Second wave may not derail ₹5.5 tn capex plan for FY22

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Resumption of govt's infrastructure investment cycle is expected soon, says finance ministry

The finance ministry believes the government's ambitious ₹5.5 trillion capex plan for FY22—part of a strategy to try and revive growth by boosting investment in infrastructure — is unlikely to get derailed by the second wave of the covid pandemic.

A finance ministry official under condition of anonymity said since there are no expenditure curbs on government departments this year and migrant labourers are expected to return to work with a decline in covid-19 cases, the government does not see any major delay in restarting its infrastructure investment cycle.

"We don't see any major delay and any short term delay can be recovered within the year. Resumption of activity this time will happen faster than last year. Once these lockdowns are over — may be in a month or two — I think there should be a quick resumption. This time the trains have not been stopped. Trains are still running. Migrants who go home can also come back quickly."

Out of the ₹5.5 trillion capex plan, ₹ 1.4 trillion is for defence and ₹4.1 trillion for non-defence sectors. The two major heads for non-defence capex are railways and roads, accounting for ₹2.15 trillion.

Finance minister Nirmala Sitharaman in her FY22 budget speech said she has set aside more than ₹44,000 crore for projects that show good progress on capital expenditure and are in need of further funds.

“Over and above this expenditure, we would also be providing more than ₹2 trillion to states and autonomous bodies for their capital expenditure," she added.

But Madan Sabnavis, chief economist at Care Ratings said the pandemic-induced lockdown means government revenues will be affected.

“GST collections have been very good in April but will come down in May for sure. Hence there will be pressure on balancing revenue and capex. Normally capex is weak till the end of monsoon as it is not possible to go ahead with construction projects which are affected by rains. Therefore, there will be more pressure to expedite projects such as in railways to ensure that there is a boost to infra. We may expect a pick-up mostly in the third quarter, with the second quarter capex being focused more on non-construction-based capex," he added.

A study by New Delhi-based think tank National Institute of Public Finance and Policy (NIPFP) by economists Sukanya Bose and N.R. Bhanumurthy suggests government capital expenditure has a multiplier effect ranging from 2.45-4.8. Higher capex is expected to kickstart a virtuous cycle by generating higher demand for every rupee spent and drawing in private investment. “In terms of policy, running higher revenue deficit and at the same time sticking to fiscal consolidation targets only results in a decline in public capital expenditure. In such circumstances, simulation results suggest that the economy could experience negative revenue expenditure multipliers. Ring-fencing of capital expenditure target is most crucial for reviving growth in India," they concluded.

Escalating covid cases have forced states to announce localized lockdowns which are expected to delay a strong recovery in economic activity. This in turn has put the focus back on the quality of government spending.

Many economic forecasters are now projecting sub-10% growth for India in FY22. Moody’s Investors Service has slashed its FY22 economic growth forecast for India to 9.3% from 13.7%, citing the second wave of the pandemic. S&P Global Ratings expects growth at 9.8% under its moderate scenario and to 8.2% under a severe scenario based on when the current infection wave peaks.

A query sent to the finance ministry remained unanswered till the time of going to the press.