MONTHLY MONITOR

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	Highlights
Sharp fluctuations in Industrial activity	The annual growth of Index of Industrial Production for the month of January 2013 increased by 2.4 percent as against a decline of 0.6 percent in December 2012, while in October 2012 it rose to an unexpected level of 8.2 percent against a marginal dip of 0.4 percent in September and a growth of 2.7 percent in August 2012. This increase in January 2013 is largely explained by the increase in the growth of manufacturing sector. When the industrial activity was showing the signs of pick up, the high policy rates are squeezing the demand and pulling the growth down.
Headline inflation is up marginally	The year on year WPI inflation increased marginally to 6.84 percent in February 2013 from 6.62 percent in January 2013. The inflation in the same month of the previous year was 7.23 percent. This marginal increase in inflation is largely explained by higher inflation the inflation for fuel, power, light and lubricants.
Marginal rise in CPI inflation	The Consumer Price Index (CPI) for Industrial Workers rose to 12.06 percent during February 2013 from 11.62 percent in January 2013. The rise of CPI is primarily attributable to increase in the prices of the food group which increased by 1.28 percent. The CPI was 7.57 percent during the same month of the previous year. The much sensitive food Inflation increased to 14.98 percent during February 2013 from 14.08 percent in January 2013. It was a low of 5.08 percent in percent during the same month of the previous year.
Rupee fluctuating at lower level	The monthly average rupee-dollar rate depreciated to 54.37 in March, 2013, as against 53.75 monthly average in February, 2013, 54.78 till January 14, 2012; 54.70 till December 27, 2012 and 54.20 till November 2012 due to the widening of current account deficit. The Rupee is depreciating though the short-term portfolio inflows in the stock market have picked up substantially as there is a large current account deficit is above 6 percent. The widening of trade deficit caused by the rise in crude prices as well as the negative export growth rates in recent months were putting pressure on the rupee.
	Foreign exchange reserves on March 22, 2013 stood at US$ 293.37 billion to which foreign currency assets contributed US$ 260.42

Reserves increased	billion, as against US$ 291.92 billion on February 22, 2013, US$ 296.25 billion on January 11, 2013; US$ 296.63 billion in December 14, 2012 and US$ 293.56 billion on November 9, 2012. The accumulation of reserves is not going to go up substantially unless the uncertainties in the implementation of domestic policy reforms are reduced. The stimulus packages announced, not so long ago, by USA are helping in this accumulation process.
Reversal in Exports deceleration	Exports grew by 4.23 percent in February 2013 in dollar terms over the corresponding month of the previous year as against the growth of 0.82 percent in January 2013 and a contraction of 1.92 percent in December 2012. The incentives announced in recent foreign trade policy (FTP) helped in arresting the further fall in exports. The government is planning to provide further support to exports very soon. High base effect, slow growth in USA and the Euro zone crisis were pulling down the exports growth even if depreciation of rupee was very substantial. High fluctuations in IIP and higher inflation at home are not a good sign for exports.
Lower non-oil imports	Imports during February have shown an annual growth of 2.65 percent in dollar terms as against 6.12 percent in January, 2013. Cumulative value of imports for the period April-February 2012-13 stood at US$ 448.03 billion registering a growth of 0.25 percent over the same period last year. The substantive fall in the growth in non-oil imports during recent months shows the demand side is not able to sustain at higher level due to Euro zone crisis externally and high policy rates internally.
	The high domestic inflation and the euro zone crisis have pulled down the export growth to negative zone in recent times The low export growth and elevated oil prices resulted in huge trade deficits. It is a big positive that in policy front, there is a lot of action since September 2012 though uncertainties in implementation remains.
Trade deficit remains high	The trade deficit for February 2013 was estimated at US$ 14.92 billion, as against US $ 14.92 billion for the same period last year. The trade deficit for April-February, 2012-13 was at US $ 182.09 billion which was 7.22 percent higher than the deficit during the corresponding period of the previous year.

