United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 | Impact Factor: 6.934 (SJIF)
Volume 3, Special Issue -IX, 2026; Website: www.uijmr.in

Gst, Financial Inclusion, And Inclusive Growth in India: A Sectoral and Socio-Economic Analysis

Dr. Bhaskar Dasariraju[1]
Associate Professor,
Govt. Degree College, Nagari, AP
Email: bhaskardraju@gmail.com
Podala Nagaraj[2]
Doctoral Scholar,
Govt. Degree College,
Nagari, Chittoor, AP, India
Email: nagarajpodala@gmail.com
DOI:10.37854/UIJMR.2026.3.3.9.86

Abstract

The introduction of the Goods and Services Tax (GST) in India represents a significant reform aimed at simplifying the indirect tax structure and fostering a unified national market. Beyond its fiscal objectives, GST has important implications for financial inclusion and inclusive economic growth. This study examines the role of GST in promoting financial inclusion across different sectors and socio-economic groups in India. It analyzes how GST has influenced the formalization of the informal economy, enhanced access to financial services, and improved transparency in economic transactions.

The paper adopts a sectoral and socio-economic approach, focusing on Micro, Small, and Medium Enterprises (MSMEs), informal workers, and rural and urban populations. It evaluates the extent to which GST has facilitated digital transactions, encouraged tax compliance, and expanded the financial ecosystem through mechanisms such as input tax credit and e-invoicing. The study also explores regional disparities and the challenges faced by marginalized groups in adapting to the GST framework, including compliance costs, technological barriers, and limited financial literacy.

Keywords: GST; Financial Inclusion; Inclusive Growth; Informal Economy; MSMEs; Digital Payments; Tax Compliance; Economic Development; India

Introduction

India's economic structure has long been characterized by the coexistence of a formal sector and a vast informal economy, with a significant proportion of the population lacking access to formal financial services. Financial inclusion, defined as the availability and accessibility of affordable financial products such as banking, credit, insurance, and digital payments, has therefore become a central objective of economic policy. It is closely linked with inclusive growth, which emphasizes equitable distribution of economic benefits across all sections of society. Despite several government initiatives, structural challenges such as low financial literacy, inadequate digital infrastructure, and heavy reliance on cash transactions continue to hinder progress.

The introduction of the Goods and Services Tax (GST) in 2017 marked a major reform in India's indirect taxation system, replacing multiple taxes with a unified framework. While GST was primarily aimed at simplifying taxation and improving efficiency, its broader implications extend to financial inclusion and economic formalization. By requiring businesses to register and maintain transparent records, GST has encouraged the transition of enterprises from the informal to the formal sector, thereby enhancing their access to institutional finance and formal credit systems (Rao).

In addition, GST has accelerated digitalization in economic transactions through mandatory online compliance processes such as return filing and e-invoicing. This has contributed to increased adoption of digital payment systems and improved transparency in financial dealings. As digital transactions become more widespread, individuals and businesses are increasingly integrated into the formal financial ecosystem, supporting the broader goals of financial inclusion and economic development (Sharma).

However, the impact of GST is not uniform across all sectors and socio-economic groups. MSMEs, informal workers, and rural populations often face challenges such as compliance costs, technological barriers, and limited awareness. These disparities highlight the need for a nuanced analysis of GST's role in promoting inclusive growth. Against this backdrop, this study examines the sectoral and socio-economic dimensions of GST, focusing on its potential to enhance financial inclusion while identifying the challenges that must be addressed to achieve equitable and sustainable development.

Literature Review

The introduction of the Goods and Services Tax (GST) in India has been widely examined as a significant fiscal reform aimed at simplifying the indirect tax structure and improving efficiency. M. Govinda Rao (2018) argues that GST eliminates cascading taxation and creates a unified national market, thereby enhancing tax compliance and economic productivity. Similarly, Ebrill et al. (2001) highlight that value-added tax

systems like GST are effective in broadening the tax base and improving transparency in developing economies.

A major strand of literature focuses on the role of GST in formalizing the informal economy. Kumar and Gupta (2019) emphasize that GST incentivizes businesses to register in order to avail input tax credit (ITC), which promotes better record-keeping and integration into formal financial systems. Joshi (2020) further notes that such formalization improves access to institutional credit and strengthens the participation of small enterprises in organized supply chains.

The relationship between GST and digital financial inclusion has also been highlighted in several studies. Sharma (2020) points out that GST compliance requirements, including online return filing and e-invoicing, have accelerated the adoption of digital payment systems in India. This has reduced reliance on cash transactions and enhanced transparency, thereby supporting financial inclusion initiatives.

