Business Line, Delhi
Thursday, 1st July 2021; Page: 2
Width: 67.58 cms; Height: 100.53 cms; a3; ID: 19.2021-07-01.14

'Plugging gaps in GST was not a roving expedition'

We went with actual precise data and that has led to efficiency in collections, says Finance Minister Nirmala Sitharaman

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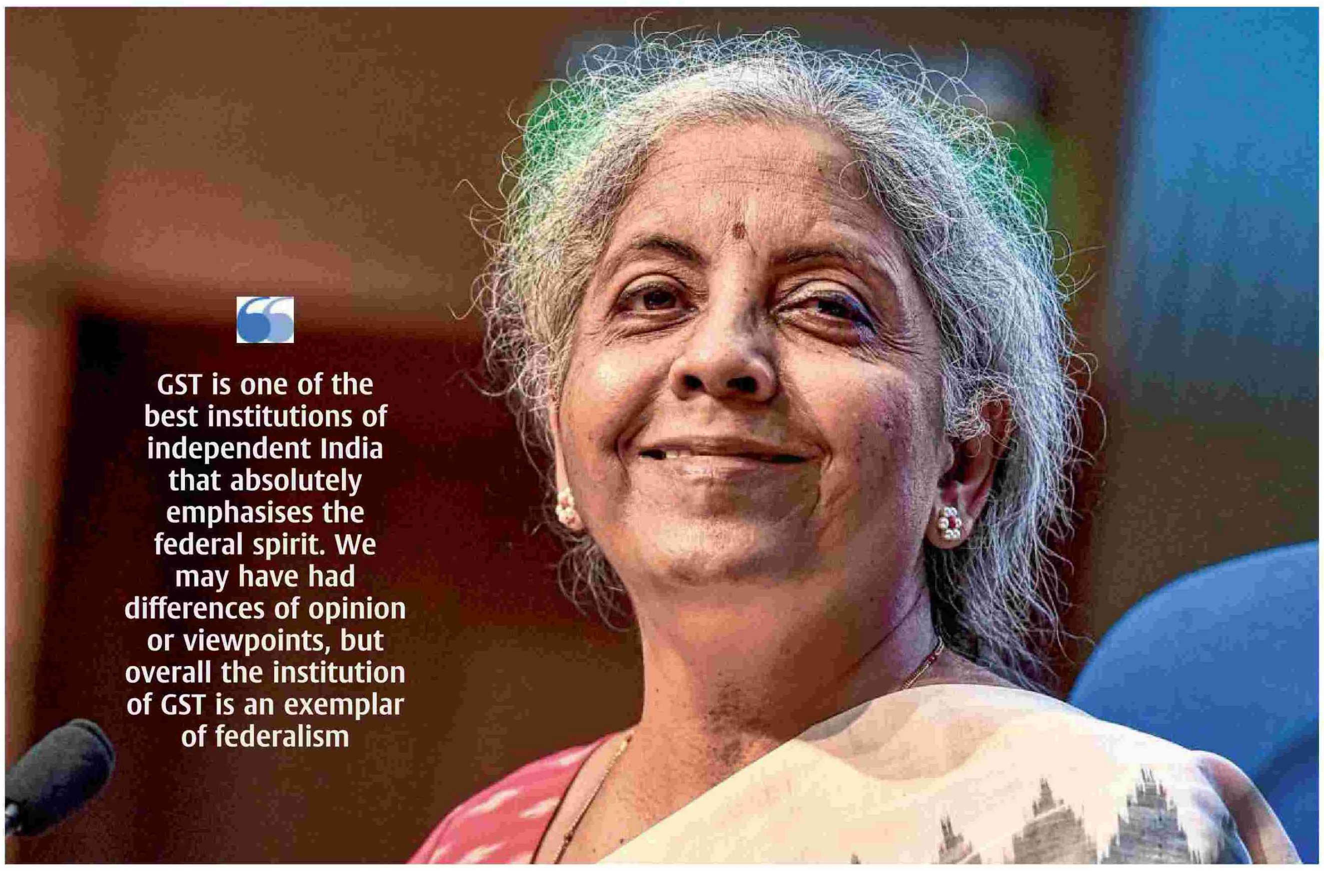
"We are keen to get the rate rationalisation done, but are waiting for the opportune time," Finance Minister Nirmala Sitharaman says. Stating that one of the reasons for the higher GST collection has been the improvement in compliance, Sitharaman pointed out that many businesses now see the merit in being a part of the GST system. She reiterated that GST was one of the best federal institutions of independent India.

