

## Economic Research | India

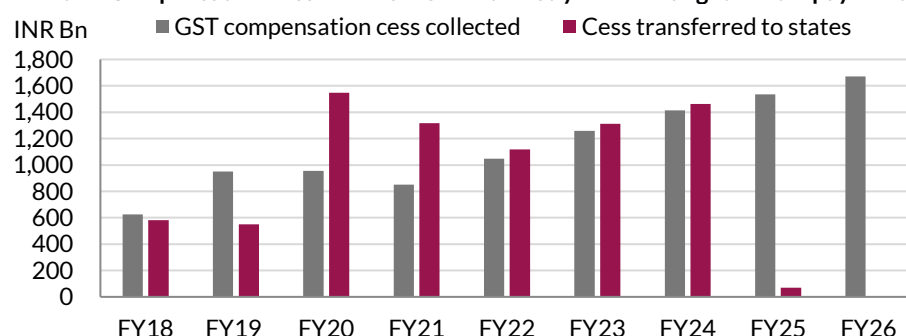
### GST Redesign: Growth positive (0.4pp), but fiscally neutral

Can there be a cut in GST without higher government borrowing? Enter the compensation cess. Over FY18-22, it was collected to compensate states if states' GST grew less than 14% CAGR. As compensation exceeded the cess collected in FY20 & FY21, the center borrowed to fulfil this obligation; cess was extended till FY26 to repay those loans. This boosted growth in FY20 & FY21 (more spending than collection) but hurt growth in FY25 & 1H FY26 (tax collected but used to repay debt/interest). We expect most of this cess to be subsumed in GST (like autos), and the rest, like the cess on tobacco, to get shared with states in some form. This end of off-balance-sheet debt-repayment can boost growth by 0.4pp of GDP.

**August 25, 2025**

Fiscal, Growth

#### Exhibit 1 - Compensation cess in FY25-26 went mostly for off-budget debt repayment



Source: CEIC, Axis Bank Research

In our [last report](#), we noted that the worst-case fiscal scenario is that GST receipts would fall Rs1.8tn/year, 0.5% of GDP. In this note, we tighten our estimates and outline the possible next steps to ensure that fiscal consolidation (centre + state) isn't adversely affected.

#### Direct revenue loss (centre + state) from discontinued slabs < Rs. 1.4tn

The revenue loss from moving all from items from 12% slab to 5% slab is ~Rs.0.7tn. Most of this loss is certain (unless to lower the compliance burden hotels are shifted to 18%). This is a static calculation and doesn't consider the effect of increased demand. If everything in the 28% slab moves to 18%, there is a further ~1tn revenue loss. In practice this would be offset by i) stronger demand as prices fall 7-10%, especially in high-value items like autos; ii) better compliance (Laffer curve); iii) lower input-tax credit claimed on rate cuts on intermediate goods. We estimate a net impact of Rs1.4tn due to these moves.

#### End of off-balance-sheet debt-repayment (0.4pp of GDP) to help finance this

In FY25 and FY26 YTD, compensation cess collections were used to service borrowings of Rs2.7tn incurred by the centre to service the 14% GST revenue guarantee to states, and the associated interest costs. This meant fiscal tightening in FY25 and 1H FY26 was more aggressive than seen in headlines as off-balance debt was repaid. As that repayment ends, and the cess equivalents start to flow into fiscal spending, general government borrowing does not need to rise due to the GST slab consolidation. This end of off-balance-sheet debt-repayment can boost growth by 0.4pp of GDP over the next 12 months, in our view.

#### More than two-thirds of compensation cess maybe collected in some other form

Of the total compensation cess of Rs1.67tn budgeted in FY26, we estimate that tobacco contributes ~Rs0.6tn in compensation cess, coal Rs0.4tn, autos Rs0.4tn and the rest from products like sugary drinks. Much of this is likely to get subsumed in GST, as products that currently have cess > 5% move to the 40% slab; e.g., for luxury cars, the eventual rate would fall to 40% from 50% earlier, the amount earlier collected as compensation cess would be unchanged (50% - 28% = 40% - 18%). Items like tobacco may need some special treatment, but it is unlikely the government will give up revenue. Thus, there is almost no adverse fiscal impact of the GST redesign on what was earlier collected as compensation cess.

