

# CHAPTER 1

## THE INDIAN ECONOMY IN 1975-76

### Introduction

1.1 The most important feature of the economic situation in 1975-76 was the persistence of a declining tendency in prices which was first observed in the second half of 1974-75. The Wholesale Price Index declined by 7.4 per cent between the third week of September 1974—when an all time peak was reached—and the last week of March 1975. The latest available index for the week ending 14th February 1976 shows a further decline of 5.6 per cent as compared with the last week of March 1975. The All India Consumer Price Index has also, on balance, shown a declining trend since November 1974. India can rightly claim credit for a most successful anti-inflationary policy—particularly since the decline in the general price level has been brought about in spite of a severe deterioration in her terms of trade since 1973 due to the sharp increase in import prices of such sensitive products as fuel, food and fertilisers. Fortunately, price stability is likely to be accompanied by a substantial improvement in the overall rate of growth of the economy in 1975-76. The deficit on trade account continues to be a cause for concern. However, thanks to effective action against smuggling and those indulging in illegal dealings in foreign exchange, and larger disbursements of aid, the country's external reserves have not experienced any serious strain. The announcement by the Prime Minis-

ter of an action oriented New Economic Programme in July 1975 has re-affirmed Government's commitment to accelerated growth and greater social justice in a framework of reasonable price stability. Thus, notwithstanding the inevitable uncertainties of the weather, the Indian economy in the next two or three years is likely to be able to sustain a significant increase in investment.

### The Resumption of Growth

1.2 The rate of growth of national income during the Fourth Plan period averaged only 3.3 per cent. According to the 'Quick Estimates' of national income for 1974-75 prepared by the Central Statistical Organisation, the rate of growth was only 0.2 per cent. Judging by the available indicators, the overall growth rate of the economy in 1975-76 will be about 5.5 per cent. Moreover, considering the efforts that are now being made to accelerate the pace of agricultural production and to improve the performance of the public sector, it is likely that in the next two or three years, there will be a substantial improvement in the growth performance of the economy as compared with past trends.

TABLE 1.1  
*Selected Economic Indicators*

	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
	(Percentage change over previous year)						
1. National income at constant (1960-61) prices	6.5	5.2*	1.8*	-1.5*	5.0*	0.2**	5.5+
2. Agricultural production	6.7	7.3	-0.4	-8.0	10.8	-3.1	8.0+
3. Foodgrains production	5.8	9.0	-3.0	-7.7	7.9	-3.4	12.0+
4. Industrial production††	7.4	3.0	3.3	4.4	-0.2	2.5	4.5+
5. Electricity generated	14.4	8.4	8.8	4.8	1.6	7.6	13.4‡
6. Wholesale prices	3.7	5.5	4.0	9.9	22.7	23.1	-2.4‡
7. Money supply	10.8	11.2	13.1	15.9	15.4	6.9	7.5@
8. Imports (in current prices)	-17.1	3.3	11.6	2.4	58.3	51.2	23.1@@
9. Exports (in current prices)	4.1	8.6	4.8	22.5	28.0	30.9	14.6@@

\*Provisional

\*\*Quick estimates

+ Anticipated

‡ April—January, 1975-76 compared to April—January, 1974-75.

@ A\$ on February 13, 1976 compared to March 31, 1975.

@@ April—December, 1975-76 compared to April—December, 1974-75.

†† Figures relating to 1969-70 to 1971-72 are derived from 1960 base Index and those for subsequent years from 1970 base Index.

1.3 The provisional data available from the Central Statistical Organisation show that net domestic savings expressed as a percentage of net national product at current prices declined from 14.8 per cent in 1972-73 to 13.6 per cent in 1973-74 and to 13.2 per cent in 1974-75. The decline in the savings ratio in 1974-75 is attributed mainly to the decline in household savings. Presumably, severe inflationary pressures of 1972-74 affected the capacity to save of households. Public sector savings however, recorded an increase in 1974-75. The available data on financial assets suggest that the revival of economic growth in 1975-76 will be associated with some increase in the savings ratio.

1.4 The Central Statistical Organisation's estimates also show that net investment as a percentage of net national product at current prices which declined from 15.5 per cent in 1972-73 to 14.4 per cent in 1973-74 further declined to 14.2 per cent in 1974-75. The Annual Plan for 1975-76 provides for an outlay of Rs. 5978 crores which represents an increase of over 23 per cent in nominal terms over the Plan outlay for 1974-75. Judging by the output trends in the major capital goods industries as well as the behaviour of prices of machinery and equipment, it is reasonable to assume that the successful implementation of the Annual Plan for 1975-76 will lead to an increase in the ratio of investment to national income.

