Home Affairs	122	52	42	37
Power	96	30	31	17
Comm& IT	96	36	38	41
Planning	80	9	11	33
Urban Devpmt	76	46	60	45
Panchayati Raj	70	24	35	35
GRAND TOTAL	**5,553**	**2,910**	**52**	**47**

Source: CGA, Ministry of Finance

Sharp cuts in plan expenditure required to meet red line

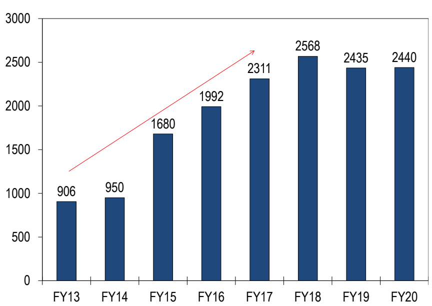
Given current fiscal trends and the re-iteration to adhere to its 4.8% fiscal deficit target, we estimate that the central government may need to cut plan expenditure by ~Rs700bn to deliver its fiscal deficit targets (see Fig 35). Note that plan expenditure was cut by ~Rs1trn in FY13 to meet the fiscal deficit aim. Although in our base case, given limited time and assuming some spending bias heading into elections (Nov expenditure growth was 32%YoY), we expect the fiscal deficit to be slightly higher at 5% of GDP. However, key to note is that the slippage of 0.2% of GDP (Rs 200bn) could easily be funded from drawdown of cash, as the government began FY14 with a surplus of over Rs700bn.

Figure 35. Expenditure Cut Needed to Meet Red Line (Rs bn,%)

Budgeted fiscal deficit for FY14	**5,425**
Fiscal deficit as % of GDP (BE)	4.8
Add:	
Shortfalls in tax revenues	400
Shortfalls in divestments	100
Shortfalls in Telecom Revenues	50
Additional Food Subsidy	50
Under-recoveries by Oil Companies	522
Less:	
Oil Subsidies (Under-recoveries) deferred	400
Expenditure Cut Required to Meet Red Line	700
Total fiscal deficit (revised)	5,447
Fiscal deficit as % of GDP (RE)	4.8

Source: Budget Documents, Citi Research

Figure 36. Redemption Profile of Government Securities (Rs bn)



Source: RBI, Citi Research

Bottom Line: borrowing program to increase from FY15

The FY15 budget incorporating revenue and expenditure estimates will likely be presented post the upcoming general elections. However, there will be an "interim budget" that will be announced in Feb. Through the interim budget, parliament passes a vote-on-account to allow government to meet its administrative expenditure until a full budget is presented by the new government.

In order to stay closer to the fiscal roadmap, as recommended by Kelkar Committee, the government will likely present a fiscal deficit of 4.5% in FY15, which translates into a gross borrowing of Rs6,768bn (17% higher than FY14). Note that redemptions are likely to increase at a CAGR of 28% in the next four years (Fig 36) and remain elevated thereafter, on account of a rise in fiscal deficit from ~2.5% in FY08 to ~5% after FY09. However, it's important to keep in mind that the gross borrowing could come down if the government is able to conduct maturity extension bond switch.

Figure 37. Borrowing Program (Rs bn)

	FY13A	FY14BE	FY14YTD	FY15E
Fiscal Deficit	4,900	5,425	5,096	5,793
Net Market Borrowings	**5,131**	**5,038**	**4,563**	**5,388**
Net Market Borrowings Dated	4,674	4,840	4,493	5,088
Net Market Borrowings - Bills	457	198	70	300
Repayments	906	950	747	1,680
Gross Dated Borrowings	**5,580**	**5,790**	**5,240**	**6,768**

Source: RBI; Citi Research, FY14YTD is borrowing till Dec 6th, fiscal deficit till Nov

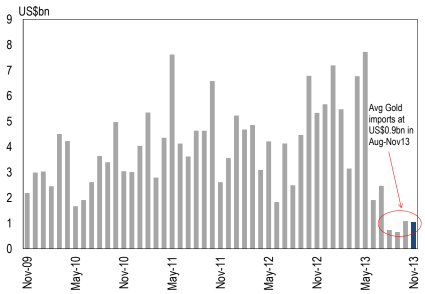
External Sector

Current account – gold in FY14, ores and coal in FY15?

FY14 CAD – gold the key variable

The first evidence of rebalancing in external sector was seen in India's 2QFY14 current account deficit (CAD) data, which narrowed to US$5.2bn (1.2% of GDP) from US$21.8bn (4.9% of GDP) in 1QFY14. The improvement was in line with expectations – a result of higher export growth and on the back of policy measures taken to contain imports – gold, oil, and non-essential items. In terms of **commodity composition of trade,** export growth was led by petroleum products (26%YoY), textiles (13%), and leather products (16%), while imports saw a sharp decline in capital goods (-11%YoY). Overall, the depreciation in the INR has aided labour-intensive sectors such as textiles and leather, while a slowdown in the domestic economy has hurt capital goods imports.

Figure 38. Monthly Gold Imports ($bn)



Source: RBI, DGC&IS, Citi Research

Encouragingly, the narrowing trade deficit trends have continued in 3QFY14 as well with trade deficit in Oct-Nov period averaging at ~US$10bn/month v/s US$16.3bn in 1Q. Considering that gold imports have remained subdued even in the peak festival season, we revise down our gold import estimate to $30bn for FY14 from $37.5bn earlier. Consequently we now expect CAD in FY14 to come down to $43bn or 2.3% of GDP from $88bn or 4.8% of GDP last year. We have factored in the possibility of lower remittances in 2HFY14 arising from the surge in FCNR deposits and rising "un-official" gold imports.

As gold imports have remained subdued even in the peak festival season, we revise down our gold import estimate to $30bn for FY14 from $37.5bn earlier.

We now expect CAD in FY14 to come down to $43bn or 2.3% of GDP v/s US$50bn earlier.

Figure 39. Trends in Current Account (US$bn)

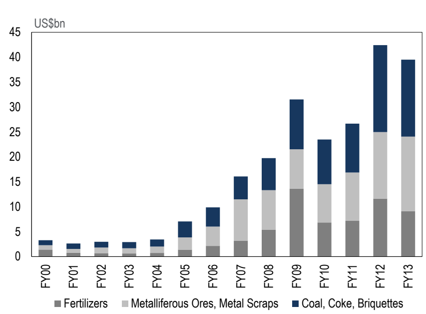
	FY14			FY11	FY12	FY13	FY14E	FY15E
	Q1	Q2	1H					
a.Trade Balance	**-50.5**	**-33.3**	**-83.8**	**-130.6**	**-189.8**	**-195.7**	**-158.7**	**-169.8**
Exports	73.9	81.2	155.2	250.5	309.8	306.6	323.4	355.8
Imports	124.4	114.5	238.9	381.1	499.5	502.2	482.1	525.5
Of which: Gold	16.4	3.9	20.3	40.5	56.2	53.8	30.0	35.0
b. Invisibles	**28.7**	**28.1**	**56.8**	**84.6**	**111.6**	**107.5**	**115.9**	**122.6**
Services	16.9	18.4	35.2	48.8	64.1	64.9	72.1	77.8
Transfers	16.7	16.1	32.7	53.1	63.5	64.0	67.7	68.7
Investment Income	-4.8	-6.3	-11.2	-17.3	-16.0	-21.5	-24.0	-24.0
Current Account (a+b)	**-21.8**	**-5.2**	**-27.0**	**-45.9**	**-78.2**	**-88.2**	**-42.8**	**-47.2**
% GDP	-4.9	-1.2	-3.0	-2.7	-4.2	-4.8	-2.3	-2.3

Source: RBI,DGC&IS, Citi Research

FY15 CAD – coal, ores could be key

Going forward for FY15, two current factors will likely shape the outlook for the trade deficit: (1) continued efforts to rein in gold/non-essential imports and (2) sustaining the momentum of an exports revival. However, in addition to this, what could help are:

Figure 40. Trends in 3 Key Import Items (US$bn)



Source: RBI,DGC&IS, Citi Research

– **Revival of iron-ore exports**: Due to the imposition of production restrictions, iron-ore exports have dropped from 100MT in FY11 to 16MT in FY13. This has resulted in (a) a fall in iron-ore exports from US$4.7bn in FY11 to US$1.6bn in FY13 and (b) an increase in imports of ores and metal scrap from US$9.7bn in FY11 to US$15bn in FY13.

