

## CHAPTER 1

### ECONOMIC SITUATION IN 1983-84

The year 1983-84 saw a strong economic recovery led by the agricultural sector. Foodgrains production may exceed the target of 142 million tonnes in 1983-84 marking a quantum jump over the earlier peak level of 133 million tonnes in 1981-82. The industrial sector was somewhat slow in recovering from the low growth experienced in the previous year but performance improved in the second half of the year and industrial production for the year as a whole is expected to show higher growth than in 1982-83. The balance of payments position improved very substantially and there was an increase in foreign exchange reserves. Prices, however, came under pressure in 1983-84.

#### Gross National Product : Saving and Investment

1.2 The strong expansion in agriculture and the improvement in industry in the current year will be reflected in a much higher growth rate of Gross Na-

tional Product (GNP) of about 6 to 7 per cent in 1983-84. GNP growth had decelerated to 1.8 per cent in 1982-83 compared with 5.2 per cent in 1981-82. With the acceleration in growth in 1983-84, the average growth rate of GNP in the first four years of the Sixth Plan period will be about 5.4 per cent. Per capita income in this period will have grown at an average rate exceeding 3 per cent per year.

1.3 The rate of gross domestic capital formation in the economy was adversely affected by the deceleration in the economy in 1982-83, and it declined slightly from 25 per cent of Gross Domestic Product (GDP) in 1981-82 to 24.1 per cent in 1982-83. The saving rate also declined from 23 per cent of GDP to 22.3 per cent. Some decline in the rate of saving was inevitable in a year of depressed income levels but the rate of capital formation was significantly higher than in the previous drought year of 1979-80. With the

#### *Selected Economic Indicators*

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
	(Percentage change over previous year.)								
1. Gross National Product at 1970-71 prices . . . . .	9.6	0.8	8.8	5.8	-5.1	7.9	5.2	1.8*	6-7@
2. Agricultural production . . . . .	15.1	-7.0	14.3	3.8	-15.2	15.7	5.5	-4.0	9.0@
3. Foodgrains production . . . . .	21.2	-8.1	13.7	4.3	-16.8	18.1	2.9	-3.7	12.0@
4. Industrial production . . . . .	7.2	9.6	3.3	7.6	-1.4	4.0	8.6	3.9	4.2 <sup>1</sup>
5. Electricity generated** . . . . .	12.9	11.5	3.4	12.2	2.1	5.9	10.1	6.6	5.1 <sup>2</sup>
6. Wholesale prices (on point to point basis) . . . . .	-6.5 <sup>3</sup>	12.0	0.3	4.6	21.4	16.7	2.4	6.2	9.7 <sup>3</sup>
7. Monetary resources (M-3) . . . . .	15.0	23.6	18.4	21.9	17.7	17.6	12.5	16.1	15.1 <sup>4</sup>
8. Imports (at current prices) . . . . .	16.5	-3.6	18.8	13.1	34.2	37.4	8.3	5.5	-2.8
9. Exports (at current prices) . . . . .	21.4	27.2	5.1	6.0	12.8	3.5	16.8	13.1	7.7 <sup>5</sup>
10. Foreign exchange reserves (excluding gold & SDRs) . . . . .	1492	2863	4500	5220	5164	4822	3354	4265	46966
—End of period/Rs. crores									

\*Quick estimates

\*\*Refers to utilities only

@Anticipated

<sup>1</sup>April-November, 1983 over the same period in 1982

<sup>2</sup>April-December, 1983 over the same period in 1982

<sup>3</sup>March 26, 1983—January 14, 1984

<sup>4</sup>As on January 13, 1984 over March 31, 1983

<sup>5</sup>April-October, 1983 over the same period in 1982

<sup>6</sup>As on 31st January, 1984

acceleration in economic growth witnessed in 1983-84, the investment rate, and even more so the saving rate may be expected to show substantial increase. Plan expenditure in 1983-84 will be higher than in 1982-83 implying high growth of public investment. Available partial indicators of private investment also show continuing growth.

