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Original Article

THE IMPACT OF GST 2.0, INTEREST RATES AND INDIAN DEMAND FOR PASSENGER VEHICLES BASED UPON SECONDARY DATA ANALYSIS OF CAR SALES AND VEHICLE CREDIT (FY2023-FY2027)

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ABSTRACT

On 22nd September 2025, India scrapped the 28% Goods and Services Tax (GST) and compensation cess on vehicles and replaced it with a 18% rate on small cars and a 40% rate on larger vehicles, without any cess. In the same timeframe, Reserve Bank of India (RBI) cut its policy rate by 125 basis points to 5.25% in 2025. We use freely available secondary data to investigate the change in passenger vehicle sales and vehicle credit in India around these two policy changes. Data on auto sales are from the Society of Indian Automobile Manufacturers (SIAM) and the Federation of Automobile Dealers Associations (FADA), data on banks' credit are from ICRA and the Reserve Bank of India (RBI), and data on insurer results come from the Maruti Suzuki India Limited financials. Considering two half-years before and after the tax change, the number of domestic auto wholesales is up by 0.2%, followed by an increase of around 17% and 25.9% in the first quarter of FY2027, while credit to auto buyers rose by 19.7% in August 2026 compared to a year earlier; the impact of the tax change on the tax-included price of small cars stands at minus 8.5% to minus 9.9% while for big cars it is minus 2.1% to minus 6.7% against a minus 2.3% in the illustrative monthly instalments due to a 1 percentage-point reduction in bank lending rates. The findings are consistent with robust market reactions to lower prices with the use of credit, but do not allow us to distinguish between seasonal effects and the impact of the change in the product mix. The findings are discussed as they relate to policy, lender and dealer.

Keywords: GST 2.0, Passenger Vehicles, Vehicle LOANS, Monetary policy Transmission, Consumer Durables, India

INTRODUCTION

One of the prime expenses made by an average Indian family is a car which is taken on loan. Its price is therefore determined by two types of policy: tax policy, which decides the additional GST introduced in to the price, and monetary policy, which decide the price of the loan. Both were headed in the same direction in 2025, with the GST Council rationalising the tax, which came into effect from 22 September 2025, reducing the tax on small cars from 28% plus cess to 18%, and fixing larger cars at 40% tax rate. In the case of monetary policy, the RBI's Monetary Policy Committee finally cut the repo rate by 125 basis points (bps) in total to 5.25% and maintained it at that level at the meeting held in June 2026 Business Standard (2026b).

The following few years proved to be the most promising years for the industry. According to SIAM, domestic PV sales crossed 46.4 lakh mark in FY2026 -the highest ever figure - and 12.7 lakh units in 1QFY2027 - another record Autocar Professional (2026a),

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Transparency: The authors affirm that this manuscript presents an honest, accurate, and transparent account of the study. All essential aspects have been included, and any deviations from the original study plan have been clearly explained. The writing process strictly adhered to established ethical standards.
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Autocar Professional (2026c). Besides vehicle loans by banks growing at the fastest pace since several years (RBI data), foreign direct investments (FDI) in the PV manufacturing industry also grew at a high rate.

The paper explores the impact of these policy changes on car sales and credit and the size of the price and instalment effects of the tax and interest rate changes. The question arose from the author's summer internship at a Mumbai-based passenger vehicle dealer during June–July 2026 where the importance of on-road prices and loan instalments to the customer buying decision making process was noticed. No data is used from that dealer, only published data is used in the paper.

This paper does three things. (a) It compares sales and credit growth, using public data, for the periods before and after the tax change. (b) It works out the implied price change under the new tax regime, overall and for particular categories of car. (c) It explains these findings in the context of the literature on consumer durables, credit constraints and fiscal stimulus.

The rest of the paper is organized as follows. The literature review is given in Section 2. The research aim and the research questions are explained in section 3. The data and the method are presented in Section 4. The results are analysed in Section 5. The results are discussed in Section 6. The results are summarized in Section 7 and the implications and limitations are given in Section 8.

LITERATURE REVIEW

PRICES AND TAXES, AND DEMAND FOR DURABLES

Economics teaches that the lower a product price the more demand for it, and the higher the increase in demand the more elastic (or responsive) the demand. But this would only be part of the answer if the item was a durable, such as a car, and if households could adjust the timing of their purchases – a change in price that is recent or temporary could also lead to a change in demand in one or more future periods.

