India Economic Insight

2014

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Executive Summary

A. Recent Developments (2013-14)

- **The negative impact of the US tapering of quantitative easing (QE), supply bottlenecks and policy uncertainty have kept real GDP growth below potential** at 5.0% in the fiscal year ending March 31, 2014 (2013/14) and 5.3% in Q3 2014
- **Tighter monetary policy and falling commodity prices have resulted in lower inflation,** with consumer price inflation (CPI) inflation slowing to 5.5% in October 2014 from an average 9.5% in 2013/14
- **The Indian Rupee (INR) depreciation and gold import restrictions have led to a significant narrowing of the current account deficit,** which fell from 4.7% of GDP in 2012/13 to 1.8% in 2013/14
- **The fiscal deficit of the general government (including central and state budgets) remains relatively high**—7.2% of GDP in 2013/14—on a narrow tax base and large subsidies
- **Lending growth moderated to 11.6% at end-March 2014 and further to 9.0% at end-September 2014 on tight monetary policy and corporate deleveraging;** deposit growth remains strong (12.4% at end-March 2014 and 10.9% at end-September 2014)

B. Macroeconomic Outlook (2014-16)

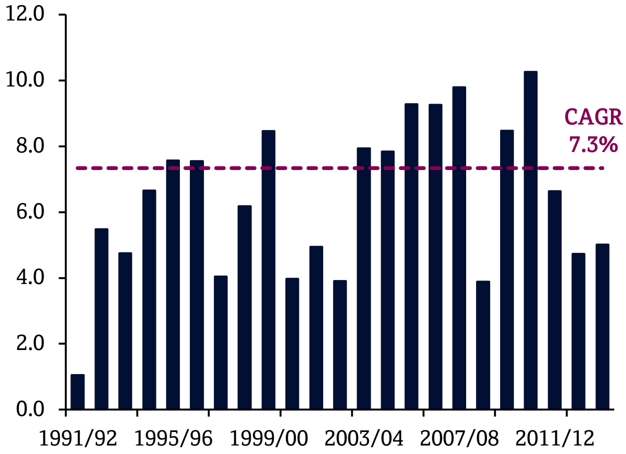
- **The implementation of Modi's reform agenda is expected to unleash India's growth potential;** we forecast real GDP growth to accelerate to 6.3% in 2015/16 and 6.8% in 2016/17 as reforms start to pay dividends
- **CPI inflation is forecast to reach the target set by the Reserve Bank of India (RBI) of 6.0% by January 2016** on continued tight monetary conditions
- **The current account deficit is projected to decline further to 1.1% of GDP by 2016/17** on further INR depreciation and tighter fiscal policy
- **The government's reforms and commitment to fiscal prudence are expected to reduce the budget deficit;** we forecast the general government fiscal deficit to decline to 6.5% of GDP by 2016/17
- **Double-digit growth in assets, loans and deposits is expected to continue at least until 2016/17,** reflecting further banking penetration, higher economic activity and reduced corporate deleveraging

Background

Since independence in 1947, India has transformed itself into an emerging market economy

Over the last 67 years, India has undertaken landmark agricultural reforms that have transformed the nation into a global net food exporter. In addition, structural reforms in the 1990s aimed at opening up the economy to foreign direct investment have led to a service export boom, notably in accounting, information technology and customer service. As a result, real GDP growth has averaged 7.3% since 1991.[1] This has made India one of the fastest growing Emerging Markets (EMs) and the 3rd largest economy in the world on a purchasing power parity (PPP) basis. Per capita income, however, remains moderate (USD5,450 in 2013 on a PPP basis), given that India is the second most-populous nation in the world with an estimated 1.23bn people in 2013/14.

Real GDP Growth
(%)

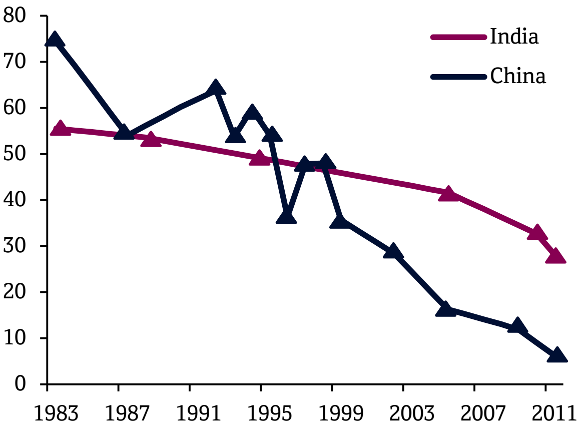


Sources: International Monetary Fund (IMF) and QNB Group analysis

India has made significant progress in poverty reduction but remains below China

Rapid economic growth in recent decades has reduced the incidence of poverty. Since independence, life expectancy has more than doubled, literacy rates have quadrupled, health conditions have improved and a sizeable middle class has emerged. The poverty headcount ratio fell from 55.5% in 1983 to 32.6% in 2012. This, however, remains well below the sizable reduction of the poverty headcount ratio in China over the same period of time. According to a recent IMF working paper, if India does not reach its growth potential of 8.0-9.0% experienced during 2004/05-09/10, the poverty headcount ratio will not be lowered further significantly.[2]

Poverty Headcount Ratio at USD1.25 a Day (PPP)
(% of Population)

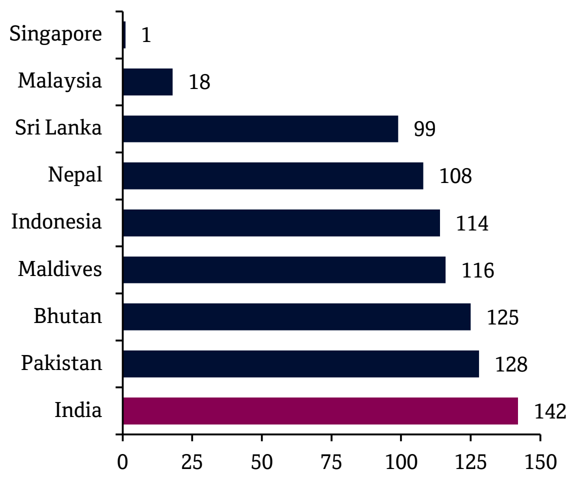


Sources: WB and QNB Group analysis
Note: Interpolated series where triangles represent actual data points