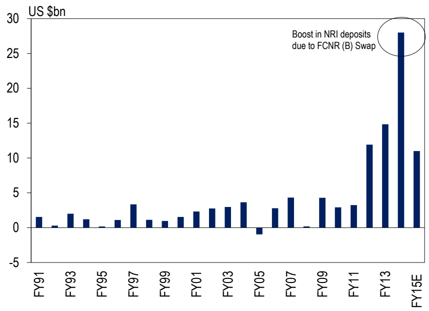
– **Coal production**: Supply-side constraints have led to coal imports rising from 69 MT in FY11 to 135 MT in FY13, consequently resulting in the coal import bill rising from US$9.8bn in FY11 to US$15.4bn in FY13. Easing of some constraints (including availability of rakes) could help lower coal imports.

Capital Flows – an “uneasy” calm

FY14 – boost from FCNR deposits

In addition to the measures taken to contain the CAD, policy makers undertook a host of measures to augment capital flows. The most successful have been the concessional swap facility for the mobilization of FCNR (B) deposits and Tier 1 capital. Total inflows from this are reportedly at ~US$34bn. Besides NRI deposits, trends in FDI and ECB’s have been relatively buoyant. However, despite positive equity flows, total portfolio flows till December are still in the red due to outflows on debt.

Figure 41. NRI Deposits incl FCNR (US$bn)



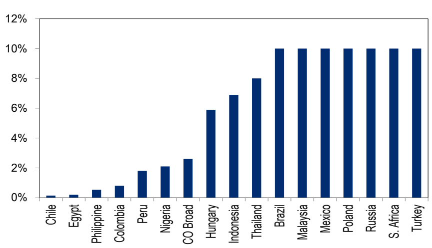
Source: RBI, Citi Research

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

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Apr-Dec* FY14	Apr-Dec* FY13
FDI	3.2	2.5	2.4	2.5	2.3	3.8	2.2			18.9	21.1
ECBs	1.1	2.5	1.9	3.7	2.3	3.3	1.9			16.7	19.1
NRI Deposits	1.4	1.6	2.5	1.2	1.6	5.4	5.2	14.2		33.1	11.3
FIIs	2.0	5.2	-7.5	-3.0	-2.5	1.2	0.4	0.3	3.5	-0.5	18.4
FII debt	1.0	1.2	-5.7	-2.0	-1.6	-0.9	-2.2	-1.0	0.9	-10.3	2.9
FII equity	1.0	4.1	-1.9	-1.0	-0.9	2.1	2.6	1.3	2.6	9.8	15.5

Source: RBI, Citi Research

Figure 43. Weights of Different Countries in JPM GBI-EM Diversified Index (%)



Source: Bloomberg, Citi Research

FY15 – bond market reforms: Euro clear & EM benchmark inclusion

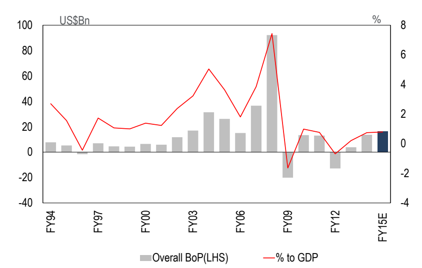
In a push to deepen the bond markets and increase participation, the policy makers are looking to allow settlement of Indian government on the Euro-clear exchange. A similar move by Russia in Feb 2013 led to improved liquidity in its bond market. Separately, the policy makers are also in dialogue with benchmark index managers to allow India into the widely-followed emerging market funds. For example, an inclusion in EM indices could lead to inflows close to US$15-US$25bn.

Figure 44. Trends in Capital Account (US$bn)

	FY14			FY11	FY12	FY13	FY14E	FY15E
	Q1	Q2	1H					
c.Loans	**3.6**	**-0.5**	**3.2**	**28.4**	**19.3**	**31.1**	**10.0**	**20.0**
d.Foreign Investment	**6.3**	**0.3**	**6.6**	**39.7**	**39.2**	**46.7**	**23.0**	**31.0**
Portfolio Investments	-0.2	-6.6	-6.8	30.3	17.2	26.9	3.0	13.0
FDI	6.5	6.9	13.4	9.4	22.1	19.8	20.0	18.0
e.Banking Capital Net	10.3	1.7	12.0	5.0	16.2	16.6	34.0	12.0
of which NRI deposits	5.5	8.3	13.8	3.2	11.9	14.8	28.0	11.0
f. Other capital	0.3	-6.9	-6.5	-11.0	-6.9	-5.0	-10.0	1.0
g.Rupee debt service	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.4	-0.4
Capital Account (c:g)	**20.5**	**-5.4**	**15.1**	**62.0**	**67.8**	**89.3**	**56.6**	**63.6**
Overall Balance	**-0.3**	**-10.4**	**-10.7**	**13.1**	**-12.8**	**3.8**	**13.7**	**16.4**

Source: RBI, Citi Research

Figure 45. Balance of Payments ($bn)



Source: RBI, Citi Research

Bottom Line: external rebalancing under way

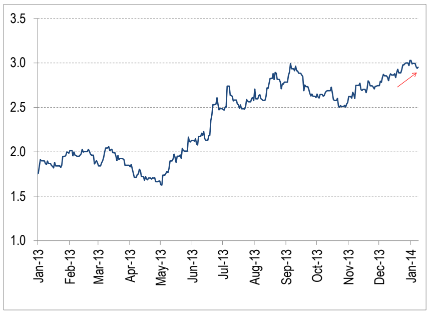
Policy measures on the external account aimed at compressing the CAD and augmenting capital flows have borne fruit. The outperformance of rupee since the announcement of taper in Dec reflects the strength of the measures taken. With taper fears behind, we expect capital flows to touch US$57bn in FY14, taking the BoP surplus to US$13.7bn in FY14. Key to note is that foreign exchange reserves are already up by US$3.5bn from the beginning of the year.

Financial Markets

Forex – taper begins, impact muted so far

Fed reduces monthly asset purchases by $10bn – In its 18 Dec meeting, the Federal Reserve surprised markets by announcing a $10bn reduction in its asset purchases from January 2014. It also enhanced its forward guidance regarding rate hikes to "well past the time that the unemployment rate declines below 6.5%".The market reaction to the taper announcement was mixed, with 10-year UST yields up 12bps since 18 Dec , S&P index up 3%, and the dollar index up 1%. Our US economics team believes that Fed would likely end its asset purchases altogether by September 2014 as it follows up with further cutbacks in subsequent meetings.

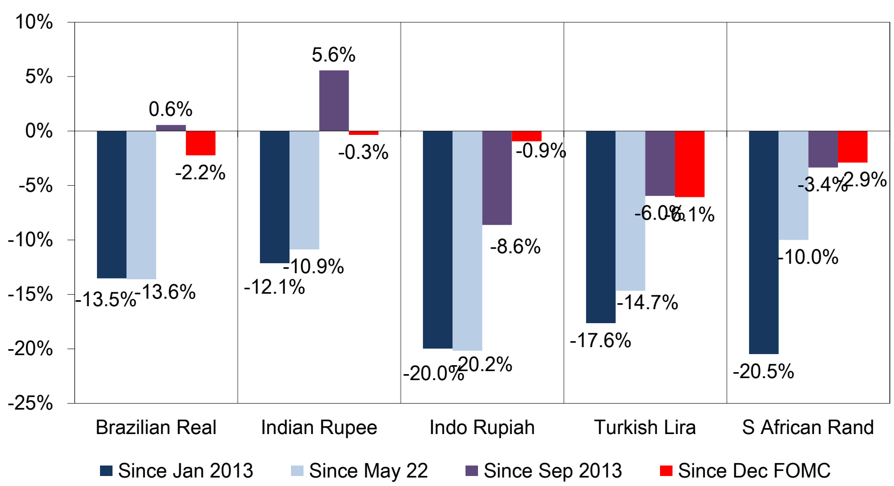
Figure 46. 10-Year US Treasury Yield (%)



Source: Bloomberg, Citi Research

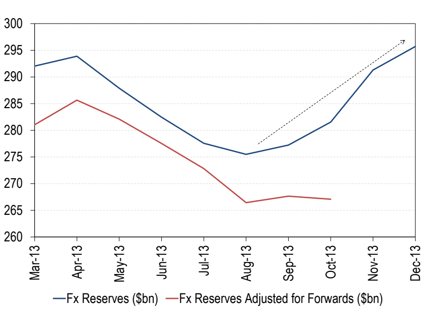
Rupee outperformer in the "fragile five" group – Following measures to address external imbalances, the rupee has outperformed (-0.3%) the other four fragile currencies (real -2.2%; rupiah -0.9%; lira -6.1%, rand -2.9%) since the Dec FOMC decision. The relative outperformance is stark from Sept, with the rupee up +5.6% while other currencies moved in the range -8.6% to +0.6%. As mentioned earlier, the INR has benefited from (1) the sharp compression in the CAD, (2) measures to augment capital flows, viz, U$34bn flow from NRI Deposits/Bank Tier 1 capital.

