

Have investment sentiments in India revived in FY 26?

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Abstract: The Indian economy experienced growth moderation in the first half of 2024-25, after recording a strong and robust rate of 8.8% growth in the past three years. High growth rate in investments was the main driver behind this growth spark. Government's thrust on boosting capex facilitated private investment to crowd in, by reducing Covid-time policy uncertainties. However private investors' sentiments went into a downturn since 2022-23, followed by a slowdown in public investments from the beginning of 2024-25 due to uncertainties related to the upcoming election and fiscal consolidation measures of the government. Consequently economic growth declined to 6.5% in 2024-25. The present study analyses the current investment trends for public and private sectors and the overall economy, using CMIE's Capex database to explore investment growth outlook in FY 26. ***The analysis suggests strong revival of investments expected in India during 2025-26 via rise in public sector investment activities, while private investors' sentiments will still remain muted in FY 26.***

After a growth moderation in the first half of 2024-25 (FY 25), the Indian economy back to track of 7% long run growth in H2 FY 25: The India economy, after recording a sharp contraction of 5.8% in 2020-21 as a result of the unprecedented Covid-19 pandemic shock, recovered back to a robust growth path of 8.8% in the next three years. An array of fiscal stimulus measures of the Union Government and various conventional and unconventional monetary and liquidity measures led to the recovery and growth of the economy. However the pace of economic activities significantly moderated in the financial year of 2024-25 (FY 25). In spite of significant improvement in

private consumption demand growth and real trade balance, the real GDP growth rate declined from 9.2% in FY 24 to 6.5% in FY 25, presumably due to a slowdown in growth of both Govt. Final Consumption expenditure and in Gross Fixed Capital Formation (Table 1).

Comparing the pace of economic activities across the quarters of FY 25, the economy recorded a moderate 6.1% growth rate in H1 FY 25, compared to 9.5% growth rate in the same period previous year. The growth rate improved to 6.9% in H2 FY 25, yet 2% below the growth rate achieved in H2 FY 24. While public and private demand growth remained volatile across the quarters of FY 25, interestingly, investments recorded an impressive growth of 9.4 per cent in the last quarter of FY 25, after maintaining a moderate rate of 6.2% in the previous three quarters.

Capital accumulation, triggered by public investment in infrastructure development played a major role in boosting growth momentum during Covid-19 and the subsequent years: The National Infrastructure Pipeline (NIP), a set of social and economic infrastructure project, was announced in 2019-20 with an initial project cost of Rs. 120 Trillion for the next five years. NIP had a major contribution in the pandemic period recovery facilitating construction and manufacturing growth. Government budgets in the following consecutive three years in 2021-22, 2022-23 and 2023-24 continued to emphasize on capital stock development. By 2020-21, building of 11,000 Km of National Highways were completed, with announcements of new -

Highways projects, City Metro rail projects, Railway Infrastructure developments, Port, shipping and waterways operation were made in the Budget 2021-22. There was an overall increase in the budgeted capital expenditure to 2.1% from 1.5% in the pre-covid period, which further increased to 3.6% by 2023-24. To incentivise states for boosting capital development, Budget 2023-24 also provided fifty-year interest free loan to states to be spent on capital expenditure.

Consequently, public investment (constituting 23% of total investment on average), which was contracting since 2018-19 grew at a rate of 5.9% in 2021-22 (Figure 1). Private investment

also crowded in, causing total investment growth to shoot up at 17.5%¹. Public investment continued to grow and recorded a massive 28% growth in 2023-24. The private investment growth although halved in FY 23 as the impact of base effect eroded, was robust at 9.2%. However, private investment growth declined to 3.3% in FY 24, indicating a downturn in investors' sentiments.

Overall investment growth remained robust at 8.6-8.8% in FY 23 and FY 24. While robust investment growth in both public and private sectors contributed to GDP growth in FY 23, the strong growth of FY 24 was mainly driven by the public investment activities.

