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Russia-Ukraine war and its effects on Indian Economy:

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Abstract : The repercussions of Russia-Ukraine war are threatening the global economy, shaking financial markets and making life more perilous for everyone across the world. European countries which are heavily dependent on Russian energy, there is a possibility that the harsh economic sanctions on Russia by US and EU would make it very difficult for these countries to be able to import gas. As supply disruptions mounted following sanctions on Russian Banks, oil prices surged. The Global economy was straining under a range of burdens, surging inflation, tangled supply chains and tumbling stock prices.

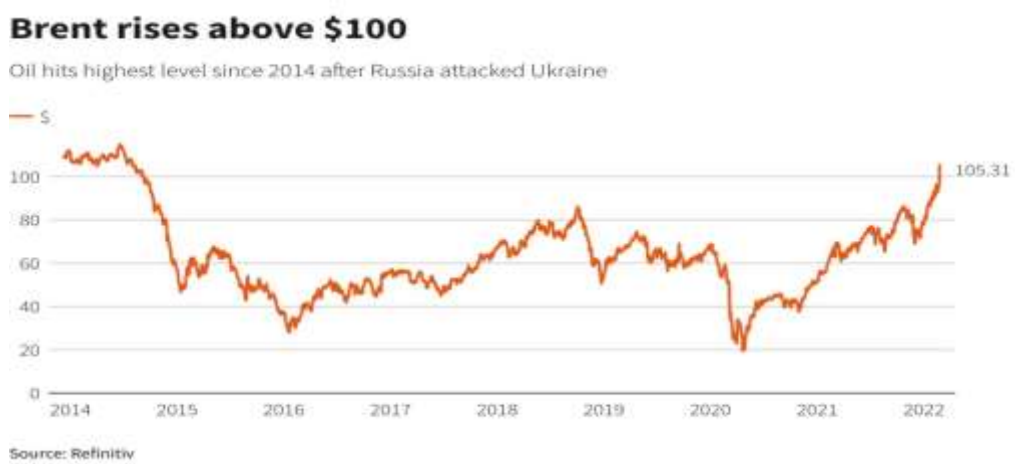
Index Terms **- Global economy, Indian economy, Inflation, fiscal balances, Current Account Balance (CAD).**

I. INTRODUCTION: RUSSIA-UKRAINE WAR AND ITS EFFECTS ON INDIAN ECONOMY

Vladimir Putin, President of Russia ordered a military strike on Ukraine declaring war on 24 th Feb'22. As the Ukraine-Russia crisis intensifies, it threatens to spark conflict in Europe. Implications were observed in Asia too where several countries depend on Russia for Oil, Gas and Coal.

Within a few minutes of the market opening on 24th. Feb'22, the sensex crashed by 2700 pts. People started panic selling. In a few minutes, Rs.7.59 lakh crore of investor wealth wiped out from the markets after Putin announces military operation in Ukraine. The next few months are going to be volatile for the market. What happens in the next few months will set the tones for many things in this year. The Russian stock exchange fell by 50% in one day. This impact has been felt in all Asian Markets. The US has put strict sanctions on Russia .As a result of the war, fuel prices across the globe are bound to rise and cripple down the economy.

Russian-Ukraine war has strongly affected various market forces across the globe. As a result of the Russian invasion of Ukraine, India is likely to be among the worst losers in Asia. Asia's economy has been badly affected by the sustained rise in Oil and Food prices. This has been manifested through squeeze on economic growth, higher inflation, and weaker fiscal balances. Under such circumstances, India, Thailand and The Philippines are the biggest losers.



II. IMPACT ON OIL AND GAS PRICES

Rising crude oil prices are a negative terms-of-trade shock for consumers and businesses. Rising crude oil prices also affected India's net oil importer status. The Russian invasion of Ukraine is the largest conflict that Europe has seen since World War II. Russia-Ukraine crisis have a multi-dimensional impact on the Indian economy since Russia is an important supplier of energy i.e. crude oil and natural gas to the rest of the world. The initial manifestation of this geopolitical unrest would effect on India's inflation and energy deficits.

