

June 26, 2025

## Oil Price Sensitivity of Indian Economy

India's economy is highly sensitive to changes in global crude oil prices due to its heavy reliance on imports for its energy needs. India meets 90% of its crude oil needs through imports and crude oil price volatility has far-reaching consequences for the country. Changes in global oil prices directly impact inflation, Current Account Deficit (CAD), rupee's value, and overall economic growth, making it a crucial factor in India's economic outlook.

### 1.Importance of Strait of Hormuz:

#### 1.1: Global Economy & Strait of Hormuz:

This strait, located between Iran and Oman, is the world's most important oil transit chokepoint. Roughly 20 per cent of the world's oil and 25 per cent of liquefied natural gas pass through this route though the waterway is only 21 miles wide at its narrowest point. It's the only way to ship crude from the oil-rich Persian Gulf to the rest of the world. Iran controls its northern side. Countries like Saudi Arabia, Iran, Iraq, Kuwait and Qatar are directly associated and dependent on strait of Hormuz for their oil supply to the rest of the world, as shown below (Table-1):

Table -1: Countries Supplying Oil through Strait of Hormuz and their Dependency (May 2025)				
Countries	Global Supply (million barrels per day (mb/d))	Total Contribution in Global Supply	Dependency on Strait of Hormuz for transit (in %)	Dependency on Strait of Hormuz in volumes (mb/d)
	(A)	B	(C)	(D=A*C)
S. Arabia	9.12	8.6%	60%	5.58
Iran	3.48	3.3%	90 %	3.13
Iraq	4.19	3.9%	90 %	3.7
Kuwait	2.62	2.5%	95%	2.48
UAE	3.35	3.1%	50%	1.67
Qatar	1.32	1.2%	100%	1.32
<b>Total</b>	<b>24.08</b>	<b>22.9%</b>		<b>17.88</b>

\*World Total Oil Supply in May ,2025 =105 mb/d

A functioning Strait of Hormuz is “absolutely essential” to the health of the global economy as out of total global supply of oil (105mb/d), 17.02% (17.88mb/d) are supplied through it.

#### 1.2: Importance of Strait of Hormuz for India:

Historically, most of India's oil (70-84%) imports transited through the Strait of Hormuz, but now the share has fallen to 50 % due to steps initiated to diversify our supplies.

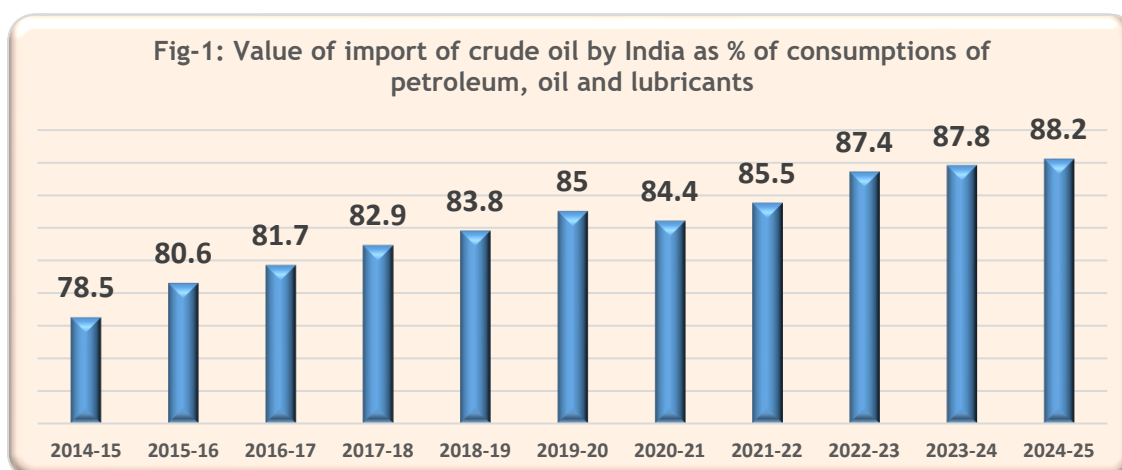
India's oil imports through Strait of Hormuz is given as under (Table-2):

Table-2: India's Oil Imports through Strait of Hormuz (April 2024-March2025)		
Countries	Average Crude Import (mb/d)	% Share
Saudi Arabia	0.64	13 %
Iran	*	-
Iraq	1.02	20 %
Kuwait	0.3	2.93 %
UAE	0.45	9 %
Qatar	**	-
Beharain	*	-
Countries' Total Supply (mbpd)	2.41	49.79 %
India's Average total Oil Import (Approx. mbpd)	4.84	

