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A Study of Impact of Russia - Ukraine War on the Indian Economy

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Abstract: ***Every geopolitical crisis has a rip-off effect on the Indian economy since the world is so intertwined. The consequences of the Russia-Ukraine conflict this time could be ambiguous. According to some experts, India may benefit from the situation. Russia is the world's third-largest crude oil exporter, and China's stockpiles are significantly reliant on Russian supplies. If China's supply and manufacturing sectors are disrupted, Indian enterprises may benefit because India is viewed as the next best low-cost manufacturing base after China. The same is true for iron, steel, and other basic metals. A lengthy conflict in the Black Sea region and increased sanctions against Russia raises the potential of global economic disruption - and India will not be spared. For this study data has been collected through secondary sources like news, articles etc. The motive of this study is to study positive and negative impact of war on the Indian economy.***

Keywords: Russia, Ukraine, War, Crude Oil, Economy, Inflation, Investors

1.Introduction

Markets always rebound after a conflict, as history has shown. We haven't learned how to forecast the conclusion of a conflict or its consequences from history. The Russian forced entrance into Ukraine has caused global markets to tremble. Brown (1996, 3). Part of the economic failure of emerging countries has been related to the predominance of conflicts in these regions, according to a large body of scholarship s (Collier, 1998; Collier and Hoeffler, 1998 Elbadawi, 1999 etc). Civil wars have far-reaching consequences that are felt not just in the countries where they occur, but also in neighbouring countries and beyond. States no longer live in isolation in a world where demand for globalisation is expanding; they are influenced by their interactions with and exposure to other states' activities. (Gleditsch 2003).

Russia and Ukraine account for less than 2% of global trade, yet they control a significant portion of numerous commodities: 37% of the global palladium supply, 17% of natural gas, 13% of wheat, and 12% of oil. The sanctions placed on Russia, as well as the supply chain interconnections, are sure to influence global trade and finance. Because of the Russia-Ukraine crisis, the market is extremely volatile. The volatility tendencies will be determined by the trend in global equities, the movement of the rupee versus the dollar, and crude oil prices.

On Thursday morning, Indian markets crashed after Russian President Vladimir Putin ordered military action in Ukraine. Large explosions were reported in the Ukrainian city of Kyiv shortly after the announcement. Sanctions imposed on Russia by the US and other western countries had little effect on Putin's decision to declare war. The Russia-Ukraine war is a long-running and protracted conflict that began in February 2014 over geopolitical problems, and the situation has deteriorated.

India's direct impact will be restricted to the extent of trade between the two countries. Russia's part of India's total commerce is only about 1%, so it wouldn't make much of a difference. A big portion of the imports are tied to defense, and the government can work out methods to keep the accords going. The indirect impact-through the markets-is, nevertheless, a major source of concern. According to studies, an increase in oil prices of $10 per barrel contributes about 0.4-0.5 percent to Year-on-Year inflation in major nations and reduces global growth by 0.1-0.2 percent in a year.

Taking into account recent geopolitical tensions such as the 2014 annexation of Crimea, the Iraq war, and the Afghanistan war, KR Choksey PMS suggests in a study that in a bull market, the Nifty50 corrects 31-37 percent on average and that the recovery post bottom formation takes about 4-6 months in case of a war crisis and around a year or two in case of consequential events. After analyzing previous bull runs, it found that the Nifty50 had risen 145 percent from previous lows and then corrected by 31-37 percent from its peak. The stock market index is going down day by day from its peak at starting of the war.

The Sensex started trading with a 1,800-point drop. All sectoral indices, whether it is of IT, telecom, real estate, or auto, are in the negative, and metal selling is at a loss of up to 4%. Tata Motors was down 6%, RIL was down 3.5 percent, TCS was down 2.86 percent, and HDFC Bank was down 2.85 percent. Due to the category's hefty losses, the small-cap index fell 4.27 percent. "The financial markets have entered a correction phase as concerns over the escalating Ukraine conflicts have grown. The near 20% drop in NASDAQ since its peak is a clear indication of the correction that has begun.

Will the rate of growth slow down? While there is no immediate threat to an economy driven mostly by domestic demand, all of these market reverberations will have a secondary influence on the economy. Demand and consumption will undoubtedly be hampered by higher prices. High inflation will also put pressure on the economic leaders to reconsider its policy position, as it cannot be dismissed as temporary. Inflation will rise as interest rates rise, and the currency will remain volatile.

2.Objectives

1. To Disclose the different effect of war on Indian economy.

2. To study the positives of Russia-Ukraine war on Indian economy.

3.Research Methodology

Data is obtained from specified documents and compiled into a database for analysis in the research approach. The study is descriptive in nature and is based on secondary data from several government publications issued by the Government of India, as well as other papers published by public and private sector organisations in India. Data was gathered from articles, journals, and the internet.

