

December 5, 2011

Economic Weekly



Indian Economy

***Widening Fiscal Gap:** Fiscal performance has worsened with slowing economic growth. In April-October, revenue receipts growth decelerated sharply from a year ago, mainly because of shortfall in tax and non-tax revenues. Fiscal deficit in April-October stood at 74% of 2011-12 (April-March) budget estimate, far higher from 43% of budget estimate in the same period last year. Present macroeconomic environment leaves little scope for improvement in revenue receipts. Government is unlikely to meet its FY12 divestment target, and this is likely to result in around ₹40,000 crore shortfall in non-tax revenues. Also, expenditure is likely to increase due to higher subsidies. This year, fiscal deficit could be sharply higher from 4.6% of GDP budgeted.

***Public Debt Grows Marginally in Q2:** Public debt, or debt owned by central government, stood at ₹32,13,673 crore at the end of the second quarter (July-September), up 2.7% from the first quarter of FY12.

***WPI Primary Articles Inflation Eases:** Primary articles inflation in the week ended November 19 eased to 7.74% on a year-on-year basis from 9.08% in the previous week. Primary articles inflation eased because of fall in prices of food articles during the week.

***Money Supply And Credit Growth:** Money supply and credit growth both declined in the fortnight ended November 19. M3, or broad money, supply growth in the fortnight under consideration declined to 15.16% compared with 16.06% in the previous fortnight. Credit growth in fortnight ended November 19 eased to 17.67% on a year-on-year basis, compared with 18.41% in the previous fortnight.

***Forex Reserves Fall \$4.2 billion:** Foreign exchange reserves fell \$4.2 billion to \$304.2 billion in the week ended November 26, largely due to a fall in foreign currency assets.

Global Economy

***Central Banks Act, China Cuts CRR:** Last week, central banks of the US, Canada, euro-zone, Japan, Switzerland and China took coordinated steps to stimulate economic growth. Their action boosted market sentiment and lead to a surge in equity markets across the globe. The central banks agreed to bring down costs of dollar funding via swaps agreement. The move is aimed at improving access to liquidity. The Chinese central bank cut reserve ratio requirement for the country's banks to boost growth.

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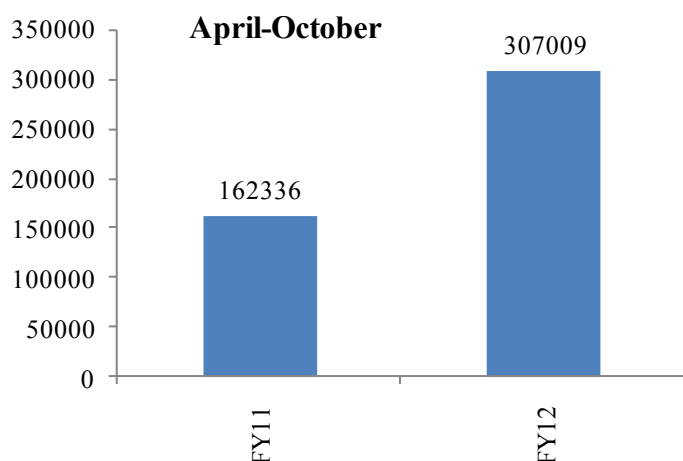
Fiscal Deficit Increases

India's fiscal performance has worsened with slowing economic growth. In April-October, revenue receipts growth decelerated sharply from a year ago, mainly because of shortfall in tax and non-tax revenues. Fiscal deficit in April-October stood at 74% of 2011-12 (April-March) budget estimate, far higher from 43% of budget estimate in the same period last year. Present macroeconomic environment leaves little scope for improvement in revenue receipts. Government is unlikely to meet its FY12 divestment target, and this is likely to result in around ₹40,000 crore shortfall in non-tax revenues. Also, expenditure is likely to increase due to higher subsidies. This year, fiscal deficit could be sharply higher from 4.6% of GDP budgeted.

