GITAM FOUNDATION ENDOWMENT LECTURE

Indian Economy:
Immediate Concerns and Medium Term Challenges

by

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Ladies and gentlemen!

The Indian economy is currently passing through a phase of relatively low growth but this should not cloud the fact that over the decade beginning 2004-05 the average annual growth rate has been 7.5 per cent. We should also not underestimate the structural changes that have occurred in the Indian economy over the last two decades. These have imparted greater resilience to the system and the economy is more competitive. Nor should we overlook the impact of what is happening in the rest of the world, more particularly, in the advanced economies.

Paradigm Shift

The year 1991 is a landmark in the post-independent economic history of India. The country faced a severe economic crisis, triggered in part by a serious balance of payments situation. The crisis was converted into an opportunity to effect some fundamental changes in the content and approach to economic policy. There is a common thread running through the various measures introduced since July 1991. The objective is simple and that is to improve the efficiency of the system. The thrust of the new economic policy is towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. This is to be achieved by removing the barriers to entry and the restrictions on growth of firms. While the changes in industrial policy such as the removal of controls and licenses seek to bring about a greater competitive environment domestically, the foreign trade policy seeks to improve international competitiveness subject to the protection offered by tariffs which are coming down. The private sector is being given a larger space to operate in as much as some of the areas earlier reserved exclusively for the public sector are also now allowed to the private sector. In these areas, the public sector will have to compete with the private sector, even though the public sector may continue to play a dominant role. What is sought to be achieved is an improvement in the functioning of the various entities, whether they are in the private or public sector by injecting an element of competition. There is, however, nothing in the new economic policy which takes away the role of the State or the public sector in the system. The New Economic Policy of India has not necessarily diminished the role of state; it has only redefined it, expanding it in some areas and reducing in some others. As it has been said, somewhat paradoxically, 'more market' does not mean 'less Government', but only 'different Government'.

Trends in Growth

That our economic reforms have been on the right track is vindicated by the performance of the economy since the launch of reforms. In the post-reform period beginning 1992-93, the economy has grown at an average rate of 6.9 per cent per annum, a significant improvement over the pre-reform period (Table).

Coming to the more recent period, as mentioned earlier, economic growth in the ten year period beginning 2004-05 despite the crisis affected year of 2008-09, is at an average of 7.5 per cent. This clearly represents an acceleration in the pace of growth. Per capita GDP grew at an average of 6.0 per cent in these ten years. An examination of the high growth phase of 2005-06 to 2007-08 when the economy grew at an average annual rate of 9.4 per cent clearly indicates that this period was marked by high domestic savings and investment rates and a low current account deficit. In these three years, agriculture growth averaged 4.5 per cent while manufacturing grew at 11 per cent. It is true that capital flows were large. But as CAD averaged only 1.1 per cent of GDP, the accretion to reserves amounted to $144 billion. On many dimensions, the growth rate was robust. It was not just fuelled by financial availability. The external environment also provided good support.

Growth in GDP at factor cost and its Components at 2004-05 prices

(Percent per annum)

