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Structural Shift – India's Declining Sensitivity to Crude Oil Prices

What's the Point?

Crude oil has historically been an important macro variable for India, however, structural changes in the economy have significantly reduced vulnerability to oil price shocks.

Oil imports as a percentage of GDP have fallen from 8.5% to 4.8% over the years.

The share of petroleum products in total imports has fallen, with greater diversification into other products, lowering macroeconomic sensitivity to oil volatility.

Share of investments in renewables has increased from ~23% in 2013-14 to over 40% in 2024-25.

Reducing sensitivity to crude oil prices is positive for India's macroeconomic stability and external balance.

Historically, crude oil has been an important macro variable for the Indian economy. As a net importer of oil, India's growth, inflation, external balance and fiscal dynamics have historically been sensitive to global crude prices. However, over the years, the structure of the Indian economy has evolved meaningfully. Improved energy efficiency, diversification of imports, a rising services sector and policy reforms have reduced the economy's vulnerability to oil shocks.

India's Oil Imports as a % of GDP: A Declining Trend

The relative burden of oil imports on the economy has declined over time. Oil imports which accounted for a much larger share of GDP between 2009-14 has seen a sharp decline. Multiple factors have contributed to a gradual reduction in oil imports as a percentage of GDP.

First, the Indian economy has grown faster than oil consumption, led by services and domestic demand. Second, energy efficiency improvements, substitution toward gas and renewables, and better fuel standards have moderated oil intensity. Third, policy measures such as rationalisation of fuel subsidies and market-linked pricing have improved consumption efficiency. As a result, even when crude prices rise temporarily, the macro impact is less severe than in earlier decades.

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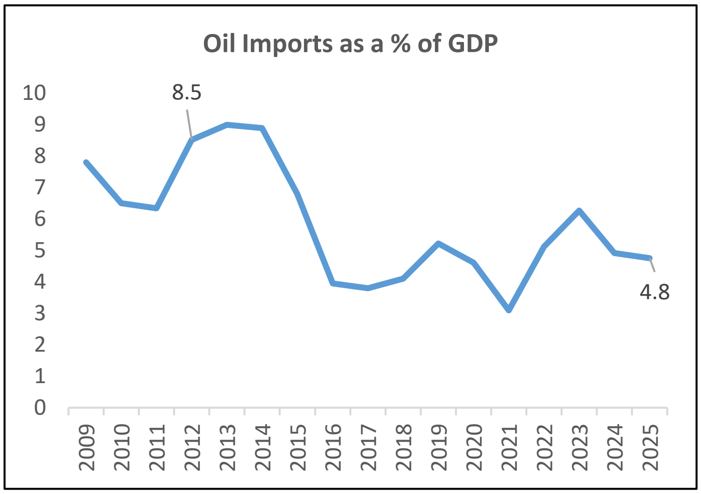


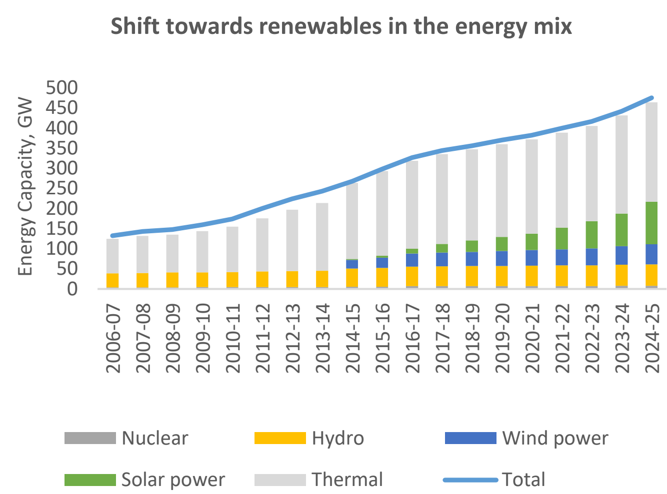
GDP growth at 3.3x vs 2x growth in oil imports

Year	Oil imports (US$ bn)	Nominal GDP (US$ bn)
2009	94	1202
2025	186	3910
Growth	**2.0**	**3.3**

Changing Composition of Import Basket and Shift towards Renewables

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Imports ((US$ mn)	370	489	491	450	448	381	384	465	514	475	394	613	716	674	720
Imports - Petroleum products (US$ mn)	106	155	164	165	138	83	87	109	141	131	83	162	209	179	186
%	29%	32%	33%	37%	31%	22%	23%	23%	27%	28%	21%	26%	29%	27%	26%
Average Oil prices (in $)	110.0	111.0	107.8	93.0	51.1	48.8	56.3	71.6	65.4	39.2	73.7	99.1	81.8	80.0	67.5
CAD as a % of GDP	-2.8	-4.3	-4.8	-1.7	-1.3	-1.1	-0.6	-1.8	-2.1	-0.9	0.9%	-1.2	-2.0	0.0	-0.7

Another important structural shift is that the dominance of oil on India's import basket has been reducing. While crude oil remains significant, India's imports are now more diversified, including electronics, machinery, chemicals, and intermediate goods linked to manufacturing and exports. Petroleum products which accounted for ~37% of total imports in 2014 have reduced to ~26% in 2025. Even in a year like 2022, when crude oil prices were elevated, petroleum imports as a percentage of total imports was relatively low and current account deficit was manageable.



This diversification reflects India's evolving economic structure, with greater integration into global value chains and a rising manufacturing and services base. As a result, the macroeconomic sensitivity to oil price volatility has reduced. Lower oil prices still provide meaningful benefits, but higher prices do not derail growth to the same extent as they once did.

Further, India has significantly invested in alternate forms of energy, such as solar energy, hydroelectricity, wind and so on; with share of investments in renewables increasing from ~23% in 2013-14 to over 40% in 2024-25. Within the auto space, measures such as promoting electric vehicles and mixing of ethanol have also reduced dependency on oil.

Demand Supply Dynamics

The current global backdrop is supportive of relatively benign oil prices. On the supply side, the US has emerged as a major swing producer over the last decade, significantly altering global oil dynamics. US has expanded its oil output, from a low of about 5 million barrels per day (bpd) in 2008 to over 13 million bpd recently, making it the world's largest oil producer.

Additionally, recent geopolitical developments between the US and Venezuela could add incremental oil supply over the medium to long term. While Venezuela currently accounts for only ~1% of global oil production, it holds the world's largest proven oil reserves, estimated at around 300 billion barrels.

On the demand side structural moderation in energy demand growth, driven by electric vehicles, efficiency gains and climate-focused policies, further reduces the risk of sustained oil price inflation. Together, these factors create a favourable environment for oil-importing economies like India.

Conclusion

India's macroeconomic sensitivity to crude oil has declined meaningfully over time, strengthening its external balance. While India remains a net oil importer, oil imports as a share of GDP and total imports have fallen due to faster GDP growth, improved energy efficiency, diversified import composition. Investments in renewables, alternative energy, electric vehicles and ethanol blending have further reduced oil dependence.

In the current global environment of relatively benign oil prices, lower oil import bills help narrow the current account deficit, ease pressure on the rupee, bolster foreign exchange reserves, and helps to provide greater macroeconomic and policy stability.

Sources: CMIE, Bloomberg, Morgan Stanley and other publicly available information

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