# Is the worst over for investors?

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With outlook improving for inflation and interest rates, macro metrics may soon turn the corner, thereby paving the way for sharper recovery in stock prices.

After three successive years of anaemic growth, the coming year (fiscal 13-14) may hold some promise for the upturn. With base effect kicking in alongwith the hope for reversal of interest rate cycle and recovery in investment cycle, chances of real dawn showing up have never been brighter. But nothing can be taken for granted given the precarious nature of twin deficits (Fiscal and Current account) and the stubborn nature of the inflationary trend so far.

Sustained and aggressive rate cuts are key to reviving growth (especially in investment demand).The RBI is keeping a tight lip on this while pundits have been busy making predictions. It will be keenly watching the quality and progress of the Finance Minister's fiscal adjustments besides looking for softening of core inflation (prices of manufactured goods) to decide on cutting policy rates. On both counts, there are reasons to believe that the outlook is turning more positive. Confidence on this stems from (1) credible fiscal plan that has been laid out in the Budget by the Finance Minister and (2) expected boost from base effect on an already softening core inflation. Moody's endorsement of the fiscal roadmap as well as the GDP growth projections for fiscal '13 is a big thumbs up and should clear any doubt that may still linger in the minds of officials in the Mint street.

There were worries (justifiable though) that the Government might fund its most ambitious (and most populist) food security bill by cutting down plan expenditure (capital investment outlays), while projecting a market friendly headline fiscal number of sub 5 per cent.

These fears became more pronounced in the days leading to the Budget given the political compulsions (with elections not far away) of the current administration.

The reasons for the RBI's discomfort on such an approach are not difficult to fathom. Diverting funds from plan allocation to social programmes will fuel food inflation while hurting industrial growth and thus worsening the already fragile inflationary trend.

But the fears proved unfounded. The Finance Minister deserves more credit than what the market has given for not succumbing to such pressures and for presenting a more fiscally prudent budget in a politically sensitive time.

For critics who lament cynically that the Budget lacked any big-bang moves, it needs to be understood that it was a deliberate attempt by the Finance Minister to keep it a non-event, given his penchant for clever policy actions (reforms) outside budget (so as to keep the opposition at bay). So, it was no surprise that there were no fireworks in this Budget. All that it means is that one will see lot more actions on the policy front in the coming days and months, going by Finance Minister's track record over the past six months.

Taking these together (fiscal prudence and stronger policy actions), there is now a growing case for the RBI to return the favour by cutting rates aggressively. Well coordinated monetary and fiscal actions can script a very convincing turnaround story for India. With the Government setting the right tone and pace for such a script, the story should play out smoothly though minor twists and turns cannot be avoided. Of course, the current account deficit (CAD) and pressure on the rupee are key imponderables which the RBI will keep a close watch when it starts loosening its hold on the reins, as those macro risks have not gone away especially with the election risks looming large.

It may not be far-fetched to say that India is going through a classical bottoming process at the moment with all economic indicators at its worst point with CAD at 5 per cent of the GDP and earnings cycle at its low, besides the weakening rupee. With outlook improving for inflation and interest rates, macro metrics may soon turn the corner, thereby paving the way for sharper recovery.

*(The author is CEO & MD TrustLine Holdings Pvt Ltd. The views are personal)*