

I. MAJOR ECONOMIC DEVELOPMENTS

1971-72 was one of the most difficult years India has faced since Independence. The country's resources, physical as well as fiscal, were greatly strained by developments across the border, the influx of nearly ten million refugees, and the outbreak of hostilities in December, 1971. The economy responded well to this challenge; the increased fiscal burden was fully met, the real resources required for refugee relief and defence were mobilised in time, and prices and balance of payments were kept under reasonable control.

2. At the same time, the experience garnered during the year has brought to the fore a number of problems which need to be tackled if the economy is to build on its inherent strength. For this reason, the pattern of the Economic Survey this year is somewhat different from that followed in the previous years. The major developments during the year have been summarised in Section I of the Survey; the subsequent Sections analyse the nature of the specific tasks awaiting the economy in the different fields. The concluding Section draws attention to the basic factors affecting growth, and assesses the prospects in the immediate period.

Rate of Growth

3. The economy continued to grow during 1971-72, but at a pace slower than envisaged in the Fourth Five Year Plan. The growth of national income in 1969-70 came to somewhat less than the Plan target of 5.5 per cent, and, in the following year, the rate achieved is estimated to be a little less than 5 per cent. Indications in regard to 1971-72 are that the rate of growth would be of the order of 4 per cent. Apart from the fact that Plan targets are not being maintained, what is more disturbing is that sectoral contributions to the growth of national income are not proceeding according to the pattern envisaged in the Plan. While the output of foodgrains has been increasing sharply—thus serving to raise the overall rate of growth of agricultural production despite uneven performance of commercial crops—the industrial sector of the economy appears to have relapsed into a state of relative stagnation. A distinct slowing down in the growth of industrial production is discernible from about the middle of 1970, with the result that, during 1970-71, the rate of growth in the organised sector was only about 3.7 per cent as against 6.8 per cent in 1969-70. In contrast, agricultural production in 1970-71 rose by as much as 6.7 per cent. In effect, therefore, the share of agriculture and allied activities in the national income has, instead of falling, tended to rise marginally.

4. Notwithstanding some improvements in the last few months, industrial output in the organised sector during 1971-72 may not grow by more than 4 per cent. The slow rate of growth of the secondary sector, again, has had its impact on the tertiary sector, which, too, has been unable to expand at a rate beyond 4 to 5 per cent per annum in recent years. In particular, railway traffic is showing only a slight improvement, thus both reflecting and confirming the current sluggish trends in industry.

TABLE I
Selected Economic Indicators

	1967-68	1968-69	1969-70	1970-71	1971-72
	(Percentage change over previous year)				
1. National Income at constant Prices	9.3	2.4	5.3	4.7*	4.0**
2. Agricultural production	22.4	-1.0	7.1	6.7	3.8**
3. Foodgrains production	28.0	-1.1	5.8	8.3	4.8**
4. Industrial production	0.5	6.7	6.8	3.7	4.0**
5. Electricity generated	12.6	14.1	14.3	8.6	6.3†
6. Wholesale prices	11.6	-1.1	3.7	5.5	3.8@
7. Money Supply	9.1	8.1	10.8	11.0	12.5@@
8. Imports	-3.4	-7.3	-17.1	2.7	18.6***
9. Exports	3.6	13.3	4.1	8.6	3.6***
10. Freight carried by Railways	1.9	5.3	2.5	-0.7	4.6***

*Provisional.

**Estimated

†April-August 1971 compared to April-August 1970.

*** April-December 1971 compared to April-December 1970.

@April, 1971—January, 1972 compared to April, 1970—January, 1971.

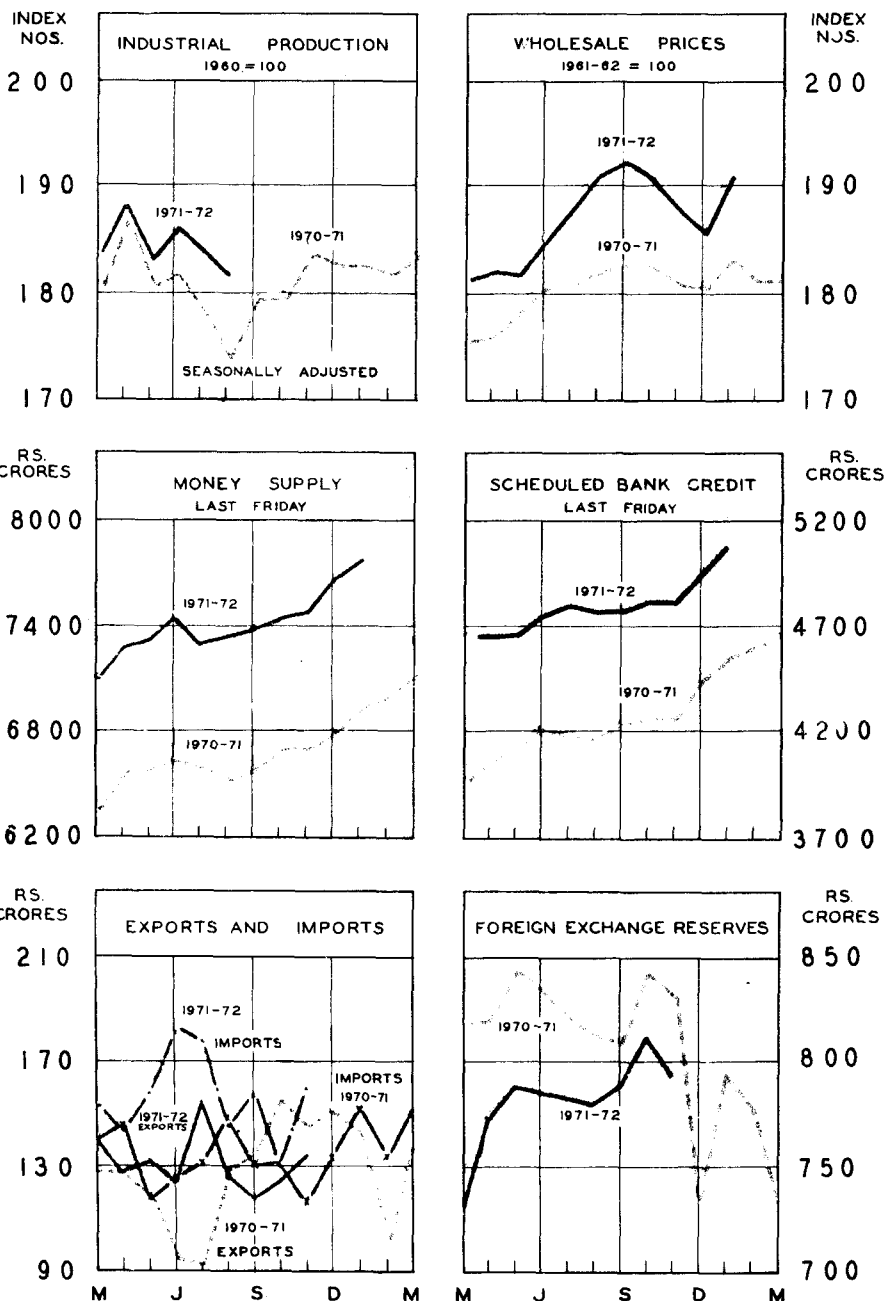
@@End-January, 1972 compared to End-January, 1971.

