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OIL MARKET CRISES AND THEIR IMPACT ON INDIA'S MARKET: INFLATION AND MONETARY POLICY RESPONSES

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ABSTRACT

Oil market crises are among the important outside shocks that affect the Indian economy. Because India buys the majority of the oil it needs problems in global production conflicts between countries rules that stop trade problems with moving oil around and big changes in how much oil people want can greatly affect prices in the country and the overall economy. An oil price problem affects India in connected ways: how much it pays for oil the difference between what it sends abroad and what it gets the value of the rupee the cost of fuel and moving things the cost of food the money the government has how well companies do and how much people can buy. Inflation is the result but the effects might go beyond that to things like the economy growing, investing, the financial world and how money rules work. This article looks at how oil market problems affect India with a focus on inflation and how the Reserve Bank of India and the government respond. It says that money rules can stop some inflation from growing and stop people from thinking inflation will keep going. They can't fix a problem where oil isn't available. So managing the problem well needs help from money, money, energy and dealing with money problems. The article ends by saying that India should use money rules and also have oil reserves get oil from different places have clear rules for taxes on fuel make better public transport invest in clean energy and have better ways for different groups to work together.

Keywords: Oil, India, Inflation, Monetary Policy, RBI, Current Account Deficit, Exchange Rate, Energy Security

INTRODUCTION

Crude oil is very important in the Indian economy. It is used not for moving around but also for making electricity, chemicals, fertilizers, plastic, moving things flying planes, building and farming. So, when the price of oil goes up around the world it affects the economy not just the places where people buy gas and diesel. India's problem is mostly because of the way it is set up. The country buys 90 percent of the oil it needs which makes it easy for things in the money world to affect how much money is coming in and going out and how much things cost. If the price of oil goes up by $10 per barrel it is estimated that India's money coming in and going out will be higher by 0.4 percent of the total money made in the country. The Reserve Bank of India also thinks that if the price of oil goes up by 10 percent the main measure of how much pricesre going up will go up by about 20 points.

Oil market problems have happened in different ways. The oil problems in the 1970s were because of the way oil was not available and because of fights between countries. The 1990–91 crisis in the Gulf caused a money problem for India. The big rise in prices in 2008 the drop in prices from 2014 to 2016 the changes in prices in 2020 because of the virus and the fight between Russia and Ukraine in 2022 showed that oil prices can go up or down a lot because of the way oil is available and used. These times show

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that the problem for India is not just how high the price of oil is, but how fast the price changes how long it stays high and how much it is uncertain.

TRANSMISSION CHANNELS

Current account channel: The first effect of an oil price increase is that it costs more to buy oil. If the amount of oil bought stays the same every time the price of oil goes up it costs more to buy it. This makes the money used to buy things from countries bigger and makes the money coming in and going out bigger. A bigger money coming in and going out makes people need money from other countries. If not, enough money comes in the rupee might get weaker. A weaker rupee makes oil cost more in rupees creating a cycle:

Higher oil price → more money used to buy oil → need for other money → oil costs more in rupees

The effect of the money value is important because India buys oil in US dollars. Even if the cost of oil in dollars doesn't change a weaker rupee can make the cost of oil higher in rupees. The money effect also affects the money that India has saved. Peoples confidence in the money. Even though India gets money from services money sent back by people working abroad and money coming in from countries a long time of high oil prices can make it harder to get money from outside and make the money and bond markets shakier.

INFLATION CHANNEL

The effect of oil prices on inflation happens in two ways: directly and indirectly. The direct effect is when gas, diesel and other fuels cost more. The indirect effect happens when the cost of moving and making things goes up. Diesel is very important because most of the things that move around in the country use it. Higher diesel prices make the cost of moving things like food, vegetables, milk and other things expensive. Companies might respond by raising the prices of their products lowering their profits or not doing much investing. Over time workers might want money to live better which could cause more inflation. Oil prices also affect the cost of food. Farming depends on machines that need diesel to work like those used for planting, harvesting, storing and moving things. The making and moving of fertilizers are also related to the cost of energy. Therefore, an oil problem can make the cost of fuel, food and other things go up at the time. The prices of things that businesses sell usually go up faster when energy prices change because energy is very important for making things and buying materials. The prices that people pay for things may not go up fast depending on how much the government controls the prices the taxes, the help given and how much the price changes pass through to the people. The end result depends on how the companies that sell oil and the government decide on the taxes on fuel.

