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GAEE
Global Association of Economics Education
INDIA
Department of Economics
Gargi College

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JANUARY

TWO SLAB GST, GAURI SHUKLA

What does it mean?
India's move to a simplified two-slab Goods and Services Tax (GST) ,mostly 5% and 18%, plus a high 40% "demerit" rate for a few luxury/sin items is one of the clearest tax changes in years. The government says the change aims to make GST simpler and cut prices on many everyday goods. (Press Information Bureau)

What changed ?
Many items that were taxed at 12% or 28% have been moved mostly to 5% or 18%, and some essentials were shifted to lower rates or zero. Examples named by the government include life-saving medicines moving to nil/5%, and products such as two-wheelers, small cars, TVs and air-conditioners seeing cuts from higher slabs to 18%; Steps intended to bring down consumer prices. (Press Information Bureau)

How does this affect households ?
Lower GST on everyday items should reduce the shelf price for many products that directly helps people who buy those things often. Officials and some banks estimate this could ease inflation by a few tenths of a percentage point and raise household buying power, especially during festivals when demand matters most. (The Economic Times)

Why this matters: when goods cost less, people may buy more now (short-term demand boost). That extra demand can help shops, factories and service providers earn more and possibly hire more workers. Several industry groups say this will help revive consumer spending and support recovery. (Zee Business)

Manufacturing & consumer durables
Lower tax on items like TVs, ACs and two-wheelers makes them cheaper that tends to lift sales quickly because these are "aspirational" purchases for many households. Auto dealers, electronics makers and their suppliers could see inventories move faster and production pick up, helping factory utilisation and jobs in the supplier chain. Analysts estimate certain categories could see an 8–10% jump in consumption in the near term.(Kotak Mutual Fund)

FMCG, retail and small traders
A simpler rate chart reduces confusion at stores and cuts disputes about rates that helps fast-moving consumer goods (FMCG) companies and neighborhood shops. FICCI and industry groups expect relief for labour-intensive sectors (textiles, leather, handicrafts) and a reduction in "inverted duty" problems that previously hurt manufacturers. Easier pricing and fewer disputes can reduce paperwork and the time firms spend on compliance. (FICCI)

MSMEs and credit access
MSMEs often struggle with complex tax rules and delayed refunds. The two-slab approach, coupled with administrative fixes announced alongside it, aims to simplify returns and speed refunds which can improve cash flow for small firms. Better, cleaner GST records also make it easier for banks and NBFCs to judge creditworthiness, helping some small businesses access loans more easily. Industry bodies said these changes will be "growth-positive" for small businesses. (ASSOCHAM)

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Services and exporters

Services that become cheaper because of lower GST could see higher domestic demand (for example, beauty services, some digital subscriptions). For exporters, neutral GST treatment remains important; most exporters are zero-rated under GST already, but clearer rates at home can reduce disputes in supply chains that touch both exports and domestic sales. (Kotak Mutual Fund)

What do the government and economists worry about ?

Cutting rates reduces the amount of tax collected per sale. Officials say some revenue loss is possible initially, but they expect part of it to be recouped through higher sales, better compliance and a targeted 40% rate on luxury/sin goods to protect revenue. Independent analysts and some banks estimate net revenue loss could range from manageable to a few tens of thousands of crores in the early year; the exact number depends on how much extra people buy and how compliance improves. (Press Information Bureau,ETGovernment.com)

