SBI Research

Prelude to MPC Meeting: October 5-7, 2026

Amidst an impending global turmoil that may rip aside emerging markets with US yields at 25 year high and destined for even higher levels, RBI set to BEGIN first of the rate hikes by 25 bps (At Least?) in October policy; (At Least) Exchange rate needs immediate protective guardrails to thwart speculation

Issue # 22, FY27 Date: 02 October 2026

Please see the last page for disclaimer

October Policy Meet…..RBI to raise rates by 25 bps AT LEAST even as global macros looks poised for a turmoil ….. 1/2

- **We believe the balance of risks has tilted decisively towards a 25-bps rate hike at this juncture.... a combination of broadening inflationary pressures, worsening global macros, evolving liquidity conditions and a renewed global repricing of risks is making the case for pre-emptive action stronger**
  - Firstly, the global environment argues against waiting.... South Korea and the Philippines raised rates in August, followed by the US, Japan, Euro area and New Zealand in September, amid renewed inflationary risks. With geopolitical tensions, crude-price risks and global repricing of risks, it would be prudent for us to rather act pre-emptively than being behind the curve
  - Secondly, inflation is becoming increasingly broad-based…CPI inflation rose to 4.82% in Aug'26 from 4.45% in Jul'26, while our analysis shows a clear generalization of price pressures....with a possibility of pass through in future

- Rupee, caught in a downward spiral as shown by rapid decline, and strengthening of Dollar Index, in part driven by higher demand from OMCs and select Corporates, heavy demand from a bevy of Foreign Banks and constant pressure from FPI selling since last Friday ($4.45 Bn)... as it slouches towards the figure level of 97 **the conviction in RBI's ability to meaningfully intervene and thwart speculative forces would be litmus test of its, and nation's, innate strength.. Yields are also likely to move much higher….**

- **Even as rate hike looks imminent, the monsoon story deserves attention**...The 2026 monsoon was the 4th driest since 2000, at just 87% of LPA, with 43% of districts receiving deficient rainfall. Punjab and Bihar received 41% and 32% below-normal rainfall, respectively, while Maharashtra has declared drought across 265 talukas. With low irrigation coverage for crops such as soybean, tur, jowar and bajra, rainfall dependence remains high.... **while strong El Niño conditions and below-normal October rainfall could pose further risks to Rabi output**

October Policy Meet…..RBI to raise rates by 25 bps AT LEAST even as global macros looks poised for a turmoil….. 2/2

- **Fourthly, liquidity is high in headline terms, but effective liquidity creation is much lower under the hood**.... Despite record $143.5 bn forex inflows under the special swap facility, regulatory requirements (CRR/SLR/LCR) constrain the deployment of incremental deposits. **We estimate that to support an estimated 16% credit growth for FY27 / loans create deposits there will still be a gap of Rs 8.2 lakh crore in deposit creation by banks because of regulatory dispensation, UPI & Sparsh requirements. Hence, going forward system liquidity will automatically adjust and there is no need for additional maneuvering**

- We believe, an estimated Rs 4 lakh crores of additional cash is floating in the system on account of RBI regulation in April 2025 that has mandated 90% of all ATMs will dispense notes of smaller denomination like Rs 100/200

- The Maharashtra Government has officially declared a drought on September 26, 2026, across 265 of the state's 358 talukas (covering roughly 74–75% of the state) due to ~19% overall rainfall deficit and prolonged dry spells lasting 21 days or more during the Kharif season. **Major crop losses have hit rain-fed crops like soybean, cotton, moong, urad, and sugarcane… We believe the chaotic rain pattern (Drought as also Floods) may nudge many other States to revisit their contingency / Disaster management plans**

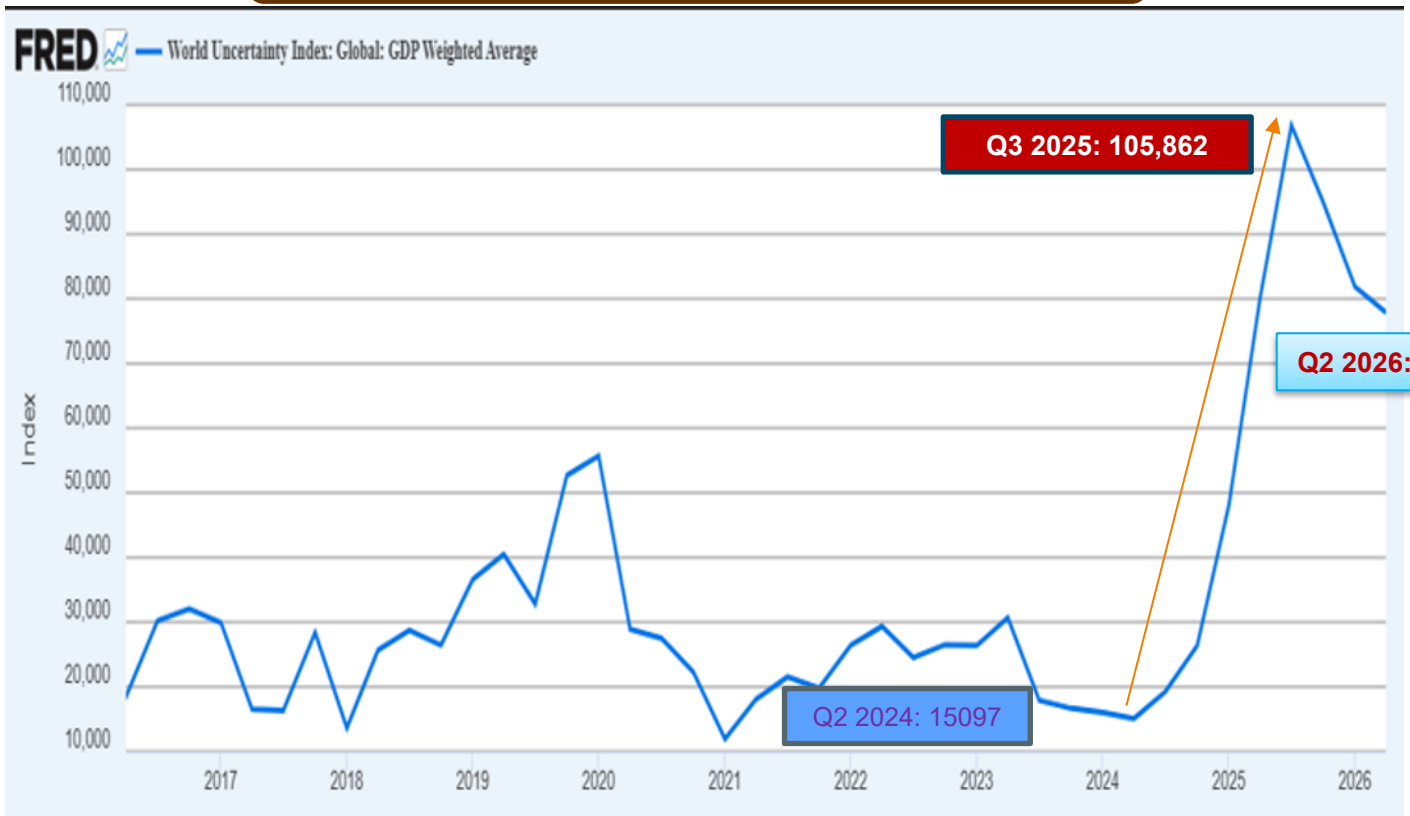
- **While India need not press the PANIC BUTTON as of now**, Policy Makers and Regulators would do well to brace for an eventuality where evolving macros force resorting to some unconventional **rate measures** to safeguard broader interests

- **We also expect RBI to upgrade the GDP forecasts upwards by 30 bps and inflation forecast by 20 bps for FY27…..**