Agriculture

5. The output of foodgrains in 1970-71 was 107.8 million tonnes; as a consequence thereof, stocks of foodgrains are at a considerably higher level than last year. In fact, soon after the *rabi* crop came into the market, procurement soared, and stocks with Government at the end of July 1971 reached the peak level of 8.6 million tonnes. The *kharif* crop has been equally satisfactory, and as at the end of December, 1971, stocks stood at 7.9 million tonnes, that is, 2.5 million tonnes higher than at the end of 1970. Certain blemishes, however, mar this generally satisfactory picture. While the production of all cereals other than jowar, has increased, the output of pulses was marginally lower than in 1969-70.

6. Currently there are a number of problems ancillary to the increased production of foodgrains in the country. The requirements of storage and transport have increased to such an extent that considerable strain is placed on the existing machinery. The other important aspect of increasing production of foodgrains impinges upon the monetary sector of the economy,

SELECTED ECONOMIC INDICATORS



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inasmuch as the demand for funds for procurement operations has increased sharply. Thus outstanding advances against foodgrains reached the level of Rs. 431 crores towards the end of July, 1971. The banking sector has, upto this time, responded in full measure to the demands placed upon it; but since the output of foodgrains during 1971-72 is expected to increase by another 4 to 5 million tonnes, the problems are going to multiply. Equally important is the consequence of the likely increase in the burden of food subsidy on the Union Government's budget.

7. In contrast to the significant improvement in the production of foodgrains, the progress with commercial crops leaves much to be desired. Cotton and jute suffered substantial declines in output in 1970-71, while the sugarcane crop was also lower than in the previous year. Fortunately, the output of the other major raw material, namely, oilseeds, recovered from the low level of 1968-69 and has, indeed, surpassed the peak reached in 1967-68. Even so, production is not yet able to meet fully the demand which is rising rapidly, and the hold of speculators on the market processes remains strong. A more favourable picture is presented by the plantation crops, two of which, coffee and rubber, registered record outputs; on the other hand, the production of tea is rising relatively slowly.

8. In 1971-72, the output of cotton is expected to rise by about 15 per cent; that of jute and mesta would also have been larger but for the floods which affected the crop in West Bengal. The production of oilseeds would be less than in 1970-71; similar is the position in regard to sugarcane, the acreage under which is reported to have declined, albeit marginally. The output of tea will be higher but only by a small margin, since increases in production and productivity cannot be envisaged without extensive replantation. What is true of tea applies generally to other commercial crops also. Although efforts continue to develop new high-yielding varieties of seeds, and some success has been achieved, as, for example, in the case of Hybrid-4 cotton, their impact is not yet significant. A great deal of leeway has to be made up here.

Industrial Production

9. The tempo of industrial activity has shown signs of deceleration in the more recent years. After recording an annual rate of growth of 6.4 per cent in 1968 and 7.1 per cent in 1969, the rate of increase in industrial output declined to 4.8 per cent in 1970. The decelerating trend became more pronounced in the latter half of 1970, during which period a rise of only 3 per cent over the level attained in the corresponding period of 1969 was recorded. According to the latest available statistics, during the first eight months of 1971 (i.e., January-August 1971), the rise in the index of industrial production was 2.0 per cent as compared to 5.5 per cent during the corresponding period of the previous year. Thus the recent rate of growth has been substantially lower than the annual rate of industrial expansion envisaged in the Fourth Plan.

10. The slowing down in the rate of industrial growth has been fairly pervasive. In the manufacturing sector, for example, the index for the output of consumer goods recorded an increase of 6.4 per cent in 1970 as against the rise of 10.8 per cent in 1969. This drop is explained, to a large extent, by the phenomenal fall in the rate of increase in the output of such disparate categories as sugar, textiles and radio receivers.

11. By and large, the performance of the sector producing intermediate inputs was better than that of the industries engaged in producing final goods of consumption. The output, for instance, was significantly higher in industries producing chemicals (8.6 per cent), paper and paper products (7.4 per cent), synthetic fibres (3.4 per cent), and non-metallic mineral products (8.0 per cent). For fertilisers, the rate of increase in 1970, at 19.8 per cent, though lower than the rate of growth of 24.3 per cent achieved in the previous year, is encouraging, since this rate of increase is over a considerably enlarged base. In contrast, the growth in the output of cement in 1970 was considerably lower. As against the growth of 14 per cent in 1969, the production of cement expanded in 1970 by only 2.4 per cent, thus widening further the gap between supply and demand.

