Speech

INDIAN ECONOMY: A RETROSPECT AND PROSPECTS*

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Coming to Tirupati is like a journey down memory lane for me. I belong to a village nearby though in Cuddapah district, studied what was known then as Intermediate Course in Sri Venkateswara University and worked for several years on development of the Rayalaseema region. I served in Chittoor, your district as Secretary, Zilla Parishad in 1967. So, for more than one reason, I am grateful to the organisers for giving me this opportunity to be with you, in a gathering sponsored jointly by The Madabhushi Ananthasayanam Institute of Public Affairs and The Statistics, Economics and Commerce Departments of Sri Venkateswara University. Shri Ananthasayanam garu, who hailed from Tiruchanur, was an eminent lawyer, Sanskrit scholar, a freedom fighter, and a Parliamentarian of great standing who was respected by leaders like Panditji and Pantji for his abilities as Speaker of Lok Sabha. He led a life of simplicity and sacrifice to help our country gain independence. On the eve of Independence Day celebrations, I thought it would be appropriate to review the performance of our economy and objectively assess the prospects for the current year.

I will, at the outset, share briefly with you some facts about our growth performance in the 'eighties to demonstrate that while we maintained a reasonably respectable record of economic performance, we undertook reforms in the early 'nineties not merely to meet a crisis but also ensure that there is sustainable growth along with macro-stability. I would then recall the impressive achievements in the 'nineties. However, in the last year, i.e., 1997-98, we did not perform as well as we did in a few of the immediately preceding years, and yet, by most international standards as also our own trend line growth rate, we maintained an impressive rate of growth. I will then share with you the latest assessment of the prospects for 1998-99 and conclude that the extreme pessimism, expressed by many about our prospects for growth and stability for 1998-99 is unwarranted and we need to be, in fact, cautiously optimistic.

Performance During 'Eighties

During the 'eighties, which we may describe as pre-reform phase, our growth in

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real GDP terms was at an annual average of 5.9 per cent. This is better than the world output growth of 3.3 per cent, that of developing countries at 4.3 per cent, and of Asia excluding China and India at 5.1 per cent.

As regards prices, we maintained an impressive record of maintaining an average annual inflation rate as measured by the increase in WPI (on average basis) at 8.0 per cent during the period, as against an annual average of 36.0 per cent among developing countries, 8.8 per cent in Asia and 9.6 per cent in Asia excluding China and India.

On the external sector front too, we performed as well. Our exports grew in US dollar terms at an annual average rate of 8.1 per cent and imports at 7.2 per cent. The average current account deficit was of the order of 2.0 per cent of GDP. The level of foreign currency reserves could be regarded as adequate until the attack on our forex reserves began in 1990-91. Given the low interface with the world economy, relative to other countries, India faced a severe BoP crisis with a current account deficit of mere 3.2 per cent. This order of deficit could not be sustained because the current receipts to GDP ratio was low at 8.5 per cent.

Crisis and Reform

If our performance was all right as brought out by the above analysis, why did we take up reform?

The macro-economic indicators appeared reasonable in the 'eighties but the economy exhibited serious structural problems especially in the area of fiscal management, trade policy, in having recourse to external commercial borrowings of short-term nature, in regard to performance of public sector enterprises, and the overall incentive framework consistent with productivity gains. If we did not address these issues by bringing about reforms, it would have been difficult to ensure the processes that help attain high growth on a sustained basis.

The BoP crisis, actually triggered by the Gulf war, was essentially a liquidity crisis on the external front, but drew our attention to the deep structural imbalances in what economists call the factor and product market activities as also the fiscal system and this in a sense underlined the need for a comprehensive programme of reform.

We should be very proud of our response to the crisis. We demonstrated our economy's resilience to withstand a crisis situation and our preparedness to adopt appropriate policies in response to such a crisis. Internationally, there are many instances of fits-and-starts reforms and severe adjustment costs, to the domestic economy. By any standard, our response to the crisis and the subsequent adjustment has been smooth and far less costly than in a number of other countries. The external confidence crisis in 1991 was dealt with by some decisive policy measures such as the downward adjustment of the rupee, the pledging of a part of the country's gold reserves to avert default of scheduled repayments, the import-compression measures, the tightening of monetary policy and the timely exceptional assistance from the international financial institutions. These policy initiatives were followed up by a comprehensive stabilisation and structural reform programme to correct the macro-economic imbalances and structural deficiencies in the economy. The reform programme was also backed by the provision of a safety net system. Growth at 0.82 per cent suffered temporarily. There was, however, a quick revival and acceleration in growth momentum in the successive years.

