Economy on the eve of the Union Budget

The Indian economic situation is very volatile at this stage with considerable ups and downs in its key economic indicators. These indicators are performing well in some months and disappointing in others. Inflation has been a major challenge creating a road block to India's growth story. The WPI has soared in the higher trajectory of 9-10% in FY2012 and showed signs of persistence over the months. Although, in recent months, the inflation has started to show signs of deceleration in the much expected level of 6-7%, sequential growth pattern indicate that the inflation is going to remain sticky at this level in FY2013.

The investment situation in India is raising concerns. Gross fixed capital formation as a percentage of GDP has been stagnating year after year. The ratio stands at 31.9% in 2011-12 as against 32.5% in 2010-11. On the other hand, the industrial investment proposals/ intentions in India have marked a disappointing growth of -11% during 2011. The continuous tightening of monetary policy by RBI to control inflation over the last couple of years seems to have impacted the investors' confidence. However, foreign investors still seem to be bullish on the Indian economy which is evident from the robust growth of FDI at 31% during 2011. Foreign resources have also exhibited strong confidence in Indian corporates which has driven a steady growth of External Commercial Borrowings at 67% during Apr-Dec2011, thanks to the advantage of interest rate differentials.

The fiscal situation has also been worrisome, worsening throughout FY2012. Notwithstanding improvements of India's fiscal position during FY2011, concerns about fiscal slippage have emerged since the beginning of FY2012 on account of sizeable upside risks to subsidies and downside risks to revenues from moderation in growth. Data released by the government reveals that the fiscal deficit has spiralled completely out of control in recent times. In Apr-Jan FY2012, it reached 105% of the budgeted sum, against just 60% at the same stage last year. The gross fiscal deficit as a percentage to GDP is likely to shoot up significantly as compared to the anticipated level of 4.6% in FY2012. The problems of mounting subsidy burden of the government, coupled with rising international crude oil prices could escalate in the coming years making the fiscal burden uncontrollable, going forward.

The crude oil prices are expected to attain higher price trajectory vis-à-vis the emerging situation in Iran; Iran captures a significant share of around 9% among India's oil importing sources. With crude oil constituting of more than US$100billion of Indian imports (more than 30% of total imports) and global crude prices ruling significantly above US$100 per barrel, the subsidy bill may go up further this year. The decontrol of petrol prices has not done much to reduce the subsidy bill especially as diesel, kerosene and LPG continues to be subsidised. Subsidies as a percentage of GDP has been estimated at 2.73% in FY2012 (The budgeted estimate for total subsidies is Rs143,000 crores for FY2012 and it is estimated to significantly diverge by Rs100,000 crores, cumulating to Rs243,000 crores), which is the highest in the post reforms period.

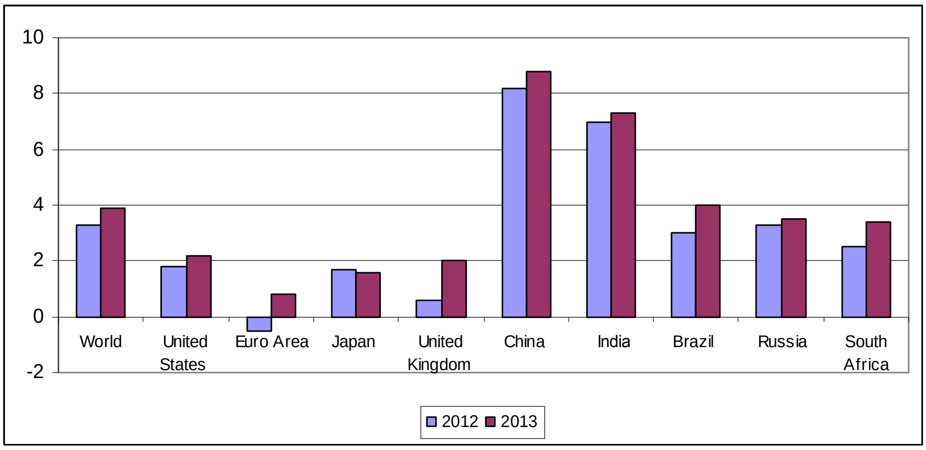
1. Global growth at standstill

The recovery in many advanced economies is at a standstill, with some investors even exploring the implications of a potential breakup of the euro zone, and the real possibility that conditions may be worse than we saw in 2008. The global recovery is threatened by intensifying strains in the euro area and worsening financial conditions across the advanced world. The IMF has revised the global growth projections downward, whereby the world GDP is estimated to expand by 3.25% in 2012. Growth in emerging and developing economies is also expected to slow because of the worsening external environment and a weakening of internal demand.

The euro area economy is now expected to go into a mild recession in 2012 due to the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation announced by euro area governments. With only limited policy room, growth in most other advanced economies is also lower, mainly due to adverse spillovers from the euro area via trade and financial channels that exacerbate the effects of existing weaknesses. For the United States, the growth impact of such spillovers is broadly offset by stronger underlying domestic demand dynamics in 2012.

During 2012 and 13, growth in emerging and developing economies is expected to average 5.75% vis-à-vis an average growth of 6.75% growth registered during 2010 and 11. This reflects the deterioration in the external environment, as well as the slowdown in domestic demand in key emerging economies. Developing Asia is still projected to grow most rapidly at 7.5% on average during 2012 and 13. The adverse spillover effects are expected to be largest for central and eastern Europe, given the region's strong trade and financial linkages with the euro area economies. The impact on other regions is expected to be relatively mild, as macroeconomic policy easing is expected to largely offset the effects of slowing demand from advanced economies and rising global risk aversion. For many emerging and developing economies, the strength of the forecasts also reflects relatively high commodity prices.

Growth forecasts in select world economies



Source: PHD Research Bureau, compiled from IMF

Select macro-economic indicators

	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP(Annual %change)								
World	5.1	5	3.9	-0.7	5.2	3.8	3.3	3.9
United States	2.7	1.9	0	-3.5	3	1.6	1.8	2.2
Euro Area	3	2.9	0.5	-4.3	1.9	1.6	-0.5	0.8
Japan	2	2.4	-1.2	-6.3	4.4	-0.9	1.7	1.6
United Kingdom	2.8	2.7	-0.1	-4.9	2.1	0.9	0.6	2
China	11.6	11.9	9.6	9.2	10.4	9.2	8.2	8.8
India	9.8	9.3	6.4	6.8	9.9	7.4	7	7.3
Brazil	3.8	5.4	5.1	-0.6	7.5	2.9	3	4
Russia	7.4	8.1	5.2	-7.8	4	4.1	3.3	3.5
South Africa	5.6	5.6	3.6	-1.7	2.9	3.1	2.5	3.4
Consumer Price Inflation (%)								
United States	3.3	2.9	2.2	0.9	1.6	3	1.2	0.9
Euro Area	1.9	2.4	2	1	1.6	2.5	1.5	1.6
Japan	-0.9	-0.7	-1	-0.4	-0.7	-0.4	-0.5	0.04
United Kingdom	2.3	2.3	3.6	2.1	3.3	4.5	2.4	2
China	1.5	4.8	5.9	-0.7	3.3	5.5	3.3	3
India	6.2	6.4	8.3	10.9	12	10.6	8.6	7.07
Brazil	4.2	3.6	5.7	4.9	5	6.6	5.2	4.15
Russia	9.7	9	14.1	11.7	6.9	8.9	7.3	6.9
South Africa	4.7	7.1	11.5	7.1	4.3	5.9	5	5
Current Account Balance (%to GDP)								
US	-6	-5.1	-4.7	-2.7	-3.2	-3.1	-2.1	-1.7
Euro Area	0.4	0.2	-0.6	-0.2	0.2	0.1	0.4	0.4
Japan	3.9	4.8	3.2	2.8	3.6	2.5	2.8	2.6
United Kingdom	-3.4	-2.6	-1.6	-1.7	-3.2	-2.7	-2.3	-1.6
China	9.3	10.6	9.6	6	5.2	5.2	5.6	6.2
India	-1	-0.7	-2	-2.8	-2.6	-2.2	-2.2	-1.8
Russia	9.5	5.9	6.2	4.1	4.8	5.5	3.5	2.2
Brazil	1.2	0.1	-1.7	-1.5	-2.3	-2.3	-2.5	-2.9
South Africa	-5.3	-7	-7.1	-4.1	-2.8	-2.8	-3.7	-4.7
Gross Debt to GDP Ratio								
US	61.1	62.3	71.6	85.2	94.4	100	105	108.9
Euro Area	68.6	66.4	70.1	79.7	85.8	88.6	90	90
Japan	191.3	187.7	195	216.3	220	233.1	238.4	242.9
United Kingdom	43.1	43.9	52	68.3	75.5	80.8	84.8	85.94
China	16.2	19.6	16.9	17.6	33.8	26.8	22.1	18.44
India	75.4	72.6	73.1	69.4	64.1	62.4	61.9	60.9
Russia	9	8.5	7.9	10.9	11.7	11.6	12.1	12.6
Brazil	66.7	65.2	63.5	68.1	66.8	64.9	63.9	62.5
South Africa	31.4	27.4	26.8	30.9	33.8	36.1	37.6	38.6
Fiscal Balance (% of GDP)								
US	-2	-2.7	-6.5	-12.8	-10.5	-9.5	-8	-6.4
Euro Area	-1.3	-0.6	-2.1	-6.4	-6.3	-4.3	-3.4	-2.9
Japan	-4	-2.4	-4.2	-10.3	-9.3	-10.1	-10.2	-8.8
United Kingdom	-2.6	-2.7	-4.9	-10.3	-9.9	-8.6	-7.8	-6.5
China	-0.7	-0.9	-0.4	-3.1	-2.3	-2	-2	-1.4
India	-5.3	-4	-7.2	-9.7	-8.9	-8.5	-7.9	-7.6
Russia	8.8	6.7	4.9	-6.3	-3.5	0.5	-1.4	-1.7
Brazil	3.3	3.4	-1.4	-3.1	-2.8	-2.6	-2.4	-2.3
Unemployment (% of total labour)								
US	4.6	4.6	5.8	9.3	9.6	9.1	9	8.5
Euro Area	8.4	7.5	7.6	9.5	10.1	9.9	9.9	9.7
Japan	4.1	3.8	4	5.1	5.1	4.9	4.8	4.6
United Kingdom	5.4	5.4	5.6	7.5	7.9	7.8	7.8	78
China	4.1	4	4.2	4.3	4.1	4	4	4
India				9.4	9.4	9.4		
Russia	7.2	6.1	6.4	8.4	7.5	7.3	7.1	7
Brazil	9.9	9.3	7.9	8.1	6.7	6.7	7.5	7
South Africa	25.5	22.7	21.8	24.3	24.9	24.5	23.8	23.6