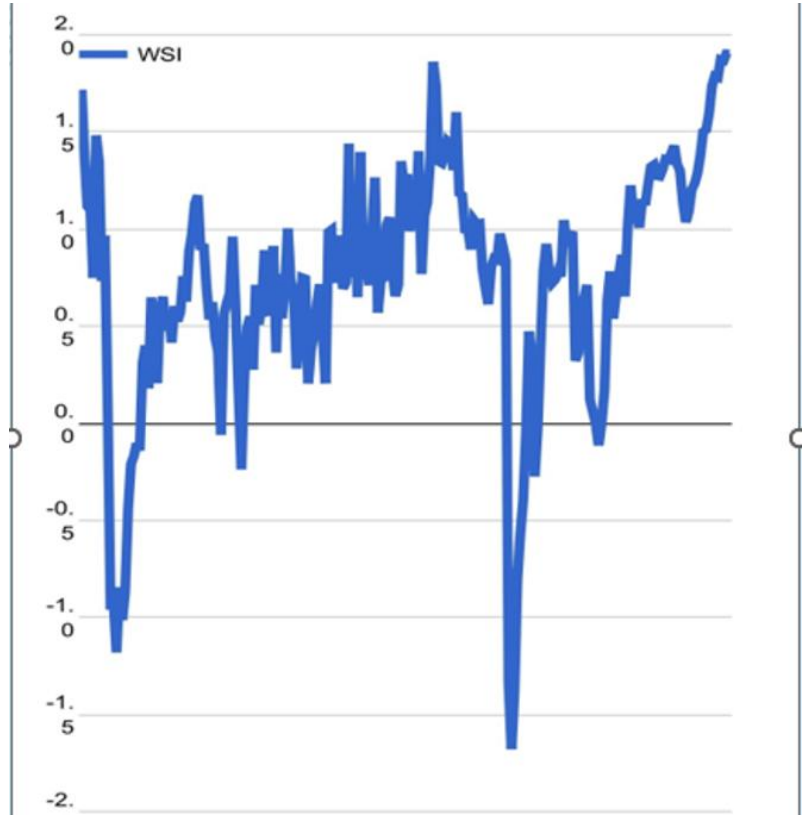
Global Economy

The Tales & Travails of Global Uncertainties witnessing Quantum Jump….

World Uncertainty Index



World Sentiment Index



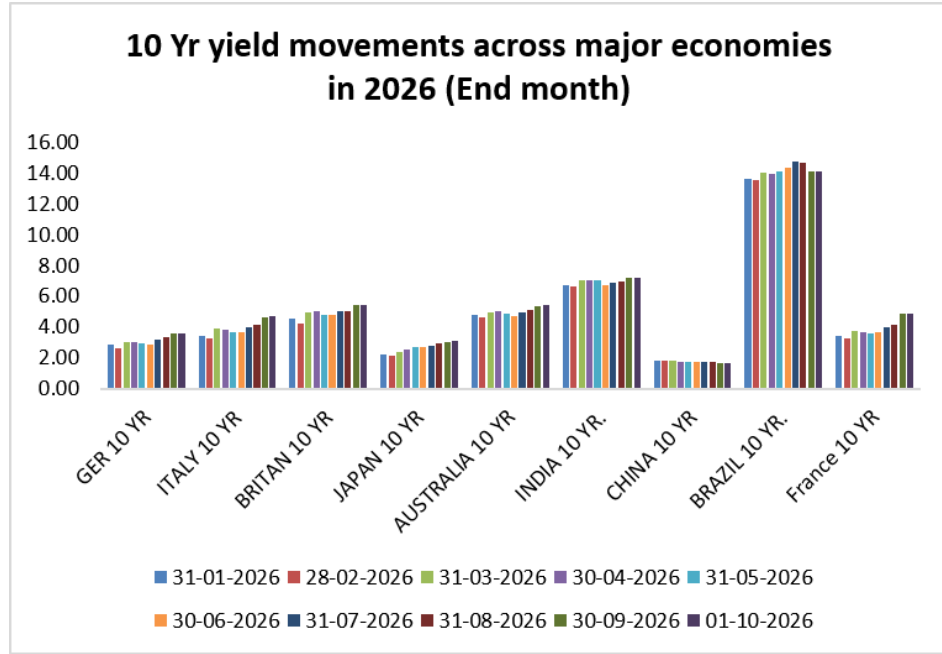
The World Uncertainty Index (WUI), tracking economic and political uncertainty across 143 countries, determines 'uncertainty' using the frequency of the self-same word in the quarterly Economist Intelligence Unit (EIU) country reports and has been on a roil since Q2' 2024 with a change in realpolitik anchoring its homerun. The WSI quantifies the overall sentiment by considering the occurrence of positive and negative words in the EIU country reports (net difference normalised) and has been embracing volatility through rapid vortexes

Source: St Louis Fed, SBI Research

The Costs of ‘Repricing of Risks’ are galloping to Uncharted Highs

Benchmark Yields remain ‘On-the-Run’

BENCHMARK YIELD MOVEMENT MAJOR ECONOMIES



US 10 Y yield (5.33% on 30th Sep), the most crucial gauge of global risk-reward matrix, has vaulted through the roof (YTD), tearing through all key resistance levels as global uncertainties deepen materially pressed by concerns that persistent energy-driven inflation could prompt tighter monetary policy while national debts slouch towards unsustainable levels… Most major economies revisit financing costs as interest servicing pains rise

Will the Fed remain Quiet…. How it says, What it needs to say

Warsh Led Fed: the rate path is a credibility referendum, with an embedded Endgame centricity (June'2025)

Sticky inflation

Iran shock + tariffs + services → fewer cuts, more term premium

Higher neutral-rate debate

2.5–3% growth + AI capex pulls r* higher; household fragility pulls it lower

Detached yields

Long yields and consumer rates tighten without a formal hike

A "Quiet Fed" does not mean a Quiet Market: less guidance transfers the forecasting burden to bonds, FX and credit markets pricing unevenly…..

FOMC arithmetic

Warsh needs a majority; rotations change the coalition each year

Dollar-tech loop

Hawkish Fed → strong dollar → global liquidity drain; AI capex still attracts capital

RealPolitik

Midterms make hikes costly; inaction risks credibility and inflation psychology

In our June'2026 report, we had anticipated Markets getting Noisy, despite the Fed getting Quiter, forcing the Fed to listen to street's shrill tunes… With inflation expectations increasingly getting entrenched and a muddled jobs market, rate hike expectations can be a self-fulfilling fallacy as yields across papers indicate

Communication, increasingly, has become monetary policy unto itself

Modern central banks move the economy partly by moving expectations. The question is whether Warsh is pruning noise — or removing the map in a storm.

> **Forward guidance is not one language. It can be a commitment, or merely a forecast.**
>
> Campbell et al. distinction: Odyssean vs Delphic

Central bank	Style cue	Risk
Fed post-2012	Dots + SEP + pressers	Over-precision
ECB	Consensus-forward phrasing	Translation lag
BoE	Inflation Report + fan charts	Forecast humility
BoJ	Commitment at ZLB	**Exit confusion**
Warsh Fed	Statement minimalism	**Market fills blanks**

ODYSSEAN VS DELPHIC

ODYSSEAN Commitment to future reaction	DELPHIC Forecast of likely path
Powerful when credibility is high; dangerous if the economy changes and the central bank looks trapped.	Useful as a map; markets can mistake forecasts for promises and punish revisions.
Warsh's pivot: less path guidance, more "reaction function" ambiguity.	

