

May 23 2011

Economic Weekly



Indian Economy

* **WPI Primary Articles Inflation Eases:** WPI Primary articles inflation rate moderated to 10.94% for the week ending May 7, 2011, compared with 11.96% a week ago. Primary articles inflation eased due to significant decline in non-food articles prices from 28.6% to 23.8% over the week.

* **Money Supply Declines:** Money supply declined to 16.92% YoY in the fortnight ending May 7, 2011, compared with 17.55 % a fortnight ago. Total bank credit to commercial sector in the fortnight ending May 7, 2011, increased to 21.68% (YoY) compared with 21.03% a fortnight ago.

* **Forex Reserves:** Forex reserves declined to \$307.5 billion in the week ending May 14, 2011, as foreign currency assets measured in US dollar decreased by \$2 billion.

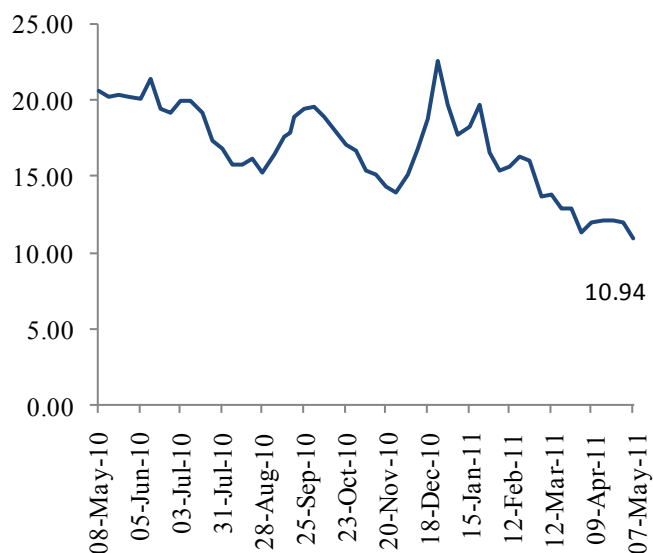
IMF Board Approves Portugal Bailout: The IMF board on May 20, 2011, approved \$36.8 billion loan in the latest effort to stem the sovereign debt crisis in Europe. The joint package for Portugal (by IMF and European nations) totals \$116 billion and has laid the path for financial consolidation and debt sustainability. Portugal is the third country, after Greece and Ireland, to receive joint financial support from IMF and European Union.

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WPI primary articles inflation eased to 10.94% YoY

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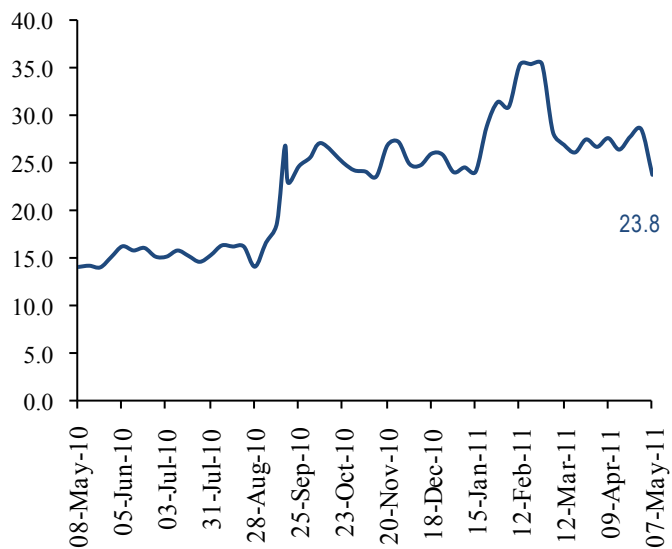
Primary Articles Inflation, % YoY



