

India Macro Flash

Govt Pegs FY14 GDP¹ at 4.9%; Maintain FY15 Estimates of 5.6% - Elections, Investments and El Nino to Be Key

- **CSO advance estimates put FY14 GDP at 4.9%** — The government's first GDP estimate for FY14 pegs growth at 4.9%, largely in line with expectations (Citi: 4.8%; Consensus 4.7%). Note that the recent downward revision to the FY13 GDP data from 5% to 4.5% provided a favorable base. Growth by activity was led by agriculture up 4.6%, services up 6.9% while industry came in at 0.7%. On the expenditure side, the 4.6% print was primarily led by net exports which contributed ~50% to the headline number. Investments (GFCF) painted a sorry picture, up 0.2% while consumption decelerated further to 4.4%. (see pg 2 for details)
- **What to watch In FY15 : Investments pick-up; Monsoons; elections** — Going forward for FY15, we maintain our estimate of 5.6% led by (1) Agriculture returning to its trend growth of 3% (2) Industry growth rising to 3.9% due to mining clearances and improved electricity production, and (3) Services remaining flat at 6.9%.
 - **El Nino Effect and Monsoons:** Recently, global weather agencies have reported the possibility of increased chances of 'weak El Nino conditions' in 2014. While we await the Indian Meteorological Dept (IMD) monsoon forecast due in April, occurrence of El Nino could lead to deficient rainfall in India and consequently, pose a downward risk to agricultural output. This could affect our FY15 GDP estimate at 5.6%YoY, which is contingent on agricultural growth at 3%. (see pg 4)
 - **Progress made by PMG:** Since its inception in June 13, the Project Monitoring Group has resolved issues in 285 projects valuing ~US\$80bn, or ~4.4%GDP. (see pg 4). While we believe the PMG is a positive step to improve investments, anecdotal evidence indicates that despite getting approvals, companies could be waiting for elections before commencing operations. Bottom Line: A stable government post elections remains key to a capex revival.
- **Implications of Lower Potential Growth: Rates Higher for Longer** — Recent studies indicate that a sharp decline in capital productivity has resulted in India's potential growth declining from 8% to 6.5% currently. This possibly explains why despite growth falling to a decadal low, inflation has remained near double digits and suggests that (1) the output gap is not as negative as earlier believed (2) It also indicates that interest rates are likely to remain higher for longer to contain inflation and elevated inflationary expectations. We maintain our view of an [extended pause in rates](#) through 2014

¹ CSO releases 4 sets of GDP data each year – Advance, Updated, Quick and Revised estimates. Advance estimates are released in Feb prior to the close of the current FY. Estimates are revised in June and finally next yr

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Figure 1. GDP Snapshot (%YoY)

	FY12	FY13	FY14 CSO	FY15 E
Real GDP	6.7	4.5	4.9	5.6
Agriculture	5.0	1.4	4.6	3.0
Industry	7.8	1.0	0.7	3.9
Services	6.6	7.0	6.9	6.9
Consumption	8.9	5.2	4.4	5.6
Pvt Consumption	9.3	5.0	4.1	5.5
Govt Consumption	6.9	6.2	5.5	6.0
Gross Capital Formation	3.9	4.9	0.0	3.4
Gross Fixed Cap Form	12.3	0.8	0.2	2.5

Source: CSO, Citi Research

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

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Data Highlights

FY14 Highlights: GDP growth came in at 4.9%YoY vs 4.5% print in FY13. Growth was primarily led by agriculture, up 4.6%YoY vs 1.4% last year thanks to favorable monsoons. Trends in services decelerated marginally to 6.9% vs 7% in FY13 while industry painted a sorry picture with growth at 0.7% vs 1% in FY13.

