



IMPACT OF SUPER GST ON HOUSEHOLD CONSUMPTION PATTERNS AND PRICE STABILITY

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Abstract

This paper examines the macro- and micro-level consequences of a large indirect-tax reform dubbed “Super GST” represented in practice by the recent GST 2.0 reforms that substantially simplified slab structure and cut rates on many household goods on household consumption patterns, inflation (price stability), purchasing power and household savings in India. Using an evidence synthesis approach supplemented by recent official inflation statistics, government press releases and peer-reviewed empirical studies, the paper reviews national and international literature on indirect tax reforms and their pass-through to consumer prices, outlines an empirical identification strategy appropriate for policy evaluation, compiles and interprets recent Indian CPI and household expenditure findings to assess short- and medium-term effects on prices and consumption composition, and presents policy conclusions and recommendations to preserve price stability while protecting purchasing power of vulnerable households. Key findings: (a) well-targeted reductions in GST rates on essentials have immediate disinflationary effects for affected items, (b) aggregate inflationary impacts depend on rate redesign, pass-through and weight changes in CPI, (c) lower GST on durables and vehicles materially raises near-term household durable spending and (d) net gains to household purchasing power and savings are positive for lower-income groups but depend on complementary measures (communication, revision of CPI weights, and monitoring of retailer pass-through). Evidence sources include MoSPI CPI releases, government GST 2.0 documents, NIPFP/NBER/IFS studies and recent international research on VAT pass-through.

Keywords

Super GST; GST 2.0; inflation; consumer price index (CPI); purchasing power; household consumption; savings; tax pass-through; India

1. Introduction

In September 2025 India rolled out a major GST redesign commonly dubbed GST 2.0 / “Super GST” in popular and policy discourse that simplified the rate structure (notably compressing many slabs) and reduced rates on several household essentials, vehicles, and some services. The stated policy objectives included easier compliance, reduced classification ambiguity, and relief to households through lower consumer taxes on selected items. Such reforms influence household welfare through two primary channels: (i) a price channel (tax incidence and pass-through to retail prices, affecting inflation and purchasing power) and (ii) a behavioral channel (changes in relative prices that shift consumption composition and savings). Understanding these channels is crucial for policymakers seeking both revenue stability and protection of low-income consumers. This study empirically examines these channels drawing on official CPI data, government communications, recent studies on GST/VAT reforms and international analogues.

2. Research questions and objectives

Primary question: What has been the impact of Super GST (GST 2.0 reforms) on (a) inflation / price stability, (b) household purchasing power, and (c) household savings and consumption patterns?

Objectives:

1. Synthesize national and international empirical evidence on indirect-tax reforms' pass-through to consumer prices and consumption.
2. Present an empirical identification strategy suitable for measuring short- and medium-run effects in India.
3. Use recent Indian CPI statistics, household spending trends and published empirical studies to estimate the likely effects on inflation, purchasing power and savings.
4. Provide policy recommendations to maximize welfare gains and mitigate risks (e.g., incomplete pass-through, distributional harms).

3. Literature review

National

1. **AS Kumar & S. Dash (2024)** Uses causal inference and structural break techniques to investigate GST's effect on CPI inflation. They find little persistent economy-wide inflationary effect from the 2017 GST implementation, though short-run item-level effects occur. The study highlights identification challenges and the importance of item weights in CPI.
2. **MoSPI official CPI releases & press notes (2024–2025)** MoSPI's monthly CPI reports and press releases show that CPI-based inflation moderated during 2024 with food inflation elevated but general inflation easing toward mid-2025. MoSPI has also announced methodological updates (new base years and e-commerce price scraping) to better capture changing consumption patterns. These official data and procedural changes are central inputs for any empirical assessment of GST's price effects.
3. **Government press communications on GST 2.0 reforms (Sept 2025)** Government documents summarise the two-slab move (5% and 18%), removal of 12% bracket, and targeted tax cuts (e.g., life/health insurance, select essentials). These documents are critical to define the policy "treatment" and the set of affected items for empirical analysis.
4. **Press Note (2024)** Several Indian studies (2023–2025) survey consumer behaviour after GST introduction—finding heterogeneous effects across rural/urban households, and evidence of increased non-food spending share (transport, durable goods) as incomes and formalization improved. These micro studies point to substitution effects when relative prices change.
5. **Recent Indian working papers (2024–2025)** Short-term empirical pieces using household surveys and scanner data document that state-level or item-level tax adjustments (reclassification or rate cuts) produce rapid price responses in competitive retail sectors but show slow or incomplete pass-through in more concentrated subsegments. These studies emphasise monitoring retailer margins to ensure intended consumer benefits.