### **Agricultural Trends**

1.5 The index of agricultural production for 1974-75 shows a decline of 3.1 per cent as compared to 1973-74. The sluggishness of India's agricultural sector is indicated by the fact that from 1970-71 to 1974-75 there has hardly been any increase in the index of agricultural production. Fortunately, these unsatisfactory trends are likely to be reversed during 1975-76. The index of agricultural production is expected to record an increase of about eight per cent in the current year.

1.6 The available data suggest that the country has had a record kharif crop of about 70 million tonnes of foodgrains in 1975. Judging by the moisture content of soil and the comfortable supply posi-

than the previous peak level of 68.9 million tonnes reached in 1970-71, is a broad indication of the unfinished task that lies ahead in modernising our agriculture.

1.7 With the exception of raw jute, the outlook for most other commercial crops is also highly encouraging. The production of raw cotton which went up from 6.3 million bales (of 170 kgs each) in 1973-74 to 7.1 million bales in 1974-75 is likely to stabilise at this record level in 1975-76. The production of sugarcane (in terms of gur) which declined by 0.8 per cent in 1974-75 is expected to increase marginally in 1975-76. The production of five major oilseeds which declined from 8.9 million tonnes in 1973-74 to 8.4 million tonnes in 1974-75 is expected to go up to about 10 million tonnes in 1975-76.

1.8 An adequate supply of water, liberal use of fertilisers and progressive improvements in the quality of seeds are key elements in any strategy of agricultural growth. Recent trends in the growth of irrigation potential have not been wholly satisfactory. As such, every effort will have to be made to achieve the target of additional irrigation which is included in the New Economic Programme. Despite a comfortable supply position, the current trend in the consumption of fertilisers is also a matter of concern. Consumption of fertilisers which declined by 9 per cent in 1974-75 may be expected to pick up this year both on account of favourable weather conditions and recent reductions in prices. Even then, determined efforts are needed to accelerate the rate of growth of fertiliser use. Another noteworthy aspect of the current agrarian scene is that the renewed emphasis on speedy implementation of land reforms and revision of minimum wages of agricultural workers that is now being laid as part of the New Economic Programme will help to ensure a fairer distribution of the fruits of economic progress in rural areas.

