

CHAPTER 1

ECONOMIC SITUATION IN 1981-82

Introduction

1.1 The economic situation has shown a distinct improvement during 1981-82. Industrial production during the year is likely to increase by about 8 per cent compared with 4 per cent in 1980-81. There has been marked improvement in power generation, coal production, steel output and freight carried by the railways. In agriculture, a growth rate of 3 per cent is expected during 1981-82 on top of 15.4 per cent achieved in 1980-81. Foodgrains production is likely to be around 134 million tonnes which will exceed the peak level achieved in 1978-79. Production of cash crops is also expected to show significant improvement. As a result, Gross National Product is likely to increase by 4.5 per

cent during 1981-82 on top of 7.5 per cent growth during 1980-81.

1.2 There was a marked deceleration in inflationary pressures during 1981-82. The annual rate of inflation, as measured by the Wholesale Price Index, came down to 5.4 per cent as on January 16, 1982 as against 16.2 per cent on January 17, 1981. The deceleration in wholesale prices is gradually getting reflected in the Consumer Price Index as the annual rate which peaked in August 1981 to 14.4 per cent has come down to 12.7 per cent in December 1981. However, despite significant deceleration, inflationary pressures persist and require continued vigilance.

TABLE 1.1
Selected Economic Indicators

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
	(Percentage change over previous year)							
	1	2	3	4	5	6	7	8
1. Gross National Product at 1970-71 prices.	1.2	9.6	1.3	8.6	5.3	-4.8	7.5 ¹	4.5 ²
2. Agricultural production	-3.2	15.2	-7.0	14.5	3.4	-15.5	15.4	3.0 ³
3. Foodgrains production	-4.6	21.2	-8.1	13.7	4.3	-17.1	18.4	3.0 ³
4. Industrial production	3.2	7.2	9.6	3.3	7.6	-1.4	4.0	9.8 ³
5. Electricity generated*	5.2	12.9	11.5	3.4	12.2	2.1	5.9	11.6 ⁴
6. Wholesale prices (on point to point basis)	10.1	-6.5	12.0	0.3	4.6	21.4	16.7	3.0 ⁵
7. Monetary resources (M ₃)	10.9	15.0	23.6	18.4	21.9	17.7	17.6	11.3 ⁶
8. Imports (in current prices)	52.9	16.5	-3.6	18.7	13.2	32.4	38.2	4.0 ⁷
9. Exports (in current prices)	31.9	21.4	27.2	5.2	5.9	12.8	3.9	14.1 ⁷
10. Foreign exchange assets (excluding gold and SDRs)	5.1	144.3	91.9	57.2	16.0	-1.1	-6.6	-27.2 ⁸

1 Quick estimates.

2 Anticipated.

3 April-November 1981 over the same period in 1980.

4 April-December 1981 over the same period in 1980.

5 March 28, 1981—January 16, 1982.

6 As on January 8, 1982 compared with March 31, 1981.

7 Provisional figures for April-October 1981 over the same period in 1980.

8 As on January 31, 1982 compared with January 31, 1981.

* Electricity generation refers to utilities only.

1.3 The balance of payments remained under pressure during 1981-82. The foreign exchange assets have declined by Rs. 1292 crores by the end of January 1982, after taking into account the drawings of Rs. 637 crores from the International Monetary Fund (IMF). There was a pick up in the value of exports during the year; they are likely to grow by 12-13 per cent compared with about 4 per cent during 1980-81. The growth in imports, particularly of the bulk items, will be lower. As a result, trade deficit in 1981-82 is likely to be somewhat lower than Rs. 5756 crores during 1980-81. Net receipts from invisibles during 1981-82 are likely to be lower than during 1980-81, but aid utilization has shown improvement. Various steps have been taken during the year to tackle the severe balance of payments problems.

Gross National Product, Savings and Investment

1.4 The growth of real Gross National Product (GNP) of 7.5 per cent in 1980-81 turned out to be much higher than that expected at this time last year. During 1981-82, Gross National Product in real terms is expected to grow further by nearly 4.5 per cent. Thus, in the first two years of the Sixth Plan period the growth in real GNP will significantly exceed the target growth rate of 5.2 per cent per annum during the Plan period.

