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Private Investment: Intentions versus Realization

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Abstract

This note examines the growing mismatch between intended private capex and actual fixed assets creation, shedding a fresh light on the longstanding weakness of private investment in India. Using the RBI's data on projects financed by bank and non-bank financial entities, which is collected annually to gauge the private investment outlook each year, we analyse the significant drop in the extent of planned capex that materialized into actual investment (as measured in the national accounts). We find successive drops in the percentages, especially after the global financial crisis, and thereafter in 2011-12, since when it has remained in the 10% region. We examine a number of potential reasons, like the shift to alternate funding sources – external and internal - not captured in the data, and inflated expectations or over-optimism of private agents, who may subsequently be shedding or scaling back planned projects. We speculate if the planned-to-realized capex ratio or survey-based business expectations are accurate lead indicators as compared to, for example, bank credit, to identify which is a better gauge of demand.

Keywords: Private Investment intentions, Gross Fixed Capital Formation, Business Expectations, Over-optimism, Corporate Profits, Actual Fixed Assets Creation

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1. Introduction

A slack in private investment has persisted for over a decade in India. Reviving it has been a central macroeconomic concern and challenge, eliciting significant policy attention. Efforts have ranged from the removal of policy uncertainties and kickstarting stalled projects to resolving bad loans with repair, recapitalization, and consolidation of bank balance sheets; structural reforms like harmonizing the indirect tax system with a national goods and services tax (GST), an insolvency and bankruptcy code for corporate resolutions, the extensive easing of business rules and procedures, and overhaul of labour legislation; and numerous regulatory changes to increase flexibility, economic formalization and digitalization. The fundamental changes have been supported by scaling up public capex to encourage enterprise and crowd-in private capital.

Despite the wide-ranging endeavours, however, aggregate nominal investment shares in relation to the gross domestic product (GDP) trend well below their past peak – 35.8% in 2007-08 – by ~5 percentage points. The challenge therefore persists. Without reclaiming its former vigour, maintaining present growth rates or rising to a higher path could be difficult, given also transformed settings abroad and the domestic fiscal pressures to consolidate public balances and lower public debt. The looming retreat of public investment, which upheld demand so far, must be balanced with stronger private investments to avoid a drag upon growth.

Against this backdrop, an improved near-term outlook of private capital expenditure has been successively projected by the Reserve Bank of India (RBI) in its regular annual exercise (Gupta et al., 2024; Bhan et al., 2023). These assessments are based upon information on project financing secured by the RBI from major banks and financial institutions. A longstanding exercise, such data is obtained by the RBI to gauge the investment outlook, serving as a forward-looking indicator of private investment activity. The exercise assesses the capex intentions of private firms from project costs sanctioned by banks, national financial institutions engaged in project funding, equity issuances (initial and follow-on public offers, rights), and foreign borrowings for capital expenditure.

According to the latest round, the envisaged total cost of projects funded only by banks and financial institutions significantly increased, from Rs.2.6 trillion a year ago to Rs. 3.9 trillion in 2023-24, the highest level since 2014-15. Including all financial sources, project costs rose 60% to Rs. 5.6 trillion in 2023-24. Finally, planned investments in 2024-25 are anticipated to increase ~55% to Rs. 2.45 trillion.

Relative to national GDP however, the intended capex from all financing sources displays a significant fall. At 0.8% of GDP in 2024-25, it is a steep drop from 1.4% last year, which itself only matched up to 2015-16 levels. It is noteworthy that between 2004-05 and 2012-13, the intended investments were in the region of 3-6% of GDP, averaging 4.5% a year. Put differently, the planned investment pipeline in this year is not even a fifth of the past magnitudes, testifying to the extent of the deficit that remains after the post-pandemic demand surge has tapered.

A longer look, to gauge the extent of loss or recoupment after the pandemic, shows that in 2022-23, the level of projected investment cost was ~15% below than what it would have been if the five-year average growth rate before the pandemic (14.8%) had sustained. That the latter period itself saw markedly lower rates of investment only accentuates the deficit. From this standpoint, the observed recovery in the intended private investments has more distance to travel to overcome the pandemic-related shortfalls. Even in terms of envisaged capex, the level in 2024-25 is 12% below than what it would have been if the pre-pandemic average rate of 3.6% had maintained. Business spending plans must enlarge much more for a meaningful uplift.

A more interesting feature was identified last year by the central bank (Bhan et al., 2023:119) highlighting a steep decline in the proportion of visualized capex maturing into measured gross investments. The study reported a progressively diminishing fraction of envisaged investments by private corporates matched gross fixed capital formation (GFCF) in the national accounts. In percentage terms, total intended capex sanctioned by different financial institutions declined from an average 40.5% of private GFCF (1971-72 to 2010-11) to only 15.5% in the subsequent decade (2011-12 to 2021-22).

The drop in the rate of conversion elicits two concerns:

- First, as these projects are financially secured from a diverse set of lenders, domestic and overseas, including equity issuances, they are likely at an advanced stage in the investment process. Presumably, the conceptualization, detailed planning, viability study, and other relevant details for screening, risk assessment, and credit appraisal by prospective lenders are completed. Therefore, the revelation that even late-stage investments are failing to mature into real assets is a startling indication of the investment malaise. Clearly, business risk, finance, and such factors are not an impediment to investing decisions; the reasons for retreat lie elsewhere.
- Second, it further confirms that wide-ranging policy efforts have neither manoeuvred a turnaround nor meaningfully impacted private agents' tendencies to delay, stay, or abandon intended or pre-committed projects. The unavoidable inference is that financial approvals may not be an assured indicator of investment activity in the economy.

