



VAJIRAO & REDDY INSTITUTE

India's Top Potential Training Institute for IAS

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YOJANA MAGAZINE ANALYSIS

(August 2023)

(Part 3/3)

TOPICS TO BE COVERED

- **INDIAN ECONOMY : HISTORICAL PERSPECTIVE**



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INDIAN ECONOMY : A GENESIS

After independence, India adopted a **mixed economic model** that blended **socialist policies with market economy elements**.

It helped in **nation-building and industrialisation** while pursuing self-sufficiency through Public Sector Enterprises and import substitution.

However, this approach also inadvertently gave rise to **issues** like **bureaucratic inefficiencies, limited competition and stifled innovations**.

BALANCE OF PAYMENT CRISIS

Causes:

- **High combined deficit** of central and state governments.
- Elevated **inflationary pressure** and
- **Unsustainable current account deficit** triggered the balance of payment crisis.

LPG REFORMS & ITS IMPACT (1991-2014)

- **Liberalisation, Privatisation, and Globalisation (LPG)** reform: The government implemented policies that dismantled licence raj, encouraged foreign direct investment and promoted privatisation.

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- Flexible exchange rate with full convertibility of rupee in the current account and partial convertibility in the capital account.
- **New Telecom Policy of 1999:** It catalysed the information technology (IT) sector boom in India, generating widespread benefits for other sectors as well.
- The **Department of Disinvestment** was established to further the disinvestment and privatisation of public sector enterprises.
- **Fiscal Responsibility and Budget Management (FRBM) Act:** The act was passed to address the fiscal deficit of central and state governments.
- **Structural reform in the banking sector:** SARFAESI Act 2002 and the deregulation of interest rates were introduced to help banks burdened with bad debts.

These reforms have helped in achieving an average growth rate of over 8% during the 2003-2008 period where the global growth averaged at 4.8%.

NEW AGE REFORMS (POST 2014)

- Since 2014, the government's economic policy focus has been to restore India's growth potential by easing business conditions and significantly **enhancing physical and digital infrastructure.**

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- **Simplifying regulatory frameworks:** The Insolvency and Bankruptcy Code (IBC) and the Real Estate (Regulation and Development) Act (RERA) were enacted to enhance the ease of doing business.
- **Capital expenditure:** Capital expenditure of the central government has increased from 2.8% of GDP in 2013-14 to 3.8% in 2022-23. This has improved connectivity and modernised infrastructure across the country.
- **Tax reforms:** Adoption of **Goods and Services Tax (GST)**, reduction in corporate and income tax rates, abolishment of the retrospective tax, etc. have reduced the tax burden on individuals and businesses.
 - GST implementation resulted in **broadening the tax base**, free flow of goods across states and the formalisation of the economy.
 - **Average monthly gross GST collections** are **consistently rising** from INR 0.9 lakh crore in FY18 to INR 1.5 lakh crore in FY23 and INR 1.7 lakh crore in the first quarter of FY 2024.
- **National Infrastructure Pipeline (NIP)** was established to fund infrastructure investment projects of around **INR 111 lakh crore** spread over five years until 2024-25.
 - More than 9,000 NIP projects, with a total investment of over INR 108 lakh crore, are at various stages of implementation.

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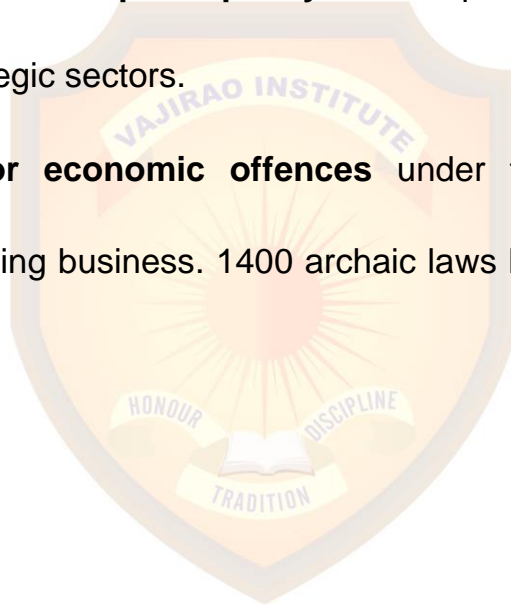
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- **Atmanirbhar Bharat and Make in India initiatives** to enhance India's manufacturing capabilities and promote exports across various industries.
- **Production Linked Incentives (PLIs):** implemented across various sectors to attract domestic and foreign investments in the manufacturing sector.
- **A New Public Sector Enterprise policy** was implemented to limit governments' presence to a few strategic sectors.
- **Decriminalising minor economic offences** under the Companies act 2013 to improve the ease of doing business. 1400 archaic laws have been repealed in the last nine years.



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