IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

Russia-Ukraine war: Impact on Indian Economy

Dr.Manjushree Sanjay Dole*, Associate Professor
Head, Department of Economics
Seva Sadan's R.K. Talreja College of Arts, Science, and Commerce.
Ulhasnagar, Thane,Maharashtra,India-421003
**Corresponding Author Email:* msdolerulz@gmail.com

Abstract:

Markets do rebound after a conflict, as history has shown. We haven't learned how to forecast the conclusion of a conflict or its consequences from history. The invasion of Ukraine by Russia has caused global markets to tremble. Russia and Ukraine account for less than 2% of world commerce, but they account for a significant portion of numerous commodities: the area produces 37% of global palladium, 17% of natural gas, 13% of wheat, 12% of oil, and 9% of nickel. The sanctions placed on Russia, as well as the supply chain interconnections, are sure to have an influence on global commerce and finance. The impact on commodities, particularly energy, is the key source of concern for the Indian economy. Rising petroleum prices inevitably lead to a depreciation of the rupee, an increase in inflation and the budget deficit, and a slowing of GDP growth. A 10% increase in petroleum prices is predicted to lower GDP growth by 20 basis points, raise inflation by 40 basis points, and worsen the current account deficit. This article is a review about the after effect of Russiun-Ukraine war on the Indian Economy.

Introduction:

When Russia proclaimed a "special military operation" in Ukraine, all of the diplomatic attempts to avert a future armed confrontation between the two countries were negated. Russian techniques in times of conflict have been studied, and they hint to coercive diplomacy. As well as gradual rise The recent deployment of Russian soldiers and the annexation of Crimea .Along with Ukraine, these are living examples of the approach in operation. The geopolitical confrontation has intensified. Constituted a major security concern throughout Europe, as well as impeding global economic growth[1]. The pandemic's recessive consequences have left him feeble. What may be seen as a plausible scenario? For the West, a resurgence of the Cold War is likely to come at a cost in terms of economic impact. Commodity prices have risen internationally, while the financial market has shrunk. These effects will be highly polarized for the European region. Most Asian countries, being net oil importers will be able to absorb the effects in the longer run. However, in a shorter timeline, the race to fill up storage capacities, meet growing demands of oil and avoid the inklings of an energy crisis, the scurried purchases of crude oil will keep the prices per barrel up for a while. In the power dynamics that emerge during and/or after the ongoing war, India is

more or less the centre of attention. Unlike the last Russia-Ukraine spat in the Crimea peninsula in 2014-15, India is a permanent member of the United Nations Security Council this year. Its abstention from voting on the UNSC resolution has two dimensions: dismay on Kyiv's part over New Delhi's failure to provide the expected support, and its first move of implicitly criticising Moscow for violating the territorial integrity of another country[2-3]. When India wants to enhance relations with the United Kingdom, the United States, and the European Union, the abstinence might stifle opposition to China's expansionist policies in the Indo-Pacific. At the same time, there is a disagreement. The confrontation occurs at a time when India has recently bought the S-400 missile system from Russia. The sanctions imposed by the West would put a damper on Russia's defence sector, limiting technological imports and exports to India. The exclusion of two major Russian banks and their 90 financial subsidiaries from SWIFT, a well-known global banking system, creates a barrier to payment in US dollars[4].

India is Ukraine's top export destination in Asia-Pacific, with bilateral trade of 2.5 billion dollars in FY 2020-21. Bilateral trade between India and Russia, on the other hand, totaled 8.1 billion dollars in fiscal year 2020-21. The continuing crisis has a lot on its plate, and exporters are keeping a close eye on the length and intensity of it. Traders have been cautioned by the Federation of India Exports (FIEO) to halt or keep their shipments away from the Black Sea route. Furthermore, the adoption of sanctions will disrupt global commerce and exacerbate supply constraints.

In a globalised environment, there is no avoiding international norms, resulting in an economic domino effect on the national level. The immediate impact on the Indian economy is due to a rise in crude oil prices, financial market turbulence, the possibility of rising current account deficits, which would weaken the rupee more against the dollar, and a likely jump in inflation as measured by the WPI-CPI indexes. The stock markets will be further impacted by the P/E ratio, which is currently high. Because Russia is the world's second-largest crude oil exporter, the continued sanctions would inevitably raise oil prices, which were already hovering over $105 on the day Russia invaded Ukraine, the highest since 2014. India's import expenses would rise, worsening the country's current account deficit, which is now at 1.3 percent of GDP[5]. According to the RBI, an increase in oil prices of $10/barrel affects inflation by 49 basis points.

