

India Macroscope

Murphy's Law at Play?

- **Murphy's Law and India Macro** — The stars just don't seem to be aligning for India, with almost all the growth drivers being hit. (1) Drought fears are coming true, (2) Politics and policies are still not conducive for investments, (3) Power outages are taking their toll on growth, (4) Confidence is low and consumption has begun to splutter, and (5) Exports are more sensitive to global demand than the weaker INR.
- **Impact on growth, higher than anticipated** — While we've been highlighting the risk of sub-par monsoons shaving off 40-80bps from our earlier 6.4% GDP estimate for FY13, the macro — both domestic and global — has become grimmer. We are revising our FY13 and FY14 GDP growth estimates to 5.4% and 6.2% respectively from 6.4% and 6.9% earlier. Key to note is that, if drought conditions worsen, headline growth could come in lower at 4.9%.
- **Other forecast changes – the good and the bad:** (1) **Inflation and Rates** — Pressure on food prices likely to result in avg inflation higher at 8% vs 7.5%. We thus lower our rate cut call from 50-75bps to 50bps. (2) **Fiscal Deficit** — Slippages on expenditure (subsidies/drought relief) and revenues (tax/divestments) to result in headline deficit at 5.9% v/s 5.5% previously. (3) **Current Account** — Exports to contract, but a sharper fall in imports likely to improve CAD to US\$55bn (3% of GDP v/s 3.5% earlier) from US\$78bn or 4.2% in FY12, thus supporting the INR.
- **The sun always rises, though** — We maintain our view that the India story is 'dented' but not 'broken'. The structural drivers, namely a domestic-driven economy, demographics and relatively high saving rates, still exist. However, we believe the government needs to get down to serious business with more action to stem a further deceleration in growth. We re-iterate our view that while a change in guard in the Finance Ministry is positive, actions may be less than words given the continuation of the dual leadership model and all eyes on the next polls.

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Figure 1. India — Macro Snapshot (%)

Year -end 31 March	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Real GDP growth (%)	9.6	9.3	6.7	8.4	8.4	6.5	5.4	6.2
Agriculture growth (%)	4.2	5.8	0.1	1.0	7.0	2.8	-1.9	3.0
Industry growth (%)	12.2	9.7	4.4	8.4	7.2	3.4	3.9	4.4
Services growth (%)	10.1	10.3	10.0	10.5	9.3	8.9	7.8	7.8
Fiscal Deficit (Centre+States)	-5.4	-4.1	-8.4	-9.7	-8.3	-8.4	-8.4	-8.0
Current Account Deficit	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-3.0	-2.1
WPI (Average)	6.5	4.8	8.0	3.6	9.6	8.8	8.0	7.0
INR/USD (Average)	45.2	40.2	46.0	47.4	45.6	48.1	55.0	54.0

Source: CSO, Budget Documents, RBI, Citi Research

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

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Statistical Snapshot

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

Year to 31 March	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
National Income Indicators*														
Nominal GDP (Rs bn)	21,840	23,676	25,500	28,617	32,422	36,934	42,947	49,871	56,301	64,574	76,741	88,558	101,399	116,609
Nominal GDP (US\$ bn)	478	493	528	623	720	834	950	1,241	1,224	1,362	1,684	1,841	1,844	2,159
Per Capita GDP (US\$)	469	474	500	582	662	754	847	1,090	1,061	1,163	1,416	1,526	1,505	1,711
Real GDP growth (%)	4.3	5.5	4.0	8.1	7.0	9.5	9.6	9.3	6.7	8.4	8.4	6.5	5.4	6.2
Agriculture growth (%)	0.0	6.0	-6.6	9.0	0.2	5.1	4.2	5.8	0.1	1.0	7.0	2.8	-1.9	3.0
Industry growth (%)	6.0	2.6	7.2	7.3	9.8	9.7	12.2	9.7	4.4	8.4	7.2	3.4	3.9	4.4
Services growth (%)	5.4	6.9	7.0	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.3	8.9	7.8	7.8
By Demand * (%YoY)														
Consumption	3.0	5.3	2.3	5.4	2.3	8.6	7.9	9.3	7.6	8.1	8.1	5.4	5.0	5.7
Pvt Consm	3.4	6.0	2.9	5.9	2.1	8.5	8.7	9.2	7.1	7.0	8.1	5.5	5.0	5.5
Public Consm	0.9	2.3	-0.4	2.6	3.4	8.9	3.8	9.6	10.4	14.3	7.8	5.1	5.0	7.0
Gross Fixed Capital Formn	0.0	7.4	6.8	13.6	20.7	16.2	13.8	16.2	3.5	6.8	7.5	5.5	4.5	6.0
Cons; Invst, Savings ** (%GDP)														
Consumption	78.5	78.9	77.2	75.0	70.3	69.3	68.3	67.4	68.8	69.4	68.4	67.7	67.0	67.0
Gross Capital Formation	23.8	22.3	24.6	26.9	32.8	34.7	35.7	38.1	34.3	36.1	35.8	35.5	35.0	35.0
Gross Domestic Savings	23.2	22.9	25.7	29.1	32.4	33.4	34.6	36.8	32.0	33.8	32.3	32.0	32.5	33.0
Real Indicators (%YoY)														
Cement dispatches (domestic)	-1.9	9.8	8.7	5.8	8.1	10.1	10.2	9.8	8.5	11.2	5.2	7.0	8.0	9.0
Commercial vehicle sales	-11.9	-4.5	40.4	37.5	25.5	12.3	32.2	5.8	-22.3	39.2	27.0	19.5	5.0	10.0
Car sales	-5.3	3.2	5.3	32.1	19.2	7.4	19.7	11.7	7.0	25.7	29.3	3.9	5.0	20.0
Two-wheelers	0.7	15.3	15.8	12.6	16.8	15.0	12.1	-4.8	4.7	25.8	25.8	13.9	6.0	10.0
Diesel consumption	-3.4	-3.7	0.3	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	8.0	8.0	8.0
Mobile Tele density	0.3	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	81.9
Monetary Indicators (% YoY)														
Money supply	16.8	14.1	14.7	16.8	12.0	21.4	21.3	21.1	19.3	16.7	16.0	16.0	16.0	17.0
Inflation – WPI (Avg)	7.1	3.6	3.4	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	8.0	7
CPI (Avg)	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	8.0	7
Bank credit growth	17.3	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	17.0	17.0
Deposit growth	18.4	14.6	16.1	17.5	13.0	24.0	23.8	22.4	19.9	17.0	16.0	16.0	16.0	16.0
Fiscal Indicators (% GDP)														
Centre's fiscal deficit)	-5.4	-6.0	-5.7	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.9	-5.9	-5.9	-5.5
State fiscal deficit	-4.0	-4.0	-3.9	-4.2	-3.3	-2.4	-1.8	-1.5	-2.4	-2.9	-2.7	-2.5	-2.5	-2.5
Combined deficit (Centre+State)	-9.2	-9.6	-9.2	-8.2	-7.2	-6.5	-5.4	-4.1	-8.4	-9.7	-8.3	-8.4	-8.4	-8.0
Off Balance Sheet Items	-	-	-	-	-	-0.5	-0.9	-0.6	-1.7	-0.2	-	-	-	-
Combined liabilities (dom+ext)	77.1	82.0	85.5	85.4	85.2	83.0	79.3	76.1	76.1	75.0	71.3	70.5	69.2	69.2
External Sector (% YoY)														
Exports (US\$bn)	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	303.6	327.9
% YoY	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-2.0	8.0
Imports (US\$bn)	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	477.1	505.7
%YoY	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	-4.5	6.0
Trade deficit (US\$bn)	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-173.5	-177.8
Invisibles (US\$bn)	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	111.6	118.4	131.7
Current Account Deficit (US\$bn)	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-55.1	-46.1
% to GDP	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-3.0	-2.1
Capital Account (US\$bn)	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	51.6	62.0	67.8	55.6	54.6
% GDP	1.9	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.7	3.7	3.0	2.5
Forex Assets (excl gold) (US\$bn)	39.6	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	260.9	261.4	269.9
Months of imports	8.2	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	6.3	6.6	6.4
External Debt (US\$bn)	101.3	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	261.0	305.9	345.8	360.8	375.8
Short Term Debt	3.6	2.7	4.7	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	78.2	83.2	88.2
Exchange Rate														
US\$/INR - annual avg	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	55.0	54.0
% depreciation	5.3	5.0	0.6	-5.0	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	14.3	-1.8
US\$/INR - year end	46.5	48.9	47.5	43.6	43.8	44.6	43.6	40.1	50.7	44.9	44.6	50.3	55.0	53.1
% depreciation	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.3	-8.0	26.4	-11.4	-0.7	12.8	9.3	-3.5

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

Theme: Murphy's Law and India's Macro

The stars just don't seem to be aligning for India

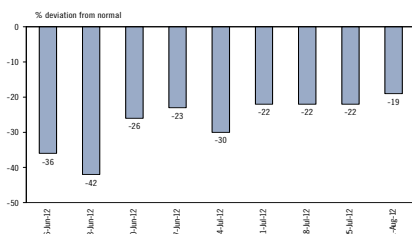
At the start of 2012, the investment community had largely resigned to growth trending in the 6%-7% range. However, since then, a confluence of factors such as rising deficits (see [India Macroscope - Deficits – Not Twins, But Quadruplets](#) 30 April 2012) has resulted in expectations being pared further to the 5%-6% range with growing talk of a possibility of a sub 5% GDP print in the coming quarters.

Drought fears coming true

19% Rainfall Deficiency; Low Water Reservoir Levels

Rains have played truant with latest data indicating a deficiency of 19% as on 1 August. While this will likely impact the summer crop (sowing down 14%), the deficient rains have impacted water reservoir and ground water levels, thus raising fears of an adverse impact on the winter crop. 2012 is not yet 'officially' called a drought year, (a situation wherein the overall rainfall deficiency is more than 10% of the LPA and more than 20% of the agricultural area is affected). However, given the 19% rainfall deficiency in June-July coupled with the IMD's estimate of a 9% rainfall deficiency in Aug-Sept, we expect 2012 to be eventually declared a drought year.

Figure 3. Trends in Rainfall Deficiency (%)



Source: IMD

Drought year is when rainfall deficiency is more than 10% of LPA and more than 20% of the agricultural area is impacted

The **summer crop** is sown during end June-early Aug and harvested in Oct-Nov. These crops are rain dependent, account for 51% of agri produce...and include rice, oilseeds, and pulses

The **winter crop** is sown in Nov and is harvested by Mar. Ground water availability and adequate soil moisture are essential requirements for a good winter harvest. These include wheat, pulses, barley, gram and mustard

The last all-India drought year was in 2009...

The impact on growth was muted largely due to offsets such as the stimulus post the GFC and election-related spending ...

...this time the impact could be higher due to adverse global weather conditions and a relatively weaker domestic macro environment

Figure 4. Trends in Rainfall, Agr & GDP Growth and Foodgrain in All India Drought Years

Drought Years	Rainfall % Deviation from LPA	Agri Growth (%YoY)	GDP Growth (%YoY)	Total Prodn		Kharif (Summer)		Rabi (Winter)	
				Mn Tons	%YoY	Mn Tons	%YoY	Mn Tons	%YoY
1965	NA	-11	-3.1	72.4	-19	NA	NA	NA	NA
1966	NA	-1.4	1.4	74.2	2.6	NA	NA	NA	NA
1968	NA	-0.2	2.6	94	-1.1	59.6	-2	34.4	0.4
1972	-22.3	-5	-0.2	97	-7.7	58.6	-6.9	38.4	-9
1974	-14	-1.5	1.2	99.8	-4.6	59.1	-12.9	40.7	10.6
1979	-17.2	-12.8	-4.8	109.7	-16.8	63.3	-19	46.4	-13.7
1982	-10.2	-0.3	3.0	129.5	-2.8	69.9	-11.9	59.6	10.6
1985	-0.8	0.3	4.3	150.4	3.4	85.3	0.9	65.2	6.8
1986	-11.1	-0.4	4.5	143.4	-4.7	80.2	-5.9	63.2	-3
1987	-14.8	-1.6	3.6	140.4	-2.1	74.6	-7	65.8	4.1
2002	-20.0	-6.6	4.0	174.8	-17.9	87.2	-22.2	87.6	-13.1
2009	-29.0	1.0	8.4	234.5	1.6	118.1	-2.2	116.3	5.9
2012*E	-19	-1.9	5.4	NA	NA	NA	NA	NA	NA

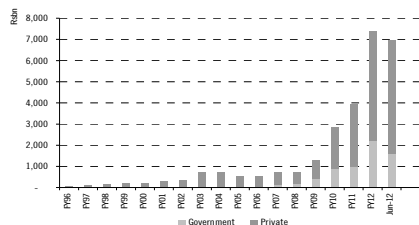
Based on rainfall data as of 1 Aug. Source: IMD, Ministry of Agriculture

Economy not yet water proof; 2012 drought likely worse than 2009

Despite structural changes in the economy, a dwindling share of the agri sector (15% of GDP currently vs 40% in the past), mitigating factors such as NREGA and use of gold as a collateral, the economy is not yet water-proof. The reasons being (1) Agriculture employs ~50% of the workforce, (2) Only ~36% of India's land area is irrigated, and (3) Rainfall correlation with private consumption (0.4). As mentioned in our earlier notes, a sub-par monsoon is negative for growth, inflation and the deficit. (See [Monsoon Watch – Clear Skies, Cloudy Outlook](#) 22 June 2012).

