MONTHLY MONITOR

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	Highlights
Industrial sector showing strong revival signs	India's Industrial sector is showing remarkable recovery signs. Spectacular growth of Index for Industrial Production (IIP) recorded for June 2009 was sustained in the month of July as well. IIP growth stood at a 6.8 percent for the month of July 2009. This is contributed by sharp rise in the growth for intermediate goods followed by basic goods and consumer durables. The mining sector growth was highest followed by the manufacturing and then the electricity sector. These rises in mining sector have been mainly due to the revival of the domestic demand. Surge in demand for iron and steel, metals and some other basic and capital goods sector added stimulus to this growth.
Inflation rate moves into positive territory.	Inflation rate continues to be positive in the second week of September. However, the reversing of inflation turning to positive started in August third week only. At the commodity group level, for the month of August, the prices of fuel group and iron and steel sector registered a decreasing trend again. Prices of some essential food items like edible oil also registered negative growth. But the prices of other essential food items like sugar group and some primary articles like fruits and vegetables continue to increase. The inflation in sugar group is at a whooping 35.2 percent.
Money supply growth continues to be around 19.4%	Money supply continues to grow around 19.4 percent. Increases in bank credit to government sector still remain a major factor that increases the money supply. The growth in credit to commercial sector and in net foreign exchange assets, which are the other contributors to money supply increased by 14.1 percent and 6.1 percent respectively in August 2009.
Interest rates unmoved	The interest rates remain almost unchanged and with the government fiscal stimulus continuing, we don't expect much fall in the money supply growth in the coming months. On the interest rate front, as fiscal deficit is expected to go up further in the current fiscal year, there would be an upward pressure on the rates in the medium term. Hence a major decline is expected.

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Both exports and imports continues to decline sharply	Deceleration in trade sector continues. Both exports and imports growth decelerated by 28.4% and 37.1% in July 2009. As the global economic outlook showing signs of recovery, we expect the fall in growth of exports to slow down in next three months. In terms of imports, oil imports would rise following increase in the world prices. But the demand for intermediate imports is expected to go up as the economy is showing the signs of recovery. The new foreign trade policy that has been unveiled for 2009-14 is likely to help the export sector though to a limited extent.
Forex reserves increase to US$ 280.9 billions **Positive FII flows in July** **Exchange rate depreciated marginally**	Foreign exchange reserves continue to rise marginally as compared to last month. Currently it is at US$ 280.9 billions. Increase in foreign investments and NRI funds seem to help forex accumulation. The FIIs also turning out to be net buyers. Latest data show that in July 2009, FIIs invested nearly US$ 2067 millions. The trend in forex reserves has shown its impact on exchange rate, which has depreciated marginally to Rs48.51 per US dollar from July month's Rs48.4 per US dollar. The future movement of exchange rate would depend on the behavior of foreign investors and the global economic and financial scenario.

IEG FORECAST

Variables	Latest Information available	Forecast for next few months
Inflation rate (WPI)	-0.7 % as in August, 2009	0.64% , 1.02%, 1.59%
Inflation rate (CPI)	11.89 % in July 2009	11.33%,10.88%,10.46%
Growth rate of IIP	6.8% in July 2009	7.08%, 7.70%, 8.90%
Growth rate of M3	19.4 % as on 28th August 2009.	19.34%,19.10%,18.96 %,
Prime lending rate	11-12 % as on 4th September 2009.	Expected to decline marginally below 11%
Re/$ exchange rate	48.51 as on 11th September 2009	Depreciate to 48.92 by Nov 2009
Forex reserves	US $280.97 billions as on 11th September 2009.	$284.5,$288.2,$290.1 billion for next three months
FII inflows (Net)	US$ 2067 millions in July 2009	Inflows to be Positive
Growth rate of exports	-28.4 percent for July 2009	Average of -19% for next three months
Growth rate of imports	-37.7% for July 2009	Average of -11% for next three months

Inflation

Inflation rate as measured by WPI shows a slight upward trend

Inflation rate stood at 0.37% for the second week of September. A week before it had moved into positive path after a gap of 13 weeks. The deceleration in inflation is now reversing as the inflation rate has begun to rise again. For the month of August, at the commodity group level, the prices of fuel group and iron and steel sector registered a decreasing trend again Prices of some essential food items like edible oil also registered negative growth. But the prices of other essential food items like sugar group and some primary articles like fruits and vegetables continue to increase. The inflation in sugar group is at whooping 35 percent.

