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Vandana Meena
Research Scholar,
Department of Economics,
University of Rajasthan,
Jaipur, Rajasthan, India

Corresponding Author:
Vandana Meena
Research Scholar,
Department of Economics,
University of Rajasthan,
Jaipur, Rajasthan, India

Impact of changes in global crude oil prices on the Indian economy

Vandana Meena

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Abstract
Oil is a crucial component in nearly every country's economic activities. “As a result, an increase in its price is likely to have a negative impact on the economic expansion of oil-importing nations like India. The purpose of this paper is to investigate how the price of oil affects India's economic growth to see if there is a co-integration relationship between India's economic growth, oil price, capital formation, and inflation. Crude oil always has a lower starting price, but import taxes make it more expensive for the average person. The cost of petroleum or other related items increments as needs be which brings about an expansion in consumption of an everyday person. This paper attempts to explain the significance of reducing crude oil imports to raise a person's standard of living and provides insight into the current state of crude oil imports. In order to avoid a rise in oil prices and its subsequent negative impact on the country's economic growth, the study suggests that the government should refrain from imposing additional taxes.”

Keywords: crude oil, economic expansion, imports

Introduction

Oil is a valuable fuel and essential strategic energy for modern industry and economic growth. Any shift in the price of oil is a hotly debated topic in political and economic circles in every region, and it is frequently regarded as a barometer of the global economy. Crude oil's significance to national stability is growing in tandem with the world economy's rapid expansion. However, oil prices fluctuate significantly during an emergency. A highly dynamic supply and price structure has developed as a result of the oil's rising global value and demand. An enormous measure of writing shows that variance in oil cost has a critical effect on the financial movement of an economy. These influences come from both the supply and demand sides. The impact of the oil price on investment and consumption is what drives the shift in the price of oil on the demand side. Disposable income has an effect on the level of consumption, and if the price of oil has an effect on disposable income in any way, the level of consumption will also change. The level of investment is affected by the oil price, which alters the cost of production. The rise in oil prices reduces investment incentives, which in turn reduces the company's profit margin.

In addition, an increase in the price of oil fuels economic inflation, which has an effect on the country's economic activity. Oil-related businesses and local retailers have slightly different arguments. Although it is true that an increase in the price of oil on the global market will also result in an increase in prices on a local scale, a decrease in the price of oil will not result in a price decrease that is as rapid or as sharp for local retailers. A smoother reduction will more than likely be required, leading to an asymmetric correlation.

As previously stated, the oil-related markets and industries are interconnected, and a fluctuation in prices has an impact on all of these distinct environments. A nominal charge refers to a change in numbers, and a structural change is a change that disrupts many layers of the economy, including the cost of production and, as a result, imports and exports, disposable income, the comparative advantages of the participating economies, their current accounts, exchange rates, global value chains, and the overall uncertainty, are the two ways that changes in oil prices affect international trade. Regardless of whether an economy is an oil exporter or importer, disruptions of this kind are costly.

Employment is another effect of this change. Specifically, when labor, capital, and energy are inputs to production and labor/capital is a complement to the energy source, countries like Azerbaijan experience a structural effect on employment when the price of oil suddenly rises.

Objectives

The objectives of this paper can be summarized as follows;

- To study the Impact of oil price fluctuation on the Indian economy.
- To systemically review the previously researched work on the topic & draw meaningful references.
- To ascertain the primary factors behind the price fluctuation in Global Scenario.

Literature Review

Ganguly & Das (2016) [1] in the present research work by the author, it was put forward that the effects on the Indian economy of the elimination of energy subsidies for LPG, gasoline, and diesel and fluctuations in international crude oil prices. Following Shoven and Whalley (J Econ Lit XXII:), they have used computable general equilibrium (CGE) modeling as our relevant methodology. 1007–1051, 1984) based on India's 2007–2008 energy social accounting matrix (ESAM). When compared to the impact of eliminating energy subsidies, it is evident that the fluctuations in international crude oil prices have a greater impact on GDP and exchange rate. GDP rises and the exchange rate appreciates as a result of a decrease in the international price of crude oil. On the other hand, as the energy subsidy decreases, GDP falls and the exchange rate rises. In addition, it has been observed that the introduction of a direct cash transfer scheme in place of a subsidy for LPG has little effect on demand (substitution effect), indicating that LPG is an essential commodity.

