

## Economy | Macro-Cap

### Monsoon Diary: Weak rainfall, but reservoirs provide a buffer

- **Cumulative rainfall remains 42% below the long-period average (LPA) as of 24th Jun'26, although the agricultural outlook is partly supported by improving reservoir levels.** Live storage has increased to 33% of total capacity, above the last year's level of 32% and the 10-year average of 24%, providing an important irrigation buffer. Nevertheless, the weakness in rain-fed agriculture is reflected in the sowing pattern, with kharif acreage up 1.7% YoY but cotton (-24.9% YoY) and oilseed (-10.4% YoY) sowing remaining below last year's levels.
- **Weak monsoon is likely to pose a greater risk to inflation than growth.** India's agricultural structure has become more resilient, with the share of crops in agriculture GVA declining to 53% from 63% in FY12, reducing the sensitivity of overall GDP growth to rainfall shocks. However, a 42% rainfall deficit, strengthening El Niño conditions and uneven sowing continue to pose upside risks to food inflation, particularly for pulses, edible oils and vegetables. Given that food accounts for 42% of the rural CPI basket vs. 30% in the urban basket, the inflation shock is likely to be more pronounced for rural households. Accordingly, we continue to forecast real GDP growth of 6.6% and average CPI inflation of 5.2% in FY27, implying an inflation-led rural slowdown rather than a broad-based growth shock.
- **The macro impact is likely to be reflected through weaker rural demand rather than a broad-based slowdown.** A moderation in agricultural incomes could dampen rural consumption, creating headwinds for tractors, entry-level two-wheelers, rural-focused FMCG, agrochemicals, fertilisers, consumer durables and microfinance, while urban premium consumption is expected to remain relatively resilient.
- **The government has adopted a proactive approach to mitigate monsoon-related risks.** The Centre has prepared district-specific contingency plans for over 315 vulnerable districts, particularly across Maharashtra, Gujarat, Madhya Pradesh, Chhattisgarh, Telangana, Karnataka, Bihar and Uttar Pradesh, while promoting short-duration and drought-tolerant crop varieties, ensuring seed availability for re-sowing, encouraging crop diversification, and strengthening irrigation and water conservation measures to minimize production losses.
- **The monsoon will determine the RBI's policy path.** If deficient rainfall persists and food inflation pushes headline CPI materially above our FY27 forecast of 5.2%, triggering second-round inflationary effects, we see a possibility of up to 50bp of cumulative RBI rate hikes (at 5.75%) from Oct'26. However, if monsoon activity normalises during July and inflation pressures remain contained, the RBI is likely to keep policy rates unchanged (at 5.25%).

**Rainfall Deficit**  
**-42%**

As of 24<sup>th</sup> Jun'26

**CPI Inflation FY27E**  
**5.2%**

vs. RBI's estimate of 5.1%

**Kharif Sowing**  
**1.7% YoY**

As of 18<sup>th</sup> Jun'26

**Crude Oil FY27E**  
**USD 85/barrel**

Decreased from USD95/barrel post ceasefire

**Reservoir Levels**  
**33%**

Higher than last year and decadal avg.

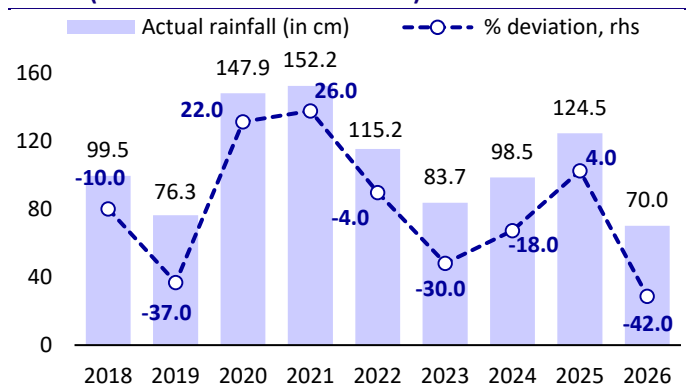
**Real GDP Growth FY27E**  
**6.6% YoY**

