Deepak Mohanty: Indian economy – progress and prospects

Speech by Mr Deepak Mohanty, Executive Director of the Reserve Bank of India, at the Harvard Business School, Boston, 27 September 2011.

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It is an honour and privilege for me to be speaking at Harvard to such a distinguished audience. I thank Professor Benjamin Friedman and Professor Tarun Khanna for this opportunity. I will be speaking on the Indian Economy.

India is home to 1.21 billion people, which is about 17.4 per cent of the global population. However, it accounts for only 2.4 per cent of world GDP in US dollar terms and 5.5 per cent in purchasing power parity (ppp) terms. Hence, there exists a huge potential for catch up. The global welfare too is linked to progress in India as reflected in the keen global interest in India. But, India seems to inspire and disappoint at the same time. This is reflected in various comments on the Indian economy. Yasheng Huang and Tarun Khanna in their much debated article in July 2003 issue of *Foreign Policy* had observed: "Can India surpass China? This is no longer a silly question". The July 23rd 2011 issue of *The Economist* observed; "Twenty years ago they said the yardstick against which India should be measured was its potential. On that measure, there is much to do."

As a fledgling democracy, India's economic experiment of planned development was held out as an example to many aspiring low-income countries in the 1950s. While some countries raced ahead in the development process, India lagged behind. This is evident from the fact that it took 40 long years from 1950–51 for India's real per capita GDP to double by 1990–91. But, 1991–92 was a defining moment in India's modern economic history as a severe balance of payments (BoP) crisis prompted far reaching economic reforms, unlocking its growth potential. As a result, in only 15 years, India's per capita income doubled again by 2006–07. If the current pace of growth is maintained, India's per capita income could further double by 2017–18, in 10 years time. While acceleration in India's recent economic growth is noteworthy, maintaining the pace, no doubt, will be challenging.

Against this background, I propose to highlight the key policy reforms since 1991–92, review the economic progress made so far and then conclude with some reflections on policy challenges in the way forward.

Policy reforms post-1991

Macroeconomic crisis of 1991 marked a turning point in India's economic history for two reasons. First, fiscal deficit driven external payment crisis with a dip in foreign exchange reserves to below US$ 1 billion in July 1991 drew a crisis resolution strategy to restore macroeconomic stability. Sharp correction in fiscal deficit-GDP ratio and reduced monetisation of deficits contributed towards restoring macroeconomic balance by the mid-1990s. The reduced dependence of fisc on monetisation enabled the Reserve Bank of India to reduce its statutory pre-emption of funds from banks, thereby freeing resources for the private sector. Second, simultaneously efforts were made towards wide ranging structural reforms encompassing areas of trade, exchange rate management, industry, public finance and the financial sector.

An abiding objective in respect of industrial policy measures since then has been to create a competitive environment to improve productivity and efficiency. New industrial policy fostered competition by abolishing monopoly restrictions, terminating the phased manufacturing programmes, freeing foreign direct investment and import of foreign technology and de-reservation of sectors hitherto reserved for the public sector. These measures created a favourable environment for industry to upgrade its technology and build-up its capacity through imports in order to cater to growing domestic and external demand.

At present, only five industries are under licensing, mainly on account of environmental, health, safety and strategic considerations. Only two industries are reserved for the public sector, *viz*, atomic energy and railway transport. Reservation of industrial products for the small scale sector is still a lingering issue. However, the definition of small scale industry (SSI) has been changed to facilitate modernisation and now only 20 items are reserved for manufacturing in the small scale sector. Foreign Direct Investment (FDI) up to 100 per cent is allowed under the automatic route in most sectors, with a few exceptions.

The infrastructure sector has been thrown open to the private sector. Considering the large requirements of funds for infrastructure, 100 per cent FDI has been allowed in all infrastructure sectors. There are extended tax holidays to enterprises engaged in the business of development, operation, and maintenance of infrastructure facilities. The emphasis has been on public-private partnership (PPP) as one of the preferred modes for infrastructure project implementation.

