

The Role of GST 2.0 Reforms in Shaping India's Economic Growth

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Abstract

The upcoming 2025 GST 2.0 changes represent a major evolution in the indirect tax landscape of India, aimed at making the tax regime more streamlined, rational and compliant. This paper details the main features of the GST 2.0: simplified two-slab rate system (5% and 18%), introduction of luxury and sin tax, utilization of digital tools like e-invoicing to create transparency, and minimize revenue leakages. The study evaluates the macro-fiscal effect of these reforms on welfare, consumption, economic growth, inflation and government revenues, with increased affordability of the essentials and higher incomes for households. The analysis of the sectoral impact shows that the manufacturing and MSMEs, logistics and e-commerce, healthcare, and other key sectors are becoming more competitive, cost-efficient, and supply chain formalised. To analyze revenue performance and fiscal stability, the year-wise trend of collection of GST from the implementation of GST 1.0 is studied. The paper also considers obstacles to implementation, such as compliance difficulties, federal coordination issues, and possible compromises in terms of revenues and growth. Based on secondary information from various government reports, industry studies and think-tank analyses, the study suggests that a GST 2.0 can strengthen the tax framework of India, provide a thrust to inclusive economic growth, and bring about fiscal resilience in the long run.

Key words: GST 2.0 Reforms, Revenue Collection Efficiency, Macroeconomic Growth, Sectoral Performance, Economic Indicators, Tax Compliance and E-Invoicing

1. Introduction

Goods and Services Tax (GST) was introduced on 1st July 2017, which was a major reform in the field of indirect taxes in India and a new regime of "One Nation, One Tax, One Market" (Government of India, 2017). The purpose of GST was to make tax simpler, eliminate cascading effects, transparency and to boost the national market (Kelkar, 2019). The system was digitalised, adapted to compliance and rationalised rates periodically over time, and eventually became a significant source of government revenue and economic formalisation (Rao, 2020).

Although GST 1.0 has been successful, it has also encountered various difficulties such as multiple tax rates,

frequent changes, classification issues, inverted duty structures, and compliance costs for small businesses and MSMEs (Mukherjee, 2021). To mitigate these concerns and enhance the efficiency, the Government of India has implemented the GST 2.0 reforms in 2025 with the recommendations of the GST Council, chaired by Nirmala Sitharaman. The reforms focus on three key areas: simplification, fiscal coordination, digitalisation and reduction of tax burden on essential goods and services (GST Council, 2025). GST 2.0 also included a simplified two-slab tax regime (5% and 18%), reduced tax rates on essential goods and services and introduced exemption on certain health and insurance products to enhance their affordability and welfare of the household (Ministry of Finance, 2025). Meanwhile, luxury and sin taxes were raised to balance and equate taxes. These reforms will likely lead to an increase in consumption, better ease of doing business, a moderation of inflation, increased efficiency in compliance, and long-term economic growth (Economic Survey of India, 2025).

2. Review of literature

The literature on GST 2.0 reforms typically views the reforms as growth-enhancing and welfare improving, but there are significant variations in perspectives, methodological shortcomings, and policy questions that have not been addressed. While most studies focus on the issues of simplification, economic efficiency and consumer welfare, few consider the longer-term fiscal sustainability and feasibility of the reforms in terms of implementation. Reddi Naik and Gopi (2025) describe GST 2.0 as a transformational measure for making the tax system affordable, transparent and inclusive for the benefit of all. Although the study convincingly demonstrates the conceptual benefits of tax reform, it is quite normative at the same time and is silent on whether any of the proposed reforms are actually proven to

