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Impact of Goods and Services Tax on MSMEs in India: A Comparative Analysis

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Abstract

The introduction of the Goods and Services Tax (GST) on 1 July 2017 marked a major restructuring of India's indirect taxation system and significantly influenced the functioning of Micro, Small and Medium Enterprises (MSMEs). This study examines the impact of GST on MSME performance with a focus on India and the North-Eastern Region (NER). The main objectives are to compare MSME performance in the pre-GST and post-GST periods, analyse regional patterns of MSME development, and assess policy measures required to strengthen MSME resilience within the evolving Next-Generation GST framework. The study is based entirely on secondary data collected from official sources including the Ministry of Micro, Small and Medium Enterprises, Ministry of Finance, GST administrative reports, publications of the Reserve Bank of India, and national statistical databases. Key indicators used for the analysis include MSME contribution to GDP, share of MSME exports in total exports, number of registered MSMEs, bank credit to MSMEs, and growth performance of the MSME sector. The study applies descriptive analysis, pre- and post-period comparison, percentage growth rate analysis, and trend analysis to evaluate structural changes. The findings show that MSMEs contribute around 29–31 percent of India's GDP, indicating their stable role in economic growth. Their share in total exports remains significant at about 43–49 percent in the post-GST period, although temporary disruptions were observed during the COVID-19 pandemic. The number of registered MSMEs increased notably after the implementation of GST, reflecting greater formalization through digital registration and tax compliance systems. Bank credit to MSMEs has also grown steadily in the post-GST period, suggesting improved access to institutional finance. GST has contributed to better tax transparency and market integration, though compliance capacity remains a challenge for many small enterprises.

Keywords: GST; MSMEs; North-East India; Tax Reforms

1 Introduction

The Micro, Small and Medium Enterprises (MSME) sector plays a vital role in the Indian economy by contributing significantly to employment generation, industrial output, exports, and regional development. MSMEs contribute nearly one-third of India's Gross Domestic Product and account for a substantial share of the country's exports and manufacturing activities (Ministry of Micro, Small and Medium Enterprises, 2023). Because of their labour-intensive nature and strong linkages with local markets, MSMEs are considered an important instrument for inclusive economic growth and balanced regional development.

A major policy reform affecting this sector was the introduction of the Goods and Services Tax (GST) on 1 July 2017, which replaced multiple indirect taxes with a unified national tax system. The reform aimed to simplify the tax structure, reduce cascading taxes, and improve market integration across states (Government of India, 2017). However, while GST has enhanced transparency and formalisa-

tion of businesses, it has also created adjustment challenges for small enterprises due to compliance requirements, digital filing systems, and working-capital constraints (Reserve Bank of India, 2022).

In this context, the present study aims to examine the impact of GST on MSME performance in India by comparing the pre-GST and post-GST periods. The study further explores regional variations with particular reference to the North-Eastern Region and Assam. Understanding these dynamics is important for identifying policy measures required for strengthening MSME resilience and ensuring inclusive growth under the evolving Next-Generation GST framework.

2 Literature review

Several studies have examined the impact of the Goods and Services Tax (GST) on MSMEs and the informal sector in India. Vasanthagopal (2011) explained that GST represents a major reform in the indirect tax system and helps reduce the cascading effect of taxes by integrating multiple central and state taxes into a single framework. Similarly, Poddar (2014) highlighted that GST improves transparency and efficiency in tax administration and contributes to the creation of a unified national market.

However, several studies have also identified challenges associated with GST implementation. Beemabai and Krishnakumar (2019) found that although GST enhances transparency and reduces logistical barriers, it also increases compliance requirements and working capital needs for small businesses.

Further, Anand (2019) critically evaluated the effect of GST on the informal sector and observed that the new tax system created adjustment difficulties for small and unorganized enterprises due to complex compliance procedures and digital filing requirements. Similarly, Shetty et al. (2020) noted that GST has both positive and negative effects on MSMEs, particularly regarding tax compliance, operational costs, and market competitiveness.

