

WAY FORWARD TO SPUR SALES AMID HIGH AUTO SECTOR TAXES

DESPONDENCY seems to be overloading India's auto manufacturing circuitry. On Wednesday, the sector's bigwigs brought out the chasm between the Centre's intent and actions in full public view. Further, in what was unpleasant noise for policymakers, they wondered about the logic of taxing two-wheelers and SUVs alike. Giving a finishing touch, they sought an immediate reduction in taxes to aid the sector's revival. Per estimates, a GST rate of 29-50% implies that vehicle ownership cost per capita income is 450%—much higher than other countries. Moreover, high vehicle registration fee and the mandatory three-year insurance cover as against the previous one-year norm keep vehicle acquisition costs high.

But the government reasoned that there was no surefire clue if tax cuts would lead to a corresponding surge in sales and that taxes were already lower than the pre-GST period. What the officials seldom admit to is the government's role in accentuating the industry's troubles. Just ahead of the GST rollout, the Centre forced automakers to jump through hoops and transition to BS VI emission norms, which required huge investments at a time when interest rates were steep and came amid a looming NBFC crisis. The most damning of all was the slowdown; policymakers neither saw it coming, nor did they confirmed its arrival.

It's true that tax cuts barely reduce the vehicle's on-road cost and given the high input prices, automakers can't afford any huge discounts to spur sales. What actually needs to improve is the stagnating incomes. For instance, an entry-level IT employee earns ₹2.5-3 lakh per annum, much the same as last decade. Worse, the Covid-19 pandemic delivered a savage blow to households with job losses and salary cuts. Unless incomes improve, consumption, chiefly discretionary spending, will continue to sulk. And until demand picks up, companies will sit upon their hands. So, it's all down to the government to make up for the slack in private investment and increase capex, which alone can restart the economic engine.