According to Quant Eco Research and statistical perspectives, a USD 10 pb increase in crude oil price has a first order impact of approximately 20 bps increase in CPI inflation.

Russia is the

World's third biggest oil producer (after the US and Saudi Arabia)

Second biggest natural gas (after the US) producer

#just behind Australia and Indonesia in Coal export

Ukraine is the

4th largest exporter of wheat

#World's 3rd largest exporter of corn/maize

Ukraine and Russia are also the top two exporters of sunflower oil

All this shows that Russia's war on Ukraine will drive up prices of Brent Crude Oil and International Coal to an unprecedented level.

The reasons for price increase are mainly due to shipping got disrupted through the Black and Azov seas. Russian banks are cut-off from the international payment system SWIFT.

Russia is the world's biggest exporter of Oil to global markets and the second-largest exporter of Crude Oil behind Saudi Arabia, exporting about 2.85 million barrels per day by sea-lanes and pipelines, according to the International Energy Agency (IEA). Russia supplies 14% of global production of Crude oil to different markets worldwide. The ban by the US and the UK and the decision of some other Pro-Ukraine countries not to buy Russian fuel has deepen the crisis. After the sanctions on Russia, the Crude Oil/ Natural Gas coming into Europe will reduce. The ongoing war and the sanctions on Russia are likely to disrupt transportation and production of many industrial inputs leading to another- rounds of shortages across the world. The military conflict between Russia and Ukraine threatens to disrupt the global supply chain which is being recovered from the impact of the COVID-19 pandemic. The Russian invasion of Ukraine caused a barrage of new, targeted financial sanctions meant to isolate, punish and impoverish Russia in the long term.

India imports 2% oil from Russia but the rising oil price is a big concern for India as it imports 85% of its oil demand. This 85% of oil, India imports from 40 countries, the bulk coming from the Middle East and the US. India signed the first term contract for Crude Oil sourcing from Russia in Feb'2020 with IOC and Roseneft inking the agreement for 2 million metric tons (mmt) of Urals grade crude. India imported 43,400 bpd oil from Russia in 2021, about 1% of overall its imports.

India accounts for about 0.2% Russia's Natural Gas exports. GAIL (India) Ltd., has a 20 - year deal with Gazprom to buy 2.5 million tons of LNG a year which started in 2018. India imported 1.8 million tons of thermal coal from Russia in 2021 down from 2.5 million in 2020, data from Iman Resources showed. Russia's share in India's thermal coal imports fell to 1.3% in 2021 from 1.6%. An energy dependent India imports 85% of oil demand and 55% of

Natural Gas requirements. India spent $62.71 billion on Crude Oil imports in FY 21. , $ 101.4 billion in FY 20 and $111.9 billion in FY 19.

Any invasion of Ukraine by Russian troops could trigger sanctions and reprisals that would disrupt the movements of fuels and impact energy security affecting buyers even thousand miles away. India is 4000 km far away from Ukraine. The global benchmark Brent Crude Oil crossed $105 per barrel mark for the first time since 2014 after Russia's attack on Ukraine exacerbated concerns about disruptions to global energy supply. As per ING's commodity research, oil market is nervously awaiting what further action Western nation take against Russia. This growing uncertainty during a time when the oil market is already tight does leave it vulnerable and so prices are likely to remain volatile and elevated.

III. IMPACT ON PETROL AND DIESEL PRICES

In India, petrol and diesel price touched Rs.100/ liter in last year. There are chances that fuel price may increase by Rupees 6 to 7 per liter in this crisis. Whenever fuel prices increase, inflation also increases. The rise in transport costs hurt a business profit margins. Industries dependent on logistics and transport will see a rise in prices because fuel prices will be passed on. States with upcoming elections did not see a rise in fuel prices but prices will definitely rise as election is already over. Fuel prices had not largely increased since Nov'21.

States and Centre reduced taxes to cool off prices but because of this cost increase of crude oil, taxes will have to be reduced even further which will have an impact on Govt. finances.

