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A Review of the impact of Reforms on Economy and Stock Markets in India

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Abstract

Reforms represent a radical shift from the existing practices in an economy to overcome the pitfalls that impair the functioning and operational efficiency. Reforms are consistently required to keep the economy in pace with the other economies as they are globally integrated. Reforms enhance the economic output, competitiveness and help the financial stability. Ina financial system, stock markets are an important source of liquidity which in turn helps to achieve financial stability. That implies economy and stock markets are closely related. India's growth relies on the effectiveness of the reforms andtheir implementation over two decades. This paper evaluates the impact of the reforms on economy, stock markets and provides the findings out of the impact study. The paper observes that reforms shall yield to ease of doing business. Good governance and administration are the key drivers of the reforms.Reforms are very crucial for the stock markets to become robust and economy to become buoyant.

Key Words: *Reforms, Economy, Stock market performance, Fiscal stability, Market capitalization, Liquidity,volatility.*

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1. Introduction

Reforms represent an integral part of the economic growth and are catalysts of change[1]. Thereforms enhance the level of output and growth, income and revenues, investment and infrastructure, quality of human life and make the operating standards at par with international parlance. The term Economic reform carries the purpose of making structural adjustments to external events thereby making the incomes meet the level of spending[2]. In short, it does not welcome deficit spending. Reforms are therefore very crucial in the transformation of a country. Economic history, in the case of India, amply testifies this statement. India's economic and financial balances improved only after the economic reforms of the year 1991. Those reforms of 1991 enabled India to transition from an inward looking and protectionist one to one fully integrated in the world trading system.[3]. At the time when the historic economic reforms were contemplated, India's external debt had tripled to $ 69.3 billion[4] of which 30% were owed to private creditors; the gross fiscal deficit had grown to about 10% GDP;[5]the interest payment to external debts were heavy; the balance of payments was negative. Besides, there were huge import payables towards oil imports. Gulf oil cess burdened the oil prices and as India had to import more than 75%[6]of its crude oil needs, the oil supplies expenditure became highly prohibitive. Added to these, there was political instability in the country. India needed to initiate corrective steps and implement reforms in order to avert a fiscal insolvency[7].

2. Reforms Decade In India

India is one among many world economies that has embarked upon the structured program of global integration during the 1990s[8]. This has opened its economy to the global markets. In India, reforms over the last decade are the reflection of the ideologies of two different parties in power, with the support of coalition partners. The reforms so implemented differ in theory, approach and character. The period -wise study is as follows.

2001-2004 :

During this period, the reforms initiated comprise of The Competition Act, 2002 with a view to promote and sustain competition, the State Value Added Tax (VAT) with a purpose to remove the cascading effect of multiple taxes on goods, Fiscal Responsibility and Budget Management (FRBM) Act, The Electricity Act, 2003 and the setting up of State Electricity Regulatory Commissions (SERC) to regulate electricity supply, distribution and fixation of tariff, Disinvestment schemes of public sector enterprises, easing of FDI etc.

2004-2013:

The reforms of this period were intended to bring in an inclusive growth. Inclusive growth basically means, "broad-based growth, shared growth, and pro-poor growth". The landmark legislations enacted during this period include (1) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005, Right to Information (RTI) Act, 2005, the Forest Rights Act, 2006, National Food Security Act, 2013, The Companies Act, 2013, FDI in multi-brand retail, The Sexual harassment of women at work place (Prevention, Prohibition and Redressal) Act, 2013, Mines and Minerals Development and Regulation Act, 2010, Rehabilitation and Resettlement bill also termed as The Land Acquisition Act, 2014, Prevention of Money Laundering (Amendment) Act, 2012 etc.

3. Objectives

The principal objectives of the research study are four fold. They are

1) To study the role and effectiveness of reforms on the fiscal consolidation of the country.
2) To study the impact of the reforms on the creation of liquidity and mobilization of resources.
3) To study the effect of reforms on the macro-economic performance in India.
4) To examine its effect on the stock market performance in India.

