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GST Reforms and Economic Growth: An Empirical Study of Andhra Pradesh

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Abstract

The Goods and Services Tax (GST) marked a significant milestone in India's fiscal history, aiming to unify the fragmented indirect tax system into a comprehensive, destination-based tax regime. Implemented on July 1, 2017, GST replaced multiple cascading taxes such as VAT, excise duty, service tax, and entry tax, thereby creating a common national market. This study examines the impact of GST reforms on economic growth in the state of Andhra Pradesh through an empirical analysis of key economic indicators. The primary objective of the study is to evaluate how GST has influenced economic performance in Andhra Pradesh, particularly in terms of Gross State Domestic Product (GSDP), tax revenue mobilization, industrial growth, and ease of doing business. The time period for analysis is divided into pre-GST (2012–2017) and post-GST (2017–2023) phases to facilitate comparative assessment. The findings of the study reveal that GST has had a mixed but largely positive impact on the economic growth of Andhra Pradesh. In the post-GST period, there has been a noticeable improvement in tax compliance and revenue buoyancy due to the digitization of tax administration and the introduction of input tax credit mechanisms. Furthermore, GST has facilitated the removal of inter-state trade barriers, which has positively impacted sectors such as manufacturing, logistics, and agriculture. Andhra Pradesh, with its strategic coastal location and strong agricultural base, has benefited from improved supply chain efficiency and reduced transportation costs. The study also observes that small and medium enterprises (SMEs) have gradually adapted to the GST regime, although compliance costs and technological challenges initially posed constraints. However, the study also identifies certain challenges associated with GST implementation. These include revenue uncertainties due to compensation dependency, compliance burdens for small businesses, and technical glitches in the GST portal during the early years.

Additionally, the regressive nature of certain indirect taxes under GST has raised concerns about its impact on income distribution and consumption patterns. While the reform has faced transitional challenges, its long-term benefits outweigh the short-term disruptions.

Introduction

The GST 2.0 reform in India, which went into effect in September 2025, is a generational change in indirect taxation. It seeks to match the tax system with the goals of a young, technologically advanced India by making it easier, lighter, and more equitable. In order to simplify compliance and lower the tax burden on over 90% of products and services, the reform substitutes a simplified two- or three-rate structure (5%, 18%, and 40%) for the intricate four-tier system. With healthy financial markets, controlled inflation, and strong domestic demand, the Indian economy is currently on an accelerated development track. Macroeconomic indicators that highlight growing international confidence in India's long-term economic prospects include substantial foreign exchange reserves, a stable current account deficit (CAD) that decreased to 0.6% of GDP in FY25, and robust foreign investments. The Indian government has announced the next phase of indirect tax reform, known as "GST 2.0," which would go into effect in October 2025, amid this favourable global environment. This new reform is a crucial fiscal tool to propel the country toward its objective of being the third-largest economy in the world and achieving the ambitious Viksit Bharat (Developed India) vision by 2047. It builds on the framework established by the initial 2017 GST rollout. The anticipated economic effects of the GST 2.0 rationalization are examined in this research. The study first evaluates the expected macroeconomic benefits of the reform, particularly its role as a catalyst for MSME support and general economic empowerment. Second, it applies a micro-economic lens to evaluate how the targeted tax adjustments will concretely boost growth and competitiveness across strategic sectors within the state of Andhra Pradesh (AP), a key contributor to India's fish output, pharmaceuticals, and automotive manufacturing.

What is GST?

The Goods and Services Tax (GST) is a comprehensive, destination-based indirect tax system implemented in India on July 1, 2017. It replaced multiple indirect taxes levied by the central and state governments such as excise duty, service tax, value-added tax (VAT), octroi, and others. GST was introduced to create a unified tax structure, simplify the taxation process, and promote economic growth by eliminating cascading taxes (tax on tax). GST is governed by the GST Council, which is chaired by the Union Finance Minister and includes representatives from all states. The council is responsible for making key decisions regarding tax rates, exemptions, and administrative rules.

