

GST Reform 2.0

(Revenue Loss or Long Term gain for Indian Economy ?)

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Internal

A. Prime Minister Modi unveiled sweeping GST reforms on Independence Day (August 15, 2025), promising implementation by Diwali 2025 (likely in October).

B. The current four-tier system (5%, 12%, 18%, 28%) is set to be replaced with just two main GST slabs: 5% and 18%, plus a special 40% slab for luxury/sin goods such as tobacco.

C. Expected Loss of Revenue to the Government would be Rs.0.51 lakhs crore after implementation of changed GST Slabs from 1st October, 2025 (between October 2025 to March 2026).

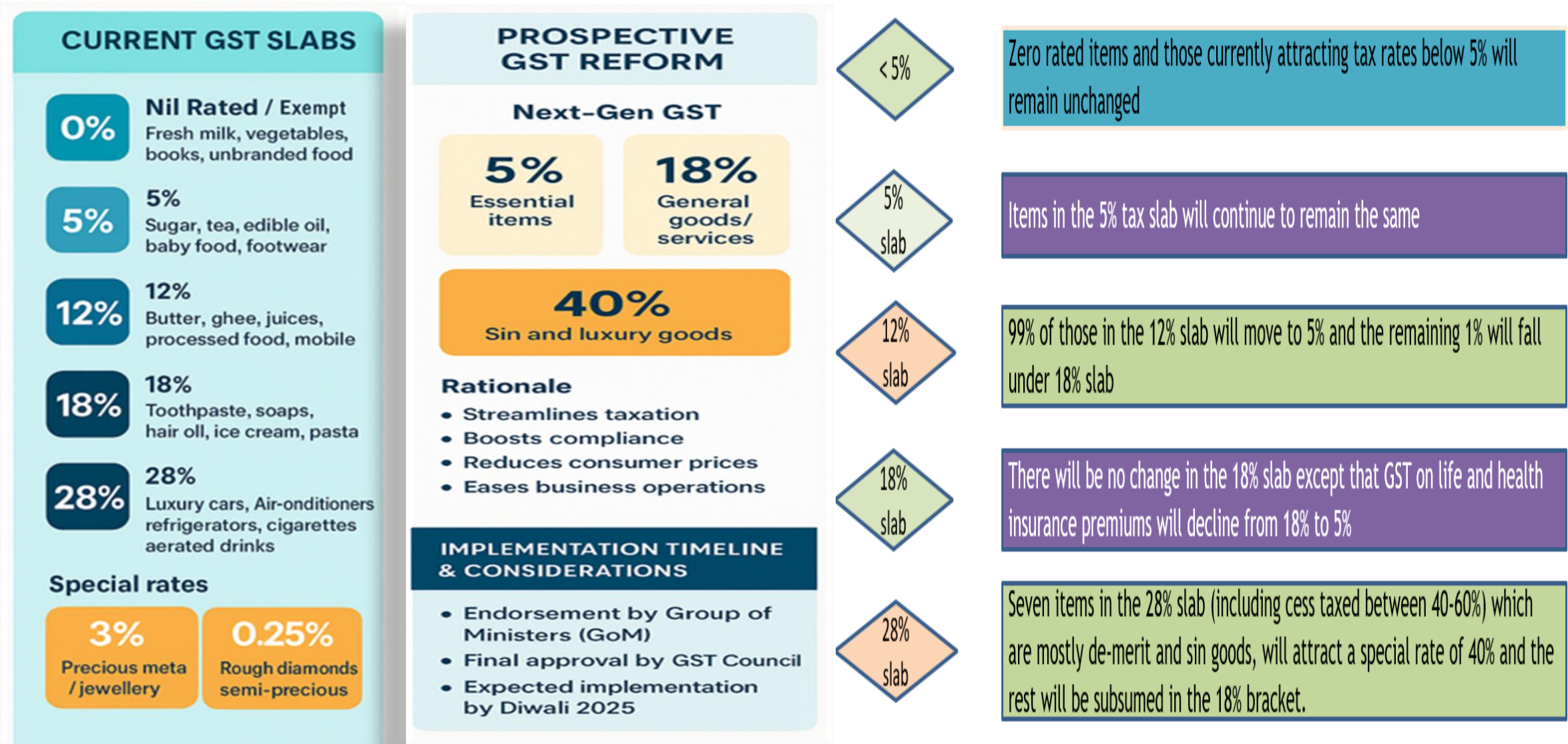
D. It is expected that due to GST rate cuts, there would be an increase in consumption by Rs.0.85 lakhs crore., adding 0.24 % to GDP.

