

CHAPTER 1

THE ECONOMIC SITUATION IN 1980-81

Introduction

1.1 The economic situation in 1980-81 continued to be constrained by the delayed effect of severe drought, continuing infrastructural problems and adverse external factors. However, from the middle of the fiscal year 1980-81, the economy was able to recover most of the ground lost during 1979-80. Agricultural production in 1980-81 is expected to increase sharply by about 19 per cent in contrast to a decline of 15.5 per cent in 1979-80. Performance of the infrastructure also began to improve in the third quarter of 1980-81 with a favourable effect on industrial production. Industrial production may rise by about 4 per cent in 1980-81 in contrast to a decline of 1.4 per cent in 1979-80. It is expected

that the Gross National Product will grow by 6.5 per cent during 1980-81 in contrast to a decline of 4.5 per cent in 1979-80.

1.2 Inflationary pressures continued to be strong in the first quarter of 1980-81, but decelerated significantly after July 1980. From March 29, 1980 to January 17, 1981, the Wholesale Price Index (1970-71=100) rose by 13.2 per cent as against an increase of 19.1 per cent during the corresponding period of 1979-80. The Public Distribution System assisted by sizeable buffer stocks of foodgrains and releases of levy sugar played a crucial role in ameliorating the impact of inflationary pressures on

TABLE 1.1

Selected Economic Indicators

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
	(Percentage change over previous year)						
1. Gross National Product at 1970-71 prices	1.2	9.6	1.5	8.4	5.9	-4.5 ¹	6.5 ²
2. Agricultural Production	-3.2	15.2	-7.0	14.5	3.4	-15.5	19 ²
3. Foodgrains production	-4.6	21.2	-8.1	13.7	4.3	-17.5	21 ²
4. Industrial production	3.2	7.2	9.6	3.3	7.6	-1.4	1.2 ³
5. Electricity generated ⁴	5.2	12.8	11.5	4.4	11.2	2.1	3.8 ⁴
6. Wholesale prices (On point to point basis)	10.1	-6.5	12.0	0.3	4.6	21.4	13.2 ⁵
7. Monetary resources (M3)	10.9	15.0	23.6	18.4	21.9	17.8	12.6 ⁶
8. Imports (in current prices)	52.9	16.5	-3.6	18.7	13.2	29.1	50.5 ⁷
9. Exports (in current prices)	31.9	21.4	27.2	5.2	5.9	12.2	3.0 ⁷
10. Foreign exchange reserves (excluding gold and SDRs)	5.1	144.3	91.9	57.2	16.0	-1.1	-10.4 ⁸

¹Quick estimates.

²Anticipated.

³April—November 1980 over the same period in 1979.

⁴April—December 1980 over the same period in 1979.

⁵March 29, 1980—January 17, 1981.

⁶As on January 9, 1981 compared with March 31, 1980.

⁷Provisional figures for April—October 1980 over the same period in 1979.

⁸Compared with January 1980.

*Electricity generation refers to utilities only.

essential commodities. Expansion of money supply was kept under control through a judicious monetary and credit policy. Although fiscal deficit is likely to be higher than the level envisaged in the Budget 1980-81, its expansionary impact may be partly neutralised by the substantial decline in net foreign exchange assets of the banking system.

1.3 The country's balance of payments remained under severe strain during 1980-81. The trade deficit during 1980-81 is likely to exceed Rs. 4000 crores. This is mainly due to rising prices of oil and other imports which have inflated the import bill. Unfortunately, export growth has continued to be sluggish. Foreign exchange reserves may decline by about Rs. 600 crores during 1980-81 after taking into account borrowings from IMF amounting to Rs. 815 crores. The constraints on the balance of payments are likely to accentuate in the coming years.

Gross National Product, Saving and Investment

1.4 The growth of GNP during 1980-81 is expected to be about 6.5 per cent in contrast to a decline of 4.5 per cent during 1979-80. The impact of the widespread drought of 1979-80 and the deterioration in infrastructure turned out to be more severe than was earlier anticipated. This explains the delay in the pick up of economic activity, particularly in the industrial sector during 1980-81. Nevertheless the recovery during 1980-81, brings the economy back on the long term growth path and it is now better placed for achieving the objectives of the Sixth Plan.