A major challenge going forward will be to improve the ease of doing business

The WB Ease of Doing Business ranks India 142nd out of 189 countries. India continues to be one of the lowest ranked country in Asia, with Singapore (1), Sri Lanka (99), Nepal (108), the Maldives (116), Bhutan (125), and Pakistan (128) ranking higher. On the positive side, India was ranked 7th on "Protecting Minority Investors". On the other hand, India came close to the bottom in the category "Dealing with Construction Permits" (184th of 189), and in "Enforcing Contracts" (186th). Against the key parameter of "Starting a Business", it takes 11.9 procedures and 28.4 days to commence business in India, compared to an average of 4.8 procedures and 9.2 days in advanced economies.

Ease of Doing Business Ranking
(0 = better doing business; Ranking out of 189 countries)



Source: WB and QNB Group analysis

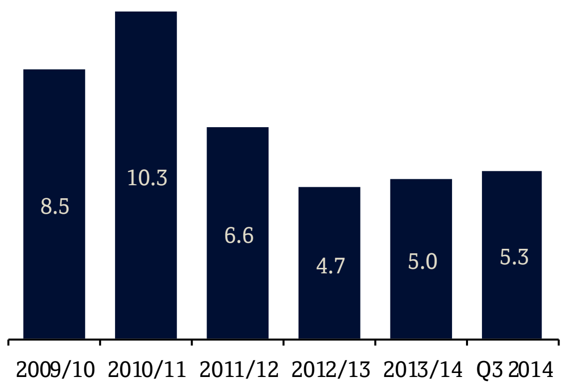
[1] This is the compounded annual growth rate (CAGR), which is a geometric mean. In general, unless otherwise specified, all multi-year growth rates mentioned in this report will be CAGRs rather than arithmetic averages.
[2] See Anand, R., V. Tulin and N. Kumar (2014), "India: Defining and Explaining Inclusive Growth and Poverty Reduction," IMF Working Paper WP14/63.

Recent Developments (2013-14)

The negative impact of QE tapering in the US, supply bottlenecks and policy uncertainty have kept real GDP growth below potential in 2013/14

India's real GDP growth has slowed sharply from 10.3% in 2010/11 to 5.0% in 2013/14. The announcement of QE tapering in the US in May 2013 resulted in large capital outflows from India that required a significant tightening of monetary policy. The resulting slowdown affected all sectors of the economy and was aggravated by supply bottlenecks related to the lack of transport infrastructure and power shortages. The growth slowdown, the exchange rate depreciation and persistent problems in land acquisition, excessive red tape and delayed approvals all contributed to a significant deleveraging in the corporate sector. Moreover, policy uncertainty ahead of the Indian general elections in April-May 2014 added to the investment slowdown. The latest data for Q3 2014 show a moderate uptick in growth to 5.3%, but this remains well below India's growth potential of 8.0-9.0%.

Real GDP Growth
(%, year on year)

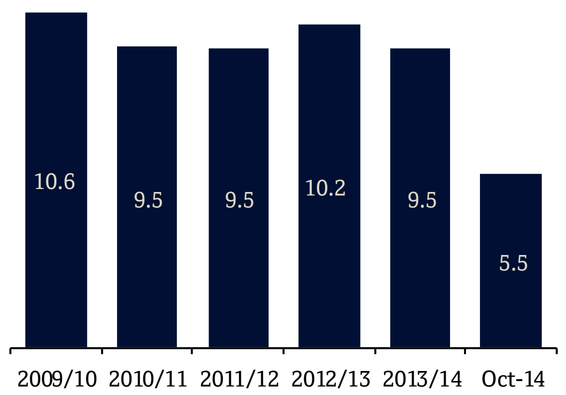


Sources: Central Statistical Office (CSO) and QNB Group analysis

Tighter monetary policy since July 2013 has resulted in lower inflation

CPI inflation slowed to 5.5% in October 2014, compared with 9.5% in 2013/14. Prior to the appointment of Raghuram Rajan as Governor of the RBI in September 2013, inflation had hovered around 10.0% for a number of years on loose fiscal and monetary policy. High inflation was also partly structural, with policies such as the National Rural Employment Guarantee Act pushing up rural wages. The sharp INR depreciation in June 2013 threatened higher inflation. In response, the RBI raised policy rates in July 2013 in order to stabilise the currency and control inflation. In addition, the RBI adopted an informal inflation-targeting regime based on CPI inflation, with an initial target of 6.0% by January 2016. These changes in the monetary policy framework, together with lower global commodity prices, have helped reduce inflationary pressures in the economy.

CPI Inflation
(% year on year, annual average)

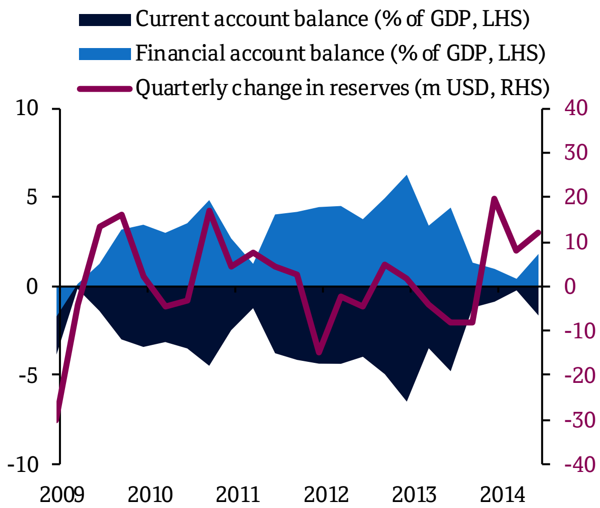


Sources: CSO, IMF and QNB Group analysis

The INR depreciation and gold import restrictions led to a significant narrowing of the current account deficit

The current account deficit narrowed significantly from 4.7% of GDP in 2012/13 to 1.8% in 2013/14. Capital flight following the US QE tapering significantly reduced the financial account surplus, which had previously been financing India's large current account deficit. The authorities responded by allowing the INR to depreciate significantly and imposing temporary gold import restrictions. In addition, they created incentives for Non-Resident Indians to deposit their savings in India and liberalised external borrowing and foreign direct investment regulations. Since late 2013, the RBI has been actively accumulating international reserves, with a view to build a sufficiently large buffer to withstand the impact of higher US interest rates. Accordingly, international reserves reached USD314bn at end-October 2014, equivalent to about 6.0 months of prospective imports.