E. Inflation index (CPI) would decrease by 31 bps, due to decrease in prices of commodities .

F. Textiles, food processing, consumer durables, auto parts, cement, tractors, fertilizers, hotels & restaurants and FMCG segments are expected to benefit.

G. Insurance penetration is expected to increase due to proposed lower GST.

Existing GST Rates & Proposed GST Rates With Items Details ...



Items Under Forgone Slabs (12% & 28%)

12%

- ☐ Processed food
- ☐ Packaged juice, fruit
- ☐ Packed snacks/biscuits
- ☐ Packed medicine
- ☐ Fertilisers
- ☐ Tractor parts
- ☐ Textiles, garments > 1000
- ☐ Mobile phones
- ☐ Basic electrical appliance
- ☐ Hotel stays (1000-7500)
- ☐ Apparels
- ☐ Packaged drinking water
- ☐ Jewellery (some items)
- ☐ Sanitary napkins
- ☐ Processed Agri products

28%

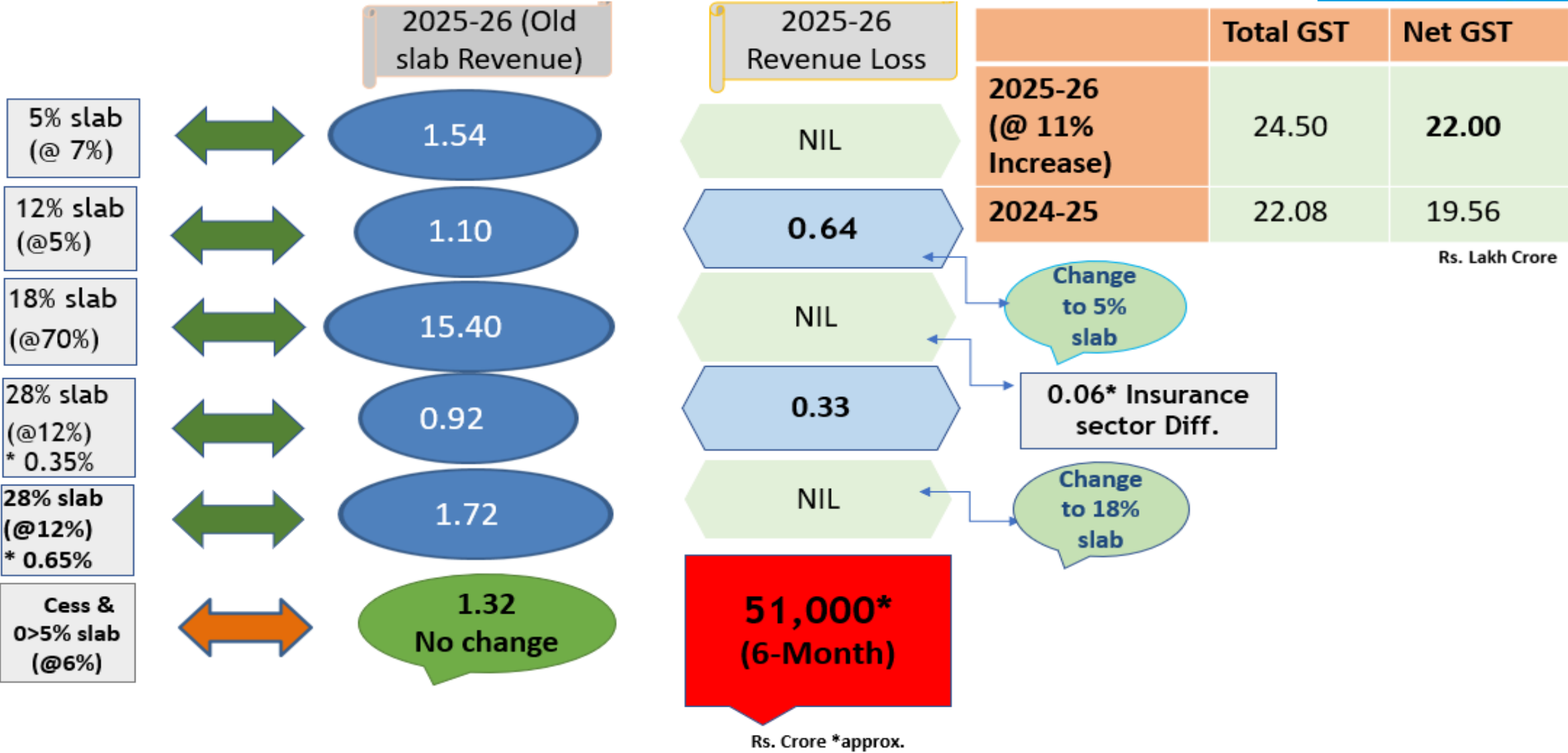
- ☐ Small cars
- ☐ Consumer durables (AC, fridge etc)
- ☐ Cement
- ☐ Paints
- ☐ Auto components
- ☐ Tyres
- ☐ Aerated drinks
- ☐ Caffeinated drinks
- ☐ Molasses
- ☐ Fuel pumps
- ☐ Personal use aircrafts
- ☐ Smoking pipe
- ☐ Yachts
- ☐ Processed sugarcane waste
- ☐ Aerated water

