

CHAPTER 1

ECONOMIC SITUATION IN 1977-78

Introduction

1.1 The most notable feature of the economic situation in 1977-78 was the absence of any serious constraint on economic growth. In the past, shortages of food and foreign exchange have been the two major factors which have acted as a brake on economic growth. The current year began with stocks of food grains of 18 million tonnes which rose to 20 million tonnes by the end of June 1977. Kharif production and procurement in the current year appear to be such that, inspite of a larger offtake from the public distribution system, stocks at the end of January 1978 have been only slightly less than the level at the beginning of the year. Foreign exchange reserves (excluding gold and SDR holdings) which increased by Rs. 1371 crores in 1976-77 rose further by Rs. 1096 crores up to the end of January 1978. The growth of reserves has been higher in the current year as compared to Rs. 898 crores in the ten months of 1976-77 and the present level of reserves is equivalent to about 9 months' imports. Prices also have ruled relatively easy this year because of better supply management of sensitive commodities, the good kharif crop, a liberal

import policy and a restrictive monetary and credit policy.

Gross National Product, Savings and Investment

1.2 The rate of growth of gross national product in the current year is expected to be about 5 per cent based on available indicators. This is a satisfactory recovery from the level of 1.6 per cent last year but it is less than the growth rate of 8.5 per cent reached in 1975-76. The annual average rate of growth in the four years ending 1977-78 works out to 3.9 per cent as compared to the long run average rate of growth of 3.5 per cent.

1.3 The Central Statistical Organisation's estimates show that gross domestic capital formation in 1976-77 was at about the same level as in 1975-76 i.e., 19.3 per cent of GNP. However, the proportion of savings to GNP was higher which led to an increase in foreign exchange reserves. It does not appear that there has been much change in these ratios during the current year looking to the continuing increase in reserves.

TABLE 1.1
Selected Economic Indicators

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
	(Percentage change over previous year)						
1. Gross National Product at 1970-71 prices	1.5	-1.1	5.2	0.5	8.5	1.6 ¹	5.0 ²
2. Agricultural production	-0.4	-8.0	10.7	-3.5	15.6	-6.7	7.0 ³
3. Foodgrains production	-3.0	-7.7	7.9	-4.6	21.0	-7.8	10.0 ³
4. Industrial production	3.3	4.0	2.2	2.6	6.1	10.4	5.2 ³
5. Electricity generated	9.3	6.1	2.8	5.2	13.5	11.8	2.5 ⁴
6. Wholesale prices	5.6	10.0	20.2	25.2	-1.1	2.1	6.6 ⁴
7. Money supply	12.9	16.6	15.5	6.9	11.3	20.3	8.7 ⁵
8. Imports (in current prices)	11.6	2.4	58.3	52.9	16.5	-3.6	3.8 ⁶
9. Exports (in current prices)	4.8	22.5	28.0	31.9	21.4	27.2	9.3 ⁶

1 Quick estimates.

2 Anticipated.

3 April—October, 1977 over April—October, 1976.

4 Average of April—December, 1977 over average of April—December, 1976.

5 As on January 20, 1978 compared to March 31, 1977.

6 April—November, 1977 over April—November, 1976.

Agriculture

1.4 The kharif season in the year 1977-78 has been good because of satisfactory rainfall over most of the country. It is estimated that foodgrains production would be 71-73 million tonnes i.e., 4-6 million tonnes more than in the kharif season of 1976-77 and close to that in 1975-76. Although it is too early to say anything about the rabi season, weather conditions and sowings indicate that rabi output may be higher than last year. Total foodgrains production is thus expected to be about the same as in 1975-76, viz., 121 million tonnes as against 111 million tonnes last year.

1.5 Commercial crops production went down substantially in 1976-77. The production of the five major oilseeds declined from the record level of 9.9 million tonnes in 1975-76 to 7.8 million tonnes. The production of cotton declined from 5.95 million bales in 1975-76 to 5.78 million bales in 1976-77. The production of sugarcane and jute and mesta, however, was higher. In the current kharif season, the production of groundnuts is expected to be half a million tonnes higher than the output of 4.8 million tonnes in the last kharif. The production of cotton also is expected to be higher than last year's output by about 8 lakh bales. The output of jute and mesta will be marginally lower than last year's output of 7.1 million bales. The output of sugarcane this year is expected to be higher than last year's output of 15.8 million tonnes (in terms of gur).

Industry

1.6 Industrial production increased by 10.4 per cent in 1976-77. Industries in which production increased substantially were transport equipment, chemicals and chemical products, basic metal industries, non-electrical and electrical machinery and non-metallic mineral products. On the other hand, the largest group textiles recorded a small decline.

