

## **II. Review of Economic Trends**

### **A. PRODUCTION**

4. The output both of foodgrains and of commercial crops in 1956-57 was larger than in the previous year. Details are given in Table I at the end. The index of agricultural production which had declined from 116.4 in 1954-55 to 115.9 in 1955-56 recorded a sharp increase to 123.0 in 1956-57. The production of cereals went up from 54.5 million tons in 1955-56 to 57.3 million tons in 1956-57. Rice output was 1.3 million tons higher; wheat output recorded an increase of half a million tons. The output of other cereals was also larger than in 1955-56, but it was still 2.4 million tons less than in 1954-55. Taking cereals and pulses together, the improvement in

output as compared to the previous year was 3.4 million tons, or 5.4 per cent, as the table below shows:—

*Output of foodgrains*

	(In million tons)		Percentage increase
	1955-56	1956-57	in Index
Rice . . . . .	26.85	28.14	4.8
Wheat . . . . .	8.57	9.07	5.8
All Cereals . . . . .	54.46	57.25	5.1
All Foodgrains . . . . .	65.29	68.69	5.4

5. Of the commercial crops, sugarcane recorded a substantial increase—from 5.98 million tons (in terms of gur) in 1955-56 to 6.75 million tons in 1956-57. Cotton output went up from 4 million bales to 4.72 million bales. The groundnut crop was also larger than in the previous year. The output of raw jute and tea, on the other hand, remained more or less around the level reached in 1955-56.

*Output of Commercial Crops*

	1955-56	1956-57	Percentage increase
			in Index
Cotton (million bales) . . . . .	4.00	4.72	13.9
Jute ( „ „ ) . . . . .	4.20	4.22	Neg.
Groundnut (million tons) . . . . .	3.86	4.09	5.8
Sugarcane ( „ „ ) . . . . .	5.98	6.75	13.6

Altogether, the rise in the index of commercial crops was about 8 per cent.

6. Industrial production has continued to rise, but at a lower rate than for the last two years. The index rose from 113 in 1954 to 122 in 1955 and further to 133 in 1956. For November 1957, the index was 148. Considering the production trends over the eleven months from January to November, the rise in the index for the year is likely to work out at around 4 per cent. This slackening in the rate of growth of production was shared by both producer and consumer goods. Production statistics relating to 42 major industries reproduced in Table II indicate the quarter-wise movements in industrial production during the year. In a number of industries such as sewing machines, bicycles, electric lamps, pig iron and

finished steel, caustic soda, ammonium sulphate, conduit pipes and storage batteries, production either levelled off or declined during the year. Among the important industries which showed an upward trend in production during the year are diesel engines, power transformers, power driven pumps, electric motors, aluminium, sulphuric acid, bleaching powder, paper, twist drills and rayon yarn.

7. Although production tapered off somewhat in the latter half of the year, there were significant increases in certain lines during the first 7 or 8 months of 1957-58. For instance, among the capital goods industries the production of diesel engines went up by 40 per cent. as compared to the corresponding period of 1956-57; electric motors 29 per cent; power transformers 27 per cent; power driven pumps 32 per cent; carding engines 36 per cent; aluminium 31 per cent and spinning ring frames 21 per cent. The output of coal was higher by 10 per cent; of cement by 14 per cent and of sulphuric acid by 17 per cent. There was a small increase of 2 per cent in the output of steel. On the other hand, the output of automobiles declined slightly and of looms by 12 per cent.

8. Among the consumer goods industries production of sugar went up by 11 per cent in the first eight months of 1957-58 as compared to the same period last year, of vanaspati by 23 per cent. and of bicycles 9 per cent. The production of mill-made cloth during 1957 remained at about the same level as in 1956. But, for the period April—December 1957, the level of production works out to about 3 per cent. less than for the corresponding period of 1956. The production of handloom cloth is estimated to have risen from 1,020 million yards in April-November, 1956 to 1,090 million yards in the same period in 1957. The production of soap and matches showed a small decline.

