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COMMENTS

Road map for sustainable growth

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After the five recovery-driven "mini budgets" to keep the pandemic-hit economy ticking, Union Budget 2021-22 promises to be a growth-oriented one with surprises on multiple fronts. Indeed, in a like "never before" Budget, the Centre kept aside its past fiscal prudence and targeted a fiscal deficit of 6.8 per cent of GDP in FY22 (9.5 per cent in FY21), well-ahead of the consensus view. The Budget kept away from mood dampeners such as an increase in taxes (capital gain taxes) and even the much-feared introduction of Covid cess and wealth taxes.

The privatisation of two public sector banks along with the announcement to set up an Asset Reconstruction Company and Asset Management Company for resolving stressed assets problem of PSBs are both steps in the right direction, and execution will remain the key. We believe that banks' gain will be conditional on how transparently the assets are valued and the pace of recovery of cash to free up capital. If the purchase entails subscription to security receipts (SRs), the benefit will be optical in terms of reducing reported GNPLs. However, it would help in freeing management bandwidth.

THE PRIVATISATION OF TWO PSBs, ALONG WITH THE ANNOUNCEMENT TO SET UP AN ASSET RECONSTRUCTION COMPANY AND ASSET MANAGEMENT COMPANY FOR RESOLVING STRESSED ASSETS PROBLEM OF PSBs, ARE BOTH STEPS IN THE RIGHT DIRECTION

The overall fiscal math does not seem aggressive on the receipts front. As expected, the Centre announced an aggressive push to divestment and asset monetisation. Unlike previous years, the divestment target for FY22 seems realistic at ₹1.75 trillion. Overall budgeted expenditure has been targeted to rise by 1 per cent year-on-year, over a high base in FY21RE, with improved quality in spending as: i) the capex-to-GDP has been projected to surge to 2.5 per cent of the GDP versus average of 1.7 per cent since FY14; and ii) contraction in revenue expenditure on account of cuts in subsidies by almost ₹2.8 trillion (1.3ppts of the GDP).

The government delivered on its promise for infrastructure push by the setting up of a Development Finance Institution that intends to have a lending pool of ₹5 trillion in the next three years. . Priority on the rural and healthcare sector prevailed. Rural spending (ex-food subsidy) and healthcare spend have been broadly maintained at the elevated levels of FY21RE.

Overall, with a Budget like this, India's vision to remain the world's fastest growing economy on a sustainable basis has been laid. The efficient rollout of the announced measures in the Budget, along with the slew of other structural reforms such as the corporate tax cut, PLI scheme, and labour and agricultural reforms, are expected to keep India in the bright spot in the years to come.