Regarding the key indicators the performance of net invisibles in balance of payments is praise worthy.

Annual Growth Rate of Employment in Organised Sector in India

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Public Sector</td>
<td>1.53</td>
<td>-0.80</td>
</tr>
<tr>
<td>Private Sector</td>
<td>0.44</td>
<td>0.61</td>
</tr>
<tr>
<td>Total</td>
<td>1.20</td>
<td>-0.38</td>
</tr>
</tbody>
</table>

The impact of employment in the organised public sector is negative which shows the emerging influence of private sector in providing employment.

CHAPTER VII
SUMMARY OF FINDINGS, SUGGESTION AND CONCLUSION

The major findings of the study along with appropriate suggestions and conclusion is presented below.
Fiscal Performance of Indian Economy

A major objective of economic reform is to reduce fiscal deficit. Control on fiscal deficit is expected to bring inflation under control and to allow stable growth in the economy.

The Gross fiscal deficit of the Central Government from the year 1980-81 to 2008-09, shows that the fiscal deficit of the central government was Rs. 8299 crore in the year 1980-81 and it increased to Rs. 60257 crore in the year 1993-94 and further it continuously increased from Rs. 60243 crore in the year 1995-96 to Rs. 326515 crore in the year 2008-09, which shows that the central governments deficit has been continuously increasing from 1980-81 to 2008-09 which is a worrisome phenomenon.

The analysis of fiscal deficit shows that in the pre-reform period (1980-81 to 1990-91), the value of the slope coefficient was Rs. 3521.55 crore. This has revealed that on an average, the fiscal deficit has increased annually by Rs.3522 crore over the eleven-year period just before the structural changes were adopted in India. The value of R² was 0.96, which meant that about 96 per cent of the variations found in the fiscal deficit variable has been explained by the independent variable. The estimate of ‘b’ was statistically found to be significant and it was 15.134. The growth model value of the
regression co-efficient was 0.1740, which shows that fiscal deficit has increased at the rate of 17.40 per cent and the value of $R^2$ was estimated to be 0.97. The compound growth rate was 19.01 before the new economic policy was introduced.

For the post-reform period (1991-92 to 2008-09), the slope coefficient value was 9952.3292 which has shown that on an average the fiscal deficit has increased by Rs. 9952 crore annually during the period 1990-1991 to 2008-2009. An estimate of the regression coefficient ‘t’ (5.600) has established the statistical significance. The value of $R^2$ was 0.66, which meant that about 66 per cent of the variations found in the fiscal deficit variable has been explained by the independent variable. The value of the slope coefficient was 0.09306, which shows that fiscal deficit has increased at the rate of 9.31 per cent and the value of $R^2$ was 0.84. The corresponding growth rate after the liberalization process was 9.752.

Over the study period, the value of the slope coefficient was found to be 6968.1522. It has shown the average annual growth rate of the fiscal deficit for the whole study period of time (1980-81 to 2008-09). The $R^2$ value of 0.76 signifies that the independent variable has explained for about 76 per cent of the variations found in the mean fiscal deficit variable. The regression estimate ‘t’ (9.272) was found to be statistically significant at both the one per cent and at the five per cent levels. In the semi-log model the value of ‘b’ was 0.111093, which shows that fiscal deficit had
increased at the rate of 11.11 per cent and the goodness of fit was 0.94 per cent. The compound growth rate of the fiscal deficit was estimated as 11.749. The gross fiscal deficit has increased by 21 per cent during the period 1992-93 to 1997-98. It has further increased by 48 per cent during the 1997-98 to 2003-04. A high level of fiscal deficit has its own impact on the macro and large government borrowings which may ‘drive out’ private investment.

The study clearly shows that there is a significant difference between the growth rates of fiscal deficit for the pre-reform and post-reform periods of fiscal deficit.

To study the structural changes that had occurred in the trends of fiscal deficit between the pre-reform and the post-reform period, Semi-log model of the form \( \log Y = a + b_t \) had been used and our test has led us to the conclusion that the increase in the compound growth rate of fiscal deficit during the post reform period compared to that of the pre-reform period was statistically significant.

From the trend analysis of the fiscal deficit of the Central Government, it could be observed that the fiscal deficit was found to be greater in the second sub-period compared to that of the first sub-period. An analysis of the Chow test had led us to the conclusion
that a significant structural change had occurred in the fiscal deficits of the Central Government during the post reform period compared to that of the pre reform period.

The fiscal positions of the central and state governments were vulnerable in the latter part of 1990’s. Pay and pension revision is attributed as the simple cause, through a host of factors attributed to the deterioration. The significant visible factors include a sharp decline in the central revenue from custom and excise duties, an increase in the interest burden due to both increasing volume of indebtedness and higher interest rates and continued proliferation of subsidies and transfers. The gross tax revenue of the centre relative to GDP declined from 10.2 per cent in 1991-92 to 8.2 per cent in 2001-02 and this was due to 2 percentage points in decline in customs duties, 1 percent point decline in union excise duties, which was offset by a 1 percent point increase in direct taxes. Interest’s payments as a ratio of central revenues increased from 40.3 per cent in 1991-92 to 53.4 per cent in 2001-02, even as revenue expenditures as a ratio of GDP increased from 6.8 per cent in 1991-92 to 14.1 per cent in 2001-02. All these factors culminated in creating the worst fiscal imbalance scenario possible in 2001-02. With the revenue and fiscal deficits as ratios of GDP at 7 per cent and 10.3 per cent respectively. Since 2001-02, however, there has been an appreciable turnaround- up to 2007-08. The consolidated fiscal deficit declined relative to GDP from 9.9 per cent in 2001-02 to 5 per cent in 2007 08.
The study clearly point out that the government has failed to achieve the adjustment as envisaged in the FRBMA particularly in containing the expenditures. Increase in tax revenues due to improved computerized information system and reduction in the interest rate imparted the flexibility in adjustment. Thus, even after the enactment to FRBMA, the government missed the opportunity to adhere to the set targets by weeding out unproductive expenditures.

