



AMIT DAVE/REUTERS

People line up to get gas in Ahmedabad, India, as concerns rise over potential supply disruptions during the Iran war.

Conflict Rattles India's Economy

BY KIMBERLEY KAO

Shipping disruptions in the Strait of Hormuz and surging energy costs because of the Iran war are threatening to derail one of the world's largest economies, according to an Indian government report.

After months of high growth coupled with cooling prices, India's "Goldilocks" era faces a new speed bump with the Middle East conflict.

While macroeconomic fundamentals remain strong, the Indian finance ministry's department of economic affairs warned of "multi-layered" risks for India because of "its position as a major energy importer with strong trade, investment and remittance linkages" to the Middle East, it said in its latest monthly report.

The department also pointed to higher petroleum

import bills, increased logistics costs and reduced exports to the Middle East as risks, with the oil-price shock posing an "unexpected upside risk for inflation in the medium term."

"These factors, alongside portfolio capital outflows, have contributed to depreciation pressures on the Indian rupee, necessitating calibrated policy responses," the report said.

The rupee strengthened markedly against the dollar in Monday trading after the Reserve Bank of India set limits for on open foreign-exchange positions involving the rupee. The dollar was last 1.6% lower at 93.252 rupees, LSEG data showed.

The RBI said on Friday that dealers should ensure their net open rupee positions in the onshore deliverable market is capped at \$100 million at the end of each business day. Dealers must comply with the new guidance by April 10, the RBI added.

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"While this specific measure is unprecedented and therefore somewhat unexpected, the broader policy direction is not entirely surprising," Bernstein Research analysts said. "The move is aimed at curbing [currency] volatility," but could result in losses for "banks carrying large open positions, as they are forced to unwind exposures," Bernstein said.

Several major oil producers in the Middle East temporarily halted production because of attacks and damage to their infrastructure. "If refineries are shut down, it will take a long time to resume normal oil production even after the conflict subsides," the report said.

Last week, India announced cuts to taxes on petrol and diesel to cushion the inflation impact from higher crude prices.

Focus now shifts to the Indian central bank's rate decision due next week. Capital Economics said that while higher inflation risks and energy shortages will weigh on growth, the RBI is likely to hold rates. If there is "a prolonged conflict that involves significant damage to energy infrastructure, the RBI would probably hike interest rates if the rupee came under more pressure," said Shilan Shah, economist at Capital Economics.