Moreover, unlike the 2009 drought, where the impact on the economy was muted, given the current macro environment, we believe that 2012's truant rains could take a bigger toll. Reasons include: (1) 2009 benefited due to (a) implementation of the pay commission recommendations and (b) election-related spending such as the farm waiver. (2) Current weather conditions across the world are adverse, which could put further pressure on prices, (3) Comfort levels on forex front are lower at 6.6 months of import cover vs 10 months in 2009.

Figure 5. Trends in projects under implementation which have been stalled



Source: CMIE

Politics and policies still not conducive for investments

Over the last 18 months, markets have become increasingly disillusioned with the pace of reform, with a number of investment projects stalled and corruption allegations tainting the incumbent government. Moreover, as seen in UP, and several other states, particularly West Bengal, Punjab, Orissa, Bihar, the emerging political prototype is something to watch out for.

Two consequences: (1) The lacklustre performance of both the Congress and the BJP in recent state elections, coupled with the emerging popularity of regional parties has raised chatter of the possibility of mid-term elections and the formation of a third front, (2) Given its recent drubbing in state polls, Congress has become more cautious – playing it safe economically and politically and staying away from any big-ticket reforms. Indeed, closer to the next general elections (i.e. in 2014), if history is any guide, we could see more concessions being doled out, which could result in further fiscal slippages and a move further away from reform.

The small ray of hope is the change in guard in the Finance Ministry. As mentioned in [India Macroscope Reforms – Rearguard Not Roaring](#) 5 July 2012, we see greater action, but not as much as the market may be inferring. Structurally, not much has changed: the dual leadership model in the government remains intact and consequently non-populist reforms may not be implemented. Nonetheless, as highlighted by Venkatesh Balasubramaniam, our capital goods analyst, the recent push by the PMO on the infrastructure front is positive and could make the environment conducive for investment (see Figure 6).

Figure 6. PM's Infra Push

1-Jun	Investment tracking system for both private and public sector projects above Rs10bn
6-Jun	Target set for infrastructure sector projects with a problem-resolution mechanism
12-Jun	Institutional mechanism for monitoring PPP projects
16-Jul	Committee formed to push private investment in inland waterways
19-Jul	Project clearance board to be set up under Cabinet Secretary for faster clearances
27-Jul	Road map drawn for flagship projects in railways, civil aviation and shipping
2-Aug	Relaxations in the transfer policy for government-owned land

Source: Citi Research

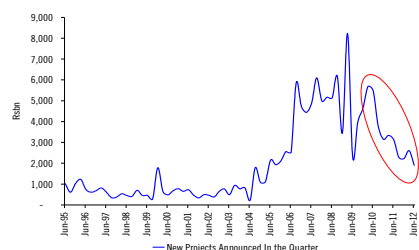
Power outage taking its toll on growth

The recent grid collapse which plunged ~50% of the country into darkness for two consecutive days was largely a result of over-drawal of electricity by UP, Haryana and Punjab. This, coupled with anecdotal evidence of worsening power shortages with a few states proposing a three-day per week cut of power could take a further toll on growth. This reflects the urgent need to get investments back on track.

As highlighted by our capital goods team (see [Scheduled Notified Power Cuts at Historic Highs](#) 18 June 2012) due to 11th Plan capacity additions of 51GW vs 21GW in the 10th Plan, India's reported 'base' power deficits have come down from -11% in FY09 to -8.5% in FY12. Peak deficits are down further from -16.6% in FY08 to -11.1% in FY12.

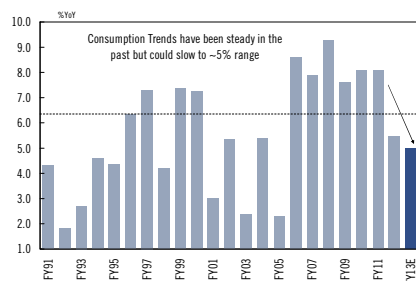
However, the numbers may not be so relevant as (1) they do not capture data on unscheduled power cuts, (2) Notified power cuts are at historic highs, and (3) The data still do not cover the significant population that isn't connected to the grid.

Figure 7. Trends in Project Announcements (Rs bn)



Source: Citi Research

Figure 8. Trends in Consumption (%)



Source: CSO; Citi Research

Figure 9. Trends in NREGA

	FY10	FY11	FY12	FY13*
Total Expenditure (Bns)	379	394	376	94
HH Employed(Mns)	53	55	50	24.4
Person days (Bns)	2.8	2.6	2.1	0.6
SC/ST Participation (%)	51.7	39.8	39.9	38.8
Women (%)	49.2	51.1	50.1	55.6

* Till August: Source: NREGA

Figure 10. Share of Exports

	GDP Growth		% share exports
	2011	2012F	2011
United States	1.7	1.9	11
Japan	-0.7	2.7	2
Euro Area	1.5	-0.6	20
China	9.2	7.9	8
Other Asia	7.3	6.5	6
Latin America	3.9	2.9	4
Africa + Middle East	6.0	4.0	30

Source: Citi Research, GEOS July '12

...And now consumption begins to splutter

While the slowdown on the investment side is well known and priced in, a new worry is the possibility of a greater-than-expected deceleration in the consumption side of the economy, which so far has been clocking stable growth in the 6-8%YoY range. Declining consumer confidence levels could impact urban consumption, while the deficient monsoons could further impact rural consumption. (Rainfall correlation with private consumption is 0.4)

While sales of two-wheelers and durables already indicate a slowdown, recent quarterly results of discretionary consumer companies indicate a similar deceleration. Interestingly, India's biggest fast food restaurant chains - McDonald's, Domino's and Yum Restaurants, which operates Pizza Hut and KFC - have reported slower growth in same-store sales during April-June than earlier quarters.

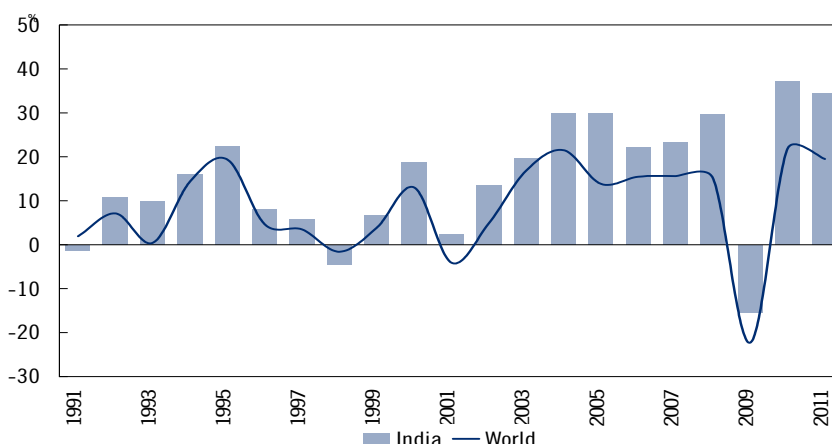
Government Spending: Which Way Could It Go? There are clear signs of a plateauing of govt spending as reflected in 1) Incremental outlay on NREGA which now covers all districts would be limited to the wage indexation; (2) The tapering-out of the effects of the farm loan waiver scheme. However, populist schemes in the run up to the 2014 polls and drought relief measures could result in a step up in government spending.

Exports, global factors offsetting the weaker INR impact

Over the last few years, the share of exports in GDP (including software) has risen to ~20% of GDP and, with ~60% of exports being manufactured goods, this has supported domestic industry. With the fall in the INR, one would expect that to positively impact exports. However, given the composition of India's exports – now dominated by high-value goods rather than textiles/leather products, the weaker INR could have a limited impact, with exports more likely to be affected by global demand (see page 21 for changing composition and direction of exports).

The slowdown in global growth is taking its toll on world trade with the latest data indicating volume growth dropping significantly to 2.3% in April 2012 from a peak of 20% in May 2010. We expect these trends to continue given Citi's sub-par global outlook – where our forecasts remain well below those of the consensus and IMF. Consequently, we expect export growth to be subdued in the coming months.

Figure 11. Trends in World and India Export Growth (Y-o-Y)



Source: Citi Research

Figure 12. GDP Estimates – New and Old

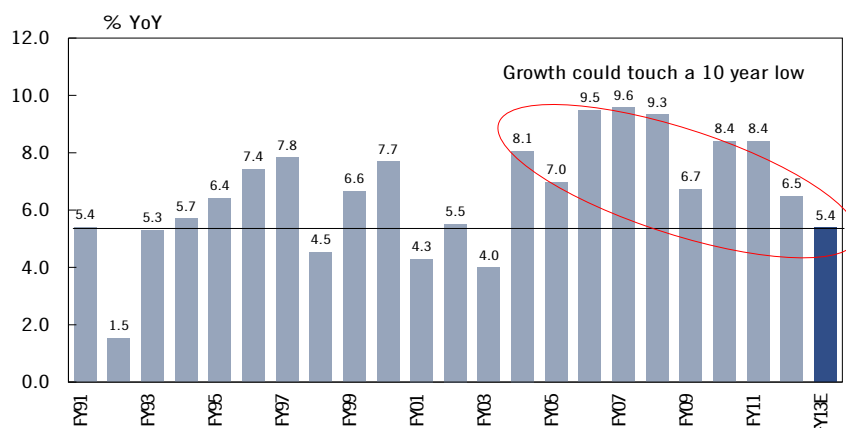
	FY13 (old)	FY13 (new)	FY14 (old)	FY14 (new)
Agriculture	3.0	-1.9	3.0	3.0
Industry	4.1	3.9	4.5	4.4
Services	8.3	7.8	8.9	7.8
GDP	6.4	5.4	6.9	6.2

Source: Citi Research estimates

Bottom Line – Impact on growth, higher than anticipated

While we've been highlighting the risk of sub-par monsoons shaving off 40-80bps from our earlier 6.4% GDP estimate for FY13 since June, the macro – both domestic and global – has worsened. Taking into account the truant rains and negative delta on the key drivers (continued policy impasse impacting investments, declining confidence impacting consumption and global woes taking a toll on exports), we are revising our FY13 and FY14 GDP growth estimates to 5.4% and 6.2% respectively from 6.4% and 6.9% earlier. Key to note is that, if drought conditions worsen, headline growth could come in lower at 4.9%.

Figure 13. Trends in GDP (%)



Source: CSO; Citi Research estimates

Is there Any Hope? We believe that the underlying India story is 'dented' but not 'broken'. The structural drivers, namely a domestic-driven economy, demographics and relatively high saving rates still exist. However, we believe that a number of measures are crucial to stem a further deceleration in growth. As mentioned in our year-ahead piece, [India MacroScope: Tough Times = 12 Tough Tasks to Sustain Growth at ~7% in 2012](#) dated 28 Nov 2011, key among them include incentivizing investments, attracting FX flows, addressing structural issues on inflation, executing proposed fiscal reform, re-vamping the current model of governance, and battling corruption along with electoral reform.

The underlying India story is 'dented' but not 'broken'. The structural drivers, namely a domestic-driven economy, demographics and relatively high saving rates, still exist...

....but given the political landscape, reforms are limited with most investors reconciled to the economy growing at 5%-6% in the next two years

Figure 14. Trends in Annual GDP (%YoY)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Agriculture	5.1	4.2	5.8	0.1	1.0	7.0	2.8	-1.9	3.0
Industry	9.7	12.2	9.7	4.4	8.4	7.2	3.4	3.9	4.4
Services	10.9	10.1	10.3	10.0	10.5	9.3	8.9	7.8	7.8
Consumption	8.6	7.9	9.3	7.6	8.1	8.1	5.4	5.0	5.7
% to GDP	69.9	69.0	68.7	71.1	71.0	70.1	69.1	68.8	68.7
Private Consumption	8.5	8.7	9.2	7.1	7.0	8.1	5.5	5.0	5.5
Public Consumption	8.9	3.8	9.6	10.4	14.3	7.8	5.1	5.0	7.0
Gross Capital Formation	16.2	13.4	18.1	-5.2	15.6	11.1	5.3	5.0	5.1
% to GDP	34.9	36.2	39.0	35.6	38.0	38.5	37.9	37.8	37.4
Fixed Capital Formation	16.2	13.8	16.2	3.5	6.8	7.5	5.5	5.0	6.0
% to GDP	30.5	31.8	33.7	33.5	33.1	32.5	32.0	31.9	31.9
Net Exports (% to GDP)	-3.2	-3.8	-4.7	-7.2	-7.0	-6.0	-7.4	-6.9	-6.2
Real GDP	9.5	9.6	9.3	6.7	8.4	8.4	6.5	5.4	6.2

Source: CSO; Citi Research estimates

Real Indicators

Agri: Rains (-19%), Sowing (-14%) and Reservoirs (30%)

Figure 15. Summer Crop Sowing Data (Mn Hectares, %)

	Norm Area	Jul 2012	% of Norm	% YoY
Total Food grains	71.9	28.0	38.9	-19.2
(i) Rice	39.1	14.5	37.0	-10.3
(ii) Coarse cereals	21.9	9.5	43.6	-24.7
Total Cereals (i+ii)	61	24.0	39.3	-16.7
Pulses	11	4.0	35.9	-31.8
Oilseeds	17.9	10.9	60.8	-10.4
Non-Foodgrains				
Cotton	9.9	8.4	84.6	-9.4
Sugarcane	4.7	5.3	112.4	4.0
Jute	0.8	0.8	103.4	-7.0
All Crops	105.2	53.3	50.7	-13.9

Source: Ministry of Agriculture

Total Reservoir Capacity 154bcm:

Capacity as on Aug 02: 46bcm (30% of full capacity)

Last 10 years avg: 37%

40-50bcm gets replenished during Aug/Sept

While 52% of India's net sown area is dependent on the monsoons, low reservoir levels could impact the balance 48% of the area not dependent on the monsoons

Figure 17. Manufacturing (%YoY, 3mma)



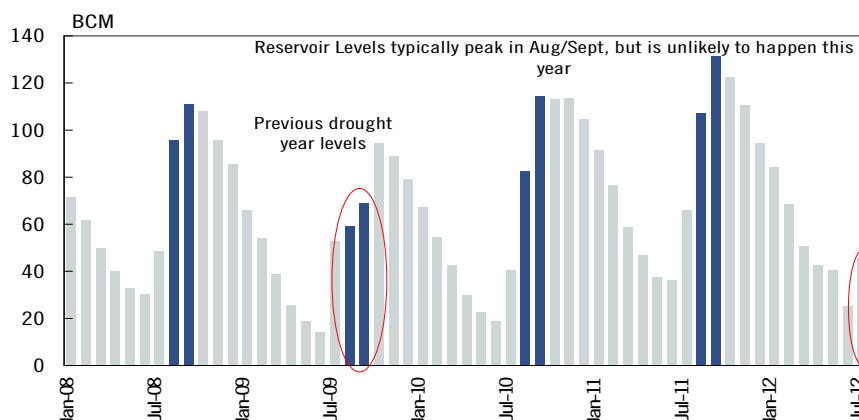
Source: CSO

Rainfall Trends and Estimates: Rainfall deficiency during June-July - the first two months of the monsoons is 19%. More-over, the IMD's third estimate indicates a 9% deficient rainfall for the remaining two months. If this does pan out, and if more than 20% of the agri area is impacted, 2012 will be officially declared a drought year.