Slab wise Share (%) & Items (In No.)

GST Rates	% Share	No of Goods	Assumption of Share (%)
>5%	1-2%	199	5%
5%	6-8%	291	7%
12%	5-6%	270	5%
18%	65-75%	648	70%
28%	11-15%	37	13%

What would be the Revenue Loss To the Government ?

Revenue Loss Estimation Due to Changes In GST Slab..... (A Tentative Calculation)



Expected Loss of Revenue to the Government would be 0.51 Lakhs Cr. after implementation of Changed GST Slabs from 1st October,2025 (Between October,2025 to March 2026)

What would be impact on National Income ?

Nominal GDP
estimate for FY26
363 Lakh Crore

Estimated

- ✓ Actual Revenue Loss Estimated = 0.51 Lakhs Cr.
- ✓ Increase in National Income due to Consumption (multiplier 3.3 & Pass through of 50%-60%) = 0.85 Lakhs Cr.
- ✓ Increased Income as % of GDP = 0.24%

Real GDP growth projection:

	FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Latest Projections	6.50%	6.70%	6.60%	6.30%	6.60%
Earlier Projection	6.50%	6.70%	6.60%	6.30%	--

**Additional GDP growth compensates Tariff impact
Could be the rationale for unchanged MPC growth projections**

It is expected that due to GST rates cuts, Prices would decrease and there would be an increase in National Income of Rs.0.85 lakhs Cr., which weigh only 0.24% of GDP.

What would be impact on Inflation Index (CPI) ?