9. While the rate of growth of industrial production has tended to slow down, there have been sizeable additions to installed capacity in a large number of industries such as power transformers, electric motors, textile machinery, machine tools, sewing machines, automobiles, grinding wheels, sugar, etc. The expansion of capacity in the existing steel plants is proceeding satisfactorily and an increase in steel production of about 500,000 tons (annual rate) is expected in 1959. In addition, construction work in respect of a number of industrial projects has been commenced and the necessary plant and machinery have been ordered.

10. On the whole, the level of national output (i.e., goods and services of all kinds) would appear to have registered during the year under review a rise fairly comparable with the average rate of increase (about 5 per cent) postulated in the Plan. To this has to be added the large import surplus for the year. If, nevertheless, inflationary pressures persisted for a considerable part of the year, the explanation lies, obviously, in the high levels of demand associated with the increasing tempo of development. The slowing down of the rate of growth of industrial production mentioned earlier can, in this circumstance, be due to bottlenecks at particular points or temporary overstocking rather than to a deficiency of demand.

## B. PRICES

11. In an economy in which price controls and direct allocations of available supplies are comparatively few, the movement of prices, taken in conjunction with the balance of payments trends, is among the most important indications of inflationary pressures. The index of wholesale prices (1952-53=100) rose steadily from 100 in April 1956 to about 109 by November of that year. It declined thereafter to 106 by March, 1957 when the upward trend was resumed again, the index reaching a level of 112 in July-August. Since September, there has been a fairly continuous downward trend, the current level being around 105. Thus, at the beginning of 1958, the index is slightly lower than it was at the beginning of 1957. It should be noted, however, that the average index for the twelve months of 1957 works out to 109 which is some 6 per cent above the average for the preceding year. The data on movements of prices are set out in Table III at the end.

12. The changes in the general price index mentioned above have followed closely the trends in the prices of cereals. The index for cereals was 87 in March 1956; it had risen to 101 by April 1957; it rose further to 106 in August and then declined to 98 by December. Among the cereals, again, rice accounted for the major part of the increase, the index for rice prices rising from 86 in March 1956 to 101 in April 1957 and further to 111 in August 1957. Subsequently, the index came down to 102 in December, the fall being most marked in that month. Wheat prices, on the other hand, declined over the year, the index moving down from 94 in January 1957 to 86 in December that year—which was more or less the level of wheat prices in January 1956. The prices of jowar, bajra and pulses were

also lower in December 1957 as compared to the levels about the commencement of the year. Among the other food articles, sugar and gur registered a significant rise—from 93 in March 1957 to 109 by the end of the year. In contrast with cereals and other food articles, the index for manufacturers has been remarkably steady around 106-109. Industrial raw materials exhibited a rising trend about the middle of 1957, the index going up from 117 in March-April to 122 in July. Thereafter the trend has been downward, the index being 115 towards the end of the year.

#### WHOLESALE PRICES

(Index : 1952-53=100)

	Dec. 1956	August 1957	Dec. 1957
Cereals . . . . .	97	106	98
Food articles (including cereals) . . . . .	105	112	104
Industrial raw materials . . . . .	119	120	115
Manufactures . . . . .	109	109	108
General Index . . . . .	108	112	107

By and large, thus, the upward pressure on prices has been felt mainly on cereals; it is particularly at this point that domestic supply, augmented as it was by sizeable imports, was short relatively to demand.

13. The index of rice prices has, as mentioned above, receded by about 8 per cent over the last four months. But, rice prices at end of the year were unlike those of other cereals, about 9 per cent higher than in December 1956. In the case of wheat also prices in some important market centres have risen between August and December. While, therefore, the recent downward trend in cereal prices in spite of the expectations of a shortfall in the rice crop for 1957-58 is in itself a welcome development, the outlook for the year as a whole is not quite reassuring. It must be mentioned in this connection that the decline in wholesale prices in the last few months has yet to be reflected in the cost-of-living indices which are available upto November. The All-India index has remained steady

at around 113 since August, the average for the eleven months of 1957 being 110 as compared to 105 for 1956. The indices for some of the industrial centres like Bombay, Calcutta and Jamshedpur rose more sharply during the year than the All-India index, and they have as yet shown no signs of receding.