FY15 Outlook: We maintain our estimate of 5.6% GDP growth in FY15. This factors in (1) Agriculture slowing to 3% (2) Industry growth picking up to 3.9% due to mining clearances and improved electricity production, and (3) Services remaining flat at 6.9%

Contribution to GDP:

Agriculture: 0.7%

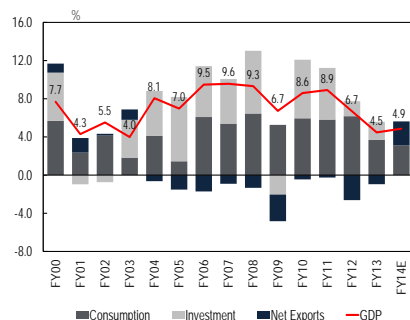
Industry: 0.2%

Services: 4%

Overall GDP: 4.9%

In terms of contribution to growth, consumption contributed 3.1%, net exports 2.5%, and discrepancies 1% while investments were zero

Figure 3. Contribution to GDP (%)



Source: CSO, Citi Research

Figure 2. Trends in GDP by Activity (%YoY)

	Wts	FY08	FY09	FY10	FY11	FY12	FY13	FY14 CSO	FY15E
Agriculture	13.9	5.8	0.1	0.8	8.6	5.0	1.4	4.6	3.0
Industry	26.2	9.7	4.4	9.2	7.6	7.8	1.0	0.7	3.9
Manufacturing	15.0	10.3	4.3	11.3	8.9	7.4	1.1	-0.2	3.0
Mining & quarrying	1.8	3.7	2.1	5.9	6.5	0.1	-2.2	-1.9	4.1
Elect. gas & water supply	1.9	8.3	4.6	6.2	5.3	8.4	2.3	6.0	7.1
Construction	7.4	10.8	5.3	6.7	5.7	10.8	1.1	1.7	5.0
Services	59.9	10.3	10.0	10.5	9.7	6.6	7.0	6.9	6.9
Trade, Transport & Comm	26.5	10.9	7.5	10.4	12.2	4.3	5.1	3.5	5.6
Financing & insurance,	20.3	12.0	12.0	9.7	10.0	11.3	10.9	11.2	9.1
Community, Social Services	13.1	6.9	12.5	11.7	4.2	4.9	5.3	7.4	6.0
GDP	100.0	9.3	6.7	8.6	8.9	6.7	4.5	4.9	5.6

Source: CSO, Citi Research Estimates

GDP by Expenditure

FY14 Highlights: Total consumption slowed to 4.4%YoY from 5.2% in FY13 led by a deceleration in both private and public consumption to 4.1% and 5.5%, respectively. Investments showed no growth, at 0% due to fixed investments coming in lower (0.2%) and valuables contracting (-3.6%). Key to note is that the 4.6% print in GDP by expenditure was primarily led by net exports, which contributed ~50% to the headline number.

FY15 Outlook: With an improving global backdrop in 2014, we maintain our estimates of modest upturn in GDP growth from 4.8% in FY14 to 5.6% in FY15 and believe a pick-up in private sector investments will be key.

Figure 4. Trends in GDP by Expenditure (% to GDP, % YoY)

	FY08	FY09	FY10	FY11	FY12	FY13	FY14 CSO	FY15E
Total Consumption (% GDP)	68.5	71.0	70.9	69.6	71.0	71.4	71.2	71.3
%YoY	9.4	7.7	8.4	8.2	8.9	5.2	4.4	5.6
Pvt Consumption (% GDP)	58.1	60.0	59.4	58.5	60.0	60.1	59.8	59.9
%YoY	9.4	7.2	7.4	8.7	9.3	5.0	4.1	5.5
Public Consumption (% GDP)	10.3	11.0	11.5	11.0	11.1	11.2	11.3	11.4
%YoY	9.6	10.4	13.9	5.8	6.9	6.2	5.5	6.0
Gross Capital Form (% GDP)	39.0	35.6	38.4	39.8	38.8	38.8	37.1	36.8
%YoY	18.1	-5.2	17.3	14.1	3.9	4.9	0.0	3.4
Gross Fixed Cap Form (%)	33.7	33.5	33.3	33.5	35.3	33.9	32.5	32.0
%YoY	16.2	3.5	7.7	11.0	12.3	0.8	0.2	2.5
Valuables (% GDP)	1.1	1.4	2.0	2.4	2.4	3.1	2.8	1.8
% YoY	2.9	26.9	57.6	32.4	6.6	35.8	-3.6	-31.3
Net Exports (% GDP)	-4.6	-7.1	-7.0	-6.6	-8.6	-9.1	-6.3	-6.2
GDP at factor cost (%YoY)	9.3	6.7	8.6	8.9	6.7	4.5	4.9	5.6
GDP at Mkt prices (%YoY)	9.8	3.9	8.5	10.3	6.6	4.7	4.6	5.4

