# Indian Economy · GS - III

**“Oil marketing companies' profitability and retail fuel prices do not necessarily move in the same direction.” Explain the factors determining petrol and diesel prices in India. Discuss their implications for inflation and fiscal policy.**

| EXAM YEAR | PAPER | SUBJECT |
|---|---|---|
| Mains DAILY PRACTICE | GS - III | Indian Economy |

| MARKS | WORD LIMIT |
|---|---|
| 10 | ~150 words |

## Answer Hint

**Explain the relationship between crude oil prices, exchange rates, excise duty, VAT, OMC pricing policies, under-recoveries, margins, inflation, fiscal implications and consumer welfare.**

## Model Answer

India's petrol and diesel prices are influenced by international crude oil prices, the rupee exchange rate, refining costs, transportation expenses and taxation. Central excise duty and state VAT constitute significant components of retail fuel prices.

Higher profitability of Oil Marketing Companies (OMCs) does not necessarily translate into cheaper fuel. Companies may consider recovering previous losses, future costs, inventory valuation and profit margins. Moreover, consumers may not receive the entire benefit of lower input costs if governments do not reduce taxes.

Fuel prices have significant macroeconomic implications. Expensive petrol and diesel increase transportation costs, putting upward pressure on food prices and other commodities. This can generate cost-push inflation.

Conversely, fuel taxation constitutes an important revenue source for governments. Reducing fuel prices through tax cuts may affect government revenue and fiscal balance.

Therefore, fuel pricing requires balancing consumer welfare, inflation management, fiscal sustainability and energy security.