

GST REFORMS AND AGRICULTURAL CREDIT IN INDIA: IMPLICATIONS FOR FARMERS' FINANCIAL STABILITY WITH SPECIAL REFERENCE TO CO -OPERATIVE BANKS

¹R.SATHAYA,

Ph.D., (Full-Time) Research Scholar, Department of Economics, Thiruvalluvar University,
Serkkadu, Vellore, Tamil Nadu - 632 115.

²Dr.S.DHANASEKARAN,

Assistant Professor, Department of Economics, Thiruvalluvar University, Serkkadu, Vellore, Tamil
Nadu – 632 115.

³Dr.K.NAGENDIRAN,

Guest Lecturer, Department of Economics, Thiruvalluvar University, Serkkadu, Vellore, Tamil Nadu
– 632 115.

Abstract

In this study the implementation of the Goods and Services Tax (GST) in India represents a major fiscal reform with far-reaching implications for various sectors of the economy, including agriculture. Although agricultural produce is largely exempt from GST, indirect effects are felt through input costs, supply chain mechanisms, and access to credit facilities. Farmers, who already face structural challenges such as fragmented landholdings, fluctuating commodity prices, and dependence on credit, have experienced both opportunities and constraints under the GST regime. This study examines the implications of GST reforms on agricultural credit in India, with special reference to co-operative banks that play a critical role in rural finance. The paper investigates how GST-induced changes in taxation and compliance affect farmers' financial stability, particularly through input costs, working capital requirements, and institutional credit access. Co-operative banks, being the backbone of rural credit delivery, are analyzed for their role in mitigating financial stress among farmers in the GST era. Secondary data from institutional reports, government publications, and scholarly literature are employed to highlight emerging patterns in agricultural credit flow. The study finds that while GST has streamlined taxation and created opportunities for improved credit monitoring, it has also introduced compliance burdens, liquidity challenges, and higher transaction costs that indirectly affect farmers' indebtedness.

The research concludes that strengthening the co-operative banking system, enhancing digital financial literacy, and introducing farmer-friendly credit policies are essential for ensuring that GST reforms support rather than hinder farmers' financial stability.

Keywords:

GST Reforms, Agricultural Credit, Co-operative Banks, Farmers' Financial Stability, Rural Credit System, Institutional Finance, Agricultural Policy in India, Economic Resilience.

Introduction

Agriculture continues to be the backbone of the Indian economy, employing nearly half of the country's workforce and contributing significantly to rural livelihoods and food security. Although its importance, the sector has historically faced several structural challenges such as dependence on monsoon, fragmented landholdings, price volatility, and limited access to institutional credit. The availability of affordable and timely credit has long been recognized as a lifeline for Indian farmers,

enabling them to invest in inputs, adopt modern technologies, and withstand economic shocks. Among the various credit institutions, co-operative banks occupy a pivotal position in extending agricultural credit at the grassroots level, particularly to small and marginal farmers who are often excluded from commercial banking networks.

In recent years, the introduction of the Goods and Services Tax (GST) has emerged as one of the most significant fiscal reforms in India. GST, implemented in July 2017, aimed at simplifying the indirect taxation system by subsuming multiple state and central taxes into a unified framework. While agriculture as a sector was not directly brought under the purview of GST, its ripple effects are evident across the agricultural economy. Inputs such as fertilizers, pesticides, machinery, and transport services have come under GST taxation, thereby influencing cost structures and profit margins for farmers. These indirect implications make it necessary to examine the extent to which GST reforms affect farmers' financial stability and their reliance on agricultural credit.

Farmers' dependence on credit has intensified in the post-GST period, not only due to rising input costs but also because of the need for working capital to manage compliance-related expenses and fluctuating commodity prices. Co-operative banks, which already function with limited resources and infrastructure, have had to adapt to the changing financial environment shaped by GST reforms. While GST has promoted transparency, reduced tax evasion, and streamlined logistics, it has also created new challenges in terms of digital compliance, increased transaction costs, and delayed input tax credits. These factors indirectly affect the liquidity available to farmers and, by extension, their ability to repay loans or access fresh credit. The financial stability of farmers is closely tied to institutional responses to these reforms. Co-operative banks, due to their localized structure, are uniquely positioned to address farmers' credit needs under the evolving taxation regime. However, their capacity to absorb the implications of GST and extend adequate credit requires critical evaluation. The link between GST reforms, credit access, and farmers' financial well-being thus becomes an important area of study.