4. Problem Statement

It is often perceived that consistent reforms are crucial to the economic progress of a nation. However, the success of the reforms depends upon a number of factors. In a federal set up like India where there is a huge divergence in economic conditions across the states within the country, it is important to recognize that the benefits of the reforms to reach out the states uniformly may be challenging because of political diversity, priorities of the government in power in various states and compulsions of coalition partners in power at the Centre. As is the case with any other world nation, the 1991 economic liberalization reforms have been instrumental in the transformation of the Indian economy from a centrally planned economy to a market driven economy. The reforms thus opened the economy to the global markets. The financial sector reforms also have played a key role in the financial integration with the world markets. The role of the reforms in fostering the economic growth is therefore no less significant.

It is recognized that the reforms are impacted by the regulatory burdens and hurdles. Reforms are confronted with these challenges. This tends to constrain the effectiveness of the reforms in India. Hence, as part of the continuous process of reforms initiatives, the reforms need to improve the operating standards and efficacy of implementation in order to achieve global standards. They have to be devoid of interpretational deficiency.

5. Data Source And Methodology

The study is based solely on the secondary data. These data have been collected from Planning Commission data, Union Budget speech for the year 2014-15, World Bank report, Ministry of Finance statement on external debt, Handbook of Statistics on Indian securities market issued by SEBI, Article on Telecom sector in Wikipedia, statistics released by Ministry of Road Transport and Highways etc.

To study the role and effectiveness of the reforms on the fiscal consolidation, the key economic indicators released by the Office of the chief Economic Advisor, Government of India have been considered. The influence of the tax reforms and policy towards containing fiscal deficit has been examined. Liquidity spurs economic growth and is much needed in an economy. The reforms are capable of wooing the investors and the effect of the reforms to sustain the investors and the protection mechanisms are analysed through the study. In regard to the role of reforms on macro-economic performance, the study has been made of various economic indicators such as GDP, IIP, inflation etc. Finally, the relationship between the economy, stock market and reforms has been studied through an understanding of various market consistency parameters.

6. Impact Assessment

In an economy, growth and output maximization are regarded as the major goals of national policy and reforms. Their basic features are stability, consistency, clarity, certainty, global compatibilityand ease of implementation.Else, the policies are burdened with regulatory hurdles leading to a policy paralysis.In the path to enabling growth, the reforms facilitate enhanced liquidity creation through a brisk stock market activity thereby ensuring fiscal stability. A study of the impact of the reforms initiated in India from various perspectives is outlined below.

6.1 Fiscal consolidation

In this paper, fiscal consolidation is considered for discussion as the foremost perspective because the historic economic reforms of the year 1990 were initiated at a time when the country's finances were really on the verge of insolvency. Fiscal stability in an economy suggests a sound and resilient banking sector, well-functioning stock market, robust liquidity management etc.Fiscal stability is reflected as a percentage of GDP and can be achieved through higher tax collections, represented as tax to GDP ratio. India's fiscal deficit averages over 5.5%[9] until the year 2011-12 and has started sliding to 4.8% in 2012-13 and 4.5% in 2013-14. This decline was mainly attributed to reduction in government expenditure rather than realization of higher tax revenue. Prior to that, for the decade, the consolidated fiscal deficit of both Centre and State in India was 9.6% of GDP in the year 2001-02[10] and the average for the same decade long period until 2011-12 was 7.33% of GDP[11]. This is the offshoot of various factors such as subsidies, expenditures, tax collections etc.

Fiscal consolidation therefore has been gaining importance every occasion and the budget policy of the Union Government of India spells out various measures to achieve that. There is an intent in this behalf. However, the rising fiscal deficit causes concern to the policy makers as it impairs the ability of the Government to finance public investment expenditure besides detracting the global investors. The Government's resolve to contain the fiscal deficit for the fiscal year around 4.1% GDP[12]and 3.6% GDP is yet gratifying.

6.2 *Higher tax Revenues*

Taxes are one of the major sources of revenue for the government and these revenues are primarily intended to finance public investment. India has a multi layered system of taxation at present although it is hoped that it would come down to a unified system of taxation with the likely intro-

