

SEPTEMBER 11 , 2018
ISSUE NO:45, FY19**WINDFALL GAIN FOR STATES AS RUPEE DEPRECIATES**

The recent rupee depreciation with the rising crude oil prices has made the headlines and created anxiety. The rupee decline in consonance with rising crude has made a significant impact on domestic petroleum and diesel prices.

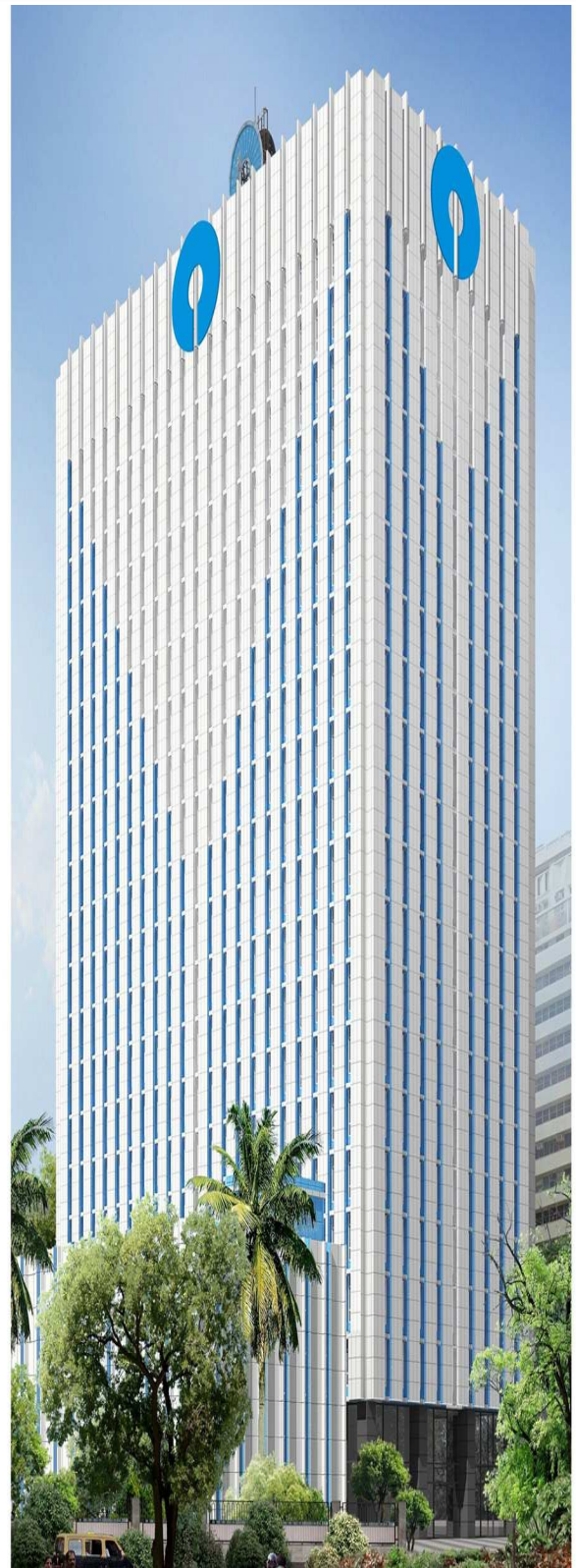
In the last 6 months (since Mar'18) petrol and diesel prices have increased by Rs 5.60 and Rs 6.31, respectively in Delhi. Petrol price has now crossed Rs 89 litre in Maharashtra (highest). The variation in prices in different States is primarily due to different rates of VAT, for e.g., Maharashtra (39.12% per litre) has the highest rate of VAT on petrol and Goa (16.66% per litre) has the lowest. This increase in petrol and diesel prices is likely to give states a windfall gain of around Rs 22,700 crores over and above the budget estimates for current fiscal. Alternatively, a \$1/barrel increase in oil prices translates on an average of Rs 1513 crore revenue gain to all the major 19 states.

This windfall gain will have positive impact on State finances, which might push down the states fiscal deficit by 15-20 bps, other things remaining unchanged. We also estimate that since the states are having an incremental revenue over the budgeted one, they could cut on an average petrol prices by Rs 3.20 /litre and diesel by Rs 2.30/ litre, without affecting their revenue arithmetic, States like Maharashtra, Madhya Pradesh, Punjab, Tamil Nadu, Andhra Pradesh, Rajasthan and Karnataka have the privilege to cut petrol prices by at least Rs 3 from their existing rates and Rs 2.5 on diesel. We heartily welcome that Rajasthan and Andhra Pradesh have already pared rates.

Interestingly, if the states impose VAT on base price (crude oil+ transportation cost+ commission), then diesel prices could drop by as much as Rs 3.75 and Rs 5.75 for petrol. However, this will result in a revenue loss of states of around Rs 12,000 crores (net of Rs 34,627 crore loss and Rs 22,700 crore gain from oil bonanza).

The problem with the states is that even as many states are having a revenue surplus, these states are using the surplus revenue to finance capital expenditure and interest obligations.

We also believe that the Centre should stay put and ride out the recent volatility without any knee-jerk reactions. Interestingly, Indonesia's rating was upgraded in April 2018, prior to the currency woes! India's macro fundamentals are much strong and given India's exemplary fiscal commitment even in an election year, it deserves a rating pat from international agencies, if Indonesia is the benchmark!