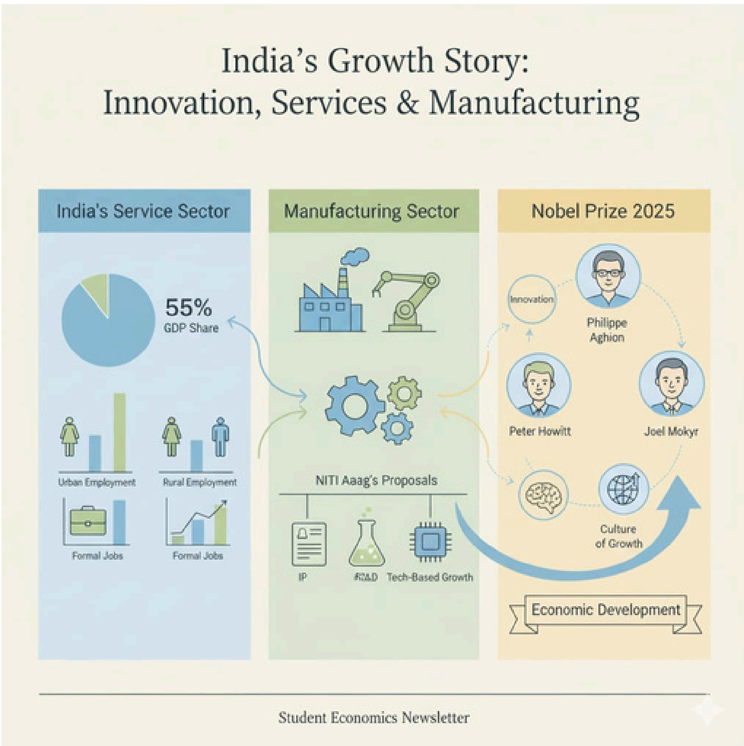
In plain words: the state may get less tax money per item at first, but if cheaper prices make people buy enough more stuff, the government might recover much of the loss. This is not guaranteed; it depends on behaviour and enforcement. ETGovernment.com

Quick sectoral summary

- ***Autos & 2-wheelers:*** Likely sales rose as many models moved to 18%. (Press Information Bureau)
- ***Electronics & appliances:*** Cheaper TVs/ACs → faster replacement demand. (Kotak Mutual Fund)
- ***FMCG & food items:*** Lower rates on some essentials → small price relief and higher volumes. (Press Information Bureau)
- ***Textiles & handicrafts (MSMEs):*** Lower GST on inputs reduces costs; simpler rules ease business. (FICCI)
- ***Luxury/sin goods (tobacco, high-end cars):*** Taxed at 40% to protect revenue and discourage consumption.(Press Information Bureau)

Key Takeaway:

The two-slab GST is a big simplification that should make life easier for shoppers and many businesses. It can lower prices, boost demand, and reduce tax disputes especially if implementation is smooth. But the reform comes with fiscal trade-offs: the government will need to manage short-term revenue effects and ensure that the hoped-for boost in economic activity actually happens. If that balance is found, the move could be a neat win for consumers and many firms; if not, states and the Centre will have to tweak policy carefully. (Press Information Bureau)



ECONOMICS EXPLAINED

Fiscal Deficit

Definition:
Fiscal deficit refers to the gap between the government's total expenditure and its total revenue (excluding borrowings). In simple words, it shows how much more the government spends than it earns.

Components involved:
Receipts: Money the government earns through taxes, fees, dividends, etc.
Expenditure: Money the government spends on salaries, defence, subsidies, development projects, etc.
When expenditure exceeds receipts, the difference becomes the fiscal deficit.
India's current situation:
For FY 2024–25, India's fiscal deficit stands at 4.8% of GDP, slightly higher than the government's target of 4.4%.

Why the target wasn't met:
The main reason is the rise in capital expenditure (Capex) investments in infrastructure like roads, railways, and digital connectivity. While this raises short-term spending, it helps build long-term productive capacity.

How the government finances the deficit:
To bridge the gap, the government borrows money through various channels:

