

BANKING ON KNOWLEDGE

GST and demonetisation will provide long-term benefits to India

By Dr R Seetharaman

Demonetisation was a historic event, which has no precedents to measure effect on growth. Post demonetisation, the GDP growth and other economic indicators faded. The weakness in growth is temporary, as the money circulation, as per RBI, has reached pre-demonetisation levels.

Goods and Services Tax (GST), which is a single-nation tax, has disrupted growth in unorganised sector and is integrating with the organised players. On account of the GST implementation, the tax collection has been broad-based; as per the Ministry of Finance, there are more than 1mn new tax payers now. The total GST collection stood at Rs92bn as on end of September 2017.

India's growth was revised down to 6.7% in FY2017 and to 7.4% in FY2018 by



the IMF in October 2017. Growth will be underpinned by private consumption, which has benefited from low food and

energy prices, as well as an increase in civil service allowance. The current account deficit should remain modest, financed by robust foreign direct investment inflows, it noted.

Growth in 2017 was revised downward to reflect the recent slowdown, but is expected to accelerate in the medium term as these temporary disruptions fade. India's economic growth unexpectedly slowed to 5.7% in the June quarter, the slowest pace in three years, underlining the disruption caused by the uncertainty related to the rollout of the GST, coupled with the demonetisation.

The main purpose of the GST was to eliminate the compounding effect of the current multilayered tax system, as well as the cross-state tax heterogeneity by fixing the final tax rate. The GST rollout has converted India into a unified market of 1.3bn citizens. Fundamentally, the \$2.4tn



economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST. According to IMF, in India, the GST move that promises the unification of India's vast domestic market, is among several key structural reforms under implementation that are expected to help push growth above 8% in the medium term.

As GST subsumes all other taxes in the system, the implementation and harmonisation is key to smoothening the process. Nearly four months since its introduction, the new indirect tax regime

has led to troubles and compliance issues, which the apex body, the GST Council, has addressed through several rounds of changes. To ease the hassles faced by medium and small businesses in paying taxes and filing GST returns, it has tweaked various aspects of the new regime to make it industry-friendly. Also the GST Council has rationalised rates of over 100 commodities and made refund process easier for exporters. The Indian revenue secretary has said it will take one year for GST system to stabilise as the system is new for everybody. The revenue secretary has indicated that the government is

"planning steps to ease GST-compliance burden on SMEs, or small and medium enterprises. The revenue secretary has also hinted that the "simplification process may result in some readjustment of GST rates, including a possible reduction in tax of some items that are in the highest tax slab of 28%". The government has cleared big ticket projects, increased spending for infrastructure and last week announced plans for recapitalising the public sector banks with \$32bn to kick-start lending activity and is coming up with smaller-denomination notes to increase the flow of currency in the system. The competition for credit will also increase now. The steps taken will be a long-term positive for creating jobs and will further encourage economic growth.

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