



India Union Budget 2025-26

Point of view

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Public Infrastructure

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Key announcements for the sector

The Union Budget 2025-26 has unequivocally outlined investments in various infrastructure sectors, fueled by private-sector collaboration, as among the key economic growth engines and priority pathways towards a *Viksit Bharat* by 2047. Infrastructure sub-sectors such as shipbuilding, maritime, regional air connectivity, urban development, nuclear energy, tourism (especially hotels), broadband connectivity (in schools and healthcare centres), and digital public infrastructure (geospatial infrastructure datasets), among others, have been given a fillip through encouraging policies and incentives. There is a special focus this year and a greater emphasis on adoption of public-private partnership (PPP) models at all levels of governments, especially at the state and municipality levels, for development of public infrastructure across the country.

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

- Infrastructure development push across Central Ministries and States, with special emphasis on leveraging PPP
 - Centre will encourage each infrastructure-related ministry to build a three-year pipeline of projects that can be implemented in PPP mode
 - Centre will also continue to encourage States to build PPP projects pipeline and seek support from the IIPDF (India Infrastructure Project Development Fund) scheme under the Department of Economic Affairs (Ministry of Finance) to prepare PPP proposals
 - Centre has provisioned a financial outlay of INR 1.5 lakh crore to states in the form of long-term (50-year) interest-free loans for capital expenditure and incentives for reforms
 - Centre will also launch a second Asset Monetization Plan, for 2025-30, to enable governments to plough back capital of INR 10 lakh crore in new projects. To support the Plan, Centre will refine and announce regulatory and fiscal measures
 - Access to PM Gati Shakti datasets for private sector: for furthering PPPs and assisting the private sector in project planning, Centre will provide access to relevant data and maps from the PM Gati Shakti portal
 - Large ships (above a specified size) and Hotels (in top 50 tourist destination sites in India) will be included in the infrastructure harmonized master list (HML)
 - Centre will enable The National Bank for Financing Infrastructure and Development (NaBFID) to set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure.
- Push for urban infrastructure development, establishment of GCCs, and governance reforms
 - Centre will set up an Urban Challenge Fund (UCF) of INR 1 lakh crore to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation' announced in the July 2024 Budget. The allocation for 2025-26 is proposed to be INR 10,000 crore. This fund will finance up to 25 per cent of the cost of bankable urban infrastructure projects provided at least 50 per cent of the cost is funded from bonds, bank loans, and PPPs

- Centre will formulate a national framework, as guidance to States, for promoting Global Capability Centres (GCCs) in emerging Tier 2 cities. This will suggest measures for enhancing availability of talent and infrastructure, building-byelaw reforms, and mechanisms for collaboration with the industry
- Centre will also announce incentives towards realising urban sector reforms related to governance, municipal services, urban land, and planning.
- Social Infrastructure push
 - Centre will provide broadband connectivity to all Government secondary schools and primary health centres in rural areas under the Bharatnet project
 - Centre will create additional infrastructure in the 5 IITs started after 2014 to facilitate education for increased number of aspirants. Hostel and other infrastructure capacity at IIT, Patna will also be expanded
 - Centre will set aside a financial outlay of INR 500 crore for development of Centre of Excellence in Artificial Intelligence for education (similar to CoEs in AI for agriculture, health and sustainable cities announced in 2023)
 - Centre will facilitate setting up of Day Care Cancer Centres in all district hospitals in the next 3 years. 200 Centres will be established in 2025-26.
- Transformation of energy sector
 - Centre will incentivise States to undertake electricity distribution reforms and augmentation of intra-state transmission capacity. This will improve financial health and capacity of electricity companies. Centre will allow additional borrowing of 0.5 per cent of GSDP by states, contingent on these reforms
 - As a fillip to the nuclear energy sector, the Centre will embark on *Nuclear Energy Mission* for Viksit Bharat, towards achieving the goal of at least 100 GW of nuclear energy by 2047, and will consider active partnership with the private sector through possible amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act. Centre will also encourage research & development of Small Modular Reactors (SMR) with an outlay of INR 20,000 crore. At least five indigenously developed SMRs will be operationalized by 2033.
- Transportation sector push
 - Centre will promote development of Shipbuilding sector. Large ships above a specified size will be included in the infrastructure harmonized master list (HML). Shipbuilding Clusters will also be facilitated to increase the range, categories and capacity of ships. This will include additional infrastructure facilities, skilling and technology to develop the entire ecosystem
 - Centre will set up a Maritime Development Fund with a corpus of INR 25,000 crore for enabling access to long-term financing for the maritime industry. This will be for distributed support and promoting competition. Centre will contribute up to 49 per cent, and the balance will be mobilized from ports and private sector.
 - Regional Airport Connectivity
 - Centre will launch a modified UDAN scheme to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years. The scheme will also support helipads and smaller airports in hilly, aspirational, and Northeast region districts
 - Centre will also facilitate development of greenfield airports in Bihar, in addition to the expansion of the capacity of Patna airport and a brownfield airport at Bihta
 - Warehousing facility for air cargo: Centre will facilitate upgradation of infrastructure and warehousing for air cargo including high value perishable horticulture produce. Cargo screening and customs protocols will be streamlined and made user-friendly.
- Promotion of Tourism infrastructure development in collaboration with States and private sector
 - Centre will enable development of Top 50 tourist destination sites in the country in partnership with states through a challenge mode. Land for building key infrastructure will be provided by states. Hotels in those destinations will be included in the infrastructure harmonized master list (HML). There will be a special focus on destinations related to the life and times of Lord Buddha.

