

CHAPTER 1

ECONOMIC SITUATION IN 1982-83

The year 1982-83 was marked by a severe drought which cast its shadow over the agricultural performance. Despite this and some deceleration of industrial output, a remarkable feature of the year was the continued stability in the price situation, which was brought about by an appropriate mix of policies.

1.2 The annual rate of inflation on a point to point basis has been fluctuating around no more than 2.0 per cent since the beginning of September 1982. For the week ended January 15, 1983 the annual rate was 2.8 per cent compared with 6.4 per cent in the same week last year. The availability of foodgrains at reasonable prices through the public distribution system played a crucial role in mitigating the adverse effects of severe drought in many parts of the country. The availability of essential commodities remained comfortable and public foodgrains stock were augmented by timely imports of wheat of 4 million tonnes.

1.3 The GNP increased by 5.2 per cent in 1981-82 on top of 8.0 per cent in 1980-81. In 1982-83 GNP is expected to increase by 2.0 per cent owing to a

downturn in agricultural output and a slower growth rate in industry. As against an increase of 5.5 per cent during 1981-82, agricultural production is likely to decline by about 3.0 per cent in 1982-83 owing to the set back in kharif output. Industrial production is expected to rise overall by about 4.5 per cent. Significant increases were also achieved in the output of key infrastructure sectors namely, coal, power and railways.

1.4 Monetary policy was flexibly deployed in response to the emerging situation and played an important role in keeping inflationary pressures under control, and in channelling adequate bank credit to the productive sectors. Fiscal policy sought to promote saving and investment and to encourage investment and production for exports. A substantial step-up in plan outlay in real terms was achieved. The budgetary situation however, was under severe pressure during the year as a result of drought conditions and sluggish industrial production in the first half of the year.

Selected Economic Indicators

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
	(Percentage change over previous year)								
1	2	3	4	5	6	7	8	9	10
1. Gross National Product at 1970-71 prices	1.2	9.6	0.8	8.9	5.7	-4.8	8.0	5.2 ¹	2.0 ²
2. Agricultural production	-3.2	15.2	-7.0	14.5	3.4	-15.5	15.3	5.5 ³	-3.0 ⁴
3. Foodgrains production	-4.6	21.2	-8.1	13.7	4.3	-17.1	18.1	2.7	-4.0 ⁵
4. Industrial production	3.2	7.2	9.6	3.2	7.6	-1.4	5.6	8.6	4.0 ⁶
5. Electricity generated*	5.2	12.9	11.5	3.4	12.2	2.1	5.9	10.1	7.2 ⁴
6. Wholesale prices (on point to point basis)	10.1	-6.5	12.0	0.3	4.6	21.4	16.7	2.4	2.8 ⁵
7. Monetary resources (M3)	10.9	15.0	23.6	18.4	21.9	17.7	17.6	12.3	14.2 ⁶
8. Imports (at current prices)	52.9	16.5	-3.6	18.7	13.2	32.4	38.8	8.9	16.1 ⁷
9. Exports (at current prices)	31.9	21.4	27.2	5.2	5.9	12.8	3.9	16.2	17.8 ⁷
10. Foreign exchange assets (excluding gold and SDRs)	5.2	144.3	91.9	57.2	16.0	-1.1	-6.6	-30.4	4.3 ⁸

¹. Quick estimates.

². Anticipated.

³. April-November 1982 over the same period in 1981.

⁴. April-December 1982 over the same period in 1981.

⁵. March 28, 1982—January 15, 1983.

⁶. As on January 14, 1983 over March 31, 1982.

⁷. Provisional figures for April-October 1982 over the same period in 1981.

⁸. As on January 31, 1983 compared with January 31, 1982.

*Electricity generation refers to utilities only.

1.5 The balance of payments situation continued to be under strain despite significant improvement in exports which according to provisional data increased by 22.3 per cent during the first half of 1982-83. Imports increased by 11.9 per cent during this period. The trade deficit during 1982-83 is expected to be lower than Rs. 5841 crores recorded in 1981-82. Foreign exchange reserves amounted to Rs. 3682 crores as on January 31, 1983 compared with Rs. 3530 crores at the same time last year.

