

Press Release

Lower global oil prices positive for India's fiscal deficit

Additional tax mop up of Rs. 30,000-60,000 Cr in FY21 from fuel taxes to support the budgeted fiscal print

- Amidst all the gloom in the global economy aggravated by the rapid spread of the Corona Virus, the lower global oil prices are a favourable development for the Indian macroeconomic and fiscal regimen.
- In a likely scenario where oil prices remain significantly below \$50 per barrel in FY21, Acuité expects additional oil tax revenues of the order of Rs. 30,000-60,000 Cr which should strengthen the fiscal position to some extent in the coming fiscal.
- Acuité's analysis of past data indicates that India's fuel taxes are inversely proportional to oil prices, with the two variables negatively correlated. This has been primarily due to the government's intent to maintain the retail fuel prices in a stable band with moderate volatility while also capitalising on any global price declines with additional taxes.
- The revenue from oil taxes has steadily increased from Rs. 0.32 Lakh Cr to an estimated Rs. 1.7 Lakh Cr in FY20 and is expected to get a further push up in FY21 as against the budgeted figure of Rs. 1.8 Lakh Cr. While in FY14, the price per barrel averaged \$103, it was just under \$61 in FY20.
- The windfall can potentially pare the fiscal deficit in India by roughly 20 bps in FY21, if there is a moderate revival in the domestic economy and the budgeted nominal growth estimate of 10% holds good.

Acuité believes that the sharply downward trajectory in global oil prices, with Brent Crude currently plummeting below \$35 since the first week of March 2020 along with India's ongoing fiscal compulsions is set to unfold a similar story. **Says Sankar Chakraborti, CEO, Acuité Ratings & Research, "While the impact of the oil price decline may be negligible in FY20, it is likely to have a significant positive impact on the fiscal print in FY21. The revised or actual oil tax revenues are likely to be substantially higher than the budgeted figure of Rs. 1.82 Lakh Cr in the coming fiscal; we estimate that the additional revenues from the latter can be between Rs. 30,000 – 60,000 Cr.**

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About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

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