### Agricultural Production

1.4 Agricultural production had declined by 4 per cent in 1982-83 as severe drought depressed kharif production in that year. In 1983-84, agriculture not only recovered, but showed robust growth. Kharif foodgrains production in 1983-84 is expected to exceed the target of 83 million tonnes. Prospects for the rabi crop are also good, and total foodgrains production may exceed the target of 142 million tonnes for the year. Rice production is expected to break through the previous peak level of 53-54 million tonnes and, may exceed this level by about 4 million tonnes. Higher production is expected in pulses, oil-seeds, jute and mesta. There may be a marginal decline in sugarcane from the high level reached last year. Cotton production is expected to be lower.

1.5 The excellent performance in 1983-84 reflects the success of the agricultural strategy in achieving high and growing levels of production. This strategy relies upon raising yields in agriculture through expansion of irrigation, remunerative prices for the producer, provision of high yielding varieties of seeds and other inputs, and provision of credit. In 1983-84, a special campaign was launched to provide necessary inputs for the kharif season at the right time and in adequate quantities. In order to stimulate the use of fertilisers, which had slowed down in recent years, the price of fertilisers was reduced by 7.5 per cent in June 1983, with a further discount of 10 per cent on old stocks. The network for distribution of fertilisers was also improved and expanded. Consumption of fertilisers in the kharif season increased markedly as a result of these measures and an increase is expected in the rabi season also.

1.6 Expansion of area under irrigation and the area covered under high yielding varieties of seeds continued to receive high priority. The irrigation potential was increased by 2.34 million hectares in 1982-83 compared with an increase of 2.25 million hectares in 1981-82. This raised the total irrigation potential to 63.32 million hectares by the end of June 1983. Utilisation of irrigation potential improved from 92.1 per cent in 1981-82 to 92.5 per cent in 1982-83. The target for 1983-84 is an additional potential of 2.37 million hectares with utilisation increasing by 2.53 million hectares. Impressive gains were recorded in expanding the coverage of the High Yielding Varieties Programme with the area covered for cereal crops increasing from 46.5 million hectares in 1981-82 to 48 million hectares in 1982-83. The target for 1983-84 is to achieve a coverage of 52 million hectares. This would cover 80 per cent of the area under wheat but only 56 per cent of the area under paddy. Under the Revised 20-Point Programme, along with the development programmes for agriculture, special attention

was paid to the schemes designed for the benefit of the weaker sections especially the rural poor and the unemployed viz., the National Rural Employment Programme and the Integrated Rural Development Programme.

### Infrastructure

1.7 The power sector had experienced difficulties in 1982-83, as the drought affected hydel generation. These difficulties continued into the first half of 1983-84 with hydel generation remaining low, and a deterioration in the Plant Load Factor (PLF) of the thermal plants. However, performance improved significantly in the third quarter with growth in hydel generation and a recovery in the PLF of thermal plants. Power generation in the first nine months of 1983-84 was 5.1 per cent above the level in the same period of the previous year. With the acceleration in growth observed in the third quarter, power generation is likely to show a growth of about 6 per cent for 1983-84 as a whole. Efforts were made in the course of the year to improve the operating efficiency of thermal power plants through better management practices and introduction of incentives. The PLF which had declined from the peak level of 55.2 per cent in March 1983 to 40 per cent in September 1983 recovered in subsequent months reaching 52.2 per cent in December 1983. Coal production in the first nine months of 1983-84 showed a growth of 4.8 per cent. Movement of goods by rail has been lower this year than expected, with freight traffic carried in the first nine months showing a decline of 0.2 per cent. The growth of tonnage handled at the major ports, which had been increasing steadily in recent years, was sluggish at the beginning of the year but improved as the year progressed and the growth rate for the year as a whole is expected to be around 7 per cent.

