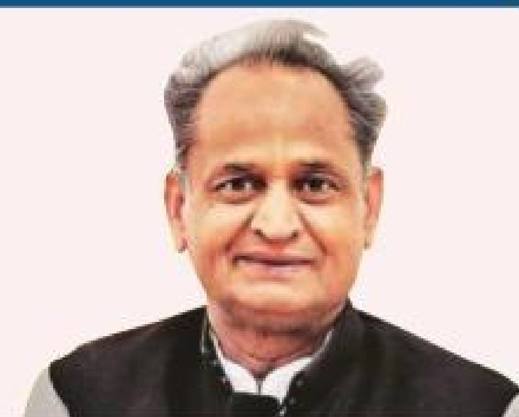
Opinion

SATURDAY, NOVEMBER 9, 2019



FAMILY MATTERS

Chief minister of Rajasthan, Ashok Gehlot

"Decision to withdraw SPG protection to Gandhi family is condemnable. Govt is compromising the lives of a family, which has lost two members to acts of terror. It's vendetta politics of a very low level"

SHOBHANA SUBRAMANIAN

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Put money to work, no more Moody blues

Credit flows must normalise to get growth back; requires plans that work for fixing NBFCs and real estate quickly

INDIA'S ECONOMY IS plagued by several problems—cyclical and structural—but, key among them is a crisis of credit. Growth can't pick up meaningfully and in a sustained fashion without a raft of reforms, and, in fact, could decelerate further before that happens. But, if consumers and companies could borrow at affordable rates, it would be a start. Right now, credit flows are weak. Bank funding to the commercial sector has de-grown 1.3% in the six months to September, compared with an increase of 1.9% in H1FY19. The year-on-year offtake in total bank credit today remains at sub-9% levels, down substantially from the 12.5% levels seen a year back. Non-bank funding to the commercial sector has grown at just 0.9% in H1FY20, compared with 7.4% in H1FY19 and 3.4% in H1FY18.

Ratings agency Moody's—which lowered the India outlook to negative from stable on Friday—is right in saying the economic slowdown could be a prolonged one. That is because the credit crisis is likely to drag on, with banks not even lending to their traditional client bases, leave alone moving into spaces that NBFCs had vacated. Some sectors—MSMEs, for instance—are getting less credit support today than they were a year back.

The quantum of NBFC funding seen in FY18 isn't coming back soon—especially to sectors such as housing, commercial real estate, and consumer durables—because, apart from a handful of top-class players, the rest aren't able to access loans; a few are bankrupt or close to it. Credit to shadow banks (from both banks and mutual funds) is up just 9.4% in FY20 so far, compared with the recent peak of 28% in FY18, and 20% in FY19.

But, there is no shortage of money with the banking system—surplus liquidity has averaged ₹2 lakh crore in the past few months and deposits are growing at about 9-9.5%. The problem is, it is not going anywhere. Also, loans are not becoming meaningfully cheaper, which they should have because banks today are paying savers much less for deposits; interest rates have been lowered by about 50-100 basis points. In fact, transmission has been painfully slow, with the cumulative 135 bps of repo rate cuts in this cycle yielding a fall in the MCLR of just about 50 bps. That is not enough to stimulate demand.

> Govt needs to reassure lenders they won't be penalised if genuine business decisions go wrong and push them to take calculated risks. So, while they need not lend for project finance, they must step up loans for working capital and retail purchases

The problem is that only mid-tier firms or those that are not well-rated need the money; top tier companies are able to access the bond and ECB markets. Understandably, banks don't want to lend to sub-par businesses in a difficult economic environment because they fear they might not get their money back. Their apprehensions are justified; the finances of much of corporate India remain stressed and, in a weak demand environment, cash-flows are unlikely to improve soon.

Even otherwise, having burnt their fingers, private sector lenders such as Axis Capital and ICICI Bank are likely to stay away from long-term project financing, and focus on retail loans and working capital. No lender today can afford to fritter away capital; save State Bank of India, no state-owned lender has too much of it anyway. And, there are potential additions to the NPA basket, from more loans going bad in sectors such as NBFC, renewables, infrastructure, metals, textiles, telecom, and MSME. In other words, with the recovery delayed, corporate financials will stay weaker for longer, and could hurt asset quality with lenders.

If lenders were somewhat reckless between 2009 and 2014, today they are running scared. The government needs to reassure lenders they won't be penalised if genuine business decisions go wrong and push them to take calculated risks. So, while they need not lend for project finance, they must step up loans for working capital and retail purchases.

Also, while it may not seem like there is a systemic risk to the financial system from over-leveraged NBFCs and HFCs, there is no harm in being sure. The government shouldn't be bailing out weak private-sector NBFCs and HFCs; it should immediately do an asset quality review for them so that it can initiate shutdowns where necessary, and M&As where possible. If other stronger lenders want to buy out the weaker ones, the process should be facilitated with existing promoters being asked to go. Unless lenders are bigger and stronger, costs can't come down, and neither can interest rates; this can be made possible only with faster consolidation, retrenchment, and automation.

In the meantime, government must roll out structural reforms—in the areas of land, labour, regulation, enforcement of contracts—as has been pointed out *ad nauseam*. While an immediate fiscal stimulus—in the form of cuts in personal income tax rates—will spur demand, it needs to be accompanied by sector-specific solutions. The government has set up a ₹25,000-crore corpus to provide last-mile funding to incomplete real estate projects. But, that is not enough to take care of all projects. Banks should be given forbearance if they are new lenders to stalled real estate projects, but only if the existing promoters are asked to go and the projects are handed over to new builders. That way, more projects can be revived. The point is that the surplus with banks must be put to work even if that requires some rules to be rewritten.