FISCAL CHANNEL

The government can help people by lowering the taxes on fuel or giving help. These steps stop the price of fuel from going up but they can also mean the government has less money or spends more. Studies on how India deals with oil prices have said that helping people pay less for oil can cost 0.6 percent of the country's total money each year. This creates a problem. If taxes go down the pressure of prices might be less but the government has less money to use. If taxes stay the same the government has money but people and companies have to pay more. If more help is given people who need it might get some relief. The help might not be given to the right people and could be more expensive for the government. The way the government deals with this also affects how money is used. If the government has money to spend it might take more loans and the prices of bonds might go up. Higher prices of bonds can cost more for companies and people which makes it harder to spend and invest. So, a problem with oil prices can cause inflation and slower growth.

GROWTH AND FINANCIAL-MARKET CHANNEL

Oil price problems often create situations where prices go up and the economy grows slower. People spend more on oil. Moving around which leaves less money for other things they want to buy. Companies have costs, especially in areas that need to move a lot of things like airlines moving things making cement making chemicals making cars and making other products. The money made by companies that buy oil might get worse while those that make oil and some countries that sell it might benefit. So, the money markets might change in areas. The money markets might think about inflation and rules that are tighter. The rupee might get weaker which makes it harder for companies to pay back money they owe in currencies if they don't have enough help.

The effect on growth isn't the same for everyone. Companies that make oil might do better in some situations and lower oil prices can help people buy things. However, for a country that buys a lot of oil like India, big and long price increases are usually not good for growth.

HISTORICAL AND RECENT CONTEXT

India’s past shows that oil problems have results when the rules in place are different. In the 1990–91 time the crisis in the Gulf made India’s money problems worse. Helped cause a bigger money problem. The situation showed how dangerous it is to have a lot of oil needs and not enough money to use.

The big rise in oil prices in 2008 came at the time as money problems in the world. India had inflation problems. Then the world got slower which made the need for oil less. This time showed how problems with the amount of oil can be there while the economy gets weaker. The time after 2014 was the opposite. The drop in oil prices around the world made India’s money used to buy oil made the money coming in and going out better and gave the government a chance to raise the taxes on fuel. This time showed how important it is to use money rules: lower oil prices don't always mean the prices of fuel in the country go down much.

The problem with the virus in 2020 made things very unstable. The need for oil went down. Oil prices dropped very low but then prices went up again as the world started to open up. This time showed how hard it is to manage the oil market when the need and the amount of oil go up and down quickly. The fight between Russia and Ukraine in 2022 made the worlds money for things more uncertain. India had prices for oil problems with moving it and problems with insurance, pressure on the rupee and higher prices for things. The government tried to help by changing the taxes on fuel and getting oil from places while the RBI worked on stopping short-term problems from turning into long-term inflation. Future problems between countries in West Asia are a risk because India buys a lot of oil through places that can be in trouble. A recent report said that India buys about 1.8 to 2 billion barrels of oil every year and that a $1 increase per barrel can add up to $2 billion to the cost of buying oil.

INFLATION AND MONETARY POLICY RESPONSES

FLEXIBLE INFLATION TARGETING

The RBI works under a way of setting inflation as the main goal. The main goal is to keep the measure of how much prices are going up at 4 percent with a range of 2 to 6 percent. This way of doing things is set to last from April 2026 to March 2031. The flexible way of controlling inflation is very important for problems with oil because the money rules have to tell the difference between the time prices go up and other times. A short time when the cost of oil goes up because of problems might make the main measure of inflation go up without changing the real amount of inflation. If the money rules raise interest rates much it could hurt growth unnecessarily.