### Industrial Production

1.8 The average index of industrial production for the first eight months of 1983-84 showed an increase of 4.2 per cent over the average of the corresponding period of 1982-83. The industrial sector had decelerated sharply in 1982-83 with the growth rate declining to 3.9 per cent from the high rate of 8.6 per cent witnessed in 1981-82. The deceleration in 1982-83 was partly because of slack demand in the economy on account of the drought and also because of power constraints which were especially severe in some regions. Both factors continued to operate in the early part of 1983-84, but industrial performance improved in the third quarter. With continued improvement, industrial production for the year as a whole may show an increase of 4.5 per cent over the previous year.

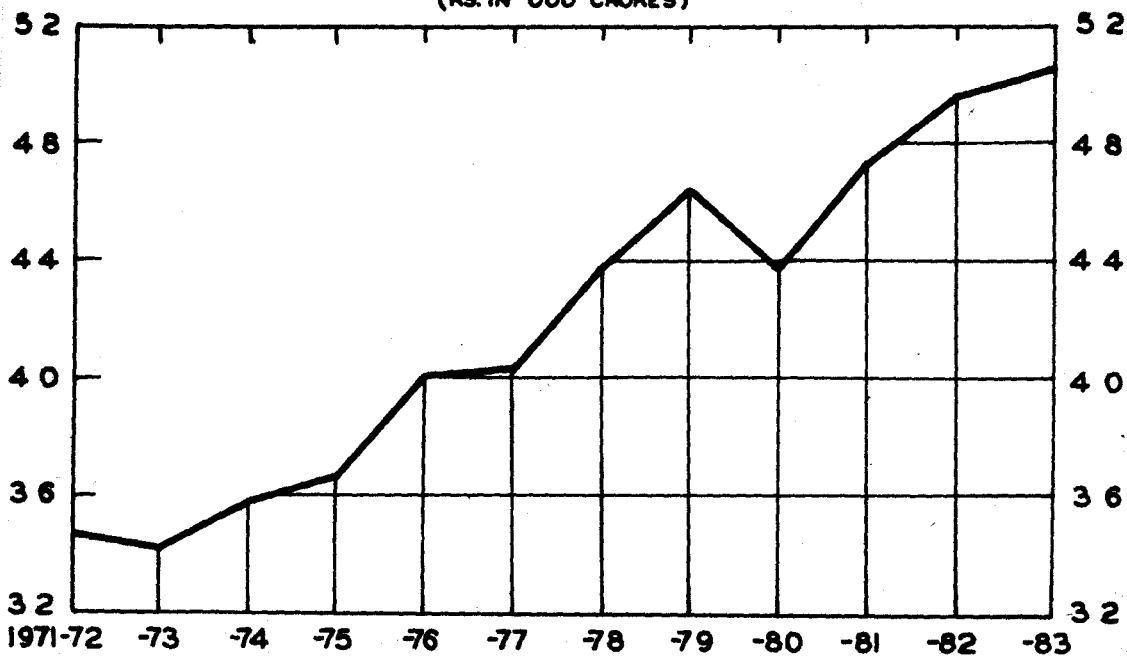
1.9 Industrial policy in 1983-84 continued to lay stress on raising production through better utilisation of capacity. Steps were taken in the course of the year to meet the problems of particular industries facing slack demand. The credit terms for the State electricity boards and the road transport corporations under the Industrial Development Bank of India's (IDBI) bill discounting scheme were improved in order to facilitate equipment purchase. Excise duties

# NET NATIONAL PRODUCT

(AT 1970/71 PRICES)

