Economy | Macro-Cap

Impact of oil price shock on GDP, CAD, INR, inflation, and fiscal deficit

- **Brent crude is trading above USD100pb, up 64% CYTD, while global gas prices have surged by about 80%. The Brent forward curve remains in backwardation, indicating tight near-term supply. Although futures suggest prices may ease toward USD75pb by end-2026, markets have structurally repriced oil higher vs. the earlier assumption of USD60-65pb.**
- **Macro spillovers for India: With 80% energy import dependence, higher crude prices directly impact the growth, current account deficit (CAD), inflation, the rupee, and fiscal balances. The overall macro effect will depend on the pass-through to consumers and government interventions through duties, subsidies, and fuel price controls.**
- **Growth risks mounting: A USD10pb increase in crude could shave 30–40bp off GDP growth. While the base case assumes 7.5% growth in FY27 at USD70pb, sustained prices above USD90pb could push growth below 7%, as energy-intensive sectors face margin pressure and weaker demand. Several sectors—including chemicals, fertilizers, restaurants and QSR, tyres, other OEMs, packaging, paints, cement, and medical devices—are already reporting constraints related to gas availability.**
- **External balance under pressure: Oil accounts for 23% of India's import bill. Every USD10pb rise could widen the oil deficit by USD10–12bn (0.4–0.5% of GDP). CAD could expand from 1.1% of GDP at USD70pb to 2.0-2.4% if oil averages USD90–100pb. The RBI's FX reserves (USD728bn) provide a buffer, but sustained oil strength could still push USDINR toward 93-95.**
- **Inflation and supply-chain risks: A USD10pb rise in oil could add 30–50bp to inflation, with CPI potentially approaching 5% if crude averages USD100pb. These risks are further amplified by shipping disruptions, higher war-risk insurance premiums, rising fertilizer prices, and vulnerabilities in LPG supply, increasing the likelihood of broader energy and food price pressures (refer to page 9 for known-unknown risks at the anvil).**

The volatility in oil prices

Oil prices trade above USD100pb at the time of writing. On a CYTD26 basis, Brent oil prices have risen by 64%, and gas prices (BBG ticker: ICE TTF Natural Gas) soared by 80%.

Oil futures | What's cooking?

While it is extremely erroneous to forecast oil prices in a war situation, we can at best look at how the futures market is looking at the oil prices. The Brent forward curve remains in backwardation, implying a shortage of oil in the spot market (Exhibit 1). For May'26, Brent oil futures bid-ask quote has increased by USD15pb within a week and USD33pb within a month. It is currently at USD99.5pb. By Dec'26, the risk premium normalizes with crude prices inching towards USD75pb. Despite the normalization, the oil futures are suggesting that prices would be higher than the earlier assumption of USD60-65pb that the markets were working with.

This has significant implications for India's macro. It can be well understood by:

1. The US granting a 30-day waiver to India for buying Russian oil (a big positive for India).
2. Adani Total Gas is asking industrial users to use only 40% of their contracted natural gas. Usage beyond this level will be charged at a higher spot price. This is adversely affecting **restaurants, QSRs, tyres, other OEMs, paints, cement, the packaging industry, and the medical devices industry** (through prices of polypropylene, a thermoplastic polymer used as raw material for syringes, IV bags, etc.).

