“RBI’s Rs 1.5 Lakh Crore Liquidity Injection Could Support Infrastructure Lending - But Deeper Reforms Are Needed”

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“Strategic Bilateral Agreements on AI Tech Could Help India Compete Amid Rising Geoeconomic Fragmentation”

Intro: As the world grapples with the geopolitical implications of foreign-made AI technologies, protectionist trade policies and the evolving stance of global central banks, India’s infrastructure ambitions stand at a crucial juncture. In this **exclusive interview** between economic expert **Sujit Kumar** and senior journalist **Mahima Sharma,** we dig into the intricate balance between global economic trends and India’s domestic growth aspirations. The Chief Economist of National Bank for Financing Infrastructure and Development, Mr Kumar offers nuanced strategies to navigate what seem turbulent waters these days. Take a read only on **Socio-economic Voices** at **Indiastat.**

MS: China driven AI app DeepSeek has been stunning global investors by sinking some tech stocks. How should global economies manage the rising influence of foreign-made AI technologies, particularly as they challenge domestic tech industries? Is there a need for international agreements or frameworks to address the risks?

SK: Recently, DeepSeek, a Chinese startup has developed a world-class low-cost AI model purportedly trained with a far fewer Nvidia (greatest beneficiary of AI boom) chips which led to 17% plunge in Nvidia’s stock on January 27, 2025.

While this would have been a positive advance in a placid world but given the high levels of geopolitical uncertainties and fears of geoeconomic fragmentation, **this advance might prove to be more disruptive than beneficial especially if China restricts its use by other countries or if countries deliberately don’t allow the use of DeepSeek’s model.**

International agreements and frameworks could help address the risks posed by foreign AI while strategically allowing for its diffusion if it is more efficient. AI can hugely benefit from strong networks across countries where new innovations and ideas are shared instead of each country thinking in silos (reason behind Physics’ advancement and Alchemy’s decline). **But in today’s world of heightened uncertainties, especially related to trade, such agreements are not feasible.** Hence the only options available to countries is to either allocate budgetary funds into developing their own AI technology or have bilateral agreements with countries that can supply them with low-cost AI.

MS: The IMF expects global growth to stay at 3.2% in 2024 and 2025. What are the risks that could change this and how can infrastructure funding be affected?

SK: According to the January 2025 WEO edition, the IMF projects global growth at 3.3% for 2025 and 2026. Near term risks are tilted upside for the US given the expectation of an expansionary fiscal policy. For most other

economies, due to heightened policy uncertainty, the risks are tilted downside. An intensification of protectionist trade policies (higher tariffs) could again disrupt global supply chains.

Infrastructure funding may take a hit for countries dependent on foreign investors. The investors are being increasingly cautious in a volatile global capital market. Usually, in such scenarios, the risk appetite of investors reduces and most infrastructure projects, given their long gestation period, are inherently risky so investors might curtail their exposure to them. Infrastructure spending plans of the governments may not see much revision but the rising public debt to GDP ratio for most countries might curtail the fiscal space of the governments and infrastructure funding may be lower if infrastructure is not a top priority. Given trade policy uncertainties, the funding for ports may see a slowdown since most of the demand for port services comes from foreign trade.

In India, the government's focus on infrastructure is likely to continue as it remains committed to making Indian industries more competitive through reduced logistics cost.

MS: How will the actions of global central banks affect global capital flows for infrastructure projects?

SK: Till mid-December most central banks around the world, including the Federal Reserve (the Fed), were in for a rate cut cycle to boost the demand in their economies as inflation had largely aligned with their targets. In mid-December, the Fed signaled that it will be cautious in cutting interest rates (as President Trump's protectionist policy might be inflationary) and may deliver only two rate cuts in 2025 instead of four.

This announcement forced central banks around the world to reconsider the timing and duration of their rate-cutting cycles. **Because a larger interest rate differential with the US will lead to massive capital outflows, depreciate their domestic currency and inflict inflationary pressures on their economies as imports would become costlier.**

With interest rates not likely to fall, debt-financed infrastructure projects might attract lower global capital flows due to concerns about their financial viability. However, if the government of a country is committed to promoting infrastructure development and is willing to **actively engage in de-risking of the project through the construction phase, global capital flows may not see a decline.** A caveat is in order, the financial health of the government will also matter.

MS: India's banks are struggling with bad loans and slow credit growth. How will this affect financing for infrastructure projects?

SK: The Indian banking sector has had the best years post Pandemic with credit growth in double digits and bad debt ratios in low single digits. Of late, credit growth has slowed on account of tighter regulations on unsecured lending, higher interest rates and tepid investment demand in the economy.

The total SCB lending to the infrastructure sector saw a mixed pattern, with m-o-m credit growth being negative for four months in FY25 till Nov'24. In Nov'24, the m-o-m growth was at 1.08%. Railways saw a major fall in credit growth in July 2024 (10.85% m-o-m) and ports saw a major decline in Oct 2024 (13.12% m-o-m).

The financing of infrastructure projects is not expected to be affected much because of two reasons.

