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Repercussions of Russian-Ukraine War on Indian Economy

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Abstract

The raging war between Russia and Ukraine is a crucial debacle for all the comprehensive economies around the globe. India being the second largest importer of Russian goods was bound to experience some trembling shocks. The primary goal of this paper is to evaluate the after effects of the war on the Indian economy. The ongoing military conflict between the two nations has detrimental adverse effect on all the leading nations' economic expansion and price volatility. In general, Russia and Ukraine are the two biggest producers of goods, but Brent crude oil is their specialty and consequently the prices of oil would apparently increase. A spike in the costs of foods items particularly the wheat will be experienced as both Russia and Ukraine export around 30% of the global supply. Global trade and finance will definitely be affected by the restrictions imposed on Russia's supply chain networks. The main cause of concern for the Indian economy is the effect of commodities notably energy sector and the alleviating strategies by which Indian economy can get through this situation of geopolitical crisis.

Keywords: - Russia, Ukraine, war, Indian economy and inflation.

Literature Review

1. Dr. Manjushree Dole in her article, "Russia-Ukraine war: Impact on Indian Economy" states that given the catastrophic results that started to materialize within hours of Russian military taking Ukraine, India's long term fate in the ongoing geopolitical scenario is highly uncertain as India is a major exporter of commodities as well as for students who study in Ukraine. Possible delays in transactions and the completion of potential future deals due to restrictions imposed on Russia would be a sign of India's vulnerability to China's influence. It is considerably more challenging for India to take an unwavering position on international summits as well as trade and security coalitions with western nations due to the ongoing war scenario.

2. Dr. M Nazeeruddin in his paper, "The Russia-Ukraine war crisis Its Impact on Indian Economy" analyzes that wheat and crude oil supplies in particular had been adversely affected by the conflict as well as important supplies like gas, cooking oil along with sunflower oil are seeing an upsurge in prices. He further suggests that all the leading international nations should intervene to end the current conflict via peaceful discussions and save the global economy in light of the supply interruptions that have driven up the costs of gasoline and cooking oil throughout the world.

3. Dr. Manpreet Kaur and Dr. Manmeet Singh in their research paper titled, "Positive and Negative Impact of Ukraine and Russia War on Indian Economy" claims that the influence of war crisis on Indian Economy won't last long and eventually vanish provided India remains firm on its neutral stance. The war mainly created hurdles for Indian economy as commodities credit guarantee safeguards were eliminated, payments issue brought about by the banning of nearly seven Russian Banks from the SWIFT system of overseas commerce and lastly huge demand-supply imbalance caused in the Black Sea due to insufficient movement of cargo on Baltic ports.

Research Methodology

The major chunk of the information used in this paper is derived from secondary sources particularly from regular newspapers and various online reports published by government and private research agencies. Vital conclusions can be drawn from all the gathered and synthesized data and knowledge. This piece of writing additionally provides for current prevailing market scenario.

Objectives of Study

1. To investigate how crude oil prices have risen.
2. To study the impact on imports bill particularly accounting from Ukraine and Russia
3. To analyze various sectors in which Indian economy gets affected due to war crisis.

Introduction

On 24 February 2022, Russia invaded Ukraine, triggering the largest military buildup in Europe, since World War II, resulting in the outbreak of war with usage of heavy armaments. Ukraine became a separate nation in 1991 after disintegration of USSR and shares a major border with Russia on the western border. Russia has been long been concerned about its security since major attacks on Russia have been planned from its western frontier as happened during the two world wars. Russia has always disliked Ukraine's inclination towards European nations due to security reasons as its sea routes generally originate from Ukraine. The War did not just affect the attacker and the defender countries but also worldwide economies. Several western nations strongly condemned Russia's actions in Ukraine and subsequently inflicted punitive prohibitions on it. Russia is subject to nearly 3000 sanctions, which have caused its gold and international negotiable bill holdings to be blocked to the tune of 300 US billion dollars.

