GST reforms expected to ignite animal spirits in financial sector: DEA secy

SUBRATA PANDA
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Noting that recent uncertainties created by global tariffs have not impacted the Indian economy severely, Anuradha Thakur, secretary, Department of Economic Affairs, said the central government is hopeful that the recent goods and services tax (GST) rationalisation will ignite the much needed animal spirits in the financial sector.

In September, the GST Council rationalised GST rates across various categories to stimulate consumption in the economy. Combined with the income tax relief provided to the middle class through higher exemption limits under the new tax regime, and the 100-basis-point cut in the repo rate that has made borrowing cheaper, bankers say these measures have resulted in green shoots in the economy. They aim to capitalise on this momentum in H2FY26 by expanding credit disbursal.

Speaking at a CII event in Mumbai, Thakur noted that the Indian financial sector has grown to be one of the most stable amongst emerging economies.

"The financial sector, which was plagued by the twin balance sheet problem in the last decade, has moved to become more strong, inclusive, innovative and now is a catalyst and reflection of India's economic transformation", she said.

Thakur said that this has been made possible due to several measures targeted at recapitalisation of public sector banks, strengthening NPA recovery mechanisms, and healthy resolution practices as well. The Insolvency and Bankruptcy Code (IBC) has also played a major role in this.

She also highlighted that for India to meet its goal of a sustained 8 per cent gross domestic product (GDP) growth target, India needs a lot of investment to flow in and therefore the entire financial system, banking system as well as capital markets assume a pivotal role in channeling savings towards investments in productive segments of the economy.

Thakur also touched upon the shift in the financial sector in the form of rising financialisation of savings — a shift from bank deposits to mutual funds and equities.

"In the last five years, the mutual fund AUM has more than trebled and bank deposits have grown by a little over 70 per cent. Within banks, it is the low cost Casa deposits which are showing a declining trend, reducing the net interest margin for banks. On the credit side, financing from non-bank sources seems to have increased, reflecting higher reliance on market-based funding," she said, adding that the share of banks in total credit is down from 77 per cent in 2011 to close to 60 per cent in 2022.

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Additionally, she said, equity-based financing has gained immense popularity with the number of IPOs increasing six-fold between 2013 and 2024, which is a healthy sign of financial sector deepening.

"India's capital market growth has been strongly underpinned by sweeping forward looking reforms introduced by the government through law as well as the market regulators, particularly Sebi and IFSCA, aimed at easing capital raising, deepening investor participation and strengthening governance. As a result, the market cap which stood around ₹100 trillion in March 2015 has doubled every 5 years and reached close to ₹475 trillion as of November 12 this year," Thakur said.

However, she emphasised that the corporate bond market, though larger than ever before, remains dominated by highly rated financial issues and has weak secondary market liquidity.

"The government did come up with a new product-Bharat Bond- the first corporate bond ETF — which led to the creation of a new asset class. That was an attempt to provide an instrument, a safe investment option help to deepen the market, develop the market," she said, adding that more needs to be done on market making, credit enhancements and streamline disclosures so that more companies and more corporate entities are encouraged to issue bonds and have market ready finance available to them.

She also highlighted that alternative vehicles such as Reits and InvITs are still viewed as niche products. "We have critical miles to cover before these instruments become mainstream channels to long-term savings. Measures such as improved investor awareness, expanded product lines, robust data benchmarking and greater institutional participation are key to unlocking their true potential," Thakur said.

Thakur also highlighted the deleveraging in the corporate sector. She said internal resources have become the most important funding source for corporates, growing significantly from 60 per cent in 2014 to 70 per cent in 2024. At the same time, the share of external resources has steadily declined from about 39 per cent in 2014 to about 29 per cent in 2024. Further, the reliance on institutional debt seems to have fallen.

"Bank and financial institutional borrowings have come down significantly and this trend is far more pronounced in the manufacturing sector," Thakur said.

According to Thakur, the sense that the government has is that the bulk of the corporates want to be in compliance, and it is for the government to respond to make compliances and regulations easy to comply with and cost effective.