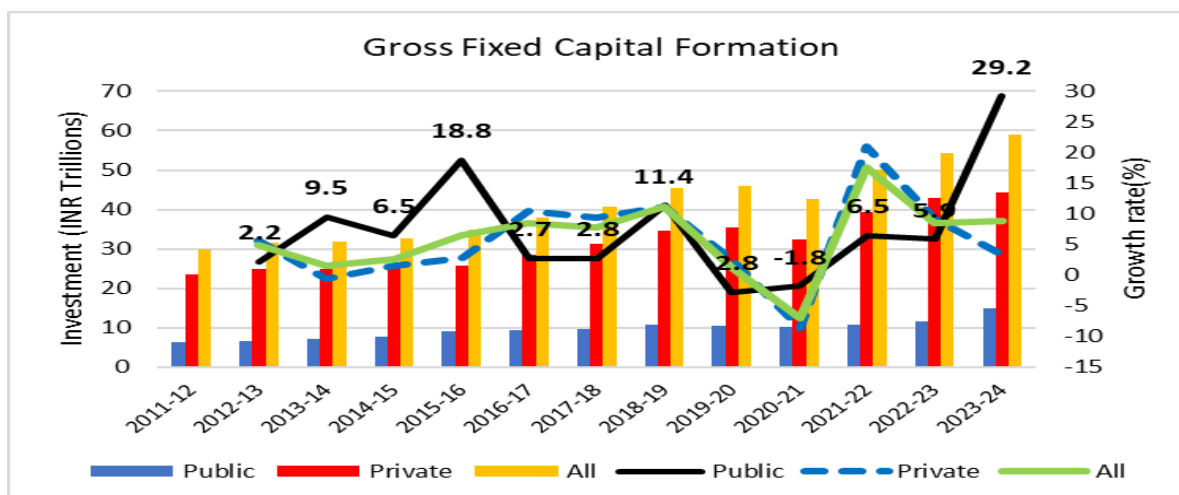
Table 1: Year-on-Year growth rates in aggregate demand and components

Demand components	2023-24 YoY (%)	2024-25 YoY (%)	2024-25 Q1 YoY (%)	2024-25 Q2 YoY (%)	2024-25 Q3 YoY (%)	2024-25 Q4 YoY (%)
Aggregate demand (GDP)	9.2	6.5	6.5	5.6	6.4	7.4
Govt. Final Consumption Exp. GFCE	8.1	2.3	-0.3	4.3	9.3	-1.8
Private Final Consumption Exp. PFCE	5.6	7.2	8.3	6.4	8.1	6.0
Gross Fixed Capital Formation GFCF	8.1	7.1	6.7	6.7	5.2	9.4
Net Exports	386.3	-71.5	-32.6	-8.9	-102.3	1084.6

Source: CSO, MOSPI, Second Advance estimates

¹ The rise in investment growth was partly due to strong base effect from the covid year.

Figure 1: Declining and negative investment growth since 2018-19 rebounded to strong growth from 2021-22 as a result of Government's capex policies



Source: MOSPI

Likely contraction in public, private and overall investments (GFCF) in 2024-25: Since official GFCF data for public and private sectors are available with a time lag of two years, next we analyse high frequency indicators of investment activities from Capex database of CMIE to assess whether the uptick in the investment cycle in Q4 FY 25 would be sustainable in FY 26 ². The cross-correlation analysis between annual growth rate of investment projects value (under different phases of implementation) for private, public and all firms, and corresponding private, public and overall GFCF growth rates (annual) in **Table 2** reveals that *growth in the value of projects completed in a year is a significant predictor of GFCF growth in that year for both*

public and private sectors, as well as at the overall level. The contemporaneous correlation of GFCF growth rate with the growth in value of completed projects for overall and the sectoral level ranges from 0.53-0.58, and are statistically significant.

For the public sector, growths in projects values under implementation leads to a lower growth in public GFCF after two years (correlation of -0.62 at 1% level of significance), suggesting that following large-scale project execution activities, public investment cycle shows a down turn after two years. Again public GFCF growth is a leading indicator of the pace of project execution in this sector.

² CMIE Capex database provides information on current investment projects in India that would create productive capacities in the future. The database captures information recorded by CMIE since 1995 on projects with capital expenditure of Rs.10 million or more. The database captures projects value at different phases of implementation, starting from announcement of

new projects, during the implementation phase to the final culmination to new capacities. See https://www.cmie.com/kommon/bin/sr.php?kall=wprdesc&page=capex_desc for more details.

