What happened to Private Investment in India?

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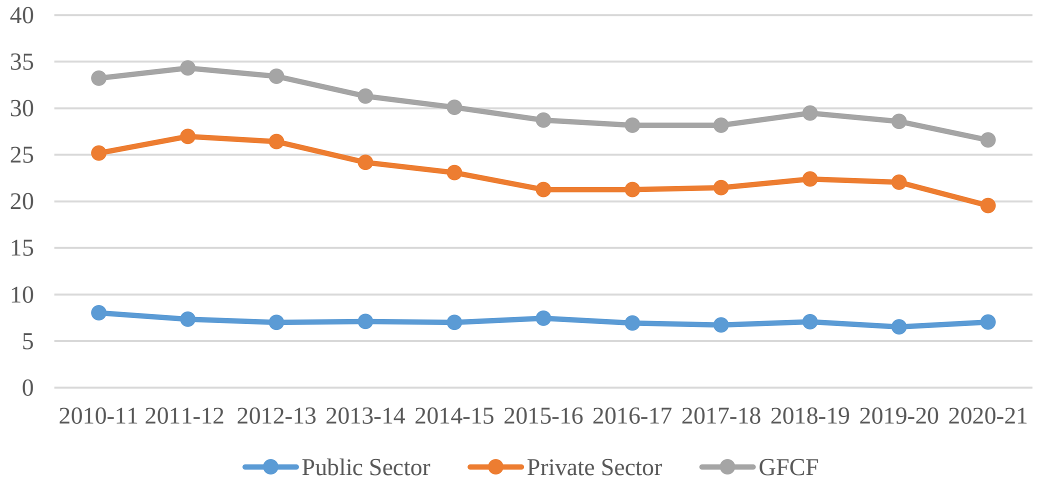
Introduction

Private investment as percentage of GDP in India has fallen from nearly 26 percent in 2011-12 to 19.5 percent in 2021 (figure 1). As per the CMIE data, private GFCF as percentage of GDP stood at 21.7 percent in 2022. Private investment, though has increased in value term, however has fallen as a share of GDP. While the share of aggregate GFCF in GDP has been following a down ward trend, owing to falling private GFCF; the public sector GFCF however remained more or less stable. Moreover, the Capex push by the Central Govt., including capex expenditure by States since 2020 has given a boost to aggregate investment, even though the aggregate fixed investment has been falling. The massive capex expenditure by the Government however has restricted the fall of aggregate investment that is critical for growth.

In terms of asset type, the fall in GFCF is mainly due to fall in investment in Dwellings, other buildings and services, and investment in machinery and equipment. Investment in Dwellings, other buildings and services also follows a down ward trend, from nearly 20 percent of GDP in 2010-11 to 16.3 percent in 2021-22. Similarly, investment in machinery and equipment recorded contraction, from 12 percent of GDP in 2010-11 to 9.4 percent in 2021-22.

