

August 22, 2011

# Economic Weekly



## Indian Economy

\* **India's Public Debt:** India's total outstanding public debt increased by 5.9% to ₹31,49,996 crore in the first quarter of FY12 from ₹29,75,628 crore in end FY11. India's total public debt as a percentage of GDP stood 35.1% in Q1FY12, lower from 37.8% at end of FY11. Outstanding internal public debt stood at ₹28,42,953 crore, which came down to 31.7% of GDP in Q1FY12 from 33.9% in end FY11. Internal public debt as a percentage of total public debt increased to 90.3% from 89.68% in FY11. External public debt came down to 9.75% of total public debt from 10.3% earlier in FY11.

\* **Minutes of Technical Advisory Committee Meeting:** RBI on August 18, 2011, released the minutes of the Technical Advisory Committee (TAC) meeting held on July 20, 2011, in the run up to the First Quarter Monetary Policy on July 26, 2011. It emerges from the minutes of the meeting that RBI's Governor Dr Subbarao disregarded majority view of the committee on the rate hike and went ahead with a 50 bps hike alone. A majority of the members had favoured a pause in the rate hikes.

\* **WPI Primary Articles Inflation:** WPI primary articles inflation in Aug 6, 2011, declined to 11.64% YoY from 12.22 % YoY a week ago as food articles prices came down during the week. Food inflation stood at 9.03% YoY compared with 9.90% YoY a week ago.

\* **Forex Reserves Fall By \$0.6 bn:** Forex reserves decreased to \$316.6 billion in the week ending Aug 13, 2011, due to a decline in foreign currency assets.

\* **Currency Trends:** Highlights of currency trends last week.

## Global Economy

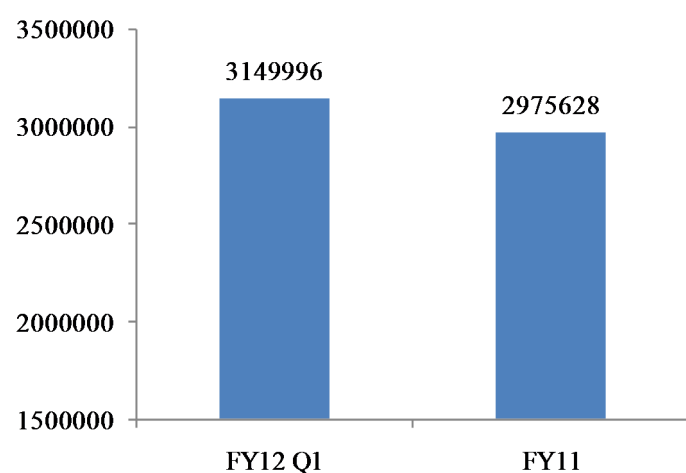
\* **Germany Opposes Joint Euro Area Bonds:** The introduction of Joint Euro Area bonds has met with vehement opposition from Germany after the European Commission recently discussed the possibility of such bonds. Germany is opposed to such common bonds which would increase its borrowing costs. Also, it opposes such a move until there is common financial and fiscal policies in the region.

Table of Contents	Page
India's Public Debt	2
TAC minutes	4
WPI Primary Articles Inflation	5
Forex Reserves	7
Joint Euro Area Bonds	8
Currency Trends	9

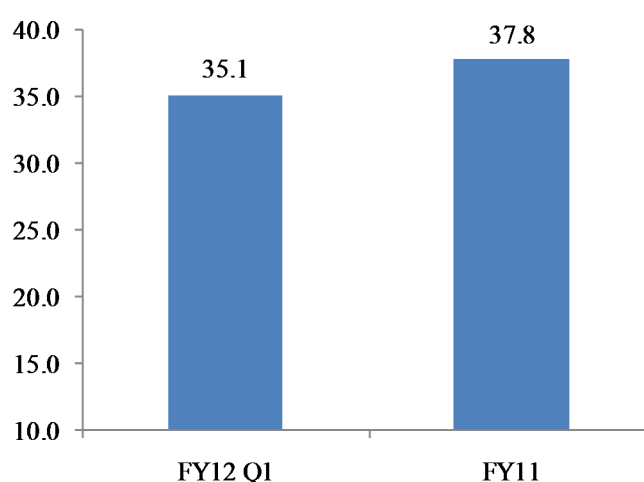
## India's Public Debt Q1FY12:

