Steps Taken by Recent Government & Its Impact on Indian Economy

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ABSTRACT

In this paper we show long-term growth prospective of the Indian economy is moderately positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy.

Keywords---- PPP, Corporation, Growth

I. INTRODUCTION

Economy of India

The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The country classified as newly industrialized country, one of the G-20 major economies, a member of BRICS and a developing economy with approximately 7% average growth rate for the last two decades. India's economy became the world's fastest growing major economy from the last quarter of 2014, replacing the People's Republic of China.

The long-term growth prospective of the Indian economy is moderately positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the largest economies by mid-century. And the outlook for short-term growth is also good as according to the IMF, the Indian economy is the "bright spot" in the global landscape. India also topped the World Bank's growth outlook for 2015-16 for the first time with the economy having grown 7.3% in 2014-15 and expected to grow 7.5-8.3% in 2015-16.

India has the one of fastest growing service sectors in the world with annual growth rate of above 9% since 2001, which contributed to 57% of GDP in 2012-13. India has capitalized its economy based on its large educated English-speaking population to become a major exporter of IT services, BPO services, and software services with $167.0 billion worth of service exports in 2013-14. It is also the fastest-growing part of the economy. The IT industry continues to be the largest private sector employer in India. India is also the fourth largest start-up hub in the world with over 3,100 technology start-ups in 2014-15. The agricultural sector is the largest employer in India's economy but contributes to a declining share of its GDP (17% in 2013-14). India ranks second worldwide in farm output. The Industry sector has held a constant share of its economic contribution (26% of GDP in 2013-14). The Indian auto industry is one of the largest in the world with an annual production of 21.48 million vehicles in FY 2013-14. India has $600 billion worth of retail market in 2015 and one of world's fastest growing E-Commerce markets.

India's two major stock exchanges, Bombay Stock Exchange and National Stock Exchange of India, had a market capitalization of US$1.71 trillion and US$1.68 trillion respectively as of Feb 2015, which ranks 11th & 12 largest in the world respectively according to the World Federation of Exchanges. India is also home to world's third largest Billionaires pool with 97 billionaires in 2014 and fourth largest number of ultra-high-net-worth households that have more than 100 million dollars.

India is a member of the Commonwealth of Nations, the South Asian Association for Regional Cooperation, the G20, the International Monetary Fund, the World Bank, the World Trade Organisation, the Asian Infrastructure Investment Bank, the United Nations and the New Development BRICS Bank.

The combination of protectionist, import-substitution, Fabian socialism, social democratic-inspired policies governed India for sometime after the end of British occupation. The economy was then characterized by extensive regulation, protectionism, and public ownership of large monopolies, pervasive corruption and slow growth. Since 1991, continuing economic liberalization has moved the country towards a market-based economy. By 2008, India had established itself as one of the world's faster-growing economies. Growth significantly slowed to 6.8% in 2008–09, but subsequently recovered to 7.4% in 2009–10, while the fiscal deficit rose from 5.9% to a high 6.5% during the same period.
India's current account deficit surged to 4.1% of GDP during Q2 FY11 against 3.2% the previous quarter. The unemployment rate for 2012–13, according to Government of India's Labour Bureau, was 4.7% nationwide, by UPS method; and 3% by NSSO method. India's consumer price inflation has ranged between 8.9 to 12% over the 2009-2013 periods.

II. MAJOR STEPS OF ECONOMIC REFORMS TAKEN BY GOVERNMENT OF INDIA

For the attainment of the above-mentioned objectives, the government of India has taken the following major steps:

(i) New Industrial Policy

Under Industrial Policy, keeping in view the priorities of the country and its economic development, the roles of the public and private sectors are clearly decided. Under the New Industrial Policy, the industries have been freed to a large extent from the licenses and other controls. In order to encourage modernisation, stress has been laid upon the use of latest technology. A great reduction has been effected in the role of the public sector. Efforts have been made to encourage foreign investment. Investment decision by companies has been facilitated by ending restrictions imposed by the MRTP Act. Similarly, Foreign Exchange Regulation Act (FERA) has been replaced with Foreign Exchange Management Act (FEMA).