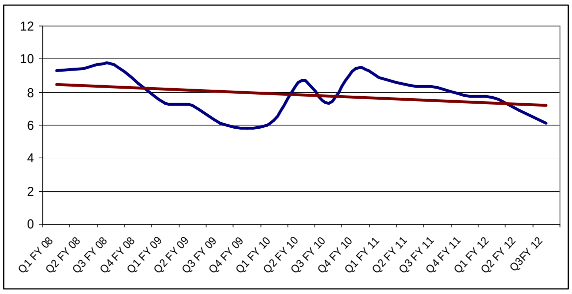
Source: PHD Research Bureau, complied from IMF

2. India's GDP growth decelerates below trend

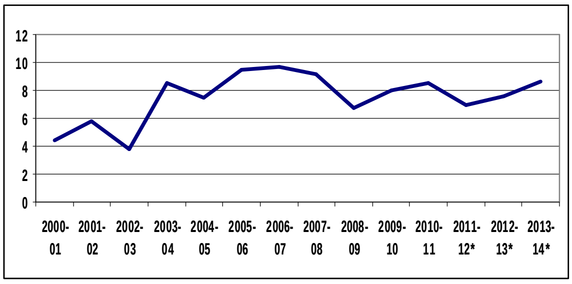
***Sharp decline in gross capital formation and stagnation in private final consumption expenditure raises concerns about sustaining India's growth story even at 7% during FY2012; immediate policy actions critical to resume robust growth scenario, even going forward*.**

Impacted by high interest rates scenario and lackluster industry output growth, India's real GDP growth decelerated sharply to 6.1% in Q3 FY2012 as compared with 8.3% in the corresponding period last year. The real GDP growth is estimated at 2.7% in agriculture, 2.6% in industry, 7.2% in construction and 8.9% in services sector. The economic activities which grew robust are electricity, gas & water supply (9%), trade, hotels, transport and communication (9.2%), financing, insurance, real estate and business services (9%).

Quarterly growth in India's real GDP



Long term trend in India's real GDP growth



Source : PHD Research Bureau, compiled from CSO, GOI
** indicates Economic Survey 2011-12 expectations*

However, growth in some components mining & quarrying (-3.1%), manufacturing (0.4%), Agriculture, forestry and fishing (2.7%) were lower as compared to the others.

Recent pattern in real GDP growth

Components of India's GDP	Share in GDP**	FY09	FY10	FY11	FY12*	Q1 FY12	Q2 FY12	Q3 FY12
Agriculture, forestry & fishing	14.05	1.6	0.4	6.6	2.5	3.9	3.2	2.7
Industry (IIP)	19.32	2.6	8.3	7.8	3.5	6.5	2.6	2.6
Of which								
Mining & quarrying	2.07	3.6	6.9	5.8	-2.2	1.8	-2.9	-3.1
Manufacturing	15.33	2.4	8.8	8.3	3.9	7.2	2.7	0.4
Electricity, gas & water supply	1.92	3.4	6.4	5.7	8.3	7.9	9.8	9
Construction	7.69	7.2	7	8.1	4.8	1.2	4.3	7.2
Services	58.94	9.6	10.1	9.4	9.3	10.1	9.2	8.9
Of which								
Trade, hotel, transport & comm.	28.04	9	9.7	10.3	11.2	12.8	9.9	9.2
Financing, insurance, real estate & business services	18.09	7.8	9.2	9.9	9.1	9.1	10.5	9
Community, social & personal services	12.81	13.1	11.8	7	5.9	5.6	6.6	7.9
Overall real GDP	100	6.7	8	8.5	6.9	7.7	6.9	6.1

Source: PHD Research Bureau, compiled from CSO
** Pertains to advance estimated of FY2012 released by CSO*
*** Pertains to average of Q1, Q2 and Q3*

The share of agriculture, forestry and fishing in overall GDP has increased from 11% of GDP in Q2FY2012 to 17% of GDP in Q3FY2012. The share of industry (construction included) has also declined from 27.4% of GDP in Q2FY2012 to 26.1% in Q3FY2012. Services sector has also declined from 61.3% in Q2 FY2012 to 56.7% in Q3FY2012.

Macro-economic indicators

Indiactors	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
GDP at FC - Constant prices Rs bn	17,865	18,643	19,726	20,483	22,228	29,715	32,542	35,660	38,990	41,625	44,937	48,778	52,220
GDP at FC - Constant prices growth YoY	6.4	4.4	5.8	3.8	8.5	7.5	9.5	9.7	9.2	6.7	8	8.5	6.9
GDP at MP-current prices Rs. Bn	19,520	21,023	22,789	24,546	27,546	32,422	36,925	42,937	49,864	55,826	65,502	78,756	89,121
Agriculture growth	2.6	-0.2	6.3	-7.2	9.9	17.14	5.1	4.2	5.8	-0.1	0.4	6.6	2.5
Industry growth	4.6	6.4	2.7	7.1	6	10.3	9.7	12.2	9.7	4.4	8	7.9	3.5
Services growth	9.5	5.7	7.2	7.5	8.5	9.1	11	10.1	10.8	10.1	10.1	9.4	9.3
Domestic Cons	6.5	2.8	5.5	2.2	5.9	5.2	6.7	5.9	8.3	5.4	5.3	8.7	6
Private consumption	5.3	3.2	6.1	2.7	6.5	5.5	6.8	6	8.5	2.9	7.3	8.6	6.4
Gross domestic savings as % of GDP	25.7	23.8	24.9	25.9	29	32.4	33.4	34.6	36.8	32	33.8	32.3	-
Gross Fixed Capital Formation as % of GDP	24.1	22.8	25.1	23.8	24.6	28.7	30.3	31.3	32.9	32.3	31.6	30.4	31.9
Gross fiscal deficit of the Centre as a % GDP	5.4	5.7	6.2	5.9	4.5	3.9	4	3.3	2.6	6	6.4	5.1	4.6
Gross fiscal deficit of the states	4.6	4.2	4.1	4.1	4.4	3.3	2.4	1.8	1.5	2.4	3.3	2.5	2.2
Gross fiscal deficit of Centre & states	10	9.5	9.9	9.6	8.5	7.2	6.4	5.3	4.1	8.4	9.5	7.3	6.8
Gross borrowings of Centre Rs bn	996	1,151.00	1,338.00	1,511.00	1,476.00	1,065.00	1,600.00	1,793.00	1,882.00	3,185.00	4,924.00	3731	3921
Total liabilities of the centre Rs. bn	10210	11685	13664	15592	17367	19944	22601	25386	28374	31591	35159	39311	43526
Total liabilities of the state Rs. Bn	5095	5941	6907	7864	9032	10141	11477	12416	13283	14702	16385	18202	-
Merchandise exports (US$bn)	36.8	44.5	43.8	52.7	63.8	83.5	103.1	126.4	162.9	185.3	178.7	251.1	267.4#
Growth in exports	9.5	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	29	3.4	-3.6	40.5	23.5#
Imports (US$bn)	49.7	50.5	51.4	61.4	78.1	111.5	149.2	185.7	251.4	287.7	288.3	369.7	434.2#
Growth in imports YoY	17.2	1.7	1.7	19.5	27.2	42.7	33.7	24.5	35.4	14.3	0.2	28.2	29.4#
Trade deficit (US$bn)	12.8	6	7.6	8.7	14.3	28	46.1	59.3	88.5	118.4	109.6	118.6	166.8#
Net invisibles US$bn	13.1	9.8	15	17	27.8	31.2	42	52.2	75.7	89.9	80	84.6	52.9^
Current account deficit US$bn	-4.1	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-28.7	-38.4	-44.3	(-)16.9^
Current account deficit as % of GDP	1.7	2	2.2	2.2	1.1	1	1	0.6	1.5	2.6	3.2	2.6	3.6
Net capital account US$ bn	10.4	8.8	8.6	10.8	16.7	28	25.5	45.2	107.9	8.6	53.4	59.7	18.4^
Overall balance of payments US$bn	6.4	5.7	11.8	17	31.4	26.2	15.1	36.6	92.2	-20.1	13.4	13	5.7^
Foreign exchange reserves US$bn	38	42.3	54.1	76.1	113	141.5	151.6	199.2	309.7	252	279.1	304.8	294.9^^
External debt - Short term US$bn	3.9	3.6	2.7	4.6	4.4	17.7	19.5	28.1	45.7	43.4	52.3	65	71.5^
External debt - Long term US$bn	94.3	97.6	96.1	100.2	108.2	116.3	119.6	144.2	178.7	181.2	208.7	241.5	255.1^
External debt - Gross US$bn	98.2	101.2	98.8	104.9	112.7	134	139.1	172.4	224.4	224.5	261	306.4	326.6^
Money supply gr	14.6	16.8	14.1	14.7	16.7	12	16.9	21.7	21.4	19.3	16.8	15.9	14.4#
Bank credit gr	18.2	17.3	15.3	23.7	15.3	30.9	37	27.6	21	17.5	17.1	21.2	16.8%#
WPI inflation	3.3	7.1	3.6	3.4	5.5	6.5	4.4	6.5	4.7	8.1	3.9	9.5	6-7%~
CPI inflation	3.4	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	7	12.3	10.4	7-8%~
Exchange rate Rs/US $ annual average	43.4	45.7	47.6	48.3	45.9	44.9	44.2	45.2	40.2	46	47.4	45.5	47.7##

Source: PHD Research Bureau complied from various sources

India is a domestic consumption driven economy. However, most of the components of the demand side indicators contributing to GDP have shown a decelerating trend. Private final consumption expenditure has grown by 6.24% in the Q3 of FY2012 as compared to 7.62% in Q3 of FY2011. Gross Fixed Capital Formation has increased by a disappointing -1.23% in Q3 of FY2012 compared to 11.09% in Q3 of FY2011 whereas Government Final Consumption Expenditure has grown by 4.38% in Q3 of FY2012 vis-à-vis 4.71% in Q3 of FY2011.