Delphic: predictive or Odyssean: commitment-based

it is crucial to distinguish between an **intended** commitment by the central bank and a **perceived** commitment by the markets as Christopher S. Sutherland argues

Returns are hitherto driven by Select Equities Markets.... If Debt Yield spikes further, Equities face the Heat

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Annualised
China equities 54.3%	Cash 1.9%	U.S. equities 31.6%	China equities 29.7%	Commodities 38.5%	Commodities 22%	U.S. equities 27.1%	U.S. equities 25.1%	Europe equities 36.3%	Commodities 40.8%	U.S. equities 15.4%
EM equities 37.8%	DM gov. debt -0.4%	Infrastructure 27%	U.S. equities 21.4%	REITs 32.5%	Cash 1.3%	Japan equities 20.8%	China equities 19.7%	EM equities 34.4%	EM equities 24.4%	Commodities 11.3%
Europe equities 26.2%	IG credit -3.5%	Europe equities 24.6%	EM equities 18.7%	U.S. equities 27%	Infrastructure -0.2%	Europe equities 20.7%	Commodities 18.4%	China equities 31.4%	Japan equities 21.1%	Europe equities 10.4%
Japan equities 24.4%	High yield -4.1%	REITs 24.5%	Japan equities 14.9%	Europe equities 17%	High yield -12.7%	High yield 14%	Infrastructure 15.1%	Japan equities 25.1%	U.S. equities 13%	Japan equities 10%
U.S. equities 21.9%	U.S. equities -4.5%	China equities 23.7%	IG credit 10.1%	Infrastructure 11.9%	Europe equities -14.5%	REITs 11.5%	High yield 9.2%	Infrastructure 22.6%	Europe equities 11.7%	EM equities 9.7%
Infrastructure 20.1%	Emerging debt -4.6%	Japan equities 20.1%	DM gov. debt 9.5%	Japan equities 2%	IG credit -16.1%	Emerging debt 10.5%	Japan equities 8.7%	U.S. equities 17.8%	REITs 11.7%	Infrastructure 8.7%
High yield 10.4%	REITs -4.8%	EM equities 18.9%	High yield 7%	High yield 1%	Japan equities -16.3%	EM equities 10.3%	EM equities 8.1%	Emerging debt 13.5%	Infrastructure 7.7%	High yield 5%
Emerging debt 9.3%	Infrastructure -9.5%	Emerging debt 14.4%	Europe equities 5.9%	Cash 0%	Emerging debt -16.5%	IG credit 10.2%	Emerging debt 5.7%	High yield 12.1%	High yield 2.9%	REITs 4.7%
IG credit 9.3%	Commodities -10.7%	High yield 12.6%	Emerging debt 5.9%	Emerging debt -1.5%	DM gov. debt -17.5%	Infrastructure 6.8%	Cash 5.3%	IG credit 10.3%	Cash 2.4%	China equities 4.3%
REITs 8.6%	Japan equities -12.6%	IG credit 11.8%	Cash 0.7%	IG credit -2.1%	U.S. equities -19.5%	Cash 5.1%	REITs 3.9%	REITs 8.9%	Emerging debt 2.2%	Emerging debt 3.1%
DM gov. debt 7.3%	EM equities -14.2%	Commodities 11.8%	Infrastructure -5.8%	EM equities -2.2%	EM equities -19.7%	DM gov. debt 4.2%	Europe equities 2.4%	DM gov. debt 6.8%	IG credit 0%	IG credit 2.5%
Commodities 1.7%	Europe equities -14.3%	DM gov. debt 5.6%	REITs -8.1%	DM gov. debt -6.6%	China equities -21.8%	Commodities 0%	IG credit 1.9%	Commodities 5%	DM gov. debt -0.9%	Cash 2.4%
Cash 0.8%	China equities -18.7%	Cash 2.3%	Commodities -9.3%	China equities -21.6%	REITs -23.6%	China equities -11%	DM gov. debt -3.6%	Cash 4.3%	China equities -7.5%	DM gov. debt -0.8%

Key: Equities | Bonds | Private markets, commodities

Source: Blackrock IE, SBI Research

Rate hike among Major Central Banks

- The renewed geopolitical tensions in West Asia has continued to weigh on the growth-inflation trade-off faced by central banks across AEs and EMEs

- Amidst persistent inflationary risks, South Korea and the Philippines have raised their benchmark interest rates in August, but Australia, India, China, Indonesia, Mexico, Malaysia, Russia and Thailand held their policy rates steady in the last policy

- In September, US, Japan and the Euro area raised their policy rates amidst rising inflationary risks. Similarly, New Zealand raised its benchmark interest rate, citing higher fuel prices, while Canada and the UK kept their rates unchanged

Emerging and developed Central banks rate action and inflation

	latest rate	Cumulative Rate action since Jun'26	Rate action in last policy	No of poliocy actions	Latest inflation	Central banks inflation target for 2026
Australia	4.35	hold	hold	-	3.50	2 to 3 %
Brazil	13.75	-0.75	-0.25	2	4.64	3+/-1.5%
Canada	2.25	hold	hold	-	3.00	2%
China	3.00	hold	hold	-	1.00	2%
Euro Area	2.50	0.5	0.25	2	3.20	2.0%
India	**5.25**	**hold**	**hold**	**-**	**4.38**	**4+/-2%**
Indonesia	5.75	0.5	hold	2	3.19	2.5%±1%
Israel	3.50	-0.25	-0.25	1	1.50	1 to 3 %
Japan	1.00	0.5	0.25	1	1.90	2.0%
Malaysia	2.75	hold	hold	-	1.90	1.5%–2.5%
Mexico	6.50	hold	hold	-	3.26	3+/-1%
New Zealand	2.75	0.5	0.25	2	4.10	1 to 3 %
Philippines	5.00	0.5	0.25	2	6.10	2 to 4 %
Russia	14.00	-0.5	hold	2	6.30	0.04
South Africa	7.00	hold	hold	-	4.40	3+/-1%
South Korea	3.00	0.5	0.25	2	3.10	2.0%
Switzerland	0.00	hold	hold	-	0.80	2.0%
Thailand	1.00	hold	hold	-	2.53	1% to 3%
United Kingdom	3.75	hold	hold	-	2.60	2.0%
United States	4.00	0.25	0.25	1	3.40	2.0%
Vietnam	4.50	hold	hold	-	4.69	4.50%

Source: Central Bank websites, BIS, SBI Research

INDIA MACROS

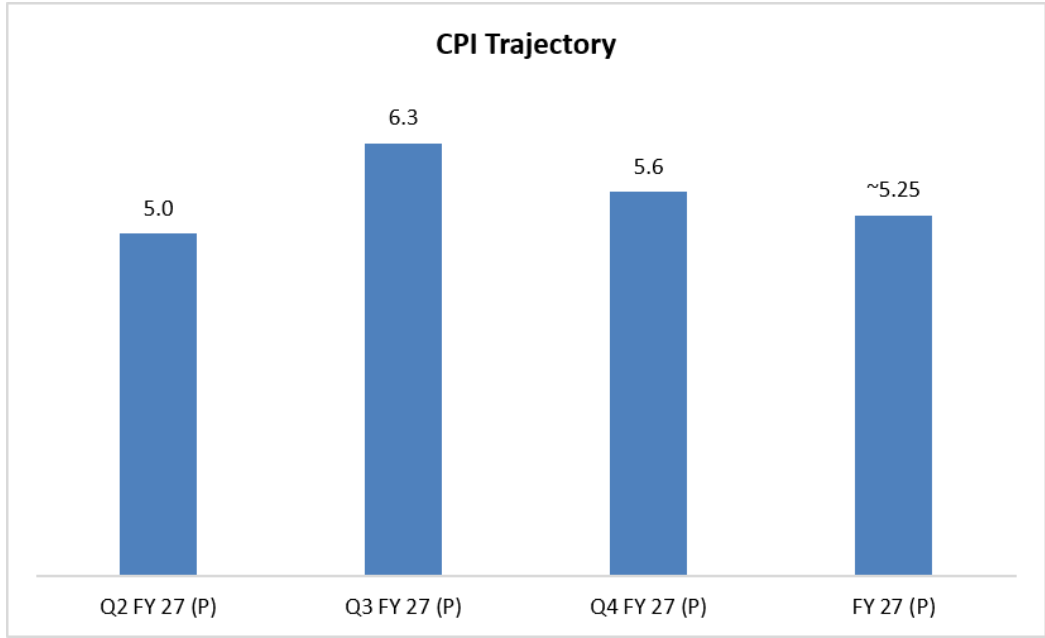
CPI inflation may cross 6% in Q3 FY27

- India's retail inflation rose to 4.82% in August 2026, up from 4.45% in July, due to broad based increase in almost all divisions