Some important points of the New Industrial Policy have been highlighted here

(i) Abolition of Licensing:

Before the advent of the New Industrial Policy, the Indian industries were operating under strict licensing system. Now, most industries have been freed from licensing and other restrictions.

(ii) Freedom to Import Technology:

The use of latest technology has been given prominence in the New Industrial Policy. Therefore, foreign technological collaboration has been allowed.

(iii) Contraction of Public Sector:

A policy of not expanding unprofitable industrial units in the public sector has been adopted. Apart from this, the government is following the course of disinvestment in such public sector undertakings. (Selling some shares of public sector enterprises to private sector entrepreneurs is called disinvestment. This is a medium of privatization.)

(iv) Free Entry of Foreign Investment:

Many steps have been taken to attract foreign investment. Some of these are as follows:

(a) In 1991, 51% of foreign investment in 34 high priority industries was allowed without seeking government permission.
(b) Non-Resident Indians (NRIs) were allowed to invest 100% in the export houses, hospitals, hotels, etc.

(c) Foreign Investment Promotion Board (FIPB) was established with a view to speedily clear foreign investment proposals.
(d) Restrictions which were previously in operation to regulate dividends repatriation by the foreign investors have been removed. They can now take dividends to their native countries.

(v) MRTP Restrictions Removed:

Monopolies and Restrictive Trade Practices Act has been done away with. Now the companies do not need to seek government permission to issue shares, extend their area of operation and establish a new unit.

(vi) FERA Restrictions Removed:

Foreign Exchange Regulation Act (FERA) has been replaced by Foreign Exchange Management Act (FEMA). It regulates the foreign transactions. These transactions have now become simpler.

(vii) Increase in the Importance of Small Industries:

Efforts have been made to give importance to the small industries in the economic development of the country.

(2) New Trade Policy

Trade policy means the policy through which the foreign trade is controlled and regulated. As a result of liberalization, trade policy has undergone tremendous changes. Especially the foreign trade has been freed from the unnecessary controls.

The age-old restrictions have been eliminated at one go. Some of the chief characteristics of the New Trade Policy are as follows:

(i) Reduction in Restrictions of Export-Import:

Restrictions on the exports-imports have almost disappeared leaving only a few items.

(ii) Reduction in Export-Import Tax:

Export-import tax on some items has been completely abolished and on some other items it has been reduced to the minimum level.

(iii) Easy Procedure of Export-Import:

Import-export procedure has been simplified.

(iv) Establishment of Foreign Capital Market:

Foreign capital market has been established for sale and purchase of foreign exchange in the open market.

(v) Full Convertibility on Current Account:

In 1994-95, full convertibility became applicable on current account. Here it is important to clarify the meaning of current account and full convertibility. Therefore, this has been done as follows:

Current Account:

Transactions with the foreign countries are placed in two categories: (i) transaction with current account, for example, import-export, (ii) Capital account transactions, like investment.

Full Convertibility:

In short, full convertibility means unrestricted sale and purchase of foreign exchange in the foreign exchange market for the purpose of payments and receipts on the items connected with current account. It means that
there is no government restriction on the sale and purchase of foreign exchange connected with current account. On the other hand, sale and purchase of foreign exchange connected with capital account can be carried on under the rates determined by the Reserve Bank of India (RBI),

(vi) Providing Incentive for Export:

Many incentives have been allowed to Export-oriented Units (EOU) and Export Processing Zones (EPZ) for increasing export trade.

(3) Fiscal Reforms

The policy of the government connected with the income and expenditure is called fiscal policy. The greatest problem confronting the Indian government is excessive fiscal deficit. In 1990-91, the fiscal deficit was 8% of the GDP. (It is important to understand the meaning of fiscal deficit and GDP.)