Select demand side indicators, as % of GDP (at constant market prices)

Item	Q3FY11	Q3FY12	Y-o-Y growth Q3FY11	Y-o-Y growth Q3FY12
Private Final Consumption Expenditure	60.4	60.4	7.62	6.24
Government Final Consumption Expenditure	12.5	12.2	4.71	4.38
Gross Fixed Capital Formation	32.3	30.0	11.09	-1.23

Source: PHD Research Bureau, compiled from CSOI

According to the advanced estimates for 2011-12 released by CSO, the GDP at factor cost at constant (2004-05) prices in the year 2011-12 is likely to attain a level of Rs. 52,22,027 crore, as against GDP for the year 2010-11 of Rs. 48,85,954 crore. The growth in real GDP during 2011-12 is estimated at 6.9% as compared to the growth rate of 8.4% in 2010-11. GDP at factor cost at current prices in the year 2011-12 is likely to attain a level of Rs. 82,79, 976 crore, showing a growth rate of 15.7% over the GDP for the year 2010-11 of Rs. 71,57,412 crore.

The real GDP is estimated to stand at 6.9% during 2011-12 has been due to the growth rates of over 8% in the sectors of 'electricity, gas and water supply', 'trade, hotels, transport and communication' and 'financing, insurance, real estate and business services'. There may be slow growth in the sectors of 'agriculture, forestry and fishing' (2.5%), manufacturing (3.9%) and construction (4.8%). The growth in the mining and quarrying sector is estimated to be negative (-2.2%).

The net national income (NNI) at factor cost, at 2004-05 prices is likely to be Rs. 45,68,249 crore during 2011-12 and estimated to rise by 7% during 2011-12 in comparison to the growth rate of 7.8% in 2010-11. The NNI at factor cost at current prices is anticipated to be Rs. 73,28,878 crore during 2011-12, showing a rise of 15.9%.

The per capita income in real terms during 2011-12 is likely to attain a level of Rs. 38,005 with a growth rate of 5.6% during 2011-12 while per capita income at current prices during 2011-12 is estimated to be Rs. 60,972, marking a rise of 14.3%.

Gross Fixed Capital Formation (GFCF) at constant (2004-05) prices, is estimated at 5.6% higher at Rs17, 95,081crore in 2011-12 as against Rs16, 99,387crore in 2010-11. Private Final Consumption Expenditure (PFCE) at constant (2004-05) prices is estimated at Rs. 32,70,368 crore in 2011-12 as against Rs. 30,72,115 crore in 2010-11 with a growth of 6.45% while Government Final Consumption Expenditure (GFCE) at constant (2004-05) prices is estimated at Rs. 6,20,497 crore in 2011-12 as against Rs. 5,97,154 crore in 2010-11 registering a growth of 3.90%.

3. Industry growth remains volatile

Growth in industry output, as measured in terms of IIP, has exhibited a volatile trend over the past many months, performing well in some months and disappointing in others. IIP for the month of January 2012 has increased sharply to 6.8% as compared with 1.8% in December 2011. The cumulative growth for the period April-January 2011-12 stands at 4% compared to 8.3% in the corresponding period of the previous year.

The growth in the three sectors mining, manufacturing and electricity in January 2011, stand at (-) 2.7%, 8.5% and 3.2% respectively as against 1.7%, 8.1% and 10.5%, in December 2011 respectively. The cumulative growth in the three sectors during April- January 2012 has been (-) 2.6%, 4.4% and 8.8% respectively.

Recent growth pattern in IIP **(% growth)**

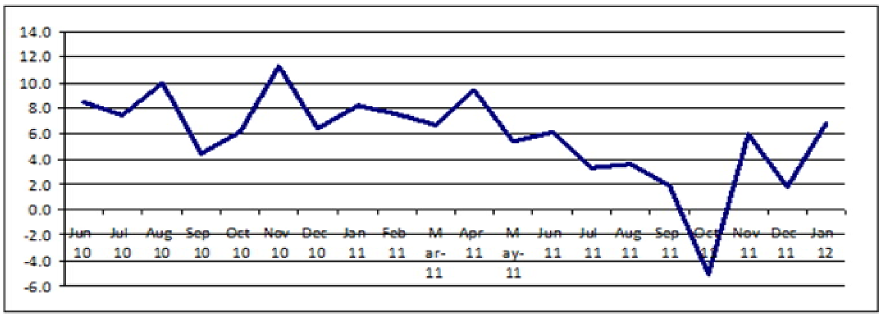
Industry Group	Weight in IIP	Apr-Jan FY2011	Apr-Jan FY2012	January 2011	January 2012
Mining	14.2	6.3	-2.6	1.7	-2.7
Manufacturing	75.5	8.9	4.4	8.1	8.5
Electricity	10.3	5.3	8.8	10.5	3.2
Use based classification					
Basic goods	45.7	6.0	5.7	7.7	1.6
Capital goods	8.8	17.0	-2.8	5.3	-1.5
Intermediate goods	15.7	8.0	-1.0	7.4	-3.2
Consumer Goods					
Consumer goods	29.8	7.5	7.4	8.3	20.2
a) Consumer durables	8.5	13.7	3.9	12.5	-6.8
b) Consumer non-durables	21.3	2.8	10.2	5.0	42.1
Overall IIP	100.0	8.3	4.0	7.5	6.8

Source: PHD Research Bureau, compiled from CSO

The growth of IIP is encouraging in the wake of significant deceleration in the sector over the last many months. The increase in the growth of manufacturing (in January 2012) at 8.5%, consumer goods at 20.2% and consumer non durables at 42.1% has pushed up the overall growth.

Some of the important items of consumer goods showing high positive growth during the current month and thus contributing to the growth of the overall index for the month include Zarda /Chewing Tobacco (127.3%), Marble Tiles/Slabs (69.4%), Newspapers (57.1%) and Pens of all kind (31.8%). However, some important items of the consumer goods are also showing negative growth. These are: Vitamins (-) 54.2%, Air Conditioner (Room) (-) 47.5%, Fruit Pulp (-) 33.2%, Antibiotics and its Preparations (-) 16.4% and Gems and Jewellery (-) 15.5%.

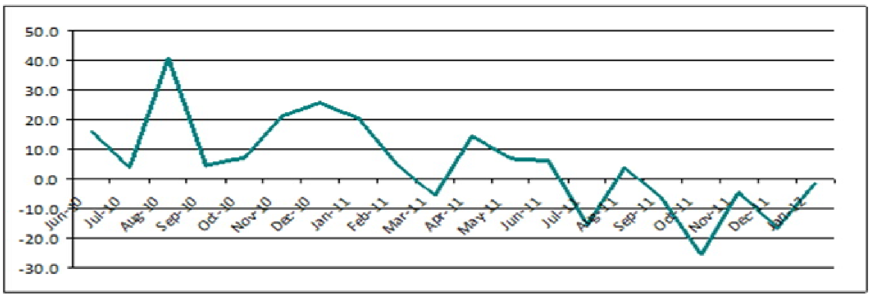
Recent trend in IIP growth **(%)**



Source: PHD Research Bureau, compiled from CSO

However, the cause of concern is the lingering deceleration in capital goods production which is still in the negative trajectory. Capital goods are a lead investment indicator and very crucial for enhancing industrial production in the economy. Capital goods have grown at (-) 1.5% during January 2012 as compared to a growth of 5.3% in January 2011. Cumulatively also, capital goods production have grown by (-) 2.8% during April-January 2012 vis-à-vis 17% in the corresponding period last year.

Recent trend in the growth of capital goods **(%)**



Source: PHD Research Bureau, compiled from CSO

4. Core infra growth disappointing

Significant decline in output growth of natural gas, crude oil, petroleum and refinery products and steel production pulled core infrastructure growth to 0.5% in Jan 2012 as compared to 6.4% growth registered in Jan2011.

Sector wise trend in monthly production **(% growth)**

Sector	Weight in IIP	Nov-11	Dec-11	Jan-12
Crude Oil	5.22	-5.6	-5.6	-2.0
Natural Gas	1.71	-10.1	-10.8	-8.9
Petroleum Refinery Products	5.94	11.2	0.8	-4.6
Coal	4.38	4.9	5.6	7.5
Fertilizer	1.25	-6.7	0.8	4.0
Electricity	10.32	14.4	8.9	2.4
Cement	2.41	16.6	13.3	10.6
Steel	6.68	5.1	8.7	-2.9
Overall	**37.91**	**6.7**	**4.6**	**0.5**

Source: PHD Research Bureau, compiled from the office of the economic advisor to the Govt. of India

In cumulative terms core infrastructure industries registered a growth of 4.1% during April-January 2011-12 as against 5.7% during the corresponding period of the previous year 2010-11.

Sector wise trend in production **(% growth)**

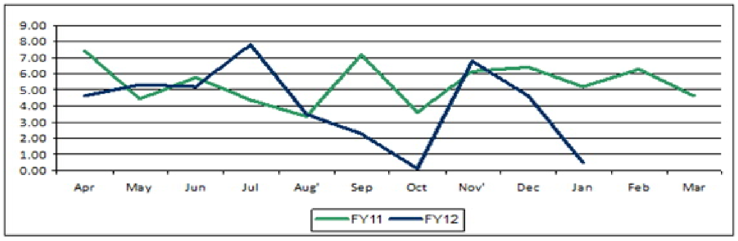
Sector	Weight	Apr-Jan 2010-11	Apr-Jan 2011-12
Crude Oil	5.22	11.9	1.5
Natural Gas	1.71	14.4	-8.8
Petroleum Refinery Products	5.94	2.4	3.1
Coal	4.38	0.6	-1.5
Fertilizer	1.25	-0.8	-0.1
Electricity	10.32	5.2	8.6
Cement	2.41	4.1	6
Steel	6.68	8.4	7.0
Overall	**37.91**	**5.7**	**4.1**

Source: PHD Research Bureau, compiled from The office of the economic advisor to the Govt. of India

Electricity generation grew by 8.6% during April- January 2011-12 as against its 5.2% growth during the same period of 2010-11, while Steel production grew by 7.0% during April-January 2011-12 as compared to 8.4% during the corresponding period of last year. The production in Crude Oil grew by 1.5% during April-January 2011-12 compared to its growth at 11.9% during the same period of 2010-11, whereas Petroleum refinery production registered a growth of 3.1% during April-January 2011-12 compared to its 2.4% growth during the same period of 2010-11. Fertilizer production grew by (-)

0.1% during April-January 2011-12 compared to its growth at (-) 0.8% during the same period of 2010-11 and Cement Production grew by 6% during April-January2011-12 compared to its growth at 4.1% during the same period of 2010-11.

