

June 21, 2010

Economic Weekly



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Indian Economy

WPI Sub-Group Inflation

Note: Before we look at the WPI inflation trends, let us look at how WPI inflation is computed.

Year on Year (YoY): It means growth rate is calculated between the same period for different years. For instance, growth between October 2008 and October 2009. So if WPI was 100 in October 2008 and 110 in October 2009, YoY inflation for October 2009 is 10%. It is calculated to compare inflation in similar time periods and avoid seasonality issues. Like in India, the festival season is mostly in September and October. So, if we calculate inflation for October 2009, we calculate it based on October 2008. When media reports say inflation is 10%, it is mostly a Y-o-Y number.

We also get WPI-inflation for two sub-sectors (i.e. primary articles and fuel group) on a weekly basis (with a delay of a fortnight). In this case, we can also calculate Y-o-Y inflation for weekly numbers. So if the WPI index is 100 in the week ended December 6, 2008 and 110 in the week ended December 5, 2009, YoY inflation for the week ended December 5, 2009 is 10%. Again, this is the preferred approach for reporting weekly inflation.

Month on Month (MoM): It means growth rate is calculated between sequential months in the same year, like for instance September 2009 and October 2009. It is used to understand the trends in a given year. YoY growth rates may not show correct trends because of the base effect. Last year the WPI index increased sharply because of a rise in oil and commodity prices. Hence, MoM analysis is also important.

Week on Week (WoW): In this growth is calculated between sequential weeks in the same year, like primary articles inflation between week ended December 5, 2009 and November 28, 2009. Just like we use MoM to understand monthly trends, we calculate WoW inflation to understand weekly inflation trends in the same year.

Hence, while measuring inflation we usually use YoY changes for simplicity. However, as inflation percentage may be high or low because of the base effect we also see the week on week changes in WPI index.

- **Primary articles:** The primary articles index for the week ended June 5, 2010, declined from 301.7 to 299.5 (WoW). The primary articles' inflation decreased to 16.86% (YoY). The primary articles category is broadly divided into two sub-sectors — food and non-food.

	Index (week ended, in units)		Rate of Inflation (YoY, %)	
	May 29, 2010	June 5, 2010	May 29, 2010	June 5, 2010
Primary Articles	301.7	299.5	17.21	16.86
• Food Articles	296.4	293.2	16.74	16.12
• Non-Food Articles	285.7	285.8	17.96	18.25
Fuel Group	372.5	370.2	14.23	13.18

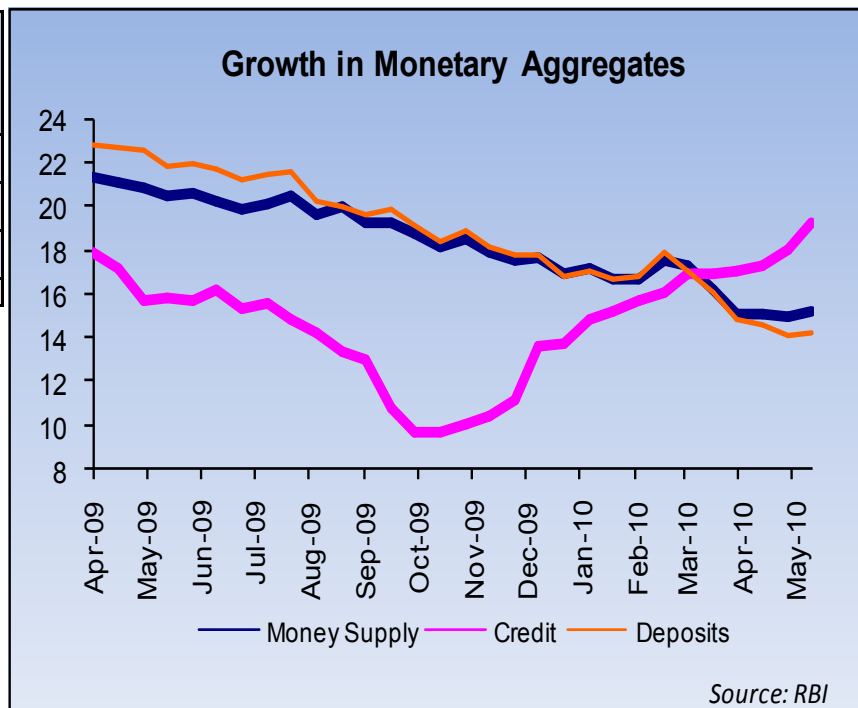
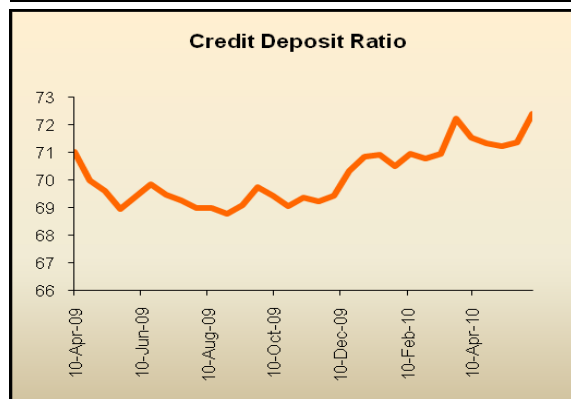
Source: Commerce Ministry

