Economists divided on revival of private capex

PRIYANSH VERMA
New Delhi, February 7

THE MUCH-CONTESTED question of whether a private investment cycle has commenced and is becoming broad-based still has economists divided. The private sector is witnessing "record profits" and so, should feel comfortable in making investments in the economy, Sanjeev Sanyal, member, Prime Minister's Economic Advisory Council, told *FE*, while adding that there is adequate evidence that corporate investment is "gathering steam".

Former chief statistician of India Pronab Sen noted that if the overall consumption growth is "lacklustre", companies wouldn't be willing to invest, even if the government increases capital expenditure allocation in the Budget.

Sakshi Gupta, principal economist, HDFC Bank, said that in the next six months, given the slowdown in consumption, it seems difficult that private capex would kick in. "We're in a situation of uncertainty. Private capex is not yet broad-based and is concentrated only in a few sectors such as infrastructure," she said.

As per data till February 1, about 147 listed companies posted a 34% year-on-year rise in their profit after tax (PAT) in Q3FY24, much higher than the market expectation of 28%, Motilal Oswal Financial Services said.

Sanyal's comments hold significance at a time when the industry is sceptical of increasing their capital expenditure in the backdrop of tepid private consumption growth, primarily in the rural areas.

The interim Budget has pegged the Centre's budgetary capital expenditure in FY25 at a record ₹11.1 trillion, up 11% on year.

Last month, the Department of Economic Affairs had noted that enhanced provision for capex by the government is now leading to "crowding in" of private investments, as evident in several high-frequency indicators, such as the import of capital goods, bank credit to the infrastructure sector and new projects announcements by private agencies.

Though the Reserve Bank of India (RBI) data show that non-food bank credit registered a growth of 15.8% in December 2023 compared with 15.3% a year ago, new project announcements by corporates have recorded a decrease on year.

Data sourced from the Centre for Monitoring Indian Economy (CMIE) showed that announcements of investments by the private sector in the September and December quarters have dipped by 66% and 70%, respectively. In the first nine months of FY24, investments worth ₹8.56 trillion have been announced, much lower than ₹24.47 trillion announced in entire FY23.

Earlier this week, Dabur India CEO Mohit Malhotra told *FE* that the private capex cycle will pick up based on the "demand environment".

The National Statistical Office has projected private final consumption expenditure (PFCE) to grow merely 4.4% in FY24, at the slowest rate since FY03, due to insipid rural consumption. This excludes the pandemic year FY21, when PFCE had contracted 5.2% on year.

The rural wage growth has also remained sluggish in the current fiscal. As per India Ratings and Research, rural wages of agriculture and non-agriculture workers have grown merely 0.6% and 0.3% in H1FY24, while urban wages have grown by 5.6%, and that of corporate India by 7.9%. In fact, in Q2, rural wages of both agriculture and non-agriculture workers had contracted on year.

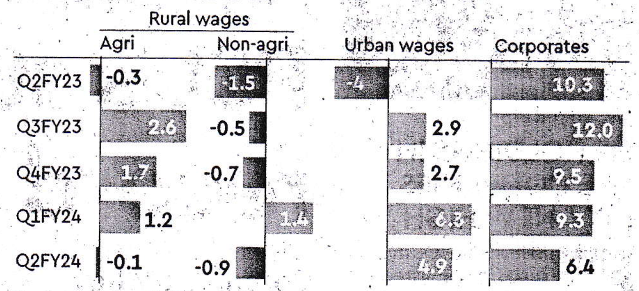
Sen said it's difficult to predict the future trajectory of rural consumption as its revival would depend a lot on what the state governments do. "State by and large seems to have withdrawn into a shell. We're not seeing too much action from them."

On Monday, the finance ministry told the Lok Sabha that the Centre has released ₹66,745 crore or 64% of the ₹1.05 trillion 50-year interest-free capex loans budgeted in the revised estimate for states for the current fiscal. In the revised estimates, the Centre cut the outlay by 19% from the budget estimate of ₹1.3 trillion for the current fiscal as some states failed to meet reforms-linked conditions. For FY25, the Centre has made an outlay of ₹1.3 trillion.

On higher outlay for the MGNREGA scheme, Sen said it may not necessarily accelerate consumption as that is dependent upon "people's behaviour and expectations of the future". The Centre revised upwards its MGNREGA allocation in FY24 to ₹86,000 crore. For FY25 too, the outlay is pegged at ₹86,000 crore.

According to Abhishek Upadhyay, senior economist, ICICI Securities Primary Dealership, private sector capex is not too dependent on rural consumption revival. "It's likely that overall urban demand, which has been strong, will spill over to rural areas over a period of time. As long as there is macroeconomic stability, and corporate balance sheets are in good health, there is space for private capex to pick up," he said.

HOW THEY STACK UP



Real wage growth (%, y-o-y)

SANJEEV SANYAL, member, PM's Economic Advisory Council

PVT SECTOR SEEING RECORD PROFITS, SO, SHOULD FEEL COMFORTABLE IN MAKING INVESTMENTS

PRONAB SEN, former chief statistician of India

IF OVERALL CONSUMPTION GROWTH IS LACKLUSTRE, COMPANIES WOULD NOT BE WILLING TO INVEST