\*Negligible, \*\*Negligible (Only LNG Supplier,41%)

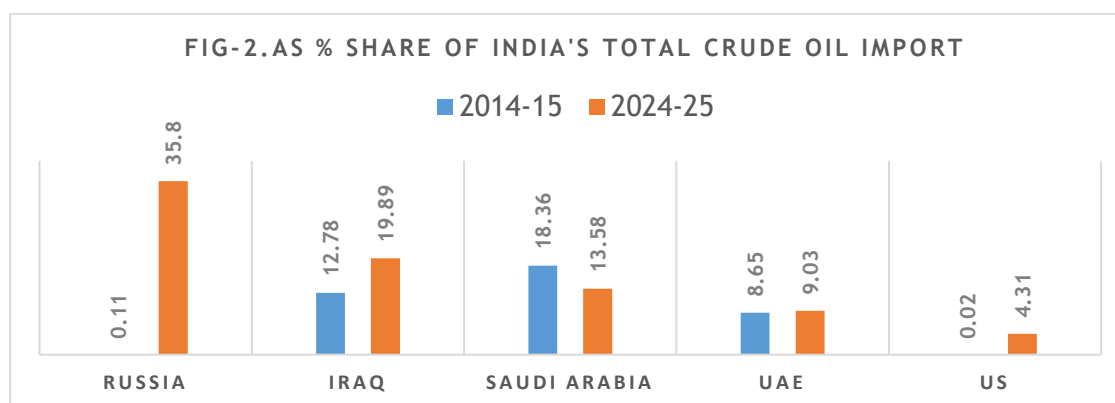
## 2.Statistics Revealing Trends:

**2.1 India's Crude oil Import dependency over the years:** India's 90% of crude oil consumption are met by import (Fig-1).



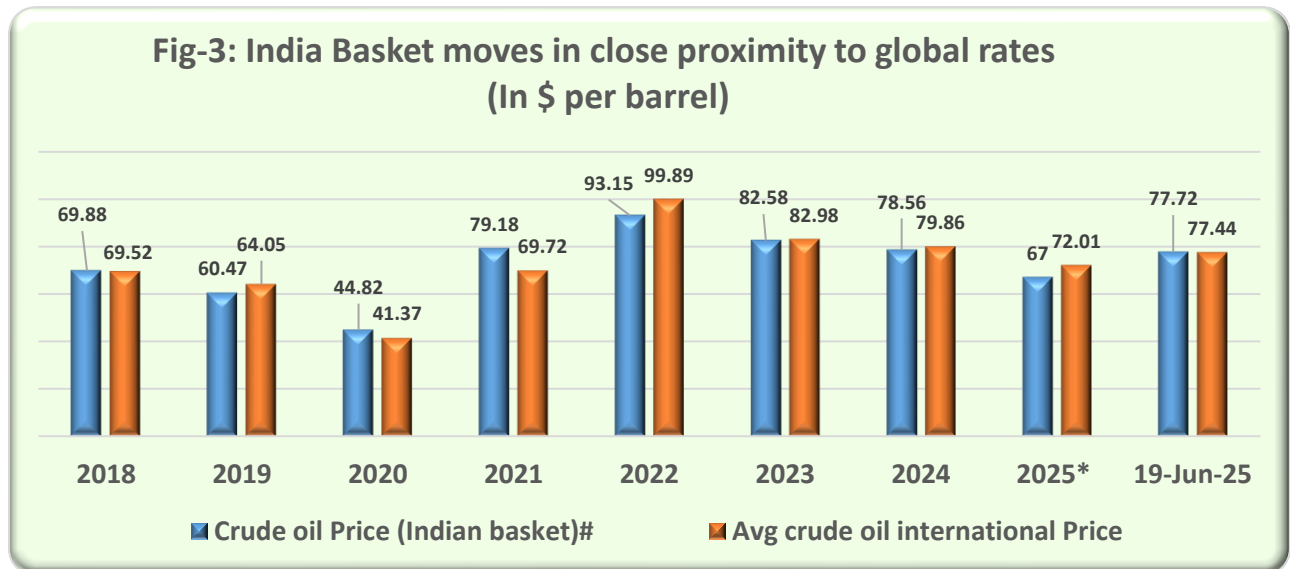
**2.2 Top 5 sources of crude oil for India (Between 2014-15 to 2024-25):**

Russia has emerged as one of the partners to offset the oil supply shocks in recent (Fig-2).