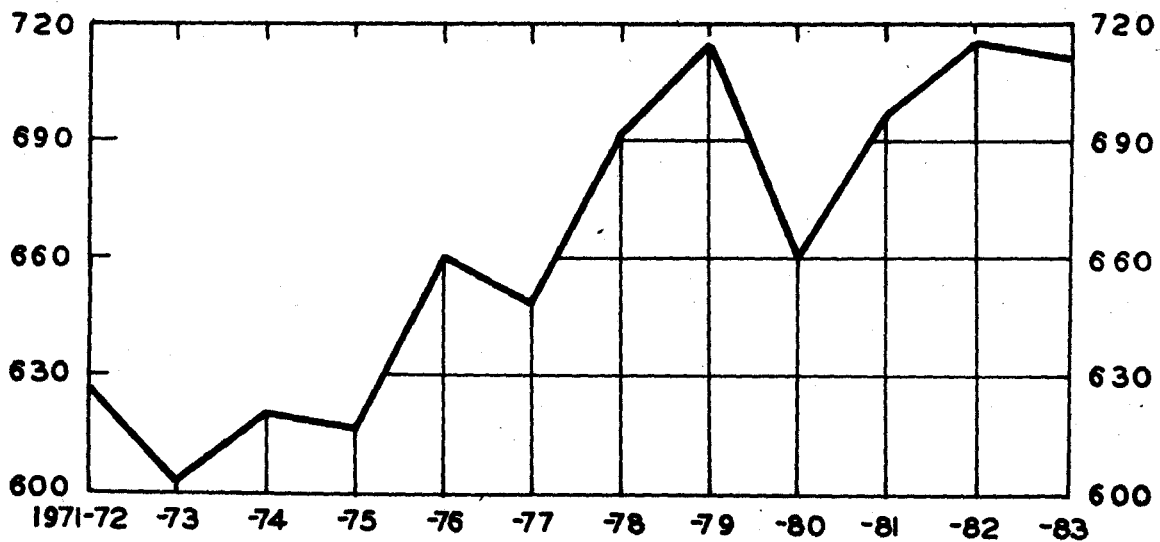
## NATIONAL INCOME

(RS. IN '000 CRORES)



## PER CAPITA INCOME

RUPEES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

were reduced on commercial vehicles, refrigerators, airconditioner parts, tyres for commercial vehicles and batteries, with effect from October 1, 1983. Major concessions in excise and import duties were given for the benefit of the electronics industry.

### Price Behaviour

1.10 Price behaviour in 1983-84 was a cause for concern as prices came under pressure towards the end of 1982-83, and the rate of inflation began to rise through 1983-84. The wholesale price index had increased by 9.7 per cent up to January 14, 1984 compared with 5.2 per cent in the same period of the previous year. The annual rate of inflation as measured by the Wholesale Price Index (WPI) on January 14, 1984 had increased to 10.7 per cent. The annual rate as measured by the Consumer Price Index (CPI) in December 1983, (the latest month for which available) was 12.5 per cent.

1.11 An important feature of the rise in prices in 1983-84 was its concentration in a few commodities, namely, gur, oilseeds, edible oils, pulses, milk and milk products and tea. The price rise was accounted for mainly by the increase in the prices of these commodities. As these commodities carry a larger weight in consumer prices, the CPI recorded a faster rise. The increase in prices, in 1983-84 reflects the delayed effect of the drought of 1982. Excess liquidity in the system also exacerbated inflationary pressure. The price behaviour during the year has been rather unusual. Between April and middle of May 1983 wholesale prices increased at the rate of 3.9 per cent compared with an average increase of 2.3 per cent in the preceding three years. The seasonal increase which usually takes place between mid-May and end-September was smaller this year than in the last three years (4.4 per cent as against an average of 5.5 per cent). The seasonal decline after September 1983, however, was weak in spite of a good monsoon and record production of *khari* crop. The decline recorded between mid-September and mid-December 1983 was only 0.3 per cent as against an average decrease of 2.2 per cent in the last three years.

1.12 The Government acted on several fronts in the course of the year 1983-84 to contain the inflationary pressure. On the demand side, monetary policy throughout the year was geared to mopping up excess liquidity in the banking system and steps were taken to reduce government expenditure wherever possible. On the supply side, incentives were given to stimulate production in critical areas and steps were taken to expand the public distribution system in order to ensure that essential commodities were available at reasonable prices. Supplies of edible oils, rice and wheat through the public distribution system were stepped up and their availability supplemented by imports. Releases of sugar were also increased.

