

Is Private Investment Set to Rise? Factors Influencing Growth in 2025

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Private Investment Growth Latest News

- Finance Minister Nirmala Sitharaman expressed optimism about a revival in private investments following income tax breaks and the RBI's first interest rate cut in nearly five years.
- The government's income tax relief and the RBI's repo rate cut are expected to boost consumption, leading businesses to review their capacity utilization.

- Citing anecdotal evidence, she noted signs of increasing investment activity and reported that Fast Moving Consumer Goods (FMCG) orders for April to June were already being booked, indicating a potential recovery in consumption.

Concern Over Declining Private Investment

- Private investment in India has been declining for over a decade and weakened further in the December 2024-2025 quarter, dropping by 1.4%.
- However, overall investments grew by 9.9%, driven by a sharp rise in public investments—11.8% by the Centre and 34.6% by State governments.
 - Despite concerns over efficiency, public investment has played a significant role in driving India's high growth in recent years, compensating for weak private sector participation.

Importance of Private Investment

- Private investment is crucial for building capital and boosting economic productivity.
- It is generally considered more efficient than public investment because market forces ensure optimal capital allocation.

Factors Determining Private Investment

- It is generally believed that money deposited as savings in banks by ordinary citizens is loaned out to fund large-scale investments.
- But in reality, private investment depends not on savings levels in the economy but on the pace at which loans are created by the banking system.
- This is because banks can create loans electronically through simple accounting entries that deposit money in borrowers' accounts even without savings to back these loans.
- So, private investment is closely linked to the pace of bank credit growth. Higher credit growth enables more private sector investments.
 - Between 2005 and 2014, when economic growth was strong, bank credit growth averaged 22%.
 - However, it dropped to around 9% between 2014 and 2021, coinciding with an economic slowdown.

Reasons Behind Sluggish Private Investment

- **Lack of Consumer Demand as a Factor**
 - Economists argue that sluggish private investment is due to weak consumer demand.
 - They believe that unless consumers have more money to spend, businesses will hesitate to invest.
 - The recent move to make incomes up to ₹12 lakh tax-free aims to boost spending and, in turn, private investment.
- **The Inverse Relationship Between Investment and Consumption**
 - Historically, private investment and consumer spending have shown an inverse relationship.
 - Private consumption was 90% of GDP in 1950-51 but gradually declined to 54.7% by 2010-11, while private investment rose from around 10% to 27% in 2007-08.

- However, since 2011-12, consumer spending has increased while private investment has declined, suggesting a natural trade-off between the two.

- **Policy Uncertainty as the Key Issue**

- Rather than weak consumer demand, policy uncertainty and unfriendly government policies are seen as the primary reasons for sluggish private investment.
- Analysts argue that the slowdown in economic reforms has discouraged long-term, capital-intensive private investments.

Private Investment Growth FAQs

Q1. What do you mean by private investment?

Ans. Private investment refers to funds individuals or businesses allocate for expansion, infrastructure, or productivity without government involvement.

Q2. What are considered private investments?

Ans. Private investments include business expansion, real estate, stocks, venture capital, and foreign direct investment (FDI) by non-governmental entities.

Q3. What is credit growth of banks?

Ans. Credit growth refers to the increase in bank lending to businesses and individuals, influencing private sector investment and economic growth.

Q4. What do you mean by bank credit?

Ans. Bank credit is the total amount banks lend to businesses and individuals, including corporate, retail, and working capital loans.

Q5. What are fast-growing FMCG products?

Ans. Fast-growing FMCG products include packaged foods, personal care, beverages, home cleaning items, and health supplements with high consumer demand.

Source: TH | IE

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