Union Budget 2021 – 22

The Union Budget is the annual budget of the Indian Republic. It is presented every year in the month of February generally by the Union Finance Minister. In this page, you can read all about what a budget is, and what to expect in the Union Budget 2021-22. This is an important topic for the UPSC exam.

Union Budget - Introduction

The Union Budget is also known as the Annual Financial Statement. **Article 112** of the Constitution of India lays down that it is a **statement of the estimated expenditure and receipts of the Government** for a particular year.

- The Budget keeps the account of the finances of the government for the fiscal year (from 1st April to 31st March).
- The Budget is presented on 1st February (until 2016, it was presented on the last working day of February) so that it can materialise before the commencement of the new financial year which starts on 1st April.
- In 2017, a 92-year-old tradition was broken when the railway budget was merged with the Union Budget and presented together.
- The Budget has to be passed by the Lok Sabha before it can come into effect.
- The Union Budget is divided into Revenue Budget and Capital Budget. For more on these terms, check Union Budget - Important Economic Terms.
- In the Union Budget, the disbursements and receipts of the government comprise the various types of government funds in India namely, the Consolidated Fund of India, the Contingency Fund and the Public Account.
- The **Economic Survey of India** is released ahead of the presentation of the Budget. This document is prepared under the guidance of the Chief Economic Advisor and is presented for discussion in both Houses during the Budget session.

Important Highlights of Budget 2021 for UPSC

The overall view of the Union Budget 2021 - 22 are given below.

- Focus on Atmanirbhar Bharat
    - Hike in customs duty
- Employment generation has been a recurring theme in the budget
    - Proposed higher expenditure (capex), for example, NIP
    - Creation of textile parks

- Enhancement of emergency credit line to MSMEs
- Disinvestment - the private sector is expected to revive these units
- Launch of a new portal that will collect relevant information on gig, building and construction workers among others. This is expected to help in the formulation of schemes for the migrant workers

- Higher capital expenditure and infrastructure
    - DFI
    - PPP
    - Asset monetization
    - Disinvestment, etc
- Support for the banking sector
    - Recapitalization
    - Bad Bank
- Attracting foreign capital
    - FDI in the insurance sector
    - Foreign investors given tax exemption to shift to IFSC

The budget proposals are on six pillars:

1. Health and well-being
2. Physical & Financial Capital, and Infrastructure
3. Inclusive development for Aspirational India
4. Reinvigorating Human Capital
5. Innovation and R&D
6. Minimum Government and Maximum Governance

Health and well-being

- Healthcare expenditure has been more than doubled for the next fiscal.
- The allocation has been increased form ₹ 94452 Cr to ₹ 2.23 lakh Cr (137% increase).
- **PM Atmanirbhar Swasth Bharat Yojana:**
    - Centrally sponsored scheme with an outlay of ₹ 64180 Cr has been announced.
    - This will be implemented over the next six years.
    - It will focus on three areas - preventive, curative and well being.
    - Over 17000 rural and 11000 urban health and wellness centres will be supported; integrated public health laboratories will be set up in all the districts; 3382 block public health units will be established in 11 states; critical care hospital blocks will be created in 602 districts and 12 central institutions.
    - This will be implemented in addition to the existing National Health Mission (NHM).
- **Mission Poshan 2.0**