- ◆ **Public Debt:** Public debt stands for debt owned by the Central Government. Public debt is also known as national debt and sovereign debt. India's total outstanding public debt increased by 5.9% to ₹31,49,996 crore in first quarter of FY12 from ₹29,75,628 crore in end FY11.
- ◆ **Composition of Public Debt:** Internal public debt as a % of total public debt increased to 90.3% from 89.68% in FY11. Internal public debt includes all treasury bills and dated securities of Central Government. External debt of Central Government came down to 9.75% of total from 10.3% earlier in FY11. External debt of Central Government comprises multilateral, bilateral loans, IMF borrowings and rupee debt. Private borrowings such as ECBs etc do not form a part of external public debt.
- ◆ **Public Debt as % of GDP:** India's total public debt (central government's internal and external debt) as a percentage of GDP stood at 35.1% in Q1FY12, lower from 37.8% in FY11. Outstanding internal debt of Government stood at ₹28,42,953 crore which came down to 31.7% of GDP from 33.9% in FY11.
- ◆ **Maturity Profile:** Weighted average maturity of outstanding central Government debt came down to 9.58 years in Q1FY12 from 9.64 years as of end FY11. Weighted average maturity has remained below 10 years in the past two years. On the other hand, the maturity profile of issuances this year so far has displayed a contrasting trend. Average maturity of issuances this year has been higher at 12.10 years, compared with 11.62 years for issuances during 2010-11.
- ◆ **Weighted Average Yield:** Weighted average yield of outstanding central Government debt increased to 7.83% in Q1FY12 from 7.81% in FY11. The rise in average yields, due to the rising interest rate environment, has been more prominent for issuances during the year. Weighted average yield of issuances this year has been 8.36% compared with 7.92% in FY11. The rising interest rates will further increase average yields of the public debt.
- ◆ **Ownership Pattern of Government Dated Securities:** Ownership pattern of Government securities is available with a quarter lag. Latest data available is of end-March 2011. Banks are the largest investor in Government securities. Banks, primary dealers owned by banks and cooperative banks together hold 50.4% share of total outstanding Government dated securities. Insurance companies are long term investors in Government securities — their holding increased to 22.2% in the March 2011 quarter from 22.1% a quarter ago. Provident funds holdings have increased to 7.1% from 6.9% a quarter ago. The sharpest rise is in RBI's holding in Government debt — to 12.8% from 10.7% a quarter ago.

**Public Debt, ₹ crores**



**Public Debt as a % of GDP**



**More Details :**
**Ownership Pattern Trends of Government of India Dated Securities in %**

%	March-09	March-10	June-10	Sep-10	Dec-10	March-11
<b>Commercial Banks</b>	39.18	38.03	38.35	38.75	38.63	38.42
<b>Bank PDs</b>	8.2	9.22	9.92	9.73	8.77	8.61
<b>Non Bank PDs</b>	0.18	0.14	0.23	0.29	0.26	0.11
<b>Insurance Companies</b>	22.07	22.16	22.05	22.18	22.11	22.22
<b>Mutual Funds</b>	0.78	0.4	0.38	0.73	0.88	0.18
<b>Cooperative Banks</b>	3.24	3.35	3.4	3.5	3.38	3.41
<b>Financial Institutions</b>	0.28	0.35	0.34	0.35	0.33	0.35
<b>Corporates</b>	3.27	2.99	2.82	2.57	2.33	1.94
<b>FIIIs</b>	0.59	0.59	0.62	0.55	0.61	0.97
<b>Provident Funds</b>	6.51	6.76	6.56	6.79	6.89	7.06
<b>RBI</b>	10.2	11.76	9.67	9.2	10.67	12.84
<b>Others</b>	5.5	4.24	5.65	5.36	5.14	3.89

