Economic Reforms that Modi 3.0 should Target

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Table of Contents

Abstract 4
Keywords 5
Introduction 5
Current Structure of Economy as envisaged in the Union Budget 2024 7
Fiscal Prudence 11
Federal Debt 11
Public Financial Management Systems [(Better resource allocation and Utilisation) and (Buffers and Reserves)] 12
Key takeaways from the Union Budget 2024-25 14
Reforms in the Banking Sector 16
Issues pertaining to Non Performing Assets and subsequent policy frameworks 16
Pradhan Mantri Jan Dhan Scheme 18
Capital Adequacy 19
Inflation Targeting 20
Inflation and monetary policy tools 20
Open Market Transactions 22
RBI policy on Inflation Targeting 23
India's Trade Prospects 23
Current Landscape of India's Trade 23
India's trade pattern and current account 24
India - UK FTA problems and opportunities 25
An overview of India's Trade Deals with the World 26
Recommendations 28

Abstract

The following paper is aimed at understanding the Economic Reforms that the recently sworn in Narendra Modi Government 3.0 should be targeting. While doing so, this paper shall delve into the current situation of the Indian economy, current account and fiscal deficits, key takeaways of the Budget 2024 presented in February by the Finance Minister Smt Nirmala Sitharaman. The paper also aims at economic-politico analysis of the current state of the Indian Economy. The paper analyses different sectors of the economy which were not met with a lot of robust economic reforms in Modi 1.0 and 2.0 respectively i.e., those sectors which lay dormant for a while. Subject matters of fiscal prudence, banking sector reforms, inflation targeting and the trade prospects of India are also enumerated in detail. While doing so, the paper shall delve into the nuances of each of the above mentioned subject matter in detail and try to understand the policy framework behind these issues as well. To conclude, policy recommendations for better economic reforms would also be enlisted so as to create a rather well informed condition of the Indian economy among the general public.

Keywords

Open Market Operations
Fiscal Prudence
PM Jan Dhan Yojana
Federal Debt
Public Financial Management Systems
Non Performing Assets
Capital Adequacy
Inflation Targeting
Food Inflation
Free Trade Agreements

Introduction

The results of the election to the 18th Lok Sabha were announced on 4th June 2024. To the surprise of many, the mandate of the BJP who also was the single largest party in the two prior Lok Sabha elections was not able to achieve majority on its own. The BJP who won 282 and 303 seats in the 2014 and 2019 Lok Sabha elections respectively were reduced to merely 240 seats thus not even crossing the majority mark of 272 seats. Experts point out that the main reason why BJP lost its mandate so drastically is because of the prominent narrative of the opposition that the Modi Government is on its way to privatise the entire country by selling major government businesses to business tycoons like Adani and Ambani. Along with this, the narrative that the BJP in its first term implemented the 'Demonetisation' of notes that led to rampant rise in poverty and its mishandling of economic woes during the pandemic when India's economy experienced a negative growth rate -23.9%. Furthermore, even though statistics point out that the unemployment rate in India is decreasing, the opposition was successful in concocting a narrative that led to the uncommitted public who was facing economic hardship getting swayed more by the opposition's critique than the ruling party's spin.[1] From an economic perspective, even though the unemployment and consumer price inflation have been steadily declining in India, as various reports indicate; the primary reason why this still failed to convert into votes for the BJP was the insignificant benefits that the government schemes offer to the beneficiaries. PM Fasal Bima Yojana for instance the insurance cover that this scheme provides is menial as compared to the market requirements as the payout is only 25% of the total sum insured. It is well known that farmers' income in India is already in shackles and on such a minimal income, it is natural that the insurance cover would also barely be able to economically support the household.

At a time when dates for the 18th Lok Sabha were declared by the Election Commission of India, unemployment was at 7.8% in August 2020 immediately due to the lockdown but rose to 4.5% in 2022-23 as per the data of the NSO's Periodic Labour Survey Force, the agriculture sector's contribution to India's GDP has shrunk over time, from 35% in 1990-91, it dipped to 15% in FY23. India also faced a problem of private investment coupled with infrastructure deficit as private investment continued to decrease falling to record low of 19.6% of the GDP. Infrastructure deficit of India is considered to be at $1.4 trillion with transportation and energy being the key areas of bad infrastructure. Adding to these woes, export challenges surfaced amidst global geo-political tensions as the textile exports witnessed a significant decline and India's pharmaceutical markets despite its aspirations, have failed to keep pace with demand, falling behind at 9 percent, despite the ambitions of becoming a global hub for vaccines, lay significantly short of competing with global demand.[2] This is

[1] https://www.impriindia.com/insights/why-narrative-changing-election-2024/

[2] India's Economic Trajectory: Challenges & Opportunities

mainly because, during the Pandemic India's heavy dependence on China for APIs (Active Pharmaceutical Ingredients) was exposed which resulted in the Central Government making the production linked incentive scheme with the intention of domestic manufacturing of medicinal raw materials. However, even after such ambitious schemes, figures from the Ministry of Chemicals and Fertilisers still indicate that dependence on China has increased as the the import of bulk drugs or APIs from China rose 20 per cent from FY21 to Rs 23,273 crore in FY22, which was 66 per cent of India's total imports of medical products worth Rs 35,249 crore that fiscal.[3]

However, the decade of 2014-2024 is also called the decade of transformative growth. Due to a plethora of economic reforms undertaken, the Indian economy is recognized in the global context as an:

1. Economy growing at the fastest rate among the G20 countries. As per current estimates, the economy is said to have grown at 7.3% on top of 9.2% in FY22 and at 7.3% in FY23. The urban unemployment rate drastically dropped down to 6.3% in the post pandemic economic recovery period.
2. Transportation systems were developed which can be characterised by the construction of approximately 150 airports in the decade. Number of universities was increased from 723 in 2014 to 1123 in 2024.
3. Important purchases such as crude oil in the times of global crisis of the Russia-Ukraine war were carried out in an economically stable way so as to not increase the prices of petrol and diesel for a timespan of 18 months.
4. From April to November 2023, the states utilised more than ₹97,000 crore out of the ₹1.3 lakh crore of interest-free loans under the Special Assistance to states for Capital Investment that the Centre budgeted for FY24. Resultantly, the states are improving their infrastructure, like schools, rural roads, electricity provision, etc.[4]

Credits for decadal economic growth can be given to the Governmental policies for getting the financial sector back on track through: merger of Public Sector Banks (PSB) and amendment of the SARFAESI Act 2002 to enacting the Insolvency and Bankruptcy Code 2016 (IBC), these reforms have helped clean up the balance sheets of banks and corporates. Also, enactment of The Real Estate (Regulation and Development) Act, 2016 has created transparency in transactions. Minor economic offences under The Companies Act, 2013 have incentivized entrepreneurs to take risks when it comes to the development of startups.[5]

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[3] India's Pharma sector has an export problem - Business Today
[4] Indian Economy - A Review (Department of Economic Affairs)
[5] Strong private consumption major driving force of India's eco growth : Fin Min Eco Review

Current Structure of Economy as envisaged in the Union Budget 2024

"The Indian economy has witnessed profound positive transformation in the last ten years. The people of India are looking ahead to the future with hope and optimism" is what Hon'ble Finance Minister said while presenting the Interim Budget 2024 in the Parliament in her opening address.