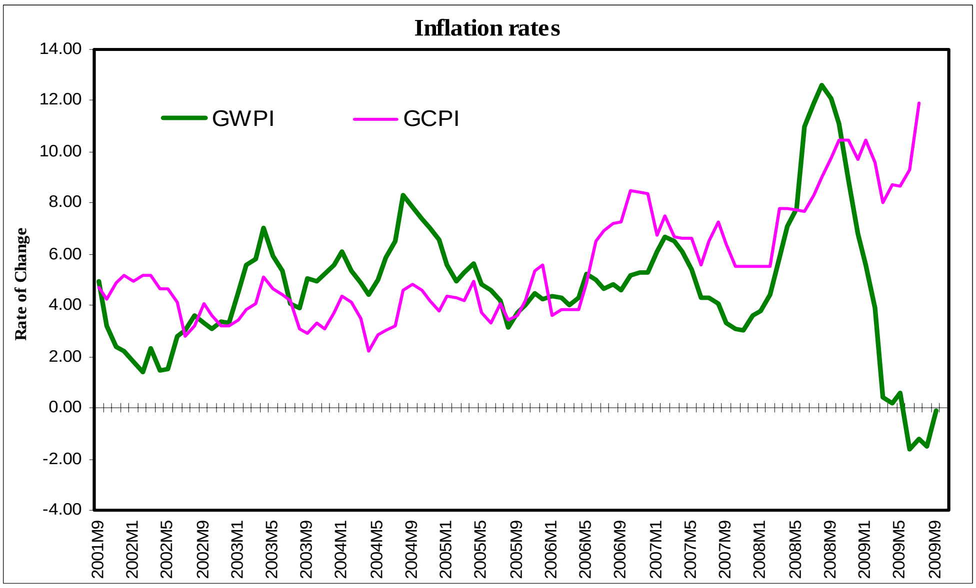
High growth of Consumer Price Index continued for July

Consumer Price Index increased again by a high 11.89 percent for the month of July. Over the months the gap between inflation rates as measured by the wholesale price index and as measured by consumer price index has widened mainly due to higher weightage given to primary products and food items in CPI, whereas WPI covers a wider range of the outputs of various commodities. It is forecasted, the double digit growth of CPI will continue for the next three months.

The increase in Minimum Support Prices of some of the crops like sugar cane, rice and wheat, fall in average annual rainfall, and decrease in acreage under some crops was responsible for the increase in the agricultural prices reversing the decelerating inflationary trend measured by the wholesale price index. The impact of the statistical base effect on WPI decline will soon be waning. Besides, the high government fiscal deficit will strengthen inflationary build up and the increase in WPI is likely to pick up soon.

Forecast:

The WPI inflation forecast for the next three months are 0.64% for September, 1.02% for October and 1.59% for November 2009 respectively.



