‘India Inc must make fresh investments instead of sitting on cash’

Private investment in India is expected to improve as global uncertainties ease, with govt capital expenditure being crucial for short-term economic stimulus. S. Mahendra Dev, chairman of the economic advisory council to the prime minister, stresses the need for state efforts to attract investments.

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S. Mahendra Dev.

New Delhi: Indian companies need to make fresh investments instead of holding cash, since their profits have improved and have healthy balance sheets, chairman of the economic advisory council to the prime minister (EAC-PM) S. Mahendra Dev said in an interview with Mint.

To be sure, private investments are showing early signs of growth, and will likely accelerate once global uncertainties subside, he said, before conceding that government capital expenditure remains central to short-term economic stimulus. He emphasised that investment-led growth is the most effective strategy for India, hoping that rural and urban demand gathering pace will catalyse increased private investments.

US president Donald Trump has unleashed a disruptive tariff war against the world, causing a great deal of trade uncertainty and prompting companies to hold off on fresh investments.

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Dev emphasised that India's economy has the capacity to grow on a sustainable basis at rates needed for becoming a developed-country over the next 25 years—some estimates project a requirement of nominal growth of 11% to 12% and 7% to 8%, adjusted for inflation. However, states have to make more efforts to attract investments, both domestic and foreign, Dev said.

India's economy expanded at 6.5% in FY25, with the nation's central bank projecting a same growth rate in FY26.

Above-normal monsoon augurs well for higher farm output growth in FY26, Dev said in the email interview. While Central programmes are improving agricultural productivity and cash transfers are helping to raise credit and investment, states should continue reforms in the sector for faster growth and improved farmer incomes, he said.

Artificial intelligence use offers both challenges and opportunities but is likely to have an overall positive impact on jobs in India, Dev said, citing studies on the subject.

Investments and consumption

Dev emphasised the point that private investment growth needs to gain momentum given that there is no dearth of capital availability.

"There are some green shoots on private capex. Many state governments are also attracting domestic and foreign private investment. Corporate sector and banks are having more profits now and their balance sheets are in good shape. So, there is no problem of capital availability. Industry is positive about India's growth story. Corporate sector is probably holding investing in capacity expansion due to global uncertainties and overcapacity in some countries like China," said Dev.

"Increase in rural and urban demand will facilitate more private investment. Many firms turned debt-free and doubled their cash on the books. India Inc has to make new investments instead of keeping the cash," Dev said.

To achieve this, there is a need for more progress on 'ease of doing business' at the state level, Dev added, citing the case for deregulation made in Economic Survey 2024-25.

"Hopefully, private capex will be more once the domestic demand increases further and global uncertainties are reduced. Once the tariff concerns are over, there will be more opportunity for Indian industry to invest. Factors such as ease of doing business, availability of land and other infrastructure, logistics, and needed manpower attract investment to states. States have to make more effort to invite foreign direct investment and domestic private investment," he said.

Dev also called for maintaining the thrust on government's capital expenditure in the meantime. "It is generally argued that India's growth strategy should be driven by encouraging consumption. However, a study by C. Rangarajan and D.K. Srivastava indicate that an investment-led growth strategy is the best choice and that government expenditure still holds the key for stabilisation or short-term stimulation. Investment-led consumption is more sustainable," Dev said, quoting from the study published earlier this month in the Economic and Political Weekly.

Private final consumption expenditure, or household spending, the biggest component in India's national income, on the other hand, expanded faster at 7.2% in FY25 compared to a 5.6% growth in FY24, Dev said.

"Rural consumption played an important role in this growth. The India Meteorological Department (IMD) expects above normal monsoon this year and it augurs well for higher agricultural growth, rural consumption and lower inflation. Therefore, we can expect that rural economy will do well in FY26 as well," Dev added.

Although there is volatility in agriculture growth, resilience of agriculture to monsoon has increased over time due to increase in irrigation coverage and other measures. Agriculture output grew at an average annual rate of 4.6% during the last eight years--2017-18 to 2024-25, Dev said, adding that FY25 also recorded a growth rate of 4.6%, contributing significantly to gross value added (GVA) growth of 6.4% last fiscal.

Growth potential

The Indian economy is resilient and continues to be the fastest-growing country among large economies, Dev said, adding that some estimates have projected a requirement of nominal GDP growth of 11-12% and real growth rates of 7-8% to achieve the goal of becoming a developed country by 2047.

"India has the potential to achieve these growth rates. The country is on its way to becoming the fourth-largest economy in the world at the end of FY26. It has also shown considerable progress towards nearly eliminating extreme poverty and reducing consumption inequality," added Dev.

Some increase in investment rate, including domestic and foreign private investment, efficiency in capital use and enhancement of total factor productivity will boost India's growth, he said.

"Rise in savings in the economy is important for higher investments. Structural transformation of economy in output and employment from agriculture to manufacturing and services is also important for higher growth. India is doing well in service exports. There are significant opportunities for manufacturing exports in spite of global uncertainties on trade. Some other sources of growth are India's fast growing young work force, rise in human capital and technology, fast growing digital technology including artificial intelligence (AI)," Dev said.

A youth population with a median age of around 28 years, compared to the ageing population of developed countries, is another key driver of economic growth for India. Increasing urbanisation will need more city infrastructure and it will improve growth. Reduction in global uncertainties in future will add to higher growth. Increasing women empowerment will raise India's GDP. The 2047 goals also include inclusive growth and sustainability objectives," added Dev.

"In achieving higher growth rate for India, states play an important role. It is a healthy sign that states are competing by announcing goals on GDP and GDP per capita. Many studies have shown that improving 'state capacity' and governance is important in raising incomes of people and delivering public services like education and health. Similarly, decentralization of resources to Panchayats and Municipal Councils is needed, added Dev.