IEG FORECAST

Variables	Latest Information available	Forecast for next three months
Inflation rate (WPI)	6.84% in February2013	6.95%,6.83%,6.59%
Inflation rate (CPI)	12.06% in February 2013	11.29%,11.09%,10.68%
Growth rate of IIP	2.4% in January 2013	3.88%, 5.73%, 6.02%
Growth rate of M3	12.6% on March 8, 2013	13.21 %,13.33%,13.45%
Re/$ exchange rate	54.37 in March, 2013	54.22, 54.08, 53.93
Forex reserves	US$ 293.37 billion on March 22, 2013	US$293.98, US$294.58, US$295.06
FII inflows (Net)	US$ 2741.49 million in March, 2013	To be substantive
Growth rate of exports	4.23% in February 2013	Monthly average of 4.4%
Growth rate of imports	2.65% in February 2013	Monthly average of 5.78%

Inflation

WPI inflation is up marginally

The year on year WPI inflation increased marginally to 6.84 percent in February 2013 from 6.62 percent in January 2013. It was at 7.18 percent in December 2012, 7.24 percent in November 2012, 7.45 percent in October 2012, 7.81 percent in September and 7.55 percent in August, 2012. The inflation in the same month of the previous year was 7.56 percent. This marginal increase in inflation is largely explained by higher inflation the inflation for fuel, power, light and lubricants.

In February 2013, the year on year primary articles inflation, with a weight of 20.12 percent in the index, was 9.70 percent of which the food articles inflation was 11.38 percent, while the inflation for fuel, power, light and lubricants, with a weight of 14.91 percent in the index, was 10.47 percent and the inflation for the principal sector, the manufacturing products with a weight of 64.97 percent in the index, was 4.51 percent.

Since August 2010 when the new series was introduced, the inflation rate was always higher than 8 percent. However, this trend saw a decline from December 2011 as the WPI has come down to a relatively more comfortable orbit of less than 8 percent. The new WPI index tracks 676 commodities in contrast to the old index, which was based on 435 commodities. The high fiscal deficit, high crude prices and the low value of rupee are putting an upward pressure on inflation. The recently announced reforms by the government may help contain the fiscal deficits. Further, the high policy rates are putting a downward pressure on demand.

On balance, the inflation is not likely to change much in March, April and May 2013.