The Budget was divided primarily into 4 focus areas and also 4 subdivided sectors for the Amrit Kaal vision by 2047.
Garib Kalyan Desh ka Kalyan, Empowering the Youth, Welfare of Farmers and Annadata and Nari Shakti were the four focus areas. The budgetary information about work done and policies underway for all the above mentioned focus areas were as follows:

1. Garib Kalyan Desh ka Kalyan- 25 crore people moved out of Multidimensional poverty. Savings of ₹2.7 lakh crore credit assistance to 78 lakh street vendors under PM-SVANidhi scheme has been made possible because of Direct Benefit Transfer.
2. Empowering the Youth- 43 crore loans sanctioned under PM Mudra Yojana. 1.4 crore youth trained under Skill India Initiative.
3. Welfare of Farmers- 11.8 crore farmers under PM-KISAN Crop Insurance have received direct financial assistance. In addition, 4 crore farmers under PM Fasal Bima Yojana Integration have received direct financial assistance. Under eNAM (National Agricultural Market), 1361 mandis supported a trading volume of ₹ 3 lakh crore.
4. Nari Shakti- Disbursement of loans to and among women entrepreneurs add up to a number of 30 crore under the Mudra Yojana. Increased female enrolment in higher education by 28% in 10 years, 43% of female enrolment in STEM courses, 1 crore women assisted by 83 lakh Self Help Groups to become Lakhpati Didis.

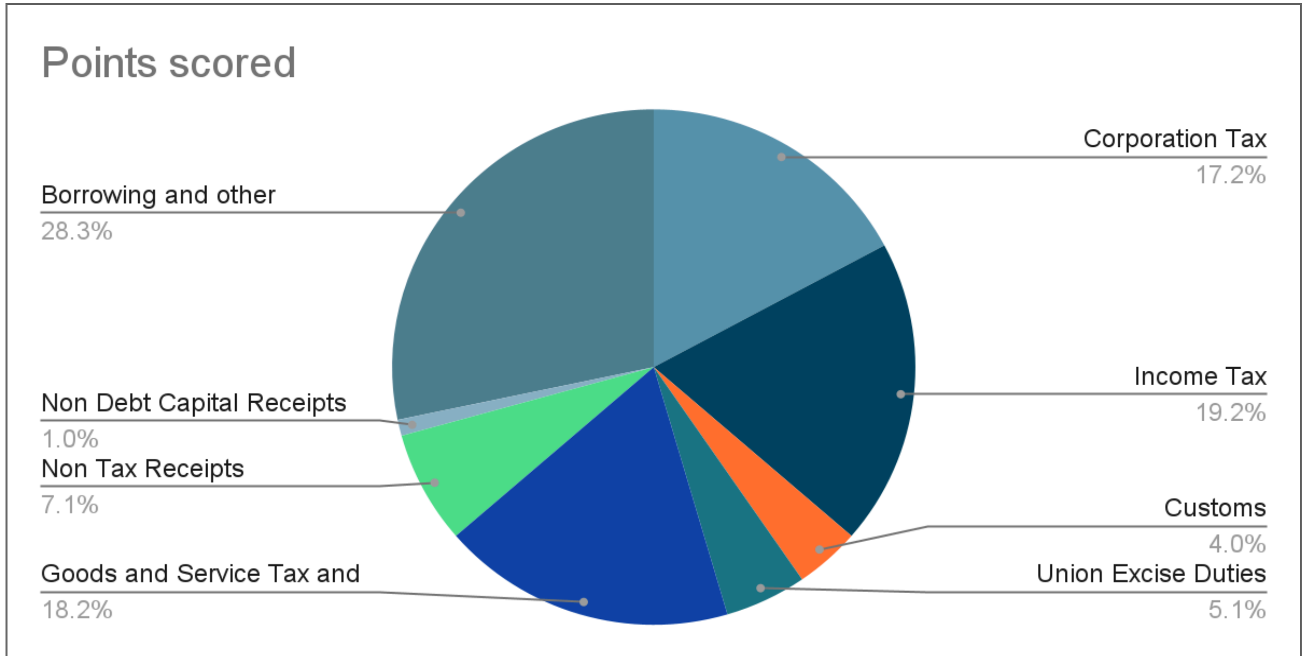
The four primary subdivided sectors for Amrit Kaal vision by 2047 and their respective budgetary provisions (works ongoing and to be rolled out) include:

1. Sustainable Development- Commitment to meet net-zero by 2070 by way of rooftop solarization. Adoption of e-buses for public transport networks and strengthening the e-vehicle ecosystem by supporting, manufacturing and charging.
2. Infrastructure and Investment- 3 major railway corridor programmes will be implemented under PM Gati Shakti-to improve logistics efficiency and reduce cost. Foreign investment will be promoted via bilateral investment treaties, which will also be negotiated. Existing airports will be beautified and expanded, under UDAN scheme comprehensive developments of new airports will be carried out. Heavy focus on urban transformation with impetus on Namo Bharat and Metro rail.

3. Inclusive Development- Further divided among the following:
    a. Health- Saksham Anganwadi and Poshan 2.0 to be expedited for improved nutrition delivery, early childhood care and development of the U-WIN platform for immunisation efforts of Mission Indradhanush to be rolled out. Health cover under Ayushman Bharat scheme to be extended to all ASHA, Angawadi workers and helpers.
    b. Tourism- To attract business and promote opportunities for local entrepreneurship, states will be encouraged to undertake development of iconic tourist centres. Interest free loans that too, long term to be provided to States to encourage development. Port connectivity, tourism infrastructure projects will be taken up in islands including Lakshadweep.
    c. Housing- Pradhan Mantri Awas Yojana (Grameen) close to achieving target of 3 crore houses and an additional 2 crore targeted for next 5 years. A scheme to be launched to promote the middle class to buy/build their own houses and also to create Housing for the Middle Class.
4. Agriculture and Food Processing- Promotion of private and public investment in post-harvest activities will be done by the Government. Application of Nano-DAP(Di-Ammonium Phosphate) to be expanded in all agro-climatic zones. Atmanirbharta for oilseeds will be achieved through Atmanirbhar Oilseeds Abhiyan-Strategy. Comprehensive programme for dairy development to be formulated. To enhance aquaculture productivity, double exports and generate more employment opportunities the implementation of Pradhan Mantri Matsaya Sampada Yojana will be stepped up.[6]

The division of the Union Budget among four focus areas and also four sectors of Amrit Kaal facilitates a healthy economic classification as majority of economic classes namely youth, women and farmers are targeted and policies are rolled out for them.
Accordingly, when it comes to the four subdivided sectors for realising the vision of Amrit Kaal, the parameters, when viewed rationally that would make India a developed nation by 2047 are targeted and heavy focus is given upon them to build the image of India among the world as an economic powerhouse. Focus areas and areas divided for realising the dream of Amrit Kaal is what would ultimately build India's economy.