An analysis with regard to the growth of direct and indirect taxes in India shows that in the pre liberalization period from 1980-81 to 1990-91 the direct taxes increased at the absolute rate of Rs. 468.82 crore per annum whereas indirect taxes increased at the absolute rate of Rs. 2888.87 crore per annum and the total tax revenue in the pre liberalization period had increased at the absolute rate of Rs. 3357.60 crore per year. In the post liberalization period from 1991-92 to 2008-09, direct taxes increased at the absolute rate of Rs. 12249.9 crore per annum and indirect taxes increased at the absolute rate of Rs. 9789.49 crore per annum and total tax revenue had increased at the absolute rate of Rs. 21983.8 crore per year. For the whole period from 1980-81 to 2008-09 the direct and indirect taxes and total tax revenue had increased at the absolute rate of Rs. 6300.91, Rs. 6407.34 and Rs. 12685.9 crore respectively per annum. This shows that both direct and indirect taxes are contributing equally in total tax revenue. The compound growth rates of direct taxes for pre liberalization, post liberalization and whole periods are 12.602, 20.423 and 18.840 respectively, for the indirect taxes are
17.386, 10.496 and 11.849 respectively and the compound growth rates for the total tax revenues for pre, post and whole periods are 16.496, 13.926, and 13.972 respectively. The $R^2$ values are satisfactory for direct and indirect and total tax revenues in pre liberalization, post liberalization and in the whole periods. The $t$ values are statistically significant at 5 per cent and 1 per cent levels for direct and indirect taxes and total tax revenues in the pre liberalization, post liberalization and for the whole periods.

The easiest way to know the tax burden is to find out tax-GDP ratio. When the process of economic planning began in India in 1950-51, the tax-GDP ratio was as low as 5.9 percent. The tax revenue has recorded a considerable increase during the planning period, and yet proceeds from direct taxes are just a little over 5 percent of the GDP. The ratio of direct to indirect taxes which was 40:60 in 1950-51, declined to 18:82 in 1980-81. However, on account of recent tax reforms the ratio of direct to indirect taxes has increased considerably.

The analysis of Chow test used to test the structural change has revealed interesting result in the study the observed ‘F’ values for direct and indirect taxes are 14.78 and 31.72 respectively, and as these values exceeds the critical table value of 3.38 at 5 per cent level, one can reject the null hypothesis that there is no structural change between the two time periods with regard to direct and indirect taxes. So the researcher accepts the alternative hypothesis that there is a structural change between the two time
periods for direct taxes and indirect taxes under study. The analysis thus shows that there is considerable increase in both direct and indirect tax revenues. More over the declining share of indirect taxes in total tax collection is a welcome phenomenon.

**Foreign Direct Investment, Foreign Exchange Reserves and External Debt**

The study indicates the impressive growth (in percentage term) of non-debt creating flows. From a mere of 1.5 per cent in 1990-91, it has increased to 231.0 per cent in 2008-09. But little change has occurred in favour of non-debt creating flows. It has increased from a massive figure of 83.3 per cent in 1990-91 to 87.2 per cent in 2008-09.

FDI has improved considerably over the years. From a meager of $ 103 million in 1990-91, it has increased to $ 21,325 million in 2006-07. Foreign direct investment (FDI) to India increased sharply from US $ 97 million during 1990-91 to US $ 35180 million during 2008-09 on the strength of expansion in domestic activity, positive investment climate, progressive liberalization of the FDI policy regime, and simplification of procedures.

In India in the beginning of the liberalization regime in 1990-91 the share of FPI to total foreign investment was only 6 per cent but it increased to a level of 85.89 per cent in 1993-94 but, it declined to 33.95 per cent in the year 1997-98 and touched a negative share of -2.5 per cent in the year 1998-99. The negative share coincided with the outflow of FPI from the East Asian Financial Crisis. Thus, although the volume of FPI increased
enormously, its trend exhibited instability. In the year 1998-99, FDI also showed a considerable decline from 3557 million US dollars in 1997-98 to 2462 million dollars in 1998-99. At the same time FDI slowly increased from the level of 41.59 per cent in 1999-2000 to 75.20 per cent in 2001-02 and declined to 27.58 per cent in 2003-04, further it shows the increasing trend, in the year 2008-09 FDI has increased to 35180 million dollars.

The statistical test carried out to find the correlation between FDI and FPI gave the correlation co-efficient of 0.49. The calculated value of ‘t’ is greater than the table value. So the null hypothesis that is there is no correlation between FDI and FPI is rejected and the alternative hypothesis is accepted.