IV. IMPACT ON MILITARY WEAPONS:

India's 86% weapons come from Russia. On the other side is USA .India & Russia signed the military tech co-operation agreement in Dec 2021. This agreement comprises orders for military platform worth over $ 9 billion. India signed a $ 5 billion deal with Russia in Oct'18 to buy 5 units of the S-400 surface to air missile system. Out of the 5, one unit has already been delivered to the Indian Air Force. The war between Russia and Ukraine will possibly delay the supply of military weapons to India.

In its union budget for 2022-23, India allocated $70.2 billion on military spending, up almost 10% over the initial allocation in the previous fiscal. A congressional research service report in Oct'21 said that the Indian military force cannot operate effectively without Russian supplied equipment. The Indian Army's main battle tank force is composed predominately of Russian T-72M and T-90S accounting for 66% and 30% of all units respectively. India will continue to rely on Russian weapons system in the middle term, despite the US's threat of sanctions over the S-400 looms large over India.

V. INFLATION

Whenever fuel prices increase, inflation also increases. High Oil prices or supply disruptions will not only mean costlier petrol and diesel for private vehicle owners, but transportation of essential commodities including fruits, vegetables and food grains will cost more. In January'22, retail inflation crossed the upper limit of the Reserve Bank of India's tolerance brand of 6% for the first time in seven months.

VI. IMPACT ON AGRICULTURAL COMMODITIES AND FERTILIZERS:

The economic impact of Russia's war in Ukraine is not confined to oil only but it extends as much as up-to agricultural commodities and fertilizers.

Wheat: Skyrocketing global prices have made Indian wheat exports very competitive. Wheat from Gujarat, Rajasthan and Uttar Pradesh are now being sold at Rs.2400-2450 per quintal as against Rs.2100/- per quintal 15 days ago. This is above the Govt.'s Minimum Support Price (MSP) of Rs.2015/- per quintal.

Vegetable Oils and Oil seeds: The prices of Vegetable Oils and Oilseeds are also skyrocketing. It includes sunflower oil and its immediate competitor, soybean. The benefits of it should flow to mustard growers in Rajasthan and UP who are set to market their crop. Mustard prices are ruling at Rs.6500/-plus per quintal which is again above the MSP of Rs.5050/-per quintal. Palm oil in Malaysia has also hit all-time highs.

Cotton: Increase in Brent Oil Prices will make synthetic fiber costlier. As a result, the prices of cotton and agri commodity that can be diverted for production of ethanol (sugar and corn) or bio-diesel (palm and soybean oil) will increase. High prices (above MSP) and a hopefully good monsoon will induce farmers to expand the cultivation of cotton, soybean, ground nut, sesamum and sunflower in the upcoming kharif planting season. That will help us achieve the goal of crop diversification.

There is a slim positive in the trade world. Ukraine and Russia are huge grain producers. The vacuum from this conflict can be filled by India. By selling wheat in the International market as wheat prices are a 9 year high, India will gain much from export of wheat.

70% of India's sunflower oil comes from Ukraine. India imports 2 lakh to 3 lakh tones sunflower oil every month. This conflict will impact edible oil prices.

VII. CONCLUSION

The ongoing crisis in Ukraine is set to push India's import bills beyond the USD 600 billion mark this fiscal, given India's import dependence on crude oil, natural gas, gems and jewellery, edible oils and fertilizers which can lead to a spike in inflation and Current Account Deficit (CAD)and a falling rupee.

Crude oil impact is probably the most obvious one but the war has been pushing up prices of metals, gas, edible oils right when it was expected that prices would remain stable this year after a bull run in 2021. In India, manufacturers had started increasing prices and passing on the higher input costs gradually since late December'21. Now with this fresh round of increase in prices, the pressure will build across the board. The India Govt. had desisted from increasing the price of fuel products since Nov'21 keeping an eye on the state elections. Once the election is over, this round of price increase was expected even without the war. The present circumstances only exacerbates the situation. The other area of concern is rupee. The start of the war has lent a high degree of volatility to currencies across the world. A combination of war and sanctions has led to currencies coming under pressure, and the rupee has not been spared. This comes at a time when the Current Account Balance (CAD) had turned deficit wards and with oil prices going up, a higher CAD can be expected.

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