This note is prompted by these observations. As the average conversion rate over a decade may mask inflections or other noteworthy trends in a period of continuous fall in the aggregate investment rate (as well as many policy adjustments and economic improvements), an annual series is constructed for 1991-92 to 2022-23 for finer assessment. We examine if the growing disconnect between intended capex and final capital creation is attributable to alternate funding sources not captured in the survey, e.g., foreign direct investments (FDI), corporate bonds, or internal funds. We also explore if visualized capex magnitudes might be inflated, i.e., over-optimistic, wherein initial investment announcements and follow-up plans are shaped by overtly positive beliefs that may be dissonant and eventually end up in disappointing real outcomes.

The note is organized as follows: Section 2 profiles and discusses the conversion of envisaged capex into actual GFCF; Section 3 considers if alternate financial sources explain the decline; Section 4 corroborates the findings by examining separate data sources and asks if over-optimistic expectations underlie the low translation of planned capex into actual fixed capital formation by private sector; Section 5 concludes.

2. How much of the intended private capex converts to actual fixed asset creation?

As a first step, we examine the association of intended and actual investments on an annual basis, using the same data that consists of the number of sanctioned projects, their total costs, and the expected completion period, phased out over several years. The institutional coverage is major banks and financial institutions (FIs), foreign borrowings (ECBs), and new equity issues (IPOs). Annual envisaged capex is the sum of planned spending on all projects irrespective of the year of sanction. The data does not indicate completion. Table 1, reproduced from the RBI Bulletin 2024 (Gupta et al., 2024:156), illustrates this better. To elaborate, the planned capex spending in 2023-24 adds up to Rs. 4 trillion and is the sanctioned cost of all projects contributing to investment flows that year.

Table 1: Phasing of Capex of Projects Funded through Banks/FIs/IPOs/ECBs/FCCBs/RDBs

Year of sanction ↓	No of Companies or Banks/FIs/ ECBs/FCCBs / RDBs /IPOs	Project Cost (₹ crore)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	1	2	3	4	5	6	7	8
upto 2013-14			2,49,961	1,21,526	39,138	14421	4722	1472
2014-15	828	1,45,658	14920	71,569	43,128	13,018	1821	164
2015-16	700	1,35,177	3787	7445	67,159	38,692	11,500	5151
2016-17	916	2,02,562	1352	3952	25402	86,610	47,448	22,998
2017-18	955	2,07,673		620	15184	12445	81,242	54,817
2018-19	963	2,32,288			569	6862	11000	1,06,700
2019-20	827	2,71,374					4049	14526
2020-21	594	1,16,785						2491
2021-22	791	1,96,445						
2022-23	982	3,51,276						
2023-24	1,505	5,65,684						
Grand Total[a]			**2,70,020**	**2,05,112**	**1,90,580**	**1,72,048**	**1,61,782**	**2,08,319**
Percentage change				**-24.0**	**-7.1**	**-9.7**	**-6.0**	**28.8**

Source: RBI Bulletin: Private Corporate Investment: Growth in 2023-24 and Outlook for 2024-25, Pg. No. 156 (Gupta et al., (2024))

Table 1: Phasing of Capex of Projects Funded through Banks/FIs/IPOs/ECBs/FCCBs/RDBs *(Contd.)*

Year of sanction ↓	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Beyond 2024-25
	9	10	11	12	13	14	15
upto 2013-14							
2014-15	1038						
2015-16	1223	220					
2016-17	8711	4003	2086				
2017-18	30,038	10736	2349	242			
2018-19	64,895	22,497	15,157	4,507	101		
2019-20	1,19,394	75,715	39,833	15079	2584	194	
2020-21	3709	51,017	40,161	13,014	5,561	832	
2021-22	3610	10566	89,694	62,034	24,470	4030	2,042
2022-23	1127	2150	16663	1,23,096	1,26,505	62,626	19,108
2023-24		2,235	6,783	39,545	2,43,965	1,77,531	95,624
Grand Total[a]	**2,33,745**	**1,79,139**	**2,12,726**	**2,57,518**	**4,03,186**	**2,45,212**	**1,16,774**
Percentage change	**12.2**	**-23.4**	**18.7**	**21.1**	**56.6**	**#**	

Source: RBI Bulletin: Private Corporate Investment: Growth in 2023-24 and Outlook for 2024-25, Pg. No. 156 (Gupta et al., (2024))

For computing the conversion rate of the planned capital expenditure into actual capital expenditure, we use the historical data on projects sanctioned by banks/FIs/ECBs/IPOs from successive issues of the RBI Bulletin (Table 1 above). The data on private GFCF is extracted from the National Accounts (2011-12 series). The conversion ratio is simply the envisaged capex as a fraction of private GFCF (nominal values). Intuitively, this captures the extent to which intended capex by private agents matches actual investment.