	Agricul-ture Forestry & Fishing	Mining & Quar-rying	Manu-fac-turing	Cons-truc-tion	Electri-city, gas, and water supply	Trade, hotels, storage, transport and communica-tions	Finance, insu-rance, real estate & business services	Commu-nity, social and personal services	GDP at Factor cost
1980-81	12.9	12.2	0.2	13.2	5.7	5.7	1.9	4.1	7.5
1981-82	4.6	13.7	8.2	5.5	9.5	6.2	8.1	2.1	5.7
1982-83	-0.3	11.9	3.3	-7.0	6.6	5.4	9.5	7.7	2.9
1983-84	10.1	2.9	10.2	5.4	6.9	5.1	9.8	3.7	7.8
1984-85	1.6	1.2	4.2	3.5	10.8	4.8	7.5	6.9	4.0
1985-86	0.3	5.5	3.2	5.7	7.9	7.9	9.8	5.7	4.3
1986-87	-0.4	12.2	5.5	2.4	10.3	6.0	10.5	7.5	4.5
1987-88	-1.6	3.8	5.6	5.7	7.8	5.3	7.3	7.2	3.7
1988-89	15.6	16.2	8.5	7.0	9.7	5.8	9.8	6.0	10.1
1989-90	1.2	7.6	8.8	7.0	9.7	7.4	12.4	7.9	6.3
1990-91	4.0	10.5	4.8	11.8	6.7	5.1	6.2	4.4	5.4
1991-92	-2.0	3.4	-2.4	2.1	9.7	2.6	10.8	2.6	1.6
1992-93	6.7	0.9	3.1	3.5	6.9	5.6	5.4	6.0	5.3
1993-94	3.3	1.4	8.6	0.6	7.5	6.9	11.2	4.5	5.7
1994-95	4.7	9.3	10.8	5.4	9.4	9.9	3.9	2.3	6.4
1995-96	-0.7	5.9	15.5	6.0	6.8	13.2	8.1	7.3	7.4
1996-97	9.9	0.6	9.5	1.9	5.4	8.1	6.2	8.1	7.8
1997-98	-2.6	9.8	0.1	10.5	7.7	7.5	11.7	8.3	4.5
1998-99	6.3	2.8	3.1	6.3	7.0	7.6	7.8	9.7	6.6
1999-00	2.7	3.2	3.2	8.4	5.5	8.2	9.2	11.5	6.5
2000-01	-0.2	2.4	7.7	6.2	2.1	7.3	4.1	4.7	4.4
2001-02	6.3	1.8	2.5	4.0	1.7	9.2	7.3	4.1	5.7
2002-03	-7.2	8.8	6.8	7.9	4.7	9.4	8.0	3.9	4.0
2003-04	10.0	3.1	6.6	12.0	4.8	12.0	5.6	5.4	8.4
2004-05	0.18	7.9	7.4	16.3	7.9	9.7	8.7	4.9	7.0
2005-06	5.1	1.3	10.1	12.8	7.1	12.1	12.6	7.1	9.5
2006-07	4.2	7.5	14.3	10.3	9.3	11.6	14.0	2.8	9.6
2007-08	5.8	3.7	10.3	10.8	8.3	10.9	12.0	6.9	9.3
2008-09	0.1	2.1	4.3	5.3	4.6	7.5	12.0	12.5	6.7
2009-10	0.8	5.9	11.3	6.7	6.2	10.4	9.7	11.7	8.6
2010-11	8.6	6.5	8.9	5.7	5.3	12.2	10.0	4.2	8.9
2011-12	5.0	0.1	7.4	10.8	8.4	4.3	11.3	4.9	6.7
2012-13	1.4	-2.2	1.1	1.1	2.3	5.1	10.9	5.3	4.5
2013-14	4.7	-1.4	-0.7	1.6	5.9	3.0	12.9	5.6	4.7

Source (Basic data): National Income Accounts, CSO

Note: for years prior to 2004-05, the 1999-00 base series is taken backwards based on splicing.

Under the severe impact of the global crisis, the Indian economy registered a growth of 6.7 per cent in 2008-09 after having registered a growth rate exceeding 9 per cent for three consecutive years. By any standard, the Indian economy was able to protect itself reasonably well in the turbulent conditions of the financial crisis.

The recovery from the impact of the global crisis was swift and sharp. The economy achieved a growth rate of 8.6 per cent in 2009-10, despite a severe drought.

The growth rate rose further to 8.9 per cent in 2010-11. The manufacturing sector grew by 8.9 per cent and the services sector by 9.7 per cent. Had we anticipated correctly this sustained rise in growth, we could have withdrawn some of the stimulus measures a little early. That could have moderated the inflationary tendencies. However, the fact remains that as late as the fourth quarter of 2010-11, the economy was growing at 9.9 per cent and industry alone was growing at 9 per cent.

Economic activity moderated quite substantially in 2011-12. The overall growth rate came down to 6.7 per cent. Growth in the last quarter was a low 5.1 per cent. Agriculture grew at 5.0 per cent, which came on top of a sharp increase in the previous year. The manufacturing sector whose growth rate was originally estimated at 2.7 per cent is now estimated at 7.4 per cent. The service sector showed some deceleration. The sub-sector which suffered most was 'Trade, Hotels and Restaurant'. The overall decline in growth rate was caused by supply side bottlenecks, price shocks and weak investment demand. Coal output fell. So also did several other minerals. International commodity prices remained high despite the poor performance of the advanced economies. The investment sentiment was affected by various factors including non-economic which created an element of uncertainty in the minds of investors. The external environment was also not hospitable.