duction of Goods and Services Tax (GST) soon. The existing categories of taxes are (i) Direct Taxes and (ii) Indirect taxes. Within the categories, taxes are levied on goods, services, imports, personal income, wealth and corporate income.A tax policy or a tax effort has the objective to achieve higher tax revenue. It is measured by tax to GDP ratio. Normally, the tax policies are progressive through base expansion and administrative improvement. Base expansion denotes (a) rationalization of the tax structure and (b) widening of the tax base. Historically, the Indian tax reforms have all been based on framework provided by Tax Reforms Committee (India,1991) and the task force reports on the reform of direct and indirect taxes (India, 2002) and Fiscal Responsibility of Budget Management Act, 2003.
The gross tax to GDP ratio in Indiais 10.7% for the year 2012[13]that is comparatively less than the rate in developed countries.It was at 10.2%, 8.8% and 10.7% for the years 2010, 2011 and 2012 respectively. India's record of tax to GDP ratio is not impressive owing to the following factors. (i) Industrial sector has declined to 13% of GDP[14]in the recent past and therefore the excise duties/customs/VAT collections have dropped. (ii) Agricultural income that constitutes about 17%[15]GDP is entirely free from income tax. (iii) In India, the unorganized sector plays a big role in increasing income levels but these incomes are not taxed. (iv) the Services sector which has exceeded above 60% of India's GDP is not generating substantial revenue because of the large scale litigations under service tax. The service tax was introduced in the year 1994. (v) And finally, the evasion of taxes by the tax paying public and the parallel economy that is holding unaccounted money. Added to the above, the retrospective amendments to tax provisions had to bear the ill effects of uncertainty in Indian taxation as a result the tax to GDP ratio had to fall. The tendency to park the profits outside the country through structuring the business entities has become rampant.The Government's initiatives to bring in GST soon, make the policies on account of transfer pricing rigid to ensure that legitimate taxes need to accrue to India and extending the provisions of Advance Rulings to resident assessees to avoid tax litigations after the transactions are concluded, may help in pushing up the tax revenues.

6.3 Resource Mobilization

Resource mobilization is an important objective of the economic reforms. It raises the capability of the economy to raise resources. The resources may come in the form of foreign capital inflows which comprise of Foreign Institutional investment (FII) and Foreign Direct investment (FDI), external commercial borrowings (ECBs), disinvestment proceeds, gross domestic savings, NRI deposits, primary markets etc. Another important avenue of resource mobilization is the primary markets. Each of these sources is discussed below.

6.4 Foreign Capital inflows

Owing to various regulatory reforms on the capital market and ease of foreign exchange management regulations supplemented by tax reforms in the year 2002 on Capital gains tax, the FDI and FII inflows during the years 2003-04 and 2004-05 have been encouraging. The net inflows were $10005 and $10352[16] respectively. However, the figures declined in the following two years and during the year 2008-09, the net FII inflows have been negative at $ 9837 million as there is a flight of capital owing to global crisis. Following two years after the global crisis were very good in terms of FIIs investments but only to slip to US $ 18923[17]million in the year 2011-12. This was due to sluggish investment and growth. In regard to FDI, the years 2009-10, 2010-11 and 2012-13 experienced a decline on account of lack of enthusiasm and investment friendly climate in India as experienced by the global investor.FIIs are considered as hot capital and they tend to flee if the economy does not offerto themsufficient incentives and protection. The lack of certainty in tax regime through the legislation of retrospective amendments has affected the foreign capital flows most.

6.5 External commercial borrowings (ECBs)

ECBs refer to commercial loans in the form of bank loans, buyers' credit, suppliers' credit and shareholder's loans availed by an Indian borrower of from non-resident lenders. The Foreign Exchange Management Act, 1999 (FEMA) has formulated certain guidelines for availing ECBs. These guidelines include ceiling on interest rate, maturity period, end-use restrictions etc. As a further relaxation to the ECB guidelines, in September 2013, the RBI has come out with the circular on Overseas Direct Investment (ODI) guidelines, to permit Indian companies to take up ECBs under the Approval Route from their foreign equity holders to finance "general corporate purposes"with minimum average maturity of 7 years. Upon an analysis of the data on ECBs during the period 2001-02 to 2011-12[18], it reveals that the ECBs in terms of number of approvals and gross disbursements have been on the rise except for the year 2008-09 which was marked by global economic crisis. From a modest beginning of $2.933 billion in the year 2001-02, it has grown over ten times to reach a figure of $31.245 billion in the year 2011-12. As is the case with every economic indicator, the years 2008-09 and 2009-10 recorded gross disbursements of $ 14.024 and 15.951 billion respectively. The year 2008-09 was half way of the immediately preceding year. The years 2009-10 to 2011-12 were on the rise. However, between the year 2010-11 and 2011-12, the latter registered a decline.

