

India: What worries the RBI beyond *Rupee & bond yields?*

04th April, 2026

BANKING RESEARCH TEAM

Weak Rupee is driving various feedback loop effects especially via higher rates, with monetary policy reaction function contingent on where oil price settles eventually in medium term. Consequently, we flag three areas of concern for the RBI:

A. Fastest switch in rate transmission from cuts to hikes

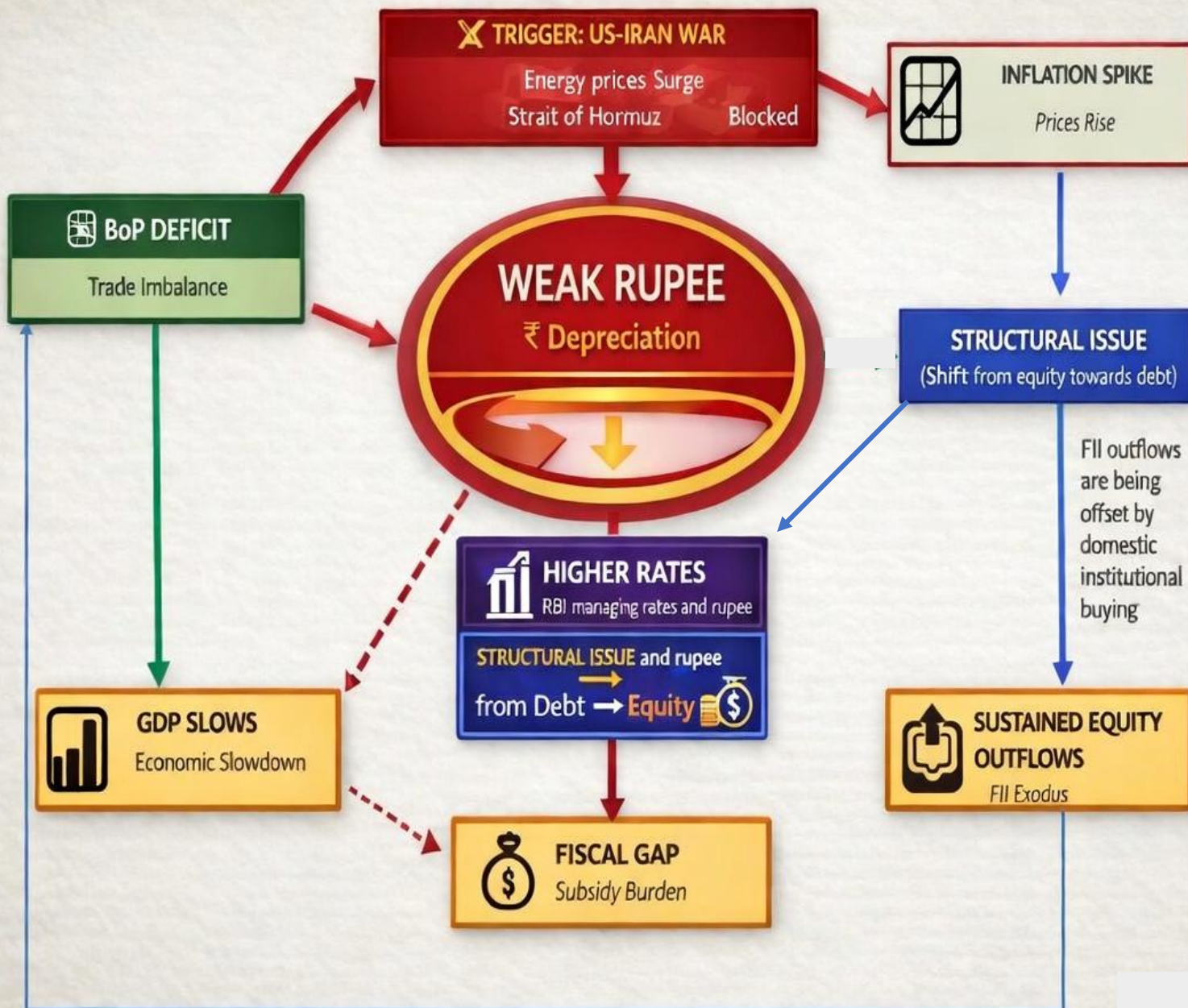
- I. Banks esp. PSBs have hiked lending and deposit rates in Jan/Feb 2026 & likely to continue in coming months
- II. CD ratio at record highs; unsustainable as per RBI FSR analysis
- III. Rising Gap b/w structural and systemic liquidity balance driving banks to raise high cost deposits
- IV. What can the RBI do? Will 2013 “Taper Tantrum” playbook come back? [At step 1](#) currently, others to follow later (link)
a. Tolerate higher G-sec and bank lending rates, b. Let credit mispricing adjust on its own, c. Restrict liquidity infusion

B. Extent of sector-wise disruption & required policy support

- I. Across sectors (~15% of GVA affected) & MSME clusters, the extent of disruption is large and may persist for next 3-6 months

C. Despite the probable war endgame nearing, where will oil prices settle?

- I. Despite signs of conflict nearing resolution, oil supply unlikely to normalize quickly, with structural risks persisting
- II. Ongoing shifts between negotiation and escalation continue to drive volatility and delay a clear price anchor
- III. Will Oil get back to \$70 this year? We do not think so, our base case for oil price is 80-85 \$/bbl. in 2026. Oil shocks have gradual impact at lower levels but turn sharply negative beyond ~\$100-120 driving possibility of FED rate hike
- IV. For India economy given high oil price sensitivity, in case oil settles at \$90/bbl, we see FY27 macros adversely affected:
 - I. GDP growth at ~6.5% with downside risk, II. CPI inflation above 4.5% raising possibility of rate hike, III. C/A deficit of ~2% of GDP and IV. Government may absorb shock of at least 0.3-0.5% of GDP in its fiscal arithmetic



3 Key Insights

1) Rupee is the central transmission channel: External shock (US-Iran war via oil) feeds directly into inflation, rates and fiscal arithmetic with capital flows outlook also affected.

2) Policy trade-off intensifies (Impossible Trinity): RBI is forced into a tightrope between currency and rates.

3) Structural savings shift cushions but distorts markets: Shift from debt to equity creates persistent upward pressure on rates, reinforcing macro stress rather than easing it. It indirectly affects capital outflows as domestic investor give exit to FPI's.

Key Measure 1 New Forex Exposure Caps

- **The Directive (March 2026):** Banks must cap their **Net Open Position (NOP)** in foreign currencies.
- **Limit:** A strict quantitative cap of **\$100 million per day**.
- **Comparison:** A massive reduction from the previous limit of 25% of total capital.
- **Impact:** Forces banks to unwind speculative dollar positions, increasing dollar supply in the domestic market.
- **Deadline:** Compliance required by **April 10, 2026**.

Key Measure 2 Cracking Down on Derivatives & NDFs

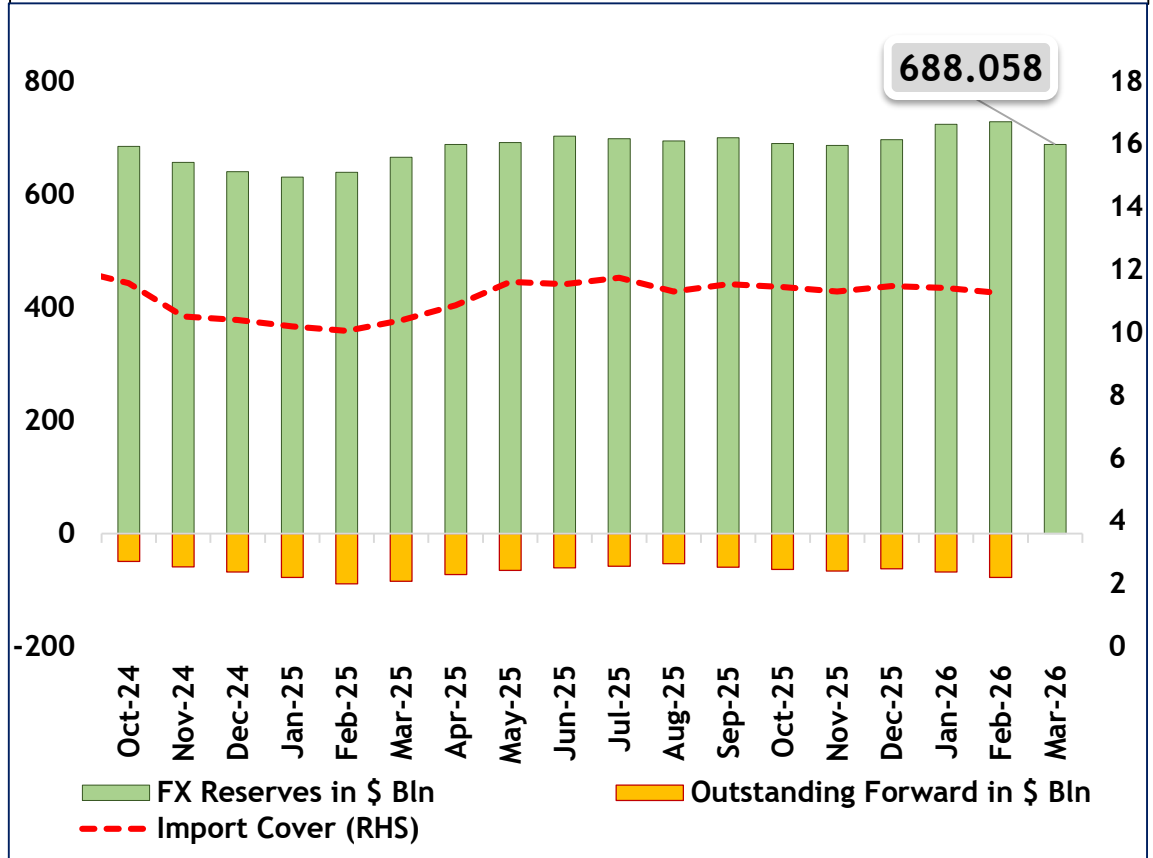
- **NDF Restriction (April 1, 2026):** Banks are now prohibited from offering Non-Deliverable Forward (NDF) contracts involving the Rupee to both resident and non-resident clients.
- **No Rebooking:** Banks and authorized dealers are barred from rebooking any forex derivative contracts.
- **Loophole Closure:** Prevents banks from "palming off" losses to related parties or using offshore markets to bypass domestic volatility controls.