Balance of Payments and Reserves



Sources: CSO, RBI and QNB Group analysis

Monetary policy was significantly tightened in response to the announcement of QE tapering in May 2013

Following a 22.8% depreciation of the INR from end-April to end-August 2013, the RBI responded with a set of exceptional measures to tighten monetary policy. It increased the cash reserve ratio and limited the amount of liquidity commercial banks could obtain from the RBI. At the same time, the RBI raised the penalty rate by 2.0% in July 2013, pushing up interbank interest rates. As external pressures abated later in 2013, the RBI eased liquidity restrictions, leading to a normalisation of the interbank market. The RBI is currently revising its monetary policy regime to introduce a formal inflation target. In its last meeting in November 2014, the RBI maintained the repo rate at 8.0%, hinting at a possible reduction in early 2015 provided the 2015/16 budget is sufficiently prudent.

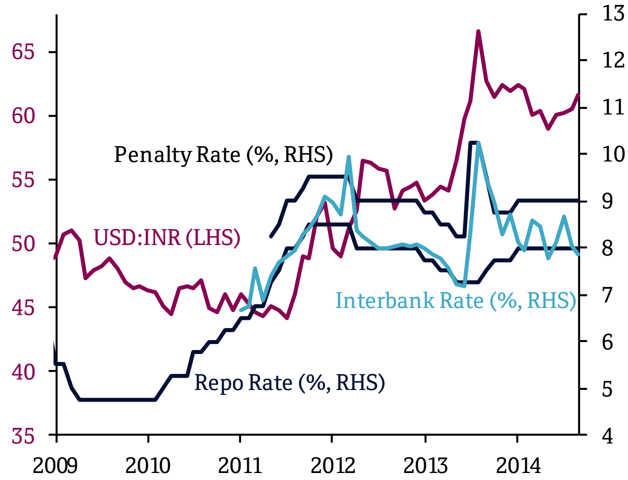
The fiscal deficit of the general government remains relatively high on a narrow tax base and large subsidies

The fiscal deficit of the general government (includes central and state budgets) reached 7.2% of GDP in 2013/14. This is a reflection of a weak revenue base (the central government's tax revenue is less than 10.0% of GDP), inefficient tax administration and large expenditure on subsidies. To address these issues, the government liberalised diesel prices in October 2014 and followed up by raising taxes on fuel products to increase revenue. In order to reduce subsidies, the government is expanding the unique identification programme and launched a financial inclusion initiative (see below), which are expected to ensure that subsidies are paid directly to the targeted recipients. These measures are expected to generate significant savings by cutting middlemen and removing duplications.

Lending growth moderated with monetary tightening and corporate deleveraging

Lending growth slowed to 11.6% at end-March 2014 and 9.0% at end-September 2014, reflecting monetary tightening and corporate deleveraging (see *Banking Sector*). Meanwhile, deposits continued their double-digit growth at end-March 2014 (12.4%), reflecting relatively high inflation. Deposits grew further by 10.9% in the twelve months to end-September 2014, partly reflecting the Modi administration's financial inclusion initiative, which resulted in 83.8m bank accounts being opened from mid-August to 1 December 2014. Consequently, the loan to deposit (LTD) ratio fell from 80.8% at end-March 2013 to 78.3% at end-September 2014. Non-performing loans (NPLs) are relatively low at 3.8%, although this figure would nearly double if restructured loans were included.[3] Public banks (accounting for 70.0% of the banking sector) had about twice as high NPLs and restructured loans as private banks at end-March 2014. Indian banks are moderately profitable, with return on equity averaging 11.1% in 2013/14.

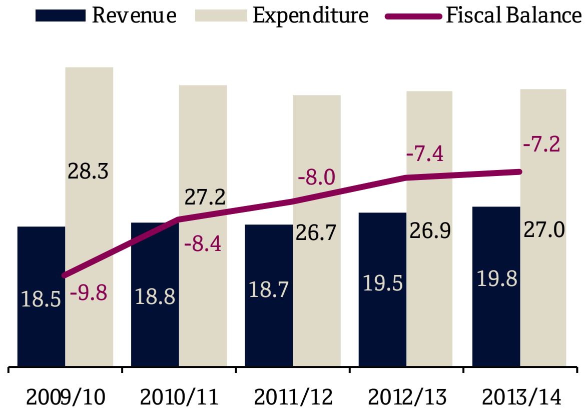
USD: INR and Monetary Policy Response



Sources: RBI and QNB Group analysis

Fiscal Balance

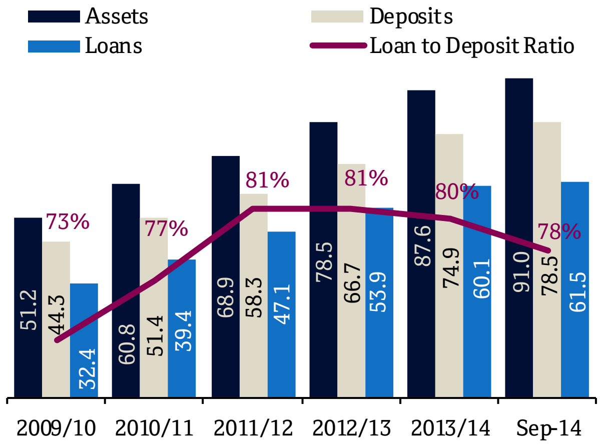
(% of GDP)



Sources: IMF and QNB Group analysis

Banking Sector

(tn INR and %)



Sources: RBI and QNB Group analysis

[3] Restructured loans are loans where the lender and the borrower have mutually agreed to change the maturity profile and/or interest rate on the loan.

