Some Perspectives on the Indian Economy[1]

Mr. Chairman and Friends,

I am greatly honored by the invitation extended to me by the Peterson Institute for International Economics to share some of my thoughts on the Indian economy. This meeting is reflective of the recently observed growing interest and confidence in the status and future of the Indian economy. Today, I intend to submit that, since independence in 1947, the Indian economy has been on the whole, on a path of gradually self-accelerating development accompanied by reasonable stability. There has been a noticeable acceleration in the level of confidence and the performance of the Indian economy in the 21st century. The short-term prospects, despite recent global uncertainties, continue to be, by and large, benign for India. Over the medium-term, there are several challenges and opportunities. The public policy may, therefore, have to specially focus on these aspects in order to meet not only the expectations of the global community, but also, and more importantly, the aspirations of millions of people in India, particularly the poor and the underprivileged from diverse backgrounds.

I. Self-Accelerating Growth since Independence and in the New Millennium

Before independence, during the first five decades of the 20th century (1900-01 to 1946-47), the annual average growth performance of the Indian economy was dismal, averaging 0.9 per cent. Since the beginning of the planned development process in the early 1950s, the GDP growth displayed a self-accelerating tendency reaching a level of around 6.0 per cent in the 1990s. Two exceptions during this phase were the dipping of the growth rate in the 1970s to 2.9 per cent and during the crisis year of 1991-92[2] when the growth was as low as 1.4 per cent. The record of inflation in India has been satisfactory. Since independence, the wholesale price inflation, on an average basis, was above 15 per cent in five out of fifty years. In thirty six years, out of fifty, inflation was in single digit and on most occasions high inflation was due to external and domestic shocks such as sharp rise in fuel and food prices.

In the new millennium, the GDP growth rate has accelerated further averaging 6.9 per cent during the seven-year period 2000-01 to 2006-07, while the growth rate in the last four years (2003-04 to 2006-07) averaged 8.6 per cent. In 2005-06 and 2006-07, it has grown still higher at 9.0 per cent and 9.4 per cent, respectively. During this phase too, in one year during 2002-03, the growth rate dipped to 3.8 per cent due to drought conditions in several parts of the country leading to significant fall in agricultural production. The acceleration of growth during this period has been accompanied by a significant moderation in volatility, especially in industry and services sectors. It is also useful to recognize that the growth process in India is mainly driven by domestic consumption, which contributed, on an average, to almost two-thirds of the overall demand.

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[1] Address by Dr. Y.V.Reddy, Governor, Reserve Bank of India at the Peterson Institute for International Economics, Washington D.C., USA on October 17, 2007.

[2] In India, the fiscal year is from April 1 to March 31

The strengthening of economic activity in the recent years has been supported by persistent increase in gross domestic investment rates from 24.3 per cent of GDP in 2000-01 to 33.8 per cent in 2005-06 and domestic saving rate from 23.7 per cent in 2000-01 to 32.4 per cent during 2005-06. It may also be noted that over 90 per cent of investment during this period was financed by domestic savings.

In tandem with acceleration in the rate of investment in the economy, there has been evidence of a pickup in productivity and efficiency of capital use. Some of the recent studies relating to India have indicated an increase in total factor productivity (TFP) growth in recent years. For instance, Rodrick and Subramanian, in an IMF working paper of 2004, point out that India seems to have achieved a large amount of productivity growth from relatively modest reforms.

While growth rate has picked up in the new millennium, the inflation rate has moderated to still lower levels ensuring price stability. Since 2000-01, annual inflation rate as measured by Wholesale Price Index has averaged below 5 per cent, despite the recent oil price shock. The highest annual inflation, on a point-to-point basis recorded in the new millennium was for 2002-03 (6.5 per cent) when the growth rate was adversely affected due to drought conditions in some parts of the country. More recently, the wholesale price inflation after reaching a peak 6.7 per cent at end-January 2007, mainly due to food price shocks, has edged downwards to 3.3 per cent during the week ended September 29, 2007.