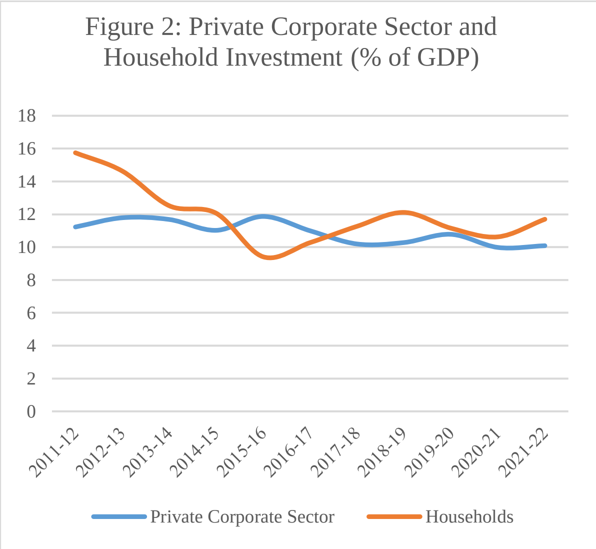
Figure 1: GFCF as % of GDP: India

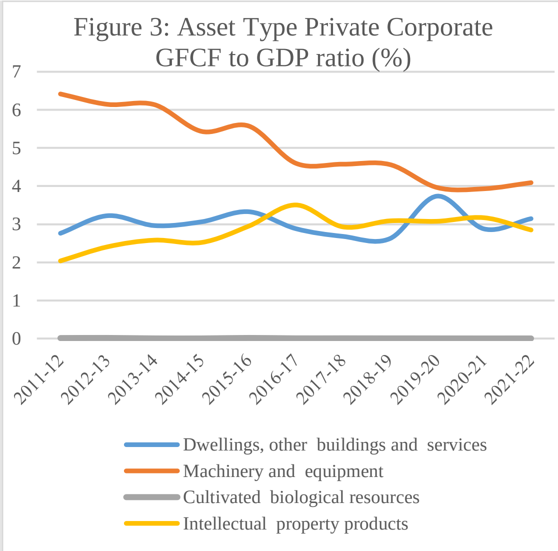


Source: Economic Survey, 2022-23.

Falling Private Corporate Investment

The falling private GFCF is due to fall in private corporate and household investment (figure 2). The private corporate GFCF as percentage of GDP has fallen from nearly 12 percent in 2015-16 to about 10 percent in 2021-22. Similarly, household investment as percentage of GDP fell from 15.7 percent in 2011-12 to 11.7 percent in 2021-22. The asset type decomposition of private corporate investment suggests that the falling private corporate investment can be attributed to mainly fall in the investment in machinery and equipment (figure 3). Private corporate investment in machinery and equipment declined significantly, from nearly 6.5 percent of GDP in 2011-12 to 4 percent in 2021-22 (figure 3).



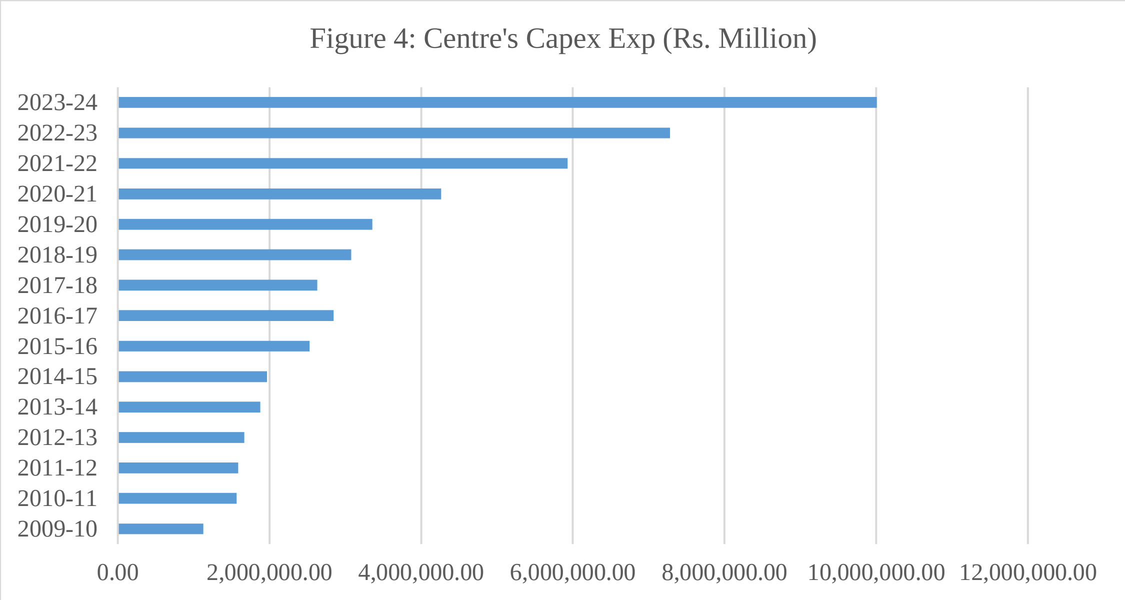


Source: CMIE Economic Outlook.

