

Union Budget 2021–22: a financial plan to spur growth

March 2021

By Elias George, Partner and Head – Infrastructure, Government and Healthcare Advisory, KPMG in India

(4 min read)

The recently announced Union Budget for 2021–22 was keenly awaited, given its anticipated seminal role in extricating India out of the economic impasse created by the COVID-19 pandemic. As expected, the budget attempted to address the linked challenges of catalysing economic growth, enhancing employment opportunities, spurring private investment and demand, as well as improving the health security of the population.

The basic philosophy of the budget was to revive the innate potential and productivity of the economy, which had, for obvious reasons, gone into negative growth territory in the financial year 2020–21. On the back of this decline, the national Economic Survey has predicted a rebound growth of gross domestic product (GDP) at 11 per cent for the financial year 2021–22.¹

On the health front, one of the most compelling challenges was to enhance public spending as well as focus efforts around the three key factors that lead to better health outcomes for all, viz. improving curative healthcare services, bolstering preventive healthcare systems and facilities, and addressing causative factors that affect the health status of the population. The budget's novel focus on addressing causative factors affecting public health outcomes, such as air pollution in cities, sanitation, and the universal supply of safe drinking water, in rural areas as well as all 4,378 of India's urban local bodies (ULBs) is welcome. The consequence has been an enhancement in health-related budgetary outlays to INR2.2 trillion (USD30 billion), which is an improvement of 137 per cent² over the previous year's allocation.

The budget has also rightly recognised the need to augment India's infrastructure stock and revive the flatlining levels of private sector investments into this sector, not just for improving people's ease of living, but also for creating more opportunities in non-farm employment to absorb the estimated 12 million³ people who enter the workforce every year. Consequently, there has been a substantial enhancement of public spend in the infrastructure sector with a combined outlay of INR5.5 trillion (USD76 billion) — an improvement of about 34.5 per cent over the preceding year.⁴ The creation of a legally empowered Development Financial Institution (DFI) with an allocation of INR20,000 crore (USD2.8 billion) is expected to catalyse the creation of an infrastructure portfolio of at least INR5 trillion (USD69 billion) over the next three years. The budget has also announced fresh initiatives in the area of public asset recycling with the twin objectives of releasing public resources for fresh infrastructure creation, as well as incentivising private investments in domains ranging from highways and power, to railways, airports, warehousing, oil and gas pipelines and sports infrastructure.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The public private partnership (PPP) model should see a revival with the extension of this approach into areas such as urban public transport and railway infrastructure. It is noteworthy that the budget has not shied away from putting on the table the privatisation intent, with two public sector banks and one general insurance company slated to be privatised during 2021–22, apart from selected public sector undertakings (PSUs). These measures, along with the proposed creation of the ‘bad bank’, are expected to revive the quantum of private investment inflows into infrastructure creation from the presently flatlining levels of 25 per cent⁵ of the national infrastructure spend towards a more desirable trend zone of about 40 per cent.

Looking at the budget from the perspective of what could be done better and what more needs to be done, the obvious challenge is the need to institute policies and programmes to prevent what has been called a K-shaped recovery, where the economic status of the less well-off sections of the population follows a downward trajectory. Given that more than 90 per cent⁶ of India’s workforce toils in the unorganised sector, and the data lag and data collection challenges in the informal and rural economy, the impact of the pandemic on their economic status and well-being has not been adequately quantified as yet. However, empirical evidence reveals cause for considerable concern, and more initiatives have not been announced on this front presumably out of possible concerns related to preserving the government’s fiscal health. While there is some comfort in the previously announced economic succour package of INR20 trillion (USD276 billion)⁷, its primary intent was to provide assistance to small businesses, and much more needs to be done to provide work opportunities as well as financial relief to the poor, who have been hard hit by the pandemic.

All told, the budget has attempted to strike a fine balance between the need to maintain fiscal rectitude and to infuse renewed pump-priming vigour into the economy. The focus now needs to shift to timely and efficient execution of the announced programmes, as well as to provide sustenance and enable livelihoods for the large majority of Indians whose lives have been substantially unsettled by the pandemic.

¹ Economic Survey 2020-21, Volume 2, Ministry of Finance, Government of India – accessed on 22 February 2021

² Budget outlay for health and well-being hiked by 137 percent to over 2 lakh crore rupees, News Services Division AIR, February 2021

³ Workforce Development in India – Policies and Practices, Asian Development Bank Institute – accessed on 22 February 2021

⁴ FM banks on big infra spend to push economic recovery, mint, 02 February 2021

⁵ Historical trend in infrastructure investment in India, National Infrastructure Pipeline (NIP) – Volume 1, DEA, Ministry of Finance, August 2020

⁶ Annual Report 2019-20, Ministry of Labour and Employment, Government of India – accessed on 22 February 2021

⁷ PM announces special economic package; comprehensive package of Rs 20 lakh crore, Press Information Bureau, 12 May 2020

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.