

**'DECADE AHEAD WON'T BE EASY'**

# Fuel, fertiliser, forex biggest risks, says FM

**FE BUREAU**

New Delhi, May 25

**FINANCE MINISTER NIRMALA**

Sitharaman on Monday flagged fuel, fertiliser and foreign exchange — the “3Fs” — as the biggest economic challenges confronting India amid the prolonged West Asia conflict, while asserting that the domestic economy remains resilient despite external shocks. She underscored Prime Minister Narendra Modi’s appeal to conserve foreign exchange as far as possible as “very important.”

Speaking at a Small Industries Development Bank of India (Sidbi) event in Mumbai, Sitharaman said the government’s response has focused on protecting citizens, supporting micro, small and

medium enterprises (MSMEs), safeguarding exporters, and maintaining supply chains as the global energy crisis deepens following disruptions in the Gulf region.

At another event later, Sitharaman said the “decade ahead will not be easy,” with geopolitical tensions causing supply chain disruptions and rapid technological advances continuing to reshape labour markets. “But crises, as Prime Minister Modi often reminds us, are also opportunities,” she asserted.

“We should please understand the context of these 3Fs — fuel, fertiliser, and foreign exchange,” Sitharaman said at the first event, elaborating on the formulation.

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**NIRMALA SITHARAMAN, FM**

**For businesses and common people, it (West Asia crisis) can mean higher fuel cost, delayed cargo, costlier shipping, shortage of inputs, pressure on working capital and uncertainty in export orders**



# Fuel price hikes may add 30 bps to near-term inflation: Economists

KULDEEP SINGH  
New Delhi, May 25

A SERIES OF hikes in petrol and diesel prices at the retail level has triggered concerns over rising inflation, with economists estimating an addition of around 30 basis points to the near-term outlook. However, they are yet to revise their inflation outlooks for the full financial year; recent estimates were moderately higher than 4.6% projected by the Reserve Bank of India (RBI).

State-run oil marketing companies hiked petrol prices by ₹2.61 per litre and diesel by ₹2.71 per litre on Monday. This is the fourth consecutive increase, taking the cumulative hike to ₹7.5 per litre over the past two weeks. While the

magnitude of the hikes is still around what analysts had projected earlier, given that OMCs' under-recoveries still need to be bridged, a few more rounds of price adjustments cannot be ruled out.

Petrol and diesel together carry a weight of 4.9% in the Consumer Price Index (CPI) basket. Madan Sabnavis, chief economist at Bank of Baroda, said the cumulative hike of around 7.3-7.5% would lead to a direct (primary) increase of 35-40 basis points in inflation. "The primary effect should show immediately in the CPI for May," he noted.

The indirect impact is likely to be even sharper. Higher diesel prices will push up transportation and logistics costs, with transporters already announcing a 3-4%

## PRICE SHOCK

■ Petrol and diesel together carry a weight of **4.9%** in the Consumer Price Index basket

■ Higher diesel prices will push up transportation and logistics costs

■ This is expected to drive up prices of essential items such as vegetables, fruits, milk, etc

■ Manufacturing and services sectors will also face elevated input costs



hike in freight rates. This is expected to drive up prices of essential items such as vegetables, fruits, milk, and other

food articles. Manufacturing and services sectors will also face elevated input costs, leading to second- and third-

round effects as producers pass on the higher expenses. Rajeesh Sharan, head of research at Brickwork Ratings,

projected CPI inflation to average between 4.2-4.5% in Q1FY27. "The immediate impact on headline CPI will

likely be modest initially, but the pass-through will become more visible over the next one to two months," he said. "Our estimates suggest that the fuel hike alone could add around 20-30 basis points to near-term inflation."

Sabnavis estimates the cumulative impact could reach 60-70 basis points over time, depending on the speed of pass-through. Retail inflation stood at 3.48% in April, marginally up from 3.4% in March. The fuel shock comes at a sensitive time, as the RBI has projected average CPI inflation at 4.6% for FY27.

Many economists believe inflation could average around 4.9% in FY27. Gaura Sengupta, chief economist at IDFC First Bank, had earlier estimated that a cumulative

₹10 per litre hike spread over a couple of months could push average inflation to 4.6% (with second-round effects) or 4.9% (including food inflation), with a peak of around 5.5% in Q3.

Sakshi Gupta, principal economist at HDFC Bank, projected headline inflation at 4.9% for FY27, with H1 averaging around 4-4.5% and H2 at 5-5.5%. She noted that fully offsetting under-recoveries would require a price increase of ₹11 per litre for petrol and ₹23 per litre for diesel.

Future hikes remain uncertain. Global crude oil prices have eased below \$100 per barrel amid hopes of a US-Iran agreement, but the situation could change quickly, Sabnavis cautioned.

# Fuel prices hiked again

**GLOBAL CRUDE PRICES** have risen more than 50% since late February after the US-Israeli strikes on Iran and escalating tensions in West Asia disrupted shipping movements and pushed up freight and insurance costs.

Despite four successive revisions, analysts said OMC under-recoveries remain elevated because of higher crude prices, a weaker rupee and continuing losses on domestic LPG sales.

Prashant Vasisht, senior vice president and co-group head, corporate ratings, Icra, said the financial stress on fuel retailers remained severe even after the latest hikes. "Despite the latest hike in retail prices of auto fuels, oil marketing companies' under-recoveries remain stubbornly high due to increasing losses in domestic LPG sales and a high premium to the crude marker," Vasisht said.

Icra estimates that at crude oil prices of \$120-125 per barrel, OMCs are still incurring losses of around ₹700-800 crore daily on petrol, diesel and LPG sales.

"This high level of under-recoveries is unsustainable," he added. Financial services firm Emkay Global has estimated that petrol and diesel prices



could rise by as much as ₹10 per litre in the near term as OMCs attempt to recover losses arising from elevated crude oil prices.

"We expect hikes of ₹10/litre to cover roughly 50% of under-recoveries, either in one shot or via creeping hikes over 2-3 weeks," Emkay Global said in a report released on May 15.

Harshraj Aggarwal, energy lead analyst, institutional equities, YES Securities, said the latest fuel revisions still leave substantial marketing losses on auto fuels. "The gross marketing loss as of today stands at ₹5.5/litre for petrol and ₹5/litre for diesel. So the expected price hikes could be more ₹2-4/litre if the crude prices don't fall further," Aggarwal said.

The latest increase pushed fuel prices to their highest levels since May 2022 after remaining largely frozen for more than two

years, barring a ₹2-per-litre cut in March 2024 ahead of the general elections.

Earlier in the day, speaking at an event in Mumbai, Finance Minister Nirmala Sitharaman said the reduction in excise duty on petrol and diesel would have a revenue implication of nearly ₹1 lakh crore.

The rise in fuel prices is also adding to inflation concerns. Retail inflation accelerated to 3.48% in April from 3.40% in March, while wholesale inflation climbed to a 42-month high of 8.3%, driven largely by higher fuel and energy costs.

Meanwhile, shares of oil marketing companies rallied sharply on Monday after Brent crude prices fell more than 5% following indications that the Strait of Hormuz could reopen.

Shares of Bharat Petroleum Corporation (BPCL) rose 4.3% to close at ₹308.25 on the BSE after touching an intra-day high of ₹309. Hindustan Petroleum Corporation (HPCL) gained 3.5% to settle at ₹403.40 after rising as much as 5.9% during the session to hit ₹412.55. Shares of Indian Oil Corporation (IOC) advanced 3.1% to close at ₹143.90 after touching an intra-day high of ₹145.30.

## Re extends gain for 3rd straight session