Editorial

Happy New Year 2013!

In my last editorial, I had indicated that riding on the flurry of 'big bang' reforms; the 30-scrip Sensex and the Nifty were all set to create new benchmark in the days to come. The news is that, the party will continue on the bourses this year as well on renewed expectations, ample liquidity and the government's urgency to revive the economy. However, this does not mean that all is well in the economy and everything is hunky dory. For the past few years India had drawn admirable attention of the world for posting a near double-digit growth. But now it seems that India cannot insulate herself from the deleterious effects of the global recession. As the New Year unfolded, the bad tidings hit the headline of the newspapers that the core sector growth took a further plunge, reflecting the apprehensions of the Planning Commission of a turbulent period ahead. If the course of the economy cannot be turned around, we may well end up with an annual growth rate that would be the lowest in the decade.

The fear of the dismal performance of the economy is palpable amidst the shortage of critical infrastructures to propel the economy to the desired course. As infrastructure is the lifeblood of the economy, India needs to invest in critical infrastructure: it needs electricity, roads, bridges and railways including mass rapid transport systems, ports, airports, irrigation, water supply and sanitation, and storage facilities for the vast economic sectors. Unfortunately, India's infrastructure growth has been well below its GDP growth rate for the past several years. It comes as no surprise that, the Planning Commission has taken note of the situation and accordingly stepped up investment – of 4% of the GDP in the Tenth Plan to 9% in the Eleventh Plan. During the current plan period, the projected investment is likely to go up to nearly 10% of the GDP, entailing a huge outlay of Rs. 56.3 lakh crores. Such a huge amount cannot surely come all from the government coffers – as money must also be spent for other purposes including the social sector. This calls for exploring the other avenues like increasing private investments and opening up for foreign direct investments in the infrastructure sector.

The 12th Plan contemplates at least 48% of the money to come from the private sector sources. This is indeed a huge opportunity for the private sector players of domestic and foreign origin to participate in the vast economic activities of one of the largest economies in the world. However, during the first half of the 2012-13 fiscal, infrastructure and construction companies have suffered from slowdown in project execution and poor inflow of fresh orders. With the only exception of Larsen & Toubro perhaps, none of the players in this sector have fared well.

But before the private sector is invited to join in, India needs to speed up several policy reforms to provide a level playing field for the private funds like the pension fund, insurance funds and its ilk. There is rising demand from the banking sector to allow it raise resources through long-term bonds without the trammels of statutory reserve requirements. Similar facilities are also being demanded by the insurance and pension funds so as to facilitate their participation in the infrastructure ventures. India must emulate the examples of Brazil and China, the two important members of the BRIC, who have received lot of private investments in developing their infrastructure. India must seize the opportunity or else bear colossal costs arising for lost opportunity from the lack of modern infrastructure.

While I conclude on this word of caution, I am sure that the articles contributed by the authors will provide deep insights into infrastructure financing.

Happy reading!