6.6 Gross Domestic savings (GDS)

Savings is the corner stone of investment. The growth rate of an economy depends upon the growth in gross domestic savings. Gross domestic savings include household sector savings, private sector savings and government savings. The overall domestic savings rate as a percentage of GDP stood at 24.93% in the year 2001-02, consistently rose to 36.82% in the year 2007-08 before it fell to an eight year low of 30.8% in the year 2011-12[19]. One of the main reasons attributed to the fall in savings is high and persistent inflation. The declining trend in GDS makes the investments in shares and debentures shrink in terms of percentage.

6.7 Primary markets

Primary market, an important component of the stock market, is the direct link between prospective investors and the issuer company. It is the issues market where the securities are issued for the first time. The resources mobilized from the primary markets are by way of public issues, right issues, private placements and preferential allotment. As the funds are received in the new securities market and for the first time, the primary markets generate liquidity. Upon an analysis of the trend collected from SEBI Handbook of Statistics on Indian Securities Market 2013[20], it can be seen that that the years 2005-06 to 2007-08 have been really good for the Indian stock market. An average of 125 issues has been made. However, the resources mobilized in the year 2007-08 were a phenomenal Rs 87029 crore while in the other two earlier years, the resource mobilization was Rs 27382 crore and Rs 33,508 crore respectively[21]. Sound domestic macro-economic fundamentals, private corporate profitability and earnings and the FIIs optimism to participate were the key factors that dominated a major part of the year 2007-08[22]. But, the year 2008-09 was very eventful on the flip side as the number of new issues dropped to a meagre 47 with the quantum recording Rs 16,220 crore out of which the public issue was only for Rs 3,582 crore. After a heavy fall, the two years of 2009-10 and 2010-11 witnessed growth in size and number thanks to the economic growth generated by the financial stimulus package announced by the Government of India. Yet, the following year of the year 2011-12 could not sustain the momentum of growth and the market was sluggish. Thus, the primary markets have been dynamic and fluctuating. This suggests that the investors are still apprehensive about the futuristic outlook of the economy. Among the factors that caused the volatility, the lack of policies and reforms, the burdened regulatory environment etc. Governance deficit stood out to detract the investors.

6.8 Disinvestment proceeds

Disinvestment typically refers to sale of securities, fully or partly, of a government-owned enterprise. In India, the Government adopted a Disinvestment policy in the year 1991following the speech by the then Hon'ble Finance Minister of India on March 4, 1991. In the words of the Finance Minister," It has been decided that the Government would disinvest up to 20% of its equity in select public sector undertakings, in favour of mutual funds and financial or investment institutions in the public sector. This disinvestment which would broad base the equity, improve management and enhance the availability of the resources for these enterprises, is also expected to yield Rs 2500 crores to the exchequer in 1991-92." Among other objectives, (i) liquidity creation, improvement in public finances and reduction of the country's fiscal deficit and (ii) broad-basing equity have become primary ones.

Though the disinvestment policy was mooted in the year 1991, the real push to the policy was givenduring the period 1998-2004 by the NDA government in power. The subsequent rule by UPA could not continue with the momentum for 5 years because of coalition compulsion; the period between the years 2009-2014 was much better for disinvestment program of the Government as there was no coalition pressure. The total proceeds of the disinvestment over the last 22 years realized around Rs 1.38 crores[23]. In the year 2000-01, the disinvestment program yielded Rs 2125.40 crores and an analysis of the disinvestment activity suggests that the year 2007-08 yielded a whooping proceeds of Rs 38795.57[24] crores. It fell drastically in the next year 2008-09 to Rs 565.93 crores owing to effects of global crisis; however picked up in the next three years to be at an average in excess of Rs 20000 crores. On the whole, the disinvestment policy has been off the target for more than 15 years in the last two decades.

6.9 Macro-economic performance

Macro-economic performance is a study of the behavior of the macro-economic aggregates in an economy and their inter-relationship. Those macro-economic aggregates majorly comprise of (i) GDP and output (ii) Inflation (iii) Employment and (iv) poverty level.