Key Measure 3 Liquidity & Trade Support

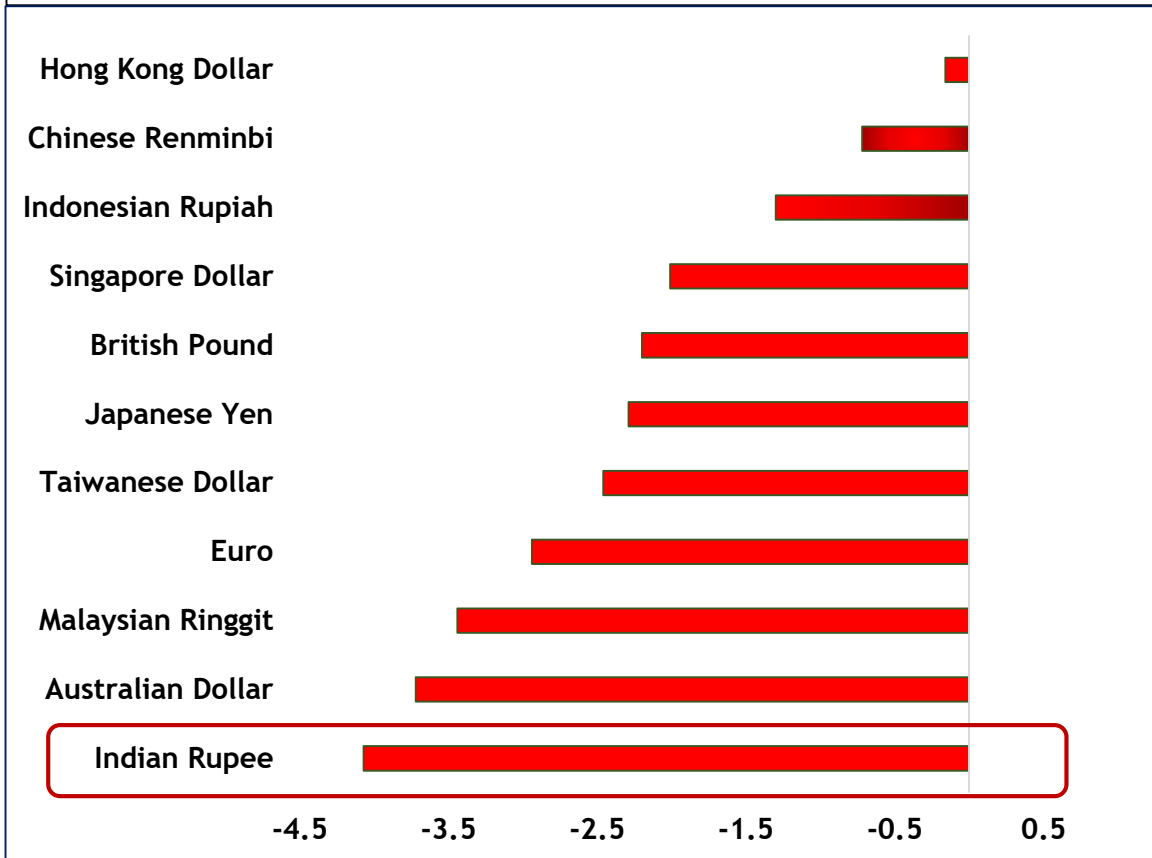
- **Export Realization Extension:** Permissible period for repatriation of export proceeds extended from **9 months to 15 months**.
- **Export Credit Relief:** Enhanced credit period of **450 days** extended for disbursements **until June 30, 2026**.
- **Purpose:** Provides liquidity to exporters facing shipping delays and payment cycle disruptions in West Asia.

RBI's robust reserve war chest helps the rupee remain resilient even as global pressures weigh on EM FX

High FX Reserves to cushion the FX volatility



Rupee remains one the best EM FX performer



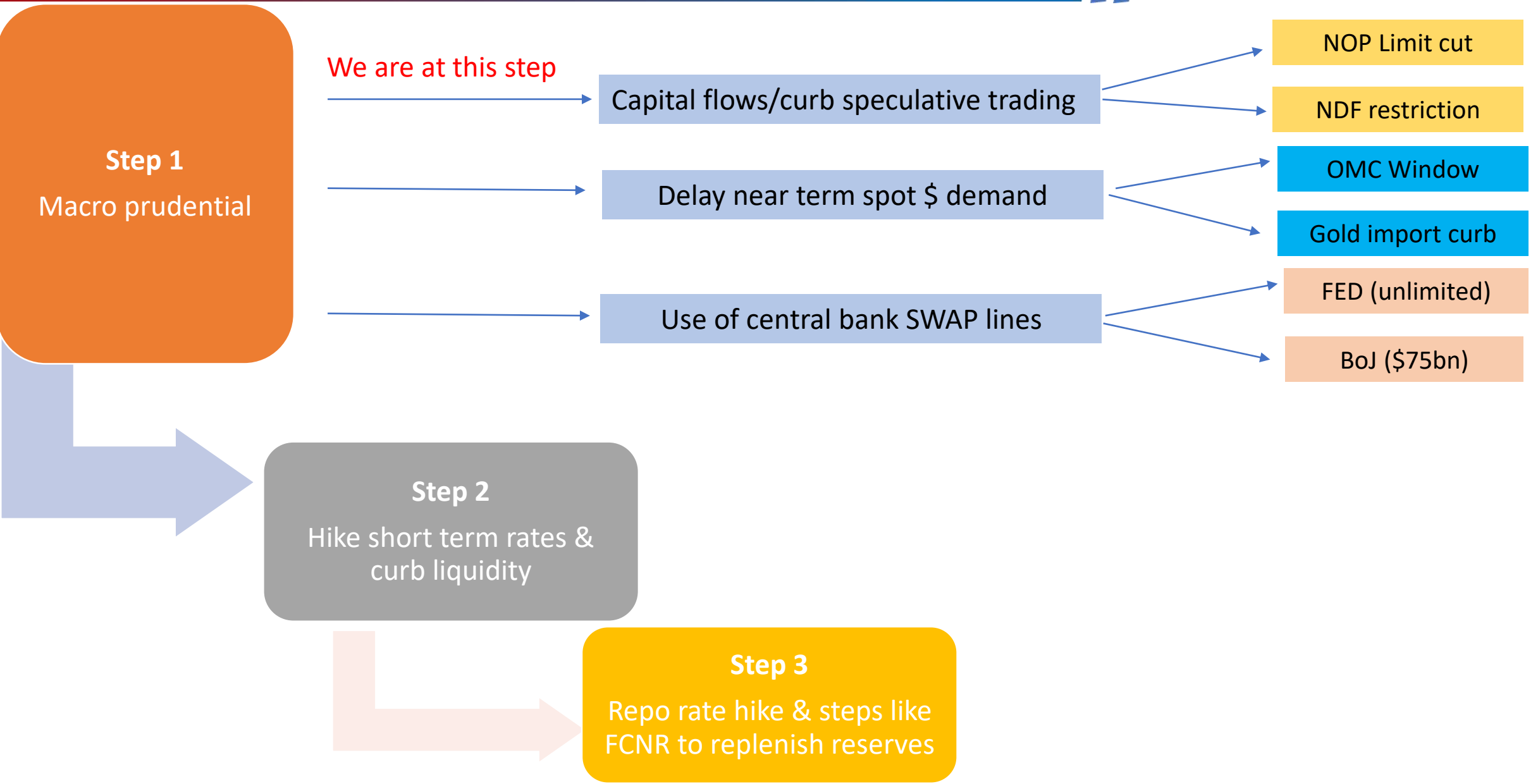
- RBI FX reserves slipped to **\$688 bln.** (~10.5 months of import cover & 9 months if we adjust for \$100 bl short forward position as per [media reports](#)) from record highs at **\$728 bln.** (~11 months of import cover) amid fall in FCA and Gold assets. It continues providing cushion to limit FX volatility.
- Among all the EM currencies, INR has depreciated by 4.07% since the middle-east tensions escalated.

Will 2013 policy playbook come back ?