Similar to RBI's estimate

### Southwest monsoon has made its weakest start in several years

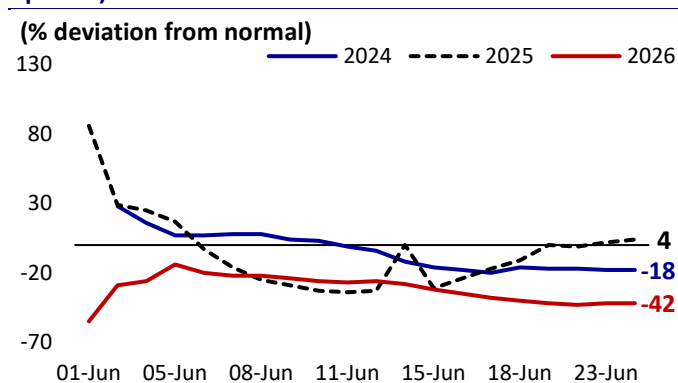
- The southwest monsoon has made a weaker-than-expected start in FY27, raising concerns over the outlook for agricultural production after two consecutive years of favorable rainfall. The southwest monsoon has made its weakest start in several years, with cumulative rainfall 42% below the LPA as of 24th Jun'26. The rainfall deficit has been widespread but most severe in Central India (-59% below LPA), followed by East & Northeast India (-41%), while Southern Peninsula (-28%) and Northwest India (-22%) have fared relatively better.
- Of India's 36 meteorological subdivisions, 24 have recorded deficient to large deficient rainfall, indicating that the weakness is broad-based rather than confined to a few pockets.
- Rainfall deficiency has been concentrated across several key agricultural states, increasing risks to kharif production. Gujarat (-74%), Maharashtra (-63%), Chhattisgarh (-65%), Madhya Pradesh (-50%), Uttar Pradesh (-50%), Bihar (-46%), and Karnataka (-40%) and Telangana (-32%) have witnessed significant rainfall deficits, while Rajasthan (+20%) has recorded above-normal rainfall. The most affected states account for a substantial share of India's production of soybean, cotton, pulses and oilseeds.
- Despite the poor start, it is important to note that an early rainfall deficit does not necessarily imply a weak monsoon season. A similar pattern was witnessed in 2024, when nearly two-thirds of meteorological subdivisions had recorded deficient rainfall by late June before monsoon activity strengthened sharply, eventually ending the season at 108% of LPA. Current weather forecasts also suggest that monsoon activity is likely to improve over the coming weeks, although the timing and spatial distribution of rainfall will remain critical for crop outcomes.