India as a Capital-starved country has now access to heavy inflows of capital from 10 major countries of the world: Mauritius, USA, Japan, UK, Netherlands, Germany, France, Korea and Switzerland. Country-wise, Mauritius and the UK are the major FDI investors in India. Large flows from Mauritius could be attributed for channeling FDI flows into India. FDI flows from the US, the Netherlands and Singapore also increased sharply during 2006-07. The sectoral patter of FDI inflows to India shows that despite a slow down in the overall level of FDI in recent year’s, flows into the engineering sector has remained stable, largely in consonance with buoyancy of export growth in the sector.
Out of the total investment of US $ 1,36,632 million dollars, the share of direct investment is 53 per cent and the remaining 47 per cent is portfolio investment. The FDI flow is being traced mainly by four channels: Foreign Investment Promotion Board (FIPB)/Government Route, Reserve Bank of India’s (RBI’s) Automatic Route, Non Resident Indians (NRI) Schemes and Acquisition of shares. A major chunk of FDI has flown through FIPB/Government Route: this channel alone accounted for over 42.46 per cent of the total inflow of FDI during the period under reference. While the RBI’s automatic route, NRI schemes and Acquisition of shares accounted for 11.41 per cent, 2.09 per cent and 10.91 per cent respectively to the total inflow of FDI in India during the period from 1990-91 to 2006-07. So far as portfolio investment is concerned, Foreign Institutional Investments (FIIs) accounted for 71.86 per cent, followed by Global Depository Receipts (GDRs) with 26.20 per cent. The Offshore funds and others accounted for a meager share of 1.94 per cent only.

The growth of foreign exchange reserves since liberalization of Indian economy portrays some interesting insights. From a mere 5,834 crore in 1990-91, it has increased to 3,09,723 crore in 2007-08. It is vivid clear that the larger share of India’s foreign exchange reserves consists of various foreign currency assets followed by Gold assets.

The ratio of reserves to imports is showing an impressive trend. In 1990-91 the months of import cover was just 3 months, which has increased to nearly 15 months by
2007-08. In terms of money-based indicators too, the situation is now much better. The proportion of foreign exchange reserves to broad money rose from 4 per cent in 1990-91 to 34 per cent in 2007-08. The ratio of reserves to short term debt rose from 0.68 per cent in 1990-91 to 6.99 per cent in 2007-08. This means that foreign exchange reserve is 7 times higher than the short-term debt.

The study has shown that much accretion of India’s reserves is mostly contributed by surge in non-resident Indian deposits, followed by foreign portfolio investment and foreign direct investment.

Before the introduction of economic reform in 1991, the concept of disinvestment was not emphasised in the economic literature. But in recent years it provides a helping hand to cover the growth of fiscal deficit, which is an important indicator in determining the success of reforms. The public enterprises disinvestment programme was suggested by the new economic policy of 1991.

**In the year 1991-92 the ratio of actual in target receipt was 1.22, which is the maximum and the ratio has been continuously decreasing over the year and it has reached a ratio of 0.39.**
External debt

The share of commercial borrowings in the total external debt continued to be highest at 27.2 per cent as at end-March 2010 from at 12.2 per cent in the year 1991, followed by short-term debt continued to be 20.1 per cent from 10.2 per cent in the year 1991, NRI deposits (18.4 per cent) and multilateral debt was 12.2 per cent and 24.9 per cent and it had increased to 18.4 per cent and 16.3 per cent respectively.

The long-term debt and short-term debt at US $ 209.0 billion accounted for 79.9 per cent and short term debt at US $ 52.4 billion accounted for 20.1 per cent in end March 2010, from US $ 7.5 billion (89.9 per cent) of Long term debt and US $ 8.5 billion (10.2 per cent) of short term debt respectively in the year 1991.

Currency Composition

The currency composition of India's external debt is generally disseminated in terms of major foreign currencies such as US Dollar, Japanese Yen, Euro, Pound Sterling, Special Drawing Rights (SDRs) and the domestic currency i.e., the Indian Rupee.

The US Dollar continues to be the dominant currency. The share of US Dollar denominated debt increased to 58.2 per cent as at end-March 2010 as against 47.7 per cent as at end-March 2005. The share of the Indian Rupee accounted for 13.8 per cent as at end-March 2010 followed by Japanese Yen. The share of Euro declined to 3.6 per cent as at end-March 2010 from 4.6 per cent as at end-March 2005.

Sustainability of India’s External Debt

An assessment of the sustainability of the external debt is undertaken based on the various solvency and liquidity parameters such as the ratio of external debt to gross domestic product (GDP), the ratio of foreign exchange reserves to total external debt, debt services ratio,
share of short-term debt to foreign exchange reserves etc. India has managed its external debt successfully as reflected in the perceptible improvement in various external debt sustainability indicators.

The ratio of external debt to GDP declined to 18.9 per cent as at end-March 2010 from 28.7 per cent as at end-March 1991.

The debt service ratio increased to 5.5 per cent during 2009-10 from 35.3 per cent during 1990-91.

India’s foreign exchange reserves provided a cover of 106.7 per cent to the external debt stock at the end of March 2010 as compared to 7 per cent as at end March 1991.

The share of concessional debt in total external debt declined to 16.8 per cent as at end-March 2010 from 45.9 per cent as at end-March 1991 reflecting the continuing increase in non-concessional private debt in India’s external debt stock.

