



Infrastructure as an Economic Multiplier

Reading Budget Beyond Numbers

India's infrastructure is racing into the future under Prime Minister Narendra Modi's leadership. It's a journey where steel and spirit merge, and each milestone carries the hopes of a billion. Highways that shorten distances, bridges that unite communities, and digital networks that spark innovation—India is building more than infrastructure. It's building confidence, connectivity, and a beautiful canvas for every Indian dream.

India's infrastructure story is evolving – from building roads, highways, high-speed logistics, and multi-model connectivity in the last 10 years and paying rich dividends as India becomes the fastest growing economy, at 7% and more, in the world for the fourth consecutive year. Recognising the strong multiplier effect of infrastructure development in achieving higher, sustainable, and inclusive growth, the Government has been focusing on infrastructure development as the Government spending on the sector has steadily been increasing since 2014-15 and more sharply since the pandemic in 2020. The Union Budget for the next financial year, 2026-27, presented in the Parliament on 1 February 2026, has raised it further by a whopping 8.9% to Rs 12.2 lakh crore from Rs 11.2 lakh crore budgeted for the FY 2025-26. Higher government expenditure (Capex) on infrastructure becomes critical in offsetting emerging global headwinds and its likely impact on private investment on account of the challenging geopolitical situation. However, given India's projection of becoming a *Viksit Bharat* by 2047, infrastructure investment needs to grow substantially with greater private sector participation in core infrastructure.

While presenting the Union Budget 2026-27, Union Minister for Finance and Corporate Affairs, Nirmala

Sitharaman said, "Our first *Kartavya* is to accelerate and sustain economic growth, by enhancing productivity and competitiveness, and building resilience to volatile global dynamics". Public capital expenditure has increased manifold from Rs 2 lakh crore in 2014-15 to an allocation of Rs 11.2 lakh crore in 2025-26, and to Rs 12.2 lakh crore (proposed) in 2026-27 to continue the present growth momentum.

"It's been 11 Years of Infra Revolution, with outstanding infrastructure being added that has enhanced India's growth trajectory. From railways to highways, ports to airports, India's rapidly expanding infra network is boosting 'Ease of Living' and enhancing prosperity,"

Prime Minister Narendra Modi.

An economy's infrastructure is pivotal in propelling its progress and setting the stage for its future development possibilities. The multiplier effect of infrastructure works through multiple channels, including: Direct Impact of Increased public investment creating demand for raw materials, labour, and machinery, leading to immediate economic activity; Indirect Impact of enhancing productivity across sectors by reducing logistics costs, improving connectivity, and enabling efficient business operations. Sectors like

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manufacturing, real estate, and services benefit from better infrastructure. Additionally, Induced Impact results in higher employment and income levels, boosting consumption and private sector investments, leading to a self-reinforcing growth cycle.

In 1991, the Government infrastructure investment saw a major shift marked by the adoption of the Public Private Partnership (PPP) model, whereby the share of PPP investments as a share of GDP (Gross Domestic Product) increased to 14.29% by 2012 from 0.1% in 1991. During this period telecom sector led in investment (46%), followed by energy (37%), transport (13%), and water/sewerage (4%).

Increased thrust on infrastructure development helped India to increase economic activity across sectors and register a higher GDP growth rate during the 1990s and 2000s. Despite the financial crisis of 2008, India not only successfully navigated it but also managed to grow at an average GDP rate of 7-8% in successive years. Greater emphasis on infrastructure investment since 2014 is evident from a manifold increase in capex from Rs 2 lakh crore to 12.2 lakh crore in 2026-27. Infrastructure development is increasingly seen as a catalyst to power growth momentum.

As per the latest Economic Survey 2025-26, public expenditure on infrastructure has a high multiplier effect, estimated by studies to be around 2.5 to 3.5 times the GDP over the medium term. This means,

for every rupee spent by the government in creating infrastructure, GDP gains accrue worth Rs 2.5 - Rs 3.5. The scale and consistency of this investment momentum have positioned infrastructure as a cornerstone of India's growth engine.