Figure 47. Rupee Outperformer in the "Fragile Five" Group



Source: Bloomberg, Citi Research, Data till 8th Jan 2014

Figure 48. Foreign Exchange Reserves ($bn)



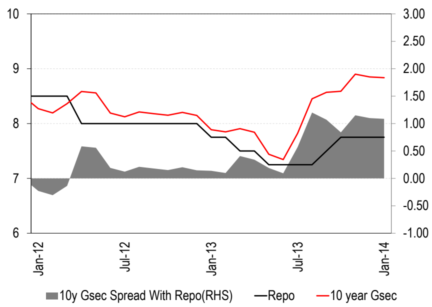
Source: RBI, Citi Research

Foreign exchange reserves back to pre-May levels – One of the most encouraging data points is the re-couping of foreign exchange reserves to pre-May levels. Latest data indicate that total reserves rose to US$295.7bn in Dec after having dipped to US$275bn in early Sep. The reported reserves are US$3.6bn higher from the beginning of the financial year.

Outlook – While the impact of Fed taper has been muted so far, a continued uptick in UST yields could put some pressure on high-yielding currencies such as the INR (India T-bill yield ~850bps above US T-bill). However, we believe that (1) narrowing of CAD to sub 3% of GDP levels and (2) high FX reserves would provide structural strength to INR against broad EM volatility. Given an improving outlook on investments and growth, the rupee is likely to have an appreciation bias once inflation is brought under control. We maintain our view of the USD/INR likely to trade in the Rs60-63 range in the next few months.

Bonds – uncertainty in monetary policy framework

Figure 49. 10 Year India G-Sec vs. Repo (%)

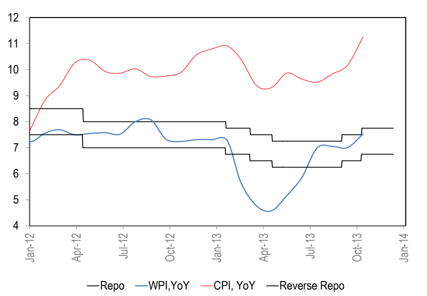


Source: Bloomberg, Citi Research

Bond yields stuck in limbo - The benchmark 10-year government bond yield at 8.80% has come off from the peak of 9.2% but still remains elevated vis-à-vis current levels of WPI inflation (7.5%) and policy rates (repo 7.75%). Moreover, the current 10-year bond yield is ~100bps above the repo rate compared to an average 25bps in FY13 and 31bps in FY12 (see Fig 49). We believe these dislocations are mostly due to uncertainties surrounding the monetary policy framework, particularly on the choice of nominal anchor and the operating rate for money markets.

Two points of uncertainty: nominal anchor, operating rate – The market remains unclear on the choice of nominal anchor for monetary policy i.e. WPI or CPI. The issue will be addressed when the Urjit Patel Committee submits its report, possibly within a month or so. The other source of confusion is RBI's stance on operating rate considering that the RBI no longer allows unlimited funding to banks at repo rate. Depending on liquidity conditions, banks borrow from RBI at rates ranging from repo (7.75%), term repo (auction based) to MSF (8.75%).

Figure 50. Nominal Anchor - WPI or CPI (%)



Source: RBI, Citi Research

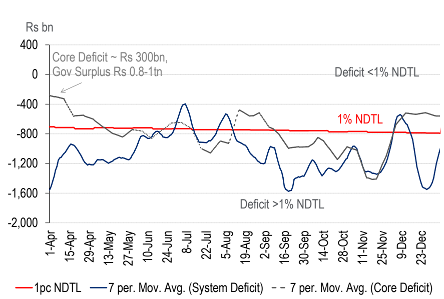
Operating rate fluctuates with liquidity conditions – Following the Rs800bn advance tax outflows in mid Dec, the daily MIBOR fixing rose from 7.73% to 8.89% on 20 Dec (Fig 52). The MSF at 8.75% became the operating rate for close to a fortnight until government expenditure in Dec led to repo becoming the operative rate again. With the core liquidity deficit (banking system deficit adjusted for govt. cash balance) currently at 0.7% NDTL, repo would largely be the operating rate, except during the periods when government cash balances exceed 0.8% NDTL.

Outlook: As mentioned in our Financial Markets Update, we believe bond yields could drift towards 8.5% as (1) inflation and policy rates are close to their peak, (2) comfortable core liquidity should make repo the operating rate and (3) increased foreign participation is likely for bond markets. However, two risks to the outlook include (1) the bond switch program in the last quarter and (2) a change in the monetary policy nominal anchor to headline CPI.

Bottom Line: taper yes, but domestic is key

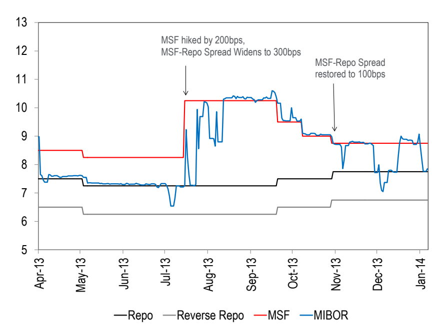
Overall, we expect markets to look beyond the Fed taper, though changes in the pace of tapering may cause occasional volatility. We believe Indian asset markets could fare better in 2014 as investors adopt an optimistic approach towards the general election and its outcome. A pick-up in economic growth in 2HFY14 is likely to create positive momentum for the markets. Yet inflation remains the biggest risk for the markets and a rally in bonds and rupee can sustain only if inflation is under control.

Figure 51. Trends in Banking Liquidity (Rs bn)



Source: RBI, Citi Research

Figure 52. Trends in MIBOR, LAF rates (%)



Source: RBI, Citi Research

Politics and Policies

Elections: the countdown begins

Figure 53. State Assembly Election Results

DELHI	2008	2013	Change
BJP	23	31	+8
AAP		28	+28
Congress	43	8	-35
Others	4	3	-1
CHATTISGARH	**2008**	**2013**	**Change**
BJP	50	49	-1
Congress	38	39	+1
Others	2	2	0
MADHYA PRADESH	**2008**	**2013**	**Change**
BJP	143	165	+22
Congress	71	58	-13
Others	16	7	-9
RAJASTHAN	**2008**	**2013**	**Change**
BJP	78	162	+84
Congress	96	21	-75
Others	26	16	-10

Source: Election Commission of India

State elections recap – BJP wins highest number of seats in four states: The recently-held assembly elections in four key states (Madhya Pradesh, Rajasthan, Delhi and Chhattisgarh) went in favor of the main opposition party, the Bharatiya Janata Party (BJP). Except in Delhi, the BJP has formed government in all three states where it had an absolute majority. In Delhi, the debutant Aam Aadmi Party (AAP) led by anti-corruption activist Arvind Kejriwal, has formed a minority govt. with support from the Congress. (See State Elections Update)

Upcoming general elections – plot thickens with the entry of AAP: While the BJP has gained significant ground after it announced Narendra Modi as its prime ministerial candidate, the AAP has simultaneously become a force to reckon with after its success in Delhi. The AAP has formed a state government in Delhi within just one year of its existence – an unprecedented occurrence that has rapidly changed political equations. The task is now tougher for BJP, as it is no longer the sole claimant of anti-incumbency votes against Congress. As regards the Congress, the ruling party has also shown that it is capable of taking tough decisions – the recent parliament session saw passage of highly debated/contested bills like land acquisition, companies bill, FDI in pensions, etc.