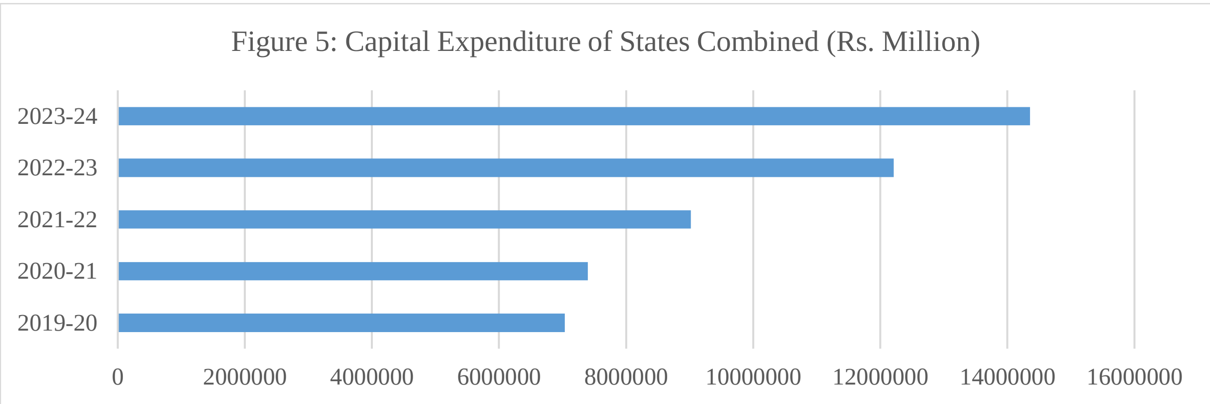
Can Government Capex Expenditure Revive Private Investment?

To address falling private investment, especially during the post Covid period, the Government has stepped up its investment plan in order to sustain growth momentum and crowd in private investment. The Central Government Capex expenditure has ballooned up to the tune of more than Rs.10lakh crore in 2023-24 (figure 4). Between 2020 and 2024, the capital expenditure by the Central Government amounts of more than Rs.27 lakh crore. The State (Provincial) Governments have also stepped up their capital expenditure following the introduction of the 'Scheme for Special Assistance to States for Capital Expenditure' (2020-21 & 2021-22) and 'Scheme for Special Assistance to States for Capital Investment' (2022-23 & 2023-24). With the introduction of special assistance (loan) scheme in the form of interest free loans for a period of 50 years, capital expenditure by states increased considerably in capital projects. The combined capital expenditure of states for the year 2023-24 stood at Rs.1435497 crores (figure

5). Between 2020-21 and 2023-24, the combined capital expenditure of the Centre and States stood at Rs.4573209 crores, out of which more than half is to be spent during the financial year 2023-24. However, despite massive public investment injection, the private investment is yet to show an upward movement.



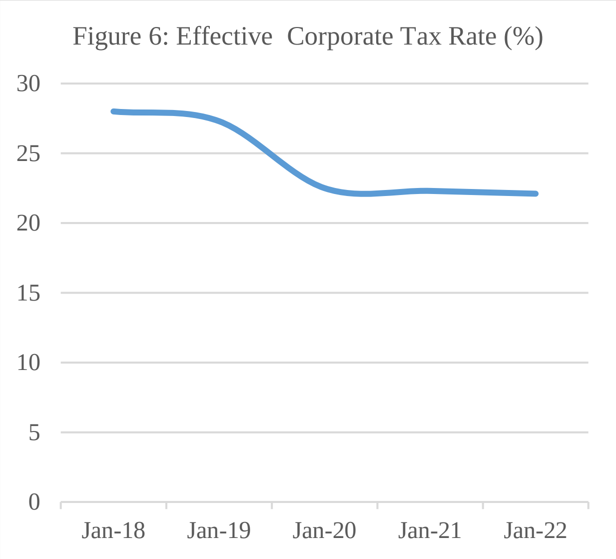
Source: RBI: Handbook of Statistics on Indian Economy.