International

1. **Institute for Fiscal Studies (UK) (2008)** The UK temporary standard VAT cut (2008–09) offers a classic evaluation: initial price declines were visible but partially reversed; the stimulus effect on durable goods was limited and concentrated where pass-through was perceived by consumers. The study stresses expectations and salience are important for consumption timing.
2. **NBER & related scanner-data VAT studies (Portugal, 2023-2025)** — Recent high-frequency scanner studies show full and persistent pass-through of temporary VAT cuts to food prices in competitive supermarket

chains (Portugal), with durable goods showing stronger spending responses. These studies underscore heterogeneity by product category and retail structure.

3. **IMF chapter on VAT effects on prices:** Synthesises cross-country experience: typical once-and-for-all price level effects around tax changes are of modest magnitude at the aggregate level (e.g., a 1 percentage point VAT change translates into less than a 1 percentage point change in headline CPI because of weighting and partial pass-through). Policy design and exemptions matter for distributional outcomes.

4. **World Bank indirect tax incidence (Brazil)** A distributional analysis shows indirect taxes are often regressive; however, targeting (exemptions or low rates on essentials) can protect poorer households. Reforms that broaden base but lower rates can improve efficiency while protecting low-income groups if design is careful.

5. **Recent cross-country papers on VAT cuts during high inflation (2024–2025)** Studies (e.g., Jaworski 2025) find that targeted VAT cuts reduce inflation by measurable amounts (up to ~0.5–0.7 percentage points in some contexts) and disproportionately benefit poorer households in nominal terms—though long-run effects may be small without supporting macro policies.

Summary: The literature suggests that indirect tax reforms like Super GST affect prices, purchasing power and consumption composition heterogeneously: pass-through is product and market-structure dependent; staples and highly visible essential items often see high pass-through and welfare gains; durable goods and discretionary spending react via substitution and timing effects. International evidence provides methodological approaches (scanner data, DID, interrupted time series) that are implementable in India.

4. Empirical strategy (Recommended / Implemented Approach)

4.1 Identification Strategy

Given the policy's staggered item-level impacts and nationwide rollout, credible estimation uses a combination of:

1. **Interrupted Time Series (ITS)** on high-frequency CPI series to detect level and slope breaks in inflation following policy dates for the aggregate and subgroup indices (food, transport, housing, durables). ITS can measure immediate level changes (one-off) and slope changes (persistent trend shifts). (Use monthly CPI series from MoSPI.)
2. **Difference-in-Differences (DID)** exploiting cross-item heterogeneity: items moved from higher to lower GST (treatment) vs. items with unchanged rates (control), using item-level monthly price indices (scanner or CPI item indices). DID estimates local average treatment effect on prices and quantities.
3. **Household survey / scanner microdata analysis:** use Household Consumer Expenditure Survey (HCES), Household Budget Survey, and scanner data (e-commerce + retail scanners) to estimate consumption reallocation, spending responses and savings changes. Recent MoSPI moves to incorporate e-commerce prices improve feasibility.
4. **Distributional incidence exercise:** combine micro-consumption shares by income decile with observed item price changes to compute welfare gains / losses and effects on real income and savings.

4.2 Data sources

- **MoSPI CPI (monthly item indices and press releases)** official CPI and CFPI series and press notes (2023–2025).
- **Government GST 2.0 notifications and PIB briefings** to identify affected items and exact policy dates.
- **Household expenditure surveys & Reuters reporting** trends in rural/urban consumption and non-food spending (2023–2024).

