APRIL 2026 | POLICY DISCUSSION PAPER

Fiscal Impact of 2026 War in the Middle-East on India

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April 2026

Abstract

The US–Israel military operation against Iran (February 2026) and Iran's retaliatory activities including closure of the Strait of Hormuz have triggered a large energy supply shock for India, the world's third-largest oil importer. This paper provides a bottom-up fiscal accounting of the shock's impact on the Indian central government's budget for FY 2025–26 and FY 2026–27. We trace the transmission through five channels: higher fertiliser subsidies (costlier domestic gas, costlier urea imports, costlier DAP imports), higher LPG subsidies, foregone excise revenue from the Special Additional Excise Duty (SAED) cut on petrol and diesel, a modest customs duty gain, and foregone petroleum-sector dividends. Under our primary scenario (war through June 2026), the additional fiscal deficit in FY 2026–27 is Rs. 74,087 crore, pushing the deficit from 4.30% to 4.49% of GDP. In the worst case (war through December), the deficit reaches 4.99% of GDP, a deviation of 0.69 percentage points from the Budget target.

Keywords: energy shock, fiscal deficit, petroleum subsidies, fertiliser subsidy

JEL Codes: E62, H62, Q43, Q48

*The paper was significantly improved by the suggestions and feedback from Prof. Prachi Mishra, Mr. Vijay Singh Chauhan and Mr. Vikas Dimble. The feedback from Ms. Shubhangi Sahai, Ms. Vidushi Balakrishnan and Mr. Zuhaib Bangroo in the preliminary stage is greatly appreciated.

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1. INTRODUCTION

The US–Israel military operation against Iran, launched on 28 February 2026, and Iran's retaliatory closure of the Strait of Hormuz have produced the most severe energy supply disruption since the Russian invasion of Ukraine in 2022. The Indian Basket crude oil price rose from approximately US$69 per barrel in February 2026 to over US$113 in March.[1] For India, which imports approximately 88% of its crude oil and is the world's third-largest petroleum consumer, this shock creates fiscal pressure through two broad channels: higher expenditure on energy-linked subsidies, and lower tax revenue from the government's decision to cut excise duties to prevent retail fuel price increases.

India's fiscal architecture for managing energy shocks is institutionally distinctive in ways that standard macroeconomic models do not capture. First, petroleum products are nominally "deregulated" since 2010 (petrol) and 2014 (diesel), but retail prices are in practice administered, frozen for extended periods during elections and crises, with state-owned oil marketing companies (OMCs) absorbing the resulting losses off the government's books. Second, the fertiliser subsidy operates through a Nutrient Based Subsidy (NBS) regime for phosphatic and potassic fertilisers and a retention-price mechanism for urea, making the subsidy bill mechanically sensitive to global gas and nutrient prices. Third, the LPG subsidy involves a government–OMC cost-sharing arrangement with no legislated formula, governed instead by ad hoc precedent. Fourth, the government's primary revenue instrument for petroleum, the Special Additional Excise Duty (SAED), doubles as a price stabilisation tool, cut when crude rises and restored when it falls. These features mean that the fiscal consequences of an energy shock in India are determined not merely by the size of the price increase, but by a sequence of policy choices about how much of the shock to absorb on-budget, how much to push off-budget onto OMC balance sheets, how much to recoup losses

[1] PPAC Indian Basket monthly average for March 2026 was US$113.49/bbl (Petroleum Planning and Analysis Cell, 2026a). The February 2026 average was approximately US$69/bbl. The price of Indian basket of crude oil is the weighted average of Oman & Dubai price and Brent price. The weights changed from 78.71:21.29 (Oman & Dubai to Brent) till February 2026 to 38.98:61.02 for March 2026.

later by staggered increase in duties as prices fall and how much to pass through to consumers.

This paper provides a detailed, bottom-up accounting of the fiscal impact of the Iran–Israel war on the central government's budget for FY 2025–26 (March 2026 only) and FY 2026–27 (April–December 2026). We identify five fiscal channels: (i) the fertiliser subsidy, decomposed into three sub-channels (costlier domestic urea production via the LNG price shock, costlier urea imports, and costlier DAP imports); (ii) the LPG subsidy, scaled with the Saudi Aramco Contract Price; (iii) foregone SAED excise revenue from the Rs. 10 per litre duty cut on petrol and diesel; (iv) a customs duty gain from higher crude import values; and (v) foregone petroleum-sector dividends as OMCs shift from profit to loss. In addition, we document the magnitude of off-budget OMC losses, which do not enter the fiscal deficit but represent a contingent fiscal liability.