2013 Policy Playbook: List of macroprudential steps implemented by the RBI during “Taper Tantrum”

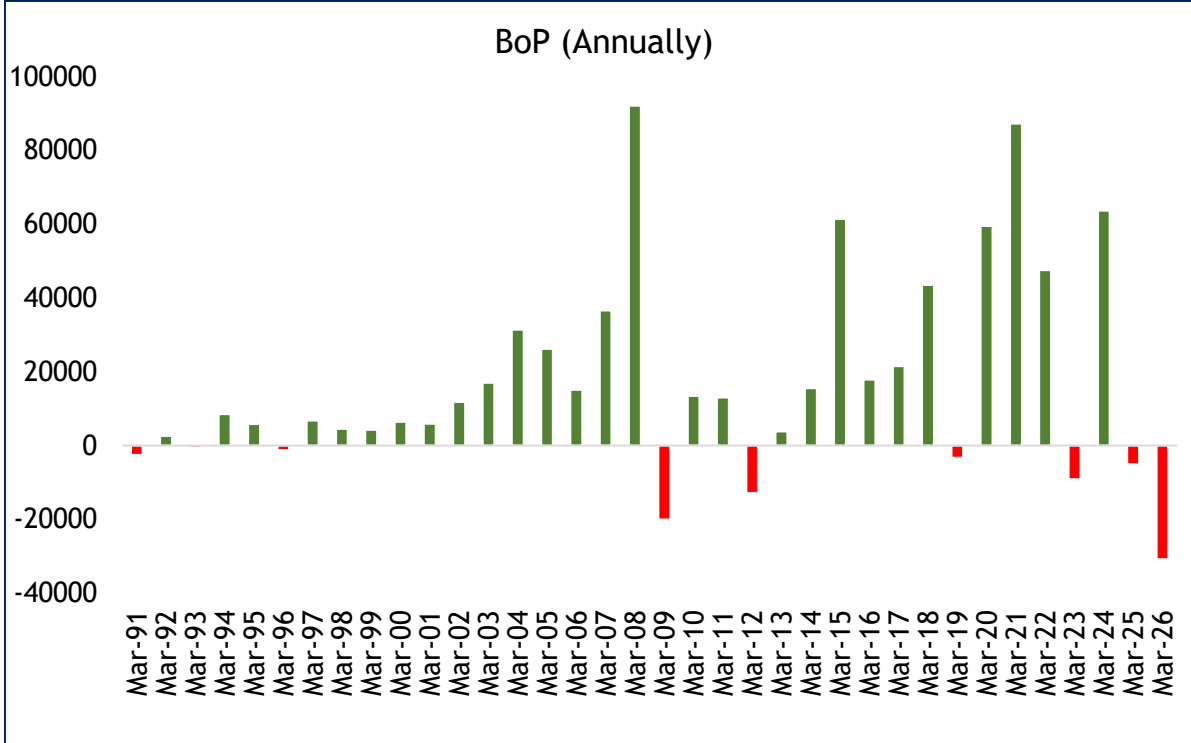
Phase / Date	Measure	Key Actions
July 8, 2013	FX Market Controls	Higher margins, reduced position limits; banks restricted from proprietary FX trading
July 15, 2013	Liquidity Tightening & short term rate hike	MSF rate sharply raised to 10.25%
July 22, 2013	Gold Import Curbs	20:80 rule; restricted domestic gold supply
Aug 14, 2013	Deposit Mobilisation	NRE/NRO rate deregulation; FCNR(B) incentives; CRR/SLR exemptions
Aug 28, 2013	FX Liquidity Support	USD-INR swap window for OMCs
Sept 4, 2013	Capital Inflows Boost	FCNR(B) swap at 3.5% fixed; overseas borrowing limits raised
Sept 20, 2013	Policy Normalisation	MSF gradually reduced; Repo rate hikes initiated totalling 75bp during the cycle

Will 2013 policy playbook come back ? 3-Steps involved

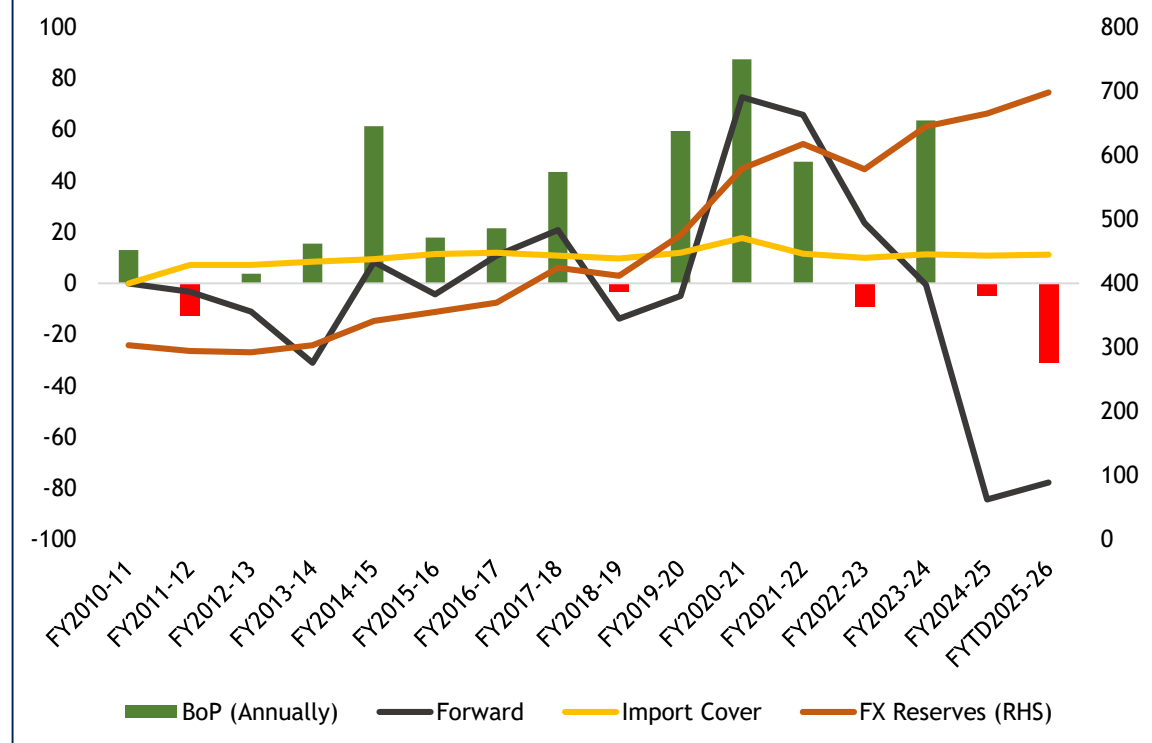


INR fundamentally struggles amid BoP imbalances, with external pressures likely to take time to normalize

India's BoP Reverses into Deficit, Signalling Rising External Sector Stress.



BoP Reversal and Reserve Drawdown Highlight Emerging Stress in India's External Sector



- The cyclical nature of India's BoP, where pandemic-era surpluses have gradually given way to deficits in recent years. Rising trade imbalances & capital outflows have weakened the external balance, signaling tighter external liquidity conditions.
- Post-pandemic BoP surpluses helped push India's FX reserves to record highs above \$700bn, but rising capital outflows and widening external imbalances have since reversed the trend. The resulting drawdown in reserves and softening import cover highlights growing pressure on India's external sector buffers.

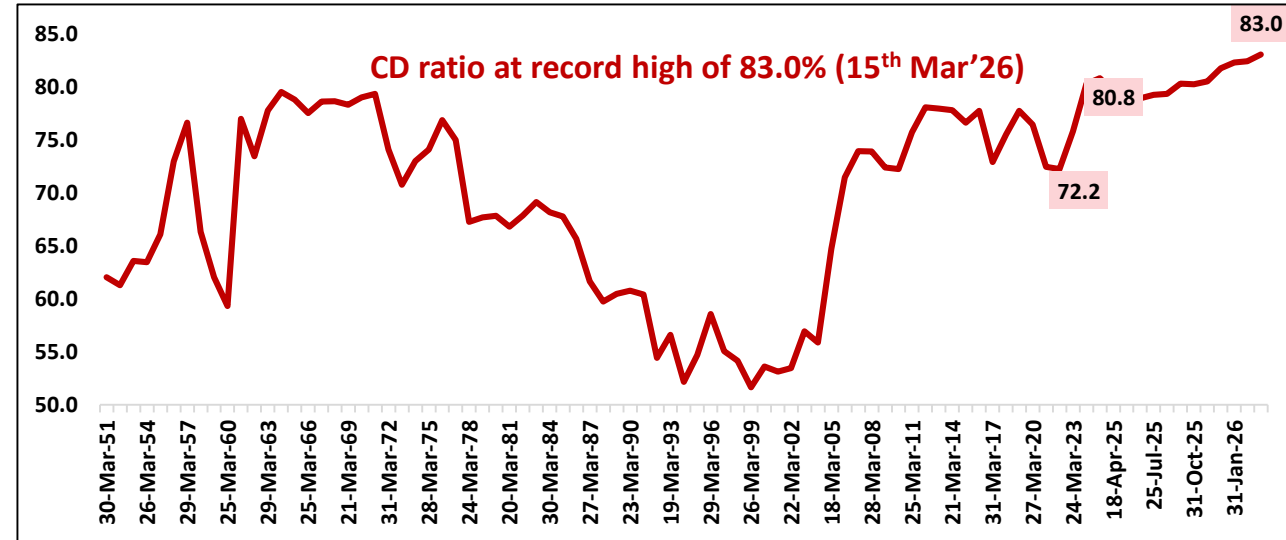
Fastest switch in rate transmission from
cuts to hikes

