

January 2, 2012

Economic Weekly



Indian Economy

***Borrowing Programme Up Again:** Indian government on Friday further increased the size of its borrowing programme for the current financial year by ₹40,000 crore, raising total government borrowings for FY12 by around 22% from ₹4,17,000 crore budgeted. The latest hike in government's borrowing cap is over and above the ₹52,872 crore increase announced in September. In the October 3, 2011, edition of Economic Weekly, PRU had stated that there is an increased likelihood of the government further ramping up the size of its borrowings as revenue targets appear difficult to achieve in the current economic climate. Finance ministry sources expect FY12 fiscal deficit to be 5.5-5.8% of GDP against 4.6% budgeted.

***Balance Of Payments:** Balance of payments position improved marginally in July-September with accretion of \$0.3 billion to forex reserves. BoP position was positive due to higher net capital inflows despite widening of current account deficit to \$16.9 billion during the quarter from \$15.9 billion in the first quarter. Current account deficit expanded to 3.8% of GDP in July-September from 3.5% in April-June. Net capital inflows stood at \$18.4 billion compared with \$20.93 billion in the first quarter because of net outflows of foreign institutional investments and lower banking capital.

***External Debt:** External debt in Q2FY12 increased to \$326.6 billion, up 6.6% from the previous quarter. External debt increased largely due to rise in commercial borrowings and short term credits during the quarter.

***WPI Primary Articles Inflation Eases:** Primary articles inflation in the week ended December 17 stood at 2.70% on a year-on-year basis compared with 3.78% in the previous week. Food inflation eased to a six-year low of 0.42% on a year-on-year basis from 1.81% in the previous week.

***Money Supply, Credit Growth:** Money supply and credit growth displayed divergent trends in the fortnight ended December 17. M3, or broad money, supply in the fortnight ended December 17 grew 16.52% while credit growth in the same fortnight eased to 17.08% on a year-on-year basis.

***Forex Reserves Fall Further:** Foreign exchange reserves declined further by \$1.2 billion to \$300.9 billion in the week ended December 24, largely due to a decline in foreign currency assets.

Global Economy

***Euro Weakens Against Dollar:** Euro weakened against the dollar to a 12-month low last week. In December, euro weakened 3.9% against dollar because of persistent euro debt worries. Euro-zone problems are still to be addressed with a proper framework to prevent defaults in many of its member nations. Until then, euro could see weakening pressures against other major currencies.

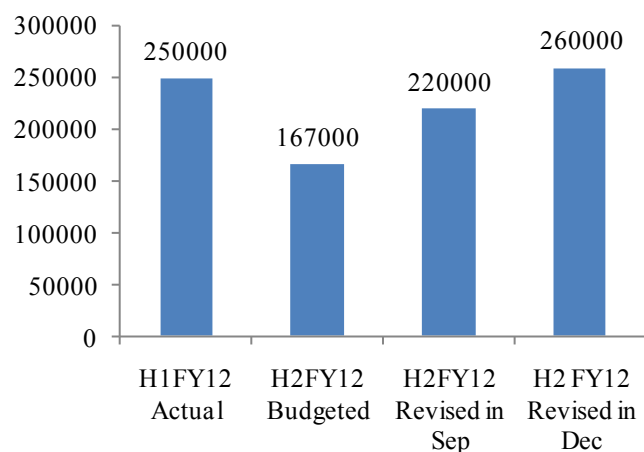
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Government Increases Borrowings: Fiscal Targets Missed

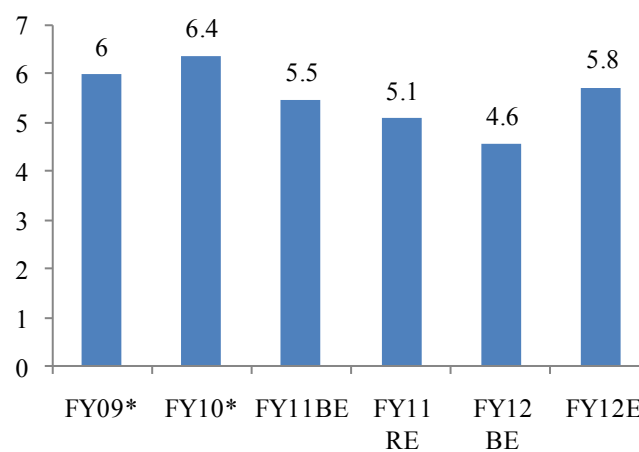
Indian government on Friday further increased the size of its borrowing programme for the current financial year by ₹40,000 crore, raising total government borrowings for 2011-12 (April-March) by around 22% from ₹4,17,000 crore budgeted. The latest hike in government's borrowing cap is over and above the ₹52,872 crore increase announced in September. The October 3 edition of **Economic Weekly** had mentioned that there was the likelihood of government further increasing the size of its borrowings as revenue targets appear difficult to achieve in the current economic climate. Finance ministry sources expect FY12 fiscal deficit to be 5.5-5.8% of gross domestic product against 4.6% budgeted.

