

# Foresight

A global infrastructure perspective

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## India strengthens its commitment to infrastructure investment in 2017 budget

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**By pledging one of the highest ever levels of annual infrastructure spend, the Indian government has signaled its firm commitment to this vital sector. When combined with some notable tax and regulatory reforms, the pragmatic budget aims to attract interest from private investors at home and abroad.**

When Finance Minister Arun Jaitley announced his third annual budget on 1 February 2017, it signaled a break from a long-held tradition — dating back to India's colonial era — of presenting the budget on the last day of the month.

If this move set something of a precedent, then the news of a 25 percent increase in overall capital expenditure — including US\$60 billion committed to infrastructure spending — may also have come as something of a (pleasant) surprise.

With the government striving to balance fiscal prudence with economic growth, this boost is particularly welcome, given the limited private investment in infrastructure, due to stretched balance sheets of developers and public sector banks. When you factor in a US\$1.5 billion recapitalization of public banks — with further funds promised — then hopefully there should be more credit available to fund essential projects.

### Joined-up transport strategy

As the largest single employer in India, the railway has always been treated with sensitivity by successive governments, including having its own separate budget. In another break with customary practice, the new budget has, for the first time, introduced an integrated transport policy in a bid to bring together the ministries of highways, shipping, ports, rivers and rail. Since a peak in the 1950s, the country's rail network has seen its share of freight transport plummet from 90 percent to just 30 percent,<sup>1</sup> and it's hoped that a more joined-up approach can bring cargo trade off the roads and back onto the tracks.

Of all the sectors within infrastructure, transport has received the highest sum in the 2017–18 budget — US\$35 billion — much of it aimed at improving safety, cleanliness and comfort for rail passengers. Among the top priorities are a passenger safety fund, an end to unmanned level crossings on broad gauge lines, solar power for more than 7000 railway stations, bio-toilets in all coaches, and an extensive station development and refurbishment plan, including access for differently-abled people through elevators and escalators.

Metro rail has had a major impact on travel times and quality of life in Chennai, Delhi, Kolkata, Bangalore, Mumbai and Jaipur. A new proposed Metro Rail Act hopes to replicate these successes in additional cities, by rationalizing laws to facilitate greater private participation and investment in construction and operations.

Other planned transportation initiatives include the development of 2000 kilometers (km) of coastal roads to connect ports and remote villages, as part of an 11 percent increase in the highways budget to almost US\$10 billion.<sup>2</sup> Aviation is also on the radar, with its annual budget allocation increasing by 22 percent to US\$750 million, and a proposed amendment of the Airport Authority of India Act to generate revenue for airport upgrades and development of new regional airports. With an expanding number of world-class airports in Tier-1 cities, India experienced air traffic growth of 20 percent in 2015, with the country set to become the world's third largest aviation market by 2020.<sup>3</sup> This, along with the promise of more

<sup>1</sup> Rail Budget 2016: Railways looks at freight review to boost its share of cargo transport, The Economic Times, 26 February 2016.

<sup>2</sup> Union Budget 2017: Allocation for highways increased to over 64,000 Crores, NDTV, 1 February 2017.

<sup>3</sup> As Indians Line Up To Fly, Airports Are In Distress, But Pilots Are King, NDTV, 19 February 2016.

public-private partnership (PPP) opportunities in airport operation and maintenance, spells good news for investors.

## Improving energy security and hastening green power

India imports 81 percent of its oil,<sup>4</sup> as a result of falling prices and a fast-growing economy. In a bid to achieve a more reliable energy supply chain, the latest budget included plans for the creation of an additional two underground crude oil storage centers in Odisha and Rajasthan,<sup>5</sup> plus the proposal to create an Integrated global crude oil major. And, by halving customs duty on liquid natural gas (LNG) from 5 percent to 2.5 percent, the Finance Minister has laid the foundations for the creation of a natural gas grid, encouraging the construction of mid-stream infrastructure from LNG terminals to gas pipelines, and revitalizing city gas distribution networks.