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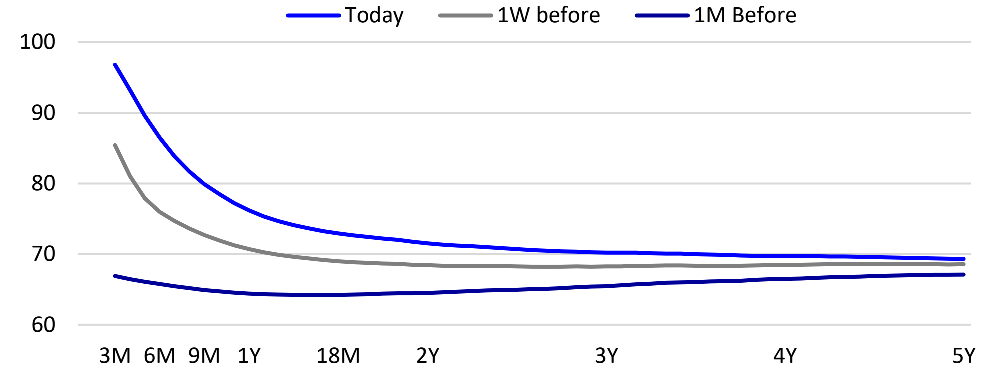
3. Retail LPG prices increased by INR60 per cylinder. The domestic LPG booking interval increased from 21 to 25 days.
4. The Fertilizer Association of India is calling for a shortage of urea for the rabi or winter season (implications for winter cropping).

We note that the implications should be looked at in the backdrop of India's strategic petroleum reserves (SPRs). Reportedly, India has 5.33m tonnes of underground strategic reserves (80% filled) with comfortable stocks of petrol, diesel, and ATF.

Exhibit 1: Brent futures forward curve shifts up within a month –- Curve as of 12th Mar



Source: Bloomberg, MOFSL

In this section of the report, we analyze the impact of higher oil prices on India's current account deficit (CAD), rupee, inflation, fiscal deficit, yields, and growth.

The macro link: Higher crude oil prices worsen the CAD to GDP ratio due to a higher oil import bill, and this is likely to impact the rupee negatively, unless the RBI continues to intervene aggressively. Oil prices tend to increase imported inflation (as India imports 80% of its total energy requirement) unless the government absorbs the oil price shock, which in turn leads to a scenario of higher fiscal deficit and higher bond yields. The net impact on inflation and fiscal deficit would be a function of 1) the passthrough of higher cost pressures from the manufacturers to the end-consumers and 2) the level of government intervention through duties, restrictions, petroleum & fertilizer subsidies.

Exhibit 2: Impact of oil prices on India's macro indicators

	Oil Price Average	CAD (% of GDP)	CPI Inflation (Annual Average, %)	GDP (Annual Average, %)
FY26E	67	-0.9	2.1	7.6
FY27F	70	-1.1	4.3	7.5
	80	-1.6	4.5	7.2
	90	-2.0	4.8	6.9
	100	-2.4	5.3	6.5

Source: MOFSL

GDP growth:

- A USD 10pb increase in average crude prices could reduce India's GDP growth by roughly 30-40bp. Our base case assumes FY27 real GDP growth of around 7.5%, based on an average crude price of USD70pb. However, if oil prices remain above USD90pb for a prolonged period, annual growth could slow by around 50bp, bringing it to below 7%.

- Several sectors—including chemicals, fertilizers, restaurants and QSR, tyres, other OEMs, packaging, paints, cement, and medical devices—are already reporting constraints related to oil and gas availability. These supply-side pressures are likely to weigh on EBITDA margins due to higher input costs and disruptions in energy supply. At the same time, demand sentiment may weaken, which could further affect volume growth across industries.
- Policy support also appears limited in the current environment. **Fiscal space is constrained by a rising subsidy bill, while the scope for additional rate cuts by the RBI is limited amid increasing inflationary pressures. As a result, sustaining GDP growth above 7% would likely require crude prices to moderate toward the USD75-80pb range.**

Current account deficit:

- Over the last one year, India's crude oil imports stand out as the single largest contributor, accounting for 23% of the overall import bill. In volume terms, the oil imports have risen by a modest 1.8% on an annual basis over the same period, implying a relatively inelastic demand scenario. With this, any oil price shock is likely to impact India's oil import bill, with the volume remaining relatively stagnant in the equation. Even if we were to account for re-exports of imported crude oil at the market-determined price, the net impact on India's oil import bill remains significant.
- **According to our calculations, every USD10pb increase in crude oil prices increases the oil deficit by USD10-12b or 0.4-0.5% of GDP.** We have detailed scenarios of oil prices and the implications on CAD, the capital account, and BoP. **Given the expectations of higher crude oil prices through FY27 relative to the last year, we expect CAD/GDP at 2% if oil prices average USD90pb. If the conflict continues for a longer period of 2-3 months, and the oil prices sustain above USD100pb, the possibility of CAD/GDP clocking 2.4% remains.** Our estimate assumes a relatively stable net services surplus through the year, higher income transfers from the Middle East region, and modestly higher gold imports due to safe haven demand.