Objectives of the Study

The study aims to examine the impact of GST reforms on economic growth with special reference to Andhra Pradesh. The specific objectives are:

- To examine the trend of GST revenue collection in Andhra Pradesh after GST implementation (2017 onwards).
- To analyse sector-wise impact (agriculture, industry, and services) of GST reforms.
- To identify challenges and issues faced by businesses and the state government after GST implementation.

Research Design

The methodology integrates quantitative econometric analysis with policy evaluation, making it suitable for an empirical research paper. It allows you to scientifically test whether GST reforms have contributed to economic growth in Andhra Pradesh, considering both positive trends (compliance, revenue growth) and short-term fluctuations due to policy changes. The study is analytical and empirical in nature, combining both descriptive and quantitative approaches to evaluate the impact of GST reforms. The study is mainly based on secondary data collected from GST Council reports, Ministry of Finance, Government of India, Andhra Pradesh State Budget documents, RBI publications and economic surveys and Journals, research articles, and reports. GST reforms have improved compliance and transparency and contributed to economic efficiency, though initial short-term disruptions were observed.

Period of Study

The study period may cover 2017–2026 (post-GST implementation period), allowing analysis of both short-term and long-term effects.

GST Rationalisation for Drugs and Medicines

GST on drugs and medicines has been reduced from 12% to 5%/Nil. It will cut the costs of various essential medicines, easing the financial burden on patients. This move will:

- Boost the affordability of long-term treatments for chronic illnesses.
- Strengthen India's role as the "Pharmacy of the World", especially for generics, while ensuring domestic affordability.
- Further, GST on supply of job work in relation to manufacture of pharmaceutical products will also be reduced from 12% to 5%.

GST Rationalisation for Vision Correction Products

The 12% GST on Vision Correction Products has been lowered to 5%. Wearing spectacles is essential for good health, not a luxury. The reduction in the GST rate will

contribute to greater accessibility and uptake of eyewear. Many people, particularly students, the elderly, and low-income households, can now afford vision correction thanks to lower GST. Additionally, it will increase young people's productivity.

GST Rationalisation for Child Care Products

- The GST on baby napkins, napkin liners, and feeding bottles has been lowered from 12% to 5%.
- The GST on thermometers has been lowered from 18% to 5%. GST on UHT milk has been lowered from 5% to 0%.
- The tax burden on other necessary childcare products, such as baby diapers, nipples, and associated items, is also lessened by the GST revisions.

GST Exemption on Individual Health Insurance

This will make premiums cheaper for youth and middle-class families and encourage wider adoption of health insurance, reducing out-of-pocket medical expenses.

GST Increase on Tobacco and Related Products

GST on tobacco and related products has been increased from 28% to 40%. These include:

- Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.
- Other manufactured tobacco and manufactured tobacco substitutes;
- "Homogenized" or "reconstituted" tobacco; tobacco extracts and essences.
- Products containing tobacco or reconstituted tobacco and intended for inhalation without combustion.
- Products containing tobacco or nicotine substitutes and intended for inhalation without combustion.

Consumer prices would decrease, MSMEs will have easier access to operating capital, and exporters will be more competitive in the market thanks to lower tax rates. Fisheries, dairy, cars, pharmaceuticals, medical equipment, renewable energy, handicrafts, and daily necessities will all be affected. In 2022–2023, Andhra Pradesh accounted for 41% of India's fish production. The sector accounts for 7.4 per cent of the state's GSDP and provides employment to around 14.5 lakh people in the 9 coastal districts of the state.

GST Exemption on Formal Education

School and university education continues to remain fully exempted from GST. Extension of benefits now covers essential learning materials and childcare products, making education and upbringing more affordable for Indian households and raising well the future youth of our country.

GST Rationalisation on Learning Materials

GST has been lowered from 12% to 0% on pencils, sharpeners, crayons, practice books, graph books, maps, and charts. The 5% GST on erasers has been lowered to 0%. Basic educational resources will become more affordable as a result of this cut, particularly for government institutions and young people living in rural areas. Better learning outcomes are supported, higher school enrolment is encouraged, and families' out-of-pocket educational costs are decreased. Additionally, it increases local stationery manufacturing demand, especially for MSMEs.

