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Impact of GST on Indian Market: An Empirical Analysis

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Abstract

Indian government introduced the Goods and Services Tax on 1st July 2017 on the backdrop of One Nation One Tax and abolished multiple taxes that were there before the implementation of GST like Value Added Tax, Service Tax, etc. The implementation of GST is being taken as a historic step where 1300 goods and 500 services are covered. On one side where government and other different key stakeholders are looking at GST with positivity on the other side there are different set of persons that are looking at GST negatively. So, the present paper is trying to analyse that what has been the impact of GST on the different key sectors of India and further to analyse that whether there has been any change in the post-GST regime in compare of pre-GST regime with regard to Indian economy in general and market in particular. For this purpose, the FMCG index, realty index, auto index, bank index and both BSE and NSE closing index prices have been taken in order to cover all round market situation after the implementation of GST for the period starting from 1st July 2016 to 30th June, 2018. Descriptive statistics and t-test has been analysed. It has been observed from the results that during the post-GST period, the economy has observed negative sentiments, specifically in relation to the major sectors like FMCG, realty, auto, bank and of course the stock market too. Therefore, it is observed that even after one year of implementation of GST, the major market participants like FMCG, realty, auto sector, banks and stock markets have not get settled till now.

Keywords: Goods and services tax, stock market, Indian economy, FMCG, banks

Introduction

Indian government introduced the Goods and Services Tax on 1st July 2017 on the backdrop of One Nation One Tax and abolished multiple taxes that were there before the implementation of GST like Value Added Tax, Service Tax, etc. The implementation of GST is being taken as a historic step where 1300 goods and 500 services are covered. Under GST, a flat tax rate is applicable on goods or services as per the five different tax slabs that has been fixed by the government viz; 0%, 5%, 12%, 18% and 28%. Although, the foundation of GST was laid down in December 2002 when the Kelkar Task Force suggested a comprehensive tax like GST instead of multi tax system but it was achieved on 1st July 2017 only. So, it can be said that adopting GST has been the result of culmination of a long journey of 14 years. It is important to mention here that first proposal on the GST was mooted in the year 2006-07 when during the budget speech, the then finance minister discussed about the GST and its different dimensions. Since then there has been a lot of debate regarding what is to be done in GST and how this system will take over the existing system of taxes and more brain storming session were being held in order to discuss all the different and complex dimensions of Goods and Services Tax. As a result of these discussions, in November 2009 the empowered committee released its first discussion paper on GST and rest is known to all. France was the first country that adopted GST in 1954 and then many more countries adopted this GST system in some or the other form and now there are more than 150 countries that already have this system of GST. Though, it is said that Indian economy has the highest rate of GST of 28% all over the world whereas Canada is having the lowest GST rate.

On one side where government and other different key stakeholders are looking at GST with positivity on the other side there are different set of persons that are looking at GST negatively. Although one year has been passed since implementation of GST but still there are some degree of fear in the market, especially in the stock market with regard to GST and

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that too whenever there is any new announcement related to it. So, the present paper is trying to analyse that what has been the impact of GST on the different key sectors of India and further to analyse that whether there has been any change in the post-GST regime in compare of pre-GST regime with regard to Indian economy in general and stock market in particular.

Review of Literature

Valadkhani (2005) ^[6] already estimated the impact of tax system like GST and by analysing the prospective impact on the prices of the goods, it was suggested that there will be no incremental impact on the prices of the commodity if GST is implemented. Rao (2008) ^[3] outlined in the study that Indian economic structure is so complex that from one state to another state we need to adjust with the complex tax system. Moreover, the manufacturing sector faces a lot of problems due to this multiple tax system. So, implementation of uniform tax rate would ease the process of economic activity.

Gupta (2015) ^[2] observed that Indian economy is already having multiple tax system and in order to make the economic transaction more transparent, there is a need to have a tax reforms in India. Dani (2016) ^[1] explored the impact of GST on the Indian economy and it was observed that GST is a good move to rationalise the indirect tax system in the economy but the way GST is going to be implemented is not good. In contradiction to this, Roy (2017) ^[4] has analysed that GST is going to be a milestone in the economic path of India. Even the study of Sankar (2017) ^[5] also supports the same viewpoint and suggested that GST is not only going to reduce the tax complexity but also make the indirect tax system more efficient.

Objectives of the Study

The present paper is aimed to analyse the impact of GST on the Indian market in general and on the indices of FMCG sector, Realty sector, Auto sector Bank sector, Bombay and National stock exchange in particular and further comparing the performance of these indices in pre and post-GST regime.

Hypotheses of the Study

In order to achieve the stated objectives, the following hypotheses have been framed.

H₀₁: GST does not impact FMCG sector index prices.

H_{A1}: GST impacts FMCG sector index prices.

H₀₂: GST does not impact Realty sector index prices.

H_{A2}: GST impacts Realty sector index prices.

H₀₃: GST does not impact Auto sector index prices.

