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3. A Study Economy Since the 1991 - 2001 Economic Reforms

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Abstract

The 1990s saw far-reaching changes in India's economic policy. A severe balance of payments crisis at the beginning of the decade triggered wide-ranging reforms in economic policy during the early 1990s. These reforms brought about a swift turnaround in India's external sector and catalyzed an unprecedented spurt in economic growth during the five years from 1992–1993 to 1996–1997, coincident with the "Eighth Plan" period. Unfortunately, the program of policy reforms lost momentum after 1995, and the early partial success with fiscal consolidation was reversed after 1996. Coupled with some deterioration in the international economic environment in the final years of the decade, these factors contributed to a clear deterioration in growth for the ensuing six years.

Key Words : Economy, Reforms, Crisis, Rebounds, Growth

Introduction

The 1990s saw far-reaching changes in India's economic policy. A severe balance of payments crisis at the beginning of the decade triggered wide-ranging reforms in economic policy during the early 1990s. These reforms brought about a swift turnaround in India's external sector and catalyzed an unprecedented spurt in economic growth during the five years from 1992–1993 to 1996–1997, coincident with the "Eighth Plan" period. Unfortunately, the program of policy reforms lost momentum after 1995, and the early partial success with fiscal consolidation was reversed after 1996. Coupled with some deterioration in the international economic environment in the final years of the decade, these factors contributed to a clear deterioration in growth for the ensuing six years.

Objectives of the Study

To study the economic reforms after 1991 in Indian Economy.

Methodology

All data carried out by using secondary data related Indian Economy.

Explanation

Crisis and Reforms (1991–1992)

The deep-seated roots of the 1991 crisis in fiscal laxity, growing reliance on external borrowing, a weakening financial sector and heavy-handed regulation of trade and industry are well known. The proximate trigger of the 1991 crisis was the Gulf War in the second half of 1990–1991, which jacked up international oil prices (and India's oil import bill) and reduced remittance inflows from the Gulf. Unstable coalition politics of 1990–1991 compounded the economic problems and hastened a full-fledged balance of payment crisis. Foreign exchange reserves fell below U.S.$1 billion in early 1991, short-term external debt rose steeply, and exports declined. Despite imposition of severe restrictions on imports, a default on payments seemed imminent by mid-1991, when the new Congress Party government took office. This government, with Manmohan Singh as finance minister, acted quickly to stabilize the macroeconomic situation and initiate long overdue structural reforms.

The systemic nature of the 1991 reforms may be gauged from the fact that within a few months, the following steps had been taken: virtual abolition of industrial licensing; rupee devaluation by 20 percent; the complex import licensing replaced by a system of tradable import entitlements earned through exports (later replaced by a dual, and then market-determined exchange rate); phased reduction of customs duties; fiscal deficit cut by 2 percent of gross domestic product (GDP); foreign investment opened up; banking reforms launched; capital market reforms initiated; initial disinvestment of public enterprises announced; and major tax reforms outlined.

The Economy Rebounds (1992–1997)

The reforms led to a swift restoration of health in India's external sector. Export growth soared to 20 percent in 1993–1994 and the two years thereafter. Inward remittances by nonresident Indians quadrupled from U.S.$2 billion in 1990–1991 to $8 billion in 1994–1995, and rose further to exceed $12 billion in 1996–1997. The current account deficit in the balance of payments never again exceeded 2 percent of GDP and averaged only about 1 percent for ten

years after 1990–1991. Foreign investment soared from a negligible $100 million in 1990–1991 to over $6 billion in 1996–1997. Foreign exchange reserves climbed steeply from the precarious levels of 1991 to over $25 billion by the end of 1994–1995. The debt service ratio was halved over the decade. The critical ratio of short-term foreign debt to foreign exchange reserves (proven critical again in the Asian crisis of 1997–1998) plummeted down from the stratospheric heights (380 percent) of 1991 to a very safe 20 percent by March 1995.

The reforms of the early 1990s and partial success with fiscal consolidation also ushered in a strong revival of investment and growth. Aggregate investment rose from 22.6 percent of GDP in 1991–1992 to nearly 27 percent in 1995–1996. GDP growth, which had dropped to hardly 1 percent in the crisis year of 1991–1992, recovered swiftly and averaged an unprecedented 6.7 percent in the five years from 1992 to 1997. Per capita GDP grew by almost 5 percent a year, compared to just over 1 percent in the three decades from 1951 to 1980. Growth was broad based, with all major sectors recording better performance than in the 1980s and far better than the outcomes in the thirty years from 1951 to 1980 (see Table 1). Among the factors propelling this growth acceleration were: the productivity gains from deregulation of trade, industry, and finance; the reform-assisted surge in exports; the investment boom of 1993–1996; the partial success with fiscal consolidation; the improvement in terms of trade for agriculture; and the buoyant world economy.