1.5 Available evidence indicates that investment outlook has improved and the rate of investment during 1980-81 is likely to be higher than the depressed level of 1979-80. The domestic saving rate is also expected to improve in 1980-81. The rate of capital formation will exceed the rate of saving as indicated by the larger current account deficit in balance of payments during 1980-81. In fact, the phenomenon of saving rate being higher than the rate of investment got reversed in 1979-80. The gross capital formation and saving rates (at current prices) were 21.8 per cent and 21.2 per cent respectively during 1979-80.

Agriculture

1.6 Agricultural production recovered fully in 1980-81. The south-west monsoon was widespread (except in parts of Rajasthan, Karnataka, Andhra Pradesh and Tamil Nadu) and winter rains satisfactory. Agricultural production is likely to be higher by about 19 per cent during 1980-81 over the depressed level of 1979-80 and may equal the previous peak level of 1978-79.

1.7 The production of *kharif* foodgrains is anticipated to be 16 million tonnes higher than the output of 63.1 million tonnes in 1979-80 and would exceed the previous record production of 78.1 million tonnes achieved in 1978-79. In view of the favourable *rabi* outlook due to good soil moisture conditions and the additional area sown following late winter rains, the

total foodgrains production may be about 132 million tonnes *i.e.* about 23 million tonnes higher than 109 million tonnes during 1979-80. The recovery has been substantial in rice production which is expected to reach a level of 56 million tonnes (both *kharif* and *rabi*), thus exceeding the previous peak level of 53.8 million tonnes in 1978-79. The production of coarse *kharif* cereals which is expected at 23.2 million tonnes will be higher than 21.2 million tonnes in 1979-80. It will, however, be lower than the 1978-79 level by 1.7 million tonnes. The production of *kharif* pulses estimated at 4.1 million tonnes will be higher than the 3.9 million tonnes in 1978-79.

1.8 The outlook for non-foodgrain crops is also much better. Production of sugarcane is expected to be 152 million tonnes in 1980-81 which will be 18.8 per cent higher than 128 million tonnes in 1979-80. Production of cotton is expected to increase to about 8.0 million bales from 7.7 million bales in 1979-80. Jute and mesta production may equal the record level of 8.3 million bales in 1978-79. However, groundnut production has been adversely affected by inadequate rains during September-October 1980 in several parts of Gujarat, Karnataka and Andhra Pradesh. As a result, its production during *kharif* 1980-81 may not exceed the level of 4.7 million tonnes in 1979-80. The prospects of other *kharif* oilseeds, however, are encouraging.

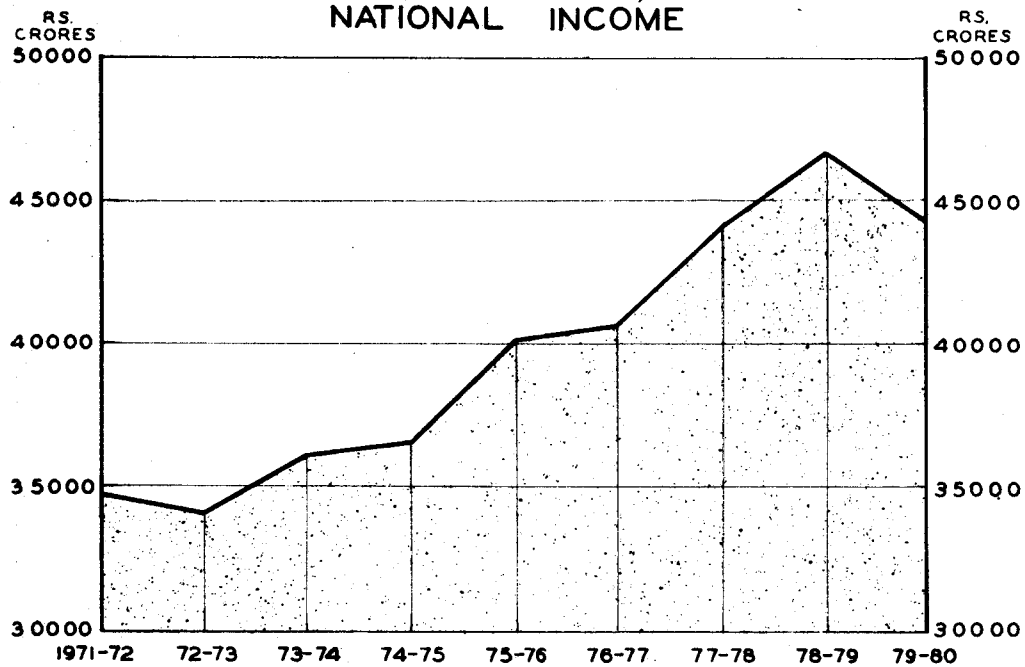
1.9 Fertiliser consumption increased only marginally in 1979-80 but will rise faster during the current year. The target of 48 million hectares area under high yielding varieties would be achieved. Although the sharp decline in agricultural production during 1979-80 still points to the substantial influence of weather conditions on agricultural production, the recovery during 1980-81 confirms the growing strength and resilience of Indian agriculture.

