MONTHLY MONITOR

Prepared by
Basanta K Pradhan & Sangeeta Chakravarty **March 2012**

Highlights

Industrial activity is up

The annual growth of Index of Industrial Production for the month of January 2012 has come out at a healthy 6.82 percent as compared to 2.5 per cent in December 2011. The cumulative growth for the period April-January, 2011-12 stands at 4.0 percent over the corresponding period of the previous year. This positive growth in February is largely explained by the sharp rise in consumer nondurables. Though the industrial activity is showing the signs of pick up again, the inflationary concern and the global uncertainties remain.

WPI inflation is up marginally

The year on year WPI inflation is lower at 6.95 percent in February 2012, in comparison to the 9 percent trajectory of earlier months, although a bit on the higher side than the 6.55 percent for January 2012, and is largely explained by the high base effect. The inflation in February 2012 was 9.54 per cent. Substantial easing in the prices of food and non-food components of primary articles helped in the recent slowing down of inflation. The high fiscal deficits, high crude oil prices and the current depreciation of rupee are adding to the inflationary woes.

CPI inflation is up

The annual growth in all India Consumer Price Index Number for Industrial Workers increased to 7.57 percent in February from 5.32 percent in January 2012. It was at a much higher level of 9.39 percent in October and 10.06 percent in September 2011, and 13.73 percent in June 2010. The much sensitive food Inflation climbed to 5.08 percent in February from the low of 0.49 percent in January, 2012.

Rupee is above 50 mark

Showing a strong depreciation, the rupee-dollar rate clocked 50.21 for the month of March, 2012, as the combined effect of global uncertainties and high and persistent domestic inflation rates continued. On March 30, 2012, the rupee-dollar rate closed at 51.14. The Rupee is depreciating owing to the short term portfolio outflows in the stock market among other factors. The widening of trade deficit caused by the rise in crude prices as well as the low export growth in recent months are putting huge pressure on rupee.

Foreign exchange reserves went up almost progressively from US$

Development Planning Centre, Institute of Economic Growth, Delhi University Enclave, Delhi-110007, India. Phone: (00)-91-11-27667365, Fax: (00)-91-11-27667410
E-mail: basanta@iegindia.org / sangeeta@iegindia.org URL: www.iegindia.org

Exchange Reserves almost unchanged	273.72 billion on May 28, 2010 to US$ 318.36 billion on October 7, 2011. This is a substantial progress from not long ago when reserves reached below the 250 billion mark. In the process, it also surpassed the peak of 314.61 billion of May 2008. These impressive figures amid so much global uncertainty clearly show the foreign investors' confidence about India's long term growth prospects. Foreign exchange reserves stands at US$ 295.14 billion on March 23, 2012.
Low Exports growth ***Sharp increase in trade deficit***	The export growth went down further to 4.3 per cent in February from the low 10.1 percent in January, 2012. It was a stunning 81.8 percent in July 2011. The cumulative value of exports for the period April-January 2011 -12 has grown at a high 23.47 per cent over the same period last year. Imports grew at 20.6 percent during February 2012 as against 20.25 percent in January, 2012. Non-oil imports during April-January 2011 -12 are 25.71 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 April-January 2011 -12 trade deficit increased by a whopping 40.39 percent to US$ 148.67 billion**.** The deficit is turning out to be a major concern.

IEG FORECAST

Variables	Latest Information available	Forecast for next three months
Inflation rate (WPI)	6.95% in February 2012	6.89%, 6.73%, 6.33%
Inflation rate (CPI)	7.57% in February 2012	6.08%,5.98%,5.78%
Growth rate of IIP	6.8% in January 2012	5.86%, 6.93% , 7.03%
Growth rate of M3	13.1% as on March 9, 2012	13.79 %,14.09%,14.32%
Re/$ exchange rate	50.21 for the month of March, 2012	49.59, 49.68, 49.89
Forex reserves	US$ 295.14 billion on March 23, 2012	$299.89, $301.36, $302.18
FII inflows (Net)	US$ 387.04 million for the month of March, 2012	Inflows expected to be in the higher side in the next three months
Growth rate of exports	4.3% in February 2012	13.12%,17.89%,19.98%
Growth rate of imports	20.6% in February 2012	23.04%,25.39%,27.18%

Inflation

WPI inflation marginally up

The year on year WPI inflation significantly declined to 6.95 percent in February 2012, although a bit on the higher side than the 6.55 percent for January 2012, and is largely explained by the high base effect. The inflation in same month of the previous year was 9.54 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 prices are increasing at a higher rate.

