Impacts of Oil Price Hikes

What is the issue?

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In recent times India's trade deficit is widening due to rise in international crude oil prices which impacts the economy.

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What are the concerns of Indian Economy?

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- Recently Indian rupee has fallen 5.2% in the current financial year, from 65 to an 18-month low of 68.42 against the dollar.
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- The rise in crude oil prices, portfolio outflows from India due to the selling of stocks especially by foreign portfolio investors (FPIs), and a growing anticipation of interest rates rising in the US are causing economic disruptions in India.
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- With the rise in oil prices, India's trade deficit with excess of imports over exports is worsening and can impact the current account deficit.
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- As the US Federal Reserve raises rates further, FPIs will prefer to invest in their home country since the arbitrage gain while investing in India and emerging markets is likely to decline.
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- The twin impact of FII outflows and worsening trade balance can hit the rupee further.
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What will be impact of falling rupees?

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- A weakening rupee will lower returns which will in turn impact future

inflows.
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- Importers will be hit as the cost of getting goods or equipment into India will increase.
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- When the rupee weakens, importers, especially oil companies and other import-intensive companies, have to shell out more rupees to buy an equivalent amount of dollars.
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- In this sense, a weak rupee can act as a kind of import tax and for the oil sector, rise in crude prices and the decline in rupee value will add to retail fuel prices.
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What measures needs to be taken?

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- The best way to bridge the deficits is by boosting Investment inflows.
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- Since it is unlikely to happen, the external metrics have to be kept stable by giving a push to both trade and service exports.
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- Also, this phase can be better utilised by concentrating in exports of various products which earns huge sums for the country.
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Source: The Indian Express

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