It enables private investment, fuelling growth across various sectors, increasing competitiveness, and thus raising the quality of life. Infrastructure projects are capital-intensive and usually have a long gestation period, making it difficult to get adequate funds at cheaper rates. To strengthen the confidence of private developers regarding risks during the infrastructure development and construction phase, the government has proposed to set up an Infrastructure Risk Guarantee Fund to provide prudently calibrated partial credit guarantees to lenders. This is likely to mitigate fears of NPAs (Non-performing Assets) and encourage higher lending to the sector.

Over the past decade, India has pursued large-scale infrastructure expansion to achieve its vision of becoming a USD 5 trillion economy by 2027-28 and a USD 40 trillion developed nation or *Viksit Bharat* by 2047. With this agenda, the Government has, in the last few years, initiated flagship programmes like *Bharatmala* (highways), *Sagarmala* (ports), Smart Cities Mission (urban renewal), UDAN (*Ude Desh ka Aam Naagrik*) (regional air connectivity), and electrification of railways. With these programmes, the



integrated over 1700 data layers, and assessed 293 major projects worth Rs 13.59 lakh crore, aligned with its core principles. PM *Gati Shakti* Master Plan aims to reduce logistics costs from 13-14% of GDP presently to 8% by 2030 to be on par with competitors like China.

As per the Economic Survey 2025-26, capital expenditure on infrastructure has more than doubled in the last decade, rising from 1.7% of GDP in 2014 to over 4% in 2025-26. It has been pointed out that India's infrastructure strategy over recent years reflects a decisive shift towards scale, integration, and quality, with sustained public capital expenditure acting as a powerful catalyst for growth. Coordinated investments across roads, railways, ports, civil aviation, energy, digital, and rural infrastructure have

Government wants to build world-class infrastructure and a complete growth ecosystem to meet the demands of a growing economy. The Government launched the National Infrastructure Pipeline (NIP) in 2020 as a multi-year roadmap (originally 2020 - 2025) to drive economic growth through massive public investments. It was designed to serve as a critical, integrated approach to developing world-class infrastructure in India. Initially launched with an investment of Rs 102 lakh crore in 6,835 projects, it has since grown to over the estimated 9,000 to 13,000 projects by 2025, valued at Rs 185 lakh crore, covering over 30 sectors primarily in transport, energy, and urban infrastructure.

Under the NIP, by March 2024, 20% of projects were completed and 46% were under active development. Roughly 46% of the investment is in the transport sector, followed by energy, social infrastructure, and water.

Infrastructure projects generally need to adhere to policies and directives of many departments and agencies, giving rise to substantial delays on account of a lack of coordination or oversight. Realising that the vast infrastructure sector needs a unified approach to planning and implementation, Prime Minister Modi launched the PM *Gati Shakti* National Master Plan (PMGS-NMP) in October 2021 with an aim to unify efforts across key Ministries for integrated infrastructure development. By October 2025, it had onboarded 58 Central Ministries and 36 States/UTs,

begun to yield tangible efficiency gains—shorter travel times, faster freight movement, improved logistics performance, and wider access to essential services. The institutionalisation of integrated planning through PM *Gati Shakti*, alongside reforms in financing, asset monetisation, and public-private partnerships, has strengthened project preparation and execution while crowding-in private investment. Improvements in transport connectivity are enhancing ease of travel for people and businesses by reducing travel times, lowering transaction costs, and expanding access to markets. Enhanced multimodal integration and more reliable freight movements are strengthening regional integration and improving the competitiveness of the

- Rs 10.95 trillion: Government's capital expenditure for 2025-26 (RE)
- Rs 12.21 trillion: Government's capital expenditure for 2026-27 (BE)
- Rs 2.92 trillion: Indian Railways' budgeted outlay for 2026-27, up 10% over RE2025-26
- Rs 3.09 trillion: Budgeted outlay for Road Transport & Highways for 2026-27, up 7.6%
- Rs 20,000 crore: Proposed investment in CCUS technologies
- Rs 30,539 crore: Allocation for solar power sector, up 32% over RE of 2025-26