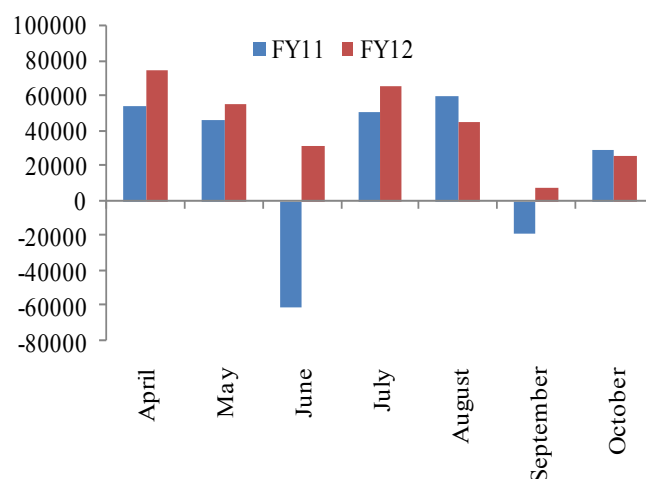
- ◆ **Widening Fiscal Gap:** In April-October, fiscal deficit expanded 89% from a year ago. Fiscal deficit widened to ₹3,00,709 crore in the seven months to October from ₹1,62,336 crore last year. Fiscal deficit has expanded to 74.4% of FY12 budget estimate from 42.6% of budget estimate in the same period last year. Sharp rise in fiscal deficit is evidence of the harsh economic realities confronting the country. With economic slowdown, receipts have slowed significantly while expenditure has risen.
- ◆ **Receipts Trends:** Revenue receipts in April-October were 19.6% lower from a year ago. Revenue receipts slowed because of lower tax revenue growth of 7.3% on a year-on-year basis compared with budgeted growth of 16%. Non-tax revenue has been 76% lower from last year due to absence of telecom receipts accrued in FY11. Total receipts, excluding capital receipts, were 18% lower from last year. In April-September, there has been lower growth in corporate taxes of 3.4% on a year-on-year basis due to refunds compared with budgeted estimates of 21.5%. In the first half of FY12, customs and excise tax collections have been buoyant with 22.5% and 37.5% growth compared with FY12 budget estimates of 15.1% and 18.2% growth, respectively.
- ◆ **Expenditure Trends:** In April-October, expenditure grew 10.2% on a year-on-year basis compared with FY12 budget estimate of 7.8%. Expenditure during this period stood at 54.7% of budget estimate compared with 55.7% of last year's budget estimate. Non-plan expenditure registered a growth of 12.8% in April-October. Non-plan expenditure has been higher at 58.7% of budget estimate compared with 57.8% of budget estimate last year. Plan expenditure stood lower at 45.6% of budget estimate compared with 51.6% last year.
- ◆ **Few Divestments:** Few divestments this year will result in ₹40,000 crore shortfall in non-tax revenues. So far this year, government has been able to raise only ₹1,145 crore through stake sale in Power Finance Corp Ltd. With weak investor appetite for public issues and volatility in the market, it is unlikely that the government will achieve its divestment target. Oil and Natural Gas Corp Ltd recently withdrew its application for a follow-on share offer. ONGC's proposed 5% stake sale to raise ₹12,000 crore was withdrawn due to market uncertainties. Government is exploring other options to raise the divestment amount of ₹40,000 crore. One such measure could be to ask cash-rich public sector companies, such as Coal India Ltd that has a cash surplus of around ₹50,000 crore, to subscribe to divestment issues. The legality and technicality of this option is unclear at the moment. So far, finance ministry has not revised the divestment target for FY12.
- ◆ **Borrowings Could Rise Further:** In October, central government increased its FY12 borrowing limit by ₹52,872 crore, thereby increasing total gross borrowing 12.5% from earlier budgeted ₹4,17,000 crore. Given the shortfall in revenue targets and likely increase in subsidy pay-outs, borrowings could rise even more. Poor participation in government bond auctions recently also poses challenges to fiscal deficit management. Increase in government borrowings can drain out systemic liquidity which can impact private borrowers, since both government and private players compete for the same liquidity pool. Rise in government's borrowings could put pressure on yields and also affect private investments by making them costlier. Also, additional borrowings could create additional liquidity problems, which are already evident from the deficit in the daily liquidity adjustment facility crossing the RBI-mandated threshold of 1% of Net Demand and Time Liabilities. The widening deficit, partly also due to intervention by the Reserve Bank of India to check INR-dollar rate volatility, has led to daily repo borrowings of around ₹1,10,000 crore. With advance tax payments scheduled in December, there is a likelihood of liquidity further tightening. Given the sharply slowing economic growth, there is speculation that RBI may cut the cash reserve ratio — though this has been denied by RBI Deputy Governor Subir Gokarn — to help banks maintain credit growth and to improve participation in government's borrowing programme, once inflation eases. China's recent cut in reserve requirements, despite elevated inflation, points to widespread problems to growth emerging all across the globe. If inflation subsides, RBI might have more room to take steps to support growth.