IIP recorded a growth of 6.8 percent

Mining industries were largest contributors

Industrial Production

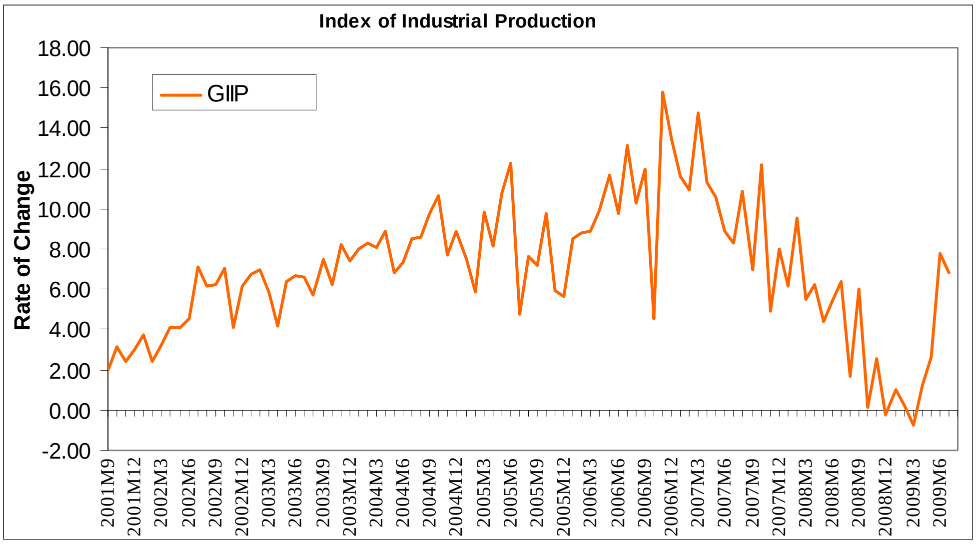
The Index for Industrial Production (IIP) has shown an impressive growth of 6.8 percent. This figure was slightly higher than the last year's growth. It is definitely a pointer towards the revival of industrial growth. This is contributed by rise in the growth rate for intermediate goods followed by basic goods and consumer durables.

Looking at sectoral break up, the mining sector growth was highest followed by the manufacturing and then the electricity sector. This rise in mining sector may have been due to the revival of the domestic demand. Surge in demand for iron and steel, metals and some other basic and capital goods sector added stimulus to this growth.

Further, India's core industrial sector accounting for 26.7 per cent of IIP grew by 7.1 percent in August compared with 2.1 per cent last year. It is an indication that the economy is in revival mode.

Forecast:

Based on the available information we forecast the IIP growth rate for the next three months to be 7.08%, 7.70%, 8.90% for August, September and October respectively for 2009.



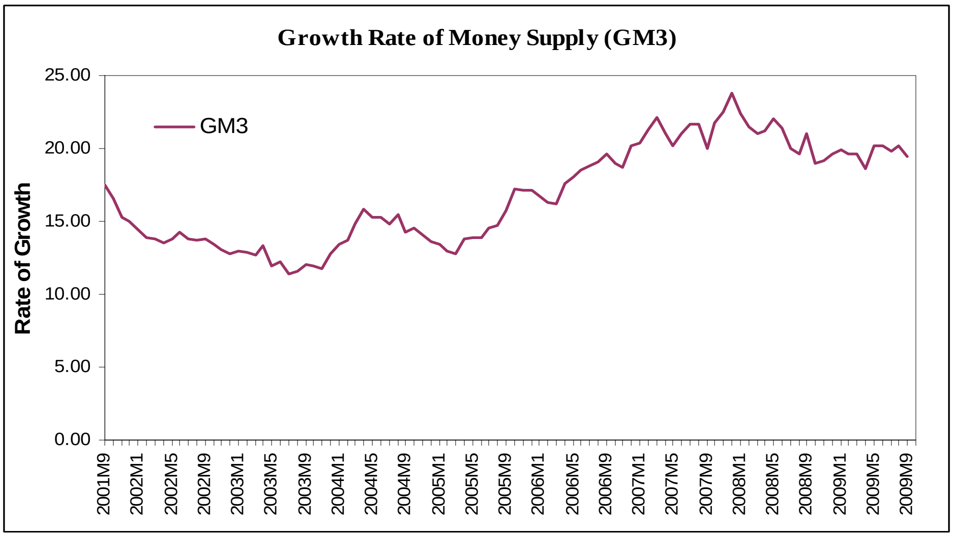
Increase in credit to government and commercial sector

Money and Credit

Money supply growth for the month of August was 19.4 percent which is slightly less than the growth rate of money supply of 19.8 percent in July. There has been substantial credit flow to the government sector followed by moderate flow to the commercial sector. Among the components of money supply as measured by M3, the time deposits and other deposits with RBI registered an increase. Also currency with the public and demand deposits with banks increased moderately.

Forecast:

We forecast the growth rate of money supply (M3) to be around 19.3% for September, 19.1% for October and 19% for November.



