Budget 2021: Government's focus on supply-side to kick-start economic growth; more job creation on cards

Updated: February 04, 2021 9:52 AM

Union Budget 2021: The budget indicates that the government is back in business focusing on the economy and there are signals on emerging positive business environments both through supply side as well as demand boost

By **Jagadish Shettigar, Pooja Misra**

Union Budget 2021: With BSE Sensex skyrocketing 2050 points and investor's wealth seeing a jump post the announcement of the Union budget 2021-22 it is only fair to state that the bulls are back in action and market sentiments are positively high. The Government has clearly focused on growth revival and it aims to leave no stone unturned to achieve the same. The strong emphasis on infrastructure and healthcare will give the requisite boost to the economy and drive it back on the trajectory of economic growth.

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In light of the pandemic and Pillar 1 as mentioned by the FM being Health & Wellbeing, the Government's proposal of increasing its spend on healthcare by 135% is a step in the right direction. Keeping in mind the fact that world over countries are in the throes of the virus, the Government has spelt out that the attention is still on "Jaan Bhi, Jahaan Bhi". Increasing the FDI cap from 49% to 74% for the insurance industry will help revive the economy, mobilise resources for infrastructure development, encourage competition in the insurance sector leading to advantage consumer and improve quality of human capital.

Interestingly, analysts and economists have been mooting the point of making power distribution network into a competitive one but until today quoting reasons such as technical difficulty etc., previous Governments have not been able to bite the bullet. It is heartening to see that the incumbent Government is willing to create a competitive environment and provide consumers the choice to choose the discom that it wants to source the power from thereby making it beneficial for the consumer.

Pillar 2 being dedicated to the big infrastructure push focuses on capital expenditure and asset monetisation. With a proposed outlay of Rs. 5.54 lakh crore on capital expenditure it aims to drive projects under the National Infrastructure Pipeline and spend on Production Linked Incentive schemes announced last year alongwith making Indian textiles competitive globally. Increased allocation to rural infrastructure development will give the necessary thrust to the rural areas and drive employment opportunities. Higher spending on building of roads, highways, expressways etc. will have a propelling effect on other sectors such as cement, steel etc. Not to forget the advantage being given to affordable housing for all will also have a multiplier effect on all other related sectors and give the boost to the real estate industry.

With an out of the box thinking of asset monetization it will not only give the Government access to financial resources but will also lead to regional development of areas around, thus serving a two pronged strategy. Asset monetisation will unlock value of unutilized or underutilized public assets which can be justly used for commercial purposes and will also drive employment opportunities along with balanced regional development. Monetisation of assets as an overall strategy of mobilizing revenue through non-tax means will also lead to development along with employment generation. Increased employment will lead to increased income and higher demand. Thus, with

Under the Atmanirbhar package in May 2020, with the Government having already announced its policy on disinvestment and that there would be a maximum of four PSU in strategic sectors while all state owned firms in non-strategic sectors would be privatized, the announcement of disinvesting in two public sector banks and one insurance company is a step forward. Asset monetization, disinvestment and privatisation will only help garner resources for infrastructure development, creating value and bridging of the fiscal deficit gap.

As anticipated, the extraordinary economic situation due to the pandemic has led to a complete shift in priority from the economy to healthcare and resulted in fall in revenue collection and rise in Government expenditure, increased unemployment and an economic contraction. With the fiscal deficit for 2020-21 being summarized to be 9.5% of GDP it is only fair to state that in the background of the pandemic, the effort should be to drive growth through increased Government expenditure and not focus on trying to achieve the FRBM target. It is well accepted for countries across the world that that the pandemic has necessitated deviation from the fiscal deficit target. However, one would want to mention that a path spelling out well contemplated steps for achieving fiscal consolidation by FY26 of 4.5% of GDP as stated by FM would have been welcome. Not to miss that with bringing off budget liabilities back into the fiscal deficit numbers only lends transparency to the process. The flip side being that a higher fiscal deficit could have a likely impact on interest rates and external commercial borrowings and rating. However, this is the price that the economy should be prepared to pay keeping long term interest in mind.

With reference to the agricultural sector a higher allocation was expected. However, one should not forget that game changing policies in this sector have only been recently initiated last year along with allocation of more than Rs. 100,000 crores to the Agricultural Infrastructure Fund. In the Union Budget announcement, the focus of the Government was on showcasing procurement of record foodgrains-may be in the background the on-going agitation.

The announcement of setting out of policy measures for easy and time bound access to deposits of stressed banks will help many aggrieved depositors heave a sigh of relief. Also, by reducing the reopening of assessment period from 6 years to 3 years except in cases of serious tax evasion and further driving faceless income tax assessment and pre-filing of returns will only lead to ease of filing and bringing down tax evasion and corruption levels along with increasing transparency. This will also trigger a widening of tax base.

The budget indicates that the government is back in business focusing on the economy and there are signals on emerging positive business environments both through supply side as well as demand boost. It has proposed innovative ideas especially in terms of revenue generation, research, human capital etc. Last but not the least with the Union Budget 2021-22 primarily focusing on the supply side aiming to kick-start growth in the economy, it will create the environment of increased employment leading to increased income in the hands of people and thereby giving the requisite boost to the demand cycle.

(Jagadish Shettigar is Professor, and Pooja Misra is Associate Professor, Economics, Birla Institute of Management Technology. Views expressed are the authors' own.)

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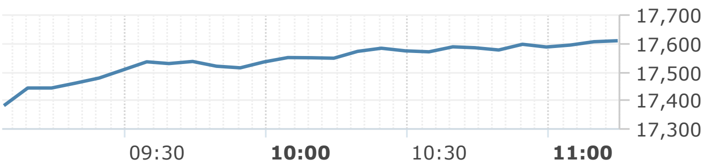

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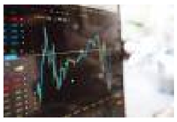

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