

BANKING ON KNOWLEDGE

India's 2021-22 budget measures to augment growth momentum

By Dr R Seetharaman

India's finance minister announced budget for 2021-22 yesterday. The fiscal deficit is set at 9.5% of GDP for FY'21 and at 6.8% for FY'22. The budget has mentioned clearly that fiscal deficit will be around 4.5% till FY2025-26. IMF has highlighted in its recent World Economic Outlook growth of 11.5% in 2021 and 6.8% for FY'22.

The budget proposal was focused on six pillars 1) Health & Well-being, 2) Physical & Financial capital infrastructure, 3) Inclusive Development for Aspirational India, 4) Reinvigorating human capital, 5) Innovation and R&D, and 6) Minimum Government, Maximum Governance. The finance minister highlighted strong measures to augment growth momentum for the years to come. The budget reflects firm commitment of the government to boost economic growth by investing in infrastructure development, boost manufacturing, solving the stressed assets under single umbrella by creating an asset management company, accelerate growth by taking green initiatives and grow the share of self-reliant India. The government has taken a bold move



to be funded by market borrowings. There is a clear focus on delivering a higher growth for India, given a higher fiscal deficit. The government announced the AtmaNirbhar Bharat package (ANB 1.0). The total financial impact of all AtmaNirbhar Bharat packages including measures taken by RBI was estimated to about INR27.1lakh crores, which amounts to more than 13% of GDP. For a \$5tn economy, the manufacturing sector has to grow in double digits on

a sustained basis. The manufacturing companies need to become an integral part of global supply chains, possess core competence and cutting-edge technology. For this, the government has committed nearly INR1.97lakh crores, over 5 years starting FY 2021-22. This initiative will help bring scale and size in key sectors, create and nurture global champions and provide jobs to our youth. The National Infrastructure Pipeline (NIP) announced in December 2019 is the first-of-its-kind, whole-of-government exercise ever undertaken by the Government of India. The NIP was launched with 6,835 projects; the project pipeline has now expanded to 7,400 projects. Around 217 projects worth INR1.10lakh crores under some key infrastructure ministries have been completed. Foreign Direct Investment limit in Insurance sector has been raised from 49% to 74%. Mega national highway projects announced in election-bound states of Tamil Nadu, West Bengal, Assam and Kerala. The finance minister allotted INR200bn to recapitalise the public sector banks. The next census will be digital; almost 15,000 schools will be under National Education Program. The government has announced a



26% increase in capital expenditure by focusing on creation of more national highway construction. Monetising operating public infrastructure assets is a very important financing option for new infrastructure construction. A "National Monetisation Pipeline" of potential brownfield infrastructure assets will be disclosed shortly. The government has announced vehicle scrappage policy, which means more than 20 years of personal vehicle and more than 15 years of commercial vehicle to be scrapped. An asset monetisation dashboard will also be created for tracking the progress and to provide visibility to investors. Two banks and one insurance company to be disinvested in 2021-22; and IPO of LIC to be announced. The government is going focus on Artificial Intelligence/fin-tech-based startups. The finance minister mentioned on account of transparency and faceless tax transparency the number of tax assesses has moved up from 3.48crores

to 6.48crores. The tax announcement gives relief to charitable institutions, senior citizens for return filing, tax holiday for aircraft leasing, extension for affordable housing projects, tax holiday for start-ups and dividend tax to be exempted from TDS. The minister said that there were 110,000 filers for INR850bn tax on assessment period reduction of 6 years; this has been reduced further to 3 years to facilitate further solution of the pending cases. Custom duty policy should promote domestic manufacturing - for which, the duty on copper scrap cut to 2.5%; nylon to be brought at par with polyester with respect to taxation; and duty on naphtha reduced to 2.5%. Government cut the import tax on gold and silver to 7.5% from 12.5%. The minister also mentioned that a new customs duty will be announced by October 2021. There has been an announcement of 1) New Infrastructure Cess and 2) Agriculture Cess. The

announcement of this new cess could be inflationary going ahead. The budget has relaxed taxation rules for NRIs, this is to avoid the hardship of double taxation. There is a proposal to eliminate double taxation rules for NRIs on foreign retirement funds. The tax audit limit will be increased from INR5crores to INR10crores, this is for those having less than 5% cash transactions. NRIs will be allowed to setup one person one companies, they can grow without any restriction in share of capital or turnover. They are required to be present for 120 days in a year would be enough to start a one person one company. India's recent budget measures announced are broad-based to reinvigorate growth momentum for the years to come. The budget has acknowledged and has taken relief measures to the most affected sectors in the economy. We believe the steps undertaken are likely to bring in more jobs, with inclusive growth, digital governance and environment initiatives. The steps undertaken are likely to augment a faster growth momentum for the years to come.

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