Monetary Policy Cycle Period	Repo Rate change	Lending rate change (WALR o/s Loans)		Lending rate change (WALR Fresh Loans)		Deposit rate change (O/s Rupee Term Deposits)		Deposit rate change (Fresh Rupee Term Deposits)	
	Change in bps	Change in bps	Period	Change in bps	Period	Change in bps	Period	Change in bps	Period
Jan-2015 to Aug-2017	-200	-159	Jan-15 to May-18	-205	Jan-15 to May-18	-214	Jan-2015 to Nov-2017	Data Not Available	
						20	Dec-2017 to May-2018		
Status Quo in Repo rate for 10 Months									
June-2015 to Aug-2018	50	11	May-2018 to Nov-2018	55	May-2018 to Jan-2019	20	May-2018 to Jan-2019	Data Not Available	
Status Quo in Repo rate for 6 Months									
Feb-19 to May-20	-250	152 bps	Feb-19 to Apr-22	-229	Feb-19 to Apr-22	-187	Feb-2019 to Apr-2022	Data Not Available	
Status Quo in Repo rate for 24 Months									
May-22 to Feb 23	250	115	May-22 to Jan-25	182	May-22 to Jan-25	206	May-2022 to Jan-2025	259	May-2022 to Jan-2025
Status Quo in Repo rate for 24 Months									
Feb 25 Till Date	125	-87	Feb-25 Till Date	-105	Feb-25 till Dec-25	-47	Feb-2025 Till Date	-97	Feb-2025 Till Date
				16	Further upside bias seen				

Various Banks have hiked RTD rates in Feb'26 and MCLR rate hikes also initiated by few bank(s) in Mar'26

Persistent wedge between credit & deposit growth has led CD ratio to spike to unforeseen levels

Credit & Deposit for SCBs			
Segment	Unit	FY26 (15 th Mar'26)	FY25 (21 st Mar'25)
Deposit	% YoY	10.8	10.3
Credit	% YoY	13.9	11.0
Gap (bps)	bps	308	74
CD ratio	%	83.04	79.00
Incremental CD ratio	%	103.91	86.06



C-D growth divergence lasts not more than 2-4 years and convergence mostly achieved via fall in credit growth towards deposit growth

Identifying Period				Credit Growth			Deposit Growth		
Start Month	End Month	Number of Months	Average growth gap: Credit Deposit (bps)	Peak of credit growth during that period (y-o-y percent)	credit growth after 12 Months after end month (y-o-y percent)	Change in Credit Growth (bps)	Deposit growth in the month when credit growth peaked (y-o-y percent)	Deposit growth after 12 Months after end month (y-o-y percent)	Change in Deposit Growth (bps)
Apr-04	Jun-07	39	1071	36	26	-961	20	22	232
Apr-10	Oct-13	43	332	24	11	-1382	17	11	-555
Nov-17	Aug-19	22	432	15	6	-958	9	11	173
Apr-22	Apr-25	37	458	21	11.4	-935	13.5	9.9	-354
Aug-25	Mar-26	7	166	14.6			12.7		

Gap between PSBs and PVBs in terms of trends in structural liquidity deficit

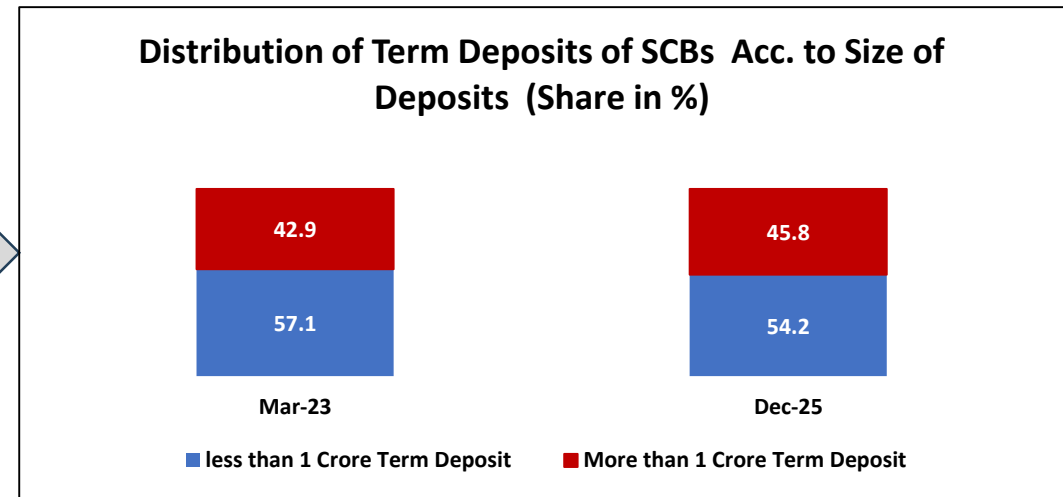
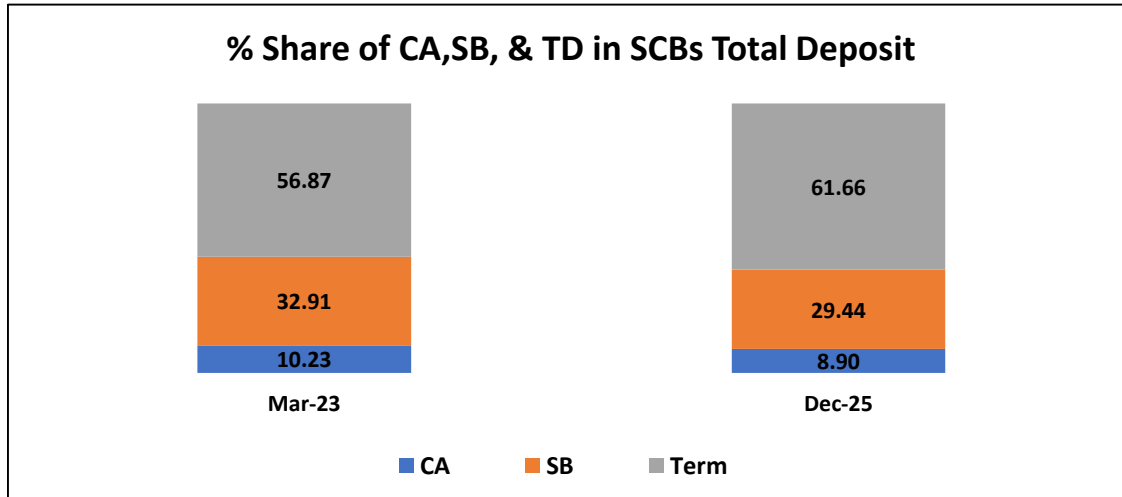
Credit Deposit Growth Gap

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
PSBs	4.2	5.2	4.2	3.6	2.9	1.2	3.0	4.8
PVBs	7.8	9.6	-3.0	-3.0	-2.5	-3.8	-1.1	-1.4
OTHERS	-4.7	-7.1	-4.8	0.0	-0.8	-4.3	-5.0	-1.0
SCBs	5.7	6.8	1.1	0.9	0.6	-1.1	0.9	2.0

CD ratio

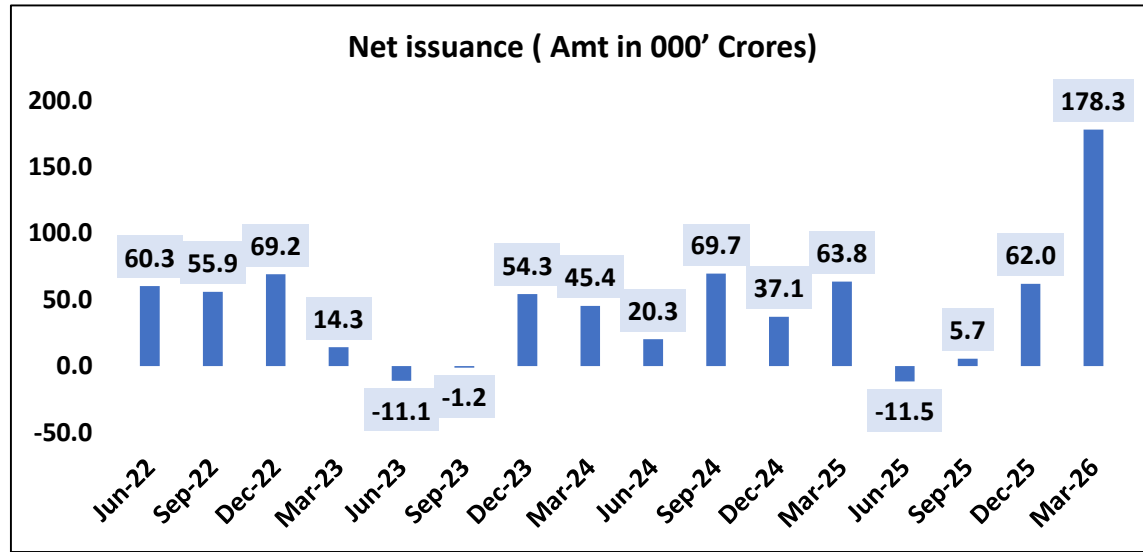
	Mar-24	Dec-24	Mar-25	Dec-25	Mar-24	Dec-24	Mar-25	Dec-25
	Outstanding				Incremental			
PSBs	72.4	74.6	74.4	77.9	100.8	101.6	95.3	112.8
PVBs	94.1	94.6	92.1	93.4	95.9	95.6	84.3	117.6
SCBs	79.7	81.2	80.2	82.7	107.7	87.3	84.5	97.3
SCBs (ex CDs)	97.5	105.1	104.7	108.4	110.9	93.9	91.2	100.6

Switch in household savings profile from debt to equity is driving structural shift in type of deposit from low cost to high cost