- ◆ **Fiscal Target To Be Missed:** Government's additional borrowings are a clear indication of fiscal problems due to the difficult macroeconomic environment. Government is falling short of its revenue targets and is burdened with rising expenditure, such as fuel subsidy. The fiscal deficit target at 4.6% of GDP is likely to be missed. Unofficial sources in finance ministry have pegged fiscal deficit at 5.50-5.75% of GDP for FY12.
- ◆ **Disinvestments Targets Unlikely To Be Achieved:** Volatility and lower participation in equity market have made it difficult to achieve divestment targets this year. Divestment target of ₹40,000 crore has been factored into the FY12 budget estimates that appear unattainable in the current economic environment. In FY11, despite a favourable business climate, government was able to raise only ₹22,744 crore compared with this year's target of ₹40,000 crore. This could be one reason why government last week further raised the size of its borrowing programme for FY12.
- ◆ **Subsidy Burden:** Crude oil prices have averaged \$110/barrel so far in FY12, which is 35% higher on a year-on-year basis from average prices of \$85 in FY11. Fuel subsidy has been budgeted at ₹23,000 crore in FY12, which is lower from ₹35,000 crore actually spent in FY11 when crude oil prices were lower from current levels. Therefore, government's subsidy bill is going to be far higher from budgeted estimates due to higher crude oil prices this year.
- ◆ **Borrowings Programme For FY12:** Government's total borrowing programme in FY12 was pegged at ₹417,000 crore. Government borrowed ₹250,000 crore in the first half. In the second half of the current financial year, it was earlier planning to borrow ₹167,000 crore. This now stands revised upwards to ₹260,000 crore because of further hike in borrowing limit as a result of the revenue shortfall. Government is now set to borrow ₹5,10,000 crore, which is up ₹93,000 crore from budgeted levels.
- ◆ **Liquidity Problems:** Higher borrowings can crowd out private borrowings. This could impact private investments, as both government and companies vie for the same credit pool. Also, this could impact the already skewed liquidity situation in markets. This could result in higher interest rates in money markets.

Borrowings Programme, ₹ crore



Fiscal Deficit, as a % of GDP

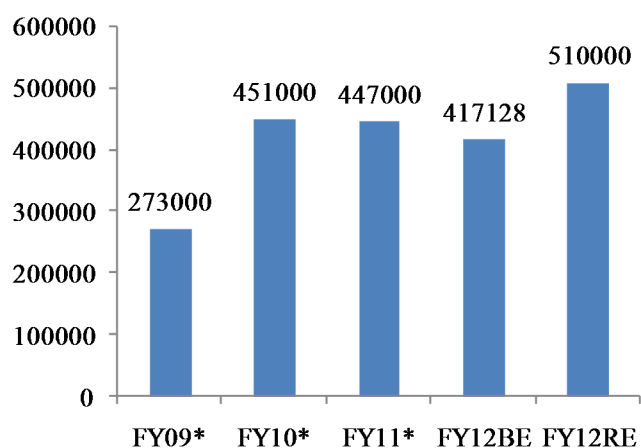


*Actuals

Borrowings Programme Schedule For Jan-March

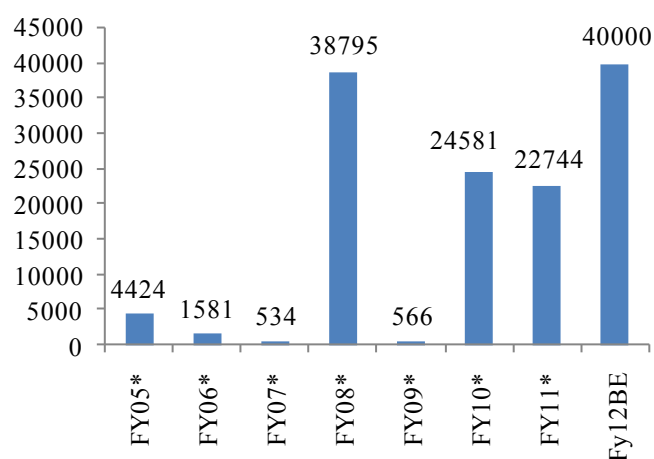
Calendar for Issuance of Government of India Dated Securities (January 1, 2012 to March 31, 2012)			
Sr. No.	Week of Auction	Amount in ` Crore	Security-wise allocation
1	January 2-6, 2012	14,000	i) 5-9 Years for `4,000-5,000 cr.
			ii) 10-14 Years for `6,000-7,000 cr.
			iii) 20 Years & Above for `3,000-4,000 cr.
2	January 9-13, 2012	14,000	i) 5-9 Years for `4,000-5,000 cr.
			ii) 10-14 Years for `6,000-7,000 cr.
			iii) 15-19 Years for `3,000-4,000 cr.
3	January 16-20, 2012	14,000	i) 5-9 Years for `4,000-5,000 cr.
			ii) 10-14 Years for `6,000-7,000 cr.
			iii) 20 years & Above for `3,000-4,000 cr.
4	January 23-27, 2012	13,000	i) 5-9 Years for `3,000-4,000 cr.
			ii) 10-14 Years for `6,000-7,000 cr.
			iii) 15-19 Years for `3,000-4,000 cr.
5	January 30-February 3, 2012	13,000	i) 5-9 Years for `3,000-4,000 cr.
			ii) 10-14 Years for `6,000-7,000 cr.
			iii) 20 years & Above for `3,000-4,000 cr.
6	February 6-10, 2012	12,000	i) 5-9 Years for `3,000-4,000 cr.
			ii) 10-14 Years for `5,000-6,000 cr.
			iii) 15-19 Years for `3,000-4,000 cr.
7	February 13-17, 2012	12,000	i) 5-9 Years for R `3,000-4,000 cr.
			ii) 10-14 Years for `5,000-6,000 cr.
			iii) 20 years & Above for `3,000-4,000 cr.
8	February 20-24, 2012	12,000	i) 5-9 Years for `3,000-4,000 cr.
			ii) 10-14 Years for `5,000-6,000 cr.
			iii) 15-19 Years for `3,000-4,000 cr.
9	March 5-9, 2012	12,000	i) 5-9 Years for `3,000-4,000 cr.
			ii) 10-14 Years for `5,000-6,000 cr.
			iii) 20 Years & Above for `3,000-4,000 cr.

