



## Update on Indian Economy April 2011

### Economic Snapshot

<u>Contents</u>	Item	Units	March	February	March	(% Change	
			2011	2011	2010	[1]/[2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
<b>-Editorial</b>	WPI -Index*	1993-94=100	146.0	145.9	134.8	0.07	8.3
<b>-Capital Market</b>	WPI -Inflation**	Per cent	8.3	8.2	9.9		
<b>-Other Markets</b>	Week ended		(Feb 2011)	(Jan 2011)	(Feb 2010)		
<b>-Important Policy Pronouncement</b>	IIP (93-94=100)	2 months lag	360.0	353.6	332.3	1.81	8.34
			<b>(Jan 2011)</b>	<b>(Dec 2010)</b>	<b>(Jan 2010)</b>		
	INR / US\$	Month End	44.62	45.18	44.97	(1.24)	(0.78)
	M3	Rs. '000 Cr.	6359.20	6239.39	5416.96	1.92	17.39
	[i] Agg. Deposits	Rs. '000 Cr.	5453.57	5351.27	4661.89	1.91	16.98
	[ii] Currency	Rs. '000 Cr.	905.63	888.12	755.1	1.97	19.94
		(Outstanding as on)	(25.02.2011)	(11.02.2011)	(26.02.2010)		
	Call Money	Weighted Average %	6.91	5.00-7.05	1.50-3.40	-	-
	(Lendings)	Week ended	(04.03.2011)	(11.02.2011)	(05.03.2010)		

Source: RBI Weekly Statistical Supplement March 18, 2011 & Economic & Political Weekly March 19, 2011

\*All Commodities. \*\*Over the year.

### Editorial

#### A) Domestic

In the aftermath of the North African / Middle East problem and the more recent Japanese tragedy a greater degree of uncertainty has arisen with regard to the future of global economic performance as well as that of India during 2011. In India concerns have recently been raised that the advanced estimates of GDP forecasting a growth rate of 8.6% for fiscal 2010-11 may not materialize. Further, during fiscal 2011-12 the growth rate of 9% projected in the pre-budget economic survey may not materialize.

The main argument has been that Industrial output has sagged substantially since November 2010, averaging only a 3.4% growth rate during the four month period ending in February 2011. If the same trend continues into March the overall growth rate of the Industrial sector could be in the range of 7 – 7.5%, lowering the contribution of this segment to the GDP in Fiscal 2010-11. Thus, some analysts feel that as against the advance estimates of an 8.6% growth, the eventual outcome may be lower. It has also been argued that in the next fiscal industrial output may not revive as there has been a slowdown in capital goods output, foreign direct investments have slowed down and further that agricultural output may not be as good as in the current year.

As regards the GDP growth rate in fiscal 2010-11 is concerned it may be pointed out that the contribution of industry to the GDP is only around 16% and considering that the Agricultural and Services sector are expected to do much better than earlier projections, the Indian economy should log a GDP growth rate of 8.6% if not more. However, there is definitely uncertainty as to whether or not a growth rate of 9% might be achievable during 2011-12 in view of the likely 'spike' in fuel prices, uncertainty with regard to weather and climate and the expected slowdown in industrial output.

In the context of the growing expectation on the 'street' that GDP growth may not be as high as 9%, much would depend on how pro-active policy changes are made. A welcome development is the recent announcement of a new policy with regard to Foreign Direct Investments. Another subtle policy change that is emerging is with regard to management of supplies of agricultural commodities such that prices provide an incentive for improved output, without leading to excessive inflation.

## **B) International**

Employment News - US & EU: The employment position in US (reported by Bureau of Labor Statistics) and EU 27 (Eurostat) is on the upward track in 2011. But the improvement is relatively slow in Europe and, therefore, fragile.

As per seasonally adjusted household data released by the Bureau of Labor Statistics on 1<sup>st</sup> April 2011, there has been a rise in the number of employed persons from 138.95 million in March 2010 to 139.86 million in March 2011. The number of unemployed persons in US stood at 13.5 million in March 2011 as compared to 13.7 million in February, bringing down the unemployment rate to 8.8% from 8.9% a month earlier. A year earlier, in March 2010, the number of unemployed persons was estimated at 14.9 million corresponding to an unemployment rate of 9.7%.