The ratio of short-term debt to foreign exchange reserves at 18.8 per cent as at end-March 2010 was much lower of 146.5 per cent at end-March 1991.

**India’s stock of external debt at the end of March 2008 stood at Rs.814516 crore as against Rs.130199 crore at the end of March 1990 and Rs.428550 crore at the end March 2000. All the Major Indicators of external indebtedness have improved over time. The ratio of external debt to GDP, which shows the size of external debt to vis-à-vis national output, shows how much of the domestic resources that would be required to service debt obligation declined from 38.7 per cent in 1993-94 to 18.8 per cent in 2007-2008.**
According to the latest data available the international comparison of external debt of the twenty most indebted countries indicates that India continues to be the fifth most indebted country in 2008 as against 3rd Position in 1990.

Granger Causality test to identify the direction of causality shows that the direction of causality is from ED to CA since the estimated F-value exceeds the critical value at 5 percent level. The result of the analysis suggests that the External debt significantly determines Current account deficit in India. The policy implication of this result is that External debt affects the current account deficit and prudent measures are required to reduce the debt by substituting it with non-debt creating flows.

Invisibles on Balance of Payments:

The study has amply shows that the invisibles have been providing substantial support to India’s balance of payments in the recent years and are reflective of the ongoing structural transformation within the economy as well as its increasing integration with the world economy.
In 1992-93 the current account deficits was -1.7 per cent of GDP and the growth of exports was just 3.3 per cent on balance of payment basis. The import cover of foreign exchange reserves was also of only 4.9 months. But, the balance of payments situation improved considerably in 1993-94. In this year, the current account deficit was only 0.4 per cent of GDP and another important development in 1993-94 was the exceptionally good performance on the export front. Exports recorded a growth of 20.0 per cent on balance of payment basis, in dollar terms, against an increase of 10.0 per cent in imports. All these facts show that there was a marked turnaround in the balance of payments situation in 1993-94. The situation in 1994-95 was also satisfactory on many counts. The growth in imports continued untapped in 1995-96 as well due to renewal of economic growth. Imports, in dollar value, grew by 21.6 per cent in this year. However, exports with a growth of 20.3 per cent almost matched the rate of increase in imports. Foreign exchange reserves in 1995-96 were enough to finance six month’s imports.

The balance of payment situation improved further in 2000-01 and the current account deficit in this year narrowed further to about 0.6 per cent of GDP. From the point of view of balance of payments, most significant have been the three years 2001-02, 2002-03 and 2003-04. The surplus on current account was 0.7 per cent of GDP in 2003-04. After recording a surplus for three years in a row, the current account once again recorded a deficit in 2004-05, which was 0.4 per cent of GDP. In the year 2005-06,
2006-07, 2007-08 and 2008-09 the current account deficit were 1.2, 1.1, 1.8 per cent of GDP and 4.1 per cent of GDP.

A calculation of percentage of invisibles to trade deficit brings out that invisibles covered 62.8 per cent trade deficit in 1994-95, 73.7 per cent in 1999-2000 and 82.0 per cent in 2000-01. Earnings from invisibles exceeded the deficit on trade account in 2001-02, 2002-03 and 2003-04 with the result that there was a surplus on current account in these years. In 2004-05, invisibles covered 92.7 per cent, Further the per cent of invisibles have been continuously decreased to 75.03 per cent in the year 2008-09.

The net invisibles results shows that in the pre reform period 1980-81 to 1990-91 the net invisibles decreased at the absolute rate of US $ -453.90 million per annum but in the post reform period from 1990-91 to2008-09 net invisibles increased at the absolute rate of US $ 4159.52 million per annum. For the whole period from 1980-81 to 2008-09 the net invisible has increased at the absolute rate of US $ 1974.69 million per annum. The $R^2$ values are satisfactory for net invisibles in the pre reform, post reform and in the whole periods. The t values are statistically significant at 5 per cent and 1 per cent levels for invisible receipts and payments in the pre reform, post reform and for the whole periods. So the null hypothesis that is, there is no change in the growth rate of invisibles in the current account of balance of payments is rejected.
During the period 2001-02 to 2008-09, the invisibles receipts constituted 45.7 per cent of current account receipts, while invisibles payments accounted for 24.2 per cent of current account payments.

The analysis has shown that the ‘b’ value for trade balance for the pre-reform period was -166.236 which shows that the trade balance has decreased at an absolute rate of US $ -166.24 million per annum, where as in the post-reform period the trade balance has decreased at an absolute rate of US $ -4804.68 million per annum. For the whole period, the trade balance has decreased at an absolute rate of US $ -2144.81 million per year. The $R^2$ values for the pre-reform, post-reform and for the whole periods were 0.25, 0.62 and 0.44 respectively. The ‘t’ values for the pre-reform, post-reform and for the whole periods are statistically significant at 5 per cent and 1 per cent level.

In the study the ‘b’ value for current account for the pre-reform period was US $ -620.118 million which shows that the current account balance has decreased at an absolute rate of US $ -620.118 million per annum, where as in the post-reform period the trade balance has decreased at an absolute rate of US $ -645.166 million per annum. For the whole period, the trade balance has decreased at an absolute rate of US $ -170.122 million per year. The $R^2$ values for the pre-reform, post-reform and for the
whole periods were 0.77, 0.14 and 0.039 respectively. The ‘t’ values for the pre-reform, post-reform and for the whole periods are statistically significant at 5 per cent and 1 per cent level.