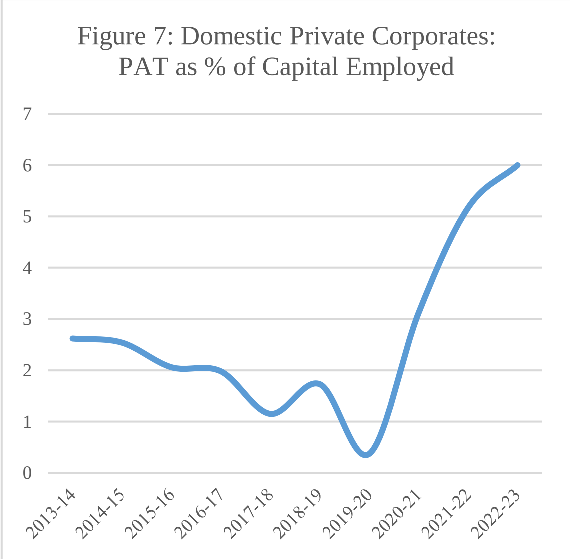


Source: CMIE Economic Outlook.

How effective is Corporate Tax Cuts and PLI Schemes?

In 2019, there was a massive cut in corporate tax, which resulted in significant reduction in the effective tax rate. The effective tax rate for corporates fell from 28 percent in 2018 to 22.5 percent in 2020, and declined further to 22.1 in 2022 (Figure 6). This reduced the tax burden of the corporates considerably. The tax cut was aimed at incentivising private investment. However, contrary to the expectation, these tax cuts did not yield expected results. It failed to boost private investment, though the Government had to forgo nearly 4 lakh crore during last four years. Following tax cut, India happens to be one of the lowest corporate tax regime country among the emerging economies. An RBI Annual Report 2019-20 suggests that the corporate tax cuts did not result in investment growth, rather the money was "*utilised in debt servicing, build-up of cash balances and other current assets*"[1]. On the other hand, the corporate tax collection declined from Rs.556876 crore in 2020-21 to Rs.457719 crore in 2021-22[2]. While tax cut did not result in more investment and job creation, corporate earnings however registered significant rise. The earning of the domestic private corporates as reflected in profit after tax as % of capital employed shoots up to 6 percent in 2022-23 (figure 7).

