THE ECONOMY IN 1991-92

Performance and Prospects

The year 1991-92 has been an exceptionally difficult year for the economy with the deepening of the crisis which began in 1990-91. The balance of payments problems, which emerged in 1990-91, had reached crisis proportions by June 1991. A severe import squeeze, introduced in the course of 1990-91 in response to the shortage of foreign exchange, disrupted industrial production, which began to decline early in the year 1991-92. Inflation, which had begun to accelerate in 1990-91, reached a peak level of 16.7 per cent in August 1991. Growth of real GDP decelerated sharply and is likely to be no more than 2.5 per cent this year.

The new Government which assumed office in June 1991 took a series of corrective measures to bring the situation under control. These included short-term measures aimed at crisis management as well as longer-term measures of structural reform, aimed at improving efficiency and productivity and putting the economy back on the path of sustainable growth with equity and social justice.

I GROWTH PERFORMANCE

The growth of the economy slowed down substantially in 1991-92, partly because of a slowdown in agriculture and partly because of a deceleration in industrial growth. The kharif foodgrain crop in 1991 is estimated to be lower than in the previous year, though some of the loss may be made up in the rabi season. Aggregate agricultural production for the year may not show a decline as the fall in foodgrains production is likely to be offset by a rise in the output of cash crops. For instance, the prospects of the sugarcane crop are excellent, and this year's mustard crop is reported to be good. Nevertheless, agricultural output this year is at best likely to be maintained at last year's level, or show very small growth.

Industrial growth, which had been buoyant in earlier years, had already slowed down considerably in the second half of 1990-91 before turning into a decline by the beginning of 1991-92. The index of industrial production in April-June 1991 was 2.3 per cent lower than a year earlier. The next quarter showed a modest growth of 0.5 per cent, but the following two months again showed a decline of 1 per cent. The decline in the period April-November was 0.9 per cent.

All major industries except beverages, tobacco and cement recorded a

TABLE 1

Key indicators

(Percentage change over previous year)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91(P)	1991-92(P)
Gross national product (1)	7.3	5.8	2.6	7.9	3.8	4.1	4.0	4.0	10.5	6.1	5.8	2.5 to 3
Gross domestic product (1)	7.2	6.1	3.1	8.2	3.8	4.1	4.3	4.2	10.5	6.0	5.6	2.5 to 3
Agricultural production	15.6	5.6	-3.8	13.7	-1.2	2.5	-3.7	-0.8	21.0	2.1	2.6	0.0*
Foodgrains production	18.1	2.9	-2.9	17.7	-4.5	3.4	-4.7	-2.1	21.0	0.6	3.0	-1.5*
Industrial production (2)	4.0	9.3	3.2	6.7	8.6	8.7	9.1	7.3	8.7	8.6	8.5	-0.8(3)
Electricity generated	5.9	10.2	6.7	7.6	11.9	8.6	10.2	7.6	9.5	10.8	7.8	9.0(4)
Wholesale price index (5)	16.7	2.4	7.2	7.2	6.0	4.8	5.1	10.7	5.7	9.1	12.1	11.8(6)
Consumer price index (7) for industrial workers	12.6	8.8	9.8	8.6	5.3	8.3	6.2	10.9	8.5	6.6	13.6	13.1(4)
Money supply (M3)	18.1	12.5	16.1	18.1	18.9	15.9	18.6	15.9	17.8	19.4	14.9	14.9(8)
Imports at current prices (in Rupees)	37.3	8.4	5.0	10.8	8.2	14.7	2.2	10.7	26.9	25.4	22.0	7.0(9)
Imports at current prices (in US dollars)	40.5	-4.4	-2.5	3.5	-5.9	11.5	-2.2	9.1	13.6	9.1	13.2	-20.7(9)
Exports at current prices (in Rupees)	4.6	16.3	12.8	11.0	20.2	-7.2	14.3	25.9	29.1	36.8	17.6	28.1(9)
Exports at current prices (in US dollars)	7.0	2.6	4.6	3.8	4.5	-9.8	9.4	24.0	15.6	19.0	9.1	-5.0(9)
Foreign currency assets (Rupees crore)	4822	3355	4265	5498	6817	7384	7645	7287	6605	5787	4388	11410(10)
Foreign currency assets (US $ million)	5850	3582	4281	5099	5482	5972	5924	5618	4226	3368	2236	4395(10)

* Anticipated. (P) Provisional.

