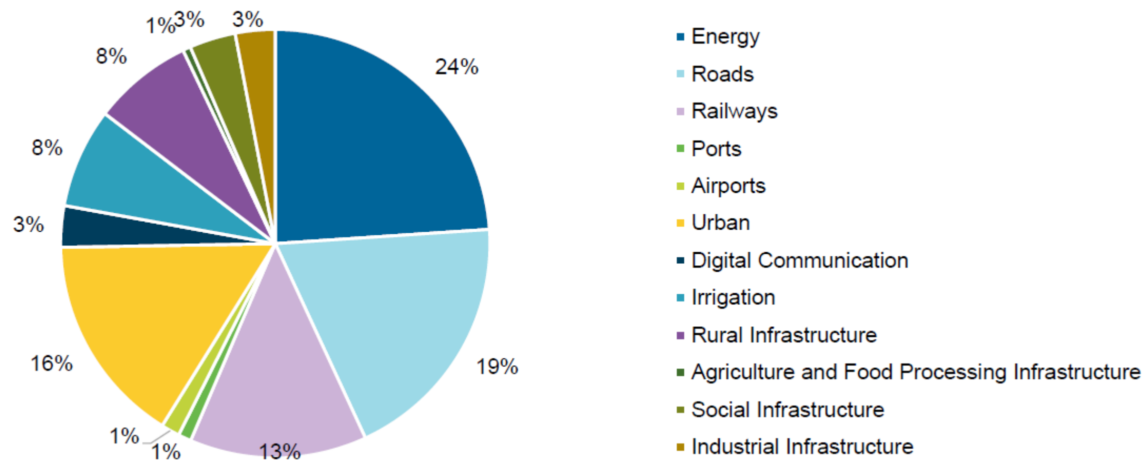
National Infrastructure Pipeline - A Pragmatic Approach to Reaching USD5trillion GDP

Union Finance Minister Ms.Nirmala Sitharaman announced Rs.102 trillion of infrastructure projects to be implemented during FY2020-25 as part of the government's efforts to achieve USD5trillion economy by 2025 through focus on the infrastructure sector. Prime Minister Modi had in his Independence Day speech spoken of investing Rs.100 trillion in infrastructure. A task force of Department of Economic Affairs, Ministry of Finance, Government of India was set up. A monumental task involving 70 stakeholder consultations and covering economic infrastructure sectors viz roads, energy (conventional, renewable and atomic), railways, sea ports, airports, urban, rural, digital; social infrastructure sectors viz healthcare, education, irrigation; general reforms, financing and project monitoring was accomplished over a short period of just 4 months. This task force submitted its report named "National Infrastructure Pipeline (NIP)."

The NIP report details Rs.102 lakh crores (USD1.44trillion) of social, economic and industrial infrastructure projects which have been identified for implementation over FY2020-25. Additional Rs.3 trillion of projects are likely to be added to this pipeline after due confirmation from states. It is estimated that India would need to spend $4.5trillion or INR319.5trillion (INR319.5 lakh crores) on infrastructure by 2030 to sustain its growth rate. The endeavor of the NIP appears to be to make this happen in an efficient manner.

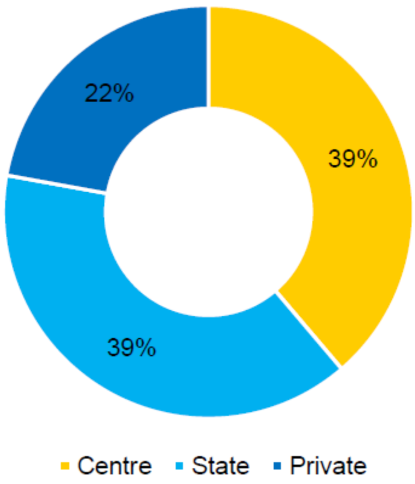
Sector-wise break-up of project capital expenditure worth Rs 102 lakh crore during FY20-25



Source: GoI

Over the last six years, Government has already invested INR51lakh crores (INR51 trillion) in infrastructure with nearly 65% of expenditure from public sector (Centre and State Government) whereas private sector accounted for balance 35%. It is expected that incremental spend over FY2020-25 will be funded by Center 39%, States 39% and Private sector 22%.