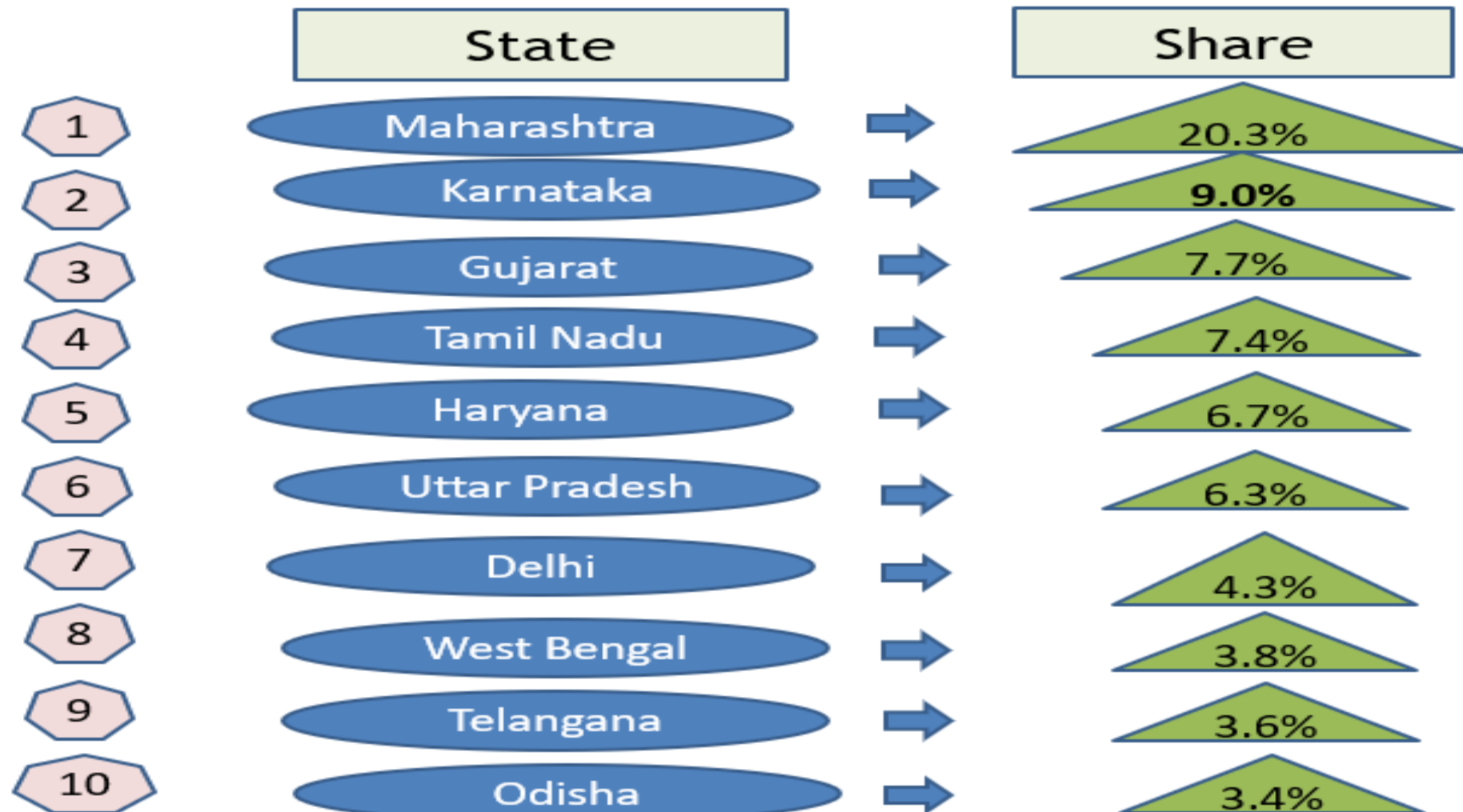
Change in Weightage of GST items in Inflation Index (CPI)

Sr No.	Items Of CPI	Weightage	GST items Weigtage	GST Reduction (In %)	New GST Rate (in %)	Old GST Rate (in %)
1	Food & Beverages	45.90%	45.90%	Nil		
2	Clothing & Footware (= 60-70% Items Like ,Processed Food, Appareal , Medicine)	6.50%	6.50%	-7%	5%	12%
3	fuel & light	6.80%	6.80%	Nil		
4	Miscellaneous (=30-40 % Items like Consumer Durables,)	28.40%	9.70%	-10%	18%	28%
5	Housing	10.00%	10.00%	Nil		
6	Pan tobacco	2.40%	2.40%	Moved to 40%		