Comprehensive fiscal reforms covered tax reforms, restructuring of public sector undertakings and improving fiscal-monetary coordination before eventually carrying these reforms forward under rule based fiscal consolidation path from 2004–05, which was interrupted by the global financial crisis in 2008–09. Reduction in customs duties over the years reflected India's commitment towards converging towards the ASEAN levels over the medium-term.

The monetary policy framework and the associated operating procedures of monetary policy in India have evolved over time with the changes in the underlying macroeconomic structure and development of financial markets. A landmark development was the abolition of the system of automatic monetisation of fiscal deficit from April 1997, which provided instrument independence to the Reserve Bank of India in the conduct of monetary policy. This, combined with the introduction of auctioning system in the government securities, enabled the Reserve Bank to switch from direct to indirect instruments of monetary control.

With the opening up of the economy and deregulation of the financial sector, the stability of money demand function became suspect. The Reserve Bank, therefore, switched from a monetary targeting framework, adopted in the mid-1980s, to a multiple indicator approach. Under this approach, various indicators such as rates of return in different markets, movements in currency, credit, fiscal position, trade, capital flows, inflation rate, exchange rate, refinancing and transactions in foreign exchange – available on a high frequency basis – are juxtaposed with output data for drawing policy perspectives. This approach continued to evolve and is presently in its augmented version, wherein forward looking indicators drawn from the Reserve Bank's industrial outlook survey, capacity utilisation survey, professional forecasters' survey and inflation expectations survey are used for macroeconomic assessment. The operating procedure of monetary policy also underwent a change with the overnight interest rate emerging as the operating target of monetary policy.

In the financial sector, the objective was to provide operational flexibility and functional autonomy to banks and other financial institutions so that they could allocate resources more efficiently. Some of the important initiatives in the financial sector were: reduction in statutory preemptions so as to release greater funds for commercial lending, interest rate deregulation to enable price discovery, allowing new private sector banks to create a more competitive environment, dilution of government holding in public sector banks and institution of prudential norms such as capital adequacy, income recognition, asset classification, provisioning and exposure norms to strengthen the health of the banking system besides improving transparency and disclosure standards.

The development of financial markets has been regarded as a critical prerequisite for improving the operational effectiveness of the transmission of monetary policy. During the first phase of financial sector reforms, various structural rigidities were eased, so as to increase participation in financial markets as well as develop and strengthen inter-linkages amongst market segments, and foster competition. The focus of various reform measures in financial market was on ensuring adequate liquidity in various segments of the market spectrum, and developing the regulatory, legal, institutional and technological infrastructure for orderly functioning of market activity. In the second phase of reforms, more sophisticated financial instruments were introduced. Further, issues relating to the stability of financial markets received priority in the policy agenda.

The key objective of the external reforms was to move to a more open trade regime by correcting for the implicit anti-export bias. Moreover, there was a greater recognition of the need to view trade policies, exchange rate policies and industrial policies in an integrated manner. In pursuance of this, the administered exchange rate regime gave way to a flexible market-determined system. The exchange rate has since been guided by underlying demand and supply conditions and the broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed or preannounced target or band.

The trade policy reforms comprised withdrawal of the quantitative restrictions on exports and imports, phasing out of the system of import licensing and lowering the level and dispersion of nominal tariffs so as to bring them on par with the East Asian economies. The peak customs tariff rate was progressively brought down from 150 per cent in 1991–92 to 10 per cent by 2008–09. The liberalization of restrictions on various external transactions led to current account convertibility under Article VIII of the Articles of Agreement of the IMF in 1994.

With respect to capital account liberalization, India embarked on a gradual and well sequenced opening up of the capital account. The active capital account management framework was based on a preference for non-debt creating capital inflows like foreign direct investment and foreign portfolio investment. The capital account is virtually free for non-residents and resident corporates with some restrictions on financial institutions and higher restrictions on resident individuals.