Infrastructure

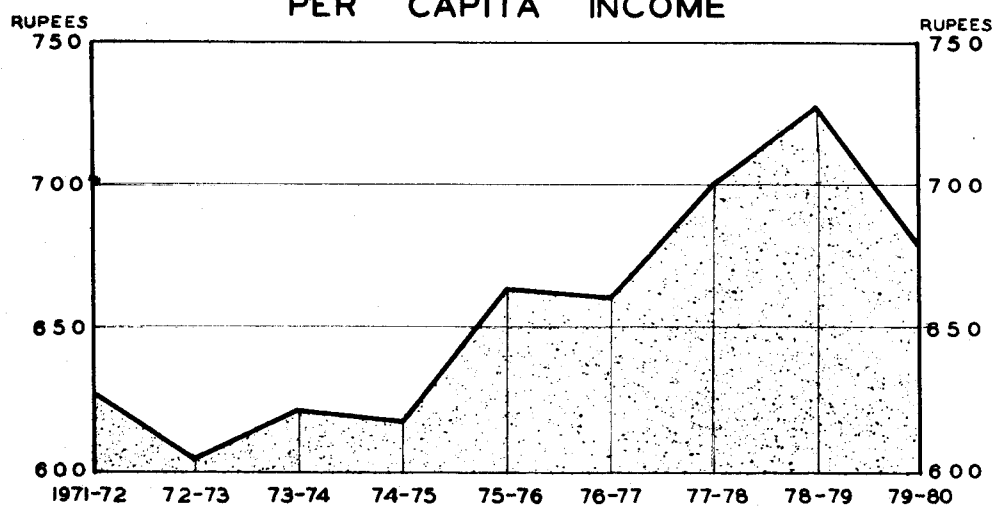
1.10 The infrastructure constraints which had emerged during the last few years continued throughout the first half of 1980-81 and delayed industrial revival. Urgent attention was given to improving the infrastructural performance but not surprisingly it took time to achieve a turnaround. Electricity generation in the first few months of 1980-81 was lower than in 1979-80 because of the very low hydel generation in the lean summer months. However, the situation improved after August. Total electricity generation during April—December 1980 was 3.8 per cent higher than that during the same period in 1979. Since the improvement in power generation, both hydel and thermal, is expected to continue, the total generation in the year as a whole may be about 6 per cent higher than that in 1979-80. This compares with 2.1 per cent increase during 1979-80. Since the agricultural demand for power during the current year will be lower in view of timely rains, the availability of power for industrial and commercial users will be much better. Coal production (including lignite) has

NET NATIONAL PRODUCT

(AT 1970-71 PRICES)
NATIONAL INCOME



PER CAPITA INCOME



increased by 8.7 per cent during April–December 1980 over the same period of 1979. It is likely that the total production of coal and lignite for the year as a whole will rise to 115 million tonnes. This will imply a remarkable improvement considering the fact that coal production had stagnated around 105-106 million tonnes since 1976-77. However, the performance of the Railways continued to present problems in 1980-81. The total revenue earning goods traffic moved by Railways during April–October 1980 was 3.2 per cent lower than that in the corresponding period of 1979. The turnaround in railway performance was achieved in November and December 1980 when the traffic moved increased by 2.5 per cent and 6.6 per cent respectively over the same months in 1979. As a result, shortfall in traffic movement came down to 1.4 per cent during April–December 1980. The improvement noted during November and December is likely to continue during the rest of 1980-81 and the total goods movement by Railways may be somewhat higher than the level reached in 1979-80.

