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Development of in the Economy of India after 1991

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The economic liberalization, privatization and globalization that started in India during 1991 ushered a wide scope for generation of opportunities in manufacturing and services sector prompting growth and development of Indian economy.

With the economic liberalization, several steps were taken by the government to encourage privatization, reduction of governmental interference in business sector and promotion of small scale industries, which included end of licensing raj and incentivization of industries. After several years of outperformance, the Indian economy again started showing fatigue showing diminishing economic growth, followed by a very weak Gross Domestic Product specially after the COVID pandemic of 2020.

The present paper shows the milestones of trajectory of Indian economy since the year 2000

The Economic Boom (2000) – The economic boom triggered a series of events resulting in after the debacle. Due to rise in the global demand in the year 2000 and India's exports touched unprecedented high. The economic boom triggered an increase in investment, particularly in the infrastructure and manufacturing sector. These infrastructure projects were largely supported by credit within as well as from external commercial borrowings.The Y2K as it is popularly called put on the brakes on the Indian economy for the first time after 1991-1995, for a while due to the precepted technological fear during the year 2000.

The Global Financial Crisis (2008) – The global financial crisis adversely impacted India's exports due to a slowdown in global trade growth. India's export growth rate fell from more than 13% pre crisis to 5% post after financial crisis. The crisis also triggered increase in interest rates for credit facilities and depreciation of the Indian rupee coupled with the general downturn of the market rendered companies' financial projection made during the economic boom, inaccurate. Various companies found it hard to profit from ambitious investment projects, which resulted in them being totally impossible to service their debts. The depreciation of Indian rupee also adversely affected companies that had made borrowings from outside the country.

The NBFC Lending Boom: The demonetization exercise of high-value currency notes of Rs.500/- and 1000/- by the Indian Government in 2016 resulted in large amounts of cash being deposited with banks and mutual funds. A large amount of these funds were then invested in NBFCs, which subsequently lent them out, mostly to the gems, jewllery and real estate. Infrastructure Leasing & Financial Services (IL&FS), an NBFC, accumulated a huge debt of Rs.1 lac crore and defaulted on repayment of several of its obligations to its creditors. This jeopardized a large number of real estate and infrastructure projects, banks, mutual funds and other investors associated with IL&FS. NBFCs massive lending to the real estate and infrastructure sector, and subsequent debt accumulation was also affected by the fact that the ambitious projects of the post2000 economic boom

were difficult to complete post demonetization. Most NBFCs were caught in a funding squeeze forcing them to scale back their credit to the real economy.Provisoning of loans to small scale sector, as well as to consumers for durable goods such as automobiles by NBFCs slowed, thus affecting investment in these sectors. The NBFC crisis also affected the lending capacity of public sector banks, some of whose lending to NBFCs amounted to 10-15% of loans they extended.

The Twin Balance Sheet Crisis(**Banks and infrastructure companies**)By the year 2015, stressed firms accounted for 40% of corporate debt[3]. The rise in corporate debt meant a corresponding increase in the Non-Performing Assets (NPAs) of banks, leading to a 'twin balance sheet' problem with 'NPAs or bad loans on one hand, and heavily indebted corporates on the other'. The gross NPAs of banks increased from 2.3% of total loans in 2008, reaching a peak of 12% in FY 2017/18, to 10% as of September, 2019.

Attempt to Resolve the Twin Balance Sheet Crisis– The Indian Central Government attempted to solve the twin balance sheet crisis by injecting capital amounting to over Rs. 2.8 lakh crore as of FY 2018/19 into public sector banks. Public sector banks account for 70% of bank loans, and for 90% of total NPAs in India. These capital injections enabled banks to write off Rs. 7.2 lakh crore of their NPA burden, and to reduce their NPA to loan ratios by 2 points, from 11.5% in FY 2017/18, to 9.3% as of September, 2019.

Why did the Indian Economy Continue to Grow -The demonetization initiative and the introduction of the Goods and Services Tax (GST) regime have been understood to have dragged growth down by "still-unknown extents over still-to-be-defined periods." In the long run, however, these negative shocks were offset by stimulus such as the post-GFC oil price decline. At the beginning the year 2014, international oil prices began to fall, and were at one-third of their earlier levels. This provided the Indian economy, with India being an importer of (crude) oil, a windfall, boosting GDP growth by 1.0 to 1.5% during the period of 2015-2017. This, coupled with an increase in world demand in 2017 and 2018, resulting in non-oil export growth, greatly benefitted India's economy.These events made it appear as though India's GDP was steadily climbing, and concealed the negative effects of demonetization, the introduction of GST, and the twin balance sheet crisis. Another massive stimulus in this regard was the Non-Banking Finance Company ("**NBFC**") lending boom, which is discussed in the next section.

