Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: About the decisions made in GST Council regarding Input Tax Credit (ITC); trends in GST collections and its impact on fiscal deficit and the overall Indian economy

News: Goods and services tax (GST) collections in December accelerated to cross the Rs. 1 trillion mark for the second consecutive month, up 8.9% year-on-year. This should normally suggest green shoots. However, changed GST Council norms for claiming input credit may have contributed to the increase in collections in December.

What are the changed norms of claiming input credit?

- The changed norms mandate companies to match their purchase invoices with those uploaded by their vendors.
- Input credit claims have been limited to 20%, which is now further reduced to 10%, where details are not uploaded by suppliers.
- As a result, a larger number of companies have to upload GST returns with corresponding invoices into the system.
- This led to an increase in GST returns filed in December for sales in November, from 7.2 million a year ago to 8.1 million now. This means about 1 million filers have been added in 2019.
- The overall input tax credit may have decreased in the system, because of which taxpayers would have paid more GST. So, cash collections seem to have gone up.

Overall tax collections and performance of various sectors

- In contrast, overall tax collections have been anaemic. The government’s gross tax revenue declined 1% year-on-year until November.
- Also, the output of core industries contracted, slipping 1.5% year-on-year in November, the fourth consecutive month of decline.
- Auto volumes remain weak and the slight pickup in passenger vehicle sales could be explained by the increase in year-end discounts.
- Demand has been slowing down across the board because of weak
income generation. This is more pronounced in the rural economy, the small and medium enterprises and the unorganized sector.

- All this hampers a broad-based pickup in consumption.
- Structural income generation in the economy at the middle and bottom of the pyramid has been affected.
- Rural income growth has been really low. This has led to a change in consumption patterns.
- **Anaemic credit pickup among companies worsens the slowdown.** Companies are barely raising more cash to fund operations and growth. The sluggish corporate bond and commercial paper market is an indicator of this. Fundraising from commercial papers and bonds, including corporate bank credit, has barely risen. Banks have hardly been lending.
- Besides, there is a lack of good borrowers. So, credit expansion is just not happening.

**What about the fiscal deficit?**

- GST collection trends may need to sustain in a big way in the next few months to bridge an increasing fiscal gap. The fiscal deficit has inched up to 115% of the budget estimates until November.
- This is higher than the typical 85-100% deficit seen till November in the past. This hampers the **government’s ability to heavy-lift the economy.** The room for propping up infrastructure and construction spends is limited.
- The growth numbers are easily getting a bump-up because of a lower offtake last year.
- The government’s heavy-lifting in the economy also has to sustain. However, the delicate fiscal situation is not making it any easy. So, unless GST picks up substantially, real income in the rural economy will hardly grow.

**Conclusion**

Though the economy seems to have bottomed out, in the light of weak GST and fiscal collections, the outlook is clouded. GST collections need to fire up and fire up in a big way.