GROSS NATIONAL PRODUCT—SAVING AND INVESTMENT

1.6 The Gross National Product in real terms increased by 5.2 per cent in 1981-82 which was significantly higher than the growth anticipated earlier. This was the result of higher growth of 5.5 per cent in the agricultural sector, the growth in the industrial sector also turned out to be somewhat higher. Due to a set back to the kharif production and somewhat lower growth in industrial output the growth in GNP during 1982-83 is likely to be around 2.0 per cent. The average real rate of growth during three years 1980-81 to 1982-83 would thus work out to be about 5 per cent.

1.7 The rate of gross domestic capital formation increased further to 25.3 per cent during 1981-82 compared with 23.8 per cent in 1980-81 and 23.0 per cent in 1979-80. At this level, the rate of domestic capital formation was 0.9 per cent higher than the earlier peak of 24.4 per cent in 1978-79. The average rate of gross domestic capital formation during the first two years of the Sixth Plan was about 24.5 per cent. Gross domestic savings increased from 21.9 per cent in 1980-81 to 22.8 per cent in 1981-82. The average for the two years 1980-81 to 1981-82 was 22.4 per cent. Available evidence indicates that investment outlook has remained buoyant during 1982-83 and that the rate of capital formation is likely to be sustained. The rate of gross domestic capital formation would be somewhat higher than the rate of domestic savings in 1982-83 in view of the continued high current account deficit.

AGRICULTURAL PRODUCTION

1.8 Agricultural production increased by 5.5 per cent during 1981-82, which was somewhat more than anticipated earlier. During 1982-83 kharif production was adversely affected due to monsoon which was inadequate in coverage and uneven in its timing with the result that overall agricultural production is expected to be 3 per cent lower than that in 1981-82. Total foodgrains production during 1982-83 is estimated to be around 125-128 million tonnes compared with 133.1 million tonnes in 1981-82 and 129.6 million tonnes in 1980-81. The output of cotton is, likely to be at the same level as last year while some decline is expected in sugarcane and jute production.

1.9 The set back to agricultural output was caused by the unevenly distributed south-west monsoon during the kharif season of 1982-83. Not only was the monsoon delayed by about three weeks but it withdrew

early from the northern region of the country. The September rains which have a significant impact on output were also far from satisfactory. As a result, certain areas suffered severe drought conditions. Concerted efforts were made to minimise the losses in kharif production. Steps were also taken to maximise agricultural production during the rabi season.

1.10 Efforts were continued to sustain the growth in irrigation potential and timely and adequate availability of the basic inputs to the agricultural sector. The area under irrigation increased from 55.0 million hectares in 1980-81 to 57.0 million hectares in 1981-82. The target of 2.3 million hectares for 1982-83 is likely to be achieved. For the three years, 1980-81 to 1982-83, the average addition to irrigation potential would thus work out to 2.2 million hectares. Fertilizer consumption increased by 5.0 per cent in 1980-81 and by about 10 per cent in 1981-82. During 1982-83 fertilizer consumption is expected to rise further. The area under high yielding varieties increased from 45.3 million hectares in 1980-81 to 46.7 million hectares in 1981-82. The target of 51 million hectares by 1982-83 is, however, not likely to be achieved due to adverse weather during the kharif season.

1.11 A rapid increase in the production of pulses and oilseeds, achievement of a better balance among the various varieties of cotton and bringing stability in the sugar economy were the main concerns of agricultural policy during the year. Steps were taken to make fuller use of the existing irrigation potential. Minimisation of conveyance losses and emphasis on repair and maintenance of irrigation works are necessary for the efficient utilization of the existing potential. Several steps were taken to further promote the consumption of fertilizers and to achieve a better fertilizer mix and regional balance in fertilizer consumption.