Exhibit 3: Annual CAD estimates for FY27

	FY23	FY24	FY25	FY26 Oil@67	FY27 Oil@70	FY27 Oil@80	FY27 Oil@90
Trade Balance	**-265**	**-245**	**-287**	**-348**	**-373**	**-406**	**-428**
(as % of GDP)	**-8.2**	**-7.0**	**-7.6**	**-8.5**	**-8.3**	**-9.0**	**-9.5**
Merchandise Exports	**456**	**441**	**442**	**445**	**469**	**470**	**468**
Oil Exports	85	84	62	56	58	70	76
Non-oil Exports	366	353	376	385	411	400	392
Merchandise Imports	**721**	**686**	**729**	**793**	**842**	**876**	**896**
Oil Imports	203	179	188	185	181	221	240
Gold Imports	35	46	63	76	80	83	91
Non-oil-non-gold imports	478	450	401	528	581	571	565
Invisibles	**198**	**219**	**264**	**310**	**325**	**336**	**336**
Services	143	163	189	228	239	237	234
Transfers	101	106	123	131	138	151	154
Income	-46	-50	-48	-49	-52	-52	-52
Current Account	**-67**	**-26**	**-23**	**-39**	**-48**	**-70**	**-92**
(as % of GDP)	**-2.1**	**-0.7**	**-0.6**	**-0.9**	**-1.1**	**-1.6**	**-2.0**

Source: CEIC, MOFSL

Exhibit 4: Annual Capital Account and BoP estimates for FY27

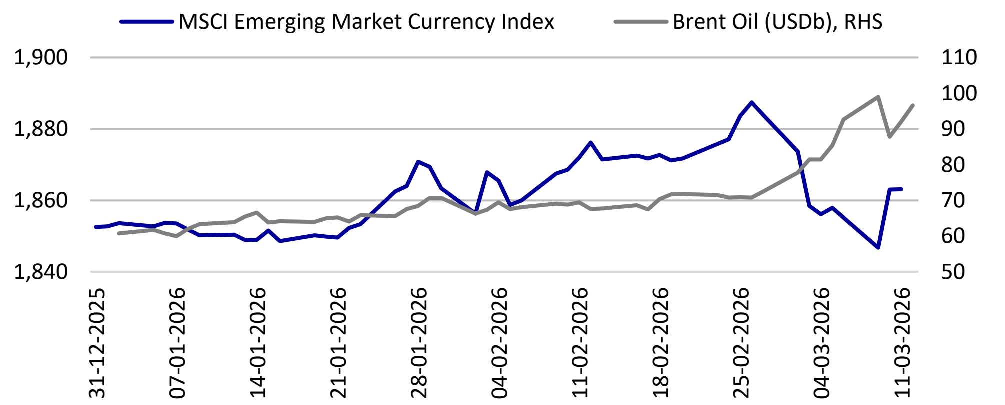
	FY23	FY24	FY25	FY26 Oil@67	FY27 Oil@70	FY27 Oil@80	FY27 Oil@90
FDI	28.0	10.1	1.0	5.0	8.0	5.0	1.0
Portfolio	-5.2	44.1	-11.4	-4.5	10.0	-10.0	-20.0
Loans	8.3	6.6	29.3	18.5	20.0	20.0	20.0
External Assistance	5.5	7.5	6.3	3.5	5.0	5.0	5.0
Commercial Borrowings	-3.8	0.0	15.9	10.0	8.0	8.0	8.0
Short-term Credit to India	6.5	-0.8	7.2	5.0	7.0	7.0	7.0
Banking Capital	21.0	40.5	-9.8	5.0	5.0	5.0	5.0
Others	6.9	-11.9	-7.4	-	-	-	-
Capital Account	58.9	89.5	1.6	24.0	43.0	20.0	6.0
(as % of GDP)	1.8	2.6	0.0	0.6	1.1	0.5	0.1
Overall BoP	-9.1	63.4	-21.4	-14.7	-4.6	-49.7	-85.6
(as % of GDP)	-0.3	1.8	-0.6	-0.4	-0.1	-1.2	-2.1