Borrowing Programme, ₹ crore



*Actual

Disinvestment, ₹ crore



*Actual

Balance of Payments Position in July-September

Balance of payments position improved marginally in July-September with accretion of \$0.3 billion to forex reserves. BoP position was positive due to higher net capital inflows despite widening of current account deficit to \$16.9 billion during the quarter from \$15.9 billion in the first quarter. Current account deficit expanded to 3.8% of GDP in July-September from 3.5% in April-June. Net capital inflows stood at \$18.4 billion compared with \$20.93 billion in the first quarter because of net outflows of foreign institutional investments and lower banking capital.

- ◆ **Current Account Deficit Expanded:** Current account deficit expanded to \$16.9 billion in July-September despite higher export growth. Current account deficit stands at 3.8% of GDP, up from the revised 3.5% in the first quarter. Rise in trade deficit led to widening of current account deficit despite higher invisibles and exports growth.
- ◆ **Trade Deficit Expanded:** Trade deficit in Q2 expanded to \$43.9 billion from \$41.8 billion in the first quarter. Exports registered a 47.5% growth on a Y-o-Y basis while imports grew 35.4% in Q2 from a year ago. While RBI has released BoP figures only up to September, trade data available for April-November shows trade deficit further widening to \$116.84 billion.
- ◆ **Invisibles Growth Higher:** Invisibles stood higher at \$27 billion in July-September compared with \$25.9 billion in the first quarter. Invisibles registered a growth of 34% on a year-on-year basis in the second quarter. Invisibles flows stood higher due to higher net inflows from services, transfers and remittances during the quarter.
- ◆ **Capital Flows:** Net capital inflows declined to \$17.2 billion in July-September from \$21.4 billion in April-June due to sharp falls in foreign investment flows and banking capital. Foreign investment flows stood lower at \$3.2 billion in the second quarter compared with \$10.4 billion in the sequential previous quarter. Foreign investment flows fell 86% in the second quarter from \$22.7 billion in same quarter of FY11. Banking capital declined to \$6.7 billion in July-September from \$12.6 billion in the first quarter. Rise in external commercial borrowings compensated for the decline in foreign investment and banking capital in the second quarter. External commercial borrowings increased to \$7 billion from \$3.5 billion in the first quarter.
- ◆ **BoP Position Positive:** BoP payment was marginally positive in July-September, by \$0.3 billion. However, total accretion to forex reserves declined by \$4.2 billion due to \$4.5 billion of negative valuation changes.

Key Trends in Balance of Payments:

\$ billion		Q1FY12	Q2FY12	
I.		Current Account Balance	-15.9	-16.9
		Trade Deficit	-41.8	-43.9
		Invisibles	25.9	27.0
II.		Capital Account (net) (a to f)	21.4	17.2
	a.	Foreign Investment (i+ii)	10.5	3.2
		(i) Foreign Direct Investment	7.9	4.4
		(ii) Portfolio Investment	2.5	-1.2
		<i>Of which:</i>		
		FII's	2.5	-1.6
		ADRs/GDRs	0.3	0.2
	b.	External Commercial Borrowings	3.5	7.1
	c.	Banking Capital	12.6	6.7
		<i>of which: NRI Deposits</i>	1.1	2.8
	d.	Short-Term Trade Credit	3	2.9
	e.	External Assistance	0.4	0.3
	f.	Other Items in Capital Account	-4.1	-7.5
		Total (I+II)	5.5	0.3
III.		Valuation Change	5.4	-4.5
		Total (I+II+III) @	10.9	-4.2

Current Account Deficit Expands in Jul-Sep

- ◆ Current account deficit expanded in July-September to 3.8% of GDP from 3.5% in first quarter and 2.6% in FY11. Higher current account deficit creates instability for the economy and also puts pressure on rupee versus the dollar. It also forces an overreliance on foreign flows that creates a risk for the economy, especially in the current slowing economic environment. In the future, export growth could be impacted due to a fragile global economy and raises the possibility of the current account deficit worsening .
- ◆ Higher imports in July-September widened the trade deficit, despite higher exports growth during the quarter. Even higher invisibles flows were not able to contain the rise in current account deficit to 3.8% of GDP in July-September .
- ◆ Invisibles growth stood higher in the second quarter due to higher flows from software exports and transfers and remittances.