[6] Union Budget



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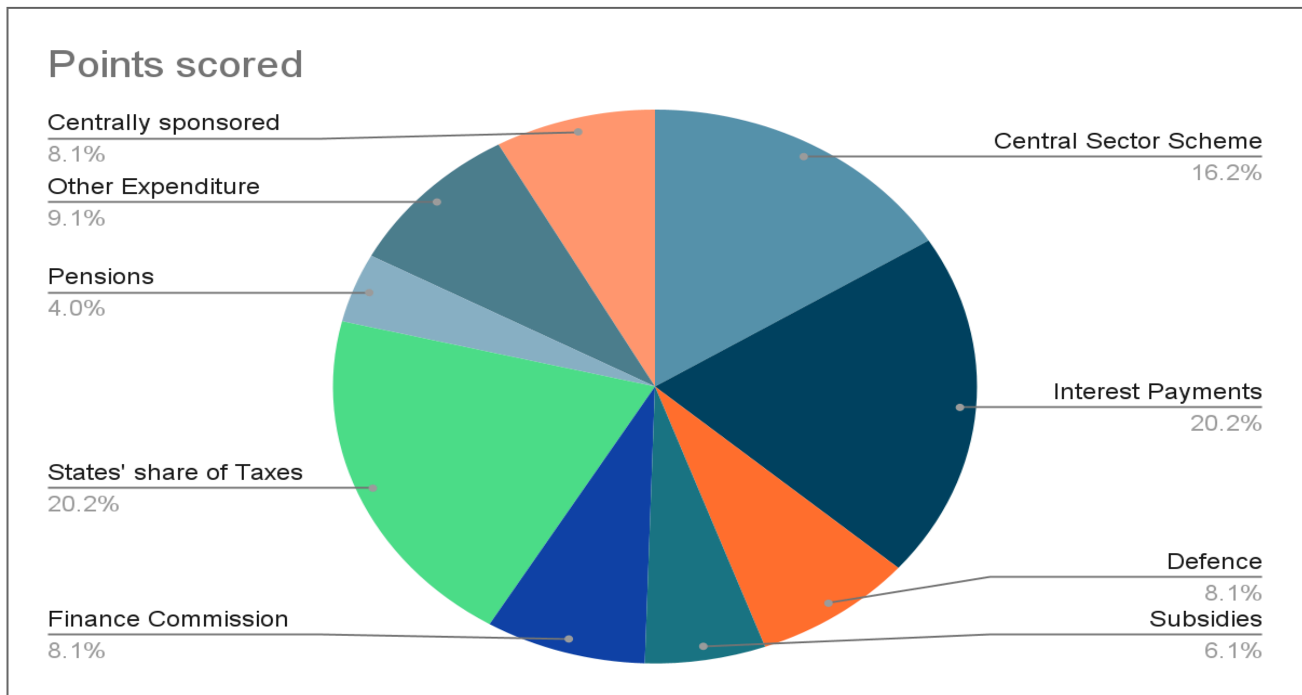
Graph 1: *Where Rupee comes from*



8

Graph 2: *Where Rupee goes to*

[7] Budget at a glance

[8] Budget at a glance

Fiscal Prudence

Federal Debt

To achieve fiscal consolidation and fiscal management of resources that would in turn lead to sustainable economic growth, the Government of India has enacted FRBMA (Fiscal Responsibility and Budget Management Act, 2003). **Fiscal deficit is the difference between total revenue and total expenditure of the Government.** The Government of India generally favours the fiscal deficit pattern of economic management to stimulate the economic growth as spending can increase economic activity especially during the times of low growth as experienced during the lockdown when the fiscal deficit soared to 9.8%. In addition, to boost Long-Term growth, the government encourages fiscal deficit as deficit financing can be used to fund investments in infrastructure, education and healthcare. The Government of India strives to keep the fiscal deficit under 5.8% (an estimate given in the Financial Statement for FY25) as it is necessary to control inflation and to promote debt sustainability as a persistent high fiscal deficit can lead to an unsustainable level of public debt. Accordingly, prudent economic planning involves spending economic resources and capital in a systematic way so as to maximise the benefit with minimum costs incurred. Also, the excess expenditure that the Government had to incur during the lockdown has to be earned back and limiting the fiscal deficit aids and assists in that. The Kelkar Committee (2012) had prescribed that the fiscal deficit which was at 5.1% of the GDP in 2012-13 be kept at 3.1% of the GDP in 2016-17. However, major structural changes like demonetization of the currency took place and the implementation of the recommendation got delayed.[9]

Fiscal deficit indicated the dependency of the country on borrowing in order to sustain its needs. Due to the implementation of the FRBMA, the estimated fiscal deficit got reduced to a great extent from 5.1% to 4.8% to 4.1% to 3.9% to 3.5% to 3.2% in the timespan of five years from 2012 to 2017.[10] This is indicative of a gradual fall in the fiscal deficit and the pathway towards fiscal consolidation. **Fiscal consolidation refers to the efforts of the Government to stabilise its debt levels and also reduce its expenditure with the aim of achieving maximum possible development relative to the size of the economy.**

The outstanding internal and external debt and other liabilities of the Government of India at the end of 2024-2025 is estimated to 183,67,132.46 crore, as against 168,72,554.17 crore at the end of

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[9] Report of the committee on roadmap for fiscal consolidation Vijay L Kelkar - Chairman Indira Rajaraman

[10] Assessing Fiscal Prudence and Fiscal Sustainability in India

2023-2024.[11] In September 2023, India's external debt was calculated at US $653 billion which saw an increase of US $6.4 billion dollars when calculated in June 2023. The external debt to GDP ratio stood at 18.61% as at end-September 2023, as against 18.58% as at end-June 2023. Long term debt was placed at US $507 billion dollars and short term debt increased slightly from 19.1% in June 2023 to 20.1% in September 2023.[12]

The most amount of expenditure that the Government of India has incurred upon is the 'General Government Debt' with US $133.7 billion being spent upon it. **Gross debt of the Government as a percentage of the GDP is called the general government debt.** Currency and deposits; debt securities, loans, insurance, pensions and standardised guarantee schemes, and other accounts payable; these are the categories whose sum of liabilities determines the debt of the general government.

Public Financial Management Systems [(Better resource allocation and Utilisation) and (Buffers and Reserves)]

Public Financial Management System (hereinafter referred to as PFMS) is a software that is developed by the Controller General of Accounts in India (CGA). In its inception in 2009, PFMS started with the objective of tracking funds which were released under the elaborative list of schemes of Government of India and a detailed record of expenditure at all levels of implementation of such programmes. Gradually, the scope was enlarged so as to cover direct payment to the beneficiaries under all schemes of the Government.[13]

Public Finance Management is all government activity in its entirety. It encompasses mobilisation of revenue and its subsequent distribution to the structured developmental programmes undertaken by the government. Issues such as: Financial management information systems, payroll reform include experts to work upon them. Public finance is a subset of the public budget which is the annual plan of the government. Therefore, the initial role of PFMs which was primarily surrounding 'financial management' has with time thus transformed into a much more detailed role of 'finance management'. Its scope has broadened to include even Public-Private Partnerships and Public Sector Enterprises. The 15th Finance Commission, 2020 mentioned that, "A strong PFM system is a key component of the institutional framework for an effective government,and for public service delivery across the levels of

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[11] 31 Receipt Budget, 2024-2025 1. DEBT POSITION OF THE GOVERNMENT OF INDIA The outstanding internal and external debt and other

[12] India's External Debt as at end of September 2023

[13] PFMS | DEPARTMENT OF Expenditure

government. As such, it is closely associated with reducing poverty and stimulating economic growth."[14]

PFM in India has been functional since a lot of years but those reforms are predominantly carried out in the ICT sector such as Integrated Financial Management Information System (IFMIS). The Constitution of India provides for executive and legislative powers on financial matters and also for an independent audit to be carried out by the Comptroller and Auditor General of India (C&AG). Also, it provides for the Finance Commission to equally distribute resources among centre and the states along with the help of RBI and if deliverable, distribution of those resources among a third tier of the government is advocated as well. T**he 15th Finance Commission suggested a plethora of reforms for the economy of India which also included the formulation of a draft law called Public Finance Act which could take up the position of legal mechanism advocating the PFM in India.**

PFM reforms that India must include are:

1. Fiscal Strategy- The intentions of the government related to economic and fiscal performances in terms of budget balance and debt objectives can be captured by a fiscal strategy. The Fiscal Strategy can be considered as the front-end of the budget process and can serve as a key accountability document. A fiscal risk statement should be encompassed which specifies the risks to the contingent liabilities, forecasts and other material risks including mitigation strategies. While maintaining this view, the strategy document must contain a minimum set of fiscal objectives that are numerically measurable, legislatively stipulating such fixed numerical values may not be desirable.
2. Report on Fiscal Sustainability- The long-term fiscal sustainability report should evaluate how factors like the country's demographics, economy, environment, and other elements impact fiscal metrics under various scenarios. Long-term fiscal sustainability examines whether a government can finance its future policies and debt without imposing undue burdens on future generations. Achieving this sustainability requires economic growth to outpace public debt over time. This need arises as governments' fiscal strategies and policies face increasing challenges due to foreseeable demographic trends and their effects on the country's public finances in the long run. This is evident in indicators such as governmental expenditure relative to Gross Domestic Product (GDP).
3. Public Investment Programme- The Public Investment Programme should include an evolving list of priorities and budgeted programs/projects within the medium-term, aligned with the Fiscal Strategy, to meet the Government's objectives. It should convert strategies and policies

[14] Report of the 15th Finance Commission for 2021-26

into tangible, prioritised programs and projects over a 5-6 year period, based on an overarching long-term plan or vision statement of the Government.