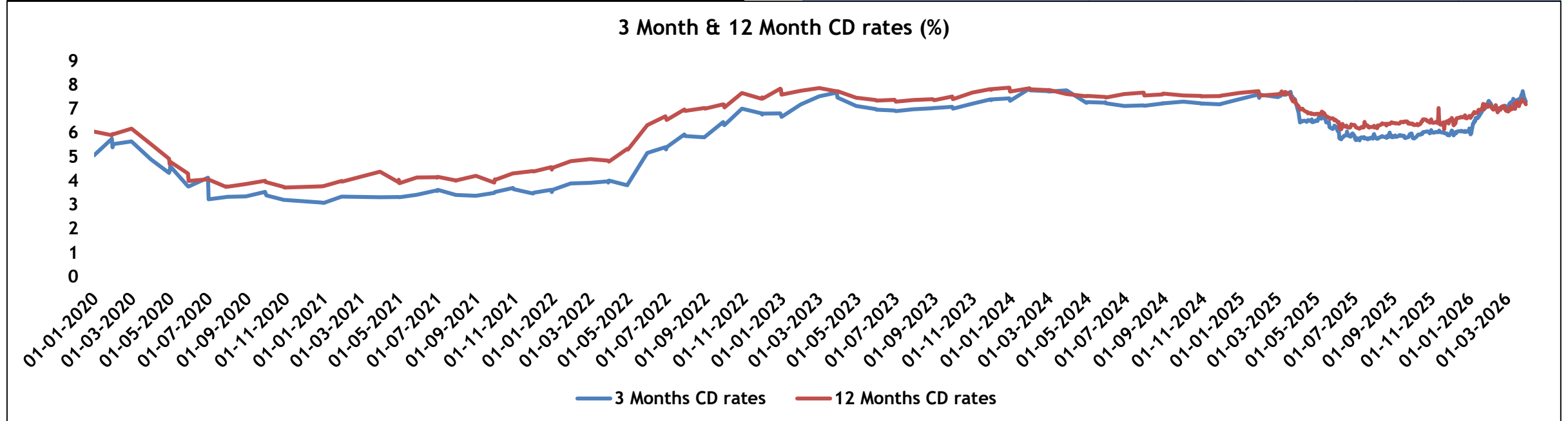


	Term Deposits					
Deposit Rate	Weighted Average Domestic Term Deposit Rates Fresh Rupee (Dec-25)			Weighted Average Domestic Term Deposit Rates Fresh Rupee (Feb-26)		
	PVT	PSB	SCB	PVT	PSB	SCB
	5.85	6.12	5.67	5.87	6.21	5.65
	Lending rates					
Lending rate	Weighted avg of lending rates Fresh Loans) Dec-25			Weighted avg of lending rates (fresh Loans)Feb 26		
	PVT	PSB	SCB	PVT	PSB	SCB
	9.14	7.61	8.28	9.16	7.84	8.44

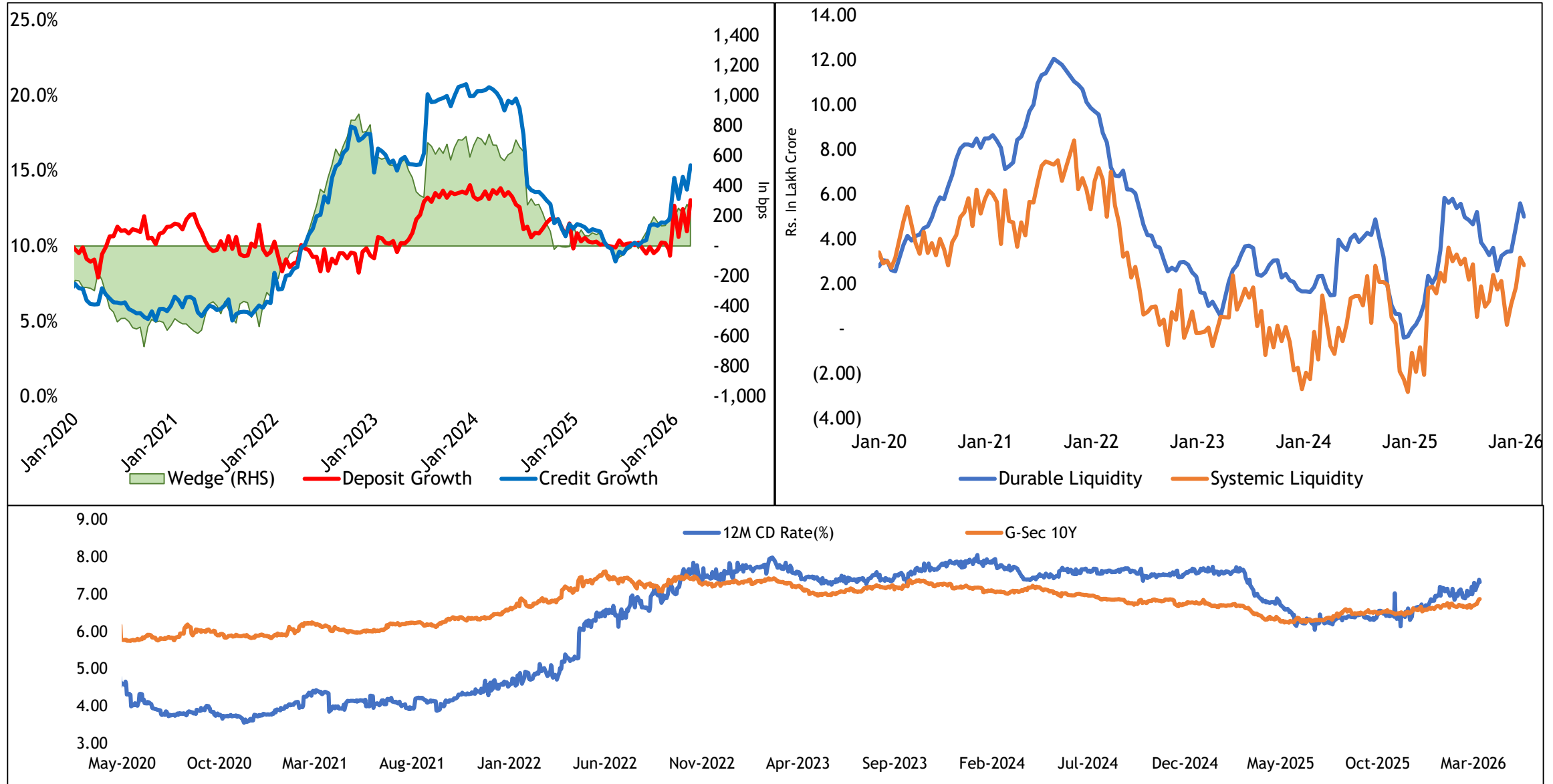
Funding rates and spreads stay elevated as 'Have Nots' command pricing power



Rs crores	FY23	FY24	FY25	FY26
PSBs	104300	42429	88381	183165
PSB ex-SBI	100750	47979	91381	176425
PVBs	87333	28670	81748	49015



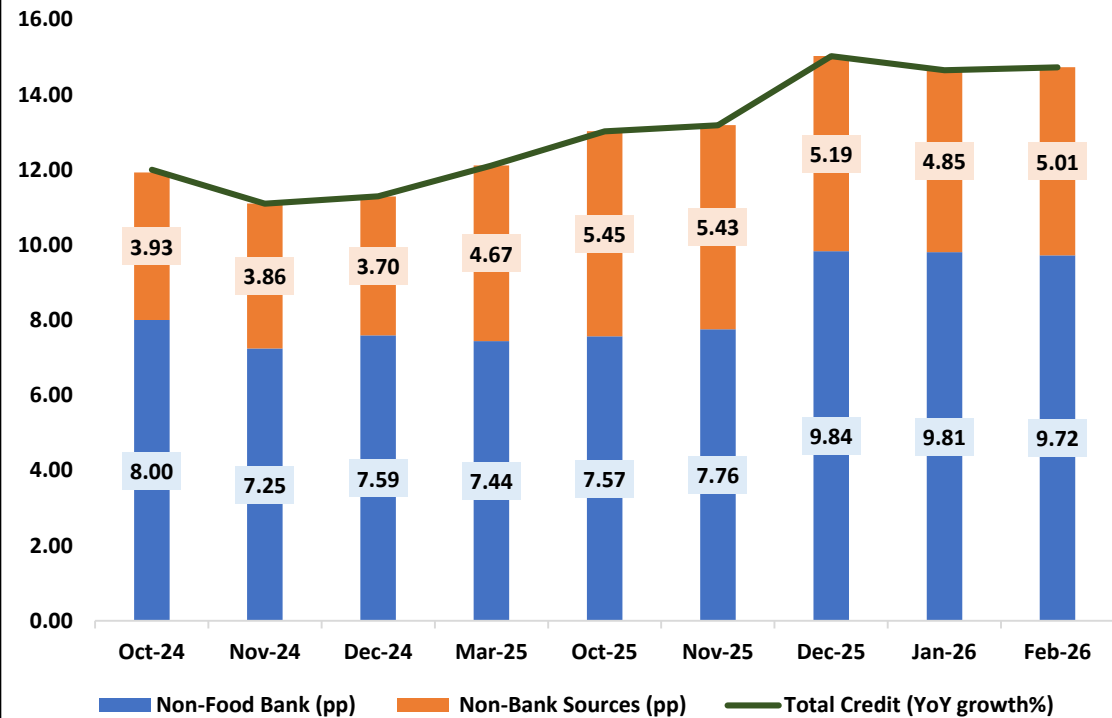
Gap remains between Structural liquidity deficit and Systemic Liquidity surplus keeping deposit rates elevated



Capital mkt led funding demand also returning to banks on spike in corporate bond yields

