

Outlook

7.75 The industrial recovery in 2002-03, which consolidated during 2003-04, has gathered momentum during the current year. The dramatic decline in interest rates and the significant turnaround in public investment through the infrastructure development programme have been two critical drivers of the recovery. Low interest rates fuelled the housing, automobiles and consumer durable booms, which were instrumental in the acceleration of industrial growth. Although the momentum in these sectors has slowed down, they still continue to provide the necessary support to the process of industrial growth.

7.76 The present trend indicates a positive outlook for industrial growth due to improved capacity utilization, improved industrial climate, expanding external and domestic demand and ease in availability of credit. The strong performance of the capital goods sector coupled with increased imports of capital goods also augur well for domestic capacity expansion in a large number of industries.

7.77 The double-digit growth since 2003-04 in capital goods sector indicates the capital formation taking place in the industrial sector, which can help in strengthening the upswing. Industrial buoyancy is expected to continue during the remaining period of 2004-05 with the strong growth of machinery and equipment sub-sector (21.9 per cent during April-December) and the major components of non-oil imports like machinery and other inputs

needed for exports and industrial activity. This is also reflected in the resurgence of exports of manufactured goods with double digit growth during April-October, 2004-05. The ongoing growth process, which is investment-led and fairly evenly spread within manufacturing sector, reflects the medium and long-term optimism on the part of investors.

7.78 The strength and robustness of industrial growth during the current financial year are particularly striking in the light of the shocks like Tsunami, a deficient monsoon and a third oil shock. Such resilience in the midst of resurgence is not just a matter of good fortune; but also a response to the reforms and manifestation of the sound fundamentals of the economy. The strong and positive outlook of both foreign and domestic investors indicates that India is ready for the big push as the growing interest of foreign investors is coinciding with the rising confidence of domestic private investors. The increasing efficiency and competitiveness of domestic producers, liberalised trade, and deregulated interest rate regime are critical contributors to both growth acceleration and macro-economic stability.

7.79 The outlook for the industrial sector will further brighten if constraints like infrastructure bottlenecks and shortages, labour market rigidities, entry and exit barriers and land acquisition, and multiple stages and levels of approvals/clearances are removed. Further, there is also a need for improved Centre-State interface for better coordination between the Centre and State Governments.