However, the literature also identifies key challenges associated with GST implementation. Mehta (2021) argues that MSMEs face significant compliance costs and technological barriers, while Banerjee and Duflo (2019) emphasize that structural inequalities such as limited financial literacy and digital access restrict the ability of marginalized groups to benefit fully from such reforms. These findings suggest that although GST has strong potential to promote inclusive growth, its outcomes remain uneven across sectors and socio-economic groups.

Research Methodology

This study adopts a descriptive and analytical approach using secondary data.

Data Sources

- RBI Financial Inclusion Reports
- Ministry of Finance GST Reports
- World Bank Data
- Academic Journals

Analytical Tools

- Comparative analysis (pre- and post-GST)
- Sectoral classification
- Socio-economic evaluation

Objectives of the Study

- To analyze the impact of GST on financial inclusion in India
- To examine GST's role in promoting inclusive economic growth
- To evaluate sectoral impacts, especially on MSMEs and informal sectors

- To assess socio-economic disparities in GST outcomes
- To propose policy recommendations

Empirical Trends and Data Analysis

Table 1: Growth in GST Registrations and Tax Base

Year	GST Registered Taxpayers (in millions)	Growth Rate (%)
2017	6.5	—
2019	11.2	72%
2021	13.8	23%
2023	14.9	8%

Table 2: Digital Payment Growth in India (Post-GST)

Year	Digital Transactions (Billion)	Growth (%)
2016	8.7	—
2018	20.7	138%
2020	34.5	67%
2023	89.5	159%

Table 3: Financial Inclusion Indicators

Indicator	Pre-GST (2016)	Post-GST (2023)
Bank Account Penetration (%)	53	78
Digital Payment Users (%)	22	65
MSME Formal Credit Access (%)	16	32

GST and Financial Inclusion

Formalization of the Economy

One of the most significant contributions of GST to financial inclusion is the formalization of the informal economy. By mandating registration for businesses above a prescribed turnover threshold and linking compliance with benefits such as Input Tax Credit (ITC), GST has created strong incentives for informal enterprises to enter the formal system. This transition enables businesses to maintain proper financial records, including invoices, transaction histories, and tax filings. Such documentation is crucial for establishing financial credibility, which in turn facilitates access to formal banking services and institutional credit. As noted by Kumar and Gupta (2019), formalization under GST enhances transparency and integrates businesses into the broader economic framework, thereby strengthening financial inclusion.

Digitalization and Access to Financial Services

GST has significantly accelerated digitalization in India's economic ecosystem. The requirement for online registration, return filing, and e-invoicing has compelled businesses to adopt digital tools and platforms. This shift has led to increased use of digital payment systems such as UPI, net banking, and mobile wallets. Digital transactions not only reduce dependency on cash but also create verifiable financial trails, which are essential for accessing credit and other financial services. Sharma (2020) highlights that GST has complemented government initiatives like Digital India by promoting digital literacy and expanding the reach of financial services, especially among small businesses.

Improved Tax Compliance and Transparency

GST has introduced a more transparent and accountable tax system through mechanisms such as invoice matching, e-way bills, and real-time reporting. These features reduce opportunities for tax evasion and improve overall compliance. Enhanced transparency builds trust between taxpayers and the government, encouraging greater participation in the formal economy. Moreover, improved compliance increases government revenue, enabling higher public spending on social welfare and financial inclusion programs. Rao (2018) emphasizes that a transparent tax system is fundamental to sustainable economic development and inclusive growth.

Expansion of the Financial Ecosystem

GST has indirectly contributed to the expansion of the financial ecosystem by increasing the demand for financial services. As more businesses become formalized, there is a corresponding rise in the need for banking, accounting, auditing, and financial advisory services. Financial institutions, in turn, are better able to assess creditworthiness using GST data, such as returns and transaction records. This has led to the development of innovative financial products tailored to MSMEs, including GST-based lending. Thus, GST acts as a catalyst for deepening financial intermediation in the economy.

Sectoral Analysis

Micro, Small, and Medium Enterprises (MSMEs)

MSMEs are a critical component of India's economy, contributing significantly to employment and GDP. GST has had a mixed impact on this sector. On the positive side, GST has enabled MSMEs to integrate into formal supply chains, thereby expanding their market access. Registered MSMEs can avail input tax credit, which reduces the overall tax burden and enhances competitiveness. Additionally, formalization improves their eligibility for institutional credit, as financial institutions can assess their financial health based on GST filings.