EyeWASH

Facebook's latest breach of privacy revelations show why it needs regulation

ZUCKED WAS A term coined by a former Facebook investor to point to anyone who had been wronged by Facebook and its co-founder Mark Zuckerberg. The company has been fighting a near-continuous PR battle ever since to restore its and Zuckerberg's image, but the latest instance would make it seem the company has learnt nothing from its past. Facebook should have wised up after the Cambridge Analytica scandal, but a recent *Reuters* report shows the company may not mean what it says on protecting users' privacy. While Facebook, in the aftermath of the Analytica scandal, had claimed that the company was against the use of personal data, sealed court records access by *Reuters* show that the company was using personal data to snuff out competition. Under the Switcharoo plan, executives were plotting to convince the public of Facebook's focus on user privacy while the company has been selling user data only to those companies that pay for its marketing services, and keeping such data from its competitors.

While Facebook, indeed, has accumulated such information by providing free offerings to billions of its users, and the company's terms and conditions do give it the right to access information and use it, the bigger problem is the underhanded approach Facebook has with regard to the privacy debate. Instead of clearly stating its privacy and data policies, Facebook has masked a lot of its practices by drowning users in legal jargon. More importantly, the recent instance of Facebook sharing private group chats with app developers shows that it can say one thing and do another. Facebook does provide a raft of free services, and the only way for it to make money is to monetise user information, but it needs to be careful how it uses such data, and consider whether it has a fiduciary responsibility to protect user interests. With politicians now talking about breaking up Big Tech, the company better learn from AT&T's experience.

TRADE DEAL

THERE ARE CLEAR GAINS FOR INDIA IN JOINING RCEP, IT WILL MEAN BECOMING PART OF GLOBAL VALUE CHAINS, IMPROVING COMPETITIVENESS, ETC. BUT ITS RESERVATIONS ARE LEGITIMATE, TOO

India's RCEP dilemma: To be in, or not to be in

RAJEEV KHER & HARSHA VARDHANA SINGH

Kher is former Commerce Secretary, India & Singh is former Deputy Director General, WTO. *Views are personal*

INDIA HAS DECIDED not to join the Regional Comprehensive Economic Partnership (RCEP) till its key concerns are addressed. These include establishing a special safeguard mechanism to quickly address surge in imports from China (and dairy products from Australia and New Zealand), agreeing on rules of origin (minimal operations within a country) that prevent easy circumvention of the conditions agreed in RCEP, reducing tariffs from 2019 and not 2014 levels (since 2014, India has raised tariffs on several items), increasing India's access to certain services sectors in other markets, and establishing credible mechanism to address non-tariff measures.

India is, in effect, saying, that it would be part of the RCEP if its concerns are addressed. A decision to opt out of RCEP would mean that India does not wish to be an active part of the Asian regional value chains (the most dynamic global value chain system), is willing to reduce the value of India's existing FTAs—much less deeper than the RCEP—thus, reducing its export opportunities, not to focus on an important policy option for improving competitiveness (i.e., trade policy reform which must complement improving cost and timeliness of transactions and policy response), and not benefit from a framework of disciplines and collaborative solutions that would apply to China, among others. The strategic implications of these aspects add to the overall consideration of issues.

RCEP members give importance to India's membership, and they have created a number of India-specific provisions. However, they will assess the value of India being part of the agreement, and the conditions under which that participation takes place. Thus, if RCEP members substantively engage with addressing these concerns, it will happen within a negotiating context. This implies that the process will involve a give-and-take for reaching an agreed conclusion. In this regard, India's major concerns need to be understood and evaluated carefully.

A special safeguard for imports from China is particularly important. In 2018-19, India's trade deficit with China was $53.56 billion, or about 3.2 times India's merchandise exports to China. The ratio of India's merchandise imports from China to its exports to China was about 4.2, close to the corresponding ratio for the US-China trade (about 4.5). India's political and economic concern is, thus, obvious. Special safeguard mechanisms have been part of negotiations at both the multilateral and FTA level.

Regarding rules of origin, experience suggests that as trading conditions change with FTAs, investments and locations shift providing options for benefiting from opportunities through regular trade-related business decisions, or by circumventing the FTA disciplines by gaming the system. Global trade policy disciplines and negotiations have long expressed concern regarding circumvention of agreed rules and disciplines. This is incorporated in practical policy steps taken by some countries, like the US and EU.

The above two areas would appear to be strong "asks" of India, with little leeway for adjustment. Creative approaches to meet this demand would be required. All issues could involve a possibility of adjustments linked to India also agreeing to some demand from other RCEP members. Significantly, addressing non-tariff measures (NTMs) through agreed equivalence, protocols, and other similar mechanisms to improve meaningful market access should be a common concern. There should be a basis to develop collaborative mechanisms, for instance, along the lines of CPTPP, which includes seven members of the RCEP.

RCEP creates extensive goods liberalisation, with long transition for implementing tariff falls. It aims to enhance global value chain (GVC) complementarities. A focus on larger services trade liberalisation (an Indian concern) would create greater possibilities for more extensive GVC participation among RCEP countries. Likewise, addressing India's concerns on non-tariff measures would enable countries to develop more cost-effective GVCs.