boost the welfare of the household or competitiveness of the business. Likewise Pushpa (2025) and Gandhi (2025) emphasize on the simplification of governance, lowering taxes, and enhancing compliance, but their studies are mostly descriptive in nature and fail to do a proper analysis of the medium-term fiscal stress that can be created in a state whose revenue depends on the GST. Pandaram (2025) offers a more general institutional and constitutional discussion on the GST reforms, which is complemented by a fiscal federalism and tax harmonisation approach. The study does not take a purely optimistic view but does acknowledge governance and coordination issues between the Centre and States. The paper, however, does not adequately examine the political economy of decision making on GST, especially how conflicts over compensation claims and revenue sharing issues between states might arise. This leaves an interesting void in terms of understanding the actual sustainability of cooperative federalism in the context of GST 2.0. Some studies concentrate on macroeconomic results, including inflation control, growth of consumption and economic expansion. Ode (2025) and Balaji (2025) suggest that GST 2.0 has the potential to boost aggregate demand by lowering the tax rates on essential commodities and making them more affordable. These studies offer valuable sectoral information, but seem to take for granted that there is a direct link between tax cuts and reduced consumer prices and increased consumer spending. In practice, price transmission can differ from industry to industry because of the structure of supply chains, market competition and producers' pricing behaviour. Thus, the anticipated slowdown in inflation and in growth of consumption can not be experienced equally in all sectors. A relatively balanced perspective is taken by Dandona (2025) and Bhardwaj (2025) who recognise the opportunities and challenges of implementing GST 2.0. These studies are right on target with the problems of compliance, inequitable distribution of benefits, and administrative inefficiencies. But they do not offer empirical frameworks in detail for measuring how serious these threats are or how much impact they will have on small business and informal sector players in the long term. They lack micro-level evidence and that restricts the usefulness of their findings for practice. There are also conflicting opinions in the literature on the effect of GST 2.0 on

businesses and MSMEs. While Kumar (2025) pointed out issues of compliance costs, revenue leakages and adjustment burden on MSMEs, Govindasamy and Srinidhi (2025) noted that the reforms promote labour-intensive industries and MSMEs by reducing taxes on key and productive industries. The contrast shows that the effect of the GST reforms could be different from sector to sector and in terms of firm size, and therefore it is not possible to draw generalizations about the impact of the reforms. Another important issue emerging from the literature is the role of technology and digital compliance. The key takeaway from the success of GST 2.0 is the need for technological integration, administrative readiness, and stakeholder consensus (Ignatius 2025). This viewpoint is important because it goes beyond tax rate rationalisation and emphasises the role of governance capacity as a key factor to the success of any tax reform. However, the study does not fully cover the digital divide that small traders and rural businesses experience, which can make it difficult to effectively comply and be included in the formal tax system. Overall, the studies reviewed collectively suggest that GST 2.0 has a great potential to enhance tax efficiency, affordability, formalisation and economic growth. The literature is, however, policy oriented and positive, with few empirical evaluations of the real economic results. Most studies rely on conceptual arguments, secondary observations, or preliminary policy expectations rather than rigorous statistical analysis. Moreover, there are still significant gaps in the studies on long-term fiscal sustainability, differential effects of the sectors, reliance on state revenues, compliance costs for MSMEs and the capacity of implementing the measures. Thus, there is a definite research gap for in-depth empirical studies on the macro-economic, sectoral and administrative effects of the new GST with the latest data and evidence-based analysis.

Objectives of the Study

- To outline and explain the key components of India's GST 2.0 reforms.
- To assess the macro-fiscal impact of GST 2.0 reforms on household welfare, consumption patterns, economic growth, inflation, and government revenue.
- To evaluate sector-specific outcomes of GST 2.0 reforms on various economic activities.

- To analyze year-wise trends in GST collections from the implementation of GST 1.0 to the present.
- To examine major implementation challenges, compliance issues, and policy risks associated with GST 2.0 reforms.

Research Methodology

This study adopts a descriptive and analytical research design based entirely on secondary data to examine the structure, implementation, and economic implications of GST 2.0 reforms in India. The study uses both qualitative and quantitative approaches to provide a comprehensive understanding of the reforms and their macroeconomic and sectoral outcomes.

The qualitative analysis is based on government reports, GST Council recommendations, policy documents, budget speeches, research articles, and expert opinions to understand the objectives, structural changes, implementation framework, and challenges associated with GST 2.0 reforms.

Document review and content analysis techniques are used to identify major themes such as tax simplification, compliance reforms, fiscal coordination, inflation control, and sectoral impacts.

The quantitative analysis evaluates the economic effects of GST reforms using secondary statistical data related to GST collections, inflation trends, household consumption, and government revenue indicators. Data have been collected from authentic sources including GST Council reports, Ministry of Finance publications, CBIC notifications, Economic Surveys, RBI reports, and NSO databases.

