

## India's Union Budget 2021–2022 Highlights

- The growth-supportive Budget 2021–22 focuses on healthcare and infrastructure to help with India's economic recovery.
- The central government deficit is expected to narrow to 6.8% of GDP in FY2021–22 from 9.5% in the current fiscal year.

India's Union Budget for Fiscal Year 2021–22 (April–March) was presented by Finance Minister Nirmala Sitharaman on February 1. The Budget focuses on supporting the economy's recovery momentum. In addition, we assess that it will improve the country's longer-term growth potential given increased outlays on healthcare, infrastructure, and education.

The estimate for the central government's budget deficit in the current fiscal year was revised to 9.5% of GDP (chart 1) vs. the originally targeted 3.5%; the significant miss reflects pandemic-related fiscal stimulus and weak tax revenue. The government aims to resume fiscal consolidation efforts and narrow the shortfall from the projected 6.8% of GDP in FY2021–22 (chart 1, again) to 4.5% by FY2025–26. While the administration is prioritizing the economy's recovery, it is simultaneously trying to show commitment to fiscal prudence over the medium-term in order to support investor confidence. Indeed, India's relatively weak public finances have prompted Moody's and Fitch Ratings to assign a "negative" outlook to India's sovereign credit ratings; continued fiscal slippage would likely prompt rating downgrades.

According to Finance Minister Sitharaman, budget proposals for 2021–22 rest on six pillars: 1) Health and Wellbeing; 2) Physical & Financial Capital, and Infrastructure; 3) Inclusive Development for Aspirational India; 4) Reinvigorating Human Capital; 5) Innovation and R&D; and 6) Minimum Government, Maximum Governance. Against this backdrop, public outlays will mainly be directed at:

- Improvement of the country's health care and education systems
- Significant infrastructure projects with focus on roads, railways, ports, urban infrastructure, power generation, etc.
- Sector-specific programs in manufacturing, textiles, and agriculture
- Inclusive development programs for rural India

Other key proposals include:

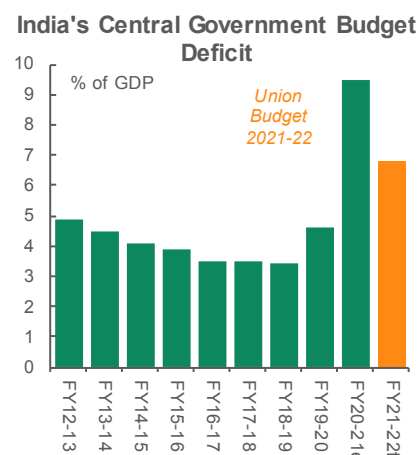
- Recapitalization of public sector banks and management of their stressed assets
- Disinvestment of public sector enterprises and infrastructure asset monetisation
- An increase in the threshold of foreign investment in the insurance sector to 74% from 49%

The government expects India's real GDP growth to rebound to 11% y/y in FY2021–22 from a 7.7% contraction in the current fiscal year. Given significant uncertainties related to India's recovery momentum amid the continuing pandemic, we note that the forecast may prove to be optimistic. We are also somewhat sceptical about the administration's ability to execute the ambitious divestment program swiftly. Moreover, the projection for a notable pickup in tax revenue may prove to be too optimistic given the still-weak economy. Accordingly, we consider the deficit target for FY2021–22 to be at risk.

### CONTACTS

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Chart 1



Sources: Scotiabank Economics, IMF, India Ministry of Finance.

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