Fuel Price Optics

The article is related to General Studies-Paper-III (Indian Economy)

The Hindu

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Levies must be cut further to offset the effect of the continuing surge in global oil prices

The Centre finally decided last week to relent and act on the advice of monetary policymakers by cutting the excise duty on petrol and diesel by ₹5 and ₹10 a litre, respectively. The duty reduction, announced on the eve of Deepavali, immediately helped lower the retail prices of the two fuels by at least about 5% and 11%, respectively. And on the Government's urging, more than 20 States and Union Territories also reduced the VAT levied on the fuel products, thereby enhancing the relief provided to consumers from record pump prices. While the Centre asserted that the decision was to impart a fillip to the reviving economy, as well as easing inflationary pressure, the political significance of its timing was hard to overlook, coming a day after the ruling BJP suffered electoral reverses in some legislative and parliamentary bypolls.

That the Government was keen to make political capital out of its belated reduction of levies was made obvious two days later, when it sought to call out the States — almost all ruled by Opposition parties — that were yet to make commensurate VAT reductions. With a clutch of crucial State elections, including to the prized U.P. Assembly, due early next year, the BJP is keen to regain control of the narrative, especially given the heightened public concern over inflation and the surge in fuel prices.

As far as the economy is concerned, the reduction in fuel bills is bound to have a salutary impact on inflation as diesel is the main fuel for freight carriage and impacts the cost of everything requiring to be transported. The softening in transportation costs ought to provide some cushion to the manufacturing sector, which has had to cope with surging input prices at a time when demand is still tenuous. The additional cash left in the wallets of consumers may also provide a small bump in consumption though the durability of this stimulus will hinge on how global oil prices behave in the coming weeks and months.

Global oil prices have been on a boil this year and the World Bank group projected last month that average crude prices would end 2021 with a gain of about 70%. With the Indian crude basket having risen on average almost 62% in the 10 months through October and the historical trend suggesting a firming of prices towards the year-end when the northern hemisphere's winter usually pushes up energy demand, there is a real risk that Indian refiners may be left with little option but to continue raising retail prices.

The onus would then be again on the Centre to make further cuts to the duty it had raised last year. States run by other parties should take the cue from Tamil Nadu and Punjab and bring down the prices at the outlets, and not hold back for political or revenue reasons.

Expected Question (Prelims Exams)

Q. What step has the central government taken recently to reduce oil prices?

- **(a)** Excise duty has been reduced.
- **(b)** Cess has been abolished.
- **(c)** Reduction in import duty.
- **(d)** All of the above

Expected Question (Mains Exams)

Q. How the recent reduction in oil prices by the central government will prove beneficial for the Indian economy? Discuss for example.

(250 Words)

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Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.