This achievement is significant when compared to successive periods of negative growth and poverty aggravation faced by a number of countries in their post-adjustment period.

Post-Reform Performance

Post-reform should ideally cover the period 1990-91 up to 1997-98. However, since I am analysing 1997-98 in detail separately, in this section, we will focus on the period 1990-91 to 1996-97. Here again, 1990-91 and 1991-92 were really the years of crisis and severe adjustment. Hence, a two-fold classification has been attempted. For our purpose, I will go over both sets of figures, *viz.*, first five years (1990-95) and the truly reform years (1992-97), even though the two periods overlap with each other. This is done essentially to see whether the Indian Economy during the reform years (1992-97) has performed better than the period which include years of crisis and adjustment.

The annual average real GDP growth rate was 5.1 per cent in the first five years but in the reform years it went up to 6.8 per cent, as against 5.9 per cent in 'eighties.

Gross domestic saving and investment rates as a percentage of GDP were 23.5 per cent and 25.0 per cent, respectively, in the first five years as against 24.3 per cent and 25.7 per cent, respectively, during the reform years. This was an improvement over the performance of 20.0 per cent and 22.0 per cent recorded in the 'eighties.

The inflation rate was on an average at a high of 10.7 per cent per annum in the first five years which came down to 8.7 per cent in reform years, but still higher than the annual average rate of 8.0 per cent in 'eighties.

The external debt to GDP ratio went up from 30.4 per cent in 1990-91 to 32.3 per cent in 1994-95 but came down to 26.4 per cent by 1996-97. Debt-service burden came down dramatically from 35.3 per cent to 26.2 per cent and to 21.4 per cent in the corresponding years. Export growth in US dollar terms went up from 9.2 per cent in 1990-91 to around 20.0 per cent per year during 1993-94, giving an average of 10.0 per cent in the first five years and 13.6 per cent during the reform years, which were sharply higher than the average of 8.1 per cent in the 'eighties.

The Current Account Deficit (CAD) as a percentage of GDP was 2.0 per cent in the 'eighties, 1.4 per cent in first five years and 1.2 per cent in the reform years. Foreign currency reserves went up from US $ 5.8 billion in 1990-91 to US $ 25.2 billion in 1994-95 and US $ 26.4 billion by the end of 1997.

At this stage, let us quickly see how we performed in comparison with the rest of the world during 1992-97. Our annual average growth rate was higher than developing countries' average at 6.4 per cent, less than that of Asia at 8.7 per cent, and above Asia excluding India and China at 6.3 per cent. Our saving and investment rates appear to be lower than those of developing countries. Our inflation performance at 8.7 per cent compares favourably with the developing countries' average of 30.0 per cent, the Asian average of 9.1 per cent and 7.5 per cent for Asia excluding China and India. Our growth in exports is marginally higher than developing countries' growth at 11.1 per cent though less than Asia's at 15.9 per cent, but about the same as Asia excluding China and India at 13.6 per cent.

Performance in 1997-98

Then, why is there a sudden feeling that the economy is not doing too well? To put in perspective, the economic growth has averaged over 7 per cent during the four-year period beginning 1993-94. There are, therefore, misperceptions that if actual growth happens to be below this rate, there would be economic deceleration. For instance, the projected growth rate of 5.1 per cent in 1997-98, would have been considered a reasonable outcome by the standards of achievement in the 'eighties, whereas this is considered by some to be an under-performance.

The lower growth rate in 1997-98 was due to a significant decline of 3.7 per cent in agricultural output. Foodgrains production is estimated to have declined, reflecting mainly the decline in wheat output attributable to lower yields resulting from inclement weather conditions at the time of sowing. Among non-food crops, oilseeds, sugarcane, cotton and jute have also registered declines.

The concern about the recent growth situation comes from the fact that there has been deceleration on the industrial front, particularly manufacturing sector. In 1997-98, manufacturing sector put up a growth of 6.6 per cent, around the same level as in 1996-97, against the peak of 13.8 per cent in 1995-96. Mining and quarrying grew by 5.6 per cent against a decline of 1.9 per cent in 1996-97. From the use-base side, it is the capital goods sector which decelerated sharply in 1997-98, with the growth rate in this sector being one of the lowest (0.7 per cent) in the recent years. The growth rate in consumer goods sector is expected to be around 6.0 per cent in 1997-98, somewhat higher than 5.2 per cent in 1996-97.

