MONTHLY MONITOR

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	Highlights
Industrial activity is up	The annual growth of Index of Industrial Production for the month of February 2012 has increased to 4.1 per cent from 1.1 percent in January 2012. This positive growth in February is largely explained by the rise in both capital goods and basic goods sectors. Though the industrial activity is showing the signs of pick up again, the concerns for inflation, policy lethargy and the global uncertainties remain.
WPI inflation is down marginally	The year on year WPI inflation significantly declined marginally to 6.89 percent in March 2012, from 6.95 percent for February 2012, and is largely explained by the high base effect. The inflation in same month of the previous year was 9.68 per cent. Substantial easing in the prices of food and non-food components of primary articles helped in this slowing down of inflation from the last year's 9 percent. The high fiscal deficits, high crude oil prices and the current depreciation of rupee are adding to the inflationary woes.
CPI inflation climbs up	The annual growth in all India Consumer Price Index Number for Industrial Workers increased to 8.65 percent in March from **7.57** percent in February 2012. It was at a much higher level of 9.39 percent in October, 10.06 percent in September 2011, and 13.73 percent in June 2010. The much sensitive food Inflation climbed to 8.16 percent in March from 5.08 percent in February and the low of 0.49 percent in January, 2012.
Rupee depreciates sharply	The rupee-dollar rate clocked 51.73 for the month of April, 2012 as against 50.21 for the month of March, 2012, as the current account deficit widened. The Rupee is depreciating owing to the short term portfolio outflows in the stock market among other factors. The expected widening of trade deficit caused by the rise in crude prices as well as the low export growth rates in recent months are putting pressure on rupee.
Exchange Reserves almost	Foreign exchange reserves as on April 27, 2012, stood at US$ 295.36 billion to which foreign currency assets contributed US$ 260.95 billion. Foreign exchange reserves went up progressively from US$ 273.72 billion in May 28, 2010 to US$ 297.99 billion on November19 and US$ 295.03 billion on December 24, 2010 to US$

unchanged	318.36 billion on October 7, 2011. This is a substantial progress from the below 250 billion mark during 2009. In the process it crossed the peak of 314.61 billion of May 2008. These impressive figures amid so much global uncertainties clearly show the foreign investors' confidence about India's long term growth prospects.
Negative Exports growth ***Sharp increase in trade deficit***	The export growth went down further to -5.71 per cent in March from the low 4.3 percent in February 2012. It was a stunning 81.8 percent in July 2011. Imports grew at 24.28 percent during March 2012 as against 20.6 percent in February, 2012. Non-oil imports during April-January 2011 -12 are 26.23 per cent higher than the non-oil imports in the same period last year. The substantive rise in non-oil imports during last one year shows the demand side is stabilizing at a higher level due to the rapid recovery process in the domestic economy. The trade deficit for March, 2012, estimated at US$ 13.90 billion grew up by 3.6 times over March 2011. The trade deficit for April-March, 2011-12, estimated at US$ 185 billion, grew 57 per cent over April-March, 2010-11. The deficit is turning out to be a major concern.

IEG FORECAST

Variables	Latest Information available	Forecast for next three months
Inflation rate (WPI)	6.89% in March 2012	6.94%, 6.87%, 6.63%
Inflation rate (CPI)	8.65% in March 2012	8.48%,7.96%,7.72%
Growth rate of IIP	4.1% in February 2012	5.45, 6.03% , 7.73%
Growth rate of M3	13.0% on April 20, 2012.	13.52 %,13.79%,14.32%
Re/$ exchange rate	51.73 in April, 2012	52.68, 52.79, 52.84
Forex reserves	US$ 295.36 billion on April 27, 2012	$295.79, $297.26, $299.68
FII inflows (Net)	US$ -926.77 million in April, 2012	Inflows expected to be on the lower side in the next three months
Growth rate of exports	-5.71% in March 2012	9.52%,12.87%,16.18%
Growth rate of imports	24.28% in March 2012	34.74%,38.97%,41.08%

Inflation

WPI inflation marginally down

The year on year WPI inflation significantly declined marginally to 6.89 percent in March 2012, from 6.95 percent for February 2012, and is largely explained by the high base effect. The inflation in same month of the previous year was 9.68 per cent. Substantial easing in the prices of food and non-food components of primary articles helped in this slowing down of inflation from the last year's 9 percent. The prices of minerals and fuel are increasing at a higher rate.