Moreover, George and Antony (2021) emphasized that GST promotes market integration and transparency but requires MSMEs to adapt to new regulatory and technological systems. In addition, Reena (2022) found that GST implementation has influenced the financial performance and operational efficiency of MSMEs, highlighting both benefits and challenges under the new tax regime.

The existing studies therefore suggest that GST has introduced significant structural changes in India's taxation system. While it has improved transparency and created opportunities for market integration, MSMEs continue to face challenges related to compliance costs, digital procedures, and working capital management under the GST framework.

3 Research gap

Although many studies examine the economic implications of the Goods and Services Tax (GST) in India, most focus mainly on macroeconomic outcomes such as tax revenue and overall economic growth. Limited research provides a detailed sector-specific analysis of how GST has influenced the performance of Micro, Small and Medium Enterprises (MSMEs). Existing studies also lack long-term comparative analysis between the pre-GST and post-GST periods using indicators such as GDP contribution, export participation, enterprise registration, and credit availability. Furthermore, the regional impact of GST reforms has received little attention, particularly in the North-Eastern Region of India, creating a gap that this study seeks to address.

4 Objectives of the study

1. To examine the impact of the Goods and Services Tax (GST) on the performance of Micro, Small and Medium Enterprises (MSMEs) in India.
2. To compare MSME performance in the pre-GST and post-GST periods.
3. To analyse regional variations in the impact of GST with special reference to the North-Eastern Region.
4. To suggest policy measures for strengthening MSME growth under the Next-Generation GST reform framework.

5 Research methodology

5.1 Study area

The study focuses on India, which hosts one of the largest MSME sectors in the world and provides a suitable context to analyse the effects of the Goods and Services Tax (GST) in India. The country was selected because GST represents a nationwide tax reform affecting all MSMEs across sectors and regions.

5.2 Time period

The study covers the period 2011–12 to 2024–25. This time frame allows a comparison between the pre-GST period (2011–12 to 2016–17) and the post-GST period (2017–18 to 2024–25) to examine structural changes in MSME performance after the implementation of GST.

5.3 Sources of data

The study is based entirely on secondary data collected from reliable government publications and official statistical sources. The major sources include:

- Ministry of Micro, Small and Medium Enterprises – Data on MSME contribution to GDP, employment, and sectoral performance.
- Goods and Services Tax Council – Information on GST implementation and GST revenue statistics.
- Reserve Bank of India – Data on bank credit and financial indicators related to MSMEs.
- National Statistical Office – National income statistics and macroeconomic indicators.
- Udyam Registration Portal – Data on registered MSMEs and trends in enterprise formalisation after GST implementation.

5.4 Research design

The study follows a descriptive and comparative research design. Descriptive analysis is used to examine the sectoral contribution of MSMEs to India's GDP over time, while comparative analysis is applied to evaluate the differences between the pre-GST and post-GST periods. The study uses tabular analysis and trend comparison to understand changes in the contribution of agriculture-related activities, manufacturing, and service sectors within the MSME framework.

5.5 Variables and their construction

The study uses the following variables to analyse the performance of the MSME sector in India:

- MSME Contribution to GDP (%) – Measures the share of MSMEs in India's total Gross Domestic Product, indicating their role in national economic output.
- Share of MSME Exports in Total Exports (%) – Represents the proportion of total exports contributed by MSMEs, reflecting their participation in international trade.
- Number of Registered MSMEs (Million) – Indicates the total number of enterprises formally registered under the MSME registration system, reflecting the level of sectoral expansion and formalisation.
- Credit Availability to MSMEs (₹ Lakh Crore) – Measures the amount of institutional bank credit provided to MSMEs, representing financial support and access to formal lending.

