

India Macro Flash

India Investor Conference: Macro Day Takeaways

As part of our India conference, we met with government officials, rating agencies and journalists.

- **Taking Stock of the Economy** — Speakers said that the delta change across the macro – growth, inflation and the deficits was positive. However, challenges remain. (1) While growth has bottomed, the shallow recovery is dependent on ‘unlocking investments’ and managing NPAs. (2) Inflation may have peaked out, but structural factors, especially on the food front need to be tackled. (3) On the fisc, the govt is likely to meet its targets, but the “quality” of the deficit is questionable and “upcoming” 7th pay commission is key to watch. (4) There was broad consensus that the worst of CAD is over with the currency now closer to fairly valued. **Citi View (FY15):** GDP at 5.6%; CAD at 2.3%; CPI at 8.3%; Fiscal consolidation to continue.
- **Elephant in the Room: Politics** — The upcoming 2014 elections was the central theme of most discussions and while many believe that anti-incumbency factor is strong, sentiment has shifted considerably from two months ago. While the BJP has made significant progress, including in the battleground states like UP and Bihar (represent 120 seats of total 543), the AAP can no longer be ignored. Some even suggest that opinion polls fail to adequately capture the much better mood in rural areas (rural wages have grown much faster than urban wages in recent weeks) and thus may underestimate the Congress’ chances. (see page 2) **Citi View:** A stable government is key as business cycle remains inter-linked with the political cycle.
- **The Urjit Patel Reco’s appear to be getting more resistance than expected** – While there is acknowledgment of the positive aspects of having a clear nominal anchor to influence expectations, most believe that India is not yet ready to adopt an inflation targeting frame-work. Reasons cited include (1) RBI can’t do it alone and would require a “buy-in” from the government. (2) RBI may not be able to forecast CPI inflation properly given (a) conceptual issues (the economy is still too fragmented for RBI to adopt an integrated approach) and (b) methodical matters (the suggestion to splice the old CPI-IW series with the new CPI for modeling purposes appears flawed). **Citi View:** It’s Bold; But Risky.
- **Reforms; Aadhar & e-Governance: Productivity boost?** — Speakers indicated that reforms will likely move forward regardless of the election outcome because there is “collective stake” in pushing reforms like GST, DTC. As regards Aadhar, with close to 650million enrolments so far and adding at a rate of 1.3mn per day, Aadhar (the unique biometric ID for Indian residents) is believed to become a catalyst for improved efficiency in the area of financial inclusion and public service delivery. From direct cash transfer to eKYC as well as other applications that could leverage the Aadhar backbone, the possibilities seem immense, but at the least, it is likely to plug leakages in fiscal spending by ~1-2% of GDP.

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

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Politics – Upcoming Elections Key Focus

ELECTIONS OUTLOOK

The main opposition, the BJP, which is perceived to be more market-friendly, appears to be gaining popularity

AAP, a fledgling party, has also had a surge in popularity and is likely to contest general elections

Anti-incumbency vote at the centre now likely divided

LOOK OUT FOR UTTAR PRADESH AND BIHAR

Uttar Pradesh and Bihar have 120 out of 543 available seats, and are the key states to watch this upcoming election.

Bihar: BJP appears to be in favor after its split from JD(U)

UP: disappointment with incumbent Samajwadi Party, which supports UPA, creates favorable conditions for any newcomer

ELECTION DYNAMICS CHANGE POST AAP VICTORY IN DELHI

While the BJP gaining maximum votes in recent state elections was not a surprise, the AAP victory in Delhi surpassed expectations.

With AAP in the mix, political equations are changing. We await more clarity on election outcome in the coming months.

Figure 1. Current Composition of Lok Sabha

Party	Seats	Party	Seats
UPA		OPPOSITION	
Indian National Congress(INC)	202	Bharatiya Janata Party(BJP)	112
Nationalist Congress Party(NCP)	8	Janata Dal (United) (JD(U))	19
J&K National Conference(JKNC)	3	Shiv Sena(SS)	11
Indian Union Muslim League (IUML)	2	Shiromani Akali Dal(SAD)	4
Rashtriya Lok Dal(RLD)	5	Telangana Rashtra Samithi(TRS)	2
Others/ Independents	10	Biju Janata Dal(BJD)	14
UPA	230	AIADMK	9
		Telugu Desam Party(TDP)	6
Supporting Parties		Janata Dal (Secular)(JD(S))	3
Samajwadi Party(SP)	22	All India Trinamool Congress(AITC)	19
Bahujan Samaj Party(BSP)	21	Dravida Munnetra Kazhagam(DMK)	18
Rashtriya Janata Dal(RJD)	3	Jharkhand Vikas Morcha (JVM (P))	2
Total:	46	Left Demo. Front	25
		Others	11
UPA Including Support	276	Total Opposition	255
		TOTAL LOK SABHA	531*

