Interim Budget 2024–25

Infrastructure push to strengthen the core infrastructure

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Public infrastructure appears to be the crucial driver of inclusive economic growth and other development goals, such as reducing social inequalities, poverty, health hazards, etc. Traditionally, though, infrastructure is associated with physical assets, typically roads, bridges, electricity, railways, and airports. However, since 2014, India's development story has been closely linked with a strong focus on not just physical but also social and digital infrastructure connecting markets, facilitating production and trade, and creating economic opportunities for education, employment, and income. While social infrastructure such as water and sanitation, irrigation, schools, and hospitals improve people's lives, skills, and health, the digital infrastructure encompassing technologies and networks that facilitate electronic communication, data storage, and information sharing plays a crucial role in supporting economic growth. The synergy between digital infrastructure and economic development is multifaceted and contributes to various aspects of modern economies. A study by the National Institute of Public Finance and Policy shows that every rupee spent on infrastructure and capital expenditure has a multiplier effect of 2.95 on the gross domestic product (GDP). Despite global growth remaining subdued due to factors such as low productivity and tight monetary conditions, the escalating tensions in the Middle East, leading to potential commodity price shocks, pose risks to further dampening growth. In contrast, India continues to stand out as the fastest-growing large economy globally, with expectations that its real GDP growth will remain robust, projected to be around 7 percent in the fiscal year 2024–25.

In the last five years, there has been an emphasis on the infrastructure push, and the government has been increasing the size of capex in every consecutive year. Since the onset of the COVID-19 pandemic, India's fiscal policy approach has been to enhance spending on development and welfare initiatives to manage the pandemic. Simultaneously, there has been a focus on ramping up capital expenditures to stimulate economic recovery. The interim budget 2024–25 also reveals the continuity of the infrastructure push to strengthen the core infrastructure sectors, which are long-term growth-enhancing. It has continued the thrust on the three dimensions of infrastructure development (physical, social, and digital), which, put together, accelerate inclusive growth. The total capital expenditure (capex) for fiscal 2024–25 has been projected to be INR 11.11 lakh crore, which is 17% higher than the 2023–24 revised estimates. Further to strengthen the hands of the States, the scheme for providing financial assistance to the States for capital expenditure has been continued in 2024–25, with a total outlay of INR 1.3 lakh crore accounting for nearly 0.4% of GDP. This will lead to decentralised infrastructure development in urban, peri-urban, and rural areas across the states.

As a percentage of GDP, the capex has been growing over the years, from 1.7% in 2014–15 to 3.4% in 2024–25. In terms of sectoral composition, the capex on general services accounts for 17.5% of the total capex, of which defence's share is about 15.5%, and the social sector accounts for only 0.9%. The bulk of the capex is dedicated to the economic sector (65.7%), comprising transport (46.0%), communications (7.6%), energy (1.7%), etc. The share of roads and bridges in total capital is projected to be 23.3%, whereas the same for railways would be 22.7%. These targeted investments will not only create vital physical infrastructure and improve connectivity that will accelerate the movement of passengers and freight, but also create jobs, spur private investments, and provide a cushion against global headwinds.

Investing in social infrastructure, encompassing areas like education, skilling, housing, public health, nutrition, and drinking water, can yield a more productive and proficient workforce. Additionally, it contributes to reducing mortality rates, addressing issues like wasting and stunting, promoting social mobility, and elevating overall quality of life. These factors collectively foster a stronger and more inclusive economy, fostering holistic development. Several government schemes, such as the Pradhan Mantri Awas Yojana (Rs 80,671 crore), the Jal Jeevan Mission (Rs 70,163 crore), and the Mahatma Gandhi National Rural Employment Guarantee Programme (Rs 86,000 crore), allocate significant budgetary resources. While classified as revenue expenditures, these funds effectively contribute to capital creation, resulting in the generation of jobs and other economic opportunities. This approach underscores the multifaceted impact of investing in social infrastructure on both individual well-being and broader economic development.

Several initiatives have been introduced, such as funding for offshore wind energy projects, a programme for wind and other renewable energy, the national green hydrogen mission, and the mandatory blending of biogas with Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) as part of the government's commitment to achieve a "net-zero" economy by 2070. The recent announcement of a rooftop solarization scheme, allowing households to access free electricity, aligns with the government's sustained emphasis on increasing the contribution of solar power to India's energy portfolio. One noteworthy programme contributing to these efforts is the Kisan Urja Suraksha evamUtthaan-Mahabhiyan (KUSUM). The KUSUM programme plays a vital role in promoting sustainable energy practices by encouraging farmers to adopt renewable energy solutions, thereby supporting the broader objective of transitioning towards a net-zero economy by 2070.

Over the years, investment in digital infrastructure has significantly narrowed the digital divide in India. Commencing with the introduction of JAM (Jan-Dhan-Aadhaar) in 2015, India has made substantial progress in constructing digital infrastructure. This advancement has yielded significant benefits for the country, facilitating greater penetration of government schemes and fostering efficient financial inclusion. The current emphasis of the digital transformation is on developing, implementing, and extensively expanding cutting-edge technologies, including 5G, big data, artificial intelligence (AI), machine learning, blockchain, the Internet of Things (IoT), quantum computing, and robotics. Given the linguistic and cultural diversity, the Ministry of Electronics and Information Technology, Government of India, has initiated "Digital India BHASHINI (BHASHaINterface for India)." This initiative aims to establish a national public digital platform for language, AI and other emerging digital technologies to create services and products for citizens. The goal is to overcome linguistic barriers that impede access to technology, extending the benefits of Natural Language Processing to Micro, Small, and Medium Enterprises (MSMEs) and individual innovators in remote areas.

The government has proactively addressed the challenge of low capex by initiating measures to establish a virtuous cycle. This entails steadily amplifying public capital expenditure, especially in crucial infrastructure projects like roads and railways, with the optimistic anticipation that it will catalyse increased private capex. This strategic approach is considered indispensable for revitalizing economic growth and showing signs of resurgence. The government has shoulder most of the responsibility since the onset of the COVID-19 pandemic. It is time for the private sector to step in and bridge the gap that the government has left in terms of driving momentum in capex growth.