Chapter-VII

Concluding Remarks: Recommendations, Challenges and the Way Forward

William Hazlitt, the 18th century English social commentator and philosopher, said that *"prosperity is a great teacher; adversity a greater."* Similarly, Robert Collier, an American author of self-help, remarked that *"in every adversity there lies the seed of an equivalent advantage"*. These ideas seem far more truthful in case of Indian economic reforms which were catapulted by adversities of 1991. There is a vast academic body of literature on the impact of economic reforms in India. There is a general agreement amongst economists that economic reforms, undertaken from 1991 till date, have facilitated the rise of Indian economy from low-growth trajectory to high-growth trajectory, and there is also general understanding that these reforms have contributed in raising the living standard of a section of Indian society. However, whether the growth of Indian economy has been inclusive or not, is a debatable issue.

There has been a lot of research to identify the drivers or sources of economic growth in Indian economy. Some of the literature has been reviewed in this dissertation and the analysis of macroeconomic indicators show that following have been the main contributors of economic growth in Indian economy:

a) Reforms improved efficiency and brought foreign investment to the country, and allowed sectors such as information technology which gave a huge push to the economy as whole and service sector in particular.

b) Rise in the Gross Capital Formation (GCF) played a significant role in propelling the growth of Indian economy. There had been consistent increase in Gross Capital Formation (GCF) as percentage of GDP from 1980-81 to 2002-08. In 1980-81 GCF was just 18 percent of GDP which increased to 38 percent in 2007-08. The period from 2003-04 to 2007-08 witnessed a sharp rise in GCF. During this period GFC rose from 26 percent in 2003-04 to 38 percent in 2007-08. It is no coincidence that it is this period when Indian economy registered the highest rate of growth of GDP. During this period average growth rate of GDP was around 9 percent.

c) India's Gross Domestic Saving as percentage of GDP was 17-18 % in 1980-81 which increased to around 20-21 in 1990-91, 37 % in 2007-08. At disaggregated level, the Household savings have been the bedrock of domestic savings in India, exhibiting a steady increase over the years. This reached about 22 per cent of GDP during 1997-2003 and ascended further to just under 24 per cent during 2008-12. A distinguishing feature of the *golden era* of growth (2003-08) was the dramatic increase in private corporate savings from 3.9 per cent of GDP during 1997-2003 to about 7.8 per cent during 2008-12.

d) Fiscal deficit is said to be one of the important variables to have an influence on output growth. The central government has been trying to keep the fiscal deficit in the manageable range. However, further fiscal consolidation is very much needed.

e) During the reform period, India's foreign trade (both exports and imports) flourished and trade as percentage of GDP stood at over 56 percent during 2011-13 as against 15 -16 percent during early nineties. There has been exponential growth of India's trade between 1991 and 2013-14.

f) In beginning of 1990-91 inflow of FDI was non-existent. Thereafter Indian economy received considerable inflow of FDIs which contributed to the productive capacity of economy.

g) The growth of services sector has been the cornerstone of India's economic growth story. The share of the services sector in the gross domestic product (GDP) of India is one indicator of the importance of the services sector to the economy of India. The services sector currently accounts for more than half of India's GDP. In 1980s, trade in services was just 3 percent of GDP. But in the period from 1991 to 2007 the trade in services increased to 14 percent of GDP.

I. Recommendation:

a) Since 2007-08, there is declining trend in the gross domestic savings as a whole and the cause of greater concern is that household savings have also been declining which has been financing the investments. So there is a need to incentivize the household savings. Of late there has been cut in the interest rates of long-terms saving schemes like Public Provident Fund which should be reconsidered by the government with a view to encourage long-term saving schemes.