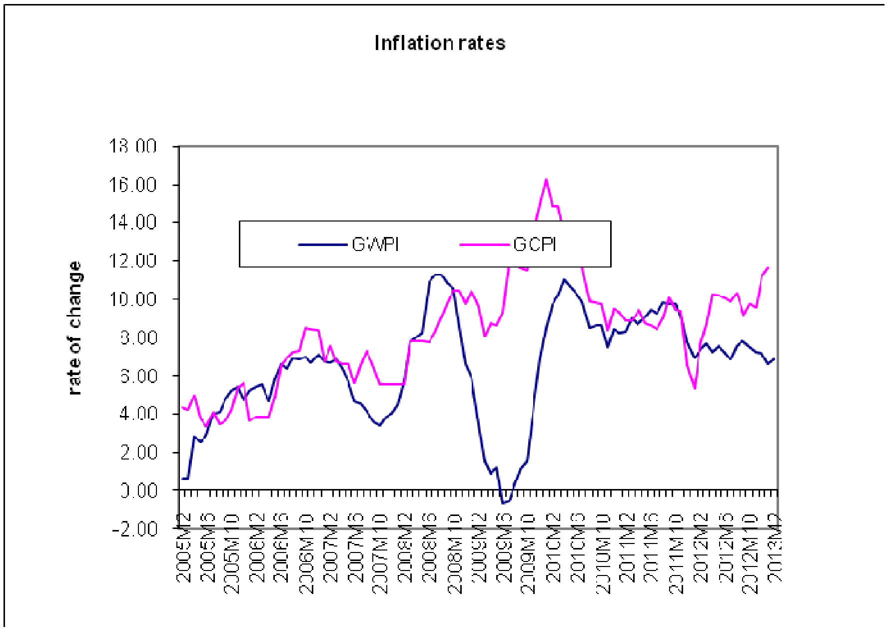
A marginal rise in CPI inflation

The Consumer Price Index (CPI) for Industrial Workers rose to 12.06 percent during February 2013 from 11.62 percent in January 2013, 11.17 percent in December 2012, 9.55 percent in November 2012, 9.60 percent in October 2012 and 9.14 percent in September 2012. The rise of CPI is primarily attributable to increase in the prices of the food group which increased by 1.28 percent. The CPI was 7.57 percent during the same month of the previous year. The much sensitive food Inflation increased to 14.98 percent during February 2013 from 14.08 percent in January 2013, 13.53 percent in December 2012, 10.85 percent in November 2012, 9.91 percent in October 2012 and 11.00 percent in September 2012. It was at a low of 5.08 percent during the same month of the previous year.

Forecast:

The WPI inflation forecasts are 6.95%, 6.83% and 6.59% for March, April and May 2013, respectively. The CPI inflation forecasts are

11.29%, 11.09% and10.68% for March, April and May 2013, respectively.



Industrial Production

Sharp fluctuations in Industrial activity continues

The annual growth of Index of Industrial Production for the month of January 2013 increased by 2.4 percent, while in December 2012 it declined by 0.6 percent, in November 2012 it declined by 0.1 percent, in October 2012 rose by an unexpected level of 8.2 percent against a marginal dip of 0.4 percent in September, a growth of 2.7 percent in August, a marginal growth of 0.1 percent in July, a substantial decline of 1.8 percent in June, a growth of 2.4 percent in May and 0.1 percent in April 2012. However, the IIP had a 3.5 percent contraction in March 2012. The IIP growth figure for May 2011 was 9.5 percent. This increase in January 2013 is largely explained by the increase in the growth of manufacturing sector.

The Mining, Manufacturing and Electricity sectors having weights of 141.57, 755.27 and 103.16, grew by (-) 2.9 percent, 2.7 percent and 6.4 percents, respectively, for the month of January 2013 as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been (-) 1.9 percent, 0.9 percent and 4.7 percent respectively, during April-January 2012-2013 over the corresponding period of the last year. This led to an increase of 1.0 percent in the overall cumulative growth of the General Index.

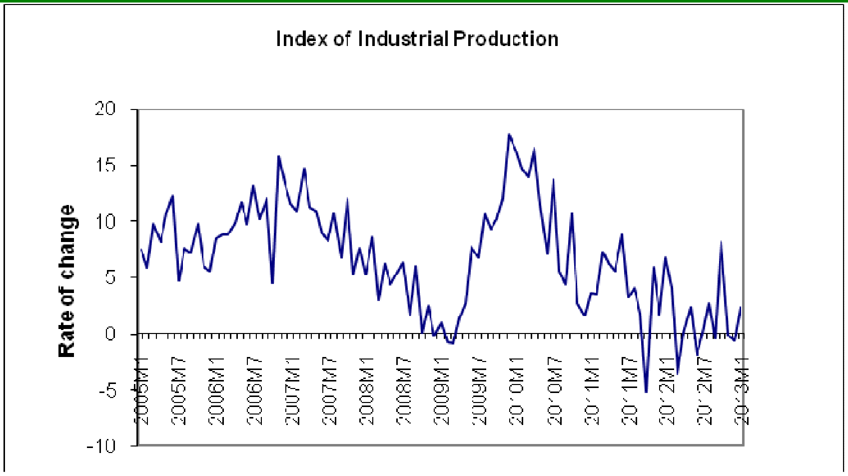
Out of the twenty-two industry groups, eleven groups have shown positive growth during January 2013. Industry groups like 'Electrical machinery & apparatus n.e.c.', 'Tobacco Products' and 'Wearing apparel; dressing and dyeing of fur' have recorded growth rates of 46.7 percent, 19.8 percent and 18.1 percent, respectively, thus contributing to the increase in the general index.

