Crude oil retreat may offer India macroeconomic relief

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With Indian basket crude oil prices falling below $90 a barrel to $89.29 on Tuesday — down from an October average of $120 — the correction could bring significant macroeconomic relief in the second half (October-March) of FY27 by easing inflation, narrowing the current account deficit (CAD) and limiting the strain on government finances.

The October average was the highest since March 2012, when India's crude basket averaged $123.61 a barrel. The surge in energy prices contributed to a sharp increase in input costs, with inflation based on the wholesale price index (WPI) rising to 11.4 per cent in September.

D K Srivastava, chief policy advisor at EY India, said the significant reduction in crude basket price will positively impact both growth and inflation. "The inflation-reducing effect will be stronger than the growth-improving effect because growth did not suffer much when oil prices reached their peak, but inflation gained momentum," he said.

The Finance Ministry's Monthly Economic Review for October said policymakers will focus on safeguarding the second half of FY27, amid elevated crude prices, higher food inflation and an uncertain outlook for the kharif crop.

Crude prices could moderate further over the next year as geopolitical risk premiums recede and West Asia supplies recover, according to international projections. The US Energy Information Administration, in its November 10 outlook, said it expects Brent crude prices to average $77 a barrel in the fourth quarter (October-December) of 2027.

The Reserve Bank of India's (RBI) April 2026 Monetary Policy Report estimated that a 10 per cent decline in crude prices relative to its baseline of $85 a barrel could lower inflation by around 50 basis points and boost real gross domestic product (GDP) growth by 15 basis points. The estimate assumes that lower international prices are transmitted to domestic product prices.

"A major fallout of the mid-term elections in the USA is that there will be more sanity in the approach towards the war. As it has been indicated that there would be no fresh strikes on Iran, it could mean oil retreating from the high levels of $100-plus and reverting to the $80-90 range for a sustained period," said Madan Sabnavis, chief economist at Bank of Baroda.

He noted that geopolitical risks could, however, keep prices volatile even if they settle at lower levels. "Hence, it will take time for the prices to stabilise at the lower level, and there will be volatility in prices for longer, though with lower standard deviation," he said, citing the attacks on Saudi Arabia by the Houthis of Yemen.

Srivastava said until the West Asia situation normalises and there is a firm agreement between the warring parties, uncertainty will continue. "Right now the developments are in favour of crude prices between $80 and $90 per barrel," he added.

For India, an immediate benefit of lower crude prices would be a moderation in the petroleum import bill and the resulting improvement in the current account balance. "Any respite in oil prices will be good for India. First, the import bill will be under control, which can keep CAD at manageable levels of 1 per cent of GDP," Sabnavis said.

Lower energy prices will also ease cost pressures on industry. The recent surge in crude prices has raised the cost of intermediate products such as naphtha, while higher aviation turbine fuel (ATF) prices have added to the operating expenses of airlines.

"The high impact seen on WPI, which is indicated in the costs faced by manufacturing units, will be under control. The fuel component has had an impact on intermediate products like naphtha, which should gradually revert to earlier levels if the price goes below $80. ATF should go down, which should help on the airline front," Sabnavis said.

However, Sabnavis believes benefits to retail inflation based on the consumer price index (CPI) could be limited. Unlike wholesale prices, which tend to respond more directly to changes in energy and industrial input costs, domestic petrol and diesel prices are influenced by government taxes and the pricing decisions of oil marketing companies (OMCs). "For CPI, I don't think there will be much of an impact as the lower prices will cushion the OMCs' losses. Just as there was no negative impact with prices coming down, there would be no major positive impact here," Sabnavis said.

Lower crude prices could also help contain the government's fertiliser subsidy expenditure by easing prices of natural gas, an important feedstock for urea production. Higher crude prices can have a collateral impact on gas prices, raising fertiliser production costs and subsidy requirements.

Counting the benefits: Experts' view

- Lower crude prices could ease the petroleum import bill and contain the CAD
- Lower energy costs would ease industrial input pressures, particularly for manufacturing and airlines
- Relief for retail inflation may be limited due to domestic fuel pricing dynamics
- Softer natural gas prices could help contain fertiliser subsidy expenditure
- Geopolitical risks could keep crude prices volatile despite the sharp correction

