



India Economic Update

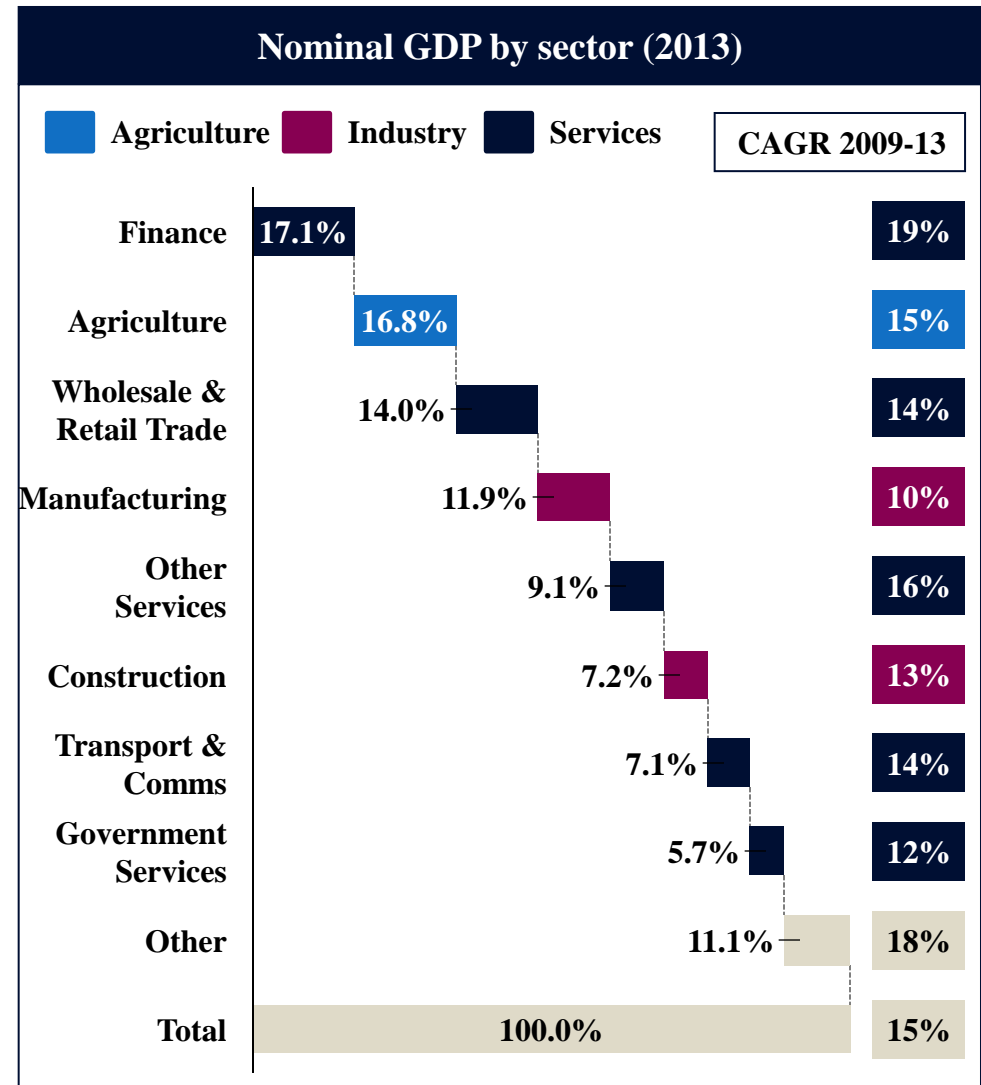
QNB Group

September 2014

India – Overview

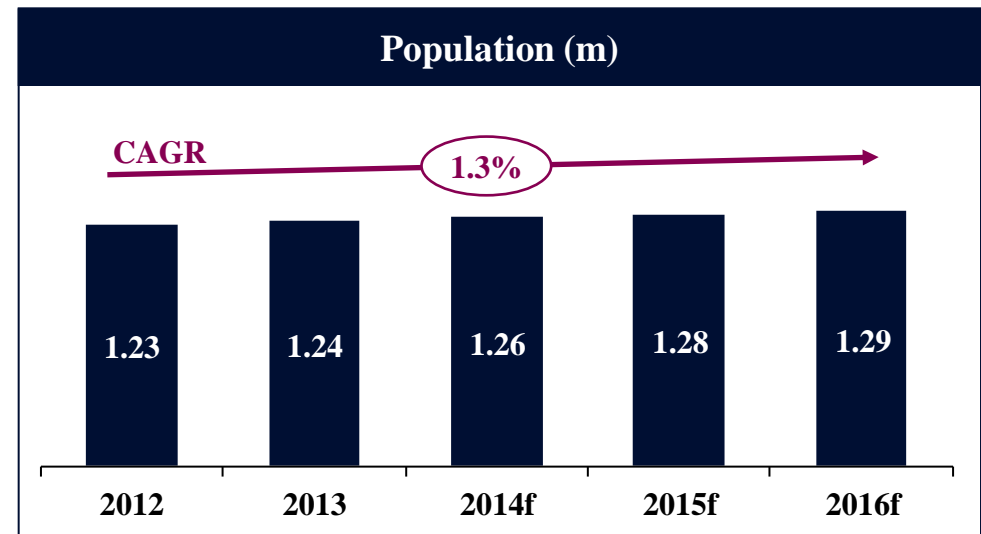
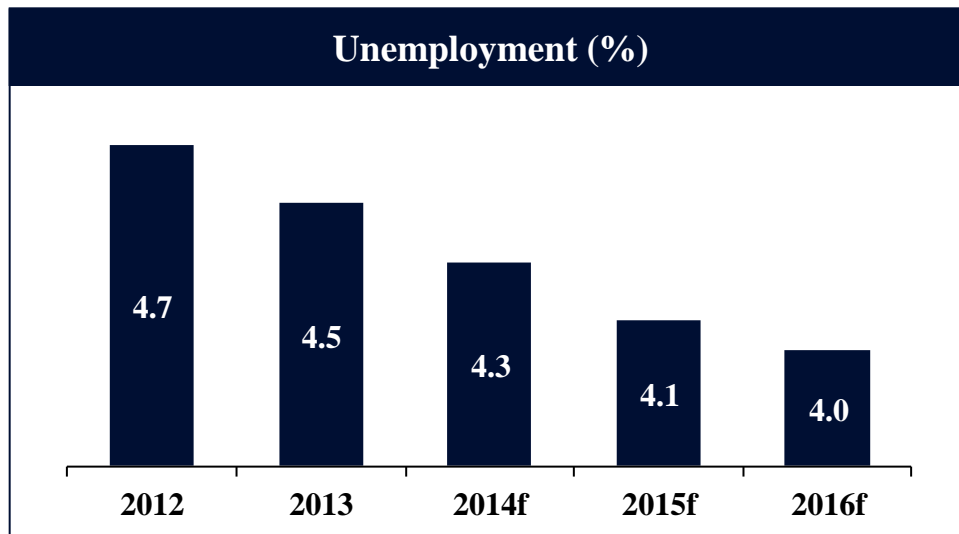
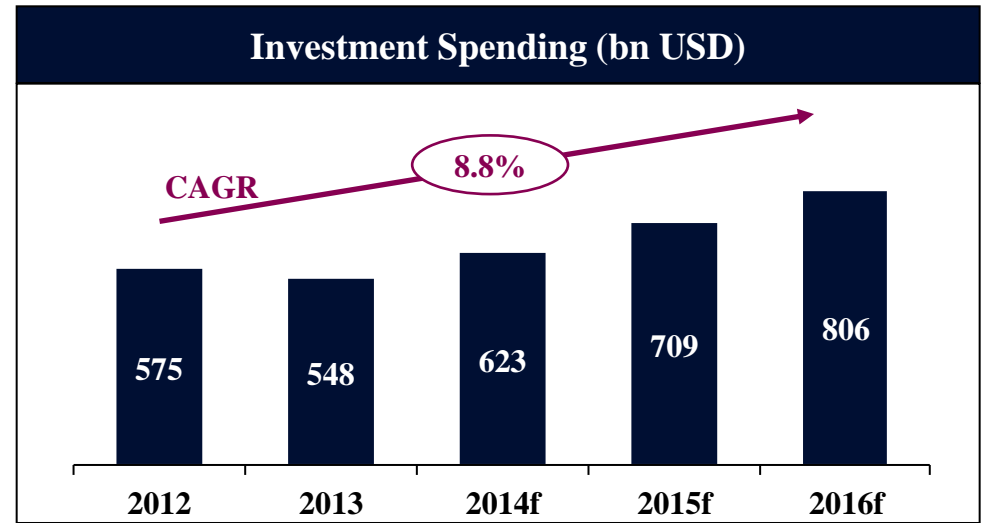
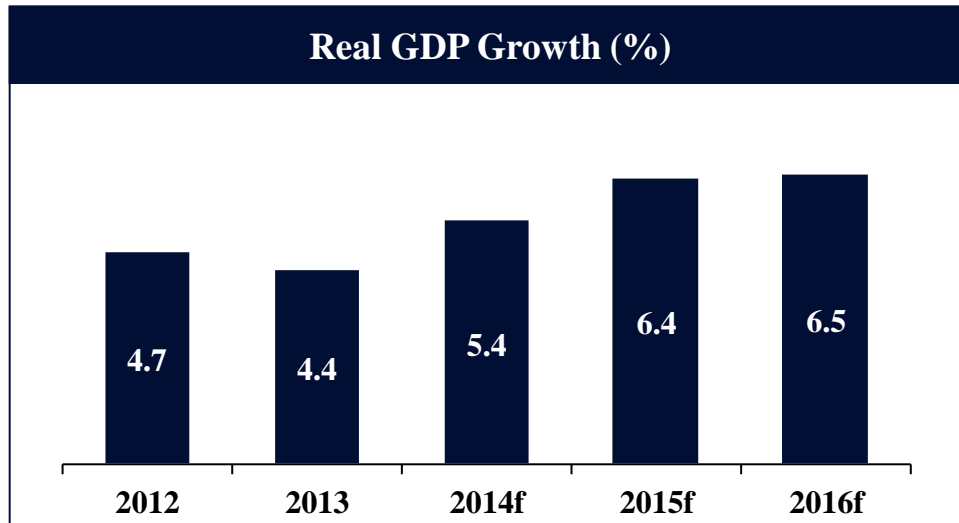
With 1.2bn people and the world's fourth-largest economy,¹ India is striving to develop into a middle-income economy; the new government faces significant reform challenges, including infrastructure gaps and subsidy reforms, to spur growth

Overview Data (2013)	
GDP (bn USD)	1,932.3
% GDP related to Services	53.0
Real GDP Growth (%)	4.4
Per Capita GDP (k USD, PPP)	4.1
CPI Inflation (%)	9.5
Current Account Balance (% of GDP)	-1.7
FX Reserves (months of import cover, end-2013)	5.2
Exchange Rate (USD:INR, end-2013)	61.9
Fiscal Balance (% of GDP)	-7.3
Government Debt (% of GDP)	66.7
Broad Money Growth (%)	14.8
Banking Assets (% of GDP)	77.6
3-Month Interbank Rate (%)	8.8
Population (m)	1,243.3
Population aged 15-64 Years (% share)	65.6
Population growth (%)	1.3
Unemployment (%)	4.5
Religion (% Muslim)	13.4
Doing Business Rank out of 189	134
Competitiveness Rank out of 148	60
Moody's Rating (Long-term FX debt)	Baa2



