



TRU Primer

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GST 2.0: Driving Consumption-led Growth Revival

We analyze the significant changes introduced by the GST Council to simplify the tax framework and support India's economic revival. The new GST 2.0 structure, featuring reduced rates on approximately 90% of product categories, is projected to stimulate domestic consumption and positively impact GDP. This document outlines the expected fiscal implications, sectoral beneficiaries, and the strategic rationale behind this major policy reform.

GST 2.0: Driving Consumption-led Growth Revival

Executive Summary

The GST Council decided to simplify to a two-tier tax structure with rates of 5% and 18%, effective from September 22 (a few items will attract a "demerit" rate of 40%). The key points are:

- GST rates have been reduced on ~90% of the categories.
- Govt estimates net annualised fiscal impact to be around INR 48,000 crores, or 0.13% of GDP.
- Significant boost to consumption including autos, consumer discretionary and staples.
- GDP growth could be boosted by 20-30 bps in FY26 (not-annualised) offsetting US tariffs impact.
- Simplifies the tax system and compliance burden.

The GST rationalisation had a significant impact on the overall economy and sectors:

- **Growth revival through Consumption Boost:** GST rationalisation and compensation cess removal is expected to result in household savings of 1.8-2 lakh cr (annualized).
- **GDP Impact:** The multiplier effect of consumption boost, could lift GDP growth by 20-30 bps in FY26 (non-annualized), offsetting the impact of US tariffs on Indian economy.
- **CPI Impact:** GST rate changes are expected to reduce CPI by ~20-40 bps in FY26 depending on the extent of pass through to retail prices. However, a full pass-through of these savings to retail prices is unlikely.
- **Government Revenue/ Fiscal implication:** Government expects a net revenue impact of Rs 48,000 cr (0.13% of GDP), based on FY24 consumption base. Gross loss from the reduction in GST rates is estimated at Rs 93,000 cr. Gains from shift to news slab of 40% is likely at 45,000 cr. Net impact to be Rs 48,000 cr. This revenue deficit is likely to be managed by Centre without any additional market borrowings in FY26.
- **Compensation Cess:** Effective September 22, 2025, new GST rates will apply to all goods and services, except for cigarettes, chewing tobacco products, unmanufactured tobacco, and beedi. These specified tobacco products will attract the current GST and compensation cess rates. Their new rates will be announced later, after all loan and interest liabilities from the compensation cess are paid off.
- **Sector Beneficiaries:** Tax rates were significantly reduced for many product categories. The biggest beneficiaries are likely to be autos, consumer durables, medical devices and cement. Other big beneficiaries include FMCG, fertilizers, and agricultural.
- **Sector Exemptions:** Health and life insurance were completely exempted from GST, making these services more accessible.
- **Special rate of 40%:** Tobacco products and luxury items faced the highest tax rate of 40% (effective date of implementation to be announced). But we note that on tobacco, GST rate will now be applicable on MRP vs earlier on transaction value. Current total taxes stood at ~50-55% of MRP, in case there is no additional duty beyond revised GST rate it is **net-net positive** for the space.

Exhibit - 1: GST Rate Hikes / No Material Changes (Neutral to Negative Impact)

Sector	Earlier Rate	New Rate
Automotives		
2W (above 350cc)	31%	40%
All EVs	5%	5%
Construction (Works Contract)	12%	18%
Coal	5%	18%
Retail		
Apparel (INR 2,500+)	12%	18%
Paper and Paperboard	12%	18%
Carbonated Beverages / Tobacco	28%	40%
Luxury Items (Yachts, Aircrafts for personal use)	28%	40%

Source: GST Council, HDFC TRU

Exhibit - 2: GST Rate Cuts (Positive Impact)

Sector	Earlier Rate	New Rate
Automotives		
Small Cars	28-31%	18%
SUVs, Large cars	43-50%	40%
Tractors	12%	5%
3W, CVs, 2W (upto 350cc), Auto Components	28%	18%
Cement	28%	18%
Consumer Durables (Room A/Cs; TVs > 32", etc.)	28%	18%
Healthcare		
Medical Devices (All Diagnostic Kits, etc.)	12%	5%
Thermometers	18%	5%
Consumer Staples		
Food (Butter, Ghee, Cheese, Instant Noodles, etc)	12%	5%
Fruit Juices	12%	5%
Personal Care (Hair Oil, Shampoo)	18%	5%
Hotels (sub INR 7,500 ARR)	12%	5%
Insurance (Life and Non-Life)	18%	0%
Fertilizers	18%	5%
Renewables (Solar Cells)	12%	5%
Retail		
A) Apparel		
i) INR1,000-2,500	12%	5%
B) Footwear		
i) <INR1,000	12%	5%
ii) INR1,000-2,500	18%	5%

Source: GST Council, HDFC TRU

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