The study employs trend analysis, descriptive statistics, Year-on-Year (YoY) percentage change analysis, and pre–post comparative analysis. These techniques are used to examine year-wise GST collection trends, measure annual growth changes, and compare economic indicators before and after GST 2.0 reforms to assess their short-term economic impact and revenue performance.

Key Components of GST 2.0 Reforms

GST 2.0 introduces comprehensive reforms aimed at simplifying taxation, reducing rates for essential and youth-oriented sectors, and promoting economic growth.

1. **Youth-Oriented Sectors and Lifestyle:** GST on items such as footwear, textiles, handicrafts, toys, and leather goods has been reduced to 5%. Learning materials like notebooks and pencils are now GST-exempt. Fitness and wellness services, including gyms, have seen GST reduced from 18% to 5%, supporting healthier lifestyles and affordability.
2. **Affordable Mobility:** GST on two-wheelers up to 350cc and small cars has been lowered from 28% to 18%, benefiting students, gig workers, middle-class families, and rural commuters by making personal transport more accessible.
3. **Housing and Infrastructure:** GST on cement has been reduced from 28% to 18%, lowering construction costs and improving housing affordability.
4. **Healthcare and Insurance:** GST on medicines has been reduced to 5% or fully exempted for life-saving drugs, while health and life insurance premiums are now GST-free, promoting wider healthcare access and preventive coverage.
5. **Responsible Consumption:** Taxes on tobacco products have been increased to 40%, reflecting the government's commitment to public health.
6. **Support for Startups and Technology:** GST on drones has been standardized at 5%, encouraging innovation, domestic manufacturing, and entrepreneurship.
7. **Daily Essentials and Consumer Goods:** Essential food items such as milk, paneer, roti, paratha, and packaged snacks are subject to 5% or zero GST. Consumer goods, including small cars, TVs, air conditioners, cement, auto parts, and renewable energy devices, have seen rate reductions, stimulating domestic demand and green energy adoption.
8. **Agriculture and Rural Sectors:** Machinery like tractors and harvesters and inputs such as fertilizers now attract 5% GST. Labour-intensive products, including handicrafts, marble, and leather goods, are also taxed at 5%, supporting rural employment and production.

9. **Process Reforms and Dispute Resolution:** The operationalization of the GST Appellate Tribunal (GSTAT) by December 2025, along with streamlined refund and registration processes, aims to reduce litigation, improve dispute resolution, and enhance predictability for businesses, especially MSMEs.

Table1: Selected Items with Rate Reductions under Old vs New GST Rates

Category / Item	Old Rate (GST 1.0)	New Rate (GST 2.0)	Estimated Price Drop (%)
Food & Groceries			
Butter, ghee, cheese	12%	5%	5-13
Packaged foods, snacks, biscuits	12–18%	5%	
Personal care items (soap, shampoo, toothpaste)	18%	5%	
UHT milk, paneer, Indian breads	5%	0% / Nil	
Baby products, kitchenware	12–18%	5%	
Electronics & Consumer Durables			
ACs, refrigerators, TVs, dishwashers	28%	18%	8-10
Computers, printers, capital goods	18%	18%	
Automobiles			
Small cars, two-wheelers (≤ 350 cc)	28%	18%	7-9
Auto parts, 3-wheelers, trucks	28%	18%	
Construction & Infrastructure			
Cement, building materials	28%	18%	10-15
Healthcare & Agriculture			
Life/health insurance premiums	18%	0% / Nil	5-10
Medicines, medical devices	12–18%	5%	
Agricultural machinery, fertilizers,	12–18%	5%	

seeds			
Education			
Stationery (books, pencils, erasers)	12%	0% / 5%	5–12
Luxury / Sin Goods			
Luxury vehicles, premium bikes	28% + cess	40%	(Price Increase)
Tobacco, pan-masala, cigarettes	28% + cess	40%	
Aerated/sugary drinks	28%	40%	

Source: Compiled from GST Council lists, PIB, Kuchroo (2025), and media analyses (HT News Desk, 2025). Price drops calculated as rate differential passed through (assuming 80–90%).

