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EDITORIAL ANALYSIS

Counting the Cost — India's Triple Pressure of Oil, Rupee, and IT Earnings

THE HINDU

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THE EDITORIAL ARGUMENT

Three separate but interlocking pressures are bearing down on the Indian economy this week: Brent crude at **\$106.20 per barrel**, the rupee at **94.25/USD** (logging its steepest weekly fall since September 2022), and India's IT sector announcing earnings guidance cuts that triggered a 5%+ sectoral selloff. Taken individually, each is manageable. Together, they constitute a warning about the structural vulnerabilities that remain unaddressed in India's macroeconomic architecture.

THE OIL SHOCK — FAMILIAR TERRAIN, DIFFERENT SCALE

India imports approximately **85% of its crude oil** — a dependency ratio that has remained essentially unchanged for a decade despite the renewable energy push. When Brent crude rises by 17% week-on-week — as it has in the week ending April 25, driven by renewed US-Iran tensions, Strait of Hormuz shipping disruptions, and OPEC+ production discipline — the consequences are transmitted across the economy at multiple levels.

Every \$10/barrel increase in crude adds approximately **₹0.7/litre** to petrol pump prices (before subsidy adjustments) and **\$15–20 billion** annually to India's oil import bill. It adds an estimated **0.4 percentage points** to CPI inflation. And it widens the **Current Account Deficit (CAD)** — the single most important determinant of rupee stability.

The government has some cushion. India's forex reserves stand at approximately **\$682 billion** — a buffer that gives the RBI room to manage volatility. But reserves are not infinite, and the RBI has been allowing gradual rupee depreciation rather than exhausting its buffer. The question is not whether the RBI can hold the rupee at a particular level — it can, temporarily. The question is whether doing so is optimal when the fundamental driver is a structural import dependence that monetary policy cannot address.

THE RUPEE — TWO TRANSMISSION CHANNELS

The rupee's slide to 94.25/USD is driven by two channels that reinforce each other:

Channel 1 — Real economy. Higher crude prices mean Indian refiners buy more dollars to pay for oil imports. This increased dollar demand puts direct downward pressure on the rupee.

Channel 2 — Financial. FPI (Foreign Portfolio Investment) outflows from Indian equities — driven by JP Morgan's downgrade of Indian equities from 'Overweight' to 'Neutral' and global risk aversion — create further dollar demand as investors exit rupee-denominated assets.

The result is a self-reinforcing dynamic: oil prices rise → CAD widens → FPIs exit → rupee falls → import bill rises in rupee terms → inflation rises → RBI faces a growth-inflation dilemma.

This is precisely the mechanism that made the 2013 taper tantrum and the 2018 oil shock so damaging for India. The structural solution — reducing oil import dependency through accelerated renewable energy deployment and electric vehicle adoption — is well understood and partially underway. But the pace is insufficient relative to the exposure.

THE IT SECTOR — THE OTHER SIDE OF THE LEDGER

India's IT services sector — which earns approximately **\$250 billion annually** in exports — is the principal counterweight to India's oil import bill in the current account. When IT guidance deteriorates, the trade arithmetic changes.

Infosys's FY27 guidance of **4.5–6.5% growth** (below analyst expectations) and HCLTech's **4.5–5.5%** guidance reflect a structural slowdown in US technology spending as American corporations manage their own uncertainty — tariff pressures, banking sector caution, and technology budget freezes. Infosys stock fell **7.1%** on April 25; IT's roughly 13% weight in the Sensex pulled the broader index down 1.3%.

The IT sector's deceleration coincides with the oil shock precisely when the economy needs IT export growth to partially offset the CAD widening from crude. That these two headwinds have materialised simultaneously is not a coincidence — both are consequences of the same underlying geopolitical turbulence in West Asia that has been building for months.

WHAT THIS MEANS FOR POLICY

The RBI's next MPC meeting will face a genuinely difficult choice. Inflation is trending up on energy prices. Growth is moderating. The conventional inflation-fighting response (rate hikes) would further dampen growth. The conventional growth-supportive response (rate cuts) risks rupee depreciation and further inflation. The RBI will likely opt for holding, while using forex reserves judiciously.

The more important policy response is structural, not monetary. India needs to accelerate the pace of renewable energy deployment — not merely to meet climate commitments, but as a crude import substitution strategy. Every gigawatt of domestically generated solar and wind power that displaces oil-fired generation reduces CAD

vulnerability. The National Energy Mission’s 100 GW nuclear target by 2047 is relevant here — the PFBR at Kalpakkam reaching first criticality this month is a step, albeit a very distant one, toward that goal.

In the short term, the Finance Ministry should resist the temptation to use fuel excise cuts as a political cushion — they are fiscally expensive and blunt. Targeted cash transfers to vulnerable households are a better response to an energy shock than subsidised petrol for vehicle owners.

UPSC RELEVANCE

PAPER	ANGLE
GS3 — Economy	Crude oil import dependence; CAD; rupee dynamics; RBI forex management
GS3 — Economy	IT sector; export earnings; structural slowdown
GS2 — IR	West Asia conflict; India’s energy security; Strait of Hormuz

Mains Keywords: Current Account Deficit, Brent crude, rupee depreciation, IT sector, FPI outflows, JP Morgan downgrade, forex reserves, RBI dilemma, West Asia conflict, energy transition

Prelims Facts Corner

ITEM	FACT
Brent crude (April 25)	\$106.20/barrel (+17% WoW)
WTI crude	\$96.77/barrel
Indian rupee	94.25/USD (steepest weekly loss since Sept 2022)
India forex reserves	~\$682 billion (April 2026)
Crude import share	~85% of total crude needs
Infosys stock drop	-7.1% (April 25)
HCLTech drop	-5.8%
IT weight in Sensex	~13%
JP Morgan stance	Downgraded to ‘Neutral’ from ‘Overweight’
Sensex change	Down ~1.3% (April 25)

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