Industrial Production

1.11 The set-back to industrial production continued due to drought and unsatisfactory performance of the infrastructure during the first half of the current year. Since then industrial production has picked up. The average index of industrial production for April–November 1980 was higher by 1.2 per cent than that in the same period of 1979. Notable increases in production have taken place in steel, cement, aluminium, lead, newsprint, tractors, diesel engines (veh.), transport equipment (except cars), sugar and vanaspati during October, November and December 1980. A sharp decline in some of these key industries had been responsible for last year's fall in industrial production. On the basis of trends so far and expected improvement in the infrastructure, the rate of industrial growth during 1980-81 may be about 4.0 per cent as against a decline of 1.4 per cent during 1979-80.

1.12 The available indicators regarding grant of licences, capital issues and sanctions and disbursements of loans by the term lending institutions, show that investment activity has picked up, particularly, during the latter half of 1980-81. Number of man-days lost have come down substantially to 8.2 million during April–October 1980 from 22.2 million in the corresponding period of 1979. These figures, however, only partially reflect the labour situation. Indeed, industrial production has been adversely affected during 1980-81 as a result of go-slows, work-to-rule, etc., particularly in the eastern region of the country.

1.13 Government's new industrial policy was announced in July 1980. While reiterating the basic industrial policy framework of 1956, the new policy has several notable features. In pursuance of the new policy, steps were taken during the year to allow automatic expansion of production in industries, disperse industries with a view to achieving balanced regional development and de-urbanisation, encouraging the growth of village and small scale industries in coordi-

nation with bigger units, promoting industrial production for exports and facilitating financing of industries.

Price Trends

1.14 The upsurge in prices which began in early 1979 proved difficult to control because of the overhang of excess liquidity, severe drought and the inescapable impact of imported inflation. Several steps were taken to moderate inflationary pressures. The monthly rate of increase in the Wholesale Price Index of about 1 per cent during January to March 1980, picked up in the subsequent months due to intense seasonal pressures and upward adjustment in the prices of petroleum products. A peak rate of 4.1 per cent was reached in July 1980. Since then price increase has decelerated and the twelve months rate of inflation (on a point to point basis) has declined from 23 per cent in the week ended June 28, 1980 to 15.4 per cent in the week ended January 17, 1981. In the current fiscal year, between March 29, 1980 to January 17, 1981, the Wholesale Price Index shows a rise of 13.2 per cent as compared with 19.1 per cent during the same period last year. Retail prices tend to move parallel with wholesale prices with a time lag. The Consumer Price Index for Industrial Workers (1960=100) has increased from 373 in March 1980 to 408 in December 1980 i.e., by 9.4 per cent. On the basis of the present trends the increase in prices during 1980-81 is likely to be significantly lower than in 1979-80.

1.15 Cost-push and international factors continued to push up the prices of non-food products. The prices of crude oil and petroleum products were raised in June 1980 and again in January 1981 to adjust to higher international prices. Fertilizer prices had also to be increased in view of higher prices of imports, increase in input costs and the need to reduce the budgetary subsidy. However, major contribution to the sharp increase in prices during the current year has come again from a few food articles and food products, supplies of which remained constrained due to severe drought conditions last year. Between March 29, 1980 and January 17, 1981, the price of sugar increased by 25.5 per cent, khandsari by 19.0 per cent, gur by 18.9 per cent, edible oils by 21.4 per cent, pulses by 51.0 per cent, fruits and vegetables by 12.1 per cent and oilseeds by 25.1 per cent. The increase in cereal prices, however, was restricted to 10.4 per cent, thanks to adequate food stocks which were made available through the Public Distribution System.

