‘Govt. can cut fuel cess by ₹4.5’

Move will ease inflation pressures, spur consumption without revenue loss: ICRA

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The Union government has room to cut the cess levies on petrol and diesel by ₹4.5 per litre to ease inflationary pressures without a net loss in revenue, rating agency ICRA said on Friday.

Stressing that consumer sentiment had been singed by the second COVID-19 wave, ICRA said that the record retail fuel prices were ‘weighing upon disposable incomes and consumption’ and feeding into inflationary pressures. Retail inflation crossed the central bank’s comfort zone at 6.3% in May.

The revenue loss entailed by the cess cuts would be offset by an expected increase in fuel consumption making this a revenue-neutral measure, ICRA’s chief economist Aditi Nayar pointed out.

“Benefitting from the anticipated rise in mobility and economic recovery aided by an acceleration of vaccine coverage, ICRA has forecast the YoY growth in the consumption of petrol and HSD (high-speed diesel) at about 14% and about 10%, respectively,” Ms. Nayar wrote. “Our forecasts suggest that consumption this year will be 6.7% higher for petrol and 3.3% lower for HSD.”

Cash to spare: Such a cut in the cess rates would offer some relief to household budgets, says Nayar. ▪ H.S. MANJUNATH

Aggregate revenue from fuel taxes is expected to rise by about 13% to ₹3.6 lakh crore this year, with additional revenue of ₹40,000 crore. Foregoing the ₹40,000 crore can support a reduction of ₹4.5 per litre, ICRA estimated in a note.

Room for RBI

“Such a cut in the cess rates would offer some relief to household budgets and ease the inflationary pressures related to the rising global crude oil prices,” Ms. Nayar emphasised, stressing that this would also give the central bank more room to focus on growth imperatives rather than fret about accelerating inflation.

In the three monetary policy reviews since February, the Monetary Policy Committee, chaired by Reserve Bank of India Governor Shaktikanta Das, has reiterated concerns about inflationary pressures created by the higher cess and VAT rates announced by the Centre and State governments on fuel last year, and the need to unwind them to ease cost push pressures.

While global crude oil prices were on an upswing since January, riding on expectations of a rebound in the global economy, India’s record retail fuel prices were also driven by a weaker rupee and the higher domestic imposts levied by the Centre and States, said ICRA.