- **Our study of data till Aug'26, indicates that the process of inflation is getting generalized**. In Jan'26, 22 commodities explained 90% of CPI's weighted contribution. In August this number of commodities increased to 51. Further, the top 25 commodities' (ex-gold/silver), contribution has declined from 83% in Jan'26 to 62% in Aug'26

- **The risk of further generalization is particularly pronounced in sectors where input prices are currently rising faster than output prices**, suggesting that the pass through has not been enough on producer's side. This is evident in sectors such as electrical equipment, computer and electronic products, furniture, wood and wood products , metal products , pharmaceuticals and beverages in descending order

- While the pass through of rise in crude price remains partial until retail prices are revised, the fiscal implications and pass through proliferate at multiple levers, affecting pricing dynamics and allocation

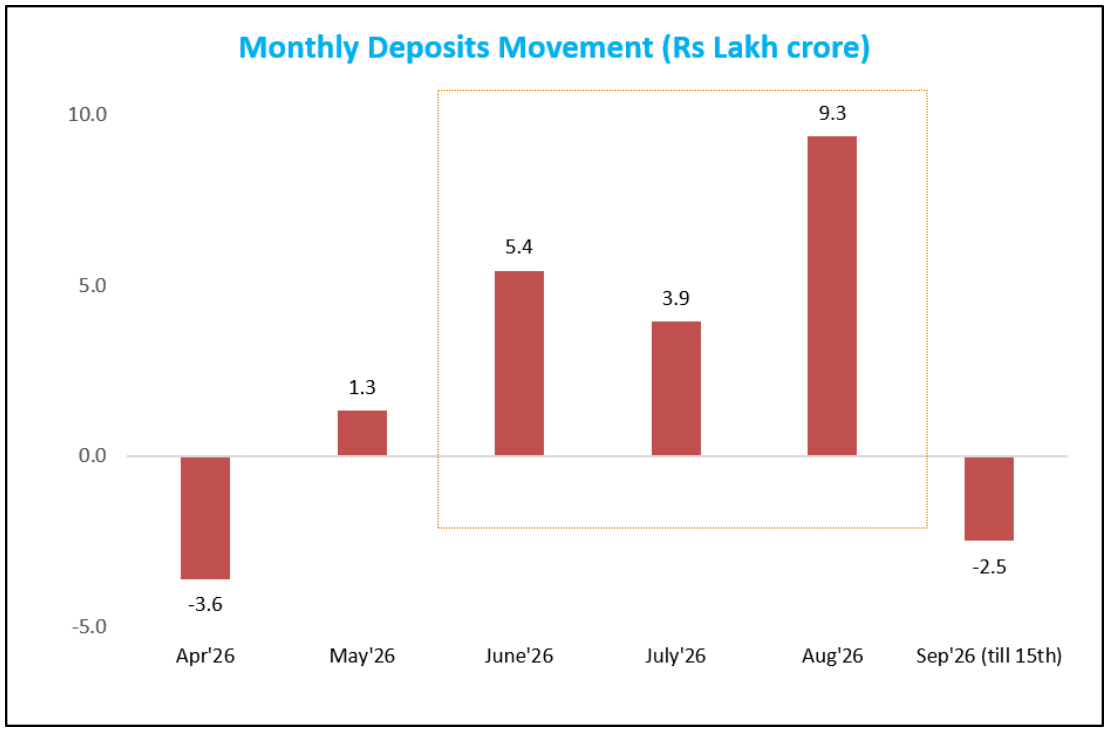


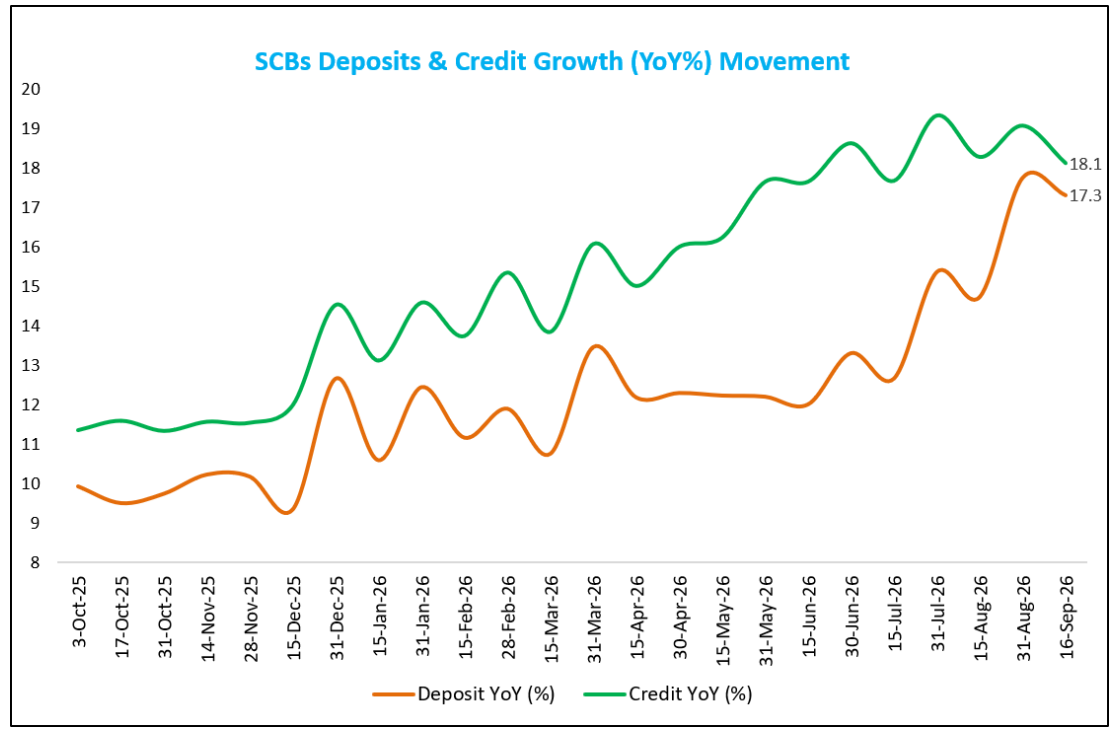
Source: MOSPI; SBI Research; P: SBI Projection

Going forward, we believe CPI inflation may be at 5.65% in Sep'26 and cross 6.5% mark in Oct and Nov (peak expected in Nov) before dropping to less than 6% in the early 2027

SCBs Notch Up Credit & Deposits Growth

- Indian banking sector's credit grew at a robust pace of 18.1% for the fortnight ended 15 Sep 2026, compared to last year growth of 10.4%, while aggregate deposits grew by 17.3%, compared to last year growth of 9.5%
- RBI data showed that cumulative forex inflows under its special USD-INR swap facility reached $143.5 billion as of 18 Sep 2026, led by $132.9 billion through FCNR(B) deposits, $5.3 billion through OFCBs and $5.2 billion through ECBs
- Interestingly, SCBs deposits grew by Rs 13.9 lakh crore, while during RBI's special FCNR (B) window (09 Jun-31 Aug), deposits grew by Rs 17.8 lakh crore…so FCNR (B) deposits helped banks to fund the credit growth





Industry & Personal Loans is contributing to 54% of Incremental Credit Growth

- The sectoral incremental credit growth data during Apr-Aug 2026 indicates that 'industry and personal loans' has contributed ~54% of the incremental credit growth
- **Among industry, 'Infrastructure (especially Power)', 'Chemicals', and 'All Engineering' and 'Vehicles, Vehicle Parts and Transport Equipment' are contributing ~54% of the incremental industry credit**
- **Among personal loans, 28% (Rs 7981 bn out of Rs 3475 bn) is contributed by 'loans against gold jewellery' alone**

