

## Economics

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# India Macro Flash

## After S&P, It's now Fitch that Revises India's Outlook to Negative; Retains BBB -; Odds of a Rating Downgrade Remain High

- **Fitch Revises Outlook from Stable to Negative** — India's woes just don't seem to end. Following S&P's revision to India's sovereign outlook from stable to negative in April (see [S&P Lowers Sovereign Outlook to Negative – Affirms 'BBB-' Rating, But Odds of a Rating Downgrade are High](#)), in a widely anticipated move, Fitch has also lowered India's sovereign outlook from Stable to Negative due to risks of a lower growth potential and limited progress on fiscal consolidation. We maintain our view that the odds for a rating downgrade are high.
- **What to Watch?** While affirming the long-term rating at BBB-, Fitch has stated that a significant loosening of fiscal policy and deterioration in growth potential could result in a downgrade of India's sovereign rating. This once again puts the onus on the govt to create a positive investment environment and implement tax and subsidy reforms.
- **Revises Macro Assessment** – Changes include (1) **GDP** - Fitch now expects FY13 GDP growth at 6.5% v/s its 7.5% earlier (2) **WPI** to average 7.5% and (3) **Deficit** – Fitch expects the centre's deficit to come in at 5.6%-5.9% vs budget targets of 5.1% due to weaker economic growth and a larger subsidy bill.
- **A possible influence on RBI's rate decision?** — Earlier today, the RBI surprised the markets by keeping rates unchanged (see [RBI Surprises, Keeping ALL Rates on Hold; Ball Now in Govt's Court to Revive Growth](#)). While inflation is undoubtedly a worry, the rating action may also have influenced the RBI to keep rates on hold. Governments generally do receive a notice of a downgrade/rating outlook before it happens.
- **Outlook: Odds of a Rating Downgrade are High** — While S&P has said that *'there is a one-in-three likelihood of a downgrade over the next 24 months'*, in a media interview, Fitch has stated that India can be downgraded in the next 12-24 months if corrective measures are not taken. We maintain our view that the odds of India losing its sovereign investment grade rating are high. As per Fitch, this is likely if (a) there is a significant loosening of fiscal policy, (b) downward revision to India's growth potential, (c) persistent inflationary conditions. As mentioned earlier, nearly 60% of countries that see an outlook downgrade face a ratings downgrade in seven months. A downgrade would hurt foreign inflows and the currency.

**Rohini Malkani**  
+91-22-6631-9876  
[rohini.malkani@citi.com](mailto:rohini.malkani@citi.com)

**Figure 1. 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

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, FY00-13E (%)