1.7 In contrast to the trend in 1976-77, industrial production in 1977-78 is likely to register a growth of 5-6 per cent. Production in important industries like electricity generation, coal, steel, cement, commercial vehicles, etc., has shown decelerating rates of growth. Production in the cotton textile industry has actually gone down. On the other hand, food manufacturing, non-electrical and electrical machinery, chemicals and rubber goods industries have done well. The relatively lower growth in industrial production in the current year seems to be due to a capacity constraint in some industries, a lack of demand in others and consumer resistance to high prices.

Prices

1.8 The Wholesale Price Index which had fallen to 162.2 for the week ending March 20, 1976 reversed direction and rose to 182.1 for the week ended March 26, 1977. At this level the Index was 12 per cent higher than a year earlier. The increase since then has been relatively small i.e., no more than 0.6 per cent by January 21, 1978. However, as prices at the beginning of the current year were already high, the average level of prices during the first nine months of 1977-78 turns out to be substantially higher in spite of the relative price stability during the year. While the prices of most commodities have been relatively stable the prices of two major commodities, viz., pulses and edible oils, have risen because of shortages. The Consumer Price Index has, however, shown a larger increase than the Wholesale Price Index. Between March 1977 and December 1977 the Index increased by 5.8 per cent as against an increase of less than one per cent in the Wholesale Price Index during the same period.

1.9 The price behaviour in 1977-78 reflects to an extent the success of the policy of Government of large and steady imports of sensitive commodities like edible oils and raw cotton, more liberal issues from Government held stocks and a tight monetary and credit policy. However, the experience of the past eighteen months brings out how shortages in one or two items, like pulses or edible oils or raw cotton, can have a serious impact on the level of prices.

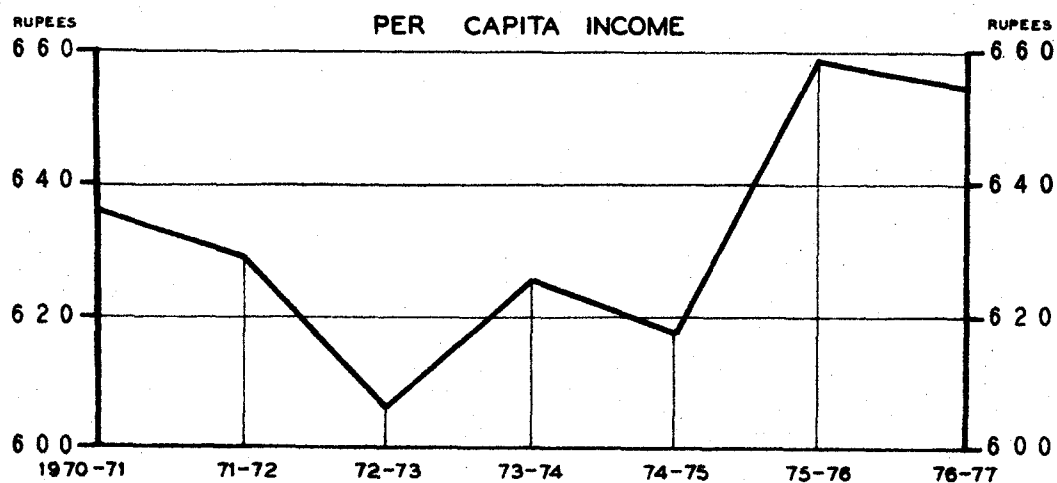
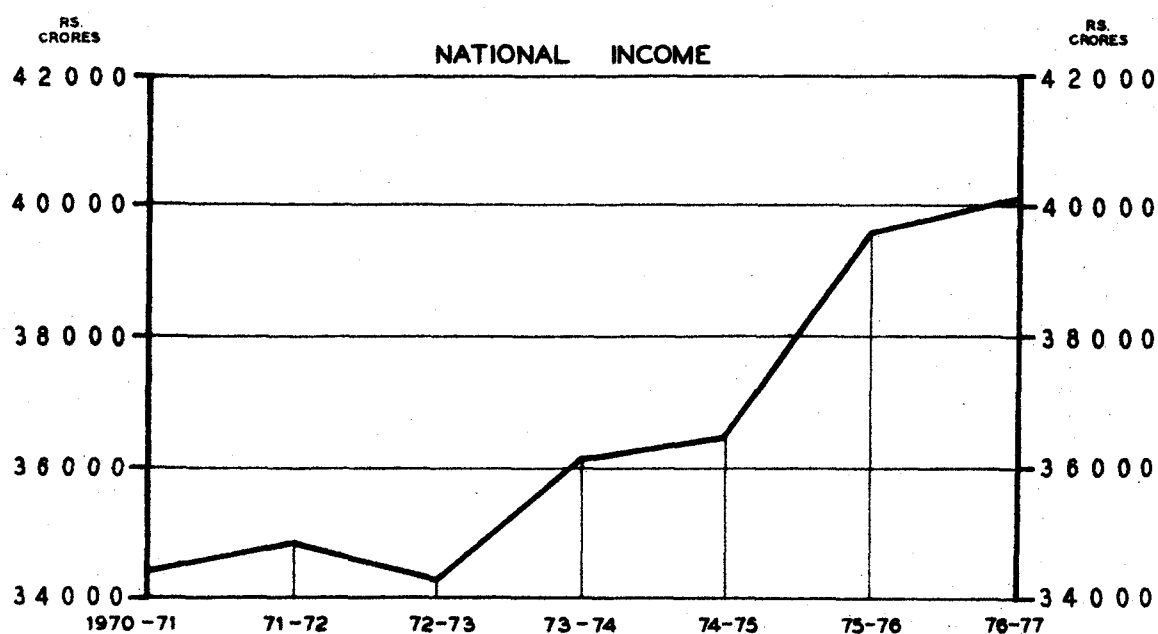
Monetary Trends