Macroeconomic Outlook (2014-16)

The Modi administration's reform agenda is expected to lead to higher GDP growth, lower inflation and smaller fiscal deficits

The Modi administration has identified a number of priority areas for reforms. These include unclogging investment projects that have stalled in recent years due to red tape or policy uncertainty. Some of the stalled investments, especially in transport and manufacturing, are related to disputes about land acquisition. Overhauling existing land acquisition laws would therefore go a long way towards boosting investment. Phasing out food and energy subsidies will improve public finances, while direct cash transfers to the poor will ensure more effective targeting of subsidies. Introducing a uniform federal GST is expected to have a positive impact on GDP by eliminating state borders and thus creating a single Indian market for goods and services. Liberalising labour laws is forecast to reduce rural wages and improve labour force participation. Finally, electricity shortages due to lack of coal allocations have been a significant drag on the economy. Breaking up the monopoly of state-owned Coal India (which has consistently missed its production targets) could therefore be an important step to resolve these electricity shortages.

Key Reforms

Proposed Reform	Impact
Restarting stalled projects	Higher GDP
Land acquisition laws	Higher GDP
Phasing out food and energy subsidies	Narrower fiscal deficit
Uniform federal goods and services tax (GST)	Neutral fiscally; Higher GDP
Labour market reforms	Higher GDP; Lower inflation
Power sector	Higher GDP

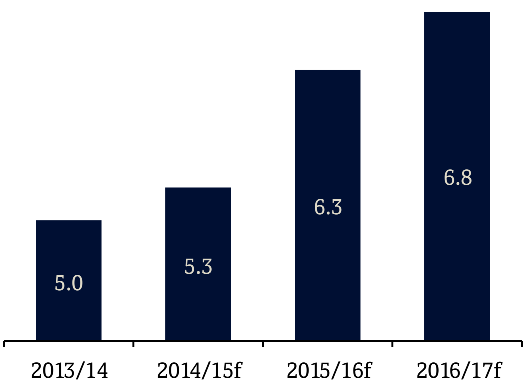
Sources: QNB Group analysis

The implementation of Modi's reform agenda is expected to unleash India's growth potential

If the above-mentioned reforms are implemented, we forecast real GDP growth to accelerate to 6.3% in 2015/16 and 6.8% in 2016/17. The government has so far mostly focused on soft reforms to improve India's Ease of Doing Business ranking and eliminated diesel subsidies. We expect the bulk of the other reforms to be implemented during the 2015/16 budget, thus starting to pay dividends over the next two years by increasing investments in the economy. In particular, we expect the largest gain from the implementation of the uniform federal GST, which could add up to 1.0 percentage point to growth in 2016/17. Labour market reforms and the break-up of the Coal India monopoly may take longer to produce growth dividends.

Real GDP Growth

(%, year on year)



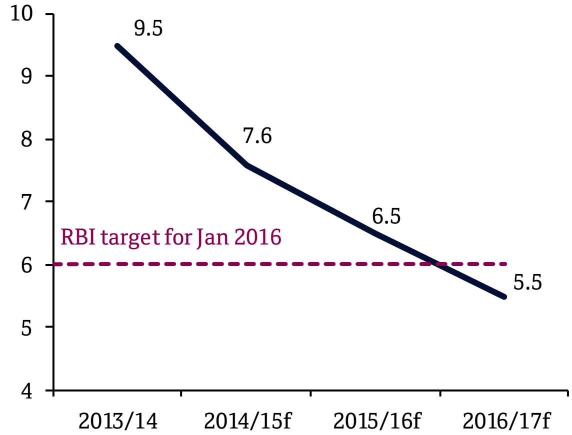
Sources: CSO and QNB Group analysis and forecast

Inflation is forecast to slow in line with the RBI target

Inflation is forecast to reach the RBI target of 6.0% by January 2016 on tight monetary policy and favourable external conditions. The RBI is expected to keep monetary policy sufficiently tight in order to meet its inflation target. Labour market reforms, such as making it easier for firms to hire and fire employees and reforming the National Rural Employment Guarantee Act, are expected to lead to lower wages and increased labour force participation (see above). Both reforms would have a positive impact on reducing inflation. In the short term, a good monsoon season is projected to moderate food price inflation (comprising half of the CPI basket), while falling international energy prices would help keep inflation in check over the next two fiscal years. On the other hand, electricity tariffs were raised in late 2014 to enhance cost recovery. Overall, we expect inflation to fall gradually to an average 5.5% by 2016/17.

CPI Inflation

(% year on year, annual average)



Sources: IMF and QNB Group analysis and forecast

The current account deficit is projected to decline on further INR depreciation and tighter fiscal policy

The current account deficit is projected to narrow progressively to 1.1% of GDP by 2016/17. India is expected to continue its external rebalancing, although at a more gradual pace. The RBI is likely to allow the INR to depreciate further to enhance competitiveness, which will narrow the current account deficit. Although the authorities have recently lifted restrictions on gold imports, demand for gold is likely to ease with falling inflation. A tighter fiscal policy is also likely to reduce domestic absorption. Meanwhile, the implementation of reforms is expected to attract additional foreign direct investments, implying that the financial account is likely to enjoy a healthy surplus. External creditors are projected to increase their lending to Indian entities attracted by relatively high interest rates. As a result, external debt is forecast to rise to 29.2% of GDP by end-March 2017. Smaller current account deficits and larger net capital inflows will result in a further accumulation of international reserves, projected to rise to 7.9 months of import cover by end-March 2017.

