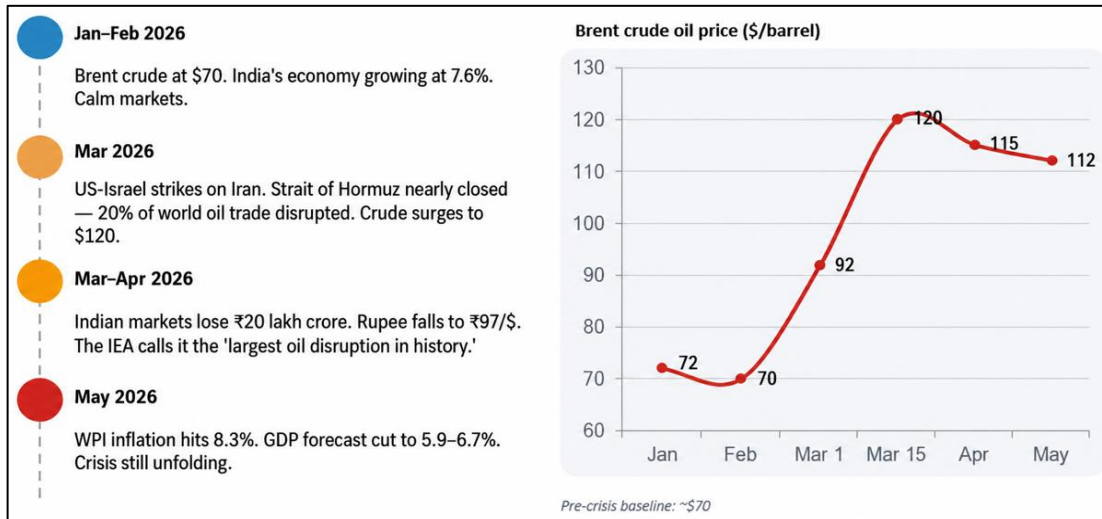


## What is the current oil crisis?

The current oil crisis is primarily being driven by **geopolitical tensions in West Asia (Middle East)**, especially around Iran and disruptions/uncertainty surrounding the **Strait of Hormuz** — one of the world’s most important oil transit routes. Markets are pricing in fears of supply disruption, pushing crude oil prices above the psychologically important **\$100/barrel** range in recent times.

The more significant concern at present is not merely a temporary spike in crude prices, but the risk of a **prolonged period of elevated oil prices**. Sustained high crude prices can have broader macroeconomic implications, particularly for oil-importing countries.



- Jan-Feb 2026**  
Brent crude at \$70. India's economy growing at 7.6%. Calm markets.
- Mar 2026**  
US-Israel strikes on Iran. Strait of Hormuz nearly closed — 20% of world oil trade disrupted. Crude surges to \$120.
- Mar-Apr 2026**  
Indian markets lose ₹20 lakh crore. Rupee falls to ₹97/\$. The IEA calls it the 'largest oil disruption in history.'
- May 2026**  
WPI inflation hits 8.3%. GDP forecast cut to 5.9–6.7%. Crisis still unfolding.

## How Rising Oil Prices Affect India’s Economy

India is highly vulnerable because it imports roughly **85–90% of its crude oil requirements**. A rise in crude prices directly impacts the country’s import bill, inflation, rupee and economic growth.

Transmission mechanism for India:

Higher crude oil → Higher import bill → Rupee pressure → Inflation → Lower consumption & margins → Slower growth

**Inflation rises**  
HIGH RISK

Costly fuel pushes up transport, food & goods prices. WPI hit 8.3% in April. Your grocery and petrol bills are already feeling it.

**Rupee weakens**  
HIGH RISK

India buys more dollars for expensive oil → demand for USD rises → rupee falls. From ₹84 to ₹97/USD. Imports and foreign trips cost more.

**GDP slows down**  
MODERATE

Growth projected to dip from 7.6% to ~6%. Still positive, but businesses face higher costs and consumers are spending less.

Crude price impact on GDP growth, inflation and Current Account Deficit (CAD) (%)				
Particulars	Oil @US\$95/bbl	Oil @US\$100/bbl	Oil @US\$110/bbl	Oil @US\$120/bbl
GDP growth	6.7	6.5	6.0	5.6
Inflation	4.4	4.9	5.8	6.8
CAD/GDP	2.6	2.8	3.3	3.7

Sources: CEIC, National Statistical Office (NSO), Reserve Bank of India (RBI), and India Rating


## Impact on Debt and Equity Markets:

Indian equity markets witnessed sharp corrections during the peak phase of the crisis in March 2026. During this period, the Sensex touched an 11-month low near 73,583, reflecting a decline of around 7% from pre-crisis levels, while the Nifty 50 recorded an approximate 11% peak-to-trough fall. The March 2026 phase marked the bottom of the market correction, driven by elevated crude oil prices, rupee weakness, and concerns over margin pressure across sectors.

The oil-driven inflation surge has caused bond yields to rise globally, including in India. The RBI faces a difficult dilemma: cutting rates to support growth risks further rupee depreciation and inflation, while raising rates could choke an already slowing economy. Financial markets are now pricing in either a pause or potential rate hikes, making existing bonds less attractive.

- **Rising Bond Yields-** Higher crude oil prices increase inflation expectations because fuel affects transportation, manufacturing, logistics, and household expenses. When inflation rises, bond investors demand higher yields. As yields rise, bond prices fall.
- **Negative Impact on Long Duration Debt Funds** - Long-duration and gilt funds are highly sensitive to interest rate movements. Rising yields lead to mark-to-market losses in these schemes.
- **RBI May Delay Rate Cuts** - If inflation remains high because of expensive crude oil, the Reserve Bank of India may maintain higher interest rates or delay policy easing. This keeps borrowing costs elevated across the economy.
- **Risks from FPI exit** - The biggest risk for India's market comes from continued large FPI outflows. This trend, fueled by global caution, higher US bond yields, and a strong dollar, means foreign capital is prioritizing perceived safety over India's long-term growth story, even though it's important for market depth. Sustained high oil prices may weaken investor sentiment and contribute to foreign portfolio outflows from emerging markets.

## Where the economy finds opportunity

 <p><b>Clean energy boom</b> Solar, wind, and EV infrastructure are being fast-tracked. India is aggressively funding energy independence.</p>	 <p><b>Make in India</b> Defence, electronics, and domestic manufacturing get priority funding as India reduces import dependence.</p>	 <p><b>IT &amp; exports</b> A weaker rupee makes Indian IT services cheaper for global clients — software exports earn more in rupee terms.</p>
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## Government & RBI Actions

- India is securing crude supply assurances through alternative sourcing, including Russia, Venezuela & other countries and emergency diversification.
- Iran is granting India partial access through the Strait for 'friendly nations,' reducing some supply uncertainty in the near term.
- PM Modi has issued public appeals for demand-side conservation (reduced travel, work from home, reduced gold purchases).
- RBI is trying to manage the inflation and growth rate through monetary policies.