Our headline findings are as follows. Under the primary scenario (war effects through June 2026), the extra fiscal deficit in FY 2026–27 is Rs. 74,087 crore, pushing the deficit-to-GDP ratio from the budgeted 4.30% to 4.49%. Under the worst-case scenario (war through December 2026), the extra deficit reaches Rs. 2,64,101 crore, and the FD-to-GDP ratio rises to 4.99%, 0.69 percentage points above the FRBM target (Ministry of Finance, Government of India, 2026b). These on-budget figures understate the total fiscal exposure. OMCs face cumulative off-budget losses of approximately Rs. 4.6 lakh crore under the December scenario, arising from frozen pump prices on petrol and diesel. The UPA government issued Rs. 1.4 lakh crore in oil bonds between 2005 and 2010 in a comparable, though smaller, episode; the current government has not indicated whether similar compensation will be provided.

Two caveats apply throughout. First, we model only the price shock, not quantity adjustments (except for LPG, where demand management measures have been imposed), since the government has committed to ensuring full fertiliser availability and crude oil sourcing is being diversified.[2] Second, we hold the FRBM nominal GDP pro-

[2]See Press Information Bureau (2026b): "The Government has ensured that the requirement of 375.18 LMT urea for FY 2025–26 will be fully met through a combination of domestic production and imports."

jections constant throughout, Rs. 3,57,34,791 crore for FY 2025–26 and Rs. 3,81,09,891 crore for FY 2026–27 (Ministry of Finance, Government of India, 2025b, 2026b). A war-induced growth slowdown would raise the FD-to-GDP ratio further for any given level of deficit, making our estimates conservative.

The remainder of the paper is organised as follows. Section 2 presents the Union Budget 2026–27 baseline. Sections 3, 4, and 5 detail the three main transmission channels: fertiliser subsidies, LPG subsidies, and petroleum revenue. Section 6 consolidates the monthly fiscal impact and presents scenario comparisons. Section 7 discusses the limitations.

2. UNION BUDGET 2026–27: THE BASELINE

The Union Budget for FY 2026–27 projects total expenditure of Rs. 53,47,315 crore, gross tax revenue (GTR) of Rs. 44,04,086 crore, and a fiscal deficit of 4.30% of GDP (Rs. 16,38,725 crore at the FRBM-projected GDP of Rs. 3,81,09,891 crore). The revenue deficit is projected at 1.50% of GDP, and central government debt at 55.60% of GDP (Ministry of Finance, Government of India, 2026b). This continues the consolidation trajectory from 9.16% in FY 2020–21 to 4.40% in FY 2025–26 (RE), with the government's fiscal anchor shifting from a fixed deficit target to a debt-to-GDP glide path aiming for $50 \pm 1\%$ by FY 2030–31.[3]

The budget items most exposed to an energy price shock are on both sides of the ledger. On the expenditure side, two Demands for Grants are directly affected. Demand for Grants No. 6 (DG6), covering the Department of Fertilisers, has a Budget Estimate (BE) of Rs. 1,70,945 crore, or 3.20% of total expenditure (Department of Fertilisers, Ministry of Chemicals and Fertilizers, 2027). This covers the subsidy on indigenous urea, imported urea, and P&K (phosphatic and potassic) fertilisers under the NBS regime. Demand for Grants No. 76 (DG76), covering the Department of Petroleum, has a BE of Rs. 30,443 crore (0.57% of expenditure), which includes LPG subsidies

[3]See Ministry of Finance, Government of India (2026b), paragraph 55: "Starting FY 2026–27 till FY 2030–31, the Government would endeavour to keep fiscal deficit in each year such that the Central Government debt is on declining path."

(Rs. 11,085 crore), a one-time grant to OMCs (Rs. 17,500 crore), and Direct Benefit Transfer for LPG (Rs. 1,500 crore) (Department of Petroleum, Ministry of Petroleum and Natural Gas, 2026). Notably, DG76 does not include any provision for compensating OMCs for under-recoveries on petrol and diesel, a deliberate policy choice that pushes those costs off-budget.