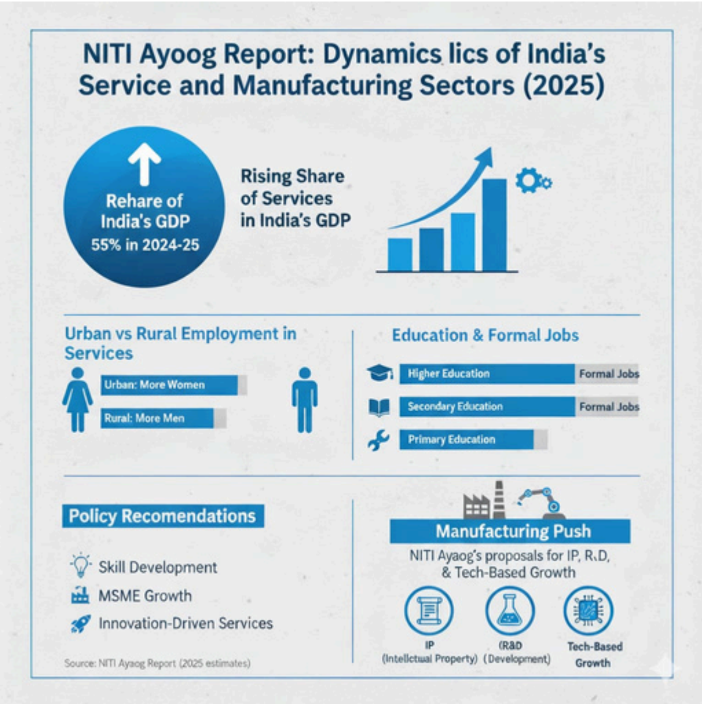
- From the public: by issuing government securities (bonds).
- From the RBI: by selling Treasury Bills or borrowing temporarily.
- From abroad: India recently borrowed USD 736 million from international institutions.

Economic implications:
Positive (Short Term):
- Higher government spending boosts economic activity by funding infrastructure and job-creating projects. It stimulates growth and demands a helpful push for a developing economy like India's.

Negative (Long Term):
If the fiscal deficit consistently exceeds around 6% of GDP, it can become risky. Excessive borrowing leads to:
- Higher debt repayment burdens (the debt trap)
- Possible deficit financing through printing more money, which can cause inflation
- Reduced investor confidence and possible currency depreciation

In extreme cases, an unchecked deficit can even strain public finances, forcing spending cuts or delays in essential services.
In essence:
A moderate fiscal deficit helps fuel growth by funding development. But if it widens too much, it can destabilize the economy. The challenge for policymakers is to strike the right balance spending enough to grow, but not so much that it triggers inflation or debt trouble.

NITI AAYOG REPORT ON DYNAMICS OF INDIA'S SERVICE AND MANUFACTURING SECTORS



The NITI Aayog's latest report (30 October 2025) highlights India's evolving service sector, which continues to be the backbone of urban employment and GDP growth. The sector now contributes nearly 55% of national GVA, up from 51% in 2013-14. However, the report notes a mismatch between expansion and job quality: while services generate significant employment, most jobs remain informal and low-paid, especially in education, trade, and healthcare.

Gender and skill disparities remain evident. In rural India, men dominate the services workforce, whereas in urban areas, women play a stronger role. Higher education levels correspond to more formal and better-paying service jobs, revealing a direct link between human capital and employment quality.

●To address these gaps, the report recommends a four-part policy focus:

●Enhancing skill formation and vocational education,

●Strengthening MSMEs for job creation,

●Expanding infrastructure and digital inclusion, and

●Promoting innovation-led service exports.

Complementing this, the Aayog's parallel report titled "Reimagining Manufacturing India" proposes a tech-driven roadmap for industrial transformation. It emphasizes intellectual property (IP) reforms, AI and robotics integration, and R&D-led growth to make Indian manufacturing globally competitive. The report identifies technology adoption, cluster-based industrial growth, and public-private partnerships as key levers to bridge productivity gaps and stimulate sustainable employment.

