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Economists see growth hiccups in the short-term

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The ambitious dream of â€œone nation one taxâ€ is about to see the light of day, but the cost of its long-term benefits will be paid in the short-term in the form of a production slowdown, a mountain of compliance work, delayed purchases and potential job cuts at unorganised businesses wanting to stay competitive.

Economists expect a marginal negative impact on growth in the run-up due to three factors. First, firms will look to crimp production and retailers will aim to maintain lean inventory levels. Second, adjusting to the compliance structure, which mandates the filing of returns three times a month, will consume time and resources. Finally, the perception that certain high-value goods may become cheaper after the implementation of GST could drive consumers to postpone their consumption until after implementation, dragging growth slightly.

However, beyond a quarter or two, pent-up consumption demand should come back.

Here are some economistsâ€™ views:

Aditi Nayar, Principal Economist, ICRA: â€œThere could be marginal slowdown in Q1 and Q2 of FY18 due to the de-stocking phenomenonâ€. She however, expects revival post Q2.

Madan Sabnavis, Chief Economist, CARE Ratings: "International experience suggest that the GDP shrink by about 2-3 percent post the year of implementation of GST. However, there is very low correlation to establish that point. In the Indian context the government has projected that implications of the GST are supposed to be revenue neutral. In that case if the prices are not going to fall drastically or increase, I see no point in assuming a significant change in demand and thus GDP growth. However, considering that a large part of the unorganised market will be covered under the GST, we would see may be 0.25-0.5 percent positive impact on GDP over the next one or two years as the markets mature post the implementation of the GST"

"It is quite possible that there may be an inflationary pressure because of the implementation of the GST as a result of price hike taken to pass on any additional pressure because of the tax. But that too, in our mind is going to be marginal on an aggregate basis"

Suvodeep Rakshit, Senior Economist, Kotak Institutional Equities: "It is difficult to assess the actual GST impact on GDP, but considering that the businesses will take some time to adjust with the new tax structure particularly the unorganized sector we might see some short-term hiccups. It is possible that in case of a shift towards the organized segment, the unorganized segment might resort to cut in salaries and jobs to control margins, which could possibly have a cascading impact on the consumption cycle. Second, on the downside this could pose a fresh risk to the production cuts etc. But that is only a downside risk which might materialize in case the corporates face implementation challenges. On the other hand we are positive in the long term that GST will bring in growth largely driven by the efficiency and productivity gains along with the positive benefits of increase in tax compliance."

Hereâ€™s the Moneycontrol Research view: In the medium-term, GST should be positive for growth. Input tax crediting should reduce the price of capital goods and boost investment. The elimination of inter-state taxes (central sales tax, octroi) will reduce geographic fragmentation of production, resulting in economies of scale. Since GST creates a tax chain, it should gradually formalise parts of the economy, resulting in revenue gains for the government, which can be redirected towards public capex.

Finally, the elimination of cascading taxes, and lower logistics and tax costs should improve price competitiveness of firms, boosting exports.

And, in the short term, that everyone is worried about, donâ€™t forget that the Reserve Bank of India has been very restrained on the rates front despite soft inflation. So, it can always step in with a rate cut if growth takes a hit that is more than can be explained away by a temporary dislocation.