Political parties and their economic priorities

The economics of the politics: Heading into the 2014 elections, most parties have not clearly spelled out their economic priorities. The AAP government announced populist decisions, such as a 50% subsidy in electricity bills up to 400 units and free water up to 20 kiloliters/month/family in Delhi in its first week of swearing in. For the ruling party, the stance is mixed: it has passed a food security bill which provides cheap food grains to two-thirds of the population, and has also continued on a somewhat unpopular decision to hike diesel prices by 50 paise every month. The BJP has proposed to bring its Gujarat model of development to rest of the India and has also hinted at reducing tax burden. But in contrast to its right-leaning policies, the BJP has opposed FDI reforms in multi-brand retail.

GUJARAT MODEL HIGHLIGHTS

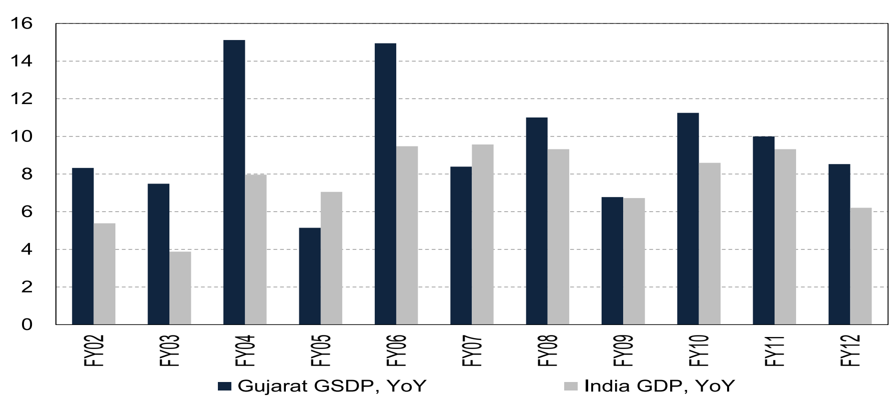
(1) Enhance farm sector productivity: Jyotigram Yojana scheme provides 24 hrs of electricity at metered rates and 8 hrs free electricity for agriculture usage. Regular power supply has helped non-farm activities in the rural economy and rationalized power subsidy in farms

(2) Encourage employment-intensive sectors: through the creation of manufacturing hub for automobiles and ancillaries which have employment-intensive nature and act as a multiplier for economic activity.

(3) focus on formation of SEZs (special economic zones)

BJP proposes Gujarat model – The Gujarat model can be summarized as one which aims to achieve high agriculture and industrial growth simultaneously. With this model, state GDP of Gujarat grew at 9.7%YoY in FY02-12, outpacing 7.6%YoY growth for India and giving Gujarat the eighth-highest GDP per capita.

Figure 54. Gujarat Growth vs. All India Growth (YoY)



Source: RBI

Bottom Line: dynamics are changing, stable govt is key

With the AAP now likely to contest the general election, earlier political arithmetic on likely election outcomes would need to be re-visited. We believe the markets' priority will be a single-party-led and stable alliance, with acceleration in economic policy making. And its biggest concern is an unstable alliance, which will hinder the policy acceleration and project execution that the economy needs.

Figure 55. Reforms – Quick Recap : What's Announced & Pending

Announced Reform	Key Features	Status of Reform
Fuel Price De-regulation	Diesel price raised by Rs 5/ltr in Sep 2012.	Rs5/ltr hike implemented in 2012
	Proposed Rs0.5/ltr hike/month, Bulk users pay market price;	Monthly price hikes being implemented.
FDI		
Multi-Brand Retail	51% FDI permitted subject to State approval	First approval to Tesco ($110mn), more in pipeline
Single- Brand Retail	FDI beyond 51% requires 30% sourcing locally from MSMEs	Work in Progress, but firms seeking clarity on regulations
Broadcasting Services	74% FDI 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	(1) Air Asia/Tata JV (2)Jet Airways/Etihad
Telecom	permitted up to 100%, through FIPB route	Vodafone to buy 100% stake in India arm ($1.6bn)
Defence	FDI above 26% allowed on a case-by-case basis	
Divestment in PSUs	Divestment is public sector undertakings	On-going
Competition Bill	All sectors included, merger of weak/failing banks excluded	
Security Interest/Debt Recovery Bill	Amends the process for recovery of secured loans	Passed by both houses of Parliament
Banking Laws (Amendment) Bill	Addresses issues on capital raising, voting rights,	Passed by both houses of Parliament
SEB loan restructuring	US$38bn of loans restructured/ converted to state debt	UP, Rajasthan and Tamil Nadu accept restructure plan
Overseas Loans	Withholding tax lowered from 20% to 5%	Reduced for All Loans
Companies Bill (Amendments)	Ensures more transparent corporate governance	Passed by both houses of Parliament
Urea Price Hike	Price raised by Rs 50pmt.	Implemented
Govt. UTI sale in select Stocks	Stock sales could raise a total holding ~Rs 440bn	
Rail hike	Across the board hike in Passenger fares	Implemented
Import duty on gold & platinum	Import duty on gold and platinum hiked to 10%	Implemented
Sugar decontrol	Sugar mills no longer need sell to Govt. at controlled prices.	Implemented
Gas Price Hike	Gas price increased to $8.4 per mBtu from $4.2 a mBtu	in effect from April 2014
Interest Subsidy Hike	Interest Subsidy raised to 3% from 2%, also includes more items	Implemented
Land Acquisition Bill	For commercial land acquisition, and rehabilitation	Passed by both houses of Parliament
National Food Security Bill, 2011	Provides food security to 2/3rd of population at subsidized rates	Passed by both houses of Parliament
PFRDA- Pension Bill	Better regulation of pension sector, FDI in pensions up to 26%	Passed by both houses of Parliament
Unique Identification Card	Biometric card for efficient delivery of welfare/subsidy	500mn people enrolled by Dec 2013
Financial Sector Reforms	Strengthening banking sector (new entry, expansion, easing foreign bank regulations), and deeper financial markets	ongoing

Pending Reforms	Key Features	
Public Procurement Bill, 2012	Regulate public procurement to further transparency and accountability	
Mines and Minerals Bill, 2011	Consolidates and amends the law relating to regulation of mines	
Goods and Services Tax (GST)	Landmark Change - for efficiency, GDP and tax collections	
Direct Taxes Code (DTC)	A simplified Tax platform	
FDI	Plans to allow FDI in E-Commerce, High Speed Railways etc.	

Source: Citi Research

Monthly Monitor

Figure 56. India — Key Monthly Indicators (percent change from a year ago unless otherwise stated)