Several internal and external factors appear to have been at work in the growth deceleration in 1997-98, and these are analysed here.

First, an external root of the current industrial deceleration relates to the slump in export growth. Exports in US dollar terms grew by only 1.5 per cent in 1997-98. More specifically, manufacture exports, which has a weight of about 75 per cent in total exports, decelerated to 3.3 per cent. This was partly contributed by the deceleration in world trade volume and a sharp fall in world export prices.

Secondly, the decline in the agricultural output in 1997-98 would have contributed to the slowdown of rural demand. The demand constraint argument of industrial deceleration, however, should be seen in the context of the fiscal and monetary situation in 1997-98. Fiscal deficit of the central government at 6.1 per cent in 1997-98 exceeded the budget target by nearly 1 percentage point which implies that demand constraint due to fiscal policy was not severe. The broad money grew by 17.6 per cent as against 16.2 per cent in 1996-97. The level of aggregate demand management thus did not appear to have acted as a constraint to industrial growth.

Thirdly, there could be a fund constraint argument to the industrial performance in 1997-98. As far as the credit availability from the banking sector was concerned, the conventional non-food credit expansion showed an acceleration from 10.9 per cent in 1996-97 to 15.1 per cent in 1997-98. In fact, the total flow of resources to the commercial sector from commercial banks was much higher in 1997-98 as compared with the previous year. It is difficult to see this as a fund constraint for working capital. The disbursement of financial institutions also maintained a comfortable growth of 28.5 per

cent in 1997-98 as compared to 9.8 per cent in 1996-97.

The conditions in capital markets have admittedly not been conducive. There was a sharp decline in the resources raised by companies through primary issues to Rs.3,138 crore from Rs.10,424 crore in 1996-97. Resource mobilisation through portfolio investment through FIIs and GDR route amounted to Rs.1,624 crore as against Rs.3,292 crore in 1996-97.

Fourthly, the nominal interest rate situation in 1997-98 was comfortable to a great extent. The prime lending rate of a number of banks remained in the range of 13 to 13.5 per cent against the band of 14 to 14.5 per cent in 1996-97. There was also a decline in the lending rate of financial institutions. However, due to a sharp decline in the rate of inflation, the real interest rates could be considered high, but the changes in such rates often operate with a lag and critically depend on interest rate expectations as well as improvements in the efficiency of the banking system.

Fifthly, a major slowdown occurred in the infrastructure industries, which grew by 4.6 per cent in 1997-98 against 11.7 per cent in 1996-97. The infrastructure constraint needs to be viewed both from the angle of utilisation rate and the creation of capacity. The growth in infrastructure index should reflect more about the capacity utilisation as there is a reasonable time lag involved between expenditure on new projects and output generation.

Lastly, there are some other explanations also such as cyclical nature of growth and excess capacity build-up. It is important to note that the recent years have seen a significant development in terms of price competition among firms. This is, in fact, a global phenomenon, as consumers are more and more driven by a psychology of low prices, reflecting on their consumption behaviour. Effective price competition by firms, however, presupposes cost competitiveness and flexible mark up conditions. Therefore, innovations and technological upgradation play a key role in today's world. Similarly, the mark-up or profit rate is influenced by the emerging demand and competition in the market. Both these factors now seem to play a significant role in the Indian industrial scene.

A significant aspect of the price situation in 1997-98 was that the inflation rate, as measured by the Wholesale Price Index, declined to 5.3 per cent on a point-to-point basis from 6.9 per cent a year ago. The reduction in the inflation rate could be attributed to comfortable supply position reflected by higher stocks of foodgrains and slack in export demand and sluggish industrial growth. In general, there has been subdued demand in the economy.

The Central Government finances witnessed strains in 1997-98. The Gross Fiscal Deficit (GFD) at 6.1 per cent of GDP exceeded the budget estimates of 4.5 per cent of GDP. The slippage occurred partly due to non-realisation of envisaged disinvestment proceeds and due to shortfall in tax collections. The year 1997-98 also saw the discontinuance of the issuance of *ad hoc* Treasury Bills and introduction of a scheme of Ways and Means Advances.