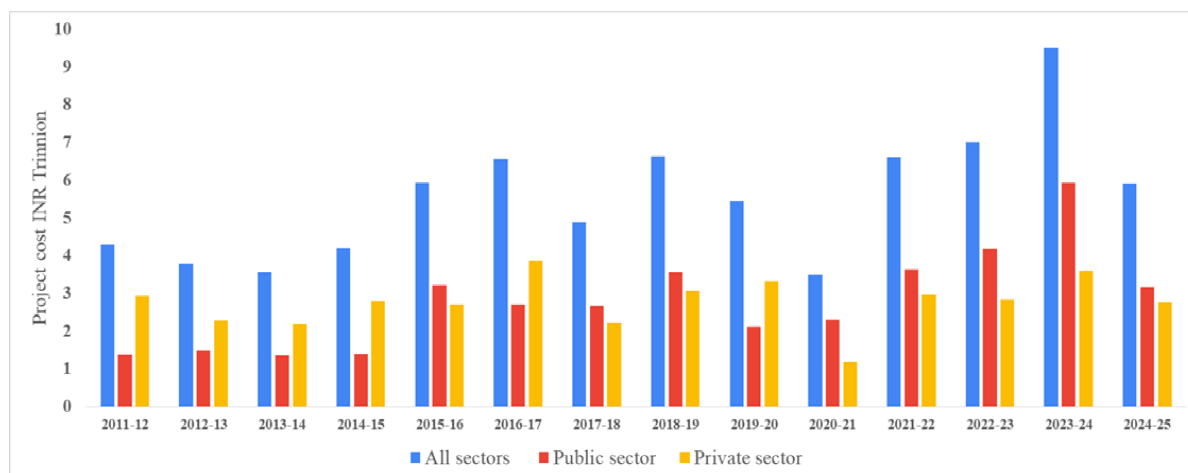
Table 2: Correlation coefficients between annual GFCF growth and Capex indicators (Nominal)

Lag	Cross Correlation of Project value (All Industries) with GFCF (Overall)			Cross correlation of project Value (All Industries, Public) with GFCF (Public)			Cross correlation of project Value (All Industries, Private) with GFCF (Private)		
	Under implementat ion	Comple ted	Announc ed	Under implementat ion	Comple ted	Announc ed	Under implementat ion	Comple ted	Announc ed
-3	-0.13	0.33	-0.06	-0.15	0.14	-0.34	-0.02	0.27	0.03
-2	-0.17	-0.35	0.12	-0.62***	-0.04	-0.03	-0.14	-0.16	0.09
-1	0.17	0.07	0.01	-0.09	-0.1	0.04	0.13	0.01	-0.01
0	0.12	0.57**	0.26	-0.05	0.53**	0.08	0.2	0.58***	0.31
1	0.19	-0.15	0.3	0.02	-0.03	0.53**	0.23	-0.34	0.31
2	0.19	0	0.11	0.51**	0.08	0.26	0.03	0.03	-0.05
3	0.4*	0.08	0.24	0.49**	0.16	0.02	0.22	0.06	0.02

Note: **and * indicates significance level respectively at 5% and 10%.

Source: CMIE Capex and Economic Outlook

Figure 2: Value of projects completed



Source: CMIE

In 2024-25, value of projects completed sharply contracted for both public and private sectors, and hence at the aggregate level (**Figure 2**). Consequently, the growth in value of projects completed in public and private sectors and at the aggregate level, record negative growth rates of -46.8%, -23.4% and -37.9% respectively in this year. Growth rate in the completed project value being a coincident indicator of the growth rate of GFCF, investments in both public and private sectors likely contracted in 2024-25.

Have public investment activities and private investors' sentiments revived in 2025-26? We assess the trend in investments in the current financial year, based on the trend in the value of projects completed at quarterly frequency. Cross correlation analysis reveals that the growth in value of projects completed, combined for public and private sectors provides significant information regarding the overall GFCF growth across the quarters within

a year³. ***Growth in the value of projects completed signals a similar movement in economy's investments growth 1-3 months in advance (with correlation coefficient of 0.59-0.61) (Table 3). Again, providing the strongest***

signal for the GFCF growth for the same quarter (with correlation coefficient of 0.66), pace of projects completed also acts a significant coincident indicator for the GFCF growth.