Economic progress post-1991

The initiation of economic reforms in the 1990s saw India gradually breaking free of the low growth trap which was euphemistically called the "Hindu growth rate" of 3.5 per cent per annum. Real GDP growth averaged 5.7 per cent per annum in the 1990s, which accelerated further to 7.3 per cent per annum in 2000s. A feature of the growth acceleration during the period was that while the growth rate of industry and services increased that of agriculture fell. This was because there was no notable technological breakthrough after the "green revolution" of the mid-1960s which saw sharp increase in yields of cereal production particularly in northern part of India. By the 1990s, the momentum of "green revolution" had died down. Consequently, the yield increases in the 2000s were much lower than those experienced even in the 1990s.

Notably, the decade of the 2000s encompassed the inflexion point in the growth trajectory with an annual average GDP growth of about 9 per cent for the 5-year period 2004–08. Growth in all the sub-sectors of the economy, including agriculture, accelerated during this period. However, this growth process was interrupted by the global financial crisis. Subsequently, the average growth slowed down to 7.8 per cent during 2009–11 with a noticeable slow down in both agriculture and industry.

The growth dynamics altered the structure of the Indian economy with a decline in the share of agriculture from 28.4 per cent in the 1990s to about 15 per cent in 2009–11. There was corresponding gain in the share of services, including construction, from 52 per cent to 65 per cent during the same period. What is, however, of concern is that the share of industry has remained unchanged at around 20 per cent of GDP. This suggests that India's growth acceleration during the last two decades has been dominated by the services sector.

The pace of average annual industrial growth had nevertheless picked up from 5.7 per cent during the 1990s to 9 per cent during 2004–08 before being interrupted by the global financial crisis (Table 1).

Table 1: Real Economy

Item	1991-2000	2001- 2010	2004-2008	2009-2011
1	2	3	4	5
(Percentage Change)				
1. Overall Real GDP	5.7	7.3	8.9	7.8
1.1 Agriculture	3.2	2.4	5.0	2.3
1.2 Industry	5.7	7.3	9.0	6.7
1.2.1 Manufacturing	5.6	8.0	10.0	7.1
1.3 Services	7.1	9.0	10.1	9.5
2. Demand Side Aggregates				
2.1 Private Final Consumption Expenditure	4.8	6.4	7.4	7.9
2.2 Government Final Consumption Expenditure	6.3	5.8	5.6	10.6
2.3 Gross Fixed Capital Formation	7.2	10.2	15.7	5.8
(Per cent)				
3. Share in GDP				
3.1 Agriculture	28.4	19.4	18.9	14.9
3.2 Industry	20.1	20.0	20.1	20.1
3.3 Services	51.5	60.6	61.1	65.0

While the share of industry in GDP remained stagnant, there was noteworthy structural transformation in manufacturing over the period. As a process of restructuring, while the gross value added in organized manufacturing increased by 8 per cent per annum at current prices, employment fell by 1.5 per cent per annum during 1995–2003. Subsequently, during 2004–09 gross value added growth accelerated to 20 per cent per annum at current prices; but significantly, employment also increased by 7.5 per cent per annum.

With work participation rate of 39.2 per cent, India had a workforce of 400 million in 2009–10. Of this, 53 per cent was in agriculture and the rest 47 per cent in non-agricultural activity. While the bulk of the employment is in agriculture despite its shrinking share, the noteworthy feature of the employment structure has been that for the first time the absolute workforce in agriculture declined in the latter half of the 2000s (Table 2). The overall unemployment rate in the economy also declined from 8.3 per cent in 2004–05 to 6.6 per cent in 2009–10.