The external sector performance in 1997-98 was strong despite lower export growth and pressures on the exchange rate. Imports grew by 4.2 per cent in dollar terms as compared with 6.7 per cent during 1996-97. Significantly, non-oil imports grew by 11.9 per

cent, while softening of oil prices in the international markets saw a reduction in oil imports by 18.1 per cent. As a result, the trade deficit widened as compared to the preceding year. Net invisibles receipts continued to be robust at about $ 10 billion, the same level as 1996-97. The current account deficit remained modest at about 1.7 per cent of GDP.

The foreign exchange market was characterised by turbulence as a result of the Asian crisis and domestic uncertainties. The RBI took strong and timely monetary policy action in January 1998 to dampen speculative activity and ensured orderly conditions in the exchange market. As a result, we ended up adding about $ 3 billion to our foreign exchange reserves during 1997-98, despite payments of over $ 2 billion effected directly from reserves under the FCNR(A) deposits scheme.

In brief, there are some problems thrown up by our performance in 1997-98, but given the weather conditions and the international environment due to the Asian crisis, our performance in 1997-98 was reasonable. To highlight a few achievements, the economy has withstood the contagion of the Asian currency crisis and ended with a reasonable real GDP growth rate of 5.1 per cent, an impressive inflation performance with the point-to-point increase in WPI at 5.3 per cent, comfortable liquidity position, lower interest rates, larger flow of resources to the commercial sector as compared to the previous year, and net addition to reserves of $ 3 billion despite turbulence in the exchange market and redemptions of IDBs and FCNR(A) deposits.

Prospects for 1998-99

As usual, there are varying perceptions and expectations of prospects for our economy in 1998-99. In particular, the downgrading of India by international credit rating agencies has led some people to be very pessimistic about the outlook. It will be useful to put together recent data and focus on some structural aspects so that we can make an informed assessment of the prospects.

Agriculture

During 1998-99, according to the forecasts of the meteorological department, the monsoon is predicted to be normal. The foodgrains output for 1998-99 is currently expected to be about 10 million tonnes higher than the level of 194.1 million tonnes in 1997-98. Agricultural production is, therefore, likely to show a recovery in 1998-99 and we could reasonably expect a growth of about four per cent in agriculture.

Industry

The index of industrial production registered a growth of 5 per cent during April-May 1998, which is almost double the growth rate of 2.7 per cent recorded in April-May 1997 (latest press release places growth during April-June 1998 at 5.4 per cent). The capital goods industries have posted a growth of 9.6 per cent during this period against a decline of 0.7 per cent in the corresponding period of the last year. The intermediate goods sector has improved its performance marginally from 7 per cent in April-May 1997. What is significant to note is that consumer goods sector has shown a turnaround in their performance by posting 3.7 per cent positive growth as against a decline of 3.8 per cent in April-May 1997. Both consumer durables and non-durables have led this uptrend. The composite index of six core infrastructure industries registered a growth of 5.4 per cent in April 1998, which is about three fold higher than that in April 1997. The basic goods sector,

on the other hand, grew by only 3.1 per cent against the 6.1 per cent registered in the corresponding period of the previous year. In particular, unimpressive results in what may be described as select high profile industries such as steel, cement, automobiles, textiles and petrochemicals, seem to overplay the adverse sentiments in the industrial front as a whole.

A leading indicator of the industrial pick up is available from the steep increase in the disbursements of the All-India financial institutions during the first quarter of 1998 by 48.1 per cent as against 10.1 per cent in the previous year (April-June 1997). In fact, it is reported that sanctions during the first quarter of the year are double that of the corresponding period of last year.

GDP Growth

The services sector with a share of 48.6 per cent in real GDP in 1997-98 has been growing at 8-9 per cent in the past few years. With even a very conservative estimate that agriculture with a weight of 24.4 per cent would grow by only 3.5 per cent; industry with a share of 27.0 per cent in real GDP records a growth of just 5 per cent; and growth in services will be a mere 8 per cent; real GDP will grow by at least 6 per cent during 1998-99. Clearly, the pessimism expressed by some that real GDP would grow only by 4.5 – 5.0 per cent during 1998-99 is unwarranted.

Infrastructure

The infrastructure sector has started the year with a good prospect as revealed by the growth of 5.4 per cent in the output of six major infrastructure industries in April 1998. For continuation of this tempo, there is a need for a continuous high rate of investment in the infrastructure sector. As per data available, the sanctions of all India financial institutions to infrastructure as a percentage of total, increased from a mere 10 per cent to around 30 per cent last year, and the trend is upwards. The share of disbursements has also doubled during the period. Our immediate prospect, of-course, depends on how the existing infrastructure industries perform during the year by improving their capacity utilisation.

