

Theme:

- Union Budget 2021-22 was presented by India's finance minister Nirmala Sitaraman on 1st Feb 2021.

Impact of Union Budget 2021 on the Banking sector:

- Rs.20000 crores were allocated for the recapitalization of PSBs in FY22. This will be helpful for banks in compensating for the negative consequences of pandemic and to give fresh loans.
- The setting up of Bad bank (Asset Reconstruction Company (ARC) and an Asset Management Company (AMC)) was announced. This reduces the huge burden of Non-Performing Assets on the banking system. And a separate specialized entity is expected to recover bad loans efficiently which will be very helpful for the banking sector in the long run. But this shouldn't act as bailing out banks every time from bad loans. That may lead to a lack of responsibility of banks in giving loans that may turn NPAs.
- It was announced that 2 public sector banks will be privatized. This will reduce the burden on the Indian economy because due to increasing NPAs, the government had to step up every time and had to recapitalize banks. So, privatizing will reduce the burden on the Indian economy. But there are fears in public that privatization may help just the corporate sector instead of the common people.
- Rs. 1500 crores were allocated to boost digital payments. More cashless payments mean less burden on banks. Push for digital payments will also be very helpful for the fintech sector.

Conclusion:

Union Budget 2021 brought several big changes in the banking sector such as privatization, bad bank etc. However, the government must necessary steps to prevent the formation of bad loans by fixing the root causes, only then these changes will be beneficial in the long run.

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Table of Contents

- [Theme:](#)
- [Impact of Union Budget 2021 on the Banking sector:](#)
- [Conclusion:](#)
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