The ‘b’ value for capital account for the pre-reform period was 699.77, which shows that the current account balance has increased at an absolute rate of US $ 699.77 million per annum, whereas in the post-reform period the trade balance has increased at an absolute rate of US $ 2684.25 million per annum. For the whole period, the trade balance has increased at an absolute rate of US $ 1378.924 million per year. The R² values for the pre-reform, post-reform and for the whole periods were 0.91, 0.33 and 0.32 respectively. The ‘t’ values for the pre-reform, post-reform and for the whole periods are statistically significant at 5 per cent and 1 per cent level. The compound growth rates of capital account for pre-reform, post-reform and for the whole periods are 22.656, 13.293 and 10.666 per cent respectively.

An important feature of services exports of India has been a structural shift since 2003-04, driven by the emergence of new avenues of services exports attributed to a rapid expansion in international trade and investment facilitated by an increased liberalization and the use of technology. India’s share in world exports of services has more than doubled between 2003 and 2008 to reach 2.7 per cent.
Exports of software and IT-enabled services (IETS) increased to US $ 46.3 billion in 2008-09 as compared to US $ 40.3 billion during 2007-08.

India’s share in world tourists’ earnings remained at 1.3 per cent in 2008, the same as in 2007. However, India’s ranking in the world tourist earnings slipped to 20\textsuperscript{th} position in 2008 from 17\textsuperscript{th} in 2007 (23\textsuperscript{rd} in 1990).

The share of insurance receipts in total services receipts, which had remained in a narrow range of around 2 per cent of total services exports since the early 1990s, decreased to around 1.4 per cent in 2008-09.

The receipts relating to financial services increased during 2008-09 while payments registered decline. Both financial services exports and imports were around US $ 3.9 billion and 3.0 billion, respectively, in 2008-09. India ranked 8\textsuperscript{th} position in terms of financial services exports and 5\textsuperscript{th} position in terms of import of financial services. India ranked 6\textsuperscript{th} amongst the world’s top 15 telecommunication exporters in 2007.
In the aftermath of global economic slowdown, the growth of remittances, though positive, significantly decelerated to 7.8 per cent in 2008-09 from 41.1 per cent in the previous year.

India continues to be the top remittance receiving country in the world and it received significantly higher remittances to the tune of US $ 51.6 billion in 2008 as compared with US $ 37.2 billion in 2007.

The share of remittances repatriated by the overseas Indians for family maintenance, which contributed a significant share of remittance flows to India at about 60 per cent in 1999-2000 declined to around 42 per cent in 2005-06. Subsequently, however, its share increased and reached 51.0 per cent during 2008-09.

The revival of invisibles surplus since the 1990s has lent considerable support to India’s balance of payments position. The persistence of invisibles surplus coupled with significant capital inflows have facilitated the process of forward movement in regard to easing of payment
restrictions on current and capital account transactions  
both for individuals and corporate.

**GDP Growth**

After the teaching troubles of the first two years viz 1991-92 and 1992-93 the growth rate during 1993-94 to 1997-98 has averaged to 7 per cent per annum. If we compare the annual growth rate during the pre reform period (1980-81 to 1990-91) was the order of 5.2 per cent per annum, but during the post reform period from (1990-91 to 2008-09), it was 6.42 per cent. However, there is a distinct improvement in growth rate of GDP during the 8-year period (2001-02 to 2008-09) to an average of 7.3 per cent. This is welcome.

**Economic Reforms Income Inequality and Poverty**

Since the structural reforms have adversely affected poor in many countries it was expected to happen in India also. In the table 5.2 the 61st Round of NSSO provides estimates of poverty for the year 2004-05 on the basis of two methods (i) uniform recall period (URP) method and (ii) mixed recall period (MRP) method. According to URP method the percentage of people below the poverty line was 36.0 in 1993-94 and this
fell to 27.5 in 2004-05. On this basis, the government has claimed that economic reforms have helped in reducing the levels of poverty in the country. However, a number of economists have contested this claim. An analysis by MPI creators reveals that there are more MPI poor people in eight Indian states, 421 million in Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal than in the 26 poorest African countries combined 410 million.

**Investment Performance**

Gross capital formation as a proportion of GDP is not usually expected to rise immediately after the structural reform process. However, in India it raised from 22 per cent in 1991-92 to 39 per cent in 2007-08. The main reason for this increase has been the sharp rise in the contribution of the private sector was 16.6 per cent of GDP in 2000-01, and this rose to 24.0 per cent in 2006-07.

**Inflation**

Inflation is recently one of the biggest challenges facing the country from 1980-81 to 1990-91 the average rate of inflation was 9.27 per cent. In the post reform period from 1990-91 to 2008-09 the average rate of inflation is 7.21 per cent.
Trend of Employment in Organized Sector

The study reveals that total growth of employment in the organised sector during the 14-year period (1994-2008) was negative, i.e., at the rate of 0.38% per annum as against 1.20% during the per-reform period (1983-94). The public sector employment decelerated from 1.53% during 1983-94 to-0.80 percent per annum during 1994-2008. Despite the fact that DGP growth picked up during the post-reform period, more especially in manufacturing and organized service sector, there was only a small increase in the growth rate of employment in the private organized sector to 0.61% during 1994-2008 as against 0.44 percent during 1983-94. This only underlines the fact that 1994-2008 was period of jobless growth.