* As on Feb 13th, 2014; Source: www.loksabha.nic.in

Figure 2. Composition of the Lok Sabha – State-Wise

State	Seats	State	Seats
Uttar Pradesh	80	Jammu and Kashmir	6
Maharashtra	48	Uttarakhand	5
Andhra Pradesh	42	Himachal Pradesh	4
West Bengal	42	Arunachal Pradesh	2
Bihar	40	Goa	2
Tamil Nadu	39	Manipur	2
Madhya Pradesh	29	Meghalaya	2
Karnataka	28	Tripura	2
Gujarat	26	Mizoram	1
Rajasthan	25	Nagaland	1
Odisha	21	Sikkim	1
Kerala	20	Andaman and Nicobar	1
Assam	14	Chandigarh	1
Jharkhand	14	Dadra and Nagar Haveli	1
Punjab	13	Daman and Diu	1
Chhattisgarh	11	Lakshadweep	1
Haryana	10	Puducherry	1
Delhi	7		

Source: www.loksabha.nic.in

Figure 3. State Assembly Election Results

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

Source: www.eci.nic.in

Inflation & Interest Rates Dynamics

RBI TO FOLLOW A “GLIDE PATH” OF DISINFLATION

The RBI has indicated that it will consider the “glide path” for disinflation suggested by the Urjit Patel Committee (CPI below 8% by Jan 2015 and below 6% by Jan 2016) ...

However, given the limited time series of the New Combined CPI, the RBI has said it has a “statistically significant correlation with the CPI-IW”. As seen in our meetings, this remains debatable.

For details see [Urjit Patel Committee](#)

FOCUS SHIFTS TO CPI

Rates – Repo Rates have been cumulatively hiked 75bps in the last four months, from 7.25 to 8%

The RBI has stated that the hike in policy rates will “set the economy securely on the recommended disinflationary path”

For details see [Monetary Policy Update](#)

CPI ELEVATED ON VEG PRICES

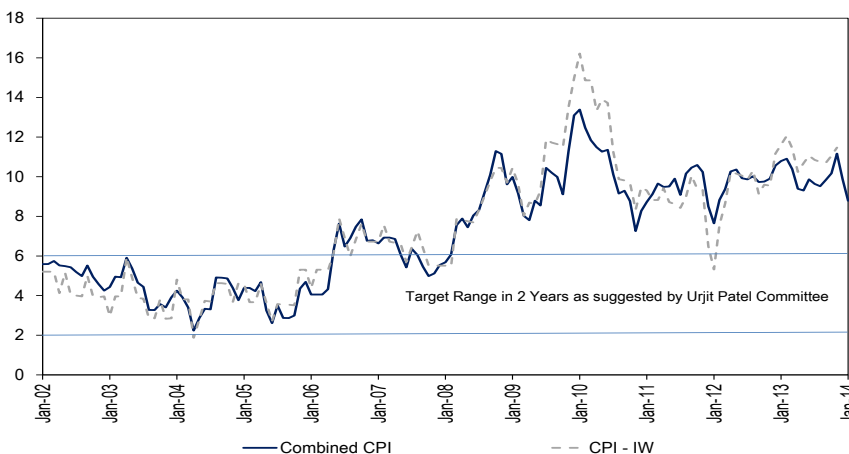
Inflation – both WPI and CPI – showed significant increase due to a sharp rise vegetable prices, but have eased as prices normalized.

A reversal in “veggie” prices has provided some relief on the inflation front in the last two months coming off from 11.2% in Nov to 8.8% currently.

Still vegetables contribute close to 70bps to CPI

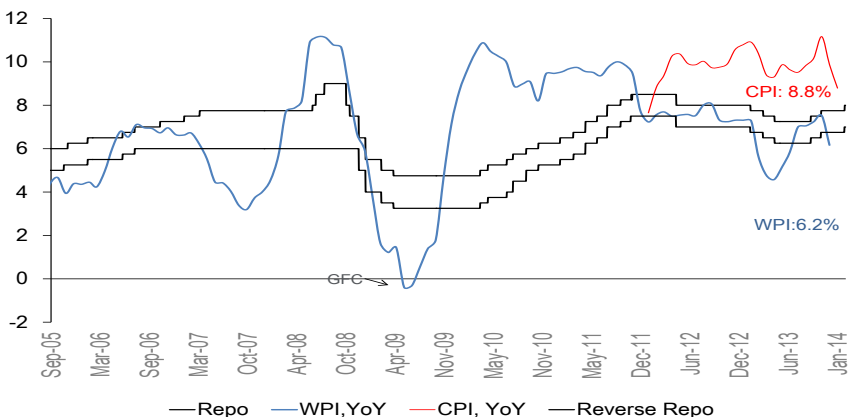
For details see [January CPI](#)