In January 2013, the annual growth rates in Basic goods and in Intermediate goods stood at 3.4 percent and 2.0 percent, whereas the crucial Capital goods sector contracted by 1.8 percent. The capital goods sector contracted by 9.3 percent during April-January 2012-13. This is not a very good sign for sustaining the overall growth rate in the economy especially when there is not much flexibility in the output gap in the economy. The Consumer goods sector rose by 2.8 percent, the Consumer durables recorded a fall of 0.9 percent, whereas the Consumer nondurables registered an increase of 5.3 percent in January 2013.

Besides the high interest rates, the land acquisition issues are also affecting the industry sector as a whole. The uptrend in the industrial activity is faltering though the IIP rose unexpectedly at a very high rate in October 2012. The revival in demand supported by the low base for the year 2009 was able to deliver continuous higher growth rates later on. However, the pace of growth got tapered off afterwards as the base effect wore off and withdrawal of the stimulus picked up and the impact of high policy rates became effective. The global situation is adding fuel to the fire. The inflation pushed rate hikes are squeezing the demand and pulling the growth down. However, the recent policy announcements have been the sources of great relief. Recently, the IIP growth has become extremely volatile. The government needs to keep the tempo of policy reforms in reducing the fiscal deficit and trade 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 3.88%, 5.73% and 6.02% for February, March and April 2013, respectively.



Money and Credit

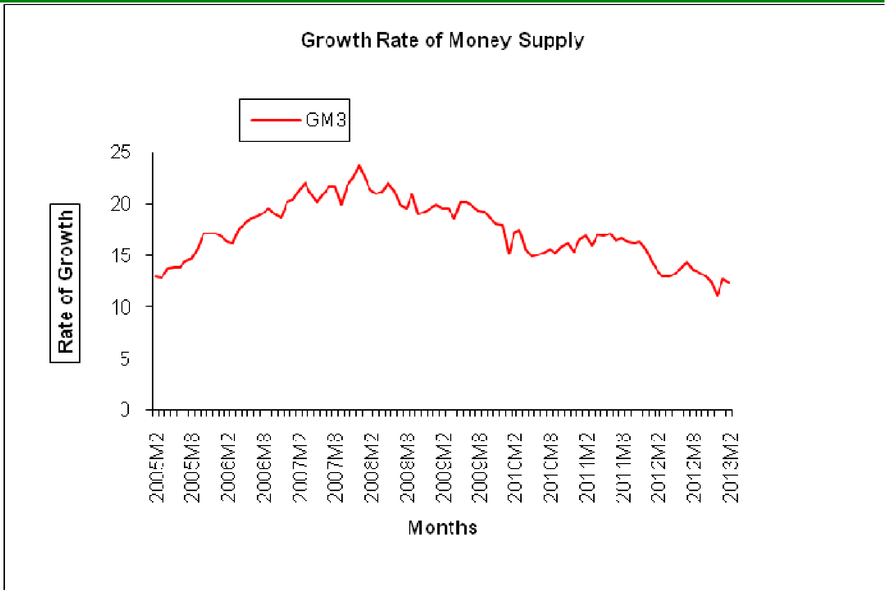
Money supply growth remains the same

The year-on-year growth rate of broad money (M3) supply clocked 12.6 percent on March 8, 2013 as against 12.7 percent on February 8, 2013, 11.2 percent on December 28, 2012 and 12.5 percent on November 30, 2012. This is lower than its growth of 14.0 percent for the last year. This is also a substantive 2.9 percent lower than its projected growth of 15.5 percent set for the whole year. The expansion in money supply was contributed by the net credit to the Government 13.5 percent and credit to the commercial sector at 15.1 percent among other sources.

Money supply has slowed down even if the FIIs are pouring in large sums of money to the equity markets in India as expectations of implementation of policy reforms are high. The money supply is forecast to grow above 13 percent for the next three months.