Renewables also play an important role in energy security, with the budget announcing the launch of the second phase of National Solar Mission to an extent of 20 gigawatts to offer better local access to solar energy. Solar manufacturing received a boost with the news of zero import duty — and proposed exemption on value added tax (VAT) — on solar tempered glass used to make solar cells and panels.

The targeted goal of 100 percent village electrification by 2018 is now hopefully within sight, with US\$700 million earmarked for this purpose,<sup>6</sup> which should trigger a much-needed rise in demand for power.

## Grounds for cautious optimism

As investors mull over the financial implications of the 2017-18 budget, there is some hope that doing business will become easier. In a move designed to cut red tape, Finance Minister Jaitley has pledged to abolish the Foreign Investment Promotion Board (FIPB), at a stroke removing one of the stages needed to get an investment approved. With responsibility for approval now largely in the hands of respective ministries, the process should speed up significantly. This change, along with potential tax reforms to encourage foreign investments, points to a general liberalization of legislation and procedures governing foreign direct investment (FDI) into India.

The infrastructure sector should also benefit from plans to alter the arbitration framework to simplify commercial disputes relating to PPPs — something that has long been a bugbear of investors and contractors. On top of this, affordable housing has now been accorded 'infrastructure' status, giving a welcome push to construction activity and the capital goods sector.

Although the Finance Minister talked about recapitalizing the banks to the tune of US\$1.5 billion, the budget did not directly address the huge problem of stressed infrastructure assets. The Economic Survey, the flagship annual economic document of the Ministry of Finance, released at the end of February 2017, ignited hopes by speculating on the creation of a Public Asset Rehabilitation Agency

(PARA). Such a body would buy bad loans from state-run banks, enabling them to re-focus on lending to industry. Hopefully this can kick-start the debate and lead to some further action to relieve the financial sector.

Many of the budget's infrastructure commitments — like improvements to transport, energy and development in Tier-2 cities — have the potential to create a virtuous circle by stimulating future demand for infrastructure that should continue to attract the interest of investors. The overall prospects for infrastructure appear to be cautiously optimistic, and it now remains to be seen whether the various infrastructure ministries can deliver on these new policy directions and ensure a flow of investment that meets the government's expectations.

All facts and figures referenced in this article are included in the Union Budget of India 2017–2018.

## Highlights of India's 2017–18 budget

### Energy

- Launch of second phase of National Solar Mission for additional 20 gigawatts (GW) of solar parks capacity
- Tax cuts for wind power projects
- Biodegradable waste-to-energy plants in New Delhi and Jaipur
- Proposed reduced tax rate of 10 percent on sale of carbon credits, plus exemption from VAT for various forms of renewable energy
- Proposal to merge state oil firms to create a global major
- Import duty on gas reduced to 2.5 percent
- Commitment to two new nuclear power plants in Tamil Nadu.

### Transport

- Railways get largest-ever budget allocation of US\$20 billion as part of new, integrated transport budget
- Highways budget increased to US\$10 billion, including 2000 km of new coastal connectivity roads
- Aviation budget rises by 22 percent to US\$750 million, plus an amended act enabling monetization of land assets like shopping malls, multiplexes and business parks near airports

### Real estate and housing

- Proposal to build 10 million houses for homeless by 2019, with affordable housing given 'infrastructure' status
- Major boost to real estate through tax incentives and reliefs.

<sup>4</sup> India's dependence on crude oil imports on rise as consumption increases, The Economic Times, 22 April 2016.

<sup>5</sup> Union Budget 2017: Government to build 2 crude oil storages in Odisha, Rajasthan, The Indian Express, 1 February 2017.

<sup>6</sup> Budget 2017: All villages to be electrified by 2018, says Arun Jaitley, The Economic Times, 1 February 2017.

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