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.