# Indian Economy · GS - III

**Examine how geopolitical tensions and economic sanctions influence global crude oil prices. Discuss the implications of oil price volatility for India's economy and energy security.**

| EXAM YEAR | PAPER | SUBJECT |
|---|---|---|
| DAILY PRACTICE 20/10/2026 | GS - III | Indian Economy |

| MARKS | WORD LIMIT |
|---|---|
| 10 | ~150 words |

## Answer Hint

**Supply disruptions, sanctions and waivers, global demand, OPEC decisions, import bill, inflation, current account deficit, fiscal pressures, strategic petroleum reserves, energy diversification.**

## Model Answer

### Introduction

Global crude oil prices are shaped by the interaction of supply, demand and geopolitical developments. Sanctions on major producers and conflicts in oil-producing regions can generate uncertainty and price volatility.

### Factors Influencing Oil Prices

1. **Economic sanctions:** Restrictions can reduce or redirect exports, while waivers may enable additional supplies.
2. **Geopolitical tensions:** Conflicts and threats to maritime routes can disrupt production and transportation.
3. **Market fundamentals:** Global demand, inventories, OPEC production decisions and non-OPEC output influence prices.
4. **Market expectations:** Traders respond to anticipated policy changes and potential supply disruptions.

### Implications for India

- **Trade balance:** Higher oil prices increase import expenditure and may widen the trade deficit.

- **Inflation:** Fuel and transportation costs can raise prices across the economy.
- **Fiscal management:** Fuel subsidies or tax adjustments may affect government revenue and expenditure.
- **Energy security:** Excessive import dependence increases vulnerability to external shocks.

**Way Forward**

India should diversify suppliers, maintain strategic petroleum reserves, improve energy efficiency and accelerate renewable energy, biofuels and electric mobility.

**Conclusion**

A resilient energy strategy combining diversified imports and domestic alternatives can reduce India’s exposure to global oil market volatility.

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