Interest rates

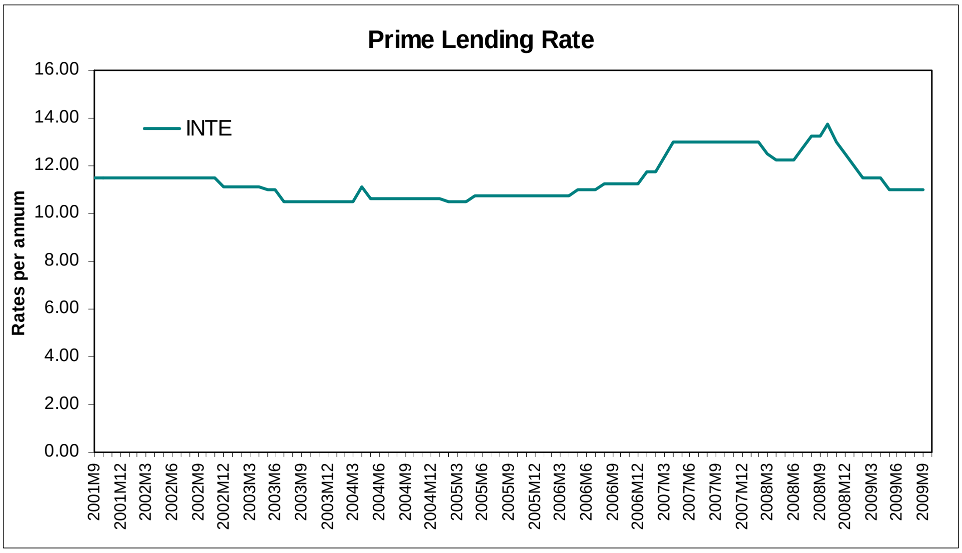
Range of interest rates remained unchanged

The low policy rates and past deflationary expectations were supposed to put downward pressure on the lending rates. However, as the transmission of reduction in the policy interest rates to prime lending rates appears to be very weak, market rates have not seen much change as was expected. Currently the prime lending rates as per RBI data as in August 2009 is in the range of 11 to 12 per cent.

The inflation rates (WPI) has turned positive in the first half of September. The expected deceleration in agriculture sector will add to the build-up of the inflationary expectation by putting pressure on food prices. There are pressures on the central bank to hold the policy rates at the current levels as the recovery signs are still tentative. In fact, the policy rates may be revised upwards if the positive signs of the revival of the economy sustain itself for a few months more. This shows how the macro economic management of the economy is becoming increasingly complex. On balance, we predict a marginal decline in the PLRs in the next three months.

Forecast:

Based on the data up to August 2009, we forecast that prime lending rates to decline marginally below 11 %.



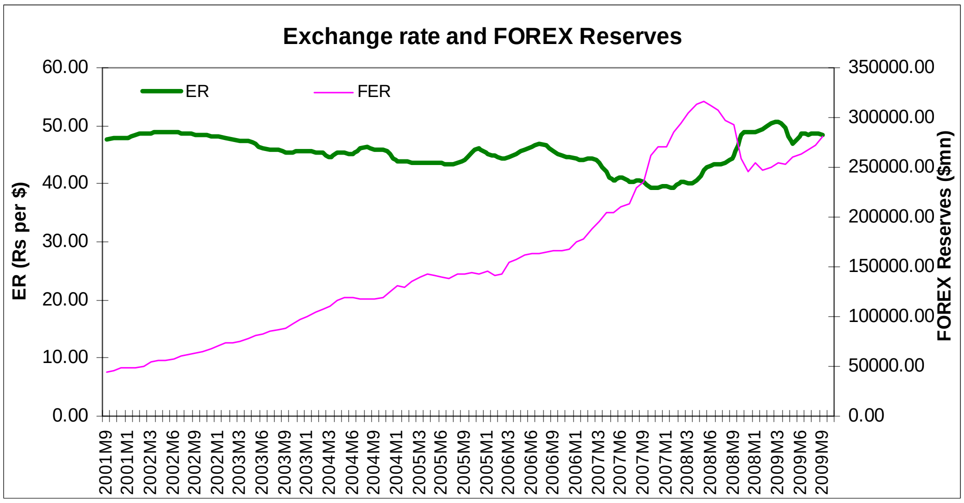
Exchange rate

Exchange rate depreciated marginally to 48.5 Rs/$

The Rupee/US dollar exchange rate has depreciated marginally to 48.5 as on 28th August 2009 as compared to last month's 48.4 Rs/US $ as on 24th July 2009. This marginal depreciation was mainly due to positive inflow of foreign capital to India. The movement of exchange rate largely depends on the world oil prices as well as foreign investments in the country, both FDI and FII.