4. Financial Memorandum for off-budget proposals- A fundamental principle in financial management dictates that a Ministry or Department should not make commitments or incur expenses beyond its authority or above the limits set in the Annual Budget. This principle is rooted in the concepts of authority, regularity, propriety, and value for money. However, in India, there is a growing trend of incurring expenses or introducing policies or measures that were not proposed in the Annual Budget, nor accompanied by a detailed explanatory note justifying the proposal and its impact on government finances. This is concerning, especially since many such proposals have significant multi-year financial implications. Therefore, there should be a formal requirement that whenever a Ministry or Department proposes any policy or measure necessitating expenditure beyond what was authorised in the Annual Budget.[15]
5. Buffers and Reserves- Reserves are important for an economy in cases of crisis as they become the emergency funds for an economy to rely upon. Latest reports by the RBI indicate that they will keep expanding their forex reserves as it seeks to build larger buffers and strong inflows into the country's equity and debt markets.[16] Gold reserves, Foreign Currency Assets are components of a foreign exchange reserves of our country. As of March 2024, the RBI holds 822.10 metric tonnes of gold reserves after the recent movement of 100 tonnes of gold from the Bank of England to India. Foreign Currency Reserves of India stand around at US $ 5,65,161 million. However, another reserve created by the IMF is the Special Drawing Right (SDR). They supplement the foreign exchange reserves of the member countries.

Key takeaways from the Union Budget 2024-25

Fiscal prudence is the responsibility of the state to spend and invest capital in a disciplined manner so as not to cause an unnecessary burden upon the resources of the state. In times of global turbulence in matters pertaining to inflation and real estate, India witnessed a positive GDP growth rate of approximately 7% and is expected to grow more in the coming years. This change was facilitated due to economic policies during and post COVID undertaken by the Government of India. Our economy experienced a V-shaped recovery post the pandemic.

In the interim budget 2024, in order to achieve fiscal consolidation (effort's of the government to reduce its deficit) the strategy of the budget was multifaceted when the percentage of fiscal deficit was

[15] https://www.ippr.in/index.php/ippr/article/view/124/62

[16] 'RBI keen to further build up record high forex reserves to create buffer' | Economy & Policy News - Business Standard

kept at 4.9% of the GDP. Economists believe that no country is self-sufficient and in order to achieve economic progress and development, every country has to borrow. Borrowing does cause a strain on the economic prowess of a country's finances as the borrowed money has to be paid back usually at high interest rates. Therefore, it is suggested that borrowings should not exceed more than 10% in cases of developed economies and not more than 5% in cases of developing economies. **This approach towards borrowing and economic progress is called 'Fiscal Consolidation' as states deduce a thorough economic pathway to develop their country on one hand and also not be drowned in debt while doing so.** Fiscal consolidation is planned while determining the budget as it proposes a specified percentage of GDP which is used to pay back the borrowed money to various organisations from where it is borrowed.

The Budget Estimates (BE) remained completely unchanged in both the budgets, i.e., the Interim Budget presented in February and the budget presented on 23rd July 2024. According to the Union Budget 2024-25 presented by Finance Minister Nirmala Sitharaman, the total expenditure in Budget Estimates (BE) 2024-25 is estimated at Rs 48,20,512 crore of which total capital expenditure is Rs 11,11,111 crore.[17] Economists have pointed out the fact the budget is oriented towards medium term development of the economy as the fiscal deficit has been kept at 4.9% of the economy in the present budget with mechanisms to reduce it even further in the upcoming budget of February 2025, which experts say would be kept at 4.5% of the GDP.

However, one interesting development which has caught the eye of many economists is that the path to fiscal consolidation has been connected to a reduction in the debt-to-GDP ratio instead of continued compression of the fiscal deficit-to-GDP ratio. What it means is that the debt to GDP ratio, which is the ratio between a country's debt and its gross domestic product, will be kept low or to say the least, efforts would be made in that direction. A low debt-to-GDP ratio is indicative of the fact that an economy produces goods and services in a sufficient manner to return the debt money without falling further into the clutches of the debt.

Ever since the COVID and the subsequent shrinking of the economy, it has dawned upon us to carefully use our funds, which is reflected in almost every budget since then. The primary message for budget FY25 reflects the government's promise to be steadfast on its route to fiscal consolidation. The target of the government is to lower the fiscal deficit to 4.5% of GDP. This being the initial step, a next step to further reduce the target to 3% awaits. To summarise the total budget. The outlay has increased

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[17] Budget size almost unchanged from interim, shows govt's commitment to fiscal prudence: Experts - The Economic Times

by approximately 55000 cr. as compared to the interim budget. The targets for tax revenue are set lower by almost 18000 cr, yet the fiscal deficit has been reduced by 73000 cr.[18]

The path to fiscal consolidation in India lies through a series of determined and concrete steps taken by the Government of India by working in tandem with the states. This has also been highlighted by the Finance Minister Smt. Nirmala Sitharaman while presenting the budget FY25. Since the pandemic, India's strategy has been to narrow down expenditure thus being on the path to fiscal consolidation. **In the union budget 2022-23, the fiscal deficit was kept at 6.4% of the GDP followed by 5.8% in the union budget 2023-24.** Presently capped at 4.5% and expected to be reduced further in the upcoming budgets. This is expected to increase private sector contribution. This path of fiscal consolidation works in sync with the demanding nature of the Indian economy as adequate allocations are meted out in a manner proportional to the demands.

Reforms in the Banking Sector

Issues pertaining to Non Performing Assets and subsequent policy frameworks

Non Performing Assets are also known as bad loans. RBI defines Non Performing Assets as 'Any advance or loan that is overdue for more than 90 days.' In other words, banks and financial institutions give huge amounts of money to loan seekers for their personal works. These loans are given at an interest rate as that is one of the methods for the banks to do business. A loan given by a bank is usually an asset because it not only brings back the principal loan amount but also brings back revenue in the form of an interest amount. However, an asset becomes non performing when it ceases to generate any income for the bank. When the number of Non Performing Assets for a bank rise, its ability to do business coupled with profitability decline rapidly thus giving rise to possibility of loan defaults. There are primarily two types of Non Performing Assets:

1. Gross Non Performing Assets- This is a fixed and an absolute amount that the banks have to disclose to the RBI in every financial year or quarter as it tells the summation value of all Non Performing Assets of the bank in a financial year or a quarter.
2. Net Non Performing Assets- This gives the exact value of Non Performing Assets after the bank has made specific provisions to address the issue of such assets. It subtracts the provisions made by the bank from the gross NPA.