The latest seasonally adjusted data released by Eurostat on 1<sup>st</sup> April 2011 relates to February. There has been a rise in the estimated number of employed persons in EU 27 from 219.759 million as of February 2010 to 222.017 million as of February 2011, which has brought about a marginal reduction in the unemployment rate. The number of unemployed stood at 23.051 million persons in February 2011, compared to 23.082 million persons in February 2010. Thus, over the year the unemployment rate has come down from 9.6% to 9.5%. This slow recovery in EU 27 makes the improvement witnessed so far fragile.

Revision in US GDP Estimates for Q4—2010: The "Third Estimate" of US real GDP for Q4 of 2010 by the Bureau of Economic Analysis revises the annualized growth rate for the quarter to 3.1% as against 2.8% reported earlier.

**Adverse Fallout of the Japanese Tragedy:** With the adverse economic impact of Earthquake/ Tsunami in Japan on the global economy not yet fully estimated, the general view amongst analysts has been that there would be both a short and long term impact on inflation / global growth rates. Though reconstruction in Japan would provide an economic boost, the evident switchover to thermal energy would harden conventional fuel prices. For India there are fears that there could be some adverse fallout in the short-term on the auto and electronics industries, which are linked to Japan for supplies, while in the long term a major impact could be felt on the energy sector as India reassesses the extent to which it should rely on Nuclear Power. The positive side of the tragedy from the perspective of India is that there may be reorganization of the Nuclear Power sector from point of view of greater transparency by the operator NPCIL as well as a more ‘independent’ body for monitoring nuclear safety than at present. Moreover, non-conventional energy sources like solar energy might see acceleration.

### **Capital Market Review**

While there were emerging concerns in terms of inflation as well as a probable slowdown in GDP growth rate in the aftermath of the Japanese crisis / continuing inflation, the Indian stock markets displayed a fairly stable uptrend during the month of March 2011. This may in part be due to favorable market outlook being provoked by the emerging credibility of public policy, in particular mature / balanced monetary policy responses, greater appreciation of budgetary projections and some signs of subtle / pro-active policy action.

The BSE Sensex gained almost 1000 points during the month of March. Commencing at 18446 on 1st March, the Sensex initially weakened to reach a ‘low’ of 17839 on 21st March. However, thereafter it rebounded to close at 19445 on 31st March.

The S & P CNX Nifty gained over 300 points during the month of March complementing the trend emerging from the Sensex. With a level of 5522 registered on 1st March, the Nifty weakened to 5365 by 21st March. Subsequently it displayed smart recovery to attain a level of 5834 on 31st March.

	March	February	March	February	(% ) Change		
	2011	2011	2010	2010	[1]/[2]	[1]/[3]	[2]/[4]
<b>Major Indices</b>	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	19,445.22 (31.03.2011)	17823.40 (28.02.2011)	17527.77 (31.03.2010)	16429.55 (26.02.2010)	9.10	10.94	8.48
Monthly High	19,445.22 (31.03.2011)	18,506.82 (17.02.2011)	17711.35 (29.03.2010)	16496.05 (03.02.2010)	5.07	9.79	12.19
Monthly Low	17839.05 (21.03.2011)	17,463.04 (10.02.2011)	16772.56 (02.03.2010)	15790.93 (05.02.2010)	2.15	6.36	10.59
S&P CNX Nifty –Close	5833.75	5333.25	5249.10	4922.3	9.38	11.14	8.35
P/E Ratio : BSE – 30	21.10	19.44	21.30	20.15	8.54	(0.94)	(3.52)
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	76889.80	74854.40	85229.0	109256.8	2.72	(9.78)	(31.49)
Outflows – Rs. Cr.	70007.50	78124.50	55791.6	105394.4	(10.39)	25.48	(25.87)
Net – Rs. Cr.	6882.90	(3269.80)	29437.7	3892.5	(310.50)	(76.62)	(184.00)
Cum. Net Inv–US\$ Mn. (Month End)	121558.70	120023.60	85229.0	82867.8	1.28	42.63	44.84

The cumulative investment by FIIs stood at US\$ 121.56 billion in March 2011, and this reflected an increase of US\$ 1.54 billion over the previous month.

### **Other Markets**

#### **Debt Market**

The month of February 2011 until 15<sup>th</sup> February there were two new corporate debt issues for a total amount of Rs.470 crore. Corporate bond spreads over GSecs widened in the month of February over those in January 2011. The spread on one year maturity instruments was the highest at 231 bps and the lowest spread was observed for instruments with maturity of 10 years at 81 bps. The spreads on longer-term instruments this month have been lower than those observed in December 2010.

