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India's Five-Year Plans: The First  
of the Third

Richard H. Kaufman

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India's Five-Year Plans: The First of the Third

Introduction

At the end of March 1962, India completed the first year of her third five-year plan. Although data are not yet available to permit a complete evaluation of the economic progress achieved during the year, there are indications that economic activity was significantly impaired by the confluence of a number of serious bottlenecks. The Indians themselves realize that shortages of electric power, coal, transport facilities and foreign exchange were the key elements responsible for a marked restraint in industrial production. Other significant developments during the year were an improvement in the balance of trade and an enlargement of the Government's fiscal deficit.

Electric power

Up to the present, India has been undergoing a severe electric power shortage which threatens to cause a shortfall of 25 per cent in the physical program embodied in the third plan.<sup>1/</sup> At the annual meeting of the Associated Chambers of Commerce in December 1961, the following resolution was passed which emphasizes the seriousness of this bottleneck.

"The Associated Chambers consider that the investment in electric power generation and distribution provided for in the third plan is insufficient for the country's industrial needs and that, even if the projected targets are achieved, a serious power shortage will remain. Critical and persistent shortages have resulted in industrial plants having to shut down or to stagger their working hours; industrial efficiency has consequently been impaired; and the continuing power shortage must seriously inhibit the expansion of industry...."<sup>2/</sup>

Since almost all industrial activity is greatly dependent upon electric power, these sharp remarks of the Associated Chambers rightly indicate the extent to which the shortage of this key factor has impaired industrial expansion.

Coal

Shortages of coal have exacerbated India's economic problems and have contributed to a slowing down of industrial expansion.

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<sup>1/</sup> The Economic Weekly, Bombay, India, August 12, 1961, p. 1286.

<sup>2/</sup> Reprinted in Commerce, Bombay, India, December 9, 1961, p. 1078.

"At the present time, the shortage of coal is acute in almost every portion of the country and the shortage of particular varieties with low ash content is severe in all the steel plants." 3/

The coal crisis has become so grave that the Federation of Indian Chambers of Commerce and Industry undertook an empirical investigation which revealed that in 220 industrial units, the average loss of production due to a lack of coal was between 20 and 25 per cent.4/

In the first eight months of 1961, coal production was running at an annual rate of 53 million tons, more than 10 per cent less than the target level for the second plan and 46 per cent less than the target level of 97.5 million tons proposed for 1965-66. In order to reach this target figure in the next four years, coal production must expand by more than 16 per cent per annum, a herculean task in comparison with the annual rate of increase of under 6 per cent achieved during the past four years. It is now reported that the Planning Commission intends to raise the target level from 97.5 to 110 million tons.5/ Such an amount would imply a production increase of over 20 per cent annually.

Part of the cause for the coal crisis is the forementioned shortage of electric power.

"...frequent power cuts ... seriously prejudiced the safety of workers due to interruption in cage windings, dewatering and ventilation of mines." 6/

### Transport facilities

India's inability to effect with easy dispatch the internal movement of goods and services has been a third major bottleneck to industrial expansion.

"The insufficiency of transport still continues to be the most potent deterrent to the planned production of coal and industrial output. The imbalance between the availability of transport and the requirement of coal is so great that it is likely to affect the plan itself by hindering output and raising production costs." 7/

The actual amount of traffic offered on the railways in 1960-61 is estimated at 154 million tons, in comparison with the planned 168 million tons, a shortfall of 9.1 per cent.8/

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3/ The Eastern Economist, New Delhi, India, December 22, 1961. Supplement, p. i.  
4/ Reported in The Economic Weekly, Bombay, India, November 4, 1961, p. 1681.  
5/ The Eastern Economist, New Delhi, India, December 8, 1961, p. 1095.  
6/ The Eastern Economist, New Delhi, India, December 8, 1961, p. 1088.  
7/ The Eastern Economist, New Delhi, India, November 24, 1961, p. 985.  
8/ Dr. K.K. Saxena, "Need for a Transport Policy", Commerce-1961 Annual, Bombay, India, December 1961, p. A. 126.

To alleviate the transport problem for the coal industry, the Government issued a statement saying that it has decided

"...to increase the daily loading target from 6,535 wagons as at present to 6,925 wagons next year." 9/

In point of fact, however, the present (not the target) number of available wagons is about 5,865, 10 per cent less than the amount planned for the present; and the proposed target for next year, even if achieved, is still about 20 per cent less than the number of wagons required to achieve the production of 97 million tons of coal at the end of the third plan, according to the estimates of Sir B. P. Singh Roy, Chairman of the Coal Transport Advisory Committee.<sup>10/</sup> For producing 110 million tons of coal, the proposed target is even more deficient.

