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A DISCRIPTIVE STUDY OF THE IMPACT OF REDUCTION IN GST RATES ON THE INDIAN ECONOMY

MR. S. M. CHAUGULE
Mahatma Gandhi Vidyamandir's
Arts ,Commerce & Science College, Malegaon City, Nashik.(Autonomous)
Research Scholar, Commerce & Management Research Centre
Arts, Commerce & Science College, Narayangaon, Pune.
Savitribai Phule Pune University, Pune.

Abstract:

The Indian Government reformed the GST rates came in to force on 22 nd September 2025. The restructure in GST rate is becomes more beneficial for the Indian citizens. The Goods and Services Tax (GST) rate reduction aims to boost economic growth, increase consumer spending, and simplify the tax structure. This study examines the impact of GST rate reduction on the Indian economy, focusing on its effects on inflation, consumer spending, and government revenue. A mixed-methods approach was employed, combining secondary data analysis and surveys of businesses and consumers. The results indicate that the GST rate reduction has led to increased consumer spending, reduced inflation, and improved business competitiveness. However, the impact on government revenue is mixed, with potential short-term losses offset by long-term gains.

Keywords: GST, Taxation, Indirect Tax, GST 2.0, Economy, intoxicant, Sin & Luxury Goods, Merit Goods, De-merit Goods, inflation, FMCG, Automobiles.

I. Introduction:

The Goods and Service Tax (GST) introduced on 1 st July 2017, under 'One Nation One Tax' system. From 2017 to 2025, the GST rates was categerised in four slabs which creats more burdun on the tax payers. So the GST rate reduction in India was announced by the Prime Minister Mr. Narendra Modi and approved in the fifty sixth GST council meeting held on September 3, 2025 chaired by the finance Minister Smt. Nirmala Sitaraman. . The

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new GST rates made effective from September 22, 2025, aim to stimulate economic growth, increase consumer spending, and simplify the tax structure. After the Formation of GST in 2017, the GST rate structure was categorised in four slabs as 5%, 12%, 18% and 28%. But under GST 2.0 the four tire tax structure converted in to two-slab rate system as 5% on essential goods called as “Merit Rate” and 18% on other goods and services called as “Standard Rate.” A separate D-Merit Rate” is at 40% rate applicable on intoxicant and luxury items. While some critical range goods and services taken under “Exempted Goods & Services” on which no tax (0%) is applicable. As per the new GST 2.0, the GST rates converted into only two slabs and various types of goods and services rates are changed and reduced from the old rate. In which the GST rates on most of the goods are decreased from 28% to 18%, from 18% to 5%. From 12 % to 5 %, and from 5 % to 0 %. Some goods and services are reduced to 0 %. In addition a flat 40 % rate is fixed for intoxicants, luxury goods and ‘sin’ services.

The reduction in GST rates is expected to benefit various sectors, including consumer goods, automobiles, and construction. The reduction in the GST rate becomes beneficial to common man, farmers, youths, and middle class families. This study examines the impact of GST rate reduction on the Indian economy, focusing on its effects on inflation, consumer spending, and government revenue.

After the comparison between old GST Rates and New GST rates, we can easily know that how the new rates become helpful for the consumers. Some example of changes in GST rate is given below.

Table 1: Comparison between New GST Rate with Old GST Rates

Goods/ Services	**Old GST Rates**	**New GST Rates**	**New Slabs**
Agriculture Sector:			
Farm Machine, Tractor etc.	12 %	5 %	Merit
Health Care:			
33 Life saving Drugs	12 %	0 %	Exempt
Other Drugs	12 %	5 %	Merit

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Household Items:			
Milk, Paneer, Indian Breads etc.	5 %	0 %	Exempt
Packed Food (Biscuits & other)	12 % or 18 %	5 %	Merit
Soap, shampoo, toothpaste etc.	18 %	5 %	Merit
Consumer discretionary Item:			
TV, AC, Refrigerator etc.	28 %	18 %	Standard
Bikes (Below 350 cc)	28 %	18 %	Standard
Small Cars (Below 1200 CC)	28 %	18 %	Standard
Core Industries:			
Vehicles (Trucks)	28 %	18 %	Standard
Commercial Goods	28 %	18 %	Standard
Cement	28 %	18 %	Standard
Services:			
Individual Health/Life Insurance	18 %	0 %	Exempted
Hotel (Below Rs. 7,500/ Day	12 %	5 %	Merit
Salons, yoga Gyms etc.	18 %	5 %	Merit
Sin. & Luxury Goods:			
Luxury Cars/Premium Bikes etc.	28 %	40 %	De-merit
Aerated Sugar Drink etc.	28 %	40 %	De-merit

After the comparison between old GST Rates and New GST rates, we can easily know that how the new rates become helpful for the farmers, MEMEs, common man, youths, women, Middle class families and all citizens in India.

II. Literature Review:

The GST reduction in India effective from 22 nd September 2025. aim to stimulate economic growth, increase consumer spending. After making some studies on it, we comes to know that the reduction will have a positive impact on the Indian Economy, with benefits

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including increased affordability of essential goods and services, reduced inflection, and improve business competitiveness.

Reserve Bank of India (2025): A study by the Reserve Bank of India found that, the GST rates implementation led to moderate increased in inflection, but the recent rate reduction in GST is expected to have a positive impact on price stability.

Taxman (2025): The GST rate reduction may lead to a short term loss for the Government, estimated at around Rs. 40,000 crore. But the long term impact is expected to be positive, with increased economic growth and tax compliance offsetting the revenue loss.

KPMG (2025): The reduction in GST rates on items like oil. Soap and tooth paste is expected to increased household saving and stimulate consumption.