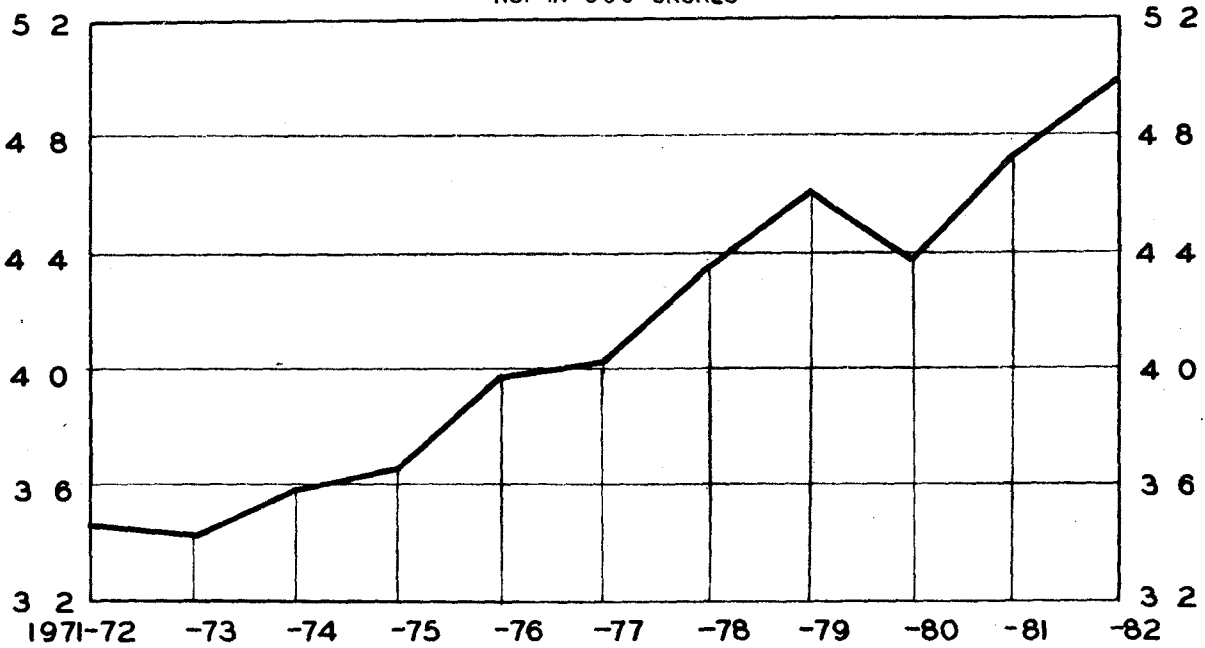
INFRASTRUCTURE

1.12 Total power generation in 1981-82 reached 122.0 billion Kwh which was 10.1 per cent higher than in 1980-81. It further increased by 7.2 per cent during April—December, 1982, mainly due to faster growth of 11.7 per cent in thermal (incl. nuclear) generation. The continued improvement in power generation narrowed down the gap between power generation and consumption from 12.7 per cent in 1980-81 to 10.8 per cent in 1981-82. Although the gap further declined to 8.8 per cent during the current financial year (upto September, 1982), serious power shortages were reported from certain States. Due to better coal availability and stabilisation of medium and large plants the average plant load factor of thermal (incl. nuclear) plants increased to 46.5 per cent in 1981-82 compared with 44.7 per cent in 1980-81. During the first nine months of the current financial year, the plant load factor improved further to 47.6 per cent as against 45.9 per cent in the same period last year. Efforts were made to achieve better capacity utilization and to minimise transmission losses which remained quite high.

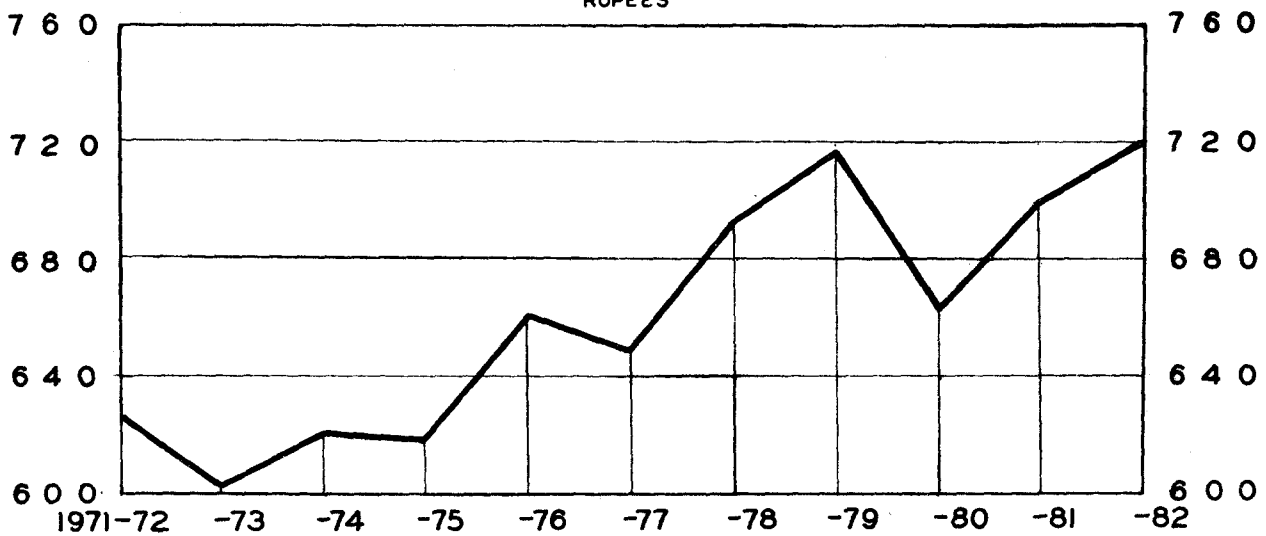
1.13 Coal production was 124.9 million tonnes in 1981-82 and has increased by 4.2 per cent during April—December, 1982. This was lower than 11.4