**Maturity And Yields Trends of Central Government Dated Securities:**

	Issues During The Year Weighted average Yield %	Issues During The Year Weighted Average Maturity (Years)	Outstanding Stock Weighted Average Yield %	Outstanding Stock Weighted Average Maturity (Years)
<b>FY04</b>	5.71	14.94	9.30	9.78
<b>FY05</b>	6.11	14.13	8.79	9.63
<b>FY06</b>	7.34	16.90	8.75	9.92
<b>FY07</b>	7.89	14.72	8.55	9.97
<b>FY08</b>	8.12	14.9	8.50	10.59
<b>FY09</b>	7.69	13.81	8.23	10.45
<b>FY10</b>	7.23	11.16	7.89	9.67
<b>FY11</b>	7.92	11.62	7.81	9.64
<b>FY12 Q1</b>	8.36	12.10	7.83	9.58

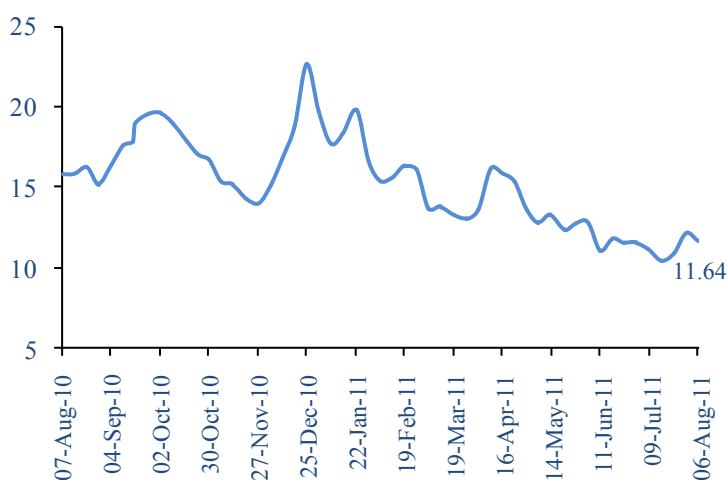
## Minutes of Technical Advisory Committee Meeting:

- ◆ **Technical Advisory Committee:** RBI places main points of discussion of the technical advisory committee in public domain with a month's lag. The twenty fifth meeting of the committee was held on July 20, 2011, in the run-up to the First Quarter Monetary Policy Review on July 26, 2011. Minutes of the committee meeting were made public on August 18, 2011.
  - ◆ **Dr Subbarao acted alone:** It emerges from the minutes of the meeting that RBI's Governor Dr Subbarao disregarded the majority view of the committee on the rate hike and went ahead with a 50 bps hike alone. A majority of the members had favored a pause in the rate hikes.
  - ◆ **Members favored pause in Rate Hike:** Majority of members favoured a pause in rate hike while a few agreed to a maximum of 25bps rate hike only if it was necessary to give a monetary signal. The meeting was chaired by Dr D Subbarao. The other eight members were: Shankar Acharya, Y H Maelgam, Sanjay Labroo, A Vasudevan and Sudipto Mundle and RBI deputy governors Subir Gokarn, K C Chakrabarty and H R Khan. Prof Dillip Nachane and Prof Samir Barua did not attend the meeting but submitted their written views.
  - ◆ **Review of Global Economic Conditions:** The committee reviewed global economic conditions and felt that the global situation has worsened with problems in US and Euro area. Members also were concerned about inflationary pressures in advanced economies even as emerging economies are battling high inflation.
  - ◆ **Domestic Conditions:** On the domestic front, members observed that investment activity was slowing down. Members felt that inflation is stubbornly high. According to some members, inflation was cost-push based and monetary action was not amenable. Members felt that inflation was expected to moderate although risk due to monsoon remains. In view of the continuing global uncertainty, members felt that equal weight should be given to encouraging growth and controlling inflation.
  - ◆ **Fiscal Deficit:** Members felt that there could be slippages on the fiscal front. They felt that fiscal situation creates serious challenges for monetary policy. Some members observed that there have been no major economic reform in the period.
  - ◆ **Importance of Technical Advisory Committee:** The objective of the TAC is to periodically advise RBI on the state of monetary policy in light of the macroeconomic scenario. The committee meets once in every quarter. TAC is advisory in nature but gives an understanding of how policy bodies and think tanks are assessing the macro-economic environment and their stand on monetary stance. Since the meeting details are made public, it gives an idea of the stand on monetary policy within RBI's members. The final decision has to be taken by the RBI Governor who can choose to ignore the members' views, as has happened this time.
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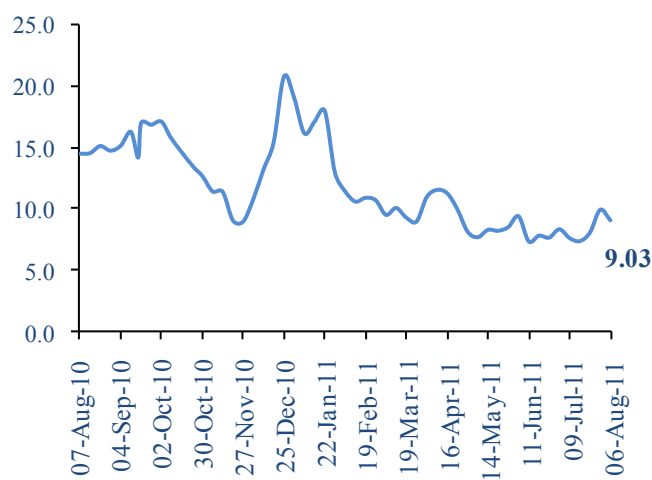
## WPI Primary Articles Inflation Eases to 11.64% YoY:

