Economic reforms since 1991

Meaning and objectives of economic reforms

economic reforms in India indicate all policy measures introduced since 1991 with a view to improve the level of efficiency productivity and profitability in the economy.

Objectives:-

- **To accelerate the growth rate in the economy**
- **To make the economy competitive**
- **To make use of global resources for countries on development**
- **To rationalize the role of public enterprises**
- **To cut down fiscal deficit**

Economic crisis of 1991 and its causes

During 1991 India met with an economic crisis relating to its external debt. The following points highlight the convict prices

- The government was not able to make re payments on it's borrowing from abroad
- Foreign exchange reserves which are used to import petrol and other important items were barely enough to last for 15 days
- The prices of essential goods wererising

Causes

- **Fiscal deficit:-** fiscal deficit signifies the excess of government expenditure over government income.in 1981 – 82 fiscal deficit was 5.4 % of GDP which grows to 8.4 % of GDP in 1991.To meet this deficit we had to go for heavy borrowings does our economy was caught in the debt trap. Rising deficit force the government to borrow from World Bank and IMF to extend the loan of rupees 7 billion dollars. IMF finally give advance but interested to introduce economic reforms in the economy
- **Balance of payment deficit:-**it was estimated at 2,214 crore in 1980 – 81 which grows to rupees 17,367 crore in 1990 – 91
- **Depletion of foreign exchange reserves:-**which did not have foreign exchange reserves enough to pay for two weeks in ports. The crisis became so acute that Chandrashekhar government had to mortage gold with other countries to raise loans for the repayment of the loans.
- **unsatisfactory performance of public sector:-**due to inefficient functioning, corruption public sector started in incurring losses therefore a shift in the government policy was necessitated from its emphasis from public sector to private sector.
- **Increase in prices:-**the rate of inflation reached an all-time high level of above 17% which compelled the government to introduce a new set of policy measures

Economic reforms or new economic policy (NEP)

the new economic policy was announced in July 1991 it consisted of two kinds of measures

(i) stabilization measures:-they refer to short the measures to correct imbalances of the balance of payment by maintaining sufficient foreign exchange reserves and to control inflation by keeping the rising prices under control

(ii) structural reforms measures:-did refer to long two measures to improve the efficiency of the economy and to increase international competitiveness by removing the rigidities in various segments of Indian economy.

<u>**Main features of the new economic policy**</u>

In 1991 the Government of India initiated a series of economic reforms which is known as new economic policy (NEP) three broad components of NEP are
(i) the policy of liberalisation (L) in place of licensing (L)for the industries and trade.
(ii) the policy of privatisation (P)in place of quotas (Q) for the industrialist and
(iii) the policy of globalisation (G) in place of permits (P) for exports and imports
Does LPG was said to replace LQP in 1991

<u>**THREE MAIN ELEMENTS OF NEP**</u>

- <u>**Liberalisation**</u>
- <u>**Privatisation**</u>
- <u>**Globalisation**</u>

<u>**Liberalisation:-**</u>means giving greater freedom to economic agents to take their own decisions it implies liberating the trade and industry from an unwarned government controls and restrictions It contain two things

(a) To allow private sector which area reserved for public sector
(b) Relaxation in the rules and regulations made for the private sector

Libralisation measures in India include the following:-

Industrial sector reforms

(a) exemptions of industrial licensing:-It abolished the requirements of licensing except 5 industries (a)liquor (b)cigarettes (c)defence equipments (d)industrial explosives and (e) dangerous chemicals.

(**b) contraction of public sector**:-din number of industries reserved for public sector was reduced from **17** to **8** in 2010-11 the number of these industry was reduced to **2** (i)atomic energy and (ii) railways

(c) freedom from MRTP act 1969:-area production capacity was linked with licensing now freedom from licensing implied freedom from production capacity limits. MRTP (monopolies and restrictive trade practices)

companies are now allowed to expand their size without prior sanction from the government having assets beyond rupees hundred crore in 2002 tu MRTP Act has been replaced by competition Act 2002 which is more liberal.

