



Deepening slowdown

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Can the RBI's reduction in borrowing costs help check the demand slowdown?

- India's economy is inarguably slowing, and the latest estimates from the Central Statistics Office disconcertingly point to a deepening slowdown.
- The data clearly reflect the pain points in the real economy that have been evident for some time now.
- The latest Index of Industrial Production (IIP) figures also give little cause for optimism as manufacturing expansion in December slowed to 2.7%, from 8.7% 12 months earlier.
- RBI Governor Shaktikanta Das had in fact pointedly cited how "high-frequency and survey-based indicators for the manufacturing and services sectors" suggested a slowdown in the pace of activity, to help justify his vote last month for an interest rate cut to bolster growth.
- That most of the sectors comprising the broader services basket remain becalmed adds to the sense of disquiet.
- It remains to be seen if the RBI's reduction in borrowing costs helps check the demand slowdown in the fourth quarter, an improvement in investment activity notwithstanding.
- Gross fixed capital formation, the key metric for investment demand, expanded by a healthy 10.6%, building on the second quarter's 10.2% increase.
- Still, with military tensions with Pakistan on the boil, a long campaign for the general election ahead, uncertainties looming on the global trade and growth horizons, and little fiscal leeway to tease back momentum through increased spending, the economy appears headed for a period of uncertainty at least till the next government is in place.

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