12. The rate of increase in the output of petroleum products in 1970 was less than in the previous year. The decline was largely on account of a slackening in the pace of demand for refined petroleum products. More disconcerting was the fall in the output of basic metals, including iron and steel.

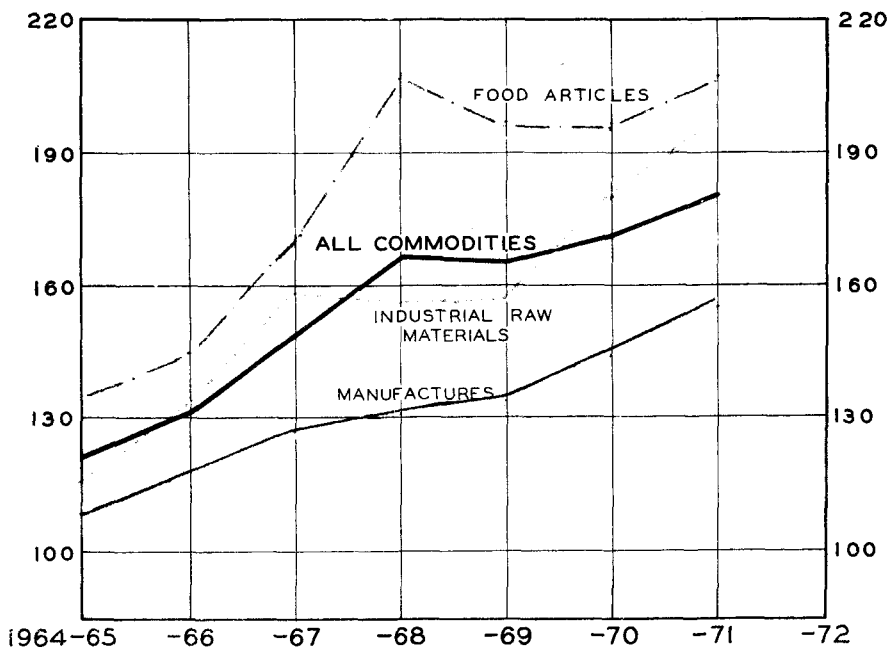
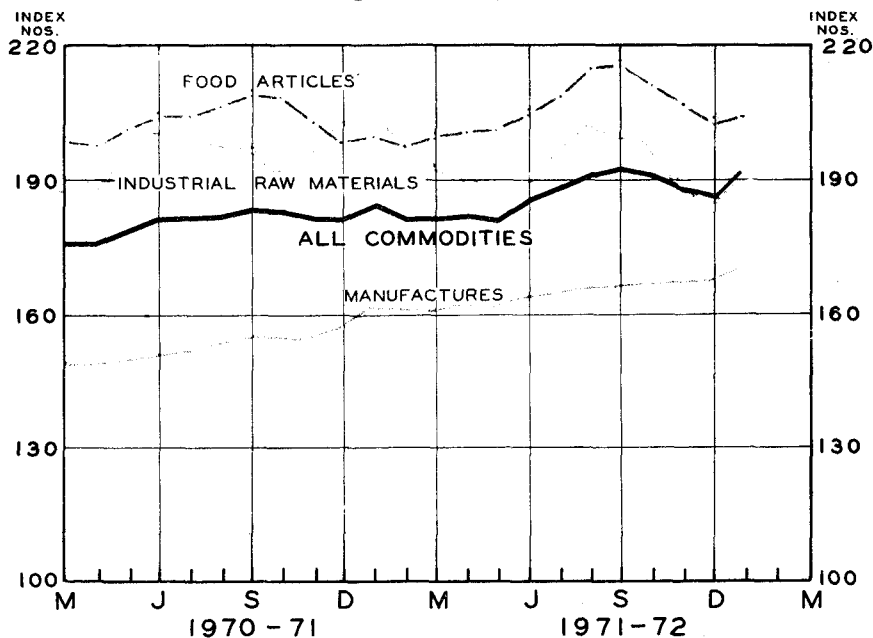
13. In the case of capital goods, however, appreciable increases in output took place in 1970. The rate of increase, as reflected by the output index for this sub-group, was 0.5 per cent in 1968, followed by a negative rate of growth of 1.2 per cent next year. In 1970, production in this sub-group moved up by 3.8 per cent over the level recorded in previous year. The production of power transformers, for instance, rose by 40.6 per cent in 1970 as against by a mere 4.6 per cent in 1969. Similarly, in the case of electric motors, the rate of increase in output went up from 8.7 per cent in 1969 to 34.5 per cent in 1970. The production of automobiles too increased substantially; so was the case with industrial machinery. On the other hand, the growth of diesel engines (stationary) continued to slow down. The rate of increase in electricity generated, at 10.9 per cent, was marginally lower in 1970 than in 1969.

14. In a few other crucial areas too, the trend of industrial output in 1970 was disturbing. The production, for example, in mining and quarrying was only 1.1 per cent above the level attained in 1969. The production of transport equipment declined for the second successive year, and was below the output in the previous year by 2.5 per cent. In brief, textiles, iron and steel, other basic metals including metal products, non-electrical machinery, rail-road and other machinery equipment are the major industries contributing to the relatively low rate of industrial growth in 1970.

