Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: about the eight core sectors of the Indian Economy and their performance; Index of Industrial Production

News: India’s eight infrastructure sectors shrank for the fourth straight month in November at 1.5%, though the magnitude of contraction slowed from 5.8% in the previous month. The eight core sectors contribute 40% to the Index of Industrial Production.

What does it signify?

• The slowing of the pace of contraction is being interpreted by some economists as a sign of green shoots, indicating that the economy is on a recovery path.

Background

• India’s economic growth decelerated to a six-and-a-half-year low of 4.5% in the September quarter on the back of slowing domestic and external demand.

• Data released by the Controller General of Accounts on Friday showed that the government exceeded its 2019-20 fiscal deficit target by 114.8% during the April-November period.

• After reducing policy rates five consecutive times by a cumulative 135 basis points, the Reserve Bank of India (RBI) opted for a pause in its December monetary policy review, given the sharp increase in retail inflation and weak monetary transmission from its earlier rate cuts. Retail inflation quickened to 4.6% in October, propelled by a surge in food prices.

• Earlier last month, RBI pared its growth forecast to 5% for 2019-20 from its October estimate of 6.1%, citing weak business and consumer sentiment.
“While improved monetary transmission and a quick resolution of global trade tensions are possible upsides to growth projections, a delay in revival of domestic demand, a further slowdown in global economic activity and geopolitical tensions are downside risks,” said RBI.

Sector-wise performance

- Five of the eight infra sectors reported a drop in output in November, according to data released by the industry department on Friday.
- **Cement** production bounced back to 4.1% growth, recovering from monsoon-related disruptions, while the output of **refinery products** accelerated to 3.1% in November. The output of **coal** and **electricity** sectors shrunk at a slower pace of 2.5% and 5.7%, respectively, in November from the previous month.
- However, **crude oil**, **natural gas** and **steel** saw their output shrink at a faster pace in November than in October.
- The core sector growth numbers for November, though disappointing, have a silver lining as sectors such as cement and **fertilizers** have registered growth.

About Index of Industrial Production (IIP)

- IIP is a composite indicator measuring changes in the volume of production of a basket of industrial products over a period of time, with respect to a chosen base period.
- It is compiled and published on a monthly basis by the Central Statistics Office (CSO) with a time lag of six weeks from the reference month.