In 2012-13, agricultural growth remained modest at 1.4 per cent. Manufacturing failed to pick up. Over the year, manufacturing sector showed a growth of 1.1 per cent. The growth rate of the year is now placed at 4.5 per cent. This is lower than the earlier estimate of 5 per cent primarily because of the downward revision in the estimate of agricultural growth and more particularly that of the sub-sector 'Trade, Hotels and Restaurant'. The latter's growth has been brought down to 4.8 per cent from the earlier estimate of 9.1 per cent.

In the fiscal 2013-14, growth continued to remain modest. The growth rate is now estimated at 4.7 per cent. An important contribution to the higher growth has been agriculture. Monsoon was extremely favourable and the result was a good growth of 4.7 per cent in agricultural GDP. Manufacturing growth rate is now estimated at -0.7 per cent. In the services segment, the sub sector 'Trade, Hotels, Transport and Communication' has shown a low growth of 3.0 per cent. The only sector that has shown a significant increase was 'Financing, insurance, real estate and business services' which rose by 12.9 per cent. On the whole a second successive year of sub 5% growth is a matter of concern.

In the current year, India's growth rate may be around 5.5 per cent. Monsoon so far has been erratic even though the worst fears have receded. Agricultural growth may remain subdued. In first two months of the current fiscal for which data are available, industrial production showed a growth rate of 4.0 per cent as against a decline of -0.5 per cent in the corresponding period of the previous year. Both Basic goods and Capital goods showed a sharp increase. The impact of the various measures initiated will however take time for their impact to be felt. The task before the policy makers is two-fold. First to take measures to revive the economy and second to create the conditions for sustained high growth.

Potential Rate of Growth

In the light of India's economic performance in recent years, a frequently asked question is whether India has the potential to grow at 8 to 9 per cent in a sustained way. In 2007-08, India's domestic savings rate was 36.8 per cent and the investment rate was 38 per cent. Since then, these rates have come down significantly. Nevertheless, recent data indicate that in 2012-13 the gross fixed capital formation rate, a measure of the accumulation of fixed assets by business, government and households, was around 30.4 per cent as against 32.9 per cent of GDP in 2007-08. In normal situations, keeping in view the recent trends in ICOR (the Incremental Capital Output Ratio) which is around 4, this should have given us a growth rate of 7 to 7.5 per cent but the actual rate turned out to be 4.5 per cent. Economic growth has in fact declined much more steeply than what is warranted by the decline in investment. This may be because projects have not been completed in time or complementary investments have not been forthcoming. In some cases, this could also be due to non-availability of critical inputs such as coal and power. The fact that even today, savings and investment rates are at high levels re-assures us that if we are able to find ways to complete projects speedily, we shall be able to usher in rapid growth in income even in the short run. It is, however, to be noted that while the decline in overall gross fixed capital formation rate from the peak reached in 2007-08 was only 2.5 per cent, the decline in the case of private corporate sector was as high as 5.8 per cent. Thus the composition of investment has also played a role in the reduction in productivity of capital. Nevertheless, while the existing level of investment rate should enable us to grow at 7.5 per cent in the short run, a return to higher level of savings and investment can take us back to the very high levels of growth which we had seen earlier. This, however, is the potential and to achieve it we must also take actions to remove constraints that may come in the way. In this context, I would like to highlight three immediate concerns and six medium term challenges. The three immediate concerns are inter-related and solving one will help solving the other two.

Immediate Concerns

Taming Inflation

First and foremost, we must tame inflation. We have had three years of high inflation. Just to give one number, inflation as measured by wholesale price index stood at 1.2 per cent in April 2009, 10.9 per cent in April 2010, 9.7 per cent in April 2011, 7.5 per cent in April 2012, 4.8 per cent in April 2013 and 5.6 per cent in April 2014. As of June 2014, it stands at 5.4 per cent. The retail inflation remains higher at 7.3 per cent. Inflation was largely due to certain severe supply constraints, particularly of agricultural products. The fact that inflation is triggered primarily by supply side shocks does not, however, mean that monetary policy and fiscal policy have no role to play. Food price inflation, if it persists long enough, gets generalized. This happened in a strong way in 2011. Thus, monetary policy and fiscal policy have to play their part in containing the overall demand pressures. The non-food manufacturing inflation in recent months has shown some increase and is remaining in the range of 3 to 4 per cent. The persistence of inflation has been one of the most disturbing elements in the Indian economy in recent years.