Crop Sowing: The summer crop is sown during end June-early August and harvested in the autumn months of October and November. These crops are rain-dependent and the truant rains have taken their toll on cereals (-16.7%YoY), pulses (-31.8%) and oilseeds (-10.4%).

Reservoir Levels: Reservoir levels typically peak in August/September. Given the IMD's estimate of deficient rains in Aug-Sept, replenishment may not be up to capacity this year. This eventually could result in states reducing the supply of water for irrigation, and conserving it for drinking purposes, which could have implications for the winter crop as well.

Figure 16. Water Levels in Reservoirs (Bcm)



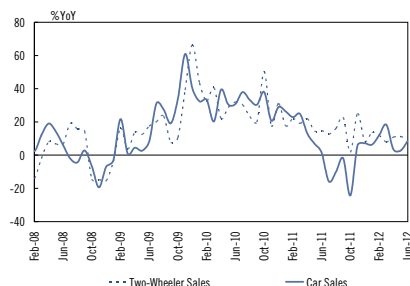
Source: Central Water Commission

Industry – Weak monsoons could offset INR/policies

A weaker INR bodes well for manufacturing – especially the import-substituting industries. Given the ~25% fall in the currency, companies such as Prestige TTK and Bajaj Alliances have indicated that one could see more indigenization. However, this positive impact could be offset by the weak monsoon. These include:

- **Agro-based industries and hydel power** – Sugar and edible oil comprise 3.9% of the IIP while hydel power accounts for ~25% of total power generation.
- **FMCGs** – While industry tracker AC Nielsen has noted that there was some slowdown in rural sales in June, companies aren't validating this trend yet. However, our consumer analyst Jamshed Dadabhoy says the risk of a gradual slowdown / deceleration is definitely possible, in the context of a sharp rise in food prices post monsoons, which would reduce disposable consumer incomes. Ag-flation could impact operating margins of these companies from 4Q onwards.
- **Autos:** On the auto front, our analyst Jamshed Dadabhoy highlights that volumes of 2-wheelers have come off sharply and inventory levels have risen to 4-6 weeks - a good barometer of decelerating rural sales growth. In passenger cars, trends are a bit divergent with diesel passenger cars / SUVs selling far

Figure 18. Trends in Autos (%)



Source: SIAM

more than petrol variants. Within cars, while the lower-end segment has dipped sharply the mid segment continues to grow, indicating that the first-time buyer has deferred purchases, but the replacement cycle remains strong, though.

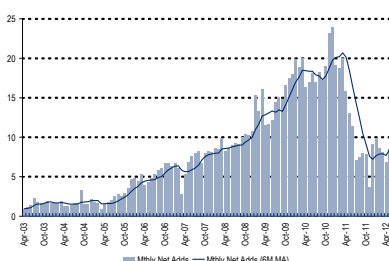
■ **Media:** Surendra Goyal, our media analyst, expects some impact on broadcast media companies, given that around half the revenues come from the consumer segment. However, as raw material prices for consumer products have eased, companies have started using some of those cost savings in higher advertising.

■ **Cement:** Our cement analyst Raashi Chopra believes the weak monsoon has helped current demand/price trends; a drought could impact FY14 demand on the back of lower purchasing power and possible construction constraints due to water shortages (~40% of cement demand comes from rural housing).

Services – Slowdown due to cyclical and structural factors

As seen in Figure 20 below, the services sector growth during FY06 to FY12 has averaged 10%. This helped provide a ~6.5% floor to real GDP growth. FY12 was the first year that services growth fell below 9%, but growth could fall further to sub 8% levels on the back of (1) A cyclical downturn in global trade, (2) Slowdown in banking services, especially insurance premiums, (3) Structural slowdown in communications – given that cellular penetration levels have crossed 80%. The outlier however is community services, due to increased govt spending.

Figure 19. Trends in Monthly Cellular Additions



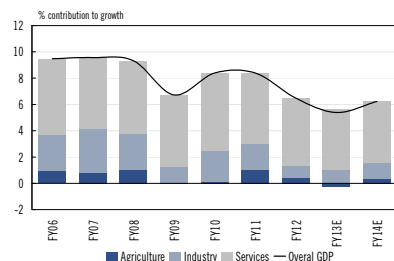
Source: COAI

Figure 20. Trends in GDP Components

	Wts*	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Agriculture	14.0	5.1	4.2	5.8	0.1	1.0	7.0	2.8	-1.9	3.0
Industry	27.0	9.7	12.2	9.7	4.4	8.4	7.2	3.4	3.9	4.4
Manufacturing	15.3	10.1	14.3	10.3	4.3	9.7	7.6	2.5	3.4	4.0
Mining & quarrying	2.1	1.3	7.5	3.7	2.1	6.3	5.0	-0.9	3.0	3.0
Elect. gas & water supply	1.9	7.1	9.3	8.3	4.6	6.3	3.0	7.9	6.0	6.0
Construction	7.8	12.8	10.3	10.8	5.3	7.0	8.0	5.3	4.5	5.0
Services	59.0	10.9	10.1	10.3	10.0	10.5	9.3	8.9	7.8	7.8
Trade, Transport & Comm	28.1	12.0	11.6	10.9	7.5	10.3	11.1	9.9	8.0	7.7
Financing & insurance,	17.9	12.6	14.0	12.0	12.0	9.4	10.4	9.6	8.9	8.4
Community & Social Services	13.0	7.1	2.8	6.9	12.5	12.0	4.5	5.8	5.8	7.0
GDP	100.0	9.5	9.6	9.3	6.7	8.4	8.4	6.5	5.4	6.2

* Weights based on FY12 Source: CSO, Citi Research estimates

Figure 21. GDP by Activity (%)



Source: CSO; Citi Research

Risks of sub 5% GDP are real

Our base case is now that of agri growth at -1.9%, thus resulting in headline GDP coming in at 5.4%. As mentioned earlier, unlike the 2009 drought, where the impact on the economy was muted, given the current macro environment we believe that 2012's truant rains could take a bigger toll. Moreover, if conditions deteriorate to levels seen during the 2002 drought and the global macro takes a turn for the worse, risks of a sub 5% GDP could rise.

Figure 22. Sensitivity of GDP to Agriculture Growth (%)

	Wts*	FY12	Base	FY13E Worst	FY14E
Agriculture	14.4	2.8	-1.9	-5.0	3.0
Industry	27.9	3.4	3.9	3.9	4.4
Services	57.7	8.9	7.8	7.8	7.8
GDP	100.0	6.5	5.4	4.9	6.2

*Wts based on FY12. Source: CSO, Citi Research estimates

Monetary Indicators

Inflation – Upward pressure due to deficient rainfall

Figure 23. Trends in Food Prices (%)

	Wts	Feb-12	Apr-12	Jun-12
Primary Articles	20.1	7.1	9.6	10.5
Food Articles	14.3	6.1	10.9	10.8
Cereals	3.4	1.8	6.8	6.7
Rice	1.8	1.5	6.0	7.5
Wheat	1.1	-4.0	6.0	6.8
Pulses	0.7	7.9	11.3	20.5
Milk	3.2	11.7	15.7	7.3
Fruits and Veggies	3.8	0.5	11.0	17.8
Tea	0.1	0.4	18.5	29.0
Non-Food Articles	4.3	-2.5	1.4	6.8
Fibres	0.9	-29.9	-31.0	-12.7
Oil seeds	1.8	9.4	16.7	18.5
Cotton	0.7	-24.4	-35.0	-15.6
Manf Products	65.0	5.8	5.3	5.0
Mnf Food Products	10.0	5.6	6.4	5.8
Edible Oils	2.8	9.2	11.2	9.8
Oil Cakes	1.4	2.1	9.6	13.8
Fuel Index	14.9	13.6	12.1	10.3
WPI	100.0	7.4	7.5	7.3

Source: Citi Research

A weak monsoon spells concern for primary articles, which comprise 20% of the headline WPI. Due to poor trends in crop sowing, prices of rice, oilseeds, pulses, and coarse cereals have already been impacted, with prices of pulses up 21%, tea +29%, oilseeds +18.5%, while prices of perishable items such as fruits and vegetables have also risen +18%.

The deficient monsoon also impacts trends in manufactured food products which have a weight of 10% in the WPI. This is classified under manufactured product inflation and includes items such as sugar, salt, edible oils, oilcakes and processed tea/coffee. With prices of edible oil cakes (feed-stocks) already up 14%, it could put further pressure on prices of protein-based products which have been impacted by structural factors such as changing dietary patterns.

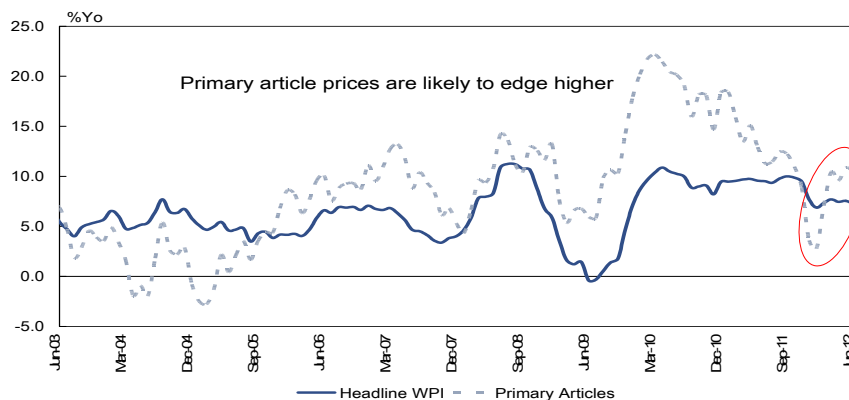
What could be done? We do believe that the government will start (1) Offloading its buffer stock of food-grains. The high food stocks of rice (31 mt) and wheat (50mt) could alleviate the impact on prices, and (2) Resort to imports – though the adverse global weather conditions could make this difficult/expensive. Also, (3) Use non-formal distribution channels such as consumer cooperatives and state civil supplies corporations to provide essential commodities to keep prices in check; and take strong action against hoarding/black-marketeering.

Impact on Headline Inflation: As highlighted earlier, the inflation outlook for 2012 is dependent on the interplay of global and domestic factors. On the global front, key variables to watch are (1) The interplay between currencies and commodity prices – while on the domestic front are (2) moves to lower 'suppressed' inflation. Taking into account the monsoon effect, we expect inflation to average ~8% vs our earlier expectation of 7.5%.

While headline WPI has remained in the 7.5% range over the last few months, food article prices are already in double digits...

....Prices could edge higher as reflected in trends in crop sowing, prices of fruits and vegetables with global weather conditions being an added variable

Figure 24. Trends in Headline WPI and Primary Articles Inflation (% YoY)



Source: Office of the Economic Advisor

Monetary easing a long wait; contingent on gov't action

Key Rates Unchanged; SLR cut a further 'nudge' to the government

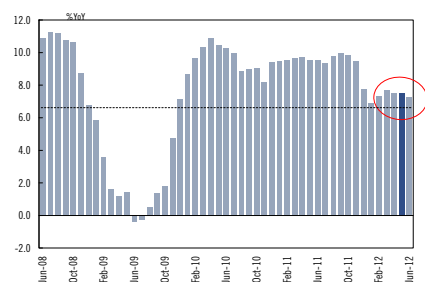
With inflation remaining the key priority and all inflation indices way above the RBI's comfort zone of 4-5%, in line with expectations, the RBI in its latest policy left all rates unchanged (repo at 8%; reverse repo at 7% and CRR at 4.75%). While this was in line with expectations, the RBI maintained its trend of surprising the markets with a 100bps cut in the Statutory Liquidity Ratio (SLR) – i.e the ratio of net demand and time liabilities (deposits) that banks need to invest in G-Secs from 24% to 23%.