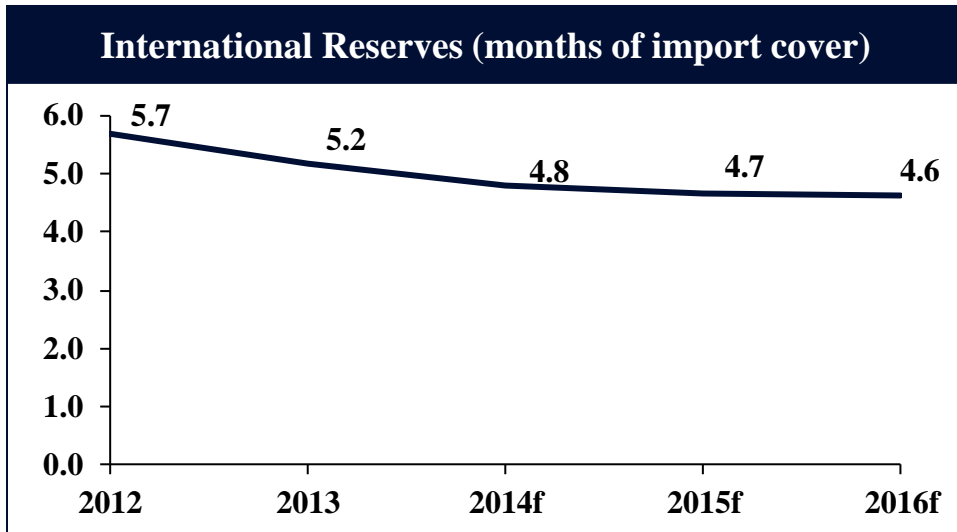
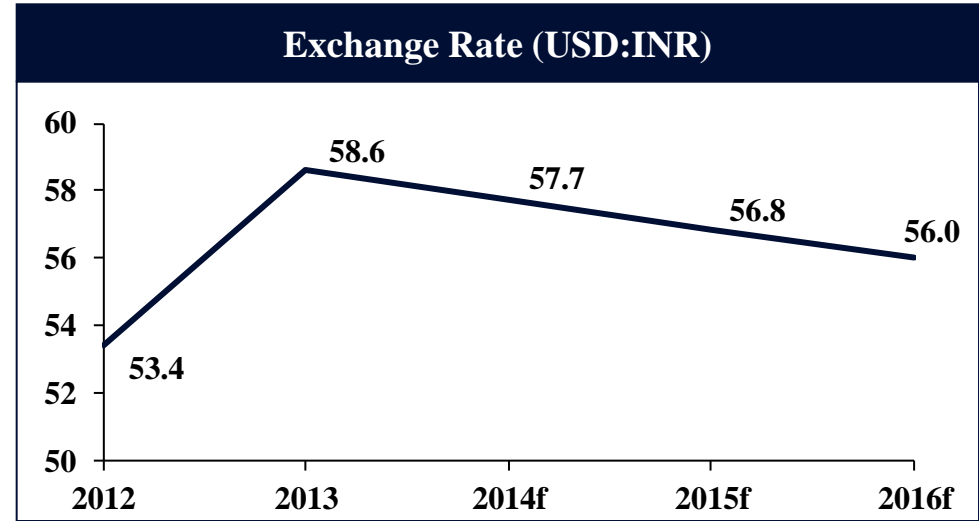
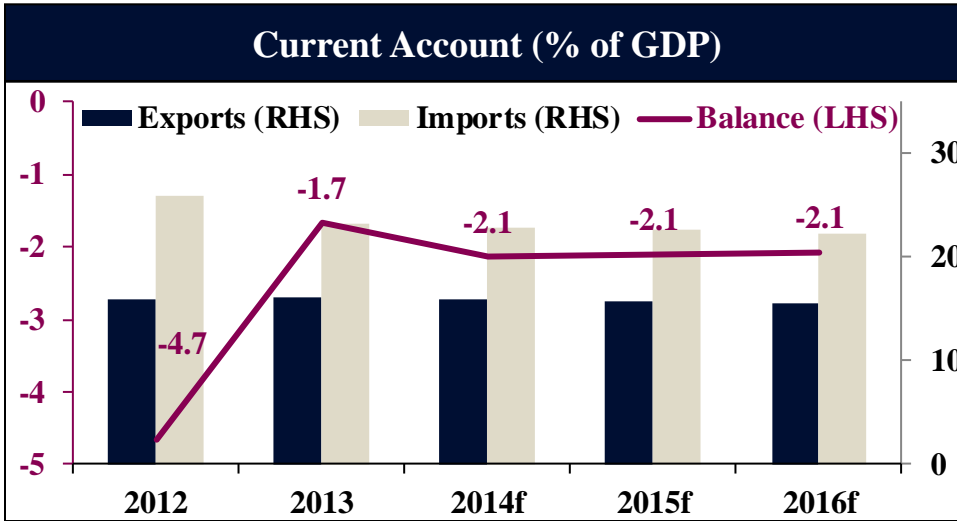
India – GDP Growth

Real GDP growth is expected to recover to 5.4% in 2014 (4.4% in 2013, the lowest in five years), bolstered by higher investments; this should reduce unemployment as population is projected to grow moderately



India – Balance of Payments

The current account deficit is projected to stabilize due to a recovery in exports, robust remittances and restricted gold imports; INR is likely to appreciate on improving fundamentals and international reserves should stabilize

