ECONOMIC GROWTH

GDP trends of India in post reforms period

Why Reforms ?

- From 1980’s, the economy of India was not in a great state. Other countries were making poverty reduction whereas in India that was not the case.
- But in 1990-1991 the cumulative of many reasons forced India to introduce economic reforms.
- In the coming slides we will give the reasons that why and how these factors affected our economy.

- **The main reasons were as follows;**
  1. Huge Fiscal deficit.
  2. Weak Balance of Payment.
  3. High level of Inflation.
  4. Sick public sector Undertakings.

Fiscal Deficit

- Throughout 1980’s the fiscal deficit of India kept on increasing due to huge non-development. This fiscal deficit increased from 5.7% to 6.6%.
- In order to pay those deficits, India had to borrow money from external as well as domestic sources.
- This increased borrowings resulted in the increase in public debt and interest payments obligations.

Weak Balance of Payment (BoP)

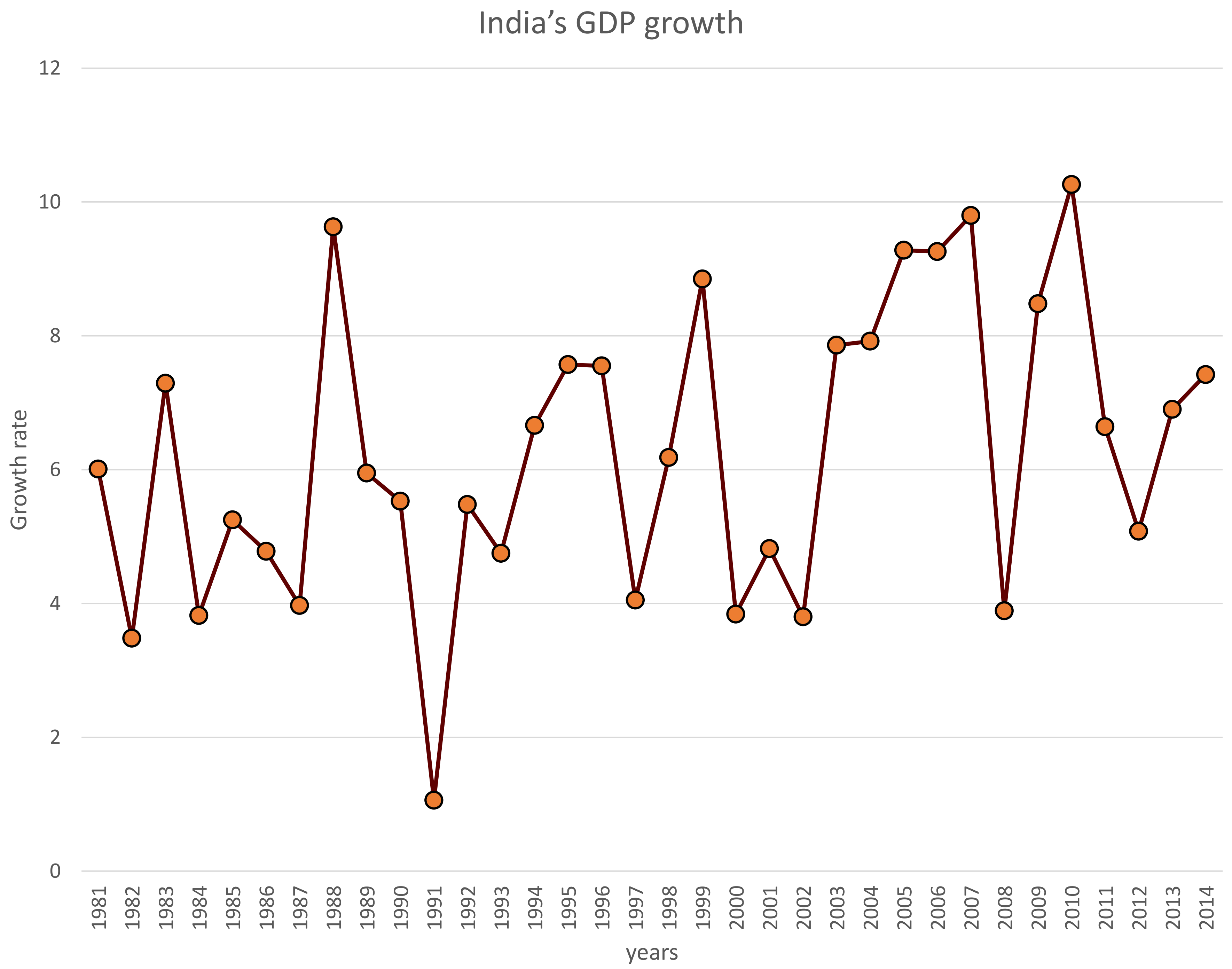
- Balance of payment represents the difference of total import and total export.
- In 80’s the competitiveness of Indian product increased and due to which the export of India suffered. Which resulted in low foreign exchange reserves.
- One reason for this increase in competition was china. China introduced their reforms earlier than India and due to which their economy raised and they were a keen competition to India.
- At the same time of decrease in the export, there was increase in the international debt too. This debt increased from 12% to 23%.
- Thus, India was not able to generate enough revenue to repay those debt. And this also contributed to compulsion of introduction of reforms in India.