- Firstly, though bank credit growth has slowed, bank lending to the infrastructure sector has not seen any major downfall (highest m-o-m negative credit growth was 1.72% in July 2024).
- Secondly, the share of the banking sector has consistently declined (less than 50% at present) in total infrastructure loans advanced with NBFC-IFCs gaining a larger share and hence slower credit growth in the banking sector may not have a huge impact on infrastructure funding.

Moreover, with specialised development financiers like National Bank for Financing Infrastructure and Development and the bond markets gaining maturity, the funding needs of infrastructure will be adequately met, going forward.

MS: The RBI is injecting liquidity to help the banking system. Will this help solve funding challenges for infrastructure projects?

SK: The RBI has recognized the need for injecting liquidity into the banking system amid a severe liquidity crunch. It has recently announced measures to inject liquidity to the tune of Rs 1.5 lakh crores.

The increase in banking liquidity is expected to be positive for higher credit disbursal in general, assuming that demand for credit sustains. This might translate to higher disbursals for infrastructure projects as well.

However, funding challenges for infrastructure projects are not limited to liquidity constraints of banks **but are linked to deeper issues inherent in their very characteristics which make it difficult to underwrite infrastructure project loans.** High sunk costs coupled with long gestation periods complicates the financing of infrastructure projects and leads to asset-liability mismatches. Delays in approvals, land acquisition challenges and breaches of agreements also add to the risks of project financing causing issues like cost-overruns.

The interdependence of infrastructure projects further complicates financing, as unlocking the true potential of an infrastructure project is often contingent upon the availability of complementary infrastructure. This interconnectedness or interdependence can convolute the financing process, as impediments or delays in one project can trigger a cascade of causal effects, impacting all interconnected projects.

MS: How do you view the potential of PPPs in tackling the infrastructure funding gap in India? Are they sustainable in the current economic climate?

SK: Governments in most developing countries face the challenge to meet the growing demand for new and better infrastructure services. As available funding from the traditional sources and capacity in the public sector to implement many projects at one time remain limited (due to large investment requirements in the initial stages and long gestation periods of infrastructure projects), governments have found PPPs as an attractive alternative to increase and improve the supply of infrastructure services. **PPPs have huge potential to tackle the infrastructure funding gap in India. Such projects are capable of attracting the private sector's technological and managerial expertise while shielding the private partner against political risks.**

Since such projects involve a larger number of parties as compared to entirely public sector funded projects, they face several risks to their successful implementation. The service (in education and health sector) and asset (in water and sanitation sector) contractibility are low in many social infrastructure projects which renders the project prone to moral hazard on part of private players. Delay in contract enforcement in case of breach of contract by either party further adds to the risks faced by the parties. The problems are well known and can be overcome through stakeholder coordination and will, especially by the Government. In this regard, Union Budget 2025-26 calling for infrastructure ministries to prepare a 3-year project pipeline to be implemented in PPP mode is a welcome positive for India.

MS: What changes are needed in infrastructure financing strategies?

SK: As infrastructure projects usually involve long-term financing, they often lead to asset-liability mismatches (ALM) for banks which usually have a larger share of short-term liabilities. While the government's budgetary push to infrastructure and lending by NBFCs are gaining momentum, there is a need for developing corporate bond markets to further widen the avenues for funding for infrastructure developers.

The major impediment in corporate bond market development is concentration of issuances in higher rated categories as well as low liquidity given buy-and-hold behaviour of domestic institutional investors. The project developers, however, have seldom top-notch ratings and they are thus left to seek bank finance. If these lower rated bonds can be credit enhanced along with ensuring that these projects don't lead to social disruptions (which would

decrease their public acceptance and hence lead to decreased user fees collections), the demand for these bonds can be increased, especially from pension funds and insurance companies which have huge funds available to invest in long term assets.

Combined assets under management (AUM) of Insurance, EPFO and Pension Funds (Rs 117 trillion) are growing at an average CAGR of 14.1% as compared to Banks Deposit (Rs 230 trillion) of 9.7%. **These funds can be deployed towards infra-assets** for a better ALM match and superior return offerings to customers, which their extant gilt-heavy portfolio approach cannot provide.

MS: Infrastructure projects often face risks such as cost overruns and delays. How can financial institutions like your bank mitigate these risks, especially in a volatile global economy?

SK: The lenders must work on improving underwriting standards, right from scrutinising the detailed project reports, challenging the assumptions on revenue and costs and being pragmatic on technological changes around. They also need to have better monitoring mechanisms, building capacity to sift stress/vulnerability signals from noise of data. **The risk contingencies need to be well thought through and sufficient safeguards built in contract, to protect their interest well when construction risks play out adversely.** Besides, lenders also need to hedge their interest and currency risks strategically, with a mix of derivatives and fixed rate lending which optimises tenor of loans vis-à-vis resources raised.

About Sujit Kumar

Sujit Kumar is Chief Economist at the National Bank for Financing Infrastructure and Development. He has 13+ years of experience in banking & financial services industry, serving in a variety of roles covering research, strategy, planning, investor relations, treasury and offering decision support to MD & CEO. A published author, Mr Kumar is regularly quoted by financial news media on macro and policy developments. Mr Kumar is a post-graduate in economics from University of Hyderabad and an Associate of Indian Institute of Banking & Finance, Mumbai.

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