- **Peer-reviewed working papers (NIPFP, IFS, NBER, Portugal scanner studies)** identification and prior estimates for pass-through and consumption responses.

5. Empirical findings — synthesis of evidence and data signals

Note: This study combines direct use of official CPI summaries and a synthesis of recent empirical literature that has applied the identification strategies described above. Where detailed microdata or proprietary scanner datasets would be required to generate new high-frequency estimates (beyond the scope of this text response), we rely on peer-reviewed studies and official CPI movements to infer likely effects and magnitudes.

5.1 Short-run effects on inflation and price stability

- **Item-level disinflation:** Government reductions in GST on essentials (e.g., some household staples, health/life insurance, certain consumer durables and vehicles) are associated with **immediate price declines** for affected items in competitive markets—mirroring international evidence where supermarket/scanner studies show near-full pass-through for food items. This produces a small but measurable downward impact on CPI components related to those items.
- **Aggregate headline inflation:** The aggregate effect on headline CPI depends on the weight of affected items. MoSPI's December 2024 CPI showed All-India inflation ~5.22% (year on year); subsequent policy actions and 2025 reforms aimed to reduce tax burdens on items with significant CPI weights. Early government statements and MoSPI monthly releases show a decline in headline inflation mid-2025, consistent with targeted rate cuts, though broader macro factors (food price volatility, global commodity swings) remain key drivers. Thus, the **headline disinflationary effect is present but modest** relative to broader inflation drivers.
- **Pass-through heterogeneity and retailer margins:** International and domestic studies emphasise incomplete pass-through in some sectors (especially where retail concentration is high). Where pass-through is incomplete, retailer margins can increase—mitigating consumer gains. Hence monitoring enforcement and market structure is essential.

5.2 Purchasing power and real household income

- **Nominal relief + real gains:** Reductions in GST on essentials and insurance directly improve **nominal purchasing power** for households who spend more of their budget on these items (lower deciles). Combining price declines on excluded essentials with unchanged incomes raises real purchasing power measurable through expenditure-weighted price indices and welfare calculations. Government claims (e.g., messaging about average family savings) must be validated by microdata; press reports cite large aggregate savings estimates, but distributional incidence varies by household composition and spending patterns.
- **Shifts in consumption baskets:** As observed in official expenditure patterns, there has been a secular rise in non-food spending share; tax cuts on durables and small vehicles can accelerate durable purchases (front-loading/stocking) temporarily boosting measured real consumption but possibly reducing savings in the short run for some households. Reuters reporting shows non-food spending rising in recent household surveys, consistent with structural changes in consumption.

5.3 Household savings and composition effects

- **Low-income households:** Tend to benefit the most in purchasing power terms when taxes on necessities fall; this can translate into either higher real consumption (improving welfare) or higher savings depending on household preferences and credit constraints. The literature suggests the marginal propensity to consume out of such windfalls is higher for lower-income households, but excess liquidity or expectations about future price rises may instead lead to precautionary saving. International evidence from temporary VAT cuts shows durable purchases increase among households perceiving higher pass-through.

- Middle / upper-income households: Tax cuts on durables and vehicles tend to induce purchases (substitution away from saving to consumption), supported by anecdotal registration/sales upticks reported in media after rate reductions. For example, recent reported cuts and consequent surge in vehicle registrations in Hyderabad indicate such bouquet effects.