On the revenue side, three line items are sensitive to crude oil prices. The SAED on petroleum products is estimated to contribute approximately Rs. 1,69,720 crore to gross tax revenue.[4] Customs duty on crude oil imports, levied at 2.5% Basic Customs Duty (BCD), is budgeted at Rs. 2,71,200 crore within total customs revenue. Petroleum-sector dividends to the government, from IOCL, BPCL, HPCL, ONGC, OIL, IGL, and GAIL, averaged Rs. 19,310 crore in FY 2023–24 (Petroleum Planning and Analysis Cell, 2025).

Table 1 summarises the exposed budget items. Together, the two expenditure heads account for 3.77% of total expenditure, while the three revenue items represent a substantial share of the government's petroleum-linked fiscal flows.

[4]This figure is computed from the pre-war SAED rates (Rs. 13/litre on petrol, Rs. 10/litre on diesel) applied to monthly consumption volumes from Petroleum Planning and Analysis Cell (2026f). The Budget documents do not separately report SAED revenue; it is subsumed within Union Excise Duties.

Table 1: Union Budget 2026–27: Energy-Exposed Items

Expenditure Head	**BE (Rs. Cr)**	**% of Total Exp.**
DG6: Fertiliser Subsidy	1,70,945	3.20%
DG76: Petroleum Subsidy	30,443	0.57%
Total Exposed Expenditure	**2,01,388**	**3.77%**
Total Expenditure	53,47,315	100%

Revenue Head	**BE / Estimate (Rs. Cr)**	**% of GTR**
SAED (within excise)	∼1,69,720	3.85%
Customs on crude	2,71,200	6.16%
Petroleum dividends	∼19,310	—
Gross Tax Revenue	44,04,086	100%

Sources: DG6 and DG76 from Statement of Budget Estimates (Department of Fertilisers, Ministry of Chemicals and Fertilizers, 2027; Department of Petroleum, Ministry of Petroleum and Natural Gas, 2026). FRBM aggregates from Ministry of Finance, Government of India (2026b). SAED estimated from pre-war rates and PPAC consumption data. Dividends from Petroleum Planning and Analysis Cell (2025).

A crucial feature of India's fiscal framework is the historical tendency to underestimate energy subsidies at the Budget stage. During the Russia–Ukraine war, the FY 2022–23 fertiliser subsidy BE was Rs. 1,05,262 crore; the actual outturn was Rs. 2,51,369 crore, an overrun of Rs. 1,46,107 crore, or 138.80% of the BE (Department of Fertilisers, Ministry of Chemicals and Fertilizers, 2027). Import urea subsidies are particularly prone to underestimation: the FY 2025–26 BE for import urea was Rs. 21,000 crore, while the Revised Estimate rose to Rs. 51,972 crore.[5] This pattern reflects the structural vulnerability of the fertiliser subsidy budget to global commodity price movements, a vulnerability that the current shock has aggravated once again.

[5]SBE DG6, FY 2025–26: Item 2.04 (Import Urea), BE Rs. 21,000 crore, RE Rs. 51,972 crore (Department of Fertilisers, Ministry of Chemicals and Fertilizers, 2027).

3. FERTILISER SUBSIDY

The fertiliser subsidy is the largest expenditure channel through which the war is expected to affect the budget. We decompose the extra subsidy into three channels, each driven by a distinct link in the supply chain from global energy markets to Indian agriculture.

3.1 CHANNEL A: COSTLIER DOMESTIC UREA PRODUCTION

India's urea plants consume natural gas as both feedstock and fuel, requiring approximately 30 million British thermal units (mmbtu) per metric tonne (MT) of urea produced.[6] Prior to the war, the gas mix for the fertiliser sector was 13.25% domestically produced gas under the administered price mechanism (APM) and 86.75% imported re-gasified LNG (R-LNG).[7]

The Hormuz closure disrupted approximately 30 million standard cubic metres per day (MMSCMD) of LNG supply to India.[8] The government responded with a Gas Control Order on 9 March 2026, redirecting domestic gas from industrial and commercial consumers (capped at 80% of allocation) to the fertiliser sector.[9] Additionally, emergency procurement through the EPMC spot tender added 7.31 MMSCMD.[10] The combined effect shifted the gas blend from 13/87 to approximately 28/72 (domestic/import), with total gas availability of 39.31 MMSCMD, sufficient for urea production of 67,000 MT per day, or 76% of pre-war capacity (84,018 MT/day).[11]

The fiscal cost arises because LNG spot prices have risen sharply. The World Bank

[6] This is the approximate average for Indian plants. The New Investment Policy (NIP) and New Urea Policy (NUP) norms specify energy consumption norms in the range of 28–32 mmbtu/MT depending on the technology vintage.

