

In a significant tax overhaul, the government has streamlined the Goods and Services Tax (GST) structure, reducing the number of tax slabs from four to two - 5% and 18%. A sin tax of 40% will still apply to tobacco and luxury goods, including high-end cars and bikes. The new GST rates, effective September 22, 2025, coincide with the festival season and are expected to stimulate consumption, offsetting the impact of US tariffs on the country's exports. The combination of lower direct taxes, decreasing interest rates, and GST reforms is **poised to give the Indian consumption story a substantial boost**, with a potential **5x multiplier effect** on the economy. As a result, consumers will have more disposable income to spend on discretionary items, driving sales and revenue growth for businesses, creating jobs, and ultimately contributing to economic expansion. The reduced tax rates across various sectors, including **consumer durables, non-durables, textiles, renewable energy, healthcare, education, paper, and automobiles**, will further fuel consumption and help mitigate the GDP losses incurred due to US tariffs.

The impact of the GST cut was quickly absorbed by traders and investors following the initial announcement in mid-August. However, the GST overhaul has sparked concerns about increased government borrowing through the bond market, resulting in higher bond yields over the past few weeks. The 10-year G-sec benchmark has rallied ~ 7 bps closing at 6.59% compared to 6.66% as on September 03, 2025. The 15-year G-sec benchmark has been eased by 13 bps in the last 2 days, closing at 6.85%. Easing was also seen in the long tenor G-sec securities yesterday basis expectations of an adjustment in the duration mix of the second half bond issuance calendar, which could stimulate additional demand.

Recent GST rate reductions across key sectors

Sectors	Old Rate	New Rate
Essentials		
Hair oil, shampoo, toothpaste, soap, shaving cream	18%	5%
Butter, ghee, cheese & dairy spreads	12%	5%
Pre-packaged namkeens, bhujia & mixtures	12%	5%
Utensils	12%	5%
Feeding bottles, napkins for babies, clinical diapers	12%	5%
Health Care		
Health & life insurance	18%	Nil
Thermometer	18%	5%
Medical-grade oxygen	12%	5%
Exercise books, notebooks, pencils, crayons	12%	Nil
Agriculture		
Tractor tyres & parts	18%	5%
Tractors	12%	5%
Drip irrigation systems & sprinklers	12%	5%
Cement, vehicles and auto parts		
Cement	28%	18%
Three-wheelers	28%	18%
Motorcycles up to 350 cc	28%	18%
Buses, trucks, ambulances	28%	18%
All auto parts	18-28%	18%
Electronics and appliances		
Air conditioners	28%	18%
TVs above 32 inches	28%	18%
Monitors & projectors	28%	18%
Dishwashing machines	28%	18%

What gets expensive?

Items	Old Rate	New Rate
Pan masala	28%	40%
Sugary/flavoured goods including aerated waters	28%	40%
Other non-alcoholic beverages	18%	40%
Fruit-based carbonated drinks and drinks with fruit juice	28%	40%
Caffeinated beverages	28%	40%
Unmanufactured tobacco (except raw leaves)	28%	40%
Cigars, cheroots, cigarillos, cigarettes	28%	40%
Other manufactured tobacco products (including homogenised/reconstituted, extracts, essences)	28%	40%
Tobacco/nicotine products for inhalation without combustion	28%	40%
Passenger cars (including station wagons and racing cars)	28%	40%
Hybrid petrol cars (engine >1200cc or length >4000 mm)	28%	40%
Hybrid diesel cars (engine >1500cc or length >4000 mm)	28%	40%
Motorcycles above 350cc	28%	40%

Source: CRISIL Intelligence

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