- Supplementary Nutrition Programme and Poshan Abhiyan merged.
    - It has been done to strengthen nutritional content, delivery, outreach and outcome.
    - Strategy to improve nutritional outcomes across 112 aspirational districts.
- **Water supply**
    - Jal Jeevan Mission (Urban) will be launched.
    - Aims to provide water supply to all the 4378 Urban Local Bodies and 500 AMRUT cities.
    - Will be implemented over 5 years with an outlay of ₹ 287000 Cr.
- **Swachh Bharat, Swasth Bharat**
    - Urban Swachh Bharat Mission 2.0 will be launched for a period of 5 years from 2021-2026.
    - It will be focused on complete faecal sludge management and wastewater treatment, source segregation of garbage, reduction in single-use plastic, reduction in air pollution by effectively managing waste from construction-and-demolition activities and bioremediation of all legacy dumpsites.
- **Scrappage policy**
    - Voluntary scrappage policy has been announced.
    - Vehicles older than 15 years and 20 years in case of commercial and personal vehicles respectively will be covered under this.
    - It will promote the usage of fuel-efficient, environment-friendly vehicles.
- Budget proposes spending ₹ 35000 Cr for covid vaccines in FY22.
- Rollout of pneumococcal vaccines for pan India usage (available only in 5 states now) has been announced (it will avoid deaths of 50000 children). It is a 'Made in India' product.

Physical and Financial Capital and Infrastructure

- **PLI (Production Linked Incentives)**
    - Govt has already announced this for 13 sectors.
    - Allocated ₹ 1.97 lakh Cr for five years from FY22.
- **Textiles**
    - Mega Investment Textile Parks (MITRA) will be launched.
    - This is in addition to the PLI scheme.
    - 7 textile parks will be established in 3 years.
    - This will create a plug and play infrastructure.
    - This is a low skill manufacturing sector.
    - India has a substantial export-oriented textile base but has been losing out to Vietnam and Bangladesh in recent times.
- **Infrastructure**
    - National Infrastructure Pipeline (NIP):

- Govt has expanded the NIP to cover more projects to shore up the economic recovery.
- The total value of projects proposed under NIP is ₹ 111 lakh Cr ($1.5 tn).
- NIP was launched with 6835 projects and has been expanded to cover 7400 projects.
- So far around 217 projects worth ₹ 1.1 lakh Cr have been completed.
- In order to increase the spending, the govt proposed three steps:-
    - Creating an institutional structure
        - Govt has proposed setting up a development finance institution - National Bank for Financing Infrastructure and Development (NBFID).
        - It will be set up with a capital base of ₹ 20000 Cr and will have a lending target of ₹ 5 lakh Cr in three years.
    - Big thrust to monetization of assets.
    - Enhancing the share of capex under centre and state budget.
- Asset Monetization:
    - A National Monetization Pipeline (NMP) of potential brownfield infrastructure assets will be launched.
    - In addition to this, asset monetization dashboard will be created for tracking the progress and to provide visibility to investors.
    - NHAI and PGCIL to set up infrastructure investment trust to attract global funds.
    - Five operational roads with an estimated enterprise value of ₹ 5000 Cr are being transferred to NHAI InvIT.
- A sharp increase in capital expenditure - ₹ 5.54 lakh crore for the FY22 (34.5% more than the budget estimate of FY21).
- To provide more than ₹ 2 lakh crore for states and autonomous bodies for their capital expenditure.
- Railways:
    - Indian Railways has prepared a National Rail Plan 2030.
    - To reduce logistics costs:
        - Dedicated Freight corridor - DFC (Western and Eastern) will be commissioned by 2022.
        - Future DFC will also be undertaken.
        - Electrification of broad-gauge routes is expected to reach 46000 Route KiloMeter (RKM).
- Urban Infrastructure:
    - Govt to launch PPP models to promote private bus operators to operate and maintain 20000 buses in urban areas.

- Two new technologies - MetroLite and MetroNeo will be deployed to provide rail metro services at a much lower cost.

