

## Outlook

6.85 India's balance of payments (BOP) has been undergoing a major structural transformation since 2003-04. The nascent current account deficit that emerged in 2004-05 after three consecutive years of surpluses has assumed much larger proportion in the current year. The deficit primarily reflects an excess of investment over savings, which is being financed by external capital flows. If domestic industry continues to remain upbeat, then sustained industrial demand for imports might increase the size of the deficit, as a proportion of GDP, further in the remaining months of 2005-06. On the other hand, the rate of growth of the trade deficit might start slowing, if the export-related imports absorbed by the economy thus far, start to yield rapid growth of exports in the coming months

6.86 The size of merchandise, as well as services trade, has been increasing steadily in recent years, reflecting greater integration of the economy with the rest of the world. Such integration can expand manifold through regional trading arrangements. India has been actively pursuing such arrangements with neighboring Asian countries, which have emerged as its leading trading partners. Recently concluded agreements with Singapore and Thailand, are expected to enlarge opportunities for Indian exports in the near term. Such prospects, indeed, appear to be robust as more manufacturing exports from a resurgent Indian industry adds greater value to India's overall export basket, which already has a leading edge in services.