

Budget implications for the Indian infrastructure sector

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Shri Arun Jaitely, Finance Minister of India, presented his first budget on 10 July to Parliament. Overall, the budget will have a positive influence on India's infrastructure sector. It provided a clear direction for the resolution of some major issues affecting the sector including the establishment of a road map for the long-term development of key infrastructure segments, especially rural and urban infrastructure, and attempted to address specific sector issues around power, roads, mining and urban transport, while providing stimulus for the renewable energy segment.

Historically, a key challenge for the infrastructure sector has been access to long-tenure funds and a reduction to the cost of financing. Banks have been encouraged to raise long-tenure funds that will not be considered for Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR), thus reducing the cost for developers. Banks will now be given greater flexibility to structure loans for infrastructure projects.

The budget also highlights the need to revive stressed banking assets in the infrastructure sector which will help ensure projects are pushed through the pipeline. The Infrastructure Investment Trust (IIT), structured to raise capital, was extended to include tax incentives that will help avoid double taxation issues – a lesson learned from the Real Estate Investment Trust.

The budget also implemented the creation of 3P India, an institutional response developed for dispute and commercial resolutions for infrastructure projects – this initiative will be critical in helping to move stalled projects forward.

Investors were given assurance that mining issues will be resolved, even if it means revisiting the Mines Act (1952), which is an important statement of intent. All power projects initiated by

31 March 2015 will be provided adequate coal resources as the rationalization of linkages will ensure more coal availability and a substantial reduction in logistic costs for the country – KPMG in India estimated these savings to be approximately US\$831 million a few years ago. A ten year tax exemption, under 80 IA, was extended until 31 March 2017 – this provision will provide long-term clarity for investment decisions versus the practice of yearly extensions.

Given the long-term energy needs of India, a clear focus on renewable energy, especially solar, was very encouraging. Ultra mega solar projects, expected to launch soon, will provide stimulus for establishing large solar projects and an outlay for ultra modern supercritical technology based coal projects. Through this initiative, the Government made its intent to encourage clean technologies for the future very clear. Renewed interest for coal-based methane projects is encouraging, however, that needs to be followed with implementation policy.

Impetus on a comprehensive transportation policy that encourages multiple modes of transportation, as required by the national government, was again a notable feature of the budget. A focus on rural roads, the addition of 16 new ports, increased outlay for

“ This budget is a positive first step in a long journey of reforms that are required for the infrastructure sector and will need to be followed up with clear measures. It attempts to address a number of issues that have been a problem for the sector and emphasizes long-term planning. ”

the National Highways Authority of India (NHA) and a state roads program, the development of expressways along industrial corridors and the creation of new airports will ensure hinterland connectivity and the linkage of rural and urban communities in India. The development of inland waterway projects as a means of transport was also highlighted with the announcement of the Ganga Project. This comprehensive focus on transportation will, over the long term, lead to more inclusive growth throughout the country.

The intention to develop Special Economic Zones (SEZ's) and industrial corridors was emphasized through the development of the National Industrial Corridor Headquarters in Pune, an entity with the mandate to push other industrial corridor projects. Urban

infrastructure seems to be an area of focus for the Government with a US\$8.3 billion outlay until March 2019, which is a positive sign as this initiative will spearhead a number of small but critical projects across several cities and urban local bodies. The intent to create smart cities was supported by the allocation of US\$1.2 billion towards this initiative. This measure, if successfully implemented, will ensure the creation of world class infrastructure as a large part of the population becomes urbanized.

However, the success of this year's budget will hinge on the details of the measures announced, or policy intent, especially around the resolution of stressed assets in India's banking system and access to long-tenure funds for the sector.

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