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INR Compared with Currencies of Select Emerging Economies

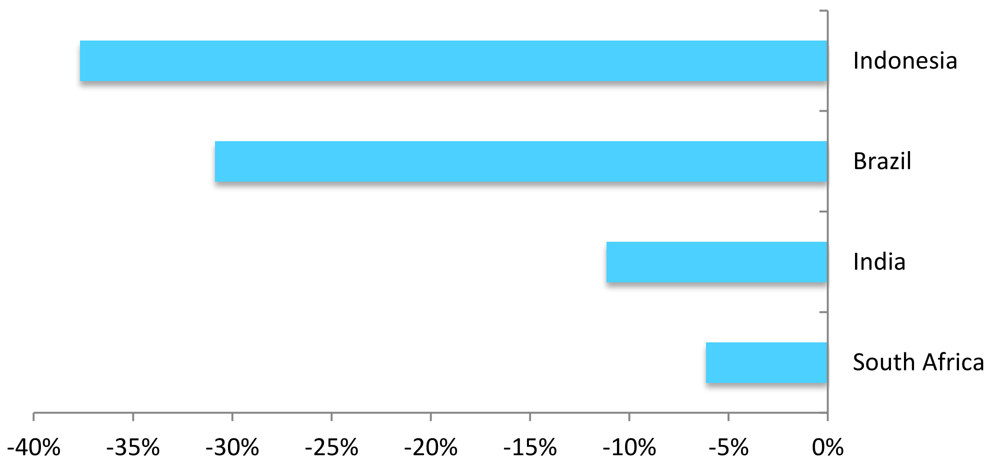
Indian economy has one of the ***best growth performance*** among its global peers given its size.

Country\Year	2008	2009	2010	2011	2012	2013	2014
Indonesia	6.0%	4.6%	6.2%	6.5%	6.2%	6.3%	6.4%
India	6.2%	5.0%	11.2%	7.7%	4.0%	5.7%	6.2%
Brazil	5.2%	-0.3%	7.5%	2.7%	0.9%	3.0%	4.0%
South Africa	3.6%	-1.5%	3.1%	3.5%	2.5%	2.8%	3.3%
US	-0.3%	-3.1%	2.4%	1.8%	2.2%	1.9%	3.0%
UK	-1.0%	-4.0%	1.8%	0.9%	0.2%	0.7%	1.5%

Source: IMF World Economic Outlook Report 2013

Compared with its counterpart emerging nations, India has a ***stronger balance sheet*** – measured in terms of Net International Investment Position (NIIP) as a percentage of GDP.

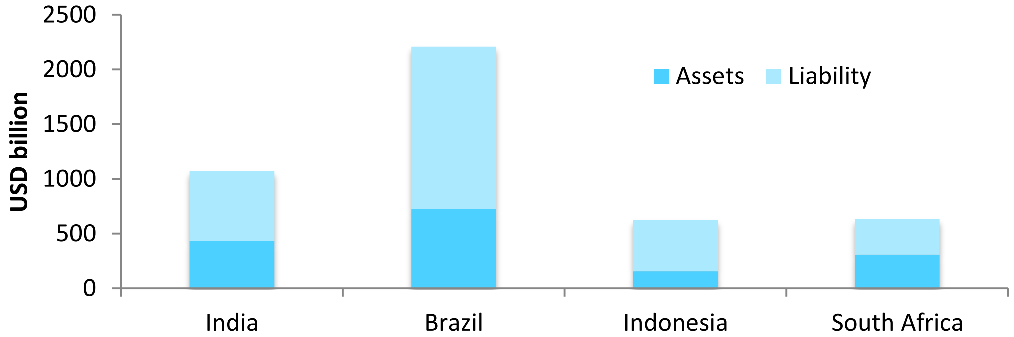
NIIP as Percent of GDP– The Case of Select Emerging Markets (Dec 2011)



Source: Respective country's central banks (South Africa data for 2010)

In terms of NIIP asset-liability ratio, India has a ***better ratio*** than Brazil and Indonesia though comparable with that of South Africa.