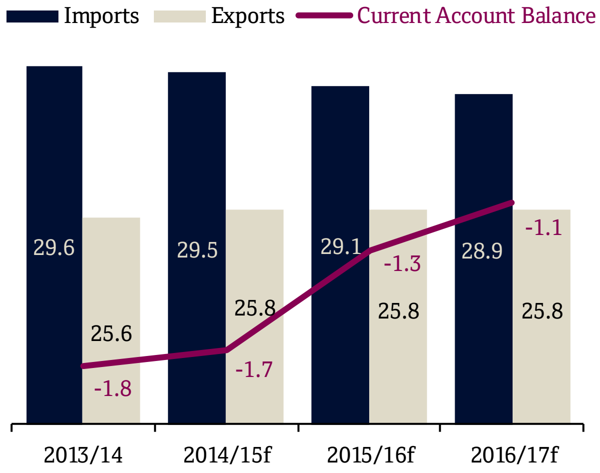
The government's reforms and commitment to fiscal prudence are expected to reduce the budget deficit

We expect the fiscal deficit to decline from 7.2% of GDP in 2013/14 to 6.5% in 2016/17. The central government is committed to achieving a target deficit of 4.1% of GDP in the twelve months to March 2015. Achieving this target is expected to lead to a general government budget deficit (including the state budgets) of 7.2% of GDP in 2014/15. Reforms are then expected to lower budget deficits over the next two fiscal years to 6.7% of GDP in 2015/16 and 6.5% in 2016/17. Most of the fiscal consolidation will be due to lower public spending as the government phases out food and energy subsidies. The government's efforts will also be supported by lower global commodity prices. Part of the deficit is expected to be financed by privatisation receipts. In this context, the government has indicated its intention to sell 5.0% of the state-owned Oil and Natural Gas Corporation. The sale of a portion of its stake in Coal India is also expected. Accordingly, public debt is projected to fall to 58.5% of GDP by end-March 2017.

Double-digit growth in assets, loans and deposits is expected to continue until 2016/17

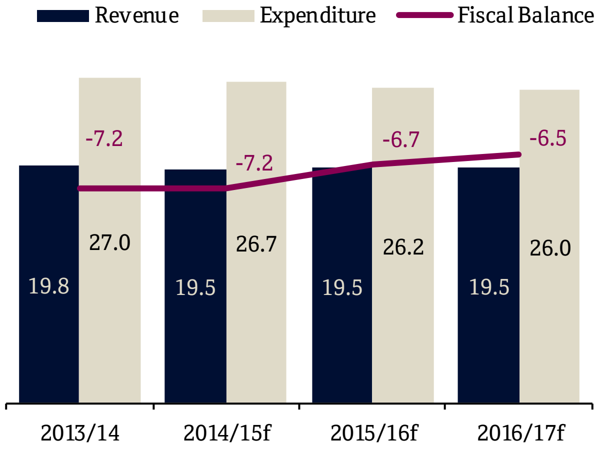
Lending growth is expected to recover once the corporate deleveraging cycle is completed. We expect the corporate sector to complete most of its deleveraging by end-2015. Once structural reforms begin to materialise, thereby creating a favourable macroeconomic environment, and banks' balance sheets are cleaned up, lending growth is expected to rebound and NPLs to fall. On the deposit side, a high savings rate is likely to keep funding and liquidity growing in double digits despite the expected slowdown in inflation. The government's financial inclusion initiative is likely to add to the deposit base. Returns on equity are expected to moderate as banks will be required for the first time to provision for restructured loans starting in April 2015 and to increase capital adequacy ratios in line with the new Basel III regulations.

Current Account Balance
(% of GDP)



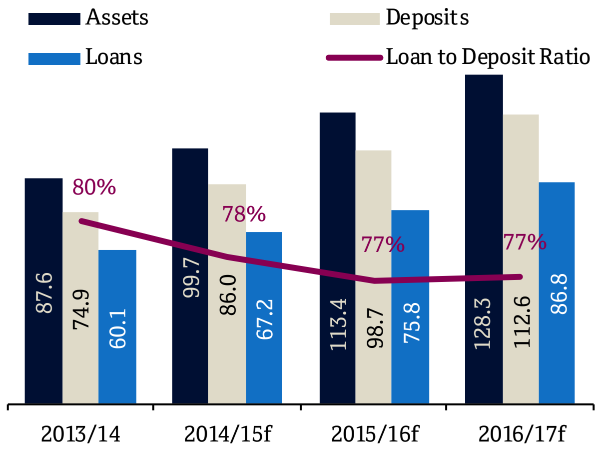
Sources: IMF, RBI and QNB Group analysis and forecast

Fiscal Balance
(% of GDP)



Sources: IMF and QNB Group analysis and forecast

Banking Sector
(tn INR and %)



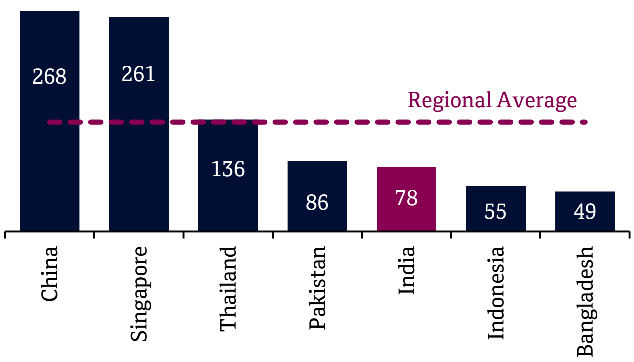
Sources: RBI and QNB Group analysis and forecast

Banking Sector

Banking penetration is relatively low by international standards

Banking assets are only 77.6% of GDP in India, below Asian peers, leaving considerable room for growth. Approximately two-fifths of the Indian population are estimated to have had bank accounts as of end-2013. In addition, corporate deleveraging has recently reduced asset growth below nominal GDP growth, leading to a decline in the ratio of banking assets to GDP. Looking ahead, stronger economic growth, the end of corporate deleveraging, a rising middle class and a higher percentage of bankable population are expected to lead to higher banking penetration, which could lead India to converge to the average of its Asian peers.