Table 2. Labour Force

(in million)

Usual Status	1993-94	1999-00	2004-05	2009-10
1	2	3	4	5
1. Agriculture	**210.7**	**225.4**	**238.8**	**212.6**
1.1 Self Employed	126.6	130.2	153.2	127.9
1.2 Regular Wage/Salaried Employee	2.9	3.2	2.6	1.9
1.3 Casual Labour	81.2	91.9	83.0	82.9
2. Non Agriculture	**115.8**	**140.0**	**169.5**	**187.4**
2.1 Self Employed	52.1	62.8	79.0	76.0
2.2 Regular Wage/Salaried Employee	40.2	47.9	55.6	60.5
2.3 Casual Labour	23.4	29.3	34.8	50.9
Total	**326.5**	**365.4**	**408.2**	**400.0**

Not surprisingly, the growth acceleration was accompanied by a sharp pick-up in the rate of growth of gross fixed capital formation which had more than doubled from an annual average of 7.2 per cent in the 1990s to 15.7 per cent in the high growth phase of 2004–08. It, however, has dropped significantly in the post-crisis period to 5.8 per cent (Table 1).

The structure of Indian economy also underwent a change during this period in terms of openness. The stereotypical view that India is a closed economy has not been borne out by the openness of Indian economy which was increasing rapidly. Exports and imports of goods and services have more than doubled from 23 per cent of GDP in the 1990s to 50 per cent in the recent period of 2009–11. If the trade flows are considered alongside capital flows, the rise in openness (measured as current receipts and payments *plus* capital receipts and payments) was more dramatic from 42 per cent of GDP in the 1990s to 107 per cent in the recent period (Table 3) Empirical evidence suggests that with increasing openness of the Indian economy, the trade and industrial cycles were getting more synchronised with the global business cycle.

Table 3: Openness Indicators

(As per cent to GDP)

Item	1991-2000	2001- 2010	2004-2008	2009-2011
1	2	3	4	5
1. Exports *plus* Imports of Goods & Services	22.9	39.2	40.8	49.8
2. Current Receipts & Payments *plus* Capital Receipts & Payments	41.9	78.7	83.5	106.5

The high growth phase of 2004–08 was accompanied by sharp increase in exports and imports as well as capital inflows. Net capital inflows as percentage of GDP more than doubled from 2.2 per cent in the 1990s to 4.6 per cent of GDP during 2004–08. Subsequently, growth rates in both trade and capital inflows moderated following the global financial crisis. The openness of the Indian economy has been accompanied by improvement in India's external position as the debt to GDP ratio fell from about 29 per cent in the 1990s to 19 per cent in the recent period. The debt service ratio has also declined from 25 per cent to under 5 per cent during the period (Table 4).

Table 4: External Sector

Item	1991-2000	2001- 2010	2004-2008	2009-2011
1	2	3	4	5
1. Balance of Payments				
1.1 Merchandise Exports (% change) Δ	8.6	17.7	25.4	15.8
1.2 Merchandise Imports (% change) Δ	9.6	19.5	32.3	14.6
1.3 Trade Balance/GDP (%)	-2.8	-5.3	-5.4	-8.6
1.4 Invisible Balance/GDP (%)	1.6	4.8	5.1	6.1
1.5 Current Account Balance/GDP (%)	-1.3	-0.5	-0.3	-2.6
1.6 Net Capital Flows /GDP(%)	2.2	3.4	4.6	2.7
1.7 FDI to India (US $ billion)	1.6	16.3	15.3	31.4
1.8 Reserve Changes (BoP basis) (US $ billion) [(Increase (-)/Decrease (+)]	-3.3	-22.9	-40.3	-2.1
2. External Debt Indicators				
2.1 Debt-GDP Ratio (%)	29.0	19.0	17.7	18.6
2.2 Debt Service Ratio (%)	24.9	8.8	8.3	4.7

Δ : Based on DGCI&S data.

The openness in the capital account has resulted in two-way movement in capital with a sharp pick-up in India's outward FDI since the mid-2000s (Table 5). Uptrend in outward FDI mainly reflected the large overseas acquisition deals of Indian corporates to gain market share and reap economies of scale amidst progressive liberalisation of the external payments regime.