Economic Reforms and Impact on Labour

Employment level in organised Private and Public sectors shows that in the year 1991 the total employment in public and private sectors was 267.33 lakhs in which 229.53 lakhs were males and 37.81 lakhs were female workforce. Whereas in the year 2007 the total employment level has increased to 272.76 lakhs, out of which, 219.64 were males and 53.12 lakhs were females.
Economic Reforms and Industrial Growth

The study reveals where as in the eighties (1981-82 to 1990-91), general index of Industrial production recorded an annual average growth rate of 7.8 per cent, growth rate of IIP slowed down to 6.7 per cent during 1993-94 to 2004-05. In manufacturing, it declined from 7.6 per cent in the ‘80s to 7.2 per cent, and in electricity it declined from 9 per cent to 5.6 per cent and in mining & quarrying it slumped from 8.3 per cent to just 4.0 per cent. Thus, the expectations that growth of IIP would be stimulated did not materialise in India.

Agriculture and Economic Reforms

A major criticism of the process of economic reforms is the neglect of agriculture. The data reveals that food grains production increased from 129.6 million tons in 1980-81 to 176.4 million tons in 1990-91 resulting in annual compound rate of 3.1 per cent. But during the 16-year period of economic reforms, food grains production increased from 176.4 million tons in 1990-91 to 216.1 million tons in 2006-07, indicating an annual average growth rate of 1.3 per cent, which was lower than the growth rate of population. Complacency on the food grains front can certainly cost the nation very dearly in the coming decade.
The study reveals that total investment in agriculture, as a percentage of GDP was only 2.8% in 1999-2000. However, even this low level of agricultural investment was not maintained and during 2003-04 to 2005-06, it fell to 2.4% of GDP. While the economy has indicated a sharp increase in investment to 35.5% of GDP in 2005-06, the share of investment in agriculture to a level of 2.4% of GDP is too inadequate, more so when recognition is taken of the fact agriculture provides livelihood to 58 per cent of population.

Social Infrastructure and Human Development

Wide disparities are observed among different stats in India, Kerala and to some extent Tamil Nadu have shown that it is possible to achieve higher levels of human development even with low levels of economic development.

Suggestions and Policy Implications:

Fiscal Performance:

There should be uniformity in the principles, and policies for promoting fiscal discipline.
There should be step-by-step reduction in the subsidies and in the grants-in-aid to the states to reduce the huge fiscal deficit of the central government.

The FRBM act, which became effective from July 5, 2004, mandates the central government to eliminate revenue deficit by March 2009 and subsequently build up a revenue surplus. The act also mandates the central government to reduce fiscal deficit to an amount equivalent to 3 per cent GDP by March 2009. It is better to follow the above recommendations.

**It is necessary to achieve equity in taxation. So it is necessary to increase the share of direct taxes to the global norms of 55-60 per cent.**

The Indian tax system is not administratively efficient. Both direct and indirect taxes are highly complex, and thus provide enough opportunity to avoid as well as evade taxes. The Indian tax system also violated the canons of simplicity and certainty. Therefore, to tune up the tax administration, various tax laws ought to be simplified. The framing of direct tax code is a welcome phenomenon in this regard.
The multiplicity of tax laws and lack of integration is the serious obstacle to the fiscal system. Therefore, necessary steps should be taken to avoid this situation. It is necessary to achieve inter-sectoral balances in the tax structure by bringing agricultural income to its fold.

The study has shown that the fiscal situation in India is worrisome. The experience shows that a mere passing of legislation does not necessarily bring about fiscal discipline. A clear statement of targets should follow the legislation on both revenue and expenditure sides updated every year. This will involve the entire government, not just the finance ministry in enforcing fiscal discipline.

**Foreign Direct Investment**

The analysis has shown that in India’s vibrant economy, change is palpable; business leaders and citizens are brimming with confidence and investors are taking note. But more needs to be done if the country is to progress at an even more dramatic rate.

There is no denying the fact that foreign capital is essential for the development of the economy. But as the experience of many East Asian countries has highlighted, a
country has to be cautious in its approach in opening up its economy to foreign capital flows.

The composition of the private capital has to be monitored. The country has to mould its policy on capital flows. Short-term deposits and portfolio flows are prone to instability. Appropriate taxation policies-taxing the short-term capital gains at a high rate may be formulated and pursued to control the flow of these types of capital outside the country. Formulation of a policy allowing for flexibility in the labour market has been a consistent demand put forward by foreigners. Exit policy should be framed in such a manner that, it should not adversely affect the level of the large chunk of the labour force, and therefore, it is necessary to frame a rational and scientific exit policy.

Violent separatist movements exist in Kashmir and some of the North East States and the relationship between India and Pakistan continue to be strained. An improvement of the situation in these areas will create a congenial atmosphere for foreign investment. The efficiency of the State level frontline bureaucracy, is therefore, absolutely important to keep up the morale of the investor’s confidence and to prevent the cost and time overturns, which, unless prevented, will have an adverse impact not only on the individual investors, but also on the economy as a whole.
The government should give priority to encourage foreign direct investment rather than portfolio investment. It is desirable to encourage only technology based quality goods.

**Foreign exchange Reserves:**

The government instead of accelerating huge reserves, it should use it in improving the exports in order to avoid huge deficit in the current account balance in the balance of payments.