GDP is the most important economic variable reflecting the economic growth of a nation.GDP measures the aggregate value of production equal to the sum of the gross value equal to the sum of the gross values added of all resident institutional units engaged in production plus any taxes minus any subsidies, on products not included in the value of their outputs[25].India's GDP rate has been averaging at a low of 3.5% up to the end of the 1970s which was termed as Hindu Rate of Growth[26]. Owing to a few initiatives and other reforms like repeal of Control of Capital Issues Act, 1947, Industrial Licensing Regulations during the 1980s, the growth rate improved to 5.6%[27]. But, at the same time, the Country experienced constraint in finances which was evident that the balance of payments position was adverse in the year 1990. With the onset of the economic liberalization and globalization reforms in the year 1991, the growth rate tended to improve as finances were available for investment and output. An analysis of the GDP data from the year 1999-2000 shows that GDP rate that stood at 8% in the year 1999-2000 dropped to an average of 4.51% in the next three years, with the year 2003-04 recording a GDP of 3.88% [28]. An important factor that contributed to the downslide of GDP is the failure of agricultural output. The years 2003-04 to 2007-08 saw a rise in GDP with the years 2005-07 to 2007-08 averaging 9.4%[29]. This is again due to the buoyancy of agricultural sector that touched an average rate of 4.5%. Thus, performance of agriculture is an important factor in the overall GDP ratio. The other sectors like construction, transport responded well to the growth of the economy. However, with the global crisis setting in the GDP fell to 6.79%[30] in the year 2008-09. The following two years saw a rebound of GDP which has gone up above 8.5% thanks to the policy intervention and stimulus package provided by the Government to resurrect the slacking Indian economy. Since the year 2011-12, the GDP fell to less than 5% and the economists predict a GDP of 5.0%[31] only for the current fiscal year.

Next, in line is the mounting inflationary pressure. Inflation refers to the persistent rise in the prices of goods and services over period of time. India's inflationary trend on the basis of its official measure of wholesale price index (WPI) is averaging over 5.6% during the last decade[32]. However, the years 2008-09, 2010-11 and 2011-12 have been showing high inflationary trend of over 9%[33] mainly due to the supply shocks and the demand created by the stimulus package of the year 2008-09, following the global crisis. After falling to second lowest level of 3.6% in the year 2009-10[34], the rate of inflation has gone up significantly to average around 8% in the three years thereafter. However, the Planning Commission of India's official estimate for the year 2013-14 is pegged at 5.5% which is a significant drop from the earlier years.The dominance of food inflation is demonstrated by the fact that in the year 2009-10, within the overall WPI inflation of 3.57%, the food inflation was 14.52%. Further, in December 2010, the WPI inflation was 8.4% while the food inflation for the week ending 22nd January 2011, the food inflation stood at 17.05%.[35]. The Government is conscious of the need too tame the food inflation, yet the policy actions initiated by RBI do not provide much help in that direction because India's food inflation does not require any big relief through policy actions.

Unemployment rate is a measure of the growth of an economy. Unemployment is a situation when a capable and willing to do job workforce does not get work. In India, the data released by National Sample Survey Office (NSSO) suggests that the unemployment rate had gone up from 2.5% in the year 2009-10 to 2.7% in the year 2011-12.[36] When compared with the employment rate between the years 2004-05, 2009-10 and 2011-12, the employment rate was 42%, 39.2% and 38.6%[37] respectively. We can see the trend declining. In regard to creation of jobs, in the five year period falling between 2004-05 and 2009-10, it was 2.7 million new jobs where as in the previous five years it was 60[38] million new jobs. Again, it remains a fact that the number of employed women dropped from 18% to 16% between the years 2009-2012[39]. The unemployment rate was comparatively more in females than males. For females it was 7.2% whereas for male the unemployment rate was 4%[40]. Looked at sector wise, number of workforce in agriculture sector has 49% of the workers whereas manufacturing sector has 24% and services sector has 27% workforce[41].Unemployment rate is high in the case of educated youth and this suggests lack of skill based employment opportunities in India.A higher unemployment rate might, among other financial, social and psychological impact, lead to poverty.

Poverty in India is defined on the basis of consumption of calories required for an individual to survive, along with certain other basic costs. These poverty lines reflect the total household per capita expenditure sufficient to provide in addition to basic non-food items such as clothing and transport, a daily intake of 2400 calories in rural and 2100 in urban areas[42]. The new poverty line announced by the Government last year was Rs 32 in villages and Rs 47 in cities[43]. Based on this new guideline, the population living in poverty is 363 million that represents 29.5% of the population[44].In order to alleviate poverty in the villages, the Government initiated schemes such as NREGA[45]that guarantees employment for a minimum of 100 of days in a year and promulgated The National Food Security Act, 2013 which are considered as landmark reforms.Although poverty rate has declined in India over the years and stands at 29.5% in comparison to over 55% during the pre-independence era, still it causes a dent in the country's development.