THE BL INTERVIEW

In conversation with *BusinessLine*, Sitharaman shares her thoughts on the four years of GST regime, the challenges the economy faces, and the way forward. Excerpts



Four years after introduction of the GST, the system appears to be settling down. Monthly GST collections have been consistently above ₹1-lakh crore. What was the catalyst for this improvement?

That's a timely question, if I may put it that way. In April, when the second wave of the pandemic was beginning, monthly collections touched the highest ₹1,41,000 crore. It was a pleasant surprise and also gave us hope.

One of the reasons behind the higher collection was, of course, the improvement in compliance. Many businesses now see the merit in being a part of the GST. After the difficult period in 2019, due to technical glitches, compliance is beginning to improve.

Another reason is that with the use of technology, we have been able to spot evasion and fake bills, refunds and credits. When the Finance Ministry discussed this with the Central Board of Indirect Taxes and Customs (CBIC), and did a deep dive data analysis, we found a lot of loopholes; it was astonishing, the way the system was being gamed with the help of data.

We started plugging these loopholes, identifying shell companies, those with large bills claiming refunds... It was not a roving expedition, we went with precise data and that led to efficiency in collections.

This improvement coincides with the wider implementation of e-invoicing. Is it also a reason behind lower tax evasion?

Yes, absolutely. E-invoicing has been a great blessing. Since we started using e-invoices, around 61 crore have been generated with a day's highest of 37.42 lakh on March 31, 2021, when the recovery in the economy was at its best. As much as 40 per cent of the e-invoices relate to road movement. Post the introduction of GST, with the removal of tolls and tax collections on roads, the turnaround time for road traffic has come down by 20 per cent. Now, with e-invoicing increasing rapidly, it has further improved efficiencies.

There are reports that the Centre favours merging the 12 and 18 per cent GST rates into 15 per cent. Is there any such proposal before the Council?

Not just merger of these two rates but entire rate rationalisation has to be looked at. After I came in to the Finance Ministry, the issue of rate rationalisation has been discussed once or twice. But I requested the GST Council that its meetings should not become an opportunity to play around with rates. If rates keep changing every three months, businesses cannot plan their taxation nor can the Central and State governments. I had suggested that just as the Budget is the time to consider changes to direct taxes and other duties, the GST Council also go for a rate consideration once a year.

> We did not intend to miss out on any MSMEs in the ECLGS. We started with small borrowers and gradually increased the scope to the extent that ₹2.73-lakh crore has been sanctioned so far

GST's Revenue Neutral Rate was 15.3 per cent initially, but with all the rate reductions in subsequent years, today it is at 11.6 per cent. This goes to show that this indirect tax regime is far less burdensome. Has this impacted the consumer?

Yes, 400 goods have witnessed rate changes (post GST) mostly down; rates of about 80 services too have been lowered. But the anomalies that arise out of rate inversion, some of which arise due to reduction in rates, will be corrected at the earliest.

In 2019, the economy was slowing and the Council decided that this was not the time to rationalise rates since they wanted people to consume and so on. In 2020 and early 2021 due to the pandemic, we agan felt that this was not the right time. We are keen to get the rate rationalisation done, but we are waiting for the opportune time.

Opposition-ruled States allege that the basic principle of co-operative federalism is being ignored and some are calling for course correction in the functioning of the GST Council....

