

## **ETW 20<sup>th</sup> to 26<sup>th</sup> December 2018**

### ➤ **GST - one nation one tax (LM 25/12/18)**

- The next rationalisation will be convergence of 12% and 18% slab and the items would be taxed at 15%
- Right now it is one commodity, one tax. Earlier a commodity would attract as many as 17 taxes, with introduction of GST it is the only one indirect tax applicable on these items (under VAT the standard tax rate was around 31% and under GST it has been much lower. Apart from it, same items/goods were taxed at different rates in different states)
- Post the recent GST council approval, 97.5% of the items are taxed at 18% or lesser
- Standard rate is the rate under which majority of the goods/items are taxed
- The objective is to have zero, 5% and standard rate (with luxury/sin goods as an exception which will be taxed at higher rate). Singapore has adopted a single rate of GST and UK has got two rates – 5% and 20%
- The opposition parties have criticised that the present structure of GST (with tariffs of 0%, 5%, 12, 18%, 28%, cess, exempted list etc) is very complex and the highest tax rate/slab should be fixed at 18% (the 13th FC had proposed a uniform tax rate of 12%)
- experts have stated that most of the countries have one standard rate and the other lower rate. In this regard the merger of 12% and 18% slabs are a welcome step

### ➤ **Banks under PCA are sitting on a cash pile (TH 26/12/18)**

- The banks under PCA are sitting on a cash pile as there are restrictions on their lending activities
- The 11 PSBs which are under PCA have a market share of 25% among the commercial banks, have had a healthy rate of deposit collections
- On the other hand, the average liquidity shortage in the banking sector has been about ₹ 1 lakh Cr since October. The majorly affected have been the shadow banks whose borrowing and lending has been affected post the IL&FS crisis, which has affected the credit market
- These banks have resorted to using the funds in the G-Sec's. As a result, the SLR for these banks has reached 27 to 28% as against the mandated 19.5%
- The year-on-year growth rate of deposits clocked 9.7% in the week ended December 7 as compared to 2.7% a year ago
- With government infusing the liquidity and the banks having higher deposit mobilisation, it would aid in these banks coming out of PCA

### ➤ **Price rise in LPG (BS 22/12/18)**

- PMUY was launched in 2016. At this point the penetration of LPG was 62% and today it has reached 89.5%
- The PMUY (Pradhan Mantri Ujjwala Scheme) became universal last week for all the categories of the poor
- The price of
  - Subsidised LPG on the households has increased by just ₹ 5 a cylinder and remaining burden has been taken up by the government (increased from ₹ 495 to ₹ 500 i.e. an increase by 1%)
  - Non-subsidized cylinder price has increased from ₹ 747 a cylinder in December 2017 to ₹ 809.5 in December 2018
  - This has resulted into higher subsidy outflow of the government. In first two quarters of FY18 it was ₹ 139 bn against ₹ 208 bn in this fiscal (an increase of 50%)

➤ **New logistics portal to be set up (BS 22/12/18)**

- The logistics costs in India are very high at 14% of GDP. the government last year (i.e. 2017) has set up a logistics division in the department of commerce to reduce this
- The department is preparing a digital tool to map the logistical bottlenecks, toll congestions and freight movements. Apart from this a logistics portal will be set up where businesses can sell and purchase the services
- Both of these will help increase the efficiency of the logistics sector and will help the businesses to decide the optimal use of their resources while transporting
- One of the unconventional usage of the tool will be to map corruption at the ground level. The truckers can use the app to inform the government if the police at the toll booths are charging bribes for the passage of the trucks

➤ **Recapitalisation should be linked to reforms (IE 24/12/18)**

- With the recent announcement of ₹ 41000 Cr, the total recapitalisation in this financial year has reached ₹ 1.06 lakh Cr
- The exercise of cleaning up of balance sheet of PSBs began in FY16. the total capital infused has reached ₹ 3 lakh Cr
- The argument tendered by the government is that the banking sector on one side is under pressure because of higher NPAs and on the other side many of the PSBs have lending restrictions because they have been kept under the PCA (Prompt Corrective Action). This infusion of capital will help the revival of credit growth leading to improved performance of these banks in the coming days
- Some of the questions that need to be answered by the government are
  - Is this leading to bad use of the tax-payers money
  - If recapitalisation was the only solution, then why did the government not announce it much earlier
  - Should the government not provide capital based on certain performance standards or only to those which have satisfied certain conditions

➤ **Govt compensation for GST losses till 2025 (LM 24/12/18)**

- The government as of now will be providing compensation to the states for their revenue losses till 2022
- The government is thinking of creating another facility to ensure that the states will be compensated for the next three years from 2022. For this, the 15th FC would be preparing a blueprint (2025 is also when the term of the 15th FC will end)
- This kind of assured compensation will pave the way for easier decision making in the GST council