INDUSTRIAL POLICY AND DEVELOPMENT

Indian industry registered a modest growth rate of 7.1 per cent in 1996-97, which is much lower than the 12.1 per cent growth in 1995-96. The weaker performance of industry in 1996-97 is principally attributable to the mining and electricity generation sectors which recorded meagre growth rates of 0.7 per cent and 3.9 per cent respectively. Mining was badly hampered in 1996-97 by the poor performance of crude oil (-6.5 per cent). Hydroelectricity generation registered negative growth (-5.4 per cent) in 1996-97. Thermal power (including nuclear) also recorded lower growth of 5.9 per cent in 1996-97 compared to 14.6 per cent in 1995-96. Deceleration of industrial growth has continued in 1997-98 as well. The growth rate as measured by the Index of Industrial Production (IIP), during April-February 1997-98 is estimated at 4.6 per cent, lower than the 7.7 per cent growth witnessed in the corresponding period of 1996-97. Lower growth is on account of poor performance of manufacturing which has an overwhelming weight of 77.1 per cent in IIP and registered only 4.2 per cent growth in April-February 1997-98 compared to 9.3 per cent growth during April-February 1996-97 (Table 7.1 and figures).

TABLE 7.1

Annual Growth Rates in Major Sectors of Industry

(per cent)

Period (Weights)	Mining (11.46)	Manufacturing (77.11)	Electricity (11.43)	General (100)
1981-82	17.7	7.9	10.2	9.3
1982-83	12.4	1.4	5.7	3.2
1983-84	11.7	5.7	7.6	6.7
1984-85	8.9	8.0	12.0	8.6
1985-86	4.1	9.7	8.5	8.7
1986-87	6.2	9.3	10.3	9.1
1987-88	3.8	7.9	7.7	7.3
1988-89	7.9	8.7	9.5	8.7
1989-90	6.3	8.6	10.8	8.6
1990-91	4.5	9.0	7.8	8.2
1991-92	0.6	-0.8	8.5	0.6
1992-93	0.5	2.2	5.0	2.3
1993-94	3.5	6.1	7.4	6.0
1994-95	7.5	9.8	8.5	9.4
1995-96	7.4	13.6	8.1	12.1
1996-97	0.7	8.6	3.9	7.1
Apr-Feb.				
1993-94	3.6	6.2	7.1	6.1
1994-95	7.7	9.9	8.7	9.5
1995-96	7.9	13.7	8.3	12.2
1996-97	1.0	9.3	3.8	7.7
1997-98	4.7	4.2	6.8	4.6

2. Amongst the factors which may have contributed to the slowdown in industrial growth during the past year and a half were; excess capacity build up in some sectors in earlier years; monetary/credit tightening of 1995-96 and associated high real interest rates; the continuing slump in capital markets which constrained mobilisation of funds for investment; the marked decline in growth of exports since 1996-97; and high levels of uncertainty prevailing in international and domestic arenas.

3. To encourage industrial recovery, Government undertook a number of initiatives. The Union Budget for 1997-98 cut personal and corporate income tax rates across the board. Excise and customs tax rates were modified in many commodities to promote manufacturing sector revival. The credit policy measures announced in 1997-98 cover reduction in the Bank Rate, further de-regulation of interest rate, reduction of CRR and giving freedom to banks in assessing credit requirements for borrowers by withdrawing instructions on maximum permissible bank finance. These measures were

part of an easier monetary policy aimed at facilitating the flow of credit to the industrial sector at cheaper rates.

Box 7.1 indicates the pattern of industrial slowdown and the reasons thereof.

BOX 7.1

Industrial Slowdown

The Slowdown

- Overall industrial growth decelerated to 7.1 per cent in 1996-97 from 12.1 per cent in 1995-96.
- Declining trend continued in 1997-98 as well, with overall IIP registering 4.6 per cent growth during April-February 1997-98.
- Slowdown in 1997-98 is more pronounced (4.2 per cent) for the manufacturing sector which has 77.1 per cent weight in IIP.
- Capital goods sector has performed poorly registering a negative growth of (-) 1.8 per cent during April-February 1997-98.
- Five broad groups out of the 17 at 2 digit classification viz. wood and wood products, transport equipment and parts, textile products, food products and leather and fur products have registered negative growth rates during April-February 1997-98.
- At micro level, production is stagnant or suffered absolute decline in respect of items, such as, commercial vehicles, steel, sugar, a number of items from capital goods industry, scooters and certain variety of automotive tyres.

Possible Causes of Slowdown

- Slump in capital market has adversely affected mobilisation of funds for investment.
- High levels of uncertainty may have dampened investment activity.
- Sluggish export growth has adversely affected demand for manufactured products.
- Effects of monetary tightening in 1995-96.
- Lending rates were reduced in the credit policies announced in 1997-98. But the low level of inflation continued to keep real interest and cost of borrowing high.
- In certain segments e.g. cement, automobiles, excess capacities have been built. This has resulted in accumulation of inventory leading to decline in production.

Remedial Policy

- The Union Budget for 1997-98 cut corporate and personal income tax rates across-the-board for rejuvenating industrial demand.
- Excise duties on intermediate goods were modified and customs duty on imported raw materials was also brought down in the Budget.
- Coverage of the term 'infrastructure' expanded to include telecommunications, oil exploration and industrial parks, to enable these sectors to avail of fiscal incentives, such as, tax holidays and concessional duties.
- Bank rate and Cash Reserve Ratio (CRR) have been reduced in the Credit policies announced during 1997-98.
- Banks have been given freedom in assessing credit requirement for borrowers by withdrawing restrictions on maximum permissible bank finance.

Fig. 7.2

MONTHLY GROWTH RATES OF INDUSTRIAL PRODUCTION (1980-81 = 100)