



**IMPACT OF GST ON THE INDIAN ECONOMY -EXAMINING IT'S
FFECTS ON GDP GROWTH INFLATION AND REVENUE COLLECTION****Dr.Dhanshri Deshpande****Assistant Professor,Malwa institute of science and management****Indore (M.P)****DOI: <https://doi.org/10.5281/zenodo.14918851>****<http://iearjc.com/wp-content/uploads/2025/02/08-July-2024-1.pdf>****Abstract:**

The Goods and Services Tax (GST), introduced in India on July 1, 2017, aimed to simplify the indirect tax system by replacing multiple state and central taxes with a unified tax structure. This paper examines the impact of GST on the Indian economy, focusing on its effects on GDP growth, inflation, and revenue collection. While GST has streamlined tax compliance and improved transparency, its short-term impact on GDP growth was mixed, with initial disruptions followed by gradual recovery. Inflationary effects were moderate, influenced by tax rate changes on various goods and services. Revenue collection has seen fluctuations, with improvements in compliance and broadening of the tax base. Overall, GST has been a significant structural reform with long-term potential to enhance economic efficiency and competitiveness.

Keyword: Goods and Services Tax (GST), Indian Economy, GDP Growth, Inflation, Revenue Collection, Tax Reform, Indirect Taxation, Fiscal Policy, Economic Efficiency, Compliance.

1. Introduction:



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The introduction of the Goods and Services Tax (GST) on July 1, 2017, marked a significant reform in India's indirect taxation system. GST replaced a complex web of central and state taxes, such as excise duty, service tax, and value-added tax (VAT), with a unified tax structure aimed at improving tax compliance, reducing cascading effects, and enhancing economic efficiency. This transition was expected to create a more business-friendly environment by promoting ease of doing business and fostering economic integration across states.

The impact of GST on the Indian economy has been widely debated, particularly concerning its effects on GDP growth, inflation, and revenue collection. In the initial phases, GST implementation posed challenges, including compliance burdens for businesses, technological hurdles in the GST network, and short-term disruptions in supply chains. However, over time, improvements in tax administration, adjustments in tax rates, and increased formalization of the economy have contributed to its evolving impact.

This paper aims to examine the effects of GST on GDP growth, inflation, and revenue collection, providing an analytical perspective on how this reform has reshaped India's economic landscape. By assessing both the short-term challenges and long-term benefits, this study seeks to offer insights into the effectiveness of GST as a tool for economic transformation.

Impact of GST on GDP Growth:

The implementation of the Goods and Services Tax (GST) has had both short-term disruptions and long-term benefits for India's GDP growth. Initially, the transition to GST caused temporary economic slowdown due to compliance challenges, disruptions in supply chains, and the need for businesses to adapt to the new tax structure. The GDP growth rate fell from 8.3% in FY 2016-17 to 6.8% in FY 2017-18, partly attributed to GST-related uncertainties.

However, in the long run, GST is expected to contribute positively to GDP growth by improving economic efficiency, reducing tax evasion, and fostering a unified national market. By eliminating the cascading effect of multiple indirect taxes, GST has reduced production costs and enhanced competitiveness. Additionally, the ease of inter-state trade has encouraged businesses to expand operations, leading to greater economic integration and higher productivity.



Moreover, increased tax compliance due to digital tracking mechanisms, such as e-invoicing and GST returns, has broadened the tax base, potentially leading to higher government revenues. This, in turn, enables greater public spending on infrastructure and welfare, further supporting economic growth.

While challenges such as frequent tax rate revisions and compliance burdens persist, GST's structural benefits position it as a key driver of long-term GDP growth in India. The full impact of GST on GDP will continue to evolve as businesses and policymakers adapt to the system, ensuring greater economic stability and efficiency.

Impact of GST on Inflation:

The introduction of the Goods and Services Tax (GST) in India had a mixed impact on inflation, influencing the prices of goods and services in different ways. Since GST replaced multiple indirect taxes with a unified tax structure, its effect on inflation depended on the tax rates applied to various products and services compared to the previous tax regime.