(**d) freedom to import of capital goods and technology:-**permission was no longer required from the government to enter into international agreements for the import of technology

(**e) reforms in small scale sector:-**according to the new policy investment limit of SS has been increased to 5 crore with a view to modernize them many goods produced by SS you have now been dereserved.

micro small and medium enterprises development(MSMED) Act was enacted in 2006 and integrating the three tiers of these enterprises micro ,small and medium

For micro units the Government of India launched April 8 2015 the micro units development and refinance agency known as (MUDRA) Bank.under the scheme loans worth rupees 2.46 lakh crores with distributed during 2017-18.

Financial sector reforms

financial sector includes(i) banking and non banking financial institutions(ii) stock exchange and(iii) foreign exchange market. In India financial sector is regulated and controlled by the RBI (Reserve Bank of India).

Financial sector reforms include the following

1. **Change in rule of RBI:-**the role of RBI was reduced from regulator to facilitator of financial sector. Prior to liberalisation the RBI was deciding the interest rates for banks on loans given and deposits taken after 1991 banks could charge on interest rates on loans and choose to give suitable rate on deposits this increased competitiveness in the banking sector does financial sector was allowed to take decision on many matters without consulting the RBI.
2. **Establishment of private sector banks:-**the form policy led to the establishment of private sector bank Indian as well as foreign for example ICICI ,HDFC and foreign banks like HSBC. The number of foreign banks operating in India is 44 and the number of new private bank is 9
3. **Increase in limit of foreign investments** :-the limit of foreign investment bank was raised to 50% foreign institutional investors(FII)such as merchant bankers mutual funds and pension funds banau allowed to invest in Indian financial markets.
4. **Jan dhan Yojana:-** the government has launched Pradhan mantri Jan dhan Yojana pmj for weaker sections all low income groups this Yojana has entered the Guinness World records for opening most bank account during the week starting 23rd August 2014 as on January 28 2015 12.30 crores accounts opened of which 7.36 crore are in rural areas and 4.95 crore in urban areas.
5. **Mudra Bank:-**looking at the importance of m s m e micro small and medium enterprises micro units development and refinance agency known as mudra Bank was set up in April 2015 the objective of the bank is provide the facilities of finance and refinance to small business in the unorganised sector

Fiscal reforms:-fiscal reforms means reforms in government taxation and expenditure policies which are collectively called fiscal policy .Taxes are of two types (i)direct taxes and (ii)indirect taxes

The major tax reforms introduced after 1991 were:-

(i) **Reduction in taxes:-**there has been a continuous reduction in income and corporate tax

(ii) **Reforms in indirect taxes:-**very recently the Government of India has announced implementation of goods and services tax (GST)

(iii) **foreign capital and policy reforms:-**

- The foreign investors are free to compete with the domestic producers in the Indian markets
- Simplification in the foreign direct investment (FDI)policy.
- to resolve BOP crisis immediately Indian rupee was devalued in 1991 against foreign currencies .
- the exchange value of Indian rupee in the foreign exchange market was left to the free play of market forces rupee was allowed to depreciate

(iv) **foreign trade policy reforms:-**

- Restrictions on import have been abolished

- Abolition of import licensing
- Policy of protection to domestic industries

Privatisation:-

privatisation refers to any process that produces the participation of the state public sector in economic activities of the country

It made results:-

- Transfers of the government ownership of productive assets to the private sector it implies denationalisation
- this investments that is sale of a part of equity of public sector enterprises to private capital
- Entry of private sector industries into the exclusively reserved industry for the public sector
- limiting the scope of public sector and no for the expansion of the existing public sector

Arguments for privatisation:-

- Performance of public enterprises
- Rising budgetary deficit
- High capital output ratio

Arguments against privatisation:-

- Unbalanced growth
- Adverse effect on standard of living
- Less scope for the development of infrastructure.