15. As stated earlier, the rate of increase in industrial output would appear to have slowed down even further during 1971. In the case of industries manufacturing food articles, the output has actually fallen, as against a rise of 15.9 per cent during January-August 1970. The produc-

WHOLESALE PRICES

1961-62 = 100



MINISTRY OF FINANCE, ECONOMIC DIVISION

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tion of leather and fur products at one end and transport equipment at the other also indicates substantial declines (—14.0 and —10.9 per cent respectively). A considerable slowing down in the rates of growth has occurred in certain other groups too, namely, industries producing paper and paper products, non-electrical machinery, chemical and chemical products, and non-metallic mineral products. The rate of expansion of power generation has fallen from 12.3 per cent in January-August 1970 to 6.4 per cent during the corresponding period in 1971. A few industries, however, have fared better in 1971 than in 1970. For instance, the performance of the industries manufacturing footwear and wearing apparel, wood products, rubber goods, metal products, electric machinery and the basic metals was better during the first eight months of 1971 than in the corresponding period of the preceding year.

Prices

16. The average rise in the general wholesale price index during 1970-71 came to 5.5 per cent. The sharp increase—averaging approximately around 10 per cent during the year—in the price level of raw materials was principally responsible for this over-all rise, which could not be subdued by the larger availability of food-grains. The impact of the increase in the level of raw material prices was felt in the manufacturing sector, where too prices moved up by about 8 per cent over the year.

17. The current fiscal year commenced with two months of price stability; thereafter, between May and September, 1971, the wholesale price index recorded a rise of 5.9 per cent; even foodgrains contributed to this rise. The latter phenomenon, in so far as it relates to cereals, can be partly explained by special factors such as the drought in certain parts of Maharashtra, Mysore, Madhya Pradesh and Andhra Pradesh, and floods in parts of Uttar Pradesh, Bihar and West Bengal. There were also the after effects of the damage caused by the cyclone in Orissa; and, finally, the additional pressure of demand on account of the refugees from Bangladesh. The natural calamities did not affect the over-all situation inasmuch as considerable stocks of foodgrains were lying with the Government, but local difficulties of movement, etc., did arise, and it took time for appropriate corrective measures to be taken. Moreover, given the developments in the agrarian front in recent years, the holding power of both traders and the relatively more affluent section of the peasantry has of late risen enormously; these groups can turn into their immediate advantage any temporary difficulties in supply. As the *kharij* marketing season drew close, prices once more started declining, and the trend continued till the beginning of December.

18. Even though prices of foodgrains are still appreciably higher than what they were a year ago, the rise in the price index for food articles as a whole is less. On the other hand, the price index for non-food articles has behaved somewhat differently, presumably because of the pronounced stickiness in the other elements of cost despite a levelling off in the price index for raw materials.

19. Taking the calendar year 1971 as a whole, the average rise in general price level was 3.9 per cent over the year; in the previous year it was 6.2 per cent. At the end of January, 1972, the general wholesale price index was 4.1 per cent higher than what it was a year ago. While the situation over the year has been more or less under control, there cannot be any complacency in the matter, nor can the Government afford to relent in its efforts to hold the price line. The impact of the war is yet to be fully felt in the economy, and the diversion of real resources which the conduct of the war, howsoever brief, has implied cannot sooner or later but add to a certain strain. Monetary expansion, may also, in the absence of regulatory measures, lead to unwholesome consequences. Besides, speculators can scarcely resist the temptation of exploiting a situation of excess demand, however marginal. Suitable action has been taken during the year to check speculative pressures through amending and issuing a number of notifications under the Forward Contracts (Regulation) Act; this action was immediately followed by a distinct decline in the prices of oilseeds. A fairly restrictive credit policy too has been in operation for quite some time; it has not been considered desirable to relax the policy even though the prospects for commercial crops during 1971-72 are better than last year. Physical controls are being kept constantly under review; while price control on sugar was lifted, the distribution of the products of steel re-rollers and of agricultural tractors has been brought under regulation during the year.

Monetary Developments

20. Money supply with the public, which rose at the rate of 10.8 per cent during 1969-70, witnessed an increase of 11.0 per cent in 1970-71. As was stated in last year's Economic Survey, monetary expansion in 1970-71 was attributable primarily to credit creation in favour of the domestic sectors, particularly the Government.

21. Monetary data for 1971-72, available upto January 28, 1972, reveal an increase of Rs. 625 crores in money supply between March 31, 1971 and that date as against an increase of Rs. 475 crores in the corresponding period last year. During the current year so far, net bank credit to the Government has risen by Rs. 764 crores as against by Rs. 307 crores in the corresponding period last year; the net increase in the Reserve Bank of India's credit to the Government alone works out to Rs. 454 crores—Rs. 311 crores to the Centre and Rs. 143 crores to the States—in contrast to only Rs. 127 crores last year. The expansionary impact of the Government's transactions with the Reserve Bank of India in the current year has however been considerably contained by a marked decline in net bank advances to the commercial sector, which have contracted by Rs. 215 crores; last year, over the same period, they had risen by Rs. 238 crores.

TABLE II

Variations in Money Supply

(Rs. crores)

	1970-71 March 31 to March 31	1970-71 March 31 to January 29	1971-72 March 31 to January 28
1	2	3	4
1. Net Bank credit to Government (A+B)	515	307	764
A. Reserve Bank of India credit to Government	332	127	454†
(i) Centre	108	64	311
(ii) State	224	63	143
B. Banks' holdings of Government Securities	183	180	310
2. Net Bank credit to commercial sector (a+b)	346	238	-215
(a) Reserve Bank of India credit to commercial sector	50	33	68
(b) Banks' net credit to commercial sector (i-ii)	296	205	-283
(i) Bank's advances and holdings of private securities	818	680	405
(ii) Banks' time deposits	522	475	688
3. Net foreign exchange assets of the RBI*	-47	-11	95
4. Money supply with the public (a+b)	719	475	625
(a) Currency with the public	362	237	327
(b) Deposit money with the public	357	238	298

†Excludes book adjustments of the order of Rs. 175 crores.

*Variations in net foreign exchange assets of the Reserve Bank of India represent variations in the Bank's holdings of foreign exchange (i.e. gold and foreign exchange) net of variations in the Bank's non-monetary foreign exchange liabilities (i.e., transactions with the International Monetary Fund).