**Exhibit 1: All-India rainfall is 42% below normal as of 24th Jun'26 (vs. 4% above normal in 2025)**



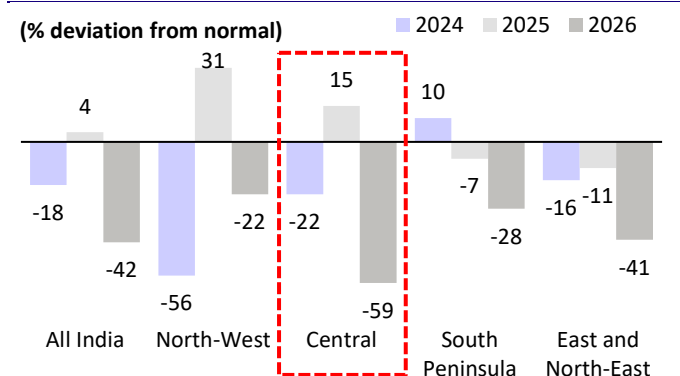
Data as of 24th June for all years

**Exhibit 2: This is even lower than 2024 levels (last El Nino episode)**



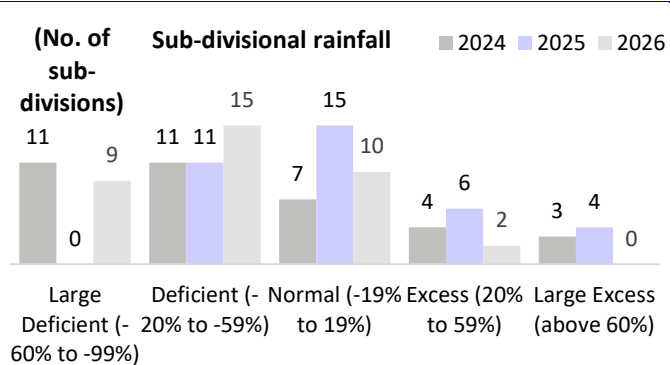
Source: IMD, CEIC, MOFSL

**Exhibit 3: Central India received large deficient rainfall as of 24th Jun'26**



Data as of 24<sup>th</sup> June for all years

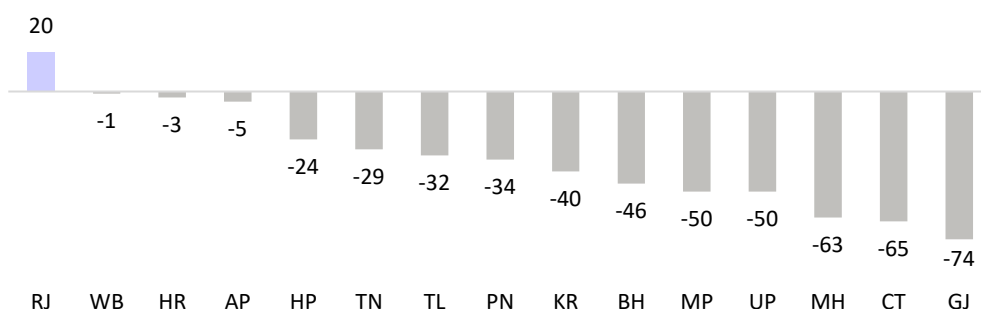
**Exhibit 4: 24 sub-divisions received deficient and large deficient rainfall**



Source: IMD, CEIC, MOFSL

**Exhibit 5: Rainfall deficiency persists across majority of the agrarian states**

Rainfall in major agrarian states (% deviation from normal)

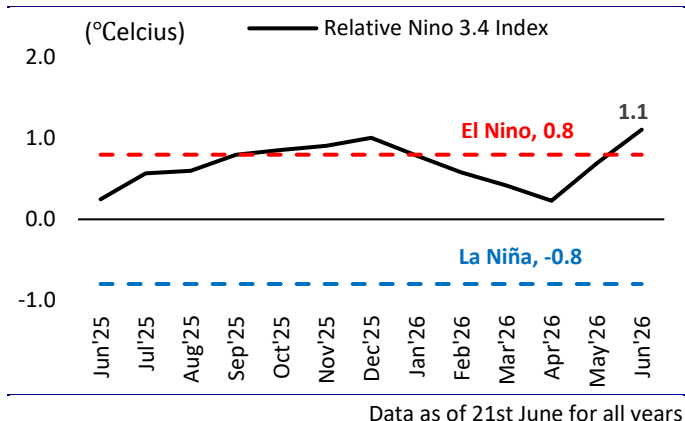


Data as of 24<sup>th</sup> June for all years

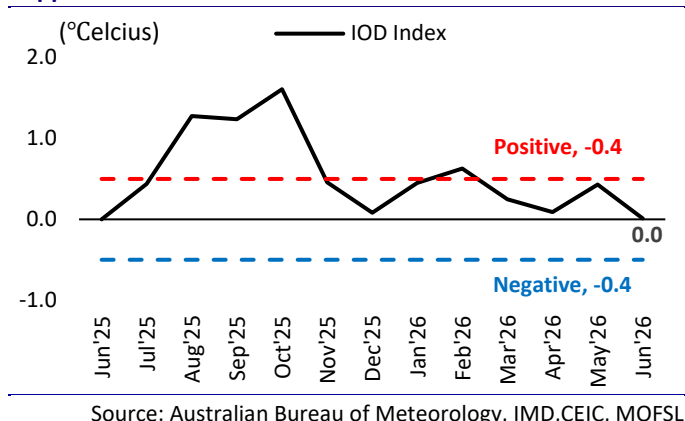
### El Niño intensifies while monsoon progress stalls