However, the RBI can't ignore a problem with oil when it starts to affect what people think about inflation what people want for their money what the main measure of inflation. What people do when they set prices. If people and companies think that inflation will keep going up the short time when oil prices go up might start to affect things. In that case the money rules might need to be stricter to stop the prices from getting out of control.

Interest-rate policy

The way the RBI uses to control how much money costs is the repo rate. During a problem with oil the RBI has to make a choice:

- Raising interest rates can help stop spending help the rupee and stop inflation.
- Keeping the rates the same can protect investments and spending from a problem, with oil.
- Lowering the rates can help the economy grow. It might make the rupee weaker and make the prices go up more.

The right answer depends on how the shock lasts and what kind of shock it is. If oil prices go up for a time and the main inflation stays under control the RBI might not worry about the first rise in prices. If the shock keeps going the bank might slowly make the rules tighter while saying that the goal is to stop the problem from continuing, not to stop every change in prices right away.

MANAGING MONEY AND THE VALUE OF THE RUPEE

Oil problems can make the money market shaky. Make the rupee lose value. The RBI can use ways to help with money like buying and selling things in the market using a deposit system using a system for extra money and other tools. It might get involved in the foreign money market to help with too much change even though it can't keep a certain money value forever without a lot of cost.

The goal of dealing with money should be to make big changes in the money value smoother not to stop every change. If the rupee is allowed to change problems with money can be handled. If the rupee drops too much it can make things more expensive and make people not trust the economy.

WHAT PEOPLE EXPECT

Talking is very important in money rules during an oil problem. The RBI needs to say whether the problem is seen as a time or a long time find the risks to what people think about prices and make clear what conditions would make the rules change. If the talking is trustworthy it can make things less confusing and stop companies from raising prices just to be safe. It also helps the money market tell the difference between a change in prices and a big change in the money rules.

WHAT MONEY RULES CAN'T DO

Money rules can't make oil in the world open up blocked shipping or fix problems between countries. Higher interest rates can make people spend less. They can't directly make the price of oil lower. Making the rules too strict can make the countrys economy shrink without making the oil prices come down much. There is also a time delay. Changing interest rates affects how much people borrow, invest and spend over months. Oil prices on the hand can change quickly. Money rules are better at dealing with the changes in prices than the first shock. Another problem is Indias oil prices that are set by the government and affected by taxes. The local prices might not change at once or fully when the world prices change. This can delay the price increases. It can also cause hidden money problems and sudden changes later.

- Other things that need to be done
- A full answer needs more than money rules.

First India should. Grow its oil stores. Stores can help during times when oil's hard to get but they can't replace changing how oil is used over time.

Second getting oil from places should be done. More options in where to get oil, how to pay how to move it. How to process it can make the country less affected by rules and local problems.

Third the taxes on oil should be steadier. Changing the taxes often can make the market not work well and make it hard to plan money. A clear tax system along with help for people who need it is better than lowering prices for everyone.

Fourth using energy and better public transport should be improved. Using cars, trains and other ways to move people and things can slowly make the economy use less oil.

Fifth giving help directly to the people who need it is better than lowering prices. Poor families and small drivers can get help directly while rich people and people buying things they don't need pay the price.

Finally the RBI, the money department, the oil department and the state governments need to work. Oil problems affect money, money plans, money from countries and different parts of the economy. If the answers are not together it might help now. Make things worse later.

Oil problems affect India in a way linking the prices in the world to prices, money from other countries the money value, money plans, growth and the money market. The country’s big need for oil from places makes these problems unavoidable but not impossible to handle. How bad the problems are depending on how how long the prices go up how the money value changes, how taxes work how much money is saved how much money from other countries there is and how trust in the big money plans is. The RBIs way of looking at inflation gives a base for dealing with oil problems. It lets the bank ignore short-term changes but act quickly when prices stay high. Still money rules alone can't fix a problem where oil's hard to get. Raising interest rates can make people feel surer and stop price increases but they can't make the oil prices lower or make sure oil is available. So, the best plan for India is to work clear money rules careful money help, oil stores, different oil sources, steady taxes on oil and faster move to use less energy and get power from other sources. This plan would help with the problems from oil problems, in the future while keeping the economy growing and helping people who need it.

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