The Twin Balance-Sheet Problem In India

Sujit Basu*

Abstract

The sustainable growth of any economy largely depends on its growth in gross fixed capital formation or fixed investment. The latest economic surveys point out that among different causes twin balance sheet problem has been again identified as a major reason behind the reduction in investment rate till 2017-18. The effectiveness of a policy in an economy does not depend only on its internal policy but its interaction with foreign policy. Therefore in the light of neo-liberal economic policy, the effectiveness of the various schemes needs to be analysed to get the source and resolution of the twin balance sheet problem. And then the right direction can lead to overcome the current situation of decreasing trend of fixed capital investment in our country.

1. Introduction

The economic policy of India has been taking the measures to reduce the twin balance sheet problem and the insolvency and bankruptcy code have led to an improvement in the investment climate within the economy. The step of implementation of Insolvency and Bankruptcy Code 2016 and recapitalization of banks as a prescribed resolution of the twin balance sheet problem has helped to promote investment. The sustainable growth of any economy largely depends on its growth in gross fixed capital formation or fixed investment. In India fixed investment share to GDP fell from 37 per cent in 2007-08 to 27 per cent in the following ten years and has recovered recently to 28 per cent approximately. The latest economic surveys point out that among different causes twin balance sheet problem has been again identified as a major reason behind the reduction in investment rate till 2017-18. In this paper we focus on the problem of twin balance sheet, how it arises in India and its resolution to control the same for sustainable growth of the economy via sustainable increase in the fixed investment rate. In this context we also try to analyse the effectiveness of the policy

**Assistant Professor, Department of Economics, Zakir Husain Delhi College, University of Delhi*