

# Iran war: Fiscal pressures on govt may mount next FY, say experts

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Revenue collection next financial year may be affected, and, along with this, subsidies on food and fertilisers can go up if the war in West Asia drags for long, according to experts. This, they say, can create fiscal pressures.

Since the crisis broke out, urea prices have increased by almost \$100 per tonne to around \$600 (free on board), while rates for di-ammonium phosphates (Dap) have risen to \$750-770 per tonne from \$650-670.

In 2024-25 (FY25), India imported from Gulf countries roughly 70 per cent of its urea, 42 per cent of Dap, 83 per cent of ammonia, and 60 per cent of liquefied natural gas (LNG).

Prices of ammonia, a key input in fertiliser production, are expected to rise sharply in the next quarterly fixation cycle. Prices of rock phosphate and phosphoric acid, both critical fertiliser inputs, too are increasing.

To meet sudden economic shocks, the finance ministry doubled the allocation for the “Economic Stabilisation Fund” to ₹1 trillion for FY26 as part of the second “supplementary demands for grants”, tabled in Parliament on Tuesday. It also allocated an additional ₹19,230 crore on account of fertiliser subsidies and ₹23,640 crore for food subsidies.

Experts said the war might not significantly impact the subsidy burden in FY26 because most deliveries were tied

up before the crisis. However, if it lingers, the landed prices of fertilisers can go up from April, when demand picks up.

The FY27 Budget estimates have set food subsidy at ₹227,629 crore, slightly less than the revised estimates of FY26.

However, according to sources, if the government procures for the central pool more wheat and rice than estimated, adding to the bulging grain stocks, food subsidies will increase.

The Centre has estimated procuring around 30.3 million tonnes of wheat in FY27, but traders said purchases could exceed this because the minimum support price (MSP) was much higher than the current market rate. India is poised to harvest more than 120 million tonnes of wheat in FY27, which is a record. A similar situation awaits rice.

The subsidy calculations factor in a normal monsoon. In the case of a monsoon below normal due to El Nino, there could be a further burden on the exchequer because more support for agriculture and rural works will be required.

In a report released on Wednesday, CRISIL Intelligence said the conflict was a new and multidimensional risk, and a downside risk to the 7.1 per cent growth estimate for gross domestic product in FY27.

“Imports face significant upside risk from sustained higher crude oil prices in case of prolonged geopolitical uncertainties in the Middle East, which may widen the current account deficit (CAD) to 1.5 per cent of GDP in FY27 (from 0.8 per cent estimated in FY26),”

## Low oil & gas stockpiles pose risk to Indian economy: S&P

Flagging the adverse effects of the West Asia conflict, S&P Global Ratings on Wednesday said India's low strategic stockpiles for its energy needs posed a risk to its economy.

Asian nations like India, Thailand, South Korea, Vietnam and Singapore have high energy import needs relative to gross domestic product (GDP). Despite the high exposure, India has limited reserves. Its strategic petroleum reserves support 10 days of consumption while its commercial stocks support

around 65 days.

Stockpiles of liquefied petroleum gas and liquefied natural gas are even lower, reportedly at around 25-30 days and 10-12 days, respectively, S&P said in two reports. One report covers Asian Oil and Gas defences, and the other covers credit conditions. Less protection from reserves drives the search for alternatives. India imports 88 per cent of its crude oil, making it the third-largest oil importer in the world. **ABHIJIT LELE**



the report added.

Stating how the ongoing crisis was much bigger than the Russia-Ukraine war, Crisil Chief Economist D K Joshi said: “There is an energy shock, there is a trade shock because we trade quite a bit with West Asia, there is a freight cost shock, which is currently playing out, and there is risk of an intermittent shock. So it has the potential to become a poly-crisis if it prolongs.”

In its monthly Global Economic Outlook, Nomura said the tensions, if sustained, could test the Goldilocks mix of robust growth and stable inflation in India. Slower growth could adversely impact net tax collection, estimated to grow 7.2 per cent in FY27.

“If the government cuts excise duty, revenue collection will be affected. Cor-

porate profitability too could be impacted, which too will hurt tax collection. Consumption too will feel the brunt,” said Rajani Sinha, chief economist, CareEdge Ratings.

The finance ministry's Monthly Economic Review said fiscal resources had to be found and “reprioritisation” might be necessary in the coming years for governments -- state and central — against the backdrop of the Gulf conflict.

“There may be a compulsion on the government to increase fertiliser subsidies but there is also the possibility of cutting other expenditures. The impact on the fiscal deficit is hard to ascertain because we don't know what steps the government will take,” said Madan Sabnavis, chief economist, Bank of Baroda.