

## Macroeconomic implications of Oil prices in India: Evidence from Recent Trends

*When oil prices fall, most observers expect immediate relief for oil-importing economies like India. Yet recent data suggests a more complex story. During the period from early 2024 to early 2026, global crude oil prices declined significantly from near \$90 per barrel to the mid-\$60 range. However, key macroeconomic indicators such as India's trade deficit, exchange rate and inflation did not move in a perfectly synchronized manner. The charts presented in this analysis highlight how oil price movements interact with India's external sector and inflation dynamics, revealing that while oil remains an important driver, its macroeconomic transmission is often shaped by other domestic and global forces.*

Global crude oil prices are widely regarded as one of the most important external variables influencing the Indian economy. Given India's heavy dependence on imported energy, fluctuations in Brent crude prices can significantly affect key macroeconomic indicators such as the trade balance, current account position, exchange rate and inflation. While financial markets often react immediately to movements in crude oil prices, the transmission of these changes to broader macroeconomic variables is neither immediate nor strictly proportional. The magnitude and timing of these are often impacted by domestic policies, demand conditions, import composition, fiscal measures and broader global financial factors.

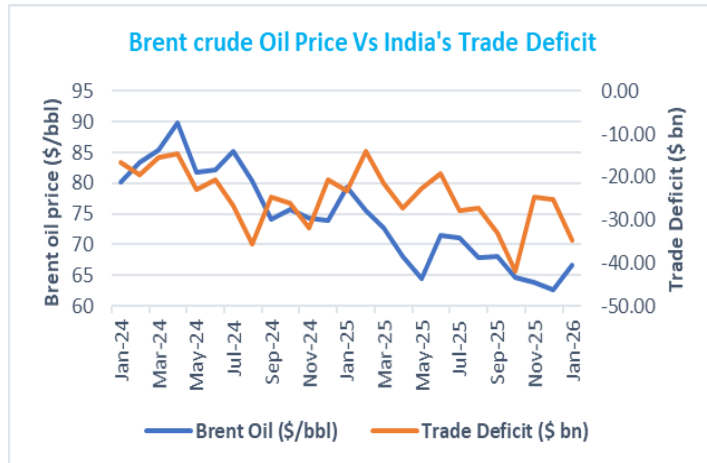
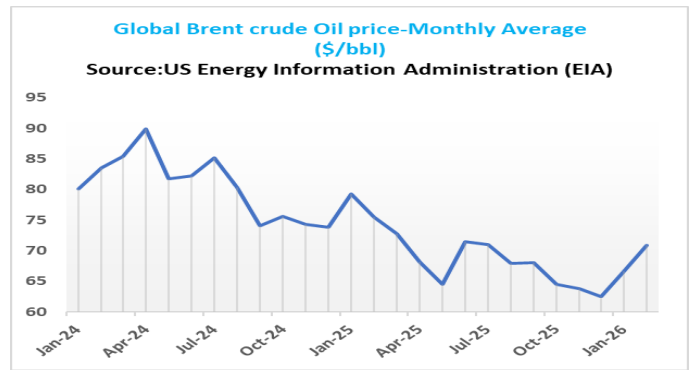
The recent data highlights both the direct and indirect channels through which global energy markets influence the Indian economy.