\$ billion	Q1FY12	Q2FY12	Q2FY11
	Net	Net	Net
A. CURRENT ACCOUNT			
I. MERCHANDISE	-41.8	-43.9	-37.0
II. INVISIBLES (a+b+c)	25.9	27.0	20.1
a) Services	15.5	15.5	11.9
i) Travel	0.6	1.1	0.6
ii) Transportation	0.3	0.8	-0.3
iii) Insurance	0.3	0.2	0.1
iv) Government Not Included Elsewhere	-0.1	0.0	-0.1
v) Miscellaneous	14.4	13.5	11.5
Of which :	0.0	0.0	0.0
Software Services	15.3	14.9	11.9
Business Services	-0.9	-1.0	-1.0
Financial Services	-0.5	-0.7	-0.1
Communication Services	-0.1	0.1	0.2
b) Transfers	14.7	16.2	13.0
i) Official	-0.1	0.0	0.0
ii) Private	14.8	16.2	13.0
c) Income	-4.4	-4.7	-4.8
i) Investment Income	-4.5	-4.9	-4.6
ii) Compensation of Employees	0.2	0.2	-0.2
Total Current Account (I+II)	-15.9	-16.9	-16.9

Trends in Capital Account In Q2

- ◆ Net foreign direct investment stood lower at \$3.1 billion in the second quarter compared with \$7.9 billion in the first quarter. Net portfolio outflows stood at \$1.2 billion against \$2.5 billion inflows in April-June, as the domestic equity market witnessed heightened volatility and sell-offs in the second quarter.
- ◆ Capital flows through loans stood higher at \$10.2 billion compared with \$7.3 billion in April-June as external commercial borrowings surged.
- ◆ Net banking capital inflow was \$6.7 billion in July-September from \$12.6 billion in the first quarter. Banking capital, however, registered an improvement compared with outflows of \$3.2 billion a year ago.
- ◆ Total net capital flows improved to \$18.3 billion compared with \$22.6 billion in April-June. Rise in external commercial borrowing helped balance of payments position remain positive in the second quarter.

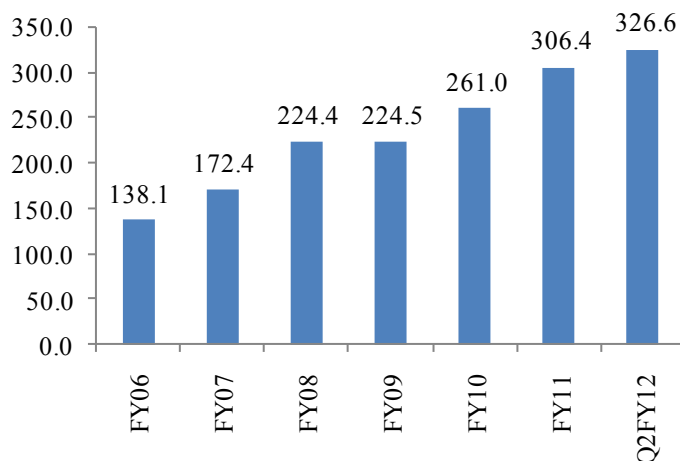
Trends in Capital Account, \$ billion:

\$ billion	Q1FY12	Q2FY12	Q1FY11
	Net	Net	Net
B. CAPITAL ACCOUNT			
1. Foreign Investment (a+b)	10.5	3.2	22.8
a) Foreign Direct Investment	7.9	4.4	3.6
b) Portfolio Investment (I+II)	2.5	-1.2	19.2
I) In India	2.7	-1.4	19.3
FIIs	2.5	-1.6	18.8
ADRs/GDRs	0.3	0.2	0.5
II) Abroad	-0.2	0.2	-0.1
2. Loans (a+b+c)	7.0	10.2	6.6
a) External Assistance	0.4	0.3	0.6
b) Commercial Borrowings	3.6	7.0	3.4
c) Short Term To India	3.1	2.9	2.6
3. Banking Capital (a+b)	12.7	6.7	-3.2
a) Commercial Banks	12.7	6.7	-2.6
b) Others	0.0	0.0	-0.6
4. Rupee Debt Service	0.0	0.0	0.0
5. Other Capital	-7.5	-1.6	-4.6
Total Capital Account (1 to 5)	22.6	18.4	21.6
C. Errors & Omissions	-1.3	-1.2	-1.4
D. Overall Balance (A+B+C)	5.4	0.3	3.3
[Total Current Account, Capital	0.0	0.0	0.0
Account and Errors and Omissions	0.0	0.0	0.0
E. Monetary Movements (i+ii)	-5.4	-0.3	-3.3
i) I.M.F.	0.0	0.0	0.0
ii) Foreign Exchange Reserves	-5.4	-0.3	-3.3

