Welcoming the Hike in Oil Prices

What is the issue?

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- International oil prices are increasing rapidly which have various impacts for India.
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- At the same time the hike in oil prices have few benefits like foreign remittance.
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What are the impacts for India due to higher oil prices?

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- Whenever crude oil prices have increased, the prices of domestic fuels have been raised steadfastly.
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- The rising prices of petrol and diesel increase the burden on citizens, affecting to some extent the government’s popularity.
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- When the price of crude oil is high, oil companies are forced to cut down on their supply to the retail market in order to drive up the prices to competitive levels.
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- The input costs of petroleum products indirectly influence the retail price.
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- High taxes are also discourage producers from bringing enough supply to the retail market, leading to higher prices.
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What are welcoming benefits from higher oil prices?

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- India is estimated to have received $68.9 billion in 2017, rebounding from $62.7 billion in 2016.
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- The recovery has a lot to do with the firming up of oil prices and growth in the six Gulf Cooperation Council (GCC) countries.
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- These six monarchies together were the source for about 56 per cent of the remittances received by India in 2017.
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- The UAE has been the largest source of remittances for India and it also hosts the largest pool of Indian migrant workers.
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- Higher growth in the EU and the US also contributed to the rebound in remittances, which had fallen after the West Asian economies slowed with a sharp fall in oil prices.
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What is the significance of such remittance?

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- In many difficult years, when India’s import bill zoomed hurt by high prices of petroleum crude and huge imports of gold, these remittances helped avoid a balance of payment crisis.
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- It has also been useful in years the country experienced sharp volatility in portfolio investments it also helped in maintaining a strong foreign exchange balance and in better management of exchange rates.
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- It has an important impact on domestic demand and growth, the economies of Punjab and Kerala have particularly benefited from money remitted by overseas workers.
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What are the prospects of this trend?

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- According to World Bank, upsurge in remittance flow may continue this calendar year helped by stronger growth in the developed nations and increase in oil prices.

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- The GCC countries will remain the primary source of remittances if they continue to attract millions of migrant workers from India.
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- However, introduction of various taxes and changes in employment laws in the GCC countries could affect remittances from those nations.
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- Taxes will lower net earnings of Indian workers and thereby hit the amounts that will be remitted home by them.
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- At the same time changes in employment laws will reduce the number of jobs that may be available to Indians.
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Source: Business Line

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