### Monetary and Fiscal Policy

1.13 The year began with an excess of liquidity in the banking system and liquidity continued to increase with a rapid growth in primary money which in turn

led to rapid growth of deposits with scheduled commercial banks. The Reserve Bank of India (RBI) raised the Cash Reserve Ratio (CRR) in successive steps from 7 per cent with effect from May 27, 1983, to 8.5 per cent with effect from August 27, 1983. With effect from November 12, 1983 scheduled commercial banks were also required to maintain an incremental cash reserve ratio of 10 per cent of the increase in demand and time liabilities. The CRR was further raised from 8.5 per cent to 9 per cent with effect from February 4, 1984. As a result of these measures, there was a perceptible slowing down in the growth of aggregate monetary resources (M3) in the second half of the year. The increase in M3 in 1983-84 up to January 13, 1984 was 15.1 per cent compared with 13.5 per cent in the same period of the previous year. The increase in money supply (M1) in the same period was 11.3 per cent compared with 11 per cent in the previous year. An important factor underlying the more rapid expansion of money supply in 1983-84 was the much smaller decrease in the net foreign assets of the banking system than in the previous year as a consequence of the improvement in the balance of payments position.

1.14 Fiscal policy in 1983-84 was geared to supporting rapid economic expansion in anticipation of a normal crop and resumption of growth in the economy. The budget proposed an increase of 26 per cent in the Centre's Plan outlay over the budget estimates for the previous year. The budget also contained incentives for savings and investment on the part of both individuals and the corporate sector. The Centre's finances came under pressure in the second half of the year for a variety of reasons. Duty reliefs on excise and customs were given to stimulate industrial production in certain sectors, leading to some loss in revenue. There were additional claims for expenditure on both Plan and non-Plan account. With the continuing pressure on prices it became necessary to restrain the growth of expenditure in the last quarter of the year and the Government undertook a review of both Plan and non-Plan expenditure to effect reduction where possible. In spite of these corrective steps, total Plan expenditure in 1983-84 is likely to be above the level in the budget estimates.

### Foreign Trade and Balance of Payments

1.15 India's balance of payments situation which was under severe strain in 1980-81 and 1981-82 began to improve in 1982-83. This improvement continued in 1983-84 with a narrowing of the trade gap and increase in the flow of funds from Indians abroad. The trade gap which was Rs. 5,802 crores in 1981-82 came down to Rs. 5,526 crores to 1982-83. The gap narrowed further this year; the deficit in April—October 1983 being smaller than in the corresponding period of 1982-83 (Rs. 2,744 crores compared with Rs. 3,328 crores). During the first seven months of 1983-84 exports grew by 7.7 per cent while imports declined by 2.8 per cent. Though imports are expected to pick up in the latter half of the year, the trade gap in the year is not likely to be more than Rs. 5,000 crores.

