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Slower credit growth impacts industrial activity in FY 2007-08

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The decline in the credit growth of India's banking system from 27.9 per cent in 2006-07 to 21.6 per cent in 2007-08 resultant from RBI's tight monetary policy, has impacted the significant sectors like mining, construction, petroleum, gems & jewellery, textiles in credit disbursements, according to an AEP.

The ASSOCHAM Eco Pulse (AEP) study, "*Trends of Industrial Deployment of Gross Bank Credit*", for FY 2007-08, analyzed the credit disbursements among 20 sectors like mining and quarrying (including coal), wood and wood products, 'petroleum, coal and nuclear fuels', rubber, plastics and their products, gems & jewellery.

The study found out that credit allocation to the mining and quarrying sector (including coal) fell from Rs. 3,558 crore to Rs. 2,912 crore. In growth terms, the sector witnessed a fall of credit disbursements from 85.8 per cent in 2006-07 to 37.8 per cent in the previous fiscal.

Although with a healthy growth of 5.3 per cent in the last fiscal from 2.4 per cent in FY 2006-07 in the woods & woods products, the sector has witnessed the steepest decline in the deployment of gross bank credit from 92.9 per cent in 2006-07 to 6.0 per cent in FY 2007-08.

Despite a rise in the gross bank credit from Rs. 6,667 crore in FY 2006-07 to Rs. 8,328 crore in the last fiscal, the construction industry saw a fall in the credit growth from 50.1 per cent in FY 2006-07 to 41.7 per cent in FY 2007-08 reflecting the plans of the real estate developers postponing their investment decisions.

With the companies incurring losses with continuous rise in the fuel prices, the companies in the petroleum, coal and nuclear fuels sector have deferred their expansion

plans. The sector witnessed a decline in the credit disbursements from Rs. 10,736 crore in FY 2006-07 to Rs. 5,852 in FY 2007-08 crore- a dip from 42.7 per cent to 16.3 per cent.

Tight monetary policy and rising interest rates have affected the credit allocation of the gems and jewellery sector. The sector witnessed a decline in credit off take from Rs. 3,291 crore in FY 2006-07 to Rs. 1,145 crore in FY 2007-08. The annual growth rate of the sector was 16 per cent in FY 2006-07 which has declined to a mere 4.8 per cent in the previous financial year.

“The fall in the gross bank credit has severely impacted the industrial activity. With the hikes in the policy rates, the banks are left with no option but to hike the lending rates which has led to slower bank credit and slower growth” Mr. Sajjan Jindal, President, ASSOCHAM said.

Table: Industry wise gross deployment credit

Sectors	2006-07		2007-08	
	Absolute	In per cent	Absolute	In per cent
Woods & woods products	1,390	92.9	173	6.0
Mining and Quarrying (including Coal)	3,558	85.8	2,912	37.8
Gems and Jewellery	3,291	16.0	1,145	4.8
Glass and Glass Ware	747	41.1	195	7.6
All Engineering	9,148	26.2	8,416	19.1
Petroleum, Coal Products and Nuclear Fuels	10,736	42.7	5,852	16.3
Textiles	20,499	35.1	16,964	21.5
Construction	6,667	50.1	8328	41.7

Source: RBI

After a robust credit growth of the engineering sector at 26.2 per cent in FY 2006-07, the sector saw a decline in the credit disbursements in FY 2007-08. Credit allocation fell from Rs. 9,148 crore (FY 2006-07) to Rs. 8,416 crore (FY 2007-08).

With rising interest rates and steep rise in the raw material costs, the textile sector has witnessed a decline from Rs. 20,499 crore in FY 2006-07 to Rs. 16,964 crore in FY 2007-

08. The hardening of the rupee thereby hitting exports in the last financial year has led to a decline in the gross bank credit from 35.1 per cent in 2006-07 to 25.1 in FY 2007-08.

On the contrary, Sectors like infrastructure and Cement and cement products. Credit allocation to the infrastructure sector has increased from 30,122 crore in FY 2006-07 to 59,321 crore in the last financial year- an increase from 26.7 per cent to 41.5 per cent. The banking sector also witnessed growth of credit from Cement and cement products industry. The credit disbursements grew by 30.9 per cent from 7,136 crore in FY 2006-07 to 8,617 crore in FY 2007-08.