

# Govt moves to douse fuel price fire with ₹2.5/L cut

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**NEWDELHI:** As global oil prices hit near four-year highs and the rupee slipped to a new record low of 73.58 to the dollar, causing fuel prices to increase further, the National Democratic Alliance (NDA) government stepped in on Thursday to ease the pain of consumers, cutting petrol and diesel prices by ₹2.5 per litre and asking states to follow suit.

High fuel prices have hurt consumers across India and provided ammunition for opposition parties to target the government ahead of key state polls later this year and the 2019 parliamentary elections.

The cut was announced by finance minister Arun Jaitley in New Delhi. Explaining the composition of the cut, Jaitley said the excise duty on petrol and diesel will be lowered by ₹1.50 per litre and state-owned oil marketing companies will take a further cut of ₹1 per litre. He encouraged states to cut their value added tax (VAT) on fuel by ₹2.5. By late evening, at least 13 states agreed to do so. Some states had cut their VAT on fuel in recent weeks to help consumers cope with the rising prices of fuel.

Bharatiya Janata Party (BJP) president Amit Shah said the decisions by the Centre and the states ruled by his party showed their sensitivity and commitment to people's welfare. "BJP-ruled states are with the prime minister in this initiative and are always eager to provide any possible relief to the common man," he said in a statement.

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## TAMING SPIRALLING PRICES

**₹19.48/litre**

Excise duty on petrol

**₹15.33/litre**

Excise duty on diesel

- Almost half of the fuel prices is made up of taxes. Apart from excise duty, states levy value added tax
- Petrol price in Delhi was ₹84/litre and diesel price ₹75.45/litre on Thursday

**₹1.50/litre**

Cut in excise duty announced

**₹10,500 cr**

Hit to central govt revenues in current fiscal

**₹1/litre**

Oil firms will have to absorb

**13** States matched the move. BJP-ruled Gujarat, Maharashtra (only on petrol), UP, MP, Chhattisgarh, Jharkhand, Assam, Uttarakhand, Haryana, Himachal Pradesh, Goa and Tripura followed suit. So did J&K, which is under governor's rule. Congress-ruled Punjab is likely to take a call on Friday

**5** Number of states that have cut fuel prices in the recent past. They are Kerala (on June 1), and Rajasthan, Karnataka, West Bengal and Andhra Pradesh (all in September)

The states' revenue increases because of increased crude oil prices and hence it is easier for the states to absorb ₹2.50 (cut).

ARUN JAITLEY,  
Finance minister





## Fuel price

But the Congress hit out at the government over what it described as a “meagre” reduction, likening it to applying an adhesive bandage on a thousand wounds caused to the people. Congress spokesperson Randeep Surjewala also said it was a “panic reaction” by the government in the face of public ire.

West Bengal chief minister Mamata Banerjee’s Trinamool Congress demanded an at least ₹10 per litre cut. Aam Aadmi Party (AAP) leader and Delhi chief minister Arvind Kejriwal made a similar demand.

“Modi government raised excise duty on petrol by ₹10 and today reduced only ₹2.50. This is cheating. Centre should bring down petrol prices at least by ₹10,” Kejriwal said in a tweet in Hindi.

The Left parties said the Centre’s move was “too little and too late”, adding that it was like rubbing salt on the wounds of the common man.

While oil prices have risen on account of fears of a supply crunch, India’s situation has been exacerbated by a weakening currency. At least 80% of India’s oil needs are met through imports. There has been some speculation in recent days that the government could announce a so-called non-resident Indian (NRI) deposit scheme to increase dollar inflows. There was no talk of this at Thursday’s briefing addressed by Jaitley, though.

Economic affairs secretary Subhash Chandra Garg had said in June that if needed the government could raise funds through foreign currency non-repatriable (FCNR) deposits, sovereign bonds or other routes to increase foreign exchange reserves. India had foreign exchange reserves of \$401.97 billion in the week ended September 21.

In his briefing on Thursday, Jaitley said the reduction in excise duty would cost the exchequer ₹10,500 crore but said this wouldn’t affect India’s ability to meet its fiscal deficit target for the year of 3.3% of gross domestic product. “It certainly has fiscal implications. If the government wishes to stick to its glidepath of fiscal consolidation, then it will have to cut its expenditures significantly,” said Rupa Rege Nisure, chief economist at L&T Finance Holdings.

The decision to cut the excise duty comes ahead of Friday’s announcement by the Monetary Policy Committee of the Reserve Bank of India on interest rates, and could stay the central bank’s hand from what seemed like a sure rate hike days ago.

Devendra Kumar Pant, chief economist at India Ratings and Research, said the move could act as a “minor comforting factor” for the central bank during its monetary policy meeting scheduled on Friday, as a fuel price cut will ease retail inflation.

Before the price cut, petrol was retailing at ₹84.00 a litre in Delhi and diesel at ₹75.45 a litre

on Thursday.

A Hindustan Times analysis showed that petrol prices in Delhi rose by ₹7.2 a litre in September and diesel by ₹7 a litre, indicating that, if global oil prices continue to rise and the rupee continues to fall, then the impact of Thursday's announcements could be short-lived.

On Thursday, the rising price of crude, the falling rupee, and concerns over an impending rate hike caused Sensex, the benchmark index of the BSE, to fall 806 points, the biggest decline in almost eight months.

*(With agency inputs)*