Outstanding Flow of Resources

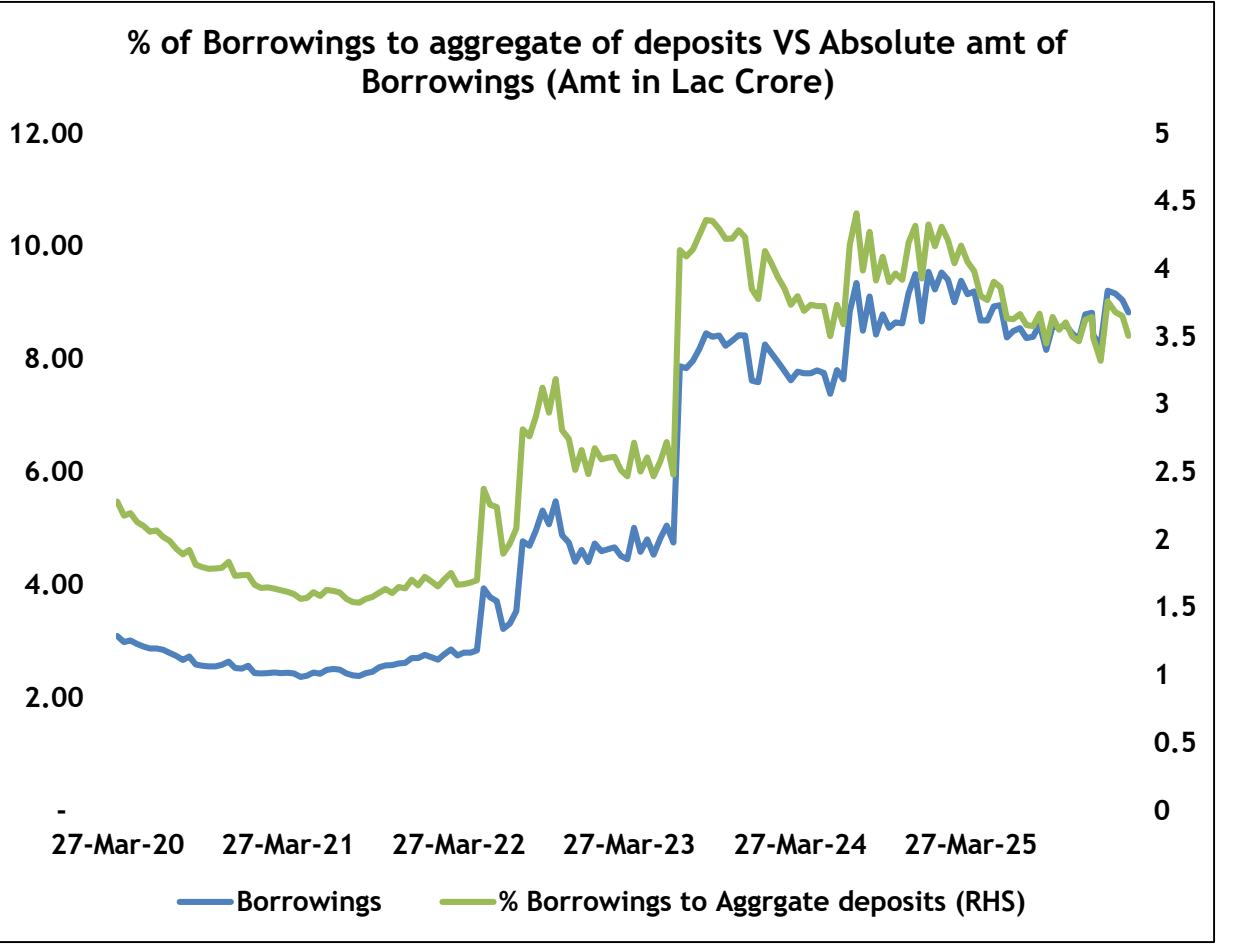
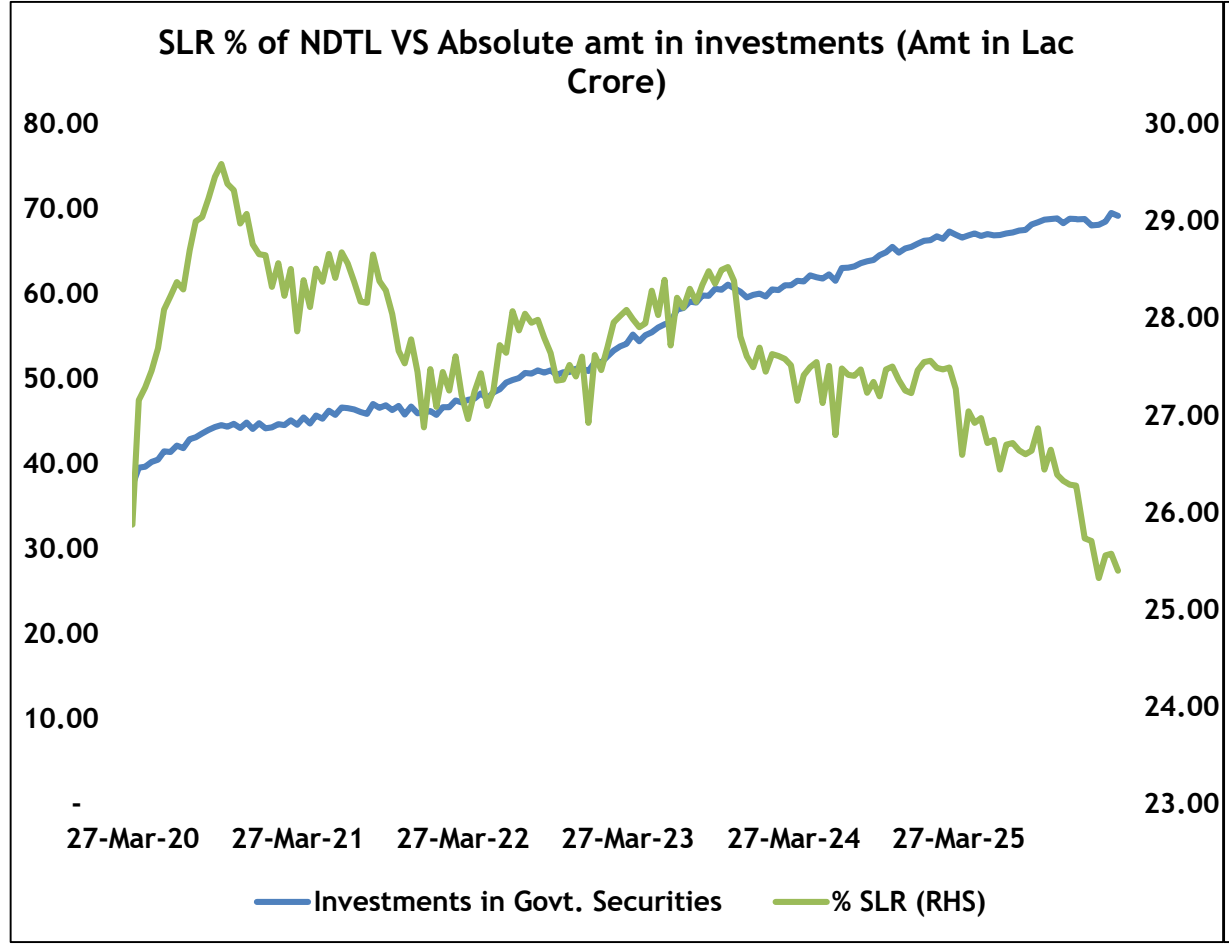
YoY growth & PP contribution of constituents in credit to commercial sector



Particulars	Apr-24 to Sep-24	Apr-25 to Sep-25	Oct-24 to Feb-25	Oct-25 to Feb-26
Bank Credit	6.93	6.59	10.0	18.5
Food Credit	-0.03	0.09	0.2	0.4
Agri. & Allied Sector	0.96	0.75	1.0	1.8
Industry	1.19	0.95	1.2	3.7
W/w Large Corporate	0.74	-0.42	0.5	2.0
Services	1.9	1.26	2.6	5.9
O/w NBFC	0.06	-0.46	0.8	3.6
Personal (Retail) Loan	2.5	2.83	3.0	5.4
O/w Unsecured Retail Loans	2.21	2.66	0.9	1.6
Loan against gold/jewellery	0.54	1.1	0.4	1.1
Priority sector O/w MSMEs	1.36	3.06	2.1	3.6