	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Consumption Trends														
Two-Wheelers	12.0	1.0	4.1	8.4	-2.8	-7.0	0.9	1.1	-4.6	-0.1	6.7	18.4	18.0	5.6
Passenger Car Sales	24.5	-7.5	-11.4	-11.5	-25.0	-21.4	-10.4	-11.7	-10.4	-8.6	13.0	-1.0	-5.4	-9.7
Tractors	0.4	19.1	-6.1	-6.2	-0.4	1.3	36.3	23.5	20.7	12.3	10.9	35.1	30.0	12.5
LHCVs	31.9	9.4	5.9	14.2	6.6	9.7	4.7	-7.2	-8.9	-12.3	-14.1	-18.1	-14.4	-26.8
MHCVs	-22.9	-33.1	-38.3	-38.9	-34.7	-25.9	-6.5	-16.7	-21.3	-19.7	-38.1	-41.5	-31.6	-33.9
Investment Trends														
Infrastructure Index	7.7	5.8	2.9	3.7	-2.4	3.2	2.2	2.3	0.1	3.2	3.7	8.0	-0.6	1.7
Diesel Consumption	6.8	1.6	4.3	7.9	-2.4	2.5	4.1	0.0	-2.1	-6.8	-0.6	-0.6	-1.6	0.1
Steel Production	2.7	4.1	4.8	13.4	-7.8	-2.1	4.5	1.7	5.5	0.7	12.1	12.8	0.7	4.5
Manufacturing PMI*	52.9	53.7	54.7	53.2	54.2	52.0	51.0	50.1	50.3	50.1	48.5	49.6	49.6	51.3
output	52.7	55.4	57.7	54.0	56.3	51.6	50.2	48.6	49.1	49.8	47.5	49.6	48.6	51.5
Industrial Production Index														
General	8.4	-1.0	-0.6	2.5	0.6	3.5	1.5	-2.5	-1.8	2.6	0.4	2.0	-1.8	
Manufacturing	9.9	-0.8	-0.8	2.7	2.1	4.3	1.8	-3.2	-1.7	3.0	-0.2	0.6	-2.0	
Mining	-0.2	-5.5	-3.1	-1.8	-7.7	-2.1	-3.4	-5.9	-4.6	-3.0	-1.0	3.3	-3.5	
Electricity	5.5	2.4	5.2	6.4	-3.2	3.5	4.2	6.2	0.0	5.2	7.2	12.9	1.3	
Use Based Basic goods	4.3	1.1	2.2	3.7	-1.8	3.2	1.4	-0.3	-1.9	1.0	1.1	5.3	-1.6	
Capital goods	7.0	-8.5	-1.1	-2.5	9.1	9.6	-0.3	-3.7	-6.6	15.9	-2.0	-6.7	2.3	
Intermediate goods	9.6	-1.4	-0.2	3.5	-0.8	2.1	2.5	1.1	1.3	3.2	3.7	4.2	1.8	
Consumer goods	13.8	-0.3	-3.6	2.5	0.8	1.8	1.7	-6.6	-1.5	-0.7	-0.9	0.7	-5.1	
Consumer Durables	16.7	1.1	-8.1	-0.7	-2.6	-4.9	-9.6	-18.3	-10.1	-9.6	-7.7	-10.8	-12.0	
Consumer Non-Durables	11.2	-1.5	-0.5	4.6	3.2	7.3	11.3	3.8	6.2	7.4	4.8	11.6	1.8	
Services														
Port traffic	0.1	-3.3	-4.9	-1.0	1.0	-3.2	-6.2	0.5	2.5	4.8	6.8	4.9	-2.8	-0.6
Railway freight	8.0	0.9	1.6	6.4	-0.2	-0.6	3.9	4.5	5.3	4.9	6.0	11.8	-2.0	3.1
Tourist arrivals ('000)	556	701	753	699	688	640	452	384	444	524	474	436	589	718
Cellular subscriber Adds (Mn)**	-1.8	-13.6	-25.9	-2.3	-1.5	5.6	1.5	4.1	3.4	1.4	2.0	-6.2	4.8	4.9
Banking Trends														
Money supply(M3)	13.3	13.6	11.2	13.0	12.7	13.8	12.8	13.4	12.6	12.4	11.7	12.5	13.0	14.5
Loan(Credit) growth	16.2	17.9	15.0	16.1	16.3	14.1	14.6	15.1	13.5	14.7	16.3	15.0	16.4	14.2
Deposit growth	13.8	13.7	11.0	13.1	12.8	14.2	12.8	14.2	13.5	13.1	12.6	11.5	14.9	16.1
Non-food credit	15.5	17.5	14.9	15.8	16.1	14.0	14.5	15.3	13.7	14.9	16.5	15.2	18.8	14.6
Inflation														
CPI	9.8	9.9	10.6	10.8	10.9	10.4	9.4	9.3	9.9	9.6	9.5	9.8	10.2	11.2
WPI	7.3	7.2	7.3	7.3	7.3	5.7	4.8	4.6	5.2	5.9	7.0	7.0	7.0	7.5
Mfg products inflation	5.9	5.4	5.0	4.9	4.8	4.3	3.7	3.3	2.9	2.6	2.3	2.4	2.5	2.6
Food Products	7.8	9.6	10.6	11.4	10.5	7.4	5.1	5.7	8.8	9.7	13.6	14.0	14.7	15.9
Fuel Products	11.6	10.0	10.2	9.3	10.6	7.8	8.3	7.3	7.5	11.4	12.7	11.7	10.3	11.1
PMI - Input Prices	58.5	60.0	59.6	58.9	58.9	55.0	54.1	51.3	55.9	60.6	57.8	63.5	64.5	58.0
PMI - Output Prices	52.9	56.0	55.9	55.0	57.9	53.1	51.9	49.8	50.9	53.4	51.8	51.1	55.3	51.9
Interest rates (Average, %)														
Daily MIBOR	8.1	8.1	8.1	8.1	7.9	8.0	7.6	7.4	7.3	7.9	9.9	10.1	9.2	8.7
1 yr CD	8.6	8.7	8.8	8.7	9.3	9.0	8.6	8.3	8.3	9.1	10.3	10.1	9.2	9.2
91-day T-Bills	8.0	8.1	8.0	7.8	7.9	7.8	7.6	7.3	7.3	8.4	10.0	9.4	8.6	8.8
Corp Bond Spreads	1.1	0.9	1.0	1.2	1.1	1.1	1.1	0.9	1.0	1.2	0.9	1.2	1.0	1.2
10-year government bond	8.2	8.2	8.1	7.9	7.8	7.9	7.8	7.4	7.3	7.8	8.5	8.6	8.6	8.9
Trade - customs data														
Exports(%YoY)	1.7	-0.1	0.6	1.2	2.3	5.9	1.9	-0.7	-4.8	10.4	13.3	10.2	13.5	5.8
Imports(%YoY)	7.5	3.5	8.3	6.3	2.8	-3.4	10.0	6.0	-0.8	-6.4	-1.5	-18.8	-14.5	-16.4
Oil	33.1	5.4	25.5	8.2	15.7	-16.1	4.4	3.3	13.4	-7.9	17.9	-5.9	1.7	-1.1
Non-oil	-2.2	2.6	1.2	5.3	-3.4	4.3	13.1	7.4	-7.1	-5.7	-11.6	-25.2	-22.8	-23.7
Trade Deficit (US$bn)	-20.2	-17.2	-17.8	-20.0	-15.5	-10.4	-17.7	-20.1	-12.2	-12.5	-10.6	-6.7	-10.6	-9.2
Brent Prices ($/bbl)	112.0	109.6	109.7	112.8	116.7	109.3	102.6	103.2	103.0	107.9	110.9	111.9	109.5	105.8
Foreign investment (US$ mn)														
FII	3,646	1,805	4,905	4,610	5,318	2,741	1,992	5,220	-7,536	-3,026	-2,457	1,151	357	343
FDI	1,213	439	453	2,701	2,210	822	2,773	1,859	1,827	1,932	1,663	3,290	2,048	
Exchange rate and reserves														
US$ exchange rate average	53.1	54.8	54.7	54.2	53.8	54.4	54.3	55.0	58.4	59.8	62.8	63.6	61.6	62.5
US$ exchange rate month end	53.8	54.5	54.8	53.3	53.8	54.3	54.2	56.5	59.7	61.1	66.6	62.8	61.4	62.4
Forex reserves incl.gold (US$bn)	295.3	294.5	296.6	295.7	291.9	292.6	296.4	287.9	284.6	280.2	275.5	276.3	283.0	291.3

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

Snapshot of Government Finances

Figure 57. Snapshot of Government Finances (Rs bn)

