



UPSC &amp; STATE PCS CURRENT AFFAIRS · UJIYARI.COM

EDITORIAL ANALYSIS

# Iran Conflict, Oil Prices and India's Monetary Policy Dilemma

BUSINESS STANDARD

2 April 2026 · ECONOMY · IR · GS3 · GS2

CURATED &amp; WRITTEN BY

**Bharat Choudhary**

UPSC Educator &amp; Content Creator

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)

ALSO FROM THE CREATOR

**BharatNotes**Free UPSC notes, MCQs, PYQ analysis. **100% Free.**[bharatnotes.com](http://bharatnotes.com) →

ADVERTISE

**Advertise with Ujiyari**

Reach thousands of UPSC aspirants daily.

[epicbharat@gmail.com](mailto:epicbharat@gmail.com)

# Iran Conflict, Oil Prices and India's Monetary Policy Dilemma

 Business Standard

2 April 2026

GS3

GS2

 Business Standard

4 tags ▾



## INTERVIEW ANGLE

*"The West Asia crisis puts the RBI in a classic policy trap — cut rates to support growth or hold to contain imported inflation? What tools does India have to manage external shocks that monetary policy alone cannot address?"*

## THE CORE ARGUMENT

The escalating US-led conflict with Iran has sent oil prices sharply higher, threatening to reignite inflation at a time when central banks globally — including the RBI — are still calibrating post-COVID monetary normalisation. For India, the implications are immediate and multidimensional: higher import bills, rupee pressure, rising fiscal strain, and a narrowing window for rate cuts that were expected to support growth in 2026.

## INDIA'S IRAN/WEST ASIA EXPOSURE

### Energy Dependence

India imports approximately **85–88% of its crude oil** needs. The Strait of Hormuz — the narrow waterway between Iran and the Arabian Peninsula — handles:

- ~20% of global oil trade
- ~30% of global LNG trade
- Significant volumes of India's crude imports (Saudi, UAE, Kuwait, Iraq originate from this route)

Any disruption to Hormuz passage would spike shipping insurance rates, delay deliveries, and force India to purchase costlier spot cargoes from distant suppliers.

## Beyond Oil: Fertilizers and Trade

- India imports large volumes of **DAP (di-ammonium phosphate)** and other fertilizers from West Asia
- **Bilateral trade** with Gulf Cooperation Council (GCC) countries: ~\$180 billion annually
- **Remittances** from Indian diaspora in West Asia (~9 million workers): ~\$40 billion/year — the largest single source of India's remittance income

## THE INFLATION-GROWTH DILEMMA

### Pre-Crisis Expectations

Before the West Asia escalation, market expectations were for:

- 2–3 RBI rate cuts in 2026 (following the February 2026 cut of 25 bps to 6.25%)
- CPI inflation trending toward the 4% target by mid-2026
- GDP growth of ~6.8% for FY26–27

### How the Crisis Changes the Calculus

VARIABLE	PRE-CRISIS	POST-CRISIS RISK
Crude oil price	~\$75/bbl	Spiking toward \$90–100/bbl
CPI inflation	Trending down	Risk of reversal
Rupee	Stable	Depreciation pressure
Current Account Deficit	~1.5% GDP	Widening
Fiscal deficit	4.4% GDP target	Risk from fuel subsidy pressure

### RBI's Constrained Options

- **Cut rates:** Supports growth, investment; but risks rupee depreciation (worsening import bill), signals indifference to inflation
- **Hold rates:** Maintains inflation credibility; but slows credit growth, delays private investment recovery
- **Raise rates:** Unlikely but not impossible if inflation sharply overshoots — would signal policy reversal, damaging credibility

## STRUCTURAL RESPONSES BEYOND MONETARY POLICY

The editorial argues that India's vulnerability to West Asia shocks reflects structural dependencies that monetary policy cannot fix:

### 1. Energy Diversification

- Accelerate renewable energy transition (reduces crude dependence)
- Expand strategic petroleum reserves (SPR) — India has 5 million tonnes capacity; needs to expand to 30 days of consumption
- Diversify crude suppliers (Russia has become a significant source post-2022 sanctions)

### 2. Rupee Internationalisation

- Invoicing more trade in rupees (as India has attempted with Russia, UAE)
- Reduces USD dependence and currency mismatch in import payments

### 3. Fertilizer Self-Sufficiency

- Domestic urea capacity is reasonable; DAP and MOP still heavily import-dependent
- PM PRANAM scheme incentivises alternative fertilizers — needs acceleration

## UPSC MAINS RELEVANCE

**GS3 — Economy:** Monetary policy transmission, inflation targeting framework, India's energy security, crude oil price impact on macroeconomics.

## UPSC RELEVANCE

~85–88% of consumption imported

### STRAIT OF HORMUZ:

~34 km wide at narrowest; ~20% of global oil trade; ~30% of LNG

### RBI INFLATION TARGET:

4% CPI ( $\pm 2\%$  band); set by Monetary Policy Framework Agreement 2016

### MONETARY POLICY COMMITTEE (MPC):

6 members (3 RBI + 3 external); sets repo rate by majority vote

### CURRENT REPO RATE (POST FEB 2026 CUT):

6.25%

### INDIA'S SPR (STRATEGIC PETROLEUM RESERVE):

~5 million tonnes at Visakhapatnam, Mangaluru, Padur; covers ~10 days

### INDIA-GCC TRADE:

~\$180 billion annually; India is GCC's largest trading partner

### INDIAN DIASPORA IN WEST ASIA:

~9 million workers; remittances ~\$40 billion/year

### RODTEP EXTENSION (APRIL 2026):

Directly linked to West Asia trade disruptions — provides cost relief to exporters

## RELATED DAILY ARTICLES

2 Apr [Current Affairs Today — April 2, 2026](#)

2 Apr [Rare Earth Corridors — India's Critical Minerals...](#)

2 Apr [RoDTEP Scheme Extended — India's Export Tax Remission...](#)

1 Apr [Current Affairs Today — April 1, 2026](#)

**← PREVIOUS EDITORIAL**

**China's 15th Five-Year Plan — Innovation Drive Meets a Debt...**

**NEXT EDITORIAL →**

**Kerala Must Show How an Ageing Population Can Thrive**



CURATED &amp; WRITTEN BY

## Bharat Choudhary

UPSC Educator &amp; Content Creator

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)[Read Full Article on Ujiyari →](#)<https://ujiyari.com/editorials/2026/04/iran-conflict-india-inflation-oil-rbi/>

### ALSO FROM THE CREATOR

## BharatNotes

Free UPSC study platform — subject-wise notes across all 4 GS papers, Prelims MCQs, Mains answer frameworks, PYQ analysis & progress tracking. **100% Free • No Login Required.**

[Start Preparing → bharatnotes.com](http://bharatnotes.com)

### 📌 OPPORTUNITY

## Advertise with Ujiyari

Reach **thousands of serious UPSC & State PCS aspirants** daily through our PDFs, website, and social channels.

**Ideal for:** Coaching institutes • EdTech platforms • Book publishers • Exam prep apps

[✉ epicbharat@gmail.com](mailto:epicbharat@gmail.com)

Write to us for rates & media kit

Free UPSC & State PCS Current Affairs · [ujiyari.com](http://ujiyari.com) · [bharatnotes.com](http://bharatnotes.com)