In February 2012, the primary articles index with a weight of 20.12 percent rose by 0.9 percent while the index for fuel, power, light and lubricants with a weight 14.91 percent was up by 0.2 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.

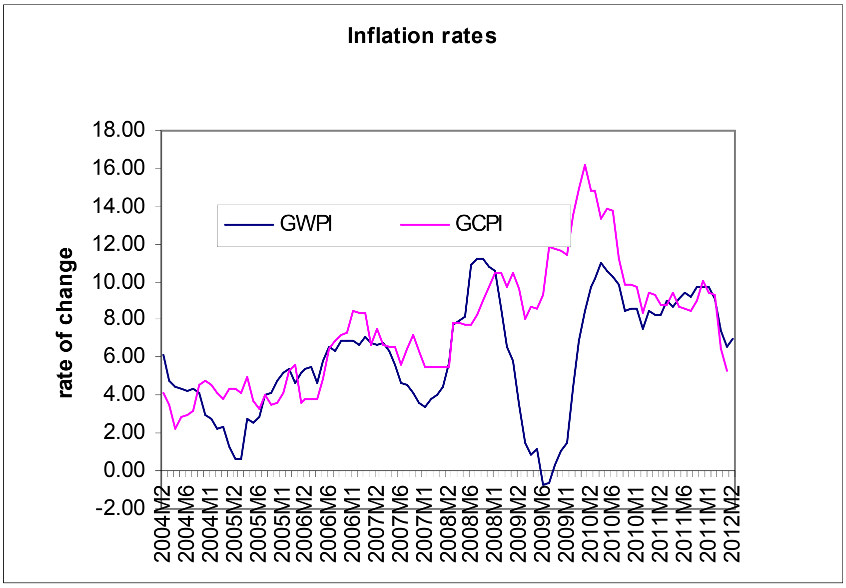
The rapid growth of GDP, the slow growth of agriculture, the large fiscal deficit and the rise in crude prices explains this high inflation for the last many months. The high fiscal deficit, the increasing trend of crude prices and the short-term falling trend of rupee are putting an upward pressure on inflation, while the withering of the base effect, the continuing monetary tightening of RBI and the other government measures were putting a downward pressure on inflation. The middle east crisis along with the recovery in the western economies has caused a sharp rise in oil prices. The recent slowdown 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 up again

The annual growth in all India Consumer Price Index Number for Industrial Workers increased to 7.57 percent in February from 5.32 percent in January 2012. It was 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 5.08 percent in February from the low of 0.49 percent in January, 2012. Even though the CPI is still high for February 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 6.89%, 6.73% and 6.33% for March, April and May 2012 respectively. The CPI inflation forecasts are 6.08%, 5.98% and 5.78% for March, April and May 2012, respectively.



Industrial Production

Industrial activity is up

The annual growth of Index of Industrial Production for the month of January 2012 has come out at a healthy 6.82 percent as compared to 2.5 per cent in December 2011. The cumulative growth for the period April-January, 2011-12 stands at 4.0 percent over the corresponding period of the previous year. This positive growth in February is largely explained by the sharp rise in consumer nondurables.

The Mining, Manufacturing and Electricity sectors for the month of January 2012 grew at -2.7 percent, 8.5 percent and 3.2 percent, respectively, as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been -2.6, 4.4 and 8.8 percents, respectively, during April-January, 2011-12 over the corresponding period of the last year. This moved the overall cumulative growth to 4.0 percent.

It is not a good sign that out of the twenty-two industry groups, only thirteen have shown positive growth during January 2012. Industry groups like ‘Food Products and Beverages’, ‘Publishing, Printing and Reproduction of Recorded Media’ and ‘Medical, precision & optical instruments, watches and clocks’ have declined at high rates of 92.6 percent, 56.1 percent and 29.9 percent, respectively, and have helped in bringing up the IIP.