ASCBs Sector-Wise Credit Flow (Rs bn): August FY27

Sectors	FY26 (Apr-Aug-25)		FY27 (Apr-Aug-26)		YoY %	
	Rs bn	%	Rs bn	%	FY26	FY27
Agri. & Allied	**377**	**1.6**	**809**	**3.1**	**7.6**	**17.2**
Industry	**703**	**1.8**	**2110**	**4.6**	**7.0**	**18.2**
MSE (Priority)	2708	12.1	2647	9.1	23.8	25.9
Infrastructure	157	1.2	305	2.0	3.5	10.2
Services	**-289**	**-0.6**	**2364**	**3.9**	**10.3**	**24.3**
NBFCs	-613	-3.7	939	4.5	3.7	37.5
Personal Loans	**2609**	**4.4**	**3475**	**5.0**	**11.9**	**16.9**
Housing (Including Priority)	983	3.3	989	2.9	9.7	11.1
Other Personal Loans	269	1.8	640	3.7	7.6	15.0
Loans against gold jewellery	991	48.0	981	21.3	130.2	83.2
Gross Bank Credit	**3993**	**2.2**	**10261**	**4.8**	**10.3**	**19.1**

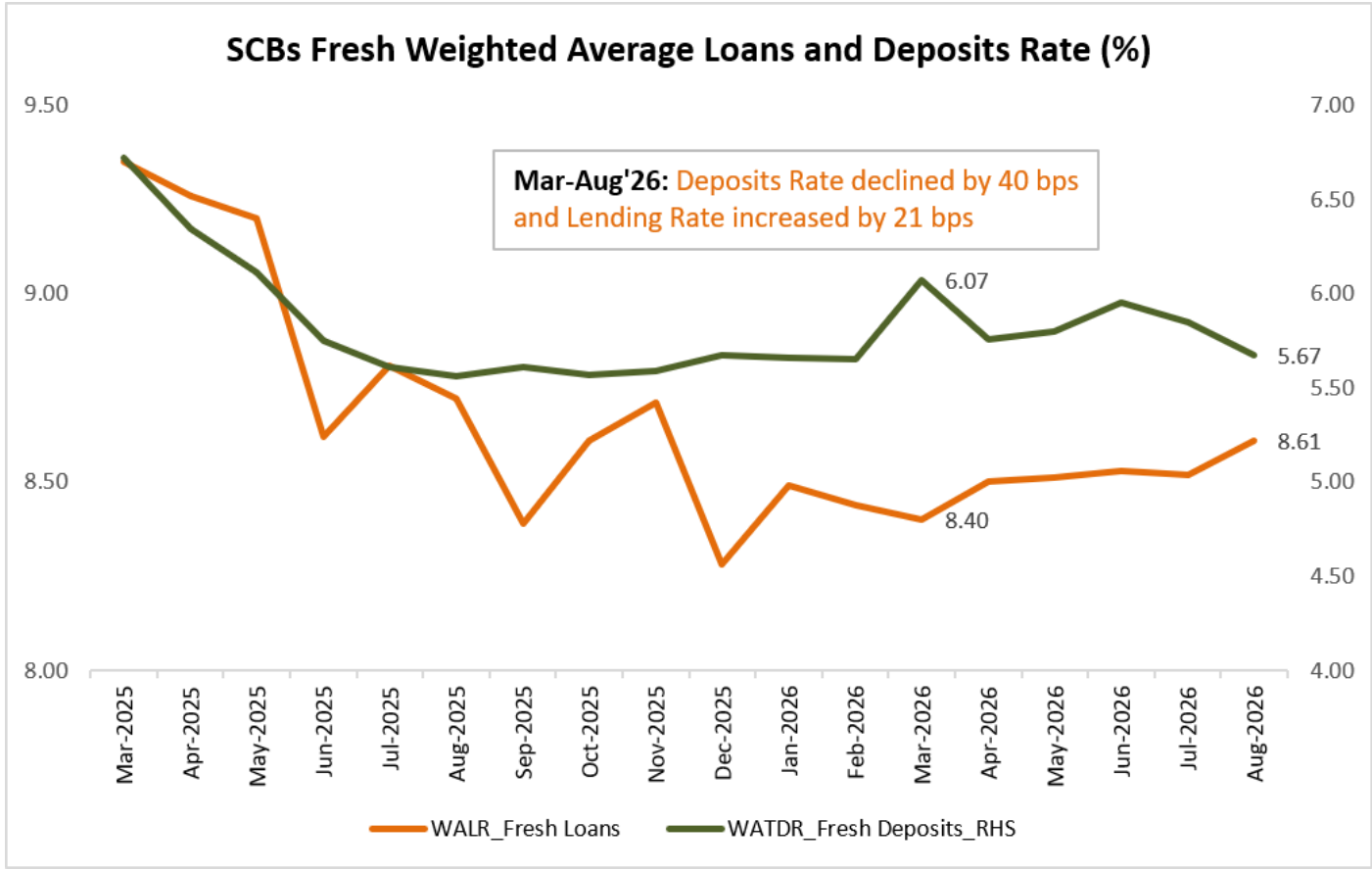
Source: RBI, SBI Research

Industry-wise Incremental Credit Growth of SCBs during Apr-Aug'26

Major Industries	Rs bn	% Share in Industry
Chemicals and Chemical Products	310	14.7
Infrastructure	305	14.5
All Engineering	276	13.1
Vehicles, Vehicle Parts and Transport Equipment	236	11.2
Construction	177	8.4
Basic Metal and Metal Product	174	8.3
Textiles	159	7.5
Electronics	141	6.7
Other Industries	120	5.7
Gems and Jewellery	96	4.6
Rubber, Plastic and their Products	90	4.3
Food Processing	76	3.6
Mining and Quarrying (incl. Coal)	57	2.7
Cement and Cement Products	48	2.3
Paper and Paper Products	29	1.4
Wood and Wood Products	25	1.2
Leather and Leather Products	7	0.3
Glass and Glassware	3	0.2
Beverage and Tobacco	-10	-0.5
Petroleum, Coal Products and Nuclear Fuels	-66	-3.1
Industries Total	**2110**	**100**

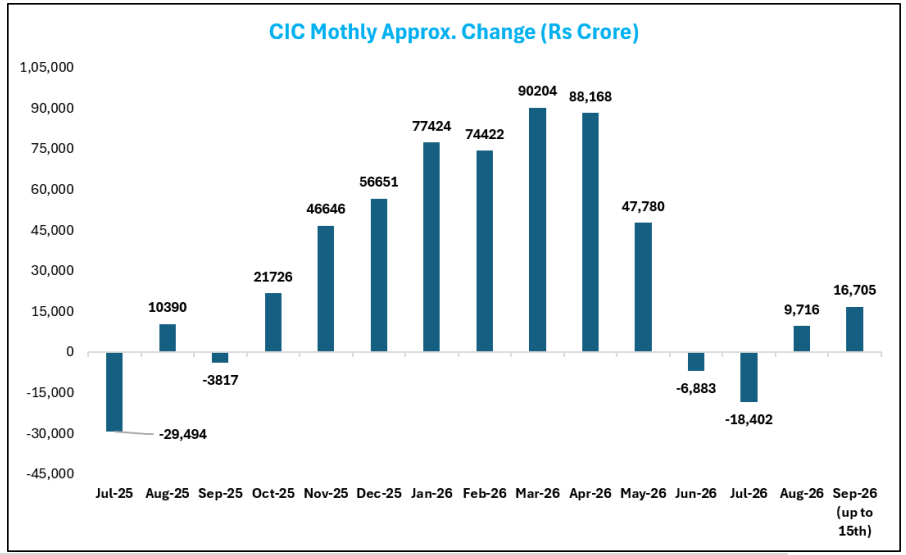
Weighted Average Lending Rates have Already Increased by 21 bps in the Current FY so far