Growth Slows (1997–2002)

The year 1997 was a watershed, which signaled the end of the economic party. In particular, three events occurred within a six-month period to disrupt the momentum of growth. In March, the instability inherent in coalition governments became manifest in the political crisis that ended the Deve Gowda United Front government and ushered in the Inder Gujral United Front government. In July, the Thai financial crisis raised the curtain on the Asian crisis saga, which dominated the international economic arena for the next eighteen months. Finally, in September, the Gujral government announced its decisions on the Fifth Pay Commission report (regarding government pay scales), decisions that were to prove costly for both the fiscal and economic health of the country.

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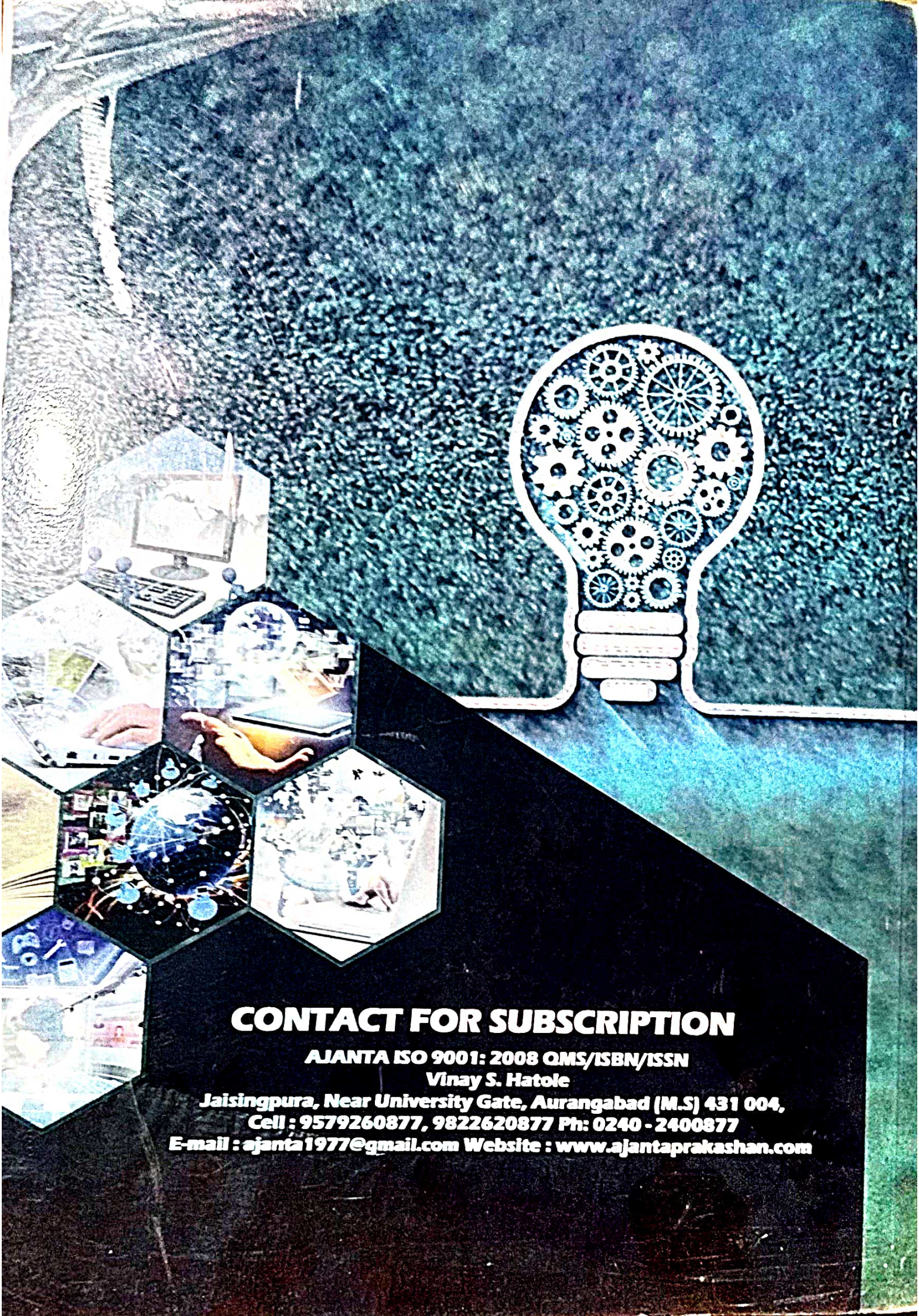
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