	FY08	FY09	FY10	FY11	FY12	FY13RE*	FY14BE	
a. Gross Tax Revenue	5,931	6,053	6,245	7,931	8,892	10,366	12,359	**Revenues**
% to GDP	11.9	10.8	9.6	10.2	9.9	10.3	10.9	
% YoY	25.3	2.0	3.2	27.0	12.1	16.6	19.2	Key Assumptions: Income Tax + 22%,
Corporation tax	1,929	2,134	2,447	2,987	3,228	3,563	4,195	Corporate: +17.7%, Customs +13%
Income tax	1,026	1,060	1,224	1,391	1,645	1,968	2,409	Excise: +11.9%, Service + 35.9%
Excise duty	1,234	1,086	1,030	1,377	1,449	1,759	1,968	
Import duty	1,041	999	833	1,358	1,493	1,658	1,873	
Service tax	513	609	584	710	975	1,325	1,801	
b. (-) Devolvement to States & UTs	**1,536**	**1,620**	**1,680**	**2,232**	**2,594**	**2,956**	**3,518**	
c. Net tax revenues (a-b)	4,395	4,433	4,565	5,699	6,298	7,410	8,841	
d. Non tax revenues	1,023	969	1,163	2,186	1,217	1,377	1,723	
e. Net revenue receipts (c+d)	**5,419**	**5,403**	**5,728**	**7,885**	**7,514**	**8,788**	**10,563**	
f. Non-debt capital receipts	**439**	**67**	**332**	**353**	**369**	**407**	**665**	
Recovery of loans	51	61	86	124	189	148	107	Divestments have raised Rs 16 bn so far,
Divestments/Other	388	6	246	228	181	259	558	alternative methods to help
g. TOTAL REVENUES (e+f)	**5,858**	**5,470**	**6,060**	**8,237**	**7,884**	**9,195**	**11,228**	Targets appear difficult – revenue
%YoY	32.9	-6.6	10.8	35.9	-4.3	16.6	22.1	Growth in Apr-Nov at 12.5%YoY vs 22.1% BE
h. Revenue expenditure	5,945	7,938	9,118	10,407	11,458	12,423	14,362	**Expenditures**
Interest (1)	1,710	1,922	2,131	2,340	2,732	3,119	3,707	
Defense	543	733	907	921	1,030	1,089**	1,169	
Subsidies	709	1,297	1,414	1,734	2,179	2,577**	2,311	
Pensions	243	329	561	574	612	638**	707	
Grants to States	358	382	459	498	515	579**	770	Assume FY14 Fuel Subsidy at Rs650 bn
Admin and social services	647	927	1,107	1,198	1,053	987	1,265	vs Rs 969bn in FY13
Plan expenditure	1,736	2,348	2,539	3,142	3,337	3,434**	4,433	
i. Capital expenditure	1,182	902	1,127	1,566	1,586	1,672	2,291	
Defense	375	410	511	621	679	696**	867	
Loans	493	87	121	298	120	127**	303	
Plan expenditure	315	405	495	648	786	849**	1,121	
j. Plan expenditure	**2,051**	**2,752**	**3,034**	**3,790**	**4,124**	**4,143**	**5,553**	Plan Expenditure estimated to rise 34%
k Non Plan expenditure	**5,077**	**6,087**	**7,211**	**8,183**	**8,920**	**9,952**	**11,100**	Non-plan expenditure to rise 11.5%
l. TOTAL EXPENDITURE (h+i): (j+k)	**7,127**	**8,840**	**10,245**	**11,973**	**13,044**	**14,095**	**16,653**	
% YoY	**22.2**	**24.0**	**15.9**	**16.9**	**8.9**	**8.1**	**18.1**	
Deficit trends								
m. Fiscal Balance (g-l)	**-1,270**	**-3,370**	**-4,185**	**-3,736**	**-5,160**	**-4,900**	**-5,425**	Fiscal deficit has already reached 94% budget
% to GDP	-2.5	-6.0	-6.5	-4.8	-5.7	-4.9	-4.8	estimates in Apr-Nov at Rs 5099bn
n. Revenue Balance (e-h)	**-526**	**-2,535**	**-3,390**	**-2,523**	**-3,943**	**-3,635**	**-3,798**	
% to GDP	-1.1	-4.5	-5.2	-3.2	-4.4	-3.6	-3.4	
o. Primary Deficit (m-1)	**441**	**-1,448**	**-2,054**	**-1,396**	**-2,428**	**-1,781**	**-1,718**	
% to GDP	0.9	-2.6	-3.2	-1.8	-2.7	-1.8	-1.5	
Financing the deficit								
Market borrowings (Net)	1,318	2,336	3,984	3,254	4,362	4,674	4,840	
PPF & special deposits	39	80	161	125	108	98	100	
Small savings	-113	-13	133	112	-103	-13	58	
Net external assistance	93	110	110	236	124	38	106	
Others	204	418	-189	-56	828	407	321	
Cash Surplus	-271	438	-14	64	-160	-303	0	
Total financing	**1,270**	**3,370**	**4,185**	**3,736**	**5,160**	**4,900**	**5,425**	
Memo items (% to GDP)								
Centre	-2.5	-6.0	-6.5	-4.8	-5.7	-4.9	-4.8	
State	-1.4	-2.3	-2.9	-3.2	-2.3	-2.1	-1.9	
Combined	**-4.0**	**-8.3**	**-9.4**	**-8.0**	**-8.1**	**-7.0**	**-6.7**	
Off Balance Sheet Items	-0.6	-1.7	-0.2	0.0	0.0	0.0	0.0	
Total Deficit	**-4.6**	**-10.0**	**-9.5**	**-8.0**	**-8.1**	**-7.0**	**-6.7**	
Combined liabilities	76.1	76.8	75.5	69.6	69.1	68.3	67.7	

Includes proceeds of transfer of RBI's stake in SBI. RE: Revised Estimates announced on May 31; BE: Budgeted Estimates, based on the government's nominal GDP forecast of Rs101599bn or 14%YoY. ** Revised Estimates as of FY14 Budget in Feb'13; Source: Budget Documents, Citi Research estimates

Balance of Payments

Figure 58. Balance of Payments Snapshot (US$bn)