### C. MONETARY TRENDS

14. Money supply with the public recorded a rise of Rs. 97 crores in 1957 as compared to Rs. 132 crores in 1956 and Rs. 215 crores in 1955. Details are given in Tables IV and V. Although the rate of increase of money supply thus slowed down, it has to be borne in mind that the increase of Rs. 97 crores in 1957 occurred in spite of the contractionist effect of the decline in the foreign assets of the Reserve Bank by Rs. 327 crores this year as against Rs. 199 crores in the previous year. The net impact of domestic transactions was thus strongly upward. The main expansionary factor has been an increase of Rs. 478 crores in net indebtedness of the Central and State Governments to the banking system as compared to an increase of Rs. 242 crores in 1956 and Rs. 146 crores in 1955. As against this, bank credit to the private sector increased by only Rs. 80 crores in 1957, and this was more than offset by an increase of Rs. 201 crores in time liabilities. On balance, there was thus a net decrease of Rs. 121 crores in the net indebtedness of the private sector to the banking system, which contrasts with the increase in net indebtedness by about Rs. 129 crores in 1956 and about Rs. 50 crores in 1955. It is necessary, in this context, to mention two points by way of caveat. Firstly, part of the increase in time liabilities of the scheduled banks is in respect of the deposit with one of them of Government payments to the account of the U.S. Government against receipts of P.L. 480 imports. Making adjustments for this, the net contractionist effect of private sector transactions would be only around Rs. 35 crores. It should also be noted that time deposits differ only in degree from demand deposits. Even if they are not 'money', they are 'near-money', that is, purchasing power capable of being activated at short notice.

15. The decline in the expansion of bank credit in the latter part of 1957 coupled with an increase of Rs. 252 crores in the deposit resources of the banking system, was reflected in a fall in the credit-deposit ratio from 72 per cent at the end of 1956 to about 65 per cent at the end of 1957. The banks reduced their borrowings from the Reserve Bank by about Rs. 55 crores by the end of the year, and added Rs. 56 crores to their holdings of Government securities.

16. The credit policy of the Reserve Bank was directed towards controlling expansion of speculative credit, while safeguarding, at the same time, the legitimate requirements of business and industry. This policy of selective credit control, coupled with the raising of the bank rate in May 1957, has assisted in curbing speculative hoarding, and—paradoxical as it may sound—in easing monetary stringency.

17. Scheduled bank credit had increased by Rs. 148 crores in the busy season of 1956-57 and had reached a level of Rs. 937 crores by mid-May, 1957. By the end of October it came down to Rs. 869 crores i.e., by Rs. 68 crores. Of this reduction, Rs. 25 crores was accounted for by foodgrains, Rs. 49 crores by industrial raw materials and Rs. 11 crores by unsecured advances. On the other hand, advances against other securities (such as stocks and shares, government securities, real estate etc.) went up by Rs. 17 crores. Credit expansion during the current busy season (i.e., since November) has been about Rs. 39 crores as compared to Rs. 66 crores during the same period last year. The smaller rise in bank credit during the current busy season has followed a contraction of Rs. 68 crores since the middle of May 1957, whereas the increase during the 1956-57 busy season was in addition to the small increase—instead of the usual decrease—in bank credit during May-November, 1956. The relatively moderate increase in bank credit so far is attributable partly to the late arrival of crops. But, it is expected that in the coming months also the Reserve Bank's policy of credit control will continue to exert a restraining influence.

18. The stringency in the money market which had persisted through 1956 and had shown some accentuation in the first half of 1957 showed signs of abatement in the last quarter of the year. The inter-bank call-money rates which rose from 3.54 per cent at the beginning of 1957 to 4.17 per cent in June 1957 declined to 2.81 per cent towards the end of November 1957. There has not, however, been any similar decline in the rates on call deposits from the public.

