ECONOMIC REFORMS SINCE 1991

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NEED FOR ECONOMIC REFORMS

- **In 1991 economic reforms were introduced in India because 1991 was the year of crisis for the Indian economy. It is clear from the following facts:**

a. **national income was growing at the rate of 0.8%.**
b. **Balance of payment crisis was to the extent of 10000 crores.**
c. **India sold large amount of gold to Bank of England.**
d. **Foreign exchange reserves were only 1.8 billion dollars which were sufficient for three weeks imports only.**
e. **Fiscal deficit was more than 7.5%.**

f. Trade relation with soviet block had broken down.
g. Remittances from Non-Resident Indians stopped due to war in Arab countries.

ECONOMIC REFORMS SINCE 1991- NEW ECONOMIC POLICY (NEP)

1. Components on NEP.

- **Macroeconomic stabilisation – Demand side Management.**
- **Structural adjustment – supply side management.**

Economic Reforms

2. NEP- policy of liberalisation, privatisationanf Globalisation(LPG)

In the NEP 1991, structural reforms can be seen with respect to:

I. **Liberalisation** II. **Privatisation**

III. **Globalisation**

Liberalisation

Liberalisation means removing all unnecessary controls and restrictions like permits licenses, protectionist duties, quotas, etc. imposed by the government.

Liberalisation measures

A. **Industrial sector reforms**

1. **Abolishing of industrial licensing:** **Industrial licensing was abolished for all projects except for industries.**

These industries are:

I. **Liquor**
II. **Cigarettes,**
III. **Industrial Explosives,**
IV. **Defence Equipments,**
V. **Drugs and pharmaceuticals, and** VI. **Dangerous chemicals.**

2.Contraction of public sector.

The number of indusries exclusively reserved for the public sector has been reduced from 17 to 3.

The only industries reserved for the public sector are:

defence equipment, atomic energy generation, and railway transport.

3. Reforms in small scale sector. According to the new policy investment limit of small

scale industries has been increased to one crore with a view to modernise them.

4. Concession in the MRTP Act.

The new act gives more emphasis to the prevention and control of monopolistic, restrictive and unfair trade practices.

5. Expansion of production capacity.

After delicensing, producers enjoy the freedom of what to produce and in what quantity.

6. Freedom to import capital goods.

liberalisation also implied in import sector. Now industrialists are free to import capital goods with a view to upgrade their technology and plant capacity of production.

B. FINANCIAL SECTOR REFORMS

1. Liberalisation implied:

1. **There was a substancial shift in role of the RBI from 'regulator' to ' a facilitator' of the financial sector.**

2. After Liberalisation in 1991,RBI as a facilitator would only facilitate free play of market forces and leave it to the commercial banks to decide their interest structure.
3. Thus, with liberalisaton, competition prevails rather than controls.

Financial sector reforms…..

2.Both cash reserve ratio and statutory liquidity ratio have been reduced to increase availability of funds with commercial bank to advance more credit.

3.Bank rate had been reduced. It lowered the interest rate charged by the commercial banks thus, encouraging credit.

4.Foregn institutional investors such as merchant bankers, mutual funds and pension funds are now allowed to invest in Indian financial markets.

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FINANCIAL SECTOR REFORMS…..

5.There was establishment of private sector banks, indian as well as foreign. Foreign investment limit in banks was raised to around 50 %.

6. The stock market has been made to statutory body

C. Tax reforms/fiscal reforms

After liberalisation policy of 1991:

1. both direct and indirect taxes were reduced.
2. The procedure for paying taxes was simplified.
3. Non-planned expenditure by government was reduced.

D. Foreign exchange reforms/External sector reforms

In 1991,as an immediate measure to solve the balance of payment crisis, the Rupee was devalued against foreign currencies.

It also freed the determination of rupee value in the foreign exchange market from government control, and made it subject to a market determined exchange rate.

E. TRADE POLICY REFORMS

The trade policy reforms aimed at :

1. **Abolition of import licensing system except in case of hazardous and environmentally sensitive industries;**
2. **Removal of quantitative restrictions on imports;**
3. **Reduction of tariff rates.**

PRIVATISATION

Privatisation is defined as the transfer of a function, activity or organisation , from the public sector to the private sector.

