

Costlier energy clouds govt's fiscal maths for FY27: Icra

FE BUREAU

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A SHARP SURGE in crude oil and natural gas prices due to the ongoing West Asia conflict is emerging as a key risk to the Centre's fiscal calculations for FY27, potentially straining both revenues and expenditure, rating agency Icra said.

With crude prices more than doubling from pre-crisis levels amid supply disruptions and shipping constraints, the government faces the prospect of a higher subsidy burden.

"Escalation of the West Asia conflict and the consequent upward pressure on fertiliser input costs is likely to push up the fertiliser subsidy requirement by around ₹40,000 crore in FY27 compared to the BE of ₹1.7 lakh crore," as per Icra's estimates

LPG under recoveries are

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estimated to rise to around ₹20,000 crore in FY27 (assuming average crude oil price at ~\$85/bbl), amid severe supply shortages owing to the West Asia conflict and the consequent increase in international LPG prices; this would exert pressure on the fuel subsidy bill (FY27 BE: ₹12,100 crore), it said.

If crude oil prices remain high, the Centre may consider cutting the excise duty rates on petrol and diesel to keep the retail selling prices (RSPs) of auto fuels at the existing levels,

partly compensating OMCs for refining losses.

"If the GoI cuts the excise duty on petrol and diesel by ₹3/litre each, this would cost nearly ₹45,000-50,000 crore to the GoI in FY27," Icra said.

Elevated crude oil prices for a prolonged period would also dampen the Centre's revenues, including corporate tax collections and dividend receipts, both from the downstream oil companies as well as other entities, it said.

The Economic Stabilisation Fund of ₹1 lakh crore can be used to partly absorb any revenue/expenditure shock to the Centre in FY27, the agency said.

"This could curtail the overshooting in the GoI's fiscal deficit target of 4.5% of GDP (based on the 2022-23 GDP series), albeit with sizeable upside risks if the conflict persists for a prolonged period," it said.