- The subdued monsoon has largely been driven by unfavourable global weather conditions. El Niño has strengthened further, with the Niño 3.4 index rising to 1.11 as of 21<sup>st</sup> Jun'26, signaling an intensifying warming phase that typically suppresses rainfall over the Indian subcontinent.
- At the same time, the Indian Ocean Dipole (IOD) remains neutral (0.01), providing little support to offset the adverse influence of El Niño. According to meteorological assessments, the temporary pause in monsoon progression has been caused by the absence of strong low-pressure systems over the Bay of Bengal, weaker cross-equatorial moisture flows and persistent atmospheric circulation patterns that have inhibited widespread rainfall across central India.
- A prolonged weak phase during June is particularly significant because it coincides with the beginning of the kharif sowing season. Rainfall during this period determines soil moisture conditions, germination and crop establishment. While rainfall during July can partially compensate for an early deficit, delayed sowing often shortens the crop cycle and adversely affects yields, particularly for rain-fed crops.

**Exhibit 6: Relative Nino index stood at 1.1 (higher than 0.8) as of 21st Jun'26**



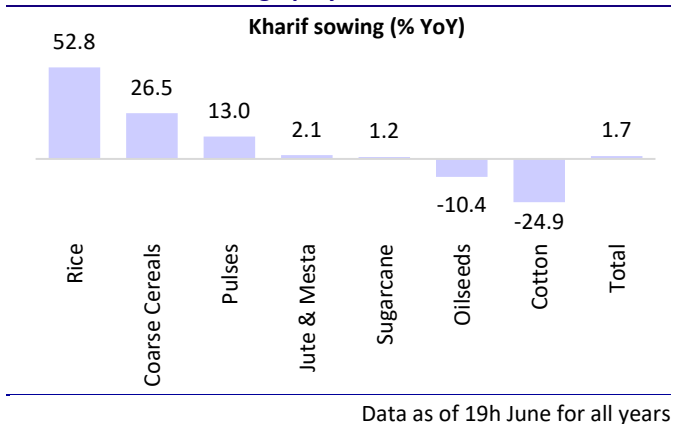
**Exhibit 7: IOD index remained neutral, providing little support**



### Farmers delay sowing amid uncertain rainfall

- Although aggregate kharif sowing has remained resilient so far, field-level reports suggest that farmers have become increasingly cautious. In several districts of Maharashtra, farmers have deliberately postponed sowing despite receiving isolated pre-monsoon showers, preferring to wait for sustained rainfall before planting. This reflects concerns that sowing into dry soils could lead to poor germination and force expensive re-sowing if dry weather persists. Such behavior is typical during weak monsoon years and often results in compressed sowing windows, lower productivity and shifts toward shorter-duration crop varieties.
- **Official sowing data as of 19th Jun'26 show that total kharif acreage stands at 12 million hectares, about 1.7% higher than last year.** However, the aggregate data masks considerable divergence across crops. Rice acreage has increased by 52% YoY, while coarse cereals and pulses have also reported healthy gains. In contrast, acreage under cotton has declined by nearly 25% and oilseed sowing is lower by around 10%, reflecting delayed planting in rain-fed regions. The eventual sowing pattern will, therefore, depend heavily on rainfall during the remainder of June and the first half of July.

**Exhibit 8: Kharif sowing up by 1.7% as of 19th June 2026**



**Exhibit 9: Cotton and oilseeds sowing sharply lower vs. last year**

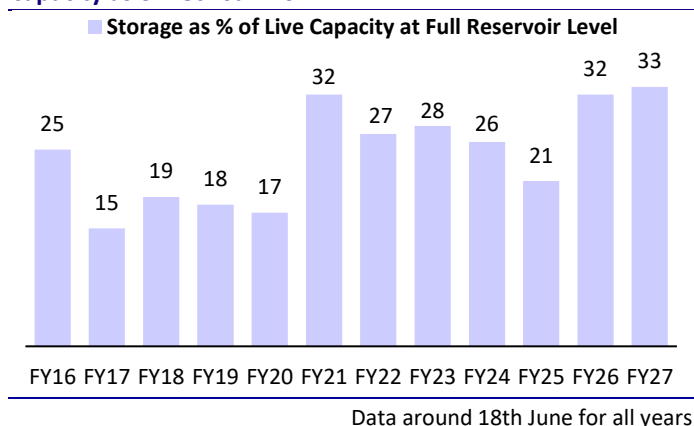
| % YoY          | 21-Jun-24 | 20-Jun-25 | 19-Jun-26 |
|----------------|-----------|-----------|-----------|
| Rice           | -22.3     | -3.4      | 52.8      |
| Coarse Cereals | -20.0     | -33.5     | 26.5      |
| Pulses         | 1.3       | -3.8      | 13.0      |
| Jute & Mesta   | -2.7      | 8.4       | 2.1       |
| Sugarcane      | 8.1       | 3.2       | 1.2       |
| Oilseeds       | -40.4     | 47.4      | -10.4     |
| Cotton         | 3.9       | -21.6     | -24.9     |
| Total          | -3.6      | -5.6      | 1.7       |