Fiscal Deficit Trends

Fiscal Deficit April-October, ₹ Crore



Monthly Fiscal Deficit, ₹ Crore



Fiscal Deficit Details

₹ Crore		April-Oct FY12	April-Oct FY11	% YoY	BE FY12	% of BE FY12	% of BE-FY11
1	Revenue Receipts (2+3)	359712	447625	-19.6	789892	45.5	65.6
2	Tax Revenue (Net)	291501	271693	7.3	664457	43.9	50.9
3	Non-Tax Revenue	68211	289698	-76.5	125435	54.4	118.8
4	Capital Receipts	320662	261207	22.8	412817	77.7	66.9
5	Non Debt Receipts	13653	7474	82.7	55020	24.8	21.0
6	TOTAL RECEIPTS(1+5)	373365	455099	-18.0	1257729	29.7	41.1
7	Non-Plan Expenditure	479181	424893	12.8	816182	58.7	57.8
8	Plan Expenditure(8+9)	201193	192542	4.5	441547	45.6	51.6
9	TOTAL EXPENDITURE (6+7)	680374	617435	10.2	1257729	54.1	55.7
	Balance, deficit						
	Fiscal Deficit (11-5)	307009	162336	89.1	412817	74.4	42.6
	Revenue Deficit	243012	94831	156.3	307270	79.1	34.3
	Primary Deficit	162488	46972	245.9	144831	112.2	35.4

Public Debt For Second Quarter FY12

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 stood at ₹32,13,673 crore at the end of the second quarter (July-September) of the current financial year, up 2.7% from the first quarter.

- ◆ **Composition Of Public Debt:** In July-September, internal public debt as a percentage of total public debt increased to 90.28% from 90.02% in the first quarter of FY12. Internal public debt includes all treasury bills and dated securities of the central government. External debt of the central government came down to 9.72% of total in the second quarter from 9.98% in the first quarter. External debt of the central government comprises multilateral and bilateral loans, International Monetary Fund borrowings and rupee debt. Private borrowings such as external commercial borrowings do not form a part of external public debt.
- ◆ **Public Debt As Percentage Of GDP:** India's total public debt as a percentage of gross domestic debt stood at 35.3% in the second quarter compared with 35.1% in the first quarter. Outstanding internal debt of government in July-September stood at ₹29,01,393 crore, or 32.3% of GDP compared with 31.4% at the end of the first quarter.
- ◆ **Maturity Profile:** Weighted average maturity of outstanding central government debt increased to 9.68 years in July-September from 9.58 years in April-June. Weighted average maturity has remained below 10 years in the past two years. Maturity profile of issuances this year also followed the similar trend. Average maturity of issuances in the second quarter has been higher at 12.27 years, compared with 12.10 years in the first quarter. Rise in average yields due to rising interest rate environment has been more prominent for issuances during the year.
- ◆ **Weighted Average Yield:** Weighted average yield of issuances in the second quarter has been 8.43% compared with 8.36% in the first quarter. Rising interest rates resulted in increase average yields of public debt. Weighted average yield of outstanding central government debt remained unchanged at 7.83% in July-September.
- ◆ **Ownership Pattern Of Government Dated Securities:** Ownership pattern of government securities is available with a lag of three months. Latest data available are of end-June. Banks are largest investors in government securities. Banks, primary dealers owned by banks and cooperative banks together held 50.9% of total outstanding government dated securities as on June 30, up from 50.4% in March. Insurance companies are long-term investors in government securities and their holdings increased to 22.5% in April-June from 22.2% in January-March. Provident fund holdings in second quarter fell to 7% from 7.1% on a sequential basis. RBI's holding in government debt rose to 12.9% in July-September from 12.8% in the first quarter.

