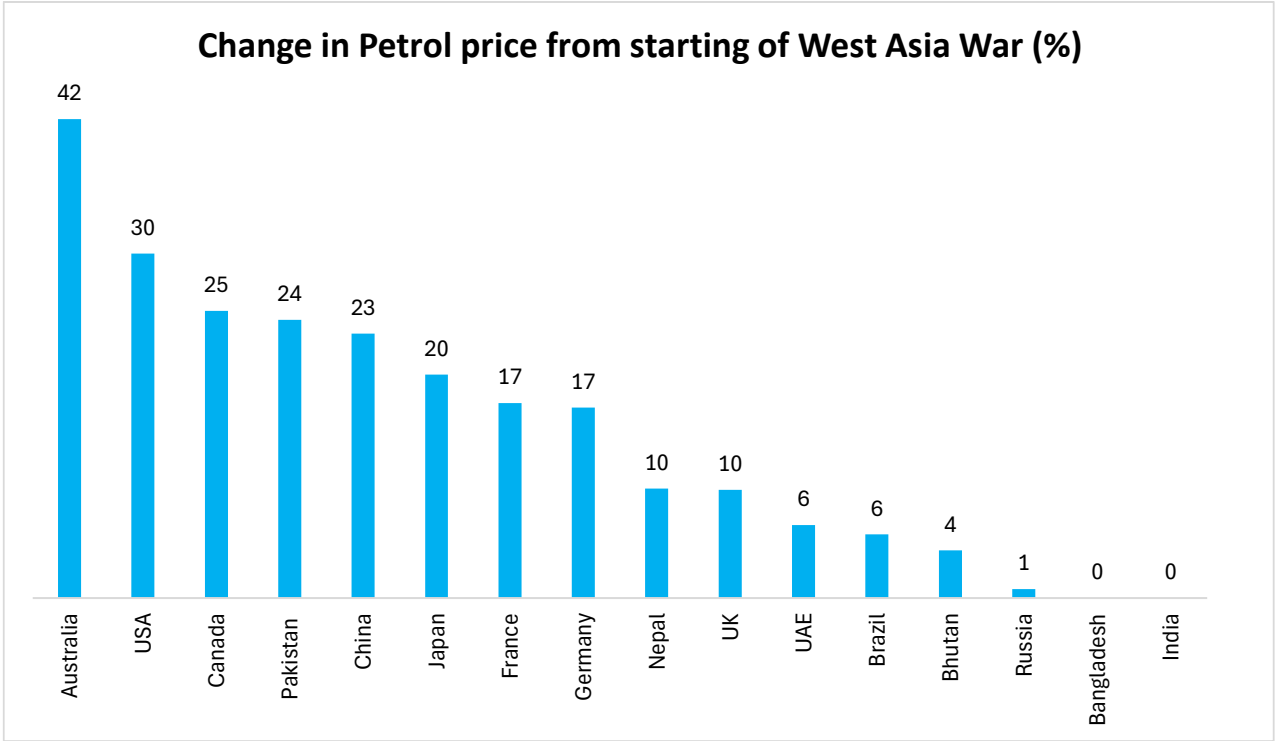
SBI Research

Oil excise cut to shield customers from the vagaries of oil price jump…Centre to forego revenue of around Rs 1.1 lakh crore….time for the States to adjust VAT also?.....

Issue # 46, FY26 Date: 27-March-2026

Brent crude rising but no change in domestic petrol/diesel prices

- Brent crude has turned volatile amidst the ongoing West Asian crisis. From an average price of $64.7/bbl in Jan'26, the price increased to $69.4/bbl in Feb'26 and significantly jumped to $96.2/bbl in Mar'26 so far. Correspondingly, the Indian price basket increased from $63.08/bbl in Jan'26 to $69/bbl in Feb'26 and $123.2/bbl in Mar'26
- However, the retail price of petrol and diesel has not been changed in India….Though we see the price of petrol being increased uniformly across the globe