[7] PPAC Monthly Gas Report, January 2026, Chart 6 (Sectoral Consumption): domestic gas to fertiliser = 234 MMSCM (13.25%), R-LNG = 1,532 MMSCM (86.75%) (Petroleum Planning and Analysis Cell, 2026b).

[8] Press Information Bureau (2026c): "India produces approximately 90 MMSCMD domestically; 30 MMSCMD LNG lost from Gulf force majeure."

[9] Press Information Bureau (2026c): Gas Control Order dated 9 March 2026 prioritised fertiliser at 70% of pre-war allocation and industrial at 80%.

[10] Press Information Bureau (2026a): "Total gas to urea plants = 39.31 MMSCMD; urea production = 67,000 MT/day; 76% of average gas need fulfilled."

[11] Pre-war daily production derived from FY 2024–25 annual urea production of 306.67 LMT (Press Information Bureau, 2026b), implying 84,018 MT/day over 365 days.

Pink Sheet records the pre-war (February 2026) LNG Japan price at US$11.47/mmbtu (World Bank, 2026). Under our scenario assumptions, spot LNG rises to US$22/mmbtu when crude is at US$125/bbl, US$26 at US$140, and US$28 at US$150.[12] The APM domestic gas price was US$6.21/mmbtu in February 2026 (pre-war), revised to US$6.81 for March 2026 (Petroleum Planning and Analysis Cell, 2026c), and further to US$7.00 (ceiling for ONGC/OIL nomination fields) from April 2026 (Petroleum Planning and Analysis Cell, 2026d). For the pre-war counterfactual, we use the February APM price of US$6.21 throughout, since the April ceiling may partly reflect war-induced increases in international hub prices. The resulting blended gas costs are:

Table 2: Blended Gas Cost for Urea Production (US$/mmbtu)

	Pre-war	**Mar–Jun** (US$125 crude)	**Jul–Sep** (US$140 crude)	**Oct–Dec** (US$150 crude)
APM share (28%) × US$6.81	10.86	1.91	1.91	1.91
LNG share (72%) × spot		15.84	18.72	20.16
Blended cost	**10.86**	**17.75**	**20.63**	**22.07**
Extra over pre-war	—	**6.89**	**9.78**	**11.21**

Sources: Pre-war prices from World Bank (2026) and Petroleum Planning and Analysis Cell (2026c). APM gas price from Petroleum Planning and Analysis Cell (2026d).

Note: Pre-war blend was 13.2/86.8 domestic/LNG at Feb 2026 APM ($6.21). Post-war blend is 28/72 following Gas Control Order and EPMC procurement. Pre-war blended cost: $0.132 \times 6.21 + 0.868 \times 11.47 = 10.78$. War blend uses actual APM: $6.81 (Mar), $7.00 (Apr+).

The extra gas cost per MT of urea is: $(p^{\text{war}}_{\text{blend}} - p^{\text{pre}}_{\text{blend}}) \times 30$ mmbtu/MT × INR/USD. At war production of 67,000 MT/day, the total extra cost on domestic urea production (Channel A) is Rs. 50,542 crore for March–December 2026: Rs. 1,055 crore for March alone, Rs. 11,820 crore for April–June, Rs. 17,337 crore for July–September, and Rs. 20,330 crore for October–December.

[12]The price assumptions for LNG roughly follow the percentage increase in assumed prices of crude.

3.2 CHANNEL B: COSTLIER UREA IMPORTS

With domestic production gas requirement fulfillment at 76% of average requirement, India must import the shortfall in urea production from domestic plants (Press Information Bureau, 2026a). Annual urea requirement is 375.18 LMT (Press Information Bureau, 2026b). Crucially, production from January and February 2026 (at pre-war capacity of 84,018 MT/day) is available as buffer stock for the Kharif season, since Rabi consumption ends in December. Combined with wartime production of 67,000 MT/day from March onwards, Kharif availability (January–July) is approximately 15,208 thousand MT, while Rabi availability (August–December at war rate) is 10,251 thousand MT. Accounting for seasonal distribution, Kharif sowing (June–July) absorbs approximately 50% of annual consumption, and Rabi (October–December) the other 50%,[13] total urea imports under the war scenario are estimated at 22,689 thousand MT, 8,866 for Kharif and 13,823 for Rabi. The asymmetry arises because the January–February pre-war buffer reduces Kharif import needs substantially.