One fact that stands out prominently in the inflation experienced recently in our country is the persistence of food inflation. Food articles themselves are not one category. They comprise several sub-groups such as foodgrains, vegetables, fruits, milk and eggs, meat and fish. What we have seen in the last three years is that food inflation had remained high because of the spurt in the prices of one category of food articles or the other. In 2009-10, food inflation was triggered by the increase in foodgrain prices. But in 2010-11, the trigger was the rise in the price of vegetables. Even in the current year, we are seeing the same phenomenon. The persistent high level of food grain prices is largely attributable to one structural factor, namely, the consistent increase in the Minimum Support Prices. These increases have been rather sharp in recent years except of course in the current year. In the case of other food articles while the growth in output has been reasonable, demand has outstripped supply. Therefore, the answer lies in increasing output and improving the marketing arrangements. In fact, in regard to vegetables, the present marketing arrangements are archaic. This requires immediate reform. We must provide retail business direct access to farmers. The *mandi* arrangements at the wholesale level need radical transformation. Intervention in the foodgrain markets by using stocks available with the public distribution system has an important role to play in moderating the increase in foodgrain prices. Large stocks with the government reduce the availability in the market. However, the structural factor of the impact of minimum support price remains.

High growth does not warrant a high level of inflation. In fact for sustained high growth, we need price stability as a pre-condition. Some econometric studies clearly indicate that beyond 6 per cent inflation has a decisively negative impact on growth.

Containing the Current Account Deficit

The second macro-economic concern relates to the balance of payments. India's Current Account Deficit (CAD), which measures the difference between the country's import and export of goods and services, remained low till 2008-09. After that, it started rising. The CAD rose sharply from 2.7 per cent in 2010-11 to 4.2 per cent of the GDP in 2011-12. The trade deficit which measures the difference between imports and exports of goods alone was 10.2 per cent of GDP. This was a sharp increase from the trade deficit of 7.6 per cent in 2010-11. There was a huge increase in the import of gold in 2011-12. It rose to $56 billion as compared to $43 billion in the previous year. Import of coal and oil also increased substantially. Despite a strong growth in the export of goods and services, the current account deficit rose from $46 billion to $78 billion in 2011-12. The CAD continued to rise in 2012-13 and touched 4.8 per cent of

GDP. Gold imports remained high at $54 billion. We need to dissuade the attraction for the yellow metal. An attractive return on financial assets and taming of inflation will play a key role. We had however no problems in financing this high deficit. The capital flows were adequate to cover a CAD of $88 billion. There was a small accretion to the Reserves of the order of $3.8 billion.

In 2013-14, the Rupee came under severe pressure after May 22, 2013 when the US Federal Reserve indicated for the first time the tapering of its extraordinary monetary measures. By end August, the rupee had depreciated by 25.4 per cent. Since then it has recovered substantially. The problem really came from capital flows. FII inflows in the months of June, July and August turned negative to the order of $13 billion. It is because of this that the pressure mounted on the Rupee. As already mentioned, the negative flow started after May 22, 2013 when the Fed indicated that it might consider at some point the tightening of liquidity. This statement, indicating the Fed's positive outlook on the US economy affected capital flows not only to India but to the entire emerging economies, as FIIs moved their investments back to the US. The sudden withdrawal of capital flows affected the currency of almost every emerging market including Turkey, South Africa, Indonesia and Brazil. After September, when U.S. Fed announced a phased programme of tapering FII flows turned positive. Government and RBI took a variety of measures to attract inflows, which had a decisive effect. In the meanwhile, India's trade account started showing improvement. Taking the year as a whole, the trade deficit for 2013-14 declined from $195.6 Billion in the previous year to $147.6 bilion. As a proportion of GDP, this was a decline from 10.5 per cent to 7.0 per cent. Of the decline in trade deficit of $48.0 billion, 47% was contributed by the decline in imports of gold. In quantity terms, the decline in imports was from 1037 tonnes in the previous year to 664 tonnes. In value terms the decline is from $55 billion to $33 billion. Exports increased by 4 per cent. Surplus on net invisibles showed an increase. The combined effect has been a sharp decline in current account deficit. It came down to 1.7 per cent of GDP. With steady increase in capital flows there was an accretion to the foreign exchange reserves by $15.5 billion.