₹ Crore	End-Sep	End-June	End-Sep%	End-June %
Public Debt	3213673	31,28,973	100	100
1. Internal Debt	2901393	28,16,693	90.3	90.0
<i>Marketable</i>	2560145	2475445	79.7	79.1
<i>a) T Bills</i>	221272	220710	6.9	7.05
<i>b) Dated Securities</i>	2338873	2254735	72.8	72.1
<i>Non Marketable</i>	3,41,248*	341248	10.6	10.9
2. External Debt	3,12,280*	312280	9.7	10.0
<i>Multilateral</i>	1,93,968*	193968	6.0	6.2
<i>Bilateral</i>	89,133*	89,133	2.8	2.9
<i>IMF</i>	28,473*	28473	0.9	0.9
<i>Rupee Debt</i>	705*	705	0.0	0.0

* Figures not available for September and have been carried over from June

Public Debt Trends

Ownership Pattern Of Dated Government Securities, In %

%	Mar-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Commercial Banks	39.18	38.03	38.35	38.75	38.63	38.42	37.59
Bank PDs	8.2	9.22	9.92	9.73	8.77	8.61	9.96
Non Bank PDs	0.18	0.14	0.23	0.29	0.26	0.11	0.1
Insurance Companies	22.07	22.16	22.05	22.18	22.11	22.22	22.47
Mutual Funds	0.78	0.4	0.38	0.73	0.88	0.18	0.41
Cooperative Banks	3.24	3.35	3.4	3.5	3.38	3.41	3.31
Financial Institutions	0.28	0.35	0.34	0.35	0.33	0.35	0.34
Corporates	3.27	2.99	2.82	2.57	2.33	1.94	1.86
FII's	0.59	0.59	0.62	0.55	0.61	0.97	0.89
Provident Funds	6.51	6.76	6.56	6.79	6.89	7.06	7.01
RBI	10.2	11.76	9.67	9.2	10.67	12.84	12.9
Others	5.5	4.24	5.65	5.36	5.14	3.89	3.15

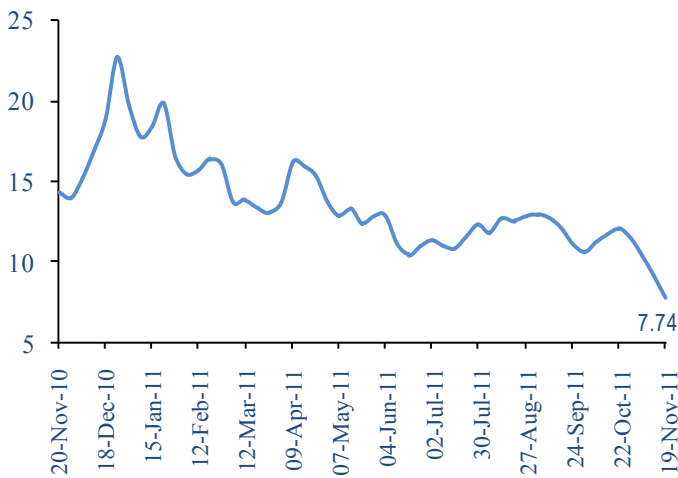
Maturity And Yields Trends Of Dated Government Securities

	Issues During The Year	Issues During The Year	Outstanding Stock	Outstanding Stock
	Weighted average Yield %	Weighted Average Maturity (Years)	Weighted Average Yield %	Weighted Average Maturity (Years)
FY04	5.71	14.94	9.3	9.78
FY05	6.11	14.13	8.79	9.63
FY06	7.34	16.9	8.75	9.92
FY07	7.89	14.72	8.55	9.97
FY08	8.12	14.9	8.5	10.59
FY09	7.69	13.81	8.23	10.45
FY10	7.23	11.16	7.89	9.67
FY11	7.92	11.62	7.81	9.64
FY12 Q1	8.36	12.1	7.83	9.58
FY12Q2	8.43	12.18	7.83	9.68

