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India to Launch $35bn of public investments

By James Lamont in New Delhji – January 18, 2012

India is to launch a $35bn wave of public sector investment to reverse a decline in the fast-growing economy's growth rate and return it closer to double digits, according to the prime minister's office.

The emergency stimulus measures are in response to widespread criticism of policy paralysis in New Delhi and a dramatic fall in economic growth to 7 per cent from an earlier 9 per cent.

The government of Manmohan Singh has ordered 17 state-owned companies to use money currently held in reserve to invest in a mixture of infrastructure projects and overseas energy purchases.

"They are sitting on piles of cash," said one official of the urgent need to trigger a mobilisation of currently "inactive" resources to boost confidence in the economy, and promote India's energy security.

The move is also an attempt to prompt private-sector companies – which have expressed reservations about investing in the domestic market – to follow suit. But some observers have criticised the move as a throwback to the "old formula" of the 1970s when then prime minister Indira Gandhi used public infrastructure spending to boost growth.

India's top policymakers are worried about the economy's loss of momentum, and ebbing business confidence after a dismal year characterised by political bickering, high profile corruption scandals and an exit of foreign capital.

Companies, such as the Oil and Natural Gas Corporation, Coal India and the National Mineral Development Corporation, have signed agreements to spend as much as $35bn of their cash or bank balances over the fiscal year starting in April to expand their operations.

The sum is almost twice the $19bn foreign direct investment into India in 2011.

Among the proposed measures, Coal India, which had a successful initial public offering last year has been asked to "actively consider investment" in allied sectors such as road, railways, waterways and power to improve the transport of coal. Bharat Electronics Limited, a state-owned defence company, is considering a buy-back of equity to utilise its surplus resources.

Fast-tracked investments, mainly in the coal and oil sectors, will be monitored quarterly by Mr Singh's own office to prevent backsliding.

Of the total, Rs400bn ($7bn) has been identified for investments overseas to buy assets like coal, gas and oil. ONGC has undertaken to spend Rs205bn in foreign investment in the coming fiscal year; Coal India has agreed to Rs60bn.

The move by the Singh administration also reflects India's determination to push for higher growth in spite of uncertainty surrounding the global economic recovery and renewed anxiety about the performance of eurozone economies.

Senior officials acknowledge that conservatism has gripped the public sector as officials fear repercussions of their decisions – as a result they have been sitting on cash piles and earning high interest rates – should they end in controversy or failure. The result is that they are not leveraging their resources to pursue faster growth.

At the same time, corruption scandals, notably in the fast-growing telecoms sector, have widened the distance between the bureaucracy and private sector as top officials fear the spread of "crony capitalism".

The outlook for India's economy is clouded by policy inaction, a deteriorating fiscal situation, weak balance of payments and an economic slowdown, say many economists.

"The domestic economy deserves a push that can be provided by the government," said Madan Sabnavis, chief economist at Mumbai-based Care Ratings.
"The focus will be on project expenditure this time to provide a boost to the infrastructure sector."

The decision to boost investments by the public sector was taken at a meeting earlier this month between 26 heads of utilities and the prime minister's office.

"Public sector investment can provide stimulus to the economy," said an official summary of the meeting.

"Companies which hold significant cash and bank balances [will] draw up credible investment programmes, and implement them with vigour."