Key to note is that while changes in the Cash Reserve Ratio (CRR) – i.e the proportion of deposits held as cash with the RBI – impacts overall system liquidity...

...The SLR cut would increase credit availability to the tune of ~Rs650bn.

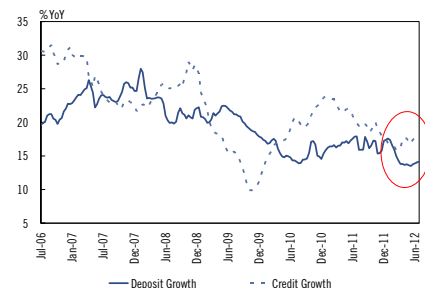
However, given that currently the system as a whole is running with an SLR of ~29%, this move could have a limited impact.

Figure 26. Trends in WPI (%)



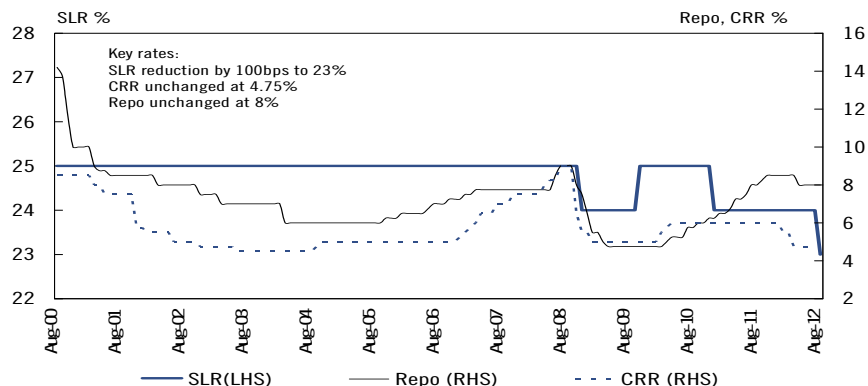
Source: Office of the Econ Advisor

Figure 27. Trends in Deposits and Credit (%)



Source: RBI

Figure 25. India – Trends in SLR, Repo Rate and CRR (%)



Source: RBI

Inflation Remains Top Priority; Govt Action Is Key

Going forward, the RBI's concern on 'sticky' inflation persists due to (1) truant monsoons, (2) increase in momentum of core inflation, (3) reversal of crude price, (4) INR weakness, (5) Retail/wage pressures, (6) Suppressed inflation and (7) the fiscal deficit. A new goalpost of this policy is the output gap, with the RBI stating: "While the current rate of growth is clearly lower than trend, the output gap will remain relatively small. Under these conditions, demand pressures on inflation can re-emerge quickly, exacerbating pressures."

However, interestingly, the RBI has acknowledged that "monetary actions may have contributed to the growth slowdown." But, it has stated that it will stand to act only if multiple constraints to growth are addressed. This once again puts the onus on the gov't to (1) address supply-side constraints and (2) take steps towards fiscal consolidation. Moreover, the 100bps SLR cut in the RBI policy, which is positive for banks, reduces the captive demand for govt bonds, and could also be viewed as a 'further' nudge by the Central Bank to the Centre to get its fiscal house in order. With inflation likely to edge higher, we are lowering our rate-cut call from 50-75bps to 50bps for FY13.

Banking Trends – Reading the Tea Leaves

Loan growth at 17.7% YoY continues to outpace deposits up 14.7% YoY. However, on an incremental basis, trends in deposits have picked up in FY13 with incremental deposits during Apr 1- Jul 13 at Rs3,127bn vs Rs2,147bn in the same period last year. Incremental credit during 1 Apr – 13 Jul at Rs1,126bn vs Rs723bn in last year. However, key to watch in the coming months would be asset quality, given that anecdotal evidence indicates that a large part of loans could be due to ever-greening or difficulty in accessing global markets.

Figure 28. Trends in Bank Credit and Deposits (RsBn, %YoY)

	Outstanding	Increment to date		%YoY	Total			
	March-12	FY13	FY12		FY11	FY10	FY09	
Bank Credit-Food	813	215	122	34.4	170	158	23	18
Non-Food	45,305	912	602	17.4	6,527	6,781	4,670	4,063
Total Bank Credit	46,118	1,126	723	17.7	6,697	6,939	4,692	4,081
Bonds & Debentures	1,349	50	(43)	39.2	286	176	55	11
Deposits	59,091	3,127	2,147	14.8	7,044	7,181	6,525	6,334
GOI Investments	17,366	1,621	1,708	13.6	2,366	1,153	2,183	1,947

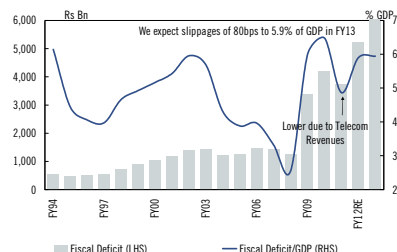
Source: RBI

Fiscal Indicators

Slippages Likely due to both Expenditure and Revenues

Latest Trends in Deficits: India's 1QFY13 fiscal deficit rose to Rs1,905bn or 37% of budget estimates of Rs5,136bn vs an average of ~30% in the last few years. Total revenues during 1Q FY13 were Rs1,211bn, up 23%, in line with the targets, but expenditures rose 19% to Rs3,116bn, higher than the budgeted growth of 13%.

Figure 29. Centre's Fiscal Deficit (Rsbn %)



Source: Budget Documents, Citi Research

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

	Apr-Jun FY13	Apr-Jun FY12	%YoY	Budget Est	% To Total Budget	Budgeted Growth
a. Revenue receipts	1,187	909	30.6	9,357	12.7	22.0
Net tax revenues	1,045	787	32.8	7,711	13.6	20.1
Non-tax	142	122	16.3	1,646	8.6	32.0
b. Non-debt cap receipts	24	76	-68.6	417	5.8	40.0
c. Total receipts (a+b)	1,211	986	22.9	9,773	12.4	22.7
d. Revenue expenditure	2,714	2,255	20.3	12,861	21.1	10.7
e. of which interest	606	502	20.8	3,198	19.0	16.0
f. Capital expenditure	402	357	12.5	2,048	19.6	30.6
g. Total expenditure (d+e)	3,116	2,612	19.3	14,909	20.9	13.1
h. Plan Expenditure	862	841	2.5	5,210	16.5	22.1
i. Non Plan Expenditure	2,254	1,771	27.3	9,699	23.2	8.7
j. Fiscal deficit (g-c)	1,905	1,627		5,136	37.1	
k. Revenue deficit (d-a)	1,527	1,346		3,504	43.6	
l. Primary Deficit (j-e)	1,298	1,125		1,938	67.0	

Source: CGA, Ministry of Finance

Figure 31. Oil Subsidy Mechanism (Rsbn)

	FY12	FY13E	FY14E
Gross under recovery	1,385	1,519	811
Less: upstream sharing	550	608	324
% of Total	40%	40%	40%
Less: oil bonds/cash	835	836	405
% of Total	60%	55%	50%
Net under-recoveries	(0)	76	81
Brent Crude (US\$/bbl)	115	110	96
USD/INR	48.0	54.0	53.0

Source: Citi Research

Expenditure Slippages – Largely Priced in:

The budget has factored in a 12.2% contraction in subsidies. However, the FY13 outlay of Rs436bn on fuel subsidies has been utilized to the tune of Rs385bn as payment of FY12 dues. As seen in Figure 31, our oil analyst Saurabh Handa expects under-recoveries to touch Rs1,519bn, with the gov't's share likely at Rs836bn. This could rise as monsoons have impacted hydel power, thus increasing recourse to DG sets. The assumptions behind the under-recoveries include a hike of Rs4/ltr for diesel, Rs70/LPG cylinder and Rs2/ltr for kerosene (every US\$/bbl changes under-recoveries by Rs30bn; every Rs depreciation increases it by Rs90bn).

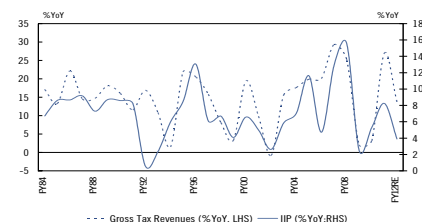
In addition to the fuel subsidy, we could see further pressures on the expenditure front arising due to (1) drought relief measures and (2) higher food subsidies – a result of the increase in MSP's.

Figure 32. Trends in Subsidies (Rs Bn)

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

Source: Budget Documents

Figure 33. Tax Collections and IIP Growth



Source: Budget Documents; CSO

Revenues holding up, but can this sustain?

Current trends in gross/net tax revenues are positive with 1QFY13 trends running ahead of budget estimates. As seen below, this was due to buoyant income/corporate and service tax collections – a result of lower refunds and widening of the service tax, which offset weak trends in excise and customs collections. Consequently, gross tax collections were up 25% - ahead of the budgeted growth of 19.5%.

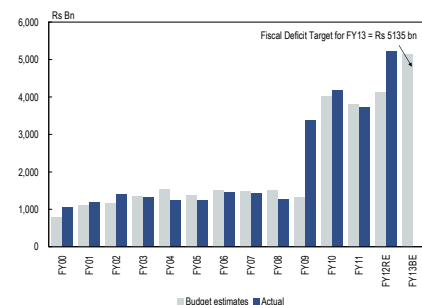
Possibility of revenue slippage rising: Budget estimates are based on real growth of 7.6% and nominal growth of 14%. With inflation likely to exceed 6.5%, nominal GDP growth could be higher. While 1Q FY13 tax collections are positive, moderating real growth estimates could take their toll on tax collections. Moreover, given market/political conditions, the Rs300bn divestment target appears difficult.

Figure 34. Tax Collections – April –June (Rs Bn, %)

	Apr-Jun FY13	Apr-Jun FY12	%YoY	Budget Est FY13	% to Total Budget	Budgeted Growth Rate
Corporate	494	323	53.0	3,732	13.2	13.9
Income	349	249	40.2	1,899	18.4	13.9
Customs	388	392	-1.2	1,867	20.8	22.0
Excise	259	239	8.0	1,937	13.4	29.1
Service	192	137	40.7	1,240	15.5	30.5
Others	19	20	-6.3	101	18.4	9.4
Gross Taxes	1,700	1360	25.0	10,776	15.8	19.5
Devolvement to States	647	567	14.1	3,065	21.1	18.2
Net Taxes	1,045	787	32.8	7,711	13.6	20.1

Source: CGA, Ministry of Finance

Figure 35. Deficit – Targets & Actuals



Source: Budget Documents

FY13 Deficit to rise to 5.9% of GDP; Ratings a Worry

We maintain our view that the FY13 fiscal deficit of Rs5,136bn or 5.1% of GDP is likely to overshoot targets by a minimum of ~40bps to 5.5% of GDP due to the fuel subsidy. However, we now expect the overshoot could be higher by a further ~40bps taking the deficit to 5.9% due to (1) drought-relief measures, (2) higher food subsidy and (3) revenue slippages due to slowing growth and divestments.

Borrowings and OMO's: The govt has so far completed 45% or Rs2540bn of its gross borrowing program for FY13. The 100bps SLR cut in the RBI policy put pressure on yields as it reduces the captive demand for govt bonds, but could be viewed as a 'further' nudge by the Central Bank to the Centre to get its fiscal house in order. Yields could edge higher, if not accompanied by OMO's. A quick recap, fiscal year to date, the RBI has bought bonds worth Rs800bn (Rs 550bn via the auction route and a further Rs250bn via the secondary market).

Rating Watch: With S&P and Fitch already revising the outlook from stable to negative, we believe a lack of measures on fiscal consolidation could impact the overall rating, which is currently at the lowest rung of the investment grade (Baa3/BBB-).

While captive demand for government bonds and the domestically-financed fiscal deficit are positive, what is concerning is the growing recognition that the rise in the deficit is structural rather than cyclical.

Figure 36. India — Sovereign Ratings Snapshot

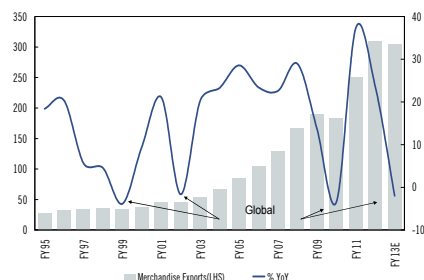
	S&P	Moody's	Fitch
LT Foreign Currency	BBB-	Baa3	BBB-
LT Local Currency	BBB-	Baa3	BBB-
Outlook (FC)	Negative	Stable	Negative

Source: Rating Agencies

External Sector

CAD improves despite likely contraction in FY13 exports...

Figure 37. Trends in Exports (US\$bn, %)



Source: RBI; Citi Research

Oil and Gold together comprise ~40% of India's import bill.