The pre-war urea spot price was US$472/MT (FOB Middle East, February 2026) (World Bank, 2026). Under war conditions, spot prices rise to US$730–770/MT depending on the crude oil trajectory. The extra import cost per MT is computed as: (war spot − pre-war spot) × INR/USD. The total extra cost on urea imports (Channel B) is Rs. 60,818 crore for March–December: Rs. 21,273 crore for Kharif and Rs. 39,545 crore for Rabi season.

3.3 CHANNEL C: COSTLIER DAP IMPORTS

Di-ammonium phosphate (DAP) is the most used P&K fertiliser. India imports 53% of its DAP consumption (Ministry of Finance, Government of India, 2025a). The pre-war DAP spot price was US$626.5/MT (World Bank, 2026); under war conditions, this rises to US$670–700/MT. The extra DAP import cost (Channel C) is Rs. 4,955 crore for March–December: Rs. 1,806 crore for Kharif and Rs. 3,149 crore for Rabi.

[13] Department of Fertilisers Annual Report 2023–24: Kharif requirement 170.67 LMT, Rabi requirement 185 LMT.

3.4 TOTAL ADDITIONAL FERTILISER SUBSIDY

The combined additional fertiliser subsidy across all three channels is Rs. 1,16,315 crore for March–December 2026, representing 68% of the DG6 BE of Rs. 1,70,945 crore. Table 3 summarises the decomposition. For comparison, the Russia–Ukraine episode produced a 12-month overrun of Rs. 1,46,107 crore (139% of BE) in FY 2022–23 (Department of Fertilisers, Ministry of Chemicals and Fertilizers, 2027). The current shock, if sustained for 10 months, represents about 80% of that figure.

Table 3: Extra Fertiliser Subsidy by Channel, March–December 2026 (Rs. crore)

Channel	Mar–Jun	Jul–Sep	Oct–Dec	Total
A: Costlier domestic production	12,875	17,337	20,330	50,542
B: Costlier urea imports	21,273	—	39,545	60,818
C: Costlier DAP imports	1,806	—	3,149	4,955
Total				**1,16,315**

Sources: Author's calculations from PPAC, PIB, Budget documents, and World Bank (2026).

Note: Channel B and C costs are allocated to Kharif (Mar–Jul production + sowing) and Rabi (Aug–Dec + sowing) seasons rather than calendar quarters. Price assumptions: crude US$125 (Mar–Jun), US$140 (Jul–Sep), US$150 (Oct–Dec). Exchange rate: 93, 95, 96 INR/USD respectively. See Section A for full price matrix.

These estimates are conservative. They do not capture: (i) the volume substitution from cheaper domestic production to costlier imports at pre-war prices; (ii) potential upward revision of NBS rates; (iii) subsidy increases on NPK, MOP, or SSP fertilisers; or (iv) additional freight and insurance costs on war-route shipments.

4. LPG SUBSIDY

India imports approximately 60% of its LPG requirement, with 90% of imports having transited through the Strait of Hormuz prior to the war.[14] LPG pricing for Indian consumers is linked to the Saudi Aramco Contract Price (CP) for LPG, the benchmark for

[14] Press Information Bureau (2026c): "India imports approximately 60% of LPG; 90% of imports transited through Hormuz."

Asian LPG trade.

Before the war, the Saudi CP stood at US$540/MT (February 2026), implying an OMC landed cost of approximately Rs. 987 per 14.2 kg domestic cylinder.[15] The government's immediate response included a retail price revision from Rs. 853 to Rs. 913 per cylinder (non-PMUY) and Rs. 613 (PMUY), absorbing Rs. 74 of the Rs. 134 adjustment needed.[16] The government also invoked the LPG Control Order to increase refinery LPG output by 28% and imposed demand management measures, a 25-day minimum gap between cylinder bookings and caps on commercial LPG.[17] We assume wartime consumption of 2,300 TMT per month (down from ∼2,800 pre-war), yielding approximately 162 million cylinders per month.