Fiscal Deficit

The GFD of the Centre for 1998-99 was projected at 6.1 per cent of GDP in the Interim Budget and reduced to 5.6 per cent in the Final Budget. The outcome of revenue assumptions depends significantly on the GDP growth and the realisation of privatisation receipts. On privatisation receipts, pessimists would look at the recent track record and the state of stock markets. The optimists would look at the bold policy statement made in the Budget about the strategic sale and going below 51 per cent of Government holding. If there is good progress in this regard, receipts may exceed the estimates significantly. Coupled with some control over expenditure, it should be possible to ensure that the fiscal deficit is well within the budgeted level.

We have to carefully observe how the implementation of these approaches evolves.

Credit Off-take

There is an impression that credit off-take from the banking system to the commercial sector, particularly private sector, has declined in the current financial year. It is true, that non-food bank credit has declined by 2.1 per cent in the current financial year up to July 31, as against a decline of only 0.9 per cent during the corresponding period of the previous year. However, on a year-on-year basis, the increase was 13.7 per cent as against 12.1 per cent in

the previous year.

Further, it is necessary to recognise that the deceleration in the growth of non-food credit is explicable by drastic reduction in advances to the oil sector, especially, Indian Oil Corporation (IOC). The reduction in oil credit was a little over Rs. 2,100 crore in the current financial year up to July 31, as against Rs.675 crore in the previous year, which may be explained by the settlement of the oil pool deficit.

Commercial Banks' investments in bonds, debentures, commercial paper, etc. up to July 3, increased only by 11.5 per cent (Rs.3,795 crore) during the current fiscal year as against 14.1 per cent (Rs.2,736 crore) last year. However, on a year-on-year basis, there has been an impressive growth of 66.5 per cent this year as against 47.8 per cent in the last year. More important, investment in bonds, etc. of the private corporate sector during the current financial year increased by Rs.1,465 crore compared to Rs.764 crore a year ago.

As mentioned earlier, disbursements by FIs during the first quarter of 1998-99 have also increased by 48 per cent as compared to the corresponding period of 1997-98.

Thus, I would urge that a disaggregated approach is needed before drawing any conclusions about credit off-take.

Incidentally, the conditions in capital markets continue to be a source of discomfort, and need to be watched.

Interest Rates

Early in the year, there were concerns that interest rates will harden significantly due to large borrowing programme of Government. The RBI deliberately chose for a while to tilt in favour of monetisation rather than allow nervous and imperfect markets to set unduly high benchmarks for Government paper. After some stability was achieved, it was possible for the RBI to off-load Government securities in the market. The latest trends show more stable expectations and some softening of interest rates at the short end. As about 65 per cent and 72 per cent of the gross and net market borrowing requirements, respectively, of this year is already complete, there are two important gains that one can foresee in the near future. One, the genuine credit requirements of productive activities can be met by the significant accretions that are taking place in bank deposits. Secondly, there will be less of pressure on market rates of interest even after taking into account the possible pick up in demand in busy season.

Price Stability

The monetary conditions have eased considerably during the current year which will not only help demand, but also improve availability and cost of credit. Up to the first half of July 1998, M_3 expanded by 4.1 per cent, more or less of the similar order during the corresponding period of last year. On a year-on-year basis, M_3 growth is currently ruling at over 17 per cent, being the average of the recent years. It may be noted that, to keep liquidity within manageable limits, the RBI has so far postponed release of CRR balances during the current financial year. In fact, repo operations are continuously undertaken to mop up short-term liquidity and this process often had the short-term effect of increase in CRR by around 1 percentage point. Repo operations also help set a floor to short-term interest rates while the refinance rate of the RBI sets a ceiling. Thus, we are operating an effective, though somewhat wide, interest rate corridor. By and large, therefore, monetary actions are aimed to manage liquidity and achieve price stability.

Indeed, price rises in recent weeks have been a matter of concern. They seem to be largely a product of seasonal factors. The influence of 'fruits and vegetables' on the inflation rate has been high. Once the seasonal factors peter out, it is hoped that the inflation rate will decelerate, though we cannot rule out transmission of price rise in primary article to others.

The RBI is keeping a careful watch on developments since price stability and inflationary expectations are of vital concern.