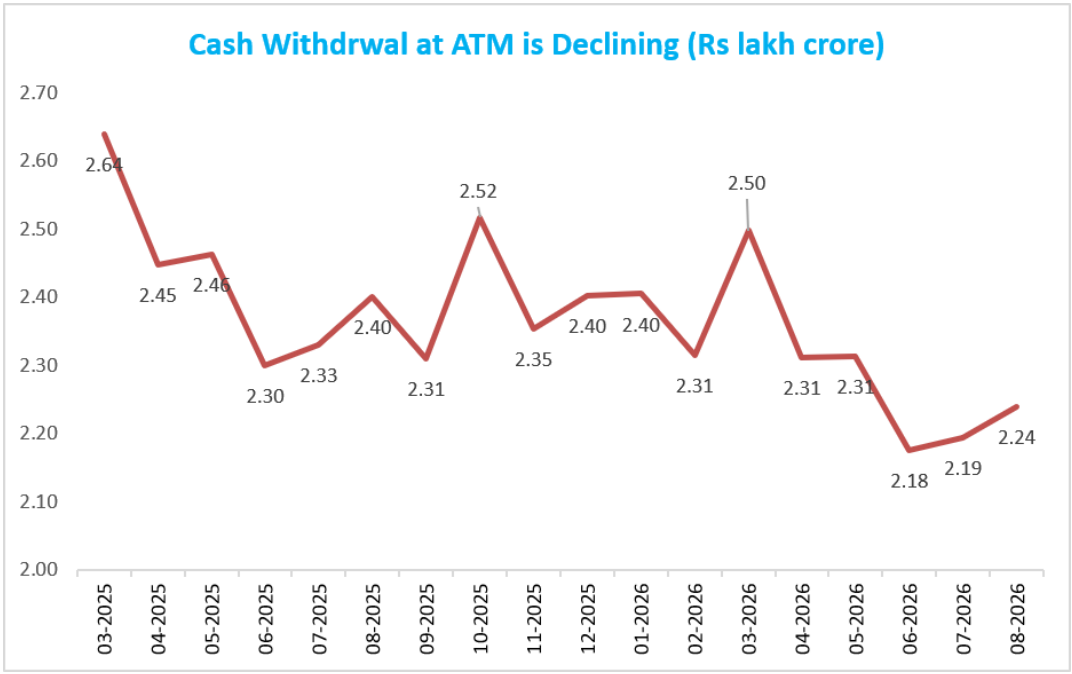
- Weighted Average Lending Rates (WALR) on fresh rupee loans have risen by 21 basis points (bps) in the current fiscal year, signaling a tightening of credit conditions across the banking sector

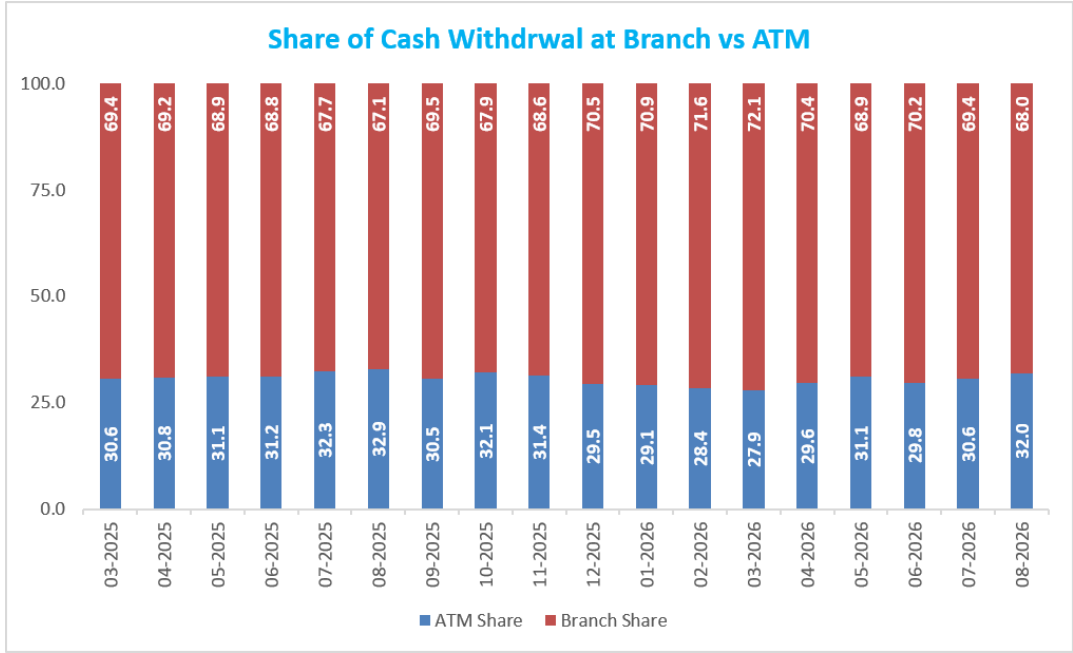


Total Cash Withdrawal from Banks on an average ~Rs 7.3 lakh crore in Apr-Aug'26 (Rs 7.8 lakh crore in FY26)

- Cash withdrawal from ATM is declining trend….but has increased marginally in the last 3-months to Rs 2.24 lakh crore in Aug'26, compared to Rs 2.18 lakh crore in June 2026
- Similarly, cash withdrawal from branch has remained stagnant ~Rs 5-6 lakh crore in the current year so far
- **However, currency in circulation (CiC) has increased to Rs 43 lakh crore as on 15 Sept 2026…We believe, an estimated Rs 4 lakh crores of additional cash is floating in the system on account of RBI regulation in April 2025 that has mandated 90% of all ATMs will dispense notes of smaller denomination like Rs 100/200**





