KPMG

India Union Budget 2026-27

Point of view

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Public Infrastructure

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Key announcements for the sector

The Union Budget 2026-27 continues the momentum towards infrastructure increasing capex to INR 12.2 lakh crore from the INR 2 lakh crore in 2014-15 through a multi-year expansion, reinforming the government's commitment to act as the primary initiator for the sector, leading to crowding-in of private investment. Aligned to the objectives of *Viksit Bharat by 2047*, the budget makes a tonal shift – from capacity creation through public capex to facilitating risk-mitigated, capital-market-linked infrastructure ecosystem. Instead of different project-siloes, structural logistics has seen a special focus that aims to integrate the industry-infrastructure linkages. Moreover, the policy reforms so outlined recognises that sustaining the next phase of infrastructure will depend on:

- Structured risk transfer during development and construction
- Accelerated asset recycling
- Industry-infrastructure linkages with rebalancing of freight and logistics
- City-centric economic and urban infrastructure

The government has proposed the following initiatives and reforms to augment public infrastructure development:

- Policy and regulatory push to public-private partnership (PPP) and infrastructure financing
  - Establishing an Infrastructure Risk Guarantee Fund to provide partial credit guarantees to lenders during the development and construction phase.
  - Direct incentive for large municipal bond issuances (INR 100 crore incentive for bonds above INR 1000 crore) while continuing support for smaller cities.
  - Market-making framework for corporate bonds, total return swaps on bond indices and reforms to deepen the bond market
  - Accelerate recycling of significant real estate assets of Central Public Sector Enterprises (CPSEs) through the setting up of dedicated REITs (Real Estate Investment Trusts).
- Creation of infrastructure across Centre and States
  - Development of seven high-speed rail corridors linking major city pairs, called growth connectors
  - Development of an integrated East Coast Industrial Corridor with a well-connected node at Durgapur, creation of five tourism destinations in the five Purvodaya States, and the provision of 4,000 e-buses.
  - New Dedicated Freight Corridors connecting Dankuni in the East, to Surat in the West;

- Operationalisation of 20 new National Waterways over next five years
- Impetus to maritime infrastructure
    - A ship repair ecosystem catering to inland waterways will also be set up at Varanasi and Patna;
    - Coastal Cargo Promotion Scheme for incentivising a modal shift from rail and road, to increase the share of inland waterways and coastal shipping from 6 per cent to 12 per cent by 2047.
    - Introduction of a Seaplane VGF (Viability Gap Funding) Scheme to provide support for operations.

- Push for urban infrastructure development
    - Centre will allocate INR 5000 crore per City Economic Region over five years and focus on Tier II and Tier III cities, and even temple-towns, which need modern infrastructure and basic amenities.

- Social Infrastructure push
    - Centre will set up three new All India Institutes of Ayurveda to promote alternative healing in the country
    - Encouragement to sports infrastructure through the Khelo India Mission
    - Establishment of one girls' hostel in every district through VGF capital support

- Construction and Infrastructure Equipment (CIE)
    - Scheme for Enhancement of CIE will be introduced to strengthen domestic manufacturing of high-value and technologically-advanced CIE. This can range from lifts in a multi-story apartment, fire-fighting equipment, large and small, to tunnel-boring equipment for building metros and high-altitude roads.

- Taxation measures and reforms for providing support to infrastructure sectors
    - Tax holiday up to 2047 to any foreign company who provides services to any part of the world outside India by procuring data centre services in India. Sale of such services to Indian users shall be made through an Indian reseller entity and taxed appropriately.
    - Centre to provide a safe harbour of 15 per cent to the resident entity providing data centre services to a related foreign company (who is providing cloud services to any part of the world outside India).
    - Extension of the existing basic customs duty exemption on imports of goods required for Nuclear Power Projects till the year 2035 and expand it for all nuclear plants irrespective of their capacity.

Implications for the sector

- Capital allocation in the budget remains strong and stable with **public capex rising to INR 12.2 lakh crore**, signaling continuity of the investment-led growth strategy and providing confidence to private and institutional investors. With the high capex coupled with the INR 17 lakh crore PPP pipeline compiled by the Ministry of Finance, there is significant visibility to investors on pipeline for systematic planning for private investment decisions. Despite a high capex, for the last few years, country is able to achieve 95-100 per cent expenditure against target. Therefore, this time, and rightly so, the government has focused on enhancing policy and regulatory mechanisms around the infrastructure sector to ensure implementation receives a tremendous fillip
- The proposed **Infrastructure Risk Guarantee Fund** directly addresses construction-stage and development-phase risk, which has remained largely unbankable for domestic lenders, and is expected to materially improve financial closure prospects for greenfield PPP projects. Policies are moving toward stabilizing infra pipelines, reducing project delays, and improving the credibility of long-term national infrastructure planning

- Accelerated **monetisation of CPSE real estate through dedicated REIT structures** strengthens the asset-recycling ecosystem and will expand the pool of operating, yield-generating infrastructure and urban assets available to long-term investors
- Urban sector continues to receive government blessings with the **introduction of City Economic Regions (CERs)** with reform-linked and challenge-based financing is expected to move urban infrastructure planning away from isolated municipal projects towards integrated regional investment programmes. The interesting point here is the focus on creating urban infrastructure in Tier II and Tier III cities, and urban development reframed toward agglomeration economics, encouraging coherent spatial planning, more balanced urbanisation, and long-term alignment between land use, transport, and economic activity
- **High-speed rail corridors** positioned as 'growth connectors' create opportunities for land-value capture, station-area development and transit-oriented development models, shifting private participation beyond Engineering Procurement and Construction (EPC) into long-term urban regeneration and commercial development concessions
- Incentivisation of **municipal bond issuances and deepening of the corporate bond market** are expected to strengthen off-budget and market-based financing channels for urban and transport infrastructure, reducing dependence on sovereign and bank balance sheets over the medium term
- Dedicated Freight Corridors, 20 new waterways, coastal shipping incentives, and seaplane VGF collectively signal a deliberate rebalancing of India's transport mix away from road-centric dependency. India is entering a phase where **network efficiency**, not just capacity addition, becomes the central organizing principle of transport policy. This can enable manufacturing and logistics players to rethink supply chains
- In the next phase of capacity creation, there is an effort to broad-based capital asset creation in non-traditional infrastructure areas, such as **tourism, education, and health**. With announcements around tourism sites, establishing girls' hostel in every district via VGF support and three new all India institutes of Ayurveda, infrastructure focus is now moving towards nascent areas
- Through the **Scheme for Enhancement of CIE**, the budget aims to strengthen domestic manufacturing of technologically advanced construction equipment. Local manufacturing can help in better equipment availability and reduction of imports, leading to shortening of project timelines
- Indirect levers like **CCUS investment (Carbon Capture Utilisation and Storage),** Lithium-ion cell manufacturing capital-goods exemption, and Sodium Antimonate duty exemption for solar glass strengthen the clean-tech ecosystem. This is an attempt to embed decarbonisation into infra creation through cleaner steel, cement, refineries, and power plants. It encourages industry to shift toward future-ready, emission-aligned construction technologies.

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