

ECONOMIC SURVEY, 1958-59

The object of this Survey is to assess the main trends in the economy during the year 1958-59 with a view to presenting the background against which the budgetary and economic policies for the coming year have to be viewed.

2. The principal objective of policy in a developing economy is to ensure, to the utmost extent possible, that the investment programmes in the Plan are implemented according to schedule. The mobilisation of resources, both internal and external, must, therefore, be the continuing keynote of the annual Economic Surveys, the degree of emphasis on particular aspects of policy varying in the light of the behaviour of various indices, such as production, prices, monetary expansion or contraction and the balance of payments, which point to the ebb and flow of pressures at various points in the system. While the Five Year Plan under implementation provides the broad framework of targets and policies, the levels of outlay year by year and the accent of fiscal, monetary and other regulatory balances in the economy are, to an extent, flexible, and have to be adjusted to the requirements of the economic situation, immediate and prospective.

I The Economic Situation

3. The sharp decline in agricultural production in 1957-58 and a slowing down of the rate of growth of industrial production accentuated the pressure on prices during 1958-59. The index of wholesale prices (1952-53=100) which had registered a decline in the latter part of 1957 started rising from March 1958; it went up from 105 in that month to 116 in August, the rise being accounted for mainly by the upward movement of the index for food articles from 102 to 120 in this period. Prices were more or less stable in September and October, and showed a downward trend in November and December, the general index reaching a level of 110-111 by December-end and early January 1959. There has, again, been a rise since then; the index of wholesale prices for the week ending the 7th February being 114.5. On the whole, the rise in the wholesale price level as measured by the average of monthly indices for the year was 2.1 per cent. in 1958 as compared to 5.9 per cent. in 1957. The all-India cost of living rose sharply during the year, the index going up from 110 in March, 1958 to 123 in October, and receding to 122 in November and 119 in December.

4. There was also an increased strain on the balance of payments in the first half of the year. The foreign assets of the Reserve Bank declined at an average rate of Rs. 5.4 crores in the quarter April—June, 1958 (without taking credit for the receipt of Rs. 21 crores during this period from the U.K. under the Pensions Settlement of 1955). The rate of drawals in July was about Rs. 5.1 crores per week. Since then, there has been an improvement in the situation. The drawals averaged Rs. 2 crores per week in August, Rs. 0.84 crore in September and Rs. 1.09 crores in October, and there have been, for the first time since the commencement of the Second Plan, some additions to reserves in November, December and January. In the middle of February 1959, the foreign assets of the Reserve

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Bank stood at Rs. 206 crores as compared to Rs. 279 crores a year earlier and the lowest level of Rs. 178 crores reached at the end of October 1958. The recent improvement of Rs. 28 crores includes a sum of Rs. 13·3 crores received in the second week of February 1959, from the U.K. under the Pensions Settlement of 1955.

5. While the economic trends in the first two years of the Plan were indicative of a growing imbalance in the economy arising mainly out of the step-up in investment activity in pursuance of the plan, the signs now are of a lessening in this imbalance. The step-up in aggregate investment during the year under review has been relatively small; a larger proportion of it than in the previous two years has been financed by external resources. Credit creation has been on a smaller scale; and, stringency in the money market has abated, with consequential improvement in the loan receipts of both the Central and State Governments. The upward trend in prices has been mainly the consequence of a shortfall in agricultural production rather than of any overall excess of demand. Prices of raw materials and manufactured goods have remained practically stable. The downward adjustment in the Plan from Rs. 4,800 crores to Rs. 4,500 crores—with a substantially larger quantum of external assistance than was envisaged earlier—is also a factor that should reduce the strain on the economy in the immediate future.