[18] Opinion | These Are The Budget's Two Key Messages For The Future

Non Performing Assets (hereinafter referred to as NPAs) are one of the primary concerns for scheduled commercial banks in India. The Narasimham Committee and the Verma Committee had suggested certain steps that had to be taken in order to solve the problem of NPAs in India. However, there was no unanimity in the policies made in order to tackle the problem of NPAs based on the recommendations of these committees. The Indian banking system comprises commercial and cooperative banks out of which commercial banks hold almost 85% of the banking industries' assets. They are Nationalised banks (where majority equity holding lies with the government and RBI). Along with regional rural banks, these commercial banks are the ones that form the backbone of the banking sector in India.[19]

The problems related to NPAs faced by India cannot be attributed to lack of strict penal regulations but rather to the time consuming nature of asset disposal process. **During the period from 1997 to 2002, gross NPAs amounted to 11% of gross advances and net NPAs accounted for 6% of net advances. The NPAs of the PSU banks were higher than that of the private sector banks. The share of gross NPAs in the advances made by PSU banks was close to 12% and the same for private sector banks was roughly 8%**.[20]

Regulatory measures implemented by RBI in order to tackle the NPA issue include Insolvency and Bankruptcy Code, directed towards fastening the dissolution and disposal process of NPAs and to increase recovery rates. Another method being Prompt Corrective Action (PCA) which was implemented with the aim to guide banks to policy driven actions that would be addressed towards resolving the high number of NPAs, enhancing their capital adequacy and risk management.[21] However, due to the combined efforts of the RBI and Government of India recent reports indicate that the gross NPAs of the scheduled commercial banks in the country declined to a 10 year low of 3.9% in March 2023.[22] In addition to this, the improved asset quality of commercial banks was witnessed by the economy when their gross NPAs continued to show an upward trend with the GNPA ratio falling down to a 12 year low of only 2.8% at the end of FY 23-24 as compared to September 2023 when the ratio was 3.2%. Net NPA ratio also fell to 0.6 percent from 0.9 percent during the same period.[23] Thus, it can be conclusively said that NPAs which originally were a challenging obstacle in the financial sector of the country were tackled through able policy making and prudent mechanisms.

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[19] https://www.academia.edu/download/55981043/npa_abstract.pdf

[20] Non-performing Assets in Indian Banks: This Time It Is Different

[21] NON-PERFORMING ASSETS (NPAs) ISSUE AND CHALLENGES IN INDIA

[22] Bad loans come down further, gross NPAs at 3.6% by next March | Business News - The Indian Express

[23] Reserve Bank of India

Pradhan Mantri Jan Dhan Scheme

The main rationale behind introducing this scheme was to eradicate financial untouchability. When the Modi Government was sworn in for the first time in 2014, the country was distraught with financial problems especially in the rural areas. Even after more than 70 years of independence back then, more than 600 million people were out of the formal banking system. The Pradhan Mantri Jan Dhan Scheme (hereinafter referred to as PM-JDY) is based on 'Sab ka Sath, Sab ka Vikas'. It was termed as a national mission for financial inclusion of the poorest households in both rural and urban areas. PM-JDY ensured access to financial services such as banking savings, deposits and withdrawals, credit insurance and also pension services in an affordable manner. The scheme was launched by Prime Minister Shri Narendra Modi from the historic Red Fort in Delhi on 15th August 2014 on the account of our Indepence Day and was officially rolled out on 28th August, 2014. The slogan for the mission is 'Mera Khata- Bhagya Vidhaata' which when translated into English means 'My Bank Account the Creator of Good Fortune'.

As per the 2011 census, only 14.27 cr households in the country had access to banking services out of some approximately 24.67cr households which is a highly dismal indication of financial exclusion. Data of the similar kind from World Bank points out that the percentage of people having an account in a formal banking institution was only 35%. Further, only 8% had done any banking activity like borrowing from a financial institution in the previous 12 months or so. In addition to this, the people who saved at a financial institution was comparatively more than those who owned a debit card, who were 8% of the total population who used their account to receive wages and people who saved were 12% of the total population.[24]

The launch of PM-JDY facilitated the strengthening of the rural economy by transferring of wages in PM-JDY accounts which were earned by rural labourers under the Mahatma Gandhi National Employment Guarantee Act. PM-JDY was not just limited to opening a bank account but also had other advantages like accidental insurance cover up to Rs. 1,00,000 without having to pay a premium. Also, account holders even with zero bank balance were given the opportunity of holding a RuPay debit card.[25] The scheme was implemented across the country through two phases. The first phase from 15th August 2014 to 15th August 2015 was conclusively aimed at giving every household in the country at least one bank account. The second phase ranging from 15th August 2015 to 14th August 2018 was aimed at providing microinsurance to the people.

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[24] Pradhan Mantri Jan-Dhan Yojana | Department of Financial Services | Ministry of Finance

[25] https://www.indianjournals.com/ijor.aspx?target=ijor:eaj&volume=63&issue=2&article=038

PM-JDY Accounts grew almost threefold from 14.72 crore in March 2015 to 46.25 crore as in 2015. Out of these, 56% Jan Dhan account holders were women and 67% of the accounts were held in rural areas. The number of deposits surged up to Rs. 1.46 lakh cr. in 2021 from 22K cr. in 2015. However, in spite of all these achievements, substantial problems in the smooth implementation of the scheme still persist. The problem of connectivity still remains a tough nut to crack as rural areas still do not have good infrastructure facilities. Coupled with this, bad technological education of the bank operators and staff add to the woes of the public. Unclear procedure about the opening of PM-JDY accounts causes a lot of confusion as well. In order to tackle these problems, it is suggested that PM-JDY accounts should cover other insurance schemes of the Government of India such as Pradhan Mantri Jeevan Jyoti Bima Yojana. To tackle the problem of mobile banking, it is suggested that a Memorandum of Understanding be signed by Telecom Dept, GoI and mobile service providers so that mobile banking can be effectively utilised by account holders with least technical resistance. It is also suggested that India Post and Public Sector Banks should be clubbed together for effective implementation of PM-JDY as both of them operate on grassroot levels, which would facilitate easy data transfer and information exchange about account holders under PM-JDY.

Capital Adequacy

Capital Adequacy Ratio (hereinafter referred to as CAR) is a ratio that analyses and assesses the potential of banks to face the losses incurred. It is also known as the Capital to Risk (Weighted) Assets Ratio (CRAR). The CAR is calculated through Tier-1 capital and Tier-2 capital. Tier-1 capital is the core capital of banks and is disclosed for the essential needs. Tier-2 capital is the supplementing capital that is used for the reserved purpose of banks. It puts forth the ability of the banks in an economy to pay off its liabilities, tackle credit and operational risks. In India, RBI sets the benchmark on the required number of assets a bank must possess in order to carry out business and also to analyse their commercial leverage. To sum it up, it can be said that CAR is a ratio of the capital that the banks have in relation to its risk weighted assets (assets that the bank has to hold on to in cases of emergency or fraud) and current liabilities. According to the instructions of the RBI, Indian public sector banks have to maintain a Capital Adequacy Ratio of 12%. For Indian scheduled commercial banks this percentage is reduced to 9%. What it implies is that, in cases of financial emergency where a public sector bank is about to go bankrupt, the minimum amount of either reserve assets or liquid cash the bank must possess is 12% of the total assets it possesses. This ensures that depositors who have kept their money with their bank get it back safely. High CAR is generally suitable for a bank as it means that it has a less chance of going bankrupt.

