CHAPTER 1

THE INDIAN ECONOMY IN 1976-77

Introduction

1.1 The most important feature of the economic situation in 1976-77 was a reversal of the declining tendency in prices which had begun in September 1974 and continued through the year 1975-76. The Wholesale Price Index (1970-71 = 100) which had declined by 11.6 per cent between September 28, 1974 and March 20, 1976 rose by 11.9 per cent by March 26, 1977. The All India Industrial Workers' Consumer Price Index (1960 = 100) has also showed a tendency to rise during 1976-77 though the increase was of a smaller magnitude. It rose from 286 in March 1976 to 312 in March 1977. This price rise which occurred following the record agricultural production in 1975-76 seemed to be essentially due to the shortfall in the production of a few basic commodities. It also reflects the re-emergence of a substantial imbalance between aggregate demand and supply in the economy.

Gross National Product, Savings and Investment

1.2 The rate of growth of gross national product during the Fourth Plan period averaged only 3.5 per cent. The rate of growth of gnp in 1974-75 was 0.3 per cent and the quick estimates for 1975-76 indicate a growth rate of 8.5 per cent. Available indicators point to a drop in the growth rate of gnp for 1976-77 to less than 2 per cent, thus giving an annual average rate of growth of 3.5 per cent in this three year period.

1.3 Provisional data available from the Central Statistical Organisation show that gross domestic savings expressed as a percentage of gross national product (at market prices) went up from 17.5 per cent in 1974-75 to 19.4 per cent in 1975-76. This seems to be due to increased household savings as the share of public sector savings has remained more or less the same in these two years. Available data on indicators such as the rate of growth in bank deposits, small savings collections, corporate profits, buoyancy in tax collections and the performance of public sector undertakings all point to the rate of domestic savings in 1976-77 being of the same order as in 1975-76.

1.4 The C.S.O.'s estimates also show a revival in investment in 1975-76 as compared to 1974-75. Gross domestic capital formation as a proportion of gross national product increased from 19.1 per cent in 1974-75 to 20.8 per cent in 1975-76. Judging by the production of investment goods like cement, steel, machinery and the larger disbursement of financial assistance

TABLE 1.1

Selected Economic Indicators

	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
	(Percentage change over previous year)							
1. Gross National Product at 1960-61 prices	6.4	5.8*	1.2*	—1.1*	5.4*	0.3*	8.5**	1.5—2.0+
2. Agricultural production . . .	6.7	7.3	—0.4	—8.0	10.7	—3.5	15.6	—5.0—6.0+
3. Foodgrains production	5.8	9.0	—3.0	—7.7	7.9	—4.6	21.0	—8.1+
4. Industrial production†	7.4	3.0	3.3	4.0	2.0	2.8	6.1	10.6£
5. Electricity generated	14.4	8.4	9.3	6.1	2.8	5.2	13.5	11.6
6. Wholesale prices ††	3.7	5.5	5.6	10.0	20.2	25.2	—1.1	2.0
7. Money Supply	10.8	11.2	13.1	15.9	15.4	6.9	11.3	17.1@
8. Imports (in current prices) . . .	—17.1	3.3	11.6	2.4	58.3	52.9	16.5	—6.8
9. Exports (in current prices). . . .	4.1	8.6	4.8	22.5	28.0	31.9	21.4	23.2

*Provisional.

**Quick estimates.

+Anticipated.

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

£April 1976—January 1977 compared to April 1975—January 1976.

††Figures relating to 1969-70 to 1970-71 are derived from 1961-62 base index and those for subsequent years from 1970-71 base index.

@As on March 25, 1977 compared to March 31, 1976.

by term-lending institutions, it appears likely that investment as a proportion of gnp in 1976-77 will turn out to be the same as in 1975-76.

Agricultural Trends

1.5 The index of agricultural production for 1975-76 showed a record increase of 15.6 per cent and reversed the stagnation in the agricultural sector witnessed between 1971-72 and 1974-75. Unfortunately in 1976-77 agricultural production is likely to have declined by 5-6 per cent.