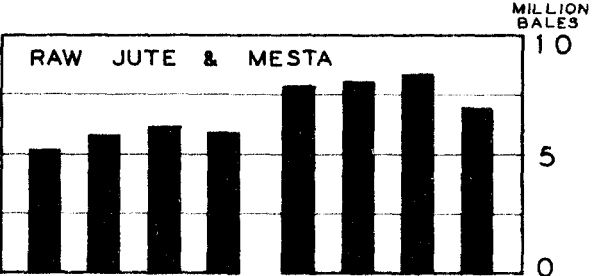
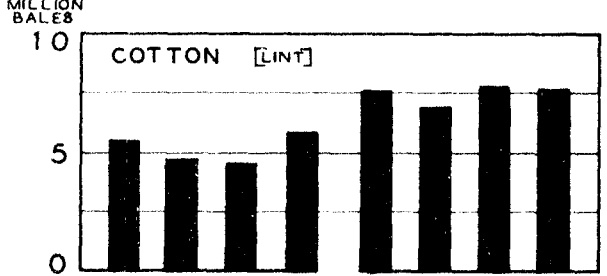
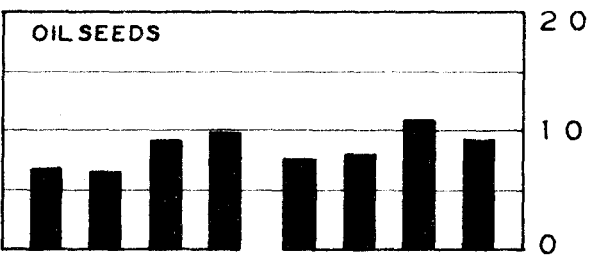
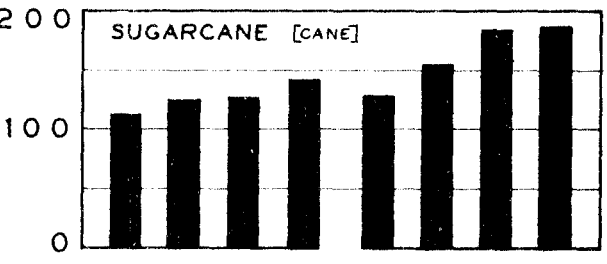
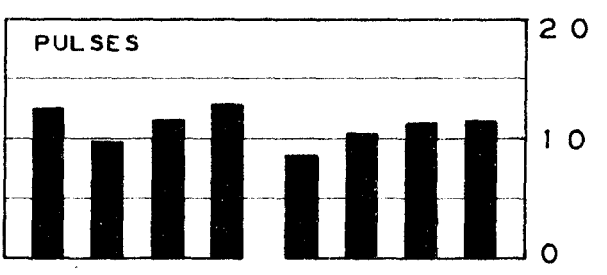
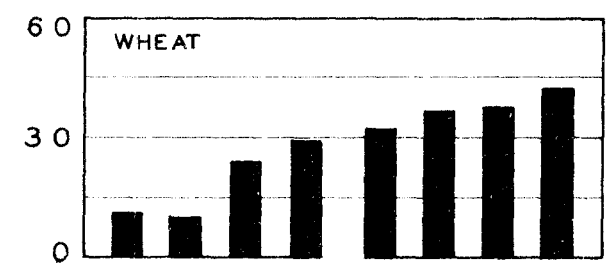
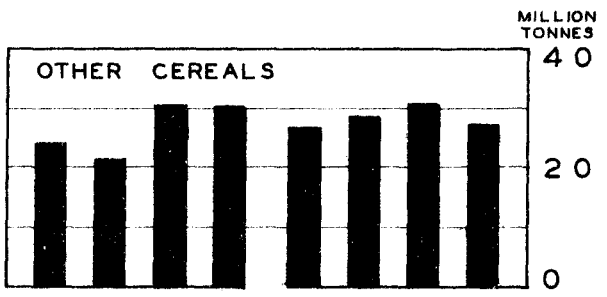
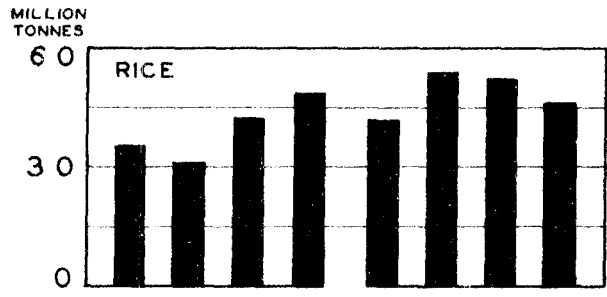
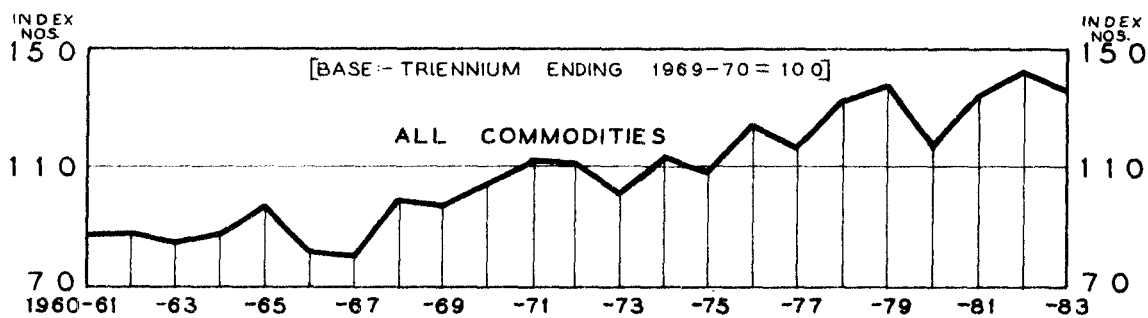
1.16 The narrowing of the trade gap in 1982-83 and 1983-84 reflects the success achieved by the country in reducing bulk imports especially of crude oil. Net imports of Petroleum, Oil and Lubricants (POL) amounted to Rs. 4,978 crores in 1981-82, but declined to Rs. 4,441 crores in 1982-83 following the increase in domestic production of crude oil from 16.2 million tonnes to 21.1 million tonnes. With further increase in domestic production to about 26 million tonnes and softening of crude oil prices in the world market, the POL import bill (net of POL exports) in 1983-84 is expected to be lower by about Rs. 1,000 crores than in 1982-83. Another factor which helped the balance of payments position was the larger inflow of funds from Indians abroad in the form of deposits in Indian banks in response to various incentives offered by the Government. The accretion to these accounts increased from Rs. 243 crores in 1981-82 to Rs. 550 crores in 1982-83 and Rs. 800 crores in the first nine months of 1983-84. These developments were reflected in a rise in the foreign exchange reserves [excluding gold and Special Drawing Rights (SDR)] from Rs. 4,265 crores at the start of 1983-84 to Rs. 4,696 crores by January 31, 1984. This contrasts with the decline of Rs. 1,292 crores and an increase of Rs. 328 crores in the reserves during the corresponding periods of 1981-82 and 1982-83 respectively.