For instance, car scrappage subsidies are an example. In the 1990s, Adda and Cooper (2000) analysed French car scrappage subsidies and concluded that the policy had resulted in an initial boost to car sales, but this had been at the expense of a parallel shift of sales to later years. A similar pattern was observed by Mian and Sufi (2012) in the US in 2009, when the government launched the Cash for Clunkers scheme, followed by a drop-off in sales in the months thereafter. While the pull forward effect might be lower than in these examples, as the GST rate is temporary in India and the announcement of the change will pull purchases forward from the weeks after the announcement.

THE COST OF CREDIT AND THE PURCHASE OF A CAR

With the large proportion of car purchases funded by loans, credit supply and price have had an impact on demand. Attanasio et al. (2008), who use micro-data on US car loans, show that borrowers were very responsive to the maturity of the loan (and thus the size of the monthly instalment) and less so to the interest rate, outside high-income households. So it's only the monthly installment that most buyers consider.

MONETARY POLICY TRANSMISSION: THROUGH CREDIT

Bernanke and Gertler (1995) have something to say about a credit channel (or credit view) through which monetary policy affects spending: "The changes in the policy rate change the relative cost and availability of credit to households and firms, which makes a difference to their purchases of durables and investments." On this view, a reduction in the policy rate is one way to boost automobile purchases: the cheapening of loans increases the demand for cars, and it takes time for banks to lend out the money and for car companies to supply the resulting extra demand.

RESEARCH GAP

Existing literature primarily focuses on the advanced economies and single subsidization. There has been little documentation of the 2025 rationalisation of the Goods and Services Tax (GST) in India, which was permanent and came with a relaxation of monetary policy. While news coverage of the record sales that ensued, industry accounts have been largely disconnected, focusing on sales, credit or prices in isolation. This paper provides the description of existing data to fill this gap.

RESEARCH QUESTIONS AND AIMS

OBJECTIVES

1) To compare the growth rate of the passenger vehicles' sale before and after the GST change of 22 September 2025.
2) To investigate the change of bank vehicle loans and personal loan over the same period.

3) To calculate the percentage increase in car prices (including the GST) for each of the different types of car if the new GST structure were to be implemented.
4) To work out how much an average car loan would cost if interest rates dropped.
5) To arrive at conclusions for lenders, dealers and policy makers.

RESEARCH QUESTIONS

1) Was there an increase in the sales of passenger vehicles after the switch over to the GST and by how much?
2) Was the growth in the number of vehicles on the road higher during this time?
3) What type of car experienced the greatest decrease in price due to the change in the tax?
4) How does interest rate affect the monthly repayments on a car loan?

DATA AND METHODOLOGY

RESEARCH DESIGN

The paper is a descriptive and analytical one and is based on secondary data only. It implements a before-and-after comparison around the date of implementation of the GST change (22 September 2025) as well as of simple calculations of the effect of price and instalments effect. No primary data are gathered nor a statistical model of causality is estimated.

DATA SOURCES

Data used is listed in Table 1. All data is freely available and data is used as reported by the source cited.

Table 1

Table 1 Data sources

Variable	Period	Source
Domestic passenger vehicle sales (wholesale dispatches)	FY2023 to FY2026; October 2025; Q1 FY2027; April and September 2026	SIAM, as reported by Autocar Professional, Business Today, Newsdrum and Business Standard
Half-yearly growth in passenger vehicle wholesales	H1 and H2 FY2026	ICRA
Passenger vehicle retail sales	April and August 2026	FADA, as reported in news coverage
Personal loan and vehicle loan growth	November 2025 to August 2026	RBI sectoral deployment of bank credit releases and news reports of them
Repo rate	2025 to June 2026	RBI, as reported by Business Standard
GST and cess rates on cars	Before and after 22 September 2025	GST Council decisions as reported by Business Standard and busy.in
Company results	FY2024-25 and FY2025-26	Maruti Suzuki India Limited results releases

METHOD OF ANALYSIS

1) Comparison of growth. The sales and credit growth by year is compared for the sales period before the change and the sales period after the change. The half-year April to September 2025 (H1 FY2026) is assumed to be before the change; and October 2025 to March 2026 (H2 FY2026) and April to June 2026 (Q1 FY2027) as after the change.
2) Price effect of change in rate. If we assume the base price (and not the tax-inclusive price) does not change and the change in rates is fully transmitted to the consumer, then the proportional fall in tax inclusive price is given by: 1 − (1 + new rate) ÷ (1 + old rate). (old rate is inclusive of compensation cess).
3) Instalment effect of interest rates. The equated monthly instalment (EMI) is derived from this formula: EMI = P × r × (1 + r)^n ÷ [(1 + r)^n − 1] where P is loan amount, r is monthly interest rate and n is the number of months.