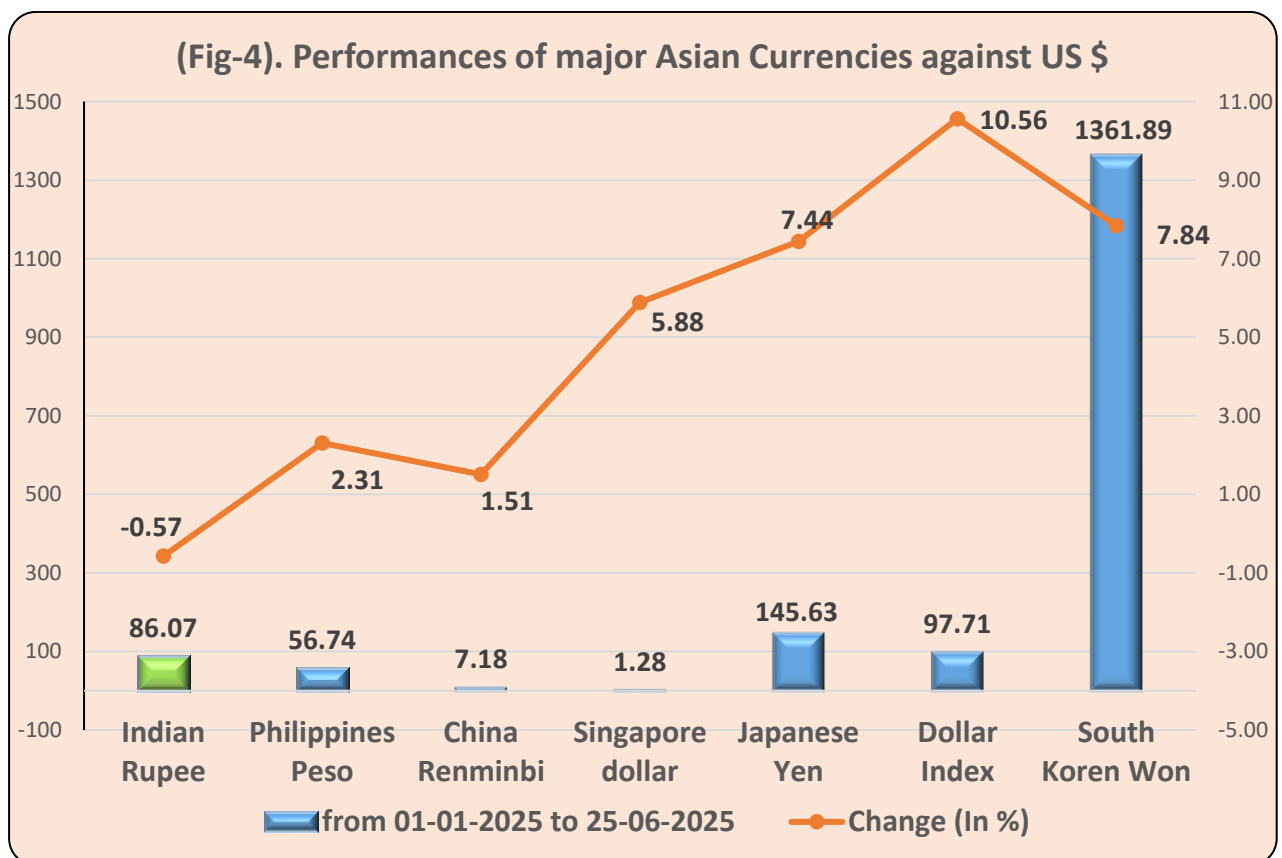
### 2.3 Movement of price of Indian Basket of Crude Versus international price:

Price of Indian Basket of Crude oil has moved in close proximity to the global average Crude (Fig-3):



### 2.4 Performance of major Asian Currencies Against US \$:

Indian Rupees (INR) has seen maximum depreciation due to FPI outflows, rate cuts and crude oil dependency (Fig-4).



