FINANCING AND INVESTMENT BY SECTORS

8.63 The industrial sector comprising mining, manufacturing, electricity and construction accounted for about 54 per cent of the gross capital formation in 2007-08 as per the National Accounts Statistics. Of this, the manufacturing sector alone accounted for as much as 76.9 per cent. Mining, electricity and construction accounted for 4.1, 11.5 and 7.6 per cent respectively (Table 8.21). Over 73 per cent of the gross capital formation in the manufacturing sector is in the registered manufacturing (which can be considered as a proxy for the organized manufacturing) and the balance is in the unregistered manufacturing. Therefore, the industrial sector is a key driver of growth in terms of investment demand that in turn goes to augment the supply side. The financing of industrial investment of which credit remains a major component is critical to achieving higher rates of investment

Table 8.21 : Gross capital formation in Industry (figure in per cent)

	GCF/GDP	Share
Mining	0.8	4.1
Manufacturing	15.7	76.9
Electricity	2.4	11.5
Construction	1.5	7.6
Industry total	20.7	100.0

Source : Central Statistical Organisation

Industrial credit

8.64 The annual variation in overall industrial credit in February 2009 was 25.8 per cent as compared to 25.9 per cent during February 2008 (Figure 8.6). During 2008-09, some sectors like petroleum showed a large spike in the growth of credit arising largely due to increase in the working capital requirements of companies in that sector due to a rise in crude prices. The other sectors recording higher rate of growth in credit include mining and quarrying, beverages and tobacco products and infrastructure. Corresponding trends are visible in the sectoral shares of industrial credit too. The sectors that experienced comparatively lower credit growth on year-on-year basis included food processing, textiles and leather products. The gems and jewellery sector

Figure 8.6 : Growth in bank credit by sectors

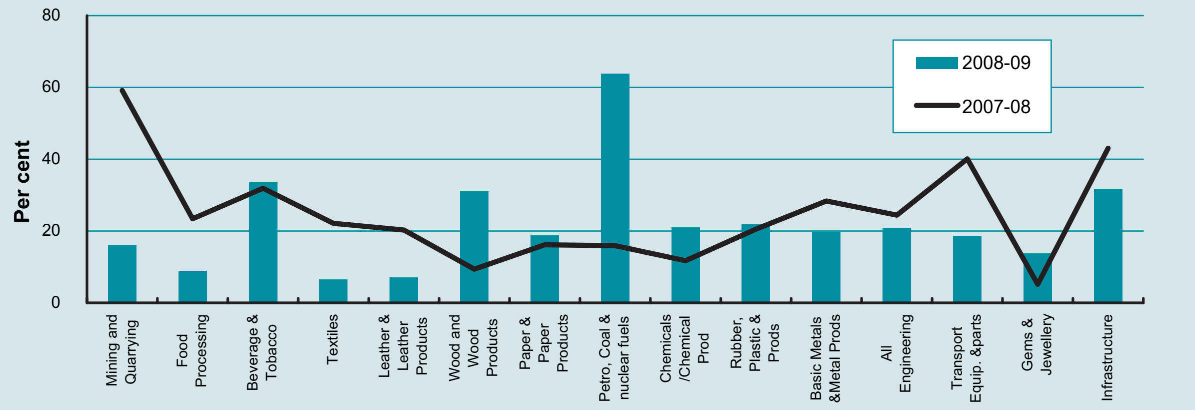


Table 8.22: Sectors attracting highest FDI flows

(Rs. crore)

Sector	2007-08	2008-09	Change (per cent) in 2008-09
Services	26589.3	28410.7	6.9
Housing & real estate	8749.3	12621.2	44.3
Telecommunications	5102.6	11726.9	129.8
Construction	6989.3	8791.9	25.8
Computer software & hardware	5623.3	7328.5	30.3
Automobiles	2697.0	5211.7	93.2
Power	3877.5	4381.8	13.0
Metallurgical industries	4686.0	4156.7	-11.3
Information & broadcasting	1290.3	3492.4	170.7
Chemicals (except fertilizers)	917.6	3427.1	273.5
Grand total all FDI equity flows	98664	122919	24.6

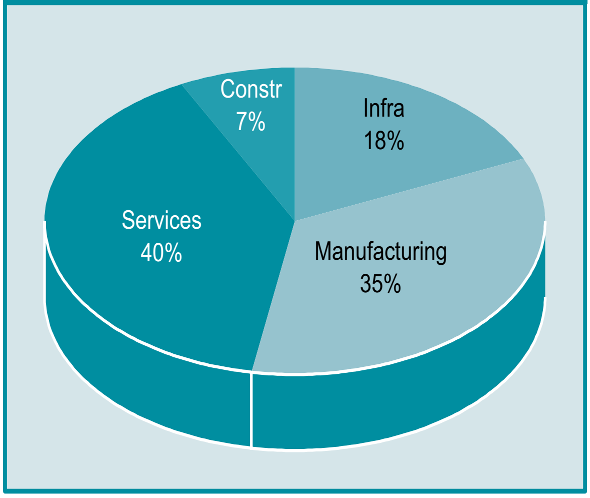
Source : Department of Industrial Policy and Promotion

that experienced a significant setback in exports also experienced lower credit growth.

Foreign direct investment

8.65 During 2008-09, the total FDI equity inflows stood at Rs. 1,22,919 crore (US$ 27,309 million) against Rs. 98,664 crore (US$ 24,579 million) during 2007-08 signifying a growth of 25 per cent in terms of rupee and 11 per cent in terms of US dollar. The distribution of FDI within the industrial sector between mining, manufacturing, electricity and construction is given in Figure 8.7, based on a classification of FDI receiving sectors.

Figure 8.7 : Sector-wise FDI inflow



Distribution of FDI inflows (only equity capital components)

8.66 The sectoral shares of FDI inflows have fluctuated significantly in the recent years. Apart from financial and non-financial services, telecommunications, housing and real estate, and construction have emerged as the most significant recipients of FDI inflows. The shares of petroleum and natural gas and power sector have been on the increase while that of metallurgical industries came down sharply (Table 8.22).

8.67 Investment indicated in the IEMs continue to witness an upsurge. However, there has been structural shift over time taking place. While basic goods industries which include among others, metallurgical industries accounted for 37.74 per cent in 2003-04, the same came down in its place, the share of capital goods witnessed an increase, particularly electrical equipment. The share of consumer goods, on the other hand, has declined (Table 8.23).

Table 8.23 : Sectoral share of investments in the IEMs

(per cent)

Sectors	2003-04	2008-09
Basic goods (of which	37.74	30.96
metallurgical industries)	(22.77	(23.51)
Capital goods(of which	26.04	47.95
electrical equipment)	(22.91)	(43.29)
Intermediate goods	7.91	8.00
Consumer goods	3.29	1.05
(i) Consumer durables	0.09	0.01
(ii) Consumer non-durables	3.20	1.04
Others	21.70	10.90

Source : Department of Industrial Policy and Promotion