Source: IMD,CEIC, MOA&FW, MOFSL

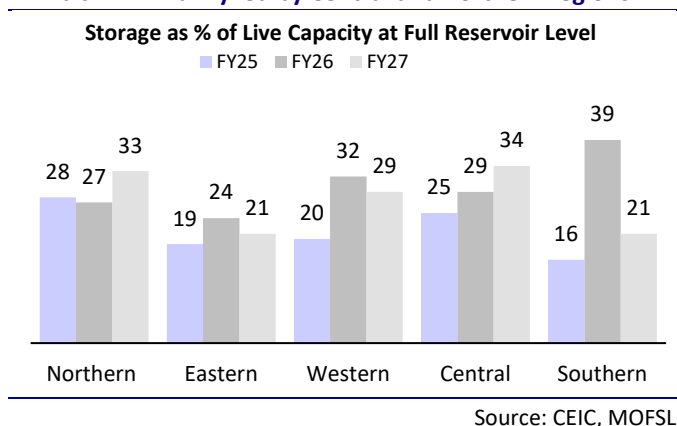
### Reservoir levels offer a better starting position

- Water availability has improved following the recent revival in monsoon activity. As of 18<sup>th</sup> Jun'26, live storage across India's major reservoirs has risen to 33% of total capacity, marginally higher than the corresponding period last year (32%) and comfortably above the 10-year average of 24%. The improvement in reservoir levels provides an important buffer for the ongoing kharif season by supporting irrigation during temporary breaks in the monsoon and reducing near-term risks to crop development.
- However, regional disparities in water availability remain significant. Reservoir storage continues to be relatively comfortable in the Central (34%) and Northern regions (33%), while parts of Eastern (21%) and Southern India (21%) continue to lag due to weaker rainfall.
- Although the recent improvement has reduced immediate concerns over irrigation availability, sustained rainfall through July will be essential to replenish reservoirs further and ensure adequate water availability during the critical flowering and grain-filling stages of the kharif crop cycle. A prolonged rainfall deficit from this point onward could still constrain irrigation support, particularly in rain-fed regions with limited alternative water sources.

**Exhibit 10: Water reservoir levels at 33% of live storage capacity as of 18th Jun'26...**



**Exhibit 11: ...mainly led by Central and northern regions**



### Government activates contingency plans

- The Centre has intensified Kharif preparedness amid a delayed southwest monsoon and emerging El Niño risks, with cumulative rainfall currently ~42% below normal and forecasts indicating continued weakness in the near term. The government has identified 315 potentially affected districts, including 111 high-priority districts with irrigation coverage below 25%, and has prepared district-specific contingency plans covering alternative cropping patterns, crop diversification, water management and risk mitigation measures. Particular emphasis is being placed on water conservation through repair of ponds, reservoirs, check dams and other harvesting structures, while states have been advised to prioritize drinking water availability in vulnerable regions. Farmers are being encouraged to shift toward short-duration, low-water crops, including pulses, millets and oilseeds, to reduce dependence on rainfall and minimize production risks.
- To limit the impact of a weak monsoon on agricultural activity, the government has ensured adequate availability of seeds, fertilizers and additional seed reserves for potential re-sowing requirements, while scientific advisories will be disseminated through 731 KVKs and digital platforms. Preparations are also

underway to address possible fodder shortages through advance stocking and supply-chain planning. Farmer support will be strengthened through PMFBY, KCC and PM-KISAN, while dedicated monitoring mechanisms, including an El Niño Monitoring Cell, Crop Weather Watch Group and multi-tier coordination framework, will track monsoon progress, crop conditions and input availability. Despite weather-related risks, the government remains confident of achieving the Kharif 2026 food grain production target of ~176 MT and maintains that comfortable rice and wheat buffer stocks limit immediate food security concerns, although the outlook remains dependent on monsoon performance during the critical sowing period.

