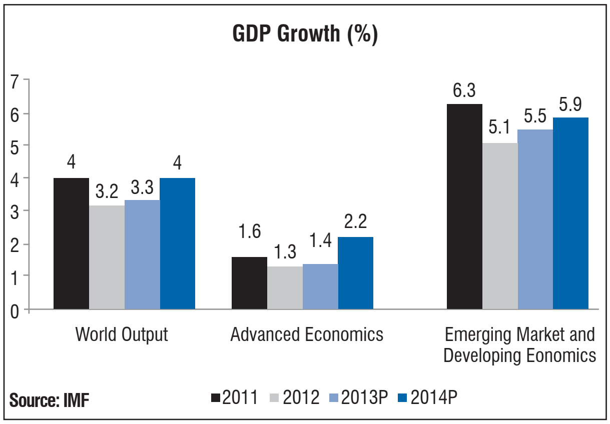
Economic Overview

Global Economy

The economic environment continued to remain somber in the year 2012. After a sharp decline in the global growth momentum in the year 2011 to 4.0 percent from 5.3 percent in the year 2010, the global growth declined further to 3.2 percent in the year 2012, barely above the recessionary growth of 3 percent. One of the key reasons for the growth slowdown was sharp decline in the growth of emerging economies during the year to 5.1 percent against the growth of 6.3 percent in the year 2011.



Number of positive policy actions taken during the year, especially by the key policy makers of the advanced economies would likely help in arresting this slide. These actions also address a few major concerns including the threat of a euro area breakup and the possibility of triggering the "fiscal cliff" in the US leading to its sharp fiscal contraction. Timely policy actions after a leadership change in European Central Bank (ECB) and in a few of the Euro member countries have resulted in bringing stability to the region's debt and currency market.

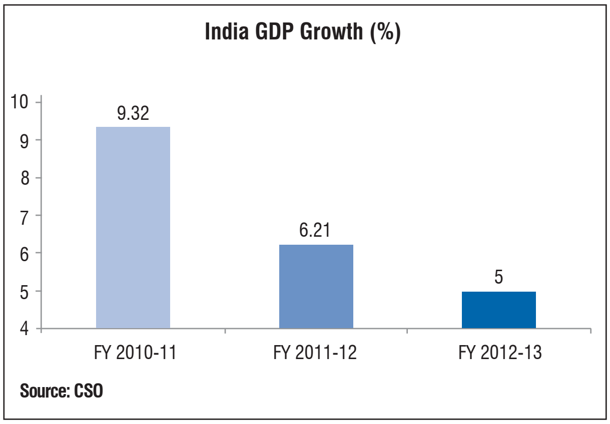
The global economy remains well supported by the exceptionally benign monetary policy by central banks of most advanced economies. These policy actions include Fed's open ended third round of quantitative easing, ECB's commitment to do whatever it takes to preserve the euro and Japan's USD 1.4 trillion quantitative easing. The interest rates in all these economies continue to be at a record low and in May 2013, ECB further reduced its interest rates by 25bps to a new record low of 0.5 percent.

Another positive factor was the resilience and better than the expected growth of the US economy. Despite a sharp slowdown and lower than the projected growth of almost all major economies, US grew much faster at 2.2 percent against the projected growth of 2.1 percent in April 2012. The US economy has been consistently building on its slow yet steady growth momentum and the unemployment rate in the US declined to a four year low of 7.6 percent in April 2013.

Going forward, while there are several downside risks that can derail the global growth momentum, the global GDP growth is expected to increase slightly to 3.3 percent during the year 2013 and more appreciably to 4.0 percent in the year 2014.

Indian Economy

During the fiscal 2012-13 (FY'13), Indian economic growth continued to remain weak and the economy grew at a decade low rate of less than 5 percent, much lower than the estimated growth rate of 6.7 percent at the start of the financial year and lower than the growth rate of 6.2 percent and 9.3 percent achieved in the financial years 2011-2012 and 2010-2011, respectively.



During the financial year, especially in the first half, almost all macroeconomic factors continued to deteriorate. Despite a sharp slowdown in growth and Reserve Bank of India's (RBI) tough stance to keep interest rates high, the inflation, especially the Consumer Price Index (CPI), remained in double digits for almost the entire year. The negative real rate of return pulled savings away from productive financial assets into unproductive physical assets like gold, which led to an increase in the current account deficit. During the year, India witnessed one of its highest current account deficits with Q3FY13's current account deficit widening to 6.7 per cent of the GDP which is way above the often stated comfortable level of 3 per cent of the GDP. Other factors like high fiscal deficit and low corporate profitability also contributed to the reduction in savings and increase in the current account deficit.