Table 5 : Foreign Direct Investment				
				(US $ billion)
Year	Inward	Outward	Net FDI to India	Outward/ inward (%)
1	2	3	4	5
2000-01	4.0	0.8	3.3	18.8
2001-02	6.1	1.4	4.7	22.7
2002-03	5.0	1.8	3.2	36.1
2003-04	4.3	1.9	2.4	44.7
2004-05	6.0	2.3	3.7	38.0
2005-06	8.9	5.9	3.0	65.9
2006-07	22.7	15.0	7.7	66.2
2007-08	34.7	18.8	15.9	54.2
2008-09	37.7	17.9	19.8	47.4
2009-10	33.1	14.4	18.8	43.3
2010-11	23.4	16.2	7.1	69.4
Source: Reserve Bank of India				

Gradual improvements were also observed in the fiscal position with fiscal deficit moderating sharply during the high growth phase of 2004–08, which also coincided with a period of switch over to a rule based fiscal consolidation process. In fact, the high growth phase of 2004–08 saw a primary surplus for the Centre enhancing debt sustainability. The deficit indicators, however, have deteriorated in the recent period following crisis induced fiscal expansion (Table 6).

Table 6: Government Finances				
				(As per cent to GDP)
Item	1991-2000	2001- 2010	2004-2008	2009-2011
1	2	3	4	5
1. Central Government Finances				
1.1 Tax Revenue	6.8	7.2	7.6	7.4
1.2 Revenue Deficit	3.0	3.4	2.3	4.4
1.3 Fiscal Deficit	5.9	4.8	3.6	5.8
1.4 Primary Deficit	1.6	0.8	-0.2	2.6
2. State Finances				
2.1 Gross Fiscal Deficit	3.1	3.1	2.7	2.6
2.2 Outstanding Liabilities	22.3	29.3	30.1	24.8
3. Combined Government Finances				
3.1 Revenue Deficit	4.2	4.4	2.7	4.5
3.2 Fiscal Deficit	7.7	7.8	6.3	8.5
3.3 Primary Deficit	2.7	2.2	0.7	3.7
3.4 Outstanding Liabilities	63.2	75.1	76.5	68.5

The average saving rate also showed a substantial increase from 23 per cent of GDP in the 1990s to about 31 per cent in the 2000s with a peak saving rate of over 33 per cent achieved during the high growth phase of 2004–08. Fiscal consolidation helped in lifting the overall saving rate as public sector saving rose significantly. The efficiency of capital utilisation also improved as the incremental capital output ratio (ICOR) declined to 3.7 during the high growth phase of 2004–08 from 5 in the 1990s. Subsequently, however, capital efficiency has declined in the post-crisis period (Table 7).

Table 7: Saving and Investment				
Item	1991-2000	2001- 2010	2004-2008	2009-2010
1	2	3	4	5
(As a ratio to GDP at current market prices)				
1. Gross Domestic Savings	**23.0**	**30.7**	**33.4**	**33.0**
1.1 Household Saving	17.7	23.1	23.4	23.6
1.1.1 Financial assets	9.9	11.0	11.3	11.3
1.1.2 Physical assets	7.8	12.1	12.1	12.4
1.2. Private Corporate Sector	3.8	6.3	7.2	8.0
1.3. Public Sector	1.5	1.3	2.9	1.3
2. Gross domestic capital formation	**24.4**	**31.2**	**34.3**	**35.5**
3. ICOR*	**5.0**	**4.4**	**3.7**	**4.9**
*: Ratio of real investment rate and real GDP growth.				

The high growth was achieved in an environment of price stability as headline wholesale price index (WPI) inflation dropped to an annual average of 5.5 per cent in the 2000s from 8.1 per cent in the 1990s. There was also similar drop in consumer price inflation. Subsequently, however, in the post-crisis period the inflation trend has reversed with the headline WPI inflation averaging over 7 per cent and the consumer price inflation crossing double digits during 2009–11. The uptick in food price inflation was particularly sharp during 2009–11 (Table 8).

