Investments surged in June qtr, but still lower than 30% of GDP

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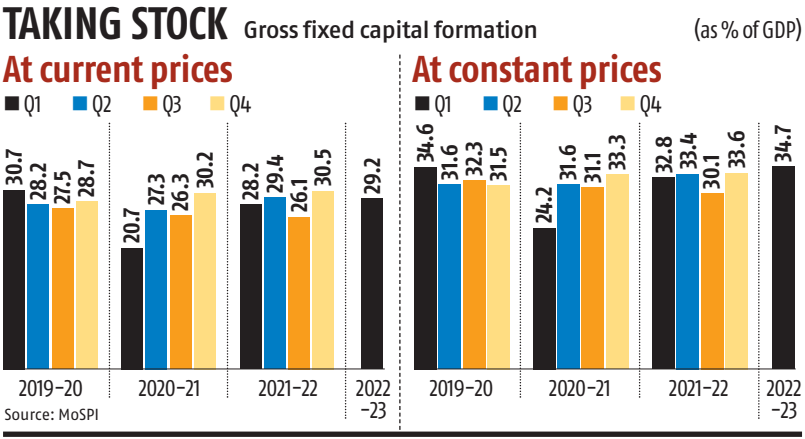

Though investments as a percentage of gross domestic product (GDP) rose year-on-year in the first quarter of 2022-23 (Q1FY23), they are still below the 30 per cent mark that is required to put the economy on a sustained growth path.

Gross fixed capital formation (GFCF) rose to 29.2 per cent in Q1 compared to 28.2 per cent a year ago. However, it was lower than 30.7 per cent in Q1 of the pre-Covid period of 2019-20. But if we adjust it for inflation, GFCF was 34.7 per cent in Q1, which was higher than the corresponding period of the previous year (32.8 per cent). It was also the highest in Q1 in 10 years, a point made on Wednesday by Ajay Seth, secretary, Department of Economic Affairs.

Bank of Baroda chief economist Madan Sabnavis said it was better to look at GFCF as a percentage of GDP at current prices since its sources of finances like bank credits, external commercial borrowings and stock markets were not looked at from a constant prices perspective.

From that perspective, GFCF numbers showed that there was an improvement in investments in the country in Q1 compared to the corresponding period of the previous year, probably aided by the government capex. However, it still has not recovered to the pre-Covid level.

Government capex rose 57 per cent to ₹1.75 trillion in the first three months of the current financial year. However, Sabnavis was not sure of private involvement in GFCF to a great extent. He did not favour comparing GFCF sequentially since investments are bumped up in the fourth quarter. Sabnavis said GFCF was still below 30 per cent of GDP. GFCF above 30 per cent is required to put the economy on a sustained economic growth path as was substantiated by the high growth period of 2005-06 to 2007-08.

Sakshi Gupta, principal economist at HDFC Bank Treasury, said for a long-term perspective, GFCF at constant prices can be looked at but high 34.7 per cent was a tad exaggerated due to low base. While there was definitely an improvement in investments as shown by government capex numbers, the growth was overstated, she said. ICRA Chief Economist Aditi Nayar said government capex would be back-ended and will pick up in the second half of the current financial year.