

## VI *Balance of Payments*

25. The pressure on foreign exchange reserves which has been evident since the beginning of the Second Five Year Plan was felt even more acutely in the earlier part of the year, though it abated considerably thereafter. The average weekly rate of decline in the foreign assets of the Reserve Bank in the first nine months of 1958-59 was Rs. 2·6 crores. The rate of drawals had gone down from Rs. 8·0 crores in the first half of 1957-58 to Rs. 3·3 crores in the second half. There was a sharp reversal

of this trend in the first four months of 1958-59, when the rate of weekly draws increased to Rs. 5.3 crores. The trend was halted a little by the end of July, 1958; for the quarter July-September, the rate of drawal averaged Rs. 2.6 crores per week. From the beginning of November the reserves have been going up and on February 13, 1959, they stood at Rs. 206.1 crores.

26. The following table sets out the balance of payments position for 1956-57, 1957-58 and the first half of 1958-59; detailed figures of balance of payments for the third quarter of 1958-59 are not yet available:

	(Rs. crores)		
	1956-57	1957-58	1958-59 (Apr.—Sept.)
1. Exports . . . . .	635.1	594.5*	253.5
2. Imports . . . . .	1,095.6	1,174.8	526.0
3. Trade balance (1-2) . . . . .	-460.5	-580.3	-272.5
4. Invisibles (net) . . . . .	153.7	129.2	61.7
5. Current account balance (3+4) . . . . .	-306.8	-451.1	-210.8
<i>Financed by :—</i>			
6. Official loans (net) . . . . .	60.1	87.1	95.5
7. Drawings on I.M.F. . . . .	60.7	34.5	..
8. Other capital transactions . . . . .	-24.6	65.2	17.1
9. Use of foreign exchange reserves . . . . .	221.3	259.9	86.3
10. Errors and Omissions . . . . .	-10.7	4.4	11.9
	306.8	451.1	210.8

\*Excludes repatriation to the U. S. A. of lend-lease silver valued at Rs. 74.4 crores.

It will be seen from the table that the deficit on current account in 1957-58 was about 50 per cent. larger than in 1956-57. Exports were lower, while imports exceeded the previous year's level of Rs. 1,096 crores by Rs. 79 crores and the level in 1955-56 by about Rs. 425 crores. The fall in reserves in 1957-58 was Rs. 39 crores more than in the previous year, in spite of a net exceptional inflow of Rs. 65 crores on 'Other capital transactions'. For the first half of 1958-59 the improvement in the current account over the position in 1957-58 is small. While imports are significantly lower, exports have also shown a decline. It will be noticed that the receipts of official loans in the half year—Rs. 95.5 crores—were larger than for the whole of the previous year. This resulted in a substantial diminution in the draft on foreign exchange reserves. The total of official loans and grants over the 2½ years works out at Rs. 341 crores. Table 5.1 at the end gives the balance of payments position for 1957-58 and the first half of 1958-59 on a quarterly basis.

27. The abatement of the pressure on foreign exchange reserves has been due, as mentioned above, to the severe restrictions on imports and the larger flow of assistance from abroad. Tables 5.2 and 5.3 at the end give details of imports on private account and exports respectively on a quarterly basis. As can be seen from the summary table below, private imports amounted to about Rs. 200 crores per quarter between April, 1956 and June, 1957. Since then, they have declined more or less steadily, the level in July—September 1958 being Rs. 133 crores.

<i>Private Imports</i>					(Rs. Crores)
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
1956-57 . . . .	196.1	195.5	209.7	194.7	796.0
1957-58 . . . .	201.0	182.5	159.6	138.9	682.0
1958-59 . . . .	142.2	132.9	N.A.	N.A.	275.1

The decline in private imports has been most marked in the case of consumer goods, the fall being from a quarterly rate of Rs. 37 crores in 1956-57 to Rs. 19 crores in the first two quarters of 1958-59. The proportion of consumer goods to total imports on private account was slightly less than 20 per cent. between April 1956 and June 1957. It came down to about 15 per cent. in July—September 1958, when total private imports were smaller.

28. The imports of intermediate goods and raw materials have also gone down, although the scope for reduction in these imports is necessarily small. The decline in these two categories is explained by the lower imports of one or two items, such as iron and steel. The quarterly imports of iron and steel which averaged about Rs. 30 crores in 1956-57 and Rs. 20 crores in 1957-58 came down to a little over Rs. 10 crores in the first half of 1958-59. Imports of raw materials were about Rs. 173 crores in 1956-57; they were reduced by Rs. 40 crores in 1957-58 mainly through a cut in the imports of raw cotton. Raw material imports in the first half of 1958-59 recorded a small increase. In the case of capital goods, imports were around Rs. 50 crores a quarter in 1956-57, and there was only a small decline in 1957-58. In the first as well as in the second quarter of 1958-59, these imports amounted to only Rs. 37 crores.

29. The trend in government imports has been continually upwards. In 1956-57, these imports were Rs. 291 crores, i.e., a little over one-fourth of the total. In 1957-58 while private imports declined by about Rs. 122 crores, government imports, including food imports, increased by Rs. 201 crores and constituted a little over 40 per cent. of total imports. During the first half of 1958-59, the proportion of government imports to the total increased further to about 48 per cent.

30. The following table shows the break-up of government imports since 1956-57:

*Imports on Government Account*

	(Rs. Crores)		
	1956-57	1957-58	1958-59 (Apr.—Sept.)
1. Foodgrains . . . . .	101·6	152·6	53·8
2. Capital equipment for Government projects .	59·8	88·0	85·9
3. Iron and Steel . . . . .	13·4	51·6	22·1
4. Railway stores . . . . .	33·1	49·7	32·2
5. Communication stores (including ships) .	25·3	23·4	5·6
6. Others . . . . .	47·4	127·6	51·2
	280·6*	492·9	250·8

\*Revised data show total Government imports at Rs. 291·3 crores.

