Indian Economy · GS - III

Geopolitical disruptions in major oil-producing regions can create temporary price premiums, but changes in global supply can rapidly reverse them. Examine the implications of such volatility for India's energy security and suggest measures to strengthen its resilience.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 20/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Geopolitical risk premium, crude oil supply-demand dynamics, Strait of Hormuz, import dependence, oil price volatility, inflation, current account deficit, strategic petroleum reserves, supplier diversification, renewable energy, energy transition.

Model Answer

Introduction

Crude oil prices are influenced not only by physical supply and demand but also by geopolitical risks. The recent decline in US sour crude prices, following increased supplies from Venezuela, Canada and the Middle East, illustrates how additional supply can eliminate a geopolitical risk premium.

Implications for India

1. **Macroeconomic stability:** Higher crude prices increase the import bill, widen the current account deficit and put pressure on the rupee.
2. **Inflation:** Rising petroleum prices increase transportation, manufacturing and agricultural input costs.

3. **Fiscal pressure:** Governments may face difficult choices between passing on higher fuel costs and providing tax relief or subsidies.
4. **Supply vulnerability:** Dependence on imported crude exposes India to disruptions in strategic maritime chokepoints, particularly the Strait of Hormuz.
5. **Refinery economics:** Variations in crude grades and prices influence refining margins and the availability of suitable feedstock.

Measures to Strengthen Energy Resilience

- **Diversification:** Expand sourcing across geographically diverse suppliers and crude grades.
- **Strategic reserves:** Strengthen Strategic Petroleum Reserves to manage temporary supply disruptions.
- **Domestic production:** Encourage exploration and development of indigenous hydrocarbon resources.
- **Energy transition:** Accelerate renewable energy, biofuels, electric mobility and energy efficiency.
- **Maritime security:** Strengthen cooperation to safeguard critical energy transportation routes.
- **Market preparedness:** Improve monitoring of global prices and risk-management mechanisms.

Conclusion

The disappearance of a geopolitical oil premium demonstrates the dynamic nature of global energy markets. India needs a diversified, flexible and progressively cleaner energy system to reduce external vulnerabilities and ensure long-term energy security.

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