1.5 The rate of gross domestic capital formation increased from 22.9 per cent in 1979-80 to 24.2 per cent in 1980-81, slightly below the peak level of 24.6 per cent achieved in 1978-79. The gross domestic savings decreased marginally from 22.5 per cent in 1979-80 to 22.2 per cent in 1980-81. The gap between gross domestic savings and capital formation was financed by the inflow of foreign savings. As for 1981-82, the available evidence indicates that projected public investment outlays are likely to be met, and the outlook for private investment is good. The rate of capital formation should, therefore, remain high during 1981-82. The domestic savings rate is also expected to remain high although it will be lower than the rate of capital formation, reflecting a continuing large current account deficit in the balance of payments during 1981-82.

Agriculture

1.6 Agricultural production is expected to increase by over 3 per cent during 1981-82 on top of the 15.4 per cent increase in 1980-81 and against a decline of 15.5 per cent in 1979-80. Despite early withdrawal of the south-west monsoon in the north-western region of the country, *kharif* foodgrains production of about 80 million tonnes in 1981-82 will be about 2.6 million tonnes higher than 77.4 million tonnes in 1980-81. Much of the recovery in foodgrains production during 1980-81 and further increase during 1981-82 has resulted from an improvement in the yield per hectare, which reflects the efficacy of the agricultural strategy of extending irrigation facilities together with assured supplies of improved seeds, fertilizers, credit and other inputs. During the year several specific steps were

taken to improve the situation created by the erratic north-west monsoon. The timely winter rains should help increase production of rabi crops.

1.7 The prospects of cash crops for 1981-82 are equally good. Sugarcane production is expected to show a significant increase in 1981-82 over that of the previous year. The production of five major oilseeds increased from 8.0 million tonnes in 1979-80 to 8.3 million tonnes in 1980-81. Substantial increase in *kharif* groundnut production and good prospects for rabi season are expected to result in substantially higher oilseeds production during 1981-82 than that in the previous year. Jute and mesta production showed an increase of 3 per cent in 1980-81 and is expected to increase further during 1981-82. Production of cotton at 7.6 million bales in 1980-81 was however marginally lower than 7.7 million bales in 1979-80, but is likely to be significantly higher in 1981-82.

Infrastructure

1.8 The performance of the infrastructure sectors in 1981-82 was encouraging. The improvement which began around the middle of 1980-81 was sustained throughout 1981-82. Coal production had increased from 104 million tonnes in 1979-80 to 114 million tonnes in 1980-81. It showed an increase of 11.5 per cent during April—December 1981 over the corresponding period of the previous year. The target of 121 million tonnes for 1981-82 is expected to be achieved. The supply of coal to power plants and other key industries has also improved substantially. Power generation has increased by 11.6 per cent during April—December 1981. For 1981-82 as a whole, it is expected to increase by about 10 per cent on top of 5.9 per cent during 1980-81, due mainly to notable growth in thermal generation.

1.9 The total tonnage of revenue earning traffic by the railways has increased by 15.5 per cent during the first nine months of the current fiscal year. For the year as a whole, the target of 215 million tonnes is likely to be achieved. This would be 9.7 per cent higher than the achievement of 196 million tonnes in 1980-81. Better railway performance in 1981-82 has been due to greater efficiency in the utilisation of existing capacity. Traffic handling capacity at major ports has emerged as a constraint on movement of imports and exports in recent years. Despite this, the volume of traffic handled which was 78.5 million tonnes in 1979-80 increased to 80.4 million tonnes in 1980-81. During April—November 1981, cargo handled by major ports has increased by about 6 per cent. The improved performance of the key infrastructure sectors was achieved through concerted efforts made during the last two years. However, continued attention has to be devoted to the infrastructure to avoid problem in the medium term.

