1. Discuss the state of 3rd generation financial reforms in India, what are major objectives of these and how many of these have been implemented? (150 Words)

Answer:

The objective of the 3rd Generation Reforms is to resolve the issues that the financial sector faces as of now.

- First, India's financial system is not providing adequate services to the majority of domestic retail customers, small and medium-sized enterprises, or large corporations. Government ownership of 70 percent of the banking system and hindrances to the development of corporate debt and derivatives markets have stunted financial development. This will inevitably become a barrier to high growth.
- Second, the financial sector-if properly regulated but unleashed from government strictures that have stifled the development of certain markets and kept others from becoming competitive and efficient-has the potential to generate millions of much-needed jobs and, more important, have an enormous multiplier effect on economic growth.
- Third, in these uncertain times, financial stability is more important than ever to keep growth from being derailed by shocks hitting the system, especially from abroad. Although the Indian economy dodged the Asian crisis and the recent subprime crisis, a lot remains to be done to secure the stability and durability of the financial system.
- Many of the reforms are intertwined. For instance, it makes sense to level the playing field between banks and non-bank financial corporations by easing the requirement that the former finance priority sectors and the government.
- But making these changes while the government continues to have huge financing needs and without having a more uniform and nimble regulatory regime could be dangerous.
- The connections, which stretch beyond just financial reforms to broader macroeconomic reforms, can in fact have a positive effect by reinforcing the effects of individual actions.
- For instance, the process of removing restrictions on capital flows could serve as an adjunct to other reforms if handled adroitly. Allowing foreign investors to participate more freely in corporate and government debt markets could increase liquidity in those markets, provide financing for infrastructure investment, and reduce public debt financing through banks.
- India's rich and complex political process being what it is, focusing solely on the big picture could bog down progress. A hundred small steps, many of them less controversial, but still requiring some resolve on the part of policymakers, could get the process of reforms going and build up momentum for the bigger challenges that lie ahead.

- For instance, converting trade receivable claims to electronic format and creating a structure to allow them to be sold as commercial paper could greatly boost the credit available to small and medium enterprises.
- It is believed that if other policies are in sync, financial sector reforms could add significantly to economic growth and also make a major contribution to the sustainability of this growth, in both the economic and political dimensions.

PRACTICE QUESTIONS

Answer the following Questions

1. Enumerate the objectives of NITI Aayog. Also, discuss the performance of this body since its inception and suggest measures to make it more effective. (150 words)
2. In view of the political class's inability to develop and maintain conventions relating to the appropriate use of Article 356, the Supreme Court's decision in the Bommai case provided much needed clarity. Comment. (150 words)