

Transformation of the Indian Economy: An Assessment of Policy Reforms, Macroeconomic Trends, and Recovery Pathways in the Post-Liberalization Era

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Abstract

The economic policy in India has gone through four stages since the balance of payments crisis in 1991, liberalisation and stabilisation, high growth and welfare expansion, institutional and tax reform (2014-2019) and response and recovery towards pandemic (2020-2023). The article delves into the economic performance during each phase based on the annual data from 1991 to 2023, sourced from the World Bank's World Development Indicators, along with fiscal and monetary data from the Government of India and the Reserve Bank of India. Averages, analysis of variance, Welch t test and regression with Newey–West standard errors are used. Real GDP increased by 6.1% per annum, on average, and was 6.9 times higher in 2023 than in 1990. The difference between average growth prior to and following flexible inflation targeting was not significant, while the average difference in the inflation was significantly different between the two periods (7.8% prior to flexible inflation targeting and 5.0% after). The proportion of services in GDP has increased from 37.8% to 47.6% and manufacturing has dropped from 15.7% to 13.3%. Over the last ten years, capital expenditure grew by nearly five times resulting in a fiscal deficit of the Union government coming down from 9.2% of GDP in 2020-21 to 5.6% in 2023. Year-to-year growth is associated with fluctuations in the investment rate, NOT its level. The article concludes with suggestions on manufacturing, fiscal consolidation, investment and employment.

key words : Indian economy, Economic reforms, Monetary policy, Fiscal policy, inflation targeting, Structural change.

1. Introduction

In June of 1991, India's foreign exchange reserves were enough to cover just two or three weeks of imports. In July, the government devalued the rupee in two stages and gave a pledge to raise emergency loans using the backing of gold, besides announcing an industrial policy where licensing was scrapped in most industries. These measures marked the beginning of a shift in economic policies which has been ongoing for over 30 years in varying degrees of intensity and focus. The economy that has come out of the crisis is far different from the one that went into it. Today, the country's gross domestic product (GDP) is valued at USD 3.50 trillion, income per capita at USD 2,434, and foreign exchange reserves exceed USD 628 billion, rising from USD 270 billion in 1991, USD 306 in income per capita, and less than USD 8 billion in foreign exchange reserves (World Bank, 2023). There are four phases that can be distinguished. The former from 1991 to 2003 has included the abolition of industrial licensing, tariff cuts, opening the economy to foreign investors, introducing a market-determined exchange rate and, in 2003, fiscal rules under the Fiscal Responsibility and Budget Management Act. The second is from 2004 to 2013, during which the country's history witnessed the fastest growth up to 2008, a large increase in rights-based welfare spending like the rural employment guarantee law of 2005 and the food security law of 2013, fiscal stimulus after the global financial crisis and, later on, high inflation, growing current account deficit and pressure on the rupee in 2013. The third period (2014-2019) saw the institutional changes. NITI Aayog has replaced the Planning Commission in 2015. The Reserve Bank of India (RBI) was assigned an inflation target of 4% with a margin of two percentage points either side and a Monetary Policy Committee was established in 2016. The Insolvency and Bankruptcy Code came into the picture in 2016, high denomination currency notes were pulled in November 2016, and Goods and Services Tax (GST) replaced the

majority of central and state indirect taxes in July 2017. The public sector banks were recapitalised, corporate tax rates were reduced in September 2019. The fourth phase started with the national lockdown in March 2020. It brought together relief along with credit guarantees under the Atmanirbhar Bharat package, production-linked incentives for manufacturing, a significant boost to public capital expenditure and, from May 2022, a monetary policy that tightened up to curb the inflation. There is broad consensus that the reforms accelerated India's growth rate, but not so much on the best policies, the distribution of the gains, or the failure of manufacturing to grow like it did in East Asia. A lot of this can be related to specific episodes. A reader who wants to draw comparisons between the different phases on a common basis of indicators, extended to the latest years, has fewer sources to choose from. This article offers such a comparison for 1991-2023. It surveys literature, identifies the research gap and goals, explains the data and method, includes five tables of data with interpretive statements and offers findings, suggestions, limitations and a conclusion.

Statement of the problem.

