

Missing the Target: On the Economy, the Centre's Growth Target

Despite missing the growth target, the Indian economy remains strong. Industrial production growth slowed to a six-month low of 2.9% in February, down from January's 5.2% and almost halved from last February's 5.6%. This decline was broad-based across sectors, with manufacturing almost halving to 2.9% from 4.9% last year.

The steep decline in consumer durables output to 3.8% from 12.6% last February, along with a production contraction in consumer non-durables, indicates a marked decline in overall consumption demand. This makes it likely that the Centre's 6.5% GDP growth target for the 2025 fiscal will be missed.



by OJAANK IAS

Broad-Based Industrial Slowdown



Manufacturing Decline

Manufacturing growth almost halved to 2.9% from 4.9% last year, affecting the sector with highest weightage (77%) in the IIP.



Mining Sector Challenges

Mining witnessed the steepest decline to 1.6% this February, down dramatically from 8.1% last year.



Power Production

Power production showed a marginal rise of 3.6%, up from January's 3.4%, but less than half of last February's 7.6%.



Consumer Demand Weakening

Consumer Durables

Output declined sharply to 3.8%, down from 12.6% last February, indicating reduced purchasing of big-ticket items.

This suggests households are postponing major purchases despite lower inflation rates.

Consumer Non-Durables

Production contracted for the third consecutive month by 2.1%, following a 3.2% contraction in January.

This trend in everyday consumer goods points to fundamental weakness in household spending.

Inflation Impact

Despite retail inflation dropping to 3.61% from 5.09% a year ago, with food inflation at a two-year low of 3.75%, consumption has not increased as expected.

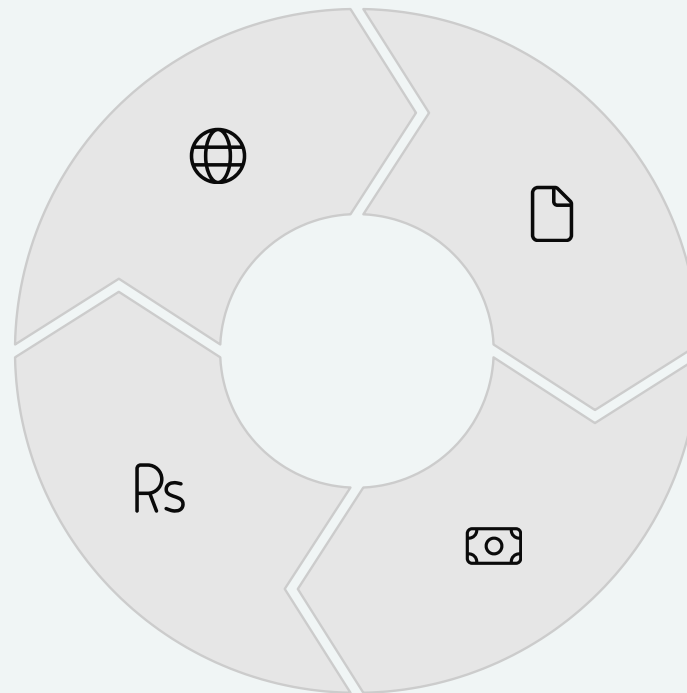
Global and Domestic Uncertainties

Global Economic Uncertainty

Manufacturers face trepidation due to unprecedented global economic uncertainty following U.S. President Donald Trump's actions.

Currency Pressure

Foreign investors sought haven assets and hedged against a depreciating rupee, adding pressure to the economy.



Stock Market Volatility

Consumers have witnessed the value of their assets plummet due to Indian stock market volatility mirroring global exchanges.

Liquidity Squeeze

Banking system faced a liquidity squeeze of ₹1.7 trillion as of February 20, due to massive flight of foreign capital.