Table 8: Inflation

Item	1991-2000	2001- 2010	2004-2008	2009-2011
1	2	3	4	5
(Annual Average Percentage change)				
1. Wholesale Price Index	8.1	5.4	5.5	7.1
1.1 Food Articles	10.2	5.8	5.2	13.3
1.2 Fuel Group	10.6	8.9	7.3	7.2
1.3 Non-Food Manufactured Products	6.8	4.0	5.0	4.0
2. CPI- Industrial Workers	9.5	5.9	5.0	10.6
2.1 CPI- Industrial Workers Food	9.8	6.2	5.5	12.5

During this period, financial deepening of the Indian economy has also increased: broad money (M3) to GDP ratio rose from an average of 50 per cent in the 1990s to 85 per cent in the recent period of 2009–11. Credit penetration, measured as credit to GDP ratio, also increased from 21 per cent of GDP to about 50 per cent during this period. The high growth phase of 2004–08 was accompanied by acceleration in growth of bank credit to the private sector to about 27 per cent per annum from about 15 per cent in the 1990s. However, during the high growth phase of 2004–08, the average increase in M3 remained contained which aided price stability. This was made possible due to deceleration in banks' investment in government securities to about 13 per cent per annum during 2004–08 from 21 per cent in the 1990s. Fiscal consolidation opened up the space for private credit expansion without exerting much additional pressure on monetary expansion (Table 9).

Table 9: Money and Credit

Item	1991-2000	2001-2010	2004-2008	2009-2011
1	2	3	4	5
(Percentage change)				
1. Narrow Money (M_1)	15.6	16.0	19.6	12.3
2. Broad Money (M_3)	17.2	17.5	18.6	17.4
3. Non-food Bank Credit	15.4	22.4	26.7	18.7
4. Investment in Government Securities	20.9	17.7	13.3	16.2
(Per cent)				
5. Credit-GDP Ratio	20.6	37.7	39.5	49.7
6. Broad Money-GDP Ratio	49.9	73.6	74.3	84.6

Policy challenges

The draft approach paper for the Twelfth Five Year Plan (2012–17) released in August 2011 targets an annual GDP growth rate of 9 per cent. This is challenging but not unattainable. Why? Because India has already achieved an average growth rate of about 9 per cent during 2004–08 which was interrupted by the global financial crisis. Subsequently, average growth has dropped by about one percentage point to 7.8 per cent during 2009–11. In 2011–12, the terminal year of the Eleventh Plan, growth is expected to be about

8 per cent. Hence, growth will have to be raised by an additional percentage point per annum which is challenging because it will require a conducive global environment and policy reforms at home. While there are several tasks to be addressed, I will focus on six key issues.

First, India will have to raise agricultural productivity and diversify agriculture to feed its own population. The food entitlement has increased with the public employment guarantee programme (MGNREGA) which guarantees for 100 days of employment to one member of each family in the rural areas. This has also given better bargaining power to labour and consequently the overall wage rates have gone up raising the demand for food. While the country currently has sufficient foodgrains stocks, it is not yet self-sufficient in pulses and oilseeds. Further, demand for protein based products like meat, egg, milk and fish as well as fruits and vegetables has increased substantially with rise in income. The demand-supply mismatches in the case of these items have resulted in rise in their prices. There is, therefore, a need for another technological breakthrough to give fresh impetus to agriculture. At the same time, greater emphasis will have to be placed in the management of supply chain with investment in rural infrastructure. The annual growth in agriculture has to be raised to at least 4 per cent from the current trend growth rate of around 3 per cent.

