

I INTRODUCTION

The performance of the Indian economy in the year 1970-71 has been generally satisfactory. The growth of national income will, by and large, attain the level targeted for in the Fourth Plan, mainly due to a rate of growth of over 5 per cent in the agricultural sector. Food production continued to rise for the fourth year in a row and stocks of foodgrains with the public agencies amounted to 5.8 million tonnes at the end of the year. Overall industrial output is likely to have grown by a little more than 5 per cent. Barring a few industries, the rate of utilisation of capacity is considerably higher than last year. Corporate performance has been good, and the stock market has displayed great confidence. The capital market has shown a vitality which it had lacked for some time. The balance of payments continues to display strength. Exports staged a remarkable recovery during the year after initial setbacks. The declining trend in food imports continues. India's short-term indebtedness to the IMF has been wiped out.

2. The reorientation of the nationalised banking system towards meeting the credit needs of the hitherto neglected sectors was pursued vigorously during the year; there was an impressive increase in the funds advanced to these sectors. The task of extending banking facilities to unbanked areas, particularly in the rural sector, was further carried forward. Resource mobilisation by the Centre has been commensurate with the targets set in the Plan.

3. Unalloyed satisfaction is not, however, permissible because of certain disturbing elements in the total picture. While cereal production has been impressive, the production of pulses has not shown the same response. The production of commercial crops such as cotton, jute and oilseeds continued to be short of requirements.

4. The growth in industrial production is not as high as during the previous year because of the uneven performance of some of the major industries. Traditional industries, like cotton textiles and jute, are not showing any great improvement. In steel, there has been a slight fall in production. Coal output too was lower during the year. The growth in industrial production was brought about by other industries, such as chemicals, engineering, certain types of machinery etc., whose rate of growth in general has not been higher than in the previous year. Excess capacity continues to exist in some machinery and transport equipment industries.

5. Prices have shown a continued tendency to rise. Although foodgrains production has increased, prices of foodgrains have not fallen steeply because of the price support extended by Government through its procurement policy. On the other hand, the prices of commercial crops, particularly those of cotton and oilseeds, have shown a tendency to rise sharply due to supply shortage. The chain has been completed by an increase in the prices of manufactures based upon these raw materials and intermediates. Increased money supply, alongside with speculative activity, further aggravated the situation. Over the year, the wholesale price index on the average

was higher by nearly 5.6 per cent as compared to the previous year. Although steps were taken to arrange for larger imports of steel, cotton and vegetable oils, these could not arrive on time to augment domestic supplies. Monetary restraints had to be applied to curb demand.

6. Exports have risen in consonance with the Plan target despite an abnormal fall in the early months of the year. The high price of raw cotton came in the way of a faster growth of cotton textile exports. The shortage of steel affected the exports of iron and steel.

7. Imports have increased over the year. While food imports have shown a decline, non-food imports have increased, because of the growing needs of industry for raw materials, intermediates and components. Aid allocations have declined in 1970-71, but the burden of debt servicing has increased. Net aid available to finance imports has therefore gone down.

8. The progress of banking in the desired directions was quite satisfactory. The task of reconciling the expanded credit requirements of the new sectors with those of the older ones gave rise to occasional difficulties and there was, consequently, a sizeable expansion of total bank advances. Similarly, while the expansion of banking facilities in the unbanked areas was quite rapid, the spread of the banking habit and the increase in bank deposits were not commensurate with need.

9. The progress in agriculture, and particularly foodgrains production, has provided a satisfactory base for the economy, even though a great deal still needs to be done for raising the productivity of commercial crops, as also of rice and pulses. In industry, the supply constraint is partly derived from the shortage of raw materials. Lag in cotton and jute textile output has reflected the relative scarcity of the raw fibre; lag in steel output reflects in part the unsatisfactory state of industrial relations. In coal, inadequate movement by rail has contributed to a lower level of production. The steel shortage has affected the entire engineering industry.

