

Impact of Reduction in Goods and Services Tax on the Share Market: An Empirical Study of Amravati City

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Abstract

The Goods and Services Tax (GST) represent one of the most comprehensive indirect tax reforms in India, designed to rationalize the tax structure, improve compliance, and foster economic efficiency. Periodic reductions in GST rates are intended to stimulate aggregate demand, enhance corporate profitability, and influence capital market dynamics through shifts in investor expectations. This study empirically examines the impact of GST rate reductions on share market behaviour with specific reference to Amravati City. Drawing on primary data collected from 50 retail investors during September 2025 through a structured questionnaire, the study analyzes investor awareness, sentiment, sectoral expectations, and investment behaviour following GST reduction. The findings suggest that GST rate reduction exerts a statistically and perceptually positive influence on investor confidence and sectoral stock performance, particularly in consumption-oriented industries. However, the sustainability of these effects is contingent upon broader macroeconomic conditions, fiscal stability, and the translation of tax reductions into real economic activity.

1. Introduction

Capital markets play a pivotal role in economic development by facilitating efficient allocation of financial resources, enabling capital formation, and reflecting collective expectations about future economic performance. Among the various determinants influencing stock market behaviour, fiscal policy—especially taxation reforms—occupies a central position due to its direct implications for corporate earnings, consumer demand, and investor sentiment.

The introduction of the Goods and Services Tax (GST) in India marked a structural transformation of the indirect tax regime by subsuming multiple central and state taxes into a unified framework. Beyond simplification and transparency, GST reforms have been strategically used as counter-cyclical tools through periodic rate rationalizations aimed at stimulating consumption and moderating inflationary pressures. Reduction in GST rates lowers the tax burden on goods and services, increases disposable income, reduces production costs, and enhances post-tax profitability of firms—factors that collectively shape stock market valuations.

While macro-level analyses of GST reforms have received scholarly attention, limited empirical evidence exists on how GST rate reductions influence investor perception and market behaviour at the micro and city-specific level. This gap is particularly relevant in emerging urban centers such as Amravati City, where retail investor participation is expanding alongside increasing financial inclusion.

2. Statement of the Problem

Despite being widely regarded as a pro-growth fiscal instrument, the actual transmission mechanism of GST rate reduction into stock market behaviour remains ambiguous at the micro-investor level. Investors' responses to tax reforms are shaped not only by economic fundamentals but also by awareness, financial literacy, behavioural biases, and local market conditions. In the absence of localized empirical studies, it is difficult to ascertain whether GST reductions effectively influence investment sentiment and decision-making among retail investors in tier-2 cities such as Amravati. This study seeks to address this gap by examining how GST reduction impacts investor perception and share market participation at the city level.

3. Objectives of the Study

1. To assess the level of awareness among retail investors regarding GST rate reduction.
2. To evaluate the perceived impact of GST reduction on share market performance.

3. To analyze changes in investor sentiment following GST reduction.
4. To identify sectors perceived by investors to benefit from GST reduction.
5. To examine investor perceptions of GST reforms in Amravati City.

4. Scope of the Study

The study is geographically confined to Amravati City and analytically limited to examining the impact of GST rate reduction on the share market. It focuses exclusively on retail investor perceptions and does not incorporate institutional investor behaviour or econometric modeling of stock price movements. The findings are based on primary survey responses and therefore reflect subjective perceptions rather than objective market outcomes.

5. Research Methodology

5.1 Research Design

The study adopts a descriptive and analytical research design, appropriate for examining investor perceptions, attitudes, and behavioural responses to fiscal policy changes.

5.2 Research Area

Amravati City.

5.3 Research Period

September 2025.

5.4 Sources of Data

Primary Data: Collected through a structured questionnaire administered to retail investors

Secondary Data: Derived from academic journals, government publications, financial newspapers, and official market reports

5.5 Sample Size

The study is based on responses from 50 retail investors.

5.6 Sampling Technique

A convenience sampling method was employed due to accessibility constraints.

5.7 Data Collection Instrument

A structured questionnaire comprising multiple-choice and Likert-scale statements designed to measure awareness, perception, sentiment, and investment behaviour.

5.8 Tools for Data Analysis

Descriptive statistical techniques, primarily percentage analysis, supplemented by interpretative analysis.

6. Data Analysis and Interpretation

Analysis of primary data reveals that the respondent pool predominantly comprises economically active individuals with prior exposure to equity markets, indicating an informed sample relevant to the study objectives. The majority of respondents demonstrated awareness of GST rate reductions, primarily through digital media, financial news platforms, and social networks. However, deeper understanding of sector-specific GST implications was found to be uneven, highlighting informational asymmetry among retail investors.

Investor perception regarding the impact of GST reduction on the share market was largely positive. Respondents associated GST reduction with enhanced consumption demand, lower cost structures for firms, and improved earnings prospects—factors perceived to be favourable for stock market performance. This positive sentiment translated into increased confidence toward equity investments, reinforcing the role of fiscal policy as a signalling mechanism for market participants.

Sectoral analysis indicates that respondents perceived automobile, FMCG, consumer durables, and construction-related industries as primary beneficiaries of GST reduction. This perception aligns with demand elasticity theory, wherein reduced indirect taxation leads to price moderation and volume expansion in consumption-driven sectors. Nonetheless, respondents emphasized that GST reduction alone does not determine investment decisions; firm-specific fundamentals, macroeconomic stability, and long-term growth potential remain decisive factors.

Overall, the analysis confirms that GST rate reduction has a perceptible influence on investor sentiment and market expectations in Amravati City, though its long-term effectiveness depends on broader economic transmission mechanisms.

7. Findings

1. Retail investors in Amravati City exhibit moderate to high awareness of GST rate reduction.
2. GST reduction positively influences investor sentiment and confidence in the equity market.
3. Consumption-oriented sectors are perceived as the principal beneficiaries of GST reduction.
4. GST reduction encourages increased interest and participation in the share market.
5. The long-term impact of GST reduction is contingent upon macroeconomic performance and corporate earnings growth.

8. Suggestions

- Policymakers should strengthen investor education initiatives to improve understanding of GST reforms.
- Retail investors should align investment strategies with sectors structurally benefiting from tax rationalization.
- Financial literacy programs should be intensified in tier-2 cities to enhance informed participation.
- Investors should adopt a long-term, fundamentals-driven investment approach.

9. Conclusion

The study concludes that GST rate reduction exerts a favourable influence on the share market by enhancing investor sentiment, reinforcing growth expectations, and improving sectoral outlooks. In Amravati City, retail investors perceive GST reduction as a supportive fiscal reform that signals economic expansion and encourages equity investment. However, sustained market growth requires effective policy implementation, fiscal discipline, and consistent economic performance.

10. Limitations of the Study

- Limited sample size restricts generalizability
- Geographic confinement to Amravati City
- Short duration of data collection
- Reliance on self-reported perceptions

11. Scope for Future Research

- Comparative inter-city or inter-state studies
- Larger and more diversified samples
- Econometric analysis of stock price responses
- Comparative assessment of GST increases versus reductions

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