Banks in India generally undergo many daunting situations in order to maintain the CAR. One of the major challenges that the banks face is the need to infuse extra additional capital with the current existing capital to meet the requirements specified by the regulators and RBI. In order to meet these targets, banks take the route of equity dilution or external funding, both of which are extremely time consuming and expensive processes. Moreover, careful assessment of Risk-Weighted Assets is halted by the changing and dynamic nature of the economy. It is suggested that in order to improve the Capital Adequacy Ratio in our economy, banks should work upon improving their 'Regulatory Capital'. This Regulatory Capital is the amount of liquid money or assets that a bank has to compulsorily hold with itself as per the instructions of its financial regulator. This has to be done to reduce the impact of negative losses on its investments. It is also suggested that Capital Adequacy Ratio can be strengthened by decreasing the risk related to weighted assets. Loans and money lending activities carried out by banks come under Risk Weighted Assets. These risk assets ensure that the banks comply with the minimum amount capital that they should possess compared to the risk profile of the bank's lending activities. The more risk a bank takes, the more capital is needed to protect its depositors.

Thus, it can be said that in order to strengthen the banking sector of the economy, the Government must work on developing the CAR of the majority of the public sector banks as they are generally entrusted with the responsibility of financial inclusion of the people within the economy.

Inflation Targeting

Inflation and monetary policy tools

The rise in the general price level of daily goods and commodities in an economy is termed as 'Inflation'. In many economies across the world, this phenomenon is observed. The primary reason why this occurs is the surplus demand of the consumers which cannot be met adequately with the supply chains in hand. An inflation of 4 to 5% in any economy is considered as a healthy sign of a developing economy. 'Inflation Targeting' however, is a tool in the hands of the Government as well as RBI to achieve a specified annual rate of inflation. This is set generally at 3 to 4%. The principle supporting this action is that long term economic growth can be achieved by maintaining price stability and this stability in price levels can be achieved through controlling inflation.[26]

[26] https://www.investopedia.com/terms/i/inflation_targeting.asp

All the tools of monetary policy are used to bring inflation under control. These tools include OMO (Open Market Operations), discount lending. Interest rates can be an intermediate target that central banks use in inflation targeting. Raising interest rates is said to slow inflation and therefore slow economic growth. Lowering interest rates is believed to boost inflation and speed up economic growth. **The central bank of the country predicts a roadmap or a path of inflation and then compares it with the target inflation rate that the government seeks to achieve for the economy of the country. The change in trajectory of this prediction and target sought to be achieved decides the magnitude of the monetary policy that has to be adjusted.** Some countries choose their inflation targets at the middle of the trajectory line (thus looking for a symmetrical range of inflation). While some choose a target rate to an upper limit of inflation. A huge merit of inflation targeting is that it combines two elements: 'rules' and 'discretion'. Rules that have to be followed by the central bank at all times while framing the monetary policy and the discretion meaning as per the choice of the central bank in a way it deems fit.[27]

In September 2024, India will have completed 8 years of following the practice of inflation targeting. Due to this practice, India has witnessed better outcomes, less sensitive headline inflation, enhanced transmission of monetary policy among other things. The multiple indicators that RBI takes into account while targeting inflation include such as drivers of inflation, dynamics of food and core inflation, liquidity situation, global economic environment and risk appetite, output gap, capacity utilisation, inflationary expectations, exchange rate, and fiscal deficit. From time to time however, there are calls from economic experts to change the course of action to target inflation. Experts suggest that instead of targeting the Consumer Price Index (the degree of fluctuations in the price level of a set quantity of consumer goods and services bought by households); RBI should be targeting the Wholesale Price Index (which reflects changes in the average prices of goods at the wholesale level).[28]

Wholesale Price Index is, however, not an adequate standard of measurement as it covers general prices and not specific retail prices. Any policies therefore made by taking WPI as a base would be very broad and could not be used to target inflation specifically. Since September 2016, RBI has changed the key policy rate 17 times, majority of them during two turbulent years. The first time in 2019-20 when policy rate was eased five times by a cumulative 185 bps to respond to a sharp growth slowdown. And again in 2022-23 when the policy rate was increased six times by a cumulative 210 bps in response to accelerated inflation emanating from global shocks. Thus to conclude, it can be said that inflation in India is well managed by RBI and other fiscal authorities. In the present context, there is not much of a

[27] https://www.imf.org/external/pubs/ft/fandd/basics/72-inflation-targeting.htm
[28] Should India review its inflation targeting framework or not? - The Economic Times

serious threat when it comes to the general price level of essential commodities. However, when it comes to food and fuel, the inflation is extremely high.

Open Market Transactions

Open Market Transactions, also known as Open Market Operations (OMOs), involve the buying and selling of government securities in the open market to regulate the money and credit supply in the economy. By purchasing or selling these securities, the central bank can either expand or contract the money and credit supply, directly affecting inflation. For example, to curb inflation, the central bank can sell government securities, reducing the money and credit supply in the economy, which can result in lower prices and ultimately influence interest rates.

OMOs can be used to manage inflation either by reducing or increasing it. If the central bank buys more government securities than anticipated by the market, this can boost demand for these securities, driving up their price and lowering interest rates. The reduction in interest rates can then encourage more borrowing and spending, potentially leading to inflation. Another aspect to consider is the foreign exchange market. In an economy open to international trade and investment, OMOs can affect the exchange rate, which in turn impacts inflation. For instance, if the central bank purchases government securities, this increases demand for the domestic currency, causing it to appreciate. An appreciation of the currency can result in lower import prices, which can help reduce inflation.[29]

OMOs also control the money supply by selling government securities during periods of high inflation. Buyers pay with funds from their bank accounts, thereby decreasing the money banks have available to lend. This reduction in the money supply helps to lower spending and investment, cooling down the economy and easing inflationary pressures. Conversely, when the central bank buys securities from the market, it injects money into the banking system, increasing the money available for lending. This increased circulation of money can boost spending and investment, stimulating the economy and raising inflation to a desired level.

RBI policy on Inflation Targeting

At the recently concluded monetary policy meeting in April 2024, RBI Governor Shaktikanta Das affirmed RBI's commitment of bringing inflation in the economy down to a range of 4% in the current financial year of FY 25. The RBI Governor highlighted the importance of monitoring food price

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[29] Inflation Targeting and Open Market Operations: A Strategic Approach - FasterCapital

inflation, particularly in light of potential impacts from climate events this year; however, they reiterated, "inflation targeting framework is the focus" of the reserve bank.[30]

Maintaining stability in the Indian Rupee is quintessential in order to control inflation in the country. Reserves in the form of building the currency can prove to be a buffer against future risks which can also strengthen the national balance sheet. Another tool that RBI implements in order to control inflation is monitoring food price inflation. At the MPC, Governor Das acknowledged the potential impact of above-normal temperatures on food crops, particularly vegetables, emphasising the need for vigilance amidst volatile food price inflation. Adding that food price inflation had been volatile with it reaching 7.8 per cent in February. The RBI projects Consumer Price Index will be 4.5 per cent for the whole year, and growth will be seven per cent.