NOTE:—The magnitude of the Reserve Bank of India's credit to the Government in the table above represents the changes in the indebtedness of the Government to the Reserve Bank of India. The accounts for the fiscal year are, however, completely adjusted only some days following the end of the fiscal year. Also, the magnitude indicated above includes items such as changes in the rupee coins and of long-term rupee securities. For these reasons, the magnitude of the Reserve Bank of India's credit to the Government shown here differs from the deficits shown in the budgetary documents.

22. Reflecting the impact of a fairly restrictive policy, credit expansion in the 1970-71 busy season, at Rs. 392 crores, was smaller than in the preceding busy season (Rs. 563 crores). However, during the slack season of 1971, bank credit witnessed a contra-seasonal expansion for the third successive year, further confirming the impression that, with recent shifts in agriculture, the conventional distinction between the so-called busy and slack seasons is fast getting obliterated. Be that as it may, the expansion during the slack season of 1971, amounting to Rs. 166 crores, was less than the increase of Rs. 226 crores in the previous year. If advances for food procurement are excluded, commercial bank credit during the slack season of 1971 increased by only Rs. 23 crores as against an increase of Rs. 191 crores in the slack season a year ago. At the same time, aggregate deposit accretion in the slack season in 1971 has been of the order of Rs. 588 crores as against Rs. 449 crores in the previous year. As a result, the outstanding borrowings from the Reserve Bank of India at the end of the slack season were only around Rs. 19 crores as against Rs. 151 crores at the same time in the previous year; the credit-deposit ratio too, at 73.53 per cent, was lower than the ratio of 77.02 per cent obtaining at the end of the season in 1970.

23. Data pertaining to the current busy season, available till January 28, 1972, indicate that expansion in bank credit has been smaller than during the last year; excluding advances against food procurement, the expansion, at Rs. 208 crores, was however of the same order as last year. On the other hand, aggregate bank deposits have continued to grow uninterrupted, the increase during the current busy season being till now of the order of Rs. 291 crores as against Rs. 232 crores in the corresponding period last year.

24. As the busy season proceeded, the banks increased their accommodation from the Reserve Bank of India: outstanding borrowings from the latter as on January 28, 1972, were Rs. 147 crores as against Rs. 349 crores a year ago. The credit-deposit ratio on that date was 73.9 per cent as against 79.3 per cent a year ago; the cash-deposit ratio, at 6.0 per cent, was almost at the same level as obtained on the corresponding date last year, while the investment-deposit ratio, at 24.0 per cent, was higher than what it was a year ago.

Government Finances

25. The Government faced unusual budgetary strains in 1971-72. Unforeseen developments overtook the fiscal prognoses made earlier in the year. The task of accelerating the pace of developmental outlay was affected by the influx of refugees from Bangladesh and, subsequently, the outbreak of hostilities with Pakistan.

26. In view of the generally good performance of the economy in 1970-71, there was a desire toward the beginning of the current year to take full advantage of the favourable turn of events and raise the level of developmental expenditure beyond what was incurred in 1970-71. The growing volume of unemployment among the educated and others also underlined the need for an enlarged outlay. The Government at the Centre, installed following the elections to the Lok Sabha, was, in addition, committed to furthering the process towards greater social justice, which in its turn depended to a large extent on bold fiscal initiative.

27. The public outlay under the Plan, particularly the outlay in the Central sector, had been lagging behind the prescribed targets during the first two years of the Fourth Plan. A steep increase in developmental expenditure was accordingly proposed for 1971-72. The Plan provision in the Union budget (including the provision for Central assistance for the States' Plans) was stepped up from Rs. 1,906 crores in 1970-71 (B.E.) to Rs. 2,135 crores in 1971-72 (B.E.). In addition, the Budget provided for a programme of employment-oriented rural works involving an expenditure of Rs. 50 crores and another programme of Rs. 25 crores for providing jobs to the educated unemployed. A provision of Rs. 10 crores towards implementing a nutritional programme for children was also included.

28. The Centre's new tax measures for 1971-72, as provided in the Budget, added upto Rs. 205 crores for that year. The additional yield was estimated as follows: Rs. 120 crores from Union excise duties, Rs. 54 crores from customs, Rs. 27 crores from income and corporation taxes, and Rs. 3.4 crores from a levy on foreign travel. An additional Rs. 9 crores were expected from changes in postal rates and Rs. 26 crores from increases in railway fares and freights. Simultaneously with revenue raising, the tax instrument was also used to bring about greater equality and social justice. The surcharge on personal income tax was raised for incomes above a certain level and wealth tax rates were enhanced.

29. The budget as presented in May had provided for an outlay of only Rs. 60 crores for the relief of the Bangladesh refugees. In August, supplementary demands for Rs. 200 crores for meeting further expenditure in connection with refugees relief were sanctioned. In December again, another round of supplementary grants amounting to Rs. 143 crores, on a net basis, was voted, of which Rs. 100 crores was on account of refugee relief. The fiscal deficit, which amounted to only Rs. 233 crores in the Union budget as originally anticipated, thus threatened to go out of hand; a massive resource mobilisation effort was felt necessary over and beyond what had earlier been proposed in the Budget presented in May.