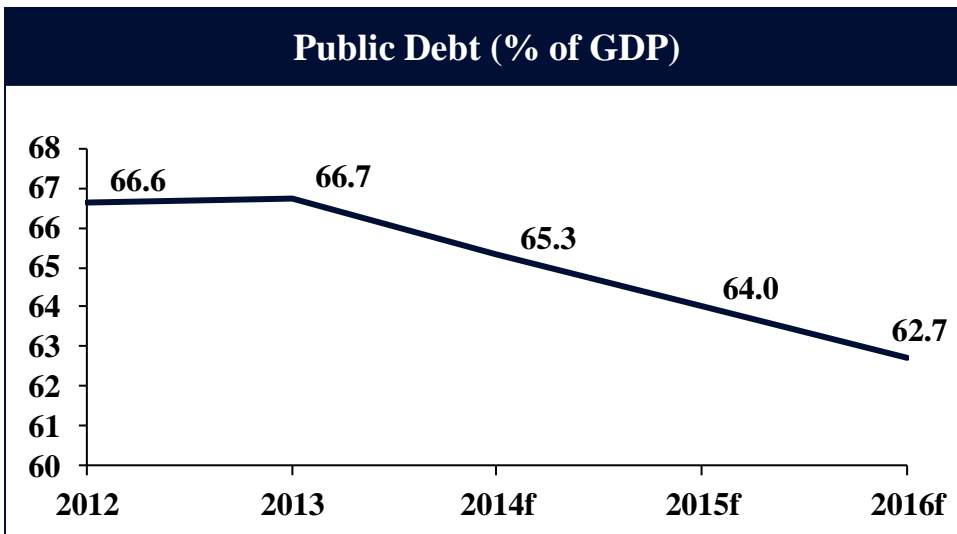
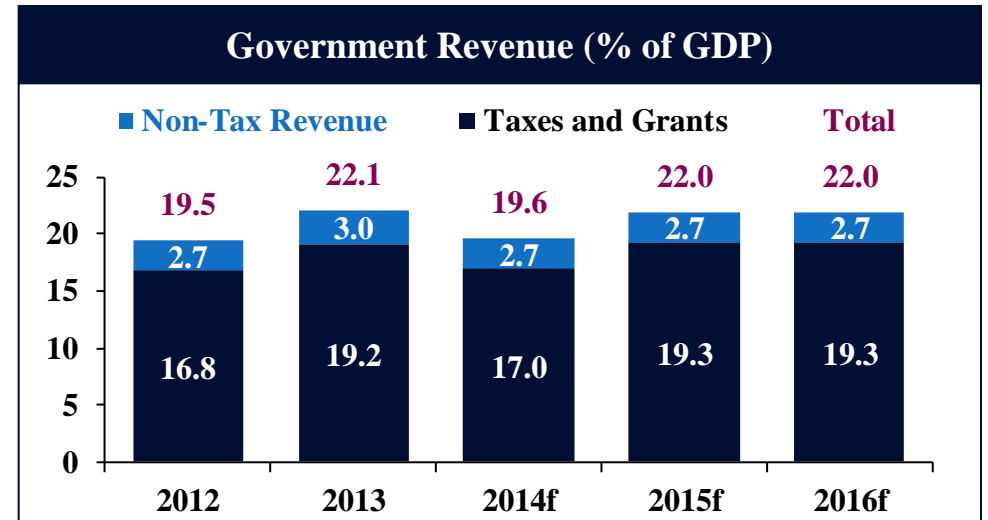
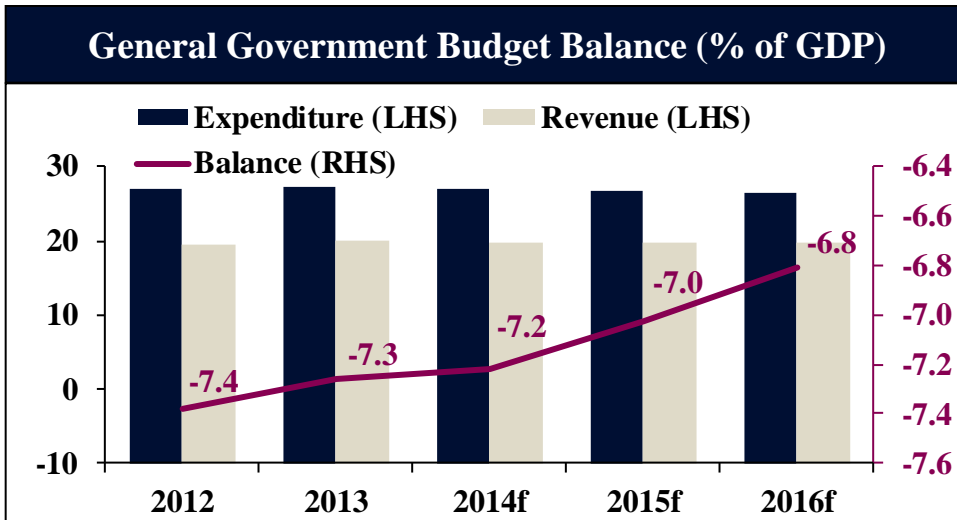


Direction of Trade (2013)

Exports		Imports	
Destination	bn USD	Source	bn USD
United States	38.8	China	51.4
Europe	38.2	Europe	49.8
UAE	32.0	Saudi Arabia	36.4
China	14.6	UAE	33.3
Singapore	13.5	Switzerland	25.6

