



Slide in Global Oil Prices

For Prelims: Organisation of the Petroleum Exporting Countries (OPEC+) plus, RBI, Inflation, Fiscal Deficit.

For Mains: Slide in Oil Prices and its impact on India.

Why in News?

Brent crude prices **have fallen sharply over the last ten days**, the prices have declined to under USD 90 per barrel.

- While they were trading at around \$110 per barrel in July, 2022.

What led to the Fall in Global Crude Oil Prices?

- The crude prices fell sharply by around 4% and the decline has come **despite** [Organisation of the Petroleum Exporting Countries \(OPEC+\) plus](#) **announcement to cut supply by 100,000 barrels per day** beginning October, 2022 in a bid to prop up the prices.
- While the prices have been softening over the last couple of months, the recent sharp decline is **due to renewed fears of recession in Europe** and **decline in demand from China**, which brought in new Covid lockdown measures amid weakening factory activity.
- There is a concern that **these factors could dent the future demand of crude oil**.
- Market participants say OPEC's decision to cut production is in itself an indication that **it expects a decline in demand** and further softening in prices.

How would Global Crude Oil Price Impact India?

- **Impact of Rise in Global Oil Price:**
 - India imports **nearly 85% of its crude requirement** and in the year ended March 2022, the oil import bill doubled to USD 119 billion on account of rise in prices.
 - The rise in import bill not only leads to inflation and rise in current account deficit and fiscal deficit, **but also weakens the [rupee against the dollar](#)** and hurts [stock market](#) sentiment.
 - A rise in crude oil price **also has an indirect impact on India as it leads to a rise in [edible oil prices](#)**, coal prices and also that of fertilizers as they use gas as feedstock. Gas accounts for 80% of all fertilizer production costs.
 - So, if a rise in crude oil prices could lead to a much-enhanced import burden, it also leads to reduction in demand in the economy which hurts growth.
 - It could also lead to higher [fiscal deficit](#) **if the government chooses to bear the burden by way of subsidies**.
- **Impact of Fall in Global Price:**
 - **A softening in crude oil prices is a big relief for all stakeholders - the government, the consumers and even the corporates.**
 - If oil continues to trade at lower levels, **it will result in lower [inflation](#) levels, higher**

disposable incomes and thereby higher economic growth.

- If on the one hand it is a reflection of expectations of slowdown in global growth which may have its bearing on India's growth too, on the other it comes as a big respite for India.
- Softening crude oil price has also played a role in the **index rise on equity and debt markets as companies across sectors** are sensitive to crude oil prices.

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. The term 'West Texas Intermediate', sometimes found in news, refers to a grade of (2020)

- (a) Crude oil
- (b) Bullion
- (c) Rare earth elements
- (d) Uranium

Ans: (a)

- West Texas intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing.
- WTI is described as light crude oil because of its relatively low density, and sweet because of its low sulfur content.
- It is sourced from US oil fields, primarily in Texas, Louisiana, and North Dakota.
- **Therefore, option (a) is the correct.**

Mains

Q. Petroleum refineries are not necessarily located nearer to crude oil producing areas, particularly in many of the developing countries. Explain its implications. (2017)

Source: IE

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