In March 2012, the primary articles index with a weight of 20.12 percent rose by 2.4 percent while the index for fuel, power, light and lubricants with a weight 14.91 percent was up by 0.5 percent, and the index for the principal sector, the manufacturing products with a weight of 64.97 percent was up by 0.4 percent over the previous month.

Since August 2010 when the new series was introduced, the inflation was always higher than 8 percent. But this trend saw a decline from December 2011 as the WPI has come down to a more comfortable orbit of less than 8 per cent. The new WPI index tracks 676 commodities in contrast to the old index which was based on 435 commodities.

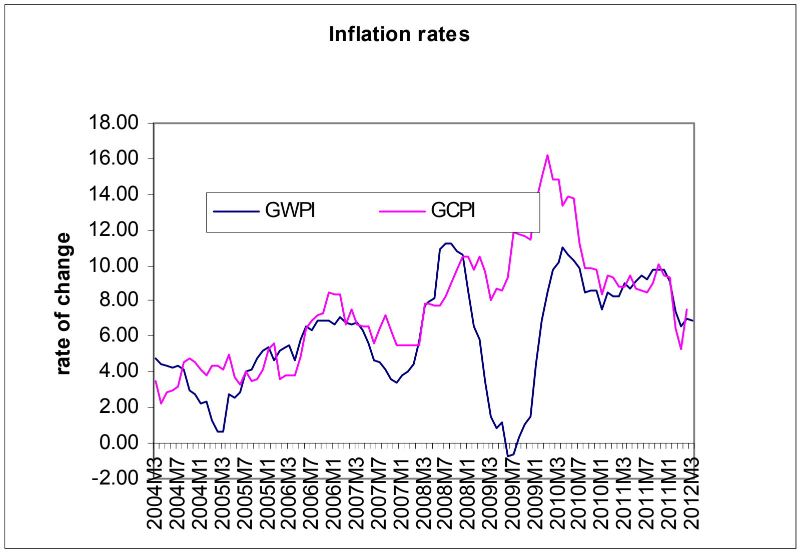
The high fiscal deficit, the increasing trend of crude prices and the short-term falling trend of rupee are putting an upward pressure on inflation. The recent slow down in the economy and the record food grains production are helping to reduce the inflation rate. Further the high policy rates are putting a downward pressure on demand. On balance, the inflation is likely to marginally go down in the next three months.

CPI inflation is rising

The annual growth in all India Consumer Price Index Number for Industrial Workers increased to 8.65 percent in March from 7.57 percent in February 2012. It was 5.32 percent in January 2012, 6.49 percent in December, 9.39 percent in October, 10.06 percent in September and 8.29 percent in August 2011. The much sensitive food Inflation climbed to 8.16 percent in March from 5.08 percent in February and the low of 0.49 percent in January, 2012. Even though the CPI is still high for March 2012, it is a steep climb down from the 13.73 percent in June 2010. The gap between inflation rates as measured by the wholesale price index and as measured by consumer price index is explained by the higher weightage given to primary products and food items in CPI, whereas WPI covers a wider range of the outputs of various commodities.

Forecast:

The WPI inflation forecasts are 6.94%, 6.87%, 6.63% **for** *April, May and June 2012 respectively. The CPI inflation forecasts are 8.48%, 7.96%, 7.72% for April, May and June 2012, respectively.*



Industrial Production

Industrial activity is sharply up

The annual growth of Index of Industrial Production for the month of February 2012 has increased to 4.1 per cent from 1.1 percent in January 2012. This positive growth in February is largely explained by the rise in both capital goods and basic goods sectors.

