

Economic Policy Uncertainty and Manufacturing Output: Sectoral Evidence from India

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Abstract: This paper examines the impact of policy uncertainty on manufacturing output in India using monthly sector-level data on the Index of Industrial Production for eleven manufacturing industries over the period January 2007 to September 2025. We find that higher policy uncertainty is associated with a significant decline in manufacturing output. Domestic policy uncertainty exerts a substantially larger contractionary effect than global policy uncertainty, highlighting the importance of internal policy signals for manufacturing activity. We further explore state dependence by interacting uncertainty measures with a post-2014 indicator corresponding to the Make in India period. While average manufacturing output is higher in the post-2014 period, the adverse impact of domestic policy uncertainty intensifies, indicating heightened sensitivity of manufacturing activity to policy uncertainty under an active industrial policy regime. These findings underscore the importance of policy credibility and predictability in mitigating disruptions to manufacturing output caused by economic policy uncertainty.

Keywords: Policy Uncertainty, Industrial Production, Make in India

JEL Classification Number: E23, L60

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