BUSINESS ENVIRONMENT

UNIT-2

PART-III

Crisis of 1991 Forced India for Financial help from IMF and World Bank

To manage the economic crisis of 1991, Indian Government approached for loan from:

- International Bank for Reconstruction and Development (IBRD), popularly known as World Bank (to facilitate lending for reconstruction and development); and
- International Monetary Fund (IMF) (to avail short-term loans to solve Balance of Payments problem).

India availed $7 billion loan from these agencies as loan. Dr. Manmohan Singh was the Indian

Finance Minister in 1991 and he was greatly acknowledged for his capabilities to steer away

the economic crisis looming large on the Indian Economy.

For availing the loan, these international agencies expected India to liberalise and open up the economy by:

- Removing restrictions on the private sector;
- Reducing the role of the government in many areas; and
- Removing trade restrictions.

India agreed to the conditions of World Bank and IMF and announced the New Economic Policy.

NEW ECONOMIC POLICY OR ECONOMIC REFORMS SINCE 1991

It was increasingly realised that many of the controls and regulations on economic activities had outlived their usefulness and were in fact hampering, rather than helping, growth and development. The need was, therefore, to give priority to restore macro-economic stability and to bring the economy back on the path of rapid and equitable economic growth.

Meaning and Objectives

NEW ECONOMIC POLICY

A set of stabilisation and structural adjustment measures started from July 1991 in response to the emerging economic crisis is termed as New Economic Policy (NEP) or 'New Economic Reforms'.

Since independence, India followed the mixed economic system, by combining the advantages of the market economic system (capitalist economy) with those of the planned economic system (socialist economy).

But, in reality, the public sector dominated the control and regulation of our economy and private sector was ignored. There was a huge investment in the public sector and very low investment in the private sector. The dominance of public sector for about 4 decades led to establishment of various rules and laws, which hampered the process of growth and development.

According to some scholars, the increasing role of public sector has helped Indian economy to:

i. Achieve growth in savings;
ii. Develop a diversified industrial sector, and
iii. Achieve food security through sustained expansion of agricultural output.

COMPONENTS OF NEW ECONOMIC POLICY - MEASURES TAKEN

The new economic policy measures initiated by the government have three components, namely, L.P.G. which means Liberalisation; Privatisation and Globalisation. These are discussed below:

COMPONENTS OF NEW ECONOMIC POLICY

- LIBERALISATION (Greater autonomy to private sector)
- PRIVATISATION (Transfer of ownership, management and control of public sector to private sector)
- GLOBALISATION (Integrating domestic economy with world economy)