- ♦ **Food:** The food articles index for the week ended June 5, 2010, declined marginally from 296.4 to 293.2 (WoW). The food articles' inflation stood at 16.12%. The index decreased due to lower prices of fruits, vegetables and tea. However, prices of *urad* and maize, *bajra* and gram moved up.
- ♦ **Non-food:** The non-food articles index increased from 285.7 to 285.8 (WoW). The non-food articles' inflation for the week ended June 5, 2010, increased to 18.25%. The index rose on account of higher prices of jute and cotton. However, prices of silk, sunflower and rubber declined.
- **Fuel group:** The fuel group index decreased sharply from 372.5 to 370.2 (WoW). Fuel group inflation for the week ended June 5, 2010, stood at 13.18%.

Monetary Aggregates: Credit Growth Continues To Pick Up

	RBI Projection for March 2011 end (YoY, %)	Growth as on June 4, 2010 (YoY, %)
Money Supply	17	15.2
Credit	20	19.3
Deposits	18	14.3

Source: RBI



Source: RBI

Data for the fortnight ended June 4, 2010, show growth rates for money supply, credit and bank deposits at 15.2 %, 19.3% and 14.3% (all YoY) respectively.

Growth in credit has increased sharply but that in deposits lags behind. The credit deposit ratio has been steadily increasing and jumped to 72.4 in the fortnight ended June 4, 2010. Banks are increasingly deploying higher percentage of deposits for credit purposes.

Agriculture: Kharif Sowing Picks Up

The agriculture ministry has been releasing data for the sowing of kharif crops on a weekly basis. This helps assess the condition of kharif crops in that duration. As on June 11, 2010, rice had been sown in 7.22 lakh hectares compared to last year's coverage of 7.63 lakh hectares. Most crops are still below the levels sown last year.

The cropped areas for major kharif items as on June 11, 2010, are as shown in the accompanying table.

It is evident from the table that acreage under pulses has seen some increase. This could be due to the government providing incentives — such as higher procurement prices — to improve the overall pulses crop. For most families, especially below-poverty-line families, pulses remain the only source of proteins. And, unfortunately, the total pulses crop has remained way below total demand every year.

Crop-Wise Sowing Progress (In Lakh Hectares)		
	This year's area (as on June 11, 2010)	Last year's area (as on June 11, 2009)
Rice	7.22	7.63
Groundnut	0.235	0.410
Sunflower	0.219	0.640
Total oilseeds	1.034	1.850
Arhar	0.107	0.093
Urad	0.218	0.121
Moong	0.237	0.254
Total Pulses	0.991	0.836
Sugarcane	42.85	40.75
Jute	7.535	6.837
Cotton	11.233	10.601

Source: Agriculture ministry

RBI Watch

Governor Subbarao, Deputy Governor Chakrabarty Speak on Financial Inclusion

RBI governor D Subbarao spoke at the Banking Technology Excellence Awards 2009, at IDRBT Hyderabad on June 18, 2010.

The governor noted how technology had helped transform banking by making it more efficient and service-oriented. He then explained how technology can help meet one of the most importance challenges for Indian policymakers – financial inclusion. He listed several policies that could help in this direction. As technology is expected to play a major role in this task there is a need to have a proper IT governance system and control on quality of data.

For details visit: http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=509

Speaking at the 23rd Skoch Summit on June 17, 2010, in Mumbai, RBI deputy governor K C Chakrabarty too spoke about how financial deepening can help achieve economic growth that is also pro-poor. He said:

Financial sector development and deepening drives economic growth by mobilising savings and investing in growth of productive sectors. The institutional infrastructure of the financial system contributes to reducing information, contracting and transaction costs, which in turn accelerates economic growth and promotes pro-poor growth. We firmly believe that increasing financial inclusion reduces the economic vulnerability of households, promotes economic growth, alleviates poverty and improves the quality of peoples' lives. Thus, expansion of banking leads to increasing availability of finance to spur economic growth and helps alleviate poverty.