Figure 4. Trends in CPI-Combined & CPI-IW (%YoY)



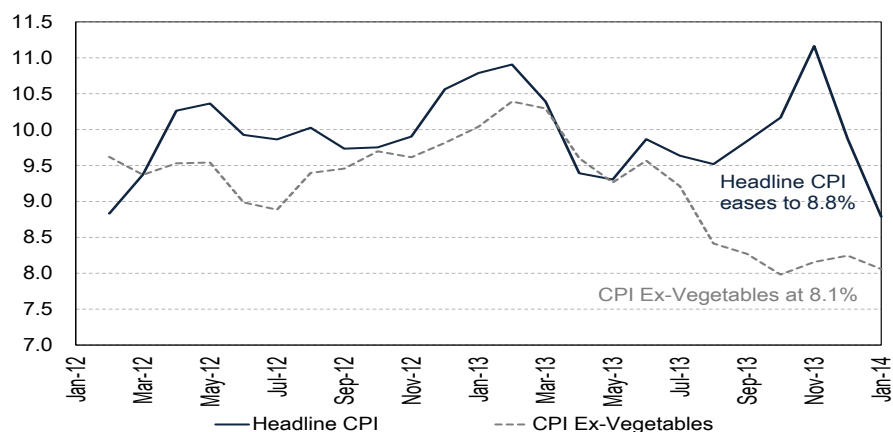
Source: RBI, CSO, Labor Bureau (Time Series on New CPI combined prior to 2011 based on Urjit Patel Report)

Figure 5. Policy Rates v/s CPI and WPI Inflation (%)



Source: RBI, CSO, Office of Econ Adviser, Citi Research

Figure 6. Trends in New CPI & New CPI excluding Vegetables (% YoY)



Source: CSO, Citi Research

Macro – Marginal Delta Improvement

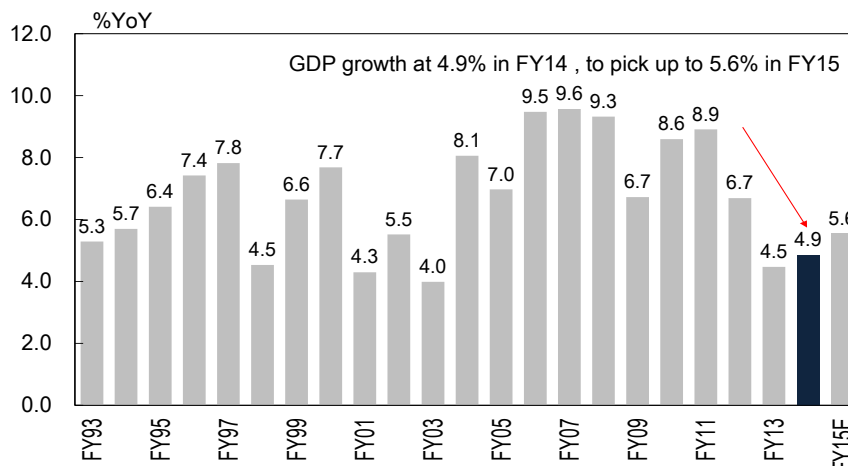
GDP GROWTH

The govt's 1st FY14 GDP estimate pegs growth at 4.9% - largely in line with expectations led by agriculture at 4.6%, services up 6.9% and industry at 0.7%.

Going forward in FY15, we maintain our 5.6% estimate, but key to watch are (1) Chances of an El-Nino event and (2) Project implementation which rests on a stable election outcome

For details see [GDP Update](#)

Figure 7. Trends in GDP Growth (%YoY)



Source: CSO, Citi Research

CURRENT ACCOUNT

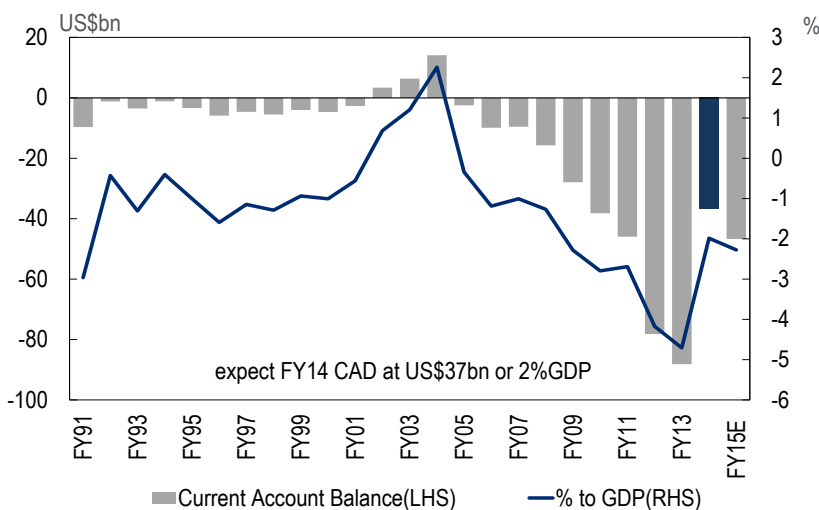
Taking into account the sharper than expected contraction in “non-oil/non-gold” imports and adjusting for lower remittances, we now expect FY14 CAD at US\$36.8bn or 2% of GDP.

