

Budget 2023: How govt can boost infrastructure development to target higher growth

It was the robustness of the infrastructure sector that helped the Indian economy withstand the peril in the economy brought down by the pandemic. In successive budgets, the infrastructure sector has stayed at the core of policy announcements and fund allocations. Will the government maintain the momentum in Union Budget 2023?



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The Union Budget 2023 will focus on the infrastructure sector for higher job creation. (Photo: Reuters)

In Short

- Infrastructure development will be crucial in FY24
- Government likely to increase allocation towards infra development
- Rationalisation of GST is one of the most important demands of the sector

By India Today Web Desk: India's infrastructure sector is on an exponential growth path. During the previous few years of economic challenges, the infrastructure sector was the mainstay of the economy for recovery and growth.

It was the robustness of the infrastructure sector that helped the Indian economy withstand the peril in the economy brought down by the pandemic. In successive budgets, the infrastructure sector has stayed at the core of policy announcements and fund allocations.

However, there are certain concerned areas that still persist and need immediate attention by the Finance Minister Nirmala Sitharaman.

GST restructuring

Rationalisation of GST is one of the most important demands of the sector. Cement is perhaps the most important raw material in the infrastructure sector. It attracts 28 per cent GST. The high cost of cement is a big constraint to the growth of the sector.

Similarly, several other input materials, such as iron & steel, are highly taxed under the GST. A reduced GST will help the industry bring down the cost of projects, and speed up the project rollout.

The infrastructure sector has been demanding the rationalization of GST to help the sector gain full growth momentum.

This will equally provide a great boost to the struggling real estate sector also. Though change of rates of GST is not part of the budget, to make GST a more growth-oriented tax system, it should have only two slabs, 12 per cent and 18 per cent, and all items required for infrastructure building should be charged at 12 per cent only.

Higher spending

Government funding is one of the most important means of financing infrastructure projects. Government spending in the infrastructure sector is on the rise constantly. However, it is yet to reach the optimum level to fuel the requisite economic growth in the country.

The sector expects the government to increase spending in the sector by up to 10 per cent of GDP. Increased spending will not only help in circulating cash in the economy and generate employment, but will also pave the way for the country to become the manufacturing hub of the world, and a developed nation by 2047 as Prime Minister Narendra Modi envisaged recently.

Government's spending, especially in sectors like PMAY, needs more aggression, which will benefit the lowest strata of society. Even after an available budget, due to red-tapism, fund disbursements need special focus.

Focus on inland waterways

India claims some of the largest and mightiest rivers in the world. However, the utilisation of these great rivers for transportation, especially commercial ones, is negligible. In the Union Budget 2023, the infrastructure sector expects a strong focus on developing the inland waterways.

Development of the blue economy should be one of the focus areas of the upcoming budget. This will not only reduce the burden on the road network but will also help save fossil fuels and be environmentally friendly.

Easier bank credit

The infrastructure sector requires huge amounts of capital and the gestation periods are generally very long. Since the projects are built to serve for very long periods, it is often difficult to predict the revenue stream. Therefore, traditional banking institutions are often reluctant to fund the infrastructure sector.

Even when loans are available for the projects, the repayment terms are not in tune with the nature and cycle of infrastructure projects. In the Union Budget 2023, the infrastructure sector expects the government to bring provisions for easier bank or institutional credit for the sector.

Payments to agencies

In the previous budget, the government had laid down a policy for the payment of SMEs within a defined timeframe. However, actual implementation is still not happening on the ground.

There are multiple SME companies involved in various infrastructure projects under different capacities viz; consultants, suppliers and contractors. For the smooth implementation of planned projects, the government must implement the strict policies that are adhered to by state governments in making payments to SMEs as per the agreed terms and within the stipulated timeline.

Honouring MSME act provisions to disburse payment to MSME within time is not followed by government agencies. By implementing this provision alone, massive growth in the MSME sector is possible. It will directly help the sector, which is the largest employer.

Private investments in the infrastructure sector

Historically, the government has been the primary investor in the infrastructure sector. Although private participation has increased, around 70 per cent of the financing in the infrastructure sector has come from government sources. In the upcoming budget, the government should bring provisions to attract private investments in the infrastructure sector.

The National Infrastructure Pipeline envisions investments of Rs 111 lakh crore during 2020-2025 to provide world-class infrastructure across the country. Private participation is extremely important to ensure that adequate funding is always available for the scheme.

Private capital would also mean a lower cost of funding, which will be extremely beneficial for the sector.

Technological Transformation

Sectors such as ICT, water and sanitation, tourism, smart cities are expecting to see more spending due to the G20 Presidency. India can emphasise its support for a human-centric approach to technology.

The country can also encourage more knowledge exchange in key areas like financial inclusion, digital public infrastructure, and tech-enabled development in industries ranging from agriculture to education.

The infrastructure sector has seen several ups and downs in the past few years. However, it has come back strongly every time. In the past few years, the government has put a lot of focus on infrastructure development and the results are visible.

However, there is still a lot of scope for doing new things and improving on the existing ones. As the news of the new Covid-19 variant is coming, the government must ensure to keep enough buffer to help the infrastructure sector resist the impact of another wave, if the situation arises.

*(This article has been authored by **CMD-REPL, Mr. Pradeep Misra**. Views expressed are personal)*