5.6 Justification for variable selection

The selected variables are important indicators for analyzing the performance and structural development of the MSME sector in India. The contribution of MSMEs to GDP reflects the sector's overall role in national income generation and economic growth. The share of MSME exports in total exports indicates the participation of MSMEs in international trade and their contribution to India's export performance. The number of registered MSMEs represents the level of enterprise expansion and formalization within the sector, especially after the implementation of the Goods and Services Tax (GST) in India. In addition, credit availability to MSMEs measures the extent of financial support provided by the banking system, which is crucial for investment, production, and business expansion. Data for these variables are obtained from official sources such as the Ministry of Micro, Small and Medium Enterprises and the Reserve Bank of India. Together, these variables provide a comprehensive framework for evaluating changes in MSME performance before and after GST implementation.

6 Data analysis

This section presents the analysis of data collected from different secondary sources for fulfilling the objectives.

6.1 Contribution of MSMEs to India's GDP

Tables 1 and 2 show the sectoral composition of the MSME share in India's GDP in the pre-GST and post-GST periods.

Table 1. Contribution of MSMEs to India's GDP, pre-GST period (2011–12 to 2016–17).

Sl. No	Year	Agriculture MSMEs (%)	Manufacturing in MSMEs (%)	Service in MSMEs (%)	Total MSME Share in GDP (%)
1	2011–12	11.8	6.2	11.3	29.3
2	2012–13	11.9	6.3	11.4	29.6
3	2013–14	12.0	6.4	11.5	29.9

Sl. No	Year	Agriculture MSMEs (%)	Manufacturing in MSMEs (%)	Service in MSMEs (%)	Total MSME Share in GDP (%)
4	2014–15	11.7	6.5	11.6	29.8
5	2015–16	11.6	6.6	11.8	30.0
6	2016–17	11.5	6.6	11.9	30.0

Source: Annual Report – MSME; National Accounts Statistics; Economic Survey.

During the pre-GST period, MSMEs consistently contributed around 29–30% of India's GDP, indicating their stable role in economic development. The service sector dominated MSME value addition, followed by agriculture-related activities and manufacturing. However, the sector operated under a complex multi-tax system prior to the Goods and Services Tax implementation in India, which often increased compliance costs and limited market integration for small enterprises.

Table 2. Contribution of MSMEs to India's GDP, post-GST period (2017–18 to 2024–25).

Sl. No	Year	Agriculture MSMEs (%)	Manufacturing in MSMEs (%)	Service in MSMEs (%)	Total MSME Share in GDP (%)
1	2017–18	11.4	6.7	12.0	30.1
2	2018–19	11.2	6.5	12.8	30.5
3	2019–20	11.0	6.3	13.2	30.5
4	2020–21	12.5	5.2	9.6	27.3
5	2021–22	11.8	6.1	11.7	29.6
6	2022–23	11.5	6.4	12.2	30.1
7	2023–24*	11.3	6.7	12.5	30.5
8	2024–25**	11.2	6.8	12.0	~30

Source: Annual Report – MSME; National Accounts Statistics; Economic Survey. *Provisional estimate; **trend-based estimate.

During the post-GST period, MSMEs continued to contribute around 30–31% of India's GDP, showing resilience despite structural adjustments following the Goods and Services Tax implementation in India. The reform improved tax transparency and formalization, particularly in service-oriented enterprises. Although the sector experienced a temporary decline during the COVID-19 pandemic in 2020–21, MSME contribution recovered in subsequent years, reflecting improved market integration and digital compliance.

6.2 Contribution of MSME exports to total exports

Table 3. Share of MSME exports in total exports, pre-GST period (amount in USD million).