This will result in a 43-basis-point rise in the budget deficit as a proportion of GDP. On the other hand, if it is passed on to consumers, a $10/barrel rise will result in a CPI increase of 50 basis points. According to Nomura, a 10% increase in petroleum prices will lower GDP growth by 0.2 percentage points and worsen the current account by 0.3 percentage points. The Economic Survey predicted growth in 2022-23, assuming oil prices of $75 per barrel. Furthermore, the RBI's last monetary pronouncement did not include an increase in oil prices, putting pressure on the RBI to raise interest rates to combat inflation, which will stifle economic development. According to remarks made by the State Bank of India's group top economic advisers, there looks to be a 90-100 bps risk to RBI's 4.5 percent inflation target for FY23 if oil prices average $90/barrel, and a 100-130 bps risk if oil prices average $100/barrel[6]. Because Russia is a significant natural gas exporter, and India imports 55 percent of its natural gas, gas prices are projected to rise. Due to upcoming elections in five states, the daily modification of gasoline, diesel, and natural gas prices has been paused.

The current impetus, combined with international price pressure, has widened the gap between selling and cost prices, which industry sources estimate to be over Rs 10/litre, which, if passed on to consumers, will result in sky-high inflation already exceeding the Reserve Bank of India's tolerance shield of 6%. The financial industry couldn't stay away from the global turbulence, and Indian stock markets fell 3% on February 24th, and are predicted to continue volatile as tensions rise. On the same day, the SENSEX fell almost 2,700 points to 54,529, while the NIFTY fell 816 points to 16,248, the largest single-day decrease in the SENSEX's history.Foreign portfolio investors shifted to sellers in response to the rise in petroleum prices, withdrawing a net sum of Rs51,703 crore from Indian shares[7-8]. Following the SENSEX decline, $177 billion in investment was wiped away from the Indian market. In reaction to the dismal market conditions, the corporations have turned a watchful eye and delayed their IPOs. In terms of exports, Russia and Ukraine account for 90% of India's sunflower oil imports. In 2021, India received 1.89 million tonnes of sunflower oil, 70 percent of which came from Ukraine, and has yet to send a single cargo this month. Our nation, as one of the largest exporters of pharmaceutical items to Ukraine, would suffer a setback, while the car sector's input costs are projected to rise, resulting in an increase in vehicle prices.

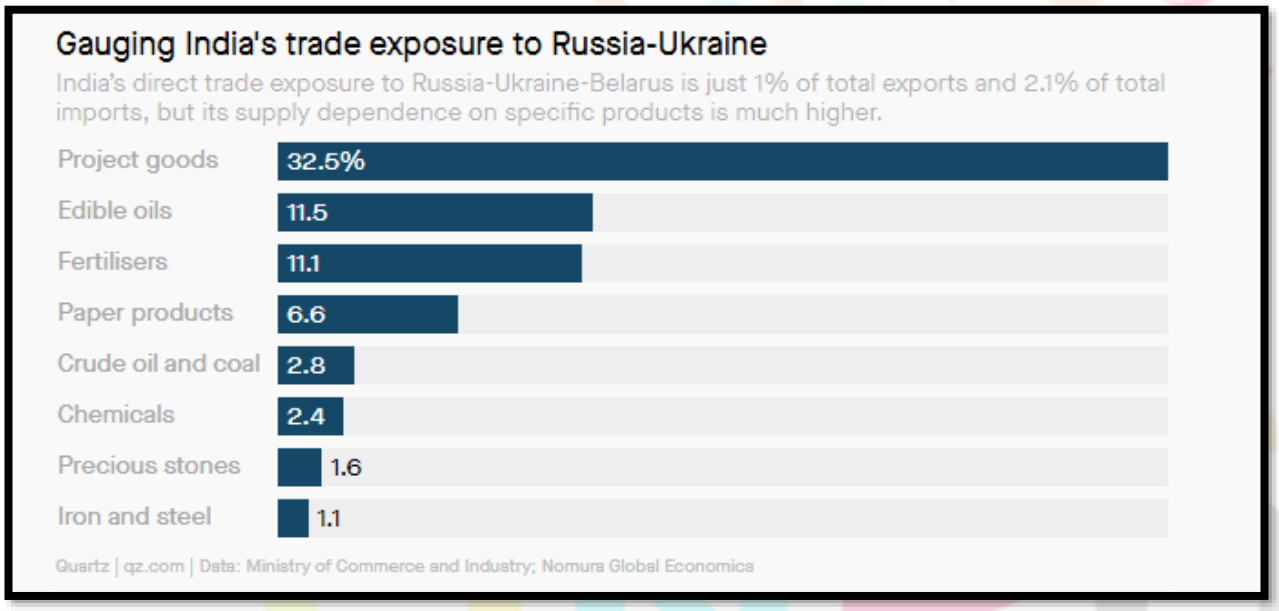

Fig.1

Here are the ways India could suffer due to a Russia-Ukraine war even without being part of it.