GST Rationalisation for Toys and Sports Products

The toy industry, important for child development and MSME manufacturing, benefits from reduced GST.

- GST on toys and sports goods cut from 12% to 5%.
- This makes toys more affordable, encouraging early childhood learning through play.
- This will also "Vocal for Local" initiative by supporting domestic and youth MSME toy makers.

GST Reduction on Bicycles Affordable Mobility for Students

Bicycle GST was lowered from 12% to 5%. This would lower the cost of bicycles and facilitate easier access to schools for kids living in rural and semi-urban areas. It also promotes mobility and lowers dropout rates, especially for girls. It also encourages children to have better lifestyles and engage in outdoor activities.

GST Reforms for Promoting Ease of Living

By lowering GST rates on daily food items, construction materials, gyms/fitness centres, and automobiles, the Government has not only reduced the financial burden on households but also advanced its long-term vision of promoting healthier lifestyles, affordable housing and transportation, and improved ease of living among the youth.

GST Rationalisation for Everyday Food Items

As seen by the exemption of staple Indian breads like Paratha, Parotta, and Roti from GST, which reflects their status as necessary household consumables, the government has attempted to improve food affordability by placing the majority of food goods under the 5% or NIL tax slab. In addition to consumers, young people working in the food processing value chain from farmers and cooperatives to MSMEs, merchants, and exporters benefit from the reduction of GST on food items to 5% or NIL. By lowering input prices and increasing production volumes, GST rationalization will benefit India's milk cooperatives, private dairies, and food processing sectors. This will motivate young

people to start their own businesses in this sector. This move will also encourage demand in semi-urban and rural areas, supporting MSMEs and regional brands being operated by or employing the youth.

GST Rationalisation for Gyms/Fitness Centres

Gym and fitness centre GST has been lowered from 18% to 5%. An important step toward creating a healthier and more active India is the GST decrease for fitness centres.

- The reduced GST makes gyms and fitness memberships more affordable, encouraging more people, especially youth and middle-class families, to access structured health and wellness services.
- This measure complements national preventive health initiatives such as the Fit India Movement, which encourages citizens to prioritise regular exercise and lifestyle changes to prevent chronic illnesses.
- Urban employees and students who rely on gyms for regular exercise will benefit from lower costs, enabling them to balance fitness with busy lifestyles.
- By making fitness centres more accessible, the government is encouraging a societal shift from curative healthcare to preventive health, ultimately reducing long-term health expenditure for families.

GST Rationalisation for Small Cars

The small car GST was lowered from 28% to 18%. India's vehicle market is dominated by small cars, particularly in tier-2 and tier-3 cities. The government is directly addressing the desires of young people and middle-class families by cutting the GST on this segment, which also significantly boosts the auto industry.

GST Rationalisation for Large Cars

GST on large cars has been rationalised to flat 40% (no cess). The simplification of GST for larger cars creates predictability in pricing and encourages aspirational young buyers to invest in new vehicles.

GST Rationalisation for Buses

GST on Buses (with seating capacity 10+ persons) has been reduced from 28% to 18%. Public and shared transport will see significant gains with reduced GST on buses and minibuses.

- Reduces upfront costs for fleet operators, schools, cooperates, tour operators and state transport undertakings. This will spur demand for buses and minibuses.
- Makes fares more affordable, especially for the youth in rural and semi-urban routes.

- Encourages shift to public transport, easing congestion and pollution.

GST Rationalisation for Cement

GST on cement has been reduced from 28% to 18%. Cement constitutes one of the largest input costs in construction, contributing 15–20% of total building costs and nearly 11% of overall construction expenses.

GST Rationalisation for Marble and Granite Blocks

GST on marble and granite blocks have been reduced from 12% to 5%. India has a large natural stone sector, with states like Rajasthan, Gujarat, Karnataka, and Andhra Pradesh being major producers.

- Reduced GST will lower the costs of flooring, tiling, and interior finishing, directly benefiting young homebuyers and infrastructure projects.
- The GST cut will boost domestic competitiveness while reducing reliance on imported natural stones.
- The marble and granite industry provides employment to lakhs of workers, especially the youth, and the tax relief will help sustain jobs in extraction, processing, and related activities.