- Power infrastructure:
    - Govt will be putting in place a framework to provide choice for the consumers to choose from more than one electricity distribution company.
    - Govt to launch a revamped result-based power distribution sector scheme with an outlay of ₹ 305984 Cr over 5 years.
    - Hydro energy Mission 2021-22 for generating hydrogen from green power sources.
- Ports, Shipping and Waterways:
    - 7 ports will be offered to the private sector under PPP.
    - These ports will be worth more than ₹ 2000 Cr.
    - India has implemented the Recycling of Ships Act 2019 and has acceded to Hong Kong International Convention. Read more on this convention in the article International Maritime Organization.
- Petroleum and Natural Gas:
    - The number of beneficiaries under the UJJWALA Scheme has been increased from 8 Cr to 9 Cr (increased by 1 Cr).
    - Will add 100 more districts under City Gas Distribution Network in the next 3 years.
- Financial capital:
    - Proposed consolidation of SEBI Act, Depositories Act, Securities Contraction Act and Govt securities Act into a single rationalized Securities Markets Code.
        - This will help integrate the capital markets and have rules streamlining across all the securities. In fact, it will also help in accelerating regulations for listing Indian companies abroad.
        - Promote ease of doing business - single statutory provision to follow.
        - RBI will have to give up its powers of regulating the G-securities.
        - Currently, there is a turf war between SEBI and RBI as to who should regulate different securities.
        - The regulation of equity cash and derivatives fell under SEBI, several other financial instruments classified as securities were regulated by RBI.
    - An institution shall be set up which would be purchasing investment-grade debt securities both in normal and distressed times to help the development of the bond market.

- Gold exchanges were announced in the budget of 2018-19. In this regard SEBI was notified as the regulator and Warehousing Development and Regulatory Authority will be strengthened.
- FDI in the insurance sector has been increased from 49% to 74%.

- Banking:
  - Govt has announced the recapitalization of ₹ 20000 Cr for the state-run banks (in the current fiscal initially govt had refrained from announcing any recapitalization but later in September it announced ₹ 20000 Cr; in 2019-20 it has proposed to infuse ₹ 70000 Cr).
  - Deposit Insurance
    - Deposit insurance cover has been increased from ₹ 1 lakh to ₹ 5 lakh per individual
    - Govt to allow withdrawal of deposits to the extent of deposit insurance cover in the troubled banks
    - The problem with the increased coverage is that it will only come into play when the bank license is cancelled and it is liquidated and not before that
  - An asset reconstruction company and asset management company
    - It is set to take over the bad loans of PSBs and manage the recoveries
    - A similar structure for stressed assets resolution was earlier proposed under Sashakt Scheme in 2018
    - Banks will be putting the initial capital (implying that the govt will not have any direct stake in the bank)
    - Bad bank would be transferring the NPAs to an entity (Asset Management or Asset Reconstruction Company) and dispose of the assets to Alternate Investment Funds (AIF)
    - Bad loans of Indian lenders have increased in several years. The gross bad loans in the banks could increase to 13.5% by Sep 30th (in worst case scenario, 14.8% - highest in two decades)
- Disinvestment
  - Objectives:
    - Minimizing the presence of CPSEs and creating new investment space for the private sector.
    - Post divestment, growth of these will be through the infusion of private capital, technology and best management practices. This will contribute to the economic growth and creation of new jobs.
    - The proceeds from the disinvestments would be to finance social and developmental programmes of the govt.
  - Policy features:

- Will cover CPSEs, PSBs and insurance companies.
- Sectors will be classified into strategic and non-strategic. The strategic sectors are:
  - Atomic energy, space and defence
  - Transport and telecommunications
  - Power, petroleum, coal and other minerals
  - Banking, insurance and financial services
- In the case of strategic sectors, the govt would be having a minimum presence. Remaining CPSEs will be privatized, merged, subsidized with other CPSEs or closed.
- In non-strategic sectors, these CPSEs will be privatized or shall be closed.

- The govt has set a disinvestment target of ₹ 1.75 lakh Cr (against ₹ 2.1 lakh Cr in the last fiscal, against this the govt has raised ₹ 19499 Cr so far).
- Some of the disinvestments planned last year such as IPO of LIC will be concluded this year.
- In addition to this, other sales that will be completed this year are Bharat Petroleum Corp, Shipping Corporation of India, Pawan Hans Ltd, BEML, etc.
- Apart from IDBI Bank Ltd (sold a majority stake to LIC in 2019), disinvestment of two other state-run lenders/banks and one general insurance company has been proposed.
  - Govt expects to raise ₹ 1 lakh Cr from the sale of two PSBs, it was ₹ 32000 Cr in the previous fiscal.
- In the case of divestment, the govt has come out with a new policy to speed up privatization.
- To fast track the divestment, NITI Aayog has been asked to identify the CPSEs that would be taken up for strategic divestment.
- In addition to this, govt would be working out an incentive package to drive the disinvestment by states.
- Govt has also proposed to set up a special purpose vehicle to sell off the land assets owned by various departments and ministries.