The Mining, Manufacturing and Electricity sectors for the month of January 2012 grew at 2.1, 4.0 and 8.0 percents, respectively, as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been -2.1, 3.7 and 8.7 percents, respectively, during April-February, 2011-12 over the corresponding period of the last year. This moved the overall cumulative growth to 3.5 percent.

It is a good sign that out of the twenty-two industry groups, eighteen have shown positive growth during February 2012. Industry groups like ‘Food Products and Beverages’, ‘Publishing, Printing and Reproduction of Recorded Media’ and ‘Medical, precision & optical instruments, watches and clocks’ and ‘Motor vehicles, trailers & semi-trailers’ have increased at high rates of 60.1 percent, 52.1 percent and 16.4 percent, respectively, and have helped in bringing up the IIP.

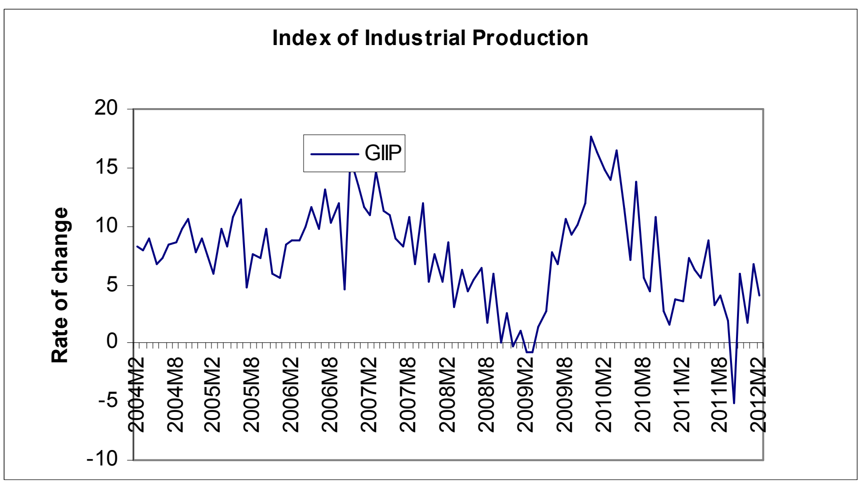
In February 2012, the annual growth rates in Basic goods and in Intermediate goods are 7.5 percent and -0.6 percent, whereas the crucial Capital goods sector also increased by 10.6 percent. This is not a very good sign for sustaining the overall growth rate in the economy especially when the output gap is closing up in the economy. The Consumer goods increased at a high 0.2 percent while the Consumer durables went down by 6.7 percent and Consumer non-durables went up by 5.1 percent.

The mining sector may not pick up in the short to medium run as environmental as well as displacement issues may take time to resolve. Similarly, land acquisition issues are also affecting the industry sector as whole. Even though the domestic demand remains reasonably strong, unless the supply constraints are progressively reduced, the growth may retard in the manufacturing sector in the future. Though the crisis in Europe was temporarily resolved, the problem of uncertainty is again raising its head after the France and Greece elections.

The uptrend in the industrial activity is faltering. The revival in demand supported by the low base for the year 2009 was able to deliver continuous higher growth later on. However, the pace of growth has got tapered off recently as the base effect wore off and withdrawal of stimulus picked up and impact of high policy rates became effective. The global uncertainty is adding fuel to the fire. The inflation pushed rate hikes is pulling the growth down. However, the record grain production is a great relief. Recently, the IIP growth has become extremely volatile. The low growth in exports is a negative sign for industrial growth. The government needs to be more active in reducing the fiscal deficit and addressing the long run supply concerns in Agriculture. It is also time for the RBI to reduce the policy rates further from the existing high level.

