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Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	9.0%-9.2% May-10	9.59% Apr-10
Inflation C.P.I (I.W)	14.5%-14.7% Apr-10	14.86% Mar-10
INR/US\$	45.00-45.20 May-10	44.50 Apr-10
I.I.P Growth	13.5%-14.5% Apr-10	13.53% Mar-10
15-91 day's T-Bills	4.1%-4.3% May-10	3.79% Apr-10
10 year G-Sec yield	7.5%-7.7% May-10	7.05% Apr-10
Bank Credit*	17.8%-18.0% May-10	17.6% Apr-10

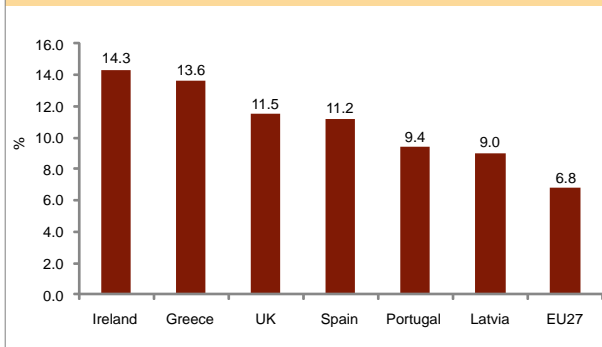
All figures are monthly averages

*Refers to End period

Dun & Bradstreet's GDP Forecasts

	Forecast (Q4 FY10)	Latest Period (Q3 FY10)
GDP	7.5	6.0
Agriculture	-1.6	-2.8
Industry	12.0	11.6
Services	7.9	6.3

Government deficit as percentage of GDP in Euro area (2009)



Source: Eurostat

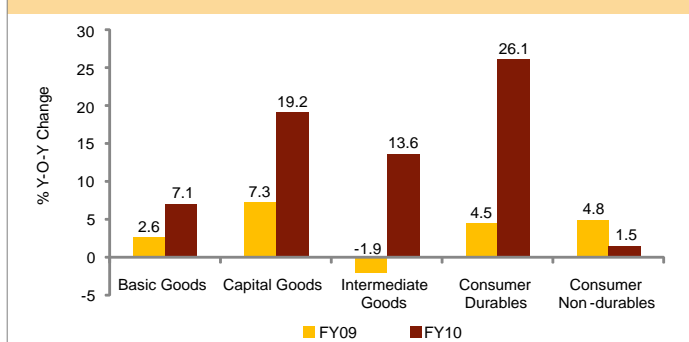
Even though the events surrounding the debt crisis in certain European countries have had no direct impact on the Indian economy, the Indian financial markets witnessed significant volatility following the movements in the global financial sector and concerns on the global recovery prospects. Higher volatility in the rupee market is specially a cause for concern as it could impact exporters, who are beginning to see some signs of revival, by making exchange rate risk management a challenge.

The initial impact of ongoing crisis on the Indian economy is likely to emanate from higher funding costs. Concerns around creditworthiness of some European countries, if protracted, might hurt investor sentiment and could result in increased risk aversion. The resultant increase in cost of funds might add to owes of the domestic industry which is likely to come under pressure due to expected rise in domestic interest rates. Moreover, the high government borrowing plans in a scenario of rising private credit demand might have the potential to crowd-out private investment. Given that easy availability of funds is a pre-requisite for sustaining the current growth momentum of investment activity in particular and economy in general, any funding pressures could delay the recovery process. Given the extent of globalisation and financial liberalisation, the ongoing debt crisis in Europe if prolonged would significantly augment the downside risks to India's growth prospects not only through the financial sector but also by impacting demand for India's exports.

On the domestic front, rising inflation remains a major concern as the current surge in inflation is widespread and no longer driven by high food price. In fact, the contribution of non-food items to overall WPI inflation has rose sharply. Moreover, the rise in raw material prices might fuel inflation further by pushing up costs. To add to this, demand side pressures to inflation are also likely to surface, as domestic demand gathers strength. Going forward, even liquidity pressures might increase in case foreign capital inflows continue to augment. All these factors might call for further tightening of the monetary policy in the near future. D&B expects a further increase of 50 bps in CRR and 25 bps in Repo and Reverse repo rates by the first quarter policy review in Jul-10. The performance of monsoon and the future developments regarding how the debt crisis in the European countries evolves would have a significant bearing on monetary policy formation in coming months.

Real Economy

IIP growth as per use-base classification



Source: CSO

- The IIP grew by 13.5% (y-o-y) in Mar-10 as against 0.3% in Mar-09. Growth in IIP averaged at 10.4% during Apr-Mar 10 as against 2.8% during Apr-Mar 09.
- The manufacturing sector registered a double digit growth of 10.9% during Apr-Mar 10 as compared with 2.8% during Apr-Mar 09 backed by substantial improvement in the industrial activity during H2 FY10.
- The capital goods sector grew by 27.35% during Mar-10 as against a decline of 6.35% during Mar-09; base year effect in play.
- The consumer durables sector continues to register a strong growth of 32.02% during Mar-10, indicating some recovery in the domestic demand conditions.