Russia's crude exports are prohibited:

Brent crude prices soared to above $130 per barrel last week, up 43 percent from the beginning of February, in response to the United States' embargo on all oil and gas imports from Russia.

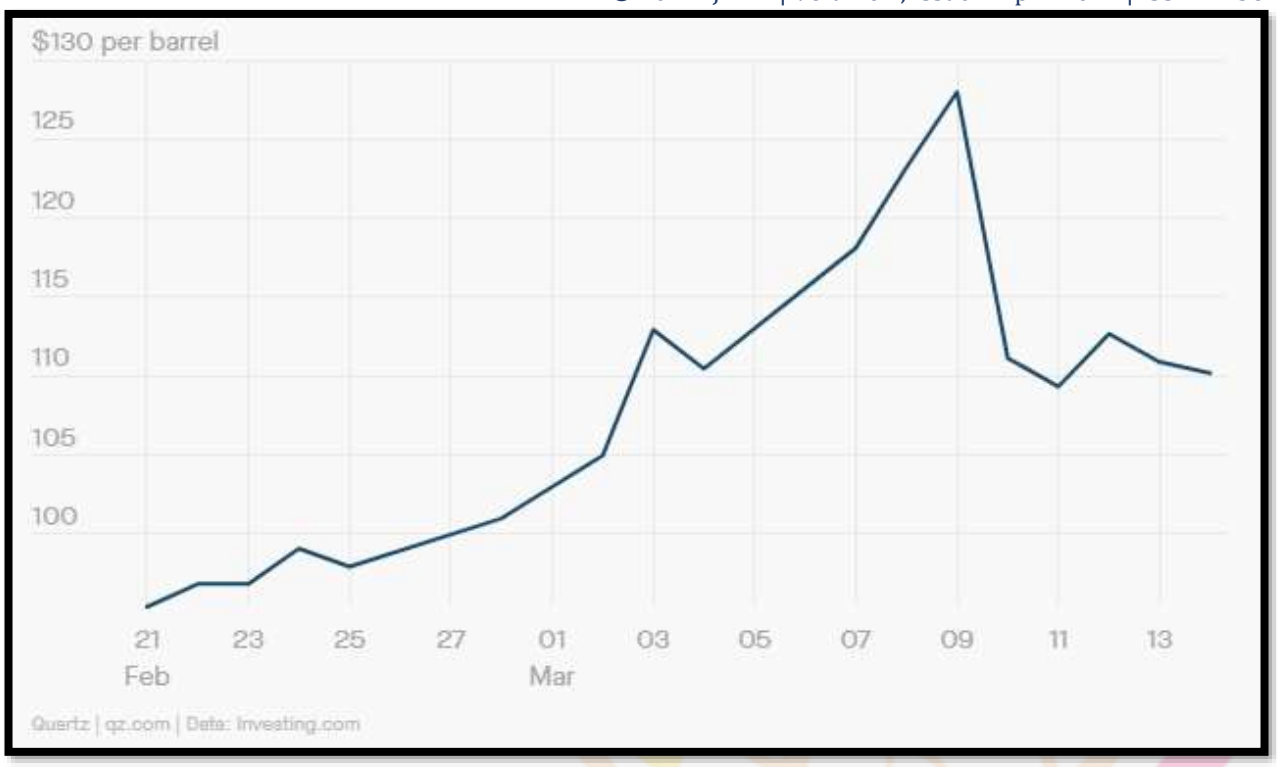

Fig.2 Brent crude oil prices since Ukraine invasion

Because Russia is one of the world's greatest crude oil exporters, this is a huge setback for global economic growth[9-11]. Although oil imports from Russia account for barely 1% of India's commerce, there might be a spillover effect in the shape of high prices and slow growth. More concerns might occur if global economy circumstances deteriorate further, hampering India's export and capital investment cycles, according to the report.

Concerns regarding inflation

Up to 85% of India's crude oil requirements are met by imports. International oil prices have risen to a 14-year high, resulting in broader pricing pressures. The impact on India's economy, according to analysts, would be seen mostly through increasing cost-push inflation, which will affect all economic agents—households, enterprises, and the government. As per the sources every 10% increase in crude oil prices translates to a 0.4 percentage point increase in consumer inflation.