Industrial Production

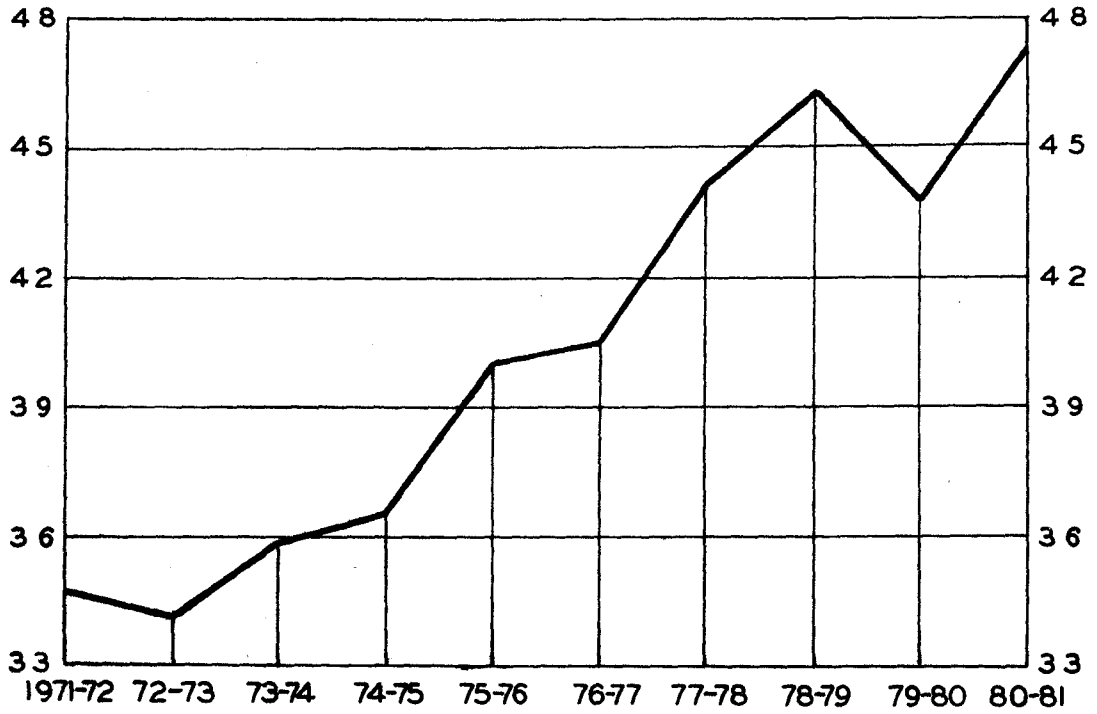
1.10 The improvement in industrial production which picked up in the middle of 1980-81 was sustained throughout 1981-82. Industrial production

NET NATIONAL PRODUCT

(AT 1970-71 PRICES)

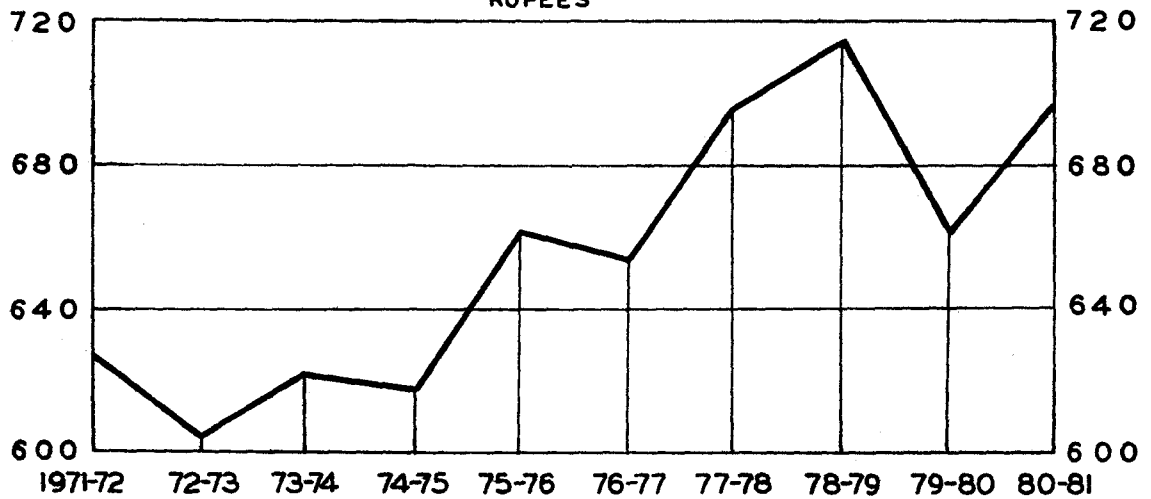
NATIONAL INCOME

RS. IN '000 CRORES



PER CAPITA INCOME

RUPEES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

increased by 9.8 per cent during April—November 1981 over the level achieved during the same period of 1980. On present indications, the growth in industrial production is expected to increase by about 8 per cent during 1981-82 as against 4 per cent in 1980-81 and a decline of 1.4 per cent in 1979-80. The improvement in industrial production has been widespread, and a large number of key industries such as steel, crude oil and petroleum products, cement, aluminium, nitrogenous fertiliser, newsprints, diesel engines, transport equipment, sugar, vanaspati, etc., are expected to achieve new peak levels of production during the year. There has been notable improvement in the performance of the public sector undertakings during the year. The performance of the small scale and cottage industries reflects both improved environment and a positive response to specific measures to promote production in the decentralised sector.