Forecast:

Based on the available information we forecast the IIP growth rate for the next three months to be 5.45%, 6.03%, and 7.73% April, May and June 2012 respectively.



Money and Credit

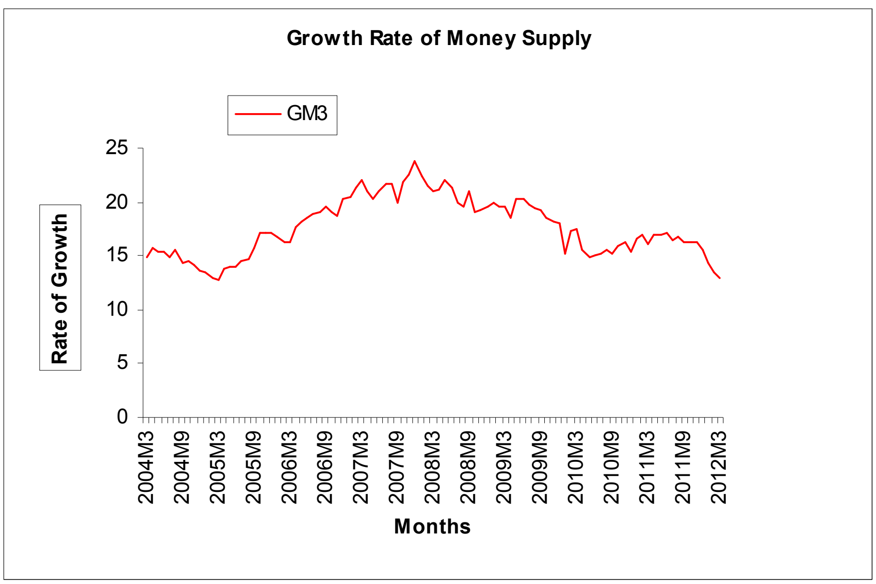
Money supply is sticky at almost at the same level

The year-on-year growth rate of broad money (M3) supply clocked 13.0 percent as on April 20, 2012. This is much lower than its year-on-year growth of almost 16.0 percent for the last year.. This is also 2.5 percent lower than its projected growth of 15.5 percent set for the whole year. The liquidity is being eased by the RBI through reduction in reserve requirements and decreasing the policy rates. However, recently the liquidity tightened as Reserve Bank sold dollars to manage the downward pressure on rupee and due to the advance tax payments.

The money supply is growing around 16 percent since last nine months. It is expected that the policy rates may not be revised in the short run. The expansion in money supply is contributed by the net credit to the Government increasing at 22.6 percent and credit to commercial sector at 17.5 percent. Overall credit uptake has been high in comparison to last year. The FIIs have withdrawn large sums of money from India as the euro zone problem seems not to be stabilizing and the USA economy is very slow in recovery. The money supply is forecasted to grow by 13 to 14 percent for the next three months.

Forecast:

The forecast for the growth rate of money supply (M3) 13.52 %, 13.79%, 14.32% *for May, June and July, 2012, respectively.*



Interest rates

As the positive signs of the revival of the economy were sustaining itself and inflation has become sticky at an unacceptably high level, the RBI started withdrawing from its low policy rates regime gradually went on increasing the policy rates. The RBI gave a positive surprise by reducing the repo rate by 50

Interest rates are stuck at higher levels

basis points, recently. However, this is not a trend reversing stance as there is not much sign of fiscal consolidation. The oil prices are not coming down substantially though the western economies are facing huge uncertainties. The prime lending rates saw upward revision both due to the continuous upward revision of policy rates, upward revision of deposit rates and the uncertainty in the global scenario. On the other hand, Europe is getting threatened with a recession and the Indian GDP growth rate is tapering off. In the medium term, decreases in inflation and GDP growth will reduce the growth in demand for money while monetary easing by RBI will increase the supply softening pressure on the market interest rates. The corporates may not increase their borrowings from outside the country as the rupee may not appreciate in the short run, even though interest rates are low there, which may have a hardening effect on the domestic interest rates. On balance, we would like to believe that the market interest rates may not come down much.