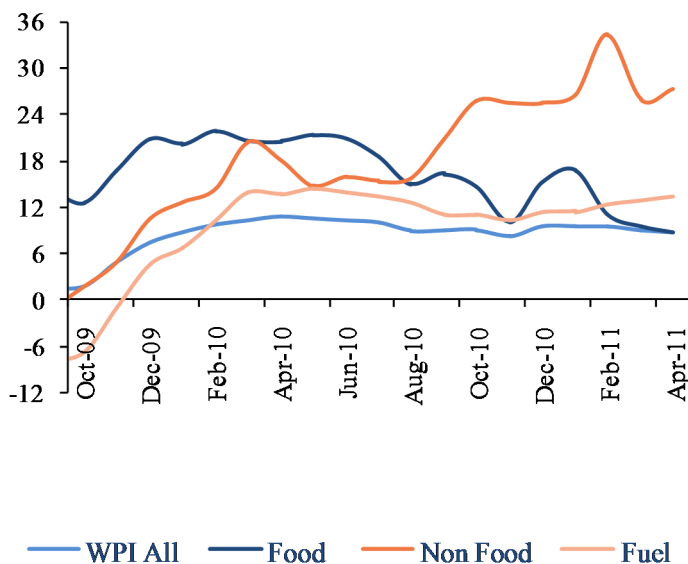
Food Inflation, % YoY



Non Food Inflation, % YoY



Monthly Trends, % YoY



Trends in Primary Articles Constituents

- ◆ Food inflation eased further to 7.47% YoY compared with 7.70% YoY a week ago. This augurs well for inflation management since food inflation in the past had put significant pressure on core inflation.
- ◆ Non-food articles inflation eased significantly to 23.8% YoY due to a 4.2% week-on-week decline in the index. The downward move was due to lower prices of raw cotton, raw rubber, castor seed, sunflower and raw silk over the week. Decline in non-food articles prices resulted in easing of primary articles inflation this week.
- ◆ Minerals inflation remained unchanged at 11.95% YoY from last week.

WPI Sub groups	Index	% YoY		% WoW	
	07-May-11	07-May-11	30-Apr-11	07-May-11	30-April-11
Primary Articles	191.7	10.94	11.96	-0.6	0.1
Food Articles	185.5	7.47	7.70	0.4	0.1
Non Food Articles	185.6	23.8	28.6	-4.2	0.2
Minerals	267.0	11.95	11.95	0.0	0.0
Fuel	160.1	12.1	12.25	-0.1	0.0

Fuel inflation moderated to 12.1% YoY due to lower prices of coke which declined by 6% over the week. Fuel inflation is likely to go up sharply in coming weeks due to the recent hike in petrol prices on May 15, 2011, and an expected rise in diesel and cooking gas prices any day now.

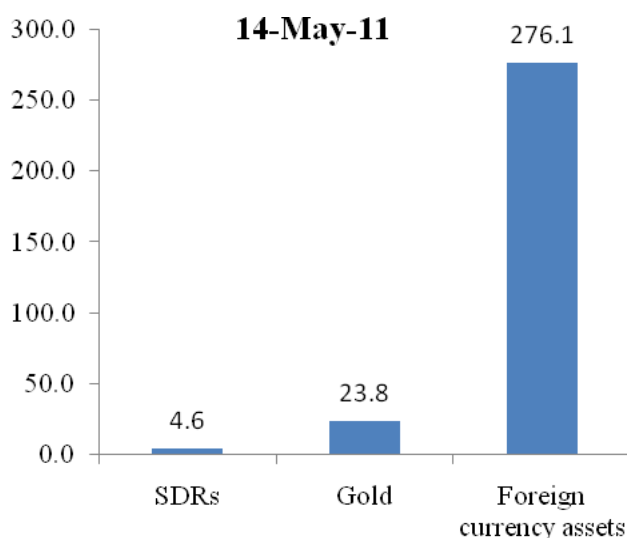
Forex Reserves Declined To \$307 billion

Forex reserves declined to \$ 307.5 billion in the week ending May 14, 2011, as foreign currency assets decreased by \$ 2 billion. Forex reserves in India are valued in US dollars.

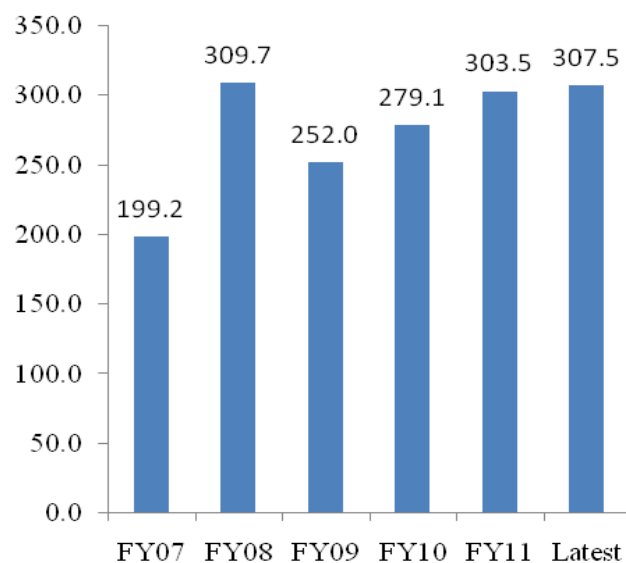
- ◆ Total Forex reserves comprise foreign currency assets, SDRs and central banks position in gold, all of which is measured in US dollars.
- ◆ During the week ending May 14, 2011, foreign currency assets declined by \$2billion to \$276 billion due to revaluation changes which led to decline in overall position in forex reserves.
- ◆ Positions in gold and SDRs remained unchanged over the week.