Using the same methodology (Bhan et al., 2023:119), our estimates for 2011-12 to 2021-22 match the decline in planned projects converting to tangible fixed assets creation to an average of 15.4%. This average falls further to 14.8% when extended to 2022-23. We next extend the ratios back to 1991-92 to construct a three-decade annual series until 2022-23. This allows the identification of any breaks and associations if any with macroeconomic shocks, and other unique developments that potentially bear upon the investment environment, and business cycles (details in **Appendix 1**). Figure 1 plots the calculated annual series.

Fig 1: Envisaged Capex: Ratio to private GFCF

Source: RBI Bulletin, National Accounts Statistics, MoSPI, with authors' calculations

The average realization rates are seen to be weaker each decade, starting from 47.4% in the nineties to 33.4% in the 2000s. The slippage to sub-20% levels occurred only from 2014-15, no matter contemporaneous or lagged. There is a clear cyclical pattern, with two peaks in 1994-95 and 2008-09, identified with real GDP growth peaks. The declines are also matched by subsequent financial crises, e.g., 1996-97 (*East Asia*) and 2008-09 (*Global*) respectively. The translation into actual capex continued weakening after 2011-12 to 2016-17, stabilizing thereafter in the 10% region.

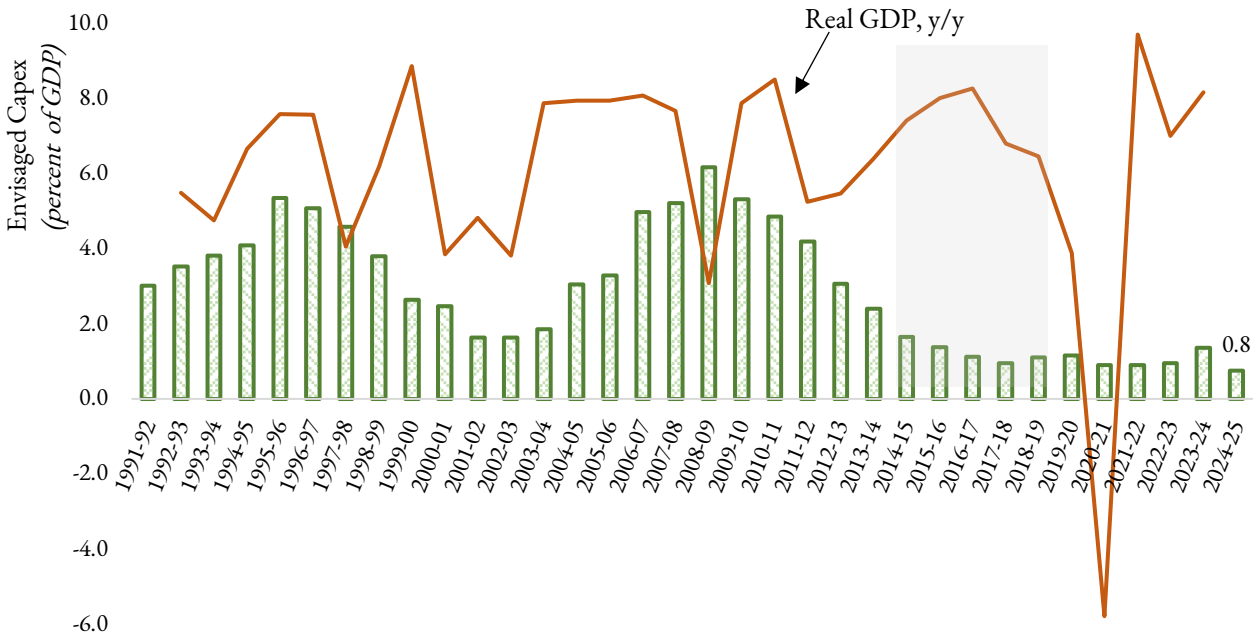
A noteworthy feature is the decoupling or dissociation from the growth cycle after 2015-16. For example, the acceleration in real GDP from 5.5% (2012-13) to a high of 8.3% in 2016-17 is not accompanied by any improvement or strengthening of the conversion rate, which remains sticky at minimal levels, notwithstanding minor lift. In the last seven years, only 9.6% of the sanctioned projects associate with actual fixed capital formation observed in the national accounts. From the standpoint of forecasting investment outlook, this low maturity rate may reflect the weakening predictive ability of the indicator.

The pattern is similar when anticipated private capex is scaled to GDP (Figure 2):

- The peaks are identical, synchronized with the business cycle;
- falling steeply and continuously after 2011-12, settling in the 1% region since 2017-18, compared to a high of 6.2% in 2008-09; and
- altogether dissociated from the growth cycle.

Even with robust GDP growth projections for 2024-25 from both the government and the RBI, the planned capital expenditure has significantly decreased, reaching one of its lowest levels in recent decades. This suggests a concerning decline in investment relative to the economy's growth potential.

Fig 2: Envisaged Capex & Growth Cycles



Source: RBI Bulletin, National Accounts Statistics, MoSPI, with authors' calculations

3. Is it because of the shift to alternative funding sources?

It is possible that a widening funding pool, including internal resources, has diluted the correspondence in intended and realized capex as speculated (Gupta et al., 2024:150). For example, market-based funds have emerged with financial market development over the years, whereas the above financing set covers banks, other financial institutions, equity issues, and external borrowings.

