CORPORATE INVESTMENT – ECONOMY

NEWS: **The Ministry of Statistics and Program Implementation (MoSPI)** released the monthly growth rate of the **Index of Industrial Production (IIP)**, which has slowed to a **nine month low of 1.2%.**

WHAT'S IN THE NEWS?

Index of Industrial Production (IIP): Overview

- The IIP is a **key economic indicator** used to measure short-term changes in the **volume of production across different industrial sectors**.
- It helps track the performance of the industrial sector over time and offers insights into the **economy's health and growth trends**.
- The data is used by policymakers, economists, and investors to assess the **industrial climate and make evidence-based decisions**.

Compiling Agency and Frequency

- The **National Statistical Office (NSO)** under the **Ministry of Statistics and Programme Implementation (MoSPI)** is responsible for releasing the IIP data.
- The IIP is released on a **monthly basis**, making it a **high-frequency indicator** useful for real-time policy analysis.

Base Year and Sectoral Composition

- The current **base year** for IIP calculation is **2011–12**, which serves as the reference point for measuring growth.
- IIP comprises **three major industrial sectors** with the following weights:
  - **Manufacturing:** 77.6% – largest component, reflecting industrial activity in factories and plants.
  - **Mining:** 14.4% – includes extraction of minerals, coal, crude oil, etc.
  - **Electricity:** 8.0% – includes power generation and distribution.

Use-Based Classification

- The IIP is also categorized based on the **use of goods**, which helps understand demand trends across industries:
  - **Primary Goods** – e.g., crude oil, coal.
  - **Capital Goods** – machinery, tools used in production.
  - **Intermediate Goods** – goods used in the production of final goods.
  - **Infrastructure/Construction Goods** – steel, cement, etc.
  - **Consumer Durables** – goods with long-term use like appliances.
  - **Consumer Non-Durables** – everyday items like food and toiletries.

Why Has Private Investment Not Picked Up?
a. Demand Uncertainty

- Since the COVID-19 pandemic, **consumer demand has remained weak**, particularly for non-essential goods.
- This has led to **low capacity utilization**, making firms hesitant to invest in expanding production capacities without **clear demand visibility**.

b. Excess Capacity in Industry

- Many manufacturing units are currently operating **below optimal levels**.
- Firms prefer to **maximize use of existing infrastructure** before committing to fresh capital expenditure.

c. Global Economic Uncertainty

- Events such as the **Russia–Ukraine conflict**, **Red Sea shipping disruptions**, and **global inflation** have negatively impacted **trade flows and investor sentiment**.
- Export-dependent sectors face unpredictability, making **investment decisions riskier**.

d. Slow Credit Transmission

- Despite **low repo rates** post-COVID, **credit flow to the industrial sector remained slow**.
- Banks favored **retail lending (e.g., housing, auto)** over **industrial loans**, due to lower risk and faster returns.

e. Infrastructure and Logistics Bottlenecks

- Despite initiatives like **PM Gati Shakti**, **logistics costs in India remain high** (approx. 13–14% of GDP).
- Delays in **land acquisition, environmental clearances**, and **regulatory approvals** create hurdles for industrial projects.

f. Low FDI in Manufacturing and Infrastructure

- FDI is robust in **digital and services sectors**, but **remains weak in core manufacturing and infrastructure**.
- Concerns include **scale of domestic demand**, **regulatory risks**, **complex compliance norms**, and **difficulty in exiting investments**.

g. Delayed Multiplier from Government Capex

- While **central government capital expenditure** has increased (especially in infrastructure), the **crowding-in effect on private sector investment is yet to materialize**.
- **State-level capital expenditure** remains limited due to **fiscal stress and borrowing constraints**.

Policy Measures Undertaken
a. Corporate Tax Reduction (2019)

- Corporate tax rates were cut from **30% to 22%**, aiming to **boost profitability**, **free up resources**, and **encourage private investment**.

b. Government Capex Push

- Budgetary allocations for **infrastructure development** have been significantly increased in recent years.
- The idea is to **stimulate demand**, **create jobs**, and **induce private investment** in complementary sectors.

c. Monetary Easing by RBI

- The Reserve Bank of India has pursued a **low-interest rate regime** to reduce borrowing costs.
- Additional measures include **open market operations (OMOs)** and **targeted long-term repo operations (TLTROs)** to improve **liquidity flow to industries**.

Conclusion and Way Forward

- The slowdown in industrial investment in India is largely a result of **demand-side constraints**, not just supply or cost-side factors.
- **Private sector investment cannot precede a clear recovery in consumer demand**.
- A **coordinated macroeconomic strategy** is needed — combining:
    - **Demand stimulus**
    - **Public infrastructure push**
    - **Targeted sectoral incentives**
    - **Regulatory ease and policy certainty**
- Beyond **fiscal and monetary incentives**, reforms must **address structural bottlenecks** in logistics, land, credit, and regulatory environments to unlock industrial growth potential.

Source: https://www.thehindu.com/business/Economy/why-is-corporate-investment-falling/article69810527.ece#:~:text=Investment%2C%20first%20and%20foremost%2C%20depends,slowdown%20because%20demand%20is%20down