> Some of the issues raised by India would help make RCEP an even more effective and meaningful opportunity for creating additional RCEP-specific value chain

India, too, needs to keep an overall perspective of its membership of RCEP in the negotiations on its specific concerns. Achieving a high growth rate requires creating additional growth opportunities through higher competitiveness and international trade, linking up with GVCs, reducing the time and costs of business transactions, improving technological capabilities, and creating a vibrant investment environment for domestic and foreign investment that consider overall opportunities combining domestic, and international markets. RCEP is an important framework for progressing on these objectives.

India is a large economy (7th largest in 2018) with a relatively low global rank as merchandise exporter (19th largest in 2018). In contrast, most leading trade economies have the opposite situation or a smaller gap between these two rankings. RCEP economies among the top-30 global merchandise exporters are China (top merchandise exporter in the world), Japan (4th largest), South Korea (6th), Singapore (15th), Australia (23rd), Thailand (24th), Malaysia (25th), Vietnam (26th), and Indonesia (30th). These countries will further improve their trade and investment opportunities through a deep trade agreement like RCEP.

These economies as well as India have several free trade agreements (FTAs), many of them with common partner countries. An important difference is that a number of their FTAs are deeper in terms of liberalisation of tariffs, trade facilitation, and co-operation than those of India. Further, they have FTAs with larger trade coverage, such as CPTPP, and agreements with the EU or the US. Thus, they create greater trade diversion towards the RCEP partner countries in comparison to India's FTAs. Membership of RCEP would significantly change this situation.

India's share in global merchandise exports has been about 1.7% since 2011-12, having increased from 0.7% in 2000-01. India's overall GVC participation ranking (out of 58 economies) improved from 56 in 2000 to 45 in 2009. The global rank is still very low, and major improvement depends on larger market opportunities abroad. Thus, while imports from China might be a specific concern, external opportunities will have to come through higher market opportunities, through FTAs such as RCEP.

For India, participation in RCEP, together with its own policy improvements to reduce costs and time taken for international trade transactions, would help improve linking up with GVCs; effective trade infrastructure and systems; technology upgradation; and enhanced FDI. Some of the issues raised by India would help make RCEP an even more effective and meaningful opportunity for creating additional RCEP-specific value chains than provided at present by this agreement with strong economic, regional and geo-political linkages.

Climate crisis in terms Trump can get

The Paris Agreement is not a trade agreement. There is no trade-off. The president is abandoning America's future by quitting the Paris climate accord

BAN KI-MOON & PATRICK VERKOOIJEN

NYT

PRESIDENT TRUMP MADE good on his promise this week to withdraw from the Paris Climate Agreement. This wasn't a surprise. But it still baffles us. Try as we might, we cannot see how America's interests are served by this decision.

Our climate emergency does not respect borders. California's forest fires will not burn less fiercely, and rising sea levels will not spare Miami or Mar-a-Lago, just because Mr Trump has chosen to opt out of a treaty of nearly 200 nations that represents our best and only chance of saving humanity from the catastrophic effects of rising temperatures.

Let us put it in a language Mr Trump might understand. If average global temperatures rise by the end of the century by another one degree Celsius, or 1.8 degrees Fahrenheit, there will be no winners on this planet. Only losers.

And those immigrants the president rails against? Expect the trickle to become a flood. Climate change could force 1.4 million people to abandon their homes in Mexico and Central America, according to the World Bank. That is because one-third of all jobs in the region remain linked to agriculture and climate change is making those livelihoods more precarious. The best way to keep climate refugees from the United States' doorstep is to support a vigorous and effective climate agreement that helps protect America's neighbours from the ravages of drought and erratic weather patterns. But, Mr Trump is turning his back on this opportunity.

The Paris Agreement is not a trade agreement. There is no trade-off between Detroit, Youngstown and Pittsburgh, on the one side, and Paris on the other. Tariffs and sanctions will not make this problem go away.

Instead, the Paris Agreement is more like a collective insurance policy, into which we all invest to protect our futures. And like most insurance policies, it makes sound business sense. The best investments we can make right now are those that will protect our food, water and energy sources, our transportation, homes and cities, and our businesses and finances from the worst impacts of climate change.

We must invest to adapt to higher temperatures, rising seas, fiercer storms, water scarcity, wildfires—conditions that are now inevitable. The Global Commission on Adaptation estimates that investing just $1.8 trillion to build climate resilience over the next decade would yield more than $7 trillion in net benefits. That is a great return on investment.

> Paris Agreement is more like a collective insurance policy, into which we all invest to protect our futures. And like most insurance policies, it makes sound business sense

In other words, we can either plan now and prosper—or do nothing and pay for the consequences later. It seems to us that Mr Trump is choosing to do nothing and let the country pay later. How is this smart?

The Paris Agreement is a collaborative project, perhaps the greatest collective undertaking ever attempted by mankind. Is it perfect? No. Is it worth keeping? Definitely. Put bluntly, it is the only weapon we have to fight our climate emergency.

Bear in mind that the Paris Agreement is a work in progress. There are standards and targets to be set, compliance measures to be agreed on, budgets to be allocated. One of the best things about the agreement is that nations have pledged to share the fruits of innovation in low-carbon technologies—for clean energy, zero-emissions transportation, greater food security and sustainable businesses and homes. The United States is a great innovator and the Paris Agreement will undoubtedly be the poorer without its participation. But equally, the country had much to gain by joining in this collective endeavour. Why miss out on the greatest technological and economic transformation of our era?