Exchange rate

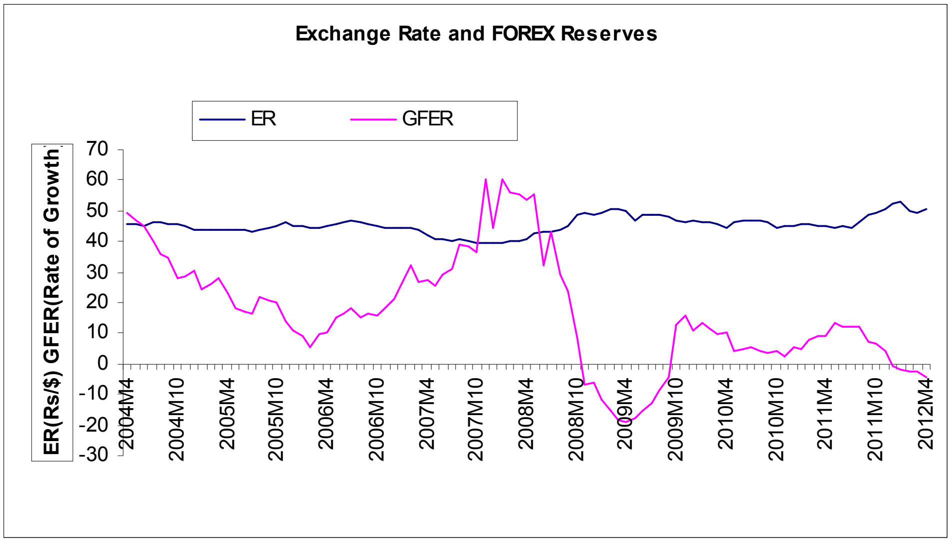
Rupee depreciated sharply

Showing a strong depreciation, the rupee-dollar rate clocked 51.73 for the month of April, 2012 as against 50.21 for the month of March, 2012, as the current account deficit widened. The Rupee is depreciating owing to the short term portfolio outflows in the stock market among other factors. The expected widening of trade deficit caused by the rise in crude prices as well as the low export growth rates in recent months are putting pressure on rupee.

However, it may be a short run phenomenon. In medium to long run, ruppee is expected to appreciate. The monthly average of rupee was 44.7 till August 24, 44.62 till May 20 and 45.18 till March 17, 2011. The continuous flow of FIIs into Indian stock market and the underlying strong growth potential of Indian economy had assisted in strengthening the Indian rupee. The rupee hit a five month high on the 4th October 2010 at 44.24 rupees per dollar. Rupee appreciated 12.9 percent during the year 2009-10 as against a depreciation of 25.5 percent in the previous year. This appreciation was mainly due to economic recovery.

Forecast:

In coming months, exchange rate is expected to be around Rs/$ 52.68, Rs/$ 52.79 and Rs/$ 52.8 for May, June and July, 2012



Foreign Exchange Reserves

Exchange reserves are almost unchanged

Foreign exchange reserves as on April 27, 2012, stood at US$ 295.36 billion to which foreign currency assets contributed US$ 260.95 billion. Foreign exchange reserves went up progressively from US$ 273.72 billion in May 28, 2010 to US$ 297.99 billion on November19 and US$ 295.03 billion on December 24, 2010 to US$ 318.36 billion on October 7, 2011. This is a substantial progress from the below 250 billion mark during 2009. In the process it crossed the peak of 314.61 billion of May 2008. The rise in reserves is mainly due to inflow of foreign investment into Indian market. The rise in stock market indices attracted huge FII inflows. The high interest rate differentials between India and the rest of the world, which is also likely to continue for some time, must have helped in this increase. However, the current depreciation of rupee, the lowering of GDP growth projections, the Euro zone crisis could restrain the accumulation of reserves The increasing outflow of Indian FDI to other countries is also restraining the accumulation. The current Euro Zone crisis is also restraining the FII flows to Indian stock markets.