NET NATIONAL PRODUCT (AT 1970-71 PRICES)

NATIONAL INCOME RS. IN '000 CRORES



PER CAPITA INCOME, RUPEES



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per cent increase in the same period last year and is attributable to power problems.

1.14 The movement of revenue earning freight by railways in 1981-82 at 221.2 million tonnes was 12.5 per cent higher than that in 1980-81. During April—December, 1982 it showed a growth of 3.5 per cent. The improvement in performance of the railways in 1981-82 was achieved through better and more efficient utilization of capacity which was sustained in the current year. The steady increase in railway performance significantly improved the availability of coal to the major user industries like power and cement.

1.15 The volume of traffic handled at major ports has increased substantially from 78.5 million tonnes in 1979-80 to 81.3 million tonnes in 1980-81 and 87.4 million tonnes in 1981-82. During April—December, 1982, the traffic handled at major ports at 70.1 million tonnes was 12.5 per cent higher than 62.3 million tonnes in the same period last year. Concerted efforts were continued to expand port capacity to handle the growing volume of international traffic and to modernise these facilities to cope with the latest developments in handling sea borne traffic.

INDUSTRIAL PRODUCTION

1.16 During the current financial year (April—November 1982) industrial production increased by about 4.0 per cent. This increase was contributed by 7.8 per cent growth in power generation, 10.5 per cent in mining and quarrying and 2.5 per cent in the manufacturing sector. Industrial production which decelerated until July 1982 showed progressive improvement until October, but again there was a decline in the growth rate in November 1982. As against 0.3 per cent in July 1982, the increase during August 1982 was 2.3 per cent, in September, 3.6 per cent, in October, 5.6 per cent and in November, 2.1 per cent over the production in the corresponding months of the previous year. The deceleration in industrial production during the year was caused by significant shortfall in the production of selected industries. Factors responsible for the shortfall varied from industry to industry, some of which were deepseated while others were basically of short-term nature. On the basis of the present trends, industrial production in 1982-83 as a whole is expected to increase by about 4.5 per cent, compared with 8.6 per cent in 1981-82 and 4.0 per cent in 1980-81.

1.17 The growth in the production of public sector enterprises of 8.9 per cent during April—October, 1982 was achieved on top of 19.7 per cent during 1981-82. Impressive increases in production were recorded in minerals and metals, coal, petroleum and engineering industries. The available evidence indicates a substantial improvement in the production of registered and unregistered small scale enterprises. The textile workers' strike in the Bombay mills caused a sharp increase in the mandays lost during the year.

1.18 The climate for industrial investment remained favourable and is expected to improve further in the following months. The consents for raising capital during the first nine months of 1982-83, have increased by 31.2 per cent. The disbursements of term loans

by the financial institutions also increased by 25.3 per cent during the first half of the current financial year.

