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Investment rate to sink to multi-year low: Govt

Gross fixed capital formation (GFCF), which reflects the investment demand in the country, will probably collapse by 14.5 per cent (at constant prices) in absence of any capital formation by corporates this year owing to uncertainty surrounding the coronavirus

Niti Kiran | January 9, 2021 | Updated 00:12 IST



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The demand side disruptions due to the pandemic seem quite perceptible now as investment rate in the economy is pegged to touch multi-year low. As per CSO's first advance estimates, the ratio of gross fixed capital formation to GDP, at current prices, is expected to decline to 24.2 per cent for fiscal year 2021, the lowest since FY96. Moreover, these are likely to witness its sharpest fall of around 270 basis points over last year. Measured on constant prices, the investment-to-GDP ratio is



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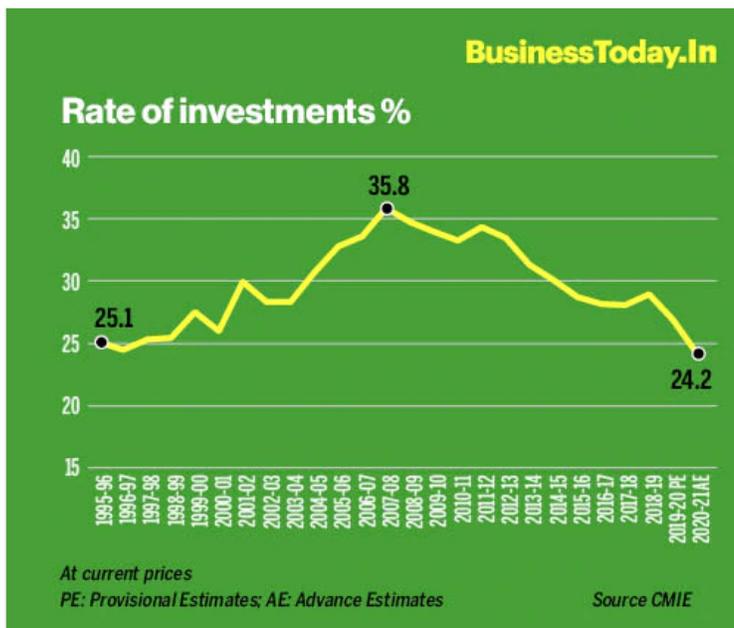
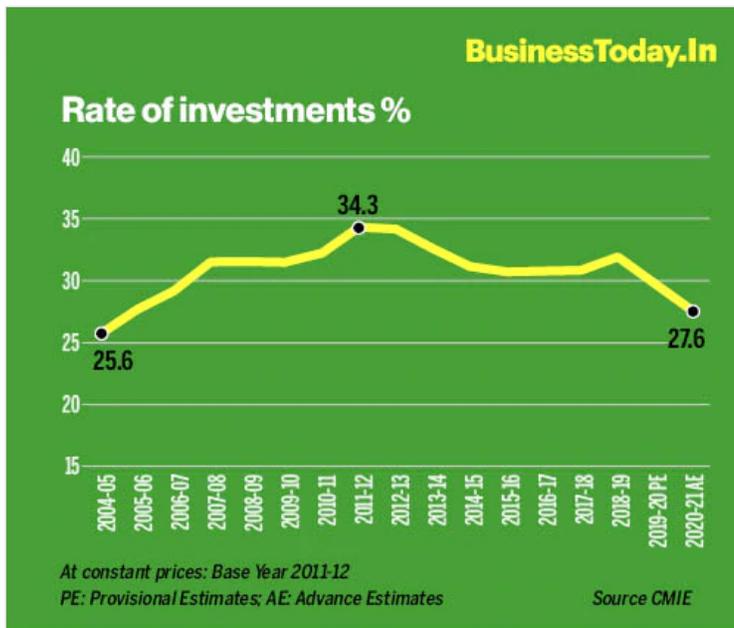
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to be slow during the year as they are awaiting more normalisation in the economy, further reduction of COVID-19 cases and roll-out of vaccine. From the funding point of view, despite ample liquidity in the banking system, bank credit off-take continues to remain tepid of around 6 per cent (year-on-year) till December 18, 2020). This has been one of the key reasons for slowdown in investment rate in the economy."



Gross fixed capital formation (GFCF), which reflects the investment demand in the country, will probably collapse by 14.5 per cent (at constant prices) in absence of any capital



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lingering uncertainty surrounding COVID-19, subdued capacity utilisation at the aggregate level, sustained risk-aversion by lenders, the expected recovery could take a longer time period," adds Hede.

next few months

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Meanwhile, capital expenditure by the government has been healthy with a growth of around 12 per cent during April-November 2020 compared with corresponding period last year. Also, foreign direct investment into the economy for the first half of the FY21 was high which is an encouraging sign, he adds further.

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