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Govt says ₹3 fuel hike trims OMC losses to ₹750 cr/day, but relief limited

Experts warn elevated crude prices, weak rupee and persistent under-recoveries could force tougher policy choices if the West Asia crisis drags on

Akshita Singh | New Delhi

Petrol and diesel prices were hiked again by about 90 paise per litre on Tuesday (File Photo)

The government on Monday said the recent ₹3-per-litre increase in petrol and diesel prices has reduced daily losses of state-run oil
the financial pressure caused by elevated global crude prices and a weakening rupee due to the West Asia crisis.
Speaking at a press briefing on Monday, Sujata Sharma, joint secretary in the Ministry of Petroleum and Natural Gas, said daily und
crore to nearly ₹750 crore following the latest revision.

Despite the price hikes, petrol and diesel continue to be sold below cost-recovery levels. According to Crisil estimates, under-recove
diesel, while cumulative losses since the start of the conflict could exceed ₹1 trillion by the end of May.

Relief for OMCs, but only partial

Analysts say the latest fuel price hikes have slowed the financial bleeding at state-run fuel retailers, but fall short of fully offsetting

Debopam Chaudhuri, chief economist at Piramal Group, said the ₹3-per-litre fuel price hike could have provided a reasonably effect
back toward $90 per barrel or lower. However, the current macroeconomic environment has made the relief far less meaningful.
"Under current conditions, where the INR continues to weaken to fresh lows and India's average crude basket price remains persist
such an environment, the recent price hike offers only limited and likely temporary relief to OMCs," Chaudhuri said, adding that ret
fuel retailers to see any material improvement in profitability.

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Government faces difficult policy choices

Experts say the government now faces a familiar but politically sensitive dilemma: allow higher fuel prices and risk inflation, or shi
"For an economy that is increasingly striving toward market-based functioning with minimal direct government intervention, larg
Chaudhuri said.

He argued that India's previous reliance on oil bonds during past crude shocks had left long-term fiscal scars, making policymakers
Nilanjan Banik, professor of economics and finance at Mahindra University, said the government effectively has only three realistic
increases, explicit fiscal support, or continued balance sheet absorption by OMCs.

"The realistic path is a mix of all three," he said, suggesting targeted subsidies for transporters, farmers or specific sectors, or even

The debate has also revived questions around India's fuel pricing regime. Although petrol and diesel prices were officially deregulat
frozen during politically sensitive periods despite sharp swings in global crude prices.

"India's system remains officially market-linked and deregulated, but in practice pricing has become effectively semi-administere
government have smoothed, delayed or absorbed shocks to limit pump price volatility, creating a de facto hybrid regime."
That observation touches on a long-running controversy around India's fuel pricing model. Critics have repeatedly argued that whil
politically managed during elections or periods of global volatility, leaving OMCs to temporarily absorb losses.

Crude shock raises inflation concerns

Economists warn that fuel hikes may spill over into broader inflation through freight, logistics and manufacturing costs if crude pri
"The sharp increase in prices of petrochemical feedstock like naphtha, bitumen and petroleum coke is a key inflationary risk for FY
showed steep inflation in several petroleum-linked industrial inputs.

"These cost pressures are expected to gradually transmit across manufacturing and supply chains, while higher transportation and
environment," he said.
According to Chaudhuri, if current conditions persist, India's consumer inflation could rise towards 5.2 per cent in FY27. However, h
import basket moderates to around $95 per barrel or lower before the end of the first half of FY27.

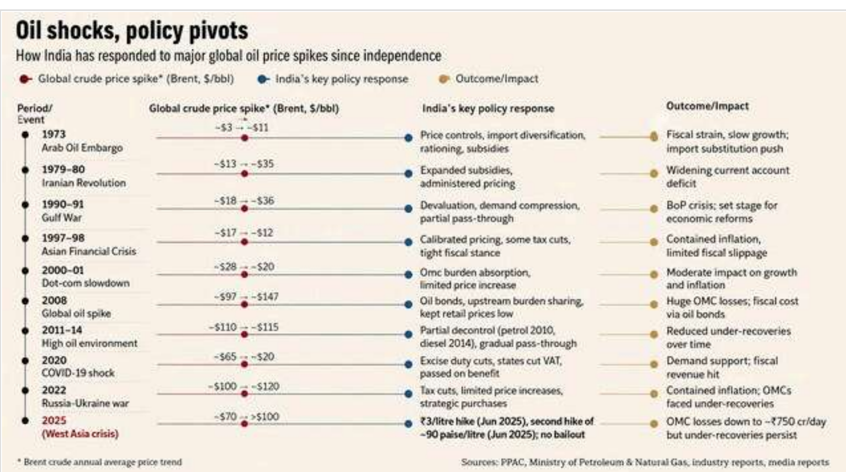
Banik said diesel prices, in particular, have wider implications because of their role in transport and agriculture.
"Diesel is a large share of road freight operating costs, agricultural fuel use and many intermediate inputs; higher diesel typically ra
and services over several months," he said.

He added that recent fuel hikes could directly add between 0.1 and 0.3 percentage points to consumer inflation, with second-round p
points over time.

How India has historically handled oil shocks

India has historically responded to major oil shocks through a mix of subsidies, tax cuts, oil bonds, burden-sharing by upstream fir

During the 1973 Arab oil embargo and the 1979 Iranian Revolution, the government relied heavily on price controls, rationing and su
payments crisis and accelerated broader economic liberalisation.
Later, during the 2008 crude supercycle, when global oil prices touched nearly $147 per barrel, India leaned on oil bonds and upstre
prices artificially low.



How India handled past crude shocks, and what changed over time.

The current response marks a shift from blanket subsidy mechanisms toward more calibrated price pass-through and limited fiscal
"India enters this crisis from a materially stronger macroeconomic position compared with previous oil shock cycles," Chaudhuri s
resilience and healthier balance sheets across large financial institutions.
Still, he cautioned that prolonged elevated crude prices could begin exerting "severe pressure" on India's balance-of-payments ma

What to watch next

The key question now is whether the latest fuel hikes are enough to stabilise OMC finances if geopolitical tensions remain elevated.
Rahul Ahluwalia, founder-director of the Foundation for Economic Development, argued that the government should gradually allo
instead of suppressing price signals.

“The ground reality is that we are experiencing a geopolitical crisis and global oil prices are high. We should consume less petrol anc
said.

“There will be some inflationary impact of this, but it is not complete pass through because people will find substitutes with smaller

At the same time, he argued that targeted welfare support, such as direct cash or food transfers, would be more effective than broad
For now, the government appears to be taking a calibrated middle path, allowing gradual fuel price increases while avoiding a direct
prices remaining below cost-recovery levels, analysts said the current relief may only buy limited time if crude prices remain elevat

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