South Asia Economic Focus- Spring 2015
Making the Most of Cheap Oil

Selected insights from ongoing analysis

Chief Economist Office, South Asia
The World Bank
The growth impact of cheaper oil will vary widely

Percent change in real GDP compared with baseline, 2015

Source: World Bank, MacroFiscal Model
The growth impact of cheaper oil is bound to be positive for South Asia.

These shares are the highest among all major developing regions.
The elasticity of GDP to oil prices varies widely across South Asian countries

**Oil price elasticity of GDP**

- Sri Lanka
- Pakistan (6)
- Nepal (5)
- Maldives (4)
- India
- Bhutan (3)
- Bangladesh (2)
- Afghanistan (1)

*Source: World Bank staff calculations based on World Bank, IMF and National authorities data*
The speed of disinflation will be stronger in India

Source: World Bank staff calculations based on World Bank, IMF and National authorities data
Developing countries are characterized by pervasive energy subsidies

*Source: IMF*
The removal of energy subsidies would allow reducing budget deficits

These deficits are the highest among all major developing regions.
India moved quickly to cut subsidies and introduce excise tax on diesel and petrol (1)

Source: India Petroleum Planning and Analysis Cell
India moved quickly to cut subsidies and introduce excise tax on diesel and petrol (2)

Source: India Petroleum Planning and Analysis Cell
No price reform in Bangladesh and Pakistan, but lower oil price made subsidies disappear

Difference between international benchmark price and domestic price (US$/ton)

Source: Benchmark Prices are February 2015 Singapore FOB prices plus US$2/bbl freight charge and a 15% VAT. Domestic prices refer to the latest prices published by the Bangladesh Petroleum Corporation and Pakistan State Oil.
There will also be impacts on foreign trade (1)

Source: World Bank staff calculations based on World Bank, IMF and National authorities data
There will also be impacts on foreign trade (2)

Oil price elasticity of Imports

- Sri Lanka
- Pakistan (6)
- Nepal (5)
- Maldives (4)
- India
- Bhutan (3)
- Bangladesh (2)
- Afghanistan (1)

Source: World Bank staff calculations based on World Bank, IMF and National authorities data
Oil price margins are volatile...

Source: IMF Commodity Price Outlook and Risk, March 11, 2015
exposing firms and fiscal balances to uncertainty

But hedging is fraught with risk as well, limiting the options to manage risk

Source: World Bank Staff calculations
Direct welfare effects of cheaper oil will be limited and skewed towards richer households.

Bangladesh – no pass through of international prices, no direct or indirect effects expected
Pakistan – decline of fuel prices will have small sized effect on welfare
India – slight decrease of fuel prices will have small effect on welfare
Welfare also depends on remittances, which are mainly from oil exporting countries.

Importance of Remittances from Oil exporting Countries

Source: World Bank, IMF and National authorities data
Remittances can be expected to decline (and Pakistan is already affected)

Lower Oil prices affect remittances

Source: World Bank, IMF and National authorities data