

GETTING BACK ON TRACK: ON UNION BUDGET 2021

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Finance Minister Nirmala Sitharaman made a brave effort to make good use of the lessons learnt from the unprecedented global health crisis and ensuing economic setback to put lives and livelihoods back on track. There is greater spending on health care and some fiscal push to undergird the struggling demand in the pandemic-hit economy. But this is no transformative budget that lives up to the heightened expectations of a weary population waiting for manna from the government. A lot more could have been done to address the chronic underinvestment in India's public health infrastructure by appreciably raising expenditure. [The Union Budget for 2021-2022 presented to Parliament on Monday](#), instead reveals an estimated health outlay of 74,602 crore, almost 10% lower than the revised estimate of 82,445 crore earmarked for health spending in the current fiscal year. The Minister, however, has claimed a [137% increase in the budgetary outlay](#) on 'health and wellbeing' by including a one-time expenditure of 35,000 crore set aside for the COVID-19 vaccination programme, 60,030 crore budgeted for the department of drinking water and sanitation, as well as the Finance Commission's grants for both water and sanitation and health totalling to almost 50,000 crore. While it is an inarguable fact that the availability of vaccines, ensuring universal access to safe drinking water and proper sanitation and adequate nutrition are all key in determining a population's wellbeing, an abiding thrust on creating and maintaining a sizeably more extensive public health infrastructure needed a substantially higher outlay on the standalone head. In fact, the Economic Survey had eloquently made the case for providing a massive boost to health spending, which it reasoned would serve as a direct means to raising overall economic output by reducing the economic burden of illnesses. To her credit, the Minister did announce that the government intends to introduce a new centrally sponsored scheme, 'PM Atma Nirbhar Swasth Bharat Yojana', to develop primary, secondary, and tertiary care capacities over the next six years, at an estimated cost of 64,180 crore. How exactly this scheme pans out in terms of strengthening the beleaguered public health infrastructure in the remote and far-flung corners could well determine how prepared India is for the next unforeseen health emergency. A sizeable fiscal stimulus to reinvigorate consumption demand could have gone a long way in completing the recovery. While the revised estimates for the current financial year project a [fiscal deficit of 9.5% of GDP](#) on account of expenditure surging to 34.50-lakh crore, the Minister has opted for a mere 33,000 crore increase in the overall expenditure outlay in her Budget estimates for the next fiscal. Here again, she has pointed to the 5.54-lakh crore set aside for capital expenditure to contend a 34.5% increase in outlay over the current year's Budget estimate. Far from being an expansionary Budget, Ms. Sitharaman has opted to contain overall spending so as to rein in the fiscal deficit to 6.8% in the coming fiscal itself. The country cannot afford a premature scaling down of fiscal support at a time of rising inequality.

Strapped as the government is for funds in the wake of this year's economic contraction denting its revenue receipts, the Budget does make bold to set out a few avenues for resource mobilisation. With the Minister announcing her resolve to complete the pandemic-delayed strategic stake sale in several state-owned companies in the coming fiscal, the Budget has accounted for 1.75-lakh crore in capital receipts from disinvestment. She also proposes to privatise two more public sector banks and a general insurer in 2021-22 and has committed to ensuring that the necessary legislative amendments to enable the [LIC's IPO](#) are introduced in the current session of Parliament. The Budget also throws open the doors for increased FDI in insurance — the foreign ownership limit would be raised to 74% after amendments to the Insurance Act, 1938. Still, it remains to be seen how eager overseas insurers may be to raise their stakes, given the government's intention to make its proposal politically acceptable by

including safeguards such as mandating that a majority of board positions and key management personnel be restricted to resident Indians and requiring the companies to set aside a specified percentage of profits as general reserve. Also on the block for possible sale or lease through concessions are state-owned undertakings' land assets that the government intends to monetise. In finding the capital for its National Infrastructure Pipeline, the Budget proposes an asset monetisation pipeline that would include highways, airports and ports. The aggressive stance on privatisation notwithstanding, the government is still likely to face an uphill task in achieving its ambitious disinvestment goal given that private investment is still anaemic. Ms. Sitharaman has also embarked on creating a 'bad bank' for dealing with the pile of stressed and bad bank loans. The Budget proposes establishing both an Asset Reconstruction Company and an Asset Management Company that would consolidate and take over existing stressed debt and then help dispose of the assets. It is these plans to privatise two state-run banks and also undertake a clean up of the stressed assets that have prompted the Minister to set aside just 20,000 crore to recapitalise the remaining public banks. Ultimately though, given its effort to mobilise resources without tweaking direct taxes at a time when several States are headed to the polls, the government has had little option but to tap the market for debt. With the Budget positing a gross market borrowing of 12-lakh crore, the government will end up getting 36 paise of every rupee it nets from borrowings and other liabilities, an 80% increase. Given these challenges, the Budget can only be the starting point for a year that calls for deft stewardship of the economy.

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