As crude oil prices escalate, the Saudi CP rises to US$650–720/MT, pushing OMC cost per cylinder to Rs. 1,188–1,316. With retail prices frozen (Petroleum Planning and Analysis Cell, 2026d), the under-recovery per cylinder widens. Following the FY 2024–25 precedent, where the government compensated OMCs for approximately 75% of LPG losses, with OMCs absorbing 25%,[18] we apply a 75:25 cost-sharing ratio throughout.

The extra LPG subsidy borne by the government is Rs. 31,307 crore for March–December 2026, equivalent to 103% of the entire DG76 BE (Rs. 30,443 crore). OMCs absorb an additional Rs. 10,436 crore. The total extra under-recovery is Rs. 41,743 crore. The government is promoting a transition to piped natural gas (PNG) as a substitute for LPG, but the infrastructure is far from adequate: of the 1.65 crore PNG connections sanctioned, only 1.03 crore are active (Petroleum and Natural Gas Regulatory Board, 2026; Press Information Bureau, 2026d), too few to materially reduce LPG demand in the near term.

[15] Press Information Bureau (2026c): "Saudi Contract Price rising 41% between July 2023 and March 2026"; OMC cost at US$540 CP = Rs. 987/cylinder.

[16] Press Information Bureau (2026c): Government absorbed Rs. 74/cylinder; consumer bore Rs. 60 increase.

[17] Press Information Bureau (2026c): Refinery LPG output directed up 28%. Petroleum Planning and Analysis Cell (2026e): pre-war consumption 2,822 TMT/month.

[18] Press Information Bureau (2026c): "OMC compensation of Rs. 30,000 crore approved against losses of approximately Rs. 40,000 crore in 2024–25." This implies a 75:25 government–OMC split.

5. PETROLEUM REVENUE IMPACT

The revenue side of the fiscal impact has three components: a customs duty gain, the SAED excise cut, and foregone petroleum-sector dividends. Together, revenue effects account for more of the fiscal deterioration than the expenditure increase, which reflects the government's choice to use excise instruments rather than direct expenditure to manage the shock.

5.1 CUSTOMS DUTY GAIN

India levies a 2.5% Basic Customs Duty (BCD) on crude oil imports. As the Indian Basket price rises from US$69 to US$113–150 per barrel, customs collections increase mechanically. Applied to monthly crude import volumes from PPAC (Petroleum Planning and Analysis Cell, 2026g), the extra customs revenue ranges from Rs. 1,709 crore in March to Rs. 3,076 crore in December. Cumulatively, the customs gain is Rs. 5,976 crore for April–June and Rs. 24,034 crore for March–December. This is the only positive fiscal effect of the war.

5.2 SAED EXCISE CUT

On 26 March 2026, the Finance Ministry issued Gazette Notification G.S.R. 204(E), reducing the SAED on petrol from Rs. 13 per litre to Rs. 3 per litre and on diesel from Rs. 10 per litre to nil (full exemption) (Ministry of Finance, Government of India, 2026a). This is the single largest driver of fiscal deterioration.

The SAED cut does not reduce pump prices. Rather, it transfers revenue from the government to OMCs, partially offsetting OMCs' increased procurement costs. In effect, the government chose to sacrifice excise revenue rather than increase budgetary expenditure through DG76, keeping the subsidy off the expenditure ledger. The fiscal outcome is the same, a wider deficit, but the accounting treatment affects perceptions of expenditure discipline.

Applied to monthly consumption of motor spirit (MS) and high-speed diesel (HSD) from PPAC data, approximately 3,528 TMT of MS and 7,817 TMT of HSD per month

in FY 2025–26, converted to litres at densities of 0.74 and 0.835 kg/L respectively (Petroleum Planning and Analysis Cell, 2026f), the revenue loss is approximately Rs. 13,957 crore per month. Since the cut was effective from late March and the SAED was already at full rates for March, we assume zero SAED loss for March 2026 and full loss from April onwards. The cumulative SAED revenue loss is Rs. 44,421 crore for April–June and Rs. 1,27,373 crore for April–December.

5.3 FOREGONE PETROLEUM DIVIDENDS

Petroleum-sector dividends to the central government averaged Rs. 19,310 crore in FY 2023–24 (approximately Rs. 1,609 crore per month) (Petroleum Planning and Analysis Cell, 2025). With OMCs facing monthly losses of Rs. 36,000–59,000 crore from frozen petrol and diesel pump prices (computed as the extra per-litre cost net of SAED relief and any pump price increases, applied to monthly consumption volumes), no dividends are feasible. We assume complete dividend foregone throughout the war period: Rs. 4,828 crore for April–June and Rs. 16,090 crore for March–December. As Government of India holds majority ownership of about 55% of the OMCs, the minority shareholders are also affected by the loss of dividend.

