



CRISIL

GLOBAL RESEARCH & ANALYTICS



July 2013

ECONOMY

CRISIL Insights

Through the monthly CRISIL Insights Economy series, we offer incisive analysis of macroeconomic parameters of the country. In the July issue, we forecast a reduction in GDP growth for India.

India's GDP forecast for FY13 reduced to 5.5%

CRISIL has lowered India's GDP growth forecast to 5.5% for FY13, down from its previous forecast of 6.0%. Industry and services are now expected to grow at a lower rate of 3.5% and 6.9% respectively. The forecast for agriculture GDP growth remains unchanged at 3.5%. The updated forecast was arrived at after taking into account the significantly diminished probability of a repo rate cut during the rest of the fiscal, therefore, restricting the likelihood of a fall in lending rates, the weaker-than-anticipated momentum in the manufacturing sector, along with continued contraction in mining GDP in April-May 2013, and lowering of the euro zone GDP growth forecast for 2013 to -0.8% from -0.5%. The forecast hinges critically on improvement in farm incomes following a normal monsoon.

Average WPI inflation forecast for FY13 remains unchanged at 5.3%. Weaker demand pressures and easing global crude oil and commodity prices will reduce pressures on inflation. But the sharply depreciated rupee has emerged as an upside risk. The 10-year benchmark G-sec yield is expected to settle higher at 7.5-7.7% by March-end 2014 compared to our earlier estimate of 7.3-7.5%. Recent measures by the Reserve Bank of India (RBI) to curb volatility in the rupee indicate a liquidity tightening bias. In addition, government borrowings will be higher as slower GDP growth yields lower tax revenues and widens the fiscal deficit (up to 5.2% from 5.1% estimated earlier).

irevna



The best people to work with



Balance of Payments

CAD stands at 4.8% of GDP for FY13

Industrial Production

Industrial output falls by 1.6% in May

Inflation

WPI-based inflation gains pace in June

BALANCE OF PAYMENTS

- India's current account deficit (CAD) narrowed to 3.6% of GDP for fourth quarter of FY13 led by sharp fall in merchandise trade deficit. For FY13, CAD stood at 4.8% of GDP.
- Capital account flows during FY13 were robust enough to cover the high CAD. BoP, therefore, recorded a surplus of US\$3.8 billion in FY13 compared to a deficit of US\$12.8 billion in FY12.
- Higher reliance on short-term foreign capital has increased the external account vulnerability to global shocks. While net FDI inflows fell to US\$19.8 billion in FY13 from US\$22.1 billion in FY12, net inflows on short-term trade credit jumped to US\$21.7 billion from US\$6.7 billion in FY12.

INDUSTRIAL PRODUCTION

- Industrial output fell by 1.6% in May after posting a growth of 1.9% (revised) in April. While output in the manufacturing and mining sector fell by 2.0 and 5.7% respectively in May, electricity output grew by 6.2%.
- Capital goods output fell by 2.7% in May. Last month too, capital goods output had fallen by 0.1%.
- The output of the eight core infrastructure industries with nearly 38% weight in IIP, decelerated to 2.3% in May from 7.2% in the same month last year.

INFLATION

- WPI-based inflation rose to 4.9% in June from 4.7% in May primarily due to a pick-up in food inflation. CPI based inflation grew at 9.9% in June from 9.3% in May.
- Food inflation (primary + manufacturing) rose to 8.6% in June from 7.6% in May.
- Core inflation as measured by non-food manufacturing inflation fell to 2.0% in June as compared to 2.4% in the previous month

Interest Rate

Government bond yields rise during June

Rupee

Rupee touches a record low of 61 per US\$ in the first week of July

Trade

Non-oil imports post sharpest contraction in last 10 months

- Yields on both 10-year and 1-year G-Sec rose in May. Average yields on 10-year and 1-year G-sec rose to 7.54 and 7.40 respectively in June from 7.49 and 7.34 respectively in May.
- On June 24, the new 10-year 7.16% 2023 bond was introduced. Average yield for June on this new 10-year bond at 7.5% was the same as its yield on June 24.
- Average borrowings under the RBI's liquidity adjustment facility (LAF) in June fell to Rs.645.6 billion in June from Rs.956.2 billion in May as liquidity pressures eased due to lower government borrowing.

INTEREST RATE

- On July 8, the rupee fell to a record low of 61.0 per US\$, weak by almost 13% from levels seen in early May when the rupee started depreciating. A sharp pull-out by foreign institutional investors especially from the debt markets weakened the rupee.
- On a monthly average basis, the rupee averaged at 60.0 per US\$ in the first half of July. In June, the rupee fell to 58.4 per US\$ on a monthly average basis against 55.0 per US\$ in May.
- FIIs pulled out US\$ 7.3 billion from the market in June with bulk of the exit from the debt market. In May, Net FII inflows of US\$ 5.0 billion were recorded.

RUPEE

- In June, non-oil imports posted their sharpest contraction in the last 10 months. Non-oil imports contracted by 6.7% in June compared to a year earlier.
- Oil imports, however, grew by 13.4%, leading to a 0.4% growth in overall merchandise imports.
- With imports growth remaining much above the exports growth during the first quarter of FY13, trade deficit swelled by 20.3% during the quarter compared to the same period last year.

TRADE

Source: CRISIL Research



The best people to work with

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Global Research & Analytics (GR&A)

CRISIL Global Research & Analytics (GR&A) is the world's largest and top-ranked provider of high-end research and analytics services. We are the world's largest provider of equity and credit research services. We are also the foremost provider of end-to-end risk and analytics services to trading and risk management functions at world's leading financial institutions and corporations. We operate from research centers in Argentina, China, India and Poland, working with our clients across several time zones and in multiple languages. Being part of CRISIL enables us to attract and retain top quality talent. We have over 2,300 employees, 75% of whom hold advanced degrees in finance, accounting and management. We employ the largest number of CFAs and CFA aspirants in India. We won top honors at the NASSCOM Exemplary Talent Practices Award (NEXT Practices) for the second year in a row in 2012. The award recognizes us as a firm that has the vision to proactively invest in its people and get them future-ready. We are committed to delivering cutting-edge analysis, opinions, and solutions. This underscores our proposition of being the best people to work with.

CRISIL Privacy Notice

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of McGraw Hill Financial you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view McGraw Hill Financial's Customer Privacy Policy at <http://www.mhfi.com/privacy>.

Last updated: May, 2013

Disclaimer

CRISIL has taken due care and caution in preparing this report. Information has been obtained by CRISIL from sources which it considers reliable. However, CRISIL does not guarantee the accuracy, adequacy or completeness of any information, and is not responsible for any errors in transmission; and especially states that it has no financial liability whatsoever to the subscribers / users/ transmitters/ distributors of this report.

No part of this report may be reproduced in any form or any means without permission of the publisher.

Contents may be used by news media with due credit to CRISIL.

© CRISIL. All rights reserved.

▶ Argentina ▶ Australia ▶ China ▶ India ▶ Nordic Markets ▶ Poland ▶ South Korea ▶ UK ▶ USA

For more information, please contact sales@crisil.com

Stay Connected |  Twitter |  LinkedIn |  YouTube |  Facebook



CRISIL Ltd is a Standard & Poor's company