### Foreign exchange

By the end of the first year of the third plan, India's foreign exchange reserves had fallen to about \$385 million (excluding the Reserve Bank of India's holdings of \$247 in gold as backing for the currency). Despite the July 1961 borrowing of \$122.5 million from the International Monetary Fund, this total is slightly less than India's reserves at the start of the third plan and is equivalent to only about a two month supply of imports.

This very tight foreign exchange situation has prompted the Indian authorities to give preference in the allocation of the exchange to imports required for expanding the industrial structure of the economy as compared to imports needed for the operation of the existing industrial structure. This preference for 'developmental' imports over 'maintenance' imports has created innumerable hardships for existing enterprises, has furthered the spread of unutilized capacity, and has increased the backlog of pending applications for import licenses more than ten-fold over the previous year.<sup>11/</sup>

### Industrial production

The net result of severe shortages of electric power, coal and transport facilities, and foreign exchange has been the retarding of expansion in India's industrial production, as is indicated in the following table.

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9/ Reported in Economic Weekly, Bombay, India, December 23, 1961, p. 1878.  
10/ The Eastern Economist, New Delhi, India, November 24, 1961, p. 985.  
11/ The Eastern Economist, New Delhi, India, October 6, 1961, pp. 646, 649.

TABLE 1Index of Industrial Production (1951=100)

<u>Year a/</u>	<u>Index</u>	<u>Percentage increase</u>
1957	136.4	
1958	139.0	1.9
1959	149.5	7.6
1960	167.3	11.9
1961	180.5	7.9

a/ Since data are available only for the first 9-months in 1961, the index for each year refers only to the first 9 months of that year.

SOURCE: Reserve Bank of India, Bulletin, various issues.

After experiencing a steady expansion since 1957, the rate of increase of industrial production declined noticeably in 1961. Indeed, the seasonally adjusted index of industrial production in the second and third quarters of 1961 (179.4 and 178.6 respectively) is below that achieved during the last quarter of 1960. (180.2)

Balance of payments

Although foreign exchange reserves have been declining, preliminary estimates indicate the substantial narrowing of the foreign trade deficit from Rs. 3,764 million (\$790 million) in 1960 to Rs. 2,818 million (\$592 million) in 1961. This reduced trade deficit, the lowest since 1956, was the net result of a 5.3 per cent decline in the value of imports and a 6.4 per cent expansion in the value of exports. Data for the first nine months of 1961 indicate that most of the increased export value was caused by a 4.2 per cent rise in export prices.

Balance of payments estimates are not yet available to permit a clear picture of all the factors involved in the outflow of foreign exchange. Preliminary estimates for the first half of fiscal 1961/62 indicate an improved current account position, wherein the deficit was Rs. 1,587 million (\$333 million) as compared to a deficit of Rs. 1,778 million (\$373 million) in the corresponding period of 1960/61.

Government finance

A worsening of the governmental deficit occurred during the first year of the new plan. The deficit is generally defined in terms of a short-fall of revenue in comparison to expenditures, and is measured by the extent to which the government must go into debt in order to fill this deficiency.

Based on this accepted measurement, the Indian Government's financial deficit rose from Rs. 3,660 million (\$769 million) in 1960/61 to Rs. 6,664 million (\$1,399 million) in 1961/62, an increase of 79 per cent. This enlarged deficit was equivalent to that estimated at the start of the budgetary year.

The Ministry of Finance excludes from its definition of the deficit that portion which is financed by forms of borrowing other than the issuance of Treasury bills. This definition of the deficit, limited to changes in the level of cash balances and in Treasury bills, is done on the grounds that the excluded types of debt represent borrowing from the public which is non-inflationary. Based on this measurement, the deficit in 1960/61 was Rs. 1,552.5 million (\$326 million), 77 per cent less than the more inclusive measurement. This deficit was larger than that of the previous year and also more than the Rs. 546 million (\$115 million) estimated by the Ministry of Finance at the beginning of the budgetary year.

Some of the factors contributing to the enlarged deficit (as defined by the Indian Government) in 1961/62 as compared to the previous year were a reduction in revenue from income taxes, lower U.S. Government counterpart deposits, and increased expenditure on defense, railways and advances to state governments.