LIMITATIONS OF THE METHOD

The before and after comparisons do not isolate the effect of the GST change from other factors that occurred at the same time, like October and November being a festival period, reduced rates, and the introduction of new models and base effects from the reduced sales from last year. The credit data includes all vehicle financing by banks (two-wheelers and used vehicles) and does not include those by non-banking financial companies. A few numbers come from news reports reporting official data, not from the data release. What is concluded therefore should be interpreted as descriptive relationships, rather than causal estimates.

DATA ANALYSIS AND FINDINGS

PASSENGER VEHICLE ANNUAL TREND IN SALES

Domestic passenger vehicle sales jumped from 38.9 lakh units in FY23 to 46.4 lakh units in FY26 (Figure 1). Domestic passenger vehicle sales slowed and grew by 2% to 43,01,848 in FY2025 Newsdrum (2025) followed by a 7.9% rise in FY2026 Autocar Professional (2026a).

Figure 1

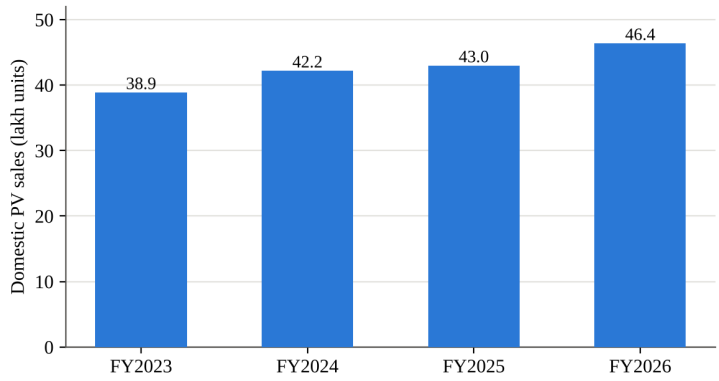

Figure 1 Domestic PV sales in India, FY2023–26 (Lakh units)

Source: Data from SIAM, as reported in Newsdrum (2025), and Autocar Professional (2024), Autocar Professional (2026a). FY24 figure based on 2% growth forecasted for FY25.

These annual figures mask a significant increase starting at FY2026 that is discussed in more detail below.

SALES GROWTH BEFORE AND AFTER THE GST CHANGE

ICRA says 1H FY2026 saw a 0.2% drop in passenger vehicle wholesales while 2H FY2026 saw a 17% increase due to changes in GST rates. Growth accelerated further in the first quarter of FY2027 with SIAM saying it dispatched 12.7 lakh units (increase 25.9%: Autocar Professional (2026c). Table 2 and Figure 2 summarise these figures.

As you can see in Table 2, sales growth of the passenger vehicle market in real terms has been positive over the last four quarters, even before the introduction of the GST change.

Table 2

Table 2 Passenger Vehicle Sales Growth before and after the GST Change

Period	Relation to GST change	Year-on-year growth	Source
H1 FY2026 (April to September 2025)	Before	−0.2%	ICRA
October 2025	First full month after	17.2% (4.60 lakh units)	SIAM, via Business Standard (2025)
H2 FY2026 (October 2025 to March 2026)	After	About 17%	ICRA
January to March 2026	After	13.2% (13.16 lakh units)	SIAM, via news reports

Q1 FY2027 (April to June 2026)	After	25.9% (12.7 lakh units)	SIAM, via Autocar Professional (2026c)
April 2026	After	25.4% (4,37,312 units)	SIAM, via news reports
September 2026	After	21.4% (4,63,081 units)	SIAM, via Business Standard. (2026c)

Figure 2

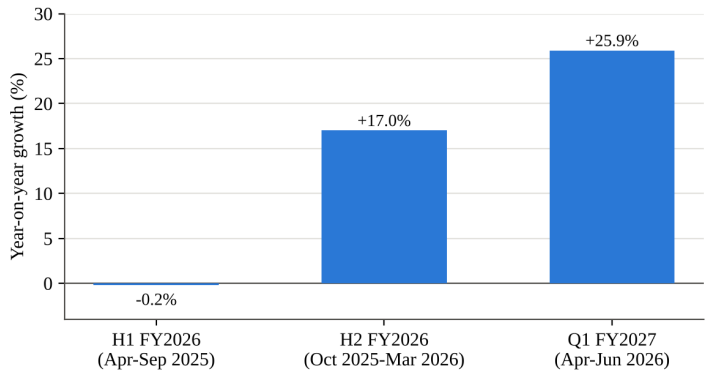

Figure 2 Growth in passenger vehicle wholesales before and after the GST change
Data source: ICRA. (2026); SIAM data as reported by Autocar Professional (2026c).