Above all, the world will miss America's talent, leadership and ideas as we map out a low-carbon future. We know American voices will still be heard—notably, the thousands of local and state governments and businesses in the United States that have made pledges to reduce greenhouse gas emissions under a movement called We Are Still In. They are proof that millions of Americans still support the Paris Agreement, even if the current administration does not.

It is not too late for Mr Trump to reconsider his decision. Staying in the Paris Agreement is the right thing to do, for America's sake and for the rest of the world. Winston Churchill is said to have once remarked that you could always count on Americans to do the right thing, after they'd tried everything else. We hope Mr Trump proves him wrong and stays in the Paris Climate Agreement—that he does the right thing from the beginning.

LETTERS TO THE EDITOR

On NCR's air pollution problem

As authorities indulge in passing-the-buck and citing self-proclaimed achievements based on exaggerated numbers, it is important to follow-up on the tough questions posed by the apex court, challenging the hitherto procrastinated approach to combat pollution-levels. It is fair to be critical of the reactive steps being implemented by the state authorities, most of which, have time and again proven to be largely ineffective. As the AQI fluctuates between 'poor' and 'severe', the idea must be to refrain from mud-slinging measures and mandate the civic-agencies to identify a long-term solution at the earliest. The yearly toxic-smog impacts road-safety and public-life, and the issue is compounded by lack of viable efforts and co-ordination, at different levels. While the life-hazard aggravates, indoors as well as outdoors, the focus continues to be on theatrics and gimmicks. As students and taxpayers expect the authorities to remain cognisant of the challenges, one's yet to witness a large-scale, collaborative and result-oriented attempt, to suppress the problem of stubble burning at its source. Though key-personnel have been summoned and directed to shoulder greater-accountability, especially when satellite-images provide enough-evidence of non-compliance. Undermining the right to a good quality-of-life, is apparently the new norm as public-health at large, continues to deteriorate. That said, state PCBs should collaborate to establish a robust framework, driven by a carrot-and-stick approach towards producers in order to truly prioritise the key socio-economic objectives.

— Girish Lalwani, Delhi

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Hong Kong protests run deep and go beyond just democratisation—a manifestation of the latent social and economic undercurrents

One country, two estranged systems

ANURAG VISWANATH
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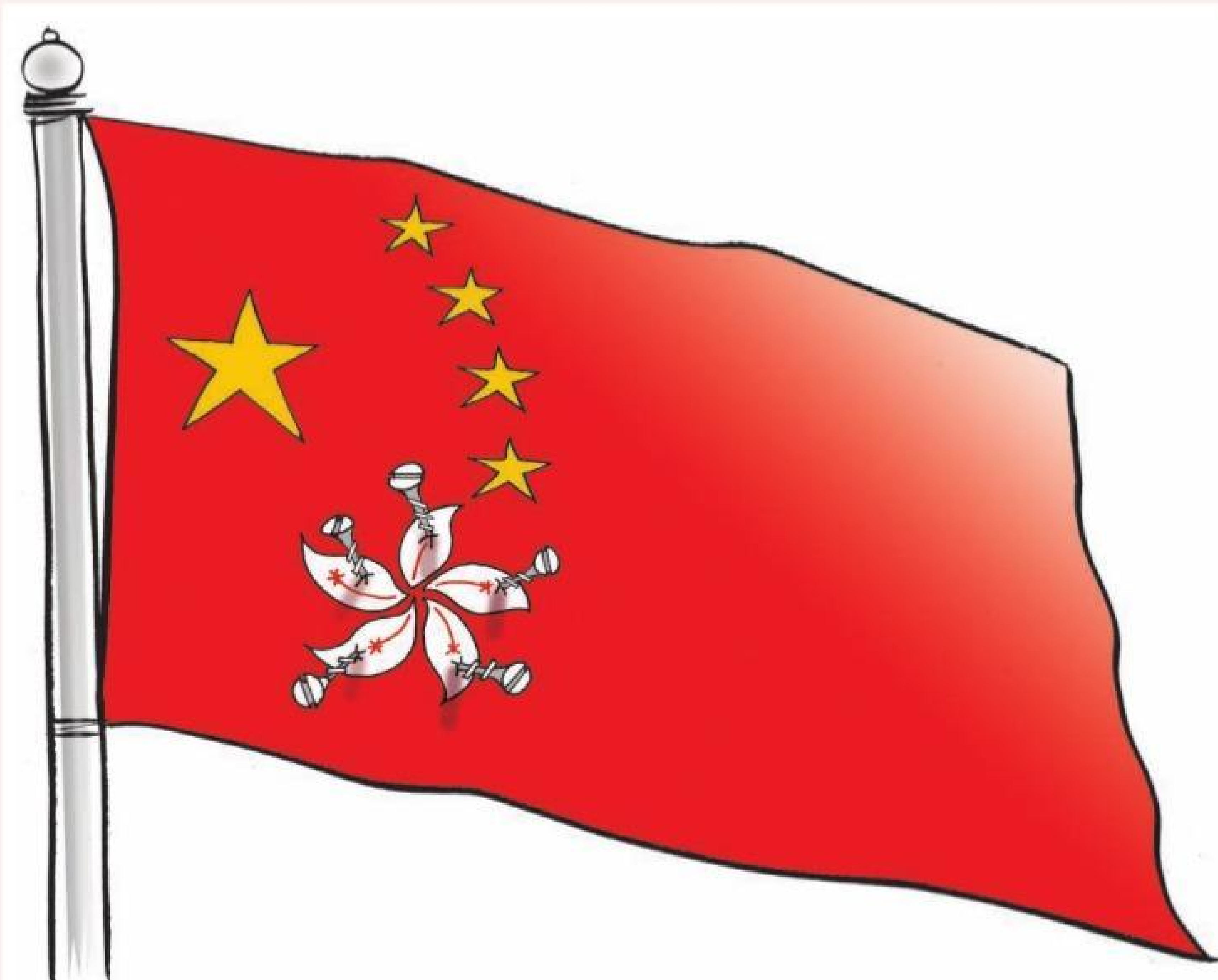