The foreign exchange reserves are composed of foreign funds borrowed from abroad, especially volatile hot money. Portfolio investment can easily flow out after garnering speculative profits from trading Indian stocks and shares. So the government should look for poorer mix, which can avoid volatility.

The huge foreign exchange reserves have facilitated full convertibility of the rupee, in the current account, which has created opportunity for investing Indian capital abroad. In a country with enormous need for investment to step up production of goods and services and for building infrastructure facilities in the country, the first call on
wherever capital is available or can be mobilized, must be in favour of domestic investment.

Although the huge foreign exchange reserves has helped in maintaining stability in the exchange rate, another problem of inflation has aroused which might be more dangerous than the benefits of holding the reserves. So, it will be quite prudent for the government to keep check on inflation as the reserves are amounting.

**External Debt**

The accumulated foreign exchange reserves can be used to repay high cost existing debt. As population is considered the most important factor in influencing external debt, efforts should be taken to control population.

The external debt affects the current account deficit and prudent measures are required to reduce the debt by substituting it with non debt creating flows.
**Disinvestment**

The experience of disinvestment programme carried out in India reveals a dismal picture. In many cases like Balco (Bharat Aluminium Company), public sector equity has been sold for a fraction of what it could actually fetch. The government has used this amount to offset the shortfalls in revenue receipts and thus reduce the fiscal deficit, which it was required to do so as part of the stabilization programme of the IMF prescriptions.

The disinvestment of government’s equity in profitable public sector enterprises and using the proceeds for current consumption needs amounts to frittering away of valuable public assets.

**Balance of Payments**

In order to attain surplus in the trade account of balance of payments exports should be encouraged. Inward remittances should be further encouraged.
The government should encourage producing high quality low cost products to capture a major share of the world market.

The openness in trade should be further encouraged.

Macro Economic Overview of Indian Economy

Indian economy is at present facing jobless growth. This type of growth pattern may not be suitable for a country with more than 100 crores of population. Giving more importance to manufacturing sectors growth may reverse the service led growth pattern of Indian economy.

New economic policy has reduced the role of public sector and role of the state. But economic welfare of the people can be improved only through increase in social sector expenditure.

The government should allocate more funds for poverty alleviation and employment generation programmes.
Growth of Indian economy after the initiation of economic reforms is a welcome phenomenon. But at the same time, India is at present riddled with various scams and corruption issues, which has reduced the image of Indian economy at the international arena. This reverse image about India should be discouraged.

Growth of Indian economy has also produced regional imbalances and marginalization of downtrodden sections of Indian society. This tendency unless checked may encourage extremist movements in the country.

Conclusion

Economic policies in India have formulated with the twin objectives of growth and social justice. The economic reform process has placed the economy on a strong growth path. An average GDP growth of about 8 per cent since 2003-04 is particularly noteworthy. Revival of industry after a transition phase has generated new optimism about its inherent strength to compete in the global market. Growth of the services sector continues to be strong with a near revolution in telecommunication and IT. Growth of exports has played a key role in the current high growth phase.
The agricultural sector, however, has been stagnant and needs a big push to make the development process broad based. The divergence of income and employment pattern does pose a main problem for India. With the majority of population still depending on agriculture, higher growth of agriculture and agro-based industries is essential for poverty reduction. Another emerging divide is the slow expansion of employment in the organised sector. The need for removal of rigidities in the land and labour markets, consistent with growth and distribution objectives, cannot be overemphasized.

While the upturn in world economy did contribute to the high growth phase, the rising savings and investment ratio is indicative of domestic supply-side response to take advantage of global demand. A move towards faster integration with other Asian countries could potentially continuation of the export-led growth process in the medium run.

Given the low growth in employment, the poor do not seem to be benefiting equally from the growth process. Effective implementation of direct intervention measures such as the MGNREG programme could be important steps towards an inclusive growth process. The targeted schedule to cover the whole country under
MGNREG should not be delayed. Economic acceleration should help us to divert a part of the incremental income to poverty reduction programmes so that those not getting absorbed in productive employment created by the growth process are not left behind. Distributional conflict management by the state could play a crucial role in the success of reforms.

**Future Research**

The study has highlighted the macroeconomic performance of certain macroeconomic variables in Indian economy since the initiation of economic reforms in 1991. A comparative study of Indian economy with China, which is emerging as one of the fastest growing economies, will provide interesting insights.

**TABLE 4.1**

**COMPOSITION OF CAPITAL FLOWS**

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### TABLE 4.2

**FOREIGN INVESTMENT INFLOWS**

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<td>2821</td>
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<td>2462</td>
<td>2155</td>
<td>4029</td>
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<td>5035</td>
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<td>18.6</td>
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<td>29.0</td>
<td>27.6</td>
<td>23.6</td>
<td>9.0</td>
<td>67.9</td>
<td>33.2</td>
<td>4029</td>
<td>6130</td>
<td>5035</td>
<td>4322</td>
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<td>5035</td>
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<td>b) External Commercial</td>
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<td>6130</td>
<td>5035</td>
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<td>c) Short-term credits</td>
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<td>-1.0</td>
<td>-8.9</td>
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<td>1.0</td>
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<td>8.9</td>
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<td>d) NRI Deposits@</td>
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<td>27.9</td>
<td>11.4</td>
<td>11.4</td>
<td>14.7</td>
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<td>21.8</td>
<td>-3.4</td>
<td>11</td>
<td>12</td>
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<td>e) Rupee Debt Service</td>
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<td><strong>3. Other Capital</strong></td>
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<td>-7.2</td>
<td>17.0</td>
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<td>-7.6</td>
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<td>12</td>
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<td><strong>4. Total (1 to 3)</strong></td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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</tr>
</tbody>
</table>

* : Data on FDI have been revised since 2000-01 with expanded coverage to approach international best practices. FDI data for previous years would not be comparable with these figures.