India's Trade Prospects

Current Landscape of India's Trade

Trade keeps on evolving among global situations of uncertainty. Internationally low commodity prices such as in certain sectors of petroleum have impacted global trade, whereas other sectors such as electronics and pharmaceuticals are appearing to be promising for India. The recent Comprehensive Economic Partnership Agreement (CEPA) that India signed with UAE in 2022 aims at improving bilateral relations between the countries through trade. The agreement is set to cover an ample of trade reforms such as Trade-in goods, Trade-in services, movement of natural persons, government procurement, etc. The agreement also covers the facilitation of a labour intensive market in UAE for gems and jewellery, construction, automobiles and textiles, something through which India's labour intensive economy is set to benefit a lot.[31]

Post the 1991 LPG reforms initiated by the Government of India, we opened up our economy to the world economy. Capital and investments started to flow in. India signed several regional and bilateral trade agreements, including agreements with ASEAN, Japan, South Korea, and others. In the contemporary years India has focused on global integration through trade. One approach in doing so is the Internationalisation of the Rupee. Creation of Vostro accounts has been given impetus by the RBI to settle international transactions in Rupee. The Services Sector is a major driver of trade with exports

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[30] Inflation targeting framework is the focus: RBI governor Shaktikanta Das | Finance News - Business Standard

[31] Comprehensive Economic Partnership Agreement (CEPA) between the Government of the Republic of India and the Government of the United Arab Emirates (UAE) - Mcommerce

surging over 11% in 2023 according to a recent UNCTAD report. Tourism too attracts a lot of wealth. With the government promoting initiatives like 'Dekho Apna Desh' even for the small cities at a global stage like G20 further strengthens the tourism industry. Other sectors who are the leaders of trade in India are pharmaceuticals, textiles and apparels and agriculture. A 10% increase in India's pharmaceutical exports was reported by the commerce ministry, reaching USD 28 billion in FY24. Exports of USD 30.96 billion were done by India in textiles in 2023-24. The government's significant investment in infrastructure development through initiatives like Bharatmala and Sagarmala is further expected to boost transportation of goods thus benefiting internal trade.

In the context of trade in India, Foreign Trade Policy 2023 is a milestone. Exporters will greatly benefit from this policy as it supports their ease of doing business. The government is ambitious about making India's overall exports all the way USD 2 trillion by the year 2030 under this policy. In addition to this, the government also intends to use Indian currency with the countries India enjoys a trade surplus. RBI's creation of the new 'Vostro accounts' is expected to assist greatly in this matter. Four new towns of export excellence will be created to export promotion funds under the 'Market Access Initiative' scheme. They are: Faridabad, Mirzapur, Moradabad and Varanasi. The policy aims at constructing partnerships with State governments and taking forward the Districts as Export Hubs (DEH) initiative to promote exports at the district level and accelerate the development of a grassroots trade ecosystem. The SCOMET policy (Special Chemicals, Organisms, Materials, Equipment, and Technologies) is going to be made the centre of India's export plans as these exports attract a lot of revenue.

India's trade pattern and current account

A current account of a country is the difference between its imports and its exports. If the balance of trade of a country is in positive i.e., if a country exports more than it imports the current account is said to be in a surplus. On the contrary, if a particular country imports more than it exports, the balance of trade in such cases is negative and the situation is called a current account deficit. Over the years, especially since the 1991 economic reforms initiated by the Government of India, trade has generated a lot of revenue for India. India enjoys a surplus trade with the USA, UK, France, Belgium and Italy among other nations. The bilateral trade between India and the US stood at $ 118.28 billion in 2023-24. Washington was the top trading partner of New Delhi during 2021-22 and 2022-23. India also has a deficit trade with China, Russia, Hong Kong and Korea. [32]

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[32] India in trade deficit with 9 of top 10 trading partners in 2023-24

India's trade balance and current account have shown persistent deficits for a major part of its post-independence period. Since the mid-2000s, trade deficits have increased perilously, with a sharp rise in both oil and non-oil imports. This has increased the magnitude of the current account deficit, as net earnings from services and remittances have been insufficient to offset the trade deficits. India has relied on remittances, services exports and capital inflows to finance these deficits. Since June 2021, trade of India was in a deficit and it marked only the first surplus in March 2024. **Current account deficit (CAD) narrowed sequentially to $10.5 billion in the quarter ended December 2023 (Q3 FY 24) — 1.2 per cent of gross domestic product (GDP) — from $11.4 billion in Q2 FY 24 (1.3% of GDP).**[33]

To have a favourable balance of trade, it is suggested that India should target the facilitation and strengthening of its 'Balance of Payments' detailing all financial transactions between India and the rest of the world. This detailed record tracks the inflow and outflow of money during India's transactions with the world. Balance of Payments has two accounts namely 'Current Account and Capital Account'. Current account pertains to trade of goods and services. The net of these two components determines the current account balance. In Q4 of 2023-24, India registered a surplus on the current account, with a surplus in invisible but a deficit in the trade account. Capital Account pertains to portfolios such Foreign Direct Investments and Foreign Institutional Investments. In Q4 of 2023-24, India showed a net surplus of USD 25 billion on the capital account.

India - UK FTA problems and opportunities

A Free Trade Agreement (hereinafter referred to as FTA) is a powerful tool in the hands of the government of a particular country by which it agrees with another partner nation on certain obligations that affect trade in goods and services, and protects investors and intellectual property rights, among other topics. In May 2021, the then British Prime Minister Boris Johnson and Indian Prime Minister Narendra Modi agreed to deepen ties in trade and commerce. Both the countries launched a series of negotiations soon in a few months. **Negotiations between both countries are locked in several issues, one of which is the UK's concerns about agreeing to visas for professionals demanded by India. Similarly, India too was a little pessimistic about the inclinations of a few negotiators on the British side who saw an FTA with the Gulf Cooperation Council as a much more realistic deal as compared to a deal with India.**

By Spring 2024, the majority of the 26 chapters in the FTA, which include goods, services, investments and intellectual property rights were completed; the remainder of the unresolved issues were rules of

[33] India's current account deficit narrowed to 1.2% of GDP in Q3: RBI data | Economy & Policy News - Business Standard

origin, duty concessions on electric vehicles, Scotch whisky, social security agreement, carbon border tax, and liberalisation of financial services, in addition to a separate bilateral investment treaty.[34] The deadlock in the trade deal which still persists even after close to 14 rounds to negotiations can be solved only through the means of an informed dialogue. The victory of the Labour Party in British elections and Sir Keir Starmer being elected as the Prime Minister is a new usher of hope for the FTA to be concluded soon.

The issue of Indian immigration is a central issue of British politics. Negotiations from both the parties are expected to go through a lot of turbulence in this regard. India will also likely face tougher negotiations on climate from a Labour government, which has repeatedly cornered the Tories (Brits) for deviating from the UK's 2030 net zero goals. In order to sign the FTA quickly and in a way that will mutually benefit both the sides, India and UK both have to engage in a systematic dialogue that will ultimately benefit the economies of both the countries, create job and labour opportunities for Indians in UK, similarly India should agree to UK's demand of lowering of trade tariffs and grant greater GI protection to Scotch whiskey and Cheddar Cheese as demanded by UK. Mutual agreement on such points would surely be beneficial to parties involved, in this case – Indian labour, British manufacturers and businesses on both sides.

An overview of India's Trade Deals with the World

Trade agreements are mutually beneficial for the countries that have signed them. Trade agreements facilitate the free exchange of information, revenue, currency, goods and services and goodwill of the people as well. The most common trade agreements are of the preferential and free trade types, which are concluded in order to reduce (or eliminate) tariffs, quotas and other trade restrictions on items traded between the signatories. Trade agreements not just specify the objectives that are sought to be achieved by the agreement but also enumerates the punishments for deviating from the rules of the agreement.

India has signed 13 FTAs in the last five years with its trading partners, including the India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA), India-UAE Comprehensive Partnership Agreement (CEPA – in effect from May 2022), and India-Australia Economic Cooperation and Trade Agreement (IndAus ECTA – in effect from December 29, 2022). India is actively negotiating with the UK, Canada, EU, and Israel to conclude FTAs.[35] Involvement of

[34] Election delays over FTA: Finalising the Indo-UK deal will have to await the incoming governments in both nations - Opinion News | The Financial Express

[35] India's International Free Trade Agreements - India Guide | Doing Business in India

two or more partners who have an agreement to cut tariffs or have an agreed number of tariff lines is found in a Preferential Trade Agreement (PTA). The list of products on which the partners agree to reduce duty is called the positive list. In general, PTAs do not cover substantially all trade. The India Mercosur Preferential Trade Agreement is an example of a PTA.