Forecast:

The growth rates of money supply (M3) are forecast to be 13.21%, 13.33% and 13.45% for April, May and June 2013, respectively.



Interest rates

Interest rates are declining gradually

The growth in the economy is faltering though inflation is not coming down fast enough. The RBI gave a positive surprise by reducing the repo rate by 50 basis points to 8 percent in April 2012. The subsequent cuts in repo rate and in CRR down to 7.5 percent and 4.00 percent, respectively, are also helpful. As India is showing the sign of moving towards a stagflation like situation, RBI should go for a reduction in policy rates by another 50 basis points in the next policy review. On the positive side, the government is announcing measures since September 2012 which are expected to help in checking the fiscal deficit though uncertainties about implementation at ground level remains.

Earlier, 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. However, there are recent announcements by banks in reducing interest rates. In the medium term, increases in GDP growth will increase 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 increase their borrowings from outside the country as the withholding tax has been reduced, which may have a softening effect on the domestic interest rates. On balance, we believe that the market interest rates may come down, though gradually, in the next three months.

Exchange rate

Rupee depreciates

The monthly average rupee-dollar rate depreciated to 54.37 in March, 2013, as against 53.75 monthly average in February, 2013, 54.78 till January 14, 2012; 54.70 till December 27, 2012 and 54.20 till

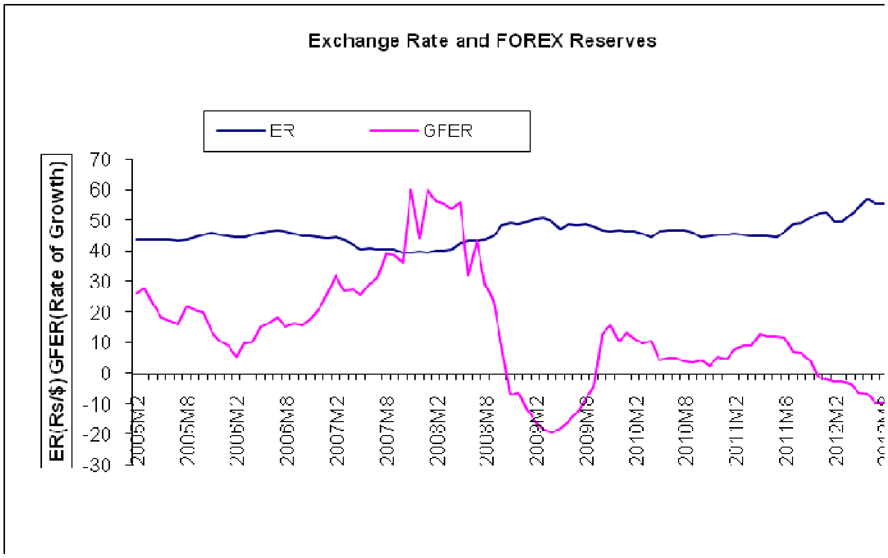
marginally

November 2012, 52.88 till October 24, 2012, 55.33 till September 21, 2012 due to the increase in current account deficit. The Rupee is depreciating though the short-term portfolio inflows in the stock market have picked up substantially as there is a large current account deficit is more than 6 percent. Earlier, the exchange rate slipped to 54.41 for the month of May from 51.73 for the month of April and 50.21 for the month of March 2012, as the current account deficit widened to 4 per cent of GDP. The monthly average of exchange rate went down further to 56.00 till August 17, 55.48 in July and 55.99 in June 2012 contributed by internal policy lethargy and a not so comforting external situation. The widening of trade deficit caused by the rise in crude prices as well as the negative export growth rates in recent months were putting pressure on the rupee.