**Global Oil Prices and their impact on India's Macro economic stability**

Month	Brent Oil (\$/bbl)	Trade Deficit (\$ bn)	CAD (\$ bn)	CAD (% of GDP)	Real GDP Growth Rate YoY (%)	USD/INR	CPI Inflation (%)	10Y Gsec Yield (Month-end,%)	Fiscal Deficit FYTD (In Rs Lakh crore)	Monthly change in Fiscal deficit (In Rs Lakh crore)
Jan-24	80.12	-16.55	--	--	--	83.11	5.1	7.16	11.03	1.20
Feb-24	83.48	-19.51	--	--	--	82.97	5.09	7.08	15.01	3.99
Mar-24	85.41	-15.34	4.59	0.48	7.5	83.04	4.85	7.06	16.54	1.52
Apr-24	89.94	-14.69	--	--	--	83.41	4.83	7.17	2.10	Start of Fiscal year (Reset of FYTD)
May-24	81.75	-22.90	--	--	--	83.35	4.8	7.00	0.51	-1.60
Jun-24	82.25	-20.55	-4.45	-0.47	7.5	83.48	5.08	7.04	1.36	0.85
Jul-24	85.15	-26.80	--	--	--	83.59	3.6	6.97	2.77	1.41
Aug-24	80.36	-35.62	--	--	--	83.88	3.65	6.90	4.35	1.58
Sep-24	74.02	-24.65	-20.8	-2.23	6.6	83.80	5.49	6.77	4.75	0.39
Oct-24	75.63	-26.09	--	--	--	84.03	6.21	6.83	7.51	2.76
Nov-24	74.35	-31.99	--	--	--	84.38	5.48	6.78	8.47	0.96
Dec-24	73.86	-20.67	-11.3	-1.12	7.4	84.97	5.22	6.77	9.14	0.67
Jan-25	79.27	-23.09	--	--	--	86.23	4.26	6.70	11.70	2.55
Feb-25	75.44	-14.05	--	--	--	86.96	3.61	6.74	13.47	1.77
Mar-25	72.73	-21.46	13.6	1.34	7	86.62	3.34	6.61	15.77	2.30
Apr-25	68.13	-27.10	--	--	--	85.60	3.16	6.40	1.86	Start of Fiscal year (Reset of FYTD)
May-25	64.45	-22.55	--	--	--	85.20	2.82	6.22	0.13	-1.73
Jun-25	71.44	-19.12	-2.91	-0.29	6.7	85.93	2.1	6.36	2.81	2.68
Jul-25	71.04	-27.87	--	--	--	86.07	1.61	6.42	4.68	1.88
Aug-25	67.87	-27.20	--	--	--	87.52	2.07	6.64	5.98	1.30
Sep-25	67.99	-32.96	-14.1	-1.44	8.2	88.27	1.44	6.64	5.73	-0.25
Oct-25	64.54	-41.98	--	--	--	88.37	0.25	6.62	8.25	2.52
Nov-25	63.8	-24.78	--	--	--	88.88	0.71	6.60	9.77	1.52
Dec-25	62.54	-25.26	-13.2	-1.29	7.8	90.00	1.33	6.65	8.56	-1.21
Jan-26	66.6	-34.68	--	--	--	90.73	2.75	6.77	9.81	1.26
Feb-26	70.89	NA	--	--	--	90.77	3.21	6.71	NA	NA

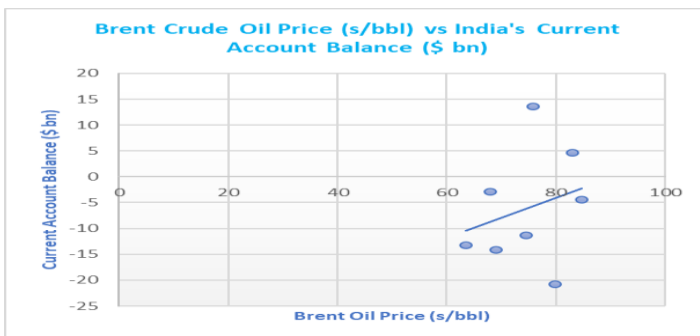
### Oil Price Cycle and the External Sector

The Brent crude price trend show a clear downward trajectory from early 2024 through much of 2025, with prices declining from close to \$90/barrel to the mid-\$60 range before modestly recovering in 2026. For India, this is expected to significantly improve the external balance by reducing the oil import bill.



However, **trade deficit** data suggests that while periods of lower oil prices coincided with some moderation in the deficit, the improvement was neither immediate nor proportionate. This is attributable to higher gold & electronic goods imports as well as variation in export performance. Declining oil prices eased external pressures but did not automatically translate into a sharp narrowing of the deficit.

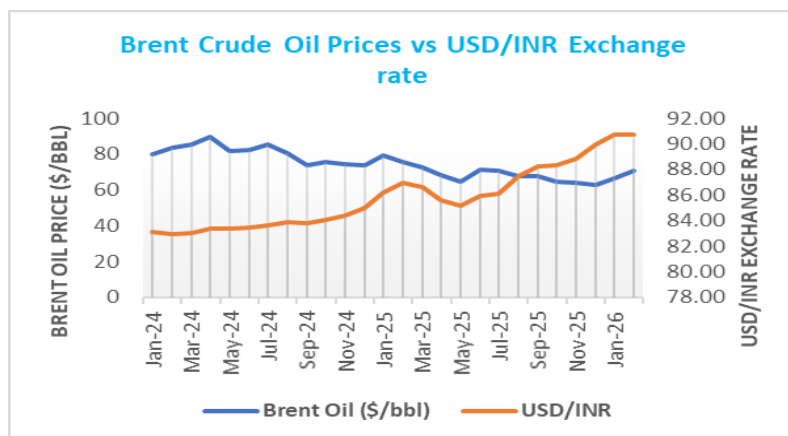
### Oil Prices and the Current Account: A Partial Cushion