\$ bn	Forex Reserves	SDRs	Gold	Foreign Currency Assets
23-Apr-11	309.7	4.6	23.0	279.1
30-Apr-11	313.5	4.7	23.8	282.0
07-May-11	309.5	4.6	23.8	278.1
14-May-11	307.5	4.6	23.8	276.1

Forex Reserves Components, \$ bn



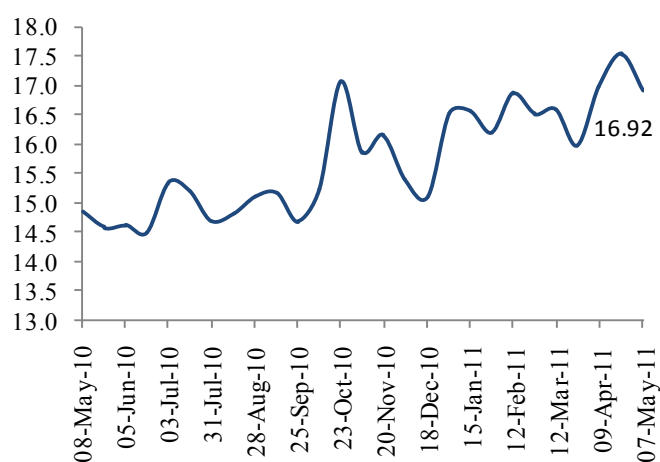
Forex Reserves Annual Trends, \$ bn



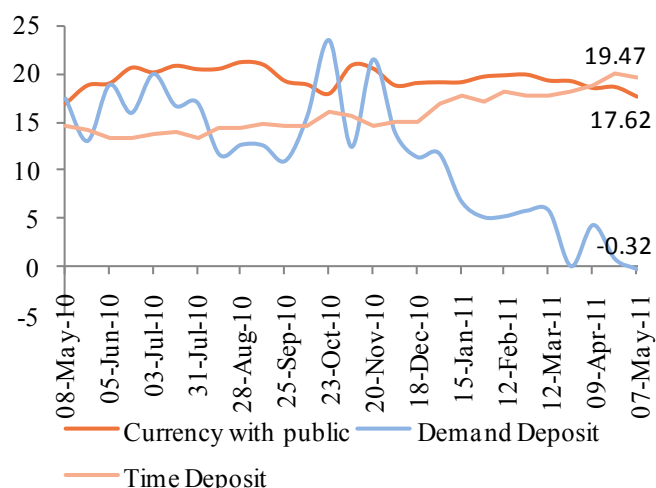
Money Supply and Credit Growth

- ◆ Money supply declined to 16.92% YoY for the week ending May 7, 2011, compared with 17.55% YoY a fortnight ago as time deposits growth eased to 19.47% YoY from 19.99% YoY before.
- ◆ Currency with public and demand deposits also saw moderation but largely due to high base.
- ◆ Currency with public grew at 17.62% YoY and demand deposits growth contracted by 0.32% YoY.
- ◆ Total bank credit (all commercial banks, cooperative banks and RBI) to commercial sector in the fortnight ending May 7, 2011 increased by 21.68% YoY, 2011 compared with 21.03% YoY a fortnight ago.
- ◆ Time deposit growth over the past few months is catching up with the credit growth which has improved structural liquidity issues witnessed in Q3 FY11.

