

## **Mid Year Review of the Indian Economy 2005-06**

The mid-year review of the Indian economy for 2005-2006 presents the economic scenario with cautious optimism. The return to buoyant performance of the manufacturing sector, the continuing buoyancy of the services sector, the sharp increase in the savings rate and the creditable performance of exports present an optimistic picture of the Indian economy. Despite the severe fiscal imbalance, sharply increasing oil prices and a poor political climate for reforms, the economy has registered a growth of over 8 per cent in the first half of the current year.

The high performance of the economy consecutively for three years despite several constraints has given the impression that the economy has reached a higher growth trajectory. Such an assessment, however, would be premature and the review highlights several risks which have dragged the economy such as the continuing fiscal imbalance, infrastructure bottlenecks, perverse incentives and governance problems. Nevertheless, achieving 8 per cent growth during the Eleventh Plan is within the realm of feasibility, but that is possible only if the pace of reforms is accelerated. Restoration of fiscal balance, improving infrastructure, addressing labour laws, small scale industry de-reservation, improving the efficiency of the financial sector, creating an enabling environment for investment and productivity increase in agriculture and addressing the problems of lagging regions are some of the measures needed for sustained high growth.