The growth rate has been huge: from zero in the periods before the tax reduction, to double digits in all the periods subsequently reported. Some of the October 2025 rise is accounted for by the holiday period, and it is important to note that it is far greater than the number of dispatches when reduced rates were rolled out Business Today (2025), said SIAM. Business Standard. (2026c) is also reporting the September 2026's growth was driven by a low base, as dispatches had been delayed until September 2025 when the new rates came into effect. But even this component saw growth of over 20% in Q1 FY2027, when the festive period is not counted.

WHOLE AND RETAIL TRADE

Wholesale refers to the quantity of automobiles sent from the manufacturers to the dealers. Retail numbers indicate the number sold to the ultimate consumer. In April 2026, SIAM reported 4,37,312 dispatches while FADA reported retail sales of 4,07,355 (up 12.21% YOY). In August 2026, FADA said retail sales for that period were 4,02,398 (up 16.14%). This is why retail growth was lower than the wholesale growth in April 2026 because some of the wholesale growth was due to dealers stocking up.

GROWTH IN VEHICLE LOANS AND PERSONAL LOANS

This will reflect in the RBI data for retail credit (Table 3 and Figure 3): The personal loan growth was 12.8% for November 2025, which jumped to 16.2% for March 2026, 15.8% for June 2026 and 16.9% for August 2026. These months' figures are compared to the same months last year when they were 11.7%, 11.7% and 11.9%, respectively. The vehicle loan growth was at 19.7% in August 2026 compared with 8.7% a year ago and an outstanding of ₹7.80 lakh crore or 10.7% of all personal loans. Outlook Money (2026) The RBI reports in March and June 2026 that the rise in vehicle loans are coming up well though they did not specify the percentage.

Table 3 shows that bank credit to the selected retail segments increased

Table 3

Table 3 Growth in Bank Credit to Selected Retail Segments

Month	Personal loans, y-o-y	Same month a year earlier	Vehicle loans, y-o-y
November 2025	12.8%	13.4%	Described as steady
March 2026	16.2%	11.7%	Described as robust
June 2026	15.8%	11.7%	Described as double-digit
August 2026	16.9%	11.9%	19.7% (8.7% a year earlier)

Source: Data on sectoral deployment of bank credit releases by RBI Reserve Bank of Indi (2026a), Reserve Bank of India (2026b) and news reports about such release Business Standard. (2025), Outlook Money (2026).

Figure 3

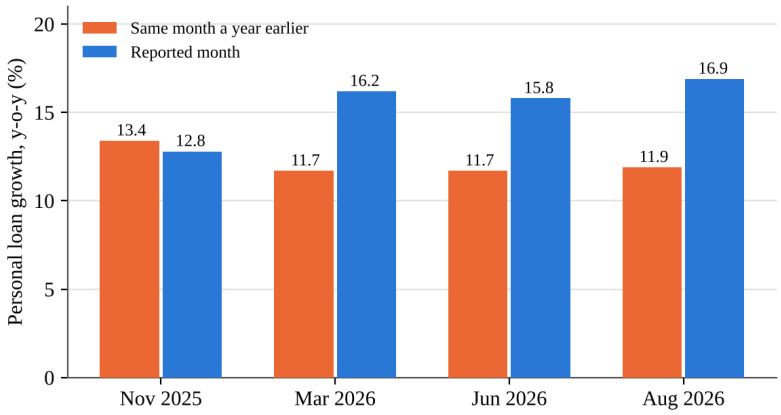

Figure 3 Growth in Bank Personal Loans Compared with a Year Earlier
Note: The data are not seasonally adjusted.
Source: as for Table 3.

