GST Data: Mixed Signals

Why in news?

The latest GST data give some hope, although cautious, especially to policy makers overseeing beleaguered public finances.

How much revenue was collected?

- Gross revenue collections from GST scaled a 6-month high of ₹95,480 crore in September 2020.
- This is the first time in the current fiscal year when the tax receipts exceeded the year-earlier period's figure.
- With lockdown restrictions having been significantly eased, economic activity appears to have regained some momentum.

How did the momentum regain?

- There is a regain because people want to reclaim an air of normality.
- Businesses rush to restock inventory ahead of the peak consumption in festival-marked October and November.
- Other high-frequency indicators like automobile wholesales and the Purchasing Managers' Index (PMI) for manufacturing have reflected this push to build up stocks.
- The IHS Markit Manufacturing PMI reading was at its highest in more than eight years.
- This is due to the accelerated increases in new orders and production buoyed the sector's outlook.

What does the import data reveal?

- GST revenue from the import of goods was marginally higher than in the year-earlier period.
- This signals that inward shipments of commodities used as inputs in manufacturing had inched up.

What is the correlation observed?

- The Commerce Ministry's Merchandise trade data show purchases of metal ores and pharma products increased 43% and 28% in September.

- This appears to correlate with the trend in GST.
- There is a 3.88% year-on-year growth in gross GST revenue.
- This growth must be seen in the backdrop of the fact that GST receipts had slid to a 6-month low in September 2019: 2.7% contraction
- This was due to the slowdown in the overall economic momentum.

What is the concern?

- The key concern would be to measure the durability of the trend in GST collections, considering that over the first six months of the current fiscal, the cumulative revenue receipts are 25% lower year-on-year.
- Finance Minister's annual Budget for 2020-21 had projected a 12.8% growth in GST receipts.
- This goal now seems surely impossible to realise.

What could be done?

- The GST Council would meet soon and attempt to resolve the contentious issue of GST compensation shortfall.
- So, the Finance Ministry should **reassess its projections** of a ₹3-lakh crore shortfall in GST compensation in light of the uptick in receipts.
- An accurate prediction for the second half may hold the key to untangle the logjam over the ways to fund the shortfall and the Centre-State trust deficit it has created.

Source: The Hindu

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