However, MSMEs also face several challenges under GST. Compliance requirements, including frequent return filing and digital record-keeping, impose additional costs and administrative burdens. Many small enterprises lack the technological infrastructure and expertise needed to comply effectively. Furthermore, delays in input tax credit refunds can create working capital constraints, affecting business operations (Mehta 2021). Thus, while GST offers long-term benefits, the short-term adjustment costs for MSMEs are significant.

Informal Sector

The informal sector, which employs a large proportion of India's workforce, has been significantly affected by GST. The introduction of GST has encouraged many informal businesses to formalize in order to remain competitive and participate in supply chains. This has led to improved record-keeping, better tax compliance, and increased visibility of economic activities.

However, the transition has not been smooth for all. Many small traders and informal workers face difficulties in understanding GST procedures due to limited financial literacy and lack of access to digital tools. The compliance burden can be particularly challenging for micro-enterprises with low turnover. As a result, some businesses continue to operate outside the GST framework, limiting the overall impact of formalization. Addressing these challenges is essential to ensure that the benefits of GST reach the informal sector effectively.

Organized Sector

The organized sector has been one of the primary beneficiaries of GST. The elimination of multiple taxes and the introduction of a unified tax structure have reduced tax cascading and improved operational efficiency. Businesses in the organized sector benefit from streamlined logistics, as GST has removed interstate barriers and reduced transportation time. This has led to cost savings and improved supply chain management. Moreover, the organized sector is better equipped to comply with GST requirements due to access to resources, technology, and skilled personnel. As a result, these businesses have been able to leverage GST to enhance competitiveness and expand operations. However, the increased formalization of competitors, particularly MSMEs, has also intensified competition within the market.

Inter-Sectoral Linkages

GST has strengthened linkages between different sectors of the economy by creating a seamless tax structure. The input tax credit mechanism encourages businesses to transact with registered entities, thereby promoting formalization across supply chains. This interconnectedness enhances efficiency and reduces leakages in the tax system.

At the same time, sectors that are less organized or technologically advanced may face difficulties in adapting to GST requirements, leading to uneven growth across sectors. Therefore, targeted policy interventions are necessary to ensure balanced development and inclusive growth.

Socio-Economic Analysis

Rural vs Urban Divide

Factor	Urban	Rural
Digital Access	High	Low
GST Compliance	Easier	Difficult
Financial Inclusion	Higher	Moderate

Income-Based Impact

- Higher-income groups benefit more due to better access to technology
- Lower-income groups face barriers in compliance and financial literacy

Regional Disparities

States with better infrastructure (e.g., Maharashtra, Karnataka) show higher GST compliance compared to less developed states.

GST and Inclusive Growth

GST contributes to inclusive growth by:

- Expanding the tax base
- Increasing public revenue
- Supporting welfare schemes

However, inclusive growth depends on equitable access to financial and digital systems.

Challenges

- Complex compliance procedures
- Digital divide
- Lack of financial literacy
- Delayed ITC refunds
- Regional inequality

Policy Recommendations

- Simplify GST compliance for MSMEs
- Strengthen rural digital infrastructure
- Promote financial literacy programs
- Ensure faster ITC refunds
- Provide targeted subsidies for small businesses

Conclusion

GST has emerged as a transformative reform with far-reaching implications beyond taxation. It has significantly contributed to formalization, digitalization, and financial inclusion. However, its benefits remain uneven across sectors and socio-economic groups.

To maximize its potential for inclusive growth, complementary policies addressing digital access, financial literacy, and regional disparities are essential. A holistic approach integrating tax reform with social policy will ensure sustainable and inclusive economic development in India.

Works Cited

Kumar, R., and S. Gupta. *Impact of GST on Small Businesses in India*. Economic Review Journal, 2019.

Mehta, P. *GST and the Informal Economy: Challenges and Opportunities*. Indian Economic Studies, 2021.

Rao, M. Govinda. *Goods and Services Tax in India: Progress and Prospects*. National Institute of Public Finance and Policy, 2018.

Sharma, A. "Financial Inclusion and Digital Payments in India." *RBI Bulletin*, 2020.

Ministry of Finance. *GST Annual Report*. Government of India, various years.

Reserve Bank of India. *Financial Inclusion Reports*. RBI, various years.

World Bank. *Financial Inclusion and Economic Development in India*. World Bank, 2022.