H_{A3}: GST impacts Auto sector index prices.

H₀₄: GST does not impact Bank sector index prices.

H_{A4}: GST impacts Bank sector index prices.

H₀₅: GST does not impact BSE index prices.

H_{A5}: GST impacts BSE index prices.

H₀₆: GST does not impact NSE index prices.

H_{A6}: GST impacts NSE index prices.

Research Methodology

With regard to achieving the stated objectives and further to examine the framed hypotheses, the study period for the paper has been taken from 1st July 2016 to 30th June 2018, considering the date of implementation of GST in India. Further the study period has been sub-divided into two period, pre-GST regime and post-GST regime. The pre-GST regime is covering the period from 1st July 2016 to 30th June 2017 and post-GST regime is from 1st July 2017 to 30th June 2018. The reason for dividing study period into this way is to analyse the impact of GST on the stock market for the equal periods. Further, the variables that have been considered in the study are index prices of the National stock exchange, Bombay stock exchange, FMCG, Realty, Auto and Bank sectors. The reason of taking these indices is that whenever any new structural change happens, these indices are considered as barometer of measurement of true economic behaviour. Further, in order to estimate the impact of the GST on these indices prices, the daily closing index prices has been considered during the period of the study. For achieving the objective, event study methodology has been adopted and pre & post GST effect on index prices has been considered. This methodology helps in estimating the impact of a particular event on the stock market movement (Sorescu, Warren and Ertekin, 2017). First of all, the descriptive statistics has been examined in order to know about the characteristics of the data. Further, for the purpose of comparing the pre and post-GST regime, the t-test has been used in order to find any significant difference.

Analysis and Interpretation

Table-1 reports the descriptive statistics for pre-GST period for the selected variables. It has been observed from the table-1 that mean value of FMCG is 26677.21. For Realty sector it is 303.7077. The mean index value for Auto sector is 11171.01 and Bank sector index mean value is 25209.25. Further, the mean value of BSE and NSE are 33529.90 and 10336.50 respectively. Apart from this the skewness is positive in all the variables and kurtosis is coming out to be less than 3 for all the data series.

Table 1: Descriptive Statistics (Pre-GST)

	FMCG	Realty Sector	Auto Sector	Bank Sector	BSE	NSE
Mean	26677.21	303.7077	11171.01	25209.25	33529.90	10336.50
Median	26460.75	302.0500	11153.45	25125.45	33596.80	10358.85
Maximum	29060.65	372.2500	12009.70	27498.45	36283.25	11130.40
Minimum	24480.80	254.9000	10457.75	23352.60	31159.81	9637.600
Std. Dev.	1184.239	24.32247	347.7834	895.1810	1340.522	334.9835
Skewness	0.481704	0.517915	0.428934	0.344085	0.059826	0.030816
Kurtosis	2.048357	2.698440	2.732932	2.533495	1.948620	2.216261

Source: Authors' Own Calculation

Table-2 reports the descriptive statistics for post-GST period for the selected variables. It has been observed from the table-1 that mean value of FMCG is 22557.01. For Realty

sector it is 209.3078. The mean index value for Auto sector is 9838.499 and Bank sector index mean value is 20228.86. Further, the mean value of BSE and NSE are 28470.35 and

8792.610 respectively. Apart from this the skewness is positive in all the variables and kurtosis is coming out to be

less than 3 for all the data series except the FMCG index prices.

Table 2: Descriptive Statistics (Post-GST)

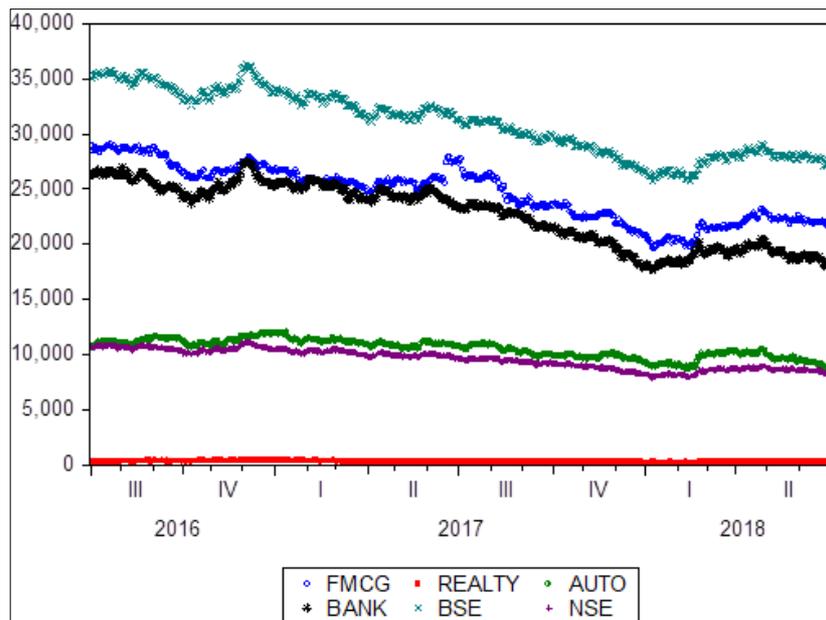
	FMCG	Realty Sector	Auto Sector	Bank Sector	BSE	NSE
Mean	22557.01	209.3078	9838.499	20228.86	28470.35	8792.610
Median	22291.25	206.1000	9887.800	19710.90	28220.98	8716.400
Maximum	27787.20	274.1000	11047.45	23742.15	31311.57	9675.100
Minimum	19592.85	153.8500	8681.600	17655.55	25765.14	7908.250
Std. Dev.	1703.517	31.48746	552.8451	1714.627	1468.311	467.0832
Skewness	0.755590	0.451255	0.017144	0.626052	0.301193	0.241832
Kurtosis	3.293197	2.392233	2.467361	2.190120	2.277332	2.180155

