

Annex: The Indian Economy

In 1995, about 200 million people made up the middle-class in India's population of 920 million. India spends about 1.3% of its GDP on health compared with 2.1% spent by China.

GDP. India's nominal GDP in 1995 is estimated to have been about C\$465 billion. In 1994, India's GDP was C\$406 billion.⁴ The real GDP growth rate in 1991—the year reforms were introduced—, dropped to 0.9% from 5.4% in the previous year. Real GDP grew at a rate of 4.3% each year in 1992 and 1993, while in 1994 the Indian economy moved up to a 5.4% growth rate.⁵ India turned in a 6% real GDP growth performance in 1995.⁶

Fiscal deficit. The federal government's fiscal deficit as a proportion of India's GDP went up from 6.7% in 1994 to 7.5% in the pre-election year 1995—two percentage points higher than the official target. India's deficit situation is extremely worrisome and the government must reduce the deficit.

Inflation. The wholesale price inflation shot up to 10.5% in 1994 from 8.4% in 1993 and inflation for 1995 is estimated at about 10%. The monetization of federal fiscal deficit often causes inflation. In 1996, inflation is anticipated by the EIU to reach an alarming level of 11%.⁷

Exchange rate. The rupee became convertible on the current account in August 1994. In September 1995, the rupee/US\$ exchange rate touched Rs35:US\$1 level and in October Rs36:US\$1. India's finance minister has avoided intervening in the market to defend the rupee. The high rate of

⁴Source: DRI/McGraw-Hill, *World Markets Country Summaries*, various issues, including fourth Quarter 1995.

⁵In comparison, the Canadian GDP in 1994 was C\$750 and the real GDP growth rate was 4.6%. On the other hand, China had a GDP of C\$696 in 1994 and its real GDP grew in 1994 by 11.8%.

⁶Source: The Economist Intelligence Unit (EIU), *Country Report, India and Nepal*, various issues, including 4th quarter 1995.

⁷In comparison, China's wholesale price inflation was 14.2% in 1994 and is estimated to have been 17.7% in 1995 and forecast to be about 15% in 1996. Source: DRI, *op.cit.*