

‘Ukraine war will lift import bill, widen current account deficit’.

The ongoing crisis in Ukraine is set to push the country’s import bills beyond the \$600-billion mark this fiscal, given India’s import dependence on crude oil, natural gas, gems and jewellery, edible oils and fertilizers, which can lead to a spike in inflation, wider current account deficit, and a falling rupee, India Ratings warned in a report on Tuesday.

The rating agency said the ongoing geopolitical risks arising from the Russia-Ukraine war would push India’s import bills higher for items such as mineral oils and gas, gems and jewellery, edible oils and fertilizers.

As a result, merchandise imports may cross \$600 billion in FY22, up from \$492.9 billion in the first 10 months.

The impact will be felt more on inflation, a widening current account deficit and a falling rupee, its chief economist Devendra Pant said in the report, adding a \$5 per barrel increase in crude oil prices will translate into a \$6.6 billion increase in trade/current account deficit.

The ramifications of the Russia-Ukraine war on the domestic economy will be felt via higher global commodity prices — crude oil has been on a boil, surging to \$103.15 a barrel on February 27.

On the impact on inflation due to higher imported prices and weaker rupee, the agency said a 10% increase in petroleum product prices without factoring in currency depreciation would lead to a 42 basis points (bps) increase in retail inflation and 104 bps quickening in wholesale inflation.



Expected Question (Prelims Exams)

Q. Consider the following steps which the Government can take:

1. Devaluing the domestic currency.
2. Adopting suitable policies which attract greater F.D.I. and more funds from FIIs.

Which of the above steps can help in reducing the current account deficit?

- (a) 1 only (b) 2 only
(c) Both 1 and 2 (d) None

Expected Question (Mains Exams)

Q. What is current account deficit? Discuss its significance for a healthy economy.

(250 Words)

World

Committed To Excellence

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.