INDUSTRIAL POLICY AND DEVELOPMENT

Industrial production registered a higher growth of 6.6 per cent in 1997-98 compared to the 5.6 per cent in 1996-97. The improvement in 1997-98 was due to better performance of mining and electricity generation, which recorded higher growth rates of 5.9 per cent and 6.6 per cent compared to –2 per cent and 4 per cent respectively in 1996-97. Higher growth of mining could be attributed to improved performance of crude oil (2.9 per cent in 1997-98 compared to -6.5 per cent in 1996-97) and that of electricity generation to improved performance of hydro-electricity (8.2 per cent in 1997-98 compared to –5.4 per cent in 1996-97). The growth of manufacturing in 1997-98 at 6.6 per cent remained almost at the level of the previous year. In the current year, industrial production has registered a growth rate of 3.5 per cent during April-December 1998, lower than the 6.7 per cent growth in April-December 1997. The low growth is noticeable in mining and manufacturing sectors. Electricity generation has posted a higher growth in the current year (Table 7.1 and Figures 7.1 and 7.2).

TABLE 7.1

Annual Growth Rates in Major Sectors of Industry

(per cent)

Period (Weights)	Mining **(10.47)** (11.46)*	Manufacturing **(79.36)** (77.11)*	Electricity **(10.17)** (11.43)*	General **(100)** (100)*
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	7.6	8.5	8.5	8.4
1995-96	9.6	13.8	8.1	12.8
1996-97	-2.0	6.7	4.0	5.6
1997-98	5.9	6.6	6.6	6.6
Apr-Dec.				
1995-96	10.3	13.7	8.9	12.8
1996-97	-1.2	8.3	3.8	6.9
1997-98	5.5	6.9	6.0	6.7
1998-99	-1.1	3.7	6.6	3.5

Note : Growth rates from 1994-95 are as per the IIP Base:1993-94=100 and those for earlier years are for IIP Base: 1980-81=100.

*** : Relates to weights for IIP Base : 1980-81=100.**

2. The slowdown in industrial growth may be attributed primarily to a slackening in aggregate demand. This includes factors such as: falling export growth due to an overall slump in world trade compounded by an erosion in competitive advantage of Indian exports on account of steep depreciation in East Asian currencies; decline in rural demand owing to low agricultural output in 1997-98; price competition from imports in certain key industries; and slow take-off of actual investment in infrastructure projects. A few supply-side factors which have affected production are : relatively low new investment by the corporate sector due to surge in capacity in mid-1990s and the concomitant inventory build-up; drying up of source of funds due to continuing sluggishness in capital markets (primary and secondary); and infrastructural bottlenecks.

3. A detailed analysis of the factors precipitating industrial slowdown is provided in Box 7.1.

BOX 7.1
Continuing Industrial Slowdown

Slowdown

- After reaching a peak in 1995-96 (12.8 per cent), industrial growth slowed down considerably in 1996-97 (5.6 per cent) and registered a marginal improvement (6.6 per cent) in 1997-98. The downward growth trend has continued in the current year too, with industrial growth falling to 3.5 per cent in April-December 1998.
- In the current year, deceleration has been most pronounced in mining and manufacturing among the broad sectors. Electricity generation has recorded a higher growth than the previous year.
- Among use-based industry categories, basic goods, intermediate goods and consumer goods have dipped sharply but capital goods have performed relatively better.
- Low growth has been particularly noticeable in certain key industries like crude oil, steel, coal, cement, commercial vehicles, food products, textiles etc.
- Slowdown is evident in infrastructure as well in six infrastructure industries (electricity, coal, steel, cement, crude oil and refining) registering only 2.0 per cent growth in April-December 1998.

Factors affecting industrial slowdown

Domestic

- The decline in agricultural production in 1997-98 affected rural incomes, which directly resulted in lower demand for certain industrial products, particularly mass consumption goods like food products, textiles etc.
- Capital markets (both primary and secondary) have remained depressed for the past couple of years, drying up source of investment funds for industry.
- Apart from subdued capital markets, small and medium corporates have found it difficult to access institutional funds. Banks have been cautious in lending due to high incidence of NPAs. Relatively higher costs of borrowing have affected several industries.
- Larger enterprises have been in a better position to access funds. However, some of these units have utilised the resources largely in mergers and acquisitions, rather than additional capacity creation.
- Deficiencies in infrastructure services.

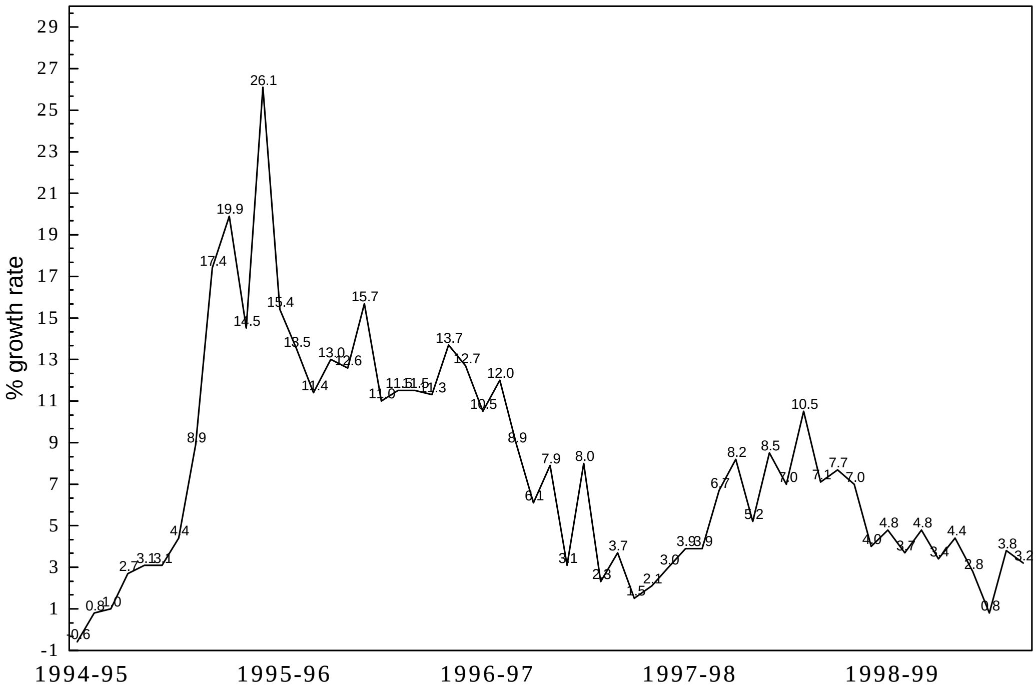
External

- Export growth has been sluggish since 1996-97 with the current year being particularly disappointing. Low demand for exports has adversely affected industrial production.
- Although the Indian Rupee has depreciated somewhat since August 1997, there has been much greater depreciation in East Asian currencies following the outbreak of the East Asian crisis in mid-1997. This higher depreciation has eroded competitiveness of Indian products overseas by making them more expensive.
- Several industries like steel, chemicals and electronic components have been subject to competitive pressure from imports.

Fig. 7.2

MONTHLY GROWTH RATES OF INDUSTRIAL PRODUCTION (1993-94 = 100)

GENERAL INDEX



MANUFACTURING SECTOR