The high growth in GDP has been accompanied in more recent years by increase in the rate of growth of money supply and non-food credit, mainly reflecting the surge in capital flows into the country. These developments led to a lively debate on the evidence of signs of overheating in the economy, but subsequent moderation in inflation has been helpful. The Reserve Bank contributed to the moderation through timely and appropriate monetary measures and also certain prudential measures such as enhancing the provisioning requirements and risk weights for select categories of banking assets, namely consumer finance, real estate, housing and capital market exposures. These measures were needed to specifically address the issues of rapid credit growth and the possible impact of asset price movements on banks' balance sheets in a bank-dominated financial sector.

The fiscal management in the country has significantly improved with the combined fiscal deficit of Centre and States declining from 9.5 per cent of GDP in 2000-01 to 6.4 per cent in 2006-07. However, combined public debt of the Centre and the States, as proportion of GDP, remains high at over 70 per cent.

India's external sector has become resilient with the current account deficit being maintained at very modest levels after a few years of marginal surplus during 2001-02 to 2003-04. The value of both exports and imports, in US dollar terms, have tripled by 2006-07 relative to 2000-01, and the current account deficit remained modest at 1.1 per cent of GDP or below for four out of the seven years, while there was a surplus in the remaining years. India is, *de facto*, a very open economy with value of trade in goods and services having increased from 29.2 per cent of GDP in 2000-01 to 49.2 per cent in 2006-07. On account of strong capital flows, there have been accretions to foreign exchange reserves, which, at US $ 251.3 billion as on October 5, 2007 are currently higher than the external debt (US$ 165.4 billion at end-June 2007). Exchange rate displayed a two-way movement for most of the period, both in nominal and real terms.

Financial sector reforms, which were introduced in the early 1990s as a part of the structural adjustment and economic reforms programme, had a profound impact on the Indian economy. With a view to making the reform measures mutually reinforcing, the reform process was carried forward by adopting the international best practices through a consultative and gradual process. While the main objective was the enhancement of efficiency in the financial system, a concomitant goal was to impart stability in a new market oriented environment.

Major policy measures in the financial sector relate to phased reductions in statutory pre-emption like cash reserve ratio and statutory liquidity requirement and deregulation of interest rates on deposits and advances, except for a select segment. The Reserve Bank has endeavoured to establish an enabling regulatory framework supported by effective supervision, and development of legal, technological and institutional infrastructure. The regulatory norms with respect to capital adequacy, income recognition, asset classification and provisioning have progressively moved towards convergence with the international best practices. The Basel-II capital adequacy framework is being implemented in a phased manner with effect from March 2008. The diversification of ownership of banking institutions has been enabled through private shareholding in the public sector banks and competition has been enhanced with the entry of private and foreign entities and foreign capital in the financial sector. The banking sector reform combines a comprehensive reorientation of competition, regulation and ownership in a non-disruptive and cost-effective manner.

Development of financial markets received a strong impetus from financial sector reforms since the early 1990s. The Reserve Bank has been engaged in developing, widening and deepening of money, government securities and foreign exchange markets along with the development of an efficient and robust payments and settlement system. A wide range of regulatory and institutional reforms was introduced in a planned manner over a period to improve the efficiency of these financial markets. These included development of market micro structure, removal of structural bottlenecks, introduction and diversification of new players and instruments, free pricing of financial assets, relaxation of quantitative restrictions, better regulatory regimes, introduction of new technology, improvement in trading infrastructure, clearing and settlement practices and greater transparency. On the whole, equity markets, forex markets and government securities markets are in alignment with the global best standards, while early development of a healthy corporate debt market has been accorded highest priority.

II. Short-Term Prospects

For monetary policy purposes, the Reserve Bank, in its Annual Policy Statement of April 2007, placed the real GDP growth for 2007-08 at around 8.5 per cent, assuming no further escalation in international crude prices and barring domestic or external shocks. The policy preference for the period ahead is strongly in favour of price stability and well-anchored inflation expectations with the endeavour being to contain inflation close to 5.0 per cent in 2007-08 and to the range of 4.0–4.5 per cent over the medium-term. For the purpose of monetary policy formulation, the Reserve Bank has projected the growth rate of money supply (M3) at around 17.0-17.5 per cent and non-food credit at 24-25 per cent for 2007-08 in consonance with the outlook on growth and inflation. While retaining the stance of the monetary policy, the Reserve Bank has flagged the importance of financial stability in the First Quarter Review of the Annual Policy Statement issued on July 31, 2007.