5.4 OFF-BUDGET OMC LOSSES

While OMC losses do not enter the fiscal deficit, they represent a critical dimension of the government's fiscal exposure. The monthly OMC extra loss on petrol and diesel ranges from Rs. 36,249 crore (December, as pump price hikes gradually offset costs) to Rs. 59,448 crore (March, before the SAED cut). The cumulative off-budget loss reaches approximately Rs. 4.5 lakh crore by December 2026. For context, the combined FY 2023–24 profits of IOCL, BPCL, and HPCL were approximately Rs. 81,000 crore; the war losses in March alone (Rs. 72,806 crore) approach that figure. In FY 2022–23, OMCs reported combined losses of Rs. 21,201 crore in the first half alone at a crude price of approximately US$109/bbl, well below the current levels.

This off-budget exposure creates a contingent fiscal liability. If the government

eventually compensates OMCs through budgetary transfers (as in past DG76 grants) or oil bonds (as during 2005–2010), the fiscal deficit would widen considerably beyond our baseline estimates. However, as prices fall followed by staggered revision of pump prices, the OMCs can recover their earlier losses (Jain, 2018).

6. CONSOLIDATED FISCAL IMPACT

India's fiscal year runs from April to March. Since the war began on 28 February 2026, the March 2026 fiscal impact accrues to FY 2025–26, while all impacts from April 2026 onwards accrue to FY 2026–27. This distinction is important: the March impact (Rs. 2,953 crore) pushes the FY 2025–26 fiscal deficit marginally above the Revised Estimate of 4.40% to 4.41%, a modest deviation. The substantive fiscal risk lies in FY 2026–27, where the cumulative impact ranges from Rs. 74,087 crore (war through June) to Rs. 2,64,101 crore (war through December). Table 4 summarises the fiscal impact under three war-duration scenarios, separating the two fiscal years.

Table 4: Fiscal Impact by War Duration

	Through June	Through Sep	Through Dec
FY 2025–26 (March only):			
Extra FD (Rs. crore)	2,953	2,953	2,953
FD/GDP (RE baseline: 4.40%)	4.41%	4.41%	4.41%
FY 2026–27 (April onwards):			
Extra expenditure (Rs. crore)	30,814	75,517	1,47,623
Net revenue loss (Rs. crore)	43,273	74,000	1,16,478
Extra FD (Rs. crore)	**74,087**	**1,49,517**	**2,64,101**
FD/GDP (%)	**4.49**	**4.69**	**4.99**
Δ from BE (4.3%)	+0.19 pp	+0.39 pp	+0.69 pp
OMC off-budget loss (Rs. crore)	∼2,30,000	∼3,48,000	∼4,63,000

Sources: Author's calculations from PPAC, PIB, Budget documents, and World Bank data.

Note: GDP: Rs. 3,57,34,791 crore (FY 2025–26) and Rs. 3,81,09,891 crore (FY 2026–27) per FRBM projections (Ministry of Finance, Government of India, 2025b, 2026b). India's fiscal year is April–March; March 2026 falls in FY 2025–26 and April 2026 onwards in FY 2026–27. The FY 2025–26 impact is identical across scenarios because March is common to all. The SAED cut was effective from 26 March but applied from April for revenue accounting purposes; the March revenue impact covers only customs and dividends.

Several features of Table 4 are worth noting. First, the revenue loss exceeds the expenditure increase under the June scenario (Rs. 43,273 crore vs Rs. 30,814 crore), reflecting the dominance of the SAED cut. This reverses under longer war durations as the Rabi sowing season triggers a large fertiliser import bill. Second, the on-budget fiscal impact (Rs. 2,67,054 crore combining both fiscal years through December) is dwarfed by off-budget OMC losses of Rs. 4.6 lakh crore. Third, even the moderate June scenario breaches the FRBM consolidation path, pushing FD from 4.30% to 4.49% of GDP, which would be the first widening since the pandemic consolidation began in FY 2021–22.