Second, the fact that 53 per cent of overall work force is still engaged in the agricultural sector – whose share of GDP has shrunk considerably – is worrisome. A substantial part of this labour force will have to be ejected from agriculture not only to improve the productivity in agriculture but also in the overall economy. It is unconceivable that they can all be absorbed gainfully in the services sector. Hence, industrial employment will have to expand so also the relative contribution of industry. This needs a focused attention as we have seen that the share of industry in the overall GDP has stagnated over the last two decades. In this direction, the Government has taken up a major policy initiative to create National Manufacturing and Investment Zones (NMIZ) to increase the sectoral share of manufacturing in GDP to 25 per cent by 2022 and double the current employment level in the sector. Good physical infrastructure, a progressive exit policy, structures to support clean and green technologies, appropriate investment incentives, and business friendly approval mechanisms will be the cornerstones of this new initiative.

Third, to support industrialization and increased economic activity, there is a need to step up investment in infrastructure. The assessment of the Planning Commission suggests an investment of `45 trillion (US $ 1 trillion) over the Twelfth Plan (2012–17). Given the large requirement of long-term funds, financing infrastructure would be a big challenge. Besides budgetary support, the bulk of the funds has emanated from banks. However, channelling domestic and foreign financial savings of this scale into infrastructure will require developing the domestic private corporate debt market. Apart from the need for substantial financial outlays for infrastructure, there are several non-financing constraints: particularly land acquisition delays need to be addressed to avoid time and cost overruns.

Fourth, there is a need for the Government to revert to its rule-based pre-crisis fiscal consolidation path without compromising on the quality of fiscal correction. This is necessary to obviate the risk of twin deficits and to raise the overall saving rate. This will require further reform in the tax structure to ensure revenue buoyancy and greater focus on quality of expenditure with an emphasis on reduction of subsidy. In this regard, major reforms in the pipeline are the introduction of an integrated Goods and Services Tax (GST) by the Centre and the States to reduce cascading effect and improve tax compliance and operationalisation of a Direct Taxes Code (DTC), to improve allocative efficiency and equity of the direct taxes.

Fifth, credit markets have, historically, played a crucial role in sustaining growth through efficient intermediation of funds between savers and investors. Although India has a well-diversified financial system, and several measures for financial inclusion have been taken in the recent past, credit penetration continues to be relatively low in comparison with several other developed and emerging market economies. The extent of financial exclusion is staggering with around 61 per cent of population having a deposit account and only 10 per cent of population having a credit account. The Reserve Bank has embarked on a plan of making available basic banking services to all habitations of population of over 2000 by 2012 through a combination of brick and mortar branches and a system of business correspondents (BCs). Accelerated economic growth will depend on access to formal finance by the bulk of the population and greater credit penetration.

Sixth, empirical evidence suggests that the threshold level of inflation is in the range of 4–6 per cent. Hence, without bringing inflation down from the current level it will be difficult to sustain a high level of growth. This will require greater monetary-fiscal coordination and alleviation of supply constraints, particularly in agriculture.

Conclusion

Envisioning India's emergence as a major economic power in the world, Dr. Manmohan Singh in his Union Budget 1991–92 speech that launched wide ranging economic reforms had quoted Victor Hugo's saying, "no power on earth can stop an idea whose time has come". Ever since, there has been no looking back as India launched wide ranging structural reforms and has made significant economic progress over the past two decades. India's industrial environment has become more competitive and open, infrastructural gaps have been sought to be bridged through public-private initiatives with both domestic and foreign sources of funding, current account has become fully convertible while capital account is virtually free for non-residents. The policy environment has become more enabling with rule-based commitment on fiscal policy and considerable instrument independence for operation of monetary policy. As statutory preemptions were reduced and interest rates were deregulated, banks gained operational autonomy for commercial lending. As a result, India's per capita income, which had taken four decades to double by 1991, doubled thereafter in 15 years and is likely to double again in 10 years by 2017–18. If India could maintain the current pace of growth it will lift millions out of poverty and enrich the global economy. While India has come a long way, maintaining the current pace would itself be challenging and require continued reform efforts.