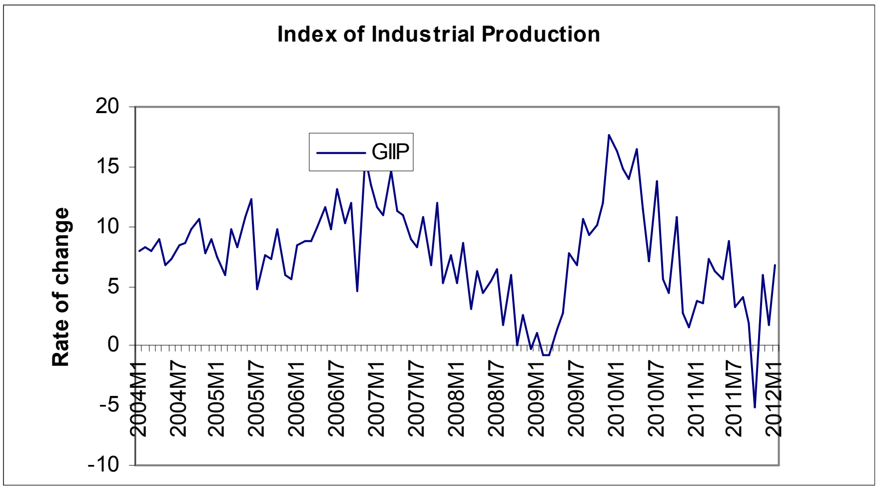
The mining sector may not pick up in the short to medium run as environmental as well as displacement issues may take time to resolve. Similarly, land acquisition issues also affecting the industry sector as whole. Even though the domestic demand remains reasonably strong, unless the supply constraints are progressively reduced the growth may retard in the Manufacturing sector in the future. The crisis in Europe, though temporarily appears to be resolved, is adding to the problem of uncertainty.

In January 2012, the annual growth rates in Basic goods and in Intermediate goods are 1.6 percent and -3.2 percent, whereas the crucial Capital goods sector also contracted by 1.5 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 20.2 percent while the Consumer durables went down by 6.8 percent and Consumer non-durables went up by a whopping 42.1 percent.

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 the impact of rate hikes and withdrawal of stimulus picked up. 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 from the existing high level.

Forecast:

Based on the available information we forecast the IIP growth rate for the next three months to be 5.86%, 6.93%, 7.03% for February, March and April 2012 respectively.



Money and Credit

The year-on-year growth rate of broad money (M3) supply clocked 13.1 percent as on March 9, 2012. The reserve money creation has gone down recently. However, the rising money multiplier has kept the M3 growth at reasonably high levels, though it is substantially lower than the almost 16 percent level for last year. Last month liquidity tightened partly as Reserve Bank sold dollars to manage the downward pressure on rupee.

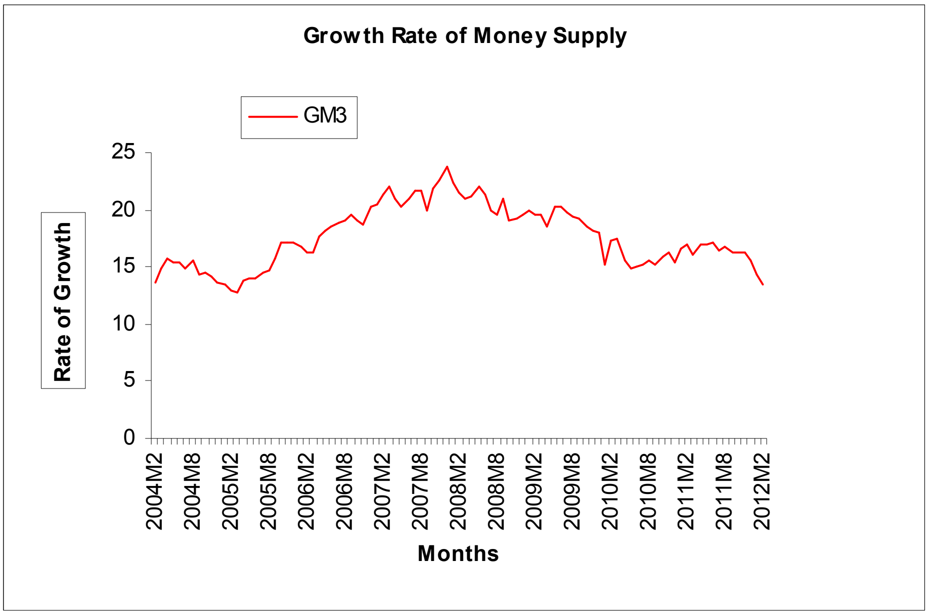
The RBI kept the policy rates on hold in March, 2012 in the light of increased upside risks to inflation as fiscal deficit was not showing any signs of moderation. The liquidity stress was handled by the Reserve Bank by injecting liquidity by reducing the cash reserve ratio.