Going forward for FY15, the resumption of iron ore exports and potentially lower coal/metal scrap imports should partially offset a pick-up in gold and/or capital goods and we expect the CAD to US\$46.7bn or 2.3% of GDP.

Despite an improved CAD, we expect the INR to stay in the 60-63 range due to (1) EM Risk aversion and (2) Dip in forward adjusted reserves

For details see [External Sector Update](#)

Figure 8. Trends in Current Account Deficit (US\$bn, %GDP)



Source: RBI, Citi Research

FISCAL DEFICIT

Given current trends in revenues and incorporating flows from (1) Divestments - SUUTI/minority stake/cross-holdings (2) Telecom Auction success (3) Higher dividend payouts, we maintain our view that the fiscal red line of 4.8% of GDP is possible only by expenditure cuts.

For details see [Fiscal Update](#)

Figure 9. India – 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	600
Shortfalls in divestments	50
Additional Food Subsidy	50
Under-recoveries by Oil Companies	522
Less:	
Higher Dividends	100
Oil Subsidies (Under-recoveries) deferred	400
Expenditure Cut Required to Meet Red Line	700
Total fiscal deficit (revised)	5,472
Fiscal deficit as % of GDP (RE)	4.85

Source: Budget Documents, Citi Research

Statistical Snapshot

Figure 10. 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	77,841	90,097	101,133	113,205	127,921
Nominal GDP (US\$ bn)	496	527	623	720	834	950	1,241	1,224	1,367	1,708	1,873	1,873	1,853	2,053
Per Capita GDP (US\$)	477	499	582	662	754	847	1,090	1,061	1,168	1,440	1,558	1,539	1,478	1,638
Real GDP growth (%)	5.5	4.0	8.1	7.0	9.5	9.6	9.3	6.7	8.6	8.9	6.7	4.5	4.9	5.6
Agriculture growth (%)	6.0	-6.6	9.0	0.2	5.1	4.2	5.8	0.1	0.8	8.6	5.0	1.4	4.6	3.0
Industry growth (%)	2.6	7.2	7.3	9.8	9.7	12.2	9.7	4.4	9.2	7.6	7.8	1.0	0.7	3.9
Services growth (%)	6.9	7.0	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.7	6.6	7.0	6.9	6.9
By Demand (%YoY)														
Consumption	5.3	2.3	5.4	1.9	8.7	7.7	9.4	7.7	8.4	8.2	8.9	5.2	4.4	5.6
Pvt Consumption	6.0	2.9	5.9	1.7	8.6	8.5	9.4	7.2	7.4	8.7	9.3	5.0	4.1	5.5
Public Consumption	2.3	-0.4	2.6	3.4	8.9	3.8	9.6	10.4	13.9	5.8	6.9	6.2	5.5	6.0
Gross Fixed Capital Formation	7.4	6.8	13.6	20.7	16.2	13.8	16.2	3.5	7.7	11.0	12.3	0.8	0.2	4.0
Cons; Invt, Savings * (%GDP)														
Consumption	78.9	77.2	75.0	70.1	69.2	68.0	67.2	68.6	69.1	67.5	68.5	68.8	69.8	70.1
Gross Capital Formation	22.3	24.6	26.9	32.8	34.7	35.7	38.1	34.3	36.3	36.5	36.4	34.7	35.3	35.7
Gross Domestic Savings	22.6	25.4	28.7	32.4	33.4	34.6	36.8	32.0	33.7	33.7	31.3	30.1	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	2.5
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	6.0	5.5
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	9.6	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	14.2	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	-4.8	-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	-2.2	-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	-	-	-	-	-
Combined liabilities (dom+ext)	87.2	90.7	90.0	88.8	84.6	79.9	76.1	76.8	75.5	70.2	69.7	69.8	68.9	67.1
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	349.3
% 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	8.0
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	472.1	514.6
%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	-6.0	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	-148.7	-165.3
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	111.9	118.6
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	-36.8	-46.7
% to GDP	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-4.7	-2.0	-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	284.5	301.3
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	7.2	7.0
External Debt (US\$bn)	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	260.9	317.9	360.7	400.3	400.3	415.3
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	94.8	
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

Appendix A-1

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