	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	13.5%-14.5% Apr-10	13.53% Mar-10	15.07% Feb-10

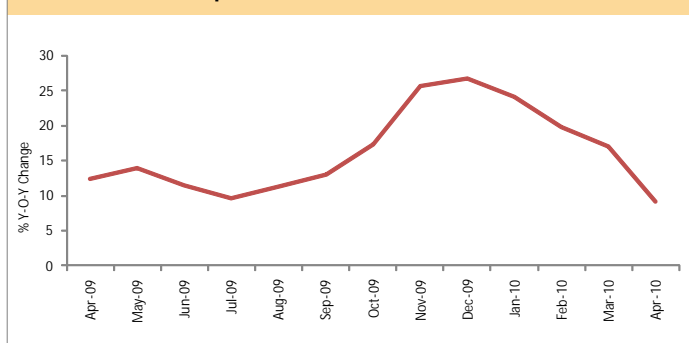
The double digit growth in IIP, which has now been sustained over the last six months, points toward a strong revival in the domestic industrial activity. Further, the most promising aspect of the IIP figures is that both capital goods as well as consumer durables sectors have witnessed strong growth during this period.

D&B expects that the growth in industrial production would continue to remain robust and broad based during FY11, thereby supporting the overall economic activity. The strong investment demand especially during the first half of the current fiscal is expected to provide impetus to the growth in the capital goods sector. Moreover, improving consumption demand and increased personal disposable income is likely to support growth in the consumer durables sector going forward.

Nonetheless, D&B believes that though growth in IIP is expected to remain robust, it is likely to recede from the current high levels as the low base effect, which has partly played a role in the recent strong growth, will begin to wane in the near future. Further, the rising interest rates that might have some moderating effect on the private investment demand in H2 FY11 coupled with the high input costs pose some downside risks to the IIP growth. D&B expects the IIP to register a growth of 10.5% during H1 FY11.

Price Scenario

Manufactured food products inflation continues to fall



Source: Ministry of Commerce

- The WPI inflation witnessed a slight moderation to 9.59% (y-o-y) for the month of Apr-10 as compared to 9.90% during Mar-10 due to statistical base.
- Inflation in primary articles also moderated to 13.88% during Apr-10 as compared to 14.10% in the previous month as inflation in the non-food articles grew by 10.53% as compared to 12.77% during Mar-10.
- Primary food articles inflation continues to remain elevated at 16.87%.
- Inflation in the manufactured products has softened to 6.70% during Apr-10 as manufactured food products rose by only 9.21% in comparison to 16.98% during Mar-10.
- Within manufactured products, inflation in the basic metals alloys & metal products and the textiles have registered an increase.

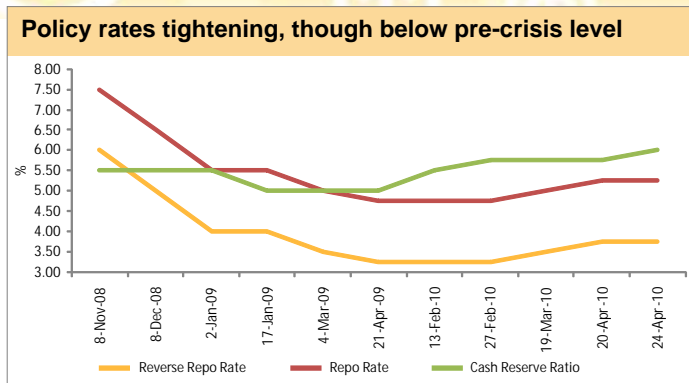
	Forecast	Actuals	
		Latest Period	Previous Period
Inflation W.P.I	9.0%-9.2% May-10	9.59% Apr-10	9.90% Mar-10
Inflation C.P.I (I.W)	14.5%-14.7% Apr-10	14.86% Mar-10	14.86% Feb-10

All figures are monthly averages

The WPI inflation witnessed a slight moderation during the Month of Apr-10 as compared to Mar-10. Moderation in the prices of non-food articles and manufactured food products such as grain mill products, sugar, khandsari & gur, edible oils and oil cakes has led to some fall in the headline inflation. However, this fall can be largely attributed to the statistical base as the m-o-m index number has shown an increase. Nonetheless, inflation in primary food articles continues to remain high. Moreover, inflation in the basic metals alloys & metal products has recorded a sharp rise to 8.43% during Apr-10 from 1.05% during Mar-10. While a strong demand in the capital goods sector as well as the consumer durables sector have led to an increase in the demand for the metal products, the rise in the prices of metals globally have also led to import led price pressures.

Going ahead the headline inflation is expected to remain elevated during H1 FY11 due to low statistical base, improving consumption demand and rise in input prices. However, expected better rabi crop output and normal monsoon would help in food articles inflation to moderate from the current levels. Given the lag in transmission of monetary policy, hike in the policy rate could help in moderating the headline inflation during H2 FY11.

