

VIII *The Outlook*

44. On the whole, the picture that emerges from the foregoing paragraphs is one of an economy which has moved, over the last twelve months and more, towards, but not yet sufficiently near, the goal of achieving a balance both internally and externally. The rise in aggregate investment in the year that is about to close will have been relatively small; while public investment is expected to be more than in the previous year, private investment will probably have been lower. Although the rise in prices during the year has been confined mainly to foodgrains which suffered a sharp reduction in output, the fact, nevertheless, remains that the rate of increase in aggregate output has slowed down. The relative improvement in the balance of payments in the latter part of the year has been due partly to the restrictive import policy and partly to the availability of external assistance in larger measure.

45. The monetary trends reviewed earlier indicate that the expansion in money supply and in bank credit has been under control and there are signs of slack in certain sectors of the economy as evidenced by under-utilised capacity in cloth and cement. Inflationary pressures in the economy at the present moment can hardly be said to be strong. But it would also be wrong to suggest that the problem of inflationary pressures has been mastered. Basically, the problem still remains—and will for long remain—one of sustaining a high rate of investment in the economy without generating excessive inflationary pressures and causing an undue strain on the balance of payments. Progress consistent with stability towards the higher levels of investment envisaged in the Plan is thus possible only through steady increases in savings and continued exercise of discipline in the fiscal, monetary and foreign exchange fields.

46. The step-up in net capital formation at the Centre—including that in the States financed from grants and loans from the Centre—is shown in Table 6.1 at the end. In presenting the table, changes in stocks held by the Centre and the States have been taken into account (unlike in the table given in the Economic Survey last year). The budgetary allocation for net capital formation in 1958-59 works out at Rs. 791 crores as compared to the revised estimates of Rs. 723 crores in 1957-58 and Rs. 511 crores in 1956-57. It is difficult to present any precise estimate of the trend in investment in the private sector as a whole. In organised manufacturing industries, investment including replacement and modernisation is estimated to have been Rs. 150 crores in 1956-57 and Rs. 185-190 crores in 1957-58. In the iron and steel industry alone, investment in 1957-58 was about Rs. 68 crores. Indications are that in 1958-59 investment in manufacturing industries recorded a set back partly because of foreign exchange difficulties.

47. In the coming year there is to be a further step-up in public investment in pursuance of the Plan. Private investment has, as mentioned above, shown a tendency to decline and an early reversal of this trend seems unlikely. In the aggregate, the increase in investment in the economy in the coming year might well be small. Investment activity, it would appear, is levelling off in contrast with the sharply ascending trend observed since 1955-56.

48. Foodgrains production in this kharif season has been markedly better than in the corresponding season of 1957-58. The rice crop this year is expected to exceed 30 million tons. This should mean an improvement of about 5½ million tons as compared to 1957-58. The prospects for the rabi crop are reasonably good. Industrial production in certain lines is also expected to show improvement. The output of steel will increase by about half a million tons as a result of the completion of the expansion programme in the private sector. The recent increases in installed capacity in a number of industries, such as chemicals and fertilisers, should also help in securing increased production. On the other hand, the tightness of foreign exchange will continue to operate as a restraining factor. While the position regarding total availability of goods in the economy might thus be better than in the current year, no material reduction in the pressure of demands for domestic consumption and investment can be expected; and, there is, in addition, the need to raise exports.

49. It follows from this analysis that a close watch on inflationary pressures, a cautious credit policy, maximum effort to increase production and promote savings, and continued vigilance on the foreign exchange front, coupled with a drive to raise exports and to secure the balance of external assistance required for completing the Plan will continue to be necessary in the coming year.