



Decide with Confidence

### View from the top

#### Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	10.0%-10.3% Apr-10	9.90% Mar-10
Inflation C.P.I (I.W)	13.5%-14.5% Mar-10	14.86% Feb-10
INR/US\$	44.60-44.80 Apr-10	45.50 Mar-10
I.I.P Growth	11.5%-12.5% Mar-10	15.07% Feb-10
15-91 day's T-Bills	4.0%-4.2% Apr-10	4.36% Mar-10
10 year G-Sec yield	7.7%-7.9% Apr-10	7.22% Mar-10
Bank Credit*	16.3%-16.7% Apr-10	16.7% Mar-10

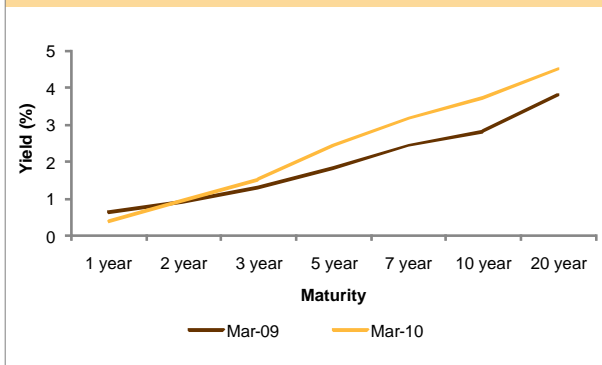
All figures are monthly averages

\*Refers to End period

#### Dun & Bradstreet's GDP Forecasts

	Forecast (Q4 FY10)	Latest Period (Q3 FY10)
GDP	7.3	6.0
Agriculture	-1.5	-2.8
Industry	10.0	11.6
Services	8.4	6.3

#### Yield curve - US treasury securities



Source: The US Federal Reserve

The strong performance displayed by various macroeconomic indicators in the recent period generates buoyant expectations about growth prospects of the Indian economy. The broad-based recovery in the manufacturing sector along with the robust growth in the production of capital goods & consumer durables sectors since last few months are significant developments as they would ensure sustainability of the current growth momentum. Nonetheless, the current high level of IIP growth is partially driven by the low statistical base, which will begin to wane from Jul-10.

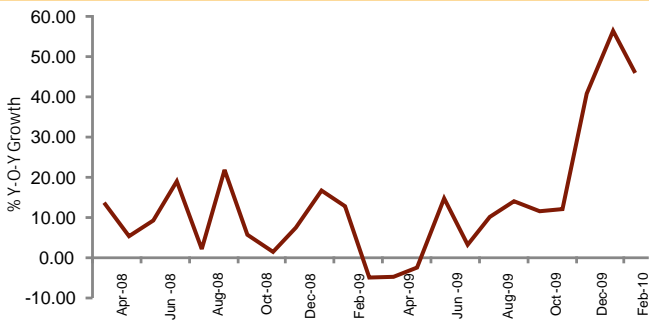
Even as the economy is firmly on the revival mode, rising inflationary expectations in the economy could derail the recovery process. The recent WPI data reveals that there is second round impact of soaring primary food articles inflation on the prices of manufactured products. Adding to this, fuel group inflation has inched up significantly due to rising global oil prices and low statistical base. Given the rising inflationary pressures on one hand and broad-based recovery in the economic activity on the other, the RBI is expected to tighten its monetary stance further. It has already in a surprise move raised the repo & reverse repo rates by 25 bps during Mar-10.

Given that the RBI had increased key policy rates within a short span of time and the impact of this policy rate hike would come with a lag, D&B expects that the RBI might pursue a wait and watch policy in the forthcoming annual policy review scheduled on 20-April-2010. Nonetheless, in view of the rapidly building inflationary pressures, the RBI would take strong measures to rein in inflationary expectations in the near term (around May-June). D&B expects that there might be a significant hike in the CRR by the RBI in the near term to drain out the excess liquidity from the system.

In the recent period, the rupee has witnessed sharp appreciation vis-à-vis US Dollar. Given that the headline inflation has surged significantly in the last few months, inflation control has assumed precedence over exchange rate management for the RBI. However, if there is further appreciation in the rupee value in the near future, the RBI might need to intervene in the forex market through banks which would result in further expansion in money supply and will add to inflationary pressures in the economy.

# Real Economy

## Investment demand gathering pace



Note: Data pertains to capital goods sector index in IIP  
Source: CSO

- The IIP grew by 15.07% (y-o-y) in Feb-10 as against 0.22% in Feb-09; base year effect in play.
- Intermediate goods sector clocked substantial growth of 15.6% during Feb-10, thereby contributing around 30% to the overall IIP growth.
- The consumer non-durables sector registered a growth of 2.28% during Feb-10 as compared to a decline of 3.38% during Feb-09.
- Within manufacturing sector, 'metal products & parts', 'machinery & equipments other than transport equipments' and 'transport equipments & parts' sectors registered an impressive growth, thereby together contributing around 50% to the overall IIP growth during Feb-10.