Source: CEIC, MOFSL

Rupee

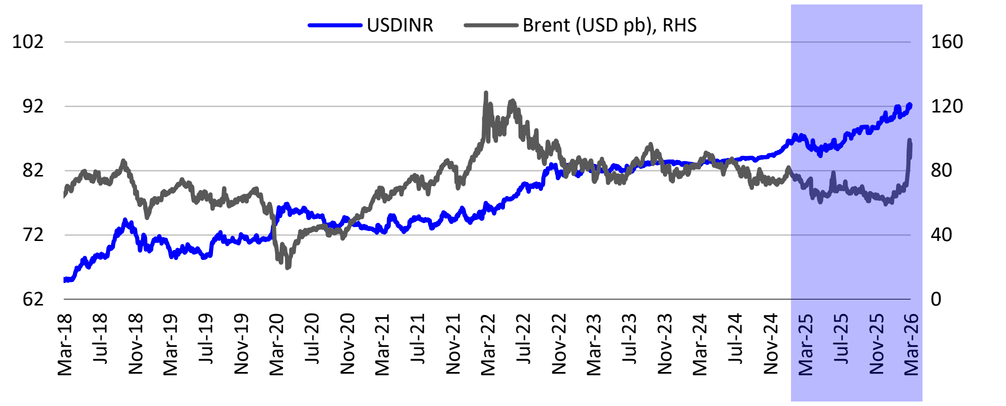
- Although oil prices have risen by 31% in FYTD26 and by 61% in CYTD26, USDINR has depreciated by 8% in FYTD26 and 2.7% in CYTD26, as of the time of writing this note. RBI's active FX intervention through dollar sales in the spot market has prevented sharp rupee depreciation. RBI's forward book is at USD67.8b as of January 2026. But the good news is that the net long forward book maturing over one year is only USD27b as against USD79b a year earlier. This gives RBI space to intervene in case there are sharp depreciation pressures arising out of an extended conflict. The RBI reserves are at an all-time high of USD728b, which reduces much concern. Our base case expectation is of an average USDINR of 91 for FY27 (3% depreciation vs. 8% in FYTD26).
- Nevertheless, if oil prices are sustained above the USD80-90pb level for an extended time period, the rupee is likely to see gradual depreciation towards 93-95 over the next one year. This depends on the duration of the oil price shock and the extent of supply chain disruption. Net foreign outflows (FDI and FII from debt and equity) are likely to aggravate the downward spiral.

Exhibit 5: MSCI EM currency index depreciates with the rise in oil prices



Source: Bloomberg, MOFSL

Exhibit 6: Rupee depreciates above the 92 level with the rise in oil prices



Source: Bloomberg, MOFSL

Inflation:

- The pump price remains controlled so far, which implies any direct impact of higher oil prices through retail petrol and diesel is not yet seen. Although the retail prices of LPG have been hiked by INR60 per cylinder and commercial LPG cylinders are rationed, the impact on retail inflation would yet be limited. If the disruption to oil and gas supply gets prolonged, inflation is likely to inch towards the 5% level (assuming oil prices at USD100pb). A USD10pb increase in average oil prices could lead to higher inflation by ~30-50bp, including the first- and second-order effects.
- In the past, we have seen that the government has introduced various schemes to subsidize LPG prices for Ujjwala beneficiaries. But cost price pressures faced by firms due to higher oil prices (higher commercial LPG cylinder prices, higher jet fuel prices, etc.) may see a lagged pass-through to end-consumers, albeit partially. As such, the impact of higher oil prices is likely to be felt over the next 3-6 months.
- For inflation, another channel of shock remains from elevated fertilizer prices. Higher urea prices (35% of global urea and about 45% of Sulfur exports come through the Strait of Hormuz) are likely to impact the food prices with a lag. Reportedly, fertilizer stock is sufficient for the Kharif season, but the disruption is more for the rabi/winter crops.