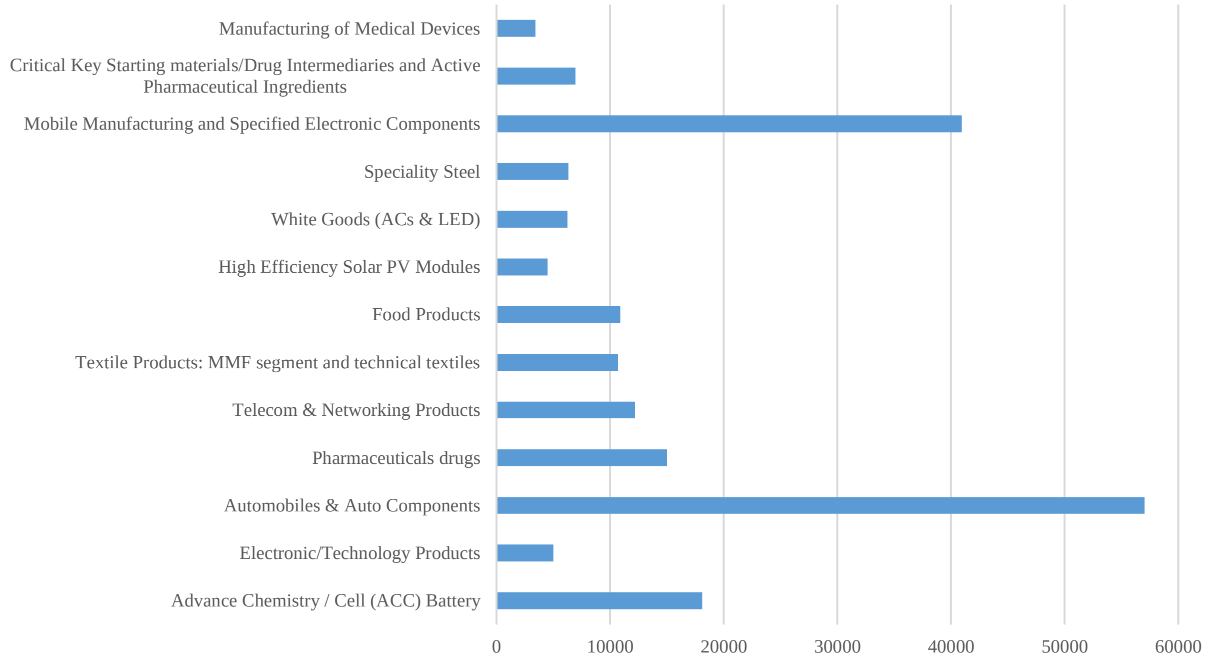




Note: tax expenses as a share of pre-tax profit
Source: CMIE & Mint Analysis[3]

[1] RBI (2020), Anural Report 2019-20 [https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0RBIAR201920DA64F97C6E7B48848E6DEA06D531BADF.PDF]
[2] See https://www.fortuneindia.com/opinion/did-corporate-tax-cut-of-2019-lead-to-tax-gdp-boom/109294
[3] See https://www.livemint.com/companies/company-results/has-india-s-corporation-tax-gamble-paid-off-yet-11679850181923.html

Figure 8: PLI: Financial Outlay (Rs. Crore)



Source: Government of India[4]

The Production Linked Incentive (PLI) scheme was launched in 2020 with an overall objective of enhancing the manufacturing capabilities and exports. The scheme was initially launched for three sectors –mobile manufacturing, electric component manufacturing, and manufacturing of medical devices. Subsequently, the scheme was extended to a total of 14 sectors with an outlay of Rs.197291 crore (US$26Billion). The scheme makes provision for financial incentives or rewards for both domestic and foreign companies for manufacturing in India. The financial incentive to be receivable by the manufacturing companies is calculated based on their production capacity or incremental turnover. The incentive receivable however varies across sectors. As per the scheme outlay, two sectors – manufacturing of mobiles & electronic components and Automobiles & Auto Components constitute nearly half of the PLI scheme outlay. The other key sectors as per the scheme included Cell Battery, Pharmaceuticals drugs, Telecom & Networking Products, Textile Products: MMF segment and technical textiles, and Food products (figure 8). However, despite these incentives, private investment in manufacturing in particular and aggregate investment in general has been sluggish. As shown in Table 1, investment in manufacturing did not pick up massively as expected. The share of manufacturing sector in GFCF actually declined from 18.49 percent in 2015-16 to 15.1 percent in 2021-22 on constant prices (2011-12 base). Between 2015-16 and 2021-22, the share of

[4] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1671912

industrial sector in GFCF also fell from 34.66 percent to 32.87 percent. However, the decline in the sectoral share of GFCF for manufacturing sector is faster than the whole industrial sector.