High level of Inflation

- As seen earlier that the domestic debt also increased, due to which India had to borrow money from RBI.
- Due to the need of money, RBI increased the money production and due to which the value of rupees went down.
- This means that the purchasing power of money decreased. Or in another words the price of the goods shoot high resulting in Inflation.

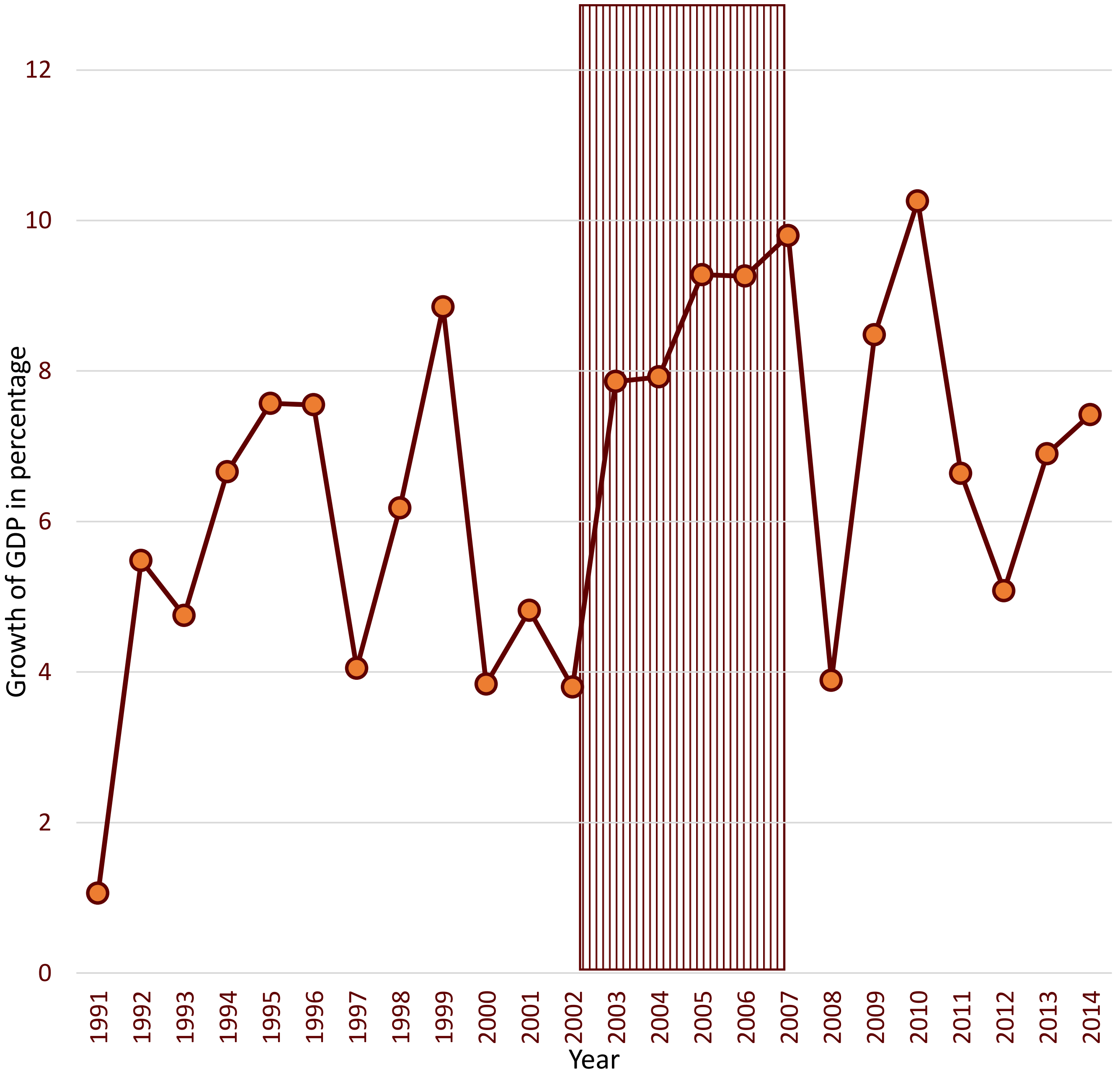
ANALYSIS OF GDP IN POST REFORMS

Economic Growth of India



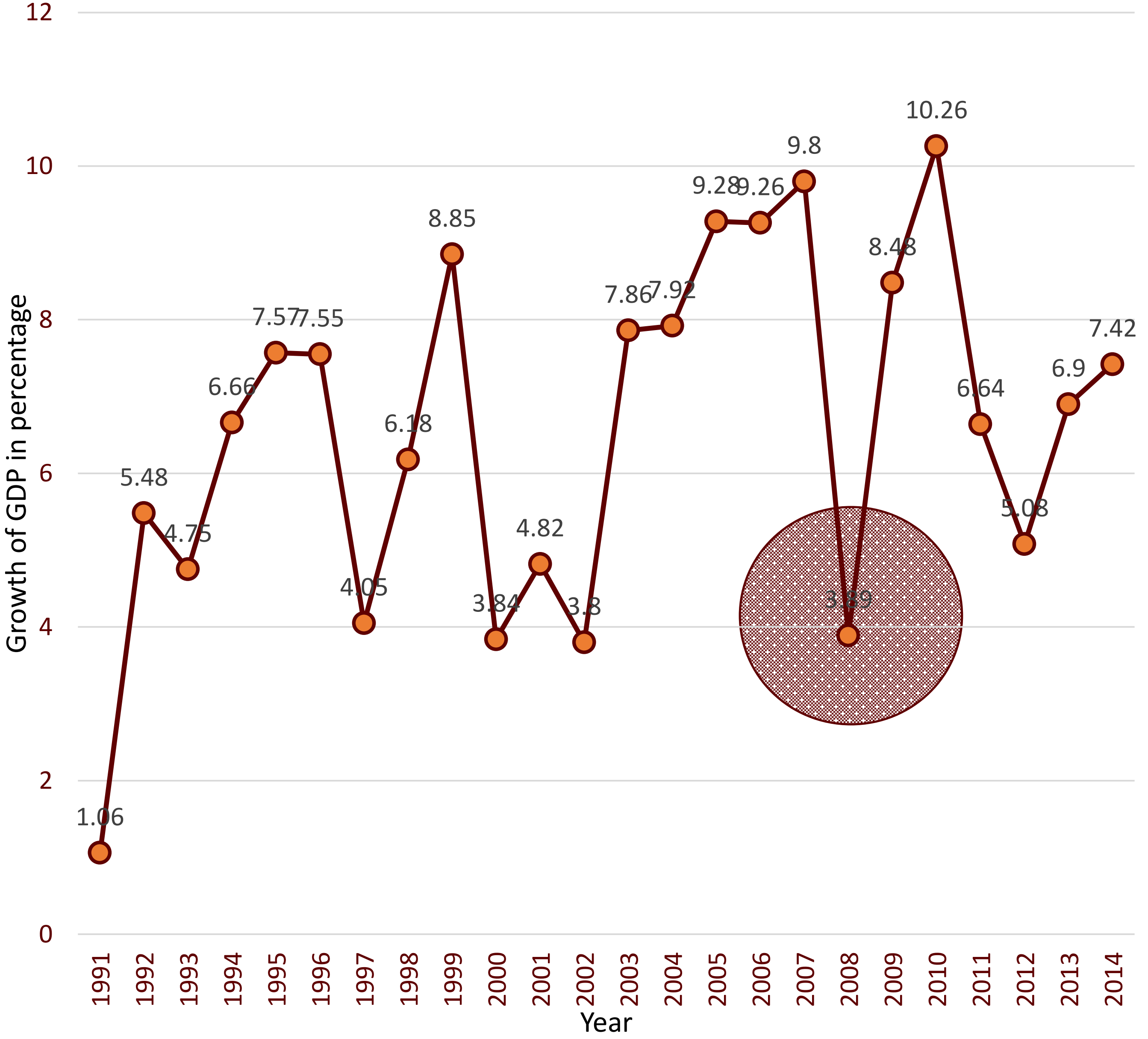
Analysis

- From 2002-2007, the five year plan, the economic growth of India in terms of GDP increased at a very good rate.
- This happened so because at that time many sectors of India like service, agriculture, R&D etc. contributed good amount of growth.
- Agricultural sector made its way from 2.6% to 4.5% growth.
- Service, transportation and communication, trade projected the growth of 20%.
- Also, due to the plans the interest rates went down and thus investment rate became higher.