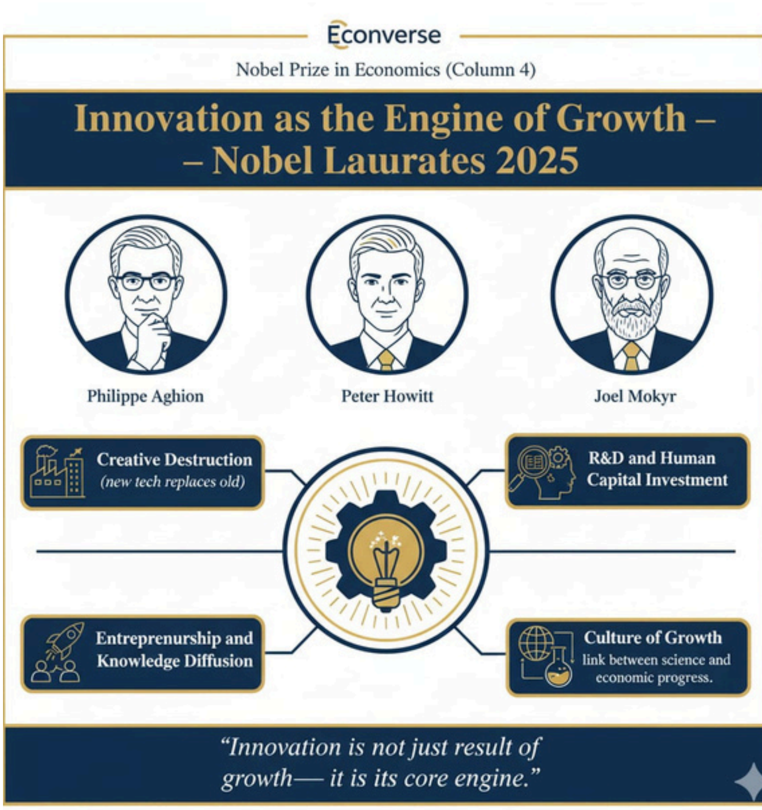
Together, these reports underscore India's dual challenge transforming its services-led growth model into a source of quality employment while revitalizing manufacturing for long-term competitiveness. Both sectors, if restructured around innovation and inclusion, can jointly drive India's transition to a knowledge-based, high-productivity economy.

ECONVERSE – INNOVATION IS THE NEW CAPITAL

The 2025 Nobel Prize in Economics was awarded to Philippe Aghion, Peter Howitt, and Joel Mokyr for their path-breaking research on innovation-driven economic growth.

Their work highlights how technological innovation, R&D investment, and human capital are the true drivers of long-term economic progress creating productivity gains and stable employment opportunities. Aghion and Howitt's famous "Creative Destruction" theory explains that economic growth occurs when new innovations replace outdated technologies, making economies more dynamic and competitive. The process of entrepreneurship identifies market gaps, leading to fresh ideas, higher efficiency, and new industries.

The laureates also shifted focus from the traditional capital-based model to one centered on knowledge, creativity, and education emphasizing that investment in people is as vital as investment in machines. Adding a cultural lens, Joel Mokyr linked Europe's Industrial Revolution to a rise in the "culture of growth", a mindset valuing curiosity, experimentation, and scientific advancement.



Together, their research reminds us that innovation is not just a result of growth, it is its core engine, shaping the future of economies driven by ideas, skills, and technology.

FROM US TO YOU

Dear Readers,

With great excitement and pride, we present to you the first edition of the GAEE Gargi Economics Newsletter — a space created by students, for students to explore, question, and understand the dynamic world of economics.

This newsletter is more than just pages of analysis and terms — it's a reflection of our curiosity, collaboration, and commitment to economic awareness. Through this platform, we aim to bring together fresh perspectives, insightful discussions, and thought-provoking ideas that bridge classroom learning with the real world.

In every edition, you'll find a blend of economic insights, global trends, policy highlights, and vocabulary bites, carefully curated by the GAEE Gargi team. Whether you're a budding economist, a curious learner, or simply someone who loves understanding how the world works — there's something here for you.

As we begin this journey, we thank our readers, contributors, and faculty mentors for their encouragement and support. Your engagement fuels our purpose — to make economics accessible, relevant, and exciting.

Here's to new beginnings, informed minds, and endless curiosity.
Let's keep learning, questioning, and growing — together.

Warm regards,
Gauri Shukla
Economics Vertical
Global Association of Economics Education – Gargi Chapter