Table 1: Sectoral Share of GFCF (%)

Year	Agriculture	Industry	*Manufacturing*	Services
2010-11	8.93	35.83	*17.84*	55.24
2011-12	8.93	35.83	*17.84*	55.24
2012-13	7.75	35.91	*17.38*	56.34
2013-14	8.64	34.38	*16.72*	56.98
2014-15	8.05	32.36	*17.53*	59.58
2015-16	6.56	34.66	*18.49*	58.77
2016-17	6.81	33.04	*16.93*	60.14
2017-18	6.53	31.93	*16.02*	61.54
2018-19	6.38	32.70	*15.14*	60.93
2019-20	6.43	32.99	*16.48*	60.58
2020-21	8.06	34.52	*15.43*	57.41
2021-22	7.09	32.87	*15.11*	60.04

Source: Calculated from CMIE Economic Outlook.

The continuing of sluggish private investment is also reflected in the investment projects data. Completion of investment projects by private sector in value term has been on decline since 2016-17, from Rs.3.8 lakh crore to Rs.2.5 lakh crore in 2022-23 (figure 9). During the same time period, the value of completion of Government projects rose from about Rs.2.7 lakh crore to nearly Rs.4.1 lakh crore. While the number of new private investment projects announced increased by almost double between 2017 and 2023, from nearly 42 percent to 82 percent; the completion rate however declined considerably from 45 percent to 8.6 percent (figure 10). The decline was steep between 2020 and 2023, from 35 percent to 8.6 percent. On the other hand, with massive capital expenditure programme by both the Central and the State Governments, the completion rate of the Government investment projects ballooned up from 22.6 percent in 2016-17 to 64.5 percent in 2022-23.

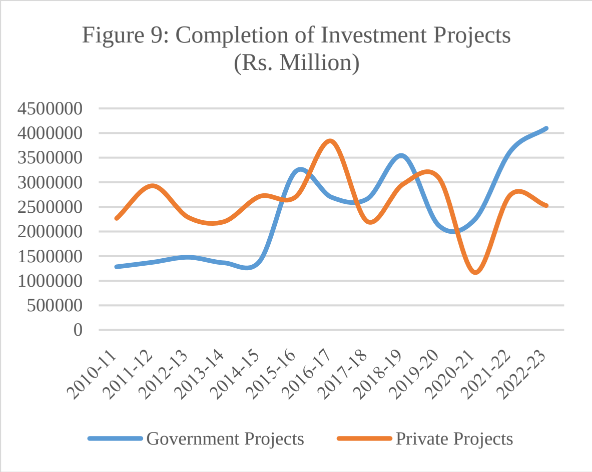


Figure 9: Completion of Investment Projects (Rs. Million)

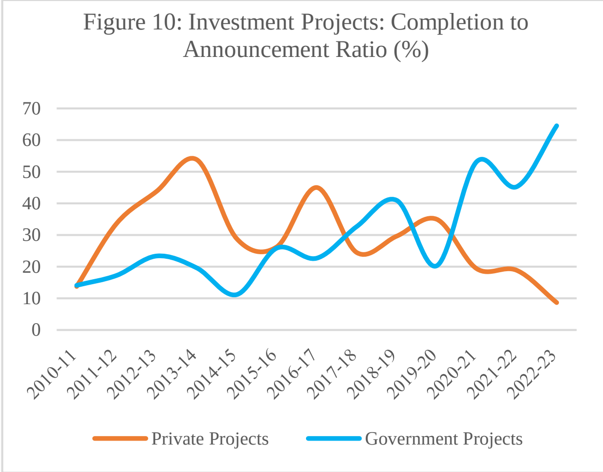


Figure 10: Investment Projects: Completion to Announcement Ratio (%)

Source: CMIE Economic Outlook.

As per CMIE's CapEx data, the private sector investment in large new investment projects is not so encouraging in terms of number of new projects announced and value, though in the first quarter the value of new projects announced stood to the tune of Rs.13.4 trillion. This is because of Air India's purchase of new air crafts worth Rs.6.6 trillion[5], which is almost half of the new projects announced in during this quarter.

