**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.