India Imports around 90% of its crude oil needs. However, the scatter plot suggests that while the relationship is positive, the correlation is relatively weak, reflecting a structurally resilient services sector and remittance flows, imparting stability to the external account. Robust service exports-especially IT exports, helps cushion the impact of elevated oil prices.

### Exchange Rate Dynamics: Oil Is Only Part of the Story

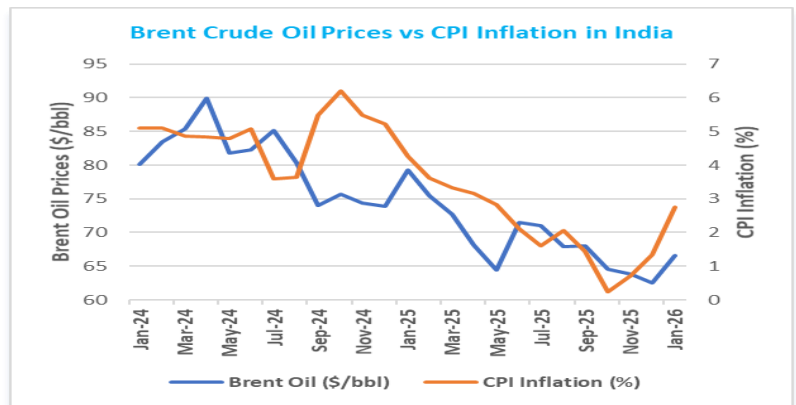
Conventional macroeconomic theory suggests that rising oil prices should weaken the rupee by increasing the demand for dollars. However, the data reveals that this relationship is not consistent, there are periods where the rupee has depreciated even when oil prices were actually declining suggesting that both variables do not always move in the same direction.



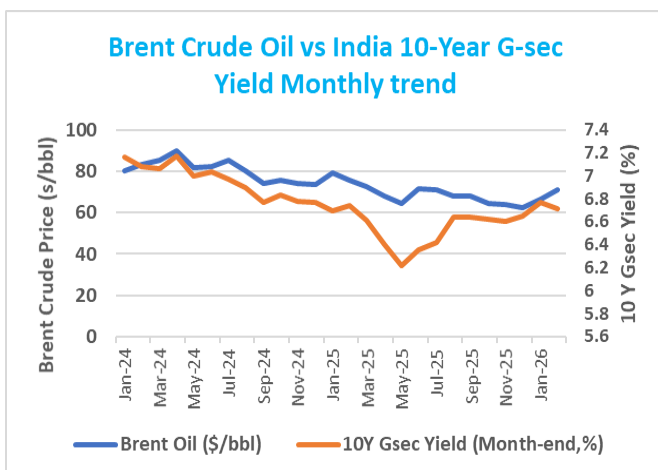
This divergence highlights a stronger U.S. dollar, capital flow dynamics and global interest rate differentials exert a stronger influence on the rupee. While oil shocks can trigger exchange rate pressures, broader global liquidity conditions often determine the direction of currency movements.

### Inflation Transmission: Moderation amid falling Energy Costs

Energy prices influence inflation both directly and indirectly through fuel, transportation and production costs, with the impact typically operating with a time lag. The moderation in crude oil prices during 2024-2025 broadly coincided with easing CPI inflation, suggesting partial pass-through. However, given the relatively low weight of fuel in the CPI basket, the overall impact remains limited. Additionally, month-on-month trends show a mixed relationship, with periods of both divergence and co-movement between crude prices and inflation, indicating a partial, lagged and non-uniform transmission.



### Bond market response: Impact of Crude Oil prices on India's 10 Year G-Sec Yield



The correlation between Brent crude prices and India's 10-year G-sec yield is estimated at 0.80 (Period Jan24- Feb26), indicating a strong positive relationship. This suggests that movements in global oil prices have a significant influence on domestic bond yields, primarily through inflation expectations, fiscal dynamics and external sector metrics such as the current account deficit and exchange rate movements.