ILLUSTRATIONS: ROHNIT PHORE

CHINA AND HONG Kong tied under "One Country, Two Systems" has China focussing on the first half "One Country" with recent plans of introducing "patriotic education" in Hong Kong. Hong Kongers eye the latter half "Two Systems" instead, which explains the five-month boil. China may not have moved the People's Armed Police (PAP) to quell the protests as it did in Tiananmen in 1989 fearing a global backlash, but China's Hong Kong strategy is no less a hardline one. From (accusations of) employing "Triads" to beat up protesters to banning face masks to new "enforcement mechanisms" for law and order to letting businesses and schools stall—all of which impact the economy—in the hope of bringing Hong Kongers to the negotiating table.

Protests began in Hong Kong on June 9, against an extradition bill whereby suspects in Hong Kong could be sent to mainland China for trial. The extradition bill proved to be the proverbial last straw on Hong Kongers back. Furious Hong Kongers, one in seven, (Hong Kong population 7.4 million) took to the streets. The China-backed Hong Kong government under Chief Executive, Carrie Lam failed to read the depth of anti-China sentiment. Lam dilly-dallied pulling out the extradition bill, but in the process, matters went from bad to worse. In the course of the protests, several demands arose, such as the release of arrested protesters and an independent enquiry into police actions.

Hong Kong is of prime importance to China. This was more than evident from the proceedings of the recently concluded Fourth Plenum of the Central Committee of the Communist Party (CP). CP officials indicated that "enforcement mechanisms" will be rolled out soon, and plans to re-look the manner in which the Chief Executive and key officials are selected are on the anvil.

How are the protests impacting everyday life in Hong Kong? Despite negative reports, Hong Kong is almost as famously "business as usual". Recent conversations by this author included a Hong Konger (who naturally prefers to remain anonymous) who said that Hong Kong is "always functional, perhaps with shorter queues at all operational tourist sites", while British tourist Alice Reilly visiting Hong Kong said, "at no time, did I feel threatened in Hong Kong and loved it, though the Airport Express did not run on time and the stations felt edgy."

There is no doubt that Hong Kong's steely economic image has taken a hit. Though Heritage Foundation (a think-tank based in Washington, DC) ranked Hong Kong as the world's freest economy with an economic freedom score of 90.2 in 2019 (China ranks 100 on the same index of 180 countries), Hong Kong has slipped into economic recession for the first time in a decade. Predictions are that it will worsen in 2020. Tourists have dropped, visitors from mainland have sharply decreased, retail has suffered and restaurants are in the red. Hong Kong economy shrunk 3.2% in the three months to September, higher than the 0.6% contraction forecast by economists in a Bloomberg poll.

Until recently, Hong Kong was known for its keen Chinese-style business enterprise and sleek Western-style infrastructural efficiency—not for protests or Molotov cocktail-wielding masked protesters. Nor was Hong Kong known for police brutality or a government more attuned to Beijing than its own people. In fact, Hong Kong was considered a blip for modernisation theory, which co-related economic democratisation with political democratisation.

Despite Hong Kong being a "high-income economy" (since 1987), and not withstanding its vibrant civil society that has nurtured community organisations and NGOs, it did not ride the wave of democratisation that swept the world since the 1970s. In this, Hong Kong kept company with Singapore and Brunei, highly developed but with weak democratic credentials. In fact, what is happening in Hong Kong has already made Singapore wary, with Yale-National University of Singapore canceling a course on political protests called Dissent and Resistance in Singapore, that was to be organised by local playwright Alfian Sa'at.

Unlike Singapore which decolonised and had the Peoples Action Party (PAP) emerge as the dominant party, Hong Kong decolonised, but did not democratise. Hong Kong's political destiny as a former British colony for 150 years led it to China's political embrace with the Sino-British declaration in 1984, paving the way for reversal back to China in 1997. A mini-constitution (Basic Law), separation of powers between executive, legislature and judiciary, free press and independent judiciary came as guarantors of Hong Kong's autonomy. Hong Kong became China's Special Administrative Region (HKSAR). Both sides are discovering the nitty-gritties of the unprecedented political experiment in history where a yawning gap separates theory and practice, rhetoric and reality.

To be fair, the Hong Kong impasse looks different to both sides. As one indignant Singapore-based Chinese Cao told this author "Hong Kongers consider themselves superior to the Chinese, but tell me, in what way are they better than me? Just because they speak English and wave the US and UK flag (as a few protesters have done recently)?". The Chinese have not stopped short of calling Hong Kongers out as "running dogs of colonialism" (as one Professor of Peking University did publicly several years ago, in 2012). In fact, the dominant Chinese narrative of "One Country" coated in the saccharine of patriotism has stoked resentment in China's domestic audience, who consider Hong Kong as nothing but a disgruntled renegade to the fold.

