India’s Sluggish Corporate Investment

For Prelims: **Index of Industrial Production**, **Gross Fixed Capital Formation**, **Capex**, **Make in India**, **Startup India**, **Foreign Direct Investment**

For Mains: Factors affecting private investment in India, India’s investment climate

Source:TH

Why in News?

India’s **corporate investment remains sluggish** despite government support. The **June 2025** **Index of Industrial Production (IIP)** growth fell to a nine-month low of 1.2%, highlighting **weak industrial activity,** raising concerns about India’s growth and employment prospects.

Why is Corporate Investment Sluggish in India?

- **Weak Demand**: Investment decisions are primarily driven by expected demand. Despite higher profits post-tax reforms **(corporate tax cut from 30% to 22% in 2019)**, low consumer demand has disincentivized expansion.
  - The **Economic Survey 2024-25** noted that while corporate profits soared, **hiring and wage growth remained low**, and private sector **Gross Fixed Capital Formation (GFCF)** in machinery rose only 35% in four years. Without a revival in demand, profits alone are not an incentive for investment.
  - The **Reserve Bank of India (RBI) Monetary Policy Committee (MPC)** reduced rates and eased liquidity to spur investment, but **low demand has hurt business confidence.** But without demand, firms avoid borrowing, fearing poor returns.
  - Capacity underutilization discourages further investment as firms prefer to operate existing assets more efficiently.
- **Lower Investment to GDP Ratio:** Corporate **investment to GDP ratio** has been significantly lower in recent years. In FY2022-23, corporates invested 12% of GDP, compared to 16% during the growth surge years (2004-2008).
  - This decline reflects reduced confidence in **long-term growth prospects.** This level of investment is inadequate for achieving **India’s target of over 8% structural growth,** which would require a 35% or more investment rate.
- **Low Multiplier Effect of Government Capex:** The government has stepped up **infrastructure spending** (**Capex** of Rs 11.21 lakh crore (3.1% of GDP) earmarked in FY2025-26) to boost growth and support recovery.
  - Despite higher public spending, private investment remains sluggish due to **long project timelines, high import content, and low job creation** from machine-heavy infrastructure, limiting the consumption boost.
- **Delayed Loan Disbursement**: It can take two to three years for disbursement of loans, particularly for **large-scale infrastructure projects.**
  - For example, credit to the infrastructure sector in November 2023 grew at only 2.1%,

compared to 11.1% in November 2022.
    - According to RBI data, loans to the roads sector in November 2023 grew by only 6.4%, compared to 14% the previous year.
    - In contrast, personal loans grew 30.1% in 2023, indicating household demand but not industrial appetite.
- **Global Trade Headwinds**: Protectionist policies globally, including tariff regimes in key markets like the US, have weakened export-led investment opportunities.

Economic Theories of Investment and Profits

- In a pure **capitalist economy** (one without any State intervention or access to external markets), **investment and profit are tightly linked**, but which causes which is debated.
- According to economists like **Tugan Baranovsky**, **Luxemburg,** and **Kalecki** the relationship between profits and investment is crucial to understanding the investment cycle.
- **Tugan Baranovsky's View: Investment can drive its own demand.** As long as investment in consumption and capital goods stays proportionate, the economy can keep growing, even without strong consumer demand.
- **Luxemburg:** While **investment leads to profits,** it **doesn't guarantee that firms will invest.** Under capitalism, **decisions are made individually, not collectively.**
    - In a slowdown, adding capacity makes no sense if existing factories are underused.
    - Collective investment could revive the economy, but capitalism lacks such coordinated planning.
- **Kalecki:** Argued that **investment drives profits,** not the other way around. But firms invest **only if they expect demand**. Without **external stimulus**, the economy gets stuck in a cycle of low demand and low investment.

What are India's Measures to Boost Investment?

- **Make in India** and **Startup India** to support manufacturing and innovation
- **PM GatiShakti** for integrated infrastructure and logistics
- **National Industrial Corridor Programme (NICDP)** to develop manufacturing zones
- **Production Linked Incentive (PLI) Schemes** to boost sector-specific output
- **Ease of Doing Business (EoDB) reforms** and compliance reduction
- **National Single Window System (NSWS)** for investor facilitation
- **India Industrial Land Bank** to provide land availability information
- **Project Monitoring Group (PMG)** to remove project implementation bottlenecks
- Over 90% of **Foreign Direct Investment (FDI)** inflows are under the automatic route, reducing red tape. Most sectors are open to 100% FDI, except those of strategic importance.
- **Project Development Cells (PDCs)** have been created in all key ministries to coordinate investment proposals and support investors.

What Should be the Policy Approach to Revive Corporate Investment Sustainably?

- **Boost Aggregate Demand:** Expansion of social sector spending, rural employment schemes (like **MGNREGA**), and **targeted cash transfers can stimulate consumption.**
    - Public investment in labour-intensive sectors like housing and **MSMEs** could **create jobs and raise household income;** this will create a **ripple effect for demand across sectors.**
- **Reform Factor Markets for Better Competitiveness:** High land prices (**price-to-income ratio (PTI) in urban areas around 11,** far above the affordability benchmark of 5) raise production costs and hurt competitiveness.
    - Transparent land supply and better land-use policies can lower costs, boost affordability, and attract investment.
- **De-Risking Private Investment:** Create long-term **viability gap funding** and risk-sharing

models for **greenfield investments** in manufacturing and clean energy.
    - Expand credit guarantee schemes (like **Emergency Credit Line Guarantee Scheme (ECLGS)**) for mid-size and growth-stage firms beyond MSMEs.
- **Support Green and Digital Transition:** Create **green capex incentives** for sectors adopting sustainable energy, circular economy models, and **net-zero roadmaps.**
    - **Link PLI schemes to employment and innovation,** not just output, to create more inclusive growth.
- **Create a Mission-Based Investment Strategy:** Link industrial policy with national missions such as energy transition, **defence indigenisation,** and digital infrastructure to attract long-term investment.
    - Encourage the development and **export of niche, innovative products** (such as **Unmanned aerial vehicles**, **Electric Vehicle components,** defence-grade **semiconductors**) that meet global demand and help position India as a competitive player in emerging sectors.
- **Enhance Corporate Confidence:** Maintain inflation within the RBI's comfort zone to reduce interest rate volatility. Stick to the **fiscal glide path** with greater transparency in off-budget borrowings to build credibility.
    - Fast-track infrastructure project clearances to reduce delays and attract long-term investment.

Conclusion

Sustainable corporate investment revival cannot be engineered through tax cuts and monetary easing alone. It requires a **holistic strategy** combining **demand generation, structural reform, financial deepening**, and **institutional trust**. India's demographic advantage and geopolitical repositioning offer a unique opportunity to recalibrate its investment framework for a more **resilient and inclusive economy**.

Drishti Mains Question:

Why has private corporate investment remained sluggish in India despite significant tax reforms and public capital expenditure? Suggest policy measures to reverse this trend.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims:

Q. A decrease in tax to GDP ratio of a country indicates which of the following? (2015)

1. Slowing economic growth rate
2. Less equitable distribution of national income

Select the correct answer using the code given below:

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Ans: (a)

Mains:

Q.1 "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period” Give reasons. How far the recent changes in Industrial Policy capable of increasing the industrial growth rate? **(2017)**

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