SUNDAY INTERVIEW

'CII believes that demonetisation and GST are both good for the economy'

Shobana Kamineni, president of the Confederation of Indian Industry (CII) and vice-chairperson of Apollo Hospitals Enterprise, spoke with Pawan Bali about GST. She believes that GST will add one per cent to the GDP growth in the next couple of years.

Has the industry faced any hiccups after GST rollout? What feedback have you received?

So far there have been no major issues. The main challenge during transition relates to stocks, but the government has provided additional time for disposing of old stocks. Industry is happy that GST has been introduced and is willing to go through a transition period.

How much time do you think it will take for things to be come smooth?

CII's sense is that it may take anything from two months to about a year. A smooth rollout would depend on how well the IT backend of GSTN (Goods and Service Tax Network) operates and how much integration is done between vendors and buyers.

Most enterprises have been working with their vendors and buyers up and down the supply chain to ensure that invoice-matching takes place.

There have been concerns that, in the short term, growth may be impacted as industry and traders come to terms with various rules of the new tax regime. Do you agree?

For a couple of months some moderation may be possible, but this would be temporary. GST imparts significant competitiveness to the Indian industry, boosting the inherent potential of the economy to raise incomes. It adds to the formal economy and incentivises exports. GST also helps to expand the tax net. GST is based on self-compliance with the input tax credit as a powerful incentive to businesses to step into the tax fold.

The CII believes that demonetisation and GST are both good for the economy and will lead to greater formalisation going forward, adding to tax revenues. The RBI can boost the economy through a reduction in the interest rates.

Many commentators believe that multi-rate GST may not add two per cent to GDP, as was earlier predicted, due to multiple rates. What's your take?

The gains from GST are undeniable, relating to lower transaction costs, ease of doing business, wider tax coverage, and faster and more efficient logistics. With so many parameters involved, the CII has not estimated an exact data point, but we are convinced that a couple of years down the road, GDP could settle at over one percentage point faster pace of growth, other things remaining as they are.

Is there any concern that GST will be inflationary in the initial days, specially in services?

The GST Council has done an excellent job in fitment of rates, ensuring non-inflationary levels while maintaining the revenue neutral objective. In services, the rates prima facie appear to be three percentage points higher, but the CII's expectation is that enterprises will be able to avail of input tax credit. Further, luxury tax or cess in certain states has been eliminated.

So overall, as per CII analysis, there will be minimal impact on inflation.

How do you see anti-profiteering provisions of GST, and is there any communication from industry not to use it. Do you think there is enough competition in market to take care of prices?

The government has assured us that the anti-profiteering rules will be used carefully.

In an interaction with the CII, revenue secretary Hasmukh Adhia stressed that cases would need to be considered by a multi-tier system before a conclusion on undue price hikes is reached. The markets are quite free and will not tolerate such hikes.

Shobana Kamineni — BIPLAB BANERJEE

Would you like the GST Council to start working towards a two or three rate structure in GST against the current multi-rate structure?

Yes, this is what the CII has taken up with the government several times. With just one or two rates, GST can be an efficient tax, and we hope that the GST Council would favourably consider it within the near future.

With demonetisation and GST, two disruptive forces, is there a need for the RBI to cut interest rates to give a helping hand to industry?

The CII believes that demonetisation and GST are both good for the economy and will lead to greater formalisation going forward, adding to tax revenues.

That said, we are also convinced that with inflation currently at the lowest point since 2012, a subdued industrial growth rate and low investments, the RBI can certainly help to boost the economy through a reduction in the interest rates.

When do you expect private investment to pick up?

Currently, capacity utilisation remains at around 72 per cent while companies usually plan fresh investments when it is around 80 per cent. In certain sectors, such as tractors and automobiles, demand has picked up, and within a couple of quarters we could see capacity utilisation build up.

This is when the CII projects that a rise in private investments would begin to show up. Incidentally, sectors like aviation are adding capacity and growing at over 25 per cent year on year, which are all creating huge opportunities.

Which other areas of reform would you like the government to focus now?

The government has undertaken commendable reforms, with GST being the most transformational of them all.

Its focus on attracting FDI, ease of doing business and resolving non-performing assets has been quite effective.

The CII would like to see more actions in ease of doing business at the state level, and also a faster movement on issues such as disinvestment, agricultural markets and labour reforms.

We are satisfied with the current direction of the government and believe that the reforms agenda would continue to be intensive in days to come.