1.11 Available indicators of private investment such as grant of licences, capital issues, sanctions and disbursements of loans by term lending institutions show that the pick up in investment has continued throughout the year. The number of man days lost which came down from 19.5 million in April—September 1979 to 11.8 million during April—September 1980 has further declined to 8.0 million during the same period in 1981. The improvement in labour relations has been an important factor in higher industrial production during 1981-82.

1.12 New measures to boost industrial production were initiated during the year as a follow up of the Industrial Policy Statement of July 1980. Automatic increases in production, special incentives for promoting export oriented industries and some relaxation in location policy were allowed. The new textile policy emphasised expanded production in the decentralised sector and modernisation of the capacity in the mill sector.

Price Trends

1.13 Inflationary pressures eased considerably during 1981-82. The annual rate of inflation on a point to point basis, as measured by the Wholesale Price Index, came down to 5.4 per cent as on January 16, 1982 from 16.2 per cent as on January 17, 1981 and 22.8 per cent as on January 19, 1980. The deceleration in the Wholesale Price Index has been widespread and this is being gradually reflected in the Consumer Price Index. The annual rate of inflation as measured by the Consumer Price Index peaked in August 1981 to 14.4 per cent and has since decelerated. It was 13.4 per cent in September, 13.3 per cent in October and 12.7 per cent in December 1981.

1.14 The anti-inflationary strategy adopted by the Government stressed both supply and demand management. Various measures were taken to raise production and supplies in the economy. Improvement in

infrastructure performance was given high priority because of its importance for industrial production. The public distribution system was further strengthened and played an important role in providing essential commodities at reasonable prices throughout the country. Where necessary, essential commodities such as edible oils, wheat and sugar were imported to augment domestic supplies. Various steps were taken to remove artificial bottlenecks and scarcities by curbing the activities of anti-social elements. The agricultural pricing policy continued to ensure remunerative prices to farmers with a view to encouraging agricultural production.

1.15 Fiscal policy stressed resource mobilization to meet the development needs of the economy and to minimise budgetary deficits. Adjustment in administered industrial prices was intended to reflect increased costs, reduce losses in public sector undertakings, and minimise budgetary subsidies. Prices of crude and petroleum products were raised in order to reduce growth in their consumption and also to mobilise resources for development of the crucial oil sector. Incentives were given for promoting savings and investment in the economy.

1.16 Despite significant deceleration of inflationary pressures in the economy achieved during the last two years, prices of several commodities have continued to rule firm. The economy also remains susceptible to the impact of international factors. The achievement of relative price stability in the economy would therefore continue to be an important objective of public policy.

Monetary Situation

1.17 In the context of persistent inflationary pressures, monetary policy during the year sought to achieve objectives of restraining the expansion of money supply and credit on the one hand, and the mobilization of bank deposits and the flow of credit to the priority and productive sectors of the economy, on the other. A number of steps were taken during 1981-82 including restructuring of interest rates on bank lending and on new deposits, increase in the bank rate from 9 to 10 per cent, increase in the cash reserve ratio in a phased manner from 6 to 8 per cent, increase in the statutory liquidity ratio from 34 to 35 per cent, and appropriate increases in the refinance and re-discounting rates.

1.18 As a result of these measures, monetary expansion in 1981-82 has been kept within reasonable limits. Aggregate monetary resources (M_3) increased by 11.3 per cent during 1981-82 (up to January 8, 1982) compared with 13.4 per cent in the same period last year. The increase in M_1 was 6.0 per cent as against 8.8 per cent during that period of last year. On current trends, the monetary expansion as measured by M_3 during 1981-82 as a whole is likely to be lower than 17.6 per cent during 1980-81.

1.19 The aggregate deposits of scheduled commercial banks have increased by Rs. 5804 crores (by 15.2 per cent) in 1981-82 (up to January 8, 1982) compared with Rs. 4760 crores (by 14.8 per cent) during the same period of 1980-81. The increase has been contributed by both demand and time deposits. The expansion of gross bank credit by scheduled commercial banks during 1981-82 (up to January 8, 1982) was 16.2 per cent as against 11.4 per cent in the corresponding period last year. This was mainly because of higher food credit necessitated by larger food procurement, and greater requirements of credit on account of higher production and the needs of priority sectors, including exports.

