

2012: A journey of Macro events

The Three largest economies- the United States, Japan, and China struggled again in 2012 in spite of efforts and development action. The 17 countries that use the euro endured a third painful year in their financial crisis and slid into recession. Emerging economies slowed. Global economy growth again dampened in 2012. The global economy grew just 3.3%, down from 3.8% in 2011 and 5.1% in 2010, the International Monetary Fund estimates. The U.S economy, failed to gain traction, growth in the United States was only about 2%. Unemployment remained a high 7.7%.

On Euro zone, thanks in part to the European Central Bank's plan to buy government bonds to help countries manage their debts. However, some Euro nations like Greece, Spain etc are struggling to go out from recession's shadow. China's economy grew at a 7.4% annual rate in the July-September quarter. Though a scorching pace for developed countries, that marked a 3½-year low for China. In addition, at year's end, Japan's economy was shrinking.

Indian economy in 2012

Considering other emerging economies, Indian economies has outperformed on growth and policy reforms prospects. Foreign Institutional Investors have embraced regarding Indian economy, net inflows crossing Rs 1.2 lakh crore (\$23 billion) in 2012 and taking their total cumulative investment in the country's equity market to an all-time high of \$125 billion. This was the second highest net inflow by FIIs in a single calendar year since their entry into Indian capital markets in 1992. In 2010, overseas investors had a record Rs 1.33 lakh crore (\$29 billion) net investment into the share market.

Despite of policy reforms and government's aggressiveness on economic growth, all macro indicators revealed so-so situation.

> **Government press the reforms button:** The union Cabinet cleared the much-awaited proposal to set up the Cabinet Committee on Investment (CCI) and amendments to the Land Acquisition Bill. The Cabinet also approved re-auction of the 1,800-MHz band spectrum in 3 telecom circles at a base price 30% lower than that fixed for the recently concluded auction.

> **Win-Win for Banking and Companies Amendments Bill:** For attracting more foreign investors into the Banking Industry and providing voting right to investors in private sector banks Lok Sabha has approved Banking Amendment bill. The government gave a facelift to 56-year-old companies act. On 18 December, the Lok Sabha passed the Companies Act 2012.

> **FDI on Retail on a knee Jerk:** In Parliament, government ensured a clear victory on the question of allowing foreign direct investment (FDI), in multi-brand retail. That, however, has not dispelled all doubts about the future of foreign investment in the country's retail sector. There is still no clarity on whether FDI in multi-brand retail has overcome all the political hurdles and the policy change is now irreversible.

> **GAAR defer by 3years, a cozy decision:** Shome panel has recommended that the rules be deferred by 3 years. In a major positive for the markets and investors, it also suggested the abolition of tax on gains from transfer of listed securities.

> **A decade low of GDP growth at 5.7-5.9%:** The finance ministry has expressed its expectation of a "supportive" policy to help the economy grow at 5.7-5.9% in 2012-13. Though this growth estimate is significantly lower than the 7.6% originally pegged in the Economic Survey, it would require the economy to expand by 5.9-6.3% in the second half of the financial year, against 5.4% seen in the first.

> **Sky touching Inflation:** Inflation has risen to "unacceptably" high levels in the past two years, and it needs to be brought down to 5-6% from over 7.24% in November.

> **RBI maintains status quo on interest rates:** RBI kept key policy rates unchanged but hinted at cutting rates in January, saying the focus of the monetary policy would now shift to spurring growth as inflationary pressures are easing.

> **New Pharma Policy for Aam Aadmi :** In November, the Government cleared the National Pharmaceutical Pricing Policy that will bring 348 essential drugs under price control, leading to reduction in prices. It took the government over nine years to decide how to make essential medicines affordable for the common person in India.

Despite of global financial uncertainties, Investors will closely watch to all reforms and updates in near term, big bang FDI reforms likely to spur investments in 2013. We expect that 2013 will be good for FDI and India will be in position to attract more foreign investments.