1.16 The agricultural pricing policy during the current year sought to ensure remunerative prices to farmers. As already mentioned, energy prices were adjusted on account of increase in the international prices of crude and petroleum products and with a view to containing demand. Administered prices of certain industrial inputs were also adjusted to reflect increased costs, to reduce losses of public sector enterprises and to restrict budgetary subsidies. The prices of certain mass consumption commodities such as foodgrains, sugar and kerosene were sought to be maintained at reasonable levels by expanding and

revitalising the Public Distribution System. However, inflationary pressures in the economy, though moderated, still persist and control of inflation will remain an important objective of economic policy.

Monetary Situation

1.17 In view of the persistent inflationary pressures during 1980-81, the stance of monetary and credit policies had to be restrictive. Expansion of monetary resources and bank credit was brought under reasonable control during 1980-81. The expansion of monetary resources (M_1) (the strictly comparable figures of money supply (M_2) for 1980-81 are not available due to definitional change in the components of savings deposits) was lower at 12.6 per cent during the current year upto January 9, 1981 as against 13.4 per cent in the same period last year.

1.18 The impact of the restrictive policy was more clearly visible on bank credit to commercial sector (inclusive of participation certificates) which has risen by 10.3 per cent during March 31, 1980 to January 9, 1981 as against 17.5 per cent in the corresponding period of 1979-80. The important reasons for this deceleration have been the sharp drop in food credit due to lower food procurement and delayed recovery in industrial production. Both food credit and non-food credit are expected to rise faster to meet busy season demand as well as higher food procurement during the remaining months of 1980-81. However, net bank credit to Government has increased by 21.4 per cent during March 31, 1980 to January 9, 1981 as against an increase by 17.0 per cent last year. To a certain extent, this reflects the continued increase in Governments' budgetary deficit. However, its expansionary impact is likely to be mitigated as net foreign exchange assets of banking sector have declined by Rs. 705 crores i.e., 13.3 per cent during March 31, 1980 to January 9, 1981 as against an increase of Rs. 188 crores during the corresponding period of 1979-80. Although the growth in aggregate bank deposits was somewhat sluggish to begin with, it has since picked up and the liquidity position of banks has remained comfortable. On the present trends, the monetary situation during 1980-81 will be better than that in 1979-80.

1.19 An important dimension of the approach to credit policy was the decision to enhance the share of priority sectors in total bank advances from 33½ per cent to 40 per cent over Sixth Plan period. Within the priority sector, the share of agriculture and small-scale cottage industries is to be increased further.