- Upgrading water and affordable housing infrastructure
 - Centre has extended the Jal Jeevan Mission (JJM) until 2028 with an enhanced total outlay, and will target 100 per cent coverage (rural population having access to potable tap water connections)
 - Centre will contribute towards establishment of INR 15,000 crore SWAMIH (Special Window for Affordable and Mid-Income Housing) Fund 2 as a blended finance facility, with other contributions expected from banks and private investors. This fund will aim for expeditious completion of 1 lakh additional dwelling units in stressed housing projects.
- Foundational digital public infrastructure (DPI) for better data access, and planning and design of infrastructure projects
 - Centre will establish a *National Geospatial Mission* to develop foundational geospatial infrastructure and data. Using PM Gati Shakti datasets, this Mission will facilitate modernization of land records, urban planning, and design of infrastructure projects
- Taxation measures and reforms for providing support to infrastructure sectors
 - Considering that shipbuilding has a long gestation period, Centre will continue the exemption of Basic Customs Duty (BCD) on raw materials, components, consumables or parts for the manufacture of ships for another ten years. The same dispensation will be provided for ship breaking to make it more competitive
 - To prevent classification disputes in the Telecommunications sector, Centre will reduce the BCD from 20 per cent to 10 per cent on Carrier Grade ethernet switches to make it at par with Non-Carrier Grade ethernet switches
 - In order to attract and promote additional activities in the International Financial Services Centre (IFSC), the Centre will provide specific benefits to ship-leasing units of global companies which are set up in IFSC. Further, to claim benefits, the cut-off date for commencement in IFSC has also been extended by five years to 31 March 2030
 - Centre will also provide certainty of direct taxation, on the gains from securities to entities such as Category I and category II AIFs which are undertaking investments in infrastructure sectors
 - Extension of investment date for Sovereign and Pension Funds: To promote funding from Sovereign Wealth Funds and Pension Funds to the infrastructure sector, Centre will extend the date of making an investment by five more years, to 31 March 2030.

Implications for the sector

- Since 2020, capital allocation in the budget has grown at an annual rate of around 30 per cent. This year, the allocation remains steady at INR 11.2 lakh crore, similar to last year. Given that last year's high capex allocation was not fully utilised, the government's focus on strengthening policy and regulatory frameworks in the infrastructure sector is a strategic move to enhance implementation
- The strategy for this year has been to help in creation of non-traditional infra through sources other than the centre's own capex through provision of more infrastructure financing options. NaBFID, the development financing institution for infrastructure announced in 2021, will be coming up with a partial credit enhancement facility, which will help make social infrastructure projects more bankable, while giving a thrust to corporate bond markets. Through correction of invert duty structure for capital imports, streamlining of taxation for AIFs that invest in infrastructure, and extension of investment date for sovereign and pension funds, the sector will look at a renewed inflow of money which can then be tapped in by bankable projects
- One of the biggest sources for raising fresh capital for infra projects has been the focus on Asset Monetisation Pipeline that is expected to channelize more brownfield PPPs and more structured financing instruments like InVITs and REITs. This money will be available for more greenfield development in the same sectors

- Encouraging all States and each infrastructure-related central ministry to build a 3-year pipeline of infrastructure projects that can be implemented in PPP mode, is likely to significantly enhance private sector participation in infrastructure projects. To ensure that this results in easing of financing pressures away from the central and state treasuries, significant efforts are likely to be invested at project sponsoring authorities (at central, state and local levels) for ensuring capacity development among its officials for contracting and high-quality project identification, implementation and monitoring. Government's commitment to PPP as a choice of development for the next 3 years will encourage project authorities to look at structuring projects across a wide variety of sectors from roads to health to water and sanitation
- Centre has been consistent in its effort to make States also pick up their share of responsibility towards capital development. The allocation of 50-year interest-free loan has only increased over the years, resulting in 1.5 lakh cr in FY26. This could significantly enhance the financial feasibility of large-scale infrastructure projects for the states. States could also consider deploying these loans to accelerate infrastructure development, particularly for improving quality of infrastructure and basic services in their growing cities and peri-urban areas which have the highest promise of yielding significant economic growth and prosperity. Given that these funds can be drawn basis certain conditions and areas which the Centre indicates in the scheme guidelines, there may be a push towards PM-GatiShakti, infrastructure development in urban areas, and industrial parks
- The maritime sector is one of the biggest beneficiaries of the budget. The sector's long-standing demand for infrastructure status has been rewarded with infra status for large shipping vessels, which have a long gestation period and need infrastructure financing. With the maritime development fund, and the exemption of BCD on ship building components along with a thrust for shipbreaking, the sector is expected to invite fresh investments towards port upgradation, logistics, and port-led infrastructure. Coastal states with major ports and private ports can benefit from projects in the maritime sector
- Urban sector continues to receive government blessings through the focus on creative redevelopment of cities, which is expected to bolster infra development in the urban sector, i.e., hospitals, convention centres, urban transportation, sanitation infrastructure, sports stadium. PPP Structuring of projects such as these will necessitate creative thinking around revenue streams and therefore participation of many stakeholders from municipal corporations to transaction advisers to multilateral and bilateral organisations
- There is an effort to broad-base capital asset creation in non-traditional infrastructure areas, such as tourism, education and warehouses. With announcements around capacity expansion in IITs, more student hostel projects on PPP may be encouraged. Infra status of hotels will further trigger more hotel development in renewed urban centres, especially those that are selected under the urban challenge. Tourism, one of the biggest employment generators, will benefit significantly from both the announcements of infra status of hotels as well as from creation of MICE infrastructure under urban development.

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