6.10 Infrastructural Development

Infrastructure development is the pillar of strength to an economy. Infrastructure sector comprises of power, roads, railways, ports and airports, telecommunication, housing etc. Energy sector is an important infrastructural sector that has been recognized necessary for economic growth and human development. Coal, oil, natural gas, hydro power and nuclear energy are the fiveforms of commercial energy. Coal accounts for a major 60% power generation capacity. Oil and natural gas together accounts for close to 10%. The installed power generation capacity of all the five forms is 249488.32 MW as of July 2014[46]. The *effective reforms were initiated from the year 1995 onwards with the announcement of Mega Power Policy, with an intent to accelerate investment Electricity Regulatory Commission in the year 1998; Promulgation of Electricity Act, 2003 to provide* consolidated policy framework for generation, transmission, distribution, trading and consumption of electricity based on market-based mechanisms; the evolution of National Electricity Policy in the year 2005 and National Tariff Policy in the year 2006.

Road network is an important segment of infrastructural development that facilitates trade, transport, social integration and economic development. Road construction sector in India has reached a certain level of maturity over the last six decades. The total road length in India has increased from 3.99 Lakh kilometers in the year 1951 to 46.90 Lakhs kilometers in the year 2011[47]. The Government's initiatives to develop 'The **Golden Quadrilateral'** connecting Delhi, Mumbai, Kolkata and Chennai and other plans to connect the top metropolises namely Pune, Ahmadabad, Jaipur, Kanpur, Suratat north and Bangalore, Visakhapatnam &Bhubaneswar at south have provided the right growth for road development..

Telecommunication reforms in India have been considerably significant and revolutionary over the last two decades. The National Telecom policy announced in the year 1994-95 and the setting up of TRAI in the year 1997 resulted in the exponential increase in the tele-density from 1.1% in the year 1995 to 76.75% as of 30th September, 2014. The higher tele-density is due to the mobile cellular growth and currently there are about 930.20 million telephone subscribers in India[48].

6.11 Stock market performance

It is traditional wisdom to understand that stock market behaves and rides along with economy. Positive economic fundamentals may drive the markets up. Stock markets and economy are therefore closely related. The key market performance indicators are as follows:

6.12 *Market Capitalization:*

Market capitalization is the prime indicator of stock market performance. By ***Market capitalization***, it means the aggregate valuation of the company arrived at by multiplying the current market price of the shares with the total number of outstanding shares of the company. It is normally represented as a % of GDP. A higher market capitalization suggests that the market is penetrative and deep. It is not shallow. Markets have become deregulated after the economic reforms of the year 1991. As a result, the investors' participation was improving. On a review of the data for the years from the year 2000-01, the market capitalization had a swing on either side. In the year 2000-01, in BSE, the market capitalization was 27.4%[49]that steadily rose to 52.4%[50] in the year 2004-05 until it reached to 103.0% in the year 2007-08. The higher market capitalization is suggestive of the economic boom and positive earnings that will improve the corporate earnings. Owing to the global crisis, the economy had a downturn which resulted in a declineof market capitalization that touched 55.3%[51] in the year 2008-09. The following two years saw market capitalization progressing thanks to the stimulus package and the government initiatives to thwart the economic crisis. In the Indian economy, the years from 2011-12 were very moderate with all the economic fundamentals not being encouraging. GDP fell; inflation was surging up; investment was sluggish and overall, the Government in power had whole range of issues to manage the crisis generated by scams and corruption in core sectors. Despite, the average market capitalization in the four years from 2009-10 to 2012-13 was101%[52]. The trend in market capitalization has been restored to a level that existed during the pre-global crisis year. This follows the axiom that stock market is always forward looking and futuristic.