Specific goals were set during the introduction of each phase of policy - faster growth in the first phase; inclusion in the second; formalisation and price stability in the third; and resilience and self-reliance in the fourth phase. However, if average growth has been the same in each phase, then that means the differences lie elsewhere – in inflation, in the mix of output, in public finances or in the external accounts – and policy debate should focus more on those differences.

Need for and significance of the study.

There are multiple audiences for a comparison of phases on common indicators. There is a need for a short and up-to-date book on the Indian economy with greater focus on the post-1990 reforms period. It is very useful for policy makers to have information about the outcomes that have actually changed with policy and those that have not. There is a need for baseline data to support more in-depth studies of individual measures.

Scope of the study.

The study is about the macroeconomic policy and performance at the national level: growth, prices, investment, the structure of output, the finances of the Union government, monetary policy and the external sector. It covers the period from 1991 to 2023. There is no consideration of the finances of the states, no description of sectoral policies in detail, nor any examination of outcomes in employment, poverty and inequality, although where the literature addresses these matters, there is reference to these.

2. Review of Literature

The most careful account of the logic of Indian planning, where investment was directed by the state towards heavy industry behind high tariffs, was provided by Chakravarty (1987). Bhagwati (1993) had contended that low productivity, slow growth and the necessity of liberating the Indian economy were the result of the system of licences and controls. Joshi and Little (1996) examined the first five years of reform and found that stabilization had been successful, but that fiscal adjustment and public sector reform was still incomplete. The main issue is when. Delong (2003) and Rodrik and Subramanian (2005) noted that growth had already picked up in the 1980s, prior to the 1991 reforms, and explained the increase as a change in the attitude of government to business. Panagariya (2008) responded that the growth of the 80s was fragile, was propped up by borrowing which caused the crisis and that only the systematic reforms of 1990s enabled faster growth to be sustainable. Kotwal et al. (2011) summarized the evidence and found that while liberalization was important, it took a long time for workers in agriculture and informal activity to reap the benefits, especially for liberalized services and firms that could access imported technology. Ahluwalia (2002) reviewed the first decade and supported the gradualism but noted that reforms on labour law, agriculture and infrastructure were lagging. Data from companies and industrial establishments. Research on firms and states has pinpointed the ways in which reform was effective. Aghion et al. (2008) discovered that the output for the same reform is different in states with different types of labour regulation, with flexible regulation leading to an increase in output and rigid regulation leading to a decrease. Previously, Besley and Burgess (2004) had demonstrated that states that liberalised labour law in favour of workers had a negative impact on output, employment and registered manufacturing investment. Dr. Naveen Prasadula (2023) detected that lower tariffs boosted the productivity of firms,

both directly and indirectly via competition and lower input prices, while Goldberg et al. (2010) demonstrated that the access to imported inputs allowed firms to produce new products. Hsieh and Klenow (2009) estimated that the productivity losses in India from capital and labour misallocation in manufacturing were significant, suggesting there was still a significant potential for productivity gains from policies which permit efficient plants to expand. In contrast to China, India's growth since 1993 has been more a result of the growth of productivity in services than in industry, as shown by Bosworth and Collins (2008). Kochhar et al. (2006) attributed this to the policies in place prior to 1991 which had been more skill-friendly than labour-friendly manufacturing. The progressive increase of savings and investment has been stressed by Mohan (2008) as the cornerstone of growth and Basu and Maertens (2007) have examined the importance of investment, reforms and infrastructure. The general framework is obtained from cross-country research. Fischer (1993) demonstrated that there is a relationship between high inflation and low growth and between large fiscal deficits and low growth, and Levine and Renelt (1992) assessed that the ratio of investment to GDP was the most significant growth correlate out of the many variables they analyzed. Bhagwati and Panagariya (2013) said that growth has been the primary driver of poverty reduction and redistribution relies on the revenue growth produces. Drèze and Sen (2013) argued that India's performance in the fields of health, education and nutrition has been inadequate given its income and growth has not been as effective in generating social progress as in some poorer neighbours.