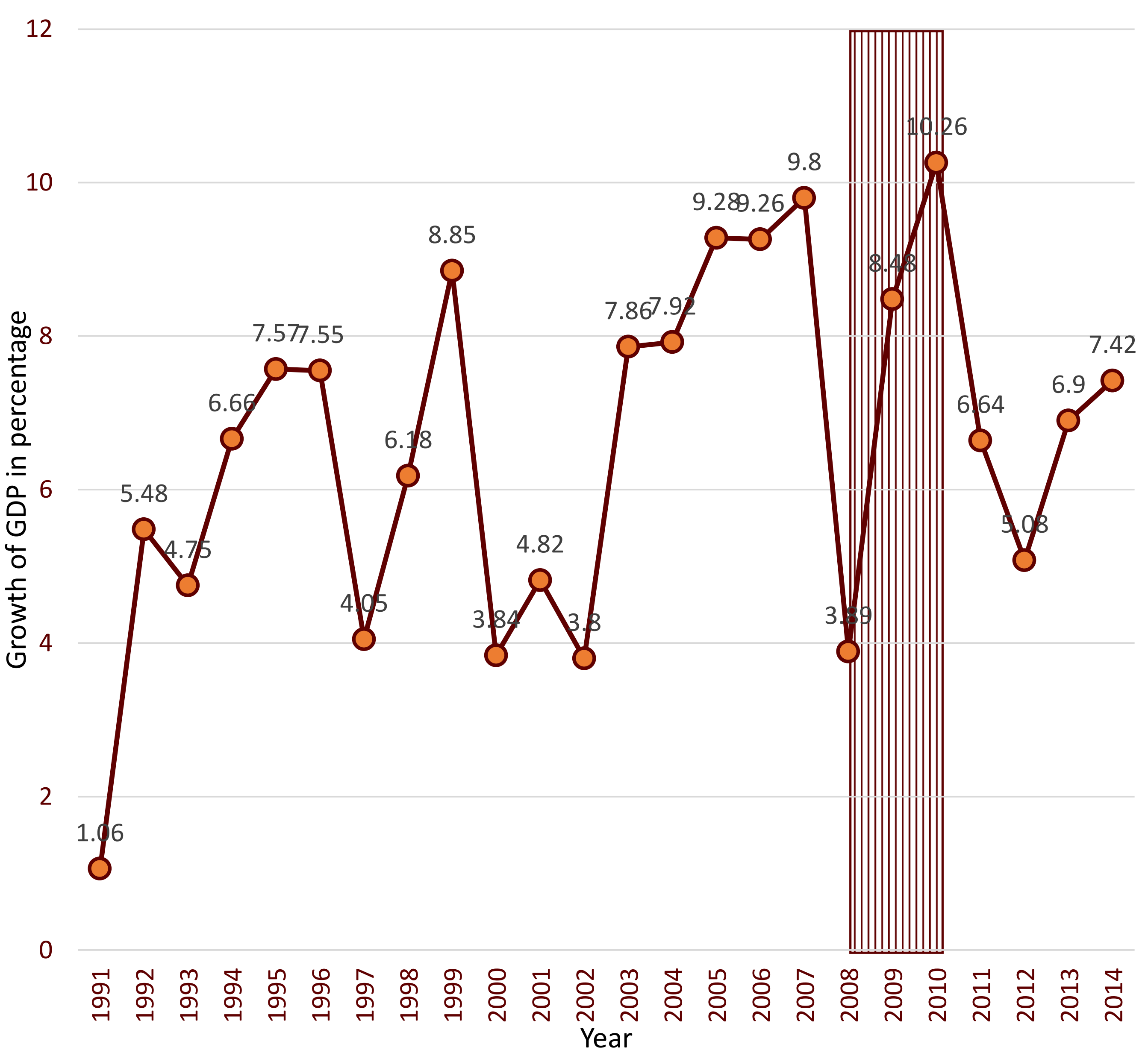
Analysis

- With the increase in growth of GDP of India from 2002-2007, there happened a drastic decrease in the GDP in 2008.
- If we see the growth of America from 2003-2007, its been continuously decreasing whereas in India its increasing.
- But in 2008 due to the global financial crisis (GFC) in Europe, America and other main nation, their economy collapsed.
- Thus, in 2008 due to global financial crisis it affected India too.
- Due to which, the export of India had decreased and due to which the company's slowed down their production and unemployment kind of situation was generated.



