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RBI Working Paper No. 05/2018:

India's Investment Cycle: An Empirical Investigation

The Reserve Bank of India today placed on its website a Working Paper titled "[India's Investment Cycle: An Empirical Investigation](#)" under the Reserve Bank of India Working Paper Series*. The Paper is authored by Janak Raj, Satyananda Sahoo and Shiv Shankar.

This paper estimates the duration of the investment cycle and examines the determinants of investment activity in India. As per the findings of the paper, the real investment rate in India followed a three-year cycle during the period from 1950-51 to 2017-18. There were broadly nine episodes of contraction/ upturn of two years and above. The decline in investment activity from 2011-12 to 2015-16 was caused by both trend and cyclical components. Decomposition of investment activity suggests that while the trend component has consistently moderated from 2011-12 onwards, the cycle component has turned from 2016-17. The current upturn in the investment cycle is estimated to last up to 2022-23 when the investment rate could rise to 33.0 per cent from the current rate of 31.4 per cent. The study also finds that GDP growth, real interest rate and bank credit are the major determinants of investment activity in India. The gross fiscal deficit crowds out investment activity.

* The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.