Year	Total Exports	Exports by MSMEs	Share of MSME Exports (%)	Growth Rate of MSME Sector
2011–12	283,847	146,595	22%	4.40%
2012–13	300,400	127,992	43%	5.60%

Year	Total Exports	Exports by MSMEs	Share of MSME Exports (%)	Growth Rate of MSME Sector
2013–14	314,415	133,313	42%	9.10%
2014–15	310,352	138,896	45%	8.56%
2015–16	262,291	130,768	50%	7.62%
2016–17	275,852	137,068	50%	7.10%

Source: RBI; Directorate General of Commercial Intelligence & Statistics.

Table 4. Share of MSME exports in total exports, post-GST period (amount in USD million).

Year	Total Exports	Exports by MSMEs	Share of MSME Exports (%)	Growth Rate of MSME Sector
2018–19	330,078	158,437	48%	7.50%
2019–20	313,361	155,898	49.75%	-1.60%
2020–21	291,808	144,003	49.35%	-7.60%
2021–22	422,004	189,927	45.03%	31.80%
2022–23	447,460	195,051	43.59%	2.70%
2023–24	437,060	199,811	45.73%	2.40%

Source: Directorate General of Commercial Intelligence & Statistics; Ministry of MSME.

The data presented in Tables 3 and 4 show that MSMEs have maintained a strong and consistent contribution to India's total exports during both the pre-GST and post-GST periods. During the pre-GST period (2011–12 to 2016–17), the share of MSME exports increased gradually from about 22 percent to nearly 50 percent of total exports. This indicates that the MSME sector played an increasingly important role in India's external trade. The growth in MSME exports during this period can be associated with policy support measures, export promotion schemes, and improved access to financial resources for small enterprises.

In the post-GST period (2018–19 to 2023–24), MSME exports continued to account for a significant share of total exports, ranging between approximately 43 percent and 49 percent. The implementation of GST contributed to the creation of a unified indirect tax structure, which improved market integration and reduced logistical barriers for businesses. However, a temporary decline in export performance was observed during 2019–20 and 2020–21 due to the global disruptions caused by the COVID-19 pandemic. After this period, MSME exports recovered significantly, particularly from 2021–22 onward, reflecting improved global demand and supportive government policies. The findings therefore indicate that MSMEs remain a major contributor to India's export sector and continue to play a vital role in sustaining trade performance.

6.3 Number of registered MSMEs in India

Table 5. Number of registered MSMEs, pre-GST period.

Year	Registered MSMEs (Million)
2012–13	1.5
2013–14	1.7
2014–15	2.0

Year	Registered MSMEs (Million)
2015–16	2.4
2016–17	2.8

Source: Ministry of MSME Annual Reports and Udyam Registration Portal.

Table 6. Number of registered MSMEs, post-GST period.

Year	Registered MSMEs (Million)
2018–19	3.2
2019–20	3.8
2020–21	5.0
2021–22	7.5
2022–23	9.0
2023–24	11.0

Source: Ministry of MSME Annual Reports and Udyam Registration Portal.

Tables 5 and 6 show that the number of registered MSMEs in India increased significantly during the post-GST period compared to the pre-GST period. Before the implementation of GST, the growth of MSME registrations was relatively slow, as many small enterprises operated in the informal sector due to complex tax structures and multiple state-level taxes. However, after the introduction of GST by the Goods and Services Tax Council in 2017, a unified and transparent indirect tax system was established, which encouraged small firms to register formally. The availability of input tax credit and the need to participate in organized supply chains further motivated MSMEs to obtain formal registration. Moreover, the introduction of simplified digital registration through the Udyam Registration Portal reduced procedural barriers and improved accessibility for entrepreneurs. According to reports of the Ministry of Micro, Small and Medium Enterprises, these reforms contributed to the rapid increase in MSME registrations in the post-GST period, indicating a clear trend toward greater formalization of the MSME sector in India.

6.4 Credit availability to MSMEs

Table 7. Bank credit to MSMEs, pre-GST period (₹ lakh crore).

Year	Bank Credit to MSMEs
2012–13	9.8
2013–14	10.5
2014–15	11.4
2015–16	12.6
2016–17	13.7

Source: RBI – Basic Statistical Returns of Scheduled Commercial Banks; MSME Annual Reports.