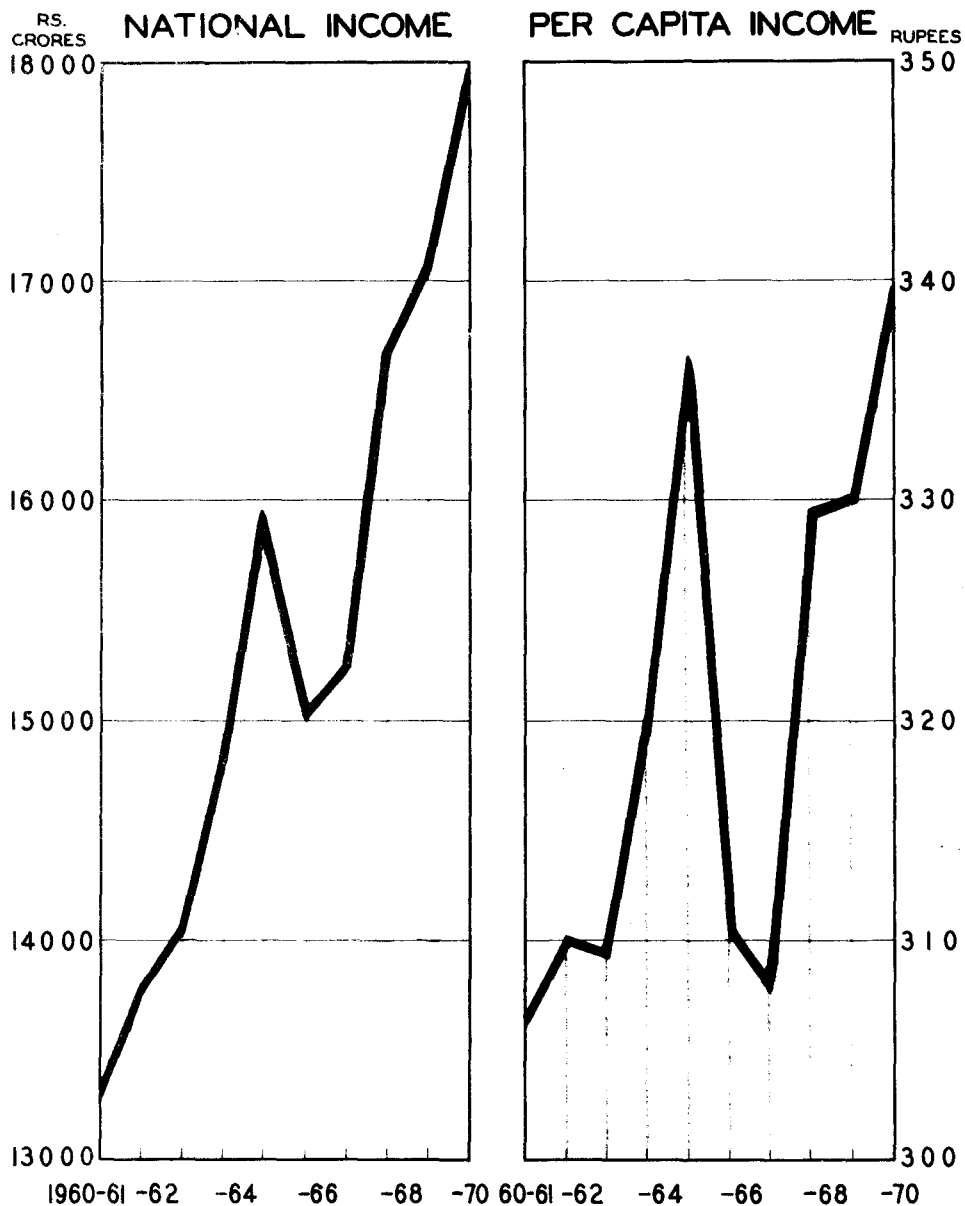
10. Demand for food, cloth, oils, sugar, etc. appears to have been maintained. The demand for inventories has gone up. With increasing activity, in many industries the scale of inventories has risen to match increased production. In industries using scarce raw materials, there was a scramble to build up satisfactory inventory positions to ensure continuous production.

11. The picture regarding investment demand is somewhat complex. The investment outlays in the public sector have been less than what was budgeted for; but they still registered a significant increase over the previous year. Investment in industry has been higher, though not as high as targeted; but, investment by the railways has not revived. Private investment in agriculture seems to have been high, looking at the additional volume of credit which the banking sector has made available to agriculture, though a part may have gone to finance a growing volume of inputs like fertilizer, insecticides, etc. In industry replacements, additions and expansion appear to have been at a higher level, looking both at company

NET NATIONAL PRODUCT [NATIONAL INCOME]

(AT 1960-61 PRICES)

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MINISTRY OF FINANCE, ECONOMIC DIVISION.

reports and at the output of certain machinery industries and machine tools. Investment in new projects was moderate. The increased investment activity was certainly not general, but confined to certain chemical and engineering fields. Investment in small scale industries appears to have risen sharply.

12. On the fiscal front, despite marked resource effort on the part of the Centre, deficit financing could not be contained, since non-Plan expenditure has continued to rise, particularly in response to the grant of interim relief to Government employees. Plan outlay, however, has fallen short once more, largely because of the failure of many projects to progress according to schedule. The finances of the States have continued to be in an unsatisfactory state, and overdrafts with the Reserve Bank of India remain heavy, even though special accommodation from the Centre has been maintained on a large scale.

13. Employment in the organised sector, including in Government, continued to expand in 1970-71. A crash programme for rural employment was announced during the year. Banks were increasingly involved in promoting schemes of self-employment. While faster economic growth will provide the main answer to the problem of unemployment and under-employment, attention needs also to be given to investment patterns and to the speedy implementation of specific schemes.

TABLE I
Selected Economic Indicators

	1966-67	1967-68	1968-69	1969-70	1970-71
	(Percentage change over previous year)				
I	2	3	4	5	6
1. National Income at constant prices	1.5*	9.3*	2.4*	5.3*	5.5**
2. Agricultural Production	-1.1	22.4	-1.0	6.5	Above 5.0**
3. Foodgrains production	2.6	28.0	-1.1	5.8	5.5 to 6.5**
4. Industrial production	0.3	0.5	6.7	6.8	4.1†
5. Electricity generated	9.3	12.6	14.1	14.3	9.3†
6. Wholesale prices	13.9	11.6	-1.1	3.7	5.6
7. Money supply	8.3	9.1	8.1	10.8	10.6‡
8. Imports	-6.3	-3.4	-7.3	-17.9	4.6§
9. Exports	-8.9	3.6	13.3	4.1	8.6§
10. Freight carried by Railways	-0.3	1.9	5.3	2.5	-2.4**

*Provisional.

**Estimated.

†April-December, 1970 compared to April-December, 1969.

‡April 1 to March 26, 1971 compared to April 1, to March 27, 1970.

§April 1970—February 1971 compared to April 1969—February 1970.