

25. Russia-Ukrainian War effect on Indian Economy – A Study

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Introduction:

The Russia-Ukrainian War is an ongoing war between Russia and Ukraine. On 21 February 2022, the Russian government claimed that Ukrainian firing destroyed an FSB border facility on the Russia-Ukraine border and claimed to have killed 5 Ukrainian soldiers trying to enter the Russian border. On February 24, 2022, Russian President Vladimir Putin ordered the invasion of Ukraine by Russian armed forces concentrated on the eastern border. The strikes included attacks across the Belarus-Ukraine border and were followed by targeted airstrikes on military buildings in Ukraine. Russian cyber-attacks and bombings have damaged Ukraine's ICT infrastructure. Several Ukrainian cities and infrastructure sites, including the Chernobyl nuclear power plant, have been seized. Since Russia launched a full-scale military invasion of Ukraine on February 24, 2022, the fighting has killed more than 200 civilians and forced millions of Ukrainians to flee to neighboring countries. In addition to the shocking humanitarian crisis, Russia's "military action" in Ukraine has now dampened global economic growth. Analysts and experts have downgraded the forecast, mainly due to volatile commodity prices, supply chain disruptions and the risk of a Russia-Ukraine war. Much of 2020 and 2021 was spent by the world and its policymakers fighting the economic impact of COVID disruptions. While the global trade cycle is still weak, the Ukraine-Russia crisis has erupted.

Overview of Indian Economy:

The Indian economy is a developing middle income group economy. It is the sixth largest economy in the world in terms of

nominal GDP and the third largest in terms of purchasing power parity (PPP). In terms of Per Capita Income, India economy ranks 145th in terms of GDP (nominal) and 122nd in terms of GDP (PPP). The last two years have been difficult for the global economy and the Indian economy due to the Covid-19 epidemic. Recurring waves of COVID-19 infection, supply-chain disruptions and, more recently, inflation, have created particularly challenging times for government policy-making. The Indian economy is expected to witness real GDP expansion of 9.2 per cent in 2021-22 after contracting in 2020-21. This implies that overall economic activity has recovered past the pre-pandemic levels. India's nominal gross domestic product (GDP) at current prices is estimated to be at Rs. 232.15 trillion (US\$ 3.12 trillion) in FY2021-22. According to the McKinsey Global Institute, India needs to increase its employment growth rate and create 90 million non-farm jobs between 2023 and 2030 for productivity and economic growth. Achieving 8-8.5% GDP growth between 2023 and 2030 requires a net employment growth of 1.5% per annum from 2023 to 2030. As of January 28, 2022, India's foreign exchange reserves reached US \$ 634.287 billion, according to the Department of Economic Affairs. Total GST (Goods and Services Tax) Revenue Collection Rs. 1.38 trillion (US \$ 18.42 billion) in January 2022. This is an increase of 15% over a year ago. Consumer Price Index (CPI) - Aggregate inflation was 5.20% in 2021-2022 (April-December) against 6.6% in 2020-21. Foreign portfolio investors (FPIs) invested Rs 50,009 crore (US \$ 6.68 billion) in calendar year 2021. The Union Budget 2022-23 was presented on 1 February 2022 by the Minister of Finance and Corporate Affairs, Ms. Nirmala Sitharaman. The four priorities in the budget are PM dynamics, inclusive growth, productivity growth and investment and investment financing. In the Union Budget 2022-23, effective capital expenditure is Rs. 10.68 lakh crore (US \$ 142.93 billion), it is expected to grow by 27%. to boost the economy. It will be 4.1% of Gross Domestic Product (GDP).

Russia Ukraine War - Global Effect:

UNCTAD general secretary Rebecca Greenspan said in a statement that Russia's war in Ukraine has taken a heavy toll on human suffering and has hit the global economy hard. All of these shocks threaten the profits made to cure the Covid-19 epidemic and impede sustainable development. UNCTAD's rapid assessment of the war on Ukraine's trade and development confirms the rapidly deteriorating outlook for the global economy due to rising food, fuel and fertilizer prices. Ukraine and Russia are the agro-food markets, representing 53% of world trade in sunflower oil and seeds and 27% in wheat. The war situation is worrisome for developing nations. As many as 25 African countries, including many underdeveloped countries, import one-third of their wheat from these two countries. According to Ms. Greenspan, rising food and fuel prices affect the most vulnerable people in developing countries, putting pressure on the poorest families to spend the bulk of their income on food, resulting in distress and hunger.

