Outlook

6.77 In the coming year, the external economic environment is likely to remain supportive of India's growth momentum. Global output growth in 2007 has been projected at 4.9 per cent by WEO (September 2006).

6.78 With the ongoing upswing in investment, exports are expected to continue with its observed buoyancy in recent years. Simultaneously, rising investment and higher growth will also result in higher imports. But, a continuation of the relatively benign crude prices of recent months will have a softening impact on import growth. The current account of the balance of payments, which had turned into a deficit in 2004-05 and 2005-06, is likely to remain in deficit in 2006-07. However, going forward, this deficit may come down with rapid growth in invisibles (particularly software and business services) receipts, higher exports, and a slowing down of import growth. From the investment-saving perspective to the current account, the observed increase in the domestic savings rate, with accelerating growth and declining dependency ratio, also supports such a prognosis.

6.79 While downside risks from volatile crude prices and large global imbalances remain, with strong capital flows – particularly of the non-debt variety — financing the current account deficit through surpluses on the capital account should not pose difficulties. In fact, it is quite likely that the 'problems of plenty' with large increases in foreign exchange reserves will continue with its associated implications for monetary management.

6.80 The Economic Advisory Council to the Prime Minister has raised certain valid issues in the context of projections of BoP for 2006-07 like the need to reconcile divergence of trade data between DGCI&S and RBI, the need to cut delays and ensure its timely availability, and minimizing the extent of revisions. Though beyond the final revisions of data (or even after about a year) there has been lesser divergence, the estimation of the various parameters of external sector, so critical for its management, has become arduous. The movement towards fuller capital account convertibility may also require a sound system of monitoring of the external sector variables and hence a modern real time system of data management is an imperative, lest the ability of the country to diagnose the symptoms of a crisis in time and take corrective action stands compromised.