Inclusive Development for Aspirational India

- **Agriculture**
  - SWAMITVA Scheme:
    - So far about 1.8 lakh property owners from 1241 villages have been issued with property cards.

        - Has been extended to cover all states/UTs.
    - Farm loans allocation has been increased to ₹ 16.5 tn from ₹ 15 tn in the last fiscal.
    - Cotton:
        - It has imposed a 10% import tax on the import of this fibre to help farmers.
        - Govt has also raised the levy on raw silk and silk yarn from 10% to 15%.
        - India is the biggest cotton grower. India's cotton output is expected to climb to 37.12 mn bales of 170 kgs each in 2020-21 from 35.49 mn bales a year earlier.
        - The imports are expected to fall to 1.4 mn this year from 1.55 mn bales in 2019-20.
        - There was no import duty on cotton imports till now.
    - Operation Green Scheme has been expanded to cover 22 perishable products:
        - This has been done to boost value addition and exports.
    - 1000 more mandis will be integrated under e-NAM.
    - The Agriculture Infrastructure Development cess:
        - Govt has proposed cess on 25 products and basic customs duty has been reduced on these items so that the consumers do not end up paying a higher price. This has been done to improve farm infrastructure.
        - This may not change the prices of these products but makes a difference in terms of who will receive this amount.
        - Revenue collected from BCD goes to the Consolidated Fund of India, which is then divided between centre and states.
        - In the case of cess, the revenue goes to the central govt.
        - Govt has imposed this cess on petrol, diesel, gold. AIDC of ₹ 2.5 per litre has been imposed on petrol and ₹ 4 on diesel.
- **Migrant workers and labour**
    - One Nation One Ration Card:
        - Is under implementation in 32 states and UTs.
        - It has reached 69 Cr beneficiaries i.e. 86% of the beneficiaries covered.
        - Remaining 4 states/UTs will be covered in the next few months.
    - Launch of a new portal that will collect relevant information on gig, building and construction workers among others. This is expected to help in formulating schemes for the migrant workers.
    - The 4 labour codes will be implemented. With this, for the first time in the world, gig and platform workers will be provided with social security benefits. All categories of workers will be provided with minimum wages.
- **Financial Inclusion**
    - To facilitate the credit flow under Stand Up India, the margin requirements have been reduced from 25% to 15%.

Reinvigorating Human Capital

- 100 new Sainik Schools will be opened in partnership with NGOs/private schools/states.
- An umbrella body called the Higher Education Commission of India to be set up.
  - It will have 4 separate vehicles - Standard Setting, Accreditation, Regulation and Funding.
- Govt has set up a target of setting up 750 Ekalavya model residential schools.

Innovation and R&D

- National Research Foundation with an outlay of ₹ 50000 Cr over 5 years has been proposed. It will ensure that the research ecosystem is strengthened.
- ₹ 1500 Cr allocated for a scheme to promote digital transactions.
- Deep Ocean Mission with an outlay of ₹ 4000 Cr over 5 years has been proposed.

Minimum Government, Maximum Governance

- To promote ease of doing business, the govt has proposed to set up a Conciliation Mechanism and mandate its usage for quick resolution of contractual disputes.