To shine a light on this aspect, Table 2 profiles the overall flow of financial resources to the commercial sector. This data starts from 2007-08, and although it does not strictly correspond to actual projects financed by the surveyed financial entities above, it does reveal the trends in financing shares of banks, nonbanks, and other domestic and foreign segments. The evolution indirectly illuminates shifts, if any, to alternate financing patterns (to which the above weakening association could be attributed).

The dominant role of bank financing in commerce is evident throughout the period, averaging ~47% share, lowering at specific shocks, e.g., demonetization (2016-17) that severely constricted credit availability and lending operations. Foreign direct investment (FDI) flows and corporate bond financing averaged 15% and 9% respectively.

After 2015-16, bank credit shares marginally reduced, including during the pandemic, while corresponding shares of corporate bonds and FDI – not captured in the RBI's project-financing data – increased. Such shifts are influenced by interest rate and exchange rate movements, and are visibly temporary as firms exploit cheaper rates. Altogether, these magnitudes are not large enough to explain the extent of decline in committed capex relative to actual GFCF.

Table 2: Bank and Non-Bank resource flows *(percent share)*

	Bank Credit	FDI	Corporate Bonds
2007-08	42.5	13.7	6.7
2008-09	44.1	20.4	8.3
2009-10	44.6	15.1	12.1
2010-11	52.9	10.3	5.2
2011-12	54.2	12.9	4.6
2012-13	44.1	10.2	7.4
2013-14	53.1	13.5	9.5
2014-15	40.1	15.8	9.4
2015-16	46.2	19.4	7.5
2016-17	28.1	20.5	14.5
2017-18	37.1	11.8	6.8
2018-19	48.4	12.8	6.6
2019-20	38.2	25.8	15.5
2020-21	28.1	24.5	17.5
2021-22	45.9	18.3	7.3
2022-23	61.5	11.3	5.5
2023-24	78.5	6.3	6.4
Average	46.3	15.4	8.9

Source: Flow of resources to commercial sector in India, RBI, with authors' calculations (All figures are percentage to total flows)

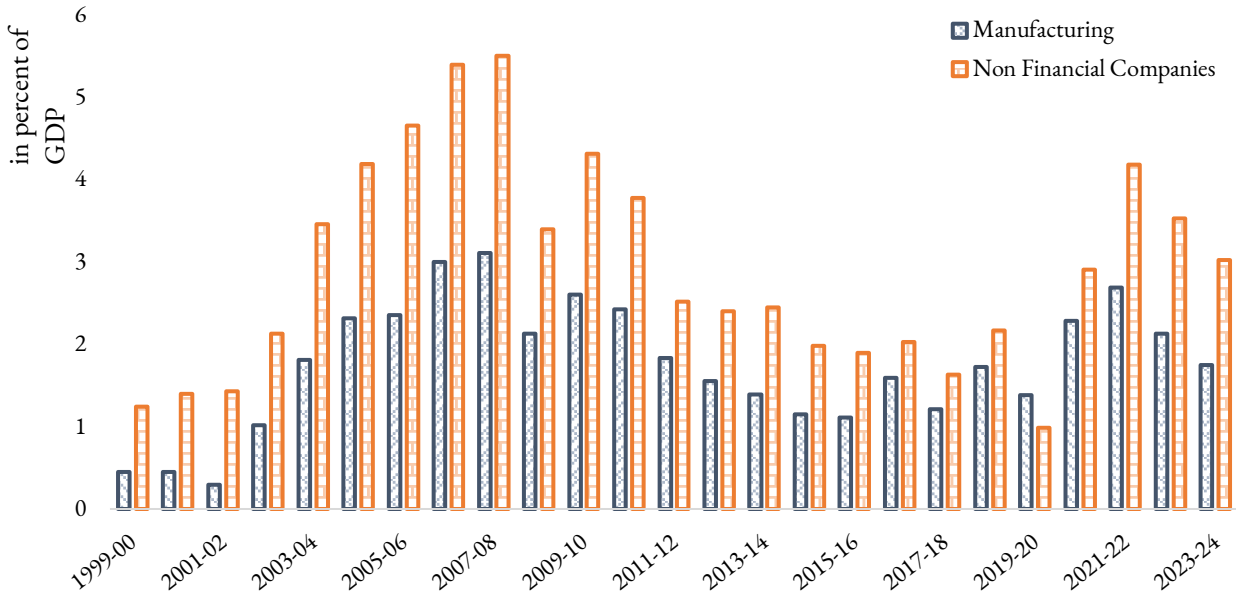
Could internal funds be increasingly deployed for capex? There are indications that the tendency to not pursue intended capital expenditures may be due to lower expected returns or profitability, a key determinant of investment demand. For example, companies have increasingly bought back shares – these rose very sharply from 16 issues in 2015-16 to 49 in 2016-17, averaging around 51 since then.[1]

Dividend payouts have also been higher, suggesting firms are not choosing to invest afresh. The average equity dividend rate of ~40,000 non-financial companies, as per the Centre for Monitoring Indian Economy (CMIE) (*Prowess* database, CMIE) increased to 10% in 2018-19 from 7% the preceding year, reaching ~23% in 2023-24. In the six years up to 2017-18, the dividend rate averaged ~8.4%; it stands at 13.4% in the most recent six-year period. This possibly indicates that companies do

not foresee significant improvement in demand prospects to justify expansions, and hence prefer prioritizing immediate shareholder returns.