1.6 It is estimated that the production of foodgrains in the kharif season of 1976-77 was about 67 million tonnes as against 74 million tonnes in 1975-76. The production of rabi foodgrains, however, appears to be satisfactory, particularly in the northern region. While the production of wheat is expected to be close to the level in 1975-76 the output of other rabi foodgrains may show some decline. The total production of foodgrains in 1976-77 is therefore expected to be of the order of 111 million tonnes.

1.7 Commercial crops exhibited a mixed trend in 1975-76. The production of five major oilseeds reached a record level of 10.2 million tonnes due to an extraordinary increase of 36.8 per cent in the output of groundnuts. The production of sugarcane (in terms of gur) and the output of jute and mesta also remained at the level of 1974-75. On the other hand, the output of cotton declined by 14.7 per cent to 61 lakh bales. In 1976-77 the production of jute and mesta staged a remarkable recovery and the combined production is estimated to have increased to about 7 million bales from 5.8 million bales in the previous year. The output of sugarcane (in terms of gur) is also expected to show an increase and be close to 15 million tonnes. On the other hand, the production of oilseeds is likely to show an appreciable decline. The output of raw cotton in 1976-77 is not expected to be higher than in 1975-76.

1.8 The agricultural performance in 1976-77 highlights the fact that, apart from the remarkable performance in 1975-76 due to exceptionally favourable weather conditions, the growth rate in agricultural production in the seventies has been lower than in the sixties and there has been a deceleration in the rate of growth of acreage as well as yield. Without a substantial increase in the rate of growth of agricultural production the problems of rural poverty, unemployment and underemployment will remain as formidable as before. It underlines once again the dependence of India's foodgrain production on satisfactory rainfall and the importance of irrigation as a means of reducing this dependence. It also points to the fact that a great deal of work still needs to be done in order to increase the production of even sugarcane and raw cotton which have shown a promise of increase. Regarding oilseeds the country seems to face the prospect of a sizable shortfall in the medium term, unless vigorous corrective action is taken.

Industrial Production

1.9 In 1975-76 industrial output went up by 6.1 per cent. Available data for the first ten months of 1976-77 indicate a growth rate of 10.6 per cent, but for the year as a whole the growth rate may be 10 per cent. Industries in which production has increased substantially include transport equipment, chemicals and chemical products, basic metal industries, and non-metallic mineral products. On the other hand, major industries like textiles, particularly cotton textiles, have not shown any great recovery. Capacity utilisation also improved considerably in 1976-77. It was particularly high in industries like steel, phosphatic fertilisers, viscose filament yarn, nylon filament yarn, polyester fibre, paints, copper, lead, ball and roller bearings, machine tools, electric fans, scooters and bicycles.

1.10 In contrast to this encouraging trend in production in 1976-77, the incidence of sickness among industrial undertakings has persisted. In particular, in major industries like cotton textiles, jute textiles, sugar and engineering, significant number of units faced considerable difficulties resulting in closures. Some of the industries had to carry unduly high levels of inventories.