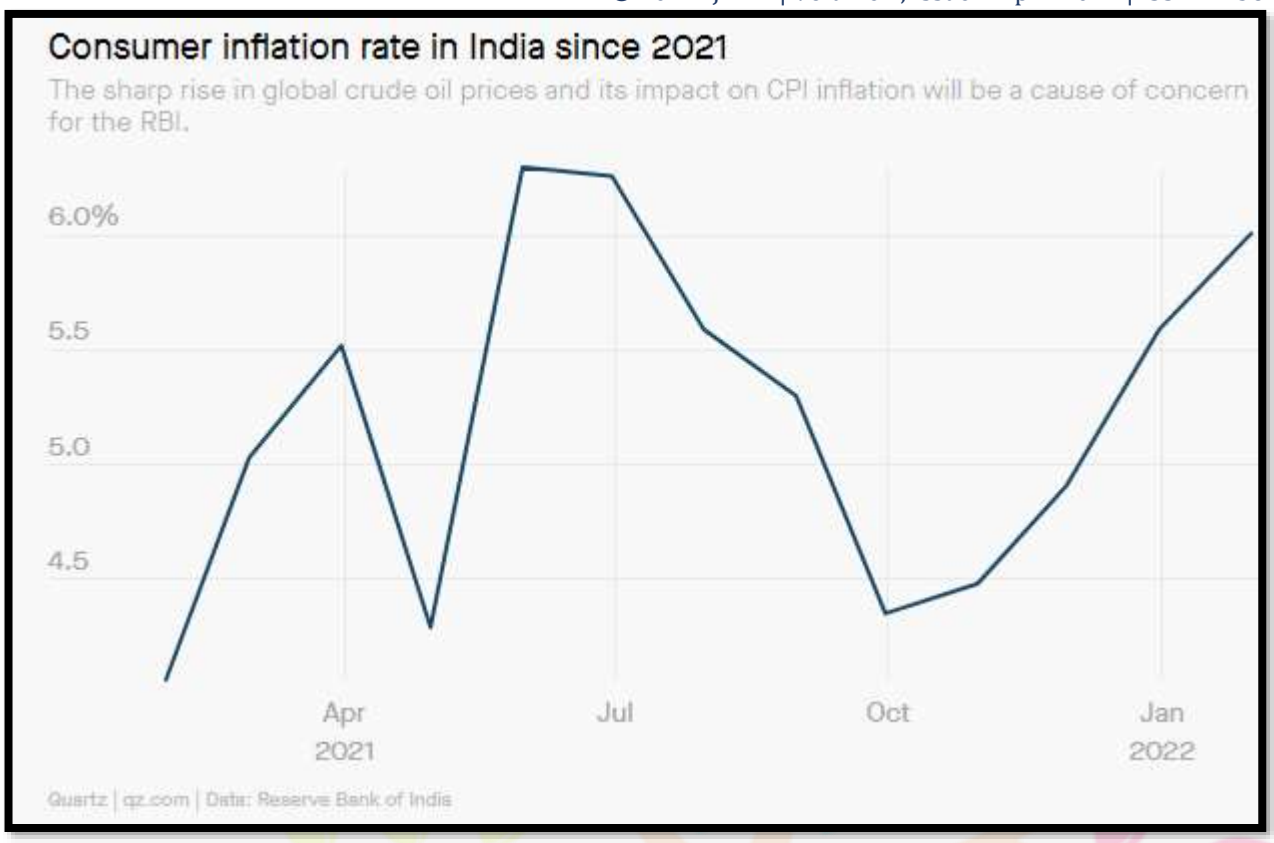

Fig.3

As a result, the chances of a bigger import bill and, as a result, a widening of India's current account deficit have grown (CAD)[12]. According to a research, the CAD is predicted to widen to 2.6 percent of GDP in fiscal year 2023, up from 1.7 percent last year. This is expected to hurt the rupee, which just hit a new low of 76.98 against the dollar.

India's defense supplies

India's frequent abstentions from UN votes since the invasion of Ukraine are said to be motivated by the country's desire to protect its supply of defense equipment, the majority of which comes from Russia[13]. According to data from the Stockholm International Peace Research Institute, India accounted for roughly 25% of Russia's total weaponry shipments between 2016 and 2020. This explains why defense spending accounts for a sizable portion of India's annual budget. India earmarked $70.2 billion for military spending in its union budget for 2022-23, increasing over 10% from the previous fiscal's original allotment. The delivery of the $5 billion S-400 air missile system, built by Russia, is one of the most important defense contracts in doubt. According to a report published by the Congressional Research Service in October 2021, the Indian military cannot operate efficiently without Russian-supplied technology. The Russian T-72M1 and T-90S combat tanks make up the majority of the Indian Army's main battle tank force, accounting for 66% and 30% of all units, respectively[14]. Despite the US threat of sanctions over the S-400 acquisition looming big over India, India will continue to rely on Russian weapons equipment in the medium run.