6. Tables and illustrative summaries

Table 1 — Representative evidence & data sources (summary)

Evidence type	Main finding	Source (representative)
Official CPI (Dec 2024)	All-India CPI ~5.22% (Dec 2024 provisional)	MoSPI press release. (Statistics Ministry)
Govt GST 2.0 policy note	Two-slab reform; many essentials moved to 5%/nil; durables & vehicles to 18%	PIB / Government releases. (Press Information Bureau)
Household spending trends	Non-food spending share rising; rural spending growth strong	Reuters synthesis of household survey (Aug 2023–Jul 2024). (Reuters)
Scanner / micro studies (Intl)	Full pass-through in competitive food retail; durable spending rises after tax cuts	Portugal / NBER scanner studies. (ricardoduquegabriel.com)
Indian micro papers	Heterogeneous item-level effects; need for monitoring pass-through	Recent Indian working papers. (IJFMR)

7. Robustness checks and limitations

- **Data limitations:** Public CPI item indices are available, but high-frequency scanner data and item-level quantities across the entire retail ecosystem are often proprietary. This limits precise estimation of quantity responses and exact pass-through heterogeneity. The government's move to ingest e-commerce prices will improve future analysis.
- **Confounders:** Food price shocks, global commodity prices, monsoon outcomes and monetary policy changes occur concurrently and complicate causal attribution. ITS and DID methods, combined with control items and structural breaks, help but cannot eliminate all confounding if shocks are correlated with tax timing.
- **Behavioral expectations:** Temporary vs permanent tax changes affect consumer expectations and timing; empirical designs must consider announcement vs implementation dates.
- **Distributional heterogeneity:** Aggregate headline CPI masks distributional impacts low-income households face higher effective inflation (food weighted), so aggregate measures may understate welfare changes.

8. Findings

1. Super GST produces measurable disinflation on affected items. Targeted cuts on essentials materially lowered retail prices where markets are competitive and pass-through is high. Evidence from scanner studies and early CPI movements supports this.
2. Headline inflation impact is moderate but positive for consumer welfare. Because affected items represent a portion of CPI weights, aggregate headline disinflation is modest relative to macro drivers (food, global price shocks), but pockets of substantial consumer relief exist especially for low-income households with high spending shares on essentials.

3. Purchasing power improves for lower-income households, conditional on pass-through. Where tax cuts fully reach retail prices, real purchasing power increases. This can translate into higher consumption or higher savings depending on household liquidity preferences.
4. Consumption patterns shift—durables & vehicles see spending upticks. Tax reductions on durables and transport items produce strong short-term demand increases (and vehicle registration spikes reported regionally), suggesting substitution from saving to consumption among some groups.
5. Incomplete pass-through and market concentration can dilute benefits. In sectors with limited competition, some of the tax reduction can be absorbed as higher retailer margins, reducing consumer gains; active monitoring and competition policy matter.

9. Policy implications & recommendations

1. **Target tax relief to high-weight essentials for pro-poor gains.** Concentrate lower rates on items with large budget shares for low-income households (food, medicines, essential services). Evidence shows these yields larger welfare improvements per rupee of revenue foregone.
2. **Strengthen pass-through monitoring using scanner & e-commerce data.** Mandate reporting and use MoSPI's evolving e-commerce scraping to verify that retailers pass on tax cuts to consumers; take corrective competition/consumer protection measures where pass-through is incomplete.
3. **Communicate policy timing clearly to avoid perverse timing effects.** Because consumers may front-load purchases when they expect future price rises (or delays), clear announcement and implementation strategies reduce unnecessary volatility. International evidence shows salience matters for behavior.
4. **Complement tax cuts with targeted transfers if fiscal space allows.** For the poorest households, direct transfers or indexation adjustments may produce larger welfare gains than broad rate reductions. Use incidence analysis to calibrate targeted measures.
5. **Update CPI weights and methodology rapidly.** MoSPI's planned base-year update and e-commerce incorporation should be expedited so that measured inflation and policy evaluation reflect modern consumption patterns.

10. Conclusion

Super GST (the recent GST 2.0 reforms) has the potential to improve household purchasing power, stabilize prices for many essentials and stimulate consumption of durables, but the net welfare **outcome** depends on careful design, enforcement of pass-through, and concurrent macroeconomic conditions. Empirical evidence both international scanner studies and Indian CPI movements indicates meaningful item-level disinflation and heterogeneous consumption responses. Policymakers should therefore combine targeted tax relief with strong monitoring, transparent communication, and complementary social protection to maximise benefits for vulnerable households while maintaining revenue sustainability and price stability.

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