GST Rationalisation for Job Work for Manufacture of Bricks

GST on job work for bricks cut from 12% to 5%, easing rural housing costs and supporting MSME running brick kilns.

GST Reforms for Promoting Drone Technology

In industries including infrastructure development, agriculture, defence, and crisis management, drones have become game-changing instruments. The Indian government is stepping up attempts to incorporate drone technology into national development initiatives after realizing their potential among the tech-savvy youth. In keeping with this, the GST on unmanned aircraft, or drones, has been drastically lowered from the previous rates of 18% and 28% to a consistent 5%. In addition to promoting local production via the Make in India and Atmanirbhar Bharat initiatives, this rationalization seeks to promote broader adoption of drones across industries. Regardless of specifications, all drones are subject to the same 5% GST charge, which guarantees equity and eliminates classification disputes, giving the sector clarity and long-term stability.

GST Reforms Andhra Pradesh

Andhra Pradesh contributed 41% of India's fish production in 2022–23 and the sector accounts for 7.4% of the state's GSDP. Spread across nine coastal districts such as East Godavari, West Godavari, Guntur, Krishna, Nellore, Prakasam, Srikakulam, Visakhapatnam and Vizianagaram, it sustains around 14.5 lakh people, including large numbers of women engaged in cleaning, processing and cooperatives. With GST reduced

from 12/18% to 5% on fish oils, extracts, preserved products, fishing gear, diesel engines, pumps, aerators and key chemicals, input costs will decline, easing the burden on small processors and traditional fishing communities. Andhra Pradesh also contributes over 30% of India's seafood exports, shipped mainly from Visakhapatnam Port to markets such as the USA (34.5%), China (25.3%), the EU, Southeast Asia and the Middle East. These reforms will improve affordability, boost competitiveness in global trade, and strengthen livelihoods along the state's coastline.

Dairy

Ranked 4th nationally in milk production, the state supports 24 lakh farmers, many of them women in self-help groups and cooperatives. Major brands like Heritage and Vijaya anchor collection, chilling, processing and retail networks across the state. With GST reduced from 5% to 0% on UHT milk and paneer, from 12% to 5% on ghee and butter, and from 18% to 5% on ice-cream, processed dairy products are now 5–7% cheaper. This will lower household costs, boost festive-season demand, and strengthen income opportunities for dairy farmers and SHG-led cooperatives in districts such as Krishna, Srikakulam, West Godavari, East Godavari, Guntur, Chittoor and Vizianagaram. Andhra's dairy market, valued at ₹713.9 billion in 2024, is projected to nearly double by 2033, making these tax cuts especially timely for a rapidly expanding sector.

Automobiles

Andhra Pradesh has emerged as a key auto hub, with major plants of Kia, Isuzu, Hero and Ashok Leyland alongside over 100 auto-component MSMEs in districts such as Anantapur, Chittoor, Visakhapatnam and Nellore. The sector employs more than 11,000 people (about 4,000 direct and 7,000 indirect jobs), including skilled technicians, ITI diploma holders and engineers. With GST reduced from 28% to 18% on three-wheelers, small cars and motorcycles (up to 350cc engine capacity), and a uniform 18% rate applied on all auto parts, vehicles and spares are now around 8% cheaper. This eases affordability for consumers, reduces working capital pressures for OEMs, and strengthens the competitiveness of Andhra's auto exports to Europe, the USA and South Korea.

Pharama and Life Science

The state is home to 250+ bulk drug and API units across Anakapalli, Visakhapatnam, Atchutapuram, Naidupeta and Pydibhimavaram, including 38 WHO-approved and 20 USFD Aapproved facilities. The sector employs more than 89,000 highly skilled workers, supporting both manufacturing and R&D. GST cuts from 12% to nil on 30 cancer drugs, and from 12% to 5% on medicines for personal use, make healthcare more affordable across India. Global companies such as Dr Reddy's, Aurobindo Pharma, GSK, Lupin and Biocon operate in the state, while exports, led by the

USA (52%), South Africa and China, reinforce Andhra's role as a pharma powerhouse. The tax cuts to improve accessibility for patients and strengthen the competitiveness of Andhra's life sciences sector in global markets.

