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Cheaper oil helps govt battle Covid headwinds

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New Delhi: The historic oil price crash in April and a protracted spell of subdued market reduced India's oil import bill since January by 40%, giving the cash-strapped government some headroom as it battles Covid headwinds.

India paid Rs 2.6 lakh crore for 115.5 million tonnes (mt) of oil imported in the January-July period against Rs 4.2 lakh crore for 130.8 mt in the same period of 2019. In dollar terms, the bill stood at \$35.4 billion against \$61.3 billion in the previous corresponding period, Parliament data showed.

During the April-July pe-

riod, or the first four months of the current financial year, the bill stood at Rs 93,466 crore, or 62% lower than Rs 2.51 lakh crore in the comparative period of 2019. In dollar terms, the bill stood at \$12.4 billion, marking a saving of 65.7%.

The Rs 1.6 lakh crore saving in the January-July oil import bill is the same as the Rs 1.7 lakh crore tab for the Covid-19 relief package announced for the poor in March. Surely, the government does not buy oil. But cheaper oil has a positive impact on macroeconomic parameters, which reduces drag on government finances and frees up resources for welfare.

A Barclays note saw every

\$10/barrel decline in oil price lowering India's current account trade by \$8.5 billion, or saving 30 bp from current account deficit (% GDP) in 2020-21.

Now consider: the price crash has erased LPG subsidy and will lower fertiliser subsidy. This means the government will not have to spend all of the Rs 37,256 crore budgeted for LPG subsidy or Rs 71,309 crore for fertiliser subsidy. The unspent money, for example, can be spent on healthcare.

Cheaper oil allowed fuel tax to be raised for additional revenue without hurting consumers. Excise duty on petrol and diesel was raised by Rs 3 a litre in March when prices be-

gan sliding. It was again increased by Rs 10 per litre on petrol and Rs 13 on diesel in May when consumption was still at 50%. But the move is paying off as sales near pre-Covid levels.

In addition, the government used the opportunity to fill the strategic reserve by buying 16.7 million tonnes of cheap oil for \$19 per barrel in April-May against \$60 per barrel price in January, saving \$685.11 million, or Rs 5,069 crore, oil minister Dharmendra Pradhan told Lok Sabha recently.

Admittedly, lower import volumes, prompted by consumption halving because of the countrywide lockdown from March 25 to stem the pan-

demie, contributed to a lower bill. Import volumes between January and July stood at 115.5 million tonnes, down 11.6% from a year ago. The fall was sharper during the April-July period, or 23.6% lower than the previous comparative period.

US benchmark WTI crude slipped into negative for the first time in history of oil trading on April 20 and global benchmark Brent slipped below \$20/barrel as demand crashed due to lockdowns shuttering economic activities across the world. The Indian basket too slumped to \$19.9/barrel on cue and has averaged \$41 in the January-July period against \$65 in the year-ago period.

Petrol, diesel to cost more in Andhra Pradesh

VIJAYAWADA

The Andhra Pradesh government has imposed a road development cess of ₹1 each on a litre of petrol and diesel to mobilise an estimated annual revenue of ₹500 crore, which will be transferred to the A.P. Road Development Corporation, according to a release.

भारत-अमेरिका के बीच साझेदारी की जड़ें मजबूत

वाशिंगटन (भाषा)। अमेरिका में भारत के राजदूत तरनजीत सिंह संघू ने कहा है कि दोनों देशों के बीच रणनीतिक ऊर्जा साझेदारी ने बहुत कम समय में गहरी जड़ें जमा ली हैं और इस सहयोग से दोनों देशों में अर्थव्यवस्था को पटरी पर लाने की प्रक्रिया तेज हो सकती है। संघू ने कहा कि भारत के 1.3 अरब लोगों की विकास संबंधी आकांक्षाओं को पूरा करने में अमेरिका एक महत्वपूर्ण साझेदार है और मानवीय प्रयासों का ऐसा कोई क्षेत्र नहीं है, जहां भारत और अमेरिका के बीच आपसी सहयोग नहीं है।

संघू ने अमेरिकी ऊर्जा विभाग द्वारा आयोजित 2020 के प्राकृतिक गैस शिखर सम्मेलन को संबोधित करते हुए गुरुवार को कहा कि आपसी संबंधों के लिहाज से कुछ क्षेत्र हाल के वर्षों में महत्वपूर्ण बनकर उभरे हैं और ऊर्जा ऐसा ही क्षेत्र है। शिखर सम्मेलन को अमेरिकी ऊर्जा मंत्री डैन ब्रोइलैट और व्हाइट हाउस की राष्ट्रीय आर्थिक परिषद की निदेशक लैरी कुडलो ने भी संबोधित किया। संघू ने कहा, 'यह जानकर खुशी होगी कि दो साल से कम अवधि में हमारी रणनीतिक ऊर्जा साझेदारी ने गहरी जड़ें जमा ली हैं। भारत एक बहुत बड़ा बाजार है। हमारी ऊर्जा की आवश्यकता बढ़ेगी, क्योंकि हम प्रधानमंत्री (नरेंद्र मोदी) के दूरदर्शी नेतृत्व में विकास की गति को आगे बढ़ रहे हैं।' उन्होंने कहा कि ऊर्जा सुरक्षा भारत की राष्ट्रीय सुरक्षा के लिए महत्वपूर्ण है, और अमेरिका प्राकृतिक गैस सहित ऊर्जा संसाधनों और अग्रणी प्रौद्योगिकियों से संपन्न है।