1.19 Policy initiatives were taken for raising production and for better utilisation of industrial capacity. Within the framework of accepted policy and subject to certain conditions units were allowed to re-endorse capacity based on their best production performance during the past five years ended 1981-82. Large houses and the FERA companies were permitted to establish capacities in the high investment and high technology items. A dual pricing policy was introduced in the cement industry for achieving better productivity of existing units, facilitating the establishment of new capacity and modernisation. Further steps were taken for correcting regional imbalances within the framework of the industrial policy statement of 1980.

PRICE TRENDS

1.20 Prices showed a considerable degree of stability during 1982-83. The annual wholesale price inflation rate fluctuated around 2 per cent since the beginning of September, 1982. It was 2.8 per cent in the week ended January 15, 1983 compared with 6.4 per cent in the corresponding week of last year. The annual rate of increase of Consumer Price Index in December, 1982, was also much lower at 8.0 per cent as against 12.7 per cent in December 1981. The relative price stability was achieved despite contra-seasonal increase in prices due to untimely rains in May 1982 and severe drought situation in certain parts of the country due to the uneven spread of the south-west monsoon.

1.21 The major source of increase in prices was the continued increase in the prices of cereals, fruits and vegetables, egg, meat and fish. The prices of milk and milk products, edible oil and oilseeds also showed some increase. The prices of the sugar group declined in the second half of the year due to surplus sugar production in the country and larger releases of freesale sugar. The prices of raw-cotton and pulses also showed some decline during the year. Upward adjustments were made in the administered prices of coal and electricity.

1.22 The thrust of anti-inflationary policies continued to be both on demand and supply side. Monetary policy remained cautious. Public food-grains stock were augmented by timely imports. A judicious use of the sugar release mechanism helped containing inflationary pressures in this group. The growing capability of the public distribution system in distributing the essential commodities throughout the country also played an important role in maintaining relative price stability in the country. These efforts were supplemented by the deflationary effect of the continued decline in the net foreign exchange assets of the banking sector. However, the demand and supply situation in the economy remained finely balanced in respect of several essential commodities. It is, therefore, imperative to monitor carefully the situation particularly in respect of sensitive commodities.

1.23 The public distribution system has become an important instrument of supply management effort in the country. This has helped in mitigating the deleterious effects of the severe drought in the country during the year. The off-take of rice and wheat from the public distribution system during the current financial year upto November, 1982, amounted to 9.8 million tonnes compared with 8.8 million tonnes in April—November 1981. Procurement of wheat and rice was somewhat higher than last year. As a result, total stock of foodgrains as on December 1, 1982, was 12.1 million tonnes i.e. about 2 million tonnes higher than 10.3 million tonnes on the same date last year. About four million tonnes of wheat are being imported with a view to augmenting the viability under the public distribution system and to counter speculative tendencies in foodgrains.

MONETARY TRENDS

1.24 In view of the abatement of inflationary pressures and the success in mopping up excess liquidity in the system, monetary policy in 1982-83 was gradually relaxed in order to improve the flow of bank credit to productive and priority sectors during the current year. Aggregate monetary resources (M3) increased by 14.2 per cent during the current year (upto 14 January, 1983) compared with 10.7 per cent in the same period last year. This may be compared with 12.3 per cent growth in financial year 1981-82 and 17.6 per cent in 1980-81. The larger increase in M3 during the current year upto January 14, 1983 was due to a significant growth of currency with the public and aggregate deposits with banks. The increase in money supply (M1) during the first nine and half months of the current financial year was also higher at 11.5 per cent compared with an unusually low growth of only 3.2 per cent during the corresponding period last year. Money supply (M1) had increased by 6.3 per cent in 1981-82, 16.8 per cent in 1980-81 and 15.7 per cent in 1979-80.

1.25 There was larger expansion in bank credit to the Government in the current year. However, this was significantly neutralised by the decline in net foreign exchange assets of the banking sector. The expansion in the bank credit to the commercial sector has been moderate, but the sluggish trend was reversed after September, 1982. As against an increase of Rs. 1206 crores upto September 3, 1982 bank credit to commercial sector increased by Rs. 5818 crores during the current financial year (upto January 14, 1983 on last Friday basis).