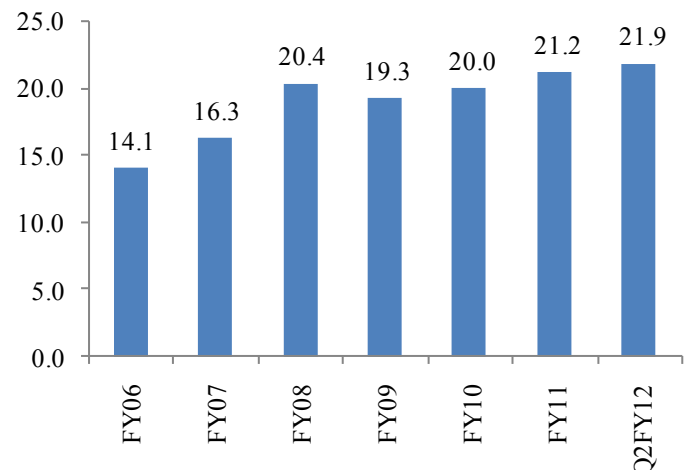
External Debt Position in Q2

- ◆ External debt in the second quarter rose 6.6% to \$326.6 billion from end-March 2011.
- ◆ Rise in external debt has been due to increase in commercial borrowings and short-term credits.
- ◆ Excluding valuation affects, increase in external debt would have been higher at \$330.5 billion.
- ◆ Share of commercial borrowings in total external debt was highest at 30.4% as of end-September, followed by short-term debt (21.6%), non-resident Indian deposits (16.0%) and multilateral debt (15%).
- ◆ Ratio of short-term debt to total external debt in July-September stood marginally higher at 21.9% compared with 21.3% end-March 2011.
- ◆ External debt denominated in US dollar stood highest at 55.8% of the total followed by debt in Indian rupee at 18.2% and yen at 12.1%.
- ◆ Ratio of foreign exchange to external debt stood at 95.4% in the second quarter compared with 99.5% as of end-March.
- ◆ External debt currently stands at comfortable levels as percentage of GDP. As of end-March 2011, external debt stood at 17.4% of GDP, which is quite low.