Growth in core infrastructure indices

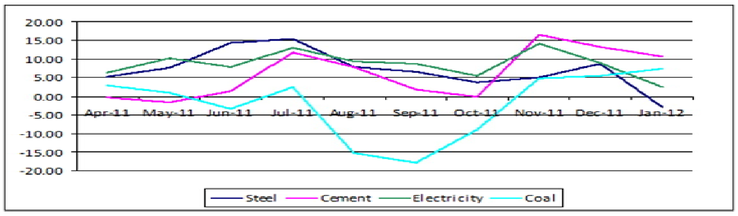


Source: PHD Research Bureau, compiled from The office of the economic advisor to the Govt. of India

Disappointing growth was observed in the production of coal which grew by (-) 1.5% during April-January 2011-12 compared to its growth at 0.6% during the same period of 2010-11 whereas Natural Gas production registered a growth of (-) 8.8% during April-January 2011-12 compared to its growth at 14.4 % during the same period of 2010-11.

The Apr-Jan 2011-12 infra growth is mainly supported by the robust performance of electricity, cement and steel sectors. Though the recent month's growth in coal and cement production is inspiring, the slowdown in natural gas, petroleum and refinery products and crude oil raises concerns about the sustainability of industrial growth, going forward

Trend in growth of cement, steel and electricity



Source: PHD Research Bureau, compiled from the office of the economic advisor to the Govt. of India

5. Agro- prospects bright

Prospects for rabi crops for 2011-12 look bright despite inconsistent weather in some parts of the country. All efforts are being made to achieve the targeted production of 245 million (24.5 crore) tonnes of food grains during 2011-12. Currently observed trends in crop area and crop health indicate that the country may have another year of record production.

Production Scenario in 2011-12

India is likely to produce 250.42 million tonnes of food grains during 2011-12 as compared to 244.78 million tonnes last year. This is 5.64 million tonnes higher than 2010-11, and is higher than the target of 245 million tonnes fixed for the year by around 5.5 million tonnes.

Total production of rice in the country is estimated at 102.75 million tonnes which is an all time record. Production of wheat estimated at 88.31 million tonnes is also a new record. Production of Pulses is estimated at 17.28 million tonnes and cotton production at 34.09 million bales (of 170 kg. each) this year is also a new record.

The production of oilseeds is estimated at 30.53 million tonnes and production of sugarcane stands at 347.87 million tonnes which is higher by 5.09 million tonnes as compared to last year.

Estimates of crop production (Million tonnes)

Crop	2011-12(2nd advance estimates)	2010-11 (final estimates)
Rice	102.75	95.98
Wheat	88.31	86.87
Coarse cereals	42.08	43.68
Pulses	17.28	18.24
Oilseeds	30.53	32.48
Sugarcane	347.87	342.38
Cotton	34.09 (million bales)	33.00

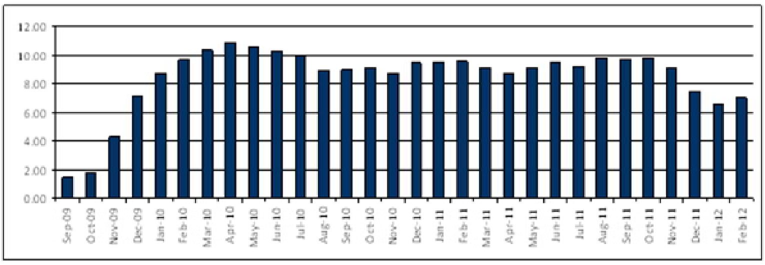
Source: PHD Research Bureau, compiled from Ministry of Agriculture

6. WPI inflation inches upwards

Although, in recent months, the WPI inflation has started to show signs of deceleration in the much expected level of 6-7%, sequential growth pattern of WPI inflation indicate that the inflation is going to remain sticky at 6-7% level in FY 2012-13

Driven by increase in the food inflation, the WPI inflation has gone up to 6.95% for the month of February 2012 as compared to 6.55% for the previous month. However, the Index for Wholesale Prices for the month February, 2012 rose up by 0.4% to 158.4 from 157.7 during previous month.

Trend in WPI inflation since September 2009



Source: PHD Research Bureau, compiled from the office of the economic advisor to the Govt. of India

The buildup in inflation during April- Feb 2011-12 has declined to 5.95% as compared with 8.66% during the corresponding period last year. Buildup in WPI inflation has declined due to decline in buildup in primary articles at 7.07% from 14.29%, food articles 7.43% from 10.82% and non food articles at (-) 2.30% from 27.48%.

WPI inflation in select commodities

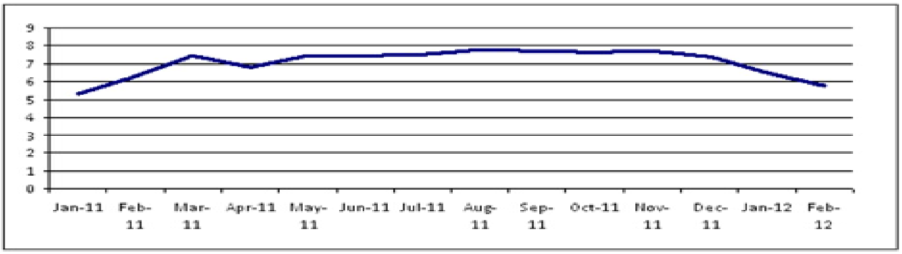
	Commodity	WPI Inflation Y-o-Y % growth		
		Feb- 11	Jan- 12	Feb-12
1	All Commodities	9.54	6.55	6.95
2	Primary Articles	15.89	2.25	6.28
3	Food Articles	10.95	-0.52	6.07
4	Cereals	3.43	2.42	1.71
5	Vegetables	14.38	-43.13	1.52
6	Non-food Articles	34.36	0.55	-2.56
7	Fuel & Power	12.37	14.21	12.83
8	Petrol	28.73	15.02	12.04
9	Manufactured Products	6.26	6.49	5.75
10	Sugar	-15.43	2.25	4.13
11	Edible oils	13.01	9.59	7.57
12	Cement & Lime	0.47	8.16	5.95

Source: PHD Research Bureau, compiled from the office of the Economic Advisor to the Govt. of India

Manufacturing inflation eases to 5.75% (weight 64.97%)

The WPI inflation for manufactured products has declined to 5.75% in February 2012 vis-à-vis 6.49% in the month of January. However, the index for this major group rose by 0.4% to 141.7 from 141.2 for the previous month.

Trend in WPI inflation in manufactured products

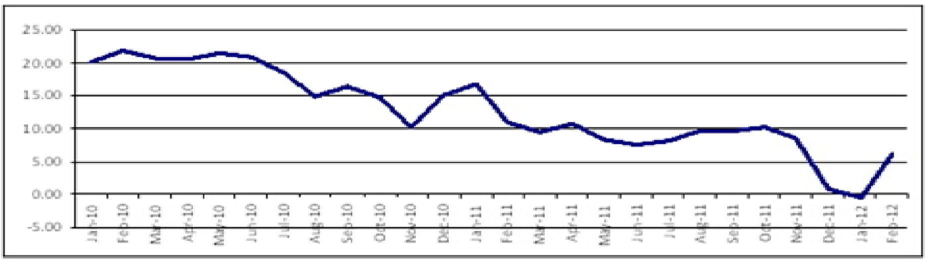


Source: PHD Research Bureau, compiled from the office of the Economic Advisor

Food inflation moves up sharply to 6.07% (weight 14.33%)

Food inflation for the month of February, 2012 has moved up sharply to 6.07% as against -0.52% for the month of January 2012, on account of increase in prices of rice, potato, vegetables, egg, meat & fish and onions, however, prices of cereals and pulses have declined.

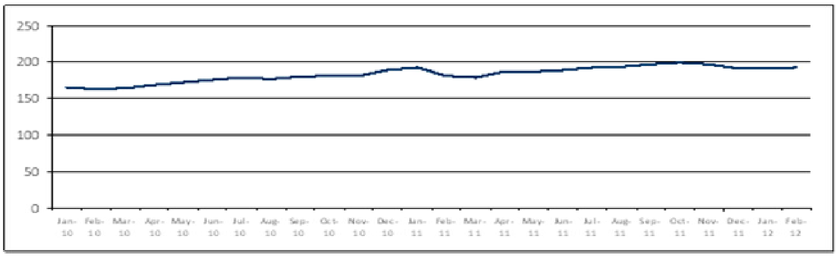
Pattern of food inflation (Y-o-Y)



Source: PHD Research Bureau, compiled from the office of the Economic Advisor, Govt. of India

The index for food articles group has increased by 0.5% to 192.3 from 191.4 for the previous month due to higher prices of ragi (4%), barley and fruits & vegetables (3% each), maize (2%) and fish-marine, beef & buffalo meat, tea, poultry chicken and fish-inland (1% each). However, the prices of condiments & spices (5%), jowar and egg (3% each), arhar and masur (2% each) and urad, moong and gram (1 % each) have declined.