Every US\$1/bbl change in oil prices impacts the CAD by ~US\$900mn

We expect gold demand to come off 40% in FY13 to 505 tonnes v/s 838 tonnes in FY12

Exports: The global slowdown is taking a toll on exports with 1QFY13 exports at US\$75bn, down -2.2 %YoY. As mentioned earlier, given the changing composition of India's exports to high value-add products, such as engineering goods (see page 21), India exports are now more sensitive to global demand rather than the currency. We are further revising our FY13 export growth estimates from 12% to -2%

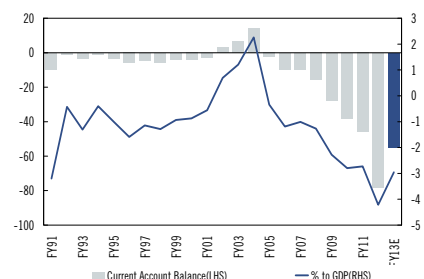
Imports: Despite an increase in the oil import bill, a sharp drop in gold and non-oil imports resulted in 1QFY13 imports coming in at US\$115bn down -6.1YoY. Going forward, while we had factored in the impact of lower oil prices (US\$107/bbl) and falling gold demand (40% lower at 503tonnes), the domestic slowdown appears to be taking a toll on other non-oil imports. We are further revising our FY13 import growth from 7.5% YoY to -4.5%.

Figure 38. Trends in Net Oil and Net Gold Imports (US\$bn, except where specified)

Year	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
OIL								
Oil Price (Indian basket \$/bbl)	63.4	80.2	89.0	70.0	80.0	115.0	107.0	96.0
A. Oil/ Product Imports	59.7	84.7	95.5	89.2	106.8	159.4	157.4	153.8
B. Petroleum product exports	17.8	27.6	27.2	30.5	40.0	60.1	57.7	64.1
Net oil import bill (A-B)	41.9	57.2	68.3	58.7	66.8	99.3	99.7	89.7
GOLD								
Gold Imports –Tonnes	761	704	609	749	933	838	503	
Gold Prices \$/oz	629	765	868	1,025	1,295	1,633	1,600	
Actual Imports	14.5	16.7	20.7	28.6	33.9	51.4	30.0	
Precious Stone Import	7.5	8.0	16.6	16.2	31.3	28.6	30.0	
Total Gold Imports	21.9	24.7	37.3	44.8	65.1	80.0	56.0	
Gems/Jewelry Exports	16.0	19.7	28.0	29.0	40.8	41.6	35.0	
Net Gold Imports	6.0	5.0	9.4	15.8	24.3	38.4	25.0	

Source: Citi Research; CMIE; World Gold Council

Figure 39. Trends in CAD (US\$bn; % to GDP)



Source: RBI; Citi Research

Trade deficit: Taking into account the above, we now expect the trade deficit to come in at US\$173.5bn or 9.3% of GDP vs US\$189.9bn or 10.2% in FY12

Invisibles: Incorporating the recent quarterly results/guidance by the IT majors, we have moderated our estimates for software exports growth from 17% to 10%.

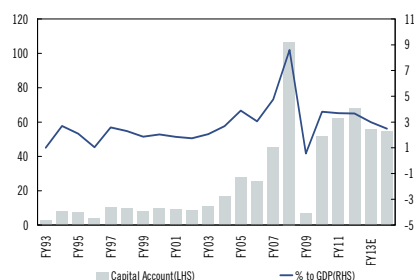
Bottom Line: Inferring from the above, we expect the CAD to narrow to US\$55bn or 3% of GDP vs our earlier estimate of US\$65bn and the record high deficit of US\$78.2bn or 4.2% of GDP seen in FY12.

Figure 40. Trends in Current Account Deficit (US\$bn)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Exports	105.2	128.9	166.2	189.0	182.4	250.5	309.8	303.6	327.9
%YoY	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-2.0	8.0
Imports	157.1	190.7	257.6	308.5	300.6	381.1	499.5	477.1	505.7
%YoY	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	-4.5	6.0
a. Trade balance (RBI)	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-173.5	-177.8
% of GDP	-6.2	-6.5	-7.4	-9.8	-8.7	-7.8	-10.2	-9.3	-8.1
b. Invisibles	42.0	52.2	75.7	91.6	80.0	84.6	111.6	118.4	131.7
Non-factor services	23.2	29.5	38.9	53.9	35.8	48.8	64.1	65.1	70.4
Of which: Software Services	22.7	29.0	36.9	43.5	48.2	53.3	61.0	67.1	75.4
Investment income	-5.9	-7.3	-5.1	-7.1	-8.0	-17.3	-16.0	-15.0	-11.0
Remittances	24.5	29.8	41.7	44.6	52.1	53.1	63.5	68.0	72.0
Official transfers	0.2	0.3	0.2	0.2	0.3	0.0	0.0	0.4	0.4
Current a/c balance (a+b)	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-55.1	-46.1
% of GDP	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-3.0	-2.1

Source: RBI, Citi Research estimates

Figure 41. Trends in Cap A/c (US\$bn; %)



Source: RBI; Citi Research

...But capital flows may not be sufficient to finance CAD

While trends on the current account are improving, the picture on the capital account is not as bright. Key worries are: (a) Lower FDI – largely a result of an un-conducive domestic policy environment; and (b) Commercial borrowings moderating due to global macro blues. Consequently, we expect capital flows to come in at US\$55.6bn, which would be just be enough. However, fears of a sovereign rating downgrade could impact portfolio and raise the cost of borrowing, which could thus result in a second consecutive year in a drawdown of reserves. That said, one buffer could be if the RBI issues a dollar bond - similar to the IMD/RIB issued in 1998/ 2000 respectively.

Figure 42. Trends in Capital Account (US\$bn)

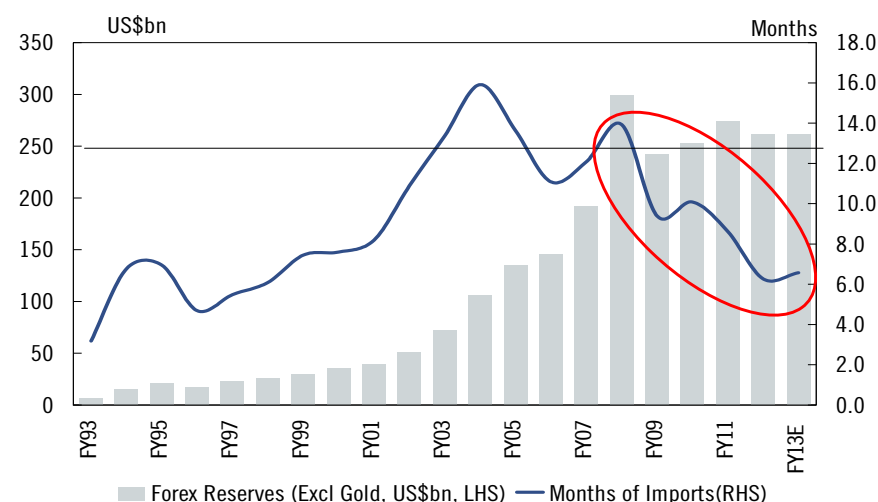
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
a. Borrowings	7.9	24.5	40.7	8.3	12.4	28.4	19.3	19.0	18.0
External Assistance	1.7	1.8	2.1	2.4	2.9	4.9	2.3	2.0	2.0
Commercial Borrowings	2.5	16.1	22.6	7.9	2.0	12.5	10.3	11.0	10.0
Short-term credit	3.7	6.6	15.9	-2.0	7.6	11.0	6.7	6.0	6.0
b. FDI (Net)	3.0	7.7	15.9	19.8	18.0	9.4	22.1	13.0	14.0
c. Portfolio Invst	12.5	7.1	27.4	-14.0	32.4	30.3	17.2	12.0	15.0
d. Banking Capital	1.4	1.9	11.8	-3.2	2.1	5.0	16.2	11.0	7.0
Commercial Banks (Net)	-1.4	-2.4	11.6	-2.8	1.9	4.4	16.0	1.0	1.0
NRI Deposits	2.8	4.3	0.2	4.3	2.9	3.2	11.9	10.0	6.0
e. Rupee Debt Service	-0.6	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4
f. Other capital	1.2	4.2	11.0	-4.0	-13.2	-11.0	-6.9	1.0	1.0
Total Capital A/c	25.5	45.2	106.6	6.8	51.6	62.0	67.8	55.6	54.6

Source: RBI, Citi Research estimates

Reserve accretion unlikely; Import cover below trend

Since the global financial crisis, India's CAD has risen sharply - thanks to oil and gold which comprise ~40% of India's import bill. Capital flows, though buoyant, have been barely sufficient to finance the CAD. Consequently, forex accretion during the last four years has been minimal. This has resulted in FX import cover declining from 14 months of imports to 6.6 months currently.

Figure 43. Trends in Forex Reserves and Import Cover (US\$bn; Months of Imports)



Source: RBI; Citi Research

Global Growth Outlook; Financial Markets

Global outlook – subpar; Grexit – probability is now ~90%

Figure 44. Growth v/s Public Debt

	GDP Growth		Public Debt (%GDP)	
	2012F	2013F	2012F	2013F
Global	2.5	2.8	82	82
US	1.9	2.0	107	110
Japan	2.7	2.1	235	240
Euro Area	-0.6	-0.9	96	96
Germany	1.2	0.8	83	82
France	-0.2	-0.2	93	99
Italy	-2.5	-2.2	129	136
Spain	-1.8	-3.3	93	93
Greece	-7.5	-10.1	157	437
Ireland	-0.7	0.6	120	127
Portugal	-4.6	-5.6	123	138
Netherlands	-1.4	-0.6	73	76
Belgium	0.2	-0.2	112	119
Denmark	0.7	1.3	49	49
Norway	3	2.9	NA	NA
Sweden	0.4	1.9	37	36
Switzerland	1.4	0.8	51	50
UK	-0.5	0.3	88	96
India	5.4	6.2	69	68

Source: Citi Research, GEOS July '12

Subpar growth led by EA weakness: Citi's global growth forecast of 2.5% for 2012 and 2.8% in 2013 remains well below those of the consensus and IMF, reflecting in particular a much weaker outlook for the euro area and a modestly weaker outlook for many emerging markets (for details please see [Global Economic Outlook and Strategy - July 2012](#)). Our team does not believe the recent developments (euro-group agreement on moves towards a banking union, bailout for Spanish banks, heightened fiscal austerity in Spain) will ease the EMU crisis, let alone solve it, for the following reasons:

- The banking union proposals don't include an EMU-wide deposit guarantee scheme and thus may not stem deposit flow out of periphery country banks.
- There does not seem to be agreement as to exactly what conditions would need to be met to allow direct ESM recapitalization of strained banks.
- Other than Ireland, the surge in public debt/GDP ratios are mainly driven by economic weakness and resultant revenue shortfalls (plus inefficiencies in public spending programmes) rather than direct bank recapitalization costs.
- Given the limited resources available to the EFSF/ESM, it is likely that any bailout for Spain and Italy will cover only part of their financing needs.

Grexit ~90%: Our team now believes that the probability that Greece will leave EMU in the next 12-18 months is about 90%, up from the previous estimate of 50-75% estimate. The most likely date is in the next 2-3 quarters, possibly following the September Troika assessment. This reflects two main factors.

- Earlier this year, before the Greek election, the Troika members were willing to be patient while Greece slipped off-programme in expectation that the election might produce a government that was able and willing to get the programme back on track. This has not happened and there is a huge gap between the reform measures and fiscal improvements insisted upon by the creditors and those that are politically and economically achievable in Greece.
- Second, with possible bailouts for Spain and Italy looming, comments from the Troika and various European politicians suggest they are becoming less patient with Greece, because of the need to reassure creditor nations that countries which persistently miss their programs will not be financed.

EA end-game: Our team continues to expect that both Spain and Italy are likely to enter a Troika bailout for the sovereign by the end of 2012. Over the next few years, the EA end-game is likely to be a mix of EMU exit (Greece), a significant amount of sovereign debt and bank debt restructuring (Portugal, Ireland and, eventually, perhaps Italy, Spain and Cyprus) with only limited fiscal burden-sharing.

Rates – Maintain Easing Bias

Against this backdrop, our team continues to expect that major central banks will loosen further, or maintain an easing bias, in coming months. We now forecast the ECB will cut the refinance rate to 0.25% by end-2012, and non-standard measures, with a renewed multi-year LTRO programme and wider pool of accepted collateral. The UK BoE has resumed its QE programme, and is likely to expand it markedly further in coming quarters. We expect the PBOC will cut both rates and reserve requirements further, while the US Fed officials are weighing a new lending effort or asset purchases as well as enhanced communications.

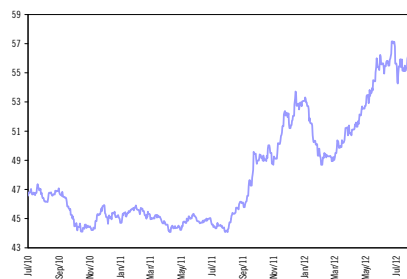
Citi's base case is for prolonged economic weakness and financial market strains in periphery countries, spilling over into renewed recession for the euro area as a whole this year and the next.