- **Privatisation measures**

1. **Disinvestment**

   Disinvestment is a sale of a part of equity holding held by the government in any public sector undertaking to private investor.

2. Policy of Navratnas

The government has decided to give special treatment to some of the important profit making PSUs and they were given the status of navratnas.

These navratnas were granted financial and operational autonomy in the working of the companies.

These navratnasare:

a) **Bharat Electronics Limited(BEL).**

b) **Bharat heavy electricals limited(BHEL).**

c) **Bharat petroleum corporation limited(BPCL).**

d) **Coal India limited(CIL)**

e) **Gas authority of India limited(GAIL).**

GLOBALISATON

Globalisation refers to growing economic interdependence among countries in the world with regard to technology , capital, information , goods , services, etc.

1. **Reduction of trade barriers to permit free flow of goods and services across national frontiers.**

2. **Creation of an environment in which free flow of capital can take place.**

The term globalisation has 4 parameters:

1. **Reduction of trade barriers to permit free flow of goods and services across national frontiers.**

2. **Creation of an environment in which free flow of capital can take place.**

3. **creation of an environment to allow free technology among the nation states**

4.creation of an environmental in which free movement of labour can take place in different countries of the world.

- **Outsourcing**

Outsourcing means obtaining goods and services by contract from an outside source.

The main services which are being outsourced from india by developed countries are :voice-based business proces(known as BPO or call centre), banking services, railway inquiry, record keeping, accountancy, music recording ,

book transcription, clinical advice , teaching etc.

Genpact , HCL BPO, Wipro BPO are some top most companies offering BPO services in India.

India is a favourate outsourcing destinations. The advantages that india has are:

a. **India can provide a ready supply of skilled people at relatively lower prices.**

b. **India has the advantage of time difference as it is located on the other side of the developed countries.**

- **Main organisations for facilitating globalisation.**

1. **International monetary fund(IMF). The IMF came into official existence on december 27,1945 with the signing of its articles of agreement.it commenced financial operations on march 1,1947.**
2. **The world bank or international bank for reconstruction and development(IBRD)**
3. **World trade organisation(WTO)**

ACHIEVEMENTS OF THE POLICY OF LPG

1. Rise in GDP growth. since the introduction of economic reforms in 1991,country has shown rise in GDP growth rate.in 199192,growth rate of GDP WAS 1.3%. In the 9th plan GDP grew at 5.5 % and in 10th plan at 7.2%.
2. Rise in foreign exchange reserves.foreign exchange reserves which were only US 5.8 billion dollars in 1991 have shown a tremendous rise to US 295.5 billion dollars in 2012-13.

3.Control of inflation. The plus point of economic reforms is that it has controlled inflation from 16.8 in 1991 to 7.6% in 2012-13.

4.Rise in integration with the world economy. India is now much more integrated with the world economy and has benefited from this integration in many ways.

The outstanding success of IT and IT-Enabled Services(ITES) has shown what Indian skills and enterprises can do _given the right government.

5. Rise in inflow of foreign capital. FDI was at US 33.0 billion dollars in 2011-12.

6.Controlling fiscal deficit. Continuesly increasing fiscal deficit was a serious problem in front of government .

It was as high as 8.5% of GDP prior to 1991.

Due to LPG policies governments receipts has been increased lead of fall in fiscal deficit around 5% of GDP.

SOLUTIONS:SECOND GENERATION REFORMS

Second gneration reforms are develop driven and include measures, such as:

1. **Corrective policies to focus on smalll ,marginal , middle and large farmers who suffer from productivity stagnation.**
2. **Generate employment oppurtunities, including those that can be provided by micro and small enterprise.**

3. To develop quality infrastructure.
4. To provide essential public services to the poor and to establish accountability of service providers.
5. To expand vocational training institutes not only in terms of number of persons they train but also in terms of number of different skills and trades they teach for meeting industry requirements.
6. Reforming labour laws.

SECOND GENERATION REFORMS……

7. **To reduce public debt and consequently , the burden of interest and debt-servicing charges.**
8. **To protect the environment**

- That is, to improve air quality , to have clean rivers and water bodies and to raise energy efficiency.