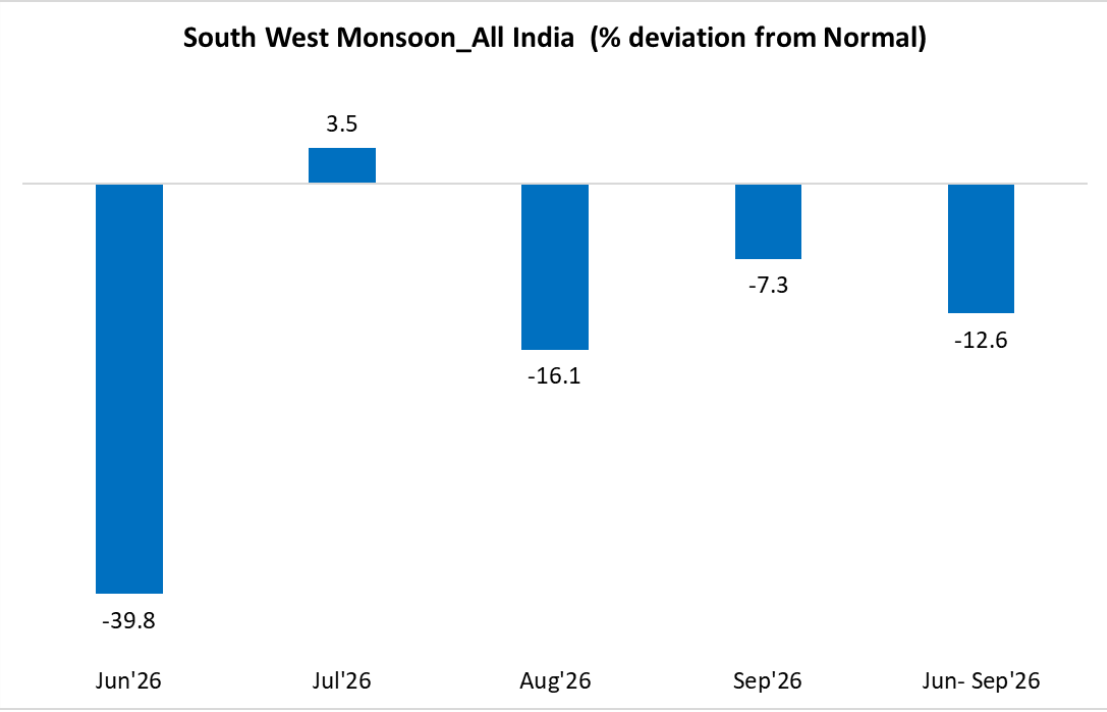


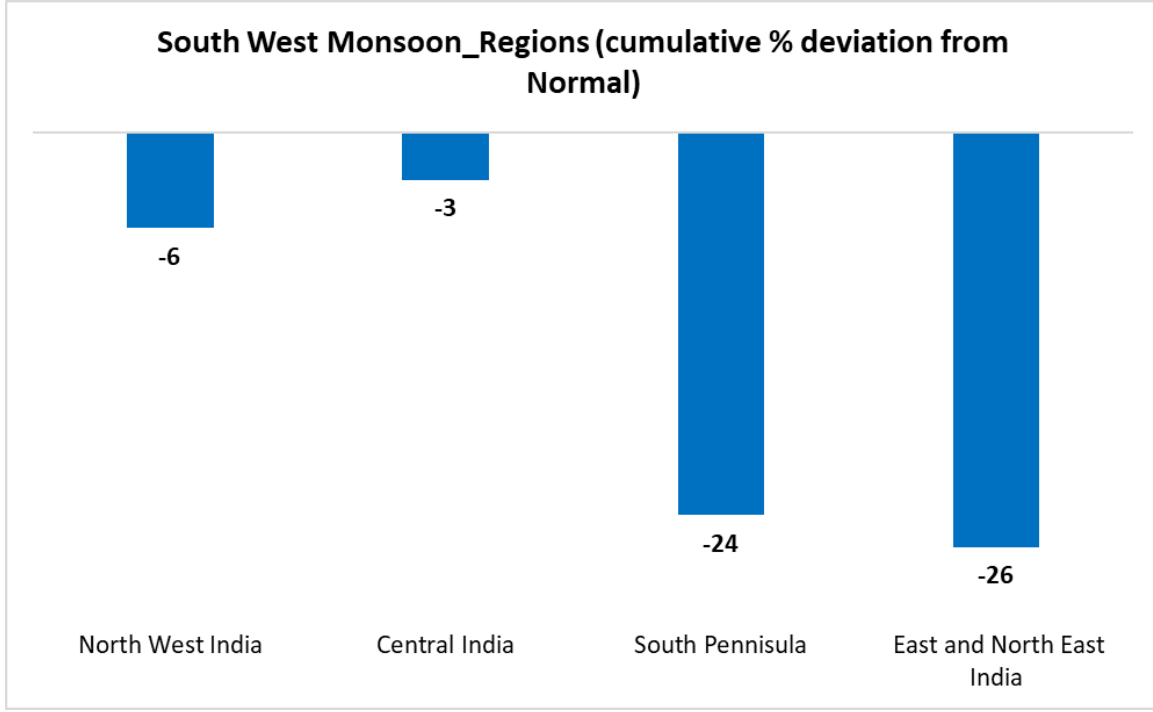
Monsoon 2026

2026 monsoon is 4th driest season since 2000

Rainfall over the country as a whole during the 2026 southwest monsoon season (June- September) was 87% of its long period average (LPA). All India Summer monsoon rainfall was 759.4 mm which is 4th lowest since 2001 and 13th lowest since 1901

However, the North-West and Central India (which are the major contributor to foodgrains production) are hardly faced any deficit rains





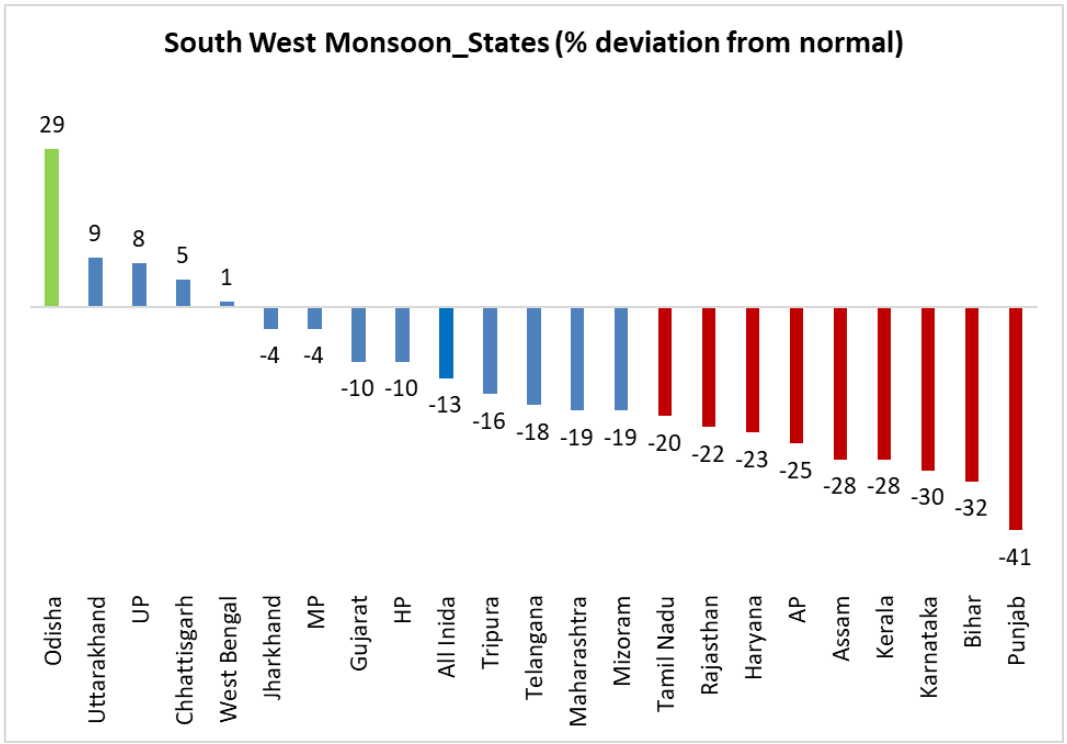
Source: CEIC, IMD

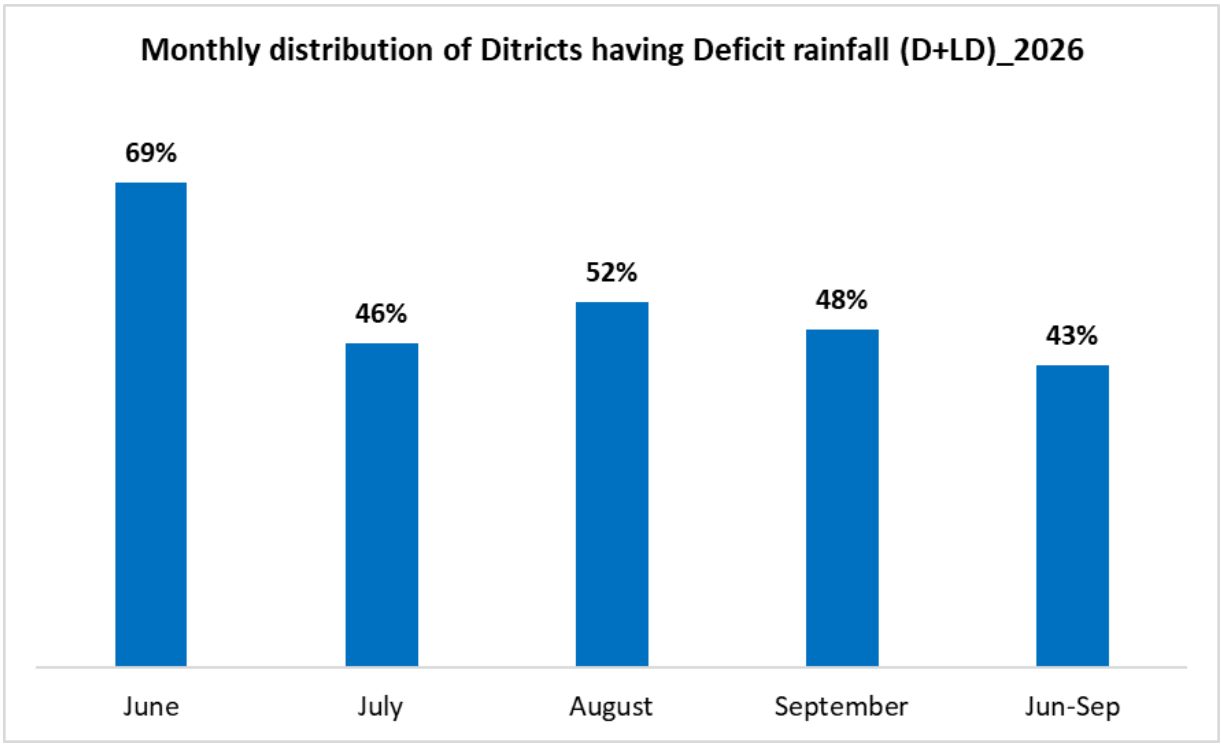
Punjab & Bihar are the driest state….43% of India's districts received deficit rains