Table 3: Correlation coefficient between Quarterly growth in GFCF and value of all projects completed

Lag	Correlation coefficient
-3	0.59***
-2	0.60***
-1	0.61***
0	0.66***
1	0.60***
2	0.60***
3	0.62***

Note: *** indicates significance level at 1%

Source: Capex, CMIE

There was a slack in the completion of investment projects for both public and private sectors since Q3 2023-24 (Table 4). The value of projects completed in public sector contracted through the quarters of 2024-25 compared to corresponding quarters of the precious year, as a consequence of fiscal consolidation measures of the government. Consequently, projects completion contracted for the whole economy, although the pace of completion of private investment projects remained volatile in this period. It contracted only in the first and last quarter of FY 25.

Finally, the pace of projects completion *revived for the overall economy in the beginning of 2025-26, mainly due to strong revival in public investment activities in Q1 2025-26 (Figure 3)*⁴. However private investment sentiments, although revived, still remained muted. ***Growth in projects completed being a significant coincident indicator, as well as leading indicator of investment growth in the economy, overall, GFCF is expected to record strong growth in 2025-26, contributing to revival of economic growth in the current financial year.***

³ Since the official statistics on quarterly GFCF does not provide the break up for the investments in public and private sectors, we conduct the cross-correlation analysis between overall GFCF growth and the growth in value of projects completed,

combined for the public and private sectors.

⁴ Strong growth rate in value of projects completed in Q1 2025-26 also reflects favourable base effect from Q1 2024-25

Figure 3: Quarterly Value of projects completed

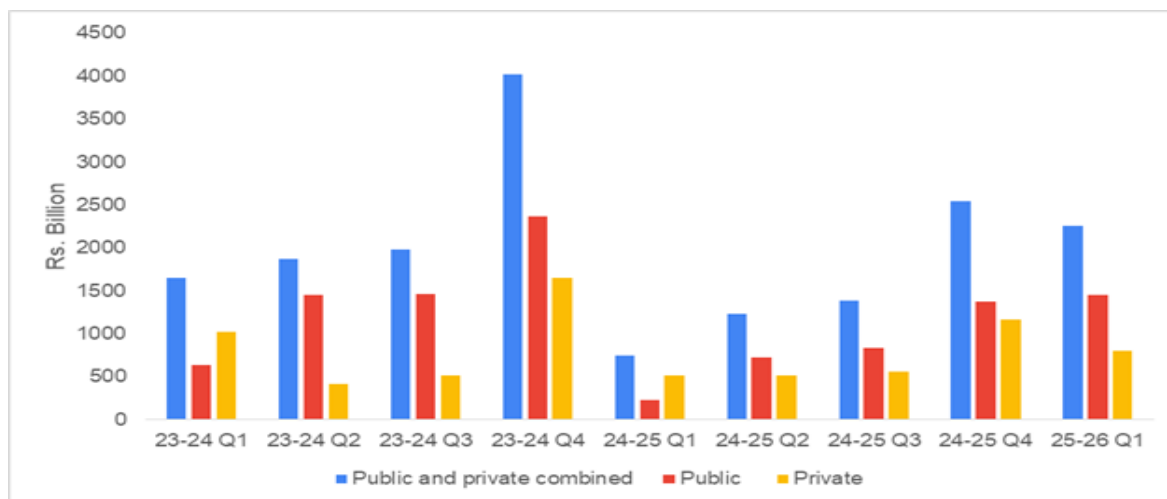


Table 4: Growth in value of projects completed

Year/ Quarter	Public and Private Combined	Public	Private
2023-24 Q1	25.92	19.41	30.35
2023-24 Q2	25.07	45.09	-15.53
2023-24 Q3	0.13	9.62	-19.66
2023-24 Q4	77.73	80.37	74.08
2024-25 Q1	-54.77	-63.58	-49.27
2024-25 Q2	-34.03	-50.32	22.71
2024-25 Q3	-29.94	-43.40	8.35
2024-25 Q4	-36.82	-42.13	-29.21
2025-26 Q1	202.56	530.11	55.88

Source: CMIE Capex