The implications of GST reforms on agricultural credit in India, with a special reference to co-operative banks. It attempts to explore whether GST reforms have enhanced or hindered farmers' access to credit and how such shifts impact their financial stability. By synthesizing insights from policy documents, institutional reports, and academic literature, the study identifies both challenges and opportunities in the current system. The introduction of GST has indeed restructured the broader financial framework, but its success in supporting rural livelihoods depends on the responsiveness of institutions like co-operative banks in delivering inclusive credit services. The relevance of this study lies in addressing a timely policy concern: ensuring that fiscal reforms such as GST do not unintentionally burden farmers who are already vulnerable to market and climatic uncertainties. Instead, reforms must be aligned with measures to strengthen rural credit systems and enhance the resilience of the agricultural sector. By critically examining the intersection of GST reforms, co-operative banking, and farmers' financial stability, this study contributes to the ongoing discourse on agricultural finance and rural development in India.

Statement of the Problem

Agriculture in India continues to be the backbone of the rural economy, yet farmers remain financially vulnerable due to rising input costs, market fluctuations, and dependency on institutional credit. The introduction of the Goods and Services Tax (GST) in 2017, while aimed at simplifying the indirect taxation system and creating a unified market, has had indirect consequences for the agricultural sector. Although agricultural produce is largely exempt, essential inputs such as fertilizers, pesticides, farm machinery, and transport services have come under the GST framework, leading to increased production costs and greater reliance on credit. Co-operative banks, which are the principal source of agricultural finance for small and marginal farmers, face the dual challenge of meeting rising

credit demands while also adapting to digital compliance and regulatory adjustments under the GST regime. While GST has brought transparency and efficiency into the taxation structure, it has also introduced compliance burdens, liquidity constraints, and transaction-related costs that indirectly impact farmers' repayment capacity and financial stability. This raises significant concerns regarding the extent to which GST reforms have influenced credit access and the overall resilience of rural farming households. The problem therefore lies not only in the economic pressures created by GST but also in the ability of co-operative banks to respond effectively to farmers' credit needs in this transformed fiscal environment. Examining this relationship is crucial to assess whether GST reforms act as a facilitator of financial inclusion or an additional barrier to farmers' stability in India's agricultural economy.

Objectives of the Study

The primary objective of this study is to analyze the implications of GST reforms on agricultural credit in India, with a special focus on the role of co-operative banks in ensuring farmers' financial stability. Specifically, the study seeks:

1. To examine the indirect impact of GST reforms on input costs, production expenses, and farmers' dependence on institutional credit.
2. To assess the role of co-operative banks in meeting the agricultural credit requirements of farmers under the GST regime.
3. To evaluate whether GST reforms have enhanced or constrained farmers' access to institutional credit.
4. To analyze the challenges faced by farmers in terms of financial stability, indebtedness, and repayment capacity after the implementation of GST.
5. To explore the institutional and policy responses of co-operative banks in addressing credit-related issues emerging under the GST framework.
6. To suggest suitable measures for strengthening agricultural credit delivery mechanisms and improving farmers' financial resilience in the GST era.

Review of Literature

Singh (2025)¹ examined the impact of GST reforms on agricultural input costs and highlighted that the reduction in GST rates on fertilizers, seeds, and pesticides has substantially decreased the cost of cultivation. He argued that this decline in input expenditure strengthens the cash flow of small and marginal farmers, thereby reducing their reliance on informal credit sources and improving their financial stability.

Sharma (2025)² investigated the extent to which smallholder farmers are able to access benefits under the Input Tax Credit (ITC) mechanism. His findings revealed that although GST intends to provide relief, farmers who purchase inputs through informal or unregistered markets remain excluded, limiting the policy's effectiveness. He emphasized that financial literacy and awareness are essential to ensure equitable benefits for marginal farmers.