Source: Authors' Own Calculation

After comparing the results of descriptive statistics from Table-1 and Table-2, it is observed that there is a decline in the mean value of FMCG index prices in post-GST period. Similarly, the realty sector along with auto and bank sectors are having a decline in their indices during post-GST regime than pre-GST regime. After having a comparative analysis of both pre & post GST regime, it has been observed that mean index prices of both BSE and NSE has been decreased during post-GST regime in compare of pre-GST period. Further, the risk in terms of standard deviation is also seen higher in post-GST period in compare of pre-GST regime. So, from the analysis of descriptive statistics, it is observed

that implementation of GST has resulted into downfall of the major sectors of India, specifically in the context of FMCG, realty, auto and bank sectors along with both the major stock exchanges of India (BSE and NSE).

Figure-1 also represents the same facts that has been explored with the help of descriptive statistics comparison that post first quarter of the year 2017, all the variables' index prices are falling down and showing that due to the implementation of GST in the economy, the market sentiments towards investments became more negative than positive.



Source: Authors' Own Calculation

Fig 1: FMCG, Realty, Auto and Bank Sectors Index prices along with BSE and NSE

Table 3: T-Test – To Measure Effect of GST

	t-Stat	P(T<=t) one-tail	t Critical one-tail	P(T<=t) two-tail	t Critical two-tail	Net Result
FMCG	-3.1252	0.0564	2.9190	0.1120	4.302	Yes
Realty Sector	-5.1255	0.0011	2.9190	0.0200	4.302	Yes
Auto Sector	-3.1242	0.0054	2.9190	0.1201	4.302	Yes
Bank Sector	-2.5145	0.0034	2.9190	1.2145	4.302	Yes
BSE	-6.4152	0.0046	2.9190	1.3250	4.302	Yes
NSE	-4.5144	0.0055	2.9190	2.2145	4.302	Yes

Source: Authors' Own Calculation

Table-3 is reporting one-tail and two-tail test results for all the variables that have been adopted in the present study that includes FMCG index price, realty sector index price, auto sector index price, bank sector index price along with BSE

and NSE index prices for pre & post GST period. It is observed that both two-tail and one tail test results are showing that there has been a negative change in all the indices during post-GST period in compare of pre-GST

period. Therefore, as per the t-test results, it is confirmed that there has been an impact of GST on not only the BSE and NSE index prices but also on all the major sectors of the economy.

So, the results obtained from descriptive statistics, in terms of reduction in the mean index prices of all the variables in post-GST period is further confirmed by the t-test. Hence all the null hypotheses are rejected.

Conclusion

Indian government introduced the Goods and Services Tax on 1st July 2017 on the backdrop of One Nation One Tax and abolished multiple taxes that were there before the implementation of GST like Value Added Tax, Service Tax, etc. The implementation of GST is being taken as a historic step where 1300 goods and 500 services are covered. In relation to the objectives of this paper, it was explored that whether the implementation of GST in India has caused any negative impact on the economy and specifically the investment arena or not. For this purpose, the FMCG index, realty index, auto index, bank index and both BSE and NSE closing index prices have been taken in order to cover all round market situation after the implementation of GST. It has been observed from the results of descriptive statistics that during the post-GST period, the economy has observed negative sentiments, specifically in relation to the major sectors like FMCG, realty, auto, bank and of course the stock market too. The same was observed from figure-1 that there has been a downfall movement in all the selected indices in post-GST regime. Further, as per the t-test results, it is confirmed that there has been an impact of GST on the different segments of the market too. So, the results obtained from descriptive statistics, in terms of reduction in the mean index prices of all the indices in post-GST period is further confirmed by the t-test.

So, it can be said that due to the implementation of GST, the market indices, more particularly the investment sentiments are showing negative impact of GST. Therefore, it is observed that even after one year of implementation of GST, the major market participants like FMCG, realty, auto sector, banks and stock markets have not get settled till now.

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