FX – USD strength to Continue

EUR/USD to fall to 1.15: Our global macro strategy team maintains its view of USD strength in the face of better risk appetite and underlying fundamental strength. They expect the EUR should be weak across the board medium term assuming Grexit, volatile and wide bond-yield spreads between the core and periphery, weak EMU growth, further ECB rate cuts and additional LTROs. Our team also highlights the China factor contributing to EUR/USD downside pressures. China's current account surplus was 10% of GDP as recently as 2007 but will be around 1.5% of GDP next year. This has contributed to a much slower FX reserve build-up as downwards pressures on USD/CNY have waned and consequently this may in turn lead to less pressure to buy EUR as diversification out of USD and therefore a reduced support for the single currency in times when fundamentals are unhelpful. **Bottom Line, Citi forecasts anticipate further USD gains medium term, especially relative to G10 majors, with EUR/USD falling towards 1.15.**

EM – China Focus: As highlighted by our global macro strategy team, there are two factors at play: (1) Mounting evidence of Chinese economic weakness and a flat-lining/slightly depreciated yuan. Asian exporters have kept their currencies broadly steady against both the USD and CNY so far, but our team doubts that this could sustain if domestic data continues to weaken and the dollar strengthens. (2) A growing recognition within the ranks of other Asian economies that weaker FX could be desirable as part of broader monetary easing — as indeed was the case in 2008.

Figure 45. Trends in USD/INR



Source: Bloomberg

INR Unchanged from last month. USD/INR is forecast at 54 and 55.3 in 0-3 and 6-12 months respectively. This is not a story of fundamental strength/improvement given the twin deficits and lower growth expectations. The forecasts reflect an expectation for oversold markets to move back into more normal trading ranges.

Figure 46. Quarterly FX Forecasts

	Jul-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Euro	1.22	1.22	1.20	1.18	1.16	1.18	1.22	1.25
Japanese Yen	79.00	78.00	79.00	80.00	82.00	82.00	83.00	83.00
British Pound	1.57	1.56	1.55	1.53	1.51	1.53	1.57	1.60
Swiss Franc	0.98	0.98	1.00	1.02	1.04	1.02	0.99	0.96
Australian Dollar	1.04	1.04	1.02	1.00	0.98	0.96	0.94	0.92
EM Asia								
Chinese Renminbi	6.37	6.38	6.37	6.36	6.34	6.30	6.25	6.21
HK Dollar	7.76	7.75	7.75	7.76	7.76	7.76	7.76	7.75
Indonesian Rupiah	9458	9452	9502	9568	9634	9649	9649	9649
Indian Rupee	55.30	54.30	54.30	54.80	55.20	54.70	54.00	53.20
Korean Won	1141	1140	1152	1167	1182	1164	1138	1112
Malaysian Ringgit	3.15	3.15	3.17	3.20	3.22	3.21	3.18	3.15
Philippine Peso	41.90	42.40	42.60	42.80	43.00	42.60	42.00	41.5
Singapore Dollar	1.26	1.25	1.26	1.27	1.28	1.27	1.26	1.25
Thai Baht	31.70	31.50	31.60	31.80	32.00	31.60	31.10	30.50
Taiwan Dollar	30.00	30.20	30.40	30.40	30.50	30.10	29.60	29.10
Other EMs								
Turkish Lira	1.81	1.79	1.81	1.84	1.87	1.87	1.87	1.86
South African Rand	8.26	8.25	8.37	8.52	8.67	8.70	8.71	8.71
Brazilian Real	2.01	1.99	2.00	2.03	2.05	2.04	2.01	1.98
Mexican Peso	13.30	13.20	13.30	13.50	13.70	13.40	13.00	12.70

Source: Citi Foreign Exchange Forecasts dated July 25, 2012

Policy Watch

Change of Guard – New President and Finance Minister

Although the party position in Parliament remains status quo, the new development is the appointment of former FM Pranab Mukherjee as India's 13th President and P Chidambaram being appointed as the Finance Minister. Consequently, the charge of the Home Ministry has been given to the erstwhile Power Minister – Mr. Sushil Kumar Shinde, while Mr. Veerappa Moily has taken over additional charge of Power.

India follows a parliamentary form of government and thus the role of the president is technically 'apolitical'. However, with most political analysts predicting another coalition govt in the 2014 General Election, the role of the president is crucial. This is because the President has discretion to appoint the Prime Minister but that discretion is limited to the choice of one who in the opinion of the President is capable of winning the confidence of the House.

New Finance Minister: Great Expectations

As the new Finance Minister with a pro-reform reputation, P.Chidambaram is capable of making the necessary, tough decisions to revive the economy. With two previous tenures as finance minister, he is responsible for multiple key milestones in the economy such as the 1997 'Dream Budget' and reduction of income tax rates, introducing VAT and drafting the Direct Taxes Code (DTC) Bill to name a few. This time around, he can be expected to focus on projects he knows best, namely, the DTC and the Goods and Services Tax (GST). The DTC and GST are important initiatives that ensure better transparency and fewer bureaucratic complications in tax collection. Controversial, yet much-needed fiscal corrections, like cuts to subsidies, may receive more serious attention so RBI monetary easing can recommence.

Important Policies Pending, But Difficult: While there is consensus that reforms are needed, they may not be close. The Finance Minister cannot work alone, and needs government support. Given the current government's reputation for choosing short-term subsidies and welfare policies over problematic, yet progressive long-term fiscal measures, and the fact that political motives could overshadow fiscal needs, real reform action could be delayed. Nonetheless, small fuel price hikes, coupled with measures that are largely execution in nature, could make the environment conducive for investment.

Figure 47. Bills Pending in Parliament

Bill	Description
The Micro Finance Institutions Bill, 2012	Provides for the development and regulation of micro finance institutions.
The Public Procurement Bill	Regulate public procurement to further transparency and accountability in the procurement process
The National Food Security Bill, 2011	Provides for food and nutritional security by providing specific entitlements to certain groups
The Companies Bill, 2011	To consolidate and amend the law relating to companies
Direct Taxes Code Bill, 2010	Consolidates law relating to direct taxes. Widens tax slabs. Lowers corporate tax rates.
The Pension Fund Regulatory and Development Authority Bill, 2011	Provides for establishment of an authority to promote old age income security
The Land Acquisition, Rehabilitation, and Resettlement Bill, 2011	Provides for land acquisition, rehabilitation and resettlement. It replaces the Land Acquisition Act, 1894
The Forward Contracts (Regulation) Amendment Bill, 2010	Transforms the role of the Forward Market Commission from govt. department to independent regulator
The Mines and Minerals (Development and Regulation) Bill, 2011	Consolidates and amends the law relating to regulation of mines and minerals
The Telecom Regulatory Authority of India (Amendment) Bill, 2008	Increases the required qualifications for members of the Telecom Regulatory Authority of India
The Rani Lakshmi bai Central University Agriculture Bill	Promotes agricultural development and advancement of agricultural research
The Universities for Research and Innovation Bill	Provides for the establishment and incorporation of hubs of education, research and innovation

Source: PRS, Citi Research

Monthly Monitor

Figure 48. India — Key Monthly Indicators (percent change from a year ago unless otherwise stated)

	May11	Jun11	Jul11	Aug11	Sept11	Oct11	Nov11	Dec11	Jan12	Feb12	Mar12	Apr12	May12	Jun12
Consumption Trends														
Two-Wheelers	14.5	14.8	12.6	16.1	22.7	1.8	25.0	8.5	13.6	12.0	8.0	10.8	11.2	9.2
Passenger Car Sales	7.0	1.5	-15.8	-10.1	-1.9	-24.3	6.0	7.2	6.3	11.8	18.4	3.4	2.8	8.6
Commercial Vehicle Sales	15.9	18.8	24.8	23.5	18.8	21.6	37.2	16.7	15.0	20.0	16.4	5.6	10.1	4.7
LCV	22.4	31.2	37.9	36.1	36.6	19.8	52.4	23.0	16.9	34.0	35.6	18.2	26.5	19.3
MHCV	8.6	6.2	10.4	9.8	1.8	23.9	18.8	9.1	12.7	5.3	-1.3	-11.6	-10.6	-13.4
Investment Trends														
Infrastructure Index	6.7	6.4	8.9	4.8	3.3	1.2	7.7	5.5	1.6	7.7	2.3	3.1	3.8	3.6
Cement Dispatches	0.6	2.2	11.2	6.7	1.8	-1.0	19.0	13.4	9.6	10.7	6.6	8.8	11.6	
Diesel Consumption	10.7	2.9	5.3	6.4	9.8	7.7	16.4	6.0	7.5	11.7	10.8	8.0	9.0	13.7
Steel Production	12.6	18.9	-10.1	17.3	6.7	5.4	2.2	4.5	1.5	0.0	11	5.2	3.5	5.9
Manufacturing PMI*	57.5	55.3	53.6	52.6	50.4	52.0	51.0	54.2	57.5	56.6	54.7	54.9	54.8	55
Output	63.2	58.4	57.2	56.0	51.1	52.7	50.5	55.8	62.9	60.5	56.3	56.1	56.5	58.5
New Orders	62.4	60.1	54.5	53.1	51.3	53.7	52.8	57.9	62.2	62.8	58.1	61.1	59.6	58.5
Industrial Production Index														
General	6.2	9.5	3.7	3.4	2.5	-5.0	6.0	2.7	1.1	4.1	-3.5	0.1	2.4	
Manufacturing	6.3	11.1	3.1	3.9	3.1	-6.0	6.6	2.8	1.4	3.9	-4.4	0.1	2.5	
Mining	1.8	-1.4	0.7	-5.5	-7.5	-5.9	-3.5	-3.3	-2.4	2.8	-1.3	-3.1	-0.9	
Electricity	10.3	8.0	13.1	9.5	9.0	5.6	14.6	9.1	3.2	8.0	2.7	4.6	5.9	
Use Based Basic Goods	7.5	7.8	10.0	5.8	5.3	1.2	6.5	5.5	1.8	7.7	1.1	2.3	4.1	
Capital goods	6.2	38.7	-13.7	4.0	-6.5	-26.5	-4.7	-16.0	-1.7	10.2	-21.3	-16.3	-7.7	
Intermediate goods	0.1	1.6	-0.1	-1.0	-1.4	-8.4	1.3	-1.5	-2.8	-0.2	-2.1	-1.4	2.7	
Consumer goods	7.2	3.1	6.4	2.1	5.7	0.1	12.8	10.1	2.9	-0.3	0.7	5.2	4.3	
Consumer Durables	5.1	1.6	9.0	5.5	8.9	-0.4	10.4	5.1	-7.1	-6.1	0.2	5.0	9.3	
Consumer Non-Durables	9.0	4.3	4.1	-0.7	2.7	0.5	15.0	13.8	11.0	4.5	1.0	5.4	0.1	
Services														
Major Port traffic	3.7	5.4	3.7	3.5	-4.4	-7.4	-0.7	-6.5	-5.7	-6.2	-8.5	-6.5	-5.7	-5.0
Railway freight	7.4	6.2	7.4	2.0	-1.8	-1.3	5.9	8.7	5.4	9.0	5.6	3.5	5.6	5.3
Tourist arrivals ('000)	369	396	498	402	401	563	637	715	681	677	623	452	372	432
Cellular subscriber Adds (Mn)	13.0	11.4	7.0	7.5	8.0	7.9	3.7	9.2	9.9	6.8	8.1	6.8	8.4	
Banking Trends														
Money supply(M3)	16.9	17.2	16.7	17.0	16.3	15.3	15.6	16.2	15.2	13.8	13.0	13.3	13.3	15.4
Loan(Credit) growth	22.1	20.4	19.2	20.4	18.9	18.9	18.0	16.9	16.7	15.6	16.6	18.0	18.3	18.6
Deposit growth	16.9	18.0	15.9	18.1	16.6	15.4	16.9	17.4	16.4	14.6	13.6	13.6	14.1	16
Non-food credit	22.4	20.4	18.8	19.9	19.7	19.1	17.7	16.7	16.4	15.4	16.8	17.1	16.9	18.2
Inflation														
CPI –Industrial Workers	8.7	8.6	8.4	9.0	10.1	9.4	9.3	6.5	5.3	7.6	8.6	10.2	10.2	10.1
WPI	9.6	9.5	9.4	9.8	10.0	9.9	9.5	7.7	6.9	7.4	6.9	7.2	7.5	7.3
Manufactured Products	7.4	7.9	7.7	7.9	8.0	8.0	8.2	7.6	6.7	5.8	4.9	5.1	5.0	5.0
Primary Products	12.9	11.3	11.5	12.5	12.2	11.0	8.9	3.6	2.8	7.1	9.6	9.7	10.9	10.5
Fuel Index	12.3	12.8	12.0	12.9	14.0	14.8	15.5	15.0	14.6	13.6	10.4	11.0	11.5	10.3
Interest rates (Average, %)														
Call money rate	7.2	7.5	7.6	7.9	8.0	8.1	8.3	8.5	8.8	9.0	8.8	8.6	8.6	8.2
91-day T-Bills	8.1	8.2	8.4	8.4	8.4	8.7	8.8	8.5	8.6	9.1	9.0	8.4	8.5	8.3
Corp Bond Spreads (5y GOI-AAA)	0.9	1.1	0.9	0.9	0.9	0.8	0.7	0.8	1.0	0.9	0.9	0.8	0.9	1.1
10-year government bond	8.3	8.3	8.3	8.3	8.3	8.7	8.9	8.5	8.3	8.2	8.4	8.6	8.5	8.2
Trade - customs data***														
Exports(%YoY)	54.5	25.7	59.5	46.2	30.2	25.3	4.6	6.7	10.1	4.3	-5.7	3.2	-4.1	-5.4
Imports(%YoY)	52.0	36.3	38.1	45.6	18.7	26.8	34.9	19.8	20.3	20.6	24.3	3.8	-7.3	-13.5
Oil	53.4	69.6	54.9	73.7	5.4	35.0	57.8	11.2	26.8	39.5	32.4	7.0	13.4	-4.4
Non-oil	51.4	23.7	31.5	35.4	24.1	24.0	26.4	23.4	17.6	13.5	19.9	2.1	-15.8	-17.8
Trade Deficit (US\$bn)	-19.5	-14.1	-15.3	-14.9	-11.3	-18.7	-16.4	-12.7	-14.8	-15.2	-13.9	-13.5	-16.2	-10.3
Brent Prices (\$/bbl)	114.5	113.7	116.6	110.0	109.8	108.8	110.3	107.7	111.6	119.1	124.4	120.5	110.2	95.9
Foreign investment (US\$ mn)														
FII	-948	1,083	2,399	-1,766	-342	634	-586	4,195	5,087	7,164	387	-927	597	209
FDI	3,206	3,893	149	5,206	967	2,619	1,647	780	871	484	244	1,825	1,375	3,206
Exchange rate and reserves														
US\$ exchange rate average	44.9	44.8	44.2	45.3	47.7	49.2	50.9	52.6	51.3	49.2	50.4	51.9	54.5	56.0
US\$ exchange rate month end	45.1	44.7	44.4	46.1	49.0	48.7	52.2	53.1	49.5	49.0	50.9	52.7	56.1	55.6
Forex reserves incl.gold (US\$bn)	310.2	309.0	319.1	319.2	311.5	320.4	304.4	296.7	293.9	295.0	294.4	295.4	285.8	290.0