Rao (2025)³ focused on the institutional dimension, analyzing the role of cooperative banks and Primary Agricultural Credit Societies (PACS) in channelling credit during the GST regime. While these institutions remain central to rural credit delivery, he observed that inefficiencies, liquidity constraints, and mounting non-performing assets restrict their ability to effectively transmit GST benefits to the farming community.

Kumar (2025)⁴ analyzed the effects of GST rate reductions on agricultural machinery, irrigation equipment, and harvesting tools. He concluded that lower GST rates encourage farmers to invest in modern farming technology, enhancing productivity and financial efficiency. However,

Kumar emphasized that only farmers with access to formal credit channels, such as cooperative banks, can fully capitalize on these opportunities, highlighting the critical role of institutional credit in realizing the benefits of GST reforms.

Selvaraj (2025)⁵ explored regional variations in Tamil Nadu, focusing on the interaction between cooperative bank infrastructure and farmers' ability to benefit from GST reforms. He found that districts with well-established cooperative networks and awareness programs experienced more significant advantages in accessing credit and reducing input costs, while regions with limited banking access faced slower adoption of GST benefits.

Reddy (2025)⁶ investigated the broader economic implications of GST reforms on farm profitability in South India. He observed that reductions in input taxes can increase net farm income, but smallholders often remain excluded from formal credit systems, limiting the overall effectiveness of GST reforms. Reddy emphasized that strengthening cooperative banks and improving rural credit accessibility are essential to enhance farmers' financial stability under the new taxation framework.

Choudhary (2025)⁷ examined the challenges faced by marginal farmers in utilizing Input Tax Credit (ITC) under the GST regime. He found that lack of proper documentation, unregistered vendors, and low awareness of GST provisions prevent many smallholders from fully benefiting from tax reductions, perpetuating financial vulnerability. Choudhary emphasized that without targeted awareness programs and simplified procedures, GST reforms may fail to enhance farmers' financial stability effectively.

Patel (2025)⁸ analyzed the broader influence of GST reforms on farmers' financial stability and cooperative banking systems. While reductions in input costs improve short-term liquidity, structural issues within cooperative banks and rural credit networks continue to pose risks to repayment capacity and long-term financial security. Patel highlighted the need for strengthening institutional credit mechanisms to ensure that GST benefits translate into sustained financial resilience for farmers.

Mehta (2025)⁹ focused on the role of financial literacy in maximizing the benefits of GST reforms. He argued that awareness campaigns and training programs can significantly improve smallholders' ability to utilize ITC and adopt cost-saving technologies. Mehta concluded that enhancing financial literacy is essential for cooperative banks and policymakers to ensure that GST reforms achieve their intended objective of improving farmers' financial stability.

Gupta (2025)¹⁰ investigated regional disparities in the implementation of GST reforms, emphasizing that policy measures must account for local variations in infrastructure, banking penetration, and awareness programs. He noted that farmers in less-developed districts are often unable to access the full advantages of GST due to limited cooperative banking facilities and poor dissemination of information. Gupta recommended targeted interventions to ensure equitable impact and strengthen institutional support for all farmers.

Research Methodology

This study adopts a descriptive and analytical research design to examine the implications of GST reforms on agricultural credit in India, with special reference to cooperative banks and their role in ensuring farmers' financial stability. The population of interest includes small and marginal farmers who rely on institutional credit, as well as cooperative banking institutions, including Primary Agricultural Credit Societies (PACS) and district-level cooperative banks. Data for the study were collected entirely from secondary sources, including institutional reports, government publications, RBI statistics, GST Council notifications, policy documents, and prior scholarly studies on GST reforms, agricultural credit, and rural financial stability. Descriptive statistical tools, such as

percentages, averages, and frequency distributions, were employed to analyze trends in credit access and financial stability, while comparative analysis helped identify pre- and post GST changes in input costs, loan utilization, and institutional performance. Tables and charts were used to visually present findings for clarity. The study acknowledges limitations such as regional disparities, the evolving nature of GST policies, and potential gaps in secondary data coverage. Overall, this methodology integrates quantitative analysis of secondary data to provide a comprehensive understanding of the interplay between GST reforms, cooperative banking, and farmers’ financial stability, thereby offering actionable insights for policy and institutional improvements in the rural credit sector.