30. Accordingly, fresh taxation was resorted to in October, 1971. The Union Government levied by ordinance a tax on all postal articles other than postcards and registered newspapers, a tax on railway passenger fares of Re. 1 and above, a tax on assorted financial instruments and an excise duty on newspapers and other printed periodicals. These measures were to yield Rs. 30 to 35 crores in a full year; the State Governments agreed to raise an equivalent amount through levy of surcharges on entertainment tax, bus fares, road tax, stamp duty, etc. Following the outbreak of hostilities with Pakistan in December, further measures for raising resources were undertaken. A supplementary budget was presented containing proposals to raise additional resources amounting to Rs. 40 crores in 1971-72 and Rs. 135 crores in a full year. The measures included a general levy of 2.5 per cent on the value of all imports with the exception of foodgrains, books and a few other special categories. In addition, on a number of specified items, a higher rate of duty of 10 per cent was imposed. Regulatory excise duties varying between 15 per cent to 75 per cent on the existing basic duties were levied on some items. The export duty on carpet backing and hessian was raised by Rs. 400 per tonne and

the excise duty on sacking was increased by Rs. 175 per tonne. A surcharge of 2.5 per cent on income tax payable by all companies including foreign companies was also imposed.

31. The measures of additional resource mobilisation contained in the budget presented in May, 1971 are estimated to yield, on an annual basis, Rs. 316 crores; together with the special levies and revenue adjustments announced in October and December, the Union Government's aggregate revenue effort during the year would therefore be of the order of Rs. 500 crores in a full year. This order of fresh fiscal imposts in the course of a single year is indeed unprecedented. Even if one were to exclude the effect of the special levies for refugee relief and the measures announced in December in the wake of the outbreak of hostilities, the aggregate additional resource mobilisation by the Centre in the first three years of the Fourth Plan will be of the order of Rs. 2,300 crores (net of States' share) over the plan period, thus exceeding the original Plan target of Rs. 2,100 crores for the entire five-year period.

32. Simultaneously, the Union Government also tried throughout the year to discipline its expenditures. The Central Ministries were asked to curtail their non-contractual non-Plan expenditures by at least 5 per cent. The Government had, however, to sanction, with effect from October, 1971, additional dearness allowance to its employees which is to cost it Rs. 37 crores in a full year.

33. The fiscal management of the State Governments was somewhat more uncertain. Attempts to raise additional resources were of a modest proportion. Seventeen States proposed measures for raising additional revenue aggregating to Rs. 49 crores. At the same time, since one State namely, Uttar Pradesh announced concessions of the order of Rs. 18 crores, the net yield from additional resource effort on the part of the States amounted to only Rs. 31 crores. They, however, agreed to impose for refugee relief—as already mentioned—specific levies on entertainment tax, sales tax, bus fares, road tax, stamp duties, lotteries, etc. No perceptible reduction in the State Governments' reliance on overdrafts from Reserve Bank of India has been noticeable during the year. In spite of the fact that the Centre had made to the States in June, 1971 advance release of their entitlements aggregating to Rs. 197 crores to enable them to clear their overdrafts, there were still eleven States running overdrafts with the Reserve Bank of India to the tune of Rs. 403 crores at the end of January, 1972.

34. Market borrowings rose substantially during the year. Total subscriptions against the offer of three public loans aggregating to Rs. 375 crores in July 1971 added up to Rs. 405 crores; the subscriptions to the second tranche of these loans in October brought in another Rs. 110 crores. Net borrowings, after repayments of Rs. 332 crores, amounted to Rs. 183 crores, as against the Budget provision of Rs. 168 crores. Following the declaration of emergency in December, the Central Government floated three National Defence Loans for Rs. 100 crores. The actual response however aggregated to Rs. 111 crores, so that the total net borrowings amounted to Rs. 294 crores, setting a record for any single year. The State Governments were able to borrow around Rs. 100 crores net of repayments. Besides, State Government enterprises, including electricity boards and municipal corporations, and financial corporations will be separately raising nearly Rs. 150 crores through market borrowings.

35. The Centre's tax collections in 1971-72 are expected to be better than what was envisaged at the time of the Budget. The upward trend noticed in the collection of small savings in 1970-71 is expected to be maintained in the current year. In contrast, the contribution of public undertakings to the general revenues remains unsatisfactory. The Railways had visualised a deficit of Rs. 6.87 crores for 1971-72 even after taking credit for Rs. 26 crores on account of the enhancement in freight rates and fares. Because of the increased dearness allowance granted to the employees from October 1, 1971 and certain other factors, the deficit in the Railway budget for 1971-72 is now expected to exceed the magnitude earlier stipulated.

36. Non-departmental commercial undertakings other than the Hindustan Steel, numbering 77, made a net profit of Rs. 2.2 crores in 1970-71 as against Rs. 6.6 crores in 1969-70. Of these, the number of undertakings making profit was 45 as compared to 41 in 1969-70; their estimated profits amounted to Rs. 74.4 crores. However, the aggregate loss of the remaining 32 undertakings worked out to Rs. 72.2 crores. The losses of the Hindustan Steel Limited came down from Rs. 10.91 crores in 1969-70 to Rs. 4.72 crores in 1970-71. Total gross profit (after providing for working expenses and depreciation but before providing for interest) of the seventy-seven running concerns other than the Hindustan Steel Ltd., amounted to Rs. 122.6 crores in 1970-71 and yielded a rate of return of 4.3 per cent on capital employed as against 4.9 per cent in the preceding year.

Balance of Payments

37. Strains on the country's external payments position began to develop in 1970-71. Foreign exchange reserves, which over the preceding three years had risen at an average annual rate of Rs. 114 crores, were drawn down to the extent of Rs. 89 crores during the year. The decline in the so-called classic reserves—gold and foreign exchange—was even steeper, the holdings of reserve assets other than the SDR's falling by as much as Rs. 108 crores. A sharp rise in payments for imports, larger repayment of debts to the International Monetary Fund, and a rise in debt service charges accompanied by a slightly smaller level of inflow of external assistance were the principal factors contributing to this worsening of the balance of payments.

38. A sizeable amount of foreign exchange resources had to be used up in the process of liquidating India's short-term indebtedness to the International Monetary Fund, to which was added a further outgo involved in the payment of the gold portion of the increase in the country's quota with the Fund. The payments made to the IMF during the year absorbed exchange resources and SDR's worth Rs. 176.3 crores, of which as much as Rs. 99.4 crores consisted of free foreign exchange.