External Sector

The forecast of growth in world trade volume in 1998 does not give a very encouraging picture for a substantial export pick up. World trade volume is estimated to grow by 6.7 per cent in 1998, as compared with 9.6 per cent in 1997. In terms of value, world exports of goods would grow by 3.1 per cent, reflecting the depression in the price front. Thus, apart from infrastructure bottlenecks, the international environment is also not conducive to expanded trade and thus to our export growth. In fact, external trading environment is getting more and more difficult this year. According to the provisional data, during April-June 1998, exports showed a negative growth of 7.9 per cent, and thus a substantial step up during the rest of the year is needed if even a modest annual growth is sought. On the positive side, the exchange rate adjustment that has already occurred should help though some of our strongly growing exports like software exports are not very elastic to exchange rate. Recently, a series of incentive measures have been put in place to provide boost to the export sector.

Although we may not be able to reach high growth rates in exports that we had in some years in the past, we should aim for a better performance than last year.

On imports, the major items are oil and fertilisers, the prices of which are falling in the international markets. Given the general downward trend in prices of manufactured goods in world markets, we should not expect any sharp rise in our import bill during 1998-99.

Net invisibles are expected to continue to be strong at over $10 billion since the demand for and supply of workers' remittances will persist.

Overall, therefore, inspite of a possible increase in trade deficit over the previous year, we expect the CAD to be about 2 per cent of GDP only and, as I would now explain, such a deficit could be met by anticipated net capital flows.

On external assistance, some disruption due to sanctions, in a few bilateral and multilateral agencies, was feared. Analysis shows that only 2 per cent of sanctions during a year fructifies into disbursements in the same year since most of the assistance is in the form of project finance with a disbursal profile of about 4 to 7 years. In fact, approvals have already been given by the World Bank for humanitarian and social development purposes. In any case, with diplomatic and other efforts, even over the medium term, it is inconceivable that rigorous sanctions would continue for long. Overall, during the current year, net external assistance should be about the same level as last year.

FDI flows are also likely to continue to grow since many projects are under implementation or at advanced stages. There is always a lag between approvals and flows, and approvals have been on the rise in the past. There is no evidence of reversal of interest. In fact, efforts are being made to accelerate approvals and facilitate inflows.

Net FII inflows turned negative in November and the trend continued until January. There were positive flows in February and March and again negative flows until June. The FII sentiment currently seems to be marginally positive, but a deceleration during 1998-99 on this account need not be ruled out.

We have been moderating External Commercial Borrowings (ECB) and imposed a strict ceiling on short-term borrowings. The recent events including downgrading by Moody's has no doubt affected the spreads on bonds and hence possible inflows. However, suppliers credit component is unlikely to be affected significantly. Thus, the cost could increase and the inflow may be affected only in respect of bond issues.

On NRI deposits, in any case short-term deposits were discouraged and the overall growth of long-term deposits have also been moderated. This was a well designed policy. However, under the current circumstances, a longer-term source at a reasonable cost appears desirable and is being explored through Resurgent India Bonds.

Any marginal shortfall in portfolio investment flows and ECB could be made good by NRI flows through Resurgent India Bonds.

Overall, in our assessment, as far as 1998-99 is concerned, capital inflows should be, by and large, adequate to finance the current account deficit though we have adequate cushion in foreign exchange reserves to meet unforeseen circumstances.

Summing up

In brief, we have performed reasonably well, responded effectively to the crisis of 1990-91, undertook effective reform and performed reasonably well last year also. It may not be easy to find parallels of any other country in maintaining such a record. The stability of the political system through democratic processes has served us well. True, there is potential for more impressive growth and there is need to improve substantially in areas of education, health, physical infrastructure and work culture. These are the issues that have to be addressed in the medium-term.

I should really be ending the speech with assessment of prospects for 1998-99. There are some policy areas requiring close monitoring and effective implementation, and there are also emerging very serious international uncertainties which could impact on us, but there are a host of fundamental strengths and evidence of recent trends in advance indicators which would certainly not warrant pessimism and would demand cautious optimism. Even recognising that international economic and trading environment is getting progressively adverse this year, it is clear that in many respects, the overall economic performance, including growth rate in real GDP is likely to be better than last year.

I would like to emphasise that a disaggregated analysis is required to discern the correct picture of the performance of our economy both to underline the areas of strength and to identify points for corrective action. I would, therefore, urge analysts, researchers and market participants to closely analyse the components of various aggregates, as also international environment, in order to draw any meaningful conclusion on the enduring trends rather than emphasising the very transient blips.