	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	Comments
CURRENT ACCOUNT								
Exports (RBI)	**189.0**	**182.4**	**250.5**	**309.8**	**306.6**	**323.4**	**355.8**	Exports likely to pick up due to partner country growth
YoY %	13.7	(3.5)	37.3	23.7	(1.0)	5.5	10.0	A weak rupee also helps
% of GDP	15.4	13.3	14.6	16.6	16.5	17.5	17.2	IHFY14 Exports at US$155bn
Exports (Customs)	**185.3**	**178.8**	**251.1**	**306.0**	**299.5**	**316.2**	**347.9**	
YoY %	13.7	(3.5)	40.5	21.8	(2.1)	5.6	10.0	
Imports (RBI)	**308.5**	**300.6**	**381.1**	**499.5**	**502.2**	**482.1**	**525.5**	IHFY14 Imports at US$239bn
YoY %	19.8	-2.6	26.7	31.1	0.5	-4.0	9.0	
% to GDP	25.2	22.0	22.3	26.8	27.1	26.1	25.4	
Imports-Customs	**303.7**	**288.4**	**369.8**	**489.3**	**493.3**	**472.4**	**509.8**	Oil and Gold are key as they account for 40% imports
YoY %	21.2	-5.0	28.2	32.3	0.8	-4.2	7.9	
of which: Oil	93.7	87.1	106.0	155.0	169.3	171.2	180.0	Crude price assumptions are at US$107/bbl in FY14
YoY %	17.6	-7.0	21.6	46.2	9.3	1.1	5.1	
Gold	20.7	28.6	40.5	56.2	53.8	30.0	35.0	Gold imports likely to be contained at 800tonnes;
YoY %	23.9	38.2	41.6	38.7	-4.3	-44.3	16.7	
Non-oil Non-gold	189.3	172.6	223.3	278.1	268.3	271.2	294.8	
YoY%	22.1	-8.8	29.4	24.6	-3.5	1.1	8.7	
a. Trade balance (RBI)	**-119.5**	**-118.2**	**-130.6**	**-189.8**	**-195.7**	**-158.7**	**-169.8**	IHFY14 Trade Deficit at US$84bn
% of GDP	-9.8	-8.6	-7.6	-10.2	-10.5	-8.6	-8.2	
Trade Balance (Customs)	-118.4	-109.6	-118.6	-183.4	-193.8	-156.2	-162.0	
Difference b/w RBI and customs	-1.1	-8.6	-12.0	-6.4	-1.8	-2.5	-7.8	Difference normally represents defense imports
b. Invisibles	**91.6**	**80.0**	**84.6**	**111.6**	**107.5**	**115.9**	**122.6**	IHFY14 Invisibles at US$57bn
Non-factor services	53.9	36.0	48.8	64.1	64.9	72.1	77.8	
Investment income	-7.1	-8.0	-17.3	-16.0	-21.5	-24.0	-24.0	Rising recourse to external funding results in outflows
Remittances**	44.6	51.8	53.1	63.5	64.3	67.3	68.3	
Official transfers	0.2	0.3	0.0	0.0	-0.3	0.4	0.4	
1. Current a/c balance (a+b)	**-27.9**	**-38.2**	**-45.9**	**-78.2**	**-88.2**	**-42.8**	**-47.2**	**CAD could surprise coming in at sub US$50bn**
% of GDP	-2.3	-2.8	-2.7	-4.2	-4.8	-2.3	-2.3	IHFY14 CAD at US$27bn
CAPITAL ACCOUNT								
c. Loans	**8.3**	**12.4**	**28.4**	**19.3**	**31.1**	**10.0**	**20.0**	IHFY14 Loans at US$3.2bn
External assistance	2.4	2.9	4.9	2.3	1.0	1.0	2.0	Upside if infrastructure and Public sector financial
Commercial borrowings	7.9	2.0	12.5	10.3	8.5	6.5	12.0	Institutions raise quasi sovereign bonds
Short-term credit	-2.0	7.6	11.0	6.7	21.7	2.5	6.0	
d. FDI (Net = a-b)	**22.4**	**18.0**	**9.4**	**22.1**	**19.8**	**20.0**	**18.0**	IHFY14 FDI at US$13.4bn
(a) FDI - To India	41.7	33.1	25.9	33.0	27.0	31.0	33.0	
(b) FDI - Abroad	-19.4	-15.1	-16.5	-10.9	-7.1	-11.0	-15.0	
e. Portfolio invst (	**-14.0**	**32.4**	**30.3**	**17.2**	**26.9**	**3.0**	**13.0**	IHFY14 Portfolio Outflows at -US$6.8bn
f. Banking Capital	**-3.2**	**2.1**	**5.0**	**16.2**	**16.6**	**34.0**	**12.0**	
NRI deposits	4.3	2.9	3.2	11.9	14.8	28.0	11.0	IHFY14 Banking Capital at US$12bn
g. Rupee debt service	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.4**	**-0.4**	
h. Other capital* **	**-5.9**	**-13.2**	**-11.0**	**-6.9**	**-5.0**	**-10.0**	**1.0**	
2.Capital a/c (c+d+e+f+g+h)	**7.4**	**51.6**	**62.0**	**67.8**	**89.3**	**56.6**	**63.6**	IHFY14 Capital Flows at US$15bn
Errors & Omissions	0.4	0.0	-3.0	-2.4	2.7	0.0	0.0	
Overall balance (1+2)	**-20.1**	**13.4**	**13.1**	**-12.8**	**3.8**	**13.7**	**16.4**	IH FY14 Overall Balance at –US$10.7bn
Forex								
Forex assets	241.6	252.8	273.7	260.9	264.7	278.4	294.8	
FCA to months of imports (Rhs)	9.4	10.1	8.6	6.3	6.3	6.9	6.7	
Exchange rate								
Rs/US$ - annual avg	46.0	47.4	45.6	48.1	54.0	61.1	62.3	
% depreciation	14.4	3.0	-3.8	5.5	12.3	13.1	2.0	

***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

Direction and Composition of Trade

Figure 59. India — Composition of Imports (US$bn, %)

	FY09	FY10	FY11	FY12	FY13	FY14*
Petroleum crude& products	93.7	87.1	106.0	155.0	169.3	98.3
% to total	31.1	30.3	28.7	31.7	34.5	36.5
% YoY	17.6	-7.0	21.6	46.2	9.3	2.0
Capital goods	48.5	44.5	51.7	66.1	60.5	30.6
% to total	16.1	15.4	14.0	13.5	12.3	11.4
% YoY	-2.8	-8.2	16.3	27.7	-8.5	-9.2
Gold & Silver	22.8	29.6	42.5	61.4	55.7	24.5
% to total	7.6	10.3	11.5	12.5	11.3	9.1
% YoY	27.5	29.9	43.5	44.5	-9.3	-12.9
Pearls precious stones	16.6	16.2	34.6	28.0	22.6	15.1
% to total	5.5	5.6	9.4	5.7	4.6	5.6
% YoY	108.0	-2.5	114.0	-19.0	-19.3	12.4
Chemicals, related products	29.2	23.5	28.3	36.7	35.4	21.1
% to total	9.7	8.2	7.7	7.5	7.2	7.8
% YoY	56.7	-19.7	20.7	29.6	-3.6	-2.4
Electronic Goods	23.4	21.0	26.6	32.6	31.4	18.9
% to total	7.8	7.3	7.2	6.7	6.4	7.0
%YoY	15.8	-10.3	26.6	22.8	-3.6	3.3
Food & related items	5.8	10.0	10.1	13.2	15.9	7.5
% to total	1.9	3.5	2.7	2.7	3.2	2.8
% YoY	8.3	72.9	1.4	30.6	19.6	-18.4
Other non-POL items	52.3	46.8	57.5	81.0	76.5	41.9
% to total	17.3	16.3	15.6	16.6	15.6	15.6
% YoY	24.4	-10.4	22.8	40.8	-5.6	-6.8
Other commodities	6.8	6.7	9.0	11.4	19.4	8.9
% to total	2.2	2.3	2.4	2.3	3.9	3.3
% YoY	17.3	-0.5	33.8	26.5	70.1	-19.4
TOTAL IMPORTS	**301.5**	**288.0**	**369.6**	**489.3**	**490.6**	**269.1**
% YoY	20.7	-4.5	28.3	32.4	0.3	-3.5

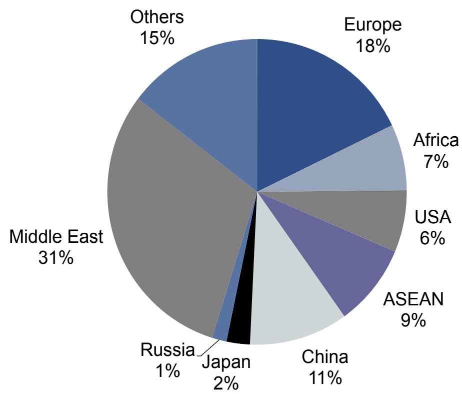
*FY14 numbers are from Apr-Oct ; Source: CMIE ,RBI

Figure 60. India — Composition of Exports (US$bn, %)

	FY09	FY10	FY11	FY12	FY13	FY14*
Engineering goods	47.0	38.1	58.1	66.9	64.9	38.7
% to total	25.7	21.4	23.1	22.0	21.6	21.8
%YoY	26.3	-18.9	52.3	13.9	-3.1	4.4
Petroleum, crude prods	26.9	28.0	41.4	55.4	60.2	37.3
% to total	14.7	15.7	16.5	18.2	20.0	21.1
%YoY	-5.3	4.3	47.8	51.8	8.6	22.0
Gems & Jewellery	28.0	29.0	40.5	46.9	43.4	24.5
% to total	15.3	16.3	16.1	15.4	14.5	13.8
%YoY	42.2	3.6	39.5	46.9	-7.4	-3.4
Agri, allied products	17.6	17.7	24.2	37.4	40.6	22.1
% to total	9.6	10.0	9.7	12.3	13.5	12.4
%YoY	-4.8	1.1	36.4	53.0	8.6	-2.0
Chemicals & related	17.3	17.4	21.3	26.9	29.5	17.2
% to total	9.5	9.7	8.5	8.8	9.8	9.7
%YoY	11.3	0.4	22.7	27.9	9.6	4.7
Textiles (incl RMG)	20.0	19.9	24.2	28.0	27.3	17.6
% to total	10.9	11.1	9.7	9.2	9.1	9.9
%YoY	3.2	-0.9	21.9	22.7	-2.4	16.1
Ores & minerals	7.8	8.7	8.6	8.1	5.6	3.1
% to total	4.3	4.9	3.4	2.7	1.9	1.8
%YoY	-14.4	11.0	-0.4	-18.4	-31.8	-6.7
Other manuf goods	11.0	10.9	13.9	18.0	18.5	11.4
% to total	6.0	6.1	5.5	5.9	6.2	6.4
%YoY	-1.4	-0.7	27.6	29.6	2.9	9.3
Other commodities	7.5	8.6	18.6	16.7	10.3	5.5
% to total	4.1	4.8	7.4	5.5	3.4	3.1
%YoY	86.9	15.2	115.0	-10.2	-38.3	41.0
TOTAL EXPORTS	**183.1**	**178.3**	**250.8**	**304.3**	**300.2**	**177.3**
% YoY	12.3	-2.6	40.6	21.3	-1.4	7.7