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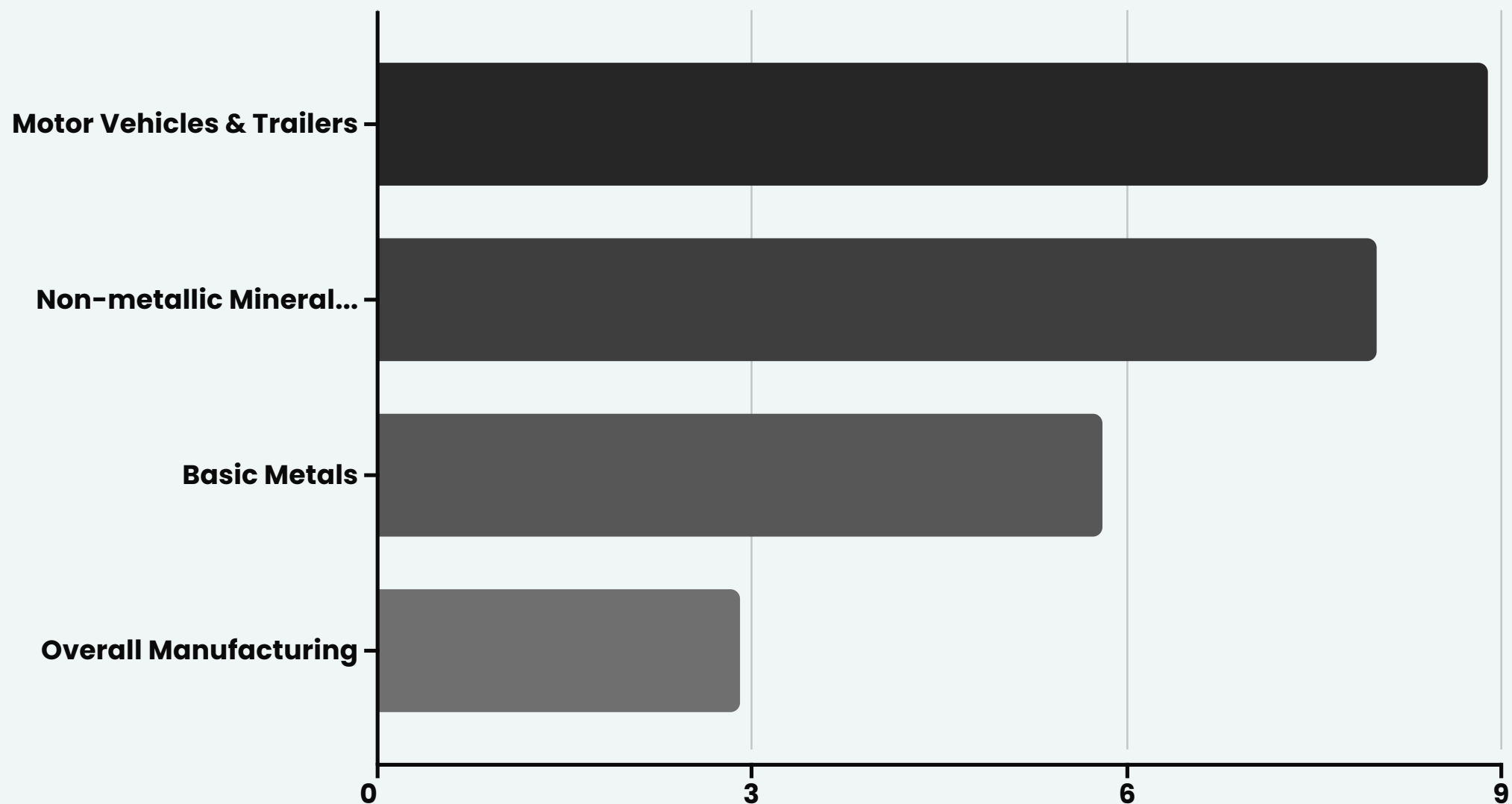
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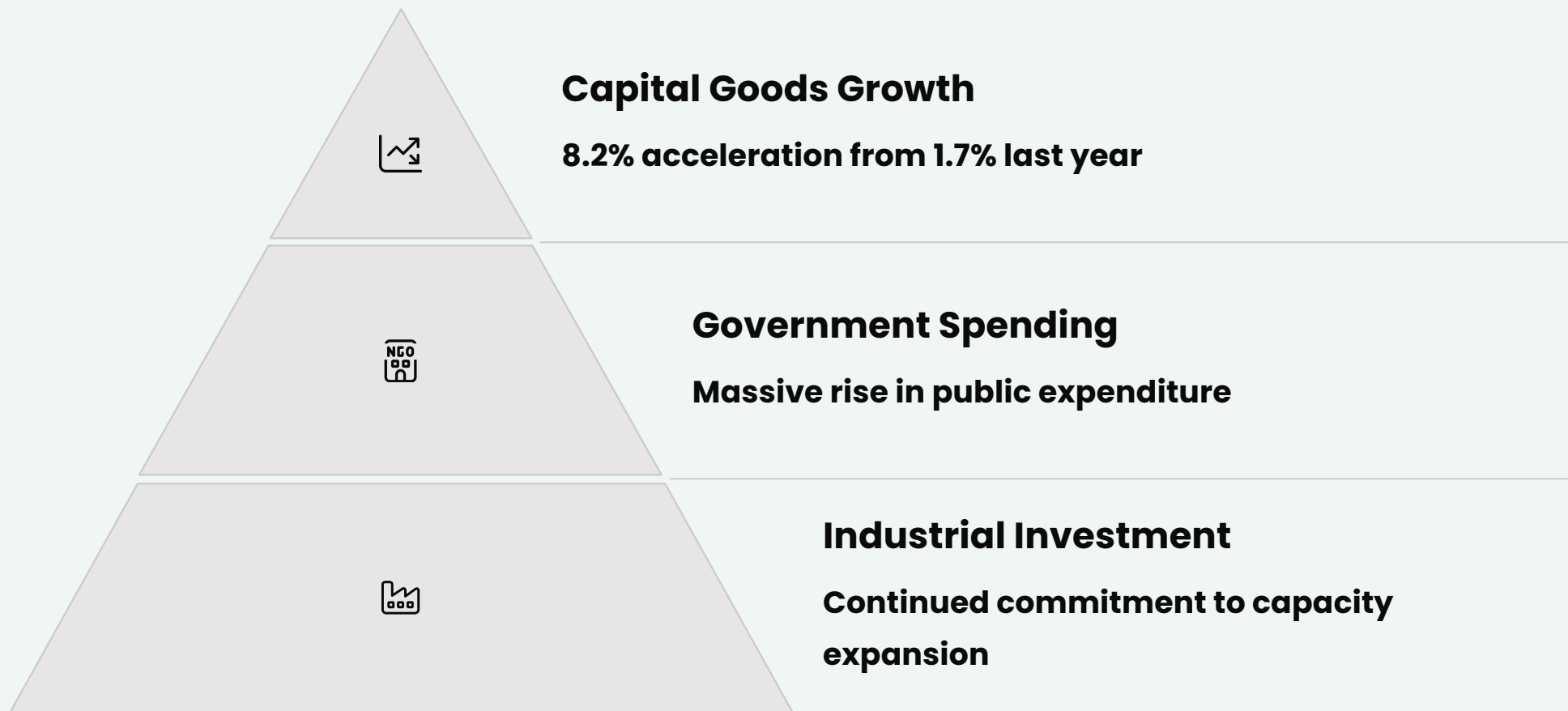
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Manufacturing Sector Performance