Banking Penetration (2013)
(Bank assets as % of GDP)

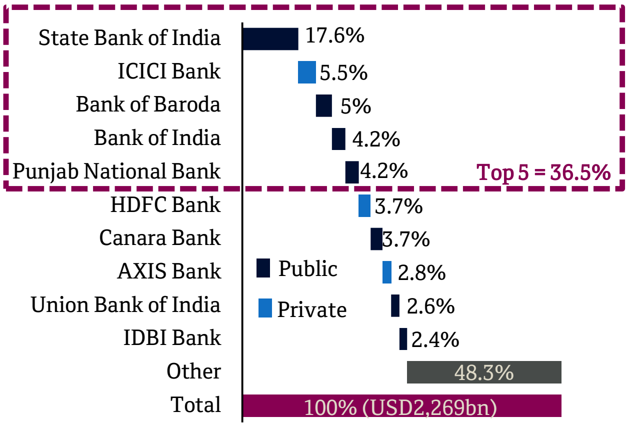


Sources: CSO, National Sources, RBI and QNB Group analysis

The banking sector is dominated by state banks, but private banks are growing their market share

Of the 151 commercial banks operating in India at end-2013, 70% of them were state-owned. The top five banks accounted for over a third of banking sector assets and four of them are state-owned. Nonetheless, the sector as a whole is unconcentrated, with a large number of smaller banks with relatively low market shares.[4] The largest state-owned lender and deposit-taker is the State Bank of India, which has a strong international presence operating in 180 overseas offices spread over 34 countries. Private sector banks have grown in market share in recent years on stronger financials and now account for 30% of the banking sector. The government has recently announced its intention to sell about USD26bn in minority stakes in public banks in order to raise capital to meet Basel III requirements. Moreover, recently–introduced RBI regulations allow greater room for foreign banks to open branches and increase their minority stake in existing Indian banks.

Banks' Share of Total Assets (2013)
(%)

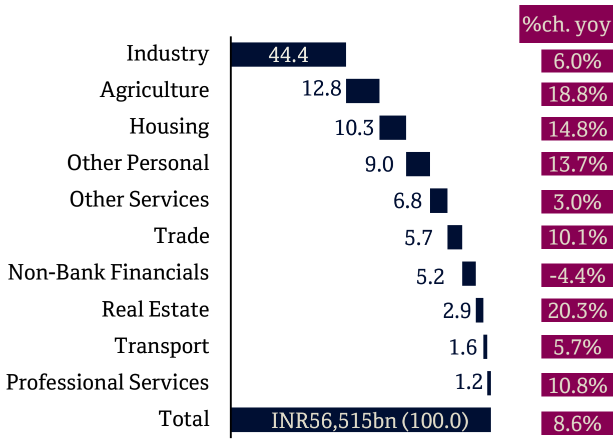


Sources: Bankscope and QNB Group analysis

Lending growth is slowing, particularly due to corporate deleveraging in industry

Overall, growth in credit facilities slowed to 8.6% at end-September 2014. Credit facilities to industry, which were the largest share (44.4%) in total bank credit facilities, slowed to 6.0% as corporates continue to deleverage. On the other hand, lending to agriculture, housing, other personal, and trade have witnessed double digit growth rates. Going forward, the RBI issued a Master Circular in July 2014 to banks emphasising the importance of lending to specific sectors like agriculture and small and medium sized enterprises (SMEs). This is likely to imply higher lending growth to these sectors going forward.

Bank Credit Facilities (End-September 2014)*
(bn INR and % share of total)



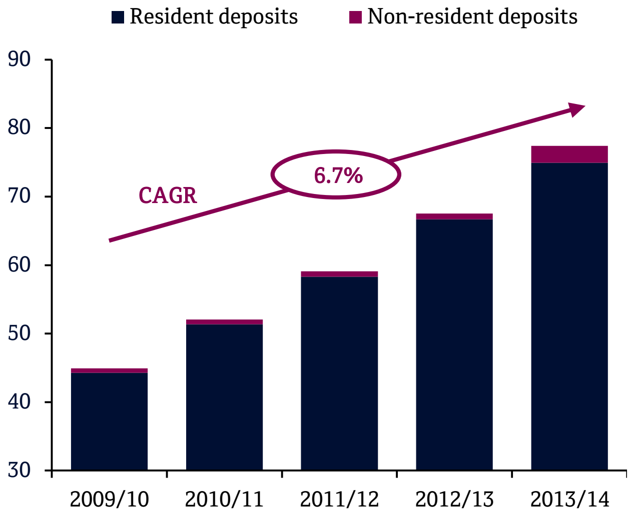
Sources: RBI and QNB Group analysis
* Based on RBI data which represents roughly 95% of reporting banks

[4] Based on the Herfindahl-Hirschman Index, India's banking sector scores 0.05, or unconcentrated as per the interpretation by the US Department of Justice, which views 0 to 0.01 as competitive; 0.01 to 0.15 as unconcentrated; 0.15 to 0.25 as moderately concentrated; and 0.25 to 1 as highly concentrated

Indian banks benefit from a large deposit base, reflecting the country's high savings rate

The large and stable deposit base has been a key strength of India's banking sector. On average, resident deposits grew by 6.7% a year during 2009/10-2013/14. This growth is underpinned by the country's high gross national savings rate, which averaged 30.8% of GDP during 2000/01-13/14. However, individual banks vary in their ability to gather retail deposits. Public sector banks have generally a wider branch network, thus being able to rely on a wider deposit base. Separately, in August 2013 the RBI began offering subsidised FX swaps to banks in order to attract non-resident Indian foreign currency deposits, thus attracting an additional USD25.6bn in the fiscal year ending in March 2014.