On its part, China cannot comprehend what, where and how it got wrong. China's way of political and economic integration has been sinicisation and homogenisation of vast tracts of polity and people, including in recent history. Inner Mongolia, where Mongol (nomadic) ethos is in decline, Tibetan Autonomous Region (TAR), where a social-grid system of management is in place, and Xinjiang Uyghur Autonomous Region (XUAR), where the demographic map has been dramatically altered, are examples. Hong Kong was to be formatted along a similar graph. Only that "mainlandisation" or "provincialisation" as Hong Kongers allege, back-fired.

Hong Kong protests run deep and go beyond the coin of just democratisation—they are a manifestation of the latent social and economic undercurrents. Protests against Article 23 (in 2003) and the Umbrella Movement (in 2014) were a prelude. Issues such as Hong Kong capitalists in collusion with the government (business-state collusion), "property hegemony", "matchbox housing", inequality (gini coefficient, a measure of inequality was 0.539 in 2018, with zero indicating equality) and denial of universal suffrage (or popular mandate) collated as the collective erosion of Hong Kong identity and core values. This explains why a disorganised pluralistic civil society shapeless and formless "that flows like water" has taken up the cudgels against Beijing—at random places such as shopping malls, at train stations, at the Central Business District, re-grouping and dispersing aided by messaging apps such as Telegram, WhatsApp and Signal.

China has so far met only one demand of the protesters, the formal withdrawal of the bill, but this too after foot-dragging and delay.

What happens next? Many articulate that Hong Kong as a developed financial centre with rule of law is indispensable to China. Many Chinese shun that opinion saying "With or without Hong Kong, a fraction of China, China is sure to progress". But the reverse, whether Hong Kong can progress without China is becoming an exceedingly difficult question to answer. With China's authoritarian resilience at its best—Hong Kongers with no bread or cake may come to the table, or so China hopes.

An unintended fallout for China is that the entire HK saga is not a wonderful advertisement for a "China rising" nor will this coax Taiwan to consider reunification under a "One Country, Two Systems".

DATA DRIVE

Taxing times

GOODS AND SERVICES Tax (GST) collection in October declined 5.3% year-on-year, to ₹95,380 crore, because of the slowdown in consumption. Overall GST collections in April-October 2019 increased 3.4% year-on-year. The government has a target of at least ₹1 lakh crore in GST collection every month to meet its revenue estimates. This pushes up the required run rate for the rest of FY20 to ₹1.34 lakh crore per month.

A report by Kotak Institutional Equities Research says that at the current run rate, the government could see a shortfall of around ₹90,000 crore in CGST and IGST and ₹1.3 lakh crore in SGST collections for this financial year. The pressure on the government's revenues is mounting since, apart from the shortfall in GST collections, both income tax and corporation tax collections remain weak. Moreover, in September, the government had cut corporate tax rates for all domestic companies by almost 10 percentage points to boost investments and economic growth. The tax cut will cost the exchequer ₹1.45 lakh crore annually. Also, falling nominal GDP growth in the economy will have implications for tax buoyancy.

While GST collections in November are likely to improve because of festive demand aided by lending push by banks, buoyancy in GST collection is unlikely to sustain unless there is a quick pickup in economic growth. The economy grew 5% in the three months to June, the slowest in 25 quarters, and the high frequency indicators are showing no signs of improvement in the subsequent months. Gross tax revenues in H1HY20 have grown at a dismal 1.5%, with 5.2% growth in direct taxes and a decline of 2.2% in indirect taxes.

