Indian Economy · GS - III

Examine the impact of global crude oil price volatility on India's economy. Suggest measures to strengthen India's energy security.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 27/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Import dependence, current account deficit, inflation, fiscal burden, strategic petroleum reserves, energy diversification, domestic exploration

Model Answer

India's dependence on imported crude oil exposes its economy to fluctuations in international prices and geopolitical disruptions. Any sustained increase in crude oil prices can affect macroeconomic stability and household expenditure.

Major economic implications

1. **External sector:** Higher import bills increase foreign exchange outflows and may widen the current account deficit.
2. **Inflation:** Rising fuel and transportation costs can increase prices across sectors, contributing to imported inflation.
3. **Fiscal pressure:** Governments may face difficult choices between adjusting fuel taxes, providing subsidies and managing public finances.
4. **Industrial impact:** Aviation, transport, petrochemicals and other energy-intensive industries face higher operating costs.
5. **Household welfare:** Higher fuel prices reduce disposable income, particularly among lower-income households.

Strengthening energy security

- Expand strategic petroleum reserves to manage temporary supply disruptions.
- Diversify crude oil import sources and strengthen international energy partnerships.
- Encourage domestic exploration and production.
- Accelerate renewable energy, electric mobility and biofuels.
- Improve energy efficiency and reduce avoidable consumption.

India must also strengthen resilient supply chains and develop predictable pricing and risk-management mechanisms.

Conclusion

Temporary improvement in global oil markets can provide relief, but sustainable energy security requires reducing import vulnerability through diversification, domestic capacity and a gradual transition towards cleaner energy.

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