### 3. Crude oil Price Sensitivity to CAD, GDP & Inflation: Indian Economy

Rising crude oil prices pose a significant challenge to the Indian economy due to the country's heavy reliance on imports to meet its energy needs. Fluctuations in global oil prices directly impact India's current account deficit, inflation, and fiscal health, which may be explained as under:

#### 3.1: Effect of Change in Oil prices on CAD (Current Account Deficit as % of GDP):

The table no.-3 given below suggests that there has been an increase of 11.16% in the price of crude oil (Rs.77.1 on 20.06.2025 from Rs.69.36 on 12.06.2025).

Table-3: Sensitivity Analysis for Oil Price Increase/Decrease on CAD & GDP				
	Items	Oil Price (Jun 12, 2025)	Oil Price (June 20, 2025)	Assumptions
1	Crude Oil Import Volume (millions barrels/day)	4.9	4.9	<i>Demand is Constant</i>
2	Change in Price of Oil (\$/Barrel )	69.36	77.1	11.16
3	Annual Import cost Increase/decrease (Billions/year) (Price Rise/Decrease (D-C)* Oil Import per day(D)* days)		13.84	<i>Export remains constant</i>
4	Effect on CAD ( Current Account Deficit)			<i>Export remains constant</i>
	(i) Change in CAD due to Oil Price Change		13.84	
	(ii) GDP (Trillion)	4.2	4.2	
	(iii) CAD as % of GDP (CAD/GDP*100)		0.33	

Consequently, it is expected that current account deficit (CAD) as % of GDP will increase by 0.33% from the estimated 1.3% to 1.6-1.7% of GDP if Brent crude rises to \$77. However, as India has a comfortable forex pile of \$700bn import cover is now close to 12 months and this is not a source of worry.

#### 3.2: Effect of Change in Oil prices on Inflation (CPI):

Due to an increase of 11.16% in the price of crude oil (Rs.77.1 on 20.06.2025 from Rs.69.36 on 12.06.2025), total CPI inflation would have been pushed up by 0.55%(Table-4)

Table-4: Sensitivity Analysis for Oil Price Increase/Decrease on Inflation				
	Items	Oil Price (Jun 12, 2025)	Oil Price (June 20, 2025)	Assumptions
1	Crude Oil Import Volume (millions barrels/day)	4.9	4.9	<i>Demand is Constant</i>
2	Change in Price of Oil (\$/Barrel )	69.36	77.1	11.16
3	Effect on CPI (Inflation)			
	(a) Direct Effect on CPI			
	(i) % Price Increase		11	
	(ii) Pass Through rate (30-50 %)		40	0.4
	(iii) Impact on Fuel Price (%)		4.46	
	(iv) Fuel Weightage in CPI (6.84%)		6.84%	
	(v) Direct Effect on CPI impact (iii * iv)		0.31	
	(b) Indirect Effect on CPI			
	(i) Multiplier Value		0.8	0.8
	(ii) Indirect Effect on CPI		0.24	
	(c) Total CPI Inflation Effect (3.a(v)+3.b.(ii)) (in %)		0.55	A 11.16 % Increase in crude Oil price may lead to CPI inflation by 0.55%

with an assumption of no contraction/decrease in export, constant demand for crude oil, pass through rate @ 40% and MPC @ 0.8 for India).

## 6. Other Implications for India:

- ✓ Rise in National /International Travel Cost
- ✓ Higher trade costs
- ✓ Escalation in Gold Prices
- ✓ Manufacturing and Industrial Sectors will face margin pressures.
- ✓ Key sectors like aviation, chemicals, paints, tyres, cement, and logistics – all heavily reliant on petroleum-based inputs – are likely to see reduced profit margins due to rising raw material costs.
- ✓ Sectoral Divide: Winners and Losers: while upstream oil companies may benefit from higher crude prices, downstream refiners could see their margins squeezed. Industries indirectly linked to crude oil – including packaging, plastic products, paints, and specialty chemicals.
- ✓ Rural and Agricultural Impact: Higher fertiliser and LPG prices threaten to burden rural households and reduce farm productivity.

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### Economic Research Vertical

**Madhavankutty G (Chief Economist)**

Samir Kumar | Jaya Kumari | Ankit Gupta | Sonal Rashmi Ekka

For Suggestions and views please contact, Economic Research Vertical

 080-2222 3169 (Chief Economist)  
080-2227 3275 (Section)

 [chiefeconomist@canarabank.com](mailto:chiefeconomist@canarabank.com)  
[hoersection@canarabank.com](mailto:hoersection@canarabank.com)