Policy measures towards privatisation

a) **Contraction of public sector**:-

Number of industries reduced from 17 to 8 under public sector

b) **Policy of disinvestment**

initially the government adopted the policy for sale of shares maximum upto 49%
In March 1999 the government classified the PS into strategic and non strategic and stick could be reduced to as lowest 26%

c) **Memorandum of understanding**

through MOU, government induces enterprises to attain the pics target of their production.

d) **Participation of private sector**

government has open various sectors like banking insurance power transport communication etc. for private sector.

Globalisation:-

the term globalisation indicates the opening of the economy for the world market.
It may be defined as process associated with increasing openness growing economic interdependence and deepening economic integration in the world economy.

globalisation is the outcome of the policies of liberalisation and privatisation the policy encourages both foreign trade and foreign investment.

Factors promoting globalisation in India

- **Technical changes**-have reduced cost of production and expanded volume of production
- **Competition-**promoted Indian industries to improve their efficiency

- **Liberalisation-**liberal policies adopted by India also helped in globalisation process
- **Experience-**experience of develop nation had benefited for globalisation process.

Policy strategies / measures towards globalisation:-

- **Foreign investment**-MNCs be allowed to set up their forms in India in different sector wearing from 26 % to 100% ownership with them.the government has liberalized and simplified the FDI policy in sector like defence railway infrastructure and pharmaceutical sector.
- The indirect form of foreign investment which is called **portfolio investment** started in 1994 only those foreign institutional investors(FII s) sach is merchant bankers mutual funds and pension funds having good track record allowed to invest in the Indian stock market.
- **Withdrawal of quantitative restrictions-**quantitative restrictions on imports of manufactured goods and agricultural commodities we also fully remove from April 2001
- **Reduction in tariffs and custom duties** custom duties(tariffs) have also been reduced to consolidate the competitiveness of Indian goods in the world market
- **FEMA in place of FERA-**foreign exchange regulation Act (FERA)was tougher to control the inflow and outflow of foreign exchange was replaced by foreign exchange management act (FEMA)with effect from June 2000 under fame II provisions related to foreign exchange has been made liberal.

Positive effect of LPG policies

- **Increase in India's share in world GDP-**has increased from an average of 4.8 % during 2001 – 0 7 to 6.1% during 2008-13
- **Outsourcing-** it refers to contracting out some of its activities by an organisation to a third party which were earlier performed by the organisation.
  India has become a favourable destination of outsourcing for most of the MNCs because of low wage rate and availability of skilled manpower
- **Growth of service sector-**it has increased from 40 2.7% in 1990 – 91 250 3.2% in 2015 it was mainly on account of the growth of IT sector
- **Consumer sovereignty**-Indian consumer are benefited due to large variety of goods and services sold by MNCs in India
- **Increase in foreign direct investment-**large inflow of foreign capital in form of FDI which has increased from about US $100 million in 1990-91 to IS $518.1 billion in September 2017. India is ranked at 9th position in the list of top recipients of FDI in 2016
- **Increase in foreign exchange reserves-**devaluation of rupee full convertibility of rupee on current account and increase in FDI are the main causes behind increase in foreign exchange reserves
- **Check on inflation**-NEP has also succeeded in keeping the price level down. In the year 2014-15 inflation rate was 5.9 % which decline to 3.3% in 2017-18

negative effects

- **Neglect of agriculture-**public investment in agriculture came down and subsidy was reduced so Indian farmers field to face global competition
- **Low level of industrial growth-**it was due to cheap imported goods and no access to markets in developed countries

- **Disinvestment-**this means a substantial loss to the government
- **Control by MNCs-**they are successfully exploiting the Indian markets and are selling their products
- **Unbalanced growth process**-concentration in urban areas and neglect of rural areas
- **Widespread poverty and growing unemployment-**the poor unskilled labour force continues to work in low productivity jobs getting low in a regular basis.employment opportunities have been created at the upper end only.