Foreign Trade and Balance of Payments

1.20 The external trade and balance of payments situation has been under severe strain since 1979-80. The deterioration in the balance of payments was caused by the sharp increase in the import bill due to substantial increases in the prices of oil and other major imports. The trade deficit increased to Rs. 5756 crores in 1980-81 as against Rs. 2563 crores in 1979-80. The balance of payments will continue to remain under pressure during 1981-82 even though the trade deficit for the year as a whole is likely to be somewhat lower than the 1980-81 level because of lower crude and petroleum imports. The pressure on balance of payments is reflected by the movement in foreign exchange reserves which have declined by Rs. 1292 crores during the current financial year, upto January 31, 1982 after taking credit for the receipt of Rs. 637 crores under the International Monetary Fund extended arrangement.

1.21 Total imports during 1981-82 are estimated at Rs. 13,200 crores, six per cent higher than those in 1980-81. Export growth after remaining sluggish in 1980-81 has shown distinct improvement in the current year and is expected to be around 14 per cent in value terms. The available data for the first seven months of the current financial year show that the recovery in exports is fairly general. However, despite the encouraging performance of exports during 1981-82 it will be necessary to strengthen the export effort still further.

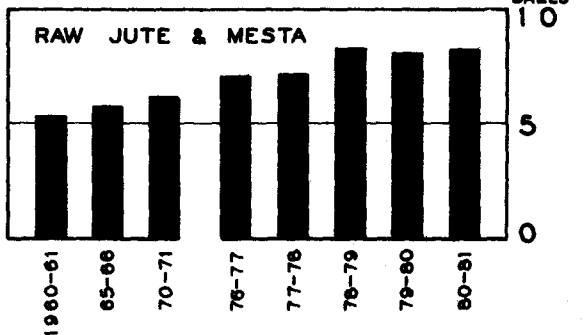
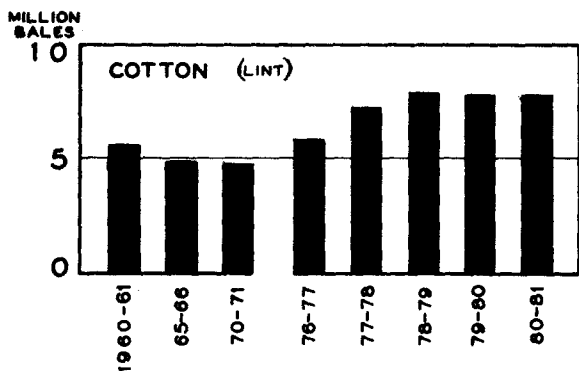
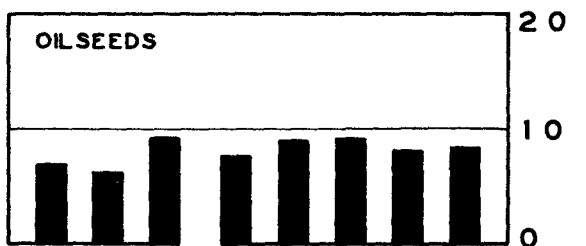
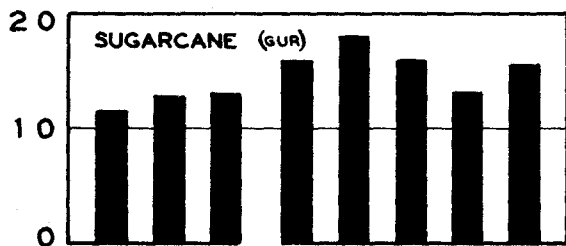
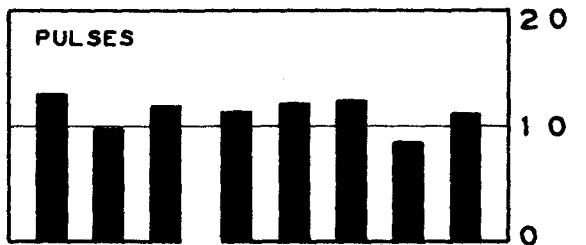
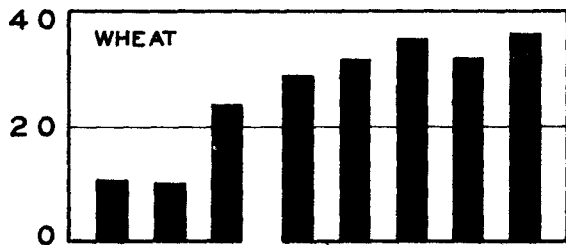
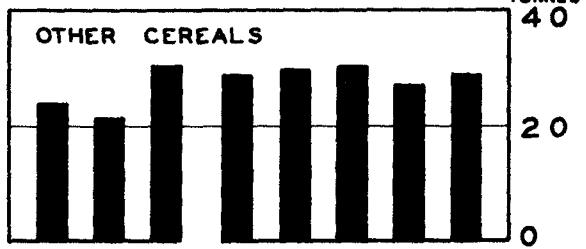
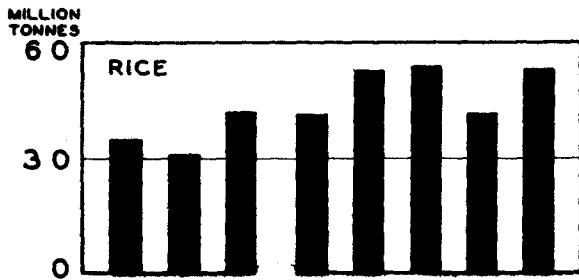
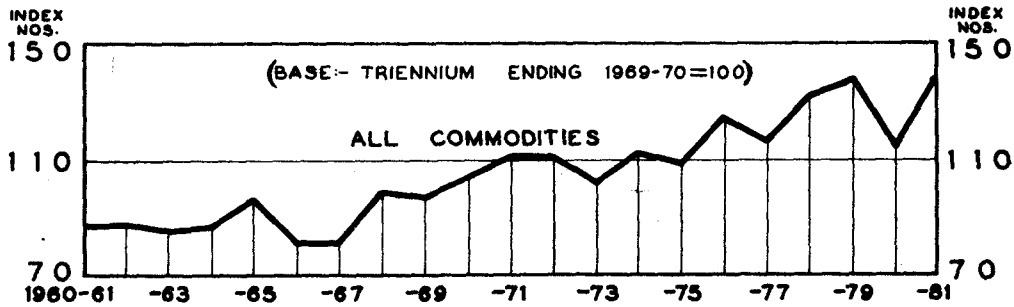
1.22 The import policy for 1981-82 allowed flexible and liberal access to import requirements for actual users consistent with the aim of strengthening and diversifying the production base of the economy.