Comparative NIIP Asset-Liability Analysis of Emerging Markets (Dec 2011)



Source: Respective country's central banks

NIIP Assets as of Dec 2011:

A look into the assets side of NIIP reveals that India has ***larger long-term foreign direct investments*** made abroad than portfolio flows of its emerging market peers.

Country	Portfolio (% Direct)
India	1.4%
Brazil	13.8%
Indonesia	133.7%
South Africa	172.3%
UK	189.2%
US	138.1%

Source: Respective country's central banks (South Africa data for 2010)

*Direct Investments still have a **larger flow*** than portfolio investments.

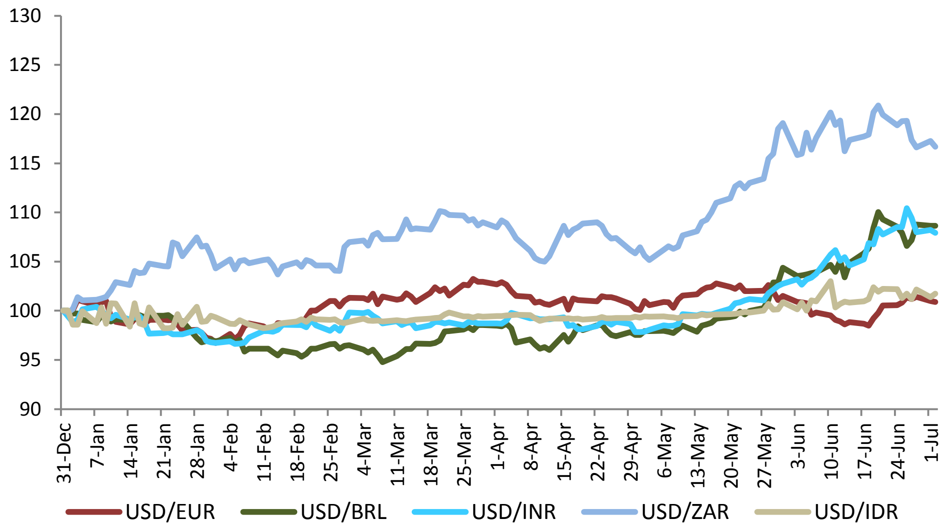
NIIP Liability Type as % GDP (as of Dec 2011)

Country	Direct	Portfolio
India	11.0%	7.8%
Brazil	28.1%	24.3%
Indonesia	21.9%	18.0%
South Africa	33.0%	38.1%
UK	50.3%	162.6%
US	19.2%	50.3%

Source: ReSource: Respective country's central banks

As reflected by the ***strong growth forecasts, better NIIP position***, market seems to have incorporated these fundamentals in a better way as reflected by an 8.9 % depreciation of INR compared with ZAR (21.0 %) and BRL (10.3 %).

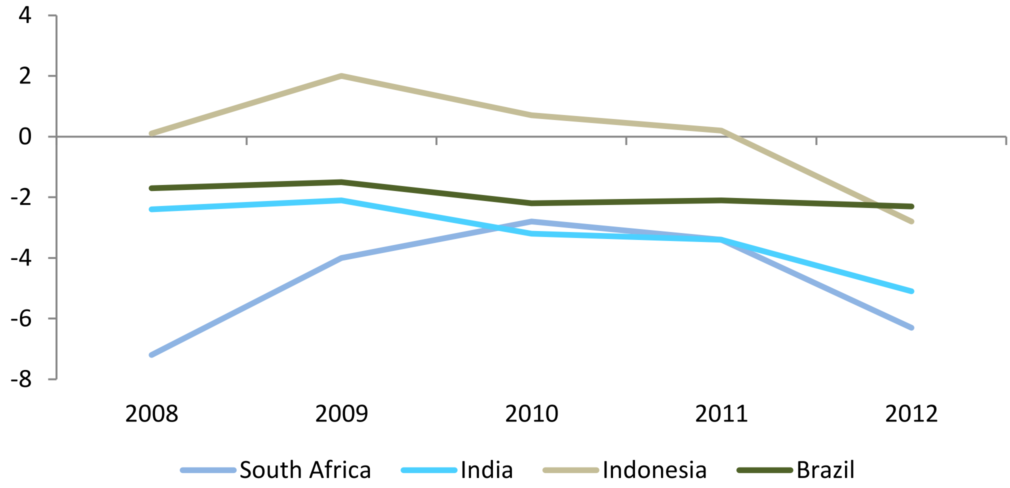
Currency Movements - Select Emerging Economies and the Benchmark (Dec 2011 – June 2012)



