Infra Push to Revive Growth

Based on the first set of advance growth estimates released by the government, ahead of the Union Budget 2021, the Centre's fiscal deficit is estimated to touch at least 6.1 per cent of the GDP in FY 2020-21. This is owing to the fiscal stimulus provided by the government to combat the adverse effects of the COVID-19 crisis, and the pursuant lockdown and slow reopening of the economy resulting in inadequate tax revenues and low disinvestment proceeds.

The Centre's fiscal deficit had widened to 135 per cent of the FY 2020-21 Budget Estimates at Rs 10.7 trillion between April-November 2020 itself. The Centre had budgeted to borrow Rs 7.8 trillion in FY 2020-21, but revised it to Rs 12 trillion in May 2020, given the extent of the crisis. However, private consumption and investments have taken a hit due to loss of incomes and fall in economic activity.

In order to revive the ailing economy, Finance Minister Ms. Nirmala Sitharaman had recently suggested that the government shall sustain the momentum of public spending in infrastructure as it is the one way to assure that the multipliers will work and the economy's revival will be sustainable. She had further opined, emphasis on public expenditure for infrastructure through CPSEs will definitely be kept up and the National Investment and Infrastructure Fund (NIIF) is doing its best to attract funds from abroad.

NIIF is a collaborative investment platform for international and Indian investors, anchored by the Government of India. It had in December 2020 announced that it had completed raising funds for its NIIF Master Fund, achieving a size of USD 2.34 billion. NIIF Master Fund primarily invests in operating assets in core infrastructure sectors such as energy and transportation.

Further, project owners such as the National Highways Authority of India (NHAI), and other central and state entities, require their project bidders to provide Bank Guarantees as security for bids and long-term performance. This dissuades contractors from pursuing new projects as many times banks demand hefty margin money before providing a guarantee.

A working group of the Insurance Regulatory and Development Authority (IRDAI) has, therefore, recently circulated a working paper suggesting Surety Bonds issued by insurance companies can act as a replacement for Bank Guarantees. Surety Bonds are a tripartite agreement between an insurer, contractor and project owner, guaranteeing the performance of the contractor.

Surety Bonds are provided largely on the basis of the contractor's track record and financial health, and act like an insurance policy, wherein if a claim is made, the insurer examines the claim and makes payment if the claim is valid.

While higher borrowing will raise the fiscal deficit in the near future, investments and reforms in the infrastructure sector can act as a trigger to kick start growth and fulfill our aspirations of becoming a USD 5 trillion economy.

Notifications

PIB

High Speed Rail work gathers momentum

https://pib.gov.in/PressReleasePage.aspx?PRID=1687515

Indian Railway enhances Speed along the Golden Quadrilateral and Golden Diagonal sections

https://pib.gov.in/PressReleasePage.aspx?PRID=1687313

Seventh Trade Policy Review of India at the WTO

https://pib.gov.in/PressReleasePage.aspx?PRID=1687117

APEDA and Indian Embassy organize Virtual Buyer Seller Meeting with Bhutan

https://pib.gov.in/PressReleasePage.aspx?PRID=1687044