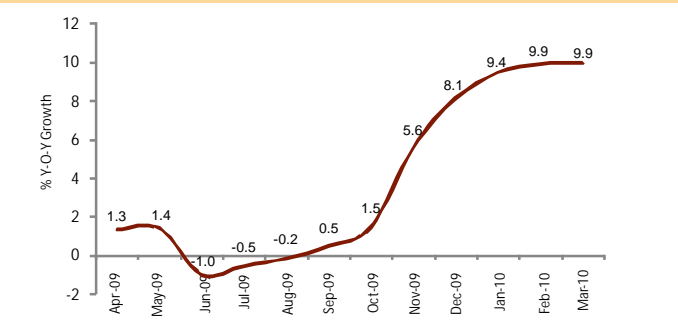
	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	11.5%-12.5% Mar-10	15.07% Feb-10	16.68% Jan-10

In line with D&B's expectations, the IIP clocked a growth of 15.07% (y-o-y) during Feb-10 backed by double digit growth in manufacturing as well as mining & quarrying sector. The double digit growth of IIP in the last five months points to rapidly strengthening industrial activity supported by both consumption as well as investment demand. The recent revival in industrial activity has been broad based with almost 16 out of 17 industrial groups recording positive growth (on an average) during the five months ending Feb-10.

Given that the capital goods sector in general, tends to behave as a leading indicator of overall IIP growth, the robust growth in capital goods sector during the last few months is an a significant development. This indicates that growth in IIP is likely to continue further, and remain sustained. Moreover, the revival in intermediate and basic goods sectors, which have significant backward and forward linkages, augurs well for future industrial activity. Though IIP is expected to remain strong, it is likely to recede from the current high levels as the low base effect, which has been one of the reasons for the recent high growth, will begin to wane from July 2010.

## Price Scenario

### Prices surge across the board



Note: Data pertains to Wholesale Price Index (WPI) for all commodities  
Source: Ministry of Commerce

- The WPI inflation stood at 9.90% (y-o-y) for the month of Mar-10 due to low statistical base and significant rise in prices of fuel group. The headline inflation during FY10 averaged at 3.81% as compared to 8.46% in FY09.
- Inflation in primary articles, though continues to remain in double digits, witnessed some moderation to 14.10% during Mar-10 as against 15.54% during the previous month.
- Inflation in primary food articles also moderated to 16.65% during Mar-10 from 17.79% during Feb-10 owing to some softening in prices of food grains and fruits & vegetables.
- Fuel group inflation surged to 12.71% (y-o-y) during Mar-10 from 10.19% during Feb-10 as global oil prices continue to surge.
- Inflation in manufactured products stood at 7.13% during Mar-10 as against 7.42% during Feb-10

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		Latest Period	Previous Period
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Inflation C.P.I (I.W)	13.5%-14.5% Mar-10	14.86% Feb-10	16.22% Jan-10

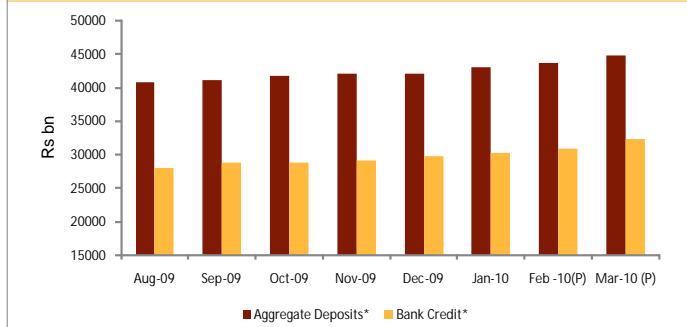
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The second round impact of elevated primary food articles inflation on the prices of manufactured products is increasingly becoming evident since the last two months. To add to this, fuel group inflation has inched up significantly due to rising global oil prices and low statistical base. In fact, low statistical base is expected to play a crucial role in fuel group inflation till Nov-10. Furthermore, given persistent rise in global oil prices, if a further hike in administered prices of petrol and diesel is done by the government going forward, this will further fan inflationary pressures in the economy in the medium term.

Although an expected better Rabi crop output will help in softening food article inflation to some extent, improving consumption demand, surging international prices (particularly of crude oil & metals), rising input costs that might translate into hike in final product prices and low statistical base are expected to keep the headline inflation much above economy's tolerance level in H1 FY11. Nonetheless, a good harvest in the event of normal monsoon as well as the lagged impact of expected tightening of monetary policy could help in moderating the headline inflation in H2 FY11. D&B expects WPI inflation to average at 7.0% for FY11 as compared to 3.81% during FY10.