This turns the spotlight on corporate profitability, a key investment determinant. Figure 3 plots the post-tax profit-GDP ratio of these non-financial companies, using the same database. Corporate profitability declined steeply after the 2008 crisis, from 5.5% to 1.0% of GDP by 2019-20. The restoration after the 2019-20 collapse in corporate profits is enabled by sharp cuts in corporate tax rates and lower interest rates, even as real GDP growth dropped to 3.9% that year. Similarly, manufacturing firms, comprising of ~17000 companies, display a comparable trend - the profit-GDP ratio peaked in 2007-08 at 3.1%, and fell to 1.4% in 2019-2020.

Fig 3: Profit after tax: Non Financial and Manufacturing companies



Source: CMIE Prowess, National Accounts Statistics, MoSPI, with authors' calculations

Both groups recovered profitability after 2020 with a combination of lower taxes and input costs, and price-led profit growth in the post-pandemic period. Profitability moderated in 2022-23 and continued to decline in 2023-24. This digression into broader aspects surrounding internal resource financing, viz., generation of surpluses and firm behaviour observed from resource allocation choices, points to the small role of earnings in relation to investment in the last decade, and indeed from 2007-08 onward.

4. Have expectations been over-optimistic?

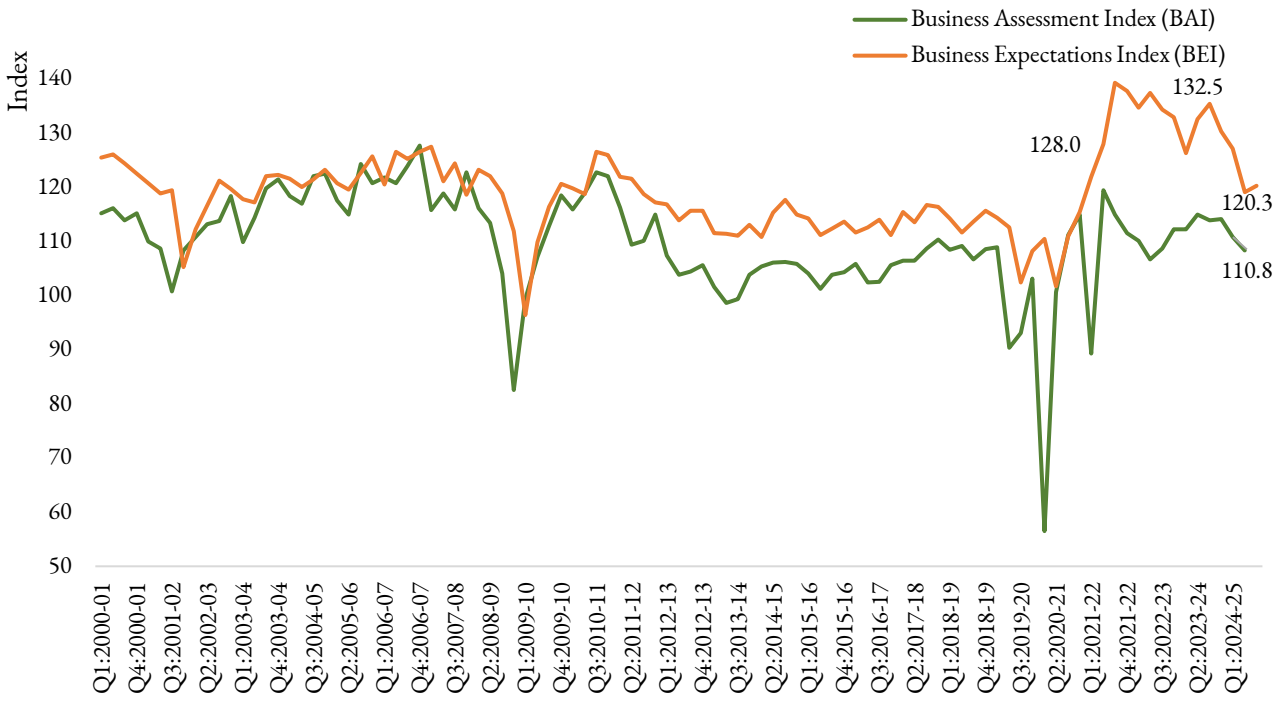
There is some indication that an expectation-driven enlarging numerator may be underlying the low translation of investment plans into real assets. Especially after 2008, from which point growth

upswings are not matched by rising investment rates. The RBI's *Industrial Outlook Survey* (RBI - Quarterly IOS, 2024) compiles two indices – the Business Expectations Index (BEI) and Business Assessment Index (BAI) – from quarterly surveys of manufacturing firms, offering insights on these dimensions. While the BEI is a forward-looking indicator, reflecting business sentiments and expectations for the forthcoming quarters, the BAI assesses current business conditions through specific parameters.[2]

Figure 4 plots both the indices. These show a successively wider gap with each other, viz., between current conditions assessments and future expectations, after 2012-13. Curiously, expectations and the assessment of economic conditions of the surveyed firms were quite closely aligned in the decade before that.

A similar disparity is observed in the quarters leading to 2002-03, when growth was weak, including abroad following the dot-com bust. It can only be speculated if this reveals an enduring optimism about future growth prospects, overriding downturns or adverse shocks that might be perceived temporary. At the initial emergence from the pandemic (first quarter of 2021-22), the expectations-assessment wedge enlarged to as much as thirty points, as business optimism surged from the pandemic lows. The disparity has narrowed since but remains significantly larger compared to the past.