According to the Central Statistical Organisation, during the first quarter of the financial year 2007-08 (April-June, 2007), the real GDP grew by 9.3 per cent on the back of 9.1 per cent in the last quarter of 2006-07 (January- March, 2007) and 9.6 per cent in the first quarter of the previous year (April-June, 2006). The wholesale price index inflation, on a year-on-year basis, decreased to 3.3 per cent during the week ended September 29, 2007 from 5.4 per cent a year ago. The consumer price index inflation (for industrial workers) was 7.3 per cent in August 2007 as against 6.3 per cent during the same period of the previous year. As on September 28, 2007, the broad money (M3) supply growth was 21.0 per cent on a year-on-year basis (19.0 per cent last year). Though non-food credit growth was buoyant and broad based, it declined to 22.1 per cent as on September 28, 2007 from 31.6 per cent a year ago. While exports continued the momentum, imports rose sharply, leading to widening of trade deficit to US $ 32.5 billion during April-August 2007 as against US $ 19.9 billion during the same period last year. Currently, the cash reserve ratio, which is the unremunerated reserves kept with the Reserve Bank, is at 7.0 per cent, while the repo rate and reverse repo rate are at 7.75 per cent and 6.0 per cent, respectively.

Risks from global developments continue to persist, especially in the form of inflationary pressures, re-pricing of risks by financial markets and the possibility of a downturn in some of the asset classes. Excessive leveraging has enhanced the vulnerability of the global financial system. Large changes in liquidity conditions are obscuring the assessment of risks, with attendant uncertainty. Given the flux associated with both the financial markets and the monetary policy settings globally, India cannot be immune to these developments. The policy challenge for the Reserve Bank, now, is to manage the current transition to a higher growth path while containing inflationary pressures and focusing on financial stability. Contextually, we in the Reserve Bank are, therefore, maintaining enhanced vigilance to be able to respond appropriately to the prevailing heightened uncertainties in global financial as well as monetary conditions.

We expect to provide a detailed assessment of the evolving macroeconomic conditions as part of the Mid-Term Review of the Annual Policy due to be released on October 30, 2007. The Technical Advisory Committee on Monetary Policy is meeting on October 25, 2007, which will, as usual, provide valuable guidance for the Review.

III. Medium Term: Challenges and Prospects

For a large and diverse economy like India, with a low per capita income that is undergoing structural transformation in a highly uncertain global environment, challenges for public policy are manifold. I would like to focus on a few challenges that have been articulated in the latest Annual Report of the Reserve Bank of India – a document that reflects the views of the distinguished members of our Board of Directors on the subject.

First, the recent upward trends in global prices of major food items have significant implications for the domestic agricultural sector and overall macroeconomic and financial stability. Although the share of agriculture in overall GDP has declined over the years from around 38 per cent in 1980-81 to less than 20 per cent in 2006-07, agriculture continues to play an important role in the Indian economy. The proportion of the population dependent upon agriculture remains large at almost 60 per cent. Since the mid-1990s, however, the growth of the agricultural sector has been low as well as volatile. Volatility in agricultural production has implications not only for overall growth but also, as the experience of 2006-07 amply demonstrated, for maintaining low and stable inflation. Thus, enhanced growth of the agricultural sector is vital for ensuring food security, poverty alleviation, price stability, overall inclusive growth and sustainability of growth of the overall economy. In view of significant weather and price risks, appropriate risk mitigation policies would need to be put in place to provide relief to distressed farmers as well as enhance the efficiency of production. In view of small and fragmented farm holdings, the population dependent upon agricultural activity will have to increasingly rely on non-farm sources of income in future. Thus, diversification towards activities such as poultry, food processing and other rural industries will be critical for the betterment of living standards in rural areas.