# Money & Finance

## Bank credit and aggregate deposits witness an upward trend



\*Refers to end period, P: Provisional  
Source: RBI

- The RBI decided to raise the repo rate and the reverse repo rate each by 25 basis points to 5.0% and to 3.5% respectively with immediate effect on 19-Mar-10.
- The government in consultation with the RBI has planned to borrow Rs 2,870 bn through issuance of government securities for the first half of FY11 covering the period from 01-Apr-10 to 30-Sep-10.
- Growth in bank credit stood at 16.7% outstanding as on 26-Mar-10 as against 15.8% outstanding as on 26-Feb-10.
- The yield on the 10-year benchmark gilt touched an intraday high of 8.03% (as on 29-Mar-10) due to earlier than expected increase in policy rates by the RBI. The 15-91 day T-Bill yields averaged at 4.09% for the week ended 2-Apr-10.

	Forecast	Actuals	
		Latest Period	Previous Period
15-91 day's T-Bills	4.0%-4.2% Apr-10	4.36% Mar-10	3.60% Feb-10
10 year G-Sec yield	7.7%-7.9% Apr-10	7.22% Mar-10	7.65% Feb-10
Bank Credit*	16.3%-16.7% Apr-10	16.7% Mar-10	15.8% Feb-10

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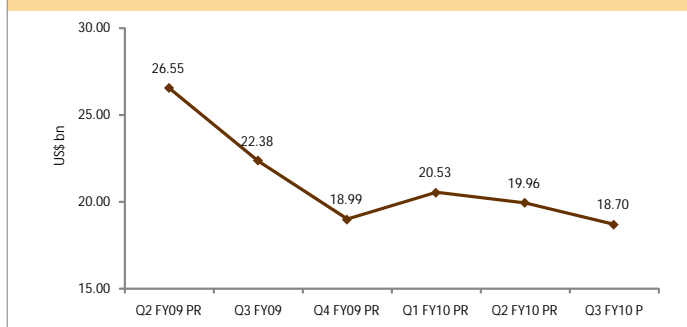
\*Refers to End period

Credit demand has gathered pace during the recent period on the back of improving investment and consumption demand in the economy as indicated by the strengthening industrial activity. Non-food credit growth has picked up momentum, breaching the RBI's expectations of 16% by end-March 10. However, the need to meet credit targets by the banks towards the end of the year could also be one of the reasons for the step up in credit disbursal during the last week of the fourth quarter of FY10. Taking cognizance of the broad based economic recovery on one hand and spiraling inflation, the RBI had raised the repo and the reverse repo rates each by 25 basis points during March 10, well ahead of its scheduled policy review during April 10.

D&B expects that the RBI would maintain a status quo in terms of policy interest rate in the forthcoming annual policy review scheduled on 20-April-2010, as the impact of the recent hike in policy rate would come with a lag and calls for a wait and watch policy. However, given the rapidly building inflationary pressures and the pace in economic growth achieved, D&B does believe that the RBI would take strong measures to rein in inflationary pressures in the near term (i.e. May-June).

## External Sector

### Trend in net invisibles



P: Provisional; Source: RBI

- India's exports increased by 34.8% (y-o-y) to US\$ 16.1 bn in Feb 10, while imports increased by 66.4% (y-o-y) to US\$ 25.1 bn. On the back of higher exports, the trade deficit for Feb 09 stood at a single digit of US\$8.9 bn.
- The current account deficit in India's balance of payments increased to US\$ 12.0 bn during the third quarter ended Dec 09 as against a deficit of US\$ 11.7 bn in the year ago period.
- Net capital flows at US\$ 43.2 bn in Apr-Dec 09 was much higher as compared with US\$ 5.8 bn in Apr-Dec 08 mainly due to larger inflows under FDI, portfolio investments and NRI deposits.
- The net International Investment Position (IIP) resulting in net claims of non-residents to India increased by US\$ 21.2 bn to US\$ 117.1 bn as at end-Dec 09 from US\$ 96.0 bn as at end-Sep 09.

	Forecast	Actuals	
		Latest Period	Previous Period
INR/US\$	44.60-44.80 Apr-10	45.50 Mar-10	46.33 Feb-10

All figures are monthly averages

During Feb 10, exports and imports registered a robust growth, although the high growth rate could be in part attributed to the low base of the year ago period. Nonetheless, the recent appreciation in rupee has begun to affect the profitability of the exporters. The current trend in rupee appreciation owing to weakness in dollar and FII inflows is also affecting the competitiveness of exporters, especially the small exporters who find it difficult to manage the currency risks due to heightened volatility.

On the BoP front, net invisibles declined during Q3 FY10 on account of decline in business, communication and financial services and investment income receipts. Thus, despite a lower trade deficit during Q3 FY10, current account witnessed a higher deficit as compared to the year ago period. Though net invisibles are expected to improve given that the world economy is gradually stabilising, a commensurate increase in trade deficit, on the back of high imports, is likely to keep the current account deficit at higher levels going ahead. Besides, lower capital account surplus during Q3 FY10 as compared to Q2 on the back of lower foreign fund inflows had led to a decline in the balance of payment surplus during Q3 FY10. Nonetheless, capital account surplus is likely to improve during the first quarter of FY11 as confidence regarding the growth prospects of the Indian economy gathers further strength.