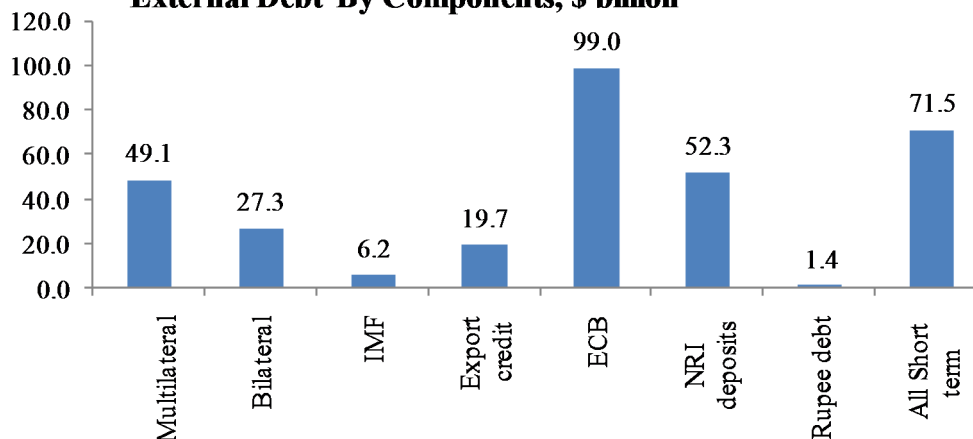
External Debt, \$ billion



Short Term Debt, % of Total External Debt



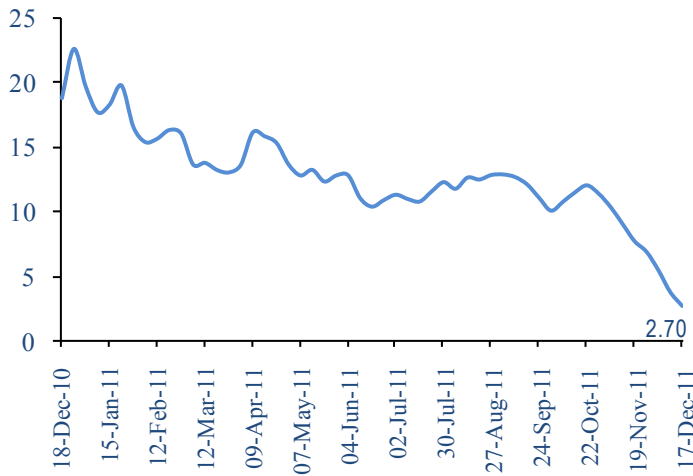
External Debt By Components, \$ billion



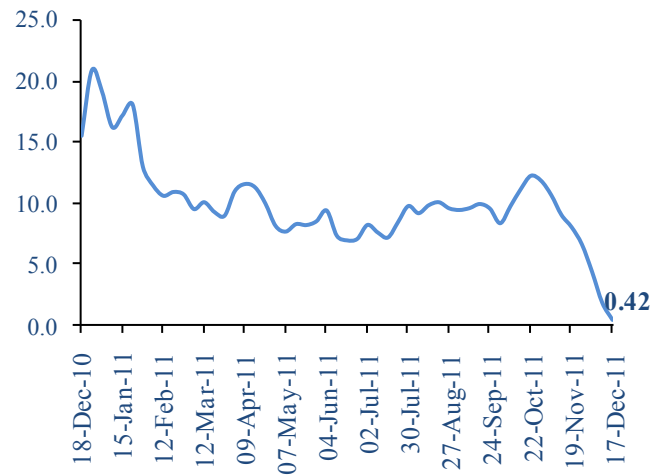
WPI Primary Articles Inflation Eases

Primary articles inflation in the week ended December 17 stood at 2.70% on a year-on-year basis compared with 3.78% in the previous week. Primary articles inflation eased because of fall in prices of food and non-food articles during the week. Food inflation eased to a six-year low of 0.42% on a year-on-year basis, compared with 1.81% in the previous week.

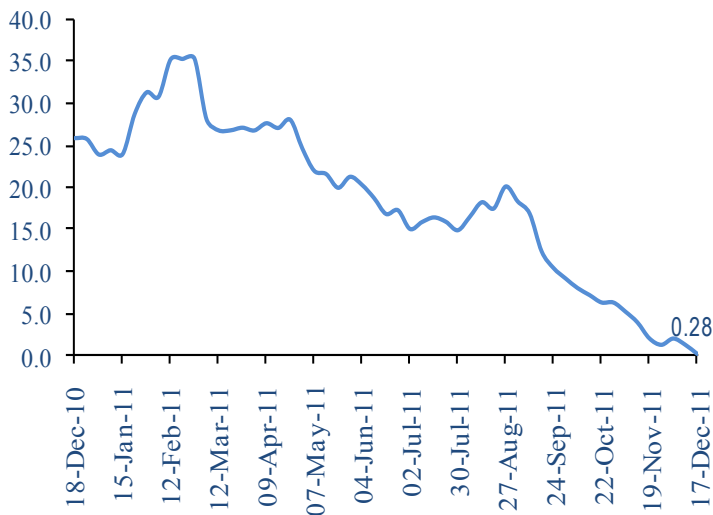
Primary Articles Inflation, % YoY



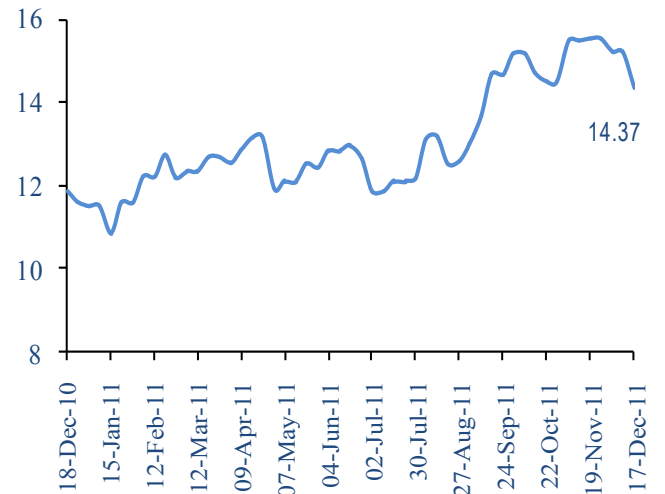
Food Inflation, % YoY



Non-Food Inflation, % YoY



Fuel Inflation, % YoY



Weekly Trends In Primary Articles Inflation

- ◆ Food inflation in the week ended December 17 stood at 0.42% on a year-on-year basis compared with 1.81% in the previous week. Food inflation slowed during the week due to food prices easing 0.37% from the week before. Food prices fell due to lower prices of jowar, condiments, pulses and fruits and vegetables, among others.
- ◆ Non-food articles inflation stood lower at 0.28%, compared with 1.37% a week ago, due to decline in prices of non-food articles by 0.11% over the week. Non-food articles index rose due to lower prices of oilseeds.
- ◆ Minerals inflation stood higher at 23% on a year-on-year basis compared with 21.35%, due to rise in the index by 1.36% over the week.

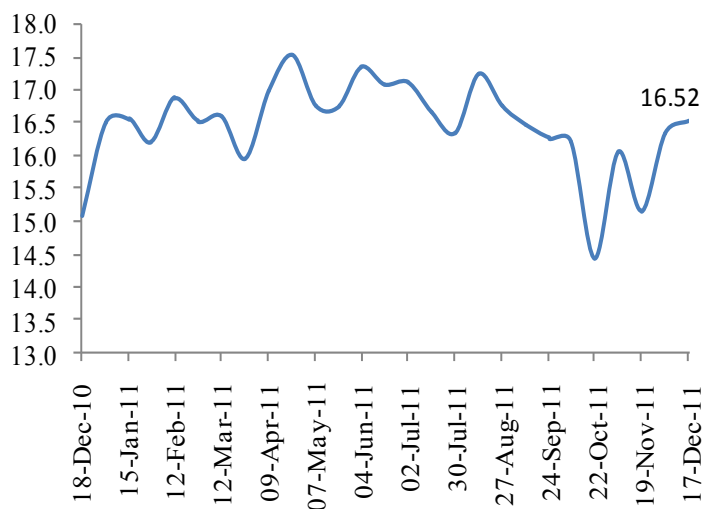
WPI Sub groups	Index	% YoY	% YoY	% WoW	% WoW
	17-Dec-11	17-Dec-11	10-Dec-11	17-Dec-11	10-Dec-11
Primary articles	197.5	2.70	3.78	-0.10	0.17
Food Articles	190.3	0.42	1.81	-0.37	-0.47
Non Food Articles	177.6	0.28	1.37	0.11	-0.56
Minerals	321.4	23.00	21.35	1.36	1.93
Fuel	172.7	14.37	15.24	0.17	0.00