3. Research Gap

The review identifies three gaps. First, most important assessments of Indian economic policy were done prior to the institutional changes of 2016-2017 and the pandemic, and these were not done during periods of most stringent tests of fiscal or monetary policy. Second, research studies of recent years tend to focus on a single policy, e.g., demonetisation, GST or inflation targeting and do not compare the overall picture of the past years with the earlier years. Third, when one phase is compared with another, the result is generally based upon the average growth for each and not upon whether the difference is beyond what is normally to be expected from year to year. The present study fills these gaps by creating a consistent set of indicators for the 1991–2023 timeframe, separating the timeframe into four policy phases, and using a simple statistical test to the comparison.

The objectives of the study are:

1. To understand the evolution of Indian economic policies in the period 1991 to 2023 and the key stages of it.
2. To compare growth, inflation, investment and external indicators across the phases of the policy.
3. To analyze the shift in the pattern of output and in external economic orientation.
4. To evaluate the position of fiscal and monetary policy, and the external sector performance for the period 2014–2023.
5. To provide an estimation of the relationship of GDP growth with investment, inflation and trade openness, and to provide suggestions for policy.

The following hypotheses were tested.

- H1: there is a significant difference in the average real GDP growth between the four policy phases.
- H2 : After flexible inflation targeting, average consumer price inflation is much smaller than it was before flexible inflation targeting.
- H3: There is strong positive association between investment and growth of real GDP.
- H4: There is a strong negative relationship between real GDP growth and inflation.
- H5: There is a significantly positive relationship between trade openness and real GDP growth.

5. Research Methodology

The study is descriptive and analytical and relies solely on secondary data.

The study covers the 33 years from 1991 to 2023. The year of the balance of payments crisis and the initial reform measures is taken as the starting year. The fiscal and monetary indicators in Table 3 are for ten financial years (2014–15 to 2023–24). Real GDP growth, Consumer price inflation, Gross fixed capital formation, trade, exports, current account balance, foreign direct investment, sectoral composition of value added, GDP and GDP per capita and international reserves data were sourced from World Development Indicators (World Bank, 2023) accessed in October 2023. It was decided to use just one international source to ensure uniformity of definitions throughout the entire period. Data on fiscal deficit and capital expenditure of the Union government and gross GST collections were sourced from the Union Budget documents and the Economic Survey (Ministry of Finance, 2023), whereas that for the policy repo rate was sourced from RBI (2022). The period was divided into four phases on the basis of the main shifts in policy described in the introduction: Phase I, 1991–2003 (13 years); Phase II, 2004–2013 (10 years); Phase III, 2014–2019 (6 years); and Phase IV, 2020–2023 (4 years). The division is a device for comparison. Policies can overlap from one phase to another, and the result in any year will be influenced by past policy and circumstances, as well as current policy.

Tools of analysis.

The one-way analysis of variance is used to test if there is a difference between the mean of the four phases and the Welch t test is used to compare the difference between two periods with different variances. The Pearson's coefficient is a measure of correlation. Ordinary least squares is used to estimate the relationship between growth with investment, inflation and openness in two ways. Model A is based on the level of the explanatory variables. The ones used in Model B are the annual changes of the investment rate and the trade openness because they have strong trends and are highly correlated with each other in level ($r = .88$). Dummy variable for 2020 is included in both models. The Newey-West method is used to compute standard errors that are robust to heteroscedasticity and autocorrelation in annual data with two lags. The 5% level of significance is used, which means a null hypothesis of no difference or no relationship is rejected if the p value is less than .05. National accounts are revised from time to time and the series used here have been updated with the latest revisions at the time of retrieval. Recent years' growth rates may thus differ from those previously estimated in official publications. For instance, the Economic Survey projected the growth for 2023–24 at 8.2% (Ministry of Finance, 2022) while the series adopted here indicates 7.2%.