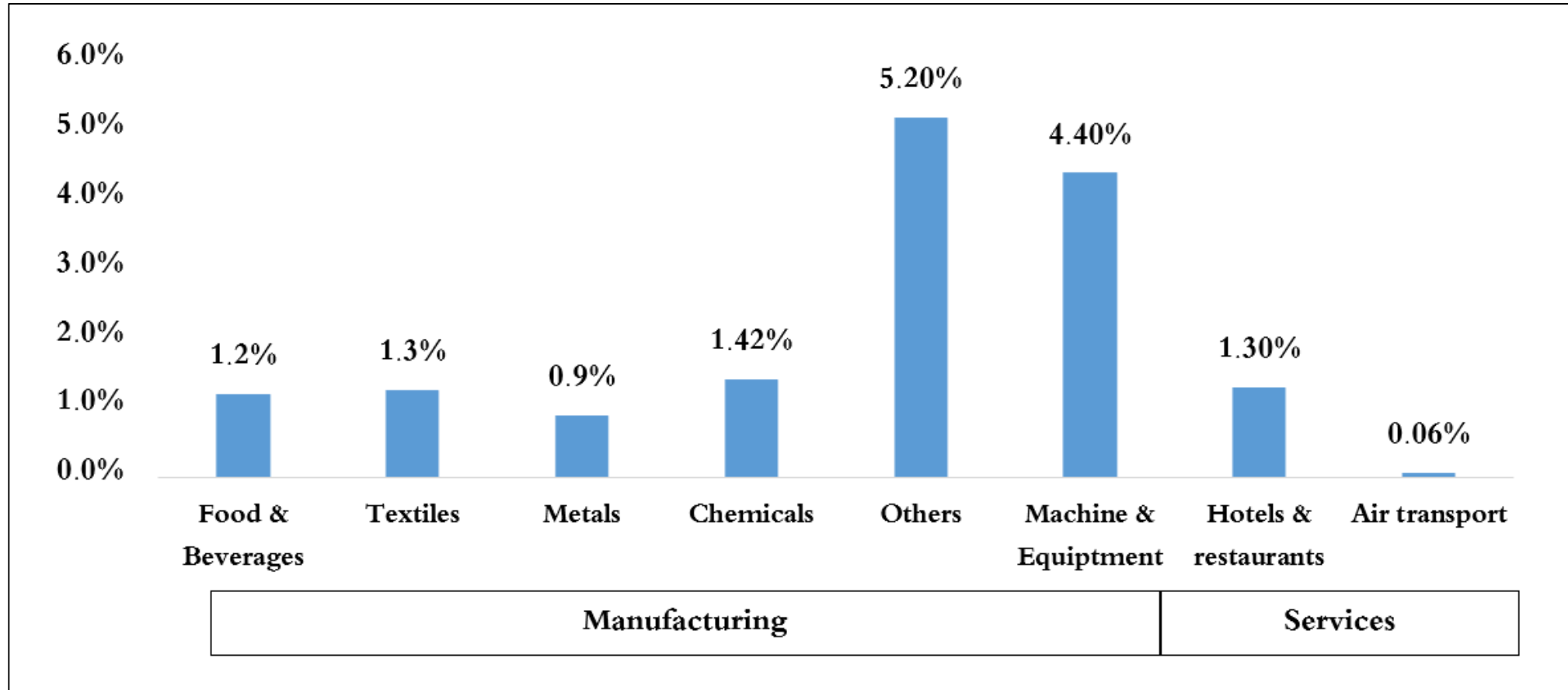
- Bank credit accretion during H2 FY'26 (data available till Feb'26) was higher by ~Rs 8 Lakh Cr compared to same period previous year.

Banks drawing down excess SLR and stepping up borrowings in order to meet the growing demand for funds



Extent of sector-wise disruption & required policy support

Sector wise disruption ~15% of GVA directly affected



Tirupur - Knitwear & Garments

- Production cost inflation +10-15% driven by power, dyes and fuel-linked logistics
- Export shipment delays +10-14 days, stretching working capital cycle +12-18 days
- Freight & insurance costs +40-50% impacting FOB margins
- SME cash conversion cycle worsening by ~2-3 weeks

Surat - MMF / Synthetic Textile Cluster

- Crude-linked raw materials (PSF, yarn, dyes) cost +8-12%
- Electricity & steam costs +6-8%, pressuring process houses
- Average MSME operating margins compressed by 3-5 pp
- Export competitiveness weakens if oil sustains >USD 100/bbl

Moradabad - Brassware & Metal Handicrafts

- Furnace fuel and transport costs +8-10%
- Export freight & marine insurance +40-60%, raising landed cost risk
- Order execution slowdown -5-7% due to shipping uncertainty
- Limited price pass-through → margin stress -4-6 pp

Ludhiana - Hosiery & Bicycle Parts

- Power and gas availability constraints cut utilisation -8-12%
- Yarn, chemicals, rubber inputs cost +7-10%
- OEM-linked demand volatility impacts order flow -5% (base case)
- MSME inventory holding period extends +10-15 days

Rajkot - Auto Components & Engineering

- Steel, alloy and transport costs +8-10%
- Export-oriented MSMEs face demand risk -5-7% in prolonged conflict
- Logistics uncertainty disrupts JIT supply schedules by 1-2 weeks
- Margin erosion estimated at -3-4 pp without repricing

Coimbatore - Foundry, Pumps & Motors

- Cast iron, power and fuel costs +10-12%
- Imported spares & consumables delayed +1-2 weeks
- Capacity utilisation risk -6-10% due to energy volatility
- Working capital requirement rises +8-10%

Firozabad - Glassware Cluster

- Natural gas and furnace fuel cost surge +15-20%
- Output curtailment -8-10% among small units
- Low pricing power → margin compression -4-6 pp
- Export orders exposed to freight hikes +40%

Morbi - Tiles & Ceramics (High Severity)

- Natural gas costs +20-25%, highest among MSME clusters
- Production cuts -10-15% in energy-intensive units
- Export realisations pressured by freight & insurance +45-60%
- Cash losses restart below 70% capacity utilisation
- Cluster viability risk rises sharply if disruption lasts >3 months

Textiles & Apparel (Cotton + MMF)

- Energy, dyes and logistics cost inflation +8-15%
- Export shipment delays +10-14 days, extending working-capital cycle +2-3 weeks
- Freight & insurance costs +40-50%, compressing export margins
- Price pass-through limited → margin erosion -3 to -5 percentage points

Chemicals & Petrochemicals

- Crude-linked feedstock costs +10-15%
- Natural gas and power costs +12-18%, hurting energy-intensive processes
- Export realisations under pressure due to freight hikes +45-60%
- Operating margins contract -4-6 percentage points if oil sustains > USD 100/bbl

Metals (Steel, Aluminium, Non-Ferrous)

- Energy and coking input costs +8-12%
- Transport and logistics costs +10-15%
- Capacity utilisation risk -5-8% from demand and cost shock
- EBITDA margins decline -3 to -5 percentage points without cost pass-through

Auto & Auto Components

- Steel, aluminium and alloy costs +8-10%
- Export-oriented demand risk -5-7% in prolonged conflict scenario
- Supply-chain disruption delays JIT schedules by 1-2 weeks
- Margin erosion -3-4 percentage points for Tier-2 / Tier-3 suppliers

Capital Goods & Engineering

- Input metals and power costs +7-10%
- Imported components & spares delayed +1-2 weeks
- Project execution timelines extend +30-45 days in export-linked orders
- Working-capital intensity rises +8-12%

Cement & Building Materials

- Fuel (petcoke/coal) and power costs +12-18%
- Logistics and freight inflation +10-15%
- Margin pressure -4-6 percentage points due to partial price pass-through
- Regional production curtailment risk -5-7% if fuel shortages persist

Consumer Durables & Electronics

- Imported components cost inflation +8-12% due to freight & FX pressure
- Shipping delays +1-2 weeks, disrupting inventory planning
- Promotional absorption required → margin pressure -2-4 percentage points
- Demand moderation risk -3-5% from inflation-hit consumer spending

Ceramics, Glass & Tiles

- Natural gas costs +15-25%, highest among manufacturing sectors
- Production cuts -10-15% in energy-intensive units
- Export freight & insurance costs +45-60%, hit to realisations
- Cash losses re-emerge below ~70% capacity utilisation
- Sector viability risk escalates if disruption lasts >3 months

Support Measures Already Undertaken

Potential Support Measures Required

RBI

- FX market intervention to curb excessive rupee volatility & Limits on banks' net open FX positions
- Extended Credit & Payment Timelines: The RBI has extended the export credit window to 450 days and the deadline for realizing export proceeds to 15 months.
- Advised banks to continue extending pre- and post-shipment export credit to exporters facing logistics and payment disruptions.

- Facilitate implementation of any announcements like credit guarantee scheme, moratorium, any other relief for exporter/MSMEs.
- Open a targeted working capital support window for affected sectors with partial credit guarantee for MSMEs and export-oriented units; enhance cash credit limits by at least up to 20%.
- Provide a time-bound grace period of 30-60 days before SMA-1, SMA-2, and NPA classification triggers for sectors with disruption; issue guidance on releasing milestone payments despite delayed physical completion.

GoI

- Cut in excise duty on petrol & diesel, Higher export duties on diesel and ATF.
- Strategic petroleum reserves ready (~8 weeks),
- Diversification of crude and LPG imports
- USD 6.2 billion-Economic Stabilisation Fund to cushion the economy against global shocks, support exporters facing high energy costs.
- Resilience & Logistics Intervention for Export Facilitation (RELIEF) under the Export Promotion Mission to mitigate logistics disruptions and cost escalation.
- RELIEF (Through ECGC) provides risk coverage and reimbursement for eligible past shipments and prospective exports with financial outlay of ₹497 cr.
- Inter-Ministerial Group constituted to expedite relief through cargo movement facilitation, port charge waivers, stronger port coordination, pricing transparency (shipping lines) and logistics.

- Provide for a short - term credit guarantee scheme (like ECLGS introduced during COVID with a fixed rate of interest) to fill temporary working capital mismatch to all direct as well as deemed exporters/MSMEs in the affected sectors.
- Raise subvention rates for exporters in affected sectors.
- Fast-track settlement of GST refunds, drawback claims, RoDTEP dues, and all pending government payments; expand TReDS-based invoice discounting in affected industrial clusters.
- For critical sectors, the Government may have an aggressive approach to arrange for alternate sources of raw materials & facilitate continuous supply. This has already been witnessed in case of sectors like fertilizers.
- Declare a temporary moratorium on all demurrage, detention, and ground rent charges for stranded and perishable containers; treat the situation as Force Majeure across port contracts.
- Accelerate renewables and energy transition
- Establish a technical priority framework with guaranteed minimum LNG continuity quotas of at least 90 per cent, for all continuous process industries (glass, ceramics, specialty chemicals) for the next 4-6 weeks.

