



# 30 Years of Economic Liberalisation

## Why in News

Recently, on the 30<sup>th</sup> anniversary of the [economic liberalisation reforms](#), former Prime Minister of India, Manmohan Singh, raised concerns over the macro-economic stability of the country.

- According to him, the current [economic crisis triggered by the Covid-19 pandemic](#) is more challenging than during the 1991 economic crisis and the nation would need to recalibrate its priorities to ensure a dignified life for all Indians.

## Key Points

### ▪ 1991 Crisis & Reforms:

- **1991 Crisis:** In 1990-91, India faced a severe [Balance of Payments \(BOP\) crisis](#), where its foreign exchange reserves were just adequate to finance 15 days of imports. There were many factors that led to the BOP crisis:
  - **Fiscal Deficit:** The fiscal deficit during 1990-91 was around 8.4% of GDP.
  - **Gulf War I:** In 1990-91, the situation was aggravated by the rise in the price of oil due to Iraq's invasion of Kuwait.
  - **Rise in Prices:** The inflation rate increased from 6.7% to 16.7% due to a rapid increase in money supply and the country's economic position became worse.
- **Nature and Scope of 1991 Reforms:** In order to get out of the macro-economic crisis in 1991, India launched a New Economic Policy, which was based on LPG or **Liberalisation, Privatisation and Globalisation model**.
  - Then Finance Minister, Manmohan Singh, was the prime architect of the historic 1991 liberalisation.
  - The broad range of reforms under the LPG model included:
    - **Liberalising Industrial Policy:** Abolition of industrial license permit raj, Reduction in import tariffs, etc.
    - **Beginning of Privatisation:** Deregulation of markets, Banking reforms, etc.
    - **Globalisation:** Exchange rate correction, liberalising foreign direct investment and trade policies, Removal of mandatory convertibility cause, etc.
  - These reforms are credited and applauded for the high economic growth seen from 1991 to 2011 and substantial reduction of poverty from 2005 to 2015.

# 10 REFORMS THAT CHANGED INDIA

GST did change the tax regime. But there are other key steps that form the bedrock of India's market-led economy & helped achieve higher growth...

## 1 NEW INDUSTRIAL POLICY

> Industrial licensing was abolished and 18 PSU industries were gradually liberalised



> Monopolies And Restrictive Trade Practices Act, 1969, was abolished

## 2 FDI & TRADE POLICY

> Import licensing was abolished for capital goods & intermediates, which became freely importable in 1993, simultaneously with the switch to a flexible exchange rate regime



> India joined the World Trade Organization and Trade-Related Aspects of Intellectual Property Rights agreement

> Quantitative restrictions on imports of manufactured consumer goods and agricultural products removed in 2001. The policy now allows 100% foreign ownership in many industries and majority ownership in all except banking, insurance, telecommunications and airlines

> Current account convertibility introduced in 1994

## 3 NEW INSTITUTIONS

> Securities and Exchange Board of India established



> Insurance Regulatory & Development Authority and Pension Fund Regulatory & Development Authority set up

> Union Budget created 'development finance institutions' and 'bad banks' to fund infrastructure and resolve stressed assets

> GST Council established

## 4 GOVERNMENT BORROWING

> Domestic bond markets created and Clearing Corporation of India is set up

## 5 INTEREST RATE LIBERALISATION

> Interest rate controls were dismantled and savings interest rates were deregulated

## 6 BASEL ACCORDS

> Basel Accords, a series of 3 international banking regulation agreements, adopted



## 7 NFSA & MGNREGS

NFSA legally entitled up to 75% of the rural and 50% of the urban

population to receive subsidised food grain under the Targeted Public Distribution System

> MGNREGS guaranteed 100 days of wage-employment per year in rural areas



## 8 AADHAAR

> Aadhaar system provided a single-source offline/online identity verification, boosting the inclusion of programmes like PMJDY, Ayushman Bharat and Ujjwala

## 9 INSOLVENCY & BANKRUPTCY CODE

> A comprehensive law, IBC consolidated both consequential aspects of an economic collapse of a debtor – rehabilitation as well as liquidation



## 10 MONETARY POLICY COMMITTEE

> MPC was set up with basic objective to maintain price stability and accelerate the economy's growth rate. It has brought monetary policy decision-making in line with global best practices



## 2021 Crisis:

- The [World Economic Outlook Report 2021](#), states that the Indian economy is expected to grow by 12.5% in 2021 and 6.9% in 2022.
  - However, the pandemic has massive unemployment in the informal sector and poverty is increasing after decades of decline.
- The **social sectors of health and education have lagged behind** and not kept pace with our economic progress.
  - [Too many lives and livelihoods](#) have been lost that should not have been, during the pandemic.
- Inspector Raj is set to make a comeback through the [policy for e-commerce](#) entities.
- India is back to the old habits of borrowing excessively or [extracting money \(in form of dividends\) from the RBI](#) to finance the fiscal deficit.
- The [migrant labour crisis](#) has laid bare the gaps in the growth model.
- India foreign trade policy is again suspecting trade liberalisation, as India has already decided to opt-out of the 16-nation [Regional Comprehensive Economic Partnership \(RCEP\)](#) trade deal.

## Way Forward

The 1991 reforms helped the economy stave off a crisis and then bloom. It is time to outline a credible new reform agenda that will not just bring GDP back to pre-crisis levels, but also ensure growth rates higher than it had when it entered the pandemic.

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