According to International indicators, Indian stock markets deranged, inflation reached its peak, Indian rupee fell against the US dollar and foreign exchange reserves were drained. India's economy has suffered because of the Russian conflict's detrimental effects on commerce. India imports extremely valued energy supplies like nuclear fuel from Ukraine. On the other hand, we export beneficial commodities like steel, cotton and wheat to Russia and simultaneously import scarce resources like coal, oil and natural gas from Russia.

1. Economic Growth

From the time, when India was progressively attempting to overcome the covid hardship, one of the greatest effects of the war was a decrease in the rate of economic growth. Global supply chains were crucially impacted by the disruption of two important trade routes, Russia and Ukraine, as well as the subsequent restrictions that were placed on Russia specifically by US and its ally economies. Consequently, the oil prices skyrocketed to extreme levels, escalating inflation.

The Indian economy, however, demonstrated extraordinary resistance to such external forces and grew by 13.5% in first quarter, that is, from April to June of the fiscal year 2022-23. The GDP growth for the next quarter, that is, July to September 2022 came near to 6.5%. India is therefore in a stronger position than the other global economies. It has been narrated as comparatively "bright spot" by the World Bank and International Monetary Fund.

Albeit, it is anticipated that India's development may decelerate in the upcoming financial years, it is still regarded as the quickest recoverer amongst other nations. Just a few months ago, IMF managing director predicted that by 2023, India solely will account for 15% of global growth. There are three noteworthy reasons behind her statement. These are:-

I. The nation has done exceptionally well to use the already progressing digitization as a significant driver of mitigating the effects of the epidemic and fostering chances for growth and development.
II. India's fiscal policy has responded to the state of economy which is evident in the newly proposed budget which shows a commitment to fiscal responsibility while still providing substantial funding for capital expenditures.
III. Lastly, India did not hesitate to enact genuinely robust measures to get through what had been a tough moment for a number of months and learn from the epidemic

2. Apprehension regarding Worldwide Recession

There have been rumours that several of the world's economies, particularly USA may be edging closer to a recession. According to a Reuters article, investors are preparing for an anticipated recession in 2023 after the US stock markets has had a challenging 2022.

Inflation spiked to a 40 year high year high in US following the war, prompting the FED to raise interest rates many times, a process that had been blocked ever since the Covid pandemic occurred. Indian businesses have not resorted to any of these strategies, up to this point although they keep a close eye on international situations. Global effects are certain if the world's largest economy experiences a recession.

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3. The Misery of Inflation continues

Since February 2022, prices of everyday necessities like grains and vegetables, which make up the largest category in the inflation basket, have increased even more due to irregular rainfall and supply shocks from Russia's invasion of Ukraine. The conflicts in Ukraine had significant effects including, the effort to keep local prices of commodities in tight rein, which broadened demand supply variations.

India's retail inflation has spiked to an eight year high amounting to nearly 8% in April 2022, two months after the war had started and remained above the prescribed tolerance level of RBI, which is usually between 2-6%. The major reason behind this rise of inflation was the enormous rise in crude oil prices around the world, which exceeded US dollar 139 per barrel due to the difficulties aroused in supply chain management and largely due to sanctions imposed on Russia.

After remaining within 66% for three months, inflation rose again in January 2023 reaching 6.52% due to rising food prices due to rising food prices. The RBI stated that pricing pressures in India will remain significantly high and it would be too early to relax the vigilance about inflation in the most recent Monetary Policy Committee.

4. Reinforcement of Monetary Policy

The RBI followed the US Federal Reserve's lead and decided to hold an off-cycle meet of its Monetary Policy Committee to boost its main lending rates when inflation reached to unprecedented levels. The financial burden on consumers has increased as a result of frequent rates hike and the consequent rise in monthly installments paid by loan borrowers amidst the currently prevailing high inflation times.

5. Impact on Exports

The growth of every economy depends heavily on exports. The Ministry of Finance through its monthly economic report highlighted that the country's major exports markets are anticipated to experience steep declines in 2023, which could result in lackluster growth for India's exports this year. Exports fell by 12% in December 2022 while imports fell by 3% to US dollar 58.2 billion leading to a growing trade deficit for Indian economy. This particular slowdown could be witnessed in international commerce, specifically from Us and European countries, that are also regarded as top two trading hubs for Indian exports. If these two commercial zones experience a slowdown, it would subsequently lower down the demand for Indian exports.