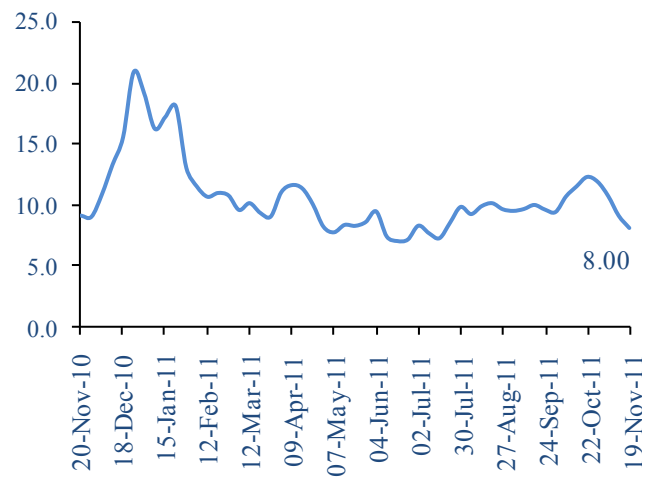
WPI Primary Articles Inflation

Wholesale Price Index inflation for primary articles for the week ended November 19 stood at 7.74% on a year-on-year basis compared with 9.08% in the previous week. Primary articles inflation eased because of fall in prices of food articles during the week. Primary articles index declined 0.74% on a week-on-week basis. Food inflation eased to 8% from a year ago, compared with 9.01% in the previous week.

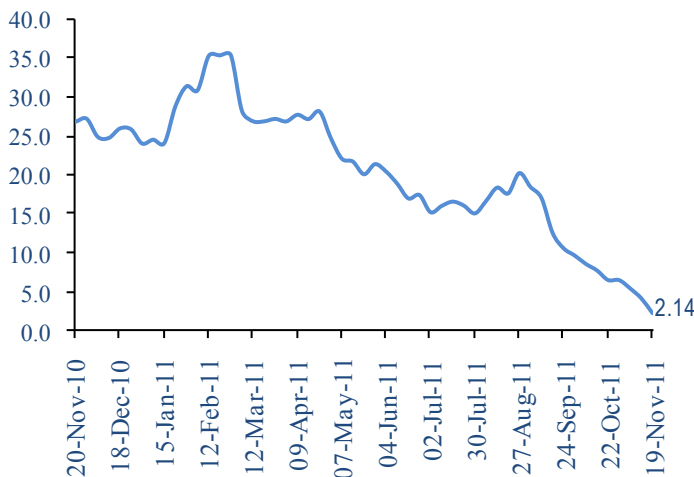
Primary Articles Inflation, % YoY



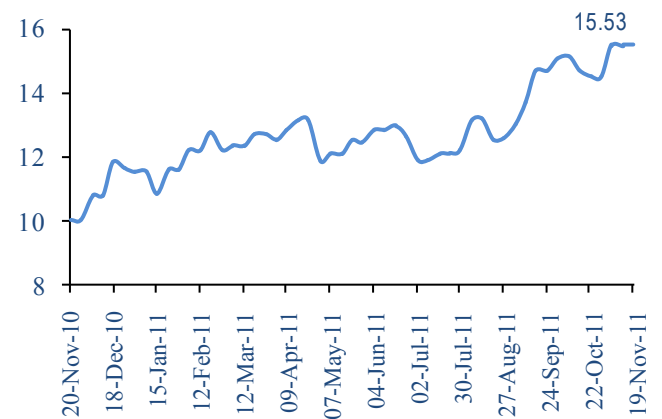
Food Inflation, % YoY



Non-Food Inflation, % YoY



Fuel Inflation, % YoY



Weekly Trends In Primary Articles Inflation

- ◆ Food inflation in the week ended November 19 stood at 8% on a year-on-year basis compared with 9.01% in the previous week. Food inflation slowed during the week due to food prices easing 1.41% from the week before. Food prices fell due to lower prices of ragi, inland-fish, poultry chicken and fruits and vegetables.
- ◆ Non-food articles inflation stood at 2.14% on a year-on-year basis, compared with 4.05% a week ago, due to a high base despite rise in prices of non-food articles by 1.14% over the week. Non-food articles index rose due to higher prices of oilseeds.
- ◆ Minerals inflation eased to 16.26% from 18.51% in previous week, due to a high base despite rise in index by 0.19%.