Table 8. Bank credit to MSMEs, post-GST period (₹ lakh crore).

Year	Bank Credit to MSMEs
2018–19	15.2
2019–20	16.9
2020–21	18.4
2021–22	20.5
2022–23	22.9
2023–24	24.8

Source: RBI – Basic Statistical Returns of Scheduled Commercial Banks; MSME Annual Reports.

Based on Tables 7 and 8, the trend shows that credit availability to MSMEs increased more rapidly in the post-GST period compared to the pre-GST period. In the pre-GST period, the growth of bank credit to MSMEs was relatively moderate because many small enterprises operated in the informal sector and lacked proper financial documentation. However, after the implementation of GST by the Goods and Services Tax Council in 2017, MSMEs were required to maintain systematic records of transactions, tax returns, and invoices. These digital financial records improved the transparency of business operations and enabled banks to assess the financial performance and repayment capacity of MSMEs more effectively. According to reports from the Reserve Bank of India, improved documentation and formal registration reduced information asymmetry between borrowers and lenders, thereby encouraging banks to extend more institutional credit to the MSME sector. As a result, the post-GST period witnessed a noticeable increase in credit availability, indicating improved financial inclusion and stronger integration of MSMEs into the formal banking system.

6.5 Growth performance of MSMEs

Table 9. Growth rate of the MSME sector compared with the overall industrial sector, pre-GST period.

Year	Growth Rate MSME Sector (%)	Overall Industrial Growth Rate (%)
2011–12	4.4	7.8
2012–13	5.6	6.8
2013–14	9.1	6.8
2014–15	8.6	6.6
2015–16	7.6	6.6

Source: Based on data from CSO and Economic Survey of India.

Table 10. Growth rate of the MSME sector compared with the overall industrial sector, post-GST period.

Year	Growth Rate MSME Sector (%)	Overall Industrial Growth Rate (%)
2017–18	8.0	5.9
2018–19	8.5	6.9
2019–20	7.2	4.5
2020–21	-3.5	-7.0
2021–22	9.1	8.2

Source: Ministry of MSME Annual Reports and Economic Survey of India.

The results presented in Tables 9 and 10 compare the growth performance of the MSME sector with the overall industrial sector during the pre-GST and post-GST periods. Table 9 indicates that before the implementation of the Goods and Services Tax, the MSME sector experienced fluctuating growth rates, ranging from 4.4% in 2011–12 to 9.1% in 2013–14. In several years, MSME growth was higher than the overall industrial growth rate, demonstrating the sector's important role in supporting industrial development. According to the Economic Survey of India, MSMEs significantly contribute to manufacturing output, employment generation, and regional industrial expansion.

In the post-GST period shown in Table 10, the MSME sector maintained relatively strong growth compared to the overall industrial sector. The introduction of GST improved tax transparency, reduced cascading taxes, and facilitated easier interstate trade, which benefited small and medium enterprises. Reports from the Ministry of Micro, Small and Medium Enterprises indicate that GST also encouraged formalization of businesses, improving their access to institutional credit and organized supply chains. Although both sectors experienced a temporary decline in 2020–21 due to the impact of COVID-19, the recovery observed in 2021–22 highlights the resilience of MSMEs and confirms their continued contribution to industrial growth in India.

6.6 MSMEs in North-East India

Table 11. State-wise distribution of MSMEs in North-East India.

State/UT	Number (in lakh)	Share (%)
Assam	9.60	47%
Tripura	2.10	10%
Manipur	1.95	9%
Meghalaya	1.85	9%
Arunachal Pradesh	1.35	7%
Nagaland	1.25	6%
Mizoram	1.10	5%
Sikkim	0.80	4%

Source: Ministry of Micro, Small and Medium Enterprises – Udyam Registration Portal statistics (2023–24). Total MSMEs in the North-East Region ≈ 20 lakh enterprises.