Higher crude prices increase inflation expectations and fiscal pressures, which tend to harden bond yields. Conversely, periods of falling crude prices are associated with softer bond yields, reflecting easing inflationary pressures and improved macroeconomic stability.

However, the relationship is not perfectly deterministic, as domestic liquidity conditions, RBI policy actions and global bond yield movements also play a crucial role in shaping yield dynamics over time. The high correlation underscores oil as a key macro anchor for India's rates market, though its impact remains conditional on the broader policy and global backdrop.

### Implications of Crude Oil Prices for Government Finances

Crude oil prices can influence India's fiscal position through multiple transmission channels, although the relationship may not always be directly visible in short-term. As a major importer of crude oil, higher global oil prices can increase import bills which may prompt the government to reduce fuel taxes or increase subsidies to cushion the impact. Such policy responses can affect government revenues and expenditure, thereby influencing the fiscal deficit.

Conversely, periods of relatively lower oil prices provide fiscal relief by reducing subsidy burdens and allowing greater flexibility in fuel taxation, which can support revenue collections. Therefore, while fiscal deficit trends are largely shaped by government spending priorities and revenue cycles, crude oil prices remain an important factor that can influence fiscal outcomes and policy decisions.

## Crude Oil Prices and GDP Growth

Global crude oil price movements have implications for economic growth as the country is a major net importer of energy. Periods of relatively lower crude prices during 2025 coincided with stable and improved GDP growth momentum in the range of 6.7-8.2 percent in the observed quarters.

Lower energy prices reduce input costs for industries, transportation and manufacturing, which can support production and consumption across sectors. Conversely, higher oil prices tend to raise import costs and inflationary pressures, potentially moderating growth as it depresses corporate earnings and reduce real wages and consumption.

While crude prices influence the broader economic environment, India's GDP growth trajectory during the period also reflects strong domestic demand, government capital expenditure and structural economic factors beyond energy price movements.

## Key Takeaway

- Global crude oil prices remain a key external driver of India's macroeconomic stability.
- Oil prices influence the economy through multiple channels, including trade deficit, current account balance (CAD), inflation, exchange rate (INR), bond yields and fiscal position.
- Periods of elevated oil prices generally widen external imbalances (trade deficit & CAD), put pressure on the rupee, contribute to inflationary trends and create fiscal challenges.
- The transmission of oil price shocks is neither uniform nor linear. Macroeconomic variables do not always move in the same direction. Macroeconomic stability will require prudent fiscal management, Strong monetary-fiscal coordination and strategic efforts to reduce dependence on volatile global energy markets.
- Outcomes depend on prevailing macroeconomic conditions, Policy responses (monetary & fiscal) and the Specific time period under analysis.
- The impact of oil shocks can differ significantly across different phases. Despite vulnerabilities, India's economy has shown relative resilience, supported by calibrated policy interventions, stable economic growth and improved shock absorption capacity.

### Forward looking Risk Scenario (Crude $\geq$ \$120/bbl)

- If global crude oil prices sustain above \$120 per barrel, India's GDP growth could face a downside risk of ~1 percentage point, driven by higher import costs, weaker consumption and margin pressures on corporates.
- The current account deficit (CAD) may widen by approximately 70 basis points of GDP, reflecting a sharp rise in the oil import bill.
- Inflationary pressures are likely to intensify, with CPI inflation potentially increasing by ~1 percentage point, particularly through fuel, transportation and second-round effects.
- Government bond yields may harden, with the 10-year G-sec yield trending towards ~6.80%, amid elevated inflation expectations, tighter liquidity conditions and higher government borrowing requirements.
- Elevated crude prices could dampen private and corporate capex, as rising input costs and uncertainty weigh on business sentiment, potentially leading to slower credit growth in the banking system.
- External Commercial Borrowings (ECB) may become less attractive, as higher global interest rates and elevated hedging costs increase the overall cost of foreign currency borrowing.
- The Indian Rupee (INR) may come under depreciation pressure, potentially moving towards ₹94-95/USD, consistent with historical trends of gradual weakening (~2% annually) and amplified by a widening CAD and stronger dollar environment.



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