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

Balance of Payments

Figure 49. India – Trends and Forecasts in the Balance of Payments (US\$B, %)

	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	Comments
CURRENTACCOUNT								
Exports(RBI)	166.2	189.0	182.4	250.5	309.8	303.6	327.9	
Y/Y%	28.9	13.7	-3.5	37.3	23.7	(2.0)	8.0	While a weak currency helps exports, the impact is muted
% of GDP	13.4	15.6	13.2	14.9	16.7	16.3	14.9	Due to changing composition and global slowdown
Exports-Customs*	162.9	182.8	178.8	251.1	303.7	297.6	327.4	
Y/Y%	28.9	12.2	-2.2	40.5	20.9	(2.0)	10.0	
Imports(RBI)	257.6	308.5	300.6	381.1	499.5	477.1	505.7	
Y/Y%	35.1	19.8	-2.6	26.7	31.1	-4.5	6.0	
%to GDP	20.8	25.4	21.8	22.6	27.0	25.6	23.0	
Imports-Customs*	251.4	298.8	288.3	369.7	488.6	473.7	501.8	
Y/Y%	35.4	18.8	-3.5	28.2	32.2	-3.0	5.9	
Of which Oil	79.6	93.7	87.1	103.9	155.6	157.4	153.8	Crude at US\$111/bbl in FY12; US\$108/bbl in FY13
Y/Y%	39.9	17.6	-7.0	19.3	49.8	1.2	-2.3	ΔUS\$1/bbl in oil prices=US\$900m impact on deficit
Non-Oil	171.8	205.2	201.2	265.8	333.0	316.4	348.0	
Y/Y%	33.4	19.4	-1.9	32.1	25.3	-5.0	10.0	
a. Trade balance (RBI)	-91.5	-119.5	-118.2	-130.6	-189.8	-173.5	-177.8	Lower oil prices and 40 % lower gold dd will help deficit
% of GDP	-7.4	-9.8	-8.7	-7.8	-10.2	-9.3	-8.1	
Trade Balance(Customs)	-88.5	-116.0	-109.6	-118.6	-184.9	-166.1	-174.4	
Difference bet. RBI and Customs Data	-2.9	-3.5	-8.6	-12.0	-4.9	2.6	-3.4	Difference normally represents defense imports.
b. Invisibles	75.7	91.6	80.0	84.6	111.6	118.4	131.7	
Non-factor services	38.9	53.9	35.8	48.8	64.1	65.1	70.4	
Of which: Software Services	36.9	43.5	48.2	53.3	61.0	67.1	75.4	
Non-Software Services	1.9	10.4	-12.5	-4.4	3.1	-2.0	-5.0	
Investment income	-5.1	-7.1	-8.0	-17.3	-16.0	-15.0	-11.0	
Remittances**	41.7	44.6	52.1	53.1	63.5	68.0	72.0	
Official transfers	0.2	0.2	0.3	0.0	0.0	0.4	0.4	
1.Current a/cbalance (a+b)	-15.7	-27.9	-38.2	-45.9	-78.2	-55.1	-46.1	
% of GDP	-1.3	-2.3	-2.8	-2.7	-4.2	-3.0	-2.1	Current a/c to narrow to 3.0 % of GDP in FY13
CAPITALACCOUNT								
c. Loans	40.7	8.3	12.4	28.4	19.3	19.0	18.0	Global developments could impact bank loans
External assistance	2.1	2.4	2.9	4.9	2.3	2.0	2.0	
Commercial borrowings***	22.6	7.9	2.0	12.5	10.3	11.0	10.0	
Short-term credit	15.9	-2.0	7.6	11.0	6.7	6.0	6.0	
d. FDI(Net=a-b)	15.9	19.8	18.0	9.4	22.1	13.0	14.0	Policy clarity could help FDI
(a)FDI-To India	34.7	37.7	33.1	25.9	33.0	25.0	29.0	
(b)FDI-Abroad	-18.8	-17.9	-15.1	-16.5	-10.9	-12.0	-15.0	
e. Portfolio Invst(FII+ADRs/GDRs)	27.4	-14.0	32.4	30.3	17.2	12.0	15.0	Increase in FII limits in debt will help
f. Banking Capital	11.8	-3.2	2.1	5.0	16.2	11.0	7.0	
Of which NRI deposits	0.2	4.3	2.9	3.2	11.9	10.0	6.0	
g. Rupee debt service	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4	
h. Other capital****	11.0	-4.0	-13.2	-11.0	-6.9	1.0	1.0	
2.Capital a/c(c+d+e+f+g+h)	106.6	6.8	51.6	62.0	67.8	55.6	54.6	Capital flows just about sufficient
Errors & Omissions	1.3	1.1	0.0	-3.0	-2.4	0.0	0.0	
Overall balance(1+2)	92.2	-20.1	13.4	13.1	-12.8	0.5	8.5	
Forex								
Forex assets	299.1	241.6	252.8	273.7	260.9	261.4	269.9	
FCA to months of imports	13.9	9.4	10.1	8.6	6.3	6.6	6.4	
Exchange rate								
Rs/US\$-annual avg	40.2	46.0	47.4	45.6	48.1	54.5	53.0	INR likely to be range-bound
%depreciation	-11.1	14.4	3.0	-3.8	5.5	13.3	-2.8	
Rs/US\$-yearend	40.1	50.7	44.9	44.6	50.3	54.8	51.5	
%depreciation/(-)appreciation	-8.0	26.4	-11.4	-0.7	12.8	8.9	-6.0	

*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. ***Commercial Borrowings include US\$4.1bn of the Resurgent Bond Issue repaid in September 2003 and repayment of India Millennium Bonds in FY06. **** Other capital refers to leads and lags in exports, advances received pending issue of shares, funds held abroad. Source: RBI, Citi Research

Direction and Composition of Trade

Figure 50. India — Composition of Imports (US\$bn, %)

	FY07	FY08	FY09	FY10	FY11	FY12*
Petroleum crude& products	57.1	79.7	91.5	86.8	106.1	138.6
% to total	30.8	31.9	30.6	30.2	30.1	31.2
% YoY	29.8	39.6	14.8	-5.1	22.0	44.6
Capital goods	30.8	49.8	48.5	44.5	49.9	58.0
% to total	16.6	20.0	16.2	15.5	14.2	13.0
% YoY	26.8	61.9	-2.8	-8.2	12.2	20.9
Gold & Silver	14.6	17.9	22.8	29.6	35.6	56.4
% to total	7.9	7.1	7.6	10.3	10.1	12.7
% YoY	29.1	22.1	27.8	29.8	20.2	54.1
Pearls precious stones	7.5	7.3	16.6	16.2	31.3	28.6
% to total	4.0	2.9	5.5	5.6	8.9	6.4
% YoY	-18.1	-2.0	126.5	-2.6	93.3	0.6
Chemicals, related products	13.8	18.7	29.2	23.5	27.4	34.3
% to total	7.5	7.5	9.8	8.2	7.8	7.7
% YoY	21.6	34.8	56.7	-19.7	16.8	25.4
Electronic Goods	15.9	20.2	23.4	21.0	21.5	30.2
% to total	8.6	8.1	7.8	7.3	6.1	6.8
% YoY	20.3	26.7	15.8	-10.3	2.5	24.2
Food & related items	4.9	5.3	5.8	10.0	10.0	12.2
% to total	2.7	2.1	1.9	3.5	2.8	2.7
% YoY	50.5	8.8	8.3	72.9	-0.3	30.1
Other non-POL items	33.8	42.7	52.2	46.8	56.1	72.0
% to total	18.3	17.1	17.4	16.3	15.9	16.2
% YoY	37.3	26.2	22.4	-10.4	19.9	
Other commodities	6.6	8.2	9.3	9.3	18.3	10.5
% to total	3.6	3.3	3.1	3.2	4.1	2.4
% YoY	-16.5	24.1	13.4	-0.4	56.9	18.0
TOTAL IMPORTS	185.1	249.8	299.3	287.6	359.2	444.4
% YoY	24.1	35.0	19.8	-3.9	22.5	32.6

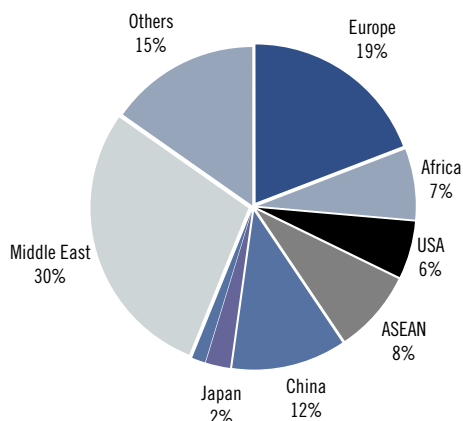
* Apr- Feb. Source: CMIE ,RBI, Citi Research

Figure 51. Composition of Exports (US\$bn, %)

	FY07	FY08	FY09	FY10	FY11	FY12*
Engineering goods	29.5	37.2	47.0	38.1	68.8	60.7
% to total	23.3	22.8	25.7	21.4	27.3	21.8
%YoY	36.3	26.4	26.3	-18.9	80.5	13.9
Petroleum, crude prods	18.7	28.4	26.9	28.0	42.0	52.3
% to total	14.8	17.4	14.7	15.7	16.7	18.8
%YoY	60.4	52.0	-5.3	4.3	49.9	51.8
Gems & Jewellery	16.0	19.7	28.0	29.0	36.6	41.6
% to total	12.6	12.1	15.3	16.3	14.5	15.0
%YoY	2.8	23.3	42.2	3.6	26.2	46.9
Agri, allied products	12.7	18.4	17.6	17.7	24.7	33.7
% to total	10.0	11.3	9.6	10.0	9.8	12.1
%YoY	24.1	45.5	-4.8	1.1	39.2	53.0
Chemicals & related	12.1	15.6	17.3	17.4	21.5	24.1
% to total	9.6	9.5	9.5	9.7	8.5	8.7
%YoY	18.1	28.3	11.3	0.4	23.7	27.9
Textiles (incl RMG)	17.4	19.4	20.0	19.9	23.4	25.5
% to total	13.7	11.9	10.9	11.1	9.3	9.2
%YoY	5.9	11.9	3.2	-0.9	17.6	22.7
Ores & minerals	7.0	9.1	7.8	8.7	10.7	7.6
% to total	5.5	5.6	4.3	4.9	4.2	2.7
%YoY	13.6	30.4	-14.4	11.0	23.0	-18.4
Other manuf goods	9.9	11.1	11.0	10.9	13.8	16.5
% to total	7.9	6.8	6.0	6.1	5.5	5.9
%YoY	13.9	11.7	-1.4	-0.7	27.0	46.6
Other commodities	3.1	4.0	7.5	8.6	10.5	15.8
% to total	2.4	2.5	4.1	4.8	4.2	5.7
%YoY	22.5	30.5	86.9	15.2	21.1	-36.5
TOTAL EXPORTS	126.3	163.0	183.1	178.3	252.0	277.8
% YoY	22.5	29.1	12.3	-2.6	41.3	26.0

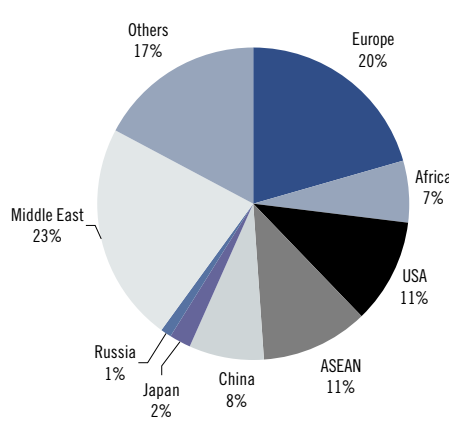
* April-Feb. Source: CMIE, RBI, Citi Research

Figure 52. Direction of Imports FY11



Source: DGCIS, CMIE, Citi Research

Figure 53. Direction of Exports FY11



Source: DGCIS, CMIE, Citi Research

Snapshot of Govt Finances

Figure 54. India – Snapshot of Central Government Finances (Rs Bn, %)