# : Refers to medium and long-term borrowings.

@ : Including NR (NR) Rupee Deposits.

± : Includes leads and lags in exports (difference between the custom and the banking channel data), banking capital (assets and liabilities of Banks excluding NRI deposits), loans to non-residents, by residents, Indian investment abroad and India’s subscription to International Institutions and quota payments to IMF.

<table>
<thead>
<tr>
<th>I. Equity (a+b+c+d+e)</th>
<th>--</th>
<th>129</th>
<th>315</th>
<th>586</th>
<th>1314</th>
<th>2144</th>
<th>2821</th>
<th>3557</th>
<th>2462</th>
<th>2155</th>
<th>2400</th>
<th>4095</th>
<th>2764</th>
<th>2229</th>
<th>3778</th>
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<td>a. Government (SIA/FIPB)</td>
<td>--</td>
<td>66</td>
<td>222</td>
<td>280</td>
<td>701</td>
<td>1249</td>
<td>1922</td>
<td>2754</td>
<td>1821</td>
<td>1410</td>
<td>1456</td>
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<td>928</td>
<td>1062</td>
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<td>b. RBI</td>
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<td>--</td>
<td>42</td>
<td>89</td>
<td>171</td>
<td>169</td>
<td>135</td>
<td>202</td>
<td>179</td>
<td>171</td>
<td>454</td>
<td>767</td>
<td>739</td>
<td>534</td>
<td>1258</td>
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<tr>
<td>c. NRI</td>
<td>--</td>
<td>63</td>
<td>51</td>
<td>217</td>
<td>442</td>
<td>715</td>
<td>639</td>
<td>241</td>
<td>62</td>
<td>84</td>
<td>67</td>
<td>35</td>
<td>--</td>
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<tr>
<td>d. Acquisition of shares*</td>
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<td>--</td>
<td>--</td>
<td>11</td>
<td>125</td>
<td>360</td>
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<td>490</td>
<td>362</td>
<td>881</td>
<td>916</td>
<td>735</td>
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<td>e. Equity capital of unincorporated bodies#</td>
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<td>--</td>
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<td>61</td>
<td>191</td>
<td>190</td>
<td>32</td>
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<td>II. Reinvested earnings $</td>
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<td>1904</td>
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<td>III. Other capital $$</td>
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<td>--</td>
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<td>279</td>
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<td>3567</td>
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<td>2748</td>
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<td>1828</td>
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<td>3026</td>
<td>2760</td>
<td>2021</td>
<td>979</td>
<td>11377</td>
<td>9315</td>
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<td>a.GDRs/ADRs ##</td>
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<td>240</td>
<td>1520</td>
<td>2082</td>
<td>683</td>
<td>1366</td>
<td>645</td>
<td>270</td>
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<td>600</td>
<td>459</td>
<td>613</td>
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<tr>
<td>b.FIIs**</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>1665</td>
<td>1503</td>
<td>2009</td>
<td>1926</td>
<td>979</td>
<td>-390</td>
<td>2135</td>
<td>1847</td>
<td>1505</td>
<td>377</td>
<td>10918</td>
<td>8686</td>
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<td>c. Offshore funds and others</td>
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<td>4</td>
<td>3</td>
<td>382</td>
<td>239</td>
<td>56</td>
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<td>204</td>
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<td>82</td>
<td>39</td>
<td>2</td>
<td>--</td>
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<tr>
<td>Total (A+B)</td>
<td>103</td>
<td>133</td>
<td>559</td>
<td>4153</td>
<td>5138</td>
<td>4892</td>
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<td>8151</td>
<td>6014</td>
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<td>15366</td>
</tr>
</tbody>
</table>

Source: Various Issues of Annual Reports of RBI.

* Relates to Acquisition of shares of Indian companies by non-residents under Section 6 to FEMA, 199. Data on such acquisition have been included as part of FDI since January 1996.

## Represents the amount raised by Indian corporations through Global Depository Receipts (GDRs) and American Depository Receipts (ADRs)

** Represents inflow of funds (net) by foreign institutional investors (FIIs)

$ Data for 2003-04 are estimated as average of previous two years.

$$ Data pertain to inter company debt transactions of FDI entities.

# Figures for equity capital of unincorporated bodies for 2003-04 are estimates.

Note: 1. Data on FDI have been revised since 2000-01 with expanded coverage to approach international best practices.
**TABLE 4.4**

FOREIGN DIRECT INVESTMENT TO INDIA: COUNTRY WISE AND INDUSTRY- WISE* INFLOWS

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<td>Mauritius</td>
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--: Negligible / Nil
* : Data in this table exclude FDI inflows under the NRI direct investment route through the Reserve Bank and inflows due to acquisition of share under section 5 of FEMA, 1999. Industry wise classification has been changed from 2004-05 on wards.


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