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Road, rail ministries lead Q1 capex push as housing lags

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The railways and roads ministries have reported a robust pick-up in capital spending in the June quarter, in line with the Union government's infrastructure push to boost economic growth.

With the government relying on higher capital spending to crowd in private investments, the roads and highways ministry has achieved 43% of the capex target in the fiscal-first quarter itself, and railways has reached 34% of the target, according to data by the controller general of accounts.

Global economic headwinds and monetary policy tightening have dampened the chances of a revival of India's private investments in the current fiscal, requiring the government to step in. The ministry of road, transport and highways has already spent ₹80,716 crore in the first quarter of the current fiscal, of the ₹1.87 trillion capital outlay for the year.

The roads ministry has reached 43% of the capex target in the first quarter itself. BLOOMBERG

Railways ministry has spent ₹46,167 crore of the ₹1.37 trillion capital outlay for FY23. The two ministries have also shown a sharp expansion in revenue spending, with railways already reporting spending that is more than sixfold the budget target, and the roads, transport and highways ministry has seen revenue spending touch half of the annual target. As a result, overall capital expenditure rose 57% from a year earlier to ₹1.75 trillion in the June quarter and is 23.4% of the entire year's target against 20.1% in the year-earlier period.

Capex is used to create assets like infrastructure and has a multiplier effect on the economy, creating demand, income and employment. On the other hand, revenue expenditure comprises fixed obligations or ongoing operating expenses like salaries and pensions.

"The government has shown urgency in pushing forth its capex on roads and railways, which are the two main heads under capital spending, besides defence. It is a good signal sent, though understandably, there will be a slowdown during the monsoon. The private sector needs to pick up, and the response of infra-related industries like steel and cement bear testimony to the backward linkages being forged," said

TURN TO PAGE 14

Roads, railways ministries lead capex push

FROM PAGE 18

Madan Sabnavis, chief economist at Bank of Baroda.

Sabnavis added that capex in the private sector would be limited largely to the infra-based industries. "It will still take some time before the private sector evinces interest in infrastructure investment directly and for the time being will still be within the Centre's domain," he said.

The ministry of housing and urban affairs has shown slow spending of the capital outlay, spending only ₹3,095 crore in the June quarter, which is 11% of the budget allocation for FY23 compared to 24% in the corresponding period last year.

Capital spending by the defence services touched 16% of the budget allocation in the June quarter to ₹2.48 trillion from 15% in the year-earlier period.

In the current year's budget, finance minister Nirmala Sitharaman increased the capital expenditure target to ₹7.5 trillion, a 27% increase from ₹5.92 trillion spent in the previous year to spur job creation.

The railways has already reached 34% of the capex target, according to data by the controller general of accounts. MINT

In an interview last month, finance secretary T.V. Somanathan said that the government would not cut capital expenditure to contain fiscal deficit and would rather control revenue expenditure by cutting "avoidable spending".

Aditi Nayar, chief economist at rating company ICRA Ltd, said that in June, the Union government's capital expenditure displayed an enthusing uptick.

"Encouragingly, 23% of the FY23 budget estimate for capex had been completed in the first quarter. Two-thirds of the budgeted step-up in the government's capex for FY23 is by way of a loan to state governments, which is earmarked for capital spending. Looking ahead, the timelines of the takeoff by the states of the interest-free capex loan scheme, which so far appears to be muted, will crucially determine the pace of Centre's capital spending," Nayar said.

The government's ₹7.5 trillion capex budget includes ₹1 trillion capital expenditure assistance to states as long-term, interest-free loans to catalyse overall investment in the economy. This was a big jump from the previous financial year's ₹15,000 crore capex assistance.

The finance secretary said that the execution or the ability to absorb capex allocation would be up to the executing ministry and the states. "Railways and roads will be able to do it. States also, most of it they will take. So, if there is a shortfall, it will not be due to financial constraints imposed from our side," he said.