अमेरिकी कच्चे तेल के लिए भारत चौथा सबसे बड़ा अंतरराष्ट्रीय बाजार

उन्होंने कहा कि भारत और अमेरिका के बीच ऊर्जा साझेदारी

से दोनों देशों में अर्थव्यवस्था को पटरी पर लाने की प्रक्रिया भी तेज हो सकती है। भारत अब अमेरिकी कच्चे तेल के लिए चौथा सबसे बड़ा अंतरराष्ट्रीय बाजार है और अमेरिकी एलएनजी के लिए पांचवां सबसे बड़ा बाजार है।

● RUPEE STRENGTH

RBI WILL LIKELY BUY \$8 BILLION MORE BY MARCH 2021 TO BUILD ON THE RETURN TO SUFFICIENT FX RESERVES AFTER 10 YEARS. IT CAN EASILY SELL \$50 BILLION TO PROTECT THE RUPEE

Decoding RBI's FX policy shifts

WHAT'S CHANGING IN RBI's FX policy, we have been asked, with 2.7% appreciation of the rupee since July? We think RBI will buy FX less aggressively than in the past, having achieved adequate FX reserves (we estimate \$500+ billion) again. Second, it has stated that appreciation helps cool high CPI inflation, although we find 'imported' inflation relatively weak. Finally, RBI will likely allow the rupee to weaken if the dollar strengthens, as it can sell up to \$50 billion to fend off any speculative attack on the rupee. That said, we continue to expect RBI Governor Shaktikanta Das to consolidate the return to adequate FX reserves. RBI has actually picked up \$24.3 billion from July to the week-ending September 11. Our BoP estimates suggest that it can buy \$7.6 billion more by March 2021. On balance, we expect RBI to continue with its asymmetrical FX policy, of buying FX when the dollar weakens and letting the rupee depreciate when it strengthens. As inflation peaks off, we think that there still will be a policy bias towards a weak rupee till growth revives. Our FX strategists see the rupee at 74 to the dollar by December with the dollar at 1.14 to the euro.

RBI to buy FX less aggressively...

RBI is likely to be more relaxed about buying FX than before as it has achieved sufficient FX reserves. Stronger rupee will cut 'imported' inflation. Although imported inflationary pressures are relatively weak, in our view, RBI will not prevent depreciation if dollar strengthens. We think that the RBI will be keen to see depreciation if the dollar strengthens as we expect. Given that it can sell up to \$50 billion to fend off any speculative attacks, it can easily effect orderly depreciation.

INDRANIL SEN GUPTA & AASTHA GUDWANI

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Views are personal



... but still continue to build up FX reserves

Should RBI be buying FX with reserves at \$542 billion? Higher FX reserves will likely comfort FPIs into putting more money in India (up \$6.5 billion FYTD), quite like it was in 2004-08.

Second, they are India's only defence against contagion risks with G-3 central banks running out of ammunition. Finally, dollar risks are likely overdone. In our view, high FX

reserves ensure:

- **Stable rupee:** Large depreciation in global shocks, are now likely to be a thing of the past;
- **Higher FPI flows** as high FX reserves cut exchange rate risks;
- **Cheaper FX loans:** Corporates should be able to get FX cheaper as markets normalise.

RBI to buy \$8 billion by March; \$23 billion 2Q20 CAS
Our BoP estimates continue to sug-

gest that RBI can buy \$45 billion of FX (\$37.4 billion FYTD) in FY21, with our oil forecast of \$43.7/bbl and \$7 billion of FPI inflows (BofAe). We expect the June quarter to post a massive current account surplus of \$23 billion. With M3 growth returning to excess supply, we still expect RBI to buy FX forward to limit rupee liquidity. That said, the trade deficit in August worsened to \$6.8 billion from \$4.8 billion in July.

Higher gold imports and deepening non-oil export de-growth more than offset the 29% decline in non-oil, non-gold imports in August. Even so, the FYTD trade deficit is a bare \$20.7 billion, well below \$73.2 billion seen during April-August 2019.

Edited excerpts from BofA Securities India Economic Watch report dated September 16, 2020