Money supply is marginally down

As on March 9, 2012, money supply grew annually at 13.1 percent. It is growing around 16 percent since last nine months. It is expected that the policy rates may be revised downwards by 50 basis points in coming April. The expansion in money supply is contributed by the net credit to the Government increasing at 24.7 percent and credit to commercial sector at 15.8 percent. Overall credit uptake has been high in comparison to last year. The FIIs have invested large sums of money in India as the euro zone problem seems to be stabilizing and the USA economy is showing the signs of 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) 13.79%, 14.09%, 14.32% *for April, May and June 2012 respectively.*



Interest rates

Interest rates are sticky at higher level

The oil prices are holding at higher levels though the western economies are facing huge uncertainties. The Iran crisis is putting an upward risk to the oil prices even though Saudi Arabia is having record production levels. Though the growth momentum has slowed down, the large fiscal deficit in the economy is also putting pressure on prices. The prime lending rates are seeing upward revision both due to the continuous upward revision of policy rates, upward revision of deposit rates and the uncertainty in the global scenario. 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 is depreciating 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 in the short run.

Rupee is above 50 mark

Since last one year, as the positive signs of the revival of the economy are sustaining itself and inflation has become sticky at an unacceptable level, the RBI started withdrawing from its low policy rates regime gradually went on increasing the policy rates. The trend is likely get reversed soon, even though at a slower pace, given the inflationary expectations in the economy. The RBI has already raised its repo rate by 375 basis points since March 2010 to 8.50 percent. The reverse repo rate is now 7.50 percent. The inflation rates (WPI) are now down from the double digits mainly due to the good agricultural production and slowdown in the economy. However, the large fiscal deficit in the economy backed by domestic demand is putting pressure on prices. The prime lending rates are also seeing upward revision both due to the continuous upward revision of policy rates, upward revision of deposit rates and the uncertainty in the global scenario. In the medium term, increases in prices and GDP will increase the demand for money while monetary tightening by RBI will reduce the supply putting further pressure on the market interest rates. The corporates may increase their borrowings from outside the country as interest rates are low there, which may have a softening effect on the domestic interest rates. On balance, we would like to believe that the market interest rates may increase further.