Food articles index since Apr 2011



Source: PHD Research Bureau, compiled from the office of the Economic Advisor, Govt. of India

Non-food articles eases to -2.56% (weight 4.25%)

The rate of inflation for the month of February 2012 stands at -2.56% as compared to 0.55% for the previous month. The index for non-food articles group rose by 2.1% to 186.7 from 182.8 for the previous month due to higher prices of gaur seed (30%), flowers (26%), logs & timber and raw jute (9% each), gingelly seed (5%), groundnut seed and mesta (3% each) and cotton seed, soyabean and castor seed (1% each). However, the prices of copra (8%), niger seed (5%), raw cotton (3%), raw silk (2%) and raw rubber, rape & mustard seed and fodder (1% each) have declined.

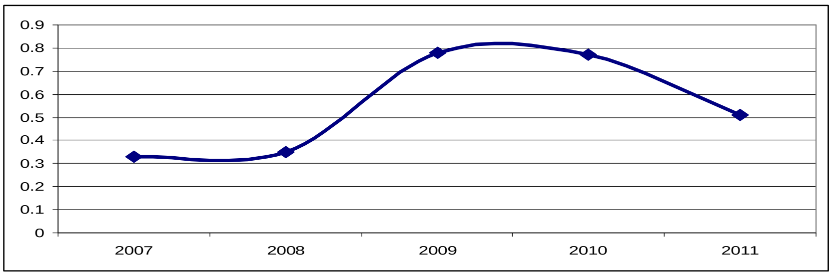
Fuel & power hovers in double digits (weight 14.91%)

The rate of inflation for the month of February 2012 stands at 12.83% as compared to 14.21% for the previous month. The index for this group rose by 0.2% to 173.2 from 172.8 for the previous month.

Momentum in WPI inflation

The momentum of wholesale price index has been picking up since 2008 when the sequential growth of the price index rose from 0.35% in 2008, to 0.78% in 2009 to 0.77% in 2010. The inflation momentum moderated to 0.51% in 2011. However, it is still at a very high trajectory and indicates that inflation is due to remain sticky at its present level in the coming months.

Annual sequential growth in inflation (Monthly average)



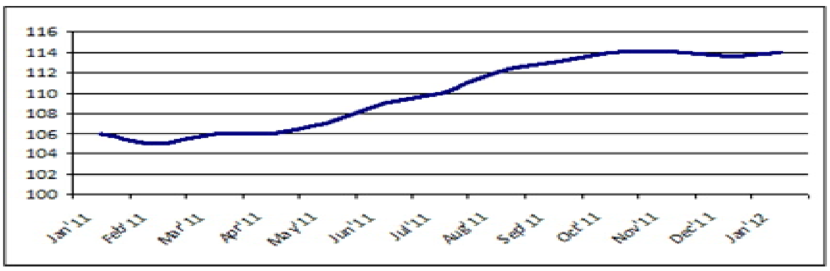
Source: PHD Research Bureau, compiled from
Note: The annual sequential growth of inflation is the average of growth in WPI (month on month) adjusted seasonally

Though, the WPI has decelerated significantly and is now in the comfortable trajectory of 6-7%, it may be mentioned that WPI is vulnerable to domestic food prices vis-à-vis supply side bottlenecks and international commodity price dynamics. Hence the re-emergence of food prices and surge in crude prices have the likelihood of stoking the inflation in the sticky trajectory again.

Upward movement in CPI raises concerns

The general CPI inflation (combined for rural and urban) for January 2012 stood at 7.65% as compared to January 2011. The Index for Consumer Prices (combined for rural and urban) for January 2012 stood at 114.0 as compared to 113.6 during December 2011. The CPI index for rural and urban areas stood at 115.0 and 112.8 respectively as against 114.5 and 112.3 in the previous month. The inflation rates for rural and urban areas are 7.38% and 8.25% respectively for the month of January 2012.

General Consumer Price Index (combined)



Source: PHD Research Bureau, compiled from MOSPI.

The rate of Inflation is high (double digits) in many protein contained items like milk products at 16.53%, oils and fats 13.47%, fruits 10.62% and Egg, meat & fish 10.45%. However, the rate of inflation is comparatively lower among Pulses and products 5.66%, cereals 2.69% and vegetables at -24.83%.

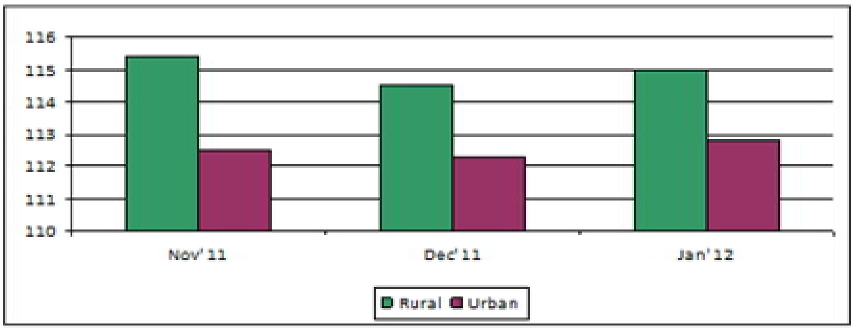
CPI inflation rates (%) for January 2012

Category	Annual inflation rate (Jan.12 over Jan.11)		
	Rural	Urban	Combined
Milk and products	16.54	16.35	16.53
Clothing, bedding & footwear	13.78	15.39	14.25
Oils and fats	12.65	15.11	13.47
Fuel and light	13.7	12.43	13.13
Condiments and spices	11.35	12.89	11.83
Non-alcoholic beverages	11.34	11.74	11.52
Fruits	9.91	11.59	10.62
Egg, fish and meat	10.71	9.82	10.45
Prepared meals etc	10.23	10.65	10.39
Pulses and products	5.19	6.64	5.66
Food and beverages (1 to 11)	4.18	3.98	4.11
Cereals and products	3.44	0.79	2.69
Sugar etc	1.94	1.43	1.84
Vegetables	-22.33	-30.15	-24.83
General Index (All Groups)	**7.38**	**8.25**	**7.65**

Source: PHD Research Bureau, compiled from MOSPI.

The all India general CPI index for rural areas has shown a steady trend at 115.4, 114.5 and 115 for the month of November 2011, December 2011 and January 2012 respectively. However, the index is lower for urban areas, which have stood at 112.5, 112.3 and 112.8 during the same period.

Index for rural and urban areas



Source: PHD Research Bureau, compiled from MOSPI.

The CPI index is still steady close to its all time high mark (new 2010 base) and is raising concerns. The rate of inflation is high in many protein contained food items. The ensuing summer and consequent heat waves in the northern India is likely to propel the food prices in the higher trajectory, going forward.

7. RBI reduces CRR by 75bps

The Cash Reserve Ratio (CRR) of scheduled banks has been reduced by 75 basis points from 5.5% to 4.75% of their net demand and time liabilities (NDTL) effective the fortnight beginning March 10, 2012. This reduction will inject around Rs.480 billion of primary liquidity into the banking system.

In order to mitigate tight liquidity the cash reserve ratio was reduced by 50 basis points in the Third Quarter Review (TQR) of January 2012, injecting primary liquidity of Rs.315 billion into the banking system. The Reserve Bank also continued with the open market operations (OMOs), injecting primary liquidity of over Rs.1,245 billion this financial year so far, of which Rs.528 billion was injected after the TQR.

The policy so far

Components	Sep' 2009	Sep '2010	Sep '2011	26-Oct-11	16-Dec-11	24-Jan-12	11-Mar-15
CRR	5.00%	6.00%	6.00%	6.00%	6.00%	5.50%	4.75%
Repo Rate	4.75%	5.75%	8.25%	8.50%	8.50%	8.50%	8.50%
Reverse Repo Rate	3.25%	4.50%	7.25%	7.50%	7.50%	7.50%	7.50%
WPI Inflation	1.08%	8.90%	9.80%	9.72%**	9.11%*	7.5%#	6.55%@
IIP growth	6.00%	13.00%	3.30%	4.10%	-5.10%**	1.80%#	6.80% @
Real GDP growth	8.60%	8.90%	7.7% ˆ	7.7% ^	6.9%^^	6.9%^^	6.1%^^^

**Data pertains to November2011, **Data for October 2011; ˆ Data for Q1FY12, ^^ Data for Q2FY12,^^^ Data for Q3FY12 ,# Data for Dec 2011 @Data for January, 2012*

Source: PHD Research Bureau, compiled from various sources

However, with inflationary expectations re-emerging in the uncomfortable trajectory in the wake of the recent surge in crude oil prices, fiscal slippage and rupee depreciation and economic growth showing deceleration quarter after quarter, RBI maintained status quo in its mid quarter review of monetary policy with no alteration in the existing interest rate ragime.

8. Bank Credit grows steady

Gross Bank Credit has grown by 16.3% in January 2012 as compared to the 23.1% in the corresponding period last year. On a year-on-year basis, non-food bank credit increased by 15.9% in January 2012, as compared to 23% during January 2011. The highest credit growth was recorded in NBFC's at 30.6% in Jan 2012 significantly lower than 41.2 % registered during the corresponding period of 2011.

Credit to agriculture increased by 6.3% in Jan 2012 from 21.5% in the previous year while, credit to industry increased by 20.2% in Jan 2012 as compared with 26.5% in the previous year, led by infrastructure(20.4%), metals and metal products(25.1%), engineering(20.1%), gems and jewellery (29.8%) and mining and quarrying(52%). The services sector credit disbursement increased by 15.5% in Jan 2012, from 23.5%in the previous year.