1. New series at 1990-91 prices.
2. Based on old index (1970-71 = 100) for 1980-81 and new index (1980-81 = 100) thereafter
3. April - October 1991.
4. April - December 1991.
5. Old index (1970-71 = 100) up to 1981-82 and revised index (1981-82 = 100) thereafter to 1981-82
6. April 1991 - January 25, 1992.
7. Old index (1960 = 100) up to 1982-83 and revised index (1982 = 100) thereafter.
8. April 1991 - January 10, 1992.
9. April - November 1991.
10. As on February 20, 1992 for 1991-92 and at the end of March for past years.

lower growth rate in April-September 1991 than in the same period a year earlier. Three categories of industries, viz. capital goods, consumer durables and export-oriented industries were particularly affected. Capital goods industries suffered primarily from a decline in Government investment. The consumer durables sector was adversely affected by high costs of imported inputs following the exchange rate adjustment in July 1991 and the non-availability of imports owing to the import squeeze. Export-oriented industries were faced with recessionary conditions in the industrial economies and a dramatic collapse of demand in the markets of the erstwhile Soviet Union.

The performance of the infrastructure sector, however, was much better than that of manufacturing industries in general. The output of coal in April-December 1991 was 10.9 per cent higher than in the previous year; that of electricity was 9 per cent higher. Performance in the petroleum sector was relatively poor, with crude oil production down by 7.1 per cent and refinery throughput by 2.1 per cent. However, overall energy production was 5-6 per cent higher in 1991-92. Railways' revenue-earning freight traffic was 7.5 per cent higher in April-December 1991. This respectable performance of infrastructure industries suggests that the industrial recession, which has certainly been sharp, need not be prolonged. The underlying supply factors affecting industrial production are performing well and could sustain a quick industrial revival in 1992-93.

Amongst services, financial services are likely to do well, as also transport services. The prospects of construction in the current year are also good judging from trends in cement offtake. These indicators suggest a fairly robust growth in the output of services of perhaps 5-6 per cent. With these estimates of sectoral growth rates, the gross domestic product may show modest growth of about 2 per cent or a little higher in 1991-92.

This sluggish performance, coming after several years of rapid growth, is to be viewed in the context of exceptionally difficult conditions in two respects : a grave external payments crisis and a high rate of inflation. Both reached their peak in the middle of 1991. Foreign currency assets had declined to Rs.2383 crore (US $1.1 billion) at the end of June 1991, which was barely enough to finance two weeks of imports. The annual rate of inflation, which began to accelerate in 1990, reached a peak of 16.7 per cent in the fourth week of August 1991.

The new Government moved rapidly to implement a programme of macro-economic stabilization to restore viability to the balance of payments and to bring inflation under control. It also undertook a far reaching programme of structural reform, which included bold initiatives in trade and industrial policy aimed at improving the efficiency of the economy and increasing its international competitiveness. This restructuring was essential to ensure longer-term viability in the balance of payments and to restore the conditions for rapid growth.

The measures have had some success. There has been a marked improvement in foreign exchange reserves, with reserves reaching Rs.11410 crore ($4.4 billion) in the third week of February 1992. The rate of inflation has also declined from the peak level of 16.7 per cent reached in August 1991 to 11.8 per cent in February 1992. However, neither the balance of payments crisis nor the problem of inflation has been overcome. A lasting solution to these problems calls for sustained corrective action which must continue to receive top priority in 1992-93. The objective of policy in the coming year must be to consolidate the gains made thus far and to bring these problems firmly under control, while simultaneously raising the rate of growth, and restoring the Government's capacity to pursue the basic social goals of generating employment, removing poverty and promoting equity.

Fig. 1 FOREIGN EXCHANGE RESERVES