1.10 During the fiscal year 1976-77, money supply increased by 20.3 per cent. The factors primarily responsible for such a large increase were the sharp rise in the foreign exchange assets of the banking system, the expansion of credit by the banks both for financing food and non-food sectors and to a smaller extent the budgetary operations of the Government. In 1977-78 so far, the increase in money supply has been of the order of 8.7 per cent, some 4 percentage points less than the increase in the corresponding period last year. All the three factors, viz., an increase in foreign exchange assets of the banking system, an increase in credit to the commercial sector and an increase in net bank credit to Government have contributed in more or less equal measure to this expansion. The contribution of the budgetary operations of the Government to the increase in money supply has shown a sharp rise this year as compared to the same period last year. The rate of growth of time deposits, which exercise a contractionary influence, has been lower.

1.11 In order to insulate the economy from the impact of these monetary pressures the restrictive credit

NET NATIONAL PRODUCT

(AT 1970-71 PRICES)



MINISTRY OF FINANCE, ECONOMIC DIVISION

and monetary policy initiated last year has been continued. Lendable resources with banks have been sought to be regulated by maintaining the statutory cash reserve ratio at 6 per cent of deposit liabilities, by impounding 10 per cent of the incremental deposits from January 14, 1977 and by restricting the refinancing facilities to the commercial banks. Selective credit controls in respect of lending against sensitive commodities like oilseeds and edible oils have been tightened. These measures coupled with a relatively low demand for credit from the food as well as the non-food sectors of the economy have kept credit expansion under some check.

Balance of Payments

1.12 The improvement in India's balance of payments noticed last year has continued in the current year. Export growth, however, has decelerated to about 9 per cent from 27 per cent in 1976-77. Many of the items which showed great buoyancy in the previous years such as sugar, leather and leather manufactures, iron and steel, cotton apparel, fish and fish preparations have shown smaller growth during the year due to a variety of reasons. In view of the comfortable foreign exchange position, imports were liberalised and as a consequence, non-food imports have increased by about 32 per cent. But since food

imports have declined to negligible levels total imports have increased only slightly over the previous year and there is a trade surplus of Rs. 72 crores in the first eight months of the current year. This trade surplus and the continuation of substantial inward remittances have led to an even larger accumulation of reserves than last year. India repaid Rs. 248.6 crores to the International Monetary Fund and the only outstanding debt to that organisation consists of Rs. 207 crores borrowed under the Oil Facility in 1975.

1.13 To sum up, while there is sufficient cause for satisfaction in the performance of the economy in the current year, the shortfalls in the production of commodities like edible oils, pulses and cotton, the low rate of increase in industrial production, the increased liquidity in the economy, the sluggishness in industrial investment and the accumulation of reserves are matters for concern. The emphasis of policy will, therefore, have to be on increasing the output of these commodities, providing incentives for larger investment in industry and formulating an overall strategy of growth which will utilise the increasing foreign exchange reserves. The last is most important if the paradoxical situation of a poor country lending abroad—which is what the growth in foreign exchange reserves really amounts to—is to be corrected.