1.26 As part of the effort to restrain credit expansion during 1981-82, the bank rate, cash reserve ratio and the statutory liquidity ratio were raised and restraints placed on refinancing facilities. As a result, the expansion in bank credit was checked but the growth in the bank deposits was also adversely affected particularly in the last quarter of 1981-82. These trends continued into the first quarter of the current year and suggested the need for some easing of policy which mainly took the form of a phased reduction in the cash reserve ratio. The busy season credit policy for 1982-83 carried the process further by including measures for providing additional finance

to State Electricity Boards and State Transport Corporations for increasing their off take of equipment and capital goods. Steps were also taken to provide adequate finance to the priority sectors, exports and to the weaker sections of the society.

FOREIGN TRADE AND BALANCE OF PAYMENTS

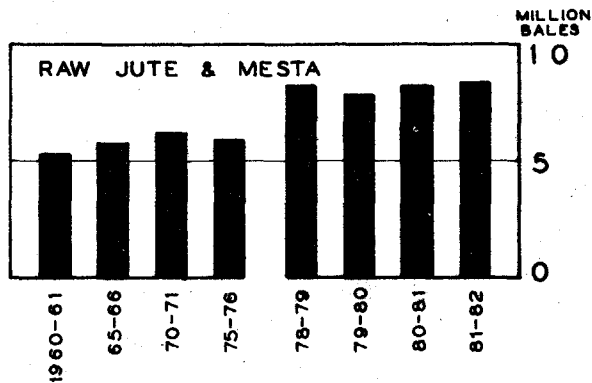
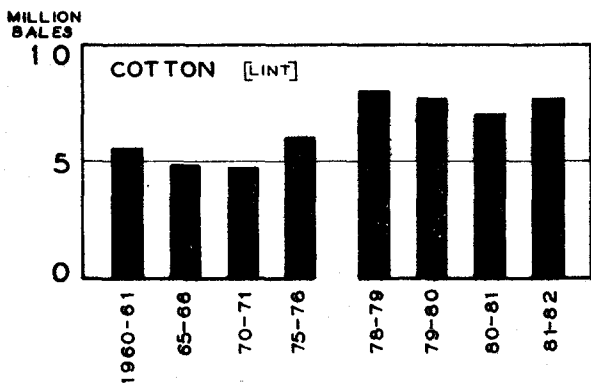
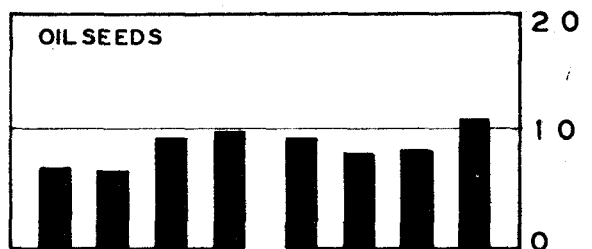
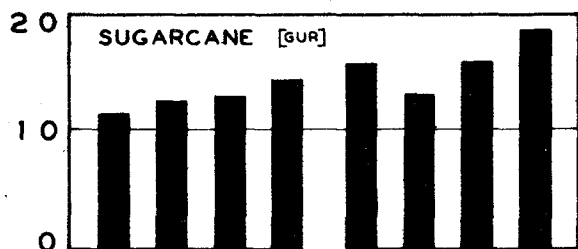
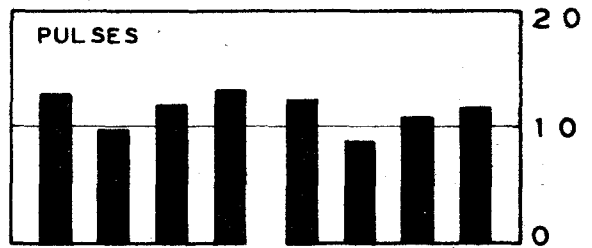
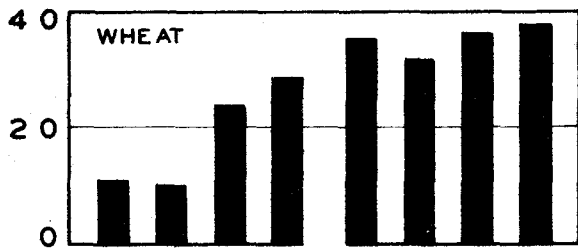
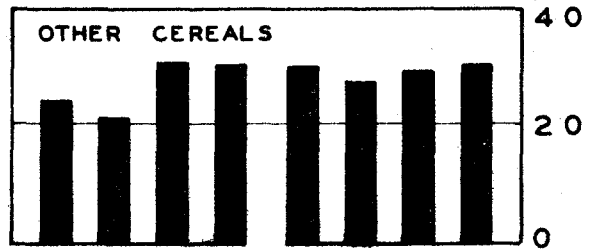
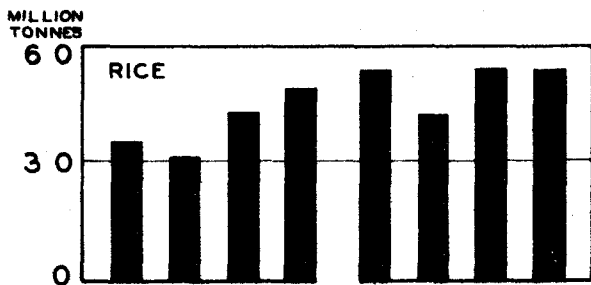
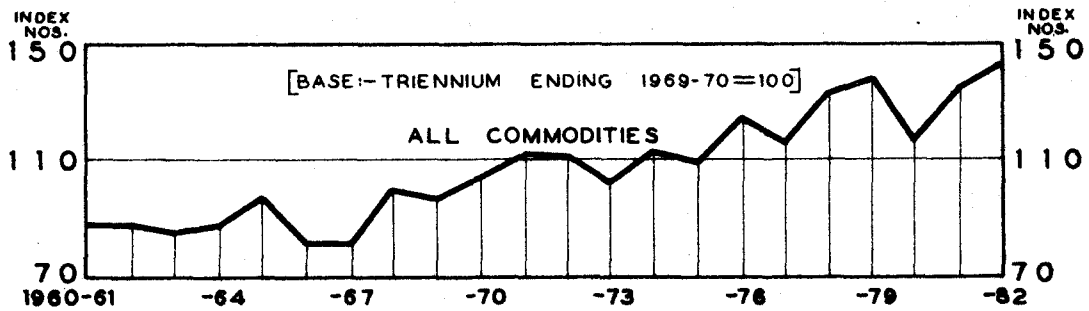
1.27 The balance of payments situation during 1982-83 continued to remain under strain. In 1981-82, the trade deficit was contained at Rs. 5,841 crores (provisional) compared with a deficit of Rs. 5,813 crores in 1980-81. The trade balance would show improvement during 1982-83. The flow of foreign assistance from the normal sources has however, not been encouraging. There may also be some deterioration in the net inflow of invisibles mainly due to deceleration in investment incomes and rise in gross invisible payments.