Second, the absence of modern infrastructure and shortage of skilled manpower are the most critical barriers to the growth. It is imperative to augment the existing infrastructure facilities, particularly roads, ports and power to provide an enabling environment for industry to prosper. There has been a mixed progress in the infrastructure sector so far. The telecom sector has witnessed a significant progress as reflected in the growing mobile telephony in the country. Railways and ports have also witnessed some improvement. However, the progress remains less than adequate in other sectors such as power, coal, water, roads, urban infrastructure and rural infrastructure. Despite having significant reserves of coal – the third largest in the world, after the United States and China – the country continues to suffer from inadequate domestic supplies and problems of coal shortages. Further reforms in the mining sector may be necessary to increase the mining growth and ease constraints on industrial growth. Higher electricity generation will need assured fuel supplies. The demand for coal, thus, is expected to be significantly higher than that in the recent past. Again, urban infrastructure is a vital element in the growth process. Studies show that increase in the size of urban agglomerations is associated with large productivity gains. Strengthening the management of cities will enable improvement in urban infrastructure facilities across the country.

Third, the impressive performance of the services sector was attributable largely to the availability of skilled and cheap labour. However, the sustained acceleration in the services and the manufacturing activities is leading to incipient pressures on the supply of good quality skilled labour. While its demographic profile places the country favourably in terms of manpower availability, there are reports of emerging talent supply shortages. Only 10 per cent of the relevant age group is getting enrolled into institutions of higher learning in the country as compared with 40-50 per cent in most developed countries. Less than a half of the secondary school students pursue college education. Moreover, the quality of education imparted in several colleges and universities in the country remains less than adequate to meet the emerging demands for skilled professionals. In order to reap the benefits of the demographic dividend, substantial expansion and reforms in the education sector would be needed on an urgent basis.

Fourth, reprioritisation of expenditures towards social sectors and improvement in the operational efficiency of the Government are essential. Higher public spending on social services, coupled with a focus on quality, would improve the social infrastructure and provide productivity gains. For the current growth momentum to be entrenched on a durable basis, there is a need for a significant enhancement in capacity building and in the availability of public services that cannot be adequately provided by the private sector. Fiscal empowerment would allow higher outlays for boosting infrastructure and social sector spending, which will have a beneficial impact on domestic productivity, growth and employment.

Finally, to meet the growing credit demand, banks need to widen their deposit base. In particular, banks need to bring more and more financially excluded people within their fold. Apart from helping the low-income households, this would also help strengthen the financial deepening and provide necessary resources to the banks to expand credit and sustain high economic growth.

The Indian economy has some inherent strengths, both quantifiable and non-quantifiable, which would facilitate meeting the challenges ahead. Apart from the quantifiable strengths, which I alluded to earlier, in my view, there are certain 'not easily quantifiable strengths', which India possesses. A vast pool of science and technology graduates and the millions of people who are familiar with English language are some of the sources of strength. The familiarity with multiple languages in India prepares the people to adapt better to multi-cultural situations, making it easier for them to adapt in an international environment. As the largest democracy of the world, the existence of a free Press provides some insurance against excesses and makes the Governments at all levels more accountable than otherwise. Impressive are the initiatives of many States for empowerment of women, which help them to defend their rights and gain greater self-esteem and control over their own personal lives and social relationships. The political climate in India is characterized by what may be termed as political system stability, despite the coalition cabinets and periodic elections, both at the Centre and in several States. India's "demographic dividend" for the next few decades is seen as an advantage provided the prerequisites such as effective mechanisms for skill-upgradation and sound governance to realise the dividend are put in place. In terms of business environment, the impressive growth coupled with the market orientation of the economy has been a bottom-up exercise. This trend is perhaps reflective of a penchant for innovation by the already large and growing entrepreneurial class in India, imbued with professionalism and seeking to be globally competitive.

To conclude, one of the determining factors in India, for moving forward, would be the reforms in governance, that are critical to strengthen State capacity to perform its core functions more effectively and equitably. The business community has a vital stake in the improvement of the quality of governance by empowering the public institutions, since good governance can prevail only when public institutions function fairly and efficiently.

Let me conclude by thanking the Institute, in particular Dr. Arvind Subramanian, for giving me the privilege of making the presentation.

I now eagerly look forward to the interactive session that follows.