6. Data Analysis and Interpretation

Evolution of policy, 1991–2023. The first objective is dealt with by a short description of each phase. Phase I saw the government remove industrial licensing for all but an abridged list of industries and a cutback in the number of industries reserved for the public sector, and also allow foreign investment of up to 51% in a host of industry sectors without requiring case-by-case approval. The maximum customs duty rate, which has been above 300% in 1991, was gradually reduced to 25% in 2003-04. In 1993, the exchange rate was unified and was left to the market, and the rupee was made convertible on the current account in 1994. In 1992, the Securities and Exchange Board of India was empowered, in 1993, private banks were licensed and in 2003 the phase came to a close with the Electricity Act and Fiscal Responsibility and Budget Management Act. Phase II extended the tariff decreases (up to 10% by 2007-08) and provided a legal regime for special economic zones in 2005. The unique aspect of it was the inclusion of the legislation on entitlements, namely the Rural Employment Guarantee Act (2005), the Right to Education Act (2009) and the Right to Food Act (2013). Farm debt waiver and a fiscal stimulus occurred after the global financial crisis and the Union fiscal deficit is increased from 2.5% of GDP in 2007-08 to 6.0% in 2008-09 and 6.5% in 2009-10. During the years 2009-13, inflation remained around 10%, the current account deficit was at a record high in 2012-13, and the rupee declined significantly in mid-2013. This was the stage where the biometric identity program started and also direct transfer of benefits to bank accounts was initiated in 2013.

Phase III started with deregulation of diesel price in 2014 and raising the central taxes devolved to States on diesel from 32% to 42% on the recommendations of the Fourteenth Finance Commission. Foreign investment in insurance has been increased, and a law to regulate real estate passed in 2016. The most far-reaching measures were the

inflation-targeting regime, the withdrawal of currency notes of denominations of ₹500 and ₹1,000, accounting for some 86% of the value of the currency in circulation, and the GST, which was launched with four rates. The government had announced a recapitalization of public sector banks of ₹2.11 lakh crore in 2017 and mergers of public sector banks in 2019 which reduced them to 12. The slowdown in growth and stress of non-bank finance companies happened after the default of a large infrastructure lender in 2018. The corporate tax basic rate has been reduced to 22% with the rate 15% for newly established manufacturing companies from 30% effective September 2019. On 25 March 2020, the lockdown started Phase IV. The Atmanirbhar Bharat package, worth approximately ₹20 lakh crore (including the liquidity measures of the RBI) announced in May 2020, primarily depended on the credit guarantee to small businesses and free distribution of foodgrains to approximately 80 crore population. PLI scheme was announced for 14 sectors with an outlay of Rs.1.97 lakh crore. In 2021, the National Monetisation Pipeline and PM Gati Shakti plan for infrastructure were introduced, Air India was privatized in January 2022 and states were provided long-term interest-free loans for capital projects. The RBI has hiked the repo rate by 250 basis points since May 2022 to February 2023. In 2022, India had emerged as the fifth largest economy of the world.

Table 1

Macroeconomic Indicators by Policy Phase, 1991–2023 (Annual Averages)

Phase	Years	GDP growth, % (SD)	Inflation, %	GFCF	Trade	CAB	FDI
Phase I: 1991–2003	13	5.58 (2.15)	7.88	25.9	23.4	−0.64	0.56
Phase II: 2004–2013	10	6.81 (1.73)	7.98	33.4	48.5	−2.17	1.86
Phase III: 2014–2019	6	6.80 (1.59)	4.59	28.8	42.5	−1.31	1.76
Phase IV: 2020–2023	4	4.68 (7.06)	6.03	30.3	45.1	−0.79	1.54
Whole period: 1991–2023	33	6.06 (2.87)	7.09	29.3	37.1	−1.24	1.29

Note : GFCF = gross fixed capital formation, CAB = current account balance, FDI = net inflows of foreign direct investment; last four columns are percentages of GDP. Analysis of variance across phases: GDP growth, $F(3, 29) = 0.77$, $p = .519$; inflation, $F(3, 29) = 2.28$, $p = .100$; GFCF, $F(3, 29) = 35.07$, $p < .001$. Based on Author's calculations from World Bank (2023).

Interpretation : In Phase II, the average growth increased to 6.81%, and it had almost the same growth (6.80%) in Phase III compared to Phase II. The average for Phase IV is dragged down by the contraction of 5.8% for 2020, while the three years since has seen an average growth of 8.2%. The results of ANOVA indicate that the difference in the mean growth for the four phases is not statistically significant ($p = .519$), thus H1 is not supported. There is considerable variation within each phase and the standard deviation for Phase IV (7.06) is approximately four times that of the two previous phases. Other differences in the phases are more evident. The average of the first two stages was around 8% and the third stage was 4.6%. The investment rate increased from 25.9% of GDP in Phase II to 33.4%, dropped to 28.8% in Phase III and bounced back marginally to 30.3% (significant differences). The share of trade in GDP has doubled between the two phases, but has not increased since. The current account deficit was the highest in Phase II.