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

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

Global Snapshot

Figure 55. Selected Countries — Economic Forecast Overview (Percent) 2011-2015F

	GDP Growth					CPI					Short Term Interest Rates				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Global	3.0	2.5	2.8	3.4	3.7	3.6	2.7	2.7	3.0	2.8	2.48	2.30	2.22	2.48	2.77
<i>Based on PPP weights</i>	3.6	3.0	3.3	3.8	4.0	4.2	3.1	3.0	3.3	3.1					
Industrial Countries	1.3	1.1	1.1	1.9	2.3	2.3	1.7	1.5	1.9	1.5	0.76	0.56	0.46	0.60	0.95
United States	1.7	1.9	2.0	3.5	3.5	2.5	1.7	1.6	2.1	2.2	0.25	0.25	0.25	0.40	1.15
Japan	-0.7	2.7	2.1	0.3	1.5	-0.3	0.2	-0.1	2.7	0.3	0.10	0.10	0.10	0.10	0.10
Euro Area	1.5	-0.6	-0.9	0.6	1.0	2.7	2.3	1.8	1.2	0.9	1.19	0.69	0.25	0.25	0.31
Australia	2.1	3.7	3.4	3.8	3.8	3.4	1.8	3.2	2.9	2.7	4.75	3.56	3.44	4.50	5.00
United Kingdom	0.7	-0.5	0.3	0.9	1.5	4.5	2.5	1.8	1.8	1.5	0.50	0.50	0.50	0.50	0.50
Emerging Markets	6.0	4.9	5.5	5.7	5.7	6.0	4.5	4.6	4.7	4.7	5.6	5.2	5.0	5.3	5.4
China	9.2	7.9	8.0	7.6	7.3	5.4	2.7	2.9	3.8	4.0	3.2	3.5	3.0	3.6	4.0
Taiwan	4.0	2.4	3.6	4.5	4.5	1.4	1.9	2.1	1.8	1.8	0.8	0.9	0.9	1.0	1.2
India	6.5	5.4	6.2	7.0	7.3	8.9	8.0	6.5	6.0	6.0	8.2	7.8	7.5	7.5	7.5
Indonesia	6.5	6.1	6.3	6.7	6.5	5.4	4.4	4.7	5.3	5.8	5.4	3.8	4.2	4.5	4.6
Korea	3.6	2.8	3.6	3.8	4.0	4.0	2.8	3.0	3.1	3.0	3.2	3.1	2.6	3.3	4.0
Czech Republic	1.7	-1.1	0.6	2.0	2.2	1.9	3.5	2.6	1.4	1.7	0.8	0.6	0.3	1.0	1.6
Hungary	1.7	-0.9	0.8	2.0	2.0	3.9	5.6	3.9	3.5	3.1	6.0	6.9	5.8	5.5	5.4
Poland	4.3	2.7	2.4	3.1	3.4	4.3	3.9	2.6	2.5	2.5	4.2	4.7	4.3	4.4	4.8
Russia	4.3	3.5	4.0	4.1	4.0	8.4	5.1	6.9	5.8	5.5	8.1	8.0	7.1	6.0	6.0
Turkey	8.5	2.5	4.3	4.6	4.6	6.5	9.1	7.0	6.0	5.9	6.0	5.8	6.3	8.0	7.6
Nigeria	7.8	7.4	6.8	7.2	6.9	10.8	12.4	9.8	10.3	9.5	8.9	15.0	12.5	10.5	10.0
South Africa	3.1	2.7	3.6	4.2	4.4	5.0	5.8	5.0	5.2	5.3	5.5	5.3	5.0	5.3	5.5
Argentina	8.9	1.5	3.0	2.0	2.0	9.8	9.8	11.8	15.0	15.0	13.5	13.3	17.7	22.0	25.0
Brazil	2.7	1.8	4.5	4.5	4.5	6.6	5.1	5.2	4.5	4.0	11.7	8.5	7.9	9.4	9.0
Mexico	3.9	3.9	3.8	3.5	3.6	3.4	4.0	3.9	3.9	3.8	4.5	4.5	4.5	4.6	5.5
Venezuela	4.2	5.0	3.5	4.0	3.0	27.1	23.3	27.8	31.9	29.9	13.3	14.4	14.4	13.0	12.9

Source: Citi Research, *Global Economic Outlook and Strategy*, 25 July 2012

Figure 56. Selected Countries — Economic Forecast Overview (Percent) 2011-2015F

	Current Balance (Pct of GDP)					Fiscal Balance (Pct of GDP)					Government Debt (Pct of GDP)				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Global	0.3	0.1	-0.1	-0.2	-0.1	-4.9	-4.3	-3.4	-2.9	-2.6	81	82	82	82	81
<i>Based on PPP weights</i>	0.5	0.2	0.0	-0.2	-0.2	-4.3	-4.0	-3.3	-2.8	-2.5					
Industrial Countries	-0.7	-0.9	-0.9	-0.7	-0.6	-6.9	-5.9	-4.5	-3.7	-3.1	107	112	115	115	116
United States	-3.1	-3.2	-3.2	-3.1	-3.2	-9.6	-8.1	-5.9	-4.9	-4.0	103	107	110	112	112
Japan	2.0	1.0	1.2	1.7	1.7	-10.7	-10.5	-7.9	-6.6	-6.2	228	235	240	241	246
Euro Area	0.0	0.2	0.2	0.3	0.4	-4.1	-3.3	-2.8	-2.4	-1.8	87	96	96	95	95
Australia	-2.3	-4.1	-5.3	-4.9	-3.5	-3.4	-3.0	0.1	0.1	0.3	6	10	9	9	8
United Kingdom	-1.9	-2.6	-1.4	-0.4	0.4	-8.4	-6.9	-8.2	-7.7	-7.3	83	88	96	102	107
Emerging Markets	2.1	1.7	1.1	0.5	0.5	-1.4	-1.8	-1.8	-1.7	-1.8	33	32	32	31	30
China	2.8	2.0	1.5	1.0	1.0	-1.3	-2.4	-1.5	-1.0	-1.0	15	16	16	16	15
Taiwan	8.8	8.7	8.4	8.0	8.0	-1.9	-1.6	-1.6	-1.3	-1.0	39	39	40	42	43
India	-4.2	-3.0	-2.1	-1.5	-1.0	-8.4	-8.4	-7.7	-7.0	-6.5	69	69	68	66	64
Indonesia	0.2	-1.9	-1.2	-0.9	-1.0	-1.2	-1.8	-0.7	-1.0	-0.5	26	25	24	23	23
Korea	2.4	1.8	1.9	1.2	0.2	1.5	1.2	1.5	1.6	1.5	33	33	32	31	29
Czech Republic	-3.0	-2.9	-1.9	-2.6	-1.9	-3.1	-3.2	-3.1	-2.3	-1.5	41	45	47	47	46
Hungary	1.7	1.9	2.7	2.5	2.2	4.3	-3.1	-3.7	-3.0	-3.0	81	78	79	78	78
Poland	-4.3	-3.8	-4.5	-5.2	-5.3	-5.1	-3.1	-2.5	-1.8	-1.5	54	52	50	48	47
Russia	5.3	5.7	2.4	-1.0	-1.0	2.0	0.3	0.1	-0.1	-1.1	8	9	8	8	8
Turkey	-10.0	-7.5	-7.0	-6.5	-6.0	-1.3	-2.2	-2.5	-2.5	-2.7	41	41	39	39	38
Nigeria	3.4	2.3	3.5	3.0	1.9	-3.1	-2.2	-2.1	-2.6	-3.0	NA	NA	NA	NA	NA
South Africa	-3.4	-4.7	-5.6	-6.6	-6.3	-5.0	-4.8	-4.2	-3.6	-3.5	38	41	42	43	43
Argentina	0.0	0.3	-0.8	-1.0	-1.0	-1.7	-2.8	-3.0	-3.0	-3.0	40	38	40	41	42
Brazil	-2.3	-2.3	-2.7	-2.9	-3.2	-2.6	-1.9	-2.7	-2.5	-2.3	54	54	55	55	56
Mexico	-0.8	-1.0	-1.4	-2.5	-2.4	-2.5	-2.2	-2.0	-1.9	-1.9	40	40	38	38	38
Venezuela	9.1	7.2	4.1	6.3	6.7	-5.0	-5.0	-4.0	-5.2	-5.0	43	34	35	36	36

Note: US debt and deficit figures are for the Federal government only. All other countries are general government debt and deficits.

Source: Citi Research, *Global Economic Outlook and Strategy*, 25 July 2012

Figure 57. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent) 2011-2015F

	10-Year Yields					Exchange Rates Versus U.S. Dollar*				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Industrial Countries										
United States	2.80	1.75	2.20	3.00	3.40	NA	NA	NA	NA	NA
Japan	1.12	0.90	1.18	1.25	1.75	79	80	82	84	84
Euro Area	2.71	1.39	1.48	2.30	2.50	1.39	1.26	1.18	1.29	1.33
Australia	4.63	3.25	3.83	4.90	5.25	1.01	1.03	0.97	0.91	0.90
United Kingdom	3.00	1.65	1.75	2.00	2.50	1.59	1.57	1.53	1.64	1.68
Emerging Markets										
China	3.52	2.72	2.61	3.30	3.67	6.46	6.35	6.31	6.16	6.12
Taiwan	1.38	1.35	1.50	1.60	1.70	29.40	29.99	30.15	28.66	28.39
India	8.40	8.25	8.25	8.25	8.25	46.63	53.79	54.66	52.45	51.48
Indonesia	7.20	6.06	6.45	7.00	7.00	8763	9383	9625	9641	9596
Korea	3.90	3.21	2.86	3.75	4.63	1108	1143	1163	1085	1049
Czech Republic	3.68	3.39	3.39	3.46	3.82	17.7	20.1	21.7	19.1	17.9
Hungary	7.63	8.07	6.63	6.41	6.19	201	232	243	224	216
Poland	5.99	5.63	5.38	5.55	5.57	2.96	3.35	3.63	3.06	2.94
Russia	NA	NA	NA	NA	NA	29.4	32.2	34.8	33.1	32.0
Turkey	NA	NA	NA	NA	NA	1.68	1.80	1.86	1.86	1.88
Nigeria	NA	NA	NA	NA	NA	156	161	165	163	165
South Africa	8.24	8.21	8.90	9.15	9.20	7.26	8.11	8.65	8.78	9.16
Argentina	NA	NA	NA	NA	NA	4.13	4.55	5.45	6.75	8.34
Brazil	11.45	10.07	9.48	9.24	8.75	1.67	1.96	2.03	1.95	1.90
Mexico	6.83	5.87	6.27	6.75	6.99	12.4	13.2	13.4	12.4	12.5
Venezuela	13.65	12.44	12.64	13.90	13.80	4.29	4.30	6.50	6.50	9.75

Source: Citi Research, *Global Economic Outlook and Strategy*, 25 July 2012

Figure 58. Foreign Exchange Forecasts (End of Period), as of 25 July 2012

	vs. USD						vs. EUR					
	Current	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Current	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13
United States	NA	NA	NA	NA	NA	NA	1.22	1.22	1.20	1.18	1.16	1.18
Japan	79	78	79	80	82	82	96	95	95	95	94	97
Euro Area	1.22	1.22	1.20	1.18	1.16	1.18	NA	NA	NA	NA	NA	NA
Canada	1.01	1.01	1.01	1.00	1.00	0.99	1.23	1.23	1.21	1.18	1.16	1.17
Australia	1.04	1.04	1.02	1.00	0.98	0.96	1.17	1.17	1.17	1.17	1.17	1.22
New Zealand	0.80	0.80	0.79	0.76	0.74	0.71	1.52	1.52	1.53	1.55	1.57	1.65
Norway	6.08	6.13	6.22	6.31	6.41	6.26	7.42	7.48	7.47	7.44	7.41	7.38
Sweden	6.92	6.96	7.05	7.16	7.28	7.12	8.45	8.49	8.47	8.44	8.41	8.40
Switzerland	0.98	0.98	1.00	1.02	1.04	1.02	1.20	1.20	1.20	1.20	1.20	1.20
United Kingdom	1.57	1.56	1.55	1.53	1.51	1.53	0.78	0.78	0.78	0.77	0.77	0.77
China	6.37	6.38	6.37	6.36	6.34	6.30	7.8	7.8	7.7	7.5	7.3	7.4
India	55.3	54.3	54.3	54.8	55.2	54.7	67.5	66.2	65.3	64.5	63.8	64.5
Korea	1141	1140	1152	1167	1182	1164	1392	1391	1384	1375	1365	1373
Poland	3.41	3.44	3.55	3.67	3.80	3.65	4.16	4.20	4.26	4.32	4.39	4.30
Russia	32.0	33.0	33.9	34.6	35.3	34.9	39.0	40.3	40.7	40.7	40.7	41.2
South Africa	8.26	8.25	8.37	8.52	8.67	8.70	10.08	10.07	10.06	10.04	10.01	10.27
Turkey	1.81	1.79	1.81	1.84	1.87	1.87	2.20	2.18	2.17	2.17	2.16	2.21
Brazil	2.01	1.99	2.00	2.03	2.05	2.04	2.46	2.42	2.40	2.39	2.37	2.40
Mexico	13.3	13.2	13.3	13.5	13.7	13.4	16.2	16.1	16.0	15.9	15.8	15.8

Source: Citi Research, *Global Economic Outlook and Strategy*, 25 July 2012

Appendix A-1

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