1.17 In view of the improvement in the balance of payments position, and the relatively comfortable reserves position, the Government decided to refrain from making any further drawing under the Extended Fund Facility (EFF) arrangement with the In-

ternational Monetary Fund (IMF) after the completion of the current year's programme. At the end of this year's programme India would have drawn SDR 3.9 million from the SDR 5 billion originally made available. The faster than anticipated improvement in the country's balance of payments testifies to the soundness of the external adjustment policies adopted by the Government at the beginning of the Sixth Plan period.

1.18 In sum, the performance of the economy in 1983-84 has been reasonably satisfactory. The recovery in agriculture, taking foodgrains production to a new peak, is particularly welcome. Although the recovery in industry is delayed, there are signs that the growth rate is picking up. The higher level of agricultural production and the improvement in the availability of power should help to strengthen the acceleration in industrial production and stimulate activity in other sectors. The success achieved in increasing the production of crude oil from 10.5 million tonnes in 1980-81 to over 26 million tonnes in three years has made a qualitative difference to the balance of payments position. The ability of the country to forego the remaining part of the loan available under the IMF Extended Fund Facility is also a matter of deep satisfaction. The one area of concern is the price situation which calls for utmost vigilance. The budget has continued to be under strain because of the growing requirements of the economy for development as also for defence. Measures for increasing productivity and investment, and curbing non-essential consumption would have to be high on the agenda for 1984-85 and beyond.

# AGRICULTURAL PRODUCTION



MINISTRY OF FINANCE, ECONOMIC DIVISION.