According to data from the Global Trade Research Initiative (GTRI), India's imports from countries with which it has free trade agreements (FTAs), such as the UAE, South Korea, and Australia, increased by about 38% during the fiscal years 2019-24, reaching USD 187.92 billion. In contrast, exports to FTA partners rose by 14.48% to USD 122.72 billion in the fiscal year 2023-24 from USD 107.20 billion in 2018-19.[36] **India's exports to the UAE increased by 18.25 per cent to USD 35.63 billion in 2023-24 as against USD 30.13 billion in 2018-19, while imports surged 61.21 per cent, from USD 29.79 billion in FY2019 to USD 48.02 billion in the last fiscal. Similarly, the country's exports to Australia, with which the interim trade pact came into force in December 2022, more than doubled to USD 7.94 billion in 2023-24 from USD 3.52 billion in 2018-19. Imports from Australia grew 23.06 per cent from USD 13.13 billion to USD 16.16 billion in the last fiscal.**

The two primary destinations of India's exports are the EU and the United States, whereas China and the EU are the two primary countries from which India's imports come from. Trade in India is always looked upon as a matter of economic stability and security as it brings revenue and ushers in fiscal development.

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[36] India's imports from FTA partners up 38% during 2019-24 fiscal years: GTRI - The Economic Times

Recommendations

After taking into consideration matters related to fiscal prudence, banking sector reforms, inflation targeting and trade prospects of India, the following recommendations are suggested that improve policy related decisions pertaining to the economy of the nation.

1. Measures to tackle Food Inflation- Food price gains were 8.75% for rural consumers, 19 basis points higher than for urban consumers. Cereals, the heaviest category in food, increased to 8.63%. Department of Consumer Affairs data showed significant year-on-year increases in the average prices of rice and wheat. It is recommended that the pre-existing supply chain be modified in such a way so that the supply of goods reaches the retailing units in time without damage. For the better facilitation of supply chain, the following reforms are suggested
    a. Better storage facilities- Making the best possible use of refrigerating trucks is recommended to prevent the decaying of perishable goods.
    b. Broadening production and cultivation- In order to mitigate the risk of food inflation, it is recommended that cultivation of not just one crop be made but rather of at least two to three crops as it will reduce the dependency of consumers on only one staple diet.

2. India-China balance of trade- India and China share a bilateral trade of more than that of $80 billion USD. The balance of trade is highly in the favour of China as India has a trade deficit of $48.5 billion USD with China. In order to tackle the problem of this irregular balance of trade and to stop cheap Chinese goods from ruining India's domestic market, the following economic reforms are suggested.
    a. Increasing the exports to ASEAN countries- It is recommended that exports to ASEAN countries be qualitatively increased. These exports should primarily be: Textiles, Petroleum and Iron Ore, Automobile parts and other machineries. These exports are the need of the hour as the majority of the ASEAN countries are developing nations and also in need of a reliable trading partner in the Indo-Pacific region.
    b. Reduction of trade barriers between India and China- It is suggested that the trade barriers, especially tariffs be adjusted in such a way that would enable the flow of goods from India to China in a quick and feasible way so that Chinese markets would be abundant with Indian goods. This is the same strategy that the Chinese have used to tilt their balance of trade with India in their favour in the 1990s.

c. Produce more and export more- It is suggested that excess production can lead to excess exports which would, in turn generate revenue for India. In order to do this, it is also suggested that MSMEs and local goods' be incentivised to produce more.

3. Phase II economic reforms- Phase I economic reforms took place in the year 1991 in the form of LPG reforms. A quarter of a century has since passed, and the economy has witnessed various generations of reforms in different spheres of economic endeavour; some succeeded, while others did not. The following reforms need to be implemented in order to boost the economy.
    a. Labour wages- At present, the national floor level minimum wage in India is only a meagre Rs. 178 as per the Wages Act. It is recommended that, in order to create a liberal economy at the grassroot level, the minimum wage amount be increased to at least Rs. 500 for labourers employed by the state for development infrastructure projects.
    b. Land reforms - It is recommended that a new policy be made for land acquisition as the at the persisting rate of current policies, which are categorised by frequent quarrels between the authorities and land owners, it will take many years to modernise the public infrastructure. Land reforms that have to be undertaken are suggested as:
        i. Acquisition of land at fair market prices and not at rates below the market price as it erodes the economy of a household.
        ii. Upgradation of information management systems and public records as the problems of delineation of entitlements still persist and formalisation through information channels will address the rights of the people over their land.
        iii. Solidifying property rights over land as informal mechanisms that create land rights and interests in people are still prominent in many parts of the country. This causes problems in infrastructure development.
    c. Energy Sector reforms - Energy creation plays an important role in smooth functioning of the economy. With more than ever demand for energy now, it is recommended that India should critically analyse its existing energy laws and construct new frameworks related to energy. This framework should include setting up of both renewable and conventional forms of energy power plants in every suburb of every city.

4. Strengthening trade- It is recommended that in order to strengthen India's trade with other countries, the FTAs that India enters into with other countries must be used strategically. As in the case India- Malaysia FTA, due to increasing demand for edible oils, India reduced the tariffs on oil imported palm oil from Malaysia which in gradual time occupied 48% of the oil industry

and it also quickly resulted in the diminishing of the domestic oil industry. It is suggested that, before reducing or increasing tariffs, the government should analyse and understand domestic consumption patterns of the people. If need be, it should also import by using the FTAs to its advantage but in doing so must not hamper any local or domestic industry.

5. Agricultural Reforms- Agrarian distress in India, built-up over time, has further deteriorated recently. Agricultural sector comprises 50% of the economy but contributes only a nominal 20% to the GDP of the country. Issues such as underpayment of agricultural labourers, bad cropping patterns persist. In order to reform the agricultural sector, the following recommendations are suggested.
    a. Incentivise and encourage the formation of cooperatives- From an agrarian point of view, a farmer producer company is a sort of bridge between cooperative societies and private enterprises. Therefore, while the farmer producer company is structurally a cooperative establishment, it will work as a business organisation and bring in revenue for the farmers thus strengthening agriculture.
    b. Unification of agricultural markets produces- A reason why the agricultural market in India is divided is that there exist state specific APMC laws and lack of information dissemination among states. Unification of these agricultural markets and less involvement of the APMC will directly enable farmers to sell their produce in the open markets thus generating them revenue.
    c. Good irrigation and land programmes should be promoted- In many cases, agricultural land is already farmed. Water resources are limited and irrigation water is available in the field only after sufficient water cut for urban population. It is suggested that measures to enlarge productivity should consist of increasing yields, diversification to commercial and high value crops and also developing good quality supply chains to augment the rural economy.

Conclusion

The economy of India at present is going through a turbulent period as we are plagued with problems of unemployment and less per capita GDP. This can be resolved by giving 78.5 lakh jobs to the unemployed people in India which is nothing short of a fairytale. Economy is shifting towards fiscal prudence – as any developing nation should do i.e., watch its expenditure and income and plan progress accordingly. Problems facing the Indian economy can be met with good policy backed efficient solutions involving deep analytical thought and the will to bring about the change. There is no doubt that the Indian economy recorded plenty of achievements over the last 25 years. If the size of an

economy provides the first impression of a country's political and economic strength, then India has indeed grown since 1991. The nominal GDP that stood at INR 5,86,212 crore in 1991, was pegged at INR 1,35,76,086 crore in 2016, representing a 22-fold increase. To sum it up, whenever required, India always stands united as a nation to solve the problems that stand in front of her. "No power on earth can stop an idea whose time has come," stated then Finance Minister Manmohan Singh while presenting the Union Budget in July 1991 this is the spirit and energy we need now.