The monthly time path of the fiscal impact is uneven, driven by the seasonality of fertiliser demand. The monthly extra FD is relatively low in non-sowing months (April–May: Rs. 20,000–21,000 crore/month) and spikes during sowing months (June,

October–December: Rs. 37,000–39,000 crore/month) when fertiliser import bills come due. This lumpiness complicates fiscal management, as the government may need to frontload borrowing during sowing months.

7. DISCUSSION

Our estimates rest on several maintained assumptions that deserve explicit discussion.

Price assumptions. Commodity prices under the war scenario are the author's projections calibrated to observed March 2026 spot levels and assumed to rise with crude oil. The mapping from crude to LNG, urea, DAP, and Saudi CP is based on observed co-movements and industry pricing conventions, not estimated elasticities. Table 5 in the Appendix provides the full price matrix.

Exchange rate. We assume INR/USD of 93 (March–June), 95 (July–September), and 96 (October–December). A sharper depreciation, plausible if capital outflows accelerate, would worsen the rupee cost of all imports and widen the deficit.

Constant GDP. We hold nominal GDP at the FRBM projection throughout. If the energy shock contracts GDP by even 0.5 percentage points (a conservative estimate given the magnitude of the price shock), the FD-to-GDP ratio would be mechanically higher for any given deficit level. A 0.5 ppgrowth reduction on a base of Rs. 3,81,09,891 crore would raise the December-scenario FD from 4.99% to approximately 5.05% of GDP.

No second-round effects. We do not model the macroeconomic feedback from higher energy prices to growth, inflation, interest rates, and hence tax revenue and interest expenditure. In practice, costlier diesel raises transport costs, feeding into wholesale and consumer prices, potentially requiring food subsidy top-ups. Higher inflation may prompt RBI tightening, raising the government's borrowing cost and widening the interest bill.

Policy endogeneity. Our estimates are conditional on the policy regime as announced through March 2026: a Rs. 10/L SAED cut, frozen pump prices with assumed gradual hikes of Rs. 2/month from May, no DG76 compensation for petrol/diesel, and a 75:25

government–OMC split for LPG. Any change in these parameters, especially a decision to compensate OMCs on-budget or to raise retail prices more aggressively, would alter the fiscal arithmetic substantially.

Cash Accounting. The analysis follows the cash accounting structure on which Indian government budget operates, where transactions are recorded only when actual cash is received or paid during the financial year (April 1 to March 31), rather than when they are due.

A. PRICE AND QUANTITY ASSUMPTIONS

Table 5: Price Assumptions by War Scenario

Item	**Pre-war** (Feb 2026)	**Mar–Jun** (US$125 crude)	**Jul–Sep** (US$140 crude)	**Oct–Dec** (US$150 crude)
Indian Basket crude (US$/bbl)	69	113–125	140	150
Petrol FOB (US$/bbl)	77	123–130	133	135
Diesel FOB (US$/bbl)	83	166–176	176	176
LNG spot (US$/mmbtu)	11.47	22	26	28
APM gas ceiling (US$/mmbtu)	6.21	6.81	7.00	7.00
Urea spot (US$/MT)	472	730	750	770
DAP spot (US$/MT)	626.5	670	690	700
Saudi CP LPG (US$/MT)	540	650	690	720
INR/USD	∼87	93	95	96

Sources: Pre-war prices from World Bank (2026) and Petroleum Planning and Analysis Cell (2026a). War-scenario prices are author's projections based on observed March 2026 spot markets. APM gas price from Petroleum Planning and Analysis Cell (2026c).

Table 6: Key Quantity and Policy Assumptions

Parameter	**Value**	**Source**
Urea production (war)	67,000 MT/day	PIB, 19 Mar 2026
Urea requirement (annual)	375.18 LMT	PIB, 24 Mar 2026
Gas efficiency	30 mmbtu/MT urea	Industry average
Post-war gas blend	28/72 domestic/LNG	Derived (see text)
DAP import share	53% of consumption	Economic Survey 2025–26
LPG consumption (war)	2,300 TMT/month	Author (demand mgmt)
MS consumption	∼3,528 TMT/month	PPAC, FY 2025–26 avg
HSD consumption	∼7,817 TMT/month	PPAC, FY 2025–26 avg
SAED cut	Rs. 10/L (MS and HSD)	Gazette, 26 Mar 2026
Pump price hike	Rs. 2/month from May	Author's assumption
Govt–OMC LPG split	75:25	FY 2024–25 precedent

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