1.28 In 1981-82 imports increased by 8.9 per cent compared with 38.8 per cent in 1980-81. On the basis of provisional data, during the first half of the current financial year, imports grew by 11.9 per cent compared with 4.0 per cent last year. Exports on the other hand, increased significantly by 16.2 per cent in 1981-82 compared with 3.9 per cent in 1980-81. The improved performance was achieved despite adverse international conditions and reflected the success of the export efforts. During the first six months of 1982-83, according to the provisional data, total exports, including oil, showed an increase of 22.3 per cent.

1.29 Due to the drawings from the IMF of Rs. 637 crores in 1981-82 and Rs. 1,241 crores during the current fiscal year so far under the Extended Facility, the deterioration in the gross foreign currency assets was substantially contained. Inclusive of these drawings the foreign currency assets as on January 31, 1983, amounted to Rs. 3,682 crores which was higher than Rs. 3,530 crores at the same time last year.

1.30 In sum, the economy showed appreciable degree of resilience despite a set-back in agriculture, growing constraints on resources and continued strains on balance of payments. The infrastructure sectors showed sustained growth. The price situation during the year showed remarkable stability. At the aggregate level despite the set-back during the year, the average growth rate in GNP during the last three years will be of the order of 5 per cent. With a pick up in industrial production, and better weather conditions, the outlook for 1983-84 should be favourable. Indeed, the economy is capable of performing much better in the coming years. This would, however, crucially depend on the speed with which necessary structural adjustments are achieved in the context of growing resource constraints and continuing strains on the country's balance of payments. Efficient utilisation of existing facilities, rapid increase in productivity, sustained high growth in infrastructure sectors, modernisation, improved efficiency and management are important elements in the adjustment process. These would need to be pursued vigorously.

AGRICULTURAL PRODUCTION



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