

Meaning, future and objectives of new industrial policy

Meaning of New Industrial Policy

The New Industrial Policy of India refers to the policy reforms introduced by the Government of India in July 1991 to improve industrial growth, increase efficiency, encourage private investment, attract foreign capital and make Indian industries competitive in the global market.

The policy marked a major shift from excessive government control towards liberalisation, privatisation and globalisation (LPG).

LPG stands for:

- - Liberalisation: Reduction of unnecessary government restrictions on business and industry.
- - Privatisation: Increasing the role of private enterprises in economic activities.
- - Globalisation: Integrating the Indian economy with the world economy through trade, investment and technology.

Objectives of the New Industrial Policy

- Industrial growth: To accelerate the growth and development of Indian industries.
- Liberalisation: To reduce unnecessary licensing and regulatory controls.
- Private sector development: To encourage private enterprises and entrepreneurship.
- Foreign investment: To attract foreign direct investment (FDI) and advanced technology.
- Global competitiveness: To improve the quality, productivity and competitiveness of Indian products.
- Employment generation: To create more employment opportunities through industrial expansion.
- Modernisation: To promote modern technology, innovation and research.
- Balanced regional development: To encourage industries in backward and less-developed regions.
- Export promotion: To increase exports and strengthen India's position in international markets.
- Consumer welfare: To improve product quality, efficiency and consumer choice.

Main Features of the New Industrial Policy

- Abolition or reduction of industrial licensing for most industries, subject to specified exceptions and later changes.
- Greater participation of the private sector.
- Liberalisation of foreign investment rules.
- Reduction of restrictions on large industrial houses.
- Greater competition and market orientation.
- Modernisation of technology and production methods.
- Reforms in the role and management of public sector enterprises.
- Greater emphasis on exports, efficiency and quality.

Future of the New Industrial Policy

The future of industrial development in India depends on how effectively industrial reforms are combined with modern technology, infrastructure, skill development and sustainable practices.

The major future opportunities include:

- Digital manufacturing: Use of artificial intelligence, robotics, automation and data analytics.
- Green industries: Development of renewable energy, electric vehicles and environmentally friendly production.
- Make in India: Expansion of domestic manufacturing and reduction of excessive dependence on imports.
- Start-ups and entrepreneurship: Encouraging innovation and new business enterprises.
- Global supply chains: Making India an attractive destination for international manufacturing.
- Skill development: Preparing workers for modern industrial jobs.
- MSME development: Strengthening micro, small and medium enterprises.
- Sustainable industrialisation: Reducing pollution, waste and resource consumption.

Meaning of Fiscal Policy

Fiscal policy refers to the policy of the government regarding taxation, public expenditure, borrowing and the management of public finances to achieve economic stability and development.

It is an important instrument for influencing aggregate demand, employment, investment, income distribution and economic growth.

Objectives of Fiscal Policy

- Economic growth: To promote national income and productive investment.
- Price stability: To help control inflation and reduce excessive fluctuations in economic activity.
- Employment generation: To create jobs through public works and development programmes.
- Reduction of inequality: To reduce income and wealth disparities through progressive taxation and welfare spending.
- Resource allocation: To direct resources towards socially desirable sectors such as education, health and infrastructure.
- Economic stability: To reduce the severity of recessions and overheating in the economy.
- Balanced regional development: To support economically weaker and less-developed regions.
- Infrastructure development: To finance roads, railways, electricity, irrigation and digital infrastructure.
- Social welfare: To provide support for disadvantaged sections of society.
- Public debt management: To maintain sustainable borrowing and responsible public finances.

Main Instruments of Fiscal Policy

1. Taxation: The government collects direct taxes, such as income tax, and indirect taxes, such as GST.
2. Public expenditure: Government spending on infrastructure, education, health, defence and welfare influences economic activity.
3. Public borrowing: The government borrows to finance expenditure when revenue is insufficient.
4. Subsidies and transfers: Financial assistance supports selected sectors and eligible beneficiaries.
5. Budgetary policy: The Union and State Budgets determine revenue, expenditure and borrowing priorities.