Lessons for India

It is obvious that a country with a weak military will be unable to defend itself against a technologically superior foe; consequently, the civil-military divide must be overcome. Professional leadership, not political leanings for personal benefit, is required. The defence services must be loyal to the constitution rather than the reigning regime or political party[15].

To summarise, while all of the variables are known and Presidents Putin and Xi Jinping have played their cards, the OSINT considerations suggest that it is more of a stalemate, unless the US and Europe wish to engage the Bear and the Dragon in a mutually assured destruction fight. Putin may construct an administration of his choosing, but how long it will stay and dance to Moscow's tune is uncertain[16]. The conceivable retaliation is for Putin to be replaced by someone more moderate, which is improbable in the current situation.

Conclusion

India's long-term fate in the middle of the continuing situation in international waters is quite unknown, given the devastating short-term consequences that began to manifest within hours of Russian soldiers capturing Ukraine. Despite the fact that the countries are thousands of miles away in terms of distance, they are near in terms of geopolitics and economics, with both battling troops. India's reliance and relationship with Russia is not veiled in any sector, despite the fact that it is one of the main exporters and a centre for its students in the occupied nation. The future of important defence partnerships and agreements might be jeopardised if even the tiniest imbalance occurs. Sanctions against Russia might cause delays in transactions and the closure of prospective future deals, reflecting India's weakness in the face of Chinese powers. The conflict between the West and Russia makes it much more difficult for India to adopt a clear stance.

References

1. AHDB. (n.d.). Do wheat prices matter for bread? Grain Market Daily | AHDB. Retrieved February 25, 2022, from https://ahdb.org.uk/news/do-wheat-prices-matter-for-bread
2. Anstey, C. (2022, February 25). Three Ways the Ukraine Crisis May Rattle the World Economy. Bloomberg.Com.
3. Associated Press. (2022, February 26). Ukraine crisis: UNHCR predicts 4 mn will flee to neighbouring countries. Business Standard India.
4. d'Albis, H., Boubtane, E., & Coulibaly, D. (n.d.). Macroeconomic evidence suggests that asylum seekers are not a "burden" for Western European countries. Science Advances, 4(6), eaaq0883. https://doi.org/10.1126/sciadv.aaq0883 ECB, E. C. (2022).
5. Economic Bulletin Issue 1, 2022. https://www.ecb.europa.eu//pub/economicbulletin/html/eb202201.en.html Economist, The. (2022, January 29). How will Europe cope if Russia cuts off its gas?
6. Kroet, C. (2017, January 27). Refugee crisis cost Germany over €20 billion in 2016. POLITICO.
7. Lejeune, T. (2022, February 26). Europe braces for wave of Ukrainian refugees [Text]. TheHill.

8. Macchiarelli, C., & B. Naisbitt; J. Boshoff, I. Hurst, I. Liadze, I, X. Mao, P. Sánchez Juanino, C. Thamotheram "Global Economic Outlook – Inflation: Central Bank on It" (2022), National Institute Economic Review, 259, Winter.
9. Mearsheimer, J. J. (2019). Bound to Fail: The Rise and Fall of the Liberal International Order. International Security, 43(4), 7–50.
10. Mortimer-Lee, P., & Patel, U. (n.d.-a). Gas Prices and Price Controls. NIESR. Retrieved February 25, 2022.
11. Mortimer-Lee, P., & Patel, U. (n.d.-b). The Impact of Energy Price Inflation. Retrieved February 25, 2022.
12. OECD. (2017, January). Who bears the cost of integrating refugees? Migration Policy Debates. Poitiers, N., Tagliapietra, S., Wolff, G., & Zachmann, G. (2022, February 27). The Kremlin's Gas Wars.
13. Reuters. (2022, February 15). Gas supply shock would cut value of Europe's economy, ECB says. Reuters
14. Ruist, J. (2020). The fiscal aspect of the refugee crisis. International Tax and Public Finance, 27(2), 478–492.
15. Silk, L. (1991, August 16). Economic Scene; The Broad Impact of the Gulf War. The New York Times.
16. USDA. (n.d.). Grain: World Markets and Trade. USDA Foreign Agricultural Service. Retrieved February 25, 2022, from https://www.fas.usda.gov/data/grain-world-markets-and-trade