Effect on Indian Economy:

While improving strategic relations with the United States, India has managed to maintain close ties with Russia. Russia's invasion of Ukraine has made it difficult for India to maintain this position. Russia is India's largest foreign supplier of major arms. India's military capabilities, especially air power and underwater warfare, will soon deteriorate without a steady supply of spare parts. The Russia-Ukraine crisis has created uncertainty in world trade. This affected oil and other commodities. Although India does not have significant trade with Russia, it is still losing money due to supply disruptions due to Western sanctions. In response to the US embargo on all oil and gas imports from Russia, Brent crude rose to about \$ 130 a barrel last week of February 2022, up 43% from the beginning of February 2022. This is a major blow to global economic growth as Russia is the world's largest exporter of crude oil. However, India's trade accounts for only 1% of oil imports from Russia, but the leakage could result in higher inflation and slower growth. India is dependent on imports to meet 85% of its crude oil

needs. With international oil prices hitting a 14-year high, there will now be widespread pressure on prices. Economic analysts conclude that the impact on India's economy will be largely due to high cost-push inflation on all economic agents-households, businesses and government. Every 10% rise in crude oil prices leads to a 0.4 per cent rise in consumer inflation. Morgan Stanley has set the retail inflation rate at 6% for FY2023, up from 4.5% for the RBI. This has increased the risk of higher import bills and, alternatively, India's current account deficit (CAD). According to a report by Nomura Research, CAD is expected to grow to 2.6% of GDP in fiscal year 2023, up from 1.7% in the previous year. The rupee has depreciated against the dollar due to the war in Russia and Ukraine. In the domestic currency market, the rupee touched a low of 76.96 against the dollar in the first week of March 2022.

Former RBI Governor C. Rangarajan predicted that the impact of the Russia-Ukraine war on the India's economy would be so severe that the growth rate would be around 7 per cent instead of the estimated 8 per cent. Addressing the first BPR Vitthal Smriti Lecture on "India's Recent Growth Experience" at the Center for Economic and Social Studies (CESS), Rangarajan said, "A few years ago, there was talk of India becoming a \$5 trillion economy. Today we are a \$ 2.7 trillion economy. To reach the \$5 trillion target, India needs to grow at 9% per annum for at least five consecutive years. This is the challenge we face, because economic growth is the answer to many of our socio-economic problems."

Russia is the world's third largest exporter of crude oil. Russia's invasion of Ukraine sent crude oil prices hitting a seven-year high of \$ 110 a barrel. Many areas are dependent on crude oil. These include paint manufacturers, oil manufacturers and fertilizer companies. India imports 85% of its oil. The Economic Survey 2022 estimates India's GDP growth to be 8.0 to 8.5 per cent in 2022-23, with crude oil prices hovering around \$70- \$75 per barrel. As crude oil crosses the \$100 mark, it will have a negative impact on these sectors. It is also bad for the economy as a whole as it will increase the government's import bill. In addition, rising crude oil

prices in the international market will lead to higher fuel prices, further pushing up inflation.

Conclusion:

The Russia-Ukraine war has increased global economic uncertainty, but it is too early to say what effect it will have on the Indian economy. High-frequency data show that in many countries' inflation is higher than expected, supply chain disruptions and financial markets are more volatile. As we recover from the The Covid-19 epidemic, the war between Russia and Ukraine, has led to growing global economic uncertainty. But India has not entered into a situation of high inflation, low growth and high fiscal deficit. In fact, India's economic situation is stable and the country is on the path to a broad-based sustainable recovery. Retail inflation hit an eight-month high of 6.07 per cent in February 2022, while wholesale price-based inflation soared to 13.11 per cent on account of the hardening of crude oil and non-food item price. The war is a major setback in the post-Covid-19 economic recovery process, with fiscal consolidation emerging as a major issue as the country faces fiscal deficits and debt, inflation and uneven economic recovery.

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