Decline in GST rates to stimulate consumption, reduce government revenues: Moody's

Press Trust of India
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Moody's Ratings on Tuesday said the GST reform that has lowered tax rates on 375 items is another form of fiscal policy support for households and will stimulate consumption. The rating agency also pointed out that the reforms will reduce government revenues.

A decline in India's effective GST rates will likely boost private consumption and support economic growth at a time that the country faces external pressures from higher US tariffs, Moody's said in a report.

"The GST reform is another form of fiscal policy support for households, complementing the higher income tax thresholds introduced in February that effectively exempted many middle-income households from paying income taxes and lowered income tax payments for others. Both measures aim to boost household consumption, which accounts for about 61 per cent of GDP," it said.

The announced changes to the GST framework effectively lower the average tax rates applied to goods and services bought and sold in India, given the elimination of one of the higher tax tiers as well as withdrawal of GST for a number of items, it said. Lower prices will also help keep inflation at bay, Moody's said.

FOREGONE REVENUES

The government estimates net foregone revenue this year of ₹48,000 crore, based on calculations using data from fiscal 2024. "Combined with tax measures announced in the fiscal 2025-26 Budget in February, particularly the increase in the personal-income threshold for paying income taxes, the consolidated GST tiers will erode revenue buoyancy," Moody's said.

"Given the government's use of revenue-eroding measures to support growth over the past year, we do not expect significant revenue-enhancing measures over the remainder of its term. This, in turn, preempts material gains in debt reduction or improvements in debt affordability," it said.

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