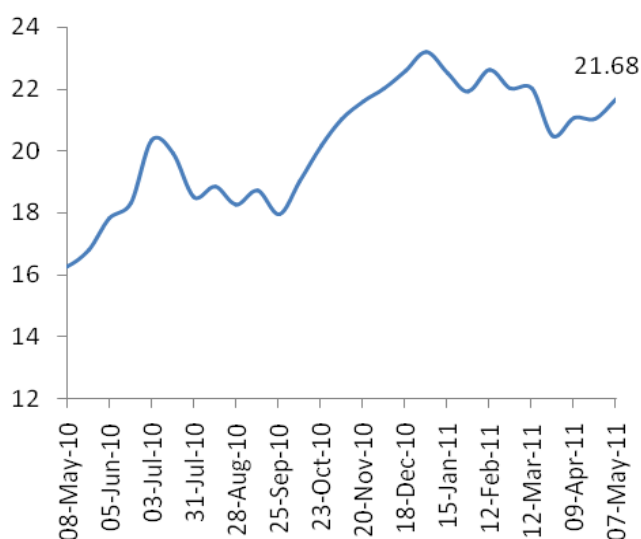
Money Supply (M3), % YoY



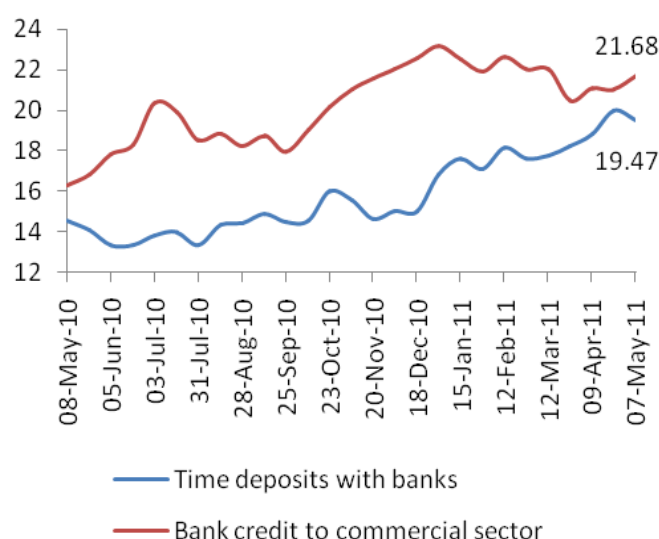
Time Deposit and Demand Deposit, % YoY



Total Bank Credit to Commercial sector, % YoY



Time Deposit and Credit, % YoY

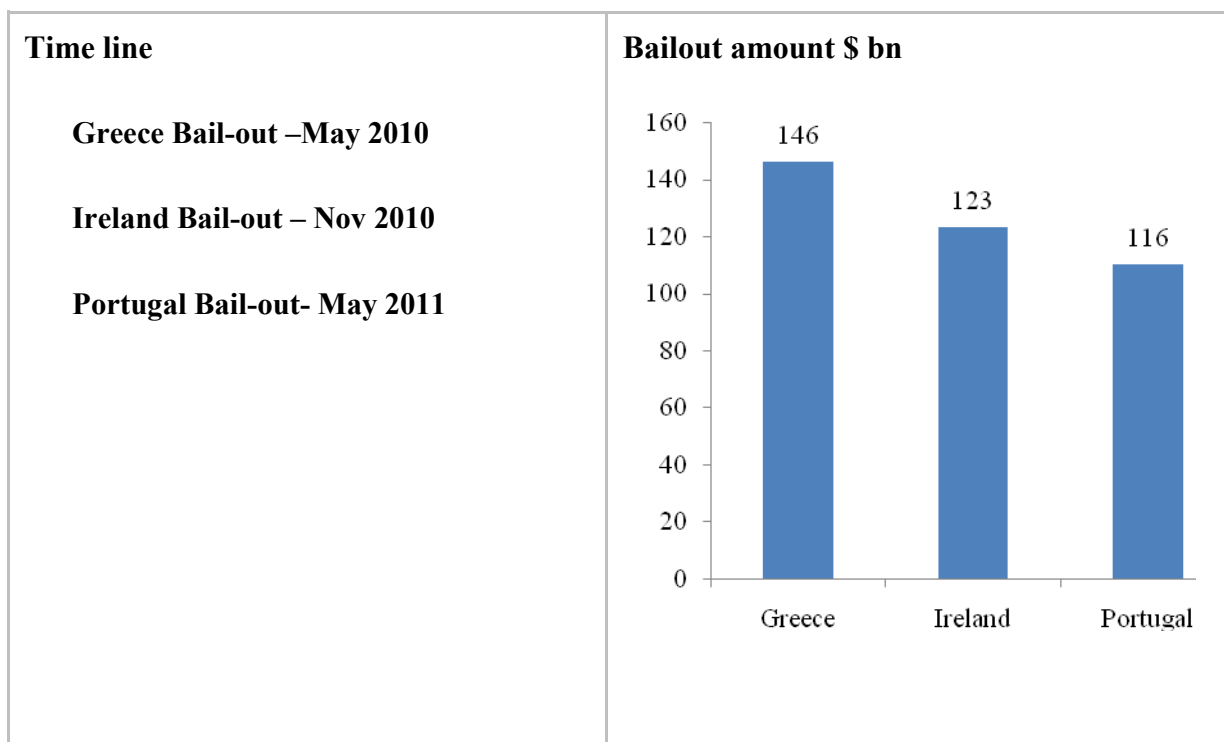


IMF Approves Bail-out For Portugal

The Executive Board of the International Monetary Fund (IMF) on May 20, 2011, approved a three-year SDR 23.742 billion (about \$36.8 billion) loan for Portugal. The IMF loan to Portugal is a part of a joint package with European Union (of \$116 billion) which paves the way for financial consolidation. Portugal is the third country after Greece and Ireland to receive joint financial support from IMF and the European Union. It is a front-loaded program which makes about \$8.7 billion immediately available to Portugal from IMF. The reform package is likely to be critical in improving Portugal's economic growth prospects and in restoring debt sustainability

Terms of the bail-out:

- ◆ Portugal to cut fiscal deficit as a percentage of GDP to 5.6% in 2011 from 9.4% in 2010.
- ◆ Fiscal deficit to be reduced further to 3% by 2013.
- ◆ Portugal to adopt structural reforms agenda focused on increasing competition, reducing labour costs, and boosting employment and productivity.



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