India – Fiscal Policy

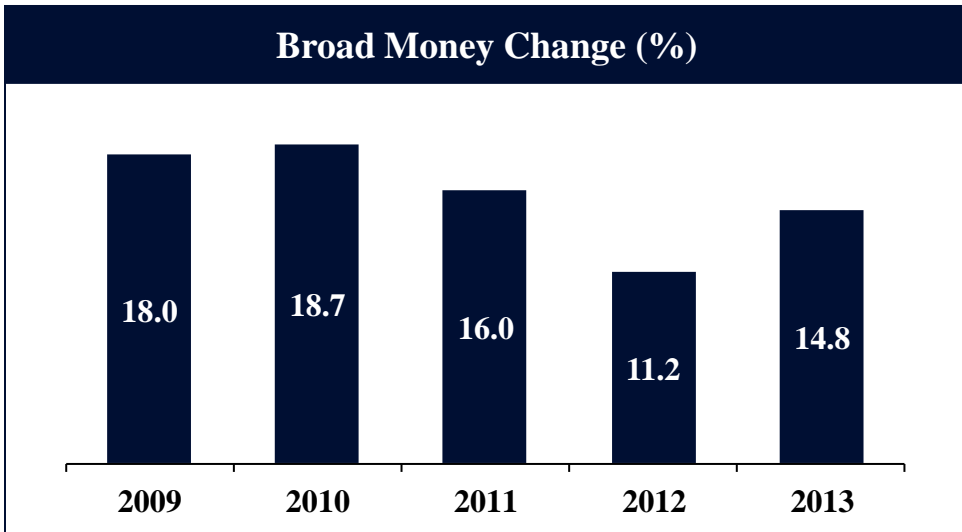
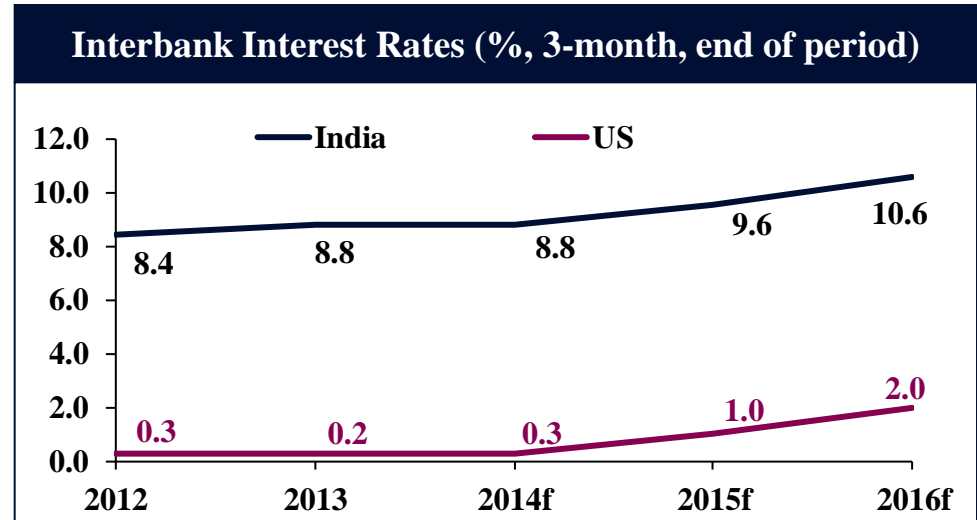
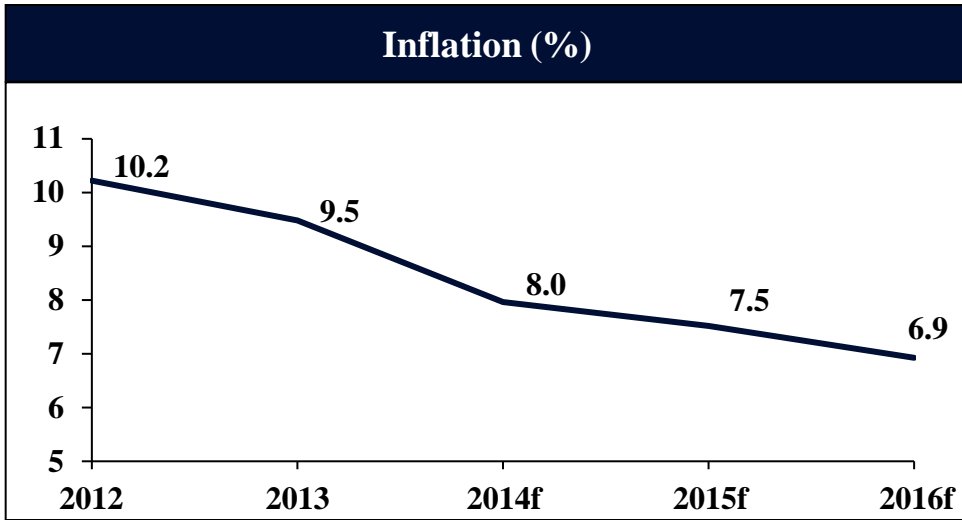
Fiscal policy aims to reduce the large government deficit; measures have been taken to raise diesel prices, shrink the losses of the state electricity board and contain central government spending; this is expected to reduce public debt through 2016



- ### Fiscal Policy
- Fiscal policy aims to reduce the large government deficit
 - Measures have been taken to raise diesel prices, shrink the losses of the state electricity board and contain central government spending
 - The new government is also expected to raise taxes and reduce subsidies by 2015-16, thus increasing overall government revenue
 - Public debt is projected to fall to 62.7% of GDP by 2016, owing to low interest costs and an expected recovery in economic growth offsetting the large fiscal deficit

India – Monetary Policy

Monetary policy aims to reduce the high inflation rate, which remains one of the highest amongst Emerging Markets; the Reserve Bank of India (RBI) increased interest rates in 2013 and tightened liquidity to contain broad money growth