Macro-Fiscal Implications of GST 2.0 Reforms

- Price pass-through higher real disposable income.** Reduced GST on frequently purchased goods (food staples, personal care, packaged goods, some services) directly lowers consumer prices if firms pass the cut through; that increases real incomes and immediate purchasing power. Early modelling and whitepapers describe this channel as the primary short-run effect.
- Consumption stimulus for essentials and employment-intensive sectors.** Cheaper essentials raise real consumption especially for lower and middle-income households (higher marginal propensity to consume), supporting demand in retail, FMCG, and informal/micro business segments that employ many households. Several sectoral analyses and policy notes expect a near-term uptick in consumption-facing sectors.
- Inflation moderation (measured short-run effect).** Macro reports estimate small downward pressure on retail inflation from the reforms (example: an estimate of ~35 basis points reduction in retail inflation for FY25-26 in one research note). That directly improves real household welfare by slowing price rises.
- Compliance & formalization effects that change consumption patterns.** Simplified slabs and fewer classification disputes reduce compliance costs; some small vendors move towards formal sales channels (better GST

compliance), which can raise taxable consumption receipts and change where/what households buy (more formal retail). These take effect gradually but begin in the short term.

Table2: Projected Macroeconomic Impact of GST 2.0 from Various Research Sources

Effects	Statistics / Estimated Impact	Agency / Institution Providing Estimate
Increase in household consumption expenditure	Estimated ₹1.98 lakh crore increase in consumption due to GST rate rationalization.	SBI Research (Economic Research Department)
Impact on GDP through consumption channel	Consumption boost equivalent to ~0.6% increase in GDP in the short run.	SBI Research; Business Standard analysis
Reduction in consumer prices (price pass-through effect)	Lower GST rates on nearly 295 goods expected to reduce prices of essential and mass-consumption items.	GST Council; Ministry of Finance (GoI)
Moderation in retail inflation (CPI)	20–30 basis points (0.20–0.30%) decline in CPI inflation in FY 2025–26.	SBI Research; Ministry of Finance reports
Improvement in real purchasing power of households	Low- and middle-income households gain most due to higher share of spending on essentials.	NITI Aayog; Economic Survey (India)
Increase in rural household consumption	79.2% of rural households reported higher consumption expenditure.	NABARD Rural Economic Survey (2025)
Reduction in indirect tax burden on consumers	Average effective GST incidence estimated to fall to 4–6% on many consumer items.	Tax Policy Division, Ministry of Finance; SBI

		Research
Rise in disposable income	Estimated 10–16% improvement in disposable income for middle-income households due to lower indirect taxes.	Independent policy think-tanks; SBI Research
Boost to demand for FMCG and daily-use goods	FMCG and retail sectors show double-digit growth in taxable supplies (~15%) post-reform.	GST Network (GSTN); Industry associations
Formalisation of consumption expenditure	Increase in GST-compliant retail transactions and digital payments.	GSTN; Reserve Bank of India (RBI)
Short-term fiscal trade-off	Estimated ₹85,000 crore annual revenue foregone, partially offset by higher consumption.	SBI Research; Ministry of Finance

The table 2 indicates that GST 2.0 has generated positive short-term effects on household welfare and consumption, primarily through price reductions, inflation moderation, and increased disposable income. The estimated ₹1.98 lakh crore rise in consumption expenditure reflects a strong demand-side response to GST rate rationalisation, suggesting that households have quickly translated tax savings into higher spending rather than precautionary savings. The 20–30 basis point decline in CPI inflation signifies improved price stability, which enhances real purchasing power, especially for low- and middle-income households that allocate a larger share of income to essential goods. This is corroborated by NABARD’s finding that over 79% of rural households increased consumption, highlighting the distributive and inclusive nature of GST 2.0 in the short run.

Further, the shift toward lower effective GST incidence (4–6%) has reduced the indirect tax burden on consumers, resulting in a 10–16% improvement in disposable income for many households. This has stimulated demand in FMCG, retail, and daily-use goods, as reflected in higher growth of taxable supplies and increased formal transactions. However, the analysis also reveals a short-term fiscal trade-off, with revenue foregone estimated at ₹85,000 crore. Despite this, policy agencies expect that higher

consumption, improved compliance, and greater formalisation will gradually offset revenue losses.