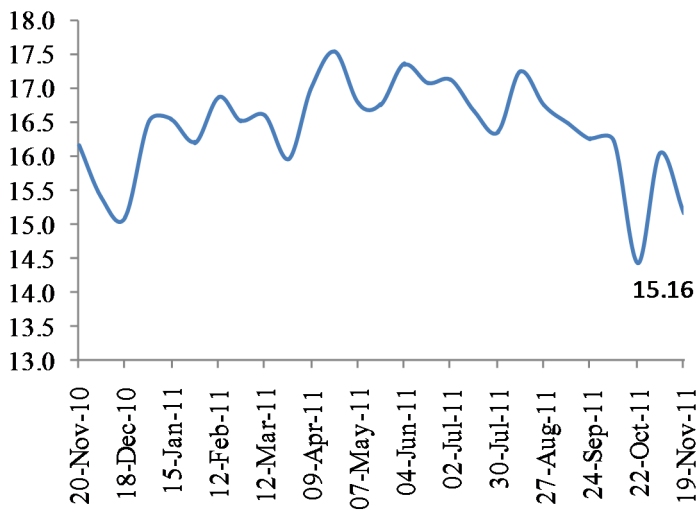
WPI Sub groups	Index	% YoY	% YoY	% WoW	% WoW
	19-Nov-11	19-Nov-11	12-Nov-11	19-Nov-11	12-Nov-11
Primary articles	200.4	7.74	9.08	-0.74	-0.54
Food Articles	195.7	8.00	9.01	-1.41	-0.65
Non Food Articles	176.7	2.14	4.05	1.14	-0.68
Minerals	311.1	16.26	18.51	0.19	0.42
Fuel	171.8	15.53	15.49	0.17	0.00

- ◆ Fuel inflation rose to 15.53% on a year-on-year basis in the week ended November 19, higher from 15.49% a week ago due to rise in index by 0.17%.