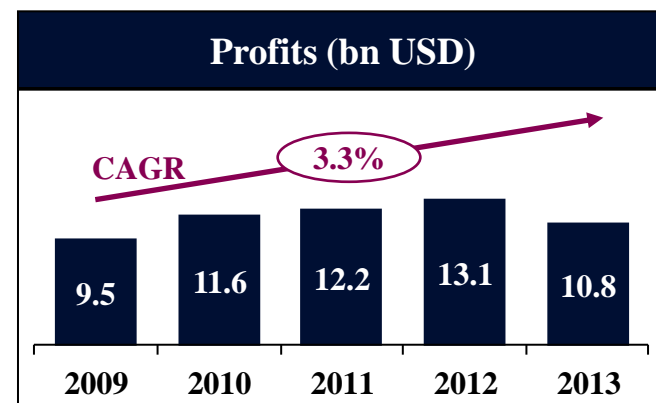
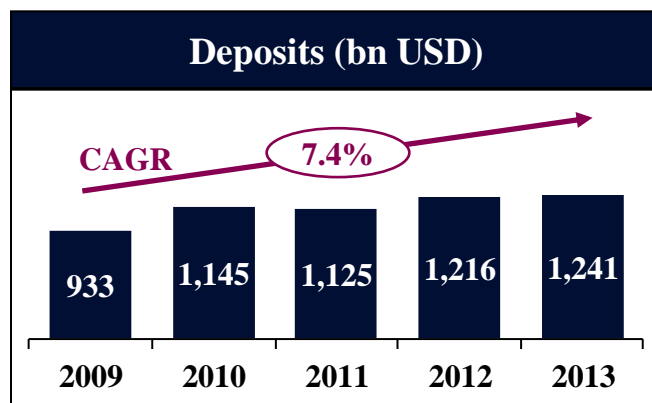
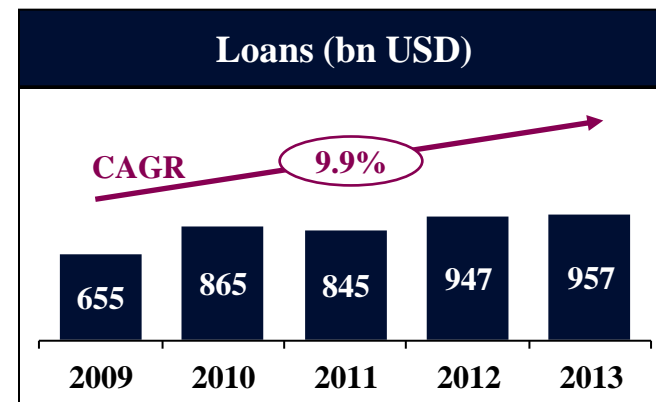
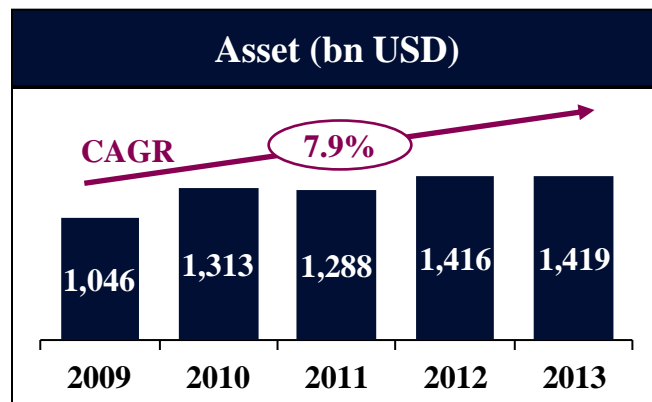
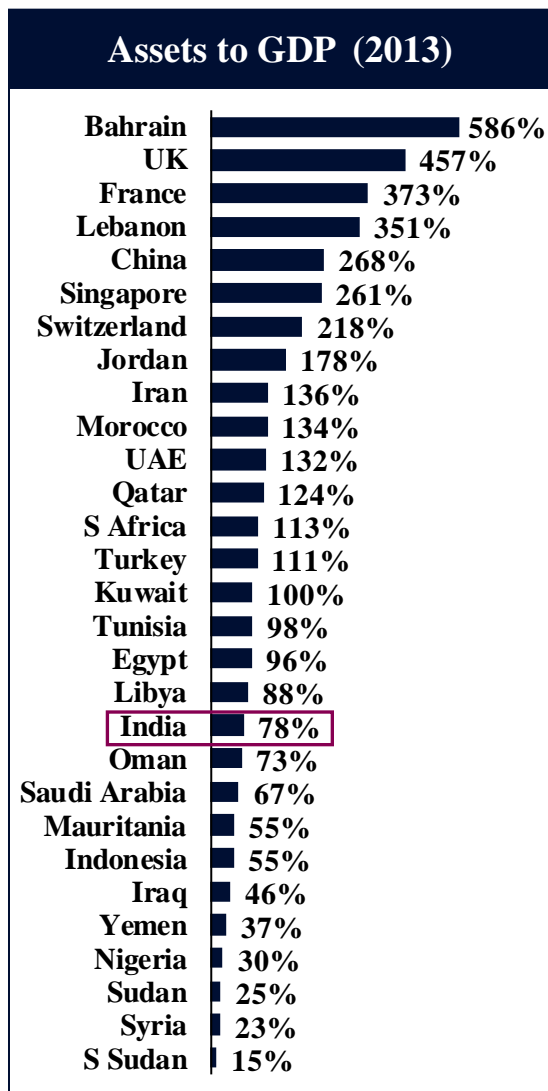


Monetary Policy

- Monetary policy aims to reduce the high inflation rate, which remains one of the highest amongst Emerging Markets
- In the midst of exchange market pressures in summer 2013, the RBI intervened to hike short-term policy rates, tightened domestic liquidity to contain broad money growth and supported the exchange rate
- Monetary policy is expected to remain tight, with interest rates likely to increase in line with US interest rates, as the RBI continues to bring down inflation