Recent events have shown that a high CAD may have a sharp effect on the exchange rate, when external conditions change and may also have a disruptive impact on the economy. What is the level of deficit which can be financed by normal capital flows? On reasonable assumptions of growth, a deficit of 2.5 per cent of GDP will require capital flows annually of the order of $40 billion to $60 billion in the next few years. This may be around 5 per cent of the capital flows to emerging markets. This level of flows can reasonably be expected to materialise. Nevertheless, it may be prudent to keep the current account deficit at a slightly lower level by an appropriate domestic policy environment. The policy actions should include the following. (1) Inflation must be tamed and this will ensure export competitiveness and also contain some imports like gold. (2) Fiscal consolidation must be pursued and this will bridge the gap between investment and savings which is in fact the other side of the current account deficit. (3) Appropriate pricing policies must be in place and this will help to contain oil imports. (4) Policies that can help to increase domestic production of coal must be adopted.

Finally, on the exchange rate. No longer does the current account deficit determine the exchange rate. Capital flows considerably influence the exchange rate. For example, when we had a high current account deficit, the exchange rate should have taken a hit. It did not happen because of the large capital flows. But this stored the problem for a later date. Therefore, there is need to watch the real effective exchange rate. In times of strong capital flows, policy makers have to moderate the real appreciation, even though there is a cost to it. In the absence of such interventions, we will have to be prepared for sudden shocks coming from the drying up of capital flows for which we may not be directly responsible. Capital flows have done good for India. But that does not preclude keeping a watch when the flows become very large. Equally important is the need for controlling inflation. In fact in many ways, controlling inflation is the key to ensuring a comfortable balance of payments situation.

Fiscal Consolidation

The third macro-economic concern is fiscal consolidation which is a necessary pre-requisite for sustained growth. It is also necessary for containing interest payments as proportion of revenues at a reasonable level and for allowing more space for private sector to borrow. In the wake of the international financial crisis, India like many other countries adopted an expansionary fiscal policy in order to stimulate demand. As a consequence, the fiscal deficit of the Government of India which was coming down started rising. In 2008-09, the fiscal deficit was 6 per cent of GDP. It rose to 6.4 per cent in the next year. Unlike other countries in the advanced world, where there is a continuing debate regarding when to terminate the expansionary fiscal policies, we in India have already taken a decision to initiate the process of fiscal consolidation. In 2010-11, the fiscal deficit came down to 4.7 per cent of GDP and it was projected to be at 4.8 per cent in 2011-12. However, the actual deficit turned out to be 5.7 per cent of GDP. It came down to 4.8 per cent in 2012-13 and 4.6 per cent in 2013-14.

The budget presented recently has reaffirmed its commitment to take the fiscal deficit to 4.1 per cent in the current year. There is also a commitment to take it down to 3% of GDP by 2016-17. For this to happen, the new Government have indicated that gross tax revenue as a portion of GDP will have to go up from 10.6 per cent in 2014-15 to 11.2 per cent in 2016-17. It has also been stated that major subsidies as a proportion of GDP will have to come down from 2.6 per cent of GDP in 2014-15 to 1.6 per cent of GDP in 2015-16. This will call for several policy decisions which may not be popular. Nevertheless such actions are needed. The subsidy regime needs reform in three directions. First, there has to be a fix on the total quantum of subsidies as a proportion of GDP. Second they need to be targeted and only directed towards vulnerable groups and third there has to be a rethink on the appropriate delivery system.

Medium Term Challenges

1. Agriculture

In the medium term, the two sectors which pose a major challenge are the farm economy and the power sector. The first of these, the farm economy, is primarily constrained by the relatively low levels of yield in major cereal crops and pulses as compared to other Asian economies, especially China. We have large science and technology establishments for agricultural research. But the results in terms of productivity gains leave much to be desired. Thus, necessary steps must be taken to revitalize the traditional crop agriculture which is vital to food security and farm income. Equally, as shifts in demand occur reflecting changes in income and taste, agricultural production must also respond to them. The last three years have clearly shown how a decline in agricultural production can cause serious distortions in the economy. It is, therefore, imperative that we aim at GDP originating from agriculture and allied activities growing at 4 per cent per annum. Besides improving productivity as stressed elsewhere, reorganising the marketing arrangements has become imperative.