However, the low value of rupee is proving to be a short run phenomenon. In medium to long run, the rupee is expected to be stronger. By the middle of the next fiscal, when growth starts picking up, rupee will start gaining. The monthly average of the rupee-dollar rates were 44.7 till August 24, 44.62 till May 20 and 45.18 till March 17, 2011. The continuous flow of FIIs into the stock market and the underlying strong growth potential of the economy had assisted in strengthening the Indian rupee during this period. The rupee hit a five month high on October 4, 2010 at 44.24 per dollar and it touched a record low of about Rs 57 against the US dollar in mid-June 2012. 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 macroeconomic recovery during that period.

Forecast:

In coming months, the exchange rate is expected to be around Rs/$ 54.22, Rs/$ 54.08 and Rs/$ 53.93 for April, May and June 2013.



Reserves are increasing

Foreign Exchange Reserves

Foreign exchange reserves on March 22, 2013 stood at US$ 293.37 billion to which foreign currency assets contributed US$ 260.42 billion, as against US$ 291.92 billion on February 22, 2013, US$ 296.25 billion on January 11, 2013; US$ 296.63 billion in December 14, 2012 and US$ 293.56 billion on November 9, 2012. The total reserves stood at US$ 294.88 billion on October 12, US$ 294.48 billion on September 14, US$ 289.17 billion on August 10, US$ 288.62 billion on June 22, and US$ 288.26 billion on May 25, 2012.

Foreign exchange reserves went up impressively from US$ 273.72 billion in May 28, 2010 to US$ 297.99 billion on November 19, US$ 295.03 billion on December 24, 2010 and 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 recent rise in reserves is mainly due to the rise in inflow of foreign investment into Indian market. The rise in the stock market indices attracting 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. The current domestic policy uncertainty is not helpful to the accumulation of reserves. On balance, we forecast an increase in the forex reserves for the next three months.
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Forecast:

Forex reserves expected to be US$ 293.98 billion, US$ 294.58 billion and US$ 295.06 billion in April, May and June, respectively, 2013.

FII inflows declines

Foreign Institutional Investment

The average monthly foreign institutional investments (FIIs) in the Indian economy was at US$ 2741.49 million in March, 2013 of which equity was US$ 1675.48 million, as against US$ 5318.21 million for February, 2013 of which equity was US$ 4575.26 million. The monthly average of FIIs stood at US$ 4416.89 million till January 16, 2013 of which equity was US$ 4284.74 million, US$ 5572.55 million till December 27, 2012 of which equity was US$ 5082.47 million, even if uncertainties about the reform process in the domestic economy still remains. The reform packages by the Indian government if implemented at the ground level then inflows may rise pushing up the stock market indices further.

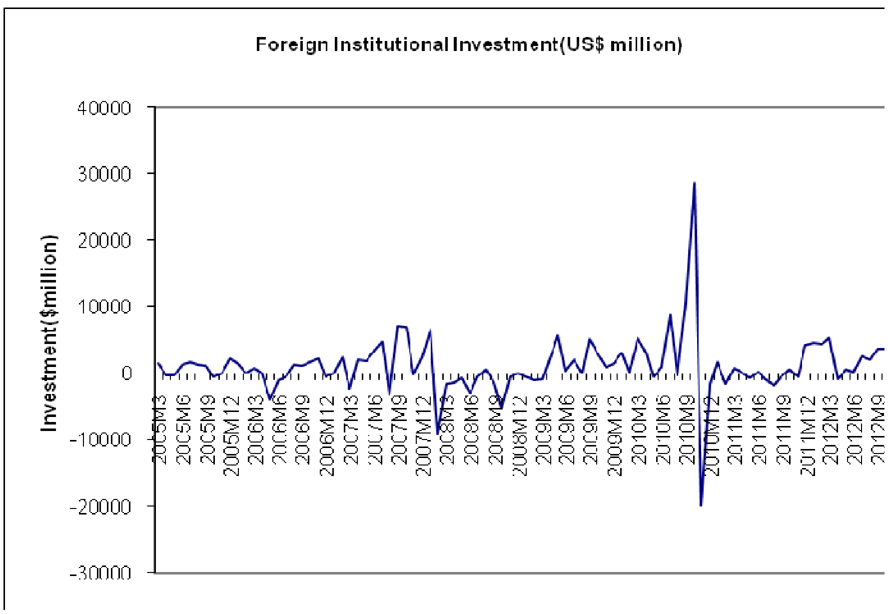
The monthly foreign institutional investments (FIIs) in the Indian market were modest at US$ 209.14 million for June 2012 though the FIIs in equity market were negative at US$ -86.16 million. The monthly average of FIIs was US$ 211.46 million till October 28, US$ -

