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1. India needs to have a good oil hedging policy: Raghuram Rajan

- What is crude oil hedging?
- What is the significance of oil hedging?
- What is the Long-term Strategy to deal Global Oil price Volatility?
- How the rise in crude oil price will affect Indian economy?

GS paper 3 (Infrastructure, Energy)

In this video, you can find detailed answers for all the above questions.

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What is the context about?

- With geo-political factors impacting crude prices, India needs to have a good oil hedging policy as the volatility will continue to rise, Raghuram Rajan said Wednesday.
- “There is a very strong need for an oil hedging mechanism for a country like ours which is so dependent on oil,” Rajan said in a pre-recorded interview.



What is crude oil hedging?

Oil hedging is used to reduce or eliminate a company's exposure to fluctuating oil prices. It is a contractual tool allowing a company to fix or cap an oil price at a certain level or period of time.

What is the significance of oil hedging?

If your company is exposed to oil price fluctuations, oil hedging is a tool that can help to eliminate the risk of your fuel budget getting out of control. Here are a few reasons why to hedge:

- ✓ Oil prices fluctuate - the oil market is extremely volatile
- ✓ Oil expenses represent a large fraction of the operational costs
- ✓ Insurance against price increases
- ✓ Pro-active strategy for budget protection

What is the Long-term Strategy to deal Global Oil price Volatility?

What India needs now is a carefully devised strategy that is not driven by short-termism, but aims to gradually insulate the country from global oil price volatility.

Such a strategy should be centered on three things:

- ✓ Expediting the migration to electric mobility,
- ✓ Expanding the biofuel blending in petrol, and
- ✓ Stimulating exports.

How the rise in crude oil price will affect Indian economy?

Import bill ; India, world's third-largest oil producer after US and China, imports about 1,575 million barrels of crude oil on an annualised basis. India relies more than 80 per cent on imports to meet its oil needs. Every dollar per barrel change in crude oil prices impacts the import bill by Rs 823 crore (\$0.13 billion).

Fiscal math : Every \$10 per barrel rise in the price will worsen India's fiscal balance by 0.1% and current account balance by 0.4% of GDP.

Inflation Concerns: Economy is affected as rise in inflation due to higher prices could lower real disposable incomes of households and therefore hurt consumer discretionary demand.

Fuel prices: Fuel prices primarily of petrol and diesel have been deregulated and are linked to the international crude oil prices. Oil companies will have to raise prices of petrol and diesel on a daily basis.