	Name of the Issuer	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
<b>I.</b>	<b>Financial Service Institutions :</b>				
1.	Housing Development Finance Corp. Ltd.	5 years	AAA	370	Bonds/NCD
<b>II.</b>	<b>Public Sector Company :</b>				
1.	The Great Eastern Shipping Co.Ltd.	10 years	AAA	100	Bonds/NCD

*(Sources: Credit Analysis & Research Ltd. March 2011)*

#### **Call Money Market**

The weighted average call money rate on March 4, 2011 in respect of borrowings / lendings ranged between 6.91% as compared to the rates of 3.27% on March 5, 2010 (i.e. a year ago) reflecting that there was hardening of interest rates. The average daily turnover in the call money market was Rs. 12,106 crore for the week ending March 4, 2011 and this daily turnover decreased to Rs.8,673 crore on March 11, 2011.

#### **Foreign Exchange Market**

The exchange rate (RBI reference rate) on March 11, 2011 was Rs.45.21 per US dollar as compared to Rs.45.13 per US dollar on March 7, 2011, that is, a week ago; this reflected a nominal appreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 6.68% on March 11, 2011 as compared to a premium of 6.51% on March 7, 2011 (a week ago), which reflects that supply of dollars is likely to become relatively hard in the forthcoming weeks. The market rate (buying) was Rs. 44.62 per US dollar on March 31, 2011. The foreign currency assets were US\$ 272.26 billion on March 11, 2011, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 301.84 billion. From end-March 2010, the foreign exchange reserves registered an increase of US\$ 22.781 billion upto March 11, 2011.

## Important Policy Pronouncements

Mid-Term Monetary Policy Review March-2011: The Reserve Bank of India reviewed the Monetary Policy scenario on 17<sup>th</sup> March 2011.

While the Reserve Bank avers that the positive aspect of the global scenario is the sustained revival of the US and EU economies, it feels that developments in the Middle East as well as Japanese problem would add to the inflation risk in the ensuing period. From the Indian perspective it feels that 'positives' are the likely boost in the Rabi harvest and the continuing indications in the latest Purchasing Managers' Index (PMI), improvement indirect and indirect tax collections, rising merchandise exports and bank credit and Lead indicators of services sector activity reflecting that the growth momentum has been maintained. However, on the negative side, continuing uncertainty about energy and commodity prices, together with the recent slowdown in the output of Capital Goods, could vitiate the investment climate, leading to a slowdown relative to the emerging trend.

The Reserve Bank has pointed out that Inflation in March at around 8% is a percentage point higher than expected at the last policy review. While on the positive side that fiscal numbers are in control and the Current Account deficit has been brought down, inflation could easily vitiate the situation.

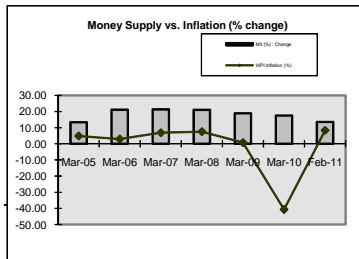
As such, the Reserve Bank has currently opted for a policy package that would aim at controlling inflation with minimal risk to growth. In Policy terms this essentially means that it will continue to use the interest rate mechanism and monitor sectoral flows of credit, avoiding placing 'brakes' on credit growth for the time being.

In the immediate term Reserve bank has only announced an:

- increase the repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.5 per cent to 6.75 per cent with immediate effect;
- increase the reverse repo rate under the LAF by 25 basis points from 5.5 per cent to 5.75 per cent with immediate effect.

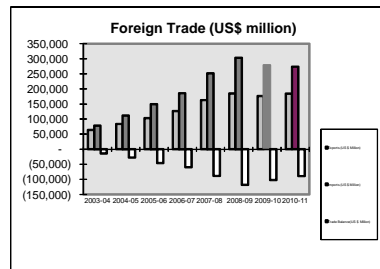
### Government Borrowing Programme for Fiscal 2011-12

Out of gross projected market borrowings of Rs 417128 crore, the government would be issuing fresh loans amounting to Rs 250000 crore in the first half of the year. Taking into account that loans amounting to Rs 59334 crore are maturing during this period the net borrowings would amount to Rs 190666 crore during the first half of the fiscal (Rs 343000 crore for the full year).