## Exhibit 12: Policy measures to address monsoon risks

| Theme                                                      | Interpretation                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Weak Monsoon Scenario and Potential Impact</b>          | ❖ The government has formally acknowledged rising downside risks to Kharif output due to a delayed and deficient southwest monsoon (~42% below normal rainfall so far). Rainfed agriculture remains the primary vulnerability, with potential implications for crop production, rural incomes and food inflation if rainfall deficits persist. |
| <b>Identification of 315 Vulnerable Districts</b>          | ❖ Risk assessment has identified 315 districts susceptible to rainfall shocks, with vulnerability largely concentrated in low-irrigation regions. This indicates that monsoon risk is expected to be geographically concentrated rather than nationwide, allowing targeted policy intervention.                                                |
| <b>District Agriculture Contingency Plans (DACPs)</b>      | ❖ The government is moving from a reactive to a pre-emptive risk-management approach through district-level contingency planning. The objective is to reduce production losses by tailoring crop and water management strategies to local agro-climatic conditions.                                                                            |
| <b>Water Conservation and Irrigation Management</b>        | ❖ Policy emphasis is shifting toward preserving available water resources and strengthening irrigation resilience. The focus on water harvesting and storage infrastructure seeks to mitigate production losses in moisture-stressed regions and improve drought preparedness.                                                                 |
| <b>Crop Strategy: Diversification and Low-Water Crops</b>  | ❖ The Centre is encouraging a shift away from water-intensive cropping patterns toward shorter-duration and drought-resilient crops such as pulses, millets and oilseeds. This strategy aims to stabilize production and farmer incomes under adverse monsoon conditions.                                                                      |
| <b>Seeds, Fertilisers and Input Availability</b>           | ❖ The government has sought to minimize supply-side constraints by ensuring adequate availability of seeds and fertilizers. Additional seed reserves indicate preparedness for delayed sowing and potential re-sowing requirements.                                                                                                            |
| <b>Scientific Advisory and Information Dissemination</b>   | ❖ Enhanced use of agrometeorological advisories reflects efforts to improve farm-level decision-making and reduce weather-related production risks through timely dissemination of scientific information.                                                                                                                                     |
| <b>Livestock and Fodder Preparedness</b>                   | ❖ The policy response extends beyond crops to livestock, recognizing that prolonged rainfall deficiency could affect fodder availability and rural livelihoods. Advance planning seeks to limit secondary impacts on the livestock sector.                                                                                                     |
| <b>Farmer Financial Safety Nets (PMFBY, KCC, PM-KISAN)</b> | ❖ The government is relying on a combination of crop insurance, institutional credit and direct income support to cushion farmers against income shocks arising from weather-related disruptions.                                                                                                                                              |
| <b>Monitoring and Governance Framework</b>                 | ❖ Establishment of dedicated monitoring cells and multi-tier coordination mechanisms suggests heightened policy vigilance. Continuous monitoring is intended to enable timely interventions as monsoon conditions evolve.                                                                                                                      |
| <b>Production Targets and Food Security</b>                | ❖ Despite monsoon concerns, the government remains confident about achieving its Kharif production target of ~176 MT, supported by comfortable cereal buffer stocks. This suggests limited near-term food security concerns, although production risks remain contingent on rainfall outcomes.                                                 |
| <b>Overall Policy Message</b>                              | ❖ The government's strategy reflects a proactive risk-mitigation framework aimed at minimizing the impact of a potential El Niño-induced monsoon shortfall through targeted interventions in water management, crop planning, input supply and farmer support.                                                                                 |

