

RESEARCH PAPER

Economic reforms and its impact on Indian economy

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ABSTRACT

Before 1991, India was a nation with political independence but no economic freedom. If the license and permit tied India down, they also stifled individual aspiration, ambition and achievement. That's why the touchstone of the economic reforms launched in 1991. India initiated the reforms in 1991, after financial crisis. In this process, India liberalized the industrial sector from license-permit raj which has accelerated the growth of Indian economy. Indeed economic reforms, aided by the rapid diffusion of technology, have enabled individuals, groups and companies to tap talent to not only create new businesses but set off a virtuous cycle of growth and entrepreneurship but on the other side agriculture sector adversely affected. Foreign Direct Investment, exports and other related variables of external sector shows a positive outcome growth of Indian economy. This paper attempt to analyse the impact of two decades of economic reforms, on growth of GDP and other related factors, using regression model.

Key Words : Foreign Direct Investment (FDI), GDP, Gross Fixed Capital Formation and Export

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Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost \$1 billion; Inflation had roared to an annual rate of 17 percent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad that called for a complete overhauling of our economic policies and programs.

After pursuing an inward-looking development strategy with the state assuming an important role for more than four decades, India decided to take a historic step of changing tracks in 1991. It embarked on a comprehensive reform of the economy to widen and deepen its integration with the world economy as a part of structural adjustment. There seems to be a general consensus on the desirability of reforms to

dismantle the bureaucratic regulatory apparatus evolved over the years that may have outlived its utility. However, there has been considerable debate on the contents of the reform package, their sequencing and the pace, their implementation and their impact.

The new economic reforms, popularly known as, Liberalisation, Privatisation and Globalisation (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the onset of reforms to liberalize the Indian economy in July 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.

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