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GST COLLECTIONS

Is ₹1.15 lakh crore reason to celebrate?

The stimulus partly ensured GST monthly targets got overachieved in the last three months. Should we be doing better?

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THE BUOYANCY IN GST collections in the last few months has brought expected cheer as it does indicate there will be some compensation for the shortfall witnessed in earlier months. There is optimism that higher GST collections also reflect an imminent recovery that has been witnessed in the economy. As the thumb rule of three successive months of a phenomenon has been observed with respect to GST collections, this is a logical conclusion that may be drawn.

The GST target has been around ₹1 lakh crore per month; and for the first nine months of the year has summed to ₹7.8 lakh crore. For the first six months, it was ₹4.54 lakh crore, and hence there was a shortfall of ₹1.4 lakh crore. Subsequently, collections have crossed ₹1 lakh crore in each of the months and brought in ₹3.25 lakh crore. There has, hence, been some compensation for the loss in the first six months. There is reason to believe that if this trend persists, the deficit in collections can be further truncated and the final shortfall would be in the region of ₹80,000 crore to ₹1 lakh crore. Given the very slow start, this will be an achievement.

Let us look at the package per se. There were liquidity-infusing measures of RBI, free food being given to the poor, increase in the MGNREGA wage and payouts, credit guarantees to various segments, increase in capex of the government, advances to employees for spending, and so on. Intuitively, these measures should be leading to higher spending, which was the main objective of a stimulus and would automatically generate revenue for the government in the form of GST collections.

RBI came up with LTRO/TLTRO etc which meant giving more loans to banks, which then could be targeted to specific sectors. These loans should have ideally been used to buy goods and services including machinery for investment or working capital. The same must hold in case of loan guarantees being given or partial credit enhancement being extended, where beneficiaries use the funding to buy goods, which, in turn, should lead to demand for various products. Any such spending should generate a GST invoice and the government should have received an average 12% return on such spending.

There has been a lot of spending on agriculture in the form of direct subsidy on fertilisers or for various farm-related schemes. The ₹2 lakh crore support on Kisan Credit Cards should also ideally lead to spending on products that give the government a return in the form of GST. The rate for fertilisers was lowered by 7% (from 12% to 5%), so the additional ₹65,000 crore should yield at least ₹3,250 crore as a reverse payment to the government.

There have been other schemes also, like the Production-Linked Incentive (PLI) for ₹1.5 lakh crore over five years. If a proportionate amount of ₹30,000 crore gets expended this year, it should bring in an additional ₹3,600 crore as GST revenue. The same holds for the Pradhan Mantri Awas Yojana. Advances given to employees of even cashing of LTC which was to be spent should have given a minimum GST revenue to the government. The employment scheme (Pradhan Mantri Rojgar Protsahan Yojana) involving ₹8,300 crore would have generated new jobs and engendered a fresh round of spending. Putting all these pieces together, there is reason to believe that if the stimulus worked the way it should have, the GST revenue would have also increased, though not in a commensurate manner.

There is, however, some irony here, which could raise more questions than are answered. The government has spoken of a ₹30 lakh crore of stimulus programme, which comes in various forms. In fact, a large part of this amount was supposed to be induced in the current financial year. When the Atmanirbhar Bharat 3.0 was announced in November, the presentation showed the progress made on each of the announcements made in May, which was very encouraging. For example, Kisan Credit Cards with credit limits of ₹1.43 lakh crore had been provided and street vendors got loans worth ₹1,373 crore. So, even the smaller schemes were on track.

The conundrum becomes stark if the numbers are put in perspective. A large part of the stimulus was in the form of credit enablement, which could be put at around ₹17-18 lakh crore in the May package. Here, RBI fulfilled through LTROs and OMOs, but all the funds that moved around have not quite translated into a commensurate increase in real production and have revolved between banks and institutions. Even the Emergency Credit Line Guarantee Scheme had spoken of credit to the extent of ₹2 lakh crore being sanctioned before it was extended to non-SMEs in November. Here, it looks like the funds have actually been used for repaying costly debt with the benefit of lower interest rate and guarantee from the government. The fact that LTROs have been virtually repaid by the bank means that most of the bank liquidity measures have been repaid or are being reinvested in the reverse repo window. Thus, while such liquidity infusion has helped for sure to keep rates low without cutting interest rates, they have not led to increase in production. In a way, this turned out to be an unintended consequence of the liquidity infusion programme where other factors like willingness to lend by banks were limited and enterprises especially in the SME segment were not operating at reasonable capacity to invest more capital.

The message, really, is twofold. The first is that with the package of ₹30 lakh crore being implemented—maybe over a period of time—if the funds do get translated into physical goods and services, there has to be a reverse flow of revenue to the government in the form of GST. Even rudimentary MGNREGA wage that is paid should be partly spent on GST liable goods and yield revenue to the government. Hence, ₹30 lakh crore should at the limit yield ₹3.6 lakh crore assuming average tax rate of 12%. This should flow over a period of 2-3 years, even though the finance minister had spoken of most these schemes being effective in the current year.

The second thought is that based on what has been observed so far, it appears there have been deviations with the stimulus getting converted from 'spending' to 'supporting for sustenance'. Hence, convenient credit has been channelled more towards repayments and money earned through direct intervention of the government has been spent more on consumption of necessities rather than revenue earning goods and services. This has upset calculations to a large extent.

Hence, it can be said that the stimulus was well conceived in terms of scope and covered enablers of growth with direct intervention with the former being more dominant. It worked on the theory that such incentives would enable higher production by enterprises and to the extent that individuals benefited from the measures would spur consumption. This should ideally have led to higher consumption and investment. For this to work, a lot was dependent on how the economic players reacted to the incentives provided. It does appear that the response was more towards protecting their interests rather than spending, which could have accelerated the growth process. As a corollary, the continuation in the meeting of the GST target in the next three months would still be partly due to the stimulus provided by the government.