Source: Union Budget 2026-27

Important Milestones in Infrastructure Development (2014-2025)

- PM *Gati Shakti* unified planning across 44 ministries and 36 States/UTs on a GIS-based platform.
- National Highways grew by 60% (from 91,287 km to 1,46,572 km).
- Highway construction pace rose to 34 km/day (from 11.6 km/day in 2014).
- *Bharatmala*: 26,425 km awarded; 20,378 km constructed.
- 68 *Vande Bharat* trains running across 333 districts.
- Over 45,000 Rkm of rail electrification completed since 2014.
- Safety: *Kavach* deployed on key routes.
- 1,790 lifts and 1,602 escalators installed for accessibility.
- 7.8 lakh km rural roads completed (2014–2025).
- PMGSY-IV to connect 25,000 habitations by 2029.
- 88 airports operationalised under UDAN.
- Over 1.51 crore passengers flown under regional connectivity.
- *Digi Yatra* adopted in 24 airports; over 5.22 crore users.
- Drone policy & MRO reforms boosting local aviation ecosystem.
- Port capacity doubled to 2,762 MMTPA.
- Overall vessel turnaround time improved from 93 to 49 hours.
- *Sagarmala* completed 277 projects; *Sagarmala 2.0* launched.
- Inland waterways cargo rose by 710% (from 18 MMT to 146 MMT).
- Green Hydrogen hubs under development at 3 major ports.

Source: PIB

Indian economy by enabling firms to participate more effectively in domestic and global value chains.

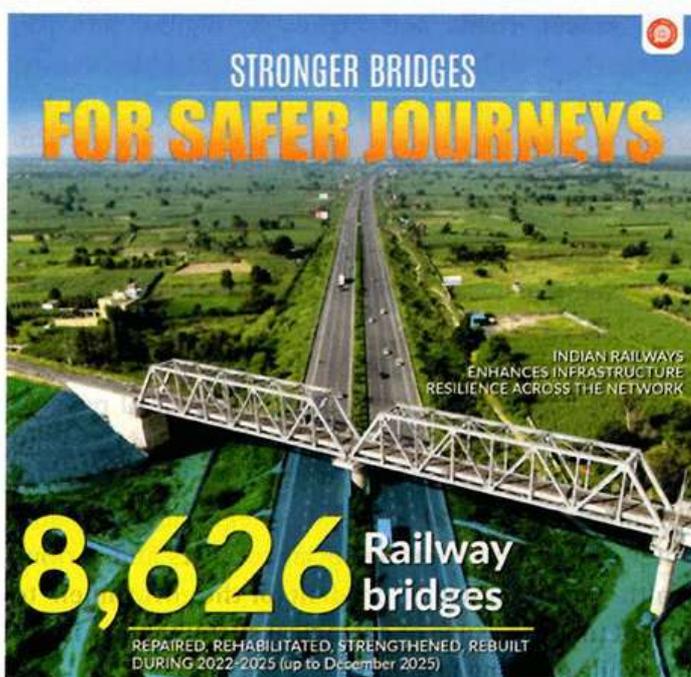
With higher capex, the government is looking to power the current growth momentum. The economy has been growing consistently at over 7% in the last 4 years. It has become the fastest growing economy in the world. Key drivers include major government spending on roads, railways, and digital connectivity, fostering long-term structural growth and attracting global

capital. In essence, India's massive infrastructure push serves as a fundamental economic transformation, shifting from a cyclical boom to sustained, inclusive growth by creating foundational assets that benefit all segments of the economy.

Accordingly, the budget for 2026-27 has clearly underlined the government's continued push towards infrastructure-led growth, even as it seeks to remain on the path of fiscal consolidation. The higher capex allocation signals that public investment will continue to be the primary engine to support growth, job creation, and private sector confidence.

