Indian Economy · GS - III

Examine the impact of fluctuations in international crude oil prices on inflation and monetary policy in India. How does the Reserve Bank of India balance price stability with economic growth?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 05/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Crude oil imports, cost-push inflation, transport and production costs, current account deficit, imported inflation, Monetary Policy Committee, repo rate, inflation targeting, growth-inflation balance.

Model Answer

Introduction

India's dependence on imported crude oil makes domestic inflation sensitive to international energy prices. Changes in crude prices influence fuel costs, transportation, production expenses and the overall price level.

Impact on Inflation and Monetary Policy

Rising crude prices can increase input and transportation costs, creating cost-push inflation. They may also widen the current account deficit and increase pressure on the rupee. Conversely, falling crude prices can reduce imported inflationary pressures and improve the external balance.

The RBI's Monetary Policy Committee uses the repo rate as its principal policy instrument. Higher rates can moderate borrowing and demand, while lower rates can support investment and consumption. However, monetary policy cannot directly resolve supply-side disruptions.

Balancing Inflation and Growth

Under India's flexible inflation-targeting framework, the RBI aims to maintain price stability while keeping growth in mind. Policy decisions therefore consider inflation trends, economic activity, global commodity prices and transmission conditions.

Conclusion

Effective monetary policy requires a balanced response to both demand-side and supply-side pressures to maintain macroeconomic stability and sustainable growth.