Oil Shock: Global Macro Impact & Scenarios

From Talks to Threats: Diverging War Narratives



Potential Operating Regimes Under Conflict

Scenario	Description
Toll System	Iran charges \$2M/tanker in yuan. Allied vessels (China, Russia, India, Pakistan) permitted.
Partial Reopening	Iran accepts deal, allows commercial traffic with oversight. Gradual resumption over 2-3 months.
Full Reopening	Pre-war transit restored. Requires regime change or comprehensive peace deal.
Escalation (Mine deployment)	Iran lays mines, full blockade. US/allied military clearance ops required (weeks-months).

Will oil get back to \$70 this year?

\$70 possible only in optimistic scenario

STRAIT OF HORMUZ SCENARIOS & OIL PRICE IMPLICATIONS



TOLL SYSTEM

Selective access with pricing control

BASE CASE



Price Impact: \$80-85/bbl



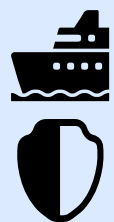
ESCALATION (MINE DEPLOYMENT)

Mining/blockade; flows disrupted; military clearance needed (weeks-months)

TAIL RISK



Price Impact: \$110-140+/bbl



PARTIAL REOPENING

Monitored flows resume; normalization over 2-3 months

POSSIBLE

Price Impact: \$90-95/bbl



OUR TAKE: OIL BACK TO \$70 IS POSSIBLE, Only in optimistic scenario



Temporary dips below \$75 are possible, but flows are unlikely to normalize fully.



FULL REOPENING

Pre-war flows restored; requires political resolution

LOW PROBABILITY

Price Impact: <\$80/bbl



West Asia Supply Disruption & Reconstruction Timeline

Oil Supply Disruption

Country	Pre-War Production	Current Status	Offline Capacity	Reconstruction Time
Iran	2.5M bpd	Nuclear facilities, refineries bombed. Kharg Island threatened.	~2.0M bpd	12-24 months (if war ends)
Iraq	4.3M bpd	Southern terminals shut. Storage full. No export route.	~3.0M bpd	2-4 weeks after Hormuz reopens
Kuwait	2.7M bpd	Oil fields attacked. Airport fuel depot hit Apr 1.	~1.8M bpd	1-2 months
UAE	3.2M bpd	Abu Dhabi, Fujairah ports hit. Operational with delays.	~0.8M bpd	3-6 weeks
Saudi Arabia	9.0M bpd	Limited attacks. Increasing output via Red Sea pipelines.	~0.5M bpd	Immediate
TOTAL	21.7M bpd	—	~8.1M bpd	—

LNG Supply Disruption

Country	Pre-War Production	Current Status	Offline Capacity	Reconstruction Time
Qatar	77 mtpa	Ras Laffan hit. Force majeure, 17% capacity hit.	~13 mtpa	3-5 years
UAE	5.8 mtpa	Hormuz transit blocked.	~5.8 mtpa	2-4 weeks
Iran	~4 mtpa	Minimal exports	Minimal	12-24 months
TOTAL	~98 mtpa	—	~19 mtpa Offline, = 20% global supply	

Alternative Oil Sources: Can They Substitute?

Source	Available Capacity	Ramp-Up Timeline	Constraints
OPEC+ Spare Capacity	Saudi: ~2M bpd UAE: ~1M bpd Total: ~3M bpd	30-90 days for full mobilization	<ul style="list-style-type: none"> Saudi/UAE exports also depend on Hormuz Not a like-for-like substitute for Iranian crude Cannot fully offset supply disruption
US Shale	~1.5M bpd potential increase	6-9 months	<ul style="list-style-type: none"> Capital discipline post-2023 Break-even \$70-80/bbl Light sweet vs heavy sour demand mismatch
Russia (Sanctions Relief)	~0.5-1.0M bpd if sanctions lifted	3-6 months	<ul style="list-style-type: none"> Production 10.56M bpd (down from 10.9M in 2023) 40% refineries damaged by Ukraine strikes
Venezuela Sanctions Relief	~0.5-0.8M bpd	3-6 months	<ul style="list-style-type: none"> Requires US policy reversal Infrastructure degradation Heavy crude (complements Iraq loss)
Strategic Petroleum Reserve (SPR)	IEA: 400M barrels released US: ~350M barrels remain	Immediate	<ul style="list-style-type: none"> Temporary measure only ~2M bpd for 60 days at current pace Political cost of depletion
Alternative Routes (Pipelines)	Saudi East-West: 5M bpd UAE Abu Dhabi: 1.5M bpd	Saudi: Operational now UAE: 2-4 weeks	<ul style="list-style-type: none"> Total capacity: 6.5M bpd vs 20M via Hormuz Vulnerable to Houthi attacks (Bab al-Mandeb) Not sufficient
TOTAL SUBSTITUTE CAPACITY	~10-11M bpd	—	vs 17.8M bpd Hormuz disruption

• *Alternative sources can replace at most 50% of Hormuz disruption. Gap: ~9-10M bpd. Market requires BOTH Hormuz reopening and demand destruction to rebalance.*

Oil Price Sensitivity and Macroeconomic Impact

Scenario	Oil Price Range	GDP Impact	Inflation Impact	Fed Reaction
Toll System (Base Case / Open but controlled flows)	\$80–85	Minimal impact	Inflation contained	<ul style="list-style-type: none"> • Stay data-dependent • Mild easing bias remains
Partial Reopening (Possible)	\$90–95 (range overlaps but duration matters)	Growth slows (~0.1–0.3pp hit)	Mild inflation pressure (temporary)	<ul style="list-style-type: none"> • Pause cuts temporarily • Assess persistence of shock
Escalation (Mine Deployment / Blockade)	\$110–140+	Growth hit (~0.5–0.7pp global)	US ~6%, Global ~5% (stagflation risk)	<ul style="list-style-type: none"> • Tightening bias • Hawkish communication
Full Reopening (Low Probability / Optimistic)	<\$80 (towards \$70)	Growth stabilizes / improves	Inflation cools	<ul style="list-style-type: none"> • Resume rate cuts • Policy turns pro-growth

- *Oil impact is gradual at lower levels, but becomes sharp at higher levels beyond ~\$120, growth slows significantly while inflation rises.*
- *Each \$10 rise in oil reduces growth (~0.1pp), but the impact turns non-linear in extreme scenarios.*
- *Higher oil limits policy flexibility, shifting central banks from easing to caution or even tightening.*

What This Means for India

Key risks for Indian economy and its impact

Variable	Unit	Sensitivity per US \$10/bbl. rise in crude (bps, unless specified)	Scenario 1: +US \$15/bbl (short spike) Partial disruption, OPEC releases spare capacity	Scenario 2: +US \$30/bbl. (prolonged) Six-week closure, rerouting via Cape/Fujairah
Real GDP [^]	% YoY	-15	-22.5	-45
CPI inflation [^]	% YoY	+30 ^{^^}	+45	+90
Current account deficit	\$ bn	(-)\$16 bn	(-)\$24 bn	(-)\$48 bn
Current account deficit ^{^^^}	% of GDP	-0.4	-0.6	-1.1

- Sensitivity analysis shows 10% rise in oil prices (vs \$70/bbl. baseline) affects GDP & CPI by (-)15bps, (+)30bps (assuming no change in excise duty on petrol, diesel) while C/A deficit widen by 30-40bps each
- The macro impact via wider C/A deficit is likely to be divided between consumers, government and corporates, with the latter likely to take some hit in order to cushion inflation and fiscal impact
- Currently mostly government and OMC has observed the oil price shock, with spill over impact with household restricted to only LPG cylinder price hike & spike in premium petrol prices. The excise duty cut of Rs10/litre by government is likely to cost ~Rs 1lac cr. (0.3% of GDP to the exchequer with the OMCs running under recoveries across energy product apart from bearing the export windfall tax hike burden.

[^]as per the Monetary Policy Report April 2025 and based on a 10% deviation from baseline crude oil assumptions, ^{^^^}negative sign indicates widening deficit; Source: RBI, UBI research

India's Chief Economic Adviser's Assessment of Oil Price Impact on Indian Economy

Impact Parameter	FY26 Estimate	Oil @ \$90/barrel	Oil @ \$130/barrel
GDP Growth	7.4%	7.0–7.4%	~6.4%
Inflation (CPI)	~2.1%	~2.0%	~5.5%
Current Account Deficit (% of GDP)	~1.0%	1.0–1.2%	~3.2%
Fiscal deficit (% of GDP)	4.4%	4.3–4.4%	~5.6%
Rupee Depreciation	~10.0%	~1–2% pressure	~7–12% pressure

- In our view, the estimates laid out by CEA are conservative given that even if oil settles at \$90/bbl and Rupee at ~94/95, then there is likely to be sharp spike in under-recoveries for OMCs, with their revenue neutral level at ~80\$/bbl.*
- The government has already taken a steep hit in terms of excise duty cut of Rs 10/L on both petrol and diesel, leading to a fiscal cost of ~0.3% of GDP.*
 - For India economy given high oil price sensitivity, in case oil settles at \$90/bbl, we see FY27 macros adversely affected
 - GDP growth at ~6.5% with downside risk,
 - CPI inflation above 4.5% raising possibility of rate hike,
 - C/A deficit of ~2% of GDP and
 - Government may absorb shock of at least 0.3-0.5% of GDP in its fiscal arithmetic.

Thank You !

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