

Challenges, Policy Response and Medium Term Prospects

With the full effects of the economic reforms of the 1990s working through the system, the Indian economy has moved to a higher growth path. The new challenge is to maintain growth at these levels, not to speak of raising it further to double digit levels. With domestic experience of such high growth limited, global experience can be useful. Historically, there have been about a dozen medium/large countries that have averaged a GDP growth of 9 per cent or more for a decade. Of these less than half maintained an average growth of 9 per cent or more for two decades. The challenges of high growth have become more complex because of increased globalization of the world economy and the growing influence of global developments, economic as well as non-economic. Despite efforts to accelerate the pace of infrastructure development the demand for infrastructure services has grown

even faster than the supply so that the constraints may have become more binding. There is therefore heightened urgency to augment and upgrade infrastructure, both physical as well as social and, in particular, power, roads and ports. This requires mobilization of unprecedented amounts of capital with macroeconomic stability, which can only happen if both the public and private sectors have the incentive and the motivation to perform at their best. The former requires us to effectively address the persistent institutional weaknesses and implementation constraints at different levels of government in the country. The latter requires policy and regulations that are comprehensive but simple and clear and credible. This chapter identifies some of the major policy challenges at the macro and sectoral level and analyses the medium-term prospects of the economy.