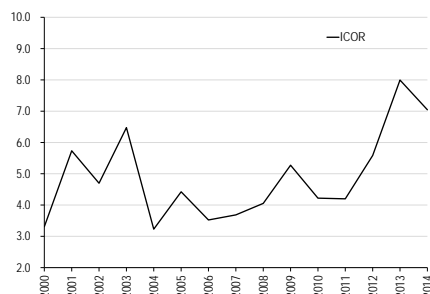
Source: CSO, Citi Research Estimates

Trend growth on a Decline

Potential growth slows to 6%-6.5% on declining productivity

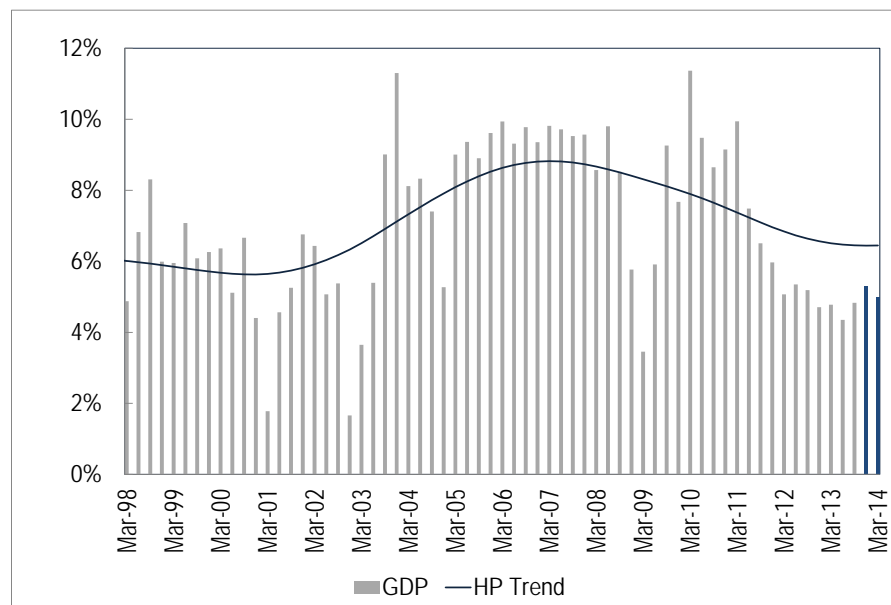
While headline trends in growth have come off sharply from ~9% levels to 4.9% in FY14, investments as a % of GDP have held at ~35% of GDP. As mentioned in the [savings-investment update](#), part of this can be attributed to the increase in investment in “valuables” i.e gold. In addition to this, however, is the sharp decline in the productivity of capital as reflected in the increase in the Incremental Capital Output Ratio (ICOR) from 4.2 in FY11 to ~7 in FY14 (Fig 5). Our own assessment of potential growth based on statistical filter (Hodrick-Prescott) shows a decline in potential growth from 8% pre-crisis to ~6.5% recently (see Fig 6).

Figure 5. Incremental Capital Output Ratio (ICOR)



Source: Citi Research

Figure 6. Trend Growth & Output Gap (%)



Source: Citi Research

Recent IMF Study on Potential Growth

A recent study by the IMF (Rahul Anand et al, 2014) estimates that India's potential growth based on three methods, namely: (1) Statistical filters (2) Macroeconomic model-based multi-filter method, and (3) Production function approach indicates that India's trend growth peaked just before the GFC at around 8% and has recently declined to around 6-7%

The study suggests that TFP growth has declined on heightened policy uncertainty, delayed project approvals and implementation, reforms setback, etc.

Slowing potential growth explains elevated inflation

Despite growth falling to a decadal low, inflation has remained in double digits. This suggests that (1) the output gap hasn't been as negative as earlier believed and (2) it also indicates that interest rates are likely to remain higher for longer to contain high inflation and elevated inflationary expectations. We maintain our view of an extended pause in rates through 2014.