Forecast:

In coming months, exchange rate will depreciate to 48.92Rs/$ by November 2009.



Foreign Exchange Reserves

Foreign exchange reserve depleted by 3.7 percent as compared to last year

The foreign exchange reserves continue to get accumulated. In the month of September 2009, the reserves were recorded at US $ 280.9 billions. The Foreign exchange reserves depleted by 3.7 percent over the month of September 2008.

Foreign exchange reserves were US $ 280.9 billions for August 2009

However, as compared to July 2009, the rise in reserves is mainly due to inflow of foreign investment into Indian market. The high interest rate differentials between India and the rest of the world must have helped in this increase. As the world economy is looking up, the interest of foreign investors is likely to increase in the Indian market. The rise in stock market indices also attracting FII inflows. However, the high government deficit, which is to continue for sometime, could hamper inflow of foreign funds. Besides, the high oil import bill could also restrain the accumulation of reserves. The world economic recovery will firm up commodity prices leading to squeezing of reserve accumulation.

Forecast:

Forex reserves expected to be $284.5 billion for September, $288.2 billions for October and $290.1 billions for November 2009.

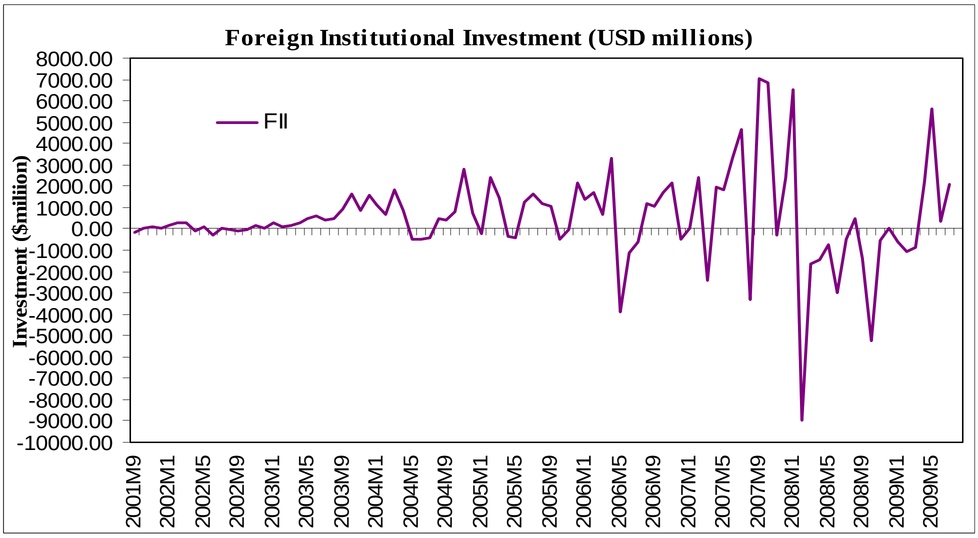
Foreign Institutional Investment

FII inflows increased for July month

The foreign institutional investments (FII) in Indian market were around US $2067 millions in July 2009 alone. The revival in major global economies along with the improvement in Indian share markets have helped in arresting the earlier negative trend of foreign institutional investments in the economy. After registering a huge fall, the Sensex started recovering and is now steady around 16000 points showing renewed confidence of Indian as well as foreign investors resulting in reversing of FIIs movements. The improvement in perception for global economy and domestic economic scenarios, the stable government, the post-budget positive vibes by the government and the encouraging first quarterly review of monetary policies by the central bank have added stimulus to July 2009 FIIs inflows into the country. And the global cues will help share markets to improve and the trend in inflows is likely to continue.