Fig 4: Industrial Outlook Survey



Source: RBI

Given this initial observation, we probe the possibility of firms imagining bigger and bigger projects in anticipation of sustained high growth and further strengthening ahead, improving economic prospects from structural reforms, better infrastructure, etc. In summary, the likelihood of

optimistic beliefs and expectations bordering on excessive exuberance, i.e., over-optimism misaligned from economic realities cannot be ruled out.

It is well known for example, that public declarations of fresh spending play an important role in the formation of an economic narrative, which often reflects resurgence of enterprise or animal spirits identified by Keynes (1936). The role of narratives and their influence upon economic fluctuations is also elaborated by Shiller (2017), who highlights how human brains are inclined towards stories to justify actions like spending and investing.

Mutual interactions between big pronouncements, positive feelings, and confidence can also blur distinctions between feelings or claims and reality, expected and actual demand, thus blowing up funding needs that are linked to investment plans. If subsequent economic outcomes end in disappointment, belying the prospects hoped for, firms could scale down or not pursue projects any further.

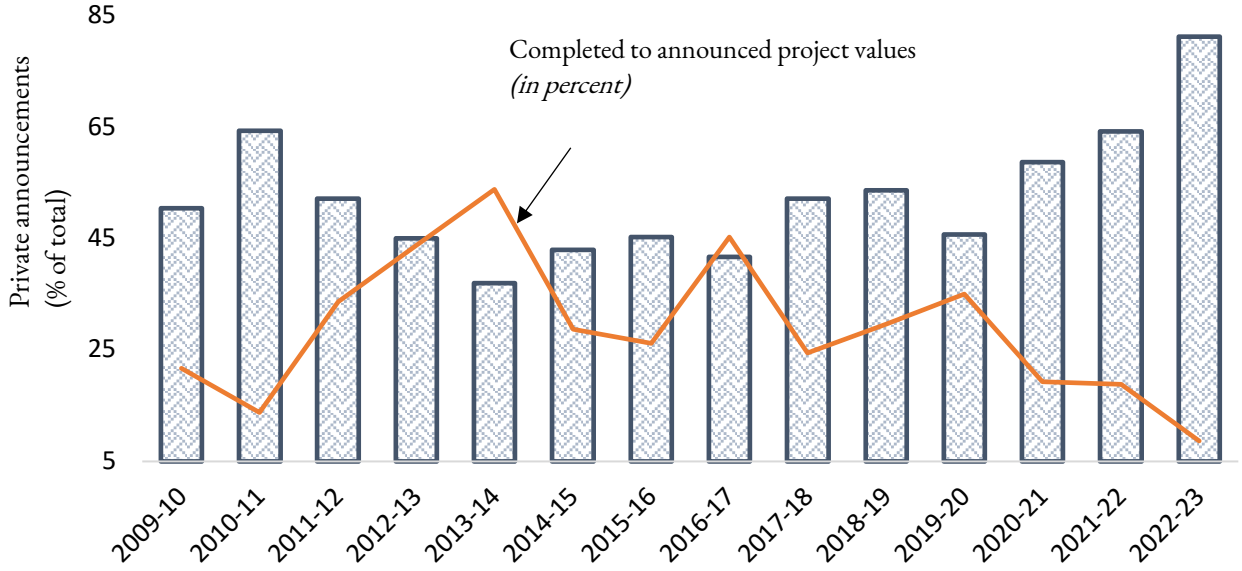
Two separate data sources are used for examining this. The first is from the private agency *CMIE*'s new project announcements by private corporations, that are drawn from news reports, company statements, and regulatory filings since 2009 (CapEx, 2024). Although this is not strictly comparable to the data measuring intended-actual investment gaps used in Section 2, it serves as a useful counterfactual for validation and additional insights. The other is the RBI's *Industrial Outlook Survey* (RBI - Quarterly IOS), which allows us to analyse the drivers of business confidence and sentiments.

Figure 5 plots private project announcement values as a fraction of the total, including government ones. The former's share ranged from 50-60% from 2009-10 till 2011-12, fell thereafter, and did not recover to past levels until well into 2017-18. During and after the pandemic, 2021-23, private project announcement shares have leapt to 81.3% in 2022-23. Interestingly, the rebound in private announcement shares is far sharper in the current round. Possibly, this resurgence reflects greater business optimism, driven by demand improvements or prospects thereof.

Less encouraging is the path of completion, where the proportion of finished projects lag the announced project values with a systematic decline from its highest in 2014. This closely mimics the pattern of sanctioned capex-to-actual GFCF ratio, a longer series. Moreover, the trend is not dissimilar for the post-2008 period, in which barely 10% of planned capex has ever matched actual values of fixed asset.

What drives business expectations? To find out the underlying forces of changes in business expectations, the proportionate contribution of each of the nine sub-components of the BEI is shown in Figure 6. Over the entire sample period (2000-01: Q1 to 2024-25: Q3), the most prominent driver of the volatility in BEI is the changes in expectations of employment, or hiring, with a cumulative contribution of 1.8 points. Following this, order books (which include new, backlog, and pending orders and are key for evaluating demand conditions) and production—had cumulative contributions of -1.5 and -1.4 points, respectively.