Deployment of Gross Bank Credit by Major Sectors **(Rs. Billion)**

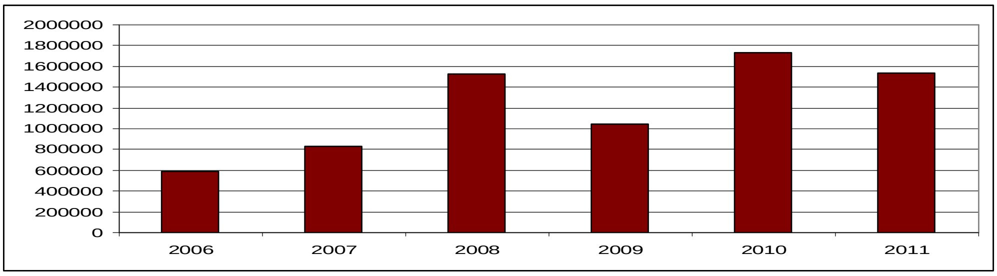
Sector	Jan2011*	Jan2012**	Jan2011* over Jan2010 (%)	Jan, 2012** over Jan2011 (%)
Gross Bank Credit	35452	41222	23.1	16.3
Food Credit	598	834	34.8	39.3
Non-food Credit	34853	40387	23	15.9
Agriculture & Allied Activities	4381	4603	21.5	6.3
Industry (MSMEs and Large)	15398	18504	26.5	20.2
Services	8468	9779	23.5	15.5
Personal Loans	6605	7445	15.8	12.7
Priority Sector	11712	12823	19.2	9.5

Source: PHD Research Bureau, compiled from RBI
Note: Data are provisional and are collected on a monthly basis from select 47 scheduled commercial banks accounting for about 95% of the total non-food credit deployed by all scheduled commercial banks;
** Data pertains upto 28 Jan 2011*
*** Data pertains upto 27 Jan 2012*

9. Industrial investments proposals

Industrial investment proposals in India have grown steadily in the last decade along with the growth of the economy. With a marginal dip in industrial investment proposals during 2009 with the onset of the Lehman crisis, the proposals grew from Rs1040259 crores in 2009 to Rs1736322 crores in 2010. The industrial investment proposals stand at Rs 1539728 crores in 2011.

Trend in industrial investment proposals (Rs crores)



Source: PHD Research Bureau, compiled from DIPP

FDI looks up

The total FDI equity inflows, in the period Apr-Dec 2011 are estimated around US$24.18bn; representing an increase of around 51% over the FDI equity inflows of about US$16.03bn for the corresponding period last fiscal.

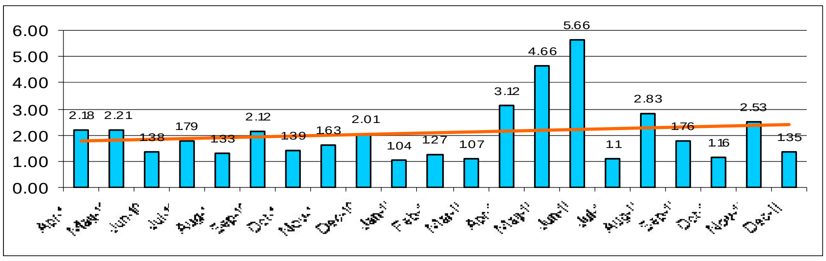
Recent trend in FDI inflows (2011-12)

Financial Year 2011-12 (April-March)		Amount of FDI inflows	
		(In Rs. Crore)	**(In US$ mn)**
1	11-Apr	13,847	3,121
2	11-May	20,946	4,664
3	11-Jun	25,371	5,656
4	11-Jul	4,886	1,100
5	11-Aug	12,814	2,830
6	11-Sep	8,407	1,766
7	11-Oct	5,715	1,160
8	11-Nov	12,909	2,538
9	11-Dec	7,124	1,353
2011-12 (up to Dec2011)		112,019	24,188
2010-11 (up to Dec 2010)		73,177	16,039
%age growth over last year		**(+) 53%**	**(+) 51%**

Source: PHD Research Bureau compiled from DIPP

In Dec, 2011, the FDI inflows have decreased to US1.3bn from US$2.5bn in Nov 2011, a decline of 46%. Mauritius tops the chart as an investing country, with the top investing sectors being the services sector (financial and non-financial). Also, Mumbai and New Delhi are observed to be the cities attracting the highest FDI equity inflows.

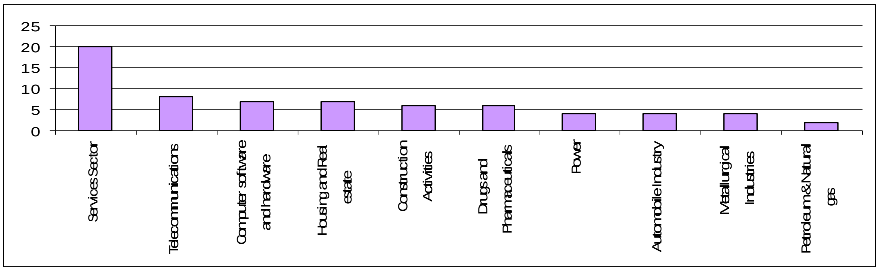
Trend in FDI over the months



Source: PHD Research Bureau compiled from DIPP

Services sectors (financial and non-financial) and Telecommunications constitute the highest share in attracting FDI equity inflows during April-Nov2011 of around 20% and 8% respectively. Computer software and hardware and Housing and real estate sector and contributed 7%, construction activities, drugs and pharmaceuticals contributed 6%, power, automobile and metallurgical industries contributed 4% each, followed by petroleum and natural gas with 2% share.

Sector wise contribution In FDI equity inflows during April-Dec2011 (%)



Source: PHD Research Bureau, compiled from Department of Industrial Policy & Promotion.

Forex and Capital Inflows

Capital inflows have exhibited an uptrend during the recent quarters, mainly on account of robust FDI inflows and rise in external commercial borrowings activity.

Capital flows so far **US $ Bn**

Component	Period	2010-11	2011-12
FDI to India	April- September	18.5	27.3
FIIs (net)	April- September	22.2	0.88
ADRs/GDRs	April- September	1.6	0.48
ECB Approvals	April- September	9.8	17.3
NRI Deposits (net)	April- September	2.1	3.9

Source: PHD Research Bureau complied by RBI

FDI : Foreign Direct Investment.
FII : Foreign Institutional Investment.
ECB : External Commercial Borrowings.
NRI : Non Resident Indians.

ADR : American Depository Receipts.
GDR : Global Depository Receipts.

India's foreign exchange reserves as on February 24th, 2012 stands at US295.04 billion, with US$ 261.10 billion foreign currency assets and US$ 26.72 billion in gold.

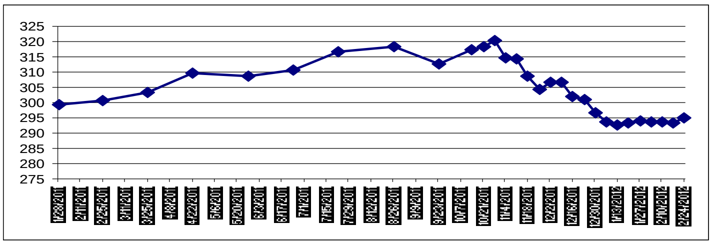
Foreign exchange reserves and its components **(US$ Bn)**

Items	As on Feb, 24th, 2012
Total Reserves	295.04
Foreign Currency Assets	261.10
Gold	26.72
SDRs	4.48
Reserve Position in the IMF	2.73

Source: PHD Research Bureau, Compiled from RBI

The Foreign exchange reserves are on a declining trend since first week of Dec 2011. The reserves have come down from US$306.8Bn on 2nd Dec 2011 to US$292.5 on 13th Jan 2012, however reserves have now increased to US$295.04Bn

India's foreign exchange reserve (US$ Bn)

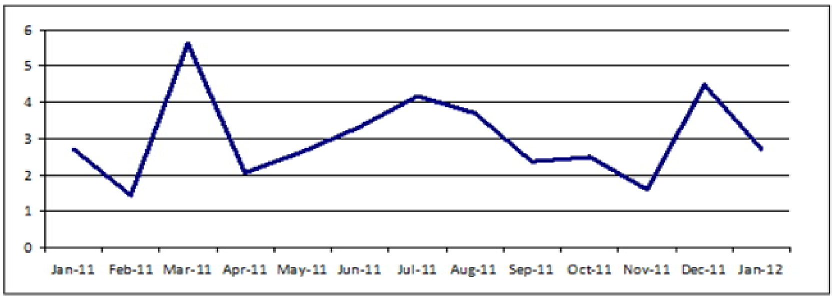


Source: PHD Research Bureau, Compiled from RBI

ECBs grows robust

Indian firms have raised US$2.7Bn through external commercial borrowings (ECBs) in the month of January 2012. A total of US$1.78Bn has been raised by automatic route and US$0.91Bn through approval route during the same period. The borrowings have decreased from US$4.46Bn in December2011 to US$2.70Bn in January2012. ECBs grew 58% as compared with the corresponding period last year, increased to US$29.5bn in Apr-Jan FY2012 from US$18.7bn in Apr-Jan FY2011.

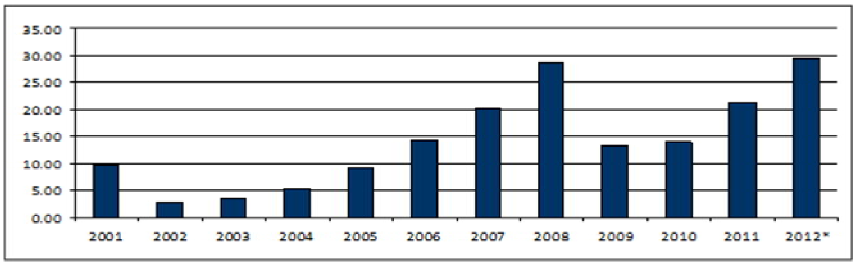
External commercial borrowings (ECBs) since January 2011 (US$bn)



Source: PHD Research Bureau, compiled from RBI
Note: ECB contains both automatic and approval routes

Historical trend suggests that ECBs have emerged as a major source of funding for the development of core sectors in the country, especially in the bad years when India faced tight interest rate regimes in the wake of rising inflationary situations. India has received gross ECB worth US$121Bn between FY2001 and FY2010, during FY2011 the ECBs stands at US$21bn. India has received gross ECB of around US$29.5Bn in FY2012 till January.

Gross ECB Inflows since FY2001



Source: PHD Research Bureau, compiled from RBI
Note : ECB contains both automatic and approval routes
** Up to Jan 2012*

Foreign resources seem to be very confidant on India as an investment destination and have been found to be heavily financing the infrastructure sector. A closer look at the pattern reveals that the lion's share in ECB is held by the infrastructure sector, contributing to about 80% of the total, which includes the telecom, power, oil and petroleum and iron and steel. It is evident from the high inflow of external credit in new projects and ventures related to the sector. The strong external funding can be attributed to high interest differentials available to foreign resources, vis-à-vis India, supported by high unexplored development opportunities in infrastructure within the country.