Forecast:

Foreign institutional investments are expected to increase in coming months.



Exports and Imports

Exports and Imports are decelerated for 10th consecutive month

India's export fell for the tenth month consecutively due to slowdown in global economy. In the month of July 2009, the exports registered a decline of 28.4 percent. The sluggishness in the external demand following recessionary trends in industrialized nations and large base effect must have resulted in this sustained negative growth in exports. As the global economic outlook is improving, it is expected that the exports would decline further but at a slower rate in the next three months.

Imports decelerating for

Imports also continued to decline for seventh consecutive months. Imports declined by a sharp 37.1 percent, at a steeper rate than exports and thus, reducing the trade deficit, reflecting the slowdown in domestic consumption and decrease in oil imports bill. The oil imports bill reduced by a whopping 51 percent. As oil prices have gone up to around US$ 70,

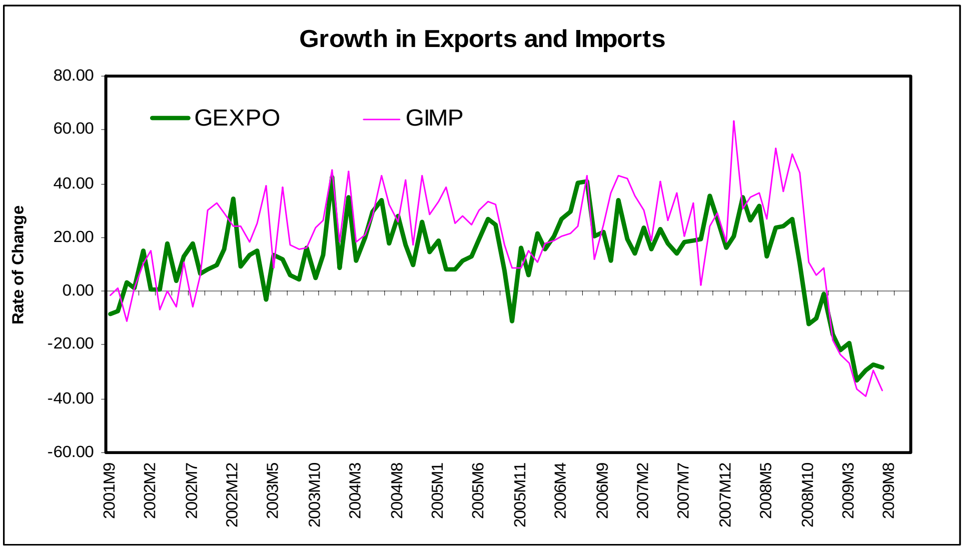
7th consecutive month

in the world market, oil import bill is likely to get inflated substantially. But the non-oil imports largely depend on how the stimulus packages are playing out as well as on international commodity prices. The demand for intermediate imports is expected to go up as the economy is showing the signs of recovery. The larger negative trend in imports has resulted in narrowing of trade deficit and the deficit is predicted to decline further.

Recently announced Foreign Trade Policy 2009-14 of the government may energize exports in the labor intensive export sectors to some extent. Various export and import incentives along with extension of Duty Entitlement of Passbook Scheme (DEPB) and incentives under technological up-gradation funds scheme is likely to help the foreign trade sector in the coming months. Also the signing of free trade area agreement with South Korea and Asian and bilateral trade pacts with Africa is likely to boost the Indian foreign trade in near future.

Forecast:

Exports are forecasted to decline on an average by 19 percent and imports by 11 percent for next three months of the year 2009.



Note:

The forecasts that are presented in this document are based on the time series model namely Vector Autoregression model (VAR). Each variable has an independent model. This is based on monthly data from April 1993 onwards upto latest information available. The lag length for each VAR model is chosen with the help of Akaike Information Criterion (AIC). We estimate and forecast the VAR models by using Micro FIT software. More details is available at "A Short-term Time Series Forecasting Model for Indian Economy" available on our institute website at **http://www.iegindia.org/dis_bhanu_72.pdf**

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