Table 2

Structure of Output and External Indicators in Selected Years

Indicator	1991	2001	2011	2019	2023
Share in GDP (%)					
Agriculture, forestry and fishing	27.7	21.6	17.2	16.8	17.7
Industry, including construction	26.4	26.5	30.2	24.6	25.6
of which manufacturing	15.7	15.3	16.1	13.5	13.3
Services	37.8	43.8	45.4	50.1	47.6
Exports of goods and services	8.5	12.6	24.5	18.7	22.4
Size and reserves					
GDP (USD billion, current prices)	270	485	1,823	2,836	3,501
GDP per capita (USD, current prices)	306	450	1,445	2,041	2,434
International reserves (USD billion)	7.6	49.1	298.7	463.5	627.8

Note. Sectoral shares are value added as a percentage of GDP and do not sum to 100 because GDP includes net taxes on products. Reserves include gold. Data from World Bank (2023).

Interpretation: The share of agriculture in GDP fell from 27.7% in 1991 to 17.2% in 2011 and has changed little since; it was 17.7% in 2023. The proportion of services increased by nearly 10 percentage points, from 37.8% to 47.6%, reaching its highest level in 2019 at 50.1%. The industry share is about the same as it was in 1991, but manufacturing has decreased from 15.7% to 13.3%. The economy has therefore transitioned from agriculture to services without the phase of manufacturing intervening as observed in the East Asian economies and the goal of making manufacturing 25% of GDP as stated in National Manufacturing Policy 2011 and reiterated under Make in India has not been taken up. Overall, exports increased from 8.5% of GDP in 1992 to 24.5% in 2011 and 22.4% in 2023, suggesting that integration towards the world economy had accelerated for the last two decades before stabilizing. GDP grew by approximately 13 times, income per capita grew approximately 8 times and reserves grew from USD 7.6 billion to USD 627.8 billion (in dollar terms).

Table 3

Fiscal and Monetary Indicators of the Union Government and the Reserve Bank of India, 2014–15 to 2022 - 2023

Financial year	Fiscal deficit (%) of GDP)	Capital expenditure (₹ lakh crore)	Gross GST collection (₹ lakh crore)	Repo rate at end-March (%)
2014–15	4.1	1.97	—	7.50
2015–16	3.9	2.53	—	6.75
2016–17	3.5	2.85	—	6.25
2017–18	3.5	2.63	7.19 ^a	6.00
2018–19	3.4	3.08	11.77	6.25
2019–20	4.6	3.36	12.22	4.40
2020–21	9.2	4.26	11.37	4.00
2021–22	6.7	5.93	14.83	4.00
2022–23	6.4	7.40	18.08	6.50
2023–24	5.6	9.49	20.18	6.50

Note : One lakh crore = one trillion. Fiscal deficit and capital expenditure are actuals for the Union government. GST was introduced on 1 July 2017. ^aAugust 2017 to March 2018. Data from Ministry of Finance (2023).

Interpretation : The fiscal deficit of the Union government has been brought down from 4.1 percent of GDP in 2014-15 to 3.4 percent of GDP in 2018-19 which is very near to the fiscal responsibility law that prescribes a fiscal deficit of 3 percent of GDP. It peaked at 4.6% in 2019–20, due to revenue shortfall after the corporate tax cut, and was 9.2% in 2020–21, when revenue plummeted and pandemic relief spending rose. It has since been brought down each year, to 5.6% in 2023–24, which is still above the level before the pandemic. There was a significant shift in the makeup of expenditure. Capital expenditure rose from ₹1.97 lakh crore in 2014–15 to ₹9.49 lakh crore in 2023–24, an increase of 4.8 times, and it grew at a compound rate of about 30% a year after 2019–20. GST collections in 2020-21 dropped and increased from Rs 11.37 lakh crore to Rs 20.18 lakh crore in three years; the growth rate over the last five years (from 2018-19) was 11.4% per year. From March 2015, the economy started off with a repo rate of 7.50 per cent, which was reduced to 4.00 per cent during the Covid pandemic and increased to 6.50 per cent in February 2023 to combat the rising inflation. The average inflation rate over the longer term was 7.75% for 1991-2015 and 5.01% for 2016-2023 following the introduction of the inflation target. The difference was statistically significant (Welch $t = 3.49$, $p = .002$), with a decrease in the standard deviation from 3.21 to 1.28. H2 is supported.