TABLE III
Foreign Exchange Reserves

(Rs. crores)								
Year	Gold and foreign exchange	SDR's	Total reserves (2+3)	Variations in reserves	Accrual of fresh SDR's	Variations in reserves excluding fresh accruals of SDR's (5-6)	Net drawings on (+)/ repayments (-) to IMF	Variations in reserves gross of transactions with the IMF (7-8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1967-68 . . .	538.6	..	538.6	60.2	..	60.2	24.4	35.8
1968-69 . . .	576.7	..	576.7	38.1	..	38.1	-58.5	96.6
1969-70 . . .	728.9	92.0	820.9	244.2	94.5	149.7	-125.4	275.1
1970-71 . . .	620.6	111.7	732.3	-88.6	75.4	-164.0	-176.3*	12.3
	**		**					
January, 1972 .	688.8	185.8	874.6	142.3	74.7	67.6	..	67.6

*Includes outlay for purchase of gold abroad for gold quota payment to the IMF.

**Provisional. Foreign exchange converted valued at recently fixed central rates.

However, with the liquidation of all outstanding indebtedness to the Fund—which as recently as in December 1967 was as high as Rs. 380.6 crores (\$ 507.5 million)—and the increase in the Fund quota, the country's international liquidity position has been considerably strengthened.

39. In the current financial year, the position with the foreign exchange reserves has been moderately comfortable till now. A marked improvement occurred in April and May, 1971, when foreign exchange reserves advanced by Rs. 57 crores; a decline followed during the next three months, to be followed by a sharp rise once more in October. Also, some appreciation in the rupee value of reserves took place following the recent alignment of exchange rates. Over the first ten months of 1971-72, foreign exchange reserves on the whole have shown an increase of Rs. 67.6 crores. India also received a third allocation from the International Monetary Fund of SDR's worth Rs. 74.7 crores in January, 1972. Including these, reserves amounted roughly to Rs. 875 crores at the end of January 1972. Though this compares favourably with the level of Rs. 797 crores prevailing at the end of January 1971, if one were to exclude the SDR's received in January, 1972 and the fact of the appreciated rupee values of reserves, the position would appear to have deteriorated.

40. The allocation of Special Drawing Rights constituted a useful addition to our liquid reserve assets. During 1969-70, and 1970-71, SDR's worth Rs. 170 crores (\$ 226.6 million) were allotted to India. Of these, SDR's amounting to Rs. 89.5 crores were utilised for the payment and servicing of outstanding debt obligations to the Fund. But, in view of the

improvement in the balance of payments in recent years, India was designated by the IMF for acceptance of SDR's against convertible currencies. Such acceptances amounted to Rs. 30.6 crores (\$ 40.8 million). India has, therefore, so far used SDR's in meeting her external payment obligations only to the extent of Rs. 58.9 crores. In January 1972, India received a third allocation of Rs. 74.7 crores, raising her net holdings of SDR's to Rs. 185.8 crores.

41. A widening of the merchandise deficit due to a sharp rise in payments for imports was one of the major factors leading to the worsening of the balance of payments position in 1970-71. Payments for imports, which had fallen significantly in 1968-69 as well as in 1969-70, increased by Rs. 138.1 crores to Rs. 1,720.4 crores in 1970-71. The absolute increase in free foreign exchange payment for imports was even larger because of a slight fall, over the year, in imports financed through external assistance. The rise in the import bill was brought about mostly by large-scale payments for a few key industrial inputs, particularly iron and steel, non-ferrous metals and raw cotton. Payments for food imports, however, continued to decline owing to rising domestic output of foodgrains.* The merchandise deficit widened from Rs. 178.4 crores in 1969-70 to Rs. 317.7 crores in 1970-71.

TABLE IV
*Balance of Payments***

	(Rs. crores)			
	1967-68	1968-69	1969-70	1970-71
1. Imports	2042.8	1740.5	1582.3	1720.4
2. Exports	1254.6	1367.4	1403.9	1402.7
3. Trade Balance (2-1)	-788.2	-373.1	-178.4	-317.7
4. Non-monetary gold movement	13.1
5. Invisibles (Net)	-160.1	-134.4	-149.1	-169.2
6. Current Account (net)	-948.3	-507.5	-327.5	-473.8
7. External Assistance (gross)	1123.5	851.5	782.9	778.6
8. Other Capital Transactions including drawings on and repayments to IMF (net)	-18.8	-192.2	-297.6	-390.2
9. Errors and Omissions	-85.6	-113.7	-14.5	-78.7
10. SDR's	94.5	75.4
11. Movements in foreign exchange reserves (Increase+ Decrease-)	+70.8***	+38.1	+237.8***	-88.7

**Data on the balance of payments on imports and exports are based on exchange control records and other sources and differ from the data published by the Director General of Commercial Intelligence and Statistics.

***Exclude changes in reserves arising from devaluation of the pound sterling in November, 1967 and revaluation of DM in October, 1969.

*Owing to differences in coverage, concepts and methodology, the value of exports as recorded in the balance of payments usually differs from exports trade data compiled by the Director General of Commercial Intelligence and Statistics from Customs Sources. Exports, as recorded by the D.G.C.I.S., registered a significant increase in 1970-71, but these were not reflected in the data on export earnings as recorded by the exchange control authorities

42. There was some worsening of the invisibles balance as well, with the net outflow on account of invisibles increasing by Rs. 20.1 crores to Rs. 169.2 crores. Higher interest payments on foreign loans, larger dividend payments and smaller receipts on account of private remittances were responsible, in the main, for the overall deterioration of the position here. An outgo of Rs. 78.7 crores on account of unidentified transactions—or errors and omissions—added to the deficit on merchandise and invisibles. Accordingly, the deficit on the current account, adjusted for unidentified transactions, increased from Rs. 342.0 crores in 1969-70 to Rs. 552.5 crores in 1970-71.