The policy recognised the important role that export houses can play in promoting and developing exports. In order to improve the financial infrastructure for underpinning exports, the Export-Import Bank has been established.

1.23 The balance of payments is expected to remain under pressure in the coming years. While the efforts to bring about necessary adjustments would prove successful only over the medium term, steps have been taken to mobilise the necessary finance to bridge the gap in the intervening period. The Government entered into an extended arrangement with the International Monetary Fund for SDR 5 billion to be made available during the three-year period November 1981—November 1984 for balance of payments support. Increased recourse to commercial borrowings was also taken during 1980-81 and 1981-82, mainly for economically viable projects.

1.24 In sum, the performance of the economy has shown significant improvement during 1981-82. Production performance both in agriculture and industry have been encouraging. Supplies as well as distribution have improved. The inflation rate has come down significantly although pressures persist in certain essential commodities. A very substantial additional resource mobilisation effort was undertaken during the year and steps were taken to arrest the deterioration in the balance of payments. The country is now better poised to take further initiatives for achieving the necessary medium term structural adjustments. It is essential to further improve agricultural productivity and reduce the destabilising impact of the weather by expansion and better utilization of irrigation. It is also necessary to sustain the improvement in the infrastructure and key industries through efficient functioning and further capacity creation. Inflationary pressures have to be contained, particularly by appropriate restraint in the expansion of credit and non-developmental expenditures. For achieving speedy adjustment to the severe balance of payments problem, it would be necessary to redouble efforts at increasing exports and achieving faster import substitution in critical areas such as crude oil, fertilizer, steel, cement, edible oil, newsprint and aluminium. In this connection, the step-up in domestic crude oil production from 10.5 million tonnes in 1980-81 to 15.9 million tonnes in 1981-82 (estimated) is noteworthy. As higher productivity is the key to rapid improvement of the economy, 1982 has been declared as "Productivity Year". And, a new 20-point programme has been announced which focuses attention on the priority areas, with emphasis on improving the condition of the weaker sections of society for concerted action at all levels.

AGRICULTURAL PRODUCTION



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