The vehicle loans gain in growth, 8.7% to 19.7%, was larger than the increase in passenger vehicle sales growth, also in line with a larger percentage of sales being financed and/or a larger size of the loans, but we have no data to separate the two. The same effect is seen in the vehicle loans data as there is also a GST reduction for bikes under 350cc which has had an impact on sales of 2-wheelers.

PRICE IMPACT OF SWITCH TO THE GST

Table 4 applies the formula in Section 4.3 to the main categories of car. The old rates include the compensation cess, as reported by busy.in.

The change in the tax-inclusive price implied by the GST change is shown in Table 4.

Table 4

Table 4 Change in tax-Inclusive Price Implied by the GST Change

Category	Tax (before)	Tax (after)	Fall in tax-inclusive price
Small petrol, CNG or LPG car (up to 1,200cc and 4,000 mm)	29%	18%	8.5%
Small diesel car (up to 1,500cc and 4,000 mm)	31%	18%	9.9%
Mid-size car	43%	40%	2.1%
Large SUV	50%	40%	6.7%

Calculations by author based on tax rates reported by busy.in and assuming no change to the pre-tax price, and a full pass-through.

Figure 4

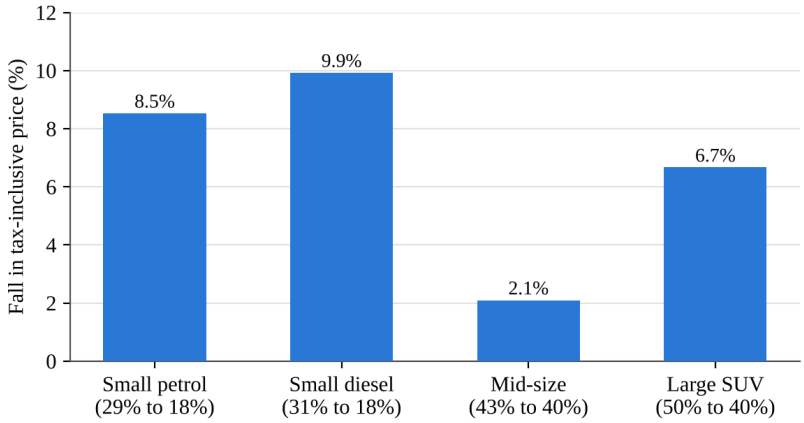

Figure 4 Fall in tax-Inclusive Car Prices Implied by the GST Change
Source: Author's Calculations, as in Table 4.

The smallest relative reduction in price was for small cars. This is in line with the news of a revival of small car sales following the change Business Standard (2026a) and with the increase in the demand for Maruti Suzuki that specializes in the small car segment in September 2026. The extent of the falls in prices actually registered depends on the proportion of the tax cut that was handed on by manufacturers and of any changes in pre-tax prices or discounts, which we do not observe in this paper.

THE EFFECT OF INTEREST RATES ON LOAN INSTALMENTS

The table below shows how the monthly instalment changes for a particular loan of ₹8,00,000 over 5 years with various interest rates.

Table 5

Table 5 EMI at Different Interest Rates (Assuming a Loan Amount of ₹8,00,000 for 5 years)

Interest rate	Monthly EMI	Total interest
8.0%	₹16,221	₹1,73,267
9.0%	₹16,607	₹1,96,401
10.0%	₹16,998	₹2,19,858

Source: author's calculations.

For a fixed loan amount, a 1% drop in the rate of interest (from 9% to 8%) reduces the EMI by ₹386 or 2.3%. This is much less than a small car's price effect from the tax change. If the loan is applied to a small car, the drop in car price by 8.5% would mean the drop in loan and EMI (assuming the down payment remains the same) is also by 8.5%. In this low-level analysis, then, the tax cut was more immediate to the price point of consumers of small cars, while a lower interest rate was more fundamental but far-reaching. But if buyers are interested in the instalment rather than the interest rate, (Following Attanasio et al. (2008)), this gives a slight benefit to the tax effect, because it reduces the instalment more.

EVIDENCE FROM MARUTI SUZUKI'S RESULTS

Maruti Suzuki India Limited was the largest manufacturer with total sales of 24,22,713 vehicles, which increased by 8.4% year-over-year, and net sales of ₹1,74,369.5 crore, up 20.2%. Maruti Suzuki India Limited (2025). Most of the volume increase was driven by exports (34.6%) and domestic sales (3.9%). The net profit margin fell from 9.62% during FY2025 to 8.28% during FY2026, despite the slow pace of increase in net profit, which Autocar Professional (2026b) attributed to the cost base increase. The manufacturer's margins as a result of industry-wide sales had not increased.