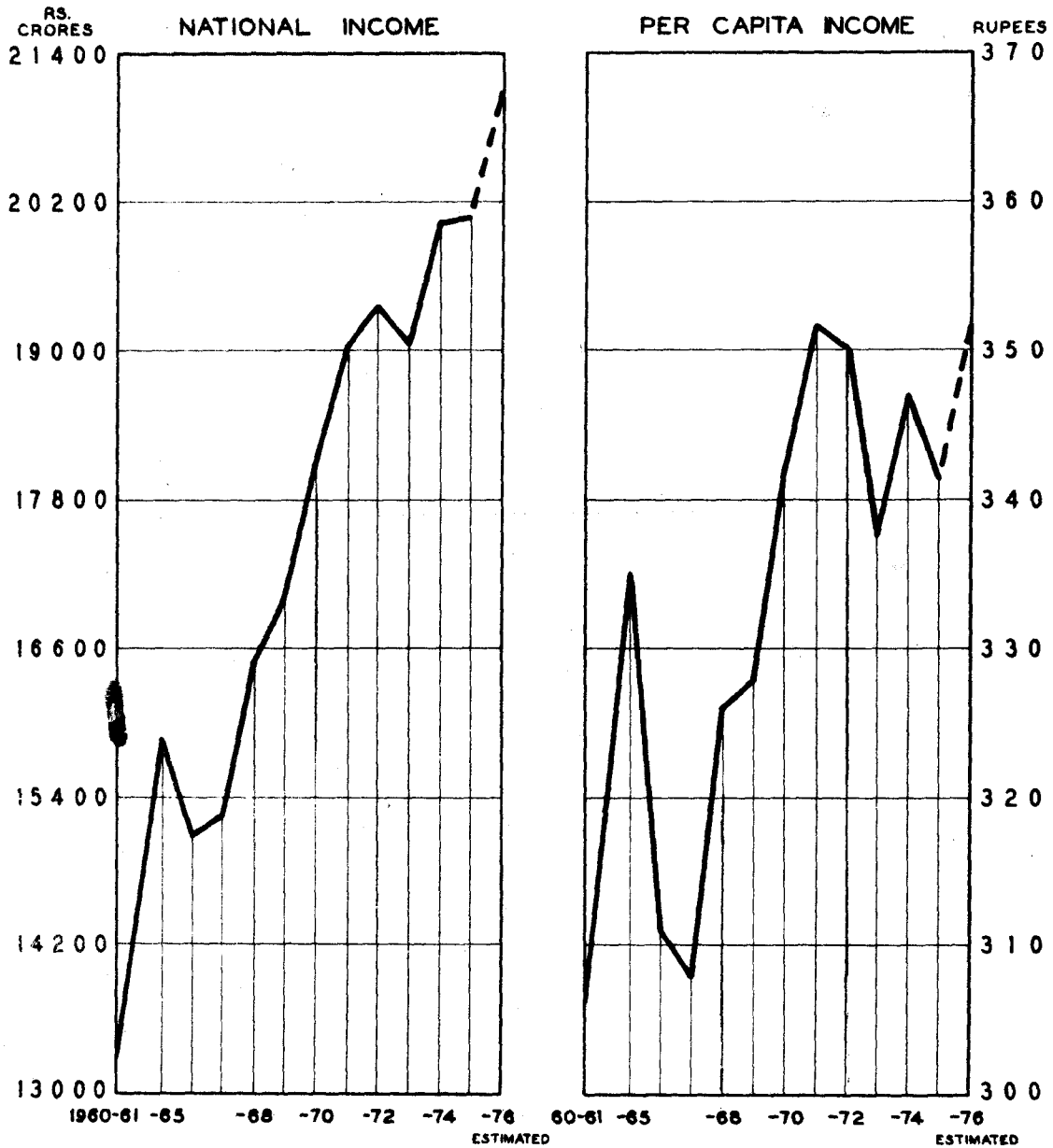
### **Industrial Production**

1.9 According to the new Index of Industrial production, industrial output went up by 2.5 per cent

# NET NATIONAL PRODUCT

(AT 1960-61 PRICES)

REVISED SERIES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

such as plastics have shown a declining trend. In November 1975, the Government announced a package of measures to improve off-take of controlled cloth and to stimulate demand for building materials and commercial vehicles. Together with a bumper kharif crop, these measures were expected to impart an expansionary stimulus to the industrial economy. However, as of now, it appears that the overall rate of growth of industrial production in 1975-76 may not exceed 4.5 per cent. All the same, the output of basic industries such as coal, steel, fertiliser, and cement is expected to go up substantially during the year. Fortunately, the bottlenecks in the industrial infra-structure and supply of vital inputs have ceased to be a material constraint on the growth of industrial production.

1.10 During 1975-76, Government have taken several decisions to streamline industrial licensing policies. A number of industries which require no imported inputs have been delicensed. Arrangements have been made to facilitate full utilisation of available capacities irrespective of the licensed capacity. Industrial relations have greatly improved in recent months, and a scheme has been drawn up for workers' participation in decisions relating to production, productivity and welfare both at the shop and unit level.

### Prices

1.11 The Wholesale Price Index which showed a declining trend during the second half of 1974-75 exhibited a generally rising tendency during the first three months of 1975-76. However, as a result of an intensification of the drive against hoarders, black-marketeters and smugglers after July 1975, the rising tendency was brought under control. The expectations of a bumper kharif crop facilitated in keeping prices under check. Since July 1975, prices of a number of articles of mass consumption have declined. The latest available Index of Wholesale Prices relating to the week ended 14th February 1976 shows a fall of 8 per cent as compared to the level twelve months ago. The monthly average of the Index for the first ten months of the current financial year (April 1975 to January 1976) was lower by 2.4 per cent as compared to the level during the corresponding period of 1974-75. The available indicators suggest that the Index for February and March 1976 is unlikely to show a rise. Thus the average of the index for 1975-76 as a whole is likely to show a decline in sharp contrast to a steep increase of 23.4 per cent recorded in 1974-75.

1.12 In the wake of an increase in the Wholesale Price Index during the first three months of 1975-76, the Consumer Price Index (1960=100) also showed a rising tendency. However, the Consumer Index has declined progressively since July 1975. The latest available Index for December 1975 (306) shows that the falling tendency observed since July 1975 has more than neutralised the rise of 7 points (from 321 in March 1975 to 328 in June 1975) recorded in the first three months of the financial year.

1.13 The success achieved by the country in controlling the inflationary pressures is no doubt impressive. However, in a predominantly agrarian economy, fluctuations in agricultural output can easily upset price stability. As such, highest priority attaches to the strengthening of arrangements for procurement and public distribution of mass consumption goods, such as foodgrains. Procurement of wheat during the 1975 rabi season amounted to 4.03 million tonnes. It does not compare too favourably with the procurement level of 4.53 million tonnes achieved in 1973-74. Fortunately, the pace of procurement out of the recent kharif crop appears to be more satisfactory. By 25th February 1976, procurement of kharif cereals had amounted to 4.6 million tonnes as against 2.7 million tonnes during the corresponding period of the preceding year. Given the excellent state of the kharif crop, the procurement of rice this year is expected to exceed the target of 4.6 million tonnes.