I.	<p>For Essential Items (Where GST Rate dropped to 5% from 12%):</p> <p>Decrease in CPI (in BPS) = -24.4 (Having Weight of 6.5% % & Assumption of Pass through \approx 60%)</p>
II	<p>For Consumer Durables (Where GST Rate dropped to 18% from 28%) :</p> <p>Decrease in CPI (in BPS) = -37.9 (Having Weight of 9.7% & assumption of pass through \approx 50%)</p>
III	<p>Total Reduction in CPI (Annually, in bps) = - 62.27</p>
IV	<p>Total Direct Impact (Half-Yearly, IV) = -31.13 (if GST rate Implemented from October 2025 for Six Months)</p>

It is expected that due to GST rates cuts, inflation index (CPI) would decrease by 31 bps.

Top 10 State wise GST Revenue Share



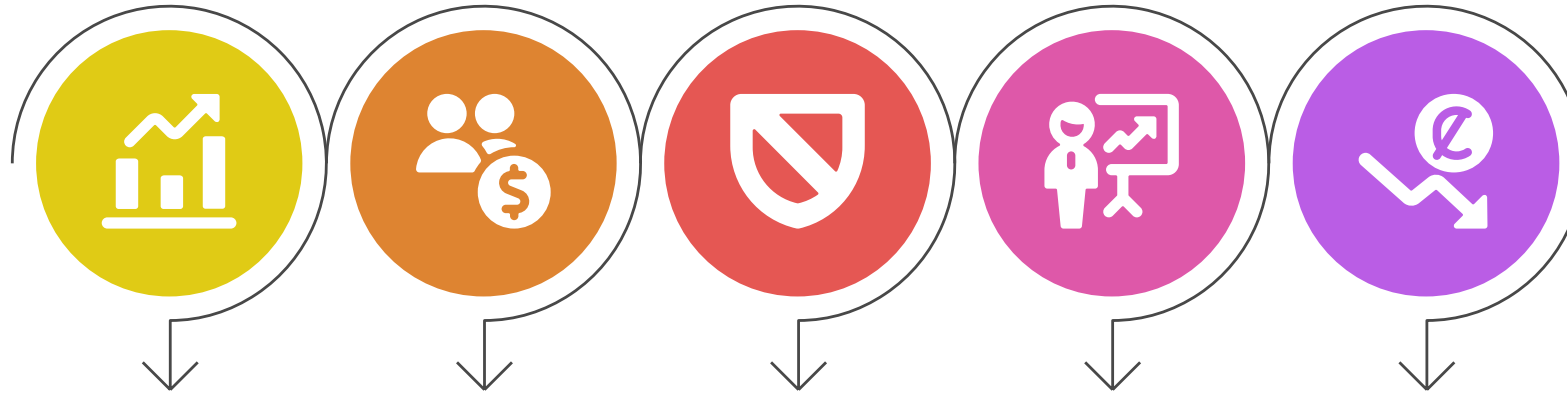
Category	States	Impact on State
Manufacturing and Industrial States	Maharashtra, Gujarat, Tamil Nadu, Karnataka	<ul style="list-style-type: none"> ✓ Maharashtra's high urban consumption may amplify benefits ✓ Gujarat's textile sector could face challenges due to global tariffs (e.g., US 50% tariff on Indian garments).
Agrarian States	Punjab, Haryana, Uttar Pradesh, Bihar	<ul style="list-style-type: none"> ✓ Agrarian states will benefit from lower taxes on essentials, but the impact may be diluted by lower purchasing power and compliance challenges ✓ Haryana's proximity to Delhi may amplify benefits from construction and FMCG sectors. ✓ Lower GST on medical devices (12% to 5%) and potential zero-rating of services will improve affordability in Bihar and Uttar Pradesh, where healthcare access is critical
Tourism and Service-Oriented States	Kerala, Goa, Rajasthan	<ul style="list-style-type: none"> ✓ Tourism states will gain from increased affordability, but luxury tourism may take a hit with the 40% slab. ✓ Kerala's opposition to packaged food taxation could complicate uniform implementation.
Resource-Rich States	Jharkhand, Odisha, Chhattisgarh	<ul style="list-style-type: none"> ✓ Lower GST will reduce construction costs, boosting infrastructure projects and benefiting cement producers in Odisha and Jharkhand. ✓ High GST rates on steel inputs (18%) and global tariff pressures could offset benefits in Jharkhand and Odisha.