10. Upward risks to CAD become more pronounced

The increase in global economic uncertainties has amplified the risks to Current Account Deficit. While weaker demand for merchandise exports along with inelastic oil and gold imports may further widen the trade deficit, CAD may, in addition, be prone to risks emanating from moderation in receipts on account of software exports, business services and investment income. As a result, CAD is expected to remain under pressure after having widened sequentially to 3.7% of GDP in Q2 of 2011-12 from 3.4% in Q1 of 2011-12.

Major Items of India's Balance of Payments (US$ billion)

	2010-11	2010-11 (PR)				2011-12	
	(PR)	Q1	Q2	Q3	Q4	Q1 (PR)	Q2 (P)
Goods exports	250.6	55.2	52	66	77.4	74.4	76.6
Goods Imports	381.1	87.2	89	97.4	107.4	116.1	120.5
Trade Balance	-130.4	-32	-37	-31.4	-30	-41.7	-43.9
Services Exports	131.7	26.5	31.1	38.8	35.3	33.3	34
Services Imports	83	16.7	19.2	26.3	20.7	17.9	18.5
Net Services	48.7	9.7	11.9	12.5	14.6	15.4	15.5
Goods & Services Balances	-81.8	-22.3	-25.1	-19	-15.5	-26.3	-28.4
Primary Income, Net (Compensation of *Employees and Investment Income)*	-17.3	-3.5	-4.8	-4.6	-4.5	-4.4	-4.7
Secondary Income, Net (Pvt. Transfers)	53.1	13.1	13	13.4	13.6	14.8	16.2
Net Income	35.8	9.6	8.2	8.8	9.1	10.4	11.5
Current Account Balance	-46	-12.6	-16.9	-10.1	-6.3	-15.8	-16.9

Source: PHD Research Bureau complied from RBI
Note: PR indicates partially revised and P indicates preliminary

Exports' growth moderates

India's exports for the month of February 2012 stand at US$24.6bn as against US$23.5bn in January 2011 registering a growth of 4.3%. Imports for Feb 2011 have reached US$39.8bn as against US$33bn recording a growth rate of 20.6%. The trade deficit stands at (-) US$15.2bn for the same month. The cumulative growth for the period April to February 2012 stands at 21.4% and 29.4% for exports and imports respectively.

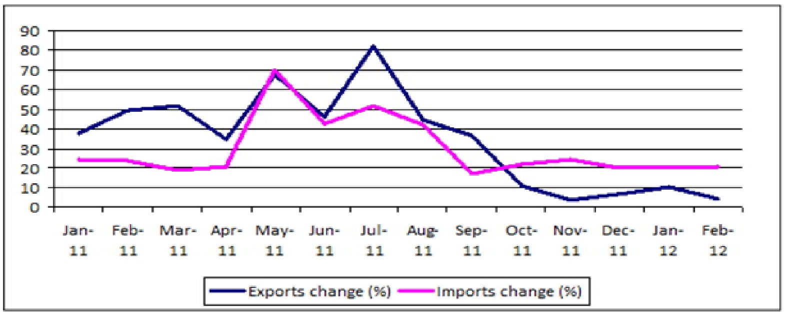
Value of foreign trade (in US$bn)

Period	Feb	Apr-Feb
Exports		
FY 12	24.6	267.4
Growth (%)	4.3	21.4
Imports		
FY 12	39.8	434.2
Growth (%)	20.6	29.4
Trade balance		
FY 12	-15.2	-166.8

Source: PHD Research Bureau, compiled from Ministry of Commerce

During April- February FY2012, exports of engineering goods stands at US$54.5bn, followed by petroleum at US$53bn, Gems and jewelry contributed US$40.6bn. Ready made garments contributed US$12.1bn followed by drugs and pharmaceuticals US$11.4bn. As regards to imports during April - February FY2012, POL imports stands at US$132.6bn, Gold and silver US$54.5bn, machinery US$32.2bn, electronics US$30.1bn and coal US$15.5bn.

Trends in Exports and Imports



Source: PHD Research Bureau, compiled from CMIE and Ministry of Commerce

Services exports turning down

With the persistence of global economic uncertainties, indicators in the services sector like exports and imports have been posing a volatile trend. The services exports have scaled up in the month of May2011 and posted deceleration in June and July 2011, and again picked up since Aug2011 with a marginal decline in Sep2011. However, in Oct2011 it again picked up with and thereafter declined in Nov2011 and Dec2011.

Services imports increased during May and June 2011 and posted a deceleration in July 2011 and subsequently picked up since Aug 2011 with a marginal dip in Sep 2011. Since Oct 2011 the services imports have been increased substantially. The exports and imports of services stood at US$11.18bn and US$7.65bn respectively in the month of Dec2011.

International trade in services (US$ billion)

Month	Exports	Imports
April 2011	11.46	6.88
May 2011	11.83	7.08
June 2011	11.04	7.20
July 2011	10.40	5.89
Aug 2011	11.89	6.86
Sep 2011	11.22	6.79
Oct 2011	11.45	6.82
Nov 2011	11.28	7.40
Dec 2011	11.18	7.65

Source: PHD Research Bureau, compiled from RBI

Foreign tourists' arrivals grows-- Foreign Tourist Arrivals have scaled up in month of February 2012, as FTAs have gone up from 5.52 lakh in Feb 2010 to 6.36 lakh in Feb2011 and further to 6.77 lakh in Feb 2012 and has posted growth of about 7% in month of Feb 2012 over Feb2011 as compared with growth of about 15% in Feb 2011 over Feb2010.

Foreign Tourist Arrivals

Foreign Tourist Arrivals	Numbers(in lakh)
February 2010	5.52
February 2011	6.36
February 2012	6.77

Source: PHD Research Bureau, compiled from Press Information Bureau

Growing foreign exchange earnings-- FEEs have posted a robust performance and have increased significantly from Rs. 6646 cr in Feb2010 to Rs. 7653cr in Feb2011 and further to Rs. 8502 cr in Feb2012. The growth rate in FEE in Rupee terms in Feb2012 over Feb2011 was around 11% as compared to about 15% in Feb2011 over Feb2010.

Foreign Exchange Earnings

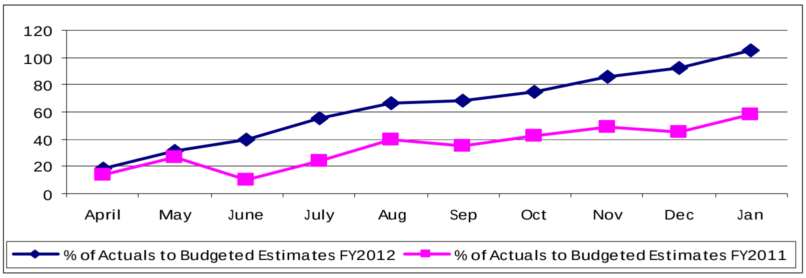
Foreign Exchange Earnings	(Rs. Crore)
February 2010	6646
February 2011	7653
February 2012	8502

Source: PHD Research Bureau, compiled from Press Information Bureau

11. Concerns about fiscal slippage deepens

Lead fiscal indicators reveal that the revenue deficit and the GFD of the Central government turned out to be higher than during the corresponding period of the previous year mainly due to decline in revenue receipts.

Differentials in use of fiscal deficit space by Jan 2012 vis-à-vis Jan2011



Source: PHD Research Bureau, Compiled from Government of India accounts

The gap between actual to budget estimates is widening each month in the current fiscal as compared with the last year. Fiscal deficit was 18.1% of the total budget estimates for fiscal deficit in April 2011 as compared with 14.2% in April 2010. However, it has widened significantly by the month of January to 105.4% in 2012 as compared with 58.3% in January 2011.

On the other hand revenue receipts (up to Jan 2012) of the central government have been estimated at 69.5% of the total budgeted as compared with 92.2% of the budgeted estimates in FY2011 (up to Dec 2010).

Fiscal position FY2012 vis-à-vis FY2011

Month	% of Actuals to Budgeted Estimates FY2012	% of Actuals to Budgeted Estimates FY2011
April	18.1	14.2
May	31.7	26.5
June	39.5	10.5
July	55.4	23.8
Aug	66.3	39.7
Sep	68	34.9
Oct	74.4	42.6
Nov	85.6	48.9
Dec	92.3	44.9
Jan	105.4	58.3

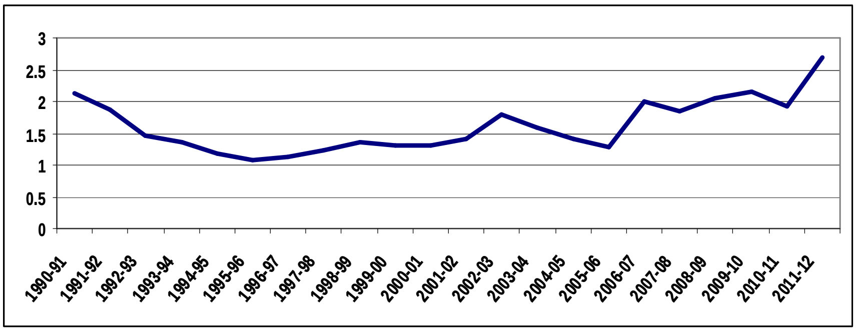
Source: PHD Research Bureau, Compiled from Union Government Accounts

Notwithstanding improvements in FY2011 concerns about fiscal slippage in FY2012 have deepens now on account of upside risks to subsidies and downside risks to revenues from moderation in growth.

Tough call on subsidies front

India's total subsidy burden as a percentage to its GDP is estimated to reach 2.5% in FY2012, which happens to be the highest in the post reforms period. The volume of subsidies as a percent of GDP has been increasing continuously since FY2004. This takes into account two supplementary demands for grants, with a net cash outgo of around Rs 66,000 crore.

Recent trend in India's subsidy burden (% of GDP)



Source: PHD Research Bureau, compiled from Planning Commission, Government of India
Note: For the year 2011-12, PHD Research Bureau has estimated subsidies as a % of GDP at 2.7%.

