

Slow growth troubles the Indian economy

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The Indian economy stagnated in 1982 and in specific sectors, showed considerable difficulties. This, together with indications of a potential foreign exchange crisis on the horizon, gives the lie to the frequently heard assertion that India does not face the debt and balance of payments problems now plaguing other developing nations.

While it is true that India does not have a high level of indebtedness by current standards, this can change in the proverbial "overnight"—under conditions of economic crisis.

One of the most disturbing factors to the government at present is India's depleted foreign exchange reserves. India borrowed \$5.6 billion in 1982 from the International Monetary Fund (IMF) to shore up reserves and balance its increasing trade deficit. Since the government has drawn \$2.2 billion of the loan already, the decline of \$350 million in reserves in absolute value between December 1981 and December 1982 has become a matter of serious concern to the finance ministry. The country's foreign exchange reserves, excluding gold and SDRs, stood at \$3.9 billion.

During the last calendar year, because of a weak monsoon in the major kharif-growing areas and a chronic shortage of generated electrical power, India's grain production fell short of the announced target by 5.4 million tons. Although not immediately affecting the domestic food situation, any further deceleration in this season's production would impose sharply increased quota requirements in the next period.

India's industrial production, which grew 8 percent in 1981, suffered in 1982 because of lack of available power, shortages of agricultural raw materials, and an extended textile strike. In the manufacturing sector, the growth rate, which was close to 5 percent in 1981, was even more sluggish. Some industries also suffered from the Reserve Bank's credit squeeze; a slight relaxation of credit curbs in recent months is expected to yield some results.

Although the budget for fiscal year 1983-84 has not been passed before the parliament as yet, there are indications that cuts will be made in certain key sectors. Minister of State for Energy Chandra Shekhar Singh told newsmen in February that no new power projects could be taken up in 1983-84 because of financial problems. This means that, while a 10 percent shortage in power generation continues to slow down industry, the energy ministry will be under pressure to shelve at least five hydroelectric projects, since no budget provision has been made for them.

The other factor which hurt the economy last year is the longest textile strike in India's history. The strike, which has entered its second year, has resulted in a loss of over 48 million man-days and a production loss of at least \$1.5 billion. However, the financial impact of such a long strike goes well beyond direct production losses. The textile machinery industry, for example, is presently burdened with an unsold inventory of at least a quarter of a billion dollars.

Any real upturn in India's economy in 1983 will be a big surprise. However, most disturbing is the fact that the *productivity* of India's industrial sector is in decline. Recently the president of the Punjab, Delhi, and Haryana Chamber of Commerce, V. P. Punj, speaking at a national forum, pointed out that to increase productivity "requires instruments of production as well as the will to produce."

Although there is no dearth of "will to produce," what Punj referred to as the "instruments of production" is a matter of concern to India's industrial experts. The continuing slow growth of India's industrial sector, the result of indiscriminate and unfocused investment during most of the 1970s, has failed to generate the required rate of capital formation. One problem is the use of outdated machinery. The lack of adequate infrastructural facilities is another. These productivity problems can only be resolved through a sustained expansion of existing plants, with state-of-the-art technology.

The effect of such slow economic growth on India's Sixth Five-Year Plan (for the period 1980-85), which was reviewed in December at its mid-term, is palpable. The plan was drawn up to achieve an overall growth rate of 5.2 percent annually, but available figures indicate that even if conditions become as favorable as expected by the planners, the annual growth rate cannot exceed 4.5 percent.

India's foreign debt situation has not as yet reached an alarming proportion of its export income, but the nation's debt-servicing charges and loan repayment commitments are mounting steadily each year, and will become a serious factor in 1984 when repayment of the IMF loan is to begin.

However, there are certain redeeming features that emerged out of the 1982 economic review. Despite the production shortfalls in both the agricultural and industrial sectors, the government kept the general price increase to only 2.8 percent over the previous year's, against an increase of 8.6 percent in the corresponding period in 1981. The food-grain stocks (India imported several million tons of grain from the U.S. replenish stocks) and sugar stocks will help the government to hold the price line in the agricultural sector. The Indo-Soviet trade pact signed in December is expected to increase exports, mostly agricultural, to \$2.0 billion in 1983, and help associated manufacturing sectors.

Also encouraging is the growth in aggregate deposits of the commercial banks in the Reserve Bank of India. Between March 26 and Dec. 3, 1982, they rose by as much as \$4.8 billion.

Officials have indicated that the government will soon take a second look at the interest-rate structure.