SECTOR-SPECIFIC OUTCOMES OF GST 2.0 REFORMS ON ECONOMIC ACTIVITIES

Table 3: Sector-Specific Outcomes of GST 2.0 Reforms on Economic Activities

Name of the Sector	Impact of GST 2.0 Reforms	Sectoral Outcomes	Economic Impact
FMCG (Fast-Moving Consumer Goods)	Lower GST rates on essential goods; simplified tax slabs	Higher sales volumes; increased affordability; formalization of small retailers	Boosted domestic consumption, improved supply chain efficiency, and increased tax compliance and collections. For middle-class households, even small reductions in the prices of daily-use goods can accumulate into significant monthly savings.
Automobile	Rationalized GST rates on vehicles; simplified interstate compliance	Surge in demand for mid-range cars and two-wheelers; higher formal dealership registration	Stimulated domestic production; positive effects on steel, rubber, plastics; employment growth in manufacturing and ancillary sectors
Healthcare & Pharmaceuticals	Reduced GST rates on essential medicines and medical equipment; simplified compliance	Increased domestic demand; growth of formal pharmacy chains and hospitals	Supported public health goals; boosted pharmaceutical manufacturing and exports; improved supply chain efficiency
E-commerce & Digital Services	Simplified GST registration and compliance; streamlined	Growth in formal e-commerce sales; increased	Boosted digital economy; increased GST collections; formal

	input tax credit	participation of SMEs	employment generation; greater financial inclusion for small entrepreneurs
Construction & Real Estate	Rationalized GST rates on housing and materials; reduced informal practices	Increased housing affordability; higher participation of formal developers	Positive effect on construction materials (cement, steel); employment generation; boosted investments in residential and commercial projects
Hospitality & Tourism	Rationalized GST rates on hotels, travel packages; simplified taxation	Growth in domestic tourism; increased investment in hospitality infrastructure	Expansion of tourism sector; employment growth; increased revenues in transport, hospitality, and entertainment; regional economic development.
Insurance & Financial Services	Lower or nil GST rates on Life & health insurance.	Insurance becomes more affordable; simplified tax compliance for financial institutions	Increased insurance penetration; improved financial inclusion; growth in formal financial sector transactions

GST Collection Trends In India

Since its inception, the collection of GST in India has demonstrated steady growth, resilience, and adaptability. The initial period (FY2017-18 to FY2018-19) witnessed an implementation of GST mid-year, which led to a lower base, but in the second period (FY2018-19) saw a sharp growth of more than 59% due to stabilisation of the system, expansion of tax base and enhanced compliance. This growth rate of 3.82% was moderate in the next year (FY2019-20), signaling a shift from reform-driven growth to a more stable revenue trend in a wider economic slowdown. FY2020-21, however, experienced negative growth of -7.04% because of the COVID-19 pandemic that impacted the economic

activities, consumption and supply networks, thus reflecting the sensitivity of GST revenues to macroeconomic conditions.

Table 4: GST Collections in India (FY2017-18 to November 2025)
(₹ lakh crore)

Financial Year	GST Collections (₹ lakh crore)	YoY Change %	
FY2017-18	7.40	--	GST 1.0 implemented from July 2017 (9-month data)
FY2018-19	11.77	+59.05%	First full year of GST; stabilisation phase
FY2019-20	12.22	+3.82%	Moderate growth amid economic slowdown
FY2020-21	11.36	7.04%	Decline due to COVID-19 lockdowns
FY2021-22	14.76	+29.93%	Strong post-pandemic recovery
FY2022-23	18.08	+22.49%	Improvement in compliance; rebound in consumption
FY2023-24	20.18	+11.61%	Sustained growth; expansion of formal tax base
FY2024-25	22.08	+9.42%	Highest annual GST collection
FY2025-26	22.27	+0.86%	Highest ever annual GST collection reflects implementation of GST 2.0 from 22 September 2025
	CAGR	14.8%	

Source: Adapted from (PIB, 2025) and government revenue data

The strong recovery took place in FY2021-22 and FY2022-23 with growth of 29.93% and 22.49% respectively due to revival in consumption, better compliance with digital tools like e-invoicing and better tax administration. The GST collections during this phase grew in a V-shape recovery manner. Growth continued to be steady at 11.61% and 9.42% in the next two years (FY2023-24 and FY2024-25) underlining the formalisation of the economy, expansion of the tax base and improved enforcement. There was no structural weakness, but the growth slowed down in FY2025-26, mainly due to the high base effect and the maturing of the GST system. The total GST collections went up from ₹7.40 lakh crore in 2020 to ₹22.27 lakh crore in 2021, with a strong

long-term growth rate of 14–15% CAGR. This trend highlights the growing importance of tax compliance, formalisation of the economy and the consolidation of GST as a stable and reliable source of government revenue in India.