On balance, we forecast a moderate rise in reserves for the next three months.

Forecast:
Forex reserves expected to be $295.79, $297.26, $299.68 billion *in May, June and July, 2012 respectively.*

Foreign Institutional Investment

The monthly foreign institutional investments (FIIs) in Indian market again turned negative at US$ -926.77 million for April, 2012. The monthly average

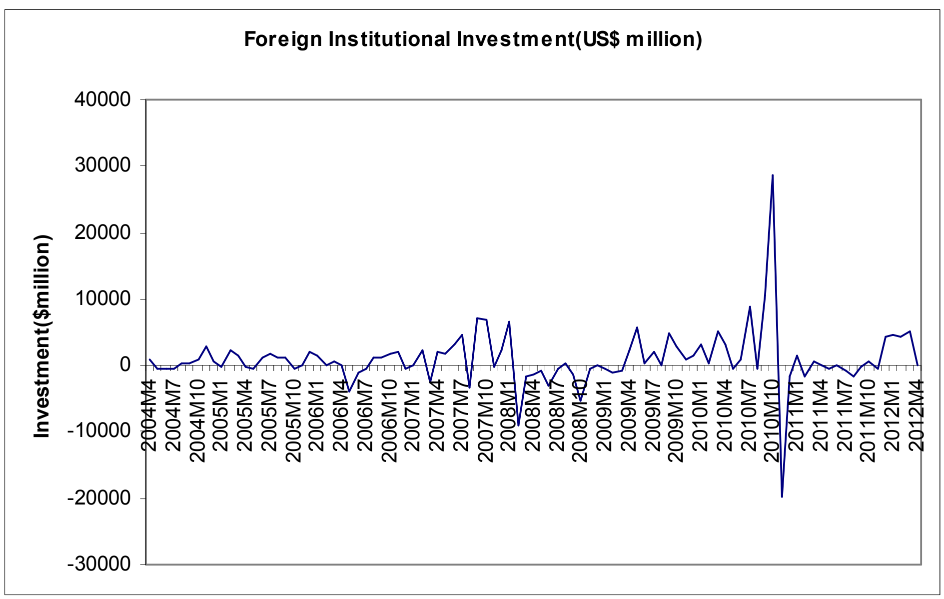
FIIs flows are negative

was US$ 211.46 million till October 28, US$ -1790.59 million till August 24, US$ -651.93 million till May 20 and US$ -721.13 million for February 2011. This is mainly due to the Euro zone uncertainty. Whereas the FIIs were high US$ 4784 million in November, US$ 5468 million in October, US$ 4262.60 million in September and US$ 5285.33 million in July 2010. These later figures clearly show the foreign investors' confidence about India's long term growth story though in the last few months they are quite low and negative. The expected medium term appreciation of rupee and the prospects of returns are making Indian economy attractive for FII inflows in medium to long term.

For 2009-10, the cumulative FIIs were 29047 million as against -15017 million for 2008-09. The revival in major global economies along with the improvement in Indian share markets had helped in reversing the negative trend of foreign institutional investments of the crisis period of the economy. After registering a huge fall during the crisis, the 30 share index of Bombay Stock Exchange, Sensex went up above the high 20,000 mark though, recently, the index is around 17000 due to the high policy rates by RBI. It is forecasted that the flows are not likely to pick up in the next three months as the crisis in the Western economies are not subsiding.