6.13 Stock market liquidity:

The primary objective of stock markets is the creation of liquidity. The success evaluation is done with the liquidity indicators. The common perception that the investors can enter the market any time and exit at ease, thus making available liquidity is the incentive for the investors. Stock market liquidity is the turnover ratio that equals the value of the total shares traded by the market capitalization. Value of shares traded denotes the stock market turnover. Higher turnover ratio implies low transaction costs. Value traded ratio and value turnover ratio may provide a larger picture of the liquidity of a stock market.The turnover ratios have been declining over the last five years in BSE which illustrate that liquidity is on the decline[53]. This may be largely due to the fact that industrial performance is shrinking and out of the 30 stocks listed in BSE SENSEX, 23 represents industries. Though the market capitalization during the same period is not disappointing, the turnover ratio is not impressive and that suggests a passive trading[54].

6.14 Stock market volatility

Volatility conceptualizes the asset price movements in stock markets and is defined as the changeability or randomness of asset prices. It is a measure of uncertainty in the stock market. The market volatility is measured as percentage change in prices as it reflects the changes in the rates on return. Higher volatility dis-incentivizes the investors. The yearly volatility over the last decade in respect of BSE is ranging around 1.5%[55]. The volatility ratio though not alarming in comparison with other world, has been detracting the investors.

7. Recent Trend Of Reforms

The new NDA government which came to power in May 2014 has initiated a number of reforms to enhance enthusiasm among foreign investors and economic growth. Those reforms include (i) labour reforms (ii) simplification of environmental regulations (iii) coal block auction policy and guidelines (iv) smaller increase of MSP in food grains (v) foreign policy initiatives (vi) introduction of REITS (vii) diesel price deregulation (viii) FDI in insurance (ix) GST reforms etc. Though many have been initiated, not all are on course to steady the growth. The Government is understood to be seriously considering the ways and means to get the projects cleared from legal and environmental angles. Another initiative, The "Make in India" program unveiled by the Government aims to boost domestic growth, enhance enthusiasm and investor sentiments.

8. Findings

(1)The major finding of this article is that the economic reforms of the year 1991 have been highly influential in changing the Indian economy for good. The country's balance of payments which was negative in the year 1990 was corrected.

(2)The economic reforms have been helpful to most industries by providing access to foreign technology. Trade barriers and restrictions have been relaxed. The employment levels increased giving rise to higher levels of income. The poverty levels declined. Despite all these good features, agriculture sector which is the mainstay of Indian population declined in prominence and the share of agriculture in the GDP of the country reduced to 17% from 52% in the 1950s. The subsequent reforms have been very effective in the transformation of the economy.

(3)It is also found that the reforms in India have been generally more reactive and less proactive meaning thereby that the reform initiatives have been the measures to ward off scams and irregularities in future. Another finding is that in the Indian economy, with political uncertainty and the coalition government in power over the last 15 years, the coalition dharma overpowered the reforms implementation. Similarly, a State which has a different ruling party other than the one in the Centre may always be less responsive to implement the program of the Centre that has caused regional growth imbalances.

(4)Public revenue collection and administration has been lagging behind in comparison with the other world nations. India has a multilevel system of taxation. It is on record that a staggering Rs 1.27 lakh crore[56] revenue as central excise and service tax remained unrealized due to appeals and contests.

(5) In all, the post-reforms era have been less productive. The data revealed by by World Bank Group, benchmarked to June 2013 on 'Doing Business 2014' indicates that India ranks at 134 of 189 countries in ease of doing business; 179th in ease of starting a business; 182nd in ease of getting a construction permit; 111th in getting an electric connection; getting credit 28; protecting investors 34; 158th in paying taxes; 92nd in registering property; 186th in enforcing contracts[57].

9. Suggestions

(1) Reforms are therefore needed to be very effective. In order to achieve a full accomplishment of the reforms, the domestic reforms need to be less bureaucratic, hassle-free and less burdensome because the regulatory process of the government is still complex.

(2) On the taxation, though reforms have been introduced time and again, the system of taxation is complex and less internationally competitive. Tax reforms need to be certain and unambiguous without any doubt to reduce the frivolous litigations. More transparency and equity are desirable. More transparent taxation policies might do well to reduce the ill-effects of parallel economy or black money in the country.

(3) Political understanding with overall economic growth in the country will do a lot of good in removing regional imbalances.

9. Conclusion

The study concludes that good governance and effective administration are main drivers of the reforms. Reforms are very critical for the stock markets to become robust and the economy to become buoyant.

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