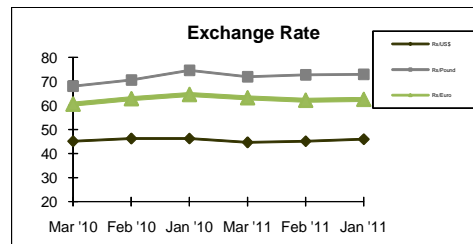
	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Feb-11
<b>M3 (Rs. Crore)</b>	2,253,938	2,729,535	3,310,278	4,006,722	4,764,019	5,599,762	6,359,197
<b>M3 (%) : Change</b>	13.30	21.10	21.27	21.04	18.90	17.54	13.56
<b>WPI (Index) All Commodities</b>	189	196.6	210	225.7	227.3*	134.8**	146.0***
<b>WPI Inflation (%)</b>	4.83	2.91	6.82	7.48	0.71	-40.70	8.30

Source: RBI Bulletin March 2009; WSS: March 18, 2011 \$S1993-94=100; year/month-end \* February 2009 \*\* February 2010 \*\*\* February 2011



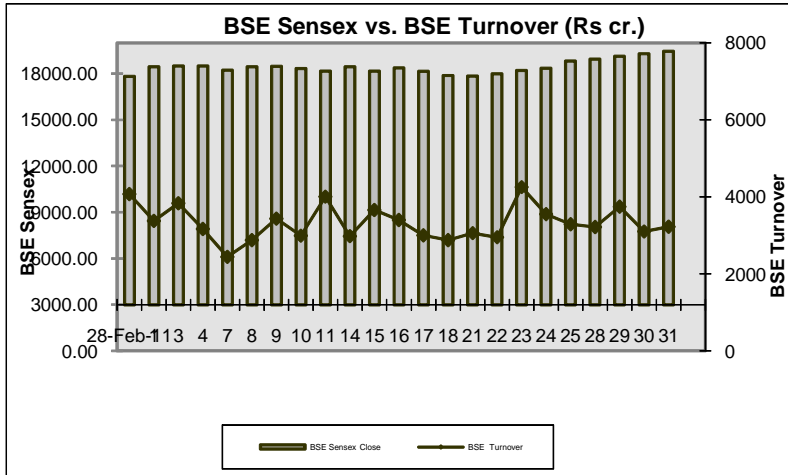
During the Year	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Jan-11
<b>Exports (US \$ Million)</b>	63,843	83,536	103,091	126,361	163,132	185,295	176,574	184,632	20,605
<b>Imports (US \$ Million)</b>	78,149	111,517	149,166	185,749	251,654	303,696	278,681	273,598	28,587
<b>Trade Balance (US \$ Million)</b>	(14,306)	(27,981)	(46,075)	(59,388)	(88,522)	(118,401)	(102,106)	(88,965)	(7,981)

Source: Ministry of Commerce Revised figures for 2001-02 to 2007-08 (April-March)  
\*DGCI&S data for April 2008 to March 2009 (Provisional)



	2009-10			2010-11		
	Mar '10	Feb '10	Jan '10	Mar '11	Feb '11	Jan '11
<b>Rs/US\$</b>	45.14	46.23	46.29	44.65	45.18	45.95
<b>Rs/Pound</b>	68.03	70.66	74.62	71.92	72.78	72.95
<b>Rs/Euro</b>	60.56	62.81	64.55	63.24	62.15	62.54

Figures are for month-end



March 2011	BSE Sensex Close	BSE Turnover (Rs.crore)
28-Feb-11	17,823.40	4072
1	18,446.50	3375
3	18,489.76	3834
4	18,486.45	3166
7	18,222.67	2443
8	18,439.65	2875
9	18,469.95	3435
10	18,327.98	2996
11	18,174.09	4010
14	18,439.48	2982
15	18,167.64	3658
16	18,358.69	3397
17	18,149.87	3000
18	17,878.81	2875
21	17,839.05	3062
22	17,988.30	2953
23	18,206.16	4257
24	18,350.74	3553
25	18,815.64	3291
28	18,943.14	3219
29	19,120.80	3745
30	19,290.18	3105
31	19,445.22	3227