**Neelkanth Mishra**

Neelkanth.Mishra@axisbank.com

**Prateek Ancha**

Prateek.Ancha@axisbank.com

**Vipul Jindal**

Vipul.Jindal@axisbank.com

**Tanay Dalal**

Tanay.Dalal@axisbank.com

**Pulkit Kapoor**

Pulkit1.Kapoor@axisbank.com

**Disclaimer:** The report and information contained herein is of confidential nature and meant only for the selected recipient and should not be altered in any way, transmitted to, copied, or distributed, in any manner and form, to any other person or to the media or reproduced in any form, without prior written approval of Axis Bank. The material in this document/report is based on facts, figures and information that are obtained from publicly available media or other sources believed to be reliable and hence considered true, correct, reliable and accurate but Axis Bank does not guarantee or represent (expressly or impliedly) that the same are true, correct, reliable and accurate, not misleading or as to its genuineness, fitness for the purpose intended and it should not be relied upon as such. The opinion expressed (including estimates, facts, figures and forecasts) is given as of the date of this document is subject to change without providing any prior notice of intimation. Axis Bank shall have the rights to make any kind of changes and alterations to this report/ information as may be required from time to time. However, Axis Bank is under no compulsion to maintain or keep the data/information updated. This report/document does not mean an offer or solicitation for dealing (purchase or sale) of any financial instrument or as an official confirmation of any transaction. Axis Bank or any of its affiliates/ group companies shall not be answerable or responsible in any way for any kind of loss or damage that may arise to any person due to any kind of error in the information contained in this document or otherwise. This document is provided for assistance only and should not be construed as the sole document to be relied upon for taking any kind of investment decision. The recipient is himself/herself fully responsible for the risks of any use made of this information. Each recipient of this document should make his/her own research, analysis and investigation as he/she deems fit and reliable to come at an independent evaluation of an investment in the securities of companies mentioned in this document (including the merits, demerits and risks involved), and should further take opinion of own consultants, advisors to determine the advantages and risks of such investment. The investment discussed or views expressed herein may not suit the requirements for all investors. Axis Bank and its group companies, affiliates, directors, and employees may: (a) from time to time, have long or short positions in, and deal (buy and/or sell the securities) thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn commission/brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The applicable Statutory Rules and Regulations may not allow the distribution of this document in certain jurisdictions, and persons who are in possession of this document, should inform themselves about and follow, any such restrictions. This report is not meant, directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would not be in conformation to the law, regulation or which would require Axis Bank and affiliates/ group companies to obtain any registration or licensing requirements within such jurisdiction. Neither Axis Bank nor any of its affiliates, group companies, directors, employees, agents or representatives shall be held responsible, liable for any kind of consequential damages whether direct, indirect, special or consequential including but not limited to lost revenue, lost profits, notional losses that may arise from or in connection with the use of the information. Prospective investors and others are cautioned and should be alert that any forward-looking statements are not predictions and may be subject to change without providing any notice. Past performance should not be considered as a reference to future performance. The disclosures of interest statements if any included in this document are provided only to enhance the transparency and should not be construed as confirmation of the views expressed in the report. The views expressed in this report reflect the personal views of the author of the report and do not reflect the views of Axis Bank or any of its associate and group companies about the subject company or companies and its or their securities.

**Disclaimer for Singapore clients:** This document is published by Axis Bank Limited, India ("Axis Bank") and is distributed in Singapore by Axis Bank. This document is not a research analysis or report concerning any investment product. This document does not provide or purports to provide individually tailored investment advice, commentary or opinion. The contents in this document have been prepared and are intended for general distribution strictly to accredited investor, expert investor or institutional investor. A recipient of this document shall not provide or circulate this document to any other person. The contents in this document do not take into account the specific investment objectives, financial situation, or particular needs of any particular person. The instruments and product types mentioned in this document may not be suitable for all investors. You should independently evaluate particular investments or product types and seek independent advice from a financial adviser regarding the suitability of such instruments or product types, taking into account your specific investment objectives, financial situation and particular needs, before making a commitment on any instruments or product types. This is because the appropriateness of a particular instrument or product type will depend on your individual circumstances and investment objectives, financial situation and particular needs. The instruments and product types mentioned in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

**Disclaimer for DIFC clients:** Axis Bank Limited (DIFC branch) is duly licensed and regulated in the Dubai International Financial Centre by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients (as defined in the Rule 2.3 of the Conduct of Business Module of the DFSA Rulebook) who satisfy the regulatory criteria set out in the DFSA Rules, and should not be relied upon, acted upon or distributed to any other person(s) other than the intended recipients