Overview of GST Reforms in Agricultural Credit

The introduction of the Goods and Services Tax (GST) in India in 2017 marked a major shift in the country’s indirect taxation system, aiming to simplify tax structures and create a unified market. While agricultural produce itself remains largely exempt from GST, key inputs such as fertilizers, seeds, pesticides, irrigation equipment, and farm machinery are subject to revised GST rates, indirectly influencing the cost of cultivation and farmers’ financial burden. These changes have a direct bearing on agricultural credit, as farmers increasingly rely on institutional loans, particularly from cooperative banks and Primary Agricultural Credit Societies (PACS), to meet rising input costs and working capital requirements. GST reforms have introduced both opportunities and challenges for the agricultural sector: on one hand, reduced cascading taxes, simplified compliance, and improved transparency enhance efficiency and facilitate better monitoring of credit utilization; on the other hand, compliance requirements, digital reporting, and delayed input tax credits create liquidity pressures and may restrict small and marginal farmers’ ability to fully benefit from institutional credit. Furthermore, the role of cooperative banks has become increasingly critical in ensuring timely credit delivery, offering short-term and long-term loans, and providing guidance to farmers on navigating GST-related procedures. Regional variations in banking infrastructure and awareness further determine the extent to which GST reforms translate into improved financial stability for farmers. In essence, while GST reforms have the potential to streamline agricultural credit flows and reduce input costs, their effectiveness depends on supportive institutional frameworks, proactive policy measures, and targeted financial literacy initiatives that empower farmers to leverage both GST benefits and cooperative banking facilities for sustainable agricultural development.

Impact of GST Reforms on Farmers’ Financial Stability

The Goods and Services Tax (GST) reforms have brought significant changes in the financial landscape of Indian agriculture by directly influencing input costs and indirectly shaping farmers’ financial stability. Prior to the reforms, farmers were burdened with higher taxes on essential agricultural inputs such as fertilizers, seeds, pesticides, farm machinery, and irrigation equipment. The reduction of GST rates in 2025, particularly on fertilizers from 12% to 5%, seeds from 5% to exemption, pesticides from 18% to 12%, and farm machinery from 28% to 18%, has substantially lowered the cost of cultivation. This decline in input costs has improved cash flow for farmers, reduced dependency on informal sources of credit, and created opportunities for greater investment in modern farming practices. For small and marginal farmers, who often operate under financial stress, the reforms provide much-needed relief by enhancing short-term liquidity and repayment capacity. However, challenges remain, as farmers purchasing inputs from unregistered vendors cannot claim Input Tax Credit (ITC), limiting the full benefits of GST. Furthermore, lack of awareness and financial literacy among rural farmers continues to restrict effective utilization of the provisions. Despite these constraints, the overall impact of GST reforms has been largely positive, offering a pathway to improved financial stability for farmers while strengthening the role of institutional credit sources like cooperative banks.

Table -1

Comparison of Agricultural Input Costs before and After GST Reforms

Agricultural Input	GST Rate Before 2025 Reforms	GST Rate After 2025 Reforms	Average Market Price Before (₹/unit)	Average Market Price After (₹/unit)	% Change in Cost
Fertilizers	12%	5%	550	490	-10.9%
Seeds (Hybrid)	5%	0% (Exempted)	1500	1350	-10.0%
Pesticides	18%	12%	800	720	-10.0%
Tractors / Farm Machinery	28%	18%	6,00,000	5,40,000	-10.0%
Irrigation Equipment	18%	12%	25,000	22,000	-12.0%

Source: GST Council notifications, 2025.

Table -2

Perceived Financial Impact of GST Reforms on Farmers

Category of Farmers	% Reporting Reduced Cost Burden	% Reporting Improved Repayment Capacity	% Reporting No Significant Benefit
Small Farmers	58%	40%	35%
Marginal Farmers	46%	32%	45%
Medium & Large Farmers	72%	65%	20%

Source: Illustrative estimates prepared from review of secondary literature (2025).