Reforms key to revive potential growth of the economy

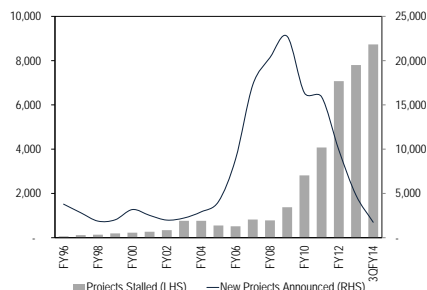
Going forward, key to moving to a higher growth trajectory would be (1) reviving investments to pre-crisis levels, especially private sector through continued efforts to 'unlock' stalled investments. Here there is some traction on fast-tracking and 'unlocking' stalled projects. (see pg 4) and (2) higher domestic savings, especially financial savings by containing inflation and positive real return.

What to Watch: PMG, El Nino

PMG – Important step to unlock investments

The Project Monitoring Group (PMG) is a body that was set up in June 2013 to speedily resolve clearance issues in stalled projects. Since its inception, the PMG has resolved issues in 285 projects valuing ~US\$80bn, or ~4.4%GDP. Of these, 75% of projects have been in the power sector. While we believe the PMG is a positive step to improve investments, many projects resolved were on the verge of clearance and work on them had already commenced. Further, anecdotal evidence indicates that despite getting approvals, companies are waiting for elections before commencing operations. Nonetheless, the PMG is a positive step forward.

Figure 7. Projects Stalled vs Projects Announced (Rs bn)



Source: www.capex.cmie.com

Figure 8. PMG Progress on Projects so far

Sector	By Number		By Value (Rs Bn)		By Value (US\$bn)	
	Resolved	Remain	Resolved	Remain	Resolved	Remain
Power	87	79	3674	5176	59	83
Road Transport and Highways	5	30	65	460	1	7
Petroleum and Natural Gas	8	37	128	3483	2	56
Steel	4	37	561	4082	9	66
Railways	4	20	84	367	1	6
Shipping	4	14	58	265	1	4
Chemicals and Petrochemicals	1	0	50	0	1	0
Fertilizers	0	3	0	192	0	3
Mines	1	7	70	344	1	6
Civil Aviation	1	0	120	0	2	0
Coal	22	38	110	234	2	4
Commerce and Industry-DIPP/Comm	2	19	45	754	1	12
Textiles	0	1	0	13	0	0
TOTAL	139	285	4,965	15,369	80	248

As of 7th Feb 2014; Source: http://www.cabsec.nic.in/ccl_acceptedprojects.php

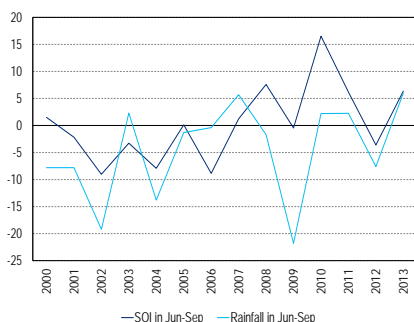
El Nino¹ – Could affect Monsoons in 2014

The World Meteorological Organization recently stated there is “enhanced possibility for development of a weak El Nino in the middle of 2014”; however, things are not certain as it also said there are “approximately equal chances for neutral conditions or the development of weak El Nino”.

El Nino conditions could lead to deficient rainfall in India and, consequently, pose a downward risk to agricultural output. This could affect our FY15 GDP estimate at 5.6%YoY, which is contingent on agricultural growth at 3%.

The last El Nino period was from June 2009 – May 2010, coinciding with the 2009 drought when rainfall was 22% below normal and agri growth was at a mere 0.8%. Going forward, we await the Indian Meteorological Department’s (IMD) Monsoon forecast due April 2014 to have a clearer outlook on Monsoons in 2014.

Figure 9. Rainfall and SOI Trends in Jun-Sep



Source: Australian Meteorological Department, IMD

El Nino (Spanish for ‘boy’) is a weather phenomenon that occurs every two to seven years and causes major shifts in rainfall. It is characterized by higher surface temperatures in the Tropical Pacific Ocean and weaker trade winds. El Nino conditions usually coincide with a period of weak monsoon in India. El Nino conditions are measured using the Southern Oscillation Index (SOI). SOI values below -8 indicate El Nino episodes while sustained positive values above +8 indicate La Nina episodes.