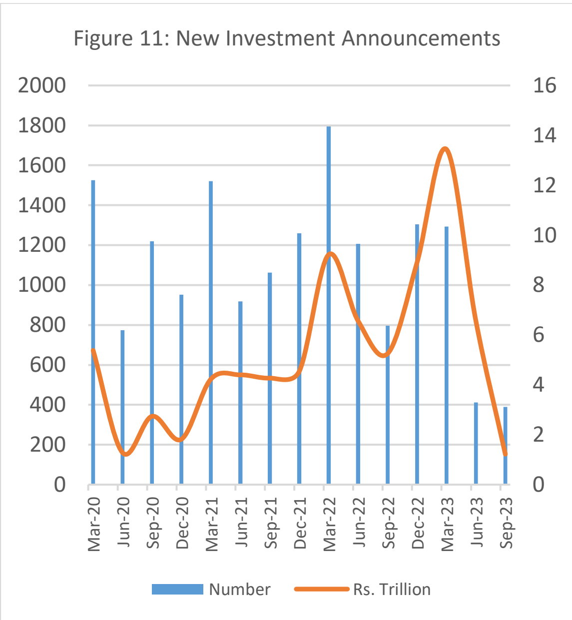


Figure 11: New Investment Announcements

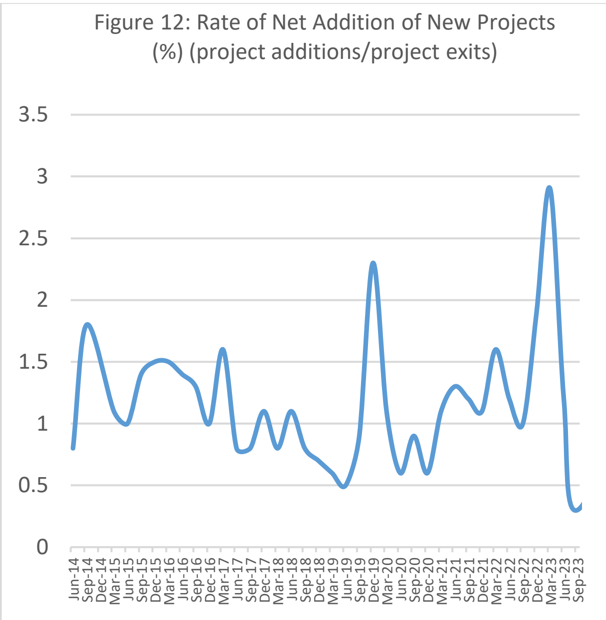


Figure 12: Rate of Net Addition of New Projects (%) (project additions/project exits)

Source: CMIE Economic Outlook.

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[5] See https://economicoutlook.cmie.com/kommon/bin/sr.php?kall=wshreport&nvdt=20231002230149180&nvtype=INSIGHTS

Does Sliding Capacity Utilisation Explains Subdued Private Investment?

The muted response of the private investment to some of the recent policies, mainly corporate tax cut and extending financial incentives through PLI schemes is largely due to weak demand. The sliding in capacity utilisation rate and falling private consumption expenditure growth reflect weak demand, that does not inspire confidence in the private sector to investment. The capacity utilisation of the core industries has been sliding since 2011-12, except for cement industries (Table 2). The capacity utilisation of crude steel fell from nearly 82 percent in 2011-12 to its lowest 72 percent in 2021-21, and recovered to nearly 78 percent in 2021-22. The refinery industries too demonstrated decline in their capacity utilisation rate, from 111.3 percent in 2011-12 to 89 percent in 2020-21 and 97 percent in 2021-22. Thermal electricity industries recorded fall in their capacity utilisation as well, from 73.5 to 59 percent. Private investment has a tendency not to invest if the exiting capacity is not utilised fully and continue to remain underutilised.