Bank Deposits
(tn INR)

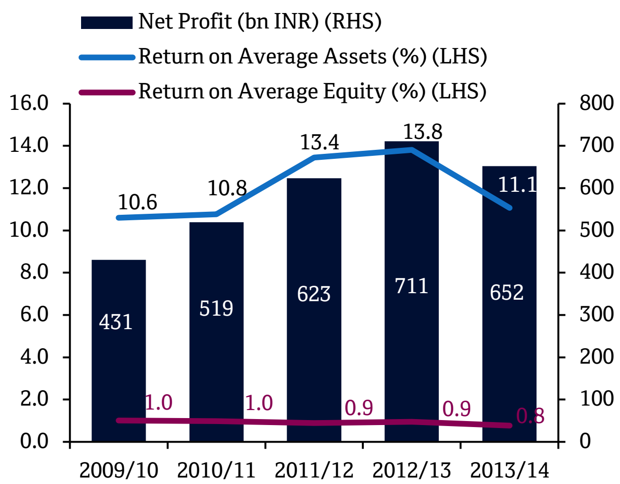


Sources: RBI and QNB Group analysis

Profitability has been under pressure from rising NPLs and lower lending volumes

Rising NPLs have put pressure on profitability in 2013/14. Public-sector banks have been particularly affected, as NPLs reached 4.3% of the total loan book at end-March 2014. In addition, public-sector banks have also experienced a significant rise in restructured loans to 5.8%. In contrast, private-sector banks have had significantly lower NPLs (1.8%) and restructured loans (1.8%). In addition, corporate deleveraging has reduced loan demand. Going forward, profitability is likely to come under further pressures as banks will be required to provision for restructured loans starting in April 2015 and to increase their capital adequacy ratio in line with new Basel III requirements.

Bank Profitability



Sources: IMF, RBI and QNB Group analysis

Indian banks ratings are relatively low, reflecting the ceiling associated with the sovereign rating

Indian banks credit ratings are limited by the sovereign rating at one level above investment grade. Credit rating agencies remain concerned that high leverage in the corporate sector could prevent a meaningful recovery in asset quality by end-March 2016, notwithstanding the projected rebound in economic growth. In addition, weak asset quality has depressed profitability and internal capital generation over the last two years, leaving public-sector banks reliant on periodic capital injections from the government. Looking ahead, the required increase in capital associated with Basel III requirements is likely to keep profitability depressed.

Credit Ratings of Top Five Banks (December 2014)

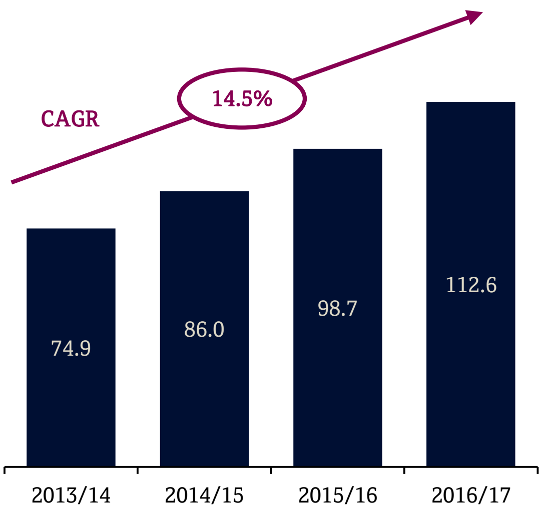
	Capital Intel.	Moody's	Fitch	Standard & Poor's
State Bank of India	BBB-	Baa3	BBB-	BBB-
ICICI	BBB-	N/A	BBB-	BBB-
Bank of Baroda	BBB-	N/A	N/A	N/A
Bank of India	BBB-	N/A	N/A	BBB-
Punjab Nat. Bank	BBB-	N/A	N/A	N/A

Sources: Bloomberg and QNB Group analysis

Deposits will remain the main source of funding for Indian banks

A high savings rate is likely to keep funding and liquidity growing in double digits. Indian banks are expected to continue benefitting from high levels of stable core customer deposits, which would limit their dependence on wholesale or external funding. The banking system's extensive branch networks and large domestic savings will continue to support the rapid expansion of the deposit base, notwithstanding lower inflation rates going forward. In addition, the government's financial inclusion initiative is expected to widen the banking system's deposit base further. The increase in the bankable population and the projected rise in per capita income are forecast to lead to average annual growth rate of 14.5% between 2013/14 and 2016/17.

Bank Deposits
(tn INR)

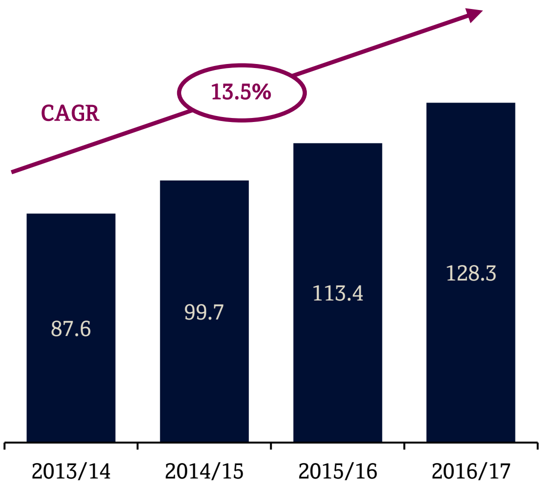


Sources: RBI and QNB Group analysis

Higher economic growth, the end of corporate deleveraging and higher banking penetration are expected to accelerate asset growth

The expected growth dividend from structural reforms over the next two fiscal years is likely to contribute to a rebound in lending growth. This will be further supported by the end of the corporate deleveraging cycle, expected by end-2015. At the same time, a clean-up of banks' balance sheet should create further room for banks to lend. Finally, greater banking penetration, including the Modi government's own financial inclusion initiative, will result in a greater customer base in need of consumer lending. Overall, we expect all these elements to contribute to an average asset growth of 13.5% over 2013/14 to 2016/17.