INDIAN STATES GET RS 23,000 CRORE WINDFALL GAIN OVER BUDGET ESTIMATES FROM OIL IN FY19

- ◆ The recent Rupee depreciation with the rising crude oil prices has made the headlines and created the anxiety that rupee may depreciate further. Though the decline in rupee could be attributed to several external factors but it has made a significant impact on crude oil prices.
- ◆ In the last 6 months (since Mar'18) Petrol and Diesel prices have increased by Rs 5.60 and Rs 6.31, respectively in Delhi. With this increase, petrol prices crossed Rs 89 /litre in Maharashtra (highest). The variation in prices in different States is primarily due to different rates of VAT, for e.g., Maharashtra (39.12% per litre) has the highest rate of VAT on petrol and Goa (16.66% per litre) has the lowest. All other States lie in this range only.
- ◆ This increase in petrol and diesel prices gives States a windfall gain because of tax on tax approach followed across States. There are central excise duty, transportation costs, commission costs and other charges that are levied on the input price. On top of these, the state tax/VAT is levied.
- ◆ We have calculated the State-wise (for 19 major States) revenue received from petrol and diesel consumption for FY18 & FY19. This exercise is carried on the assumption that for FY19, the crude oil price will be on an average 75\$/barrel and exchange rate will be Rs72/\$. Similarly, for FY18, we have taken the yearly average crude oil price of 57\$/barrel and the average exchange rate of Rs65/\$. Along with this, State wise VAT rate, dealer commission, central excise duty and transport cost are assumed to be same in FY19 as it was in FY18.
- ◆ To find out the revenue gain by States due to increase in oil price, kept the consumption level as of FY18 only, which is the most conservative way to estimate.
- ◆ We estimate that States will receive Rs 22,700 crore additional revenue over and above the budget estimates of states revenue. By looking into the \$1/barrel increase in oil prices, this translates Rs 1513 crore to all the major 19 states. The largest gain would be in Maharashtra (Rs 3389 crore) followed by Gujarat (Rs 2842 crore). This windfall gain will have positive impact on State finances, which might push the States fiscal deficit by 15-20 bps downward.
- ◆ As the states are getting surplus revenue, so they can cut the petrol prices by Rs 3.20 /litre and diesel by Rs 2.30/ litre, without affecting their revenue arithmetic. However, States are not doing this, only to manage their unforeseen expenditure like farm loan waiver in Uttar Pradesh, Maharashtra, Karnataka, etc.

Arithmetic of States Revenue from Oil			
	Diesel	Petrol	Total
Current revenue Gain (Rs crore)	15780	6922	22702
Gained by 1\$ increase in Crude Oil Price (Rs crore) from last year average price	1052	461	1513
Maximum permissible average cut in prices across states to exactly neutralise the additional Rs 22702 crore revenue	Rs 2.30	Rs 3.20	-
If States impose VAT on Base price (Crude oil + Commission+Transport Cost), Consumer will gain by:	Rs 3.75	Rs 5.75	-
Memoranda: 1. If states impose VAT on Base Prices only instead of Tax on Tax, states tend to lose Rs 34,627 crores on both petrol and diesel / 0.2% of fiscal deficit			
Source: SBI Research			

States Can Cut Petrol/Diesel Prices (Per Litre)		
States	Diesel	Petrol
Maharashtra	2.7	4.3
Madhya Pradesh	2.5	3.9
Andhra Pradesh	3.1	3.9
Punjab	1.8	3.8
Tamil Nadu	2.6	3.5
Rajasthan	2.6	3.4
Kerala	2.6	3.3
Karnataka	2.2	3.3
Jammu & Kashmir	1.9	3.0
Uttarakhand	1.8	3.0
Uttar Pradesh	1.8	2.9
Chattisgarh	2.8	2.9
Haryana	1.9	2.9
Jharkhand	2.5	2.8
Gujarat	2.8	2.8
West Bengal	1.9	2.8
Bihar	2.0	2.7
Odisha	2.7	2.7
Himachal Pradesh	1.6	2.7

Source: SBI Research

States	State-wise VAT/Sales Revenue from Petrol + Diesel (Rs Crore)								
	Diesel			Petrol			Total Gain	VAT/Sales Tax*	
	FY18	FY19 P	Gain	FY18	FY19 P	Gain		Diesel	Petrol
Andhra Pradesh	3788	4646	859	1590	1939	349	1208	28.1%	35.8%
Bihar	1775	2177	402	788	961	173	575	18.3%	24.7%
Chattisgarh	1796	2204	407	618	754	136	543	25.7%	26.9%
Gujarat	9515	11671	2157	3123	3809	686	2842	25.5%	25.5%
Haryana	3678	4511	834	1847	2253	406	1239	17.2%	26.3%
Himachal Pradesh	442	542	100	247	301	54	154	14.4%	24.4%
Jammu & Kashmir	478	587	108	253	309	56	164	17.0%	27.4%
Jharkhand	1439	1765	326	525	640	115	441	23.2%	25.7%
Karnataka	4941	6061	1120	2437	2972	535	1655	20.2%	30.3%
Kerala	2847	3493	645	1197	1459	263	908	23.8%	30.4%
Madhya Pradesh	3344	4101	758	1697	2070	373	1131	23.2%	35.8%
Maharashtra	9942	12195	2254	5171	6306	1135	3389	24.8%	39.1%
Odisha	2765	3392	627	895	1092	197	823	25.0%	24.6%
Punjab	2212	2713	501	1528	1864	336	837	16.7%	35.1%
Rajasthan	5283	6480	1197	2225	2714	489	1686	24.1%	30.8%
Tamil Nadu	6523	8002	1479	2871	3501	630	2109	24.1%	32.2%
Uttarakhand	499	612	113	266	324	58	171	16.8%	27.1%
Uttar Pradesh	5536	6791	1255	2913	3553	640	1895	16.8%	26.9%
West Bengal	2816	3454	638	1336	1629	293	932	17.5%	25.3%
Total	69619	85399	15780	31528	38450	6922	22702	-	-

Source: SBI Research; * as of 10.09.2018

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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