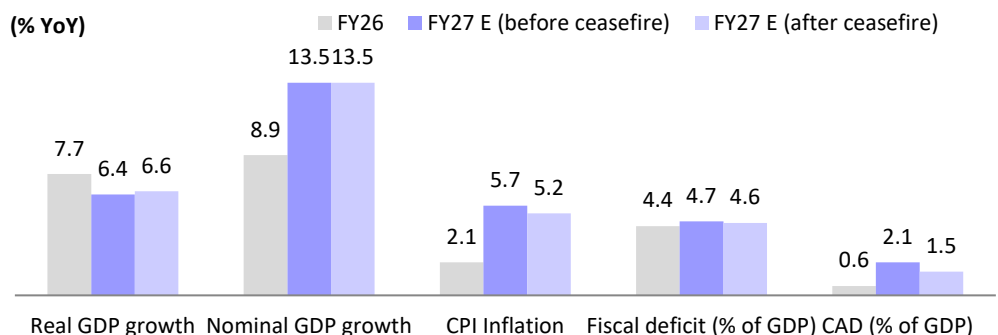
Source: CEIC, MOFSL

## Macro implications: Inflation-led rural slowdown

- The weak start to the southwest monsoon has increased downside risks to agricultural growth, although it is still premature to conclude that FY27 will witness a severe production shock. As seen in 2024, rainfall deficits in June can narrow considerably if monsoon activity strengthens in July. Nevertheless, the combination of a 42% rainfall deficit, strengthening El Niño conditions and uneven rainfall distribution has narrowed the margin for error, making the next four to six weeks critical for the agricultural outlook.

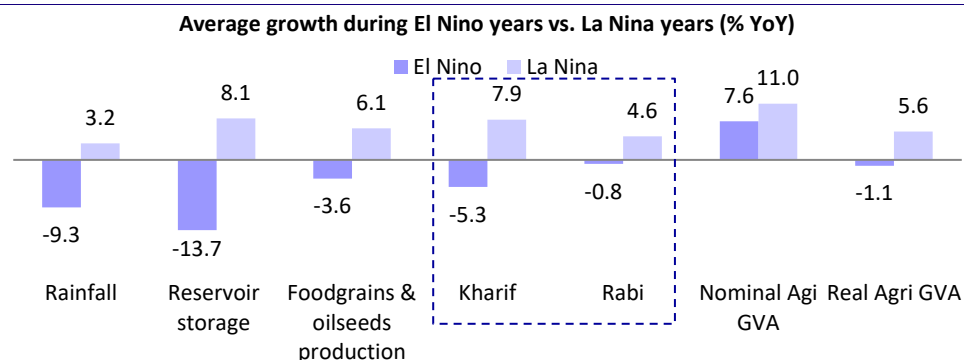
- While reservoir storage has improved to 33% of total capacity—above last year's level (32%) and the 20-year average (24%)—providing an important cushion for irrigation, sustained monsoon rainfall over the coming weeks remains essential for further replenishment. As seen in 2024, June rainfall deficits can reverse quickly if monsoon activity strengthens during July.
- Agriculture contributes around 15-16% of India's GVA but supports nearly half of the country's workforce. Consequently, weaker rainfall could moderate agricultural GVA growth by delaying sowing, reducing yields and weighing on farm incomes.
- Historically, agriculture GVA has tracked monsoon performance closely, with deficient rainfall years typically associated with weak or negative agricultural growth, while normal-to-above-normal monsoon years have generally delivered agriculture GVA growth of around 4-5%. However, the structural composition of Indian agriculture has changed significantly over the past decade, making the sector relatively less vulnerable to weather shocks. The share of crop production in agriculture GVA has declined to ~53% from 63% in FY12, while livestock, fisheries and other allied activities now account for a much larger share of agricultural output. As a result, a given rainfall shock translates into a smaller drag on overall GDP today than it did during the 2000s, although its impact on rural incomes and food inflation remains significant.
- This is likely to soften rural consumption, particularly in rain-fed regions, creating headwinds for tractors, entry-level two-wheelers, rural-focused FMCG, agrochemicals, fertilisers, consumer durables and microfinance. However, a meaningful improvement in rainfall in July could still mitigate part of these risks.
- In contrast, sectors driven primarily by urban demand—including premium discretionary consumption, organized retail, travel, hospitality, wealth management and premium housing—are expected to remain relatively resilient.
- From a macroeconomic perspective, inflation remains a larger concern than growth. Food inflation is likely to be driven by pulses, oilseeds, vegetables and other weather-sensitive commodities, while comfortable stocks of rice and wheat should help to contain cereal inflation through timely government intervention.
- The inflation shock is also likely to be disproportionately larger for rural households. Food accounts for nearly 42% of the rural CPI basket, compared with around 30% of the urban CPI basket. Consequently, the same monsoon-induced increase in food prices translates into a significantly larger rise in rural inflation, eroding real wages and household purchasing power. This deterioration in real rural incomes, rather than the direct loss in agricultural output alone, is likely to be the principal channel through which a weak monsoon dampens rural consumption and discretionary spending.
- We continue to expect real GDP growth of 6.6% in FY27 and average CPI inflation of 5.2%, implying an inflation-led rural slowdown rather than a broad-based growth shock.
- The RBI's policy response will ultimately depend on the evolution of the monsoon and food inflation. If El Niño intensifies and headline CPI moves materially above our FY27 inflation forecast, we see the possibility of up to 50bp of cumulative rate hikes from Oct'26. Conversely, if rainfall normalises during July and inflation pressures remain contained, the RBI is likely to keep the policy rate unchanged.