Thank you

Table 1: Growth and Inflation in India - A Historical Record (Per cent)		
Period (Averages)	GDP Growth Rate	WPI Inflation Rate
1951-52 to 1959-60	3.6	1.2
1960-61 to 1969-70	4.0	6.4
1970-71 to 1979-80	2.9	9.0
1980-81 to 1990-91	5.6	8.2
1991-92 (Crisis Year)	1.4	13.7
1992-93 to 1999-00	6.3	7.2
2000-01 to 2006-07	6.9	5.1

Table 2: India: Select Economic Indicators
(Fiscal Year is April 1 to March 31)

	Indicator	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Real Sector								
1	Gross Domestic Product (GDP), Nominal, US dollar billion*	460	478	508	602	696	806	911
2	GDP, Real, percent change	4.4	5.8	3.8	8.5	7.5	9.0	9.4
3	Per Capita Income, US dollar#	455	461	473	543	618	712	797
4	Industry GDP, Real, percent change	6.4	2.7	7.1	7.4	9.8	9.6	10.9
5	Services GDP, Real, percent change	5.7	7.2	7.4	8.5	9.6	9.8	11.0
6	Saving Rate, as percent to GDP	23.7	23.5	26.4	29.7	31.1	32.4	-
7	Investment Rate, as percent to GDP	24.3	22.9	25.2	28.0	31.5	33.8	-
Money, Prices, Credit								
8	Broad Money (M3), end March, year on year percent change	16.8	14.1	12.7 @	16.7	12.1@	17.0 $	21.3
9	Broad Money (M3), end March, percent to GDP	62.5	65.7	69.9	72.5	72.0	76.5	80.2
10	Wholesale Price Index, end March, year on year percent change	4.9	1.6	6.5	4.6	5.1	4.1	5.9
11	CPI, Industrial Workers, end March, year on year percent change	2.5	5.2	4.1	3.5	4.2	4.9	6.7
12	Bank Credit to Commercial Sector, end March, percent to GDP	32.3	33.3	36.6	36.7	40.9	47.5	51.5
13	Non-food Credit, end March, year on year percent change	14.9	13.6	18.6	18.4	27.5@	31.8$	28.4
Fiscal Sector								
14	Gross Fiscal Deficit of Centre, percent to GDP	5.7	6.2	5.9	4.5	4.0	4.1	3.5
15	Combined Gross Fiscal Deficit, Centre and States, percent to GDP	9.5	9.9	9.6	8.5	7.5	6.7	6.4
16	Combined Debt to GDP, percent	70.8	76.4	81.0	81.6	82.5	80.5	77.0
External Sector								
17	Export of Goods, BoP, US dollar billion	45.4	44.7	53.8	66.3	85.2	105.2	127.1
18	Import of Goods, BoP, US dollar billion	57.9	56.3	64.5	80.0	118.9	157.0	192.0
19	Merchandise Trade Deficit, BoP, US $ billion	12.5	11.6	10.7	13.7	33.7	51.8	64.9
20	Current Account Balance, (+ surplus/-deficit), US dollar billion	-2.7	3.4	6.3	14.1	-2.5	-9.2	-9.6
21	Current Account Balance (+ surplus/- deficit), percent to GDP	-0.6	0.7	1.2	2.3	-0.4	-1.1	-1.1
22	Net Capital inflows, US dollar billion	8.8	8.6	10.8	16.7	28.0	23.4	44.9
23	Foreign Direct Investment Inflows, US dollar billion	4.0	6.1	5.0	4.3	6.0	7.7	19.4
24	Foreign Direct Investment, Outflows, US dollar billion	0.8	1.4	1.8	1.9	2.3	2.9	11.0
25	Net Portfolio Flows, US dollar billion	2.6	2.0	0.9	11.4	9.3	12.5	7.1
26	Net External Commercial Borrowings Inflows, US dollar billion	4.3	-1.6	-1.7	-2.9	5.2	2.7	16.1
27	Net Non Resident Indian Inflows, US dollar billion	2.3	2.8	3.0	3.6	-1.0	2.8	3.9
28	International Reserves, end March, US dollar billion	42.3	54.1	76.1	113.0	141.5	151.6	199.2
29	Reserves to Debt, percent	41.7	54.7	72.5	101.2	114.0	118.8	127.1
30	Openness, trade in goods and services as percent to GDP	29.2	27.6	30.7	31.5	39.5	44.8	49.2
31	Total External Debt, percent to GDP	22.5	21.1	20.3	17.8	17.4	16.0	16.6
32	Exchange Rate, Rupees per US dollar, financial year average	45.7	47.7	48.4	45.9	44.9	44.3	45.3
33	Real Effective Exchange Rate, percent change	5.3	-0.1	-4.9	1.5	2.6	5.4	-1.7