The Budget 2026-27 has proposed 7 high-speed rail corridors along with a dedicated freight corridor and 20 new national waterways. The government plans to develop seven High-Speed Rail corridors between cities as 'growth connectors', namely: i) Mumbai-Pune, ii) Pune-Hyderabad, iii) Hyderabad-Bengaluru, iv) Hyderabad-Chennai, v) Chennai-Bengaluru, vi) Delhi-Varanasi, and vii) Varanasi-Siliguri. This will help in faster movement, and thus transport cost reduction and productivity improvement in the coming years.

At the same time, a growing population and increasing migration demand are developing city economic centres. The country-wide smart cities programmes have proven to be industry game-





UNION BUDGET 2026-27

Building Infrastructure for Future Ready Bharat

- › **Seaplane VGF Scheme** to be introduced to provide support for operations
- › New Dedicated Freight Corridors connecting Dankuni in East, to Surat in West
- › 20 new **National Waterways (NW)** over next 5 years
- › **7 High-Speed Rail corridors** between cities as 'growth connectors' to promote environmentally sustainable passenger systems
- › Training Institutes will be set up as Regional Centres of Excellence for development of required manpower

changers. Studies estimate that India needs to invest USD 840 billion over the next 15 years into urban infrastructure to meet the needs of its fast-growing population. This investment will only be rational as long-term maintenance and sustainability of physical infrastructure like buildings, bridges, ports, and airports will need to be focused on.

Presenting the Budget, the finance minister said, "The cities are India's engines of growth, innovation, and opportunities. The Government would now focus on Tier II and Tier III cities, and even temple-towns, which need modern infrastructure and basic amenities." In order to deliver the economic power of agglomerations, city economic regions (CER) will be mapped based on their specific growth drivers. An allocation of Rs 5000 crore per CER over 5 years has been proposed.

Besides these important measures, the Budget has also put emphasis on creating a complete ecosystem for various infrastructure sectors by way of setting up Regional Centres of Excellence for development and training of required manpower.

Several development agencies have estimated that India's ambitious plan calls for spending USD 1.723 trillion (approximately Rs 143 trillion) on infrastructure between FY24 and FY30, with a particular emphasis on power, roads, and developing industries like renewable energy and electric vehicles. According to a report of

Morgan Stanley, India's infrastructure investment is expected to steadily increase to 6.5% of GDP by FY29. Global investment and partnerships in infrastructure, such as the India-Japan forum for development in the Northeast are also indicative of more investments. These initiatives come at a momentous juncture as the country aims for self-reliance in future-ready and sustainable critical infrastructure.

While public capital expenditure on infrastructure has expanded significantly in recent years, its effectiveness increasingly depends on the quality of project planning, prioritisation, and execution. Evidence from various studies suggests that time and cost overruns in large infrastructure projects are often linked to gaps in upstream project preparation, including weak feasibility assessments, incomplete Detailed Project Reports (DPRs), rigid procurement practices, and delays in dispute resolution. Strengthening institutional capacity across the project lifecycle, including improved project preparation, lifecycle-based costing, standardised contracts, faster dispute resolution, wider adoption of technology, and skill development are critical to delivering infrastructure faster, at scale, and within budget. Ensuring adequate Funds availability at cheaper rates and ease of doing business would also be necessary for ensuring faster infrastructure expansion commensurate with the demands of a sustainable higher economic growth trajectory.

Additionally, there are also challenges of ensuring uniform expansion across the country with a focus on rural connectivity and last-mile connectivity, be it power, roads and highways, digital network, transport, or railways. Some villages in Chhattisgarh (e.g., Chilkapalli in Bijapur) received electricity for the first time since Independence sometime in early 2025. Similarly, people in many rural and hilly areas across several states have self-built roads due to government neglect, failed promises, or urgent logistical needs. The government needs to pay attention to rural and remote connectivity, along with focusing on highway-centric development. This would also ensure that infrastructure development truly becomes an instrument of poverty alleviation. Then there are environmental and climate concerns emanating from rapid infrastructure development. Deforestation and degradation of soil, water, and air are creating social conflicts and serious health hazards. It will be prudent for the government to ensure that the cause of ecological sustainability is not lost while growing faster. □