Important Sector wise Opportunity Opening ...

Sectors	Previous GST Rate	Revised GST Rate	Impact on Industry/Economy	Challenges
Automobile Sector (two-wheelers -engines under 250cc)	28%	18%	Potentially boosting sales for companies like Maruti, Hero MotoCorp, and Bajaj Auto.	Higher GST rates on commercial vehicles (e.g., Ashok Leyland) could limit benefits in this sub-sector.
Automobile Sector Passenger vehicles (engines below 1.2L); tractors	12%	5%		
Fast-Moving Consumer Goods (FMCG)	12%	5%	Beneficiaries include Britannia, Nestlé, Tata Consumer Products, and Parag Milk Foods.	Despite rate reductions, varying rates (e.g., 5% for loose popcorn, 12% for packaged, 18% for caramel popcorn) create compliance complexities.
Cement and Construction	28%	18%	A price reduction of Rs 30-40 per cement bag could lower construction costs, benefiting real estate and infrastructure projects	Cement demand is relatively price-inelastic, so rate cuts may not significantly boost volume.
Consumer Durables (Air conditioners, dishwashers, and TVs (>32 inches))	28%	18%	May drive demand for financing, benefiting banks and NBF	Persistent high input costs could limit the extent of price reductions

Sectors	Previous GST Rate	Revised GST Rate	Impact on Industry/Economy	Challenges
Apparel and Footwear Garments above Rs 1,000 and footwear (Rs 1,000-5,000)	12%	5%	Enhance affordability, increasing footfalls in offline retail and benefiting companies like Trent, Bata India, and Relaxo Footwear	Indian apparel faces tariff threats in export markets (e.g., US tariffs), which could offset domestic gains.
Healthcare (Medical insurance and device)	12%	5%	May attract investment in medical equipment and telemedicine.	Zero-rating healthcare services (instead of exemptions) is critical to reducing costs
Hospitality and Tourism	12-28%	18%	Lower GST on mid-range hotels (12%-18%) and tour packages could boost domestic tourism.	Luxury hotels (28% GST) may see limited benefits unless rates are significantly reduced.
Real Estate (Under Construction Commercial & Non-Affordable Residential)	12%	5%	May Boost other Industry like Cement & Steel	Even at 18%, cement taxes remain high for affordable housing projects.

The revenue loss of Rs 0.72 lakhs Cr Would be distributed between central and states. Negligible impact on Central fiscal deficit



Benefitting segments

Textiles, food processing, consumer durables, auto parts, cement, tractors, fertilizers, hotels & restaurants and FMCG segments are expected to benefit.

Increased liquidity

Reduction in GST rates would increase the liquidity in the hands of customers, which may spur the demand for credit toward consumption/investment.

Rural Demand may pick up quickly .

Insurance growth

Insurance penetration is expected to increase due to proposed lower GST, with commissions on insurance sales likely to rise.

Private capex increase

As demand picks up due to lower taxes, companies may increase private capital expenditure.

Retail inflation moderation

Retail inflation is expected to moderate further as a result of the tax changes.

THANK YOU


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