India – Banking Sector Overview

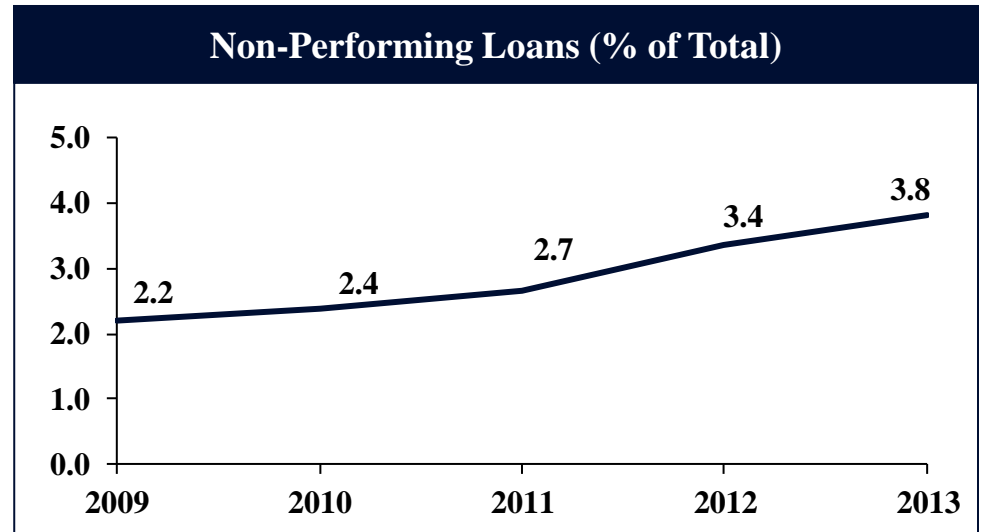
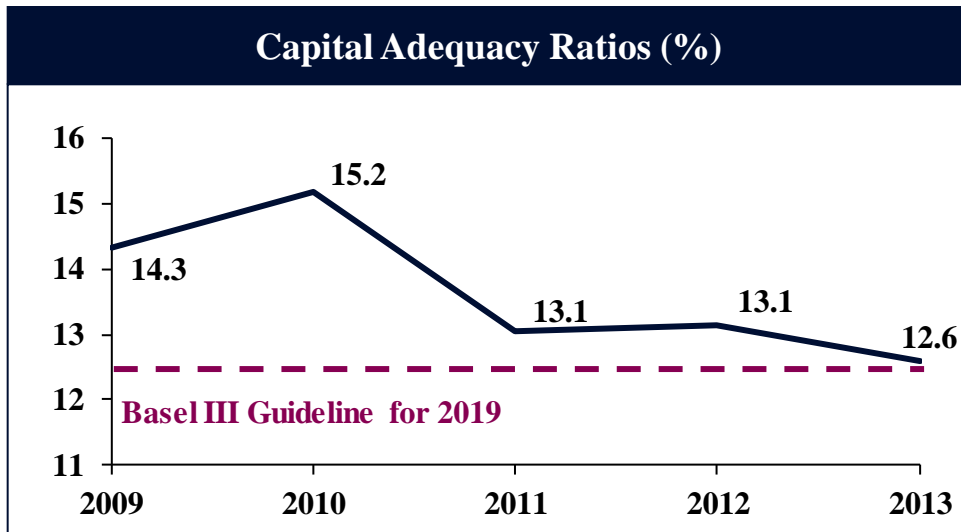
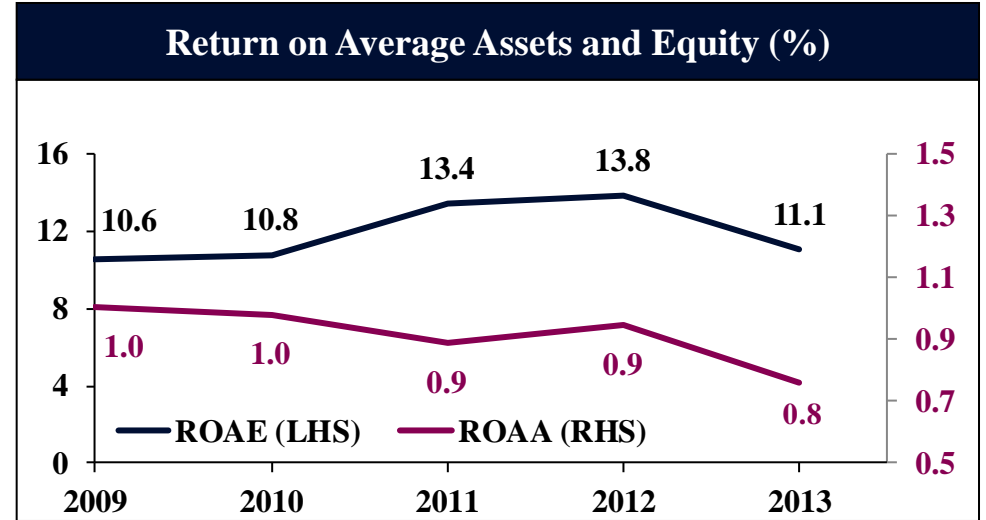
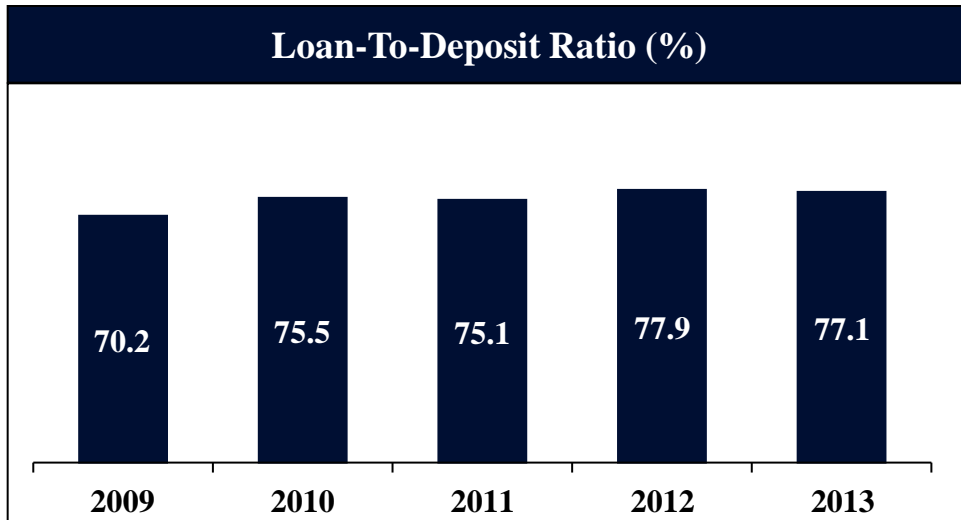
Banking penetration is low by international standards, suggesting room for growth; banks operated in a challenging environment in 2013 with lower growth, high inflation, high interest rates and capital outflows associated with QE tapering