WPI primary articles inflation on August 6, 2011, declined to 11.64% YoY from 12.22 % YoY a week ago as food articles prices came down during the week. Primary articles index declined by 0.90% WoW.

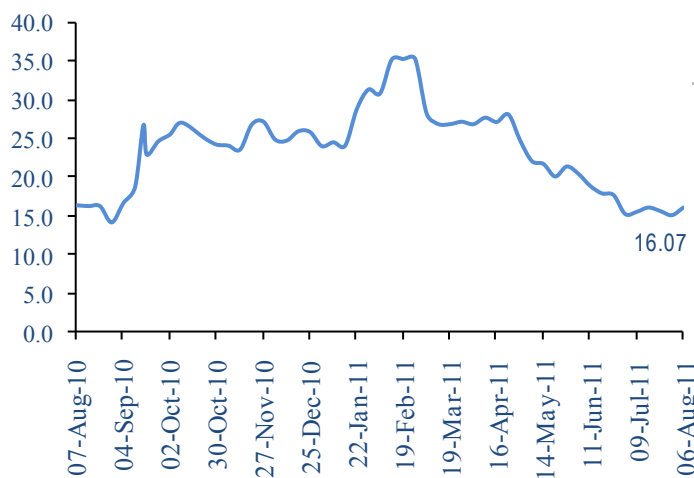
### Primary Articles Inflation, % YoY



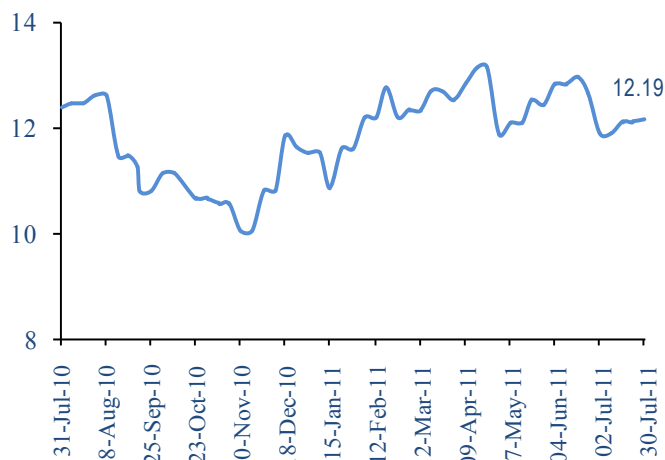
### Food Inflation, % YoY



### Non Food Articles Inflation, % YoY



### Fuel Inflation, % YoY



## Trends In Primary Articles Inflation:

- ◆ Food inflation eased to 9.03% YoY in the week ending August 6, 2011, compared with 9.90% YoY a week ago. Food articles index declined by 1.74% WoW due to lower prices of fruits & vegetables, marine fish and pulses.
- ◆ Non-food Inflation rose to 16.07% YoY in the week ending August 6, 2011, compared with 15.05% YoY a week before. Non food index increased by 1.48% WoW due to a rise in prices of oilseeds during the week.
- ◆ Minerals inflation stood at 21.25% YoY. Minerals index stood unchanged from last week.

