The Economic Times

Investments may not revive for over a year even with interest rate cuts

Date: 31.08.2012

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"Given the high interest rates and subdued investor and entrepreneurial sentiments, a minor fall in market interest rates is unlikely to have any meaningful impact on investments," **Hajra added.**

Investments, the fuel needed to put the economy back in the 8% orbit, may not revive for more than a year even with lower interest rates. This is because the consumption and savings behaviour of individuals and companies has turned adverse.

India's relatively superior savings rate, which supported investments in factories and infrastructure for nearly two decades before the 2008 crisis, is faltering as corporate profitability is squeezed and inflation-averse individuals rush to the safety of gold and real estate. Banks - the biggest intermediary supplying money to businesses - are turning cautious due to rising bad loans and slowing deposits growth.

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Growth may Slip to Near-Decade Low: "Given the high interest rates and subdued investor and entrepreneurial sentiments, a minor fall in market interest rates is unlikely to have any meaningful impact on investments," Hajra added.

Economic growth in the June quarter, data for which will be announced on Friday, is expected to slip to 5.2%, a near-decade low as companies hold back investments due to poor profit outlook and regulatory obstacles. With most projects stuck at various stages of completion, banks are not lending to new projects, crippling businesses.

Rating company Crisil estimates that loans restructuring in this fiscal may more than double to Rs 3.25 lakh crore. Investments in India are mostly funded by domestic savings, routed through banks. Foreign players played a minor role between 1997 and 2011 as domestic savings nearly matched domestic investments. It was only in 2009 and 2011 that foreign investments accounted for 10% of total investments, government data shows. But banks are currently facing the brunt of high inflation as savers turn to gold and real estate to avoid value erosion in bank deposits.

For the past eight years, the ratio of household savings rate to disposable income stood at 30%. This, economists said, is unlikely to change in the near future as rising prices lead to lower savings. Credit depends on high deposits growth. But while deposits are growing at a near-decade low of 13%, demand for loans is at 17%, signalling that rates could even rise if demand for credit increases.

Corporates, who used to contribute about 40% of total investments, are holding back given the dim outlook on profitability. For the first time since 2005, Nifty 50 companies with net cash outnumbered those with net debt, reflecting the reluctance to invest. Lack of funds alone is not a major stumbling block for higher investments, also to be blamed are the absence of commercially viable projects and government policies.

"While shrinking sources of funds is definitely a cause for concern for financing investment, and will restrain a rapid increase in investment, we think the main constraints are the availability of bankable projects and the time lag between initiating a project and beginning of project implementation," said Saugata Bhattacharya, chief economist, Axis Bank. But companies that are getting little help from the government are seeking relief at least from the monetary authorities in the form of lower interest rates, which the central bank may not yet provide.

The RBI in July cut economic growth estimate to 6.5% from 7.3% and raised its inflation forecast for the year to 7% from 6.5%. It continues to say prices that are rising and there's little room to cut the repo rate, the rate at which it lends to banks.