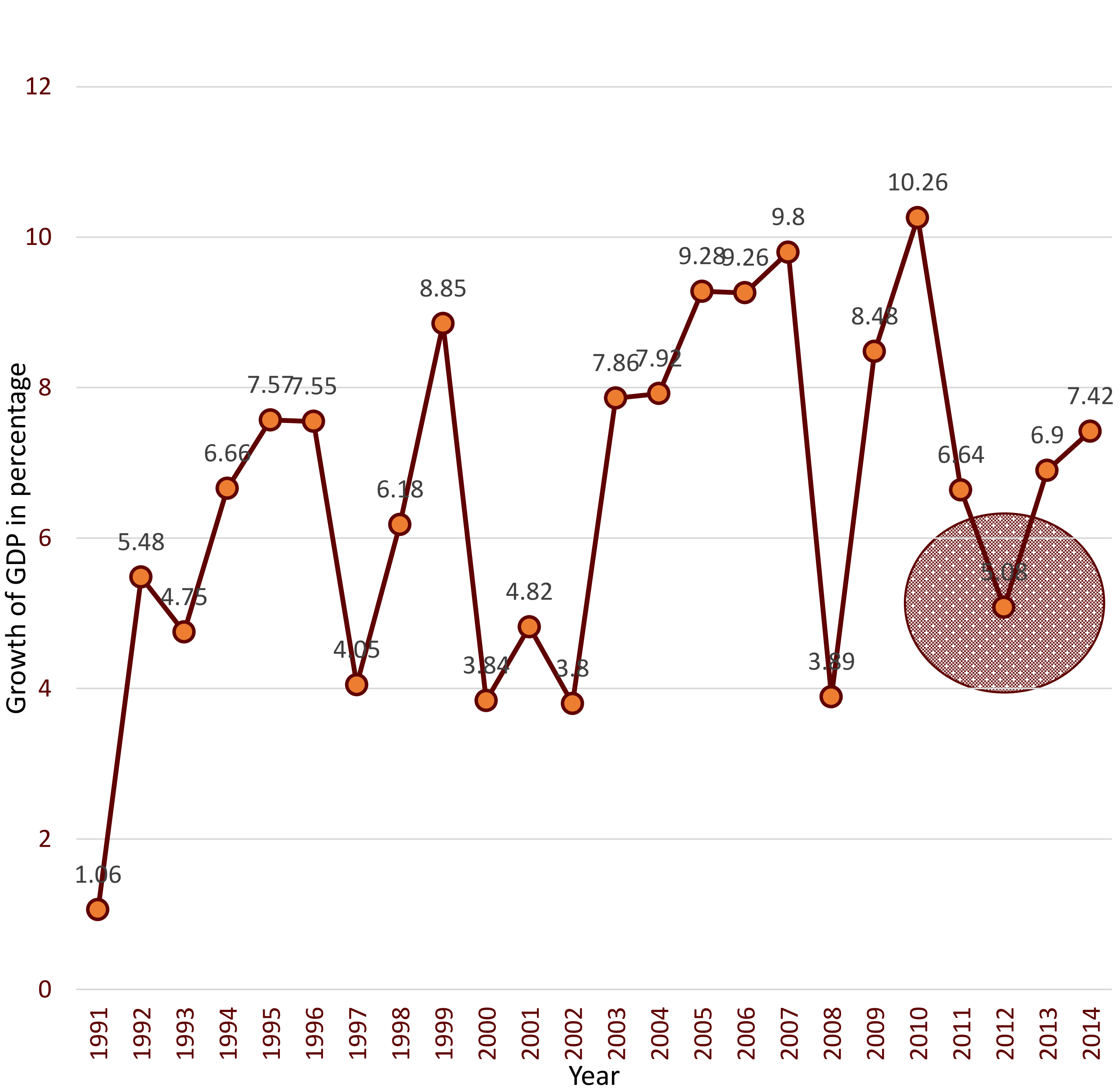
Analysis

- Due to unemployment there arose inflation.
- To compensate the effect of Global Financial Crisis, Federal govt. of India introduced some fiscal stimulus packages.
- This included tax relief to boost demand .
- Increased expenditure on public projects to create employment.
- Also RBI took number of monetary measures and liquidity enhancing measures.
- Schemes like MGNREGA were introduced which had more spending on public to increase employment in rural areas increasing the wages of poor people.
- Thus, growth was seen as shown in shaded region



Analysis

- The schemes introduced to recover GFC worked, but not for a longer period of time.
- With the increase in the wages, poor tend to spend the money fastest. Due to which there was increase in demand.
- With the increase in demand, definitely the supply should increase to cop up with the demand. But supply didn’t increase due to the poor infrastructure which wasn’t capable for large supply.
- Also, With the increase in wages of poor people, the labour became costly, contributing to increase in the price of the products causing slight inflation.
- Thus the GDP growth decreased as shown in the shaded region.



Summary

In 1990, due to high fiscal deficit, fiscal profligacy, weak BoP, high amount of debt was generated.

These gave rise to the need of reforms in INDIA

In 1991 with the implementation of reforms, a good amount of growth was seen in GDP of India.

During the period 2002-2007 the GDP od India kept increased at good rate due to growth in agricultural, R&D and service sectors. Also increasing the investment rate.

But in 2008, due to global financial crisis, the exports were reduced decreasing the demand. This arose a situation of unemployment and inflation.

To overcome this financial crisis, federal govt. of India increased the public spending and wages. This was sone so that poorest people get the money so that they can spend to increase demand

This method worked up to some year, but again due to high wages, company didn't hire much workers. This resulted in less production which in turn caused the situation of unemployment.

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