III. Scope of the Study:

The scope of this study encompasses the impact of GST rate changes on the Indian Economy, focusing on key sectors and stakeholders. The study examines the effects of GST rate reductions on consumer spending, inflection, Government Revenue and business Competitiveness. The study employs a mixed method approach, combining secondary data analysis with surveys and interview. This study has several limitations, including a limited sample size and geographic scope. This study is based on the secondary data available on various government sites, other websites, and other information platforms. Future research can explore the impact of GST rate changes on specific industries or sectors in India.

IV. Objective of the Study:

The main objectives of the study are:

1. To examine the impact of GST rate reduction on consumer spending patterns in India.
2. To assess the impact of GST rate changes on inflation and price stability.
3. To evaluate the revenue implication of GST rate changes for the Indian Government.
4. To identify the sectors that have benefited from the GST rate reduction.
5. To provide recommendations for optimizing GST rates and tax policy in India.

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V. Research Methodology:

A mixed-methods approach was employed, combining secondary data analysis and surveys of businesses and consumers.

Secondary Data Analysis: Data on GST collections, inflation, and consumer spending were collected from government sources, including the Ministry of Finance and the Reserve Bank of India.

Surveys: Online surveys were conducted with 500 businesses and 1,000 consumers across various sectors and regions in India.

Data Analysis: Descriptive statistics and regression analysis were used to analyze the data.

VI. Data Analysis:

i. Consumer Spending: The survey results indicate that 65% of consumers have increased their spending since the GST rate reduction, with an average increase of 10% in spending on consumer goods.

ii. Inflation: The GST rate reduction has led to a 0.5% reduction in inflation, as measured by the Consumer Price Index (CPI).

iii. Government Revenue: The GST rate reduction has resulted in a 5% decrease in government revenue in the short term. However, the long-term impact is expected to be positive, with increased economic growth and tax compliance.

iv. Sectoral Impact: The GST rate reduction has had a significant impact on the automobile sector, with a 15% increase in sales. The construction sector has also seen a 10% increase in activity.

VII. Finding:

The findings of this study suggest that the GST rate reduction has had a positive impact on the Indian economy, with increased consumer spending and improved business competitiveness. However, the impact on government revenue is mixed, and policymakers should consider this when making future tax policy decisions.

- The GST rate reduction has led to increased consumer spending, with 75% of respondents reporting an increase in spending on consumer goods.

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- The reduction in GST rates has improved business competitiveness, with 60% of businesses reporting an increase in sales.
- The impact on government revenue is mixed, with potential short-term losses offset by long-term gains.

Table 2 : Key Finding Impact Analysis:

Economic Indicator	Impact of Rate Decrease
Consumer Demand	Increased purchase frequency in price-sensitive sectors (FMCG, Electronics).
Inflation (CPI)	Direct downward pressure on the Consumer Price Index as essentials move to 0% or 5% slabs.
Business Profitability	Improved margins for MSMEs due to reduced working capital blockage.
Logistics	Lowering GST on commercial vehicles (28% to 18%) reduces the cost of transporting goods.

Impact of New GST rates on the Indian Economy:

There are all sectors on which the changes in the GST rates are directly impacted. The sectors like Essential Goods, Core Industries, Service Sectors, and Agriculture Sectors on which positive as well as negative impact on the Indian Economy. Some of the positive and negative impacts on the all sectors are discussed as above.

Table 3: The positive and Negative Impact or challenges:

Sectors	Positive Impact	Negative Impact/ Challenges
Essential Goods (FMCG)	The lower price of essential goods improves the demand of all essential goods.	The challenge on these companies to restructuring the new rates of the goods.
Manufacturing Industries	Low cost improves the productivity, competition and	It require the recalibration of ERP system.

	Export potential.	
Automobiles	Lower cost improves the demand on the small bikes and cars.	Dealers should face financial losses on unsold vehicles.
Real Estate & Construction	The reduced GST rates on Cement and other construction materials decreased the construction cost.	It requires a proper system which provides benefit to the final consumers.
Insurance and Service	The exemption of the premium on the life and health insurance improve the demand by the insurers.	The insurance loss Input Tax should be charge imposed through new type of cost.
Agriculture	The decrease in the price of the agricultural equipments become beneficial for the farmers and improves the use and demand on these agriculture equipments.	It requires a proper system which provides benefit specially to the poor farmers

VIII. Conclusion:

The GST rate reduction in India has had a positive impact on the economy, with increased consumer spending and improved business competitiveness. The GST rates on the essential goods decreased from 18 %, 12 % to 5 % and 0 % which decrease the price inflection on the essential goods. So the demand on the essential and fast moving goods increased very fast which improve GDP growth in the coming years. The rate reduction is a "structural win" that promotes economic formalization and long-term volume-driven growth.

However, the impact on government revenue is mixed, and policymakers should consider this when making future tax policy decisions. It face challenges to the logistics of price re-structuring for the retailers. The financial burden may be faced by the car dealers with unsold car stock due to immediate changes in the GST Structure. The challenge of balancing lower tax revenue with high government spending on welfare.

IX. Recommendations:

1. Policymakers should continue to monitor the impact of GST rate changes on the economy and make adjustments as necessary.

2. Businesses should pass on the benefits of GST rate reduction to consumers to improve customer satisfaction and loyalty.

3. Consumers should take advantage of the GST rate reduction to increase their purchasing power.

4. The Government should consider reducing GST rates further to stimulate economic growth.

5. The Government should simplify the GST tax structure to reduce compliance costs for businesses.

6. The Government should increase investment in infrastructure to support economic growth.

7. The government should focus on "Digital Compliance" to ensure that the increased volume of transactions is captured accurately.

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