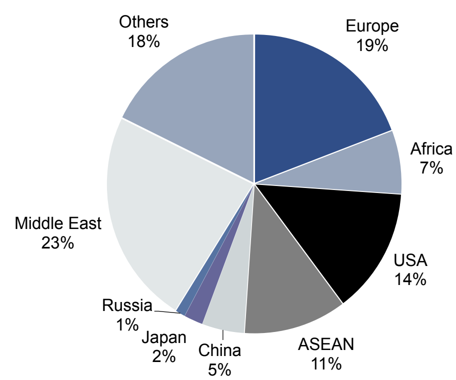
*FY14 numbers are from Apr-Oct ; Source: CMIE ,RBI

Figure 61. Direction of Imports FY13



Source: DGCI&S, CMIE

Figure 62. Direction of Exports FY13



Source: DGCI&S, CMIE

Global Forecasts

Figure 63. Selected Countries — Economic Forecast Overview (Percent) 2013F-2017F

	GDP Growth					CPI					Short Term Interest Rates				
	2013F	2014F	2015F	2016F	2017F	2013F	2014F	2015F	2016F	2017F	2013F	2014F	2015F	2016F	2017F
Global	**2.4**	**3.1**	**3.3**	**3.5**	**3.5**	**2.6**	**3.0**	**3.0**	**3.4**	**3.5**	**2.20**	**2.28**	**2.52**	**3.02**	**3.52**
Industrial Countries	**1.1**	**2.0**	**2.1**	**2.3**	**2.1**	**1.3**	**1.7**	**1.6**	**1.5**	**1.6**	**0.42**	**0.34**	**0.45**	**1.04**	**1.73**
United States	1.7	2.7	3.1	3.2	2.7	1.1	1.8	2.0	2.2	2.3	0.25	0.25	0.41	1.50	2.70
Japan	1.8	1.6	0.9	1.2	1.2	0.3	2.3	1.4	1.6	0.7	0.10	0.10	0.10	0.10	0.10
Euro Area	-0.4	0.9	1.0	1.3	1.4	1.3	0.9	0.7	1.1	1.6	0.50	0.06	0.00	0.06	0.50
Emerging Markets	**4.6**	**4.9**	**5.0**	**5.3**	**5.4**	**4.7**	**5.0**	**5.2**	**5.1**	**5.1**	**4.99**	**5.19**	**5.60**	**5.91**	**6.08**
China	7.6	7.3	7.0	7.5	7.3	2.7	3.3	3.7	3.8	4.0	3.00	3.03	3.63	3.88	4.25
India	**4.8**	**5.6**	**6.7**	**7.3**	**7.4**	**6.5**	**6.0**	**5.0**	**5.0**	**5.0**	**7.75**	**8.00**	**8.00**	**8.00**	**8.00**
Indonesia	5.7	5.3	5.5	5.7	5.9	7.1	6.6	5.7	5.4	5.3	4.88	6.00	6.44	6.25	6.00
Turkey	3.5	3.5	3.6	3.8	4.0	7.5	7.3	6.9	6.5	6.1	6.08	7.80	9.13	9.06	8.63
South Africa	1.9	2.8	3.5	3.9	3.7	5.8	5.6	5.5	5.8	6.0	5.00	5.00	5.75	6.50	6.50
Brazil	2.6	2.0	2.0	2.5	3.0	6.2	6.0	5.7	5.5	5.5	8.44	10.73	11.90	11.50	11.00
Mexico	1.2	3.8	4.0	4.4	4.5	3.8	4.0	3.7	3.6	3.6	3.94	3.50	3.94	5.40	6.42

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, *Global Economic Outlook and Strategy, 2nd December 2013*

Figure 64. Selected Countries — Economic Forecast Overview (Percent) 2013F-2017F

	Current Balance (Pct of GDP)					Fiscal Balance (Pct of GDP)					Government Debt (Pct of GDP)				
	2013F	2014F	2015F	2016F	2017F	2013F	2014F	2015F	2016F	2017F	2013F	2014F	2015F	2016F	2017F
Global	**0.7**	**0.7**	**0.6**	**0.3**	**0.1**	**-3.7**	**-3.2**	**-2.7**	**-2.5**	**-2.4**	**88**	**86**	**86**	**85**	**84**
Industrial Countries	**-0.2**	**0.1**	**0.2**	**0.1**	**0.0**	**-4.8**	**-3.8**	**-3.1**	**-2.9**	**-2.6**	**116**	**114**	**115**	**115**	**114**
United States	-2.3	-2.0	-1.7	-1.8	-1.7	-5.8	-4.6	-3.9	-3.9	-3.8	106	107	107	106	106
Japan	0.9	1.6	1.7	1.5	1.3	-9.8	-8.0	-6.2	-5.8	-5.4	244	246	251	255	258
Euro Area	2.2	2.6	2.6	2.5	2.3	-3.0	-2.6	-2.2	-2.1	-2.0	96	98	99	99	99
Emerging Markets	**1.9**	**1.6**	**1.1**	**0.5**	**0.1**	**-2.0**	**-2.2**	**-2.1**	**-1.9**	**-2.1**	**42**	**42**	**42**	**41**	**40**
China	2.2	2.0	1.5	0.8	0.5	-2.0	-2.0	-1.5	-1.5	-1.5	45	45	44	43	41
India	**-2.3**	**-2.3**	**-2.4**	**-2.2**	**-2.1**	**-6.7**	**-6.4**	**-6.2**	**-5.9**	**-5.6**	**67**	**66**	**64**	**62**	**61**
Indonesia	-3.5	-2.8	-2.3	-2.1	-2.0	-2.1	-1.8	-1.7	-1.9	-2.0	25	26	25	25	25
Turkey	-7.0	-6.3	-5.8	-5.4	-5.0	-1.2	-2.8	-3.2	-3.3	-3.3	37	37	37	36	35
South Africa	-7.1	-5.7	-5.3	-4.7	-4.6	-4.4	-4.3	-4.4	-4.2	-4.0	46	47	49	50	49
Brazil	-3.5	-3.4	-3.1	-3.1	-3.1	-3.6	-3.9	-2.7	-3.2	-3.2	59	60	60	60	60
Mexico	-1.7	-1.9	-1.7	-1.3	-1.4	-2.4	-3.5	-2.5	-2.0	-2.0	38	38	38	37	37

Note: US debt and deficit figures are for Fed govt only. All other countries are general government debt and deficits. Source: Citi Research, *Global Economic Outlook and Strategy, 2nd December 2013*

Figure 65. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent) 2013F-2017F

	10-Year Yields					Exchange Rates Versus U.S. Dollar*				
	2013F	2014F	2015F	2016F	2017F	2013F	2014F	2015F	2016F	2017F
United States	2.30	3.04	3.55	3.85	4.15	NA	NA	NA	NA	NA
Japan	0.71	0.59	1.00	1.25	1.50	98	104	105	105	105
Euro Area	1.60	1.80	2.00	2.25	2.50	1.32	1.39	1.40	1.40	1.40
China	3.90	4.02	4.40	4.77	5.15	6.14	6.05	6.01	6.01	6.03
India	**8.25**	**8.50**	**8.50**	**8.50**	**8.50**	**59.95**	**62.98**	**59.26**	**56.97**	**55.57**
Indonesia	7.37	8.39	8.75	8.75	8.75	10737	11795	11199	10633	10133
Turkey	NA	NA	NA	NA	NA	1.96	2.09	2.08	2.05	2.03
South Africa	7.20	7.73	8.04	8.14	8.38	9.85	10.36	10.29	10.31	10.39
Brazil	9.73	12.75	14.25	13.13	11.75	2.19	2.42	2.49	2.43	2.34
Mexico	5.60	6.56	7.12	7.46	7.95	12.8	12.6	12.4	12.3	12.3

Source: Citi Research; *Global Economic Outlook and Strategy, 2 December 2013*

Appendix A-1

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