Syllabus subtopic: Effect of policies and politics of developed and developing countries on India's interests, Indian diaspora.

Prelims and Mains focus: about the geopolitical tensions between U.S. and Iran and its impact on India’s economy

News: The prices of crude oil constituting the Indian basket has been increasing since October and is likely to exceed $70 a barrel this month on escalating U.S. Iran tensions.

Background

- Major General Qassem Soleimani, the Iranian Revolutionary Guards commander, was recently killed in a US strike at Baghdad International Airport. He was the long-serving head of Iran’s Quds (“Jerusalem”) Force and has been seen as a deadly adversary by America and its allies.

- Rising oil prices had already led to an increase in the prices of petrol and diesel by about 54 paise a litre and 83 paise a litre respectively since January 1, 2020. The Indian basket of crude oil was pegged at $59.70 per barrel in October 2019, rising to $62.54 per barrel in November and to $65.52 in December. It is currently hovering around $70 per barrel.

What is the reason behind this increase in oil prices?

- The price of benchmark Brent oil went up to $71.75 per barrel after Iran retaliated against the U.S. by attacking the latter’s bases in Iraq, but softened to $67.50 a barrel after Iran said that it did not want to further escalate the tensions.

Impact on India’s economy

- Higher crude oil prices is ‘bad news’ for the Indian economy that imports over 85% of its crude oil requirements.
Higher crude oil prices will be bad for India’s current account deficit and it will further tighten our fiscal situation.

Further, divestment of oil PSUs will become difficult due to higher crude oil prices.

Rising crude oil prices could impact corporate earnings of several sectors, including auto and oil marketing companies, according to analysts.