

Energy Shortage Takes Toll on India's Growth

India is facing an energy crisis that is slowing economic growth in the world's largest democracy.

*By Amol Sharma in
New Delhi and Megha
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At stake is India's ability to bring electricity to 400 million rural residents—a third of the population—as well as keep the lights on at corporate office towers and provide enough fuel for 1.5 million new vehicles added to the roads each month.

Shortages of coal, oil and natural gas will require India to import increasing amounts of high-cost fossil fuels, say

energy experts, risking inflation and putting the country in stepped-up competition with China, Japan and South Korea. Buying oil from Iran, one of India's biggest suppliers, is tougher because of U.S. and European sanctions aimed at curbing Tehran's nuclear ambitions.

With annual demand expected to more than double in the next two decades to the equivalent of six billion barrels of oil, the energy crunch threatens to knock India off its growth path. The national economy has already slowed amid paltry business investment and stalled reforms. It tallied just 5.3% growth in the quarter that ended March 31,

the lowest level in almost a decade and well shy of the country's 9% goal.

Expensive imports have taken a toll on the nation's finances. Though global crude-oil prices have eased in the past few months, India is seeing little benefit because its currency, the rupee, has been dropping against the dollar, the currency used to price oil.

State-run energy companies are racking up billions of dollars in losses by selling auto fuel, cooking gas and electricity at artificially low prices to protect consumers from global cost increases. In May, India's oil marketers raised gasoline prices 11.5%, the largest increase ever. The

move was a sign of new urgency in the government to improve the fiscal health of the oil companies, though prices were cut 3% after a public backlash.

Economists say gasoline prices need to increase more, with the tougher task of deregulating the prices of diesel and cooking gas still ahead.

"The prime minister and a few wise men are beginning to realize that there's a very bleak outlook in terms of energy security, and that this is going to create the single largest constraint on the economy, one of alarming proportions," said Gokul Chaudhri, a partner at New Delhi-based consul-

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