Charting Annual Trends in GDP

Figure 10. Trends in Headline GDP (%YoY)

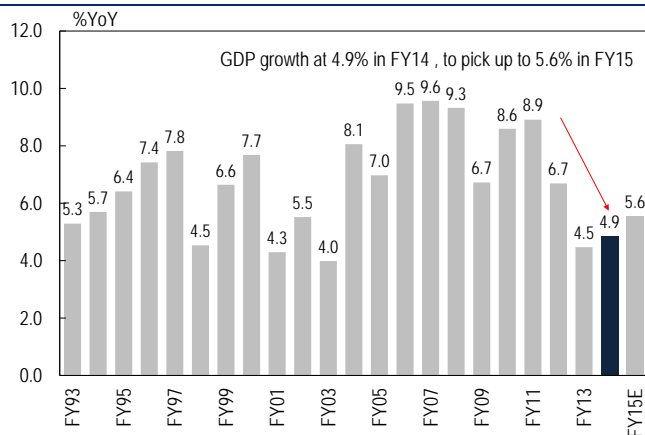


Figure 11. Trends in Agri Growth (%YoY)

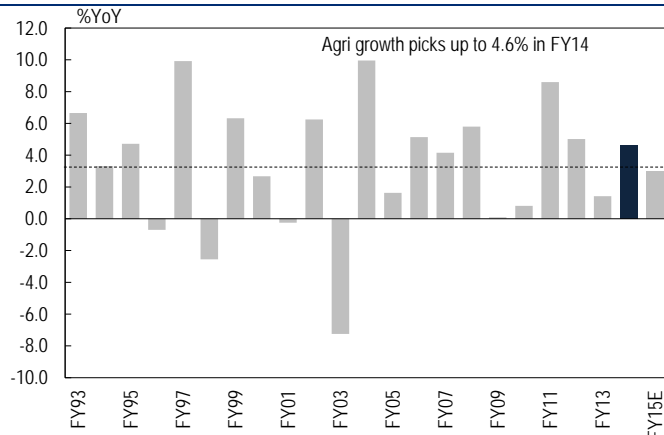


Figure 12. Trends in Industry (%YoY)

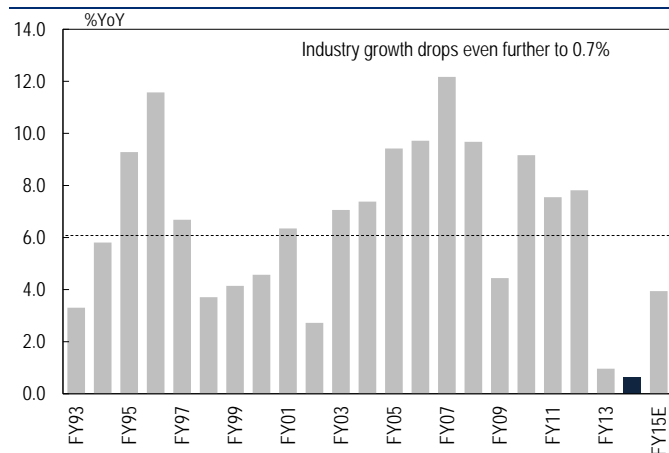


Figure 13. Trends in Services (%YoY)

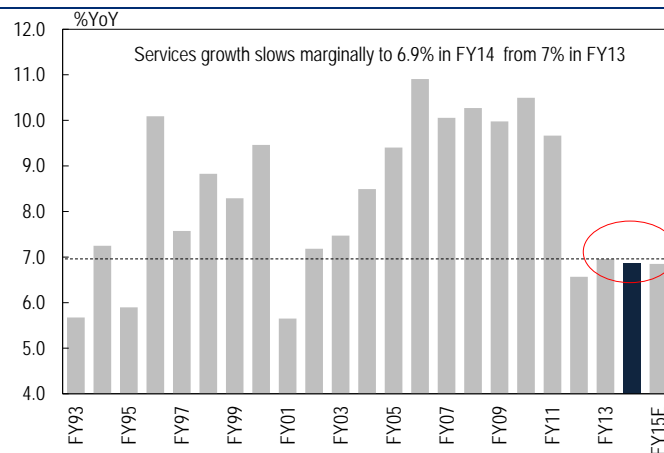


Figure 14. Trends in Consumption Growth (%YoY)