Fiscal deficit:

- India relies heavily on imports of potash, DAP, and LNG from the Middle East. Domestic urea imports have already increased from about 4.3 million tonnes to nearly 8 million tonnes since last year. As per reports, India has sufficient fertilizer stock for the Kharif season. But the gas supply constraint is expected to lead to some fertilizer shortage[1].

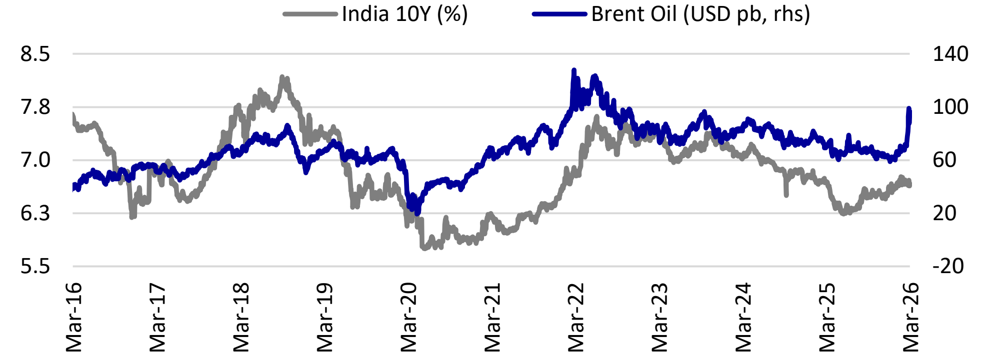
[1] As per official data, total fertilizer reserves stood at 17.73 million tonnes as of 6 March 2026, up 36.5% from 12.99 million tonnes a year earlier. Stocks of urea, the most consumed fertilizer and heavily dependent on natural gas as feedstock, stood at 5.93 million tonnes. Diammonium phosphate (DAP) inventories were at 2.51 million tonnes, while NPKS fertilizer reserves reached 5.59 million tonnes (ET news).

Sustained price pressures could push the fertilizer subsidy bill beyond the FY27 budgeted level of INR1.7t by INR1-1.5t, depending on the longevity of the supply shock. During the Russia-Ukraine war, the fertilizer subsidy bill shot up by INR1.5t to INR2.5t. Similarly, the petroleum subsidy is at INR121bn in FY27E, lower by INR30b from last year. This can again rise towards INR151b. **As a % of GDP, the net impact of this is ~0.3-0.4% on the fiscal deficit**. The FY27E of the budget deficit is 4.3%, with debt/GDP at 55.6%. We expect expenditure rationalization, monetization of assets, and RBI dividend to keep the upside fiscal risks limited.

Yields:

Despite 125bp of repo rate cuts in FY26, the 10Y G-sec yield has remained broadly unchanged. **With rising oil prices, yields are expected to move up toward ~7.0% from the current 6.67%**, reflecting upside inflation risks, widening twin deficits, and the likely end of the easing cycle. Global bond yields have also moved higher following the Middle East conflict, adding upward pressure on domestic yields. That aside, gross market borrowing of INR 16.2t is expected to be largely absorbed through RBI OMOs. Incremental demand from banks, mutual funds, insurance, and pension funds is likely to remain limited.