For details visit: http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=510

ED Mohanty Speaks On Deregulation Of Interest Rates In India

Deepak Mohanty, RBI executive director , spoke at the Bankers' Club, Kolkata on June 11, 2010. He spoke about how interest rates were deregulated in India from a highly controlled regime to a regime where they are determined by markets.

He also touched upon how the new base rate regime will help Indian financial markets.

For details visit: http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=508

Global Central Bank Watch

Bank of Japan Maintains Rate

In its meeting held on June 15, 2010, BoJ voted to maintain its uncollateralised overnight call rate at 0.1%.

Swiss National Bank Rates Stay

In its policy meeting on June 17, 2010, SNB decided to keep its rates unchanged in the range of 0-0.75% and try and keep the rate in the lower part of the range at 0.25%.

Central Bank of Chile Hike Rates

CBC increased its policy rates by 50 bps to 1%.

Politics

Unshackling The Yuan

After long years of prodding and negotiating, China last week agreed to end the artificial pegging of its currency — the yuan — though not as dramatically as many would have expected. Analysts said that the move, even if slow and considered, could change the contours of international trade and finance in a considerable way. The move also signals China's eagerness to shift its economy's gears — make the domestic economy the driver of growth rather than depend overly on exports.

Mumbai-based newspaper DNA quoted Societe Generale economist Glenn Maguire as saying that the move to de-peg the yuan will “unleash powerful cyclical forces both within and outside the Asian region,” and that the yuan appreciation, will “effectively share more of China's growth with the rest of the world”. The immediate winners from a yuan revaluation could be Chinese companies that buy raw materials and other inputs overseas, such as airlines purchasing jet fuel and automakers sourcing parts.

It was being said that the managed currency value of yuan had an important role in keeping Chinese exports cheap in comparison to other countries. While the US has been the prime force behind the campaign to devalue the yuan, there were many Indian experts who also blamed the yuan for some of the country's global trade woes. However, some analysts had also countered such arguments by saying that re-valuation of the Chinese currency may not automatically lead to better prospects for India's share in global trade. They cited other reasons such as process efficiencies and scale of operations that play a vital role in China's advantage.

The move also signals a tectonic shift in China's economic orientation — from exports to domestic demand. An appreciation in the yuan will make imports cheaper for China, boosting domestic consumption. Analysts had pointed out earlier that an overdependence on exports had hurt the Chinese economy badly during the global recession when most of its export markets saw a major slump in demand.

While the news of the yuan's proposed deregulation has already buoyed markets and currencies, it is still too early to predict the real margin of change in the yuan value, as also its impact on economic pivotal across the world.

However, analysts say the central banks in the Asian region may now be revisited by the problem of capital flows as the Chinese move could have an overall cascading effect on sentiments in regional economies and markets.

The Benefactor Modi Factor

In normal circumstances, a self-congratulatory newspaper advertisement with photographs of two chief ministers should not have created any controversy even if the two personalities belong to different political parties. But in the current context, the Nitish-Modi fracas is a bugle sound announcing that the major players have taken pole positions for the October-November 2010 Bihar legislative elections. Gujarat chief minister Narendra Modi's projection of his benevolence towards Bihar has provided the perfect platform for the hard bargaining to begin.

That the situation has moved beyond mere testing of political waters is clear with talks of the JDU negotiating with the UPA for a possible alliance in case its ties with the NDA come off altogether. Whoever planned and executed 'Project Newspaper Ad', was probably oblivious to how Modi's negative image could affect the next tranche of vote-bank politics in Bihar.

Because, on the face of it, neither the JDU nor the BJP can really afford to rip apart the successful alliance. Even with his 'able administrator' and 'pro-development' image, Kumar runs the risk of losing the upper caste votes. An alliance with BJP only softens the blow somewhat. That is perhaps why he is all the more keen to fortify his vote-banks among the Dalits and minorities. Of course, he has the choice of cozying up to a bigger alliance — UPA being the only alternative. But, there's only one problem: UPA is not too strong in Bihar yet. Any churn in the current equation benefits only one person — RJD's Lalu Yadav. However, a side-story worth following is that Kumar has been keen on higher Central largesse for Bihar's development.

While Nitish Kumar has been one of NDA's good governance mascots, the worrying aspect for NDA is that it has regularly lost alliance partners in the past few years — be it the DMK, AIADMK, National Conference, Biju Janata Dal, Lok Janshakti Party or the Trinamool Congress. Many of those former NDA allies later joined the rival Congress-led UPA.

Both, BJP patriarch L K Advani and JDU chief Sharad Yadav have sought to play the whole thing down. The other heavyweight of national politics — the Congress — has apparently not taken to the troubled waters because the party really has nothing to gain from a JDU-NDA rift. If anything, it will only strengthen Lalu's position and a stronger Lalu is not really the UPA's priority currently.

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