Prices

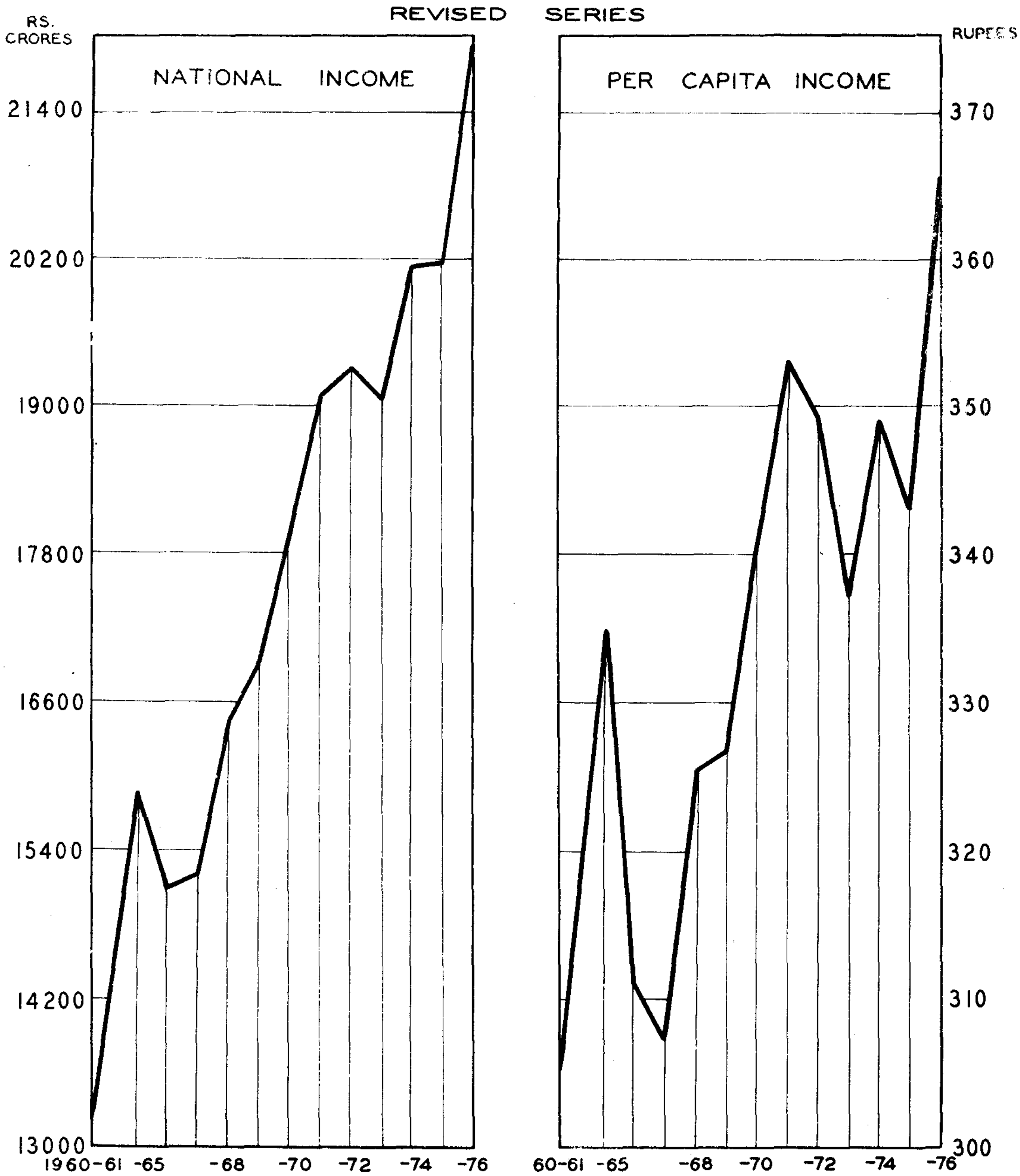
1.11 The wholesale price index which had fallen from a peak of 183.4 for the week ending September 28, 1974 to 162.2 for the week ending March 20, 1976 reversed direction and rose to 181.5 for the week ended March 26, 1977. Thus the decline in the previous eighteen months gave way to an increase of 11.6 per cent over the year ended March 26, 1977. However, the bulk of the increase took place between March 1976 and September 1976 and in the subsequent six-month period the price increase was more moderate. The price rise was primarily the result of a lower production of a few commodities. The re-emergence of a substantial imbalance between aggregate demand and supply, as indicated by the increase in money supply of 17 per cent, also contributed to the pressure on prices.

