

## **Mid Year Review of the Indian Economy 2007-08**

The *Mid-Year Review of the Indian Economy* projects a mild slowdown of the economy to 9.2 per cent GDP growth in 2007-08 from 9.4 per cent in 2006-07 and a likely further slowdown in 2008-09. The author finds the economy on the limits of its potential growth and advocates structural reforms to raise its potential growth rate.

While the economy has followed the unconventional path of services overtaking industry, there is some evidence of the resurgence of the industrial sector in the 2000s. Further liberalization of the industrial sector is necessary for boosting industrial growth with large employment generation.

It is forecast that while the current account deficit is projected to rise to 1.6 per cent of GDP in 2007-08, net capital flows will reach an unsustainable level of US\$ 104 billion (8.9 per cent of GDP). This will put further pressure on the rupee and push India towards being afflicted by the 'Dutch disease'. Urgent and even unconventional measures are required to limit capital flows.

There is a possibility of the central government not reaching the fiscal deficit target of 3.3 percent of GDP in 2007-08. Fiscal deficit including the off-budget liabilities remains very high and debt levels high by international standards and even by our own standards in the mid-1990s. The review advocates measures for reducing the stock of public debt by sale of public assets.