Note: - : Not Available ; * Calculated by dividing GDP at Current Market Prices by average exchange rate during the financial year.
\# Per Capita income is on annual basis taken from the World Economic Outlook database.
@: Adjusted for the mergers and conversions in the banking sector; $: Variation over April 1, 2005
Source: World Economic Outlook, IMF; Global Financial Stability Reports, IMF; World Development Indicators, World Bank.

Table 3: India: Financial Sector Indicators
(Fiscal Year is April 1 to March 31)

	Indicator	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (P)
1	Banking Sector Assets, percent to GDP	67.1	73.3	75.3	77.6	82.8	86.9	-
2	Scheduled Commercial Banks (SCBs), Capital to Risk Weighted Assets Ratio (CRAR), percent	11.4	12.0	12.7	12.9	12.8	12.3	12.3
3	SCBs Bank Credit-Deposit Ratio, percent	53.1	53.4	56.9	55.9	64.7	71.5	74.0
4	SCB's Net Profit, percentage of total assets	0.49	0.75	1.01	1.13	0.89	0.88	-
5	SCBs Gross Non-performing Assets to gross advances, percent	11.4	10.4	8.8	7.2	5.2	3.5	2.7
6	SCBs Net Non-performing Assets to Net Advances, percent	6.2	5.5	4.0	2.8	2.0	1.3	1.1
7	SCBs Gross Non-performing Assets to Total Assets, percent	4.9	4.6	4.0	3.3	2.5	1.9	-
8	SCB's Operating Expenses, percentage of total assets	2.64	2.19	2.24	2.21	2.13	2.11	-
9	Net Interest Margin of SCBs, percentage of total assets	2.85	2.57	2.77	2.88	2.83	2.78	-
10	Equity market, market Capitalisation, percent to GDP	27.2	26.8	23.3	43.4	54.3	84.7	85.9
11	Equity Market, turnover Ratio, percent@	409.3	134.0	162.9	133.4	97.7	78.9	81.8
12	Foreign Exchange Market, turnover, US dollar billion	1,387	1,421	1,560	2,118	2,892	4,413	5,219
13	Exchange Rate of Rupee, per US dollar, average	45.68	47.69	48.40	45.95	44.93	44.28	45.28

@:Turnover Ratio equals total value of shares traded divided by stock market capitalisation.; P:Provisional
Note: Data for 2006-07 relating to Scheduled Commercial Banks (SCBs) is being finalized.

