

Outlook

6.73 Global outlook remains uncertain, given the weak growth impulses in major advanced economies, especially in the USA, and the downside risks to such recovery emanating from the volatility in international crude oil prices and the continuing geopolitical tension in the Middle East. However, resilience of India's performance has been vindicated by its successfully handling in the recent past a series of external shocks, like the Asian crisis of 1997, crude oil shock of 2000 and the synchronized slowdown of global activity in 2001. India's external position continues to remain strong with the rising level of foreign exchange reserves providing a cushion against any such major shocks. The current account surplus reflects both strength in goods and services exports and buoyant net transfers. Revival of domestic demand is likely to boost further main sources of capital inflows, thus aiding in further reserve accumulation in the short run.

6.74 Surging foreign exchange reserves have provided an opportunity towards further relaxation of existing capital controls. Such measured approach towards capital account convertibility needs to be continued. The rising reserves also provide a greater flexibility to exchange rate management towards developing deeper market for foreign exchange transactions. The reserves further provide an opportunity to expedite completion of trade liberalization agenda. Notwithstanding various reforms, India's tariffs remain high by Asian and international standards and its trade regime remain relatively restrictive. The broad roadmap for liberalization of customs tariff has already been indicated in the Union Budget 2002-03 and has been further detailed in the Ministry of Finance Task Force Report on Indirect Taxation. Faster implementation of such tariff reforms (without any prejudice to our negotiations on this issue under Doha mandate in WTO), apart from further removing anti-export bias and simplifying the trade regime, would stimulate imports and create necessary demand for foreign exchange. Such import liberalization is also likely to relieve any upward pressure on the

rupee and would bring the usual efficiency gains to the economy.

6.75 Medium term BOP outlook would depend upon several factors. A robust growth in exports remains one of the most critical factors in the long term viability of external sector. Uneven performance of merchandise exports in the recent past, if continued, could introduce a structural weakness in the balance of payments in the medium term. Exports thus hold the key to achieving a sustainable balance between the requirements of higher growth and the imperative of ensuring viability in the external sector. Micro strategies for export growth based on various policy pronouncements, therefore, need to be designed to put export growth on a higher and sustainable growth trajectory. On the import side, given our rising dependence on imported crude oil, the economy needs to be insulated from continuing volatility in international crude oil prices impacting on our balance of payments and the oil security of the country. Efforts towards strengthening of the services sector also need to be sustained and intensified to capitalize on the growing opportunities in this sector.

6.76 Steady foreign investment inflows have been instrumental in strengthening the balance of payments in the recent past. Given the potential for higher direct foreign investment in India, a further considered liberalization of the investment regime in this area is likely to result in enhanced foreign investment inflows, thus supporting the investment needs of the economy for higher growth and providing strength to prudent debt management. New initiatives like refinancing of costly debts, prepayment of identified high cost debt and exploring the possibility of using the financial products for hedging of risks for active management of sovereign debt would be helpful in further improving the sustainability of external debt indicators of the economy. As regards the global trade agenda, India has repeatedly stated its support for WTO and the Doha Development Agenda. However, further progress on the global trade negotiations would depend upon developed countries keeping their promises made in Doha.