WPI Sub groups	Index	% YoY	% YoY	% WoW	% WoW
	06-Aug-11	06-Aug-11	30-Jul-11	06-Aug-11	30-Jul-11
Primary articles	197.5	11.64	12.12	-0.90	1.22
Food Articles	191.9	9.03	9.90	-1.74	1.61
Non Food Articles	178.4	16.07	15.05	1.48	0.51
Minerals	303.0	21.25	23.12	0.00	0.00
Fuel	167.2	13.13	12.19	0.91	0.00

Fuel Inflation rose to 13.13% YoY from 12.19% YoY a week before due to a rise in the index by 0.91% WoW. Fuel inflation rose due to higher prices of naphtha, furnace oil, light diesel and aviation turbine fuel during the week.

## Forex Reserves Decline To \$316.6 billion

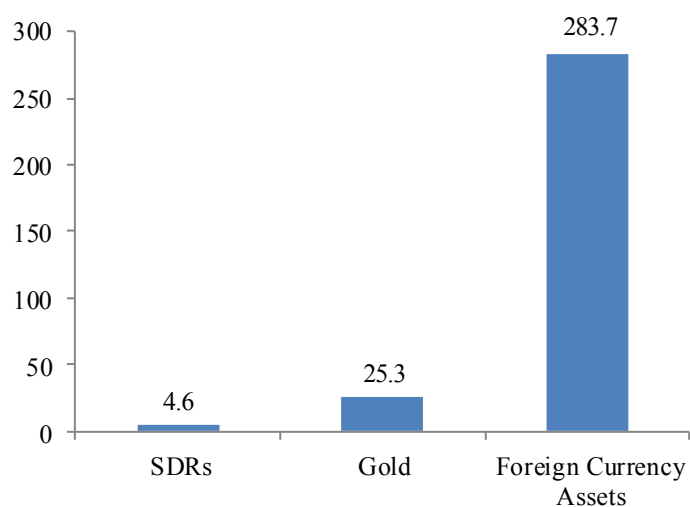
Forex reserves decreased to \$316.6 billion in the week ending August 13, 2011, due to a fall in foreign currency assets. During the week, forex reserves decreased by \$ 0.6 billion.

Total forex reserves comprise foreign currency assets, SDRs and the central bank's position in gold, all of which are measured in US dollars.

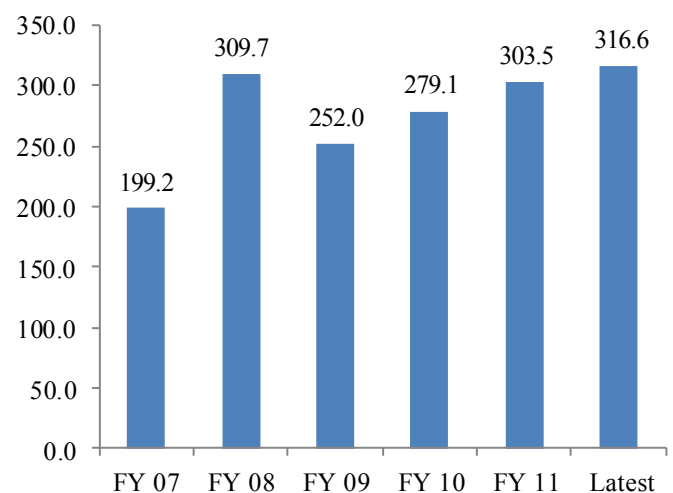
- ◆ During the week ending August 12, 2011, foreign currency assets declined by \$0.6 billion to \$283.7 billion due to revaluation changes which led to fall the overall position in forex reserves.
- ◆ Position in Gold , Reserve position with IMF and SDRs remained unchanged during the week.

