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CENTRE TAKES STOCK, PM SPEAKS TO PUTIN

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BENGALURU : Prime Minister Narendra Modi and other top government officials huddled on Thursday to assess the implications of the Russian invasion of Ukraine on India, including the economic impact of crude oil prices surging past $100 a barrel on the import-dependent nation.

The government is closely monitoring the rapidly changing geopolitical situation before taking any policy action.

In an interview, finance secretary T.V. Somanathan assured that the government was prepared to handle the economic impact of the crisis. “We are well placed to handle it and are ready to face the exigency that may arise," Somanathan said.

Economists expect retail inflation above 6% until energy prices ease, wider current account deficit (CAD), depreciation of the rupee against the dollar, and supply chain disruptions. However, the impact on budget estimates or the fiscal side due to the crisis may be limited because of the buffer to provide for contingencies, a second government official said, requesting anonymity.

On Thursday, Russian military forces started a full-scale invasion of Ukraine, prompting the US to threaten severe sanctions on Russia. US President Joe Biden will meet G7 leaders and US allies and partner countries to discuss further actions.

On Thursday, Modi chaired a cabinet committee on security (CCS) meeting to discuss the impact of Russia’s military operation in Ukraine. It was attended by cabinet ministers, including home minister Amit Shah, national security adviser Ajit Doval, principal secretary to Prime Minister P.K. Mishra, finance minister Nirmala Sitharaman, defence minister Rajnath Singh, foreign minister S. Jaishankar, petroleum minister Hardeep Singh Puri and commerce and industry minister Piyush Goyal.

Modi spoke to Russian president Vladimir Putin on telephone late Thursday. “President Putin briefed Prime Minister about the recent developments regarding Ukraine. Modi reiterated his long-standing conviction that the differences between Russia and the NATO group can only be resolved through honest and sincere dialogue. He appealed for an immediate cessation of violence, and called for concerted efforts from all sides to return to the path of diplomatic negotiations and dialogue," Prime Minister’s Office said in a statement.

The US on Tuesday announced the first set of sanctions against the European nation, targeting Russian banks and sovereign debt. In addition, Russia faces the spectre of being cut off from the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the global financial transaction messaging system. In addition, strict sanctions are expected on Russian financial institutions such as Sberbank and VTB.

Pronab Sen, a former chief statistician of India, said that with the oil price almost 70% higher than last year, it could translate into a two-percentage point increase in the Consumer Price

Index.

“The CPI will remain over 6% till oil prices start declining," said Sen, country director, International Growth Centre.

A reduction of 5 in excise duty on petrol and diesel leads to an 8-10 bps softening of CPI inflation and an equivalent amount of indirect or second-order impact, said Yuvika Singhal, an economist, QuantEco Research.

The CAD is expected to widen and the rupee to depreciate. “If Indian crude averages $100/barrel through FY23, the current account deficit could rise to 2.3-2.5% of GDP," said Aditi Nayar, chief economist, ICRA. CAD is the gap between the country’s overall foreign receipts and payments and is estimated to touch 1.9% of GDP from a surplus of 0.9% of GDP in 2020-21.

The Indian currency is also expected to depreciate against the dollar to 76-77 levels in the next three months, according to Singhal. She added that a $10 per barrel increase in the Indian crude basket could shave off 10 bps from the annual GDP growth estimate.

At an industry event on Thursday, chief economic adviser V. Anantha Nageswaran said that while the Indian economy was poised for recovery, the high crude oil price was a cause for concern. However, he added that the impact on the Indian economy would depend on how long these high prices remain.

Economists also suggested that the government should look at an excise duty cut on petrol and diesel to address inflationary concerns.

“The government may need to take steps to contain inflation if energy prices remain elevated. Interest rate increases would exacerbate stagflationary tendencies, and the optimal response would be through excise duties," said Abheek Barua, chief economist, HDFC Bank.

“While there could be short-term increases in oil and commodity prices and some supply chain disruptions, we don’t expect the situation to remain like that for long. There will likely be supply-side intervention at the global level, led by the US," said another government official. “Oil prices may start coming down in a few weeks or months. The US may allow Iran to export more oil, which could add a supply of 3 million barrels a day," he added.

A 1 cut in excise duty on petrol costs the exchequer 4,000-5,000 crore, while the same for diesel costs 14,000-15,000 crore.

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