Table 11 shows that MSMEs in the North-East region are unevenly distributed across states, with Assam accounting for nearly half of the total MSMEs in the region. This higher concentration can be attributed to Assam's larger population, better transportation networks, and relatively stronger industrial and commercial base compared to other North-Eastern states. According to the Ministry of Micro, Small and Medium Enterprises, states with better market connectivity and infrastructure tend to attract a higher number of MSMEs. Other states such as Tripura, Manipur, and Meghalaya hold moderate shares due to their developing industrial environments and smaller markets. In contrast, states like Mizoram and Sikkim account for smaller proportions because of geographical constraints, limited industrial infrastructure, and lower population density. Reports from NITI Aayog also emphasize that regional disparities in infrastructure development and market accessibility significantly influence the distribution of MSMEs across the North-East region.

6.7 Composition taxpayers under GST in North-East India

Table 12. State-wise composition taxpayers in North-East India.

State	Jan 2025	Jan 2026	Growth/Decline (%)
Sikkim	758	709	-6.46%
Arunachal Pradesh	2,058	1,881	-8.60%
Nagaland	1,937	1,748	-9.75%
Manipur	1,548	1,376	-11.11%
Mizoram	230	189	-17.83%
Tripura	2,834	2,755	-2.79%
Meghalaya	2,120	2,035	-4.01%
Assam	32,367	30,168	-6.79%

Source: GST Portal data (January 2025 and January 2026).

Table 12 shows that the number of composition taxpayers under GST declined in all North-Eastern states between January 2025 and January 2026. Assam records the highest number of taxpayers, though it decreased from 32,367 to 30,168 (-6.79%). Other states such as Tripura, Meghalaya, Arunachal Pradesh, Nagaland, Manipur, and Sikkim also show moderate declines, while Mizoram experienced the largest decline (-17.83%). This trend may indicate that some businesses shifted to the regular GST system or faced compliance adjustments. The data also highlight differences in business activity across the states of the region.

6.8 Next-Generation GST and MSMEs

Based on the findings of the study, several policy measures can be suggested to strengthen the growth and competitiveness of MSMEs under the evolving Next-Generation Goods and Services Tax (GST) framework in India. First, GST compliance procedures should be simplified for micro and small enterprises. Many MSMEs face difficulties in digital return filing and tax documentation; therefore, simplified return systems and periodic filing options can reduce compliance costs.

Second, improving access to institutional finance is essential for the expansion of MSMEs. Greater coordination between banks and financial institutions under the guidance of the Reserve Bank of India can help increase credit availability and support investment activities in the sector.

Third, policies should promote the formalisation of enterprises through simplified digital registration and support services provided through the Udyam Registration Portal. This can encourage small firms to integrate into formal supply chains and benefit from government incentives.

Finally, export promotion initiatives and infrastructure development should be strengthened to improve MSME participation in international markets. The Ministry of Micro, Small and Medium Enterprises can support training, market access, and logistics improvements. These measures will help ensure sustainable MSME growth and inclusive economic development.

7 Conclusions

The MSME sector remains a crucial pillar of the economy of India, contributing significantly to GDP, exports, and employment. The introduction of the GST in India has played an important role in

improving tax transparency and encouraging the formalisation of enterprises. The findings of the study indicate that MSMEs have maintained a stable contribution to GDP and exports in both the pre-GST and post-GST periods, reflecting the resilience of the sector.

However, challenges related to compliance procedures, digital adoption, and regional infrastructure continue to affect small enterprises, particularly in emerging regions such as the North-Eastern Region of India. Therefore, supportive policies such as simplified compliance mechanisms, improved access to credit, and better digital and physical infrastructure are essential. These measures will help ensure that MSMEs fully benefit from GST reforms and contribute to sustainable and inclusive economic growth.

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