

UNCERTAIN TIMES: ON INDIA'S OIL IMPORTS

Relevant for: International Relations | Topic: India - Middle East

The oil market is in ferment once again with a great deal of uncertainty over supplies. On Monday the United States announced that it would not extend beyond May 1 the 180-day waiver it had granted to eight countries, including India, to purchase oil from Iran. This caused the price of Brent crude oil to witness a sudden jump to more than \$75, from last week's close of \$71.97, as traders expected the withdrawal of the waivers to adversely affect the supply of oil in the market. The price of Brent crude, it is worth noting, has been rising steadily in the last few months, and has increased by almost 50% since it hit a low of about \$50 in December, as a result of the decision of the Organisation of the Petroleum Exporting Countries (OPEC) to restrict their output to boost prices. India imports more than 10% of its crude oil from Iran, so the government faces the immediate challenge of having to find alternative suppliers to meet its huge energy needs. Even more worrying is the likely negative impact higher oil prices will have on India's current account deficit, fiscal deficit and inflation in the wider economy. The current account deficit, which narrowed to 2.5% of GDP in the December quarter thanks to lower oil prices, will likely worsen going forward. The fiscal deficit, which has been widening in advance of the elections, is also likely to get increasingly out of control. While inflation is relatively benign at the moment, any further acceleration in price gains will tie the hands of the Reserve Bank of India.

India may stop oil imports from Iran

It may, however, be hard to say for sure that the jump in the price of oil this week, and over the last few months, marks a secular rise in the price of the commodity. The entry of U.S. shale producers into the oil market has put a lid on the price of oil as freely competing shale suppliers have been happy to increase their output whenever oil prices rise significantly. Even this week, the oil market has been torn between the news of the end to the waivers granted to oil imports from Iran and competing news of the increased supply of oil pouring into the market from the U.S. Higher oil prices also make it lucrative each time for members of OPEC to cheat on their commitments to restrict supply. If India is to protect its interests in the ever-volatile global oil market, the government will need to take steps to diversify its supplier base and also work towards increasing domestic sources of energy supplies. Opening up the renewable energy sector for more investments will also help avoid over-dependence on oil from the global market to meet the country's ever-increasing energy needs.

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