

Slash fuel taxes: Govt has fiscal cushion. Inflation needs to be fought and consumption, supported

February 23, 2022, 9:57 PM IST / TOI Edit in TOI Editorials, Economy, Edit Page, India, Times View, TOI



Soon after the geopolitical situation in Ukraine worsened, the Indian basket of crude touched \$97 a barrel. The effect will be felt in days to come. On paper, India shifted to daily pricing of petrol and diesel in 2017. However, there's a price inertia as elections approach. Consequently, retail fuel prices will start rising in March to compensate for weeks of stasis. This, when private consumption hasn't caught up to pre-pandemic level. Therefore, Govt should reduce its fuel taxes immediately to offset the impact of the recent increase in the cost of crude. Doing so will synchronise fiscal policy to an evolving global scenario.

The period between 2014-15 and 2020-21 was marked by a moderation in the price of crude oil. Govt used that phase to increase fuel taxes, thereby, capturing most of the benefits. Between FY-15 and FY-21 Govt collected about Rs 16.7 lakh crore through excise duty on petroleum products. Moreover, most of it was retained by Govt as an increasing proportion of the duty was reclassified as cess to keep it out of the divisible pool that is shared with states. Therefore, it's Govt that today has the fiscal cushion to lower fuel taxes and hold up private consumption.

The economic recovery over the last few quarters has been uneven. Contact-intensive sectors haven't fully recovered and employment data points to a relative increase in the proportion of jobs in the informal sector. In India, around 80 of every 100 passenger vehicles sold are entry-level two-wheelers, running on petrol. Therefore, fuel price increases take a toll on a vulnerable segment of the population that is already feeling the pinch of elevated inflation in articles other than food and fuel. A reallocation of household budgets to deal with higher fuel prices will keep consumption weak and undermine an important premise of a growth-oriented Budget.

Govt did well in November to lower taxes on petrol and diesel by Rs 5 and Rs 10 respectively. But it remains high at Rs 27.9 for petrol and Rs 21.8 for diesel. There's room to reduce them further as the Budget was conservative in revenue estimates. Gross tax collection for FY-23 is expected to increase by 9.6% to Rs 27.6 lakh crore, a level lower than the 11.1% growth in nominal GDP which is the foundation of the Budget. That prudence has now left Govt with the space to slash fuel taxes and insulate the economy from Ukraine's impact on energy markets.