2. Power

The second challenge for the country is the shortage of physical infrastructure of which the single most important item is electricity. Shortage of electric power leads not only to direct production losses but also results in inefficiency in a broad range of areas impacting profitability and competitiveness. Recent data clearly indicate a short fall in achieving the targets for capacity creation during the Eleventh Plan. This is despite the fact that the achievement in capacity creation in the 11th Plan is significantly higher than that in the 10th Plan. The Government is the largest player in production, transmission and distribution of power and a high order of Government intervention in capacity creation and other supportive components of the electricity business is crucial to sustaining a high growth rate of 8 per cent. An aggressive path of capacity creation is the answer. Constraints such as the availability of coal, land acquisition and environmental issues need to be tackled so that the desired growth in capacity expansion can be achieved.

3. Good Governance

Good governance is at the very heart of economic growth and poverty reduction. Governance may be defined as the manner in which the power of the state is exercised in the management of the country's economic and social resources. Governance is thus about giving directions to the polity and economy so as to achieve the desired outcomes.

In the ultimate analysis, it is the quality of governance that separates success and failure in economic development. Across countries, the application of the same policies in roughly similar contexts has produced dramatically different results. In our own country, we have seen vast differences across states in development outcomes from out of the same mix of development policies. These differences across countries as well as across regions within countries, even as they adopt similar policy packages, arise because of differences in governance.

Good governance is a combination of transparent and accountable institutions, strong skills and competence, pecuniary and professional integrity, and a fundamental willingness to do the right thing. The test of good governance is ultimately the quality of service at the cutting edge level. I can hardly overemphasize that good policies are necessary, but not sufficient. They need to be accompanied by good governance. We need to create at various levels institutions that can hold different government agencies accountable.

4. Reform Agenda

In the first phase, reforms were introduced in the industrial sector, external trade and investment sectors, exchange rate management, fiscal policy and financial sector. Later, communications and other key infrastructure sectors were covered. We need to extract the full potential of the reforms we have already introduced. However, reforms form part of a continuing agenda. As we look ahead, the road map for reforms must include the following:

1. The basic principle of liberalisation of creating competitive markets with minimal barriers to entry and exit should be extended to all sectors. There are still some sectors which are subject to production and distribution controls. In fact, the recent decision to raise the import duty on sugar goes counter to creating a competitive industry.

2. Pricing of natural resources has become an issue. Transparent mechanisms for fixing price must be followed which will be fair to producers and end-users.

3. Among the sectors that have remained untouched by reforms, the most important is agriculture. Even as much remains to be done to improve the productivity of agriculture through scientific research and improved dissemination of knowledge, there are areas like marketing where reforms are badly needed.

5. Growth and equity

In the recent period, there have been some discussions on the relative importance of growth and social development. In a fundamental sense, there is no contradiction between the objectives of growth and social development. Economic growth implies improvement in the material well-being of the people which necessarily includes better health, education and sanitation. On the other hand, enhanced social development expenditures cannot be sustained over a long period unless supported by accelerated economic growth. The two are in fact mutually reinforcing forces. Growth will have no meaning unless it brings in its scope the bulk of the population. In effect, the country must learn to walk on the two legs of growth and social development.

6. Growth and environment

It is also important to note that in the recent period environmental and land acquisition issues have assumed a certain urgency. People have become extremely concerned with environmental degradation and, therefore, all projects come under the strictest scrutiny from the angle of environmental protection. Similarly, rehabilitation and resettlement of people whose lands have been acquired has received focussed attention. Obviously, we cannot ignore environmental concerns. But we need to work out a compromise between the compulsions of growth and concerns for environment.

Conclusion

In many ways the coming decade will be crucial for India. If India grows at 8 to 9 per cent per annum, it is estimated that per capita

GDP will increase from the current level of US$1,600 to US$ 8,000-10,000 by 2025. Then India will transit from being a low income to a middle income country. We need to overcome the low growth phase as quickly as possible, as growth is the answer to many of our socio-economic problems. In the recent period, we have launched a number of schemes aimed at broadening the base of growth. These include the employment guarantee scheme, universalisation of education, expansion of rural health, and providing food security. All these programmes have made a substantial demand on public expenditure. It has been possible to fund these programmes only because of the strong growth that we have seen in recent years. Growth has facilitated raising more resources by the Government.

Development has many dimensions. It has to be inclusive, it must be poverty reducing, and it must be environment-friendly. We need to incorporate all these elements in the growth process. A strong and balanced growth will enable the economy to achieve multiple goals including reducing poverty. Growth and equity should not be posed as opposing considerations. They must be weaved together to produce a coherent pattern of development. Therein lies skill, craft and statesmanship.

Thank you!

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