Year to 31 March	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
<b>National Income Indicators*</b>														
Nominal GDP (Rs bn)	20,279	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
Nominal GDP (US\$ bn)	467	478	493	528	623.5	720.5	833.7	950.2	1240.6	1223.9	1362.3	1683.7	1,841.	1,861
Per Capita GDP (US\$)	467	469	474	500	582	662	754	847	1,090	1,061	1,163	1,416	1,526	1,519
Real GDP growth (%)	6.0	4.4	5.8	3.8	8.5	7.6	9.5	9.6	9.3	6.7	8.4	8.4	6.5	6.4
Agriculture growth (%)	0.5	-0.2	6.3	-7.2	10.0	1.6	5.1	4.2	5.8	0.1	1.0	7.0	2.8	3.0
Industry growth (%)	4.6	6.4	2.7	7.1	7.4	9.4	9.7	12.2	9.7	4.4	8.4	7.2	3.4	4.1
Services growth (%)	9.5	5.7	7.2	7.5	8.5	9.4	10.9	10.1	10.3	10.0	10.5	9.3	8.9	8.3
<b>By Demand * (%YoY)</b>														
Consumption	7.2	3.0	5.3	2.3	5.4	2.3	8.6	7.9	9.3	7.6	8.1	8.1	5.4	5.8
Pvt Consm	6.1	3.4	6.0	2.9	5.9	2.1	8.5	8.7	9.2	7.1	7.0	8.1	5.5	6.0
Public Consm	13.2	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
Gross Fixed Capital Formn	11.2	0.0	7.4	6.8	13.6	20.7	16.2	13.8	16.2	3.5	6.8	7.5	5.6	5.5
<b>Cons; Invst, Savings ** (%GDP)</b>														
Consumption	79.4	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
Capital Formation	25.3	23.8	22.3	24.6	26.9	32.8	34.7	35.7	38.1	34.3	36.1	35.8	35.5	36.0
Gross Domestic Savings	24.2	23.2	22.9	25.7	29.1	32.4	33.4	34.6	36.8	32.0	33.8	32.3	33.5	33.0
<b>Real Indicators (%YoY)</b>														
Cement despatches (domestic)	15.2	-1.9	9.8	8.7	5.8	8.1	10.1	10.2	9.8	8.5	11.2	4.8	8.0	9.0
Commercial vehicle sales	22.0	-11.9	-4.5	28.0	36.2	22.4	10.1	33.3	4.2	-21.4	39.2	27.0	14.1	15.0
Car sales	45.3	-5.3	3.2	7.8	27.2	17.8	7.7	20.7	12.1	0.3	25.7	29.3	-4.0	7.5
Two-wheelers	9.4	0.7	15.3	17.0	11.3	15.7	13.6	11.5	-7.8	2.7	25.9	25.8	15.0	11.0
Diesel consumption	5.6	-3.4	-3.7	0.3	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	6.0	6.0
Mobile Tele density	0.2	0.3	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.9	67.9	74.9	81.6
<b>Monetary Indicators (% YoY)</b>														
Money supply	14.6	16.8	14.1	14.7	16.8	12.0	21.4	21.3	21.1	19.3	16.7	16.0	17.0	17.0
Inflation – WPI (Avg)	3.3	7.1	3.6	3.4	5.5	6.5	4.4	6.5	4.8	8.0	3.6	8.6	8.8	7.4
CPI (Avg)	3.4	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	13.0	9.5	9.0	7.0
Bank credit growth	18.2	17.3	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.7	21.4	18.0	18.0
Deposit growth	13.9	18.4	14.6	16.1	17.5	13.0	24.0	23.8	22.4	18.0	17.0	15.8	17.0	17.0
<b>Fiscal Indicators (% GDP)</b>														
Centre's fiscal deficit	-5.2	-5.4	-6.0	-5.7	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.9	-5.9	-5.5
State fiscal deficit	-4.5	-4.0	-4.1	-3.9	-4.2	-3.3	-2.4	-1.8	-1.5	-2.4	-2.9	-2.7	-2.5	-2.5
Combined deficit (Centre+State)	-9.0	-9.1	-9.5	-9.1	-8.1	-7.2	-6.5	-5.4	-4.1	-8.4	-9.6	-8.3	-8.4	-8.0
Off Balance Sheet Items	-	-	-	-	-	-	-0.5	-0.9	-0.6	-1.7	-0.2	-	-	-
Combined liabilities (dom+ext)	73.8	77.1	82.0	85.5	85.4	85.2	83.0	79.3	76.1	76.1	75.0	71.1	70.0	69.0
<b>External Sector (% YoY)</b>														
Exports (US\$bn)	37.5	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	300.6	336.6
% YoY	9.5	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	20.0	12.0
Imports (US\$bn)	55.4	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	483.9	529.9
%YoY	16.5	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	27.0	9.5
Trade deficit (US\$bn)	-17.8	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-183.4	-193.3
Invisibles (US\$bn)	13.7	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	109.1	128.0
Current Account Deficit (US\$bn)	-4.1	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-74.3	-65.3
% to GDP	-0.9	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.0	-3.5
Capital Account (US\$bn)	9.5	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	51.6	62.0	67.6	60.6
% GDP	2.0	1.9	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.7	3.7	3.3
Forex Assets (excl gold) (US\$bn)	35.1	39.6	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	267.0	262.3
Months of imports	7.6	8.2	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	6.6	5.9
External Debt (US\$bn)	98.3	101.3	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	261.0	306.4	326.6	341.6
Short Term Debt	3.9	3.6	2.7	4.7	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	71.5	81.5
<b>Exchange Rate</b>														
US\$/INR - annual avg	43.4	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	54.5
% depreciation	2.8	5.3	5.0	0.6	-5.0	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	13.3
US\$/INR - year end	43.6	46.5	48.9	47.5	43.6	43.8	44.6	43.6	40.1	50.7	44.9	44.6	50.3	54.8
% depreciation	2.8	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.3	-8.0	26.4	-11.4	-0.7	12.8	8.9

\*\* At current prices. Source: CSO, RBI, Ministry of Finance and CIRA estimates

## Appendix A-1

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