Ukraine crisis: Growth, demand to take a hard hit, deficit to soar

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NEW DELHI, MARCH 7 : The Russia-Ukraine crisis-led global hike in crude oil prices to $130 per barrel is expected to trigger an inflationary trend in India which will dent growth as well as demand recovery.

The inflationary blow is expected to push up prices of everything from food items to manufactured goods.

Besides, the trend might force the Reserve Bank of India's Monetary Policy Committee to raise key lending rates, thereby hitting automobile and housing markets.

Already, India's main inflation gauge -- Consumer Price Index (CPI) -- which denotes retail inflation, has crossed the RBI's target range in January.

Industry calculations cite that a 10 per cent rise in crude oil prices adds nearly about 10 basis points in CPI inflation.

Moreover, the main concern is the impact high crude oil prices will have on India's domestic prices of petrol and diesel.

The country imports 85 per cent of its crude oil needs, and estimates range from a Rs 10 to Rs 32 per litre rise in prices of transportation fuels.

However, an excise duty cut may dampen the impact on petrol and diesel prices to an extent, but not entirely. The move might cost the Centre upto Rs 90,000 crore of tax revenues which will impact its ability to incur the FY23 budgeted capex.

It is widely expected that the OMCs will revise the current prices on or after March 7, which is the last day of voting in the ongoing state assembly elections.

Presently, fuel prices have been steady since early November when the Centre reduced excise duty on petrol and diesel by Rs 5 and Rs 10 per litre, respectively.

The crisis as well as fears of lower supplies have pushed Brent crude oil price to nearly 14-year high on Monday.

Lately, crude oil prices have surged by nearly 20 per cent in the last three days on fear of tight supplies.

At present, Russia is the third largest producer of crude oil in the world.

It is feared that new and more stringent sanctions against Russia will curtail global supplies and stifle global growth.

"Except for a 2 year period between 2012-14, crude oil prices have never averaged over USD 100 pb in the last 10 years and have supported a relatively benign inflation trajectory," said Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research.

"High crude oil prices can have an adverse impact on not only inflation and growth but also on fiscal and current account deficit. Higher inflation in non food products will hit nascent demand recovery particularly in rural areas and pull down the growth potential for the next fiscal." Bhanu Patni, Senior Analyst, Indian Ratings and Research, said: "With sanctions on Russia, one of the major suppliers of crude and natural gas, prices are expected to remain elevated. These high prices are bound to create inflationary pressures for India." "The OMCs have still not passed on the increase in fuel prices to end customers. We believe there could be a mix of duty cuts and retail price increase by OMCs to manage the fuel price." **M. Govinda Rao, Chief Economic Advisor, Brickwork Ratings said: "There could be severe adverse consequences on the Indian economy on both growth and inflation fronts. India's dependence on oil imports is almost 80 per cent of its consumption. It would push up energy and transportation costs and there would be second-round effects on inflation." "Increased price of oil distillates could push up food and fertiliser subsidies and that can impact on the plan to increase capital expenditure or reduce the fiscal deficit or both."**