

## MACRO VIEW

06 May 2020

### Excise duties on fuel hiked to meet fiscal challenges

The Centre has hiked excise duties on petrol and diesel by Rs 10 and Rs 13 per litre respectively as it strives to balance the fiscal math, translating to an estimated windfall of ~Rs 2tn for the exchequer. These hikes could make up for the shortfall in GST collections arising due to the economic shutdown. But with the government unlikely to meet divestment revenue targets of ~Rs 2tn for FY21, we see a high probability of further increases in excise duty. This could create room for another round of economic stimulus.

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

**Government eyeing >Rs 4tn windfall from oil price crash:** As highlighted in our [Mar'20 report](#), the government has begun to benefit from low oil prices via (1) a ~Rs 15/ltr hike in excise duties on petrol/diesel (yielding ~Rs 2tn in additional revenues for FY21), and (2) savings on petroleum subsidies (budgeted at Rs 350bn for FY21). The Centre could target cumulative gains of ~Rs 4tn in order to neutralise potentially lower GST collections and divestment revenues, implying a further excise hike of Rs 10/ltr in FY21.

**Indirect tax hikes only way to meet capex targets:** With the heavy economic damage inflicted by Covid-19, it is imperative for the government to maintain capex targets (budgeted estimate of ~Rs 4tn for FY21) to support a revival in GDP growth. Thus, it may move into politically unpopulist territory comprising steep taxes on fuel (and liquor) to maintain the fiscal balance. Since consumption revival is the need of the hour, GST hikes on consumer products could be counterproductive.

**Room for more stimulus:** The government's initial round of stimulus (Rs 1.7tn), followed up by >Rs 3tn in liquidity inducement measures by the RBI are clearly falling short. As per [media reports](#), plans for additional stimulus to prop up MSMEs are also on the anvil. The current excise duty hikes could open up the headroom to facilitate such measures.

**FIG 1 – EXCISE DUTY**

(Rs/ltr)	Basic excise duty	Special additional excise duty	Additional excise duty (Road & Infra cess)	Expected revenues (Rs bn)
Petrol	2.98	10	10	9,200
Petrol (revised)	2.98	12	18	13,200
Diesel	4.83	4	10	19,000
Diesel (revised)	4.83	9	18	34,000
<b>Earlier estimate</b>				<b>28,200</b>
<b>Revised estimate</b>				<b>47,200</b>

Source: BOBCAPS Research, PPAC

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