My view has remained the same since the time I joined the Ministry: This is one of the best institutions of independent India that absolutely emphasises the federal spirit. We may have had differences of opinions or viewpoints, but overall the institution of GST is an exemplar of federalism.

On the expansion of the credit guarantee schemes, industry associations have said that the benefit from the ECLGS schemes is not reaching MSMEs because it is only for existing borrowers with standard accounts qualification. Does the scheme need some restructuring?

The ECLGS scheme was originally launched to provide liquidity to all MSMEs. Choice was with the beneficiary and the banks were to extend the benefit to all MSMEs, provided they were not NPAs on the specified date. But for stressed borrowers, we had designed a subordinate debt scheme wherein credit was provided to the promoter to the extent of his ownership that he could put in the company to help it qualify for ECLGS.

We chose only companies that have an account because KYC is available for them. Otherwise, it becomes too difficult to identify the people who need the ECLGS.

We did not intend to miss out on people. We started with small borrowers and have gradually increased the scope to the extent that ₹2.73-lakh crore has been sanctioned and ₹2.1-lakh crore has been disbursed and one crore businesses have benefited. Even the subordinate debt has taken off, for those who wanted it.

How do you see the fiscal situation considering the additional expenditure on food, NPS fertiliser and vaccine? There are suggestions for increasing tax revenues such as by bringing back the wealth tax...

I have made the government's position clear that the explicit and stated position of the Prime Minister that is that we shall not increase any tax. In fact, in my media interaction, post Budget, I made it very clear that this Budget will not have anything collected in terms of increased taxes.

As for the fiscal position, from this year's Budget, because of the way we have made it transparent, because of the way we have brought everything on board and not pushed anything under the carpet, because of the way we have not kept extra budgetary borrowings out of the narrative, you can do back-of-the-envelope calculation and tell me what is the position. It is as plain as that.

> We, both the Centre and the States, need to borrow and spend. Debt-to-GDP ratio will definitely go up but spending remains absolutely the top priority

> What was done (regarding oil bonds), if I may use the word, is a sort of stealth, and that stealth is not something I will encourage

Going back to the numbers, higher expenditure on food and fertiliser subsidy and other additional expenses... our guess is that fiscal deficit could go up by 0.6 per cent

Is it worrying you? Why I am asking you this question is because before the budget was presented, repeatedly I was told you shouldn't worry about the number, you have to spend and spend, borrow, do anything, but spend. Post the Budget also, spending continues whether in the form of subsidies or on the new schemes announced on Monday, including one on health infrastructure.

So, spending continues, but spending continues in building infrastructure. The strength of the public expenditure will have to be such, and that is why, in such times, best of the advocates would tell you that you should build infrastructure because it will have greater ripple effect and that is what we are doing.

The Debt-GDP ratio is hitting 90 per cent now. Are you comfortable with this?

The Debt-GDP ratio for the government of India is somewhere at 58-59 per cent and when you are saying 90 per cent, it is the General Debt-GDP ratio, which is Centre and States combined. There is no question of comfort or discomfort.

This time it's a question of States having necessary resources to fight the pandemic. They are the one's that face it. They need all the money and for that additional borrowings were permitted, subject to some reform conditions.

Even the Centre's borrowing has gone up as we need resources to spend, particularly on infrastructure.

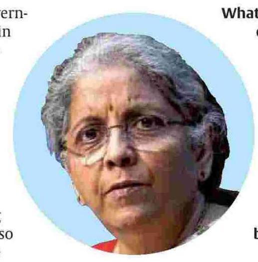
We, both the Centre and the States, need to borrow, need to spend. The Debt-GDP ratio will definitely go up but spending is absolutely the top priority.

Inflation spiked to 6.3 per cent in May from 4.23 per cent in April. Unlike in the past, this time it seems to be a cost-push factor. Prices of daily-use items such as edible oil and pulses have gone up. Fuels are costlier. Healthcare costs are up. Do you think the inflation is transient or will stay for some time, and if it is the latter, what fiscal measures can you take to rein-in inflation?

