

Crude Oil & Indian Economy

Crude oil prices have a profound and multifaceted impact on the Indian economy, given India's heavy reliance on oil imports. Here is a look at the history of crude oil prices and their effects on India:

History of Crude Oil Prices (Key Trends)

Crude oil prices have witnessed significant fluctuations throughout history, driven by a complex interplay of supply, demand, and geopolitical factors. Some notable periods include:

- * **Pre-1970s: Relatively Stable and Low Prices:** Prices were generally low and stable, largely controlled by major oil companies.
- * **1973 Oil Crisis:** The OPEC oil embargo caused a sharp surge in prices, leading to global economic instability.
- * **1980s: Price Volatility and Decline:** Prices remained volatile, eventually declining due to increased non-OPEC supply and reduced demand.
- * **1990s: Fluctuations and Asian Financial Crisis:** Prices experienced ups and downs, with a notable dip during the Asian financial crisis.
- * **2000s: The Supercycle and Peak:** Rapid industrialization in emerging economies like China and India, coupled with geopolitical tensions, led to a "Supercycle" in oil prices, peaking around \$147 per barrel in 2008.
- * **2008 Financial Crisis:** Prices crashed during the global financial crisis as demand plummeted.
- * **2010s: Recovery and Shale Revolution:** Prices recovered but then saw a significant drop from 2014 onwards due to the rise of US shale oil production, leading to an oversupply.
- * **2020: COVID-19 Pandemic Crash:** The pandemic severely impacted global demand, causing crude oil prices to plummet, even briefly turning negative for WTI futures.
- * **Post-2020: Recovery and Volatility:** Prices rebounded as economies reopened but have remained volatile due to ongoing geopolitical events (like the Israel-Iran conflict or the Russia-Ukraine war) and OPEC+ supply decisions. As of July 2025, prices have seen declines due to easing geopolitical tensions.

India's Reliance on Crude Oil Imports

India is the third-largest consumer and importer of crude oil in the world (after the United States and China). This makes India highly vulnerable to global crude oil price fluctuations. In fiscal year 2025, India spent \$242.4 billion on crude oil imports, covering over 85% of its domestic needs. The country has diversified its import sources, with a significant shift towards Russian oil after the Ukraine invasion, taking advantage of discounted prices.

Impact of Crude Oil Prices on the Indian Economy

The impact of crude oil prices on the Indian economy is substantial and felt across various sectors:

* **Inflation:**

* **Direct Impact:** Higher crude oil prices directly translate to higher prices for petrol, diesel, and LPG in India. Since these are essential fuels, it increases transportation costs for goods and services.

* **Indirect Impact:** This rise in transportation costs feeds into the prices of almost all commodities, leading to cost-push inflation. A 10% rise in oil prices can lead to a 5% increase in the Consumer Price Index (CPI) in India.

* **Impact on Natural Gas:** Domestic natural gas prices in India are linked to global crude oil prices, further contributing to inflationary pressures.

* **Current Account Deficit (CAD):**

* As a major oil importer, a rise in crude oil prices significantly increases India's import bill. This widens the CAD, as more foreign exchange is needed to pay for oil.

* A higher CAD can put pressure on the Indian Rupee.

* **Depreciation of the Indian Rupee:**

* When crude oil prices rise, India's demand for foreign currency (especially US dollars) to pay for imports increases.

* This higher demand for dollars, relative to rupees, leads to the depreciation of the Indian Rupee against the dollar. A depreciating rupee makes all imports more expensive, further exacerbating inflation.

* **Fiscal Deficit and Government Finances:**

* Historically, governments in India have often subsidized fuel prices to cushion consumers from high global oil prices. This leads to a higher fiscal deficit.

* While direct subsidies have been reduced in recent times, the government still collects excise duty and other taxes on petroleum products. If global prices are high, the government might face pressure to reduce these taxes, impacting its revenue. Conversely, higher crude prices can also mean more revenue for the government if excise duties remain unchanged.

* **Economic Growth:**

* Oil is a crucial input for almost all economic activities. High oil prices increase production costs for industries, reducing profit margins and potentially deterring investment.

* Higher fuel prices reduce the disposable income of consumers, leading to a decline in consumption and overall demand.

* This combination of reduced investment and consumption can slow down economic growth. Studies suggest a negative correlation between oil prices and India's economic growth.

* **Impact on Specific Sectors:**

* **Manufacturing and Transportation:** These sectors are highly dependent on petroleum products and are directly impacted by price hikes.

* **Agriculture:** Farmers face increased costs for irrigation (diesel pumps) and transportation of produce.

* **Petroleum Sector Revenue:** While a burden for the economy, rising crude oil prices can boost the earnings of domestic oil producers like ONGC and Oil India.

In conclusion, crude oil prices are a critical determinant of India's economic health. Sustained high prices pose significant challenges through increased inflation, a widening current account deficit, rupee depreciation, and a potential drag on economic growth. Conversely, periods of lower oil prices offer a significant fiscal and economic breather for India.

Source: Various news article & few books on Crude Oil

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