1.12 The increase in the wholesale price index led to an increase in the consumer price index though to a

NET NATIONAL PRODUCT

AT 1960-61 PRICES

REVISED SERIES



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smaller extent. Between March 1976 and March 1977 the index rose by 9.1 per cent.

1.13 The price behaviour in 1976-77 again emphasises the substantial impact which fluctuations in agricultural production can have on the price level, particularly when a sharp increase in the monetary resources in the economy has occurred. To achieve price stability under such circumstances, agricultural productivity needs to be raised as fast as possible. In the short run, however, better supply management through the imports and deployment of Government-held stocks seems to be the only way of moderating prices. Government had built up a stock of 18 million tonnes of foodgrains by the end of 1976-77 through procurement and imports. The large buffer stock and the substantial volume of foreign exchange reserves afforded considerable manoeuvrability in this regard. Use was made of this favourable situation during 1976-77 by importing large quantities of edible oils and raw cotton to make up the shortfall in domestic production. The impact of such a policy on the price situation was somewhat limited because the external price of cotton was higher and the prices of edible oils rose sharply in the early part of 1977. Also, releases from stocks of sugar and foodgrains were made to counter rises in the prices of these commodities.

Monetary Policy

1.14 Money supply during 1976-77 increased by 17.1 per cent. The most important factor responsible for such a sharp rise was an unprecedented increase in foreign exchange assets of the banking system. The amount of credit extended for buffer stock operations and meeting the increased credit requirements of expanding industrial production also contributed to the growth of money supply. The budgetary operations of the Government did not contribute significantly to the monetary expansion of 1976-77, partly because the financing of food and fertiliser stocks was transferred to the banking system. Credit policy was, therefore, aimed at reducing the scope for credit creation by banks and at the same time ensuring the availability of funds for priority sectors. A number of selective credit controls on commodities such as oilseeds, edible oils and raw cotton, whose prices were soaring were made more stringent. Lendable resources with banks were sought to be reduced by increasing the statutory cash reserve ratio from 4 to 6 per cent of deposit liabilities and by impounding 10 per cent of the incremental deposits between January 14 and April 1, 1977. However, judging by the trend of monetary expansion, monetary policy cannot be said to have been successful in achieving its objectives.

Balance of Payments

1.15 The oil price rise in 1973 led to a serious deterioration in the balance of payments of India, from which the country has been recovering gradually. In 1975-76, exports increased by 21.4 per cent while imports increased by 16.5 per cent. There was, however, a significant improvement in the balance of payments because of a spurt in inward remittances, substantial increase in external assistance and a drawal of Rs. 207 crores from the International Monetary Fund. As a result foreign exchange reserves went up by Rs. 881 crores.

1.16 This improvement continued during 1976-77. Exports increased by 23.2 per cent during the year and despite significant efforts at import liberalisation, imports actually declined by 6.8 per cent. Inward remittances, however, continued to increase and the inflow of external assistance during 1976-77 amounted to Rs. 986 crores. India repaid Rs. 303 crores to the IMF during 1976-77 and as a result of all these transactions her foreign exchange reserves increased by Rs. 1371 crores. Government policy has yet to find ways and means of utilising the external reserves for improving the growth performance of the economy.

Summing up

1.17 The performance of the economy in 1976-77 was uneven. While the growth rate slumped from the high level achieved in the previous year due to a decline in agricultural production, industrial production showed a performance which it had not recorded for nearly a decade. The hope that the economy had shaken off the stagnation of the first four years of this decade and resumed the path of high growth did not materialise. The behaviour of prices was a matter for concern and the increase in the money supply was uncomfortably large. On the other hand, the performance of the balance of payments was highly encouraging. The large buffer stock and the large volume of foreign exchange reserves enabled Government to undertake better short-term supply management. These two factors and the increase in savings and investment in the economy give room for hope that an investment policy for rapid growth will have to contend with fewer restraints than before. It is of the greatest importance that these favourable factors are used to the utmost advantage in the coming years.