The third supplementary, which could come in the Budget session, has not been taken into account. If the government adds Rs 25,000 crore to the subsidy bill for 2011-12, the subsidy would touch 2.75% of GDP. The ratio in FY2012 is projected to surpass even the level attained during the Lehman crisis period, FY2009, when it stood at 2.3%.

Recent trend in India's subsidy burden

Financial Year	Subsidies (Rs. Crore)	GDP at current Market Prices (Rs. Crore)	Subsidies as a % of GDP
2003	45533	2454561	1.86
2004	44323	2754620	1.61
2005	45957	3242209	1.42
2006	47522	3692485	1.29
2007	57125	4293672	1.33
2008	70926	4986426	1.42
2009	129708	5582623	2.32
2010	141351	6550271	2.16
2011	164153	7877947	2.08
2012	223000*	8912178*	2.50**

Source: PHD Research Bureau, compiled from CSO
*Note: *CSO advance estimates 2011-12*
*** indicates estimations by the PHD Research Bureau*

The problems of mounting subsidy burden of the government, coupled with rising international crude oil prices could escalate in the coming years making the fiscal burden uncontrollable. The decontrol of petrol prices has not done much to reduce the subsidy bill as diesel, kerosene and LPG still remain subsidised.

Conclusions

The Indian economic situation is very volatile at this stage with considerable ups and downs in its key economic indicators. These indicators are performing well in some months and disappointing in others. However, the economic situation is expected to improve during the ensuing fiscal 2012-13 from the current situation and the anticipated growth trajectory of the economy is inspiring. The growth will may be moderate in the medium term at 6.9% in FY2011-12 and 7.6% in FY 2012-13. However, it is anticipated to scale up to 8.6% in FY2013-14.

Although the growth prospects for the economy look bright in coming times, it requires urgent policy actions to remove bottlenecks to growth. Going forward, the economic policy of the country should prioritise on stabilizing the macro-economic environment to retain the confidence among the investors. We believe the focus of the government on the agriculture sector will continue and it will emerge as a key growth driver of the economy. Improvements in the sector will not only help in meeting the supply side pressures in India, but will also aid in stabilizing the overall macro-economic scenario. The industry growth is set to pick up in the coming months, supported by easing liquidity conditions in the economy. Softening of lending rates will improve consumer sentiment and improve demand conditions in the economy.

The growth in investment in the economy is estimated to have registered a significant decline during the current year. The government should nudge entrepreneurs to invest more by unveiling investor friendly policies such as re-introducing allowances to new investments in infrastructure and employment intensive sectors of the economy. The government policy at this juncture should focus on inducing investments by building investors' confidence. Focus on financing of infrastructure expenditure, lowering the costs of doing business, simplification of the tax structure, improving social sector outcomes, and achieving fiscal consolidation would be critical to resume rapid growth momentum.

Anticipating government policy reforms in agriculture and industry segments, improving investment scenario vis-à-vis easing interest rate regime, though gradual, we expect the real GDP to return to around 8% with nominal GDP growth at 15% in FY 2012-13.

The economy so far March 2012

Components	Growth/Rate
Gross Domestic Product* (FY2012)	
GDP at current market prices	Rs 8,912,179 cr
GDP at factor cost at constant prices	Rs 5,222,027 cr
GDP growth (YoY % change)*(FY2012)	
Nominal GDP-factor cost	15.7%
Real GDP-factor cost (constant prices)	6.9%
Agriculture, forestry & fishing	2.5%
Industry	3.5%
Manufacturing^	4.4%
Mining ^	-2.6%
Electricity^	8.8%
Basic Goods^	5.7%
Intermediate Goods^	-1.0%
Capital Goods^	-2.8%
Consumer Goods^	7.4%
Consumer Durables^	3.9%
Consumer Non-Durables^	10.2%
Construction	4.8%
Services	9.3%
Trade, hotels, transport & comm.	11.2%
Financing, Ins., Real Est. & Bus. Services	9.1%
Community, social & personal Services	5.9%
Infrastructure**(YoY % Δ) April- JanFY12	
Core Infrastructure Industries	4.1%
Crude Oil	1.5%
Refinery products	3.1%
Coal	-1.5%
Electricity	8.6%
Cement	6.0%
Finished Steel	7.0%
Fertilizer	-0.1%
Natural Gas	-8.8%
Demand side factors as % real GDP(Market prices) * (FY2012)	
Private final cons. expenditure	58.1%
Δ Private final cons. expenditure	6.45%
Government final cons. expenditure	11.0%
Δ Government final cons. expenditure	3.91%
Gross fixed capital formation	31.9%
Δ Gross fixed capital formation	5.63%
Monetary policy as on Mar15,2012***	
Bank Rate	9.50%
SLR	24.00%
CRR	4.75%
Repo Rate	8.50%
Reverse Repo Rate	7.50%
Money Supply M3 YoY as on Jan27, 2012****	14.4%
Credit Growth YoY as on Jan27, 2012****	16.4%

Money market as on March 15,2011***	
Base Rate	10.0%-10.75%
Saving Bank Rate	-
Deposit Rate	8.50% -9.25%
91 Day T-Bills (cut off at last auction)	8.98%
182 Day T-Bills (cut of at last auction)	8.66%
364 Day T-Bills (cut of at last auction)	8.44%
Call Money Rates as on March 11,2012	7.50% -8.95%
Balance of Payments***	
Trade Balance Q2 FY2012	US $ (-)43.9 bn
Current Account Balance Q2 FY2012	US $ (-)16.9 bn
Capital and Finance Account (Net Balance) Q2 FY2012	US $ 18.4 bn
Overall Balance of Payments (Apr-SepFY2012)	US$5.7 bn
Capital Flows***	
FDI equity to India Apr-Dec FY2012^^	US$ 24.1 bn
FII (net) Apr-Dec FY2012^^	US$ 2.74bn
External debt end- Sep(2011)	US $326.6 bn
ECB's Apr-Jan FY2012	US$ 29.5 bn
Foreign Exchange Reserves as on March2,2012	US$ 294.98 bn
Fiscal Indicators	
Gross Fiscal Deficit (Centre - as a % of GDP) FY 11	4.7%
Revenue Deficit (Centre - as a % of GDP) FY 11	3.1%
Inflation** (YoY % growth)- Feb2012	
WPI of all commodities	6.9%
Primary articles	6.28%
Food Articles	6.07%
Non Food	-2.56%
Fuel and power	12.83%
Manufacturing Inflation	5.75%
Consumer Price Inflation(Jan2012)	7.65%
Foreign Trade@ April -Feb FY12	
Exports	US $ 267.4bn
Exports growth	21.4%
Imports	US $ 434.2 bn
Import Growth	29.4%
Trade Balance	-US$166.8 bn

Source: PHD Research Bureau, compiled from various sources.
*Note: *CSO Advance Estimates of National Income 2011-12;*
^ CSO's Quick estimates of IIP for Apr- Jan FY 2012;
*** Office of the Economic Advisor, Govt. of India;*
**** RBI;*
@ Ministry of Commerce & Industry, Govt. of India, ^^DIPP.

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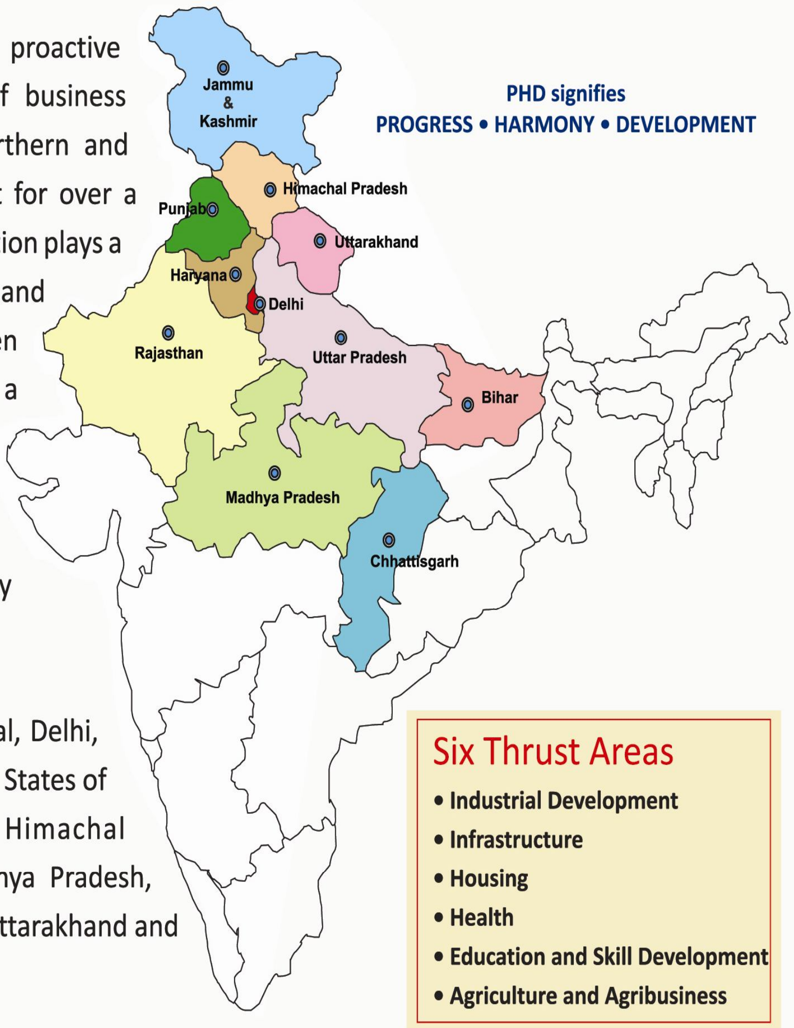
PHD Chamber is a vibrant and proactive representative organization of business and mercantile community of northern and central India, serving their interest for over a century. This apex regional organization plays a active role in India's development and acts as a much needed link between government and industry, serving as a catalyst for rapid economic development and prosperity of the community in the region through promotion of trade, industry and services.



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- **Industrial Development**
- **Infrastructure**
- **Housing**
- **Health**
- **Education and Skill Development**
- **Agriculture and Agribusiness**

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