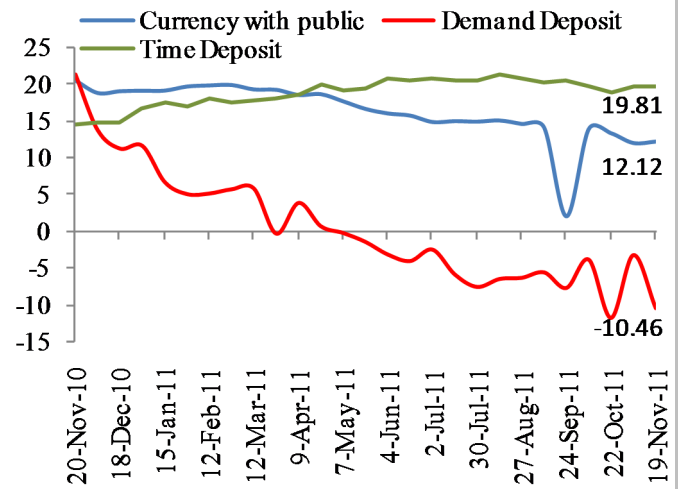
Money Supply, Credit Growth Eases

- ◆ Money supply and credit growth slowed in the fortnight ended November 19. M3, or broad money, supply growth in the fortnight ended November 19 eased to 15.16% from 16.06% a fortnight before. Money supply growth fell below the RBI's target of 15.50% for FY12 due to severe monetary tightening. Credit growth in fortnight ended November 19 eased to 17.67% on a year-on-year basis from 18.41% in the previous fortnight.
- ◆ M3 growth in fortnight ended November 19 declined as growth of demand deposits eased sharply during the fortnight.
- ◆ Growth of currency with public in the fortnight ended November 19 increased to 12.12% on a year-on-year basis from 11.92% in the previous fortnight. Demand deposits shrank 10.46%, much less compared with contraction of 3.23% on year-on-year basis in the previous fortnight. Time deposit growth rose to 19.81% on a year-on-year basis from 19.71%.
- ◆ Credit growth during the fortnight ended November 19 stood at 17.67% on a year-on-year basis, compared with 18.41% in the previous fortnight. Credit growth slowed due to decline in non-food credit growth during the fortnight to 17.37% on a year-on-year basis from 18.02% in the previous fortnight and food credit to 35.70% from 44.12% before.

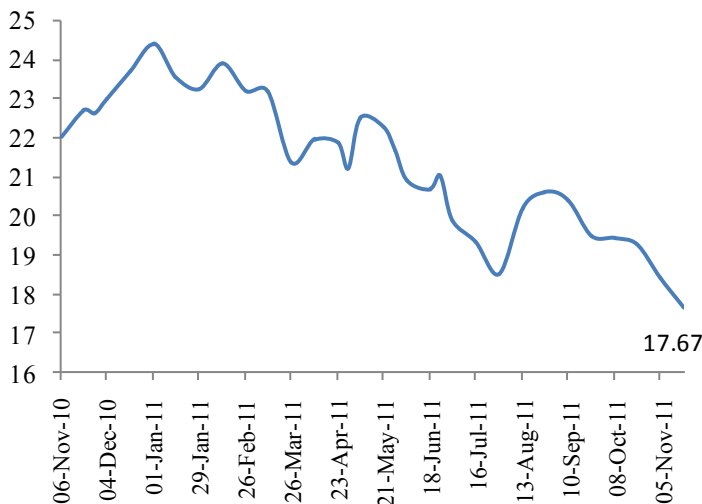
Money Supply, % YoY



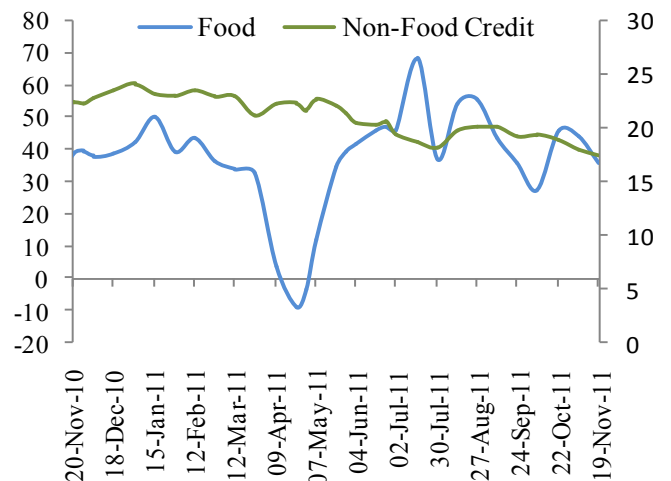
Currency And Time Deposits Growth, % YoY



Credit Growth, % YoY



Food And Non-Food Credit Growth, % YoY



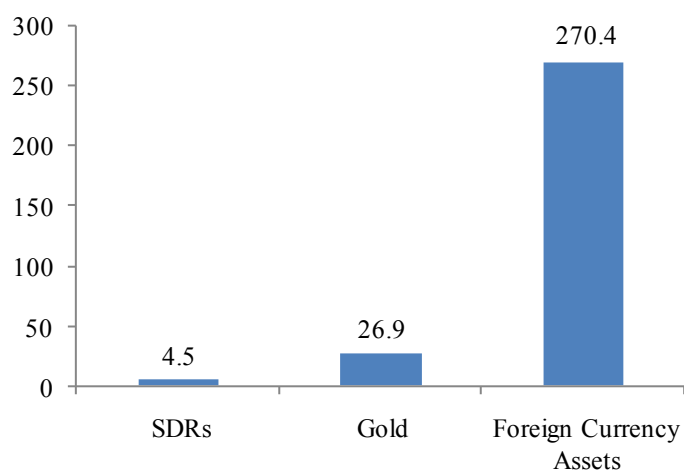
Forex Reserves Fall \$4.2 Billion

Foreign exchange reserves fell by \$4.2 billion to \$304.4 billion in the week ended November 26, largely due to a fall in foreign currency assets. The fall resulted in the lowest forex reserves levels since April. 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.

