Indian Economy · GS - III

Examine the relationship between crude oil prices, inflation and government bond yields in India. How do domestic and global economic developments influence the government securities market?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 09/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Crude oil import dependence, cost-push inflation, monetary policy expectations, bond prices and yields, inflation data, foreign portfolio flows, government borrowing, State Development Loans.

Model Answer

Introduction

Government bond yields reflect borrowing costs and market expectations regarding inflation, interest rates and economic conditions. In India, crude oil prices and inflation trends significantly influence bond markets.

Relationship Between Oil, Inflation and Yields

Higher crude oil prices increase import expenditure and raise fuel, transport and production costs. This can generate cost-push inflation and influence expectations of future monetary tightening. Consequently, investors may demand higher yields on government securities.

Conversely, stabilising oil prices can ease inflationary concerns and support bond market stability. Bond prices and yields generally move inversely.

Other Influencing Factors

1. **Monetary policy:** RBI interest-rate decisions influence short- and long-term yields.
2. **Inflation data:** Food and core inflation affect investor expectations.

3. **Government borrowing:** Higher bond supply can exert upward pressure on yields.
4. **Foreign investment:** Foreign portfolio flows influence demand for government securities.
5. **Global developments:** US inflation, interest rates and crude oil movements affect capital flows and market sentiment.

Conclusion

Stable inflation, predictable borrowing programmes and prudent macroeconomic management are essential for maintaining bond-market stability and controlling government borrowing costs.

BECOME IAS
AI POWERED UPSC PREP