Source: Globalpetrolprices.com, Price as on 23 March

Excise duty cut to provide relief to common man through OMCs

- As per the oil ministry, oil marketing companies (OMCs) are currently losing Rs 24 per litre on petrol and Rs 30 per litre on diesel as the retail price of diesel and petrol has not been increased post the huge increase in oil price

- Thus, the Government has reduced the special excise duty on petrol and diesel by Rs 10 per litre thus reducing the overall excise duty on petrol from Rs 21.9 per litre to Rs 11.9 per litre and from Rs 17.8 per litre to Rs 7.8 per litre on diesel in order to provide relief to the OMCs amidst the rising crude prices

- At the same time the Government has imposed a windfall tax of ₹21.5 per litre on diesel exports. Furthermore, a Special Additional Excise Duty on Aviation Turbine Fuel (ATF) of Rs 50 per litre has been imposed, which however with effective exemptions comes down to ₹29.5 per litre. This move by the Government will help in ensuring increased availability for the domestic market

Impact on Centre's Revenue is Rs 1.13 lakh crore for FY27 if things remain as it is

- **We estimate that the Centre's revenue will be hit by at least Rs 2.1 lakh crore from the cut in excise duty cut on diesel and petrol. Notably, this number will increase if we consider higher production levels next year**

- However, the increase in duty on ATF and diesel will lead to higher revenue for the Government at Rs 0.93 lakh crore again if we consider the export number of FY26

- **Thus, the Centre is likely to suffer a net revenue loss of at least Rs ~1.1 lakh crore in FY27. In FY26 the Centre's loss would be negligible**

Impact on Government Revenue full year (based on FY26 numbers)	
Petrol production ('000 MT)	47136
Petrol production ('000 litres)	65424768
Diesel production ('000 MT)	119617
Diesel production ('000 litres)	140669592
Cut in Special Excise Duty (Rs 10 / litre)	10
Reduction in Excise duty from Petrol (Rs crore)	65425
Reduction in Excise duty from Diesel Rs crore)	140670
Total reduction in Government Revenue (Rs lakh crore)	2.06
Export of ATF ('000 MT)	6761
Export of ATF ('000 litres)	8451250
Export Duty on ATF (per litre)	29.5
Additional revenue from ATF (Rs crore)	24931
Export of Diesel ('000 MT)	26971
Export of diesel (in '000 litres)	31717896
Export duty on diesel (per litre)	21.5
Additional Revenue from Diesel (Rs crore)	68193
Total Annual additional Revenue of the Government (Rs lakh cr)	0.93
Thus Net reduction in government revenue (Rs lakh crore)	**1.13**
Source: PPAC, SBI Research	

State revenue from VAT likely to increase by at least Rs 25,000 crore in FY27…States can also adjust the VAT downwards in tandem with the Centre

- States earned a total of Rs 3.02 lakh crore from Sales Tax/VAT on POL products in FY25….with increase in price of crude States are likely to earn higher VAT revenue from oil at unchanged VAT rates

Estimate of State's Revenue from VAT on petrol/diesel for FY27, Rs lakh crore)	
Revenue of States from VAT on Petrol	1.3
Revenue of States from VAT on diesel	2.0
Total Revenue of States from VAT	3.3
Revenue of States from VAT on POL products in FY25	3.0
Gain of States at unchanged consumption of FY26	0.25
Source: PPAC, SBI Research, using FY25 & FY26 consumption figures and Indian oil basket price of Rs 123/bbl of Mar'26	

- **Even if we consider the oil consumption by States of FY26 (estimated from FY25 share) and the new excise duty rates of the Centre, the States are expected to earn higher VAT by ~Rs 25,000 crore benefiting from the higher crude oil price, with Karnataka benefitting the most. In March 2026 the States have already benefitted by Rs 2500 crore incrementally owing to higher oil prices, with around Rs 2400 crore increase before the excise duty cut**

- This is definitely going to be higher once we consider the higher consumption of petrol & diesel by States

- **Thus, states can act to cut VAT rates and pass on the benefit to consumers!**

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