I will start with the government's efforts to contain prices, particularly of essential commodities such as edible oil, fruits, vegetables, and foodgrains. The Group of Ministers on essential commodities has been meeting to take timely steps to keep prices under control.

Import of pulses is being permitted. There are also countries with which we have MoUs to bring in pulses. I think prices of pulses will cool down. On edible oils, the government is monitoring the situation.

Whether the inflation is transient or not, we are making all effort to make sure there is no supply side issue... no supply-demand mismatch. In pulses or edible oils, we are not self-sufficient, and we import. But to what extent? Because it is a very fine balance we have to achieve.



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On the one hand, the consumer cannot be left without any support when prices go up, on the other, we should not send a mixed signal to farmers that the government is wanting us to grow pulses and, oilseeds and is also allowing huge imports. So, we have to be careful how we work on this, keeping in mind the prices. We will ensure timely interventions.

On crude oil, both the Petroleum Minister and I have commented quite a number of times about the international prices. But even as we speak, prices of Brent and the Indian basket are going up.... in the range of $73-76 per barrel.

The global situation on oil prices is worrying. Also consider the exchange rate, what it was in 2014 and what it is today. All these influence the price of petrol-diesel.

You are carrying a legacy of oil bonds, but there is much talk that you are reconsidering the excise duty and State VAT rates on fuel....

No. In fact, on petrol prices, I think I have said where we stand. States are also worried about what impact this is going to have. So, I don't think, there is anything for me to add. The facts are all out there before us.

Would you want to try the tactic adopted by the previous government and ask oil companies to maintain prices at low levels and issue oil bonds, pushing all the liabilities to the future. That way you won't lose out on your duty, the consumer will get low prices, and the liability will be paid by the future generation...

Do you think that was right? Considering that it was done without stating things fairly. In fact, in 2014, when the NDA government came in, it took a while for people to realise that this is what has happened. In my first response after the Budget of 2019, I said this. So, should I do it now?

Of course every government borrows and the borrowings gets repaid over generations, but, here, it was not done in open and fair way. What was done (by the UPA), if I may use the word, is a sort of stealth, and that stealth is not something I will encourage.

What is the status of big-ticket divestment of LIC and strategic disinvestment of BPCL and Air India? The government is said to be considering raising the FDI limit to 100 per cent for refining PSU on sale. Shouldn't the policy changes be brought in before putting assets on the block?

The roposals of Air India and BPCL are on track and going according to our plan and we are committed to the disinvestment. That's the answer I can give. Even LIC is on course. The timeline cannot be given as it will lead to immediate speculation. I don't want to engage in that.

What is the timeline of privatisation of two public sector banks and one general insurance company? Has the government finalised the names; many are floating around? There are apprehensions about HR issues...

I am not here to give you the names (smiles). All the preparatory work that I mentioned in the Budget are going on unhindered. But if it is going to be proven by my only uttering that name of the institution then, no, I am not sharing any name. Take my word, everything is on course.

The real interest rate has now become negative, hurting savers. Prolonged negative interest rates is making investors move to risky assets. Your thoughts...

On what we have to do now, I am not talking about it at the moment because as you have analysed, savings find newer ways and areas to park itself.

The stock market is definitely getting a lot of retail investors, seen in new demat accounts getting opened. So, yes, now people are saying that the listed companies whose affairs are transparently laid out, whose accounts are very well audited and better managed are attracting retail investors. So, India's investment is also finding newer course.

What is the status on the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021? When is it likely to be passed?

We have done a lot of work on it. We have taken stakeholders' inputs. The Cabinet note is ready. We have to see when the Cabinet can take it up and consider it so that then we can move it.

From our side, I think one or two indications that I have given is that at least for fintech, experiment and pilot projects a window will be available. The Cabinet will have to take a decision.