Excise cut on petrol, diesel to cost government Rs 45,000 crore: Nomura

A cut in excise duty on petrol and diesel and the ensuing drop in retail selling price of these auto fuels should also help address inflation concerns to some extent, analysts said

New Delhi | Last Updated at November 4, 2021 13:50 IST

The excise duty cut of Rs 5 on petrol and Rs 10 on diesel by the government to offset the impact of rising crude oil prices will lead to a revenue loss of Rs 45,000 crore, or 0.2 per cent of gross domestic product (GDP), in the remaining months of fiscal 2021-22 (FY22), suggests a note by Nomura. The research and broking house also lowered its consumer price inflation (CPI) projection as well given the development.

"The tax cuts could cost the government Rs 1 trillion (0.45 per cent of GDP) on an annual basis in terms of lost revenues and around Rs 45,000 crore (0.2 per cent of GDP) for the remaining months in FY22," the note said.

Excise duty on auto fuels has been a major source of revenue for the government over the past few years. While the government earned Rs 2.2 trillion from excise duty on auto fuels in FY20, the revenue increased to Rs 3.73 trillion (excise duty of Rs 32.9/litre on petrol and Rs 31.8/litre on diesel) in FY21.

Thus far in the first half of FY22 (H1-FY22), petrol consumption, according to Nomura, has risen by 21.4 per cent y-o-y and diesel consumption by 15.4 per cent, reflecting the sharp increase in economic activity. Brent crude oil prices, however, have doubled to $82 a barrel now in the past one year.

A cut in excise duty on petrol and diesel and the ensuing drop in retail selling price of these auto fuels should also help address inflation concerns to some extent. Petrol has a 2.2 per cent weighting in the CPI basket, while diesel has a much lower weighting of 0.15 per cent.

"Assuming global crude oil prices do not increase further increase in November, a Rs 5/litre drop in petrol prices and a Rs 10/litre cut in diesel price should translate to around 0.14 percentage point (pp) reduction in headline inflation in November due to direct effects, and around 0.3pp, including the second round impacts, as logistics costs decline. Consequently, we reduce our Q4-2021 CPI inflation projection marginally from 5 per cent to 4.9 per cent, although the 2021 projection remains unchanged at 5.1 per cent," Nomura said.

Economic growth

Though most economists suggest that the cut in excise duty on auto fuels is a positive step that will help check inflation and boost consumption, the economy, they feel, still is reeling from supply-side issues. India is facing dual energy shocks, as shortages of coal have further disrupted the industrial sector activity, which was already reeling from semiconductor shortages and higher input costs. For now, most remain optimistic on growth.

"While we stick to the 9.1 per cent growth forecast for the year as we had buffered in revival in services in second half, there could be some upward bias, which can take this number to 9.3 per cent. However, we must remember that inflation is a dampener, and while statistically it is less than 5 per cent, high fuel cost, prices of services and manufactured goods will hit consumption once the pent-up fury recedes," says Madan Sabnavis, chief economist at CARE Ratings.

Those at Brickwork ratings, too, believe the downside risks to growth over the next few months are likely to emanate from international crude oil prices, steadily increasing costs of raw materials, freight rates, disruptions in semiconductor supply and coal supply shortages.

"We expect GDP growth for Q2-FY22 at 8.3 per cent (year-on-year), on the back of a 7.4 per cent contraction in Q2FY21. The subsequent quarters, too, will see recovery if there is no resurgence of the virus in the form of a third wave. Subsequently, we revise our GDP estimates for FY22 to 10-10.5 per cent from 9 per cent estimated earlier," said Dr M Govinda Rao, chief economic adviser at Brickwork Ratings.