



Long-term Financing in India

Recently the Union Finance Minister raised concerns over long-term financing in India.

- Long-term finance for industries includes those financial resources which are advanced to the industries for a period of more than a year.
- Long-term finance is quite important for the expansion and modernization of industrial projects and also to meet its fixed capital expenditure requirement.
- Long-term finance is mostly available from the sale of shares and debentures, and a loan from banks and financial institutions like etc.

Issues/Concerns

- The phenomenal growth in bank credit, at a compound annual growth rate (CAGR) of 39.31% over the last 15 years, without the requisite due-diligence invited certain undesirable consequences, like high stressed assets.
- Rising NPAs are forcing banks to resist from lending especially to major projects. Therefore, the need of the hour is to ensure assured and guaranteed long-term funding.
- The projects needing long-term financing are often complex and involve a large number of parties. Secondly, these are subject to various risks including those due to changes in policies, delays in clearances, etc.
- Thirdly, where debt financing is dominated by the banking system, the fundamental problem posed by the **asset-liability mismatch** is critical.

Asset-Liability Mismatch

- Providing longer duration loans from much shorter maturity funds is called an asset-liability mismatch.
- **For example,** Banks' primary source of funds is deposited (their liabilities), typically having short-to medium-term maturities which need to be paid back to the investor in 3-5 years. In contrast, banks usually provide loans (their assets) for a longer period to borrowers. This could be a cause for payment crisis as the money is locked with the borrower.

Way Forward

- A sharp decline in public and private funding for key growth sectors and basic infrastructure are creating huge gaps in long-term finance for development.
- Attracting private sector finance and investment is necessary to help India meet its development goals.
- As per an estimate, India needs Rs 31 trillion (US\$ 454.83 billion) to be spent on infrastructure development over the next five years.

PDF Refernece URL: <https://www.drishtias.com/printpdf/long-term-financing-in-India>