Alkhateeb & Sultan (2019) [2] analysed that a number of factors, including changes in the price of crude oil, the depreciation of the Indian rupee, and indirect taxes, are to blame for the recent rise in oil prices impact on the expansion of the Indian economy. The price of crude oil has recently shown a rising trend, and it is anticipated to reach $70 per barrel by 2019 after a sharp decline since 2014 when it fell as low as $34 per barrel in 2017. The authors came to the conclusion that the rise in crude oil prices has an impact on the country's current account balance, foreign exchange reserves, inflation rate, and value of the domestic currency, which disrupts economic activity. A decrease in international prices has not always been reflected in a decrease in domestic prices for oil products due to tax and exchange rate factors. India was very upset in recent years when the domestic price of gasoline and diesel increased at a time when the international price of crude oil was not at its highest. Price increases, according to a lot of economists, hurt economic activity and, by extension, growth. The study tried to find out how the price of oil affected the country's economic growth in this setting."

Wani & *et al*. (2015) [3] in the paper, authors argued that the prerequisite of raw petroleum has been expanding at a fast speed which has made India reliant upon raw petroleum imports. Crude oil always has a lower starting price, but import taxes make it more expensive for the average person. The cost of petroleum or other related items increments as needs be which brings about an expansion in consumption of an everyday person. This paper attempts to explain the significance of reducing crude oil imports to raise a person's standard of living and provides insight into the current state of crude oil imports. The authors discovered, while describing the Indian context, that India has undergone a paradigm shift as a result of its global competitive position. The Indian economy is expanding at a rapid rate, with a steady annual growth rate, expanding foreign exchange reserves, and thriving capital markets among other benefits. By purchasing power parity (PPP), India's economy is the third largest and seventh largest in the world, respectively. The nation is a developing economy that ranks among the top 20 global traders, is a member of BRICS, and is one of the major economies in the G-20. The authors concluded that Global economies are significantly affected, either directly or indirectly, by crude oil prices. However, almost all commodities, both consumable and non-consumable, experience an increase as a result of rising crude oil prices. The growth of a nation's GDP is negatively impacted by any positive change in the price of crude oil. The impact of fluctuating crude oil prices on the Indian economy is not unique. Crude oil imports are on the rise as a result of India's rapid rise in demand for petroleum-related goods. In the event of a rise in crude oil prices, there is a noticeable shock or impulse that paves the way for strengthening energy-efficient mechanisms to lessen our reliance on petroleum products.

Nazir & Rehman (2021) [4] the authors argued that the unpredictability brought on by fluctuations in the price of oil will have a negative effect on economic growth because they will raise production costs or alter investment decisions, affecting economic activities. Unrefined petroleum is quite possibly the main product on the planet's economy, and it is utilized in businesses going from transportation to driving age, all things considered straightforwardly or in refined structures. Future markets account for the majority of trade, despite the fact that physical crude oil transactions are common and frequently take place under long-term supply contracts. Toward the start of the twenty-first 100 years, the unrefined petroleum costs have gone through huge movements. There are now a number of new features available on international markets. For instance, since 2010, Brent and WTI prices have diverged significantly, global energy markets have become extremely volatile and risky, and OPEC's ability to influence oil prices has diminished. These new market conditions have necessitated an investigation into the dynamics of international crude oil prices. Numerous factors influence the movement of crude oil prices. The dynamic, complicated interactions between these factors, whose characterization and prediction have remained one of the most intriguing research issues in the field of economic and financial analysis, are the source of the mysterious behavior of the crude oil price movement. The work can be concluded by asserting that Oil marketing companies in India, like the Indian Oil Corporation, can legally set their own prices for gasoline and diesel based on prices in other countries. Since state and focal expenses represent an enormous part of the retailing costs, Indian shoppers don't see the upside of cost guidelines. This has been especially evident over the past year when the COVID-19 pandemic caused the price of oil around the world to change dramatically. In April 2020, the price of India's oil basket fell to $19, but auto fuel prices decreased by an average of slightly more than 6 per cent for both gasoline and diesel. In fact, the government decided to raise the excise tax on gasoline (13 cents per litre) and diesel (15 cents per litre) twice in March and May 2020 to boost revenue after the lockout. The aim of the study is to determine the domestic and international factors that influence oil prices. The primary goal of the study is to estimate how variables affect oil prices using a quarterly data set for all variables from 2011 to 2021.