Taxation in Budget 2021

- Senior citizens over 75 years of age with only pension and interest income are exempted from filing income tax returns.
- Presently, the tax assessments can be reopened up to 6 years and in serious tax frauds up to 10 years. This has been reduced to 3 years and in the case of serious tax frauds, up to 10 years but with approval from the Principal Chief Commissioner.
- **International Financial Services Centre (IFSC)**
  - Govt has provided tax incentives for foreign funds to shift their assets to IFSC.
  - Govt has offered complete tax exemption on the transfer of their assets from other countries.
  - GIFT city has zero tax for 10 years.
  - This will help govt to develop IFSC as India’s fund management hub.
  - Those which are approved by BSE and NSE need no separate registration for trading in GIFT City.
- **Dispute Resolution Committee**
  - To reduce litigation of small taxpayers
  - It will be faceless
  - Taxable income up to ₹ 50 lakh and disputed income of up to ₹ 10 lakh will be eligible
- **Income Tax Appellate Tribunal**

  - It will be made faceless
  - All communications between the tribunal and the appellant shall be electronic
  - In case of personal hearing, it shall be done through video-conferencing
- **Startups**
  - Eligibility for claiming tax holiday for startups has been extended by one more year
  - Capital gains tax exemption for investment in startups has been extended by one more year
- **Import duty on gold**
  - Govt has reduced the import duty on gold and silver to 7.5% from 12.5%
  - It was increased to 12.5% in the July budget 2019
  - Govt has also imposed AIDF of 2.5%, taking the total to 10%
  - Demand for gold has come down by 35% in 2020, making it the lowest in the last 25 years
    - Prices have increased significantly
    - Govt had increased import duty to 12.5%
  - The downward revision of import duty may also have a positive impact by bringing down gold smuggling
- **Reduced import duty on steel**
  - Govt has reduced the import duties on types of steel products to 7.5%
  - 70% of the steel imports done by India is from those countries with which India has a free trade agreement and hence attract zero customs duty

Fiscal Numbers

- Expenditure
  - The expenditure is pegged at ₹ 34.83 lakh Cr for FY22 against a revised expenditure of ₹ 34.5 lakh Cr. It represents an increase of 13.4% over budgeted estimates.
    - Revenue expenditure is budgeted at ₹ 29.29 lakh Cr in FY22
    - Capex allocation - ₹ 5.54 lakh Cr
  - Govt has budgeted higher capex to aid economic recovery but overall spending as a percentage of GDP will fall in FY22.
  - As a percentage of GDP, it will fall to 15.6% for the current fiscal against 17.7% in the previous fiscal.
- Deficits
  - Fiscal Deficit stood at 9.5% for FY21 and is pegged to be reduced to 6.8% in FY22.
  - With a steady decline over a period, the fiscal deficit target of 4.5% of GDP will be met by 2025-26 (15th FC has recommended reducing the FD to 4% by FY26).
    - The FRBM had set a target of 3% of GDP by FY21 (as per the amendment in 2018).
  - Revenue deficit has been revised for FY21 to 7.5% and for FY22 to 5.1%.

- The FD for the current fiscal will be the highest since liberalization reforms began in 1991.
- Govt had budgeted an FD target of 3.5% for the FY21 but the pandemic inflicted twin shocks to the balance sheet.
    - Contraction in the nominal GDP, reducing the tax revenues
    - Greater spending
    - As a result of the two, the FD shot over 9.5%, for the FY22 the budgeted FD has been set at 6.8% (highest since 1994).
    - The fiscal deficit in the current fiscal is countercyclical, led by the need for the government to increase spending. Against this, post the global financial crisis the FD was driven by drop in tax revenues, disinvestments and rise in revenue expenditure.
- As per the 15th FC, states have been provided with a normal ceiling of 4% GSDP for FY22.
    - A portion of this will be earmarked for the incremental capital expenditure.
    - An additional ceiling of 0.5% GSDP will also be provided subject to certain conditions.
    - The states will be expected to reach the FD of 3% GSDP by 2023-24 as recommended by the 15th FC.
- The loans from NSSF to Food Corporation of India for food subsidy will be discontinued.