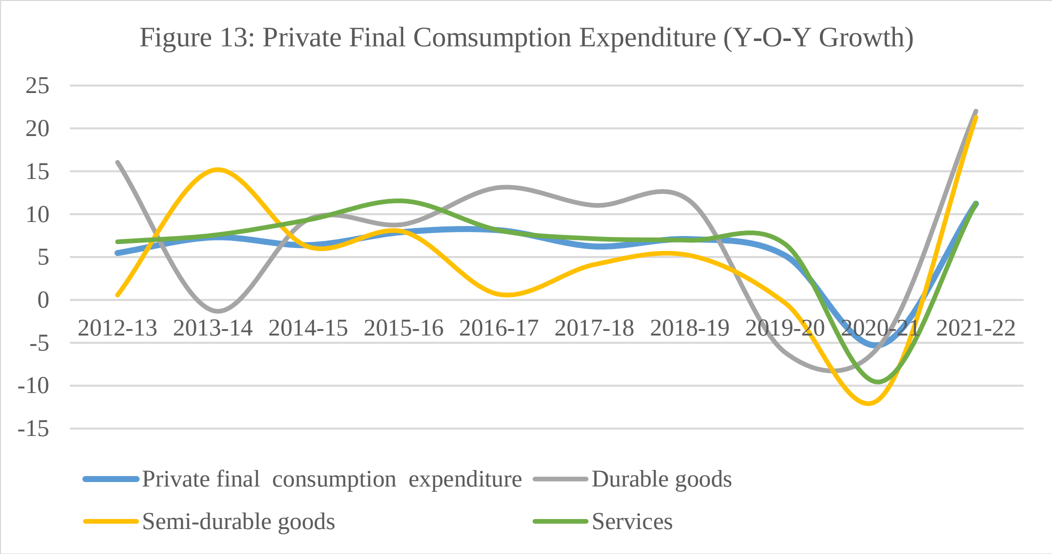
Table 2: Capacity Utilisation in Core Industries (%)

Year	Crude Steel	Cement	Refinery	Thermal Electricity (TLF)
2011-12	81.8	69.3	111.3	73.5
2012-13	80.8	74	102.7	70.1
2013-14	79.9	71.6	103.4	65.5
2014-15	81	67.7	103.8	64.3
2015-16	73.6	68.8	108.3	62.2
2016-17	76.3	65.8	106.7	59.8
2017-18	74.7	66.1	107.7	59.9
2018-19	78	73.6	103.9	60.3
2019-20	76.7	64	102	56
2020-21	71.9	64.5	88.8	54.6
2021-22	77.8	69.5	97	58.9

Source: CMIE Economic Outlook.

What Does Falling Consumption Expenditure Suggest?

The underutilisation of capacity is mainly due to weak demand. The growth of private final consumption fell from 8.1 percent in 2016-17 to -5.2 percent in 2020-21 (figure 13). The fall was mainly due to fall in consumer durables which collapsed from 16 percent in 2012-13 to -6.13 in 2019-20. There was massive decline in consumer semi-durable as well, from 15.1 percent in 2013-14 to -11.42 in 2020-21. Consumer non-durable goods and demand for services too registered decline during this time period.



Source: RBI: Handbook of Statistics on Indian Economy.

Conclusion

During the post crisis period, there has been significant decline in private investment as percentage of GDP in India. The fall is mainly due to declining private corporate and household investment. In terms of type of assets, the fall is mainly due to significant decline in investment in machinery and equipment. The post crisis growth momentum is sustained by massive rise in Government capital expenditure. However, it has not succeeded in crowing in private investment as expected. Despite several measures, including corporate tax cut and launching of PLI scheme the private sector investment continues to remain subdued. Though private corporate earnings have increased considerably during post pandemic period, due to sliding in capacity utilisation rate, private investment is not picking up. Weak demand as reflected in falling private consumption expenditure is the prime reason behind falling capacity utilisation rate. Therefore, for private investment to pick up, it is important that the demand issues are addressed adequately through appropriate policy measures.