4.Effect of War on Indian Economy

1. Macro Impact

(i) First, the point of concern is inflation. Since the verbal onslaught began in early February, commodity prices have begun to rise. The impact of the battle on crude oil is probably the most evident, but it has also pushed up prices of metals, gas, and edible oils at a time when it was believed that prices would stabilize this year after a bull run in 2021. Manufacturers in India, for example, have been progressively increasing prices and passing on rising input costs since late December. With this new wave of price hikes, the pressure will intensify across the board. Since November, the Indian government has refrained from rising fuel prices, citing state elections as a reason. Even without the conflict, this wave of price increases was inevitable. The current circumstances are simply exacerbating the problem.

(ii) Second, the area of concern is the rupee. Currency markets around the world have been extremely volatile since the start of the war. Currency depreciation has resulted from a mixture of war and sanctions, and the rupee has not been spared. This comes at a time when the current account balance has shifted to the negative, and with rising oil costs, a stronger CAD is projected.

(iii) Third, the Payment issues. Those doing business with Russia are concerned about the payment issue. Exporters are in a bind as a result of Russia's exclusion from SWIFT. To make matters worse, shipping companies are hesitant to transport products to Russia. As counterparties to these transactions, all entities in other countries are affected in an attempt to harm Russia. India can enter into a rupee-rouble arrangement at the government level, but receiving roubles for exports may not be as appealing to private companies.

(iv) Fourth, Reduced GDP. In India, there is a huge impact of war on commodities, particularly energy, which is the key source of concern for the Indian economy. Rising petroleum prices inevitably lead to a depreciation of the rupee, an increase in inflation and the budget deficit, as well as a decline in GDP growth. GDP is going to be down by 20 basis points as it was predicted that there will be a 10% increase in petroleum, increase inflation by 40 basis points, and expand the current account deficit by 30 basis points. The Indian economy, fortunately, can survive the agony of increasing oil costs and the interruption produced by the Russia-Ukraine conflict. There will undoubtedly be a slowdown in growth, but it will be manageable. The withdrawal of monetary support by central banks around the world will be handled with considerable caution.

2. Marketwise and Sectoral Impact

Corporate profitability will be harmed by the combination of rising prices, slower GDP, and a falling rupee. The black clouds, on the other hand, have some silver linings. The long-term growth path is still intact. Making policies that promote growth is a good thing. Domestic investors have increased in number. This is turning into a buy-on-dip market with moderate return expectations as prices are near historical averages. Areas of the market where values remain high may not produce the predicted return due to concentrated holdings and limited floating stocks. Capital goods, home improvement, pharmaceuticals, large-cap IT, and select financials are expected to outperform the market, but with some volatility. On the sectoral front, there was a mixed trend, with auto losing 9% of its value, followed by banking and real estate. Metal, energy, and IT, on the other hand, attempted to limit the harm. The midcap index finished in line with the benchmark, while the smallcap index excelled but ended 0.3 percent lower.

5.Positives of the war for the Indian Economy

1. Disruptions in the supply of metals like palladium will influence semiconductor chip supply, which will have an impact on the struggling automobile sector. Various businesses may experience a "tail wagging the dog" scenario. The Indian IT industry, on the other hand, may gain from the movement in business from Ukraine and Eastern Europe. As supply from Ukraine and Russia is affected, Indian farm exports can maintain their development momentum. Our granaries contain three times the amount of stock that is legally necessary. This is a crucial opportunity, given recent studies on the quality and reliability of India's food grains. Because Indian domestic prices are higher than global prices, increased grain prices elsewhere in the globe should have little impact on inflation.

2. There is a silver lining to the black cloud if India can revive the Rupee-Ruble trade and become Russia's preferred supplier. Russia would need the help of a large economy like India to heal the holes in its economy that have been widened by the sanctions. There will be enough spoils to divide with China, which, given to its size and proximity, will be Russia's first choice. In order to encourage Russian investment in GIFT City, India needs to make a deliberate effort. These investors would find their investments to be much safer and more successful than those in western markets.

3. The sanctions imposed on Russia could boost India's travel and tourism sectors, as India could emerge as a favored tourist destination as well as a transit hub for Russian tourists. We should strive to build a large number of tourist places like Goa for Russian tourists.

4. India sends a large number of students to Ukraine and Russia to pursue higher education. This demand should be channeled into the expansion of our educational system. Currently, billions of dollars are being used as a foreign exchange to pay for education in other countries. Instead, we have the chance to expand the educational sector in terms of scope and size.