Exhibit 7: Trend in India 10Y bond yields and oil prices

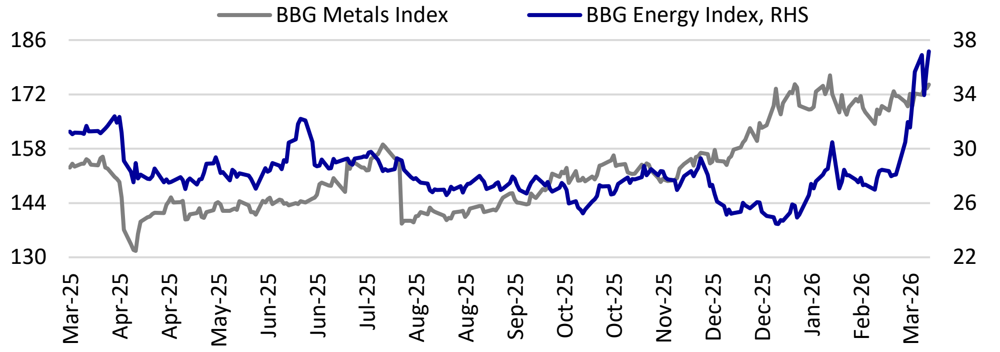


Source: Bloomberg, MOFSL

While the market focuses on the movement of spot oil prices, we focus on a few hard-to-ignore developments:

1. **Convergence of metal and energy prices:** Last year, we witnessed growing divergence in metals and the energy sectors (Exhibit 8). Metals posted outsized gains, led by gold and silver, and energy posted a decline. The year 2026 has started with convergence between the two. While the conflict arising from Middle East tensions might cease, the fragility around the geopolitical situation would continue to linger.

Exhibit 8: The convergence of metals and energy prices



Source: Bloomberg, MOFSL

Exhibit 9: The commodity dashboard – Energy, Metals, and Agriculture

Commodity	Price (13 March)	%YTD26
Energy		
NYM WTI Crude	95.43	66.20
ICE Brent Crude	100.43	65.05
ICE ARA Gasoil	1,125.50	80.73
NYM NYH Gasoline	293.40	72.04
NYM NYH Heating Oil	387.99	82.96
NYM HH Nat Gas	3.29	-10.80
ICE TTF Nat Gas	50.87	80.64
Metals		
LME Aluminium	3,516.50	17.39
LME Copper	12,999.50	4.64
LME Nickel	17,742.00	6.58
DCE Iron Ore	817.00	-0.93
SHF Steel Rebar	3,144.00	1.45
Spot Gold	5,108.81	18.28
Spot Silver	84.41	17.79
Agriculture		
CME Live Cattle	229.38	-0.32
ICE Coffee	291.90	-14.98
CBT Corn	464.00	1.82
ICE Cotton	65.82	2.41
CBT Soyabeans	1,226.75	17.71
ICE Sugar	14.38	-4.20
CBT SRW Wheat	604.75	16.81

Source: Bloomberg, MOFSL

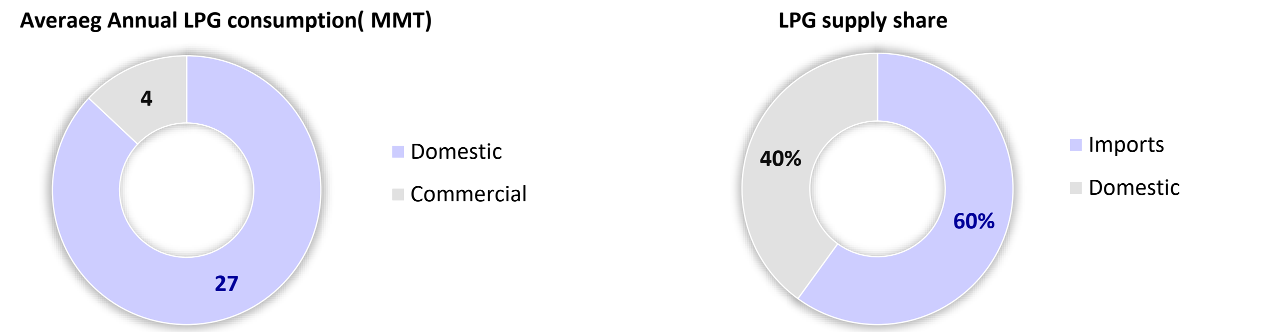
2. **War risk insurance:** Around 20% of global oil passes through the Strait of Hormuz. While the Strait of Hormuz is not closed, the passage of ships is reduced to 18-20 a day from 120 before the war. This is on account of high insurance costs and rising security risks. War risk insurance, as it's called, has increased to 1-3% of the ship value from 0.15%-0.25% earlier. New contracts are being issued by the ship owners (rather than insurers!) before they can sail through. Freight markets have reacted sharply, with large oil tanker charter rates rising from about USD50,000 per day to over USD420,000, while container lines have introduced surcharges of roughly USD1,500 per container and about USD3,500 for refrigerated cargo (used for pharma exports including biologics, vaccines, and injectables). If tensions reduce, ships will gradually resume normal transit, but costs associated with it might necessarily remain elevated.
3. **Water/Air freight logistics:** If attacks continue on commercial ships or insurance becomes more restricted, tanker supply will falter for longer. This will further