43. As regards capital transactions, the net outflow including repayments to the IMF but excluding external assistance, went up from Rs. 297.6 crores in 1969-70 to Rs. 390.2 crores in 1970-71. The inflow of foreign assistance, on the other hand, fell during the same period from Rs. 782.9 crores to Rs. 778.6 crores. Accordingly, as against an overall surplus of Rs. 143.3 crores in external transactions during 1969-70, there was a deficit of Rs. 164.1 crores in 1970-71. India had received an allocation of SDR's worth Rs. 94.5 crores in 1969-70 and another worth Rs. 75.4 crores in 1970-71. Consequently, foreign exchange reserves, including SDR's fell by Rs. 88.7 crores in 1970-71 whereas in the preceding year there was an accretion of Rs. 237.8 crores.

44. It is not possible at this stage to postulate the likely impact of the developments during the current fiscal year on the country's balance of payments. The uncertainties created by the floating of some of the major world currencies in August, 1971 had, in the beginning, somewhat adversely affected our exports, although there could have been other underlying factors. In the context of the altered conditions in the international exchange markets, foreign exchange dealings of the Reserve Bank of India with the authorised dealers had to be based on rates fluctuating with the dollar-sterling exchange rate in the London market.

45. With the virtual realignment of the world currencies in December, India also returned to the regime of stable exchange rates. In order not to disrupt exports or the import substitution effort, it was decided to set the new rupee-sterling rate at the level ruling in the proximate period. The rupee-sterling rate was, accordingly, fixed at Rs. 18.9677 to the pound. On the basis of this rate and the sterling-dollar central rate, the rupee-dollar exchange rate works out to Rs. 7.279 to the dollar, implying, in effect, a revaluation of the rupee *vis-a-vis* the U.S. dollar by a little more than 3 per cent. It was also decided that, as now permitted by the International Monetary Fund, the actual exchange rate would be allowed to fluctuate within the margin of 2.25 per cent on either side of the new rupee-sterling rate.

46. The question arises of the likely consequences on our trade and payments of the realignment of major world currencies. The revaluation of the European currencies and the Yen in relation to the dollar as well as the rupee is expected to restrain the demand for certain categories of imports, to further encourage import substitution and to increase the demand for our exports to Japan and West European destinations. This by

itself may not however improve our trade balance unless there is a determined effort to restrain domestic demand and to avoid waste so that adequate supplies of inputs and materials are set aside at reasonable prices for the purposes of expanding export production.

47. The first ten months of the current financial year (April 1971-January 1972) have coincided with an increase in reserves (excluding SDR's) of Rs. 68 crores. This improvement was largely brought about by a substantial increase in the rate of aid reimbursements, a feature which need not recur. Moreover, a part of the increase stems from appreciation in rupee values booked consequent to the recent realignment in exchange rates. In the same period last year (April 1970-January 1971), reserves (excluding SDR's) had declined by Rs. 99 crores, but then there were repurchases of Rs. 112 crores from the I.M.F., besides purchase of gold worth Rs. 23 crores in connection with the increase in quota in the Fund. Excluding the fortuitous increase in reserves following the realignment in exchange rates, reserves (excluding SDR's) showed an increase of Rs. 50 crores in April 1971-January 1972.

48. But short-run indicators may not tell the entire story. The strain on the balance of payments is likely to be increasingly felt in the coming months as the consequences of the war—and the cessation of certain kinds of credit flows from abroad—gradually work themselves out. Since beyond a point it would not be desirable to economise on imports essential for servicing the processes of growth in the economy, the management of the balance of payments will call for the greatest dexterity.

Strains and Challenges

49. This rapid survey of the major economic developments in the fiscal year that is coming to a close high-lights a number of significant features. The year witnessed an unusual stress on the economy. Firstly, the largest number of refugees in human history crossed our national boundary and arrangements for their care had to be made at short notice, involving a heavy strain on both material and organisational resources. Secondly, natural calamities took their usual toll; drought in Maharashtra and Andhra Pradesh, floods in Uttar Pradesh, Bihar and West Bengal, and a cyclone in Orissa. Thirdly, the outbreak of hostilities with Pakistan forced the economy to set aside its developmental preoccupations and put itself quickly on a war footing. Fortunately, the war has been over in a short while; the economy has unobtrusively resumed the pursuit of growth while lending a hand to the task of reconstruction of Bangladesh. Finally, international monetary and political developments have brought to the fore the pervading issue of a speedy realisation of the goal of self-reliance.

50. As already stated, the economy has shown a remarkable resilience and responsiveness in meeting these challenges. The challenge of refugee relief and defence was met by a massive effort at resource mobilisation in which the States also participated. This fact notwithstanding, the budgetary deficit has turned out to be much larger than anticipated earlier and money

supply has shown a disconcerting increase. The situation with prices however never quite went out of hand, even though it evoked continuous concern throughout the year. This was partly because of the basically satisfactory position with respect to foodgrains. Also, the various policy instruments at the disposal of the Government were deployed with aptitude and timeliness. Credit policy was strictly geared to the prevention of speculative inventory building; at the same time, credit flowed freely for genuinely productive activities. Price control was enforced at the appropriate points and forward trading, which might have triggered off an inflationary spiral, was banned for several sensitive commodities. Furthermore, while the foreign exchange reserves were carefully husbanded, imports were liberally permitted in all strategic fields such as steel, non-ferrous metals and raw cotton so as to maintain a steady flow of production.

51. The relatively little disturbance which the shocks during the year caused to the economy augurs well for the future and permits one to hope that this resilience can be channelised for faster—and increasingly more self-reliant—growth. In the following pages, the particular problems besetting the economy in the different sectors are analysed so that the directions along which adjustments in policies may be called for, or new policies may be set out, could be depicted clearly.