5. The Russia-Ukraine war will help us maintain our export momentum while also allowing us to integrate more deeply into global supply networks. To encourage our entrepreneurs to seize this opportunity, we need to improve the ease of doing business and the rule of law. Russia prepared for sanctions by diversifying its foreign currency holdings by investing in gold. Keeping in mind its long-term objectives for Taiwan, China may easily use a similar method. If Chinese buying supports gold prices, Indians, who are the greatest holders of the yellow metal, will see a wealth effect on a large scale. Consumption will be boosted, and capital will be available for investment, resulting in faster development.

6. Long term investment Opportunity is available**.** Although wars are tragic events, they do present opportunities for long-term investment. "There is a fear component that grips investors every time they wait for a correction and when it occurs." This is the moment for long-term investors to gradually increase their investment portfolio. Anyone having money with a three-to-five-year horizon can begin investing at least one-third of the corpus immediately, with the remainder over the next three to six months. Concerns about overvaluation, increased inflation, and the slow rate of economic growth have caused Foreign Institutional Investors (FIIs) to withdraw money from Indian markets. Geopolitical tensions between Russia and Ukraine, as well as rising crude oil prices, have added to the concerns. Domestic Institutional Investors (DIIs), on the other hand, has been a consistent source of market support and capital. In the future, we expect that FII inflows will be dependent on lower crude oil prices, lower interest rates, improved economic growth, and higher earnings.

6.What should we do?

1. Asset Allocation: Since the news of the war broke, the price of shares and other asset classes has dropped dramatically. An investor should rebalance their portfolio after seeing the roller coaster ride of stock exchange indices as bond yields have risen, gold and other precious metals are trading at a premium, while equities have fallen dramatically in value.

2. Systematic Approach: Nobody knows when the markets will recover after falling due to the uncertainty caused by the Russia-Ukraine conflict. Rather than going all-in, the best strategy is to invest in a low-risk debt fund or Exchange-traded fund (ETF) and then employ a systematic withdrawal plan (SWP) to transfer cash into your equity funds at a predetermined date. In the current environment, we would recommend a Flexi-cap fund or a large and mid-cap fund among equity funds for investors with a lower risk appetite. However, the investor's medium-term asset allocation should also be considered during this process. As equity markets recover, we recommend raising equity allocation levels, depending on the investor's risk appetite and current asset allocation.

3. Stick to the Long Term: Market corrections generate opportunities for investing; this strategy is good only if investors buy for the long term. Market swings and geopolitical tensions cannot be the main reason to invest. "Keep it simple, and remember that successful equities investment is built on three pillars: discipline, patience, and luck." If you have the first two, luck is forced to help you. As a result, don't base your investment selections on market movements, economic developments, or geopolitical events.

7.Conclusion

The stock market is likely to incur huge losses if the Ukraine crisis develops, as oil prices are expected to remain high. While the Federal Reserve of the United States will meet next month to consider whether to raise interest rates and tighten liquidity, it is expected that the Fed will not act aggressively. Another source of concern is the impact of rising crude oil prices on the Indian economy, which comes at a time when inflation is near 6%, considerably above the Reserve Bank of India's upper limit.

According to analysts, if an investor has a long-term investment plan, they should stay invested, and mutual fund investors should continue their SIP plan without breaking it. The severe slump, on the other hand, will present investors with an opportunity to buy high-quality stocks at attractive prices. "Before making any substantial moves, investors should wait and observe how the situation unfolds." Buying should be restricted to segments of the stock market that are properly valued or have high earnings forecasts. Indian stock markets lost for the fourth week in a row, as the Ukraine conflict worsened, sending oil prices soaring and stoking inflation fears. As a result, Sensex and Nifty both lost 2.7 and 2.5 percent, respectively.

"The Russia-Ukraine crisis, new sanctions imposed on Russia by world powers, and reports of a Russian strike on Europe's largest nuclear power facility in Ukraine heightened investor anxiety." FIIs are selling persistently, and their selling momentum has picked up in the previous few trading sessions, with over 22,000 crores traded, while DIIs are attempting to support the market. Banknifty's structure is also weak, but 34,000 is a crucial support level, and if it can hold it, we can expect a bounce back to 35,000-35,500 as an immediate resistance area, and 36,300-36,600 as a major resistance zone. Commodity costs are rising, with crude oil prices approaching $120 per barrel, creating a huge headwind for the Indian economy. As a result, crude oil prices will be closely monitored by the market. In conclusion, investors are on a roller coaster ride, but they must not get off in the middle. Investors will be glad they went along for the journey in the end.

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