Fig 5: Investment Projects: Announcements vs Completion



Source: CMIE CaPex, with authors' calculations

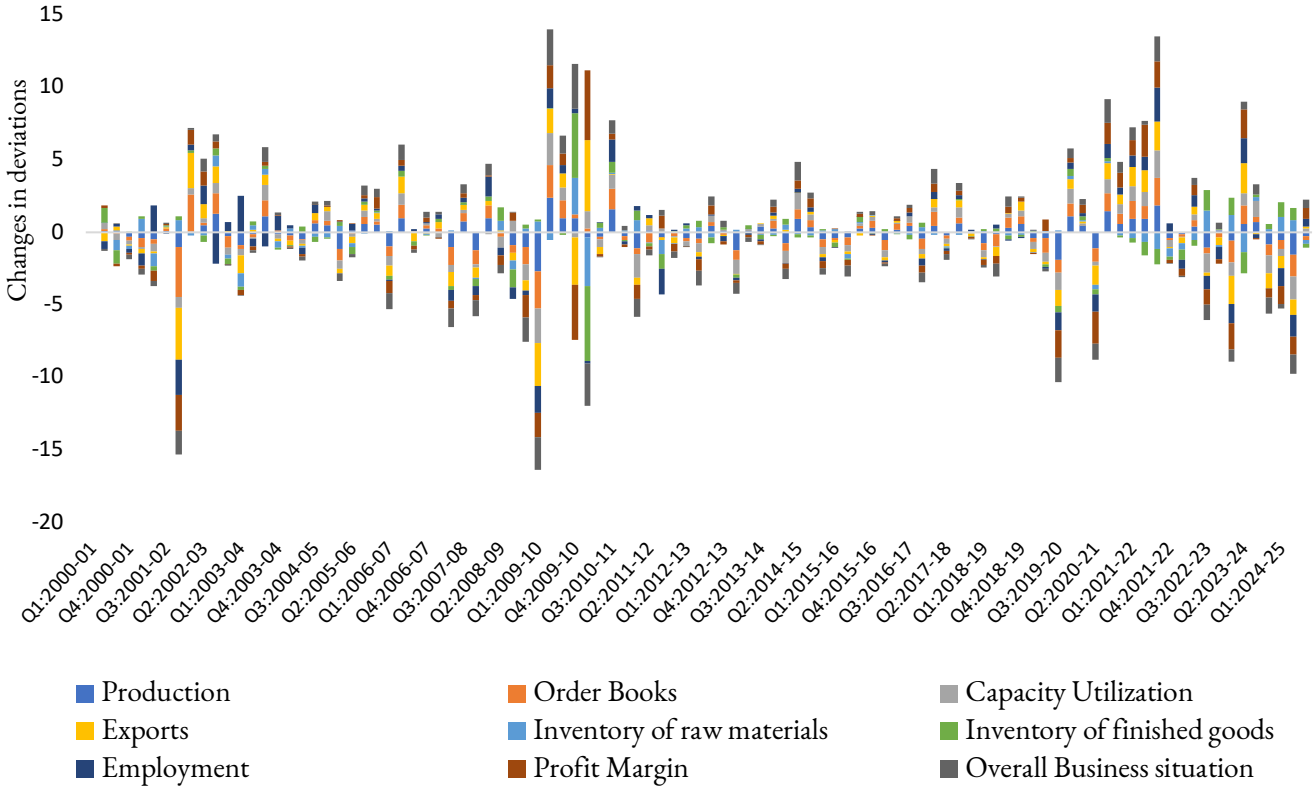
As the primary interest is to explain the increased divergence in the last decade, which also saw the biggest drop in private investment, we focus on this period. Unlike the entire sample, expectations about profit margins are the primary driver of fluctuations in the BEI in the last decade, adding as much as 5.4 points, followed closely by inventory of finished goods (-5.1 points) and exports (4.5 points). Inventory of raw materials has also remained a steady driver at -3.3 points. Overall business sentiments and fluctuations in slack or capacity utilisation are other important drivers of changes in business expectations in recent years.

However, in the most recent period where the maximum divergence in assessment and expectations is seen, the most prominent drivers of changes in the latter are the fluctuations in profit margins, stock of finished goods, and exports. Notably, the Business Expectations Index (BEI) of manufacturing firms and nominal export growth (measured as a three-quarter moving average with a six-month lag) correlate strongly at 0.48 from 2012-13 until the present. This underscores the substantial impact that export growth has had on shaping business expectations in the last decade.

There have been significant shifts, therefore, in the primary contributing factors of firms' expectations over time, with profit margin and export expectations climbing to the top. For the manufacturing sector, these are primary drivers.

Overall, the casual evidence presented here suggests a mismatch between expectations and actual economic outcomes. That, however, does not resolve or clear the picture of why investment plans increasingly do not translate into real investments. These aspects are discussed in the next or concluding section.

Fig 6: Drivers of Business Expectations



Source: RBI Industrial Outlook survey with authors' calculations

5. Conclusion

This note documents the conversion of intended private capex *with secured financing* into actual gross fixed capital formation (GFCF) measured in the national accounts. It further examines a few potential reasons for its progressive weakening over time, focusing upon the last decade that saw consecutive fall in India's aggregate investment rates, attributable mostly to the retreat of the private sector. Using the sanctioned project funds data from successive RBI surveys, annual estimates are calculated to see the evolution of the intended-realized capex ratio.