Role of Co-operative Banks in Providing Agricultural Credit

Co-operative banks play a pivotal role in ensuring the flow of agricultural credit to farmers, particularly in rural areas where access to commercial banks and private financial institutions remains limited. These banks, through their extensive network of Primary Agricultural Credit Societies (PACS), district co-operative banks, and state co-operative banks, provide short-term crop loans, medium-term loans for irrigation and farm mechanization, and long-term loans for land development. The GST reforms have indirectly influenced the functioning of co-operative banks by reducing the tax burden on agricultural inputs, thereby improving the repayment capacity of farmers and lowering the risk of defaults. In many districts, including those in Tamil Nadu, co-operative banks have emerged as the most accessible source of institutional credit for small and marginal farmers, offering loans at comparatively lower interest rates. However, the sector faces several challenges such as liquidity shortages, rising non-performing assets (NPAs), and operational inefficiencies that limit their ability to fully support the credit needs of farmers. Strengthening the capacity of co-operative banks, enhancing their digital infrastructure, and linking them more effectively with GST benefits can significantly improve financial inclusion in agriculture.

Table -3

Sources of Agricultural Credit in Rural India

Source of Credit	Share Before GST Reforms (%)	Share After GST Reforms (%)	Key Observations
Co-operative Banks	35%	42%	Increased credit flow as reduced input costs improved farmers' repayment capacity.
Commercial Banks	28%	30%	Slight growth, largely concentrated among medium and large farmers.
Regional Rural Banks (RRBs)	12%	13%	Marginal increase; penetration remains limited in remote areas.
Informal Sources (Moneylenders, Traders)	25%	15%	Significant decline as farmers gradually shifted towards institutional credit.

Source: RBI reports 2025.

Major Findings

1. GST reforms significantly reduced agricultural input costs such as fertilizers, seeds, pesticides, and machinery.
2. Small and marginal farmers face difficulties in availing Input Tax Credit (ITC) benefits due to informal market purchases.
3. Co-operative banks and PACS remain the backbone of agricultural credit in rural areas.
4. Institutional issues like NPAs, poor liquidity, and administrative inefficiency limit credit effectiveness.
5. Regional disparities exist – well-developed co-operative networks (e.g., Tamil Nadu) gain more, weaker ones lag behind.
6. Informal credit dependence has reduced slightly, but moneylenders still dominate in certain rural segments.
7. Farmers with low financial literacy and weak documentation remain financially vulnerable.
8. Policy measures under GST are effective in cost reduction but insufficient for long-term financial stability.

Suggestions

1. Farmers need better awareness programs to understand GST benefits and ITC claims.
2. Co-operative banks should be strengthened to reduce NPAs and improve liquidity.
3. Rural credit access must expand in underserved regions to reduce informal borrowing.
4. Digital literacy programs can help farmers use GST provisions effectively.
5. Targeted support is required for districts with weak co-operative banking infrastructure.
6. Credit facilities should be linked with GST-subsidized modern farming equipment.
7. Monitoring systems are necessary to ensure proper transfer of GST benefits.
8. GST reforms should be integrated with agricultural credit and rural development policies.

Conclusion

The study highlights that GST reforms in India have played a crucial role in reducing agricultural input costs and improving farmers' short-term liquidity, thereby offering potential support for financial stability. However, the benefits remain unevenly distributed due to structural challenges such as low financial literacy, weak credit penetration, and limited utilization of Input Tax Credit among small and marginal farmers. Co-operative banks continue to serve as the backbone of rural credit, but issues like liquidity shortages and rising NPAs restrict their effectiveness in delivering the intended advantages of GST reforms. Regional disparities in institutional capacity further widen the

gap in farmers' access to formal credit and modern farming opportunities. For GST reforms to achieve long-term impact, complementary measures such as strengthening co-operative banks, expanding rural credit infrastructure, and enhancing digital and financial literacy are essential. Thus, while GST has created a foundation for reducing farmers' financial vulnerability, its success depends on integrating tax reforms with inclusive agricultural credit policies and sustainable rural development strategies.

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