Source: Bloomberg (Based at 100)

India has witnessed a ***steady increase*** in its current account deficit (CAD). Among other emerging markets, Brazil and Indonesia also witnessed the same trends in their CAD.

Comparative Current Account Balance as Percent of GDP of Emerging Markets (2008-12)



Source: IMF World Economic Outlook Report 2013

The CAD Imbroglio – Continued growth in oil imports indicates that use efficiency would have to be improved through price pass on in the case of derivatives. With the start of pricing to mark the crude derivative prices to the market, this should have ***remarkable effect on energy efficiency*** and price sensitive imports.

Merchandise imports (as % GDP):

Product/Year	2007-08	2008-09	2009-10	2010-11	2011-12
Oil	6.5%	7.7%	6.3%	6.1%	8.3%
Non-oil	14.5%	17.8%	15.5%	15.9%	18.5%

Source: PMEAC

Strong Capital Account Flows - Thanks to its growth and continued policy reforms, India had witnessed consistently ***higher FDI inflows*** compared with portfolio flows.

Capital Account: Foreign Investments (as % GDP):

Year\Composition	Foreign investment	
	Direct	Portfolio
2007-08	1.3%	2.2%
2008-09	1.4%	-1.2%
2009-10	1.4%	2.3%
2010-11	0.5%	1.8%
2011-12	1.2%	0.9%

Source: PMEAC

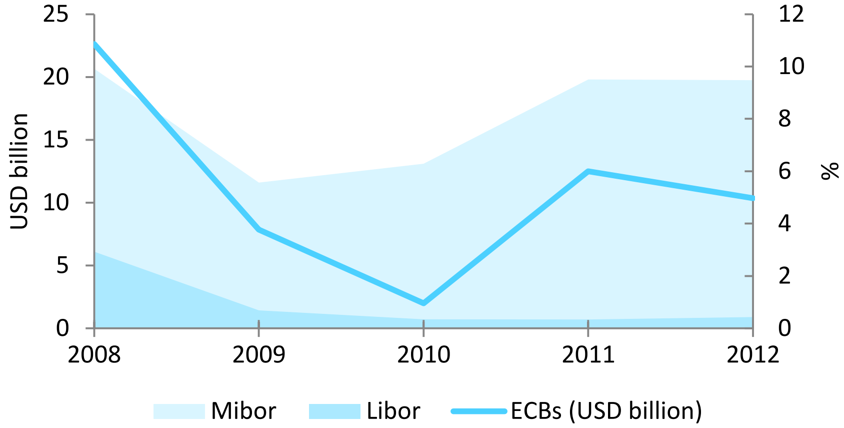
Interest rate differentials in LIBOR and MIBOR ***play a key role*** in increasing External Commercial Borrowings (ECB) despite limitations in access to ECB window.

India's ECB (as % GDP):

Year	ECB (% GDP)
2007-08	1.8%
2008-09	0.6%
2009-10	0.1%
2010-11	0.7%
2011-12	0.6%

Source: Bloomberg

ECB and Interest Rate Spread Momentum in India (2008-12)



Source: NSE and Bloomberg
Note: LIBOR and MIBOR rates have been averaged

The Moot Point: Though India suffers from a relatively higher current account deficit, it has a healthy and positive capital account flows. Continued structural/policy reforms and increased monetary stability should be focused on to improve the current account scenario so as to strengthen the CAD and forex reserves.

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