1790.59 million till August 24, US$ - 651.93 million till May 20 and US$ -721.13 million for February 2011. This was mainly due to the Euro zone uncertainty. However, the FIIs were a 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.

The expected long term appreciation of the rupee and the prospects of returns are making the Indian economy attractive for the FII inflows in the long term. For 2009-10, the cumulative FIIs were US$ 29047 million as against US$ -15017 million for 2008-09. The revival in major global economies along with the improvement in the 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 crossed the 20,000 mark, and now hovering around 18800.

Forecast:

Inflows are expected to be substantive in the next three months.



Exports and Imports

Exports grew by 4.23 percent in February 2013 in dollar terms over the corresponding month of the previous year as against the growth of 0.82 percent in January 2013, contraction of 1.92 percent in December 2012, 4.17 percent in November 2012, 1.63 percent in October, 10.78 percent

Exports rose

in September, 9.7 percent in August, 14.8 percent in July and 5.45 percent in June 2012. The incentives announced in recent foreign trade policy (FTP) helped in arresting the further fall in exports. The government is planning to provide further support to exports soon. High base effect, slow growth in USA and the Euro zone crisis were pulling down the exports growth even if depreciation of rupee was very substantial. High fluctuations in IIP and higher inflation at home are not a good sign for exports. The exports growth fluctuated in a very wide range from an astonishing 82 percent expansion in July 2011 to a 14.8 per cent contraction in July 2012. The cumulative value of exports for the period April -February 2012 -13 was US $ 265.94 billion registering a negative growth of 4.03 per cent in dollar terms over the same period last year.

Imports during February, 2013 have shown an annual growth of 2.65 percent in dollar terms as against a growth of 6.12 per cent in January 2013, 6.26 percent in December 2012, 6.35 percent in November 2012 and 7.37 percent in October, 5.09 percent in September, contractions of 5.08 percent in August and 6.47 percent in July 2012. Cumulative value of imports for the period April-February 2012-13 stood at US$ 448.03 billion registering a growth of 0. 25 percent over the same period last year.

High growth in Oil imports

Oil imports during February, 2013 were pegged at US $ 15.15 billion up by 15.45 percent over the corresponding period last year. Oil imports during April-February, 2012-13 were at US$ 155.56 billion up by 11.92 percent over the corresponding period last year. Non-oil imports during February, 2013 were estimated at US $ 26.033 billion which was 3.57 percent higher over the corresponding period last year. Non-oil imports during April- February, 2012-13 pegged at US$ 292.46 billion lower by 5.03 percent over the corresponding period last year.

The substantive fall in the growth in non-oil imports during recent months shows the demand side is not able to sustain at higher level due to Euro zone crisis externally and high policy rates internally. The high domestic inflation and the euro zone crisis have pulled down the export growth to negative zone in recent times. The low export growth and elevated oil prices resulted in huge trade deficits. It is a big positive that in policy front, there is a lot of action since September 2012 though uncertainties in implementation remains.

Trade deficit at high level

The trade deficit for February 2013 was estimated at US $ 14.92 billion, as against US $ 14.92 billion for the same period last year. The trade deficit for April- February, 2012-13 was at US $ 182.09 billion which was 7.22 percent higher than the deficit during the corresponding period of the previous year.

Forecast:

Exports growth rate is forecast to be at monthly average of 4.4% and import growth rate at monthly average of 5.78% for March, April and May, 2013.