Economic Reforms of 1991

The major components of the economic reforms in India 1991 comprised Liberalization, Privatization, and Globalization. The Government of India aimed to open up the economy by applying these measures and load India to evolve as a market economy from the old Soviet-model economy.

- The initiation was started in 1991 and is still a continuing procedure.
- Economic reforms were expected to recall various international actions like the destruction of the socialist economy and the rising endorsement of economic globalization worldwide.

Important Steps Under 1991 Economic Reforms

Economic reforms in India 1991 were founded within the democratic framework of India. These reforms concentrated on the listed factors:

- L – **Liberalization** (lowering of government power)
- P – **Privatization** (Transfer of economic resources ownership from the public to the private sector)
- G – **Globalisation** (Blending the national economy with the international economy).

Outline of Economic Reforms Since 1991		
Liberalization	**Privatisation**	**Globalization**
Commercial banks decided the interest rates.	Introduction of private sectors for previously secured Government sectors.	The economy was opened up toward international trade and foreign investment.
Dissolution of limited trade practices	Private sector undertakings were offered to private individuals to remove political involvement.	Decrease in the taxation on imports and exports.
Authorization and registration of industries were dismissed.	Sold shares of private sector undertakings or PSUs to the monetary and public associations.	The policy of trade was implemented for an extended time.
Industries could expand their production abilities and lower the cost of production.	PSUs were marketed to the private sector of the economy.	The currency of India became partly convertible.
Small-scale industries' investment limit was lifted to Rs. 1 crore.	Less number of enterprises was restricted for the public sector (reduced to 3 from 17).	All capital and intermediate goods got released from the import constraints list.

Major Reforms of the Indian Economy

The primary policy initiatives undertaken by the Indian Government to address the balance of payments issues and structural inflexibleness were as follows.

Financial Sector Reforms

Under these reforms, new private banks were permitted to compete with other banks in the sector, and several new banking authorizations were offered.

- SEBI, an autonomous statutory body, was formed in 1988 to manage the crucial participants of the financial markets and handle stock dealings.
- The funds market was open for portfolio investments, and Indian corporations were allowed to use international capital markets with the issuance of stakes or equity overseas via GDR or Global Depository Receipts.
- Trade practices in these markets remained under stringent control, and clarity was maintained.

Public Sector Reforms

The Indian Government began a limited process of disinvestment of its ownership and equity in public sector industries rather than complete privatization, holding 51% of the equity and leadership control.

Tax Reforms

Corporate income tax was lessened to 46% from 51.75% for public enterprises. The average customs responsibility was drastically reduced to 65% from 200%. The highest marginal rate of private income tax was lowered to 40%, 56%, in June 1991.

Trade and Exchange Rate Policy

All raw materials required for manufacturing and capital products could be imported without limitations with few vital peculiarities.

- The rupee value fell about 24% in July 1991 to align the exchange rate with the market rate.
- India changed to a new system of market-based exchange rates to supervise floating rates in 1993.

Foreign Investment

The country had an intensely limited and antagonistic foreign investment guideline before the 1991 economic reforms. The new technique supported foreign investment vigorously in numerous ways.

- From a long list of 34 industries, permission was granted to a foreign equity investment of upto 51%.
- Approval from the Governance was needed in case investments were more than 51%.

De-Approving Reserved Products from MSME Sector

The Ministry of Commerce and Industry has been slowly de-approving the products selected for the MSME (Ministry of Micro, Small and Medium Enterprises) sector using a foresighted strategy.

Industrial Policy

This policy has noticed the most extreme changes due to the reform agenda. There is no longer a necessity for the Government to approve fresh investments or for the considerable increase of present capability as it was earlier under License Raj or industrial licensing.

- Presently, only a few businesses need to hold licenses due to pollution and environmental circumstances. It also witnessed the abolishment of the MRTP Act.
- Private sectors included various important sectors like hydrocarbons (oil and gas probe, production, and refining), telecommunications, air transport, power generation, etc. Whereas there was seen a decline in the operation of enterprises in the public sector.

Fiscal Stabilization

The effectiveness of the economic reforms of 1991 was based upon the attainment of fiscal stabilization. The fiscal debt of the Central Government was required to be lowered for the reforms to thrive.

- The expenditure on growth, like the cost of economic and social infrastructure, was reformed.
- Fertilizer grants were restructured partly in 1992–1993, and export allowances were cancelled in 1991–1992.

Need for Economic Reforms 1991

Due to the inner economic emergency and the transforming global scenario; the Narasimha Rao government presented economic reforms or the New Economic Policy. The following were the reasons that led to the economic reforms in India 1991.

Jumping Inflation

The increasing inflation rate was a major issue during that time. Marginalized individuals were unable to obtain proper food. Liquidity or conversion of assets into cash had to be sprinkled into the economy quickly as the inflation rate was 13.88%.

First Battle of the Gulf

It is considered the second most crucial factor which started the economic reforms. In 1991, dictator Saddam Hussein of Iraq attacked Kuwait despite several cautions from countries.

Increase in Fiscal Debt

India's centre account did not have funds. The reason for the fiscal deficit was internal and external factors. The debt was believed to be constant since the tenure of the First Planning Commission (1950). The rates became unsustainable in 1991. Considering this, the Indian Government enacted Indian economic reforms.

Negative BOP or Balance of Payments:

It was observed that BOP was unfeasible and unusually rose to 11%. During this period, the LPG formula was introduced, bringing a new economic reform or policy, and it was the base of leading the monetary reforms in the country.

Poor Performance of Government-owned Sectors:

Before 1991 economic reforms, there were primarily Government-owned enterprises in 1990. The workers were not competitive as their jobs were already safe and secure. The absolute power was in the hands of the State. The economy of India experienced a kick-start after the commencement of economic reforms.

Impact of 1991 Reforms on Indian Economy

The economic reforms in India 1991 significantly influenced the macroeconomic parameters, poverty reduction, and differences between rich and poor. The former had a short-term effect, while the other two had a long-term impact.

Macroeconomic Parameters

Inflation lowered from 17% in 1991 to around 8.5% within 2.5 years. Forex or Foreign Exchange Market increased to approximately $15 billion in 1994 from $1.2 billion in June 1991.

- The exports almost double-folded between 1990–1991 and 1993–1994.
- The fiscal debt dropped from 8.4%% (1990–1991) to 5.7% (1992–1993).
- The growth rate of GDP grew from 1.1% to 4%.

Decline of Poverty

The economy of India raised at a steady rate of 6.3% when economic reforms began in 1991, as resources were increased and the Government pulled sizeable populations inside the growth strategy. Two approaches became necessary to reduce the overall country's poverty:

- Permitting fast development of the economy.
- Focussing on special programs to help the deprived and underprivileged sections of society.

Dissimilarity Between Rich and Poor

The Gini coefficient in earnings for urban and rural areas increased from 0.52 (2004-05) to 0.55 (2011-12), as per the National Council of Applied Economic Research reports.

- The more the Gini coefficient, the more inequality.
- It states that poverty was reduced, but inequality grew after the reform period.

Limitations of Economic Reforms in India 1991

Fundamental issues related to industry, agriculture, employment, fiscal management, and infrastructure development continued even after the new economic reforms.

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- Regional discrepancies in the economic development happened as more FDI was drawn towards industrially developed Indian States like Maharashtra and Gujarat, compared to under-developed States like Orissa and Jharkhand.
- The production rate of food grains decreased to 2% (1990) from 2.9% (1980) per annum.
- Agricultural developments observed a decline in the economic reform era.
- Redistributing and subcontracting caused the downsizing of working professionals at a higher rate, summing to casual sector employment.