19. The tightness of the money market and the high rates of interest available on short-term investment were reflected also in a paucity of funds in the capital market. Most industrial concerns had their own programmes of expansion and development, and were, in fact, obliged to rely heavily on bank finance for their immediate needs. The share markets exhibited a persistent downward trend, the decline in share prices between August 1956 and

the end of 1957 being as much as 25 per cent. The yield on variable dividend industrial securities rose from 5.75 per cent in December 1956 to about 7 per cent in November 1957. Capital issues—the relatively large ones—are estimated provisionally at Rs. 27 crores during the year as compared to Rs. 35 crores in 1956.

20. These trends affected, in turn, the Government's borrowing programme. In fact, the weakness of the gilt-edged in the early part of the year was due to sales by banks of some Government securities in their portfolio in order to meet their requirements. Central Government borrowing during the year amounted to Rs. 68 crores; of this Rs. 30 crores was an issue of short-dated securities as late as December when easier money conditions prevailed. The Centre's market loan in August yielded Rs. 38 crores. Only two States went into the market; their borrowings amounted to about Rs. 9 crores. Altogether, the total of Central and State Governments' borrowings during the year were below initial expectations and considerably lower than the collection of Rs. 141 crores in 1956-57. The yield on gilt-edged (long-dated) rose a little from 4.1 to 4.2 per cent, the net decline in the index of Government security prices being 0.7 per cent over the year.

#### D. BALANCE OF PAYMENTS

21. The pressure on balance of payments noticed since April 1956 continued through 1957. The current account deficit for 1956-57 aggregated to Rs. 293 crores and the deficit for the first half of 1957-58 amounted to Rs. 298 crores. The following table sets out the position:

	(Rs. crores)	
	1956-57	1957-58 (April-September)
1. Exports . . . . .	637.0	267.1
2. Imports . . . . .	1076.5	622.2
3. Trade Deficit (1—2) . . . . .	439.5	355.1
4. Invisibles (net) . . . . .	147.0	57.4
5. Current Account Deficit (4—3) . . . . .	292.5	297.7
<i>Financed by—</i>		
6. Official Loans (net) . . . . .	56.4	27.9
7. Drawings on I. M. F. . . . .	60.7	34.5
8. Other Capital transactions . . . . .	(—)39.0	45.5
9. Use of foreign exchange reserves . . . . .	219.0	173.8
10. Errors and Omissions . . . . .	(—)4.6	16.0
	292.5	297.7



For the first half of 1957-58, the current account deficit thus exceeded by about Rs. 5 crores the deficit for the whole of 1956-57. Table VI gives the details on a quarterly basis. The widening of the gap in the first half of 1957-58 was in consequence of the commitments made earlier. In the period of a year and a half since April 1956 the emerging payments gap had to be met by utilising Rs. 392·8 crores of foreign exchange reserves, the I.M.F. credit of Rs. 95·2 crores, and official loans from abroad totalling Rs. 84·3 crores. Official grants from abroad amounted to Rs. 46·3 crores; these are included under item 4 above. It may also be mentioned that the rising deficits of this period have meant a growing deficit with all the principal areas. The deficit with the OEEC countries went up from Rs. 95 crores in April-September, 1956 to Rs. 135 crores in April-September, 1957; the deficits with the sterling area rose from Rs. 22 crores to Rs. 49 crores and the deficit with the dollar area from Rs. 1 crore to Rs. 74 crores.

22. The major factor in the sharp deterioration in the balance of payments has, of course, been imports; it is at this point that the impact of the growing tempo of development has been felt most. Imports amounted to Rs. 1077 crores in 1956-57 (as compared to Rs. 751 crores in 1955-56), the rate of imports going up from Rs. 230 crores in the first quarter to Rs. 306 crores in the fourth. There was further acceleration in the first quarter of 1957-58, the imports for April-June being Rs. 323 crores. The second quarter recorded a decrease, the imports receding to Rs. 299 crores. Over the first six months of 1957-58, imports totalled Rs. 622 crores.

