Economic reforms in India in last 5 years – Ritu Rawat

Back in 2014, India headed towards a majority government after 30 years. The formation of a stable government, without any coalitions, after a long period led to a flow of new and positive sentiments in the market. Ever since the recession in the year 2008, India had been experiencing high inflation and low GDP rates. The new government brought with its new policies and reforms which in turn brought changes in the economic conditions of the country.

There were hundreds of laws that ruled the case of insolvency and bankruptcy, making it difficult for the creditors to recover their money, leading them to huge losses due to lack of a proper law governing the issue.

In 2016, the new Bankruptcy and Insolvency Code was introduced which came as a huge turn in the financial economy of the country. The average debt recovery rate increased from 26% to 43% just in 2 years of the introduction of the act. The new code not only improved the credit recovery rate but also helped India in jumping up its position by 56 places in the Ease of Doing Business Ranking by the World Bank.

The last 5 years brought so many changes in the Indian economy and one such major reform by the government was Demonetisation in 2016. The government banned 500 and 1000 currency notes as legal tender money. The Demonetisation had a negative impact on the GDP of the country which fell from 8.01% in 2015-16 to 7.11% in the year 2016-17. But one major change that it brought with it was a shift towards transforming the Indian economy to a Digital Economy.

It marked the beginning up of the digital era of our country. One of the major aims of Demonetisation was to bring in more white money into the economy. The digital payments helped in the electronic record of the transactions thus creating more white money in the economy.

GST, was again, one of the most important reforms in the tax structure of the country by the government in over a decade. This reform came with the idea of “One Nation, One Taxation”. The introduction of this tax in lieu of the multiple indirect taxes helped the citizens to file their taxes without any hassles.

GST eradicated the complexities of tax filing involved in the filing thus simplifying the taxation system. The composition scheme was also introduced under this taxation system to supports small and medium business enterprises. It not only helped in fostering the domestic business but also provided a competitive edge in exports.

GST helped in reducing the customs duty on the exports and also led to a reduction in the manufacturing costs of the goods. India’s ease of doing business ranking made a jump from 77 in 2018 to 63 in 2019, and GST played a vital role in it. Also, the growth rate of GDP averaged 7.5% from 2014 to 2019 which was the highest amongst all the G-20 countries.

There has also been a remarkable growth in the infrastructure sector of the country. Setting up of missions like “Housing for All” and “Smart City Mission” has shown considerable development in the infrastructure of the country.

The government also launched a special infrastructure program known as the National Infrastructure Pipeline in 2019 to boost up the infrastructural progress of the country. In only 2019, 10855 km of national highway were constructed all across the country which is estimated to generate a toll revenue of around INR 1 Lakh Crore by the end of the year 2023.

Continuous liberalization has also made it easier to generate the flow of capital in the economy, which in turn helped the businesses to easily find investors for them at a lower cost. Liberalization has also helped in increasing Foreign Direct Investments in the country.

On one hand, these investments foster the growth of the businesses but on the other hand, these reduce the stakes of government and the public sector in the economy especially in the banking and insurance sector. The entry of multinational companies has also become a threat to the local small and medium businesses providing them a cutthroat competition.

There has been a significant improvement in people living in poverty in the country. The reduction is big as it has reduced to 5.0 crores in 2019 from 12.5 crores in 2016. It is also estimated that by the year 2030, the rate of poverty will be as low as 3%.

The coronavirus pandemic has had a disruptive effect on the economy of India. The lockdown all over the country disturbed the business operating cycle and led them into deep uncertainties. The firms went towards reducing their manpower leading to high unemployment.

The pandemic majorly affected the travel and tourism industry adversely bringing it to a standstill. These industries being a major contributor to the GDP brought a major toll on the growth of the GDP.

The government is proposing various policies and strategies like self-reliance and sanctioning huge funds for the recovery of the economy, but the journey is not so easy. As per various researches, the recovery of the Indian economy is expected to be a V-shaped recovery but it is not easy to make a judgment on the shape of recovery that the economy of the country will experience because of the uncertainty of the availability of the vaccine for the disease. The projects like “Make in India” and “Vocal for Local” is a huge step towards the recovery of the economy.

The new year brings with it new hopes and scopes. The economy of India is expected to grow faster than the other major economies like Japan and several other European Nations. The government mainly aims for growth by the way of improved infrastructure, creating more job opportunities, and a more competitive manufacturing sector in the country. The government has also announced a package of INR 2.7 lakh crores as an incentive program to support medium and small-scale businesses.

As stated by the Vice Chairman of Niti Ayog, the economy of the country is all set to see positive growth in the last quarter of the financial year 2020-21. The second quarter of the fiscal year has reported a contraction of 7.5% in GDP against the contraction of 23.9% in the first quarter, thus already showing the recovery of the economy.

The study states the economic growth rate to be around 13% in the coming year. The growth rate involves are a high degree of uncertainty concerning the increase or decrease in the growth rate because the course of action would depend upon the availability of the vaccine to the coronavirus disease. Even after the hit of the coronavirus pandemic leading to a slowdown of the economy, there still exists hopes of India becoming a 5 trillion economy by the end of the year 2024.