Forecast:

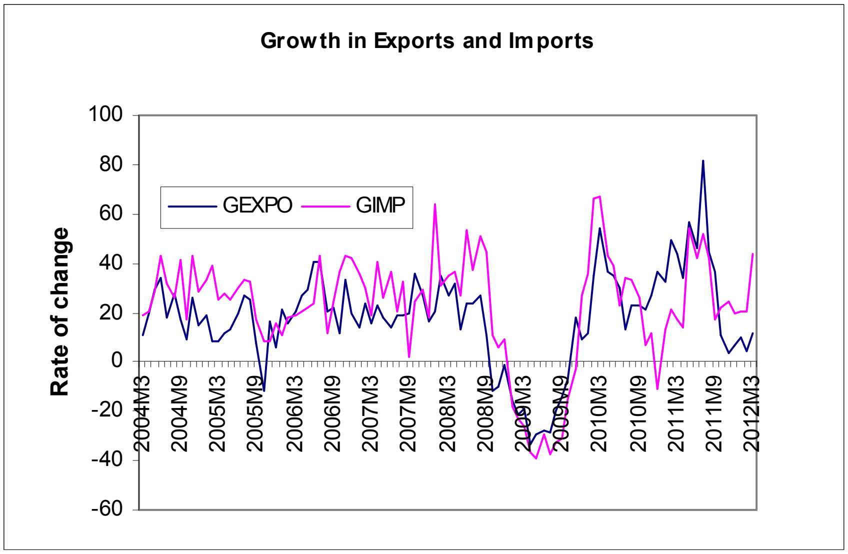
Inflows expected to be low in the next three months



Exports and Imports

Exports in March 2012 have shown a negative growth of 5.71 per cent in Dollar terms over the corresponding month of previous year. Exports in February 2012 have shown a growth of 4.28 per cent in Dollar terms than the over the corresponding month of previous year. The figures for February and January 2012 were 4.28 per cent and 10.10 percent, respectively.

Negative exports growth	Cumulative value of exports for the period April-March 2011-12 stood at US $ 304 billion registering a growth of 20.94 per cent over the same period last year. Depreciation of rupee is helping the exports. However, higher inflation at home may not be a good sign for exports. How and when the Euro zone crisis is solved will have a big impact on India's external trade.
Imports grows at 24.28 percent	Imports in March, 2012 have shown a growth of 24.28 per cent in Dollar terms than the corresponding month of 2011. The figure for February and January 2012 was not much different at 20.65 and 20.25 percent. Cumulative imports for the period April-March 2011-12 stood at US $ 489 billion registering a growth of 32.15 per cent over the same period last year. Oil imports during March, 2012 pegged at US$ 15.83 billion grew up by 32.45 per cent over the corresponding period last year. Oil imports during April-March, 2011-12 pegged at US$ 155.64 billion grew up by 46.88 per cent over the corresponding period last year. Non-oil imports during March, 2012 estimated at US$ 26.76 billion grew up by 19.91 per cent over the corresponding period last year. Non-oil imports during April-March, 2011-12 pegged at US$ 333.00 billion grew up by 26.23 per cent over the corresponding period last year. The substantive rise in non-oil imports during last twelve months shows the demand side is stabilizing at a higher level due to the rapid recovery process in the domestic economy. The revival in the external demand following the recovery in industrialized nations and large base effect has resulted in this sustained positive growth in exports for last year. The exports to USA, Asia and the newer markets of Africa and Latin America have helped sustaining the high growth. However, the depreciating rupee and the euro zone crisis has pulled down the export growth to low levels in recent times. The low export growth and high oil prices are putting pressure on trade deficit.
Trade deficit widens	The trade deficit for March, 2012, estimated at US$ 13.90 billion grew up by 3.6 times over March 2011. The trade deficit for April-March, 2011-12, estimated at US$ 185 billion, grew 57 per cent over April-march, 2010-11. ***Forecast:*** *Exports growth rates are forecast as* 9.52%, 12.87% and 16.18%, and import growth rates as 34.74%, 38.97% and 41.08%for April, May and June 2012, respectively.



Growth in Exports and Imports
Rate of change
GEXPO
GIMP
100
80
60
40
20
0
-20
-40
-60
2004M3
2004M9
2005M3
2005M9
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