Share of Centre, states and the private sector in the NIP



Source: GoI

NIP acknowledges that investments in infrastructure have fallen short in the past. It has also listed the major constraints faced viz availability of funds for financing large projects, lengthy processes in land acquisition and payment of compensation, environmental concerns, time and cost overruns due to delays in project implementation, procedural delays and lesser traffic growth than expected increasing the riskiness of the projects resulting in stalled or languishing projects and shortfall in funds for maintenance.

NIP further states that "quality of infrastructure among the biggest hurdles facing the Indian government's ambitious program, called 'Make in India', which aims to improve the nation's manufacturing capabilities and support higher growth for generating employment. The corporate growth and investments can also be hampered if the government fails to close the infrastructure deficit, which some experts estimate costs about 4%-5% of GDP due to inefficiencies. Infrastructure development cannot only help remove some of these inefficiencies contributing immediately to economic expansion but also support stronger long-term growth. India's infrastructure bottleneck is a primary constraint to improving its global competitiveness, as measured by the World Economic Forum's Global Competitiveness Index."

With this clarity of thought and rich experience from the past, a clear bottom-up approach was adopted by the task force while preparing the NIP.

On the general reforms NIP aims to undertake some of the key policies and initiatives like – improving project implementation preparation process, enhancing execution capacity of private of private sector participants, optimal risk sharing, sanctity and enforcement of contracts, institutionalization and efficiency of dispute resolution, promoting competition.

On the financial reforms NIP aims to revitalize bond and credit market. As most of the infrastructure projects are rated below AA credit rating, a credit enhancement fund has been proposed apart from strengthening the municipal bond markets for further improving transparency and disclosures.

Fig: Benefits of NIP

Source: GoI

Going forward, India's GDP growth can be expected to move upwards gradually as the benefits of reforms like GST and the Insolvency and Bankruptcy Code start to show up coupled with the clean-up of financial sector balance sheets, further rise in availability of credit and also the lower corporate tax which was announced last year. Capacity utilization which has been weak, due to mainly transient reasons, is expected to pick up gradually hereon. We draw optimism from high frequency lead indicators like the manufacturing PMI which expanded to 52.7 in December 2019 driven mainly by consumer goods and intermediate goods. Services PMI also improved to 53.3 led by sharp increase in consumer services.

A natural question that would cross anybody's mind would be "how is the Government going to fund this huge infrastructure spend or where is the money going to come from or is this realistic?" The Government seems to have taken a more pragmatic approach towards taking economic growth higher. For a country like India, which is supply constrained and where demand is not an issue, investment led growth is the right approach to economic growth. Inducing consumption (by cutting taxes) can result in inflation and current account deficit here. Despite nearly 70% depreciation in INR over the last decade, has India become an export powerhouse? If one were to check aspirational items of consumption, especially for the youth of our country, then they are not "Made by India". If our youth don't find even few items made by our manufacturers as aspirational, then finding export markets for such goods seems a bit far-fetched. 'Make in India' initiative in a way accepts this lacuna and tries to fill it by at least making the aspirational foreign brands manufacture goods in India thereby generating employment locally and attempts to address the concomitant current account deficit challenge. Time for policy makers to ask “has the time come to peg INR to USD?” (More in a subsequent note)

Coming back to the question on financing this build-up, given 39% of Central Government share, the total capital outlay for infrastructure is estimated at INR39trillion. The central government forecasts INR15.75tn of gross budgetary support for infrastructure over FY2020-25, which is inline (marginally higher by 0.30%-0.36% towards FY2024-25) with their existing support.

Last but definitely not the least, with nearly USD15 trillion of government bonds worldwide, or 25% of the market, trading at negative yields, according to a leading global investment bank report, funding infrastructure projects in the fastest growing economy of the world with a stable Government at the helm, should it really be a challenge? All the Government needs to ensure is stable currency by, if nothing else then, maybe dollar peg.

That India appears set to achieve its goal to become a USD5trillion economy is evident but if the roadmap as envisaged by NIP holds true, then this infrastructure pipeline may well help the Indian economy achieve its target by FY2025.

By

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