- ◆ Fuel inflation stood lower at 14.37% on a year-on-year basis in the week ended December 17 compared with 15.24% in the previous week, due to high base, despite rise in the index by 0.17% over the week.

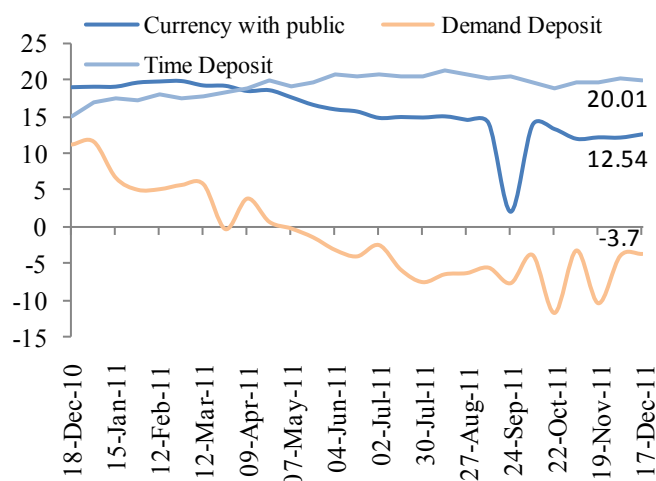
Money Supply And Credit Growth

- ◆ Money supply and credit growth displayed divergent trends in the fortnight ended December 17. M3, or broad money, supply growth in the fortnight ended December 17 rose to 16.52% from 16.34% a fortnight before. Credit growth in the same fortnight decreased to 17.08% on a year-on-year basis from 17.73% in the previous fortnight.
- ◆ M3 growth in fortnight ended December 17 increased as growth of demand and currency with public improved in the fortnight.
- ◆ Growth of currency with public in the fortnight ended December 3 increased to 12.54% on a year-on-year basis from 12.09% in the previous fortnight. Demand deposits shrank 3.70%, much less compared with contraction of 3.95% on year-on-year basis in the previous fortnight. Time deposit growth eased to 20.01% on a year-on-year basis from 20.20%.
- ◆ Credit growth in the fortnight ended December 17 stood at 17.08% on a year-on-year basis compared with 17.73% in the previous fortnight. Credit growth eased due to fall in non-food credit growth during the fortnight to 16.81% on a year-on-year basis from 17.46% in the previous fortnight while food credit declined 32.60% from 33.11% before.

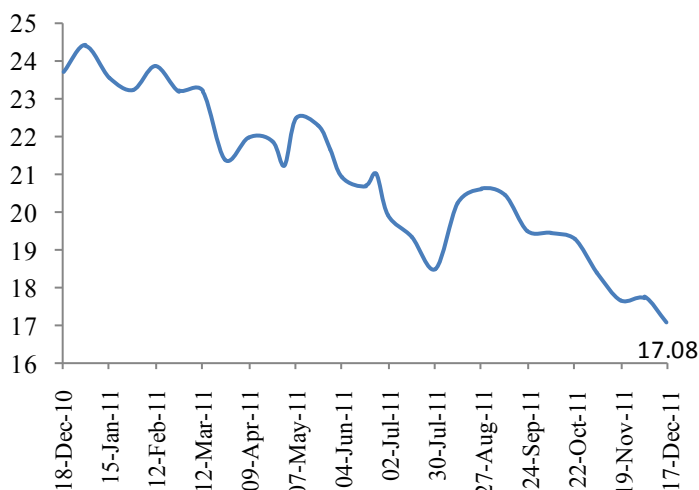
Money Supply, % YoY



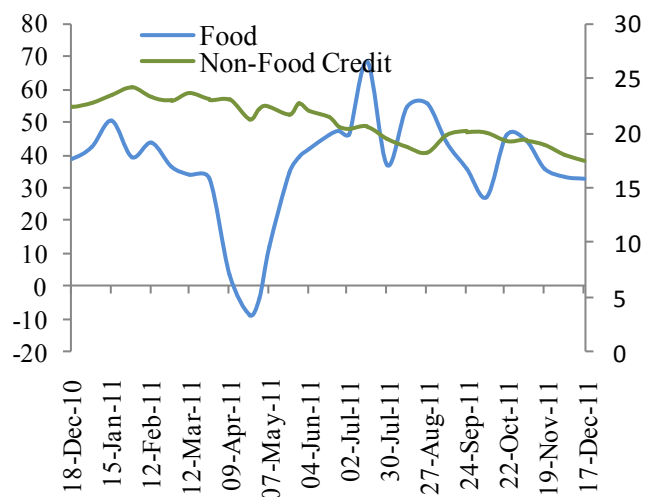
Currency And Time Deposits Growth, % YoY



