FINANCIAL EXPRESS N.D. 12/8/2019

REVERSING SLOWDOWN

Centre mulls urgent steps to boost exports

'Full' refund of levies to exporters likely; relaxed norms to step up export credit soon

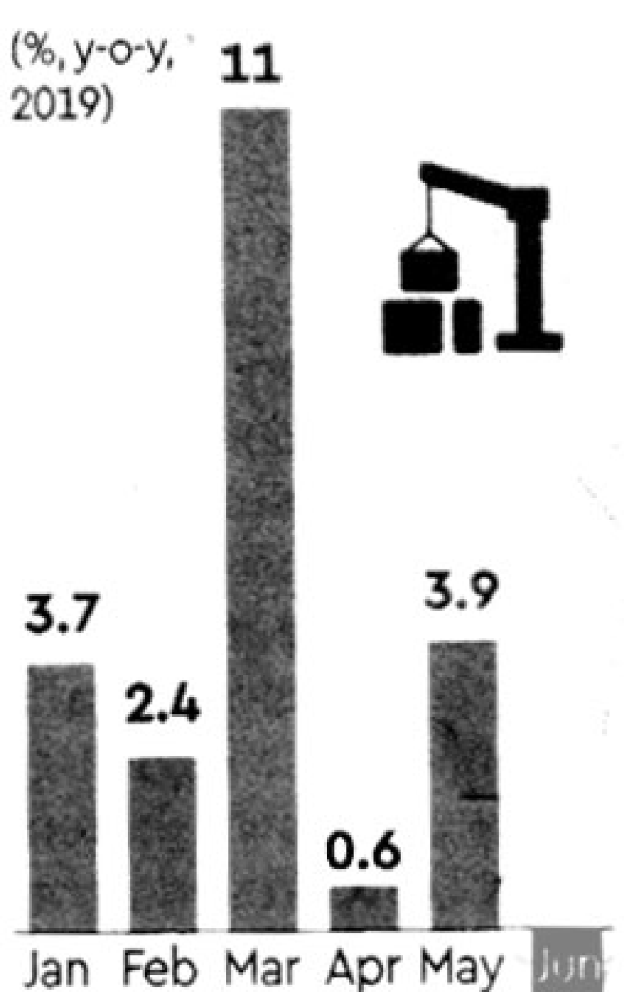
BANIKINKAR PATTANAYAK
New Delhi, August 11

THE GOVERNMENT IS weighing a raft of measures — including "full reimbursement" of various imposts on exports and relaxed lending norms to improve credit flow — to reverse a slide in the growth of outbound shipments in recent months, sources told *FE*.

While the commerce ministry has already circulated a Cabinet note to phase out the flagship Merchandise Exports from India Scheme (MEIS) with a more WTO-compatible regime under which various state and central levies on inputs consumed in exports will be reimbursed, the government will likely top it up with an assurance that all embedded taxes borne by exporters will be fully refunded.

"The new scheme will be a dynamic one, so that all sorts of embedded taxes will be reimbursed once exporters bring them to notice. A government panel will examine their demand and take appropriate action. The idea, as we have stated, is that exports must be zero-rated as per the global best practices," a source said.

Goods export growth has plunged



Key takeaways

- RBI rejects proposal to earmark part of forex for export credit
- Turnover limit of ₹100 cr for an exporter to get priority sector credit may be scrapped or doubled
- Limit of sanctioned loan per borrower may be raised to ₹40 cr from ₹25 cr
- Cap on export credit at 2% of banks' total loans may also be relaxed

Source: Ministry of commerce

Though the goods and services tax (GST) regime has subsumed a plethora of levies, some still exist (petroleum and electricity are still outside the GST ambit, while other levies like *mandi* tax, stamp duty, embedded central GST and compensation cess etc remain unrebated).

Similarly, the Reserve Bank of India (RBI) is willing to ease priority-sector lending guidelines for exporters. Currently, exporters with a turnover of up to ₹100 crore each are eligible for credit under the priority sector norms. This limit is likely to be scrapped or doubled so that more exporters are benefited. The maximum sanctioned limit of loans is also likely to be raised to ₹40 crore per borrower from the current ₹25 crore. Even the cap on export credit at 2% of banks' total loans could be relaxed soon.

However, the central bank has refused to endorse a proposal to allocate a part of its foreign exchange reserves for export credit — as is being demanded by some exporters — to boost flow of loans on the ground that such a move is fraught with risks, a source said.

Continued on Page 2

■ **GSP rollback: Exports of goods under tariff system to US rise 32%, Page 3**

Centre mulls urgent steps to boost exports

ONCE TWEAKED, the revised p... ity sector lending norms and certain enabling guidelines are expected to release additional credit of anywhere between ₹35,000 crore and ₹68,000 crore for exporters, according to an RBI assessment.

Recently, commerce and industry minister Piyush Goyal told the Rajya Sabha that banks' outstanding export credit, which rose from ₹1,85,591 crore in March 2015 to ₹2,43,890 crore in March 2018, dropped to ₹2,26,363 crore at the end of March 2019.

Goyal has already held a series of meetings with exporters to address their concerns, and some of the steps being mulled will be finalised soon. The measures are proposed at a time when India's merchandise export growth collapsed to just 0.6% in April, 3.9% in May and -9.71% in June. Citing persistent risks from a global trade war, the IMF recently trimmed its 2019 trade growth forecast by a sharp 90 basis points from its April projections to 2.5%, against the actual rise of 3.8% in 2018.

As for the plan to reimburse levies, such a scheme has already been implemented in garments and made-up exports. However, its scope and reach will be expanded now. Exporters will be refunded levies through freely transferable scrips. For the remission of state levies for garment and made-up exports, the government had allocated ₹3,664 crore in FY19. However, the compensation level under this scheme was expanded in March to include central levies as well; even some embedded taxes were factored in. So the potential revenue forgone is now estimated at around ₹6,300 crore annually.

The government's potential revenue forgone on account of the MEIS is estimated at ₹30,810 crore a year.

However, government officials have repeatedly stated that the entire allocation or potential revenue forgone on account of various such schemes (including MEIS) doesn't qualify as export subsidies, as in most cases, they are meant to only soften the blow of imposts that exporters have been forced to bear due to a complicated tax structure. The US has dragged India to the WTO, claiming that New Delhi offered illegal export subsidies and "thousands of Indian companies are receiving benefits totaling over $7 billion annually from these programmes". Indian officials have rejected such claims.

According to Fieo president Sharad Kumar Saraf, for our exporters to become competitive, the government needs to ensure that transaction costs are cut drastically, embedded taxes are fully offset, raw materials are made available at reasonable prices and credit is extended at cheaper rates. "Land acquisition needs to be made easier and companies must not be dragged into unnecessary legal hurdles," he added.