- ### Analysis
- Banking sector growth slowed in 2013 due to the challenging economic environment
 - Tight monetary policy is expected to keep growth in the banking sector moderate going forward

India – Banking Sector Ratios

The loan-to-deposit ratio declined in 2013 as deposit growth outpaced loan growth; bank profitability is moderate and banks are well capitalized on average, notwithstanding rising non-performing loans



India – Banking Sector Competitor Analysis

State-owned banks dominate the banking sector with 72.7 % of total assets at end-March 2013; banks have received regular support from the government through capital injections in the past

Financials for Top 5 Banks (2013)*

	Market Share by Assets (%)	Net Income (bn USD)	Equity (bn USD)	ROE (%)	Assets (bn USD)	ROA (%)	Loan to Deposit Ratio (%)	Non-Performing Loans (%)
State Bank of India	19.3	3.4	23.8	14.4	392.2	0.9	89.8	4.5
ICICI Bank Limited	6.1	1.9	13.1	14.9	124.4	1.6	111.6	N/A
Bank of Baroda	5.1	0.9	6.1	14.5	102.8	0.9	81.6	N/A
Punjab National Bank	4.5	0.9	6.4	14.1	91.3	1.0	84.8	4.1
Bank of India	4.1	0.5	4.5	11.5	83.9	0.6	85.3	3.0

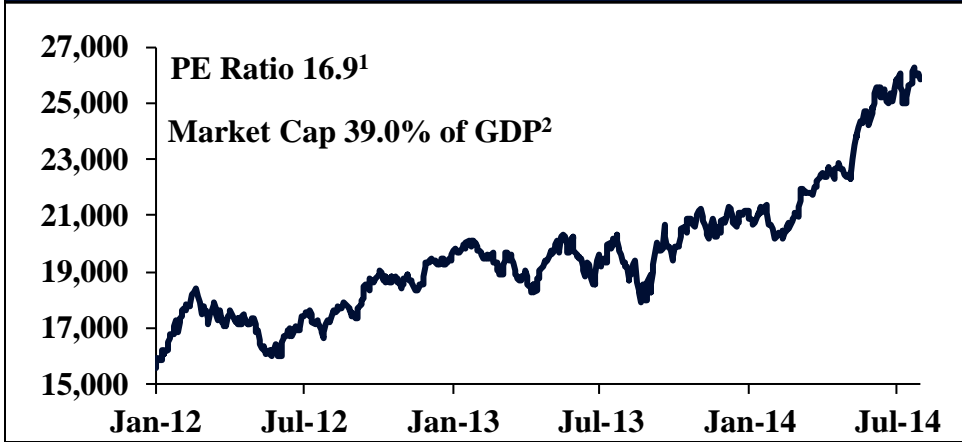
Analysis

- There are 80 operational banks, with government-owned banks accounting for 72.7% of total assets at end-March 2013
- The banking sector is relatively diversified, with the top 5 banks accounting for 39.1% of assets
- ROA and ROE are high for the top 5 banks, with regular support from the government through capital injections
- State Bank of India is the largest state-owned lender and deposit-taker in India, and dominates the sector with 19.3% of banking assets and an robust ROE of 14.4% at end-2013
- In April 2014, the RBI granted two new banking licenses in principle, namely IDFC Limited and Bandhan Financial Services Private Limited

India – Financial Markets

The Indian Sensex Index is up 32.2% since Jan-13 on expectations that the new government will be more reformist; sovereign yields have moderated and CDS spreads have eased since mid-2013 on lower capital outflows

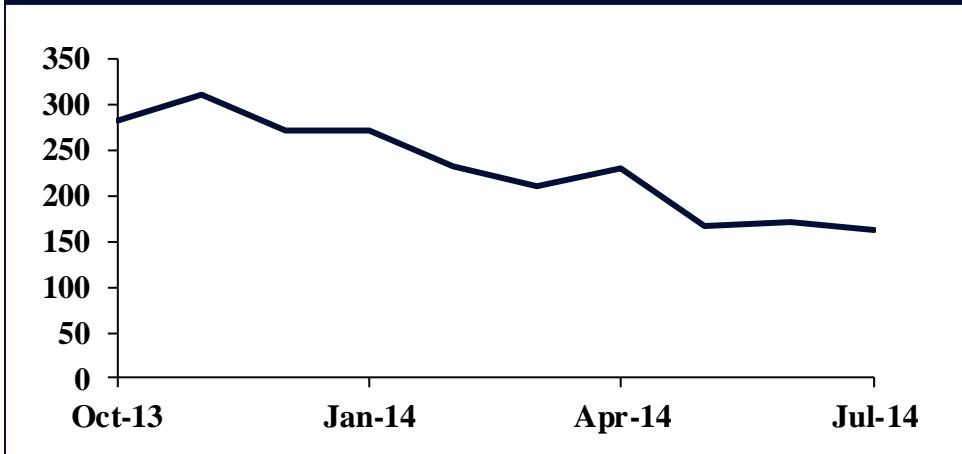
India Stock Exchange (Sensex) Index



10 Year Sovereign Bond Yield (%)



Sovereign Credit Default Swap Spreads (basis points)



Sovereign Ratings (July 2014)

	Rating	Outlook
Moody's	Baa2	Stable
Standard & Poor's	BBB-u	Negative
Capital Intelligence	BBB-	Stable
Fitch	BBB-	Stable

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