**Annexure 1 : Select International Economic Indicators for Developed Industrialised Countries And India**

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US \$		Union Budget (+) / (-) % of GDP 2010	Real Rate (Short-term) (1-3)	Currency unit per Euro 16.03.2011	Balance Latest :12 months		Col 11 as Percentage of GDP 2010
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 16.03.2011	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
Euro-11	1.17	3.11	2.4 Feb	0.80	0.72	0.73	-4.5	-1.23	1.00	0.3 Dec	-78.0 Dec	-0.3
U. S. A.	0.22	3.21	1.6 Jan	2.60	1.00	1.00	-8.8	-1.38	1.39	-659.7 Jan	-470.2 Q4	-3.4
Britain	0.83	3.47	4.0 Jan	3.40	0.62	0.65	-9.1	-3.17	0.86	-148.9 Jan	-41.5 Q3	-1.7
Japan	0.16	1.19	nil Jan	-1.30	80.20	90.40	-6.9	0.16	111.39	84.6 Jan	190.7 Jan	-3.3
Sweden	2.38	3.19	2.50 Feb	1.20	6.48	7.07	-0.8	-0.12	9.00	10.2 Jan	29.1 Q4	6.3
Switzerland	0.18	1.70	0.5 Feb	nil	0.91	1.06	-0.5	-0.32	1.26	18.5 Jan	83.2 Q3	10.9
India	7.23	8.21	9.3 Jan	16.10	45.10	45.30	-5.0	-2.07	62.64	-112.5 Feb	-53.1 Q3	-2.7

Source : The Economist London: March 19th - 25th, 2011

Figures in Column 9 are derived.

**Annexure 2 : Important Economic Indicators for Select Emerging Market Countries**

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US \$		Union Budget (+) / (-) % of GDP 2010	Real Rate (Short-term) (1-3)	Currency unit per Euro 16.03.2011	Balance Latest :12 months		Col 11 as Percentage of GDP 2010
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 16.03.2011	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	4.22	4.03	4.9 Feb	2.7	6.57	6.83	-1.7	-0.68	9.13	161.9 Feb	331.1 Q4	4.1
Hongkong	0.27	2.45	3.6 Jan	1.0	7.80	7.76	2.4	-3.33	10.83	-41.3 Jan	14.8 Q3	8.3
Indonesia	10.23	4.72	6.8 Feb	3.8	8,778.00	9,110.00	-1.3	3.43	12,191.67	21.9 Jan	6.3 Q4	1.3
Malaysia	3.03	2.66	2.4 Jan	-11.0	3.05	3.30	-5.3	0.63	4.24	33.2 Jan	28.0 Q4	14.2
Singapore	0.44	2.14	5.5 Jan	0.2	1.28	1.39	-0.2	-5.06	1.78	43.6 Jan	49.5 Q4	17.1
South Korea	3.35	4.27	4.5 Feb	2.7	1,131.00	1,129.00	-1.6	-1.15	1,570.83	45.3 Feb	29.0 Jan	2.0
Taiwan	1.18	1.36	1.3 Feb	2.3	29.50	31.70	-1.0	-0.12	40.97	9.9 Feb	40.6 Q4	7.3
Thailand	2.65	3.54	2.9 Feb	3.7	30.40	32.30	-3.1	-0.25	42.22	12.9 Jan	13.8 Jan	3.1
Brazil	11.67	6.16	6.0 Feb	4.8	1.67	1.77	-2.4	5.67	2.32	21.7 Feb	-49.1 Jan	-2.8
Venezuela	14.52	6.55	29.8 Feb	27.0	5.30	na	-5.7	-15.28	7.36	27.1 Feb	14.4 Q4	6.8
India	7.23	8.21	9.3 Jan	16.10	45.10	45.30	-5.0	-2.07	62.64	-112.5 Feb	-53.1 Q3	-2.7

Source : The Economist London: March 19th - 25th, 2011

Figures in Column 9 are derived.

**For research queries contact – [research@mega-ace.com](mailto:research@mega-ace.com)**  
**Mega Ace Consultancy [India] Private Limited,**  
**B-68, Mittal Tower, Nariman Point, Mumbai 400 021**  
**Tel: +91-22-2281 2298**  
**Fax: +91-22-2281 2305**  
**Url: [www.mega-ace.com](http://www.mega-ace.com)**  
**April 2011**