There has been a substantial step-up in the imports of capital equipment for government projects, iron and steel and railway stores. The imports of capital equipment for government projects in the first half of 1958-59 were almost equal to the annual total in 1957-58; those of railway stores about twice the rate in 1956-57.

31. The impact of development on imports and the effectiveness of the restrictive import policy followed since 1957 can be seen from the table below:

	(Rs. Crores)					
Imports	1955-56	1956-57	1957-58 1st half	1957-58 2nd half	1957-58	1958-59 1st half
A. Non-Developmental .	203·6	334·4	240·5	204·4	445·0	171·4
Food . . . . .	28·9	101·6	88·1	64·5	152·6	53·8
Other consumer goods	122·7	147·5	65·1	52·6	117·8	38·8
Others . . . . .	52·0	85·3	87·3	87·3	174·6	78·8
B. Raw materials and Intermediate goods.	322·5	413·0	204·1	159·9	364·0	156·7
Raw materials and produce . . . . .	172·5	172·5	74·7	59·1	133·8	70·1
Intermediate goods Of which : Iron and steel :	150·0	240·5	129·4	100·8	230·2	86·6
Private . . . . .	58·3	119·4	52·9	29·8	82·7	21·2
Government . . . . .	12·1	13·4	20·8	30·8	51·6	22·1
C. Capital goods . . . . .	219·8	329·2	177·8	188·2	366·0	197·8
Private . . . . .	153·4	211·0	109·3	95·6	204·9	74·1
Government . . . . .	66·4	118·2	68·5	92·6	161·1	123·7
D. GRAND TOTAL . . . . .	745·9	1,076·5*	622·3	552·6	1,174·8	526·0

\*The revised total is Rs. 1,095·6 crores, but break-up corresponding to it is not yet available.

32. Imports rose in 1956-57 largely under the impact of development, though non-developmental imports also contributed to the increase. Of the increase of about Rs. 330 crores in total imports, roughly two-thirds was on account of 'raw materials and intermediate goods' and capital goods; the former increased by about Rs. 90 crores while the latter rose by Rs. 109 crores. Non-developmental imports increased by about Rs. 130 crores, over half of which was accounted for by food imports. The increase under 'raw materials and intermediate goods' was mainly on account of large increase in the import of iron and steel on private account. The increase in the imports of capital goods was shared more or less evenly by the private and the public sectors.

33. Imports in 1957-58 increased further by about Rs. 100 crores in the aggregate: of this, Rs. 37 crores represented an increase in imports of capital goods. Raw materials, intermediate products and consumer goods declined by about Rs. 80 crores. Food imports, on the other hand, were higher by about Rs. 50 crores. Other non-developmental imports rose by about Rs. 90 crores. The imports of the group 'raw materials and intermediate goods' were reduced mainly by cutting down on raw materials. The imports of intermediate goods declined only slightly because as against the reduction in the private imports of iron and steel, there was an increase in imports on government account. Thus the total availability of iron and steel remained more or less the same in these two years and there was a slight reduction in the imports of other intermediate goods.

34. In the first half of 1958-59 there has been a substantial decline in non-developmental imports. At Rs. 171 crores they were about Rs. 70 crores lower than those for the first half of 1957-58 and about Rs. 30 crores smaller than those for the second half of 1957-58. The decline was due to lower food imports and lower consumer goods imports as compared to the two halves of 1957-58. The decline in consumer goods imports indicates the effectiveness of restrictive import policy since the beginning of the year 1957. The rate of imports of raw materials was substantially higher than in the second half of 1957-58 and almost the same as in the first half of 1957-58. This liberalisation came after the strict licensing policy during July—September 1957 which had led to a decline in the stocks of imported raw materials with industries, accumulated earlier. Intermediate goods, however, have shown a decline mainly because of the falling imports of iron and steel on private account. Private imports of iron and steel in the first half of 1958-59 were only 40 per cent. of the level in the first half of 1957-58. Capital goods, on the other hand, have maintained the upward trend, government imports rising as private imports declined.

35. On the side of exports, there has been a setback. In 1957-58, the earnings from exports were Rs. 595 crores, i.e., about 6 per cent. lower than in 1956-57. During the first half of 1958-59, exports amounted to Rs. 253.5 crores as compared to Rs. 267.1 crores in the corresponding part of 1957-58, i.e., a decline of about 5 per cent. While the exports of tea (Rs. 48.9 crores) were about Rs. 10.5 crores better than in the first half of the previous year, and those of cotton raw and waste were also larger by about Rs. 3 crores, those of several other items went down sharply. The exports of cotton manufactures were lower by Rs. 10.3 crores; of jute manufactures by Rs. 2.4 crores; of hides and skins by Rs. 2.1 crores; of manganese ore by Rs. 4.8 crores. In the case of textiles, there was increasing competition from Hongkong, Japan and China, and the world trade in textiles has been shrinking. The recessionary conditions in the U.S.A. and parts of Western Europe were also a factor in the

reduction of export earnings. In recent months, there has been some improvement—partly seasonal—in exports. The various measures taken recently for export promotion may begin to yield some results in the coming months. However, the overall picture for 1958-59 is not likely to be very different from that in the previous year. It must be stressed in this context that the process of cutting down imports beyond a certain point has its dangers, and the requisite balance in external account can be achieved only if exports contribute to it materially.