Short-Term Impact:

In the initial phase of implementation, GST led to a slight increase in inflationary pressures. This was primarily due to:

Higher tax rates on certain goods and services: Some products and services, which were earlier taxed at lower rates under the previous system, saw an increase in prices.

Compliance costs for businesses: The transition to GST required businesses to upgrade their accounting systems and adhere to new filing requirements, leading to increased operational costs, some of which were passed on to consumers.

Initial supply chain disruptions: Uncertainty regarding input tax credits and compliance led to temporary supply chain disruptions, affecting the availability and prices of certain goods.

Long-Term Impact:

Over time, GST has contributed to reducing inflationary pressures due to:

Elimination of cascading taxes: The removal of tax-on-tax has lowered production costs, making goods and services more affordable.



Reduced logistics costs: The uniform tax structure and removal of interstate checkpoints have improved supply chain efficiency, reducing transportation costs.

Tax rationalization: The government has continuously adjusted GST rates to prevent inflationary effects, reducing taxes on essential commodities like food, healthcare, and daily necessities.

While GST caused short-term price fluctuations, its long-term impact on inflation has been relatively moderate. By improving tax efficiency and reducing business costs, GST is expected to stabilize prices and contribute to a more predictable inflationary environment

Impact of GST on Revenue Collection:

The introduction of the Goods and Services Tax (GST) significantly transformed India's tax collection system by replacing multiple indirect taxes with a unified structure. Its impact on revenue collection has been shaped by factors such as tax compliance, digital enforcement, and economic growth.

Short-Term Impact:

In the initial phase, GST posed challenges for revenue collection due to:

Implementation hurdles: Businesses faced difficulties adapting to the new tax system, leading to compliance gaps.

Rate adjustments: The government frequently revised GST rates to address industry concerns, affecting revenue stability.

Slow adoption of the GST Network (GSTN): Technical issues in GST filing and refunds created initial inefficiencies in tax collection.

As a result, tax collections were inconsistent in the first year, with monthly GST revenues fluctuating and falling short of initial estimates.

Long-Term Impact:

Over time, GST has led to improvements in revenue collection due to:



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Higher compliance and tax base expansion: The mandatory filing of GST returns, along with measures like e-invoicing and stricter anti-evasion policies, has increased tax compliance. More businesses have been brought into the tax net, reducing tax evasion.

Increase in formalization of the economy: Small and medium enterprises (SMEs) that were previously outside the tax system have been integrated, broadening the tax base.

Steady rise in monthly revenue collections: GST revenue collections have shown an upward trend, often exceeding ₹1.5 lakh crore per month, reflecting economic growth and better compliance.

Improved transparency and efficiency: Digital tax filing and input tax credit mechanisms have streamlined tax administration, reducing leakages and increasing revenue efficiency.

Overall, while GST initially posed challenges for revenue collection, it has strengthened India's tax system in the long run. Continued improvements in compliance measures and economic growth are expected to further enhance GST revenues, making it a stable and sustainable source of government income.

2. Conclusion:

The implementation of the Goods and Services Tax (GST) has been one of the most significant tax reforms in India, with profound implications for economic growth, inflation, and revenue collection. While the transition initially led to disruptions, the long-term benefits of GST have gradually materialized.

In terms of GDP growth, GST has created a unified national market, improved tax compliance, and reduced production costs, contributing to long-term economic efficiency. Though there were short-term slowdowns, the structural advantages of GST are expected to boost economic growth over time.

Regarding inflation, GST had an initial inflationary impact due to changes in tax rates and compliance costs. However, over the long run, the reduction in cascading taxes and lower logistics costs have helped stabilize prices, ensuring minimal inflationary pressures.

In revenue collection, GST has enhanced tax compliance through digital enforcement and a broader tax base, leading to steady improvements in monthly revenue collections. Despite early challenges,



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the system has streamlined tax administration, reduced tax evasion, and increased government revenue.

Overall, GST has been a transformative reform, fostering economic integration and improving fiscal efficiency. While challenges like compliance burdens and rate adjustments persist, continued policy refinements and technological advancements will further strengthen its positive impact on the Indian economy.

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