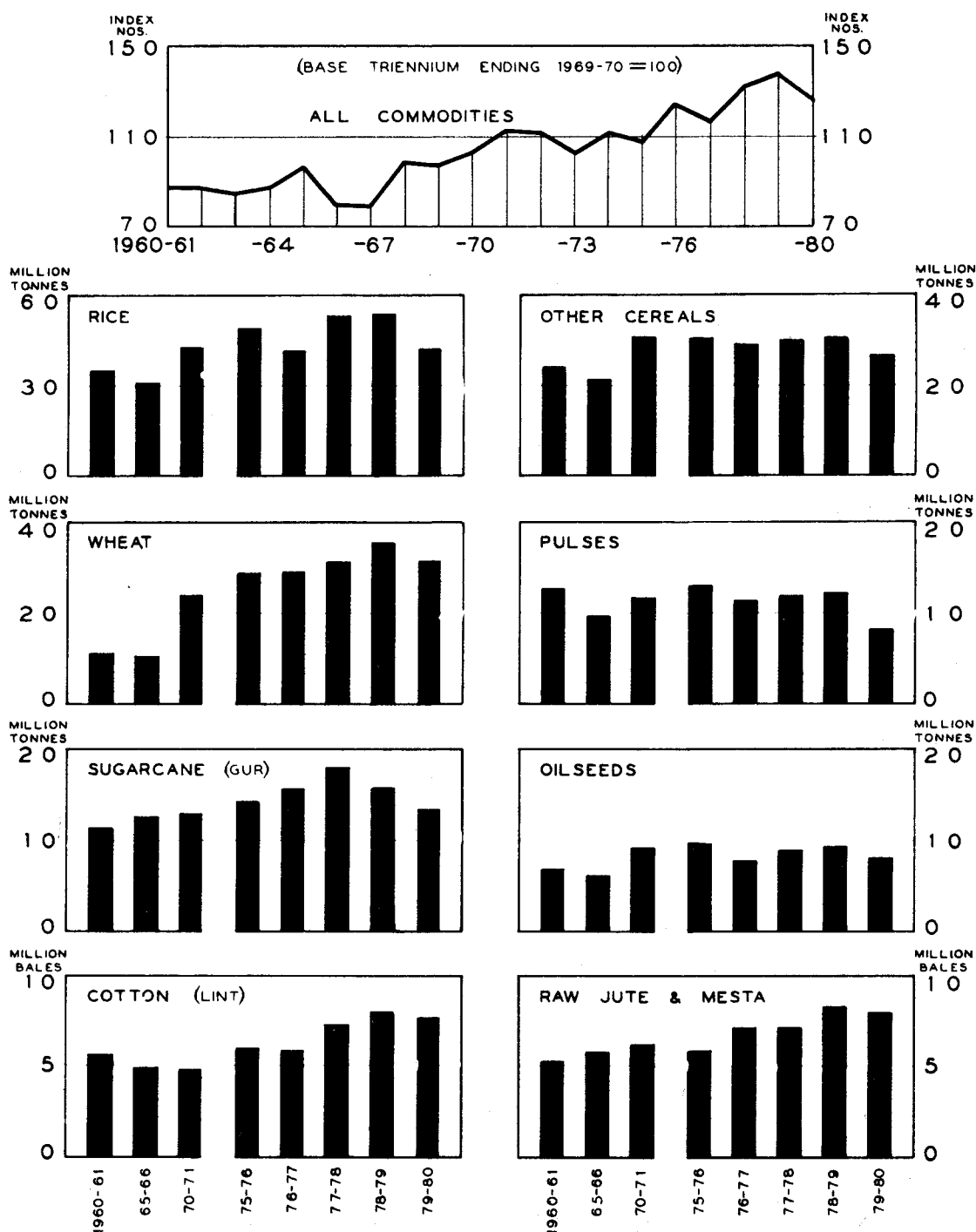
Special attention will be paid to small and marginal farmers.

Balance of Payments

1.20 The balance of payments situation further deteriorated during the current year. The sharp increase in oil prices since 1979 has added substantially to the import bill which is likely to increase to about Rs. 11,300 crores during 1980-81. The full impact of the rise in the oil prices has been felt during 1980-81 when the total bill for imports of crude oil and petroleum products alone is likely to be about Rs. 5600 crores. In contrast, exports have remained sluggish both due to internal constraints and an unfavourable international environment. During the year as a whole, the growth in the value of exports is likely to be about 10 per cent. The increase in the volume of exports may not, however, be significant. As a result, the trade deficit during 1980-81 is likely to exceed Rs. 4000 crores as against Rs. 2368 crores in 1979-80 and a much lower figure of Rs. 1088 crores during 1978-79. Invisible receipts on account of tourism and transport, investment income and remittances from abroad have stagnated. The growth of remittances from abroad has decelerated and there are limits to the growth in income from transport and tourism. In view of these factors, the current account deficit may go up to Rs. 2000 crores. The deterioration in the country's balance of payments is reflected in the draw down of the foreign exchange reserves which amounted to Rs. 313 crores at the end of January 1981. The draw down would have been more substantial if it was not cushioned by the borrowings of Rs. 815 crores from the IMF (Rs. 541 crores from the Trust Fund and Rs. 274 crores from the Compensatory Financing Facility). On the basis of present trends, the draw down of foreign exchange reserves by the end of 1980-81 may be about Rs. 600 crores.

1.21 In sum, the economy has shown distinct signs of improvement particularly since the second half of 1980-81. The performance of the infrastructure has improved significantly and industrial production is looking up. Foodgrain production is expected to exceed slightly the record level achieved in 1978-79. There is a moderation in inflationary pressures. However, the rate of inflation is still high. In particular it is not possible to insulate the economy from world inflation. The prices of petroleum and other key imports continue to rise and this will have an inevitable impact on domestic prices as well as on the balance of payments. The economy has also to mobilise resources for financing the Sixth Plan. These are challenging tasks which call for concerted and determined efforts both in the short-term and over the medium term.

AGRICULTURAL PRODUCTION



MINISTRY OF FINANCE, ECONOMIC DIVISION.