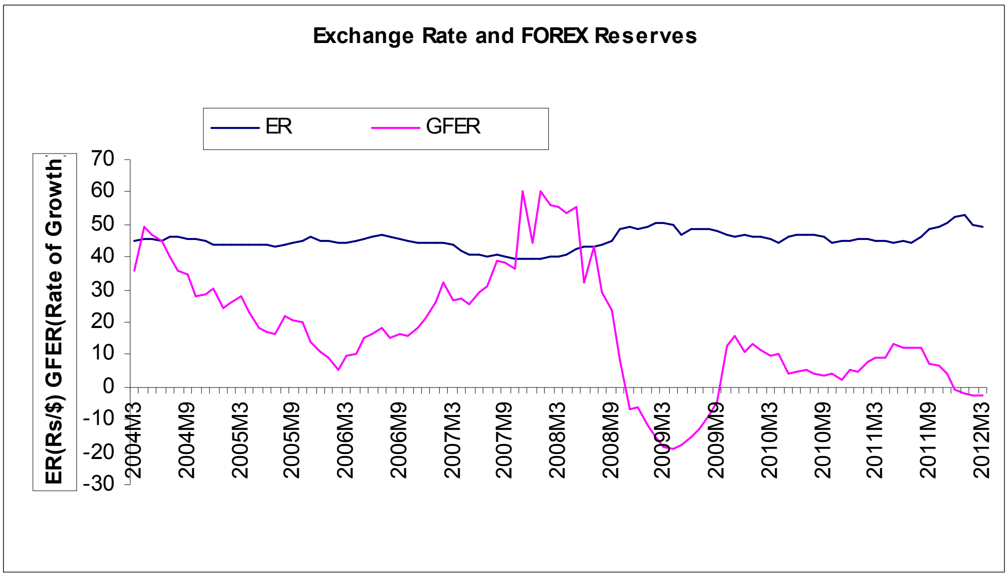
Exchange rate

Showing a strong depreciation, the rupee-dollar rate clocked 50.21 for the month of March, 2012, as the combined effect of Eurozone crisis and high and persistent domestic inflation rates continued. On March 30, 2012, the rupee-dollar rate was pegged at 51.14. 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. It 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/$ 49.59, 49.68, 49.89 *for April, May and June, 2012, respectively.*



Foreign Exchange Reserves

Foreign exchange reserves as on March 9, 2012, stood at US$ 295.14 billion in which foreign currency assets contributed US$ 259.74 billion.

Exchange reserves are almost unchanged

Foreign exchange reserves stood at US$ 318.36 billion on October 7, 2011. It went up impressively 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. This is a substantial progress from a little over a year ago when reserves reached below 250 billion mark. 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 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 $299.89, $301.36 and $302.18 billion *in April, May and June, 2012 respectively.*

Foreign Institutional Investment

The foreign institutional investments (FIIs) in Indian market were a low of US$ 387.04 million for March 2012. 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.

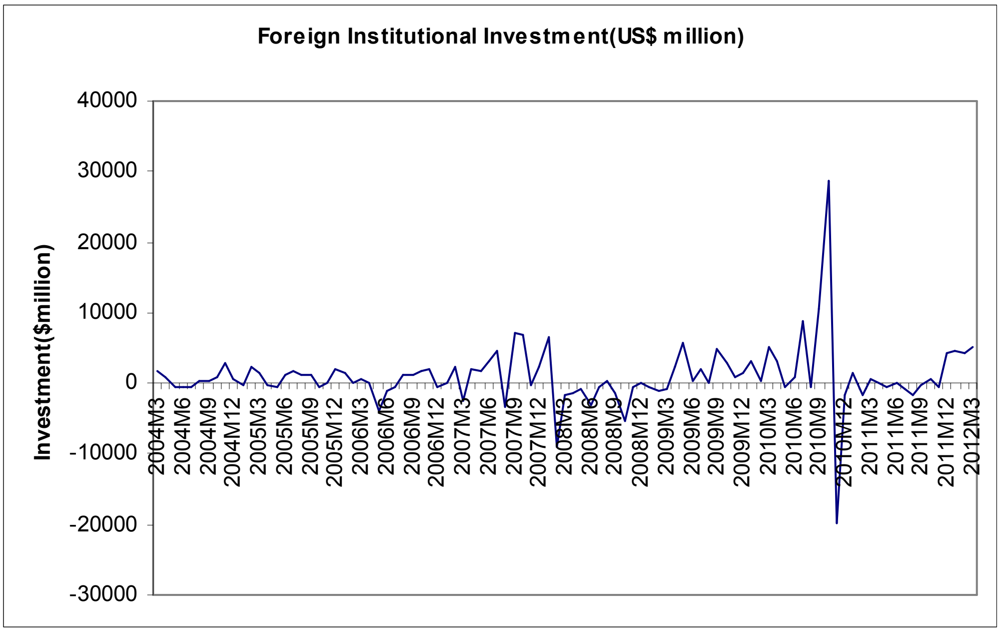
FIIs flows are positive

The monthly foreign institutional investments (FIIs) in Indian market turned positive at US$ 211.46 million till October 28, 2011 from 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 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 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.

