

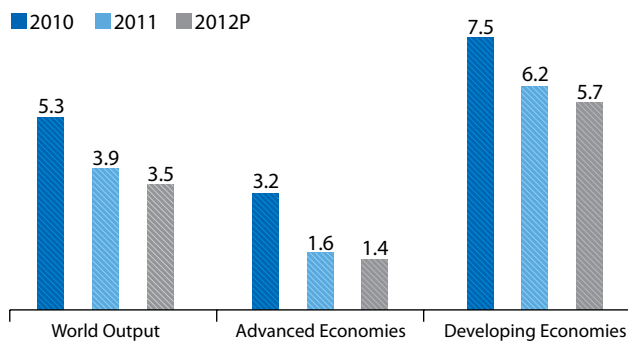
Management Discussion & Analysis

ECONOMIC OVERVIEW

Global Economy

2011 was a year of mixed fortunes for the global economy. Global economic recovery, which maintained its momentum in the first half, moderated sharply in the latter half of 2011. Consequently, the world output growth dropped down to 3.9% in 2011 from 5.3% achieved in 2010. While the economic activities showed encouraging improvements in the US, the contraction in the Euro zone – led by sovereign debt crisis in some countries – set-off the gains made in the US. The advanced economies are estimated to have grown by 1.6% for 2011.

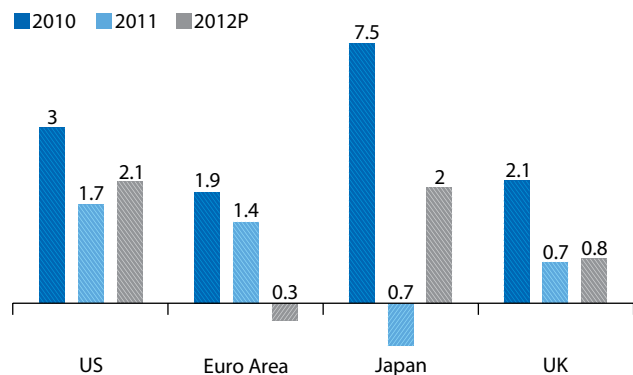
Global Output Growth (YoY, %)



Source: World Economic Outlook April 2012



Advanced Economies Output Growth (YoY, %)



Source: World Economic Outlook April 2012

The deceleration in developed economies impacts developing economies through trade and financial channels directly besides weakening the business and investment sentiments. GDP growth of developed economies slipped to 6.2% in 2011, down from 7.5% recorded in 2010. Catastrophic tsunami in Japan and geopolitical challenges in some countries in MENA region further added to headline inflation leading to monetary tightening and thus impacting growth momentum in developing economies.

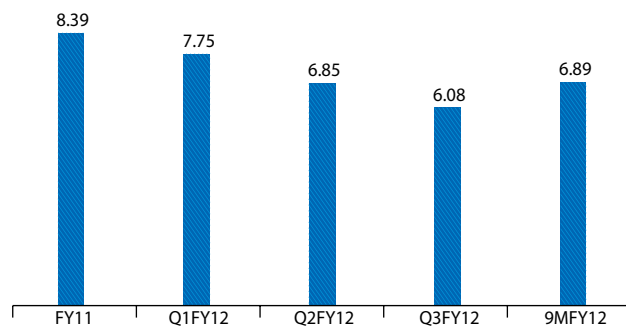
The timely intervention by European Banking Authority towards arresting the debt crisis has helped. Aimed at improving fiscal governance and policy coordination at the EU level and strengthening fiscal balance and introducing structural reforms at countries' level; several steps have been taken. These include the decision to combine the European Stability Mechanism and the European Financial Stability Facility, the introduction of three-year LTROs by the ECB, and the decision to advance the implementation of the ESM treaty to mid-2012.

In 2012, global GDP growth is projected to slip to 3.5% with advanced economies growing by 1.4% and developed economies growing by 5.7%.

Indian Economy

But for its strong fundamentals, Indian economy had many challenges in the financial year 2011-12 (FY12). Inflation staggering at a significantly higher level, unabated sequential increase in policy rates, slow down in the reform process, overall drop in investment climate, significant drop in demand – Indian economy countered many challenges. Riding on the favorable demography and the resilience displayed by its fast maturing services sector; Indian economy is estimated to have grown by 6.9% in FY12, down from 8.4% recorded in FY11 as per the Advance Estimates recently released by the Central Statistical Office.

Indian Quarterly Output Growth (YoY, %)



Source: <http://dbie.rbi.org.in/DBIE/dbie.rbi?site=home>



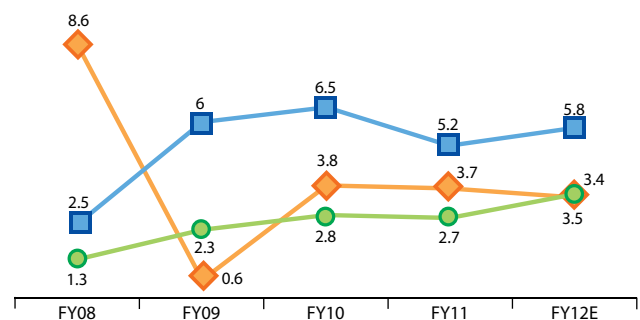
While the rising cost of living is adversely impacting the disposable income, the median age of an earning member has come down to 26 years. The National Council of Applied Economic Research (NCAER) forecasts the number of middle class households to grow from 46 million in 2003 to 124 million in 2012. Increasing penetration of media and infrastructure facilities will expose more and more households in smaller cities to urban lifestyle and gradually fuel their latent desire for improved standards of living in the coming years.

India's fiscal deficit is projected at 5.9% for 2011-12. India is now targeting a fiscal deficit of 5.1% of gross domestic product (GDP) for 2012-13. Higher fiscal deficit also led to widening of trade deficit to around 10% of GDP and current account deficit to 4% of GDP. Global rating agency S&P has downgraded India's credit rating from stable to negative, citing the slow pace of consolidation and raising doubts on its ambitious fiscal deficit reduction targets.

With inflation expected to remain under control, consolidation in fiscal deficit, peaking of interest rate and RBIs pro-growth stand should gradually improve investment sentiments, going forward.

Deficit / Surplus (%GDP)

■ Fiscal Deficit ■ Current Account Deficit ◆ Capital Account Surplus



Source: http://www.ficci.com/SEdocument/20184/Central_Budget.pdf