Bank Assets
(tn INR)



Sources: RBI and QNB Group analysis

Macroeconomic Indicators[5]

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15f	2015/16f	2016/17f
Real sector indicators								
Real GDP growth (%)	8.5	10.3	6.6	4.7	5.0	5.3	6.3	6.8
Nominal GDP (bn USD)	1,410.4	1,719.4	1,792.1	1,867.1	1,837.9	2,076.2	2,237.2	2,417.1
Growth (%)	24.7	21.9	4.2	4.2	-1.6	13.0	7.8	8.0
GDP per capita (PPP, k USD)	4.2	4.6	4.9	5.2	5.4	5.8	6.2	6.6
Consumer price inflation (%)	10.6	9.5	9.5	10.2	9.5	7.6	6.5	5.5
Budget balance (% of GDP)	-9.8	-8.4	-8.0	-7.4	-7.2	-7.2	-6.7	-6.5
Revenue	18.5	18.8	18.7	19.5	19.8	19.5	19.5	19.5
Expenditure	28.3	27.2	26.7	26.9	27.0	26.7	26.2	26.0
Public debt	72.5	67.5	66.8	66.6	61.5	60.5	59.5	58.5
External sector (% of GDP)								
Current account balance	-2.7	-2.8	-4.4	-4.7	-1.8	-1.7	-1.3	-1.1
Goods and services balance	-5.8	-4.8	-7.0	-7.0	-4.1	-3.7	-3.3	-3.1
Exports	19.7	22.2	25.2	24.2	25.6	25.8	25.8	25.8
Imports	-25.5	-27.0	-32.2	-31.2	-29.6	-29.5	-29.1	-28.9
Income balance	-0.6	-1.0	-0.9	-1.1	-1.3	-1.1	-1.1	-1.1
Transfers balance	3.7	3.1	3.5	3.4	3.6	3.1	3.1	3.1
Capital and Financial account balance	2.7	2.9	4.5	4.6	1.8	5.0	4.6	4.0
International reserves (prospective import cover)	7.2	6.3	6.1	6.4	5.9	6.9	7.6	7.9
External debt	18.5	18.5	20.1	21.9	24.0	23.8	25.4	29.2
Monetary indicators								
M3 growth	16.9	16.1	13.5	13.6	13.2	13.4	13.0	13.0
Policy Rate (%)	5.0	6.8	8.5	7.5	8.0	n.a.	n.a.	n.a.
Exchange rate USD:INR (av)	45.9	45.3	50.3	54.2	61.8	62.0	65.0	68.0
Banking indicators (%)								
Return on equity	10.6	10.8	13.4	13.8	11.1	n.a.	n.a.	n.a.
NPL ratio	2.2	2.4	2.7	3.4	3.8	4.5	4.2	4.0
Capital adequacy ratio	14.3	15.2	13.1	13.1	12.6	n.a.	n.a.	n.a.
Asset growth	17.8	18.9	13.3	13.9	11.6	13.8	13.7	13.1
Deposit growth	17.5	16.0	13.5	14.4	12.4	14.8	14.7	14.1
Credit growth	16.9	21.5	19.4	14.5	11.6	11.8	12.8	14.5
Loan to deposit ratio	73.3	76.7	80.7	80.8	80.2	78.1	76.8	77.1
Memorandum items								
Population (m)[6]	1170.0	1186.0	1202.0	1217.0	1233.0	1249.2	1265.7	1282.3
Growth (%)	1.4	1.4	1.3	1.2	1.3	1.3	1.3	1.3

Sources: CSO, IMF, Ministry of Finance, RBI and QNB Group forecasts

[5] Fiscal year data unless otherwise indicated

[6] As of October, mid-fiscal year

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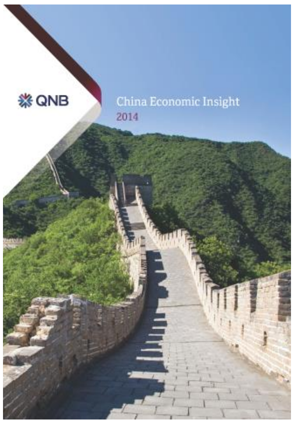

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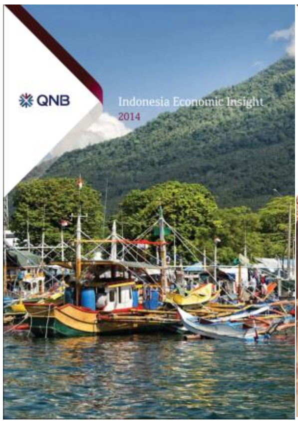

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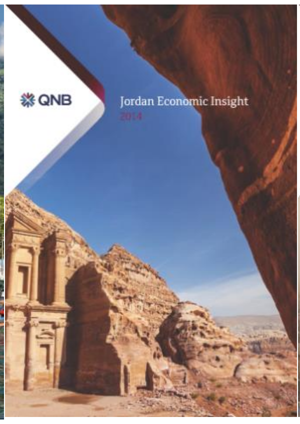

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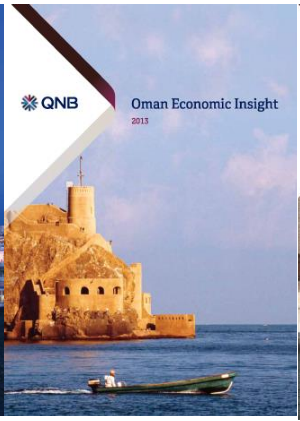

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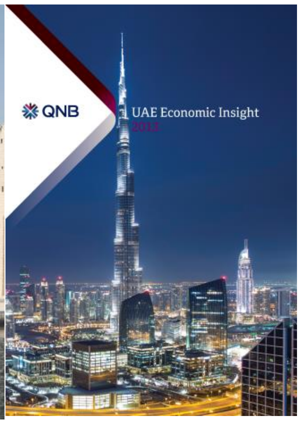

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