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 repeated hike of policy rates by RBI. The high fiscal deficit indicating further delay in decline of interest rates, expected falling rate of profit due to increase in input prices are also weighing down the Sensex in the short run. It is forecast that the flows are likely to pick up in the next three months as the crisis in the Western economies may subside.

Forecast:

Inflows expected to be in the positive zone in the next three months.



Exports and Imports

Exports in January 2012 have shown a growth of 10.10 per cent in Dollar terms than the corresponding month of previous year. The figure for February 2012 is further down at 4.3 Cumulative value of exports for the period April-January 2011 -12 stood at US $ 242791.8

registering a growth of 23.47 per cent over the same period last year. Depreciation of helping the exports. However, higher inflation at home may not be a good sign for exports. I when the Euro zone crisis is solved will have a big impact on India's external trade.

Low Exports growth

Imports in January, 2012 have shown a growth of 20.25 per cent in Dollar terms than the corresponding month of 2011. The figure for February 2012 is not much different at 20.6 percent. Cumulative value of imports for the period April-January 2011-12 stood at US $ 391459.42 million registering a growth of 29.40 per cent over the same period last year.

Imports grows at 20.6 percent

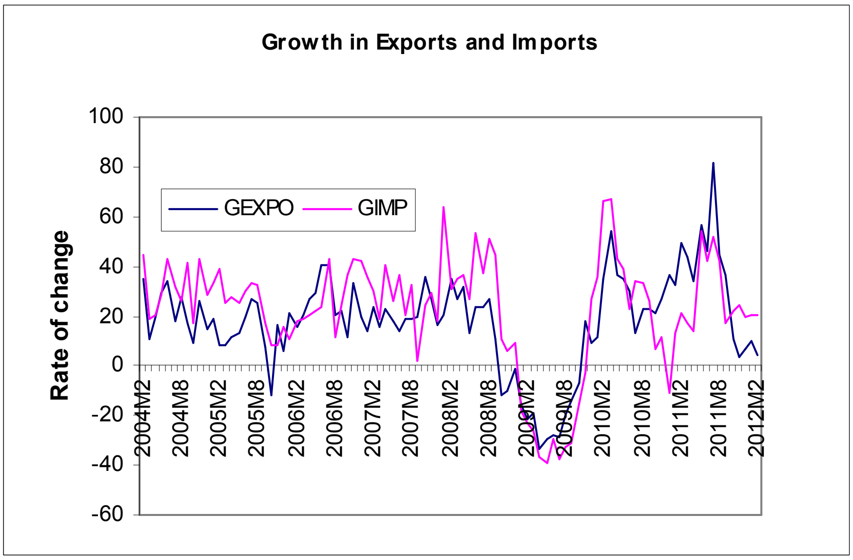
Oil imports during January, 2012, valued at US$ 12325.2 million grew up by 26.78 per cent over the corresponding period last year. Oil imports during April-January, 2011-12, pegged at US$ 117914.3 million, increased by 38.83 per cent from the level in the corresponding period last year. Non-oil imports during January, 2012, estimated at US$ 27782.7 million, grew up 17.56 per cent higher than the level of non-oil imports in the corresponding period last year. Non-oil imports during April - January, 2011-12, valued at US$ 273545.1 million, increased by 25.71 per cent from the level in 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.

Trade deficit increases sharply

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 high oil prices and the euro zone crisis has pulled down the export growth to low levels resulting high trade deficit.

The trade deficit for January, 2012, estimated at US$ 14.76 billion grew up by 43 percent over January 2011. The trade deficit for April-January, 2011-12, estimated at US$ 148.67 billion, grew 40.39 per cent over April-January, 2010-11.

Forecast: *Exports growth rates are forecast as 13.12%, 17.89%, and 19.98% for March, April and May 2012 respectively, and import growth rates are 23.04%, 25.39%, 27.18% for March, April and May 2012 respectively.*



Growth in Exports and Imports
Rate of change
GEXPO
GIMP
100
80
60
40
20
0
-20
-40
-60
2004M2
2004M8
2005M2
2005M8
2006M2
2006M8
2007M2
2007M8
2008M2
2008M8
2009M2
2009M8
2010M2
2010M8
2011M2
2011M8
2012M2