

# Infrastructure Growth – Gaining Momentum



### Environment getting conducive

#### Windfall at 3G and BWA Auctions

The government's revenue from the sale of 3G and Broadband and Wireless airwaves has crossed Rs 1 lac crore. Since the government had estimated to garner about Rs 35,000 crore from both the 3G as well as the BWA auctions combined, the final collections have indeed been a shot in the arm for the government reeling under a yawning fiscal deficit.

#### Fiscal Deficit situation

The government had budgeted for a net fiscal deficit of Rs 3, 45,000 cr. in 2010-11 or 5.5 % of the GDP. This windfall has the potential to bring down the fiscal deficit to a more palatable 4.5%.

Fiscal deficit reflects the extent to which the government is borrowing to fund current expenditure. High level of government debt limits the government's ability to spend on essential programs such as infrastructure developments.

However the successful auction would ease the fiscal burden of the government and provide flexibility to RBI in formulating its monetary policy. Lesser government borrowing would reduce the pressure on interest rates and if inflation were to ease out one could see softening of interest rates in the near future. This is clearly seen in the 10 year GOI yield curve where yields have softened towards the longer end of the curve.

### Diagram of the Yield Curve



A benign interest scenario would be the perfect platform

for accelerating the economy on to a higher growth trajectory by renewing investments with full vigor in the infrastructure sector

### SEBI Ruling on retail participation

A recent ruling by SEBI calls for the public to own a 25% stake in listed companies. This would prod promoters to divest to meet the regulators requirement. In light of this one could expect to see divestment in public sector corporations gaining momentum. The proceeds from such divestment would augur well for the government to rein in the burgeoning fiscal deficit.

### Infrastructure Development – Key ingredient to fuel economic growth

Poor infrastructure is a huge constraint faced by the Indian economy, restricting its entry into the elite group of economic powers. India's economic growth is closely knit with its infrastructure development. Sectors like power, rail, ports and roads need to improve substantially to meet the rising demand of a resurging India. Improvement in infrastructure can have a strong impact on poverty alleviation by reducing supply side limitations of primary commodities through proper mobilization of resources.

### Agriculture growth – An opportunity to unlock “inclusive” growth

Agriculture has the potential to realistically grow at 4% which if attained, could go a long way in reducing supply side inflationary pressures. But productivity of Indian agriculture has been less than many other countries. Agriculture cannot only look skywards to the rain Gods to come to its rescue. Rains are a necessary but not a sufficient factor for agricultural growth. Productivity can only be increased on the back of infrastructure investment — regular power supply, irrigation and decent fertilizers. Good road infrastructure and warehousing facilities including the setting up of cold chains will go a long way in making agricultural process efficient. Good communication infrastructure would also be necessary for efficient price discovery.

Getting agriculture on to the growth trajectory would provide the most appropriate platform for “inclusive” economic growth. If agricultural infrastructure is guaranteed, the government does not have to do very much as there is enough creativity and entrepreneurship among our farmers to drive productivity.

### Infrastructure – A creator of jobs

Infrastructure projects being as large as they are,



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create large number of jobs providing employment to scores of people. This is something which even steps like large scale fiscal stimulus programs have failed to do. Hence while fiscal consolidation is important for the stability of the economy, it should not be done at the cost of potential jobs that can be created by investment in infrastructure sector. Emerging economies have the potential to be the drivers of the global economy to bring it back into good health. Therefore it would only be



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prudent on the part of developed economies to invest in the infrastructural development of emerging economies.

### **The Way Forward**

The Indian infrastructure sector is clearly at an inflection point.

Policy makers are pushing for infrastructure growth and have planned a huge outlay over the 11th & 12th Plan. Active private sector participation is being encouraged. Optimism in infrastructure investment stems from the fact that consumers have shown a propensity to pay for improved services such as the Bandra-Worli Sea Link, the Mumbai Pune Expressway, the Bangalore and Hyderabad airports and so on.

However, India's infrastructure sector is faced with fund shortage of over Rs 2 lac cr in the current 11th Plan period. In this context the largesse from the 3G and BWA auction and disinvestment potential of public sector companies, would mean that the Government's thrust on infra projects is set to regain serious momentum.

### **Indian Infrastructure Growth Fund**

While the promise of a bright future hinges on infrastructure development, there is the capital gap which needs to be plugged in order to provide impetus to the developmental plans.

Deepak Parekh, chairman of HDFC, is already hard at work at the Planning Commission, as he tries to put together a comprehensive plan for the Rs 50,000 cr. India Infrastructure Debt Fund. The fund plans to raise money from overseas as well domestic institutions such as insurance funds, pension funds and sovereign funds. These sectors have stayed away from investment in India's infrastructure so far. So an attempt is being made to bring them into the fold of Indian infrastructure investment. These institutions would not be partaking in the construction risk of the project. The banks would instead take construction risk for which they would be earning a higher interest rate. Once the projects are up and running, the banks would sell of the loans to the institutions via the fund thus providing the banks the headroom to lend to other developmental stage projects.