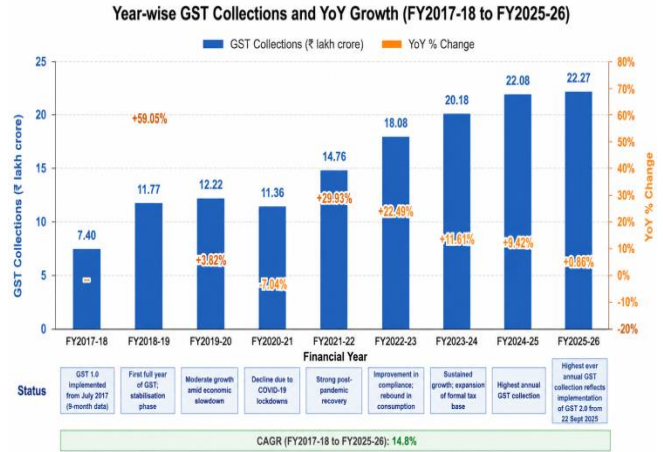


Figure: GST Collections in India and YoY Growth

Table 5: GST Collections in India: FY 2025-26 (Monthly, ₹ lakh crore)

Month (2025-26)	Gross GST Collection (₹ lakh crore)	MoM % Change
April 2025	2.37	—
May 2025	2.01	-15.19%
June 2025	1.85	-7.96%
July 2025	1.96	+5.95%
August 2025	1.86	-5.10%
September 2025	1.89	+1.61%
October 2025	1.96	+3.70%
November 2025	1.70	-13.27%
December 2025	1.75	+2.94%
January 2026	1.93	+10.29%
February 2026	1.84	-4.66%
March 2026	2.00	+8.70%

Source: Official GST Council website

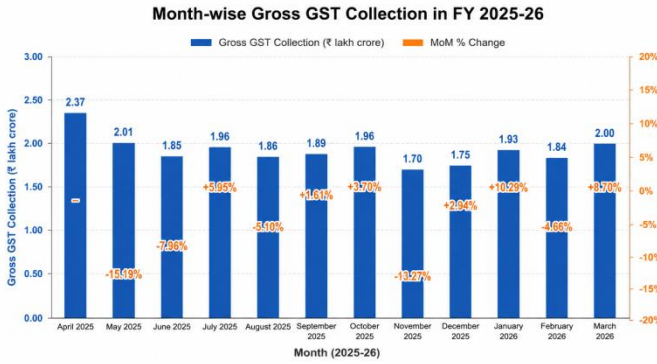


Figure: Month-wise Gross GST Collections

Despite the implementation of GST 2.0 reforms in September 2025, the month-wise GST collection data for FY 2025-26 shows a robust and resilient performance of revenue throughout the year. The financial year started with a high collection of ₹2.37 lakh crore in April 2025, which could be due to strong economic activity, year-end compliance and reconciliation of accounts. During the next few months, collections slowed but were still in a normal seasonal range of ₹1.85–2.01 lakh crore, which indicates that there is no fundamental weakness. There was relatively high level in July and October and moderate level in August and September, indicating the continued economic momentum and compliance in the transition phase of GST 2.0. The decline in November 2025 (₹1.70 lakh crore) could be due to the after-festival adjustments, tax payment cycles, and normal cyclical patterns, rather than policy changes. Importantly, this drop-off seems to be short-term with collections rebounding in subsequent months, reflecting the underlying strength of the GST system. Overall, it is seen that the implementation of GST 2.0 did not have any negative effect on the revenue generation. Rather, the collections under the Goods and Services Tax (GST) stayed strong and steady, which indicates better compliance, widening tax base and the ongoing success of indirect tax administration in India.

Implementation Challenges, Compliance Issues, And Policy Risks Associated With Gst 2.0 Reforms

The GST 2.0 reforms represent a significant step toward simplifying India’s indirect tax structure, improving compliance, and stimulating economic

activity. However, the transition to the revised framework presents several implementation challenges, compliance difficulties, and policy-level risks that may affect the effectiveness and sustainability of the reforms.