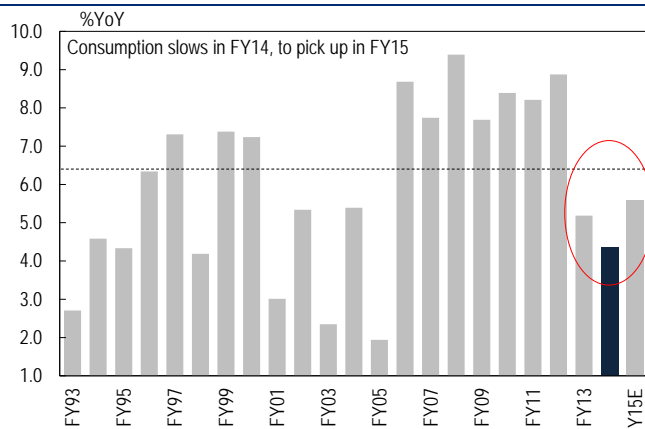
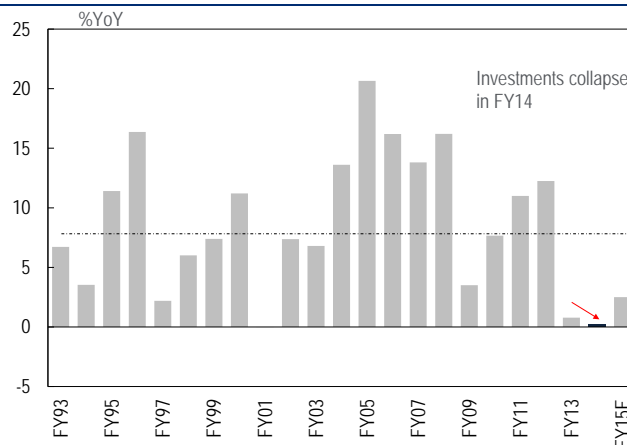


Figure 15. Trends in Fixed Capital Formation (%YoY)



Source: CSO, Citi Research

Statistical Snapshot

Figure 16. 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	2.5
Cons; Invst, Savings * (%GDP)														
Consumption	78.9	77.2	75.0	70.1	69.2	68.0	67.2	68.6	69.1	67.5	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	4.0
Mobile Tele density	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	87.9	89.7
Monetary Indicators (% YoY)														
Money supply	16.0	16.1	13.0	14.0	15.9	20.0	22.1	20.5	19.2	16.2	15.8	13.4	17.0	18.0
Inflation – WPI (Avg)	3.6	3.4	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	7.4	6.5	6
CPI (Avg)	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	10.2	10.0	8.3
Bank credit growth	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	14.1	15.0	15.0
Deposit growth	14.6	16.1	17.5	13.0	24.0	23.8	22.4	19.9	17.2	15.9	13.5	14.2	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	355.8
% YoY	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-1.0	5.5	10.0
Imports (US\$bn)	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	502.2	482.1	525.5
%YoY	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	0.5	-4.0	9.0
Trade deficit (US\$bn)	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-195.7	-158.7	-169.8
Invisibles (US\$bn)	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	111.6	107.5	115.9	122.6
Current Account Deficit (US\$bn)	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-88.2	-42.8	-47.2
% to GDP	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-4.7	-2.3	-2.3
Capital Account (US\$bn)	8.6	10.8	16.7	28.0	25.5	45.2	106.6	7.4	51.6	62.0	67.8	89.3	56.6	63.6
% GDP	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.6	3.6	4.8	3.1	3.1
Forex Assets (excl gold) (US\$bn)	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	260.9	264.7	278.4	294.8
Months of imports	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	6.3	6.3	6.9	6.7
External Debt (US\$bn)	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	260.9	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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