Medical Device

Andhra Pradesh is home to the AP MedTech Zone (AMTZ) in Visakhapatnam, which houses over 100 manufacturing units producing medical devices, diagnostics and healthcare technologies. The sector generates high-skill employment in R&D, quality assurance and shopfloor roles, while serving a broad patient base across India. With GST reduced from 18% to 5% on devices like thermometers and medical apparatus, and from 12% to 5% on surgical instruments, diagnostic kits and reagents, costs are now 7–13% lower. This makes healthcare more affordable and accessible for domestic patients, while strengthening Andhra Pradesh's exports to over 80 countries, backed by global certifications such as US FDA, CE Marking and ISO

Renewable Energy

With capacity growing more than seven-fold between 2014 and 2024, clusters in Kurnool, Kadapa and Anantapur have positioned the state as a front-runner in renewable energy adoption. Only 5.6% of its 167 GW potential has been tapped so far, leaving significant room for expansion. With GST reduced from 12% to 5% on renewable energy devices, solar heaters, cookers and fuel cell vehicles, project costs are expected to decline. For instance, the cost of power generation could fall by about 10 paise per unit for solar projects and 15–17 paise per unit for wind projects, making renewable energy more viable, affordable and attractive for wider rural and urban uptake. This also strengthens the state's goal of creating 7.5 lakh green jobs by 2030.

Etikoppaka and Kondapalli Toys

Traditional toy-making clusters in Anakapalli and NTR districts sustain thousands of cottage artisans. Recognised with GI tags (Kondapalli in 2006, Etikoppaka in 2017), these toys are sold as cultural and decorative items and also find a niche export market, particularly among the Indian diaspora. With GST reduced from 12% to 5%, toys are now 6–7% cheaper, boosting affordability during festivals like Navaratri Golu and enhancing export competitiveness. Leather Puppetry Practiced by the Marathi Balija community in Anantapur, Guntur and Nellore, this hereditary craft has been GI-tagged since 2008. Traditionally seasonal, aligned with temple events and festivals, artisans now diversify into lampshades, wall hangings and souvenirs for year-round income. With GST reduced from 12% to 5%, finished pieces are about 6% cheaper, strengthening artisan incomes through handicraft fairs and emporia sales.

Stone Carvings

The Durgi cluster (Guntur), GI-tagged in 2017, sustains fewer than 50 sculptor families of Viswa Brahmin craftsmen. Meanwhile the Allagadda cluster (Nandyal), GI-tagged in 2018, employs over 1,000 artisans from hereditary Shilpi and Viswakarma families. Products include temple idols, household décor and collector pieces, with exports to the USA, China and Sri Lanka, including notable buyers such as the Sri Venkateswara Temple in Pittsburgh. With GST reduced from 12% to5%, prices are now about 6% lower, supporting domestic temple demand and expanding niche export markets.

Conclusion

The Goods and Services Tax (GST) reforms introduced in September 2025 represent a landmark step in reshaping India's taxation system to better serve the aspirations of its youth. By simplifying tax structures, reducing rates across key industries, and addressing long-standing anomalies, these reforms are designed to create an enabling environment for entrepreneurship, job creation, and affordable living. Sectors with high youth participation—such as education, automobiles, technology, handicrafts, footwear, healthcare, food processing, and textiles have been prioritized to lower costs, boost competitiveness, and encourage innovation. Beyond reducing the financial burden on households and businesses, the reforms strengthen India's vision of inclusive growth, sustainability, and empowerment of the next generation. The GST reforms are expected to bring widespread relief across Andhra Pradesh, touching the lives of coastal fishing families, dairy farmers, auto workers, pharma professionals, renewable energy technicians, artisans and middle-class households. Everyday essentials like milk, medicines, soaps, notebooks and two-wheelers are expected to become more affordable, while strategic sectors such as automobiles, pharmaceuticals, renewables and handicrafts are expected to gain fresh competitiveness.

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