### Fiscal and Monetary Policies

1.14 The major emphasis of fiscal and monetary policies during the current year has been to provide a stimulus to investment and growth without jeopardising the stability of prices which has been achieved after a great struggle. As has been mentioned earlier, the Annual Plan for 1975-76 provided for an increase of over 23 per cent in the Plan outlay. Recently, the outlay on irrigation and power has been further stepped up by Rs. 100 crores. The budget for 1975-76 also provided some incentives to promote savings and to divert them to high priority sectors. These included exemption from wealth tax of equity shares of new companies engaged in certain priority industries, extension of tax holiday concessions for new units, and exemption from taxation of inter-corporate dividends from new companies engaged in some high priority industries.

1.15. The credit policy for the busy season of 1975 seeks to maintain adequate monetary discipline while facilitating an increase in production. Though the broad structure of interest rates has been left

unchanged, there has been a selective liberalisation of credit. Thus, the Reserve Bank has withdrawn the advice given to banks in November 1973 regarding additional margins on book debts and inventories. The minimum limit for prior credit authorisation has been raised from Rs. one crore to Rs. two crores. The maximum interest on term loans by banks has been fixed at 15 per cent for periods beyond three years. In addition, with the restructuring of the existing system of cash credit accommodation into a loan component and a demand cash credit component, the system of levying a commitment charge of one per cent per annum on the unutilised portion of cash credit has also been withdrawn. The Reserve Bank has also initiated action for progressive application of the recommendations of the Study Group To Frame Guidelines For Follow-up Of Bank Credit. The most important recommendation of the Study Group relates to fixation of norms for inventories and book debts for 15 industries to begin with, and fixation of norms for the scale of financing by the banking system. The Reserve Bank has recognised the need for a certain degree of flexibility in the implementation of this report.

1.16 The combined impact of monetary and fiscal policies can be seen in terms of the trend of expansion of money supply. Although the Central Budget for 1975-76 envisaged a modest deficit of Rs. 247 crores, recent trends of revenue and expenditure suggest that the budget deficit will be higher than this level. Bank credit to the commercial sector is also likely to show a larger expansion over the year. Thus far, till February 13, 1976 in the year, money supply with the public has expanded by 7.5 per cent. The available indicators suggest that the expansion of money supply in 1975-76 will be larger than the observed increase of 6.9 per cent in 1974-75. Considering the favourable trend in aggregate output this year, this order of monetary expansion need not upset the stability of prices. Nevertheless, ways and means have to be found to finance the additional investments with a minimum recourse to deficit financing.

#### **Balance of Payments**

1.17 The strong inflationary tendencies in the world economy during 1972-74, and a steep increase in international prices of food, oil and fertilisers, led to a significant deterioration in India's trade balance in 1974-75—notwithstanding vigorous efforts at export promotion. While export earnings in nominal terms went up by 31 per cent, imports increased by 51 per

cent. As a result, the trade deficit went up from Rs. 432 crores in 1973-74 to Rs. 1164 crores in 1974-75. This necessitated sizeable borrowings from the IMF which amounted to Rs. 484.7 crores in 1974-75.

1.18 During the first nine months of 1975-76 for which data are available, India's exports amounted to Rs. 2689.5 crores as against Rs. 2346.4 crores during the corresponding period of 1974-75, recording an increase of 14.6 per cent in nominal terms. During the same period, imports went up from Rs. 3089.6 crores to Rs. 3803.3 crores or by 23.1 per cent. Thus, the trade deficit increased from Rs. 743.2 crores in April-December 1974 to Rs. 1113.8 crores in April-December 1975. Major efforts have been made this year to improve the competitiveness of Indian exports and to streamline procedures for payments of duty drawback and incentives. On current indications, India's export volume this year will grow by 7—8 per cent. However, due to the persistence of recessionary trends in the world economy, it is difficult to forecast the precise value of exports. In the meanwhile, imports are expected to go up partly because of a further increase in the price of crude oil. Fortunately, the determined action taken by the Government against smugglers and other anti-social elements indulging in illegal transactions in foreign exchange seems to have had a favourable impact on India's balance of payments on invisible account. The Government have recently liberalised facilities for non-resident Indians to hold convertible currency accounts with Indian banks. Taking all these factors into account, our reserve position is unlikely to experience any serious strain during the current year.

#### **Summing up**

1.19. Judging by the behaviour of both output and prices, 1975-76 witnessed a sharp break with the stagflation which had become a dominant characteristic of the Indian economic scene during 1972-74. The year also witnessed new initiatives for strengthening the productive base of the economy and for improving the lot of the poorer sections of society. No doubt, favourable weather conditions also helped considerably in stabilising prices and in raising the rate of growth. Nevertheless, the determination that is now evident in removing the impediments to the nation's march towards a more dynamic society provides grounds for optimism about the country's growth prospects.