Table 4

External Sector Indicators and GDP Growth, 2014–2023

Year	GDP growth (%)	Exports (% of GDP)	Trade (% of GDP)	CAB (% of GDP)	FDI (% of GDP)	Reserves (USD billion)
2014	7.4	23.0	48.9	−1.3	1.7	325.1
2015	8.0	19.8	41.9	−1.1	2.1	353.3
2016	8.3	19.2	40.1	−0.5	1.9	361.7
2017	6.8	18.8	40.7	−1.4	1.5	412.6
2018	6.5	19.9	43.6	−2.4	1.6	399.2
2019	3.9	18.7	39.9	−1.0	1.8	463.5
2020	−5.8	18.7	37.8	1.2	2.4	590.2
2021	9.7	21.4	45.4	−1.1	1.4	638.5
2022	7.6	24.0	50.7	−2.4	1.5	567.3
2023	7.2	22.4	46.3	−0.9	0.8	627.8

Note. CAB = current account balance; FDI = net inflows of foreign direct investment. National accounts ratios refer to the financial year beginning in the year shown. Data from World Bank (2023).

Interpretation. Exports fell from 23.0% of GDP in 2014 to 18.7% in 2019, during a period of weak world trade and lower oil prices, and recovered to 24.0% in 2022 before easing to 22.4% in 2023. Total trade followed the same course. The current account was in deficit in every year except 2020, when imports collapsed during the lockdown and a surplus of 1.2% of GDP was recorded. The deficit widened to 2.4% in 2022, when the price of imported oil rose after the outbreak of war in Ukraine, and narrowed to 0.9% in 2023. Throughout the decade it remained far below the 5.0% of 2012 that preceded the currency pressure of 2013. Net inflows of foreign direct investment were between 1.4% and 2.4% of GDP until 2022 and fell to 0.8% in 2023, the lowest ratio since 2004. Reserves almost doubled, from USD 325.1 billion to USD 627.8 billion, with a fall in 2022 when the RBI sold dollars to steady the rupee. The external position was thus more secure at the end of the decade than at its beginning, while the weakening of direct investment inflows is a point of concern.

Table 5

Regression of Real GDP Growth on Investment, Inflation and Trade Openness

	Model A: levels			Model B: annual changes		
Predictor	<i>B</i>	<i>SE</i>	<i>p</i>	<i>B</i>	<i>SE</i>	<i>p</i>
Constant	5.672	3.155	.083	6.248***	0.870	< .001
Investment rate	−0.004	0.156	.978	0.516*	0.224	.029
CPI inflation	−0.103	0.126	.418	0.049	0.097	.616
Trade openness	0.044	0.053	.412	−0.118	0.096	.231
Pandemic year (2020 = 1)	−12.299***	0.480	< .001	−12.021***	0.451	< .001
Observations	33			32		
<i>R</i> ² (adjusted <i>R</i> ²)	.599 (.542)			.687 (.641)		
<i>F</i> statistic	10.46***			14.85***		
Durbin–Watson	1.82			1.58		

Note. Dependent variable: real GDP growth (%). In Model A the investment rate and trade openness are percentages of GDP; in Model B they are the changes in those percentages from the previous year. Period: 1991–2023 for Model A and 1992–2023 for Model B. Newey–West standard errors with two lags. * $p < .05$. *** $p < .001$. Author's calculations from World Bank (2023).

