Challenges in Expenditure: Sustainability in Public Investment Spending

-Indian experience

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Gross Capital Formation by sectors

Source: Economic Survey, 2014-15
Gross Fixed Capital Formation by sectors

Source: Central Statistical Organisation-CSO
Centre’s Fiscal Position

![Bar chart showing fiscal deficit and revenue deficit as a percentage of GDP from 2014-15 to 2017-18 projections.]
States’ Fiscal Position

<table>
<thead>
<tr>
<th>Year</th>
<th>States Fiscal Deficit</th>
<th>States Revenue Deficit</th>
<th>Public Investment (As % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>1.5</td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>2008-09</td>
<td>2.4</td>
<td></td>
<td>2.4</td>
</tr>
<tr>
<td>2009-10</td>
<td>2.6</td>
<td>-0.9</td>
<td>2.9</td>
</tr>
<tr>
<td>2010-11</td>
<td>2.4</td>
<td>0.5</td>
<td>2.4</td>
</tr>
<tr>
<td>2011-12</td>
<td>2.1</td>
<td>-0.3</td>
<td>2.1</td>
</tr>
<tr>
<td>2012-13</td>
<td>2.3</td>
<td>-0.2</td>
<td>2.1</td>
</tr>
<tr>
<td>2013-14</td>
<td>2.5</td>
<td>0.0</td>
<td>2.3</td>
</tr>
<tr>
<td>2014-15</td>
<td>2.5</td>
<td>-0.4</td>
<td>2.7</td>
</tr>
</tbody>
</table>
Public Investment

Central Public Investment (As % of GDP)  States Public Investment (As % of GDP)
Capital Expenditure-Centre

Note: Numbers for 2004-05 do not add up to 100 due to repayments to National Small Saving Fund

Share of Defense in Centre’s Capital Outlay
Capital Expenditure-States

Note: Capital expenditure are given exclusive of Public Accounts but includes repayments.
Gross financial assistance for capital formation by Centre (as % of GDP)

Note: Gross financial assistance for capital formation to non-departmental commercial undertakings includes public undertakings operated by autonomous corporations and companies. Gross financial assistance for capital formation to others includes loans and grants to local authorities for capital formation.
**Reasons for Public Investment Push**

- “The balance sheet syndrome with Indian characteristics” creates a web of difficult challenges that could hold back private investment. Private investment must remain the primary engine of long-run growth. But in the interim, to revive growth and to deepen physical connectivity, public investment, especially in the railways, will have an important role to play.

......Economic Survey, 2014-15
Reasons for Public Investment Push

- If the weakness of private investment offers one negative or indirect rationale for increased public investment, there are also more affirmative rationales.

- India’s recent PPP experience has demonstrated that given weak institutions, the private sector taking on project implementation risks involves costs (delays in land acquisition, environmental clearances, and variability of input supplies, etc.). In some sectors, the public sector may be better placed to absorb some of these risks.

- Further, there continue to remain areas of infrastructure – rural roads and railways that provide basic physical connectivity- in which private investment will be under-supplied.
Reasons for Public Investment

Push

- It seems imperative to consider the case for reviving targeted public investment as an engine of growth in the short run not to substitute for private investment but to complement it and indeed to crowd it in. The two challenges of raising public investment relate to financing and capacity.
Overview of Stalled Projects

Source: Economic Survey, 2014-15
## Reasons for stalling across ownership

<table>
<thead>
<tr>
<th>Owner</th>
<th>No. of Projects</th>
<th>Top Reasons for Stalling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private (Indian)</td>
<td>585</td>
<td>Unfavourable market conditions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of promoter interest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of non-environmental clearances</td>
</tr>
<tr>
<td>Government</td>
<td>161</td>
<td>Land acquisition problem</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of non-environmental Clearances</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of funds</td>
</tr>
</tbody>
</table>

Source: Economic Survey, 2014-15
Financing Public Investment - A Case for Railways

Investment in Railways - India and China (As % of GDP)

Source: Economic Survey, 2014-15
Financing Public Investment - A Case for Railways

Addition to Capacity (route kilometers, ‘000)

Source: Economic Survey, 2014-15
THANK YOU