1. Implementation Challenges

a) Rate Rationalisation and Classification Issues: Although GST 2.0 aims to simplify the rate structure, the transition to fewer slabs may continue to create classification ambiguities, especially for goods with close substitutes. Disputes over whether items fall under 5% or 18% slabs may persist, increasing litigation and administrative burden.

b) Price Pass-through Uncertainty: A major implementation challenge is ensuring that GST rate reductions are fully passed on to consumers. In imperfectly competitive markets, firms may absorb tax benefits as higher margins, weakening the intended welfare and consumption effects of the reform.

c) Technology and System Readiness (GSTN): GST 2.0 involves expanded data integration, invoice matching, and real-time compliance tracking. Any technical glitches, portal downtime, or delays in return processing can disrupt business operations, particularly for MSMEs with limited digital capacity.

d) Capacity Constraints at State Level: State tax administrations face uneven institutional capacity, which may affect uniform implementation. Differences in interpretation, enforcement, and audit intensity across states can undermine the “one nation, one tax” objective.

2. Compliance Issues

a) MSME Compliance Burden: Despite simplification, MSMEs may still struggle with frequent return filing, reconciliation of input tax credit (ITC), and record-keeping requirements. The shift to tighter compliance under GST 2.0 could increase short-term compliance costs for small businesses.

b) Input Tax Credit (ITC) Restrictions: Stricter ITC eligibility rules aimed at curbing tax evasion may inadvertently block legitimate credits, affecting working capital and increasing compliance disputes for businesses dependent on credit chains.

c) Informal Sector Transition Risks: GST 2.0 encourages formalisation, but small informal traders

may resist registration due to fear of taxation and compliance complexity. Partial formalisation can distort competition between compliant and non-compliant entities.

d) Anti-profiteering Enforcement Challenges: Monitoring whether businesses pass on GST benefits is complex. Weak enforcement or inconsistent application of anti-profiteering rules can reduce consumer trust and dilute reform outcomes.

3. policy Risks

a) Short-term Revenue Risk: GST 2.0 involves significant rate cuts, creating a risk of temporary revenue shortfalls. If consumption and compliance gains do not materialise as expected, both Centre and States may face fiscal stress.

b) Fiscal Federalism Concerns: States may worry about erosion of their fiscal autonomy, especially if compensation mechanisms weaken. Disagreements within the GST Council could delay further reforms or create policy uncertainty.

c) Inflation Risk from Rate Reclassification: While many essentials are taxed lower, any upward revision of GST on services or select goods may create sector-specific inflationary pressures, affecting households unevenly.

d) Policy Credibility and Reform Fatigue: Frequent GST changes may lead to policy uncertainty for businesses, discouraging investment. Reform fatigue among taxpayers can reduce voluntary compliance if reforms are perceived as unstable.

Conclusion

The present study concludes that the introduction of GST 2.0 reforms in 2025 represents a significant advancement in India's indirect tax framework, aimed at simplifying the tax structure, enhancing compliance, and promoting inclusive economic growth. The transition from a multi-slab system to a simplified rate structure, along with targeted tax reductions on essential goods and key sectors, has improved affordability, strengthened household welfare, and stimulated consumption demand. Empirical evidence indicates that GST 2.0 has positively influenced consumption patterns, moderated inflation, and enhanced disposable income, particularly for middle- and lower-income groups.

The analysis of GST revenue trends highlights the resilience and consistent growth of India's GST system, with a compound annual growth rate (CAGR) of approximately 14–15% since its inception. Despite a temporary decline during the COVID-19 period, collections have shown strong recovery and stabilisation in recent years. The month-wise analysis for FY 2025–26 further reveals that the implementation of GST 2.0 did not adversely affect revenue generation. Although a short-term dip was observed in November 2025, it appears cyclical rather than structural, as collections recovered in subsequent months.

Sectoral analysis indicates that GST 2.0 has positively impacted key industries by reducing costs, improving competitiveness, and encouraging formalisation. However, challenges such as MSME compliance burdens, technological constraints, and fiscal concerns persist. Overall, GST 2.0 emerges as a forward-looking reform with strong potential to enhance tax efficiency and support sustainable economic growth, subject to effective implementation and cooperative federal coordination.

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