Money & Finance



Source: RBI

- The RBI decided to raise the Repo and the Reverse repo rates by 25 basis points each to 5.25% and 3.75% respectively in its annual policy review of FY11.
- The RBI also raised the CRR of scheduled banks by 25 basis points to 6.0% from 5.75%, effective from the fortnight beginning 24-Apr-10
- In its annual policy review, RBI mandated banks to switch over to the system of Base Rate from 01-Jul-10 to facilitate better pricing of loans, enhance transparency in lending rates and improve the assessment of monetary policy transmission.
- The RBI also mandated banks not to insist on collateral securities in case of loans up to Rs 10 lakhs as against the present limit of Rs 5 lakhs extended to all units in the MSEs sector.

	Forecast	Actuals	
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15-91 day's T-Bills	4.1%-4.3% May-10	3.79% Apr-10	4.36% Mar-10
10 year G-Sec yield	7.5%-7.7% May-10	7.05% Apr-10	7.22% Mar-10
Bank Credit*	17.8%-18.0% May-10	17.6% Apr-10	16.7% Mar-10

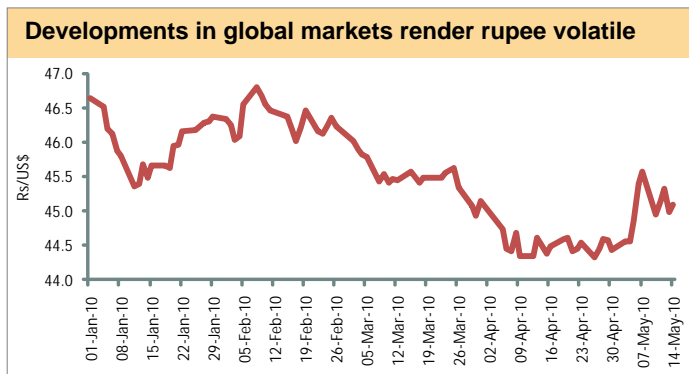
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In the annual monetary policy review for FY11, the RBI had clearly shifted its stance from managing growth to managing inflation. Rapidly rising non-food inflation which indicates the emanating of the demand sides inflationary pressure is a cause for concern. As the domestic recovery gathers pace, demand side pressures will further pose upward pressure to inflation. D&B expects the RBI to increase CRR by 50 bps and Repo and Reverse repo rates by 25 bps each by Q1 FY11 policy review in Jul-10 to rein in inflationary pressures. This expected increase in policy rates might lead to hardening of lending rates impacting the private sector credit demand.

With the pick up in the private credit demand going ahead, managing the Government borrowings smoothly is likely to make the task of the RBI difficult. This is because of the fact that even though the net market borrowings of the central Government during FY11 have been budgeted lower than the previous year, almost the entire net central Government borrowings during FY11 will be funded by fresh issuance of securities. In contrast during FY10 only 63.0% of the total budgeted market borrowings have been funded by fresh issuance of securities. This might create funding pressures leading to crowding out of private investment.

External Sector



Source: RBI

- India's exports stood at US\$ 19.9 bn in the month of Mar-10, taking the cumulative exports for FY10 to US\$ 17.7 bn
- Imports registered a growth of 67.1% (y-o-y, US\$ terms) during Mar-10; however on a cumulative basis it had declined by 8.2% during FY10.
- Oil imports and non-oil imports registered a growth of 85.2% and 61.0% during the month of Mar-10, respectively.
- Trade deficit almost doubled to US\$ 7.8 bn during the month of Mar-10 as compared to US\$ 3.7 bn in Mar-09.
- On a cumulative basis, trade deficit for FY10 stood at US\$ 102.1 bn, lower compared to US\$ 118.4 bn recorded during FY09.

	Forecast	Actuals	
		Latest Period	Previous Period
INR/US\$	45.00-45.20 May-10	44.50 Apr-10	45.50 Mar-10

All figures are monthly averages

The sustained rebound in exports during the last few months reflects improving external demand conditions and bodes well for the domestic industrial production going forward. While D&B expects exports to register an annual average growth of 19.9% during FY11, some downside risks might emerge if debt problems in some of the European countries are prolonged. On import front, however, India is likely to witness substantial increase in imports as the domestic economic growth continues to improve. Elevated global commodity prices, especially oil prices, are likely to push up the value of imports in FY11.

Another major worry arising for the exporters has been the heightened volatility in the foreign exchange market. The volatility in the rupee market has increased to 0.34 during May-10 (so far) as compared to 0.12 in Apr-10. In the short run, the crisis in some European countries might lead to increased foreign fund flows to India, given that India is considered as a relatively safer investment destination. A sustained increase in foreign fund inflows is likely to put upward pressure on the rupee value. D&B expects the rupee to follow an appreciating trend going forward, on account of sustained capital inflows. Nonetheless, a protracted European crisis might dampen overall sentiment and could impact the value of the rupee.