

ECONOMIC SURVEY—1961-62

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I. Assessment in Brief

During 1961-62, the first year of the third five year plan, there was a further increase in developmental outlays in the public as well as the private sector. At the same time, in keeping with the tasks envisaged in the plan, a significant beginning was made towards the enlargement of domestic resources by fiscal and other devices; and supply conditions on the whole were favourable. Agricultural production had recorded a substantial increase of more than 8 per cent in the 1960-61 season; and industrial production is estimated to have increased by 7 to 8 per cent in 1961. Altogether, there were distinct signs of a better balance between supply and demand in the economy; and this has been reflected in an improvement in the price situation although the balance of payments position continues to remain difficult. Wholesale prices which had increased more or less steadily over the second plan period have registered a small decline over the past twelve months.

2. The restoration of a measure of overall stability to the economy, however, is not inconsistent with signs of weakness or imbalance in individual sectors; and during the year under review situations of scarcity appeared from time to time in some important sectors, including, in particular, power, transport, coal and some varieties of steel. Among agricultural commodities, supplies of raw jute and to a smaller extent of oilseeds were unsatisfactory during the early months of 1961. These shortages in specific sectors were mainly responsible for the somewhat smaller increase in industrial production in 1961 (7 to 8 per cent) than in 1960 (12·1 per cent) or 1959 (8·7 per cent); and steps had to be initiated during the year to ensure that bottlenecks in individual key sectors might not set up a vicious spiral.

3. Perhaps the most unsatisfactory aspect of the economic situation in 1961-62 has been the persistent attrition of our foreign exchange reserves.

The foreign assets held by the Reserve Bank had declined from Rs. 746 crores at the beginning of the second plan period to Rs. 136 crores by the end of the plan period. During the current year, it became necessary to supplement these reserves by a net drawing on the International Monetary Fund of Rs. 58·3 crores. Even so, indications are that the year as a whole will reveal some decline in reserves from the level from which it started.

4. Clearly, the continuing pressure on reserves cannot be attributed to the resurgence of excess demand in the economy; for, quite apart from the growing signs of internal stability already referred to, there has been an increase in exports and a decline in imports in the current year so that the balance of trade, in fact, has shown some improvement. Basically, the weakness in the balance of payments in the current year is manifestation of a structural deterioration in regard to the invisible account. With the progressive decline in foreign exchange reserves and the sizable increase in external indebtedness, the current invisible account in our balance of payments has now emerged as a net source of drain whereat it yielded a net surplus of about rupees hundred crores per annum only a few years ago; and repayment obligations on foreign debt have been rising. Movements of private and banking capital this year have also tended to add to the pressure on reserves.

5. Given the situation on external account where we operate with a narrow margin of reserves and where a sizable gap has emerged even on maintenance account, there can be little doubt that a vigorous promotion of exports has become a major desideratum of economic policy in the country. External assistance is undoubtedly valuable in the formative stages of development; and in the immediate period ahead, it would be necessary to negotiate additional assistance for financing developmental as well as maintenance imports if the implementation of the plan is to proceed at a satisfactory pace. But even with assurance of external assistance on an adequate scale, there would be little room for manoeuvre in steering the economy from year to year unless export earnings could be lifted progressively.

6. Internally, the outlook for the coming year appears favourable. The 1961-62 crop of foodgrains, on the whole, should show some improvement over the satisfactory level reached in 1960-61. Prospects for the raw jute and oilseeds crops are distinctly better although there has been a set-back in regard to cotton. Industrial production also should respond to growing efforts to improve the supplies of basic materials and services. The pressure of demand in the economy, however, will inevitably be upward as the plans in the public and private sectors get implemented progressively. The maintenance of internal stability would thus call for determined efforts to increase productivity and savings—the twin pillars upon which rest also the chances of an enduring improvement in our export potential.