

I—INTRODUCTION

The process of recovery from the previous two years of an abnormal drought and an unwanted war, which began in 1967-68, was continued during the year under review. National income had risen by 8.9 per cent in 1967-68 as a result of more normal monsoons, reversing the trend of the two previous years and resuming the growth trend interrupted in 1965-66. This had happened though there was only a marginal increase in industrial production. Although agriculture could not be expected to repeat the spectacular increase of 1967-68, performance this year confirms that the improvement recorded last year was not fortuitous. In addition, there has been a revival in industrial production, and a growth in industrial output of 5 to 6 per cent can be confidently expected. Altogether, national income may be expected to increase by about 3 per cent. There has also been a return to stability in prices and a striking improvement in the balance of payments.

2. In 1966-67 and 1967-68, the general level of prices had increased by 15.9 per cent and 11.1 per cent respectively. By contrast, the average wholesale price index in December, 1968 was 2.2 per cent lower than a year ago. In 1966-67, the net decline in our foreign exchange reserves amounted to \$ 118 million because of a drawing of \$ 130 million from the International Monetary Fund. In 1967-68, however, there was a net increase of \$ 48 million in the reserves even though we obtained \$ 90 million of compensatory financing from the IMF. During the current year, there has been a sharp increase in exports and a reduction in imports. Therefore, in spite of lower aid commitments than envisaged and higher debt repayments it should be possible to end the year without any significant variation in reserves and with an appreciable reduction in our indebtedness to the IMF.

3. Looking back, the interregnum since 1964-65 has not been without its gains. The speed and efficiency with which a large public distribution system was set up and worked and the way in which the emergency created by the famine in Bihar was tackled was a major achievement. The emergency also indicated the basic vulnerability of the Indian economy on the food front and pointed to the need for policy measures to attain a viable food economy. Not only was the need to increase food production highlighted but also the need for a mechanism which would insulate the food consumption of the population from fluctuations in agricultural output inevitable in a large country like India with a predominantly rainfed cultivation. Also, the intimate connection, direct as well as indirect, between the development of agriculture and the development of industry was clearly revealed. Since increasing agricultural output entailed preeminently increasing yields per hectare, this meant increasing quantitatively as well as qualitatively the inputs like seed, fertilizer, water and pesticides

that go into agriculture. This in turn emphasised the need for the relatively more rapid development of industries producing fertilizers, pesticides and agricultural machinery than hitherto contemplated.

4. The reaction to this situation has been both quick and meaningful. A new agricultural strategy, involving the massive use of fertilizers, pesticides, better seed and water, was adopted in 1966, and its application is being extended to wider and wider areas as the supplies of these inputs increase. A closer relationship has been established between research and the dissemination in the field of the results of such research. Experience of the application of the strategy this year and last year suggests that we are on the right road to rapid agricultural growth, provided the supplies of inputs increase adequately, and the organisational structure of research, credit and extension continues to be developed. Adequate supplies of fertilizers and pesticides are to be made available through domestic production and imports. The programme for the multiplication and distribution of high yielding varieties of seeds is being actively pursued. Minor irrigation is being extended. Arrangements are being made for the expansion of credit facilities. The availability of inputs is thus likely to be adequate in the near future.

5. Simultaneously, a decision to establish a buffer stock of foodgrains has been taken. To this end as also to restore consumption to more satisfactory levels, imports of foodgrains will be necessary for some more time. Once a satisfactory trend in domestic production is established buffer stock operations should make it possible to prevent prices from falling unduly in good years and to contain inflationary pressures in bad years. In addition stability in prices of farm products would contribute to an increase in output over a period of time by providing a stable framework for investment in agriculture.

6. The unsatisfactory performance of Indian exports had been a handicap as much as unsatisfactory agricultural growth has been an impediment to overall growth. Export performance last year as well as the spurt this year seems to indicate that here too a proper combination of production facilities and policy measures is being achieved. A major portion of the increase in Indian exports has come from iron and steel and engineering goods, and there are indications that exports of engineering goods in particular can be increased still further, provided the objective is pursued with the same vigour as in these two years. There is greater awareness now of the need for increased and diversified exports, particularly in view of the uncertain aid climate, and at the same time there is a keener realisation of the necessity to remove certain structural disadvantages which Indian industry has developed because it was more or less wholly oriented towards import substitution.

NET NATIONAL PRODUCT [NATIONAL INCOME]

(AT 1960-61 PRICES)

REVISED SERIES

SEM-LOGARITHMIC SCALE



* PRELIMINARY ESTIMATES

□ QUICK ESTIMATES

MINISTRY OF FINANCE, ECONOMIC DIVISION.

7. While the restoration of a measure of stability to the economy has been welcome, it has to be recognised that this has been possible as a result of considerable restraint on development outlays. With the problems of food, inflation and external viability being overcome, it should be possible for the economy now to turn to the task of long run growth.

TABLE 1
Selected Economic Indicators

	1965-66 (Per cent	1966-67 change	1967-68 over previous year)	1968-69 (Per cent
1. National income at constant prices	-5.7	+1.1	+8.9	+3.0†
2. Agricultural production	-16.3	-0.5	+22.6	
3. Foodgrains production	-19.1	+3.1	+28.8	
4. Industrial production	+4.2	+1.7	+0.2	+5.4*
5. Electricity generated	+10.3	+9.3	+12.6	+15.8*
6. Wholesale prices	+8.1	+15.9	+11.1	-1.9**
7. Money supply	+10.7	+8.3	+9.1	-0.3**
8. Imports	+4.4	-6.3	-5.0	-5.8*
9. Exports	-1.3	-8.9	+3.7	+17.5*
10. Freight carried by Railways	+9.7	-0.3	+1.9	+5.0**

† Rough estimate based on information available at present.

* April-September 1968 compared to April-September 1967.

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