Steps Taken by the Indian Government by Introduction of the Insolvency and Bankruptcy Code, 2016 – The Insolvency and Bankruptcy Code, 2016 (the "**Code**") was introduced in December, 2016. The Code aims to complete the insolvency resolution process in a time bound and efficient manner. An important aspect of the Code is the way in which it deals with the issue of NPAs. The Code enables all classes of creditorsto file an application for initiation of the corporate insolvency resolution process. The creditors may apply to the relevant authority under Code for the appointment of a resolution professional, who will take over the management of a defaulting debtor.The Code provides for an Insolvency Resolution Plan ("**Resolution Plan**"), and procedure for application thereof, as an alternative to liquidation of the debtor concern/company. The Resolution Plan is to be approved by a creditor committee with a 75% majority.The time period for completion of the Corporate Insolvency Resolution Process ("**CIRP**") is specified under the Code as 180 days, which can be extended by the relevant Adjudicating Authority by a maximum of 90 days. The time limit is an attempt to ensure, *inter alia,* that NPAs are recovered in a time-bound manner so as to reduce stress on banks and other financial institutions. The gross NPA to loan ratio of the banking sector is estimated to have declined from 11% in the second quarter of 2018-2019, to 9.3% as of September, 2019, a drop which has be attributed, in some part to the CIRP under the Code.The Taxation Laws (Amendment) Act, 2019 amending the Income Tax Act, 1961 and the Finance Act, 2019 came into force on September 20, 2019. The Amendment Act has introduced certain measures for the benefit of companies.

Domestic companies will have the option to pay tax at a rate of 25.17%, as opposed to the 30% rate prior to the Amendment Act. Such companies will also be exempt from minimum alternate tax.Domestic companies incorporated on or after 01October, 2019 making a fresh investment in manufacturing have an option to pay

income-tax at the rate of 15%. This tax rate is contingent upon such companies commencing their production on or before 31st March, 2023. This provision has been put in place in order to boost the 'Make in India' initiative, and to attract fresh investment in manufacturing.

Companies which continue to avail exemptions or concessions under the Act shall continue to pay tax at the pre-amended rate of 30%. However, such companies are allowed to opt for the aforementioned concessional tax regime after the expiry of their tax exemption/holiday period.The Amendment Act has also reduced the rate of Minimum Alternate Tax to 15% from the pre-amended rate of 18.5%.

The Amendment Act provides that the enhanced surcharge under the Finance Actshall not apply on capital gains arising on sale of any security including derivatives in the hands of Foreign Portfolio Investors, or on the sale of equity share(s) in a company, unit of an equity oriented fund, unit of a business trust liable for securities transaction tax, in the hands of an individual, HUF, AOP, BOI and AJP. This provision has been introduced with the intention of stabilizing the flow of funds into the capital market. The Amendment Act also provides that tax will not be charged on the buy-back of shares in case of companies which have already made a public announcement of such buy-back before July 5, 2019.

Environmental Impact Assessment Waived for Oil and Gas Exploratory Drilling – The Ministry of Environment, Forests and Climate Change vide a notification dated January 18, 2020 ("**Notification**"), has waived the requirement of environmental clearance for oil and gas firms conducting exploratory drilling. Promoters of exploratory projects prior to the Notification had to mandatorily prepare an Environment Impact Assessment plan, scrutinized by a committee of experts appointed by the Centre. The Notification was issued in response to a request made by companies wanting to explore for hydrocarbons in the Cauvery delta.

Conclusion

As may be deduced from the above, the economic slowdown was caused by a melee of factors over a number of years and cannot be attributed to a single major event that triggered the downturn. However, the Indian Government seems to have realized the downward slope towards which the economy was heading and has taken several significant steps to seize and reverse such downturn and the effect of the Government's efforts remain

Besides these developments and reforms, it is imperative to bear in mind that in order to tap the highest potential of the economy and ensure good governance, an optimal level of synergy is required between the central and state government. This will not only add strength to our cooperative federal structure but will also strengthen India’s economy.

Initiatives such as –

- Goods and Services Tax (GST)
- Insolvency and Bankruptcy Code (IBC)
- Startup IndiaDigital India

These, among others, have helped the Indian economy jump 65 ranks (in the last four years) in the World Bank’s ease of Doing Business Report.

These measures cemented India’s reputation as one of the few bright spots in an otherwise grim global economy. India is among the fastest growing major economies, underpinned by a stable macro - economy with declining inflation and improving fiscal and external balances. Not only that, it was also one of the few economies enacting major ‘structural reforms’, that have positioned India as a competitive player in the international market.

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