(i) Fiscal Deficit:

A fiscal deficit means that the country is spending more than its income,

(ii) Gross Domestic Product (GDP):

The GDP is the sum total of the financial value of all the produced goods and services during a year in a country. Generally, the financial deficit is calculated in the form of GDP’s percentage. Presently, the government of India is making efforts to take it to 4%.

Solutions of Fiscal Deficit

In order to handle the problem of fiscal deficit, basic changes were made in the tax system. The following are the major steps taken in this direction:

(i) The rate of the individual and corporate tax has been reduced in order to bring more people in the net.

(ii) Tax procedure has been simplified.

(iii) Heavy reduction in the import duties has been implemented.

(4) Monetary Reforms

Monetary policy is a sort of control policy through which the central bank controls the supply of money with a view to achieving the objectives of the general economic policy. Reforms in this policy are called monetary reforms. The major points with regard to the monetary reforms are given below:

(i) Statutory Liquidity Ratio (SLR) has been lowered. (A commercial bank has to maintain a definite percentage of liquid funds in relation to its net demand and time liabilities. This is called SLR. In liquid funds, cash investment in permitted securities and balance in current account with nationalized banks are included.)

(ii) The banks have been allowed freedom to decide the rate of interest on the amount deposited.

(iii) New standards have been laid down for the income recognition for the banks. (By recognition of income, we mean what is to be considered as the income of the bank. For example, should the interest on the bad debt be considered as the income of the bank directions have been issued in this context?

(iv) Permission to collect money by issuing shares in the capital market has been granted to nationalized banks.

(v) Permission to open banks in the private sector has also been granted.

(5) Capital Market Reforms

The market in which securities are sold and bought is known as the capital market. The reforms connected with it are known as capital market reforms. This market is the pivot of the economy of a country. The government has taken the following steps for the development of this market:

(i) Under the Portfolio Investment Scheme, the limit for investment by the NRIs and foreign companies in the shares and debentures of the Indian companies has been raised. (Portfolio Investment Scheme means investing in securities.)

(ii) In order to control the capital market, the Securities and Exchange Board of India (SEBI) has been established.

(iii) The restriction in respect of interest on debentures has been lifted. Now, it is decided on the basis of demand and supply.

(iv) The office of the Controller of Capital Issue which used to determine the price of shares to be issued has been dispensed with. Now, the companies are free to determine the price of the shares.

(v) Private sector has been permitted to establish Mutual Fund.

(vi) The registration of the sub broker has been made mandatory.

(6) Phasing out Subsidies

Cash Compensatory Support (CCS) which was earlier given as export subsidy has been stopped. CCS can be understood with the help of an example.

If an exporter wants to import some raw material which is available abroad for 100, but the same material is available in India for 120 and the governments wants the raw material to be purchased by the exporter from India itself for the protection of indigenous industries, the government is ready to pay the difference of 20 to the exporter in the form of subsidy.

The payment of 20 will be considered as CCS. In addition to this, the CCS has been reduced in case of fertilizers and petro products.

(7) Dismantling Price Control

The government has taken steps to remove price control in case of many products. (Price Control means that the companies will sell goods at the prices determined by the government.) The efforts to remove price control were mostly in respect of fertilizers, steel and iron and petro products. Restrictions on the import of these products have also been removed.

III. CONCLUSION

The long-term growth prospective of the Indian economy is moderately positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy, The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the largest economies by mid-century. India had established itself as one of the world's
faster-growing economies. Growth significantly slowed to 6.8% in 2008–09, but subsequently recovered to 7.4% in 2009–10, while the fiscal deficit rose from 5.9% to a high 6.5% during the same period. India's current account deficit surged to 4.1% of GDP during Q2 FY11 against 3.2% the previous quarter. The unemployment rate for 2012–13, according to Government of India's Labour Bureau, was 4.7% nationwide, by UPS method; and 3% by NSSO method. India's consumer price inflation has ranged between 8.9 to 12% over the 2009-2013 periods. It concluded that Government will reach at their target by their valuable efforts.

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