Sharma & *et al*. (2019) [5] it was argued that the pass-through effect of the oil price and exchange rate on economic activity, particularly in developing economies, presents policymakers with a nightmare at all times. In energy-dependent economies, exchange rate and oil price fluctuations have a significant impact on economic expansion and inflation, ultimately destabilizing the monetary and financial system of the economy." The transformation scale change influences development all around through import costs. There are two phases. The price of imports is affected in the first stage by changes in the exchange rate, while wholesale and consumer prices are affected in the second stage by changes in the current economic conditions. Currency fluctuations and rises in oil prices are surefire ways that inflation on the global market will enter the domestic market for a transition economy like India. Such instances of inflation are difficult to control with conventional monetary policy measures. The RBI's recent switch to a policy of targeting inflation lends credence to this viewpoint. Numerous studies looked at how changes in the oil price and the exchange rate affect inflation in industrialized economies. However, there aren't many similar studies on the Indian situation from Emerging Market Economies (EMEs). The majority of them focus primarily on the pass-through effect of exchange rates and how inflation is affected by other macroeconomic variables. The authors of the study came to the conclusion that, despite the fact that fluctuations in oil prices have a negligible impact on total inflation in India, they have a significant impact on energy inflation. This is because in terms of total inflation, the hedging capacity of non-energy items is greater than that of energy items. If these conditions are not met, inflation will rise even more in countries like India that import oil. The outcomes are in line with what is typical of the Indian economy, which uses administrative pricing and a policy of subsidizing petroleum products to lower energy inflation's share of total inflation. Because of this, the exchange rate and the price of oil may have little effect on inflation. However, the rapid depreciation of the rupee during the study period had a significant impact on inflation through import prices. In addition to increasing the monetary base, the recent accumulation of foreign exchange reserves to prevent appreciation exacerbated inflation. The Indian monetary authority was unable to control the volatility of the rupee in spite of a rapid increase in capital inflow, the expansion of the money market, and economic reforms. Additionally, it has influenced the inflation situation.

Methodology

The researcher in the present study has utilized the secondary data in the form of published research papers in various online and offline journals, further some magazines have been utilized.

Findings and Conclusion

After going through all these research papers published by renowned authors, the researcher can conclude that Crude oil is essential to the expansion of industry and the economy. India imported almost all of its oil requirements. Out of 80%, almost 60% is unrefined petroleum which makes it 2% entire year's Gross domestic product in the country. Accordingly, changes in the cost of unrefined petroleum will influence the economy. Because supply and demand are known to have a significant impact on crude oil prices and they will never remain stable, there is always some degree of uncertainty. Other fuel prices are affected by the price of oil. Any economy, but especially one that is still in its infancy, experiences significant growth and inflation control thanks to this crucial variable. to meet the growing demand for petroleum, diesel, unrefined oil, and so on. In the long run, India should implement market-linked relative prices, reduce subsidies, and carefully target them in order to improve energy. In order to avoid becoming overly dependent on crude oil imported from other countries, it must also improve its petroleum supplies by expanding domestic explorations and taking other measures, such as allowing Indian oil companies to participate in exploration and production in foreign oil fields (the Chinese use extensively). India must also pursue the use of renewable energy sources like hydro, wind, solar, biofuels, nuclear, and others with greater vigor as the countries of Western Europe have done. India should increase exports in order to meet its rising oil import requirements in the future. In order to maintain rapid economic growth in the future, careful planning to ensure that future petroleum requirements can be met will be essential.

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