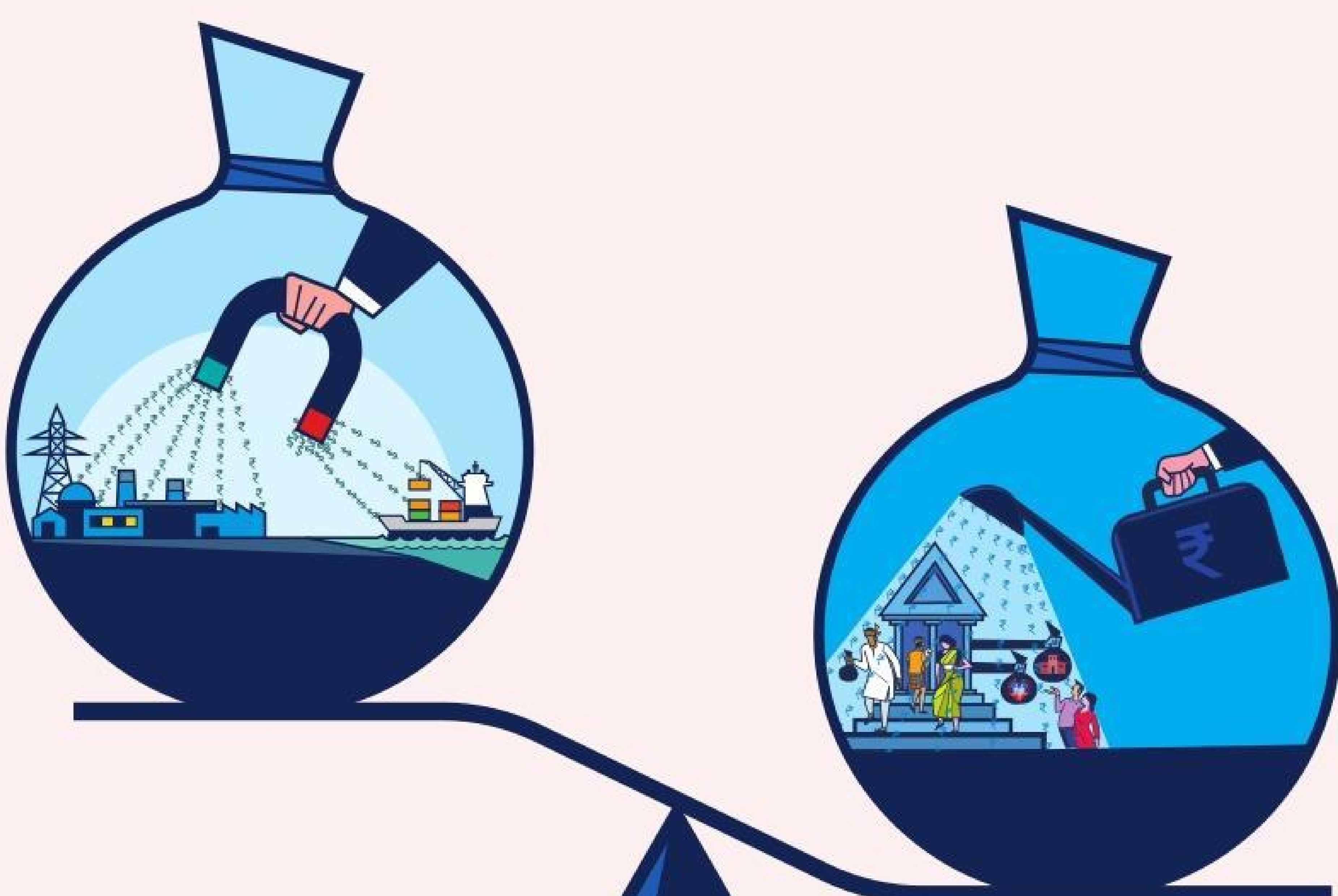
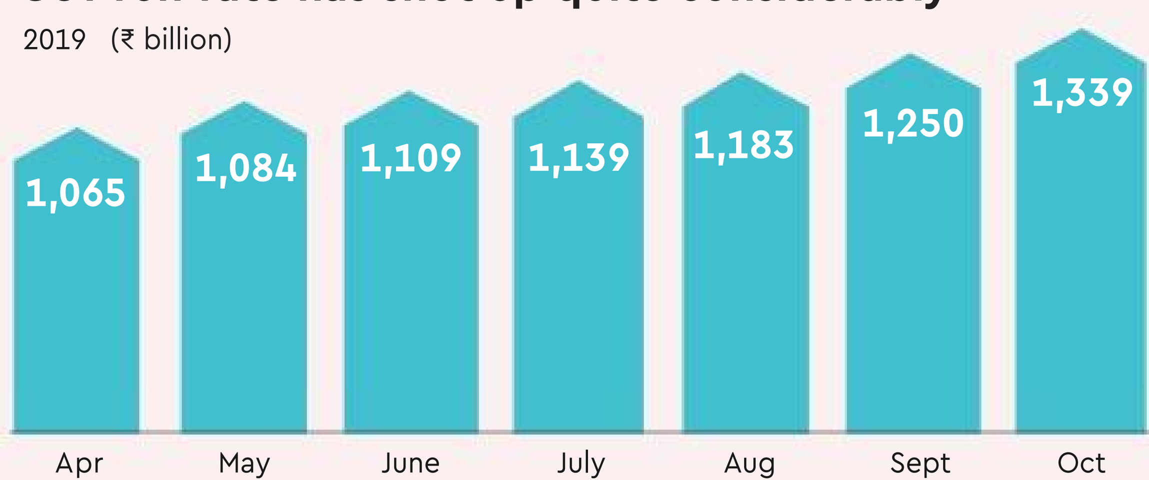