6. Fragile Stock Market

Global investor sentiment declined as one of the frequent responses to the war. Worldwide financial markets had one of its steepest declines since the epidemic, not solely in India. The worst collapse in the BSE Sensex over the past two years was caused by the war. For the first twenty days initially, the investors suffered gigantic losses as the index dropped by roughly 4000 points. As the fight further continued, the stock market industry's standards slipped below the 51,000 mark. Investors on becoming highly apprehensive picked the assets that offer safety from all perils.

But prompt policy changes facilitated a quicker recovery. Nonetheless, when the US President travelled to Ukraine, new international issues popped up, this perturbed the investors one more time. For past many sessions in line, the BSE sensex continues to decline.

- The resulting of worldwide blow to the equities market due to the Russian-Ukraine war also impacted the prices of Gold as the investors now starting considering gold to be the next safest alternative. As a result, the price of gold which was around rupees 40,000 to 47,000 per 10gms now reached to the high as rupees 60,000 for 10gms.

7. Weakening Indian Currency

The Rupee has declined against the prevailing US Dollar by nearly 11% in the year 2022 since Russia invaded Ukraine and this figure of devaluation has been the worst since 2013. Despite of this severe downfall in the value of Indian currency, the external industry demonstrated suitable robustness on multiple fronts. The Reserve bank had to continually draw from its reserves as an outcome of the currency market's fluctuations which was triggered upon by an upsurge in world oil prices after Russia's invasion of Ukraine, making it harder for the policymakers to counteract international inflation.

According to RBI's Financial Stability Report, in October 2022, the rupee started recuperating against the spells of currency turbulence, it had experienced in the starting of the year when the war had just begun and had been swapping remarkably close to its ongoing trend. The price swings in the market was caused due to crippled international supply lines and raised
interest rates globally.

8. Escalation in Imports Bill

When the US and its allies imposed sanctions on Russia, India took advantage of this situation as it was able to purchase affordable crude oil from Russia. India's imports from Russia rose about five times in between the months of April and December reaching US dollar 37 billion. This was largely due to increased shipments from abroad of crude oil.

Up to 2021-22, Russia was not even among top ten of India's importing partner. During the ten month period in 2022 after the war started, Russia rose to the position of India's fourth largest import supplier. Russian imports increased to 1.25 billion barrels per day in January, accounting for 28 per cent of India's total imports as compared to the previous market share of less than even 1 per cent prior to the starting of war as per the reports of energy cargo tracker Vortexa.

India being the third largest crude oil importer in the world after China and USA respectively, has been buying Russian oil which was offered at a discount rate after some western countries turned down russian oil as way of punishing Moscow for its invasion of Ukraine.

9. Impact on Defense Sector

The Indian military is undoubtedly well-equipped with Russian arsenal so it was imperative for India to safeguard its regular supply. But, the finance ministry of India didn't make a slight cut in the share of defense sector clearly giving an aggressive indication that India won't compromise on weapons for its defense security.

Research Findings

According to this piece of writing, it can be concluded that the ongoing dispute between Russia and Ukraine is a major setback for the global economy as well as for India in terms of crude oil and edible oils in particular. This is because India imports nearly 60% of its domestic requirements from Russia and Ukraine so as its supply gets hindered, the price rise of these items is the immediate outcome. As a result, the general level of inflation gets a significant blow along with the disturbed balances of Current Account Deficits.

Conclusion

- There could be some favorable developments for the Indian Economy. It can fulfill the void created in international trade by the shortage of wheat exports from Ukraine to various countries. It can offer its own wheat at competitive prices. Not just wheat, it can supply different cereals, mustard oil, edible oils and metals like steel and aluminium particularly whose trade is dominated by Russia and Ukraine imports usually.

- Due to banning of Russia's seven banks from SWIFT system of overseas payment, India could step in and offer its Unified Payment Interface platform for enabling digital payments that too without an internet connection.

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