

Higher fuel prices may give States a ₹22,700-cr windfall

States have room to prune price of petrol by ₹3.2 a litre, and diesel by ₹2.3, says SBI report

OUR BUREAU

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State governments will likely reap a windfall gain of around ₹22,700 crore this fiscal from the increase in the prices of petrol and diesel, a report by the State Bank of India's Economic Research Wing has claimed. "We also estimate that since the States have an incremental revenue over the budgeted one, they could cut, on an average, petrol prices by ₹3.20 a litre and diesel by ₹ 2.30 per litre, without affecting their revenue arithmetic," said the report, authored by Soumya Kanti Ghosh, Group Chief Economic Adviser of SBI.

The report released on Tuesday comes at a time when the Narendra Modi government has come in for harsh criticism for repeated hikes in fuel prices.

Currently, fuel is under a dual taxation regime. The Centre levies excise duty at specific rates — ₹19.48 for petrol and ₹15.33 for diesel. The States im-

pose sales tax or VAT ad valorem. Some States also collect a cess.

The sales tax on petrol varies from 6 per cent in the Andaman & Nicobar Islands, to 39.12 per cent in the Mumbai, Thane and Navi Mumbai areas of Maharashtra. Similarly, sales tax on diesel ranges between 6 per cent in Andaman & Nicobar Islands, to 28.08 per cent in Andhra Pradesh. Since States have ad valorem rates — that is, the levy is at a certain percentage of value, and is calculated on the sum of the base price and excise duty — they can land windfall gains.

In Maharashtra, the price of petrol has crossed ₹89/litre, the highest in the country. "This increase in petrol and diesel prices is likely to give States a windfall gain of around ₹22,700 crore over and above the budget estimates for the current fiscal. Alternatively, a \$1/barrel increase in oil prices translates on an average of

₹1,513 crore revenue gain to all the major 19 States."

The assumption is that for the current fiscal, the crude oil price will be \$75/barrel on an average and the exchange rate will be ₹72 to a dollar. Similarly, for the last fiscal, the study considered the yearly average crude oil price to be \$57 a barrel, and an average exchange rate of ₹65 a dollar. Along with this, the State-wise VAT rate, dealer commission, Central excise duty and transport cost are assumed to be the same in FY19 as they were in FY18.

Bearing on State fisc

This windfall gain will have a positive impact on State finances, which might push down their fiscal deficit by 15-20 basis points (100 bps is equal to 1 per cent), other factors being unchanged. In particular, Maharashtra, Madhya Pradesh, Punjab, Tamil Nadu, Andhra Pradesh, Rajasthan, and Karnataka have the leeway to cut petrol prices by at least ₹3 from their existing rates, and diesel prices by ₹2.5.

The report recommend that if the States impose VAT on the base price (price of crude oil + costs of transportation + commission), diesel prices could drop by ₹3.75 and petrol by ₹5.75. However, this will result in a revenue loss for States of around ₹12,000 crore (net of ₹34,627 crore loss and ₹22,700 crore gain from oil bonanza). "The problem is that even as many States have a revenue surplus, they are using it to finance capital expenditure and interest obligations," it said.



Since March, petrol and diesel prices in Delhi have risen, respectively, by ₹5.60 and ₹6.31