push the freight rates and increase worldwide oil/gas prices. Not only are the sea routes disrupted, but air cargo is also unsafe, facing capacity constraints, delays, and mounting costs.

4. **Fertilizer trade:** The strait is also a critical corridor for fertilizer trade, carrying nearly 35% of global urea and about 45% of Sulfur exports. Reflecting tighter supply conditions, Middle Eastern urea prices have risen from around USD300 per tonne to nearly USD480 per tonne.
5. **LPG shock**: 90% of LPG imports originate from Middle Eastern suppliers such as Qatar, Saudi Arabia, the UAE, and Kuwait. India consumes 27m metric tons of LPG annually, with 85-87% used in households. More importantly, 80-85% of India's LPG imports transit through the Strait of Hormuz (SoH), a higher share compared with LNG (50-55%) and crude oil imports (40-50%).

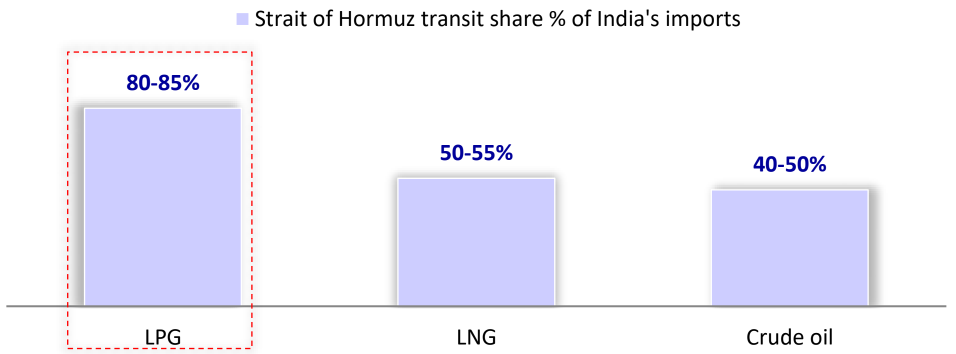
Unlike crude oil, India does not maintain strategic LPG reserves, which means supply disruptions tend to show up quickly in the market, particularly in the commercial segment where inventory buffers are smaller **(for more details, refer to the Impact of commercial LPG shortages on restaurants).**

Exhibit 10: India consumes 28-30m metric tons of LPG annually, with 85-87% LPG being used in domestic usage, such as in households



Source: PPAC, Industry

Exhibit 11: 80–85% of India's LPG imports transit through the Strait of Hormuz (SoH), a higher share compared with LNG and crude oil imports



Source: Kpler

To summarize, the core risks, even if the situation in the Middle East settles down, are insurance withdrawal, high price of insurance, limited tanker/air cargo availability, fertilizer shock leading to food price inflation, and LPG shortage. We note that wheat and soybean futures are already higher by 16% and 17%, respectively, on a CYTD26 basis, implying the possibility of a food price shock on the anvil.

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