1% tax above GST may hurt Make in India:CEA

Says time is right for RBI to cut rate

Chief Economic Advisor Arvind Subramanian has criticised the proposal to impose a one per cent levy over the Goods and Services Tax (GST) to help manufacturing states.

The government should reconsider this levy as it could make intra- state movement of goods expensive and hurt the Make in India campaign, he told reporters here on Tuesday. “Think of a good going from Gujarat to Tamil Nadu, crossing four states. The good would embody an additional tax of about four- five per cent, because it is one per cent in every state. That might make it easier to import into Tamil Nadu from Bangkok,” Subramanian said.

The chief economic advisor (CEA) also said the time was right for the Reserve Bank of India (RBI) to cut the policy rate as inflation had moderated and the fiscal deficit was contained.

To address manufacturing states’ concerns, the Constitution amendment Bill on GST had provided for an additional one per cent tax for two years. The tax was proposed to bring on board manufacturing states, as these were against the destination- based GST. The Bill has been referred to a Rajya Sabha select committee, which is expected to submit its report at the beginning of the next session of Parliament. The Lok Sabha had cleared the Bill.

“It (the one per cent additional tax) has the potential to undermine Make in India. That is why we need to look at this provision carefully. This period that we have gained, some of these issues need to be looked at again,” Subramanian said. The government plans to roll out GST from April 2016.

On repo rate, he said: “Looking at the analysis of what is the inflation forecast, what is the fiscal consolidation, what is the international environment ... and how the monetary policy should respond, I think there is scope for monetary easing.” RBI is scheduled to announce its second bi-monthly policy on June 2.

Subramanian said: “ Inflation... is going to be lower than the RBI’s target. Fiscal policy is supportive and that (will have) implications for interest rates.” Since January, RBI has cut the key policy rate or repo rate twice, by 0.50 per cent, to 7.5 per cent as inflationary pressures eased. Adequate food stocks would help contain inflation, even if the monsoon turns out to be weak, Subramanian said. The meteorological department had said monsoon would be slightlybelow normal.

But private weather forecaster Skymet had said it would be close to excess.

Subramanian said India should take action to keep its currency competitive, in view of the aggressive rate cut policy of China and other countries.

“Itisnotthateverythingthat China does should be imitated but that’s a lesson we need to learn....” Moreover, he added, most countries are trying to keep their currencies competitiveandcheap.“ Thequestionis how should we respond. We shouldtakedefensiveaction. At the very least, we should not allow our currency to become moreuncompetitive. Weshould keepit(?) competitiveifwewant Make in India to be a long- term success. We have to have a very supportive currency policy.”

ON MONSOON & INFLATION

“Because we do have adequate stocks, we will be able to contain inflation even if monsoon does not turn out to be as good”

ON RATE CUT

“Looking at the analysis ... and how the monetary policy should respond, I think there’s scope for monetary easing”

ON KEEPING THE RUPEE COMPETITIVE

“We should keep it (Rs.) competitive if we want Make in India to be a long- term success”

(Business Standard)