DISCUSSION

That's what we got in our results - at the aggregate level, car sales resumed with the switch to GST and easy credit. Our figure suggests, that in the pre-GST period car sales experienced zero growth, in the post-GST period it is in double digits, and now in the next quarter – Q1 FY2027 – outside the holiday season, it is positive. The greatest declines, news stories indicate, were in the smallest cars, and credit expansion did, too.

This showed that vehicle loans grew faster than car purchases, implying that more purchases were financed or that average loans were larger.

Three warnings apply. First, it is important to note that the design does not separate the impact of the tax change from that of the festive season, lower rates and base effects. It doesn't capture the true difference between the September 2025 and October 2025 seasonal effects. And it overstates the growth acceleration due to the September 2025 tax cut. Second, there have been a number of studies on scrappage subsidies that have found that while an increase in purchases encouraged by the policy may lead to an increase in purchases, it may also lead to purchases that would not have taken place otherwise. Adda and Cooper (2000), Mian and Sufi (2012) The latter would be as large as the increase in retail sales, which will not be as high since the GST change can't be reversed, but the gap between wholesale and retail sales in April 2026 suggests some of the growth was attributable to the stockbuilding of wholesale dealers.

This lesson, for the lenders, implies that business is good for the carlender, but that credit will have to be put on the agenda more seriously as loans are increased. This translates to the fact that more sales are being financed – finance deals at the point of sale are becoming more important to dealers. For the marginal buyer, who is a small car buyer, this means that policy-makers can have a profound and immediate effect on consumer demand for cars through tax rates on cars.

RESULTS AND FINDINGS

Based on this analysis, five key findings are drawn.

1) The tax change had a strong impact on sales volume growth. Passenger vehicle wholesales fell by 0.2 per cent in the half-year to 22 September 2025, but rose by about 17 per cent in the half-year thereafter, to 25.9 per cent in Q1 FY2027.
2) Personal loans and vehicle loans both grew faster. Personal loan growth rose from 11.7% to 11.9% a year earlier to 15.8% to 16.9% in 2026, and vehicle loans grew by 19.7% in August 2026, against 8.7% a year earlier.
3) The effect of the new tax regime is that tax inclusive price of small cars would face a reduction of 8.5% to 9.9% as compared to the reduction of 2.1% to 6.7% for big cars.
4) The difference in the tax effect on the instalments was greater than the interest rate effect. A one-percentage-point reduction in the loan rate reduced an illustrative EMI by approximately 2.3%, a one-percentage-point reduction in the tax rate reduced a smaller car's price by approximately 8.5%, and a one-percentage-point reduction in the tax rate reduced a smaller car's loan EMI by approximately 8.5%.
5) Industry growth did not help manufacturers. In FY2026, Maruti Suzuki saw a 20.2% increase in net sales, but a drop in net profit margin to 8.28% from 9.62%.

CONCLUSION, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

CONCLUSION

After a period of flat sales in the first half of FY2026, sales of passenger vehicles have gone into a strong growth mode since rationalisation of the GST tax on 22 September 2025. Domestic wholesales in the second half of FY2026 grew by about 17% and by 25.9% in Q1 FY2027, and bank vehicle loans grew 19.7% in August 2026, which is well above 1% growth year-on-year. The tax change amounted to 8.5% to 9.9% for small cars - much more than the reduction in interest rates on the length of monthly payments. The data appears to support a large price-driven demand response with a credit-provision limit, but does not establish causality.

LIMITATIONS

There are several limitations to this paper: it relies on secondary data, mostly news coverage, and the number of data points is small; it does not take into account other factors which may have played a part – festive demand, interest rates, new model launches or base effects – and the credit data refer to more than just cars. It also works out the price change if the tax change is 100% passed through to the price.

SUGGESTIONS FOR FURTHER RESEARCH

This can be followed up with monthly observations over longer periods to derive the effect of tax change by regression or time series analysis, and by using sales data, split small and large cars, and test whether the demand for cars plateaued after the initial increase, and whether the price, installment or interest rate matters to customers.

DECLARATION OF GENERATIVE AI USE

During the process of creating this work the author used an AI assistant to aid in the writing and editing of the manuscript. The tool was applied to the article that the author wrote and edited as per his/her discretion and accepts responsibility for the article.

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None.

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