Significant takeaways from this exercise are as follows. One, from 2016-17 to 2022-23, the ratio has been flat in the 10% region, a historically low rate of transformation of envisioned into actual investments. Two, this weakening is hard to credit to substitution of financial resources recorded in the survey by that from the bond market, foreign direct investments, or internal funds.

hree, while banks retained their historical primacy in funding commercial activities, validating bank credit as a leading indicator of economic activity, the continuous decline in corporate profit (non-financial and manufacturing firms) shares in GDP after 2008 reversed only after 2019-20, while the dividend payouts and share buybacks have increased. The weakening association matches a similar decline in completion rates, buttressed by similar observations from another data set.

Four, in light of optimistic business sentiments consistently outweighing their corresponding economic assessments, a disaggregation of factors underlying the fluctuations in business expectations yields interesting insights. *Inter alia*, the most prominent drivers in the past decade are found to be the changes in expectations of profit margins and exports, suggesting that firms' over-optimism may not only explain the divergence from real economic calculations but also underpin the higher investments planned for, resulting in their subsequent shelving as expectation were unmet.

It is hoped these insights inspire a deeper examination of the reasons underlying the prolonged shortfall in private investment. Such reasons may well be sound economic ones, e.g., *inter alia,* a persisting demand deficit (including overseas), in combination with excess capacities, over-optimistic expectations. The dormant conversion ratio does offer support, although only correspondence and not causation, for demand side underpinnings of non-response to the many policy cues.

Illustratively, the plunge in world trade volumes in 2011-12 – from 19.8% to 0.9% – was a quick shock succeeding the 2008 crisis. Growth in trade volumes steadily decelerated, to a contraction of -12.9% in 2015. A recent study (Ghosh et al., 2023) offers some empirical proof by disentangling the demand-supply influences upon bank credit in the post-2008 period. Demand is found to be the major contributor to the credit slowdown in the lead-up to the pandemic; in turn, this is largely attributable to depressed investment. Demand side factors outweigh the balance sheet effects upon credit supply; while even the asset quality review (2015, 2016) is found to have had transitory impact.

Finally, in the early years, the drop in private investment rates was credited to policy uncertainty and diminished business confidence that were found to outweigh the cost of capital or real interest rate effects (e.g. Anand and Tulin, 2014). Subsequent studies identified the following as the key causes of investment slowdown- depressed credit growth after 2014, reluctance of banks to lend, the revelation of worse asset qualities in 2015-16, a prolonged growth slowdown after 2016-17 (with deceleration to 3.9% growth rate of real GDP in 2019-20), the NBFC crisis in 2018 leading to balance sheet damages and broader financial sector vulnerabilities, economic uncertainties, and other stringent environmental regulations (e.g., IMF, 2019; Priyaranjan & Pratap, 2020; Agarwal R, 2023;)

Against this, the widening gap in intended and realized investments shines a different light on India's investment malaise. Seen collectively, multiple factors – the abundance of policy efforts like recapitalisation, restructuring, and consolidation of banks; interventions like lender-of-last-resort to impart confidence and restore trust; increased corporate savings from productivity improvements, tax cuts, and deleveraging (either held as cash or share buybacks and dividend payouts) – all lend more credence to demand factors as the drivers of unchanging attitudes of private corporates to investments, despite secured capex financing.

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Appendix 1: Conversion rates: Full Annual Series

Year	Contemporaneous	One-year lag	Two- years lag
1991-92	44.3		
1992-93	49.9	37.1	
1993-94	51.4	41.2	30.6
1994-95	55.3	44.0	35.3
1995-96	52.0	33.9	27.0
1996-97	46.8	42.5	27.7
1997-98	45.7	45.7	41.6
1998-99	45.7	48.2	48.1
1999-00	35.7	45.7	48.1
2000-01	38.1	38.0	48.6
2001-02	25.3	35.3	35.2
2002-03	26.1	24.4	34.0
2003-04	26.1	20.5	19.2
2004-05	28.5	15.1	11.9
2005-06	23.6	19.3	10.2
2006-07	34.1	19.3	15.7
2007-08	31.1	25.7	14.5
2008-09	50.6	38.0	31.5
2009-10	44.4	44.6	33.5
2010-11	39.5	36.1	36.2
2011-12	37.3	37.8	34.5
2012-13	26.0	31.2	31.6
2013-14	20.6	23.3	27.9
2014-15	14.9	19.6	22.2
2015-16	11.7	12.5	16.5
2016-17	10.2	11.3	12.1
2017-18	9.3	9.9	10.9
2018-19	10.7	8.3	8.9
2019-20	10.8	9.6	7.5
2020-21	9.0	11.8	10.5
2021-22	8.6	7.3	9.5
2022-23	8.7	7.2	6.1

Source: RBI Bulletin, National Accounts Statistics, MoSPI, with authors' calculations

NOTES

[1] Although there has been a slight decline to 39 buybacks in 2024-25, this figure only includes data up to November 2024 and doesn't represent as significant a drop as the earlier increases (PRIME Database).

[2] These are production, order books, capacity utilization, exports, employment, inventory of raw materials, inventory of finished goods, profit margin, and overall business conditions. The threshold value is 100, with exceeding values indicating optimism or expansion, while those below 100 indicate pessimism or contraction.