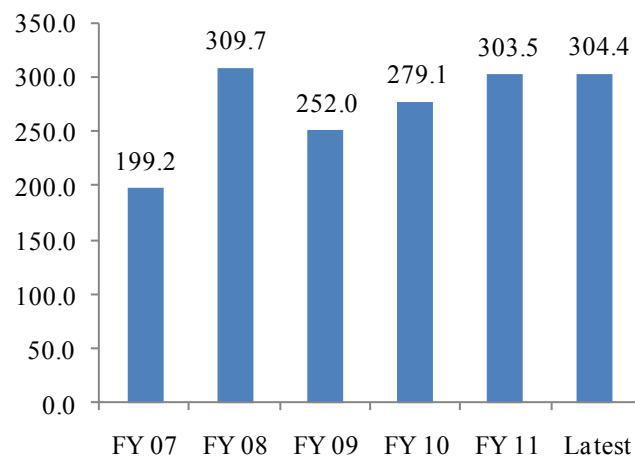
- ◆ In the week ended November 26, foreign currency assets fell by \$4.2 billion to \$270.4 billion. RBI's intervention in forex markets and revaluation changes could be the possible reasons for the decline in foreign currency assets.
- ◆ Position in gold, reserve position with International Monetary Fund, special drawing rights (SDRs) remained largely unchanged during the week.

\$ bn	Forex Reserves	SDRs	Reserve Position In IMF	Gold	Foreign Currency Assets
05-Nov-11	314.7	4.6	2.6	26.9	280.6
12-Nov-11	314.3	4.5	2.6	26.9	280.3
19-Nov-11	308.6	4.5	2.6	26.9	274.6
26-Nov-11	304.4	4.5	2.6	26.9	270.4

Forex Reserves Components (in \$ billion)



Forex Reserves Annual Trends (in \$ billion)



Global Central Banks Ease Dollar Lending, China Cuts CRR

Last week, central banks of the US, Canada, the euro-zone, Japan, Switzerland and China took coordinated steps to stimulate growth. The action boosted market sentiment and led to a surge in equity markets around the globe. The central banks of the US, Canada, the euro-zone, Japan and Switzerland agreed to bring down costs of dollar funding via swaps agreement. The move aims at improving access to liquidity. The Chinese central bank cut reserve ratio requirement for its banks to boost growth.

- ◆ **China Cuts Reserve Ratio By 50 bps:** On November 30, China cut reserve ratio requirements by 50 basis points to 21% for the first time since 2008 as the economy is clearly slowing down. Chinese Premier Wen Jiabao reiterated his government would “fine-tune” economic policies to help growth during this period of global turmoil. China has changed the course of its monetary policy to tackle economic slowdown. Earlier this year, China was tightening reserve ratios to rein in inflation.
 - ◆ **Central Banks’ Action:** Six central banks, led by the US Federal Reserve, acted in a coordinated manner on November 30 and agreed to reduce emergency borrowing costs for dollars. The premium banks pay to borrow dollar overnight is expected to fall 50 bps because of this coordinated move, the Fed said. This measure will be accomplished through currency swap agreements.
 - ◆ **US Jobless Rate Falls:** Unemployment rate in the US in November fell to 8.6% — the lowest level since March 2009. The drop in the rate could, however, be due to Christmas festivities when especially retailers add lot of temporary staff. US jobless rate was hovering around 9% before November.
 - ◆ **ECB and IMF Plan:** A proposed plan to channel European Central Bank loan of around 200 billion euros through International Monetary Fund is under way. A meeting of European finance ministers and ECB President Mario Draghi on November 29 agreed to a plan that may help Spain and Italy overcome the debt crisis. ECB is also expected to reduce benchmark interest rates to ease lending further.
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