

## Outlook

6.78 A major outcome of India's economic reforms in the 1990s has been the evolution of the external sector with considerable inner strength to meet the challenges of foreign as well as domestic shocks. This has been demonstrated at the time of the Asian financial crisis and related contagion and adverse spillover effects from mid-1997 to mid-1999, economic sanctions on India by the major developed countries in May 1998 and the more recent international oil price shock since the early 1999. The adjustments to these shocks have been smooth; but they also left scars. For example, the decline in exports in 1998-99 followed by anemic growth rates during the previous two years, was largely the reflection of the Asian crisis and the significant slow-down in the growth of world demand. Similarly, the exceptional BOP financing through Resurgent India Bonds (RIB) in 1998-99 and the more recent India Millennium Deposits (IMD) in 2000-01, to cope with the adverse effects of these foreign shocks, have medium term implications

for the country's external debt and debt service payment obligations. Nevertheless, the raising of substantial amounts through these schemes at times of difficulties has been a solid proof of the confidence of non-resident investors in the soundness of Indian economic fundamentals.

6.79 Looking ahead, there is very little that any emerging economy can do to stop these international shocks from occurring. On the contrary, India can minimize or even avert, as in the past, the adverse effects of such shocks in future, by further strengthening the country's economic fundamentals. This requires the strengthening of our policy stances in the areas of fiscal balance, exports, POL imports, tourism earnings, foreign investment flows and domestic monetary and fiscal policies, that have been reiterated and emphasized in the Economic Surveys of the past. This will greatly help India to grow in an environment of a viable BOP, reasonably stable exchange rate, a sustainable external debt profile and an external sector with durable strength and vigour.