23. In the increase in imports that has taken place, the share of Government imports has progressively gone up. In 1955-56, of the total imports of Rs. 750·6 crores, Government imports were Rs. 128·9 crores, and private imports were Rs. 611·7 crores. In 1956-57, Government imports doubled; they were Rs. 280·6 crores out of a total of Rs. 1076·5 crores, the balance of Rs. 795·9 crores being imports on private account. For the six months to September 1957, Government imports were Rs. 238·8 crores; private imports amounted to Rs. 383·5 crores, the total being Rs. 622·2 crores. These figures indicate how the relative share of Government in total imports has been going up. Actually, the share of Government would be even larger, since a part of the requirements of Government in respect of iron and steel, machinery and vehicles is included in imports on private account.

24. The following table shows the break-up of Government imports since 1955-56:

### Imports on Government Account

	(Rs. crores)		
	1955-56	1956-57	1957-58 (April-Sept.)
1. Foodgrains . . . . .	28.9	101.6	88.1
2. Capital Equipment for Government projects	30.3	59.8	36.5
3. Iron and steel . . . . .	12.1	13.4	20.8
4. Railway Stores . . . . .	22.7	33.1	18.5
5. Communication Stores, including ships .	13.4	25.3	13.5
6. Others (including fertilisers) . . . .	31.5	47.4	61.4
TOTAL .	138.9	280.6	238.8

Both in 1956-57 and in 1957-58, there have been large imports of foodgrains, but it will be seen that all the other items, which are in the nature of capital goods or intermediate products have gone up progressively.

25. An analysis of the composition of private imports in 1956-57 and in the first half of 1957-58 also indicates the relatively small share of consumer goods in the total. A table showing the break-up of private imports for each quarter since April 1955 is given at the end (Table VII). Broadly, the position that emerges is that essential raw materials, intermediate products and capital goods account for about Rs. 600 crores out of the total imports aggregating to Rs. 796 crores in 1956-57. For the first half of 1957-58, about Rs. 283 crores out of the total of Rs. 384 crores is accounted for by these categories. Imports of capital goods in 1956-57 were some 50 per cent higher than in 1955-56 and this rate of imports continued in the first half of 1957-58. It will also be noticed that the imports of raw materials registered a sizeable decline in July-September, 1957. It is not possible yet to assess the trends for the third quarter to December 1957 during which, as mentioned earlier, there has been a marked fall in the rate of decline in foreign exchange reserves.

26. On the side of exports, there has been no advance. In fact, the total for the first two quarters of 1957-58 works out at Rs. 267 crores as compared to Rs. 288 crores for the corresponding period of 1956-57. (*vide* Table VIII). Exports of tea have been much lower

than last year, the total for April-September 1957 being Rs. 38 crores as compared to about Rs. 58 crores for the corresponding period in 1956. This is mainly because of the reduced off-take from the U.K. following the considerable stocking that took place earlier. Tea prices have also been less favourable than last year. Vegetable oils have been falling steadily; the exports for the first half of 1957-58 were Rs. 9.2 crores, which is Rs. 5.5 crores less than in April-September 1956. The fall is even more marked relatively to 1955-56. Exports of jute manufactures have also been lower; they are running at an average monthly rate of Rs. 8 crores as compared to Rs. 10 crores last year. Cotton textiles have been doing fairly well, the half-yearly average for 1957-58 being close to that for the year 1956-57. Exports of ores have been rising—from an average quarterly rate of Rs. 7 crores in the early part of 1955 to Rs. 8.5 crores in the first half of 1956-57 and further to Rs. 10 crores during the period April-September 1957. Exports of some of the engineering items have shown some increase, but these items are too small relatively to total exports.

27. While the heavy imports that have come in since the commencement of the Second Plan have sustained a high level of investment which will add to the flow of domestic goods in the country, it is obvious that the imbalance in the external account of the country has to be corrected early, both by economising foreign exchange and by securing external assistance.