Interpretation. In Model A, which relates growth to the levels of the explanatory variables, none of the three is significant. The level of the investment rate, the rate of inflation and the degree of openness in a given year do not explain why that year's growth was high or low. The only significant term is the dummy variable for 2020, which shows that growth in that year was about 12 percentage points below what the other variables would predict. Model B gives a different result for investment. A rise of one percentage point in the investment rate from one year to the next is associated with growth that is 0.52 percentage points higher ($p = .029$). Changes in trade openness and the rate of inflation remain insignificant. Model B explains 68.7% of the variation in growth, much of it through the pandemic dummy, and its residuals are consistent with normality (Shapiro–Wilk $W = .978$, $p = .750$). When the dummy variable is omitted, the coefficient on the change in investment in Model B rises to 0.70 and remains significant ($p = .045$), although the model then explains only 12% of the variation in growth, which shows that the result for investment does not depend on the treatment of the pandemic year. H3 is therefore supported for changes in investment and not for its level; H4 and H5 are not supported. The simple correlations tell the same story: growth is correlated at .25 with the investment rate, −.12 with inflation and .19 with trade openness, and none of these coefficients is significant.

7. Findings

1. Real GDP grew at an average rate of 6.1% a year over 1991–2023, and real output in 2023 was about 6.9 times its level in 1990.
2. The average growth is 5.6% in Phase I, 6.8% in Phase II, 6.8% in Phase III and 4.7% in Phase IV and the differences are not statistically significant.
3. The variation in Phase IV growth was much higher than in all previous phases, due to the downtrend of 2020 and the recovery of 2021.
4. Following the implementation of flexible inflation targeting, inflation rates were also considerably lower and more stable (in 2016–2023, the average was 5.0%, compared with 7.8% in 1991–2015).
5. The investment rate peaked in Phase II at an average of 33.4% of GDP and was 28.8% in Phase III and 30.3% in Phase IV.
6. GDP's share of services increased from 37.8% to 47.6%, while manufacturing's share of GDP decreased from 15.7% to 13.3%.
7. Exports rose from 8.5% of GDP in 1991 to a peak of 25.4% in 2013 and were 22.4% in 2023.

8. The Union fiscal deficit has also seen a decline from 3.4% of GDP in 2018–19 to 5.6% by 2023, and likewise, the capital expenditures have grown 4.8 times in the last ten years.
9. In 2023, net inflows of FDI dropped to 0.8% of GDP, while the current account deficit remained at less than 2.5% of GDP in 2014–2023 and the reserves increased by nearly 100%.
10. Growth from one year to the next is strongly associated with the investment rate growth and not with the level of the investment rate, inflation or trade openness.

The hypothesis H1 that the average growth is different for each of the four phases is rejected. The hypothesis, H2, that inflation is less after the adoption of inflation targeting, is supported. H3, on investment, is supported when investment is measured as an annual change, as opposed to a level measure. Inflation and trade openness (H4 and H5) are not supported.

Discussion.

It is important to note that average growth is not significantly different between phases. That doesn't mean that policy had no impact. In all the phases since 1991, growth has been much higher than the rate of 3.5% per decade in the three decades after independence, to which the literature of reform refers. What the result demonstrates is that neither phase of the reform period has an appreciably different growth history than the other, given ordinary variation. This is in line with the idea that the reform in India has been gradual and cumulative. The decrease in inflation following 2016 is in line with the evaluation of Eichengreen et al. (2020), with lower oil costs in 2014–2016 also playing a role. The structure change corroborates the findings of Kochhar et al. (2006) and Bosworth and Collins (2008) that India's growth is being driven by services and that this trend has continued under the manufacturing push of the past decade. The regression result of investment is consistent with the importance of capital formation asserted by Mohan (2008) and Levine and Renelt (1992) but with the proviso that in annual data it is the faster growth which is accompanied by an increase in the rate of investment. The absence of a link between inflation and growth is not surprising given the lack of such a relationship in the cross-country study of Fischer (1993): in India, the level of inflation has not often been high enough to impact growth. There is one implication for employment which is not revealed by the output data, namely that the pattern of services is likely to persist. In the first 20 years of reforms, Kotwal et al. (2011) noted that the upward trend in service shares of GDP could co-exist with a large share of the workforce in agriculture, because modern services, such as software and finance, create high value added per worker and employ comparatively few people. The level of capital expenditure was increased, and the deficit reduced, reducing the proportion of revenue expenditure in the budget. The burden of the pandemic continues to be a stock of debt. The liabilities of the central government, about 48% of GDP in 2016–17, rose to about 61% in 2020–21 and were still about 57% in 2023 (Ministry of Finance, 2023).