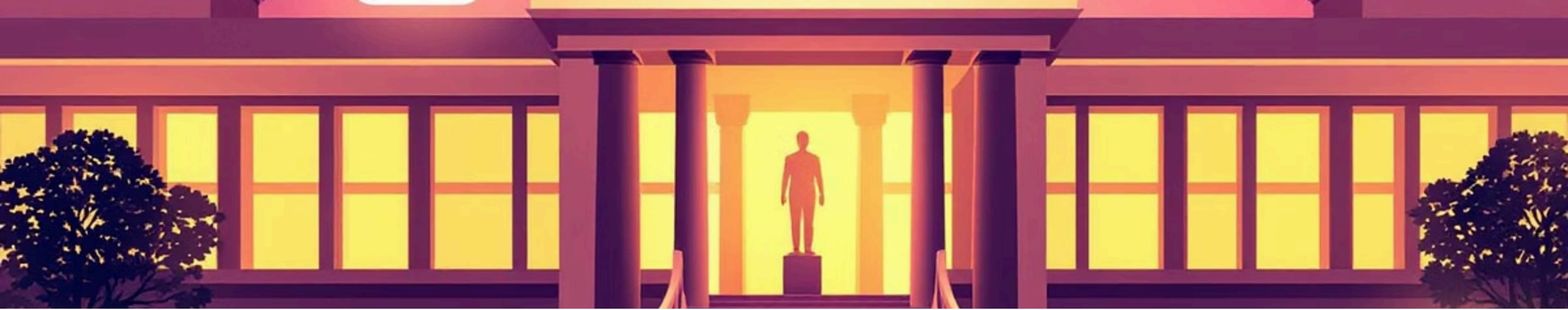


Within the manufacturing sector, which has the highest weightage of about 77% in the IIP, 14 of 23 industry groups recorded growth this February compared to a year ago. Growth was led by motor vehicles, trailers and semi-trailers at 8.9%, followed by non-metallic mineral products at 8% and basic metals at 5.8%.

Investment Demand Remains Strong



Capital goods output accelerated significantly to 8.2% from 1.7% last year, indicating robust investment demand. This growth was aided by a massive rise in government spending, which helped offset other economic challenges. The strong performance in this sector suggests businesses remain confident about future growth prospects despite current headwinds.



Central Bank Intervention

Identify Liquidity Squeeze

The banking system faced a liquidity squeeze of ₹1.7 trillion as of February 20, caused by the flight of foreign capital seeking haven assets and hedging against rupee depreciation.

Implement Rupee/Dollar Swaps

The central bank responded by injecting approximately ₹2.18 trillion into the banking system using rupee/dollar swap arrangements.

Stabilize Financial System

These interventions helped maintain stability in the financial markets and ensured adequate liquidity for economic activities until the swap arrangements ended on March 24.

India Remains the Fastest Growing Economy

Growth Target Challenges

Despite the likelihood of missing the 6.5% GDP growth target for the 2025 fiscal year, India's economic fundamentals remain strong compared to global peers.

Manufacturing PMI

February's Index of Industrial Production numbers correlate with the 14-month low in the manufacturing Purchasing Manager's Index survey conducted by S&P at 56.3.

Global Comparison

The Centre can take solace in the fact that despite missing its growth target, India remains the fastest growing major economy in the world, outpacing other developing and developed nations.



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