Types of Fiscal Policy

- Expansionary fiscal policy: The government increases expenditure, reduces taxes or uses both measures to support demand and economic activity, particularly during a slowdown.
- Contractionary fiscal policy: The government reduces expenditure or increases taxes to moderate excessive demand and inflationary pressure.
- Neutral fiscal policy: The overall fiscal stance is broadly unchanged, subject to economic conditions.

Future of Fiscal Policy

The future of fiscal policy will increasingly focus on the following areas:

- - Digital tax administration and improved tax compliance.
- - Higher-quality public investment in infrastructure.
- - Green budgeting and climate-related expenditure.
- - Better-targeted subsidies and social welfare programmes.
- - Fiscal discipline and sustainable public debt.
- - Greater investment in education, health and skill development.
- - Data-based budgeting and transparent public expenditure.
- - Support for innovation, employment and small businesses.

Meaning of Monetary Policy

Monetary policy refers to the policy adopted by the Reserve Bank of India (RBI) to regulate interest rates, liquidity and credit conditions in the economy to maintain price stability while keeping growth objectives in view.

In India, the RBI conducts monetary policy within the framework of the flexible inflation-targeting system.

Objectives of Monetary Policy

- Price stability: To control inflation and maintain the purchasing power of money.
- Economic growth: To support sustainable economic activity.
- Credit regulation: To regulate the availability and cost of credit.
- Liquidity management: To maintain appropriate liquidity in the banking system.
- Employment support: To support economic activity and employment indirectly through stable financial conditions.
- Financial stability: To help maintain confidence in the banking and financial system.
- Exchange-rate stability: To limit disorderly movements in the foreign exchange market, without targeting a fixed exchange rate as the sole objective.
- Investment promotion: To influence borrowing costs and encourage productive investment when economic conditions permit.

Main Instruments of Monetary Policy

1. Repo Rate: The interest rate at which the RBI provides short-term funds to eligible banks against securities under the repo framework.
2. Cash Reserve Ratio (CRR): The proportion of specified bank liabilities that banks must maintain as cash reserves with the RBI.
3. Statutory Liquidity Ratio (SLR): The proportion of specified liabilities that banks must maintain in prescribed liquid assets.
4. Open Market Operations (OMO): The purchase and sale of government securities by the RBI to manage liquidity.
5. Standing Deposit Facility (SDF): A facility through which the RBI absorbs liquidity from banks without providing collateral.
6. Marginal Standing Facility (MSF): A facility that allows eligible banks to obtain overnight funds from the RBI under prescribed conditions.
7. Reverse Repo Operations: Operations used by the RBI to absorb liquidity under the applicable monetary policy framework.

Types of Monetary Policy

- Expansionary monetary policy: The RBI eases monetary conditions, often through lower policy rates or liquidity support, to encourage borrowing, consumption and investment.
- Contractionary monetary policy: The RBI tightens monetary conditions to moderate excessive demand and inflationary pressure.
- Neutral monetary policy: The policy stance is broadly balanced, neither deliberately stimulating nor restricting demand.

Future of Monetary Policy

The future of monetary policy in India will be influenced by:

- - Improved inflation forecasting using data and technology.
- - Digital payments and changes in the financial system.
- - Better transmission of policy rates to bank lending rates.
- - Financial inclusion and access to formal credit.
- - Management of liquidity amid changing domestic and global conditions.
- - Monitoring global commodity prices, capital flows and exchange-rate pressures.
- - Balancing inflation control with sustainable economic growth.
- - Cybersecurity and stability in an increasingly digital financial system.

Difference Between Fiscal Policy and Monetary Policy

Basis	Fiscal Policy	Monetary Policy
Authority	Government	Reserve Bank of India
Main instruments	Taxation, expenditure, borrowing	Policy rates, reserves, liquidity operations
Primary focus	Public finances and aggregate demand	Inflation, liquidity and credit conditions
Direct channel	Government budgets and taxes	Banks, interest rates and financial markets
Main objective	Growth, welfare and fiscal sustainability	Price stability and support for growth
Example	Growth, welfare and fiscal sustainability	Price stability and support for growth