8. Suggestions

1. The decline in its share of GDP indicates that the bottlenecks are logistics and power prices and reliability, the availability of industrial land, regulation of labour, and the size of most firms. Four labour codes passed in 2019 and 2020 have not been operationalised and their implementation with the states is crucial for companies looking to expand.
2. The fiscal consolidation efforts should be continued to reach the deficit target of less than 4.5% of GDP by 2022, and then to reduce the debt to GDP ratio, by broadening the tax base and rationalization of subsidies, while maintaining the recent improvement in the share of capital expenditure.
3. Growth reacts to investment rate increases so policy should focus on bringing back private investment, which hasn't kept up with the increase in public capital expenditures. Stable tax provisions and timely government dues and quicker resolution under the Insolvency and Bankruptcy Code would help.
4. In 2023, the GST also had several rate slabs and certain goods like petroleum products and electricity were still not covered under the GST. A lower cost for manufacturers and exporters would be achieved by a simpler rate structure and a broader base.
5. Since 2013, exports of goods are not commensurate with GDP. Reducing tariff rates on intermediate products, tariff commitments with key markets and more streamlined customs clearance would facilitate integration in global value chains.

6. The reduced inflows of foreign direct investment also warrant a reversion on the conditions investors have encountered such as regulation and contract enforcement predictability.
7. The purposes of the inflation-targeting framework have been served and should be kept. Investment in food storage, irrigation and agricultural markets would make the target easier to meet as much of the variation in the Indian inflation is caused due to food price.
8. The services driven growth has left a large workforce in the agriculture and informal sector. Increase public investment in health, schooling and skill development to facilitate more transition of workers to productive jobs.
9. The GST can be simplified and the tariff on inputs can be reduced, payment of government dues can be made promptly, all of which can be done in a budget cycle.

limitations in the study.

It is based on secondary data and the national accounts are subject to revisions and suffer from doubts about comparability, both before and after the change of methodology in 2011–12 (Subramanian, 2019). This is a matter of judgment and other dates could be used for the divisions of phases. The length of the phases is not equal and the final phase is comprised of four years, one of which was exceptional. A sample of only 33 annual observations has limited statistical power and a nonsignificant difference does not mean that there is no difference. The regressions are statements of association, and not of causation; investment may increase because growth is anticipated and policy responds to the situation and shapes it as well. It only examines the Union government, and national aggregates, and excludes employment, poverty and inequality, on which policy also has to be judged. External events (Asian crisis, global financial crisis, oil prices and the pandemic) also impacted outcomes in each phase, and the study does not distinguish between those impacts and the impacts of domestic policy. Future studies might apply quarterly data and time-series analysis techniques with tests for structural change, and incorporate indicators of employment and household consumption once they are available in the next surveys.

10. Conclusion

Over the 33 years from 1991 to 2023 India's economy grew about seven-fold in real terms and became one of the largest in the world. Throughout four phases of policy with widely divergent priorities, analysis in this article indicates the growth has continued at a fairly consistent average rate. There are differences between the phases in terms of what accompanied growth. First established external stability and opened the economy. The second peaked investments and trade and concluded with high inflation and a large external deficit. The third reduced inflation and revamped the indirect tax regime, with reduced investment rate. The fourth took the biggest hit in recent economic history in this country, and brought growth back on board by putting out public capital spending, while at the same time working on reducing the fiscal deficit. Two aspects have remained throughout the four phases and characterize the agenda that remains. No increase has been achieved in the shares of manufacturing in the output, and the economy has been transformed from agriculture to services without large-scale creating of industrial jobs. And growth has depended on rising investment, which in recent years has come mainly from the public sector. The effects of policy up to 2023 have been to secure macro-economic stability in prices, external accounts and increasingly in the public finances. The challenge for the coming years is to leverage that stability to create the growth in private investment, manufacturing and jobs that the previous stages failed to deliver.

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