Table 4: Short-Term Prospects			
(Fiscal Year is April 1 to March 31)			
	Period*	2006-07	2007-08
Real Sector			
1. GDP, Real, percent change @		9.6	9.3
(i) Agriculture, Forest. & Fishing, Real, percent change		2.8	3.8
(ii) Industry, Real, percent change		10.6	10.6
Mining, Real, percent change		3.7	3.2
Manufacturing, Real, percent change		12.3	11.9
Electricity, Real, percent change		5.8	8.3
Construction, Real, percent change		10.5	10.7
(iii) Services, Real, percent change		11.7	10.6
Trade, hotels, restaurant, transportation, storage & Communication, Real, percent change		12.4	12.0
Financial, insurance, real estate. & business Services, Real, percent change		10.8	11.0
Community, social & personal services, Real, percent change		11.3	7.6
2. Index of Industrial Production (IIP), percent change	April-August	11.0	9.8
3. Index of Infrastructure Industries, percent change	April-August	8.3	6.6
Prices			
4. Wholesale Price Index, percent change, 52 weekly average	As on Sept. 29	4.55	5.28
5. Wholesale Price Index, percent change, year on year @@	As on Sept. 29	5.41	3.26
6. Consumer Price Index, percent change, year on year	August	6.3	7.3
Money and Credit			
7. Broad Money (M3), year on year, percent change @@@	As on Sept.28	19.0	21.0
8. Reserve Money, year on year, percent change	As on Oct. 5	16.6	25.8
9. Non-Food Credit, year on year, percent change @@@@	As on Sept.28	31.6	22.1
Fiscal			
10. Gross Fiscal Deficit, Central Government, per cent to GDP	Budget Est.	3.5 $	3.3
11. Revenue Deficit, Central Government, per cent to GDP	Budget Est.	1.9$	1.5
External Sector			
12. Merchandise Export, US dollar billion	April-August	50.3	59.4
13. Merchandise Export, percent change	April-August	27.1	18.2
14. Merchandise Imports, US dollar billion	April-August	70.2	92.0
15. Merchandise Import, percent change	April-August	20.6	31.0
16. Merchandise Trade Deficit, US dollar billion	April-August	19.9	32.5
17. Current Account Bal, (+ surplus/-deficit), US dollar billion		-4.6	-4.7
18. Foreign Direct Investment inflows, US dollar billion	April-July	3.7	6.6
19. Foreign Institutional Investment Inflows, US dollar billion #	April-Sept	-0.1	15.5
20. Non-Resident Deposits Inflows, US dollar billion #	April-July	1.6	-0.1
21. Foreign Exchange Reserves, US dollar billion	As on Oct 5	165.3	251.3
22. External Debt, US dollar billion	End-June	133.5	165.4

* Period is April-June unless otherwise specified # : Figures in minus indicate outflows; $: Provisional Accounts
@ : RBI places it at around 8.5 per cent for 2007-08.
@@ : RBI expects to contain it close to 5.0 per cent in 2007-08.
@@@ : RBI's projection at 17.0-17.5 per cent for 2007-08.
@@@@: RBI's projection is 24-25 per cent for 2007-08.

Table 5: Medium-Term Prospects

Challenges

- Agriculture, though the share in GDP is less than 20 per cent, the population dependent on it remains large (almost 60 per cent). Thus, enhanced growth of the agricultural sector is vital for ensuring food security, poverty alleviation, price stability, overall inclusive growth and sustainability of growth of the economy.
- Absence of modern infrastructure and shortage of skilled manpower are the most critical barriers to the growth. It is imperative to augment the existing infrastructure facilities, particularly roads, ports and power, to provide the enabling environment for industry to prosper.
- In order to reap the benefits of the demographic dividend, substantial expansion and reforms in the education sector would be needed on an urgent basis.
- Reprioritization of expenditures towards social sectors along with higher capital outlays would promote fiscal discipline without restricting operational efficiency of the Government. Fiscal empowerment would allow higher capital outlays and boost infrastructure and social sector spending with beneficial impact on domestic productivity, growth and employment. It is, thus, necessary to emphasise the criticality of quality of fiscal adjustment.
- To meet the growing credit demand and sustain high economic growth, banks need to widen their deposit base. Banks need to bring more and more financially excluded people within their fold, which would help the low-income households and strengthen the financial deepening.

Strengths

- A vast pool of science and technology graduates and the millions of people who are familiar with English language.
- Familiarity with multiple languages makes adaptation better to multi-cultural situations, making it easier for them to fit into international systems smoothly.
- As largest democracy of the world, the existence of a free press provides some insurance against excesses and makes Governments more accountable than otherwise.
- Empowerment of women which help them to defend their rights and help to gain greater self-esteem and control over their own personal lives and social relationships.
- Despite the coalition cabinets and periodic elections, the political climate is characterized by political system stability.
- "Demographic dividend" is seen as advantage provided prerequisites such as skill-up-gradation and sound governance to realize it are put in place.
- In terms of business environment, emergence of very broad-based growing entrepreneurial class with a penchant for innovation and imbued with professionalism, seeking to be globally competitive.

A Determining Factor

- To strengthen State capacity and to enable it to perform its core functions more effectively and equitably.