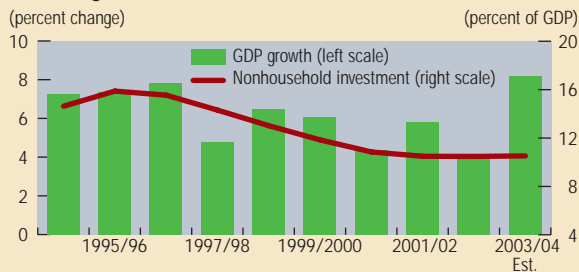


India

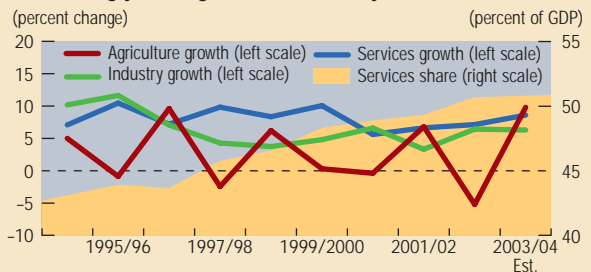


India's economy is rebounding strongly, providing a golden opportunity to tackle fiscal challenges decisively.

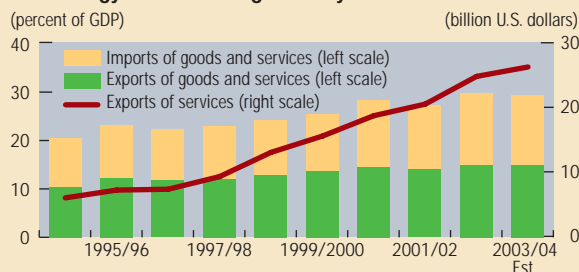
Growth was strong in fiscal year 2003/04 (April–March) after recent lackluster performance and declining investment.



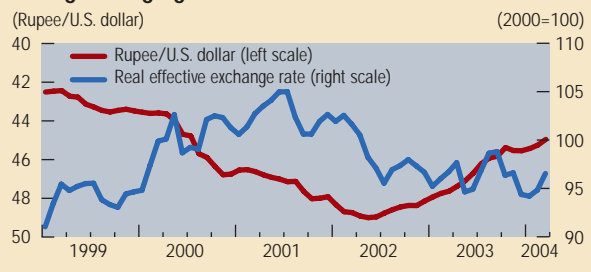
The recovery was strongest in agriculture, following a severe drought in 2002/03, but services are increasingly driving India's economy.



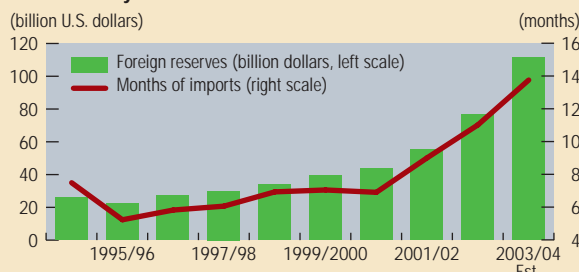
India's economic ties with the rest of the world have strengthened, with services exports—largely information technology—also leading the way.



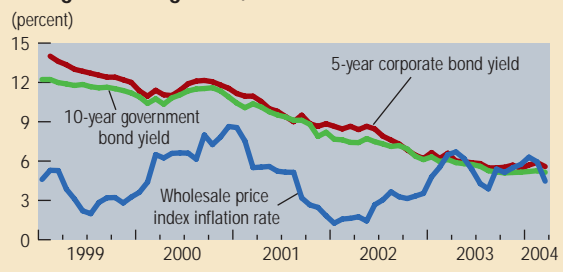
Exports have benefited from competitiveness gains in the past three years despite the recent rupee strengthening against the U.S. dollar.



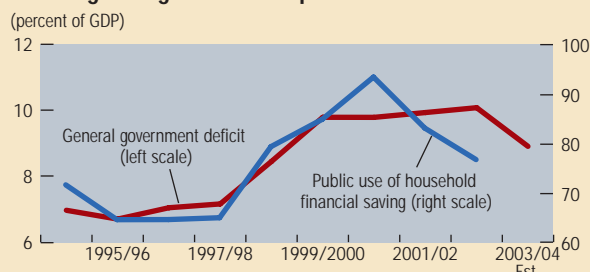
Current account surpluses and strong capital inflows have boosted foreign reserves, reducing external vulnerability.



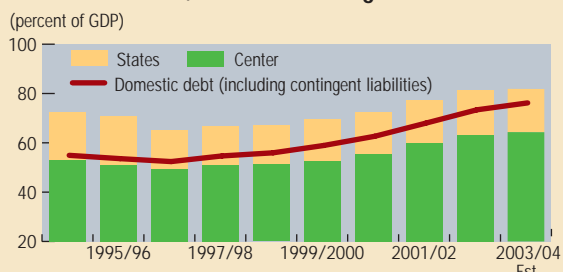
Despite large fiscal deficits, interest rates have fallen with global integration, and inflation is moderate.



While the fiscal situation likely improved in 2003/04, it still poses serious challenges and risks, with deficits diverting savings from more productive uses.



It has also resulted in a steady rise in the debt of both the central and state governments, which, over the medium term, could constrain growth.



Sources: Central Statistical Organization and Reserve Bank of India; CEIC Data Company Ltd.; and IMF staff estimates.