Credit Growth, % YoY



Food And Non-Food Credit Growth, % YoY



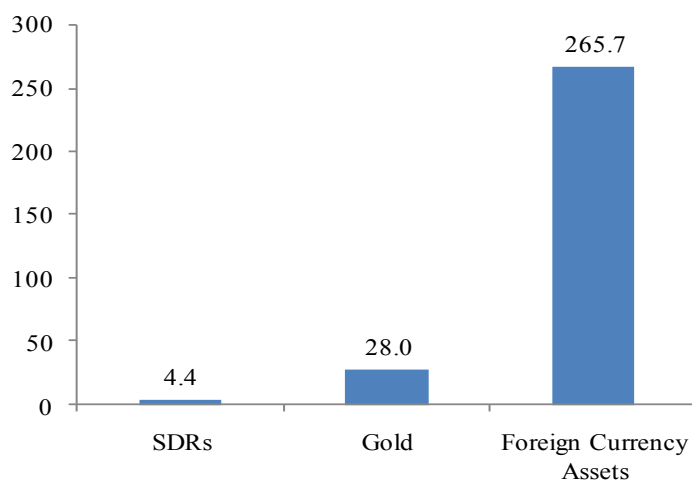
Forex Reserves Fall Further

Foreign exchange reserves declined further by \$1.2 billion to \$300.9 billion in the week ended December 24, largely due to a fall in foreign currency assets. Total foreign exchange reserves comprise foreign currency assets, special drawing rights and central bank's position in gold, all of which are measured in US dollars. Forex reserves declined by a total of \$3.5 billion in December.

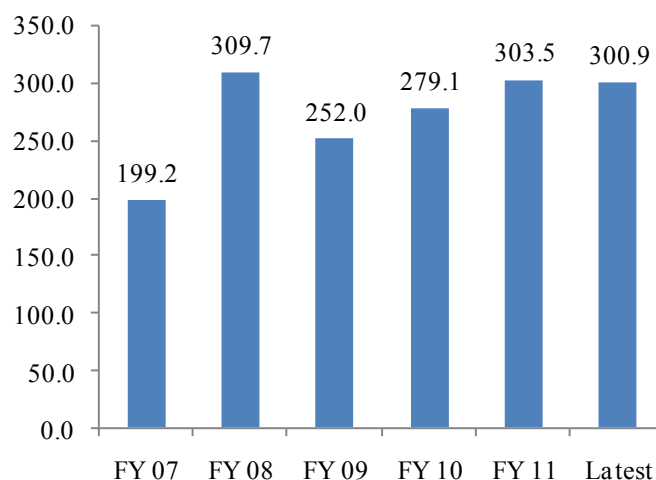
- ◆ In the week ended December 24, foreign currency assets declined \$1.3 billion to \$265.7 billion. Revaluation changes and RBI's intervention in forex markets could have led to decline in foreign currency assets.
- ◆ Position in gold, special drawing rights remained largely unchanged during the week while reserve position with International Monetary Fund gained marginally by \$0.1 billion.

\$ billion	Forex Reserves	SDRs	Reserve Position In IMF	Gold	Foreign Currency Assets
03-Dec-11	306.8	4.5	2.6	28.0	271.7
10-Dec-11	306.8	4.5	2.6	28.0	271.7
17-Dec-11	302.1	4.4	2.7	28.0	267.0
24-Dec-11	300.9	4.4	2.7	28.0	265.7

Forex Reserves Components (in \$ billion)



Forex Reserves Annual Trends (in \$ billion)



Euro Weakens Against Dollar

Euro weakened against the dollar to a 12-month low last week. In December, euro weakened 3.9% against dollar because of persistent euro debt worries. Euro-zone problems are still to be addressed within a proper framework to prevent defaults in many of its member nations. Until then, euro could be under pressure against other major currencies.

- ◆ **Euro Weakens Further:** Euro weakened against all its major peers in the last few days. It lost 3.9% against the dollar in December. It weakened to a 10-year low against yen. However, it maintained its strength against the pound sterling and Swedish krona. Euro's slide has been due to the European Union nations' debt problems that haven't been addressed so far. Euro has weakened 10.3% against the dollar since August 2011. Euro debt problems have caused anxiety among investors. Euro currency is likely to stabilize only if debt concerns are addressed in the euro region.
 - ◆ **Italian Bonds:** The 10-year bond yields in Italy have hovered around 7% that demonstrates risk in the euro-zone. Italy may find it challenging to raise 440 billion euros through auctions in 2012. However, recent auctions have seen more participation, which is comforting.
 - ◆ **ECB Balance Sheet Expands:** European Central Bank's balance sheet expanded to a record 2.73 trillion euros due to increased lending to financial institutions. ECB's lending to financial institutions totaled 879 billion euros by the week ended December 23. Maintaining credit flow to the economy during the debt crisis has led ECB to infuse large volumes of liquidity into the system from time to time.
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