the positive side, the Survey highlights a sustained growth pattern: the gross domestic product (GDP) growth rate at 6.8 percent; buoyant domestic capital-goods production; increased foreign-exchange reserves; higher foreign-capital inflows leading to a strong balance-of-payments situation; a lower current-account deficit; manageable inflation; and lower interest rates. The Survey also notes the success of the Government of India in reducing the fiscal deficit. Furthermore, India was only slightly affected by the financial crisis that swept East Asia in 1997. Against these trends, however, there are shortfalls: the growth in industrial production has slowed, especially in key infrastructure sectors (power, crude oil); import and export growth has sharply decelerated; and the capital markets have yet to perform to their expected levels.

Although the overall performance of the economy is similar to that of last year, there are indications that the pace of economic liberalization is to quicken. The passing of the Union Budget, the Credit Policy and the Trade Policy, all of which have a strong reform thrust, have been well-received and should accelerate growth if fully implemented. The focus on reducing the scale of subsidies, simplifying foreign-investment approval procedures, accelerating disinvestment, and furthering financial sector reforms should also translate into higher sustainable growth. However, as with all policy pronouncements and intentions, the critical factor will, of course, be implementation. The key challenge for the government is to determine how to significantly energize economic growth in order to eliminate poverty. Priority has been accorded to poverty-alleviation programs, but the effectiveness of implementation remains very weak.

Economic growth in 1996-97 continued at a healthy pace. However, there was a compositional shift, with industrial growth slowing (estimated at 8.7 percent) and agriculture strongly rebounding (estimated at 3.7 percent). The service sector continued to show steady growth (estimated at 7.4 percent). The Survey attributes the slowing of industrial production to the weak performance in the infrastructure sectors, particularly electricity and crude oil. This slowdown reveals some serious structural problems:

1. acute infrastructure bottlenecks remain and indeed have been worsening, resulting in severe power shortages and growing congestions;

2. high real interest rates remain a deterrent to investment; and

3. the lack of a consistently transparent and sustainable policy framework engenders continued uncertainty among investors.

There has also been a dramatic slowdown in the growth of exports (6.4 percent in dollar terms, from 20.8 percent) and imports (4.4 percent, from 28.0 percent) over the past year. On the export side, growth performance declined sharply for all groups of commodities as compared with last year. Infrastructure constraints, the slowdown in world trade growth, price effects related to a strong rupee, the cost of credit, and some sector-specific developments (e.g. plant closures and non-renewal of some major contracts) have had a negative impact. With respect to imports, capital goods, intermediates and raw materials, and manufactured goods all experienced a decline. Petroleum crude, on the other hand, accelerated sharply due to domestic production constraints. This has led to the fiscal year ending with the foreign-exchange reserves increasing to US$23 billion (up US$6 billion).

The Survey also reported that India's external debt declined during the 1995-96 fiscal year to US$92.2 billion (down US$6.8 billion). This has resulted in a decline in the debt service ratio to 28.7 percent. The share of short-term debt was only 5.5 percent, which is low by international standards. Debt service payments, as a percent of current receipts, are estimated to have declined further in 1996-97. The deceleration in wholesale price inflation experienced last year has ceased and is now creeping upwards again.

With respect to fiscal developments, the government has succeeded in meeting its 1996-97 fiscal-deficit target of 5 percent of GDP. This was due to the deceleration in the growth of revenue expenditure, the deferral of implementing the recommendations of the Fifth Pay Commission, savings in interest payments, and increases in