

# 'Inflation driving 8% of GST revenue rise'

SBI Research sees current account deficit widening to 3.7% of GDP, pegs trade deficit at 8.5% in 2022-23

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High inflation is driving about 8% of the current surge in Goods and Services Tax revenues, and inflation-adjusted GST collections so far this year are 26% higher than pre-COVID levels, SBI Research said in a report on Thursday, suggesting this rise could be driven by higher consumption.

SBI Research also raised its current account deficit target for this year to 3.7% of GDP, projecting the trade deficit to widen to 8.5% of GDP in 2022-23. The bank's researchers attributed the entire expansion in India's trade deficit in July over June, to the dip in exports caused by government measures to control inflation, such as the windfall tax on



**Feeding through:** Even after accounting for higher inflation, GST collections remain robust, says Ghosh. ■ NAGARA GOPAL

petroleum products.

GST collections have clocked over ₹1.4 lakh crore for five successive months, with July recording the second-highest revenues since the indirect tax regime's introduction at almost ₹1.49 lakh crore, 28% higher than

a year earlier.

"Various reasons, including better compliance, economic recovery and higher inflation are considered as some of the factors leading to higher GST revenue," Soumya Kanti Ghosh, SBI group chief economic advisor,

wrote in the report.

SBI sought to estimate inflation-adjusted revenue by deflating actual revenue with the Consumer Price Index used to measure retail inflation while excluding fuel.

"The gap between the two (actual GST revenue versus inflation-adjusted revenue) started increasing since May 2020 with a significant difference between the two since mid-2021. Currently, nearly 8% of the increase in GST revenues can be attributed to higher inflation," Mr. Ghosh noted. SBI's estimates peg inflation-adjusted GST revenue for the first four months of 2022-23 at an average of ₹1.2 lakh crore.

"This is a 26% jump in inflation adjusted GST from the pre-pandemic level at ₹95,000 crore. In simple ter-

minology, this shows that even after accounting for higher inflation, GST collections have remained robust and this increase could be the pure consumption impact," he concluded.

## 'Lower than the peak'

With the record goods trade deficit of \$31 billion in July, compared with the previous high of \$26.2 billion in June, taking the deficit past \$100 billion for the year already, the bank's researchers estimated the full-year deficit at 8.5% of GDP.

"Interestingly, this is much lower than the peak deficit of 10.7% of GDP achieved in 2012-13," Mr. Ghosh observed. "Thus, the current situation is much better than that in 2012-13," he added.