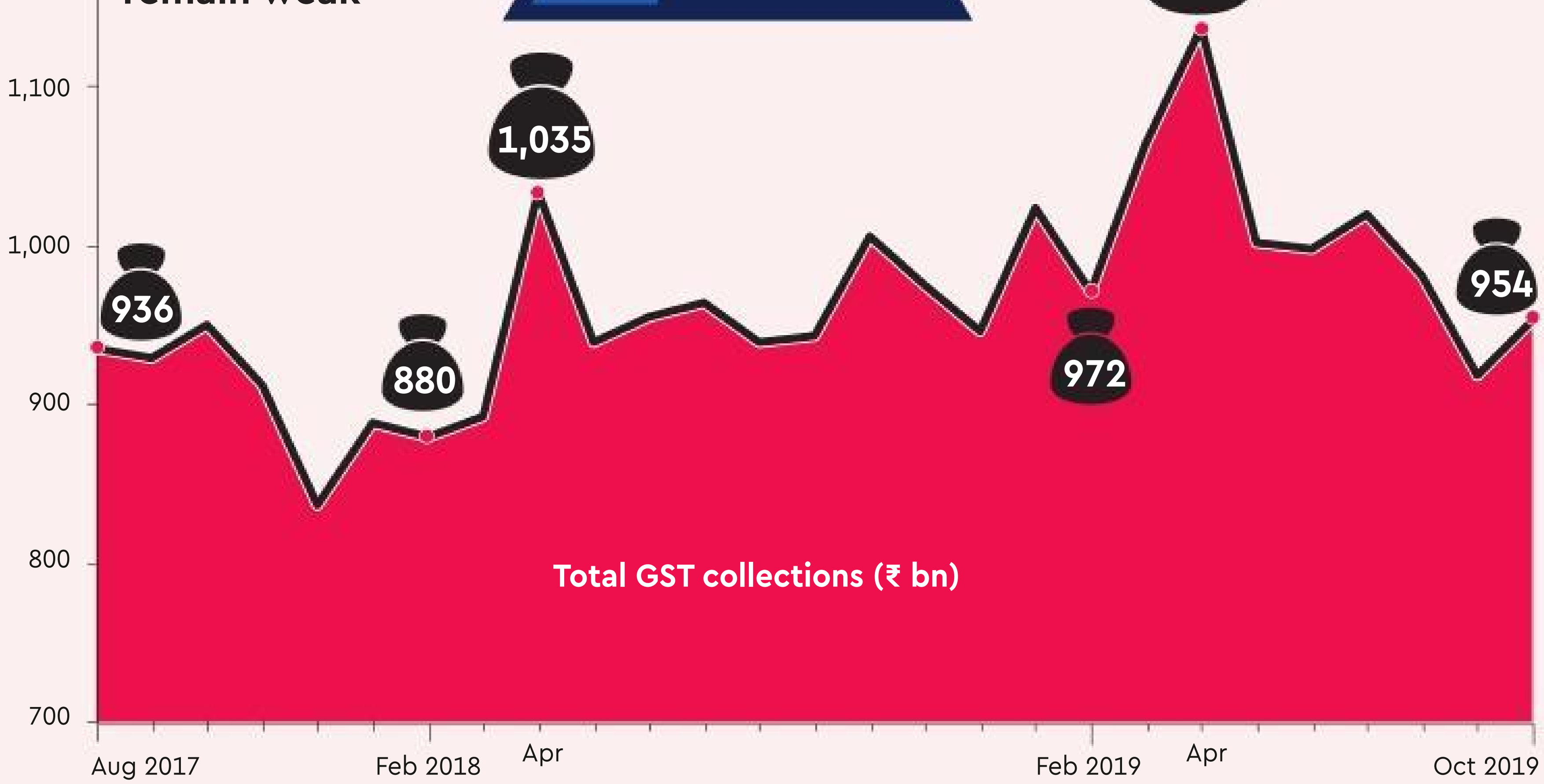
ILLUSTRATION: SHYAM KUMAR PRASAD

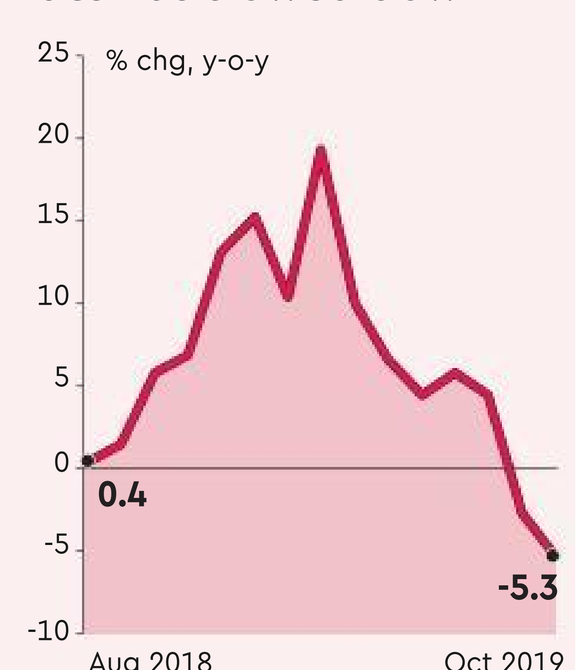
High required run rate for tax revenues in H2FY20

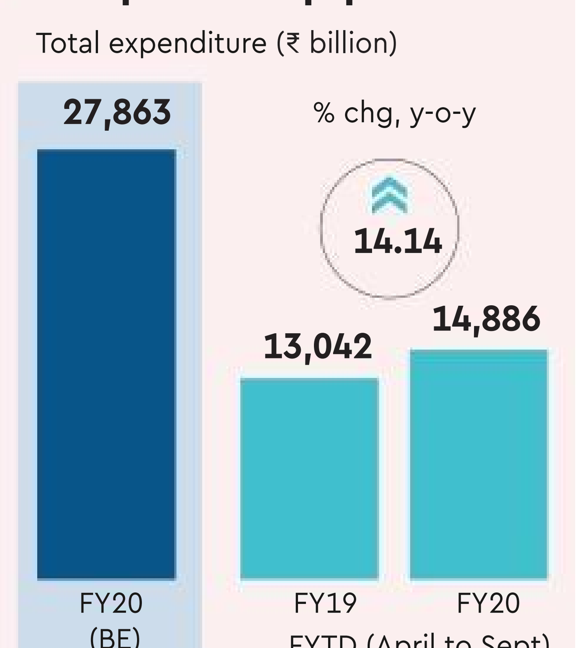
(₹ billion)	FY20 (BE)	FYTD (April to Sept) FY19	FYTD (April to Sept) FY20	FY20 Current run rate	FY20 Required run rate
Gross tax revenues	24,612	9,195	9,058	1,532	2,570
Direct taxes	13,419	4,692	4,462	782	1,445
Corporation tax	7,660	2,493	2,437	416	861
Income tax	5,690	2,130	1,956	355	593
Indirect taxes	11,192	4,489	4,588	748	1,117
Customs duty	1,559	718	645	120	140
Excise duty	3,000	959	1,006	160	340
GST	6,633	2,805	2,891	468	638

GST run-rate has shot up quite considerably









Source: Budget documents, PIB, CGA. Kotak Institutional Equities Research