US\$ bn	Forex Reserves	SDRs	Reserve Position in IMF	Gold	Foreign currency assets
<b>23-Jul-11</b>	316.8	4.6	3.0	24.7	282.4
<b>30-Jul-11</b>	319.1	4.6	3.0	24.7	282.3
<b>6-Aug-11</b>	317.2	4.6	3.0	24.7	284.3
<b>13-Aug-11</b>	316.6	4.6	3.0	25.3	283.7

## Forex Reserves Components (in \$ billion)



## Forex Reserves Annual Trends (in \$ billion)



## **Germany Opposes Joint Euro Zone Bonds:**

- ◆ **Backdrop:** The European Commission on Aug 19, 2011 said that it could present draft legislation on joint Euro-area bonds after completing a feasibility report. European Union's regulatory arm in Brussels had earlier this year declined such a step because of German-led objections. Joint Euro area bonds are common bonds proposed in Euro area which would have similar rate of interest. The feasibility report is expected to be ready by the end of the year.
- ◆ **Joint Euro Area Bonds:** The introduction of Joint Euro Area bonds has met with vehement opposition from Germany after European Commission recently discussed the possibility of issuing such bonds. Germany is opposed to such common bonds which would increase its borrowing costs. Also, it is opposes such a move until there are common financial and fiscal policies in the region.
- ◆ **German Objections:** Germany has objected to common Euro area bonds as it would have to pay extra cost if it aligns interest rates with nations that currently have to pay more for debt — such as Greece, Spain, Ireland and Italy. According to German finance minister Wolfgang Schaeuble: “Unless there is a single financial policy in the Euro area, there won't be a single rate of interest” on debt sold .
- ◆ **ECB Chief Economist:** ECB chief economist Juergen Stark also opposes Joint Euro Area Bonds. According to him, introducing joint Eurozone bonds would be "a transfer of creditworthiness from stable, solid countries to states that have less solid state finances”.
- ◆ **German Chancellor View:** German Chancellor Angela Merkel said that introducing common Euro-area bonds now would further undermine economic stability. According to her, “Euro bonds lead us into a debt union, not a stability union. Each country has to take its own steps to reduce its debt”. Germany is estimated to pay a additional \$67 billion interest costs if it aligns interest rates with other member nations.
- ◆ **Other Perils:** Common borrowing programme in the region without unifying fiscal policies can lead to a rise in inflation in the region. This is likely to happen as nations would enjoy lower interest rates without addressing structural changes, and this could fuel inflation in the Euro Zone. It could destabilize the region more by engulfing nations such as Germany which enjoys a higher credit rating.

## Currency Movement:

	USDINR	EURUSD	GBPUSD	USDJPY
<b>Open:</b>	45.33	1.4259	1.6285	76.87
<b>High:</b>	45.7475	1.4517	1.6618	77.09
<b>Low:</b>	45.17	1.4257	1.6255	75.93
<b>Close:</b>	45.745	1.4395	1.646	76.52

### USD/INR:

Last week, ₹ traded in range of 45.20-45.80. For this week, we expect ₹ to trade in a range of 45.50-46.50.

₹ Weekly Support and Resistance are as follows for the coming week:

Resistance 1:	45.9383	Support 1:	45.3608
Resistance 2:	46.1317	Support 2:	44.9767

### EUR/USD:

EUR/USD Weekly Support and Resistance are as follows for the coming week:

Resistance 1:	1.4522	Supports 1:	1.4262
Resistance 2:	1.4650	Support 2:	1.4130

### GBPUSD

GBPUSD Weekly Support and Resistance are as follows for the coming week:

Resistance 1:	1.6634	Supports 1:	1.6271
Resistance 2:	1.6807	Support 2:	1.608

### USDJPY

USDJPY Weekly Support and Resistance are as follows for the coming week:

Resistance 1:	77.0967	Supports 1:	75.9367
Resistance 2:	77.6733	Support 2:	75.3533

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