

Run-up to the Budget: Budget must give thrust to infrastructure development

NEW DELHI, February 17, 2010

With the economy poised to register a 7.2 per cent economic growth in 2009-10 fiscal and the government pegging the GDP growth at around 8 to 8.5 per cent in 2010-11, the target can be achieved only by removing various policy bottlenecks and accelerating spending in the infrastructure sector with the active and aggressive participation of the private sector under the public private partnership initiatives.

Experts are of the view that for sustained infrastructure development which is essential for accelerated economic growth, it is important that Finance Minister Pranab Mukherjee, who is expected to provide decisive steps to cut down fiscal deficit, would also give top priority to policy decisions and initiatives in the infrastructure development.

According to government estimates, around \$500-billion of investments is required in infrastructure development over the next few years.

The country clearly lacks adequate sources of long-term funds that can flow to the infrastructure sector. The chief executives of top banks have already told the Reserve Bank of India that they would have issues in providing long term funding for infrastructure development as they do not have access to resources of matching periods.

The industry is of the view that the government should make investments in long-term bonds issued by banks free of tax. Similarly, the RBI should exempt such funds from the requirements of having to set aside 5.5 per cent as cash reserves and invest another 25 per cent of the funds in government bonds. Banks are expected to lend about Rs.1, 00, 000 crore every year to infrastructure projects over the next few years for the country to be able to meet its infrastructure investment needs.

The other problem in infrastructure funding is the foreign lenders' unwillingness to take project risk. Once the project is complete, foreign lenders might be willing to invest. For this, the RBI will need to extend the facility provided to telecom firms to refinance 3G spectrum fees by borrowing overseas, allow refinancing for infrastructure. There is also a clamour for restoration of tax incentives to infrastructure financing. The government had in 2007 removed Section 10(23G) of the Income Tax Act. The provision exempted from income tax the net income (in the form of dividend of interest or long term capital gains) from investments in infrastructure projects.

The National Council of Applied Economic Research (NCAER) has called for the sharp increase in the planned investment levels for infrastructure and the expanding role for the private sector. Its report on Infrastructure Development has suggested full exploitation of the current potential of the infrastructure sectors; slack capacity in one sector also implies less than full utilisation of capacity elsewhere; institutional measures to make the various legal, financial and fiscal arrangements effective; independence of regulators, efficient pricing of service, reducing the time needed for achieving implementation of plan targets.

According to Suman Bery, Director General, NCAER, the 11th plan projected investments in infrastructure development to the tune of \$500 billion. The current economic slowdown has cast some doubts on the scale of investments that may be possible in a short period of time, but there is a wide recognition that infrastructure development would be essential for sustaining high rate of economic growth over a longer term which in turn is necessary to achieve developmental goals.

Housing and real estate

According to Naveen Raheja, chairman and managing director, Raheja Developers, housing and real estate is a vital segment of the economy and infrastructure in the sense as it has multiple connectivity with the economy. Housing and real estate generates demand for steel and cement, consumer durable goods, plastics, sanitary ware, electrical goods and a variety of services.

It is therefore important to give a thrust to the housing sector by raising the Interest deduction limit of Rs.1.5 lakh in the computation of income under section 24 of the Income Tax Act, to Rs.3 lakh.

To pep up demand, the government should provide tax incentives for smaller size of units and accordingly the applicability of section 80I B should be extended up to March 31, 2010. Therefore, income tax exemption will be applicable for projects sanctioned up to March 31, 2009.