**Exhibit 13: Macro outlook improves post ceasefire but El Nino remains a concern**



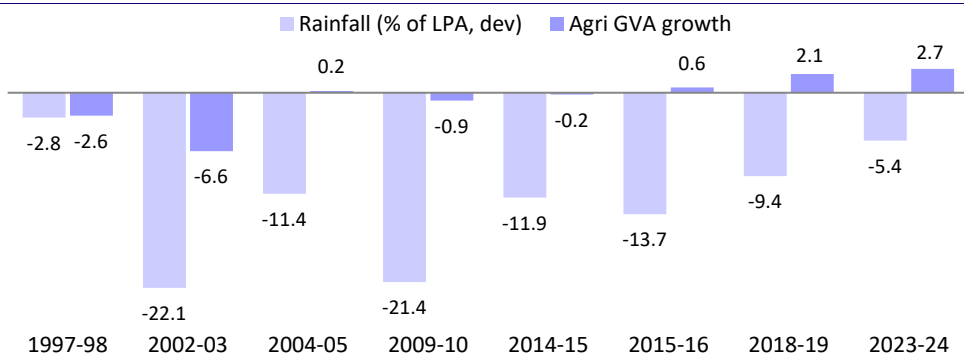
Source: MOFSL

**Exhibit 14: Average growth during El Nino years vs. La Nina years (% YoY)**



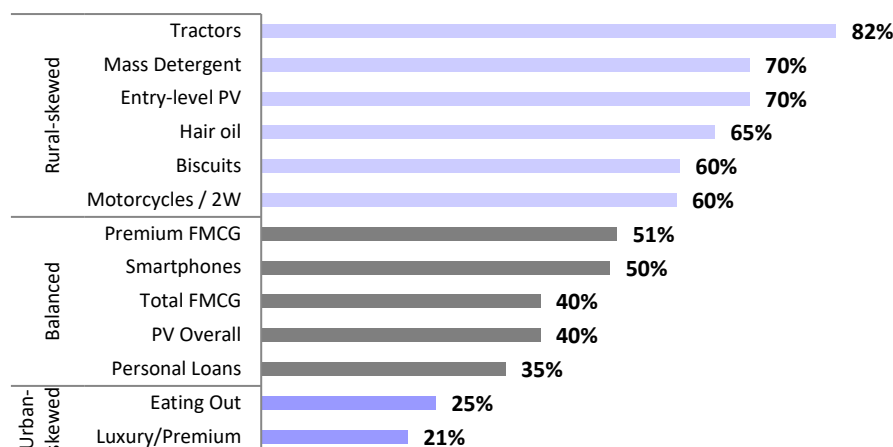
Source: MOFSL

**Exhibit 15: Rainfall deficits beyond 10% bite, but milder shortfalls don't**



Source: MOFSL

**Exhibit 16: Rural share of category volumes (%)**



Source: MOFSL

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|----------------------------------|----------------------------------------------------------------------------------------------|
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