This year among major States, Punjab received the least rainfall (41% less than normal), with 86.4% districts having deficit rains

This is followed by Bihar having 32% less rains with 86.8% districts having deficit rains

Overall, 43% of India's districts having deficit rainfall during Monsoon 2026





Source: CEIC, IMD

Drought in Maharashtra: An Early Warning Signal

The Maharashtra Government has officially declared a drought on September 26, 2026, across 265 of the state's 358 talukas (covering roughly 74–75% of the state) due to an 18% overall rainfall deficit and prolonged dry spells lasting 21 days or more during the Kharif season

The crisis is most acute in Marathwada (an average 39% rainfall deficit, with Hingoli hitting 49%) and Vidarbha (a 26% deficit). Major crop losses have hit rain-fed crops like soybean, cotton, moong, urad, and sugarcane

	% deviation from Normal (2026)
Marathwada	-39%
Vidarbha	-26%
Maharashtra	-19%

Source: CEIC, IMD

Maharashtra: District-wise % deviation from Normal					
DISTRICT	% Deviation	Category	DISTRICT	% Deviation	Category
SHOLAPUR	-59%	D	DHULE	-19%	N
BEED	-49%	D	CHHATRAPATI SAMBHAJINAGAR	-19%	N
HINGOLI	-49%	D	RATNAGIRI	-18%	N
JALNA	-48%	D	BHANDARA	-16%	N
AHMEDNAGAR	-47%	D	GADCHIROLI	-16%	N
DHARASHIV	-45%	D	KOLHAPUR	-15%	N
AMRAOTI	-43%	D	JALGAON	-11%	N
AKOLA	-41%	D	THANE	-10%	N
PARBHANI	-40%	D	MUMBAI	-8%	N
NANDURBAR	-39%	D	RAIGAD	-6%	N
LATUR	-39%	D	GONDIA	-1%	N
WASHIM	-37%	D	MUMBAI SUBURBAN	10%	N
SINDHUDURG	-37%	D	PUNE	13%	N
NANDED	-35%	D	SATARA	15%	N
WARDHA	-34%	D	PALGHAR	18%	N
NAGPUR	-34%	D	NASHIK	33%	E
CHANDRAPUR	-33%	D	**MAHARASHTRA**	**-19%**	**N**
YEOTMAL	-27%	D			
SANGLI	-24%	D			
BULDHANA	-21%	D			
Source: IMD; SBI Research					

Irrigation coverage of major Kharif Crops lead to….

While irrigation coverage remains broadly adequate for several major kharif crops, gaps persist across crops and states, leaving production vulnerable to rainfall variability

For instance, soybean has very low irrigation coverage in Maharashtra (21.3%), Madhya Pradesh (3.6) while tur/arar remains largely rain-fed in Madhya Pradesh (6.1%), Andhra (1.5%) and Karnataka (12.9%) Similarly, jowar and bajra show low irrigation coverage in several major producing states.

Such dependence on rainfall could amplify the impact of adverse weather on crop output and prices, creating upside risks to food inflation

State-wise irrigation coverage of selected major kharif crops (2023-24)

State	Rice	Maize	Jowar	Bajra	Tur / Arhar	Groundnut	Soybean	Cotton
Andhra Pradesh	97.2	73.7	45.2	23.8	1.5	28.2	50.1	6.2
Bihar	78.1	82.1	9.1	0.2	13.8	11.9	1.6	82.5
Chhattisgarh	34.3	13.3	8.8	7.1	0.8	8.3	0.8	62.5
Gujarat	83.8	31.8	46.6	64.2	30.9	46.3	—	80.2
Haryana	99.1	76.0	76.3	59.0	97.8	96.7	—	97.9
Karnataka	80.0	38.7	23.0	28.7	12.9	34.9	3.9	32.5
Kerala	88.9	100.0	100.0	100.0	100.0	100.0	—	100.0
Madhya Pradesh	66.7	9.4	13.1	17.5	6.1	42.1	3.6	76.6
Maharashtra	40.7	64.7	23.9	48.9	14.1	74.1	21.3	29.2
Punjab	99.7	71.4	—	90.5	97.1	30.8	—	99.8
Rajasthan	84.0	3.6	0.5	4.3	0.9	84.0	0.3	97.2
Tamil Nadu	93.5	36.7	13.3	14.8	3.2	48.8	94.2	42.0
Telangana	98.8	60.6	79.7	73.2	10.9	93.0	26.8	20.9
Uttar Pradesh	92.2	69.6	42.3	26.0	22.8	27.0	4.0	83.2
West Bengal	59.6	91.8	92.9	94.2	89.1	94.2	89.5	95.1
All India	**69.5**	**42.2**	**23.8**	**19.2**	**14.1**	**53.3**	**10.7**	**50.7**

Source: SBI Research

….better Kharif Sowing despite deficit Monsoon

Kharif sowing (so far) is only 1.2% lower than the 2025 levels indicating better harvest and subsequently minimal/no impact on food inflation going forward

However, a late El Niño may impact the Rabi crops

Progress of Sowing of Kharif Crops as on 25 Sep'26 (Lakh hectare)			
Crop	**Area Sown (2026)**	**Area Sown (2025)**	**% change over 2025**
Rice	431	447	-3.6
Pulses	**121**	**118**	**2.0**
Coarse cereals	**186**	**185**	**0.9**
Oilseeds	**195**	**195**	**0.1**
Sugarcane	58	59	-0.7
Cotton	110	111	-1.0
Total	**1108**	**1121**	**-1.2**
Source: PIB, SBI Research			

Govt lowers foodgrain production target for 2026-27 due to lower Rabi production

The government recently set a lower foodgrain production target of 373.9 Mn Tons for the 2026-27 year amid low Rabi production due to El Nino weather concerns

The overall foodgrain production target is down by 2.6 Mn Tons from the actual production of 376.6 Mn Tons achieved in the 2025-26 year. But the target set for this year is still higher than 2024-25 level

Foodgrains Production Vs Food Inflation

Year	Kharif: Food grains sown area in Lakh Ha	% change	Kharif: Food grains Production in Mn Ton	Total Food grains Production in Mn Ton	% change in total food production	Rainfall Jun-Sep % deviation from Normal	Rainfall Oct-Dec % deviation from Normal	Average food inflation (Jun-Sep)
2000-01	750		101.8	196.8		-7.8	-45.84	3.3%
2001-02	740	-1.3	111.8	212.9	8.1	-7.8	2.6	2.6%
2002-03	683	-7.7	86.9	174.8	-17.9	-19.2	-36.7	2.4%
2003-04	752	10.0	116.6	213.2	22.0	2.3	-1.7	0.9%
2004-05	720	-4.2	103.0	198.4	-7.0	-13.8	-2.8	3.0%
2005-06	725	0.6	109.5	208.6	5.2	-1.3	11.3	4.5%
2006-07	724	-0.1	110.2	217.3	4.2	-0.4	-17.8	8.4%
2007-08	733	1.2	120.5	230.8	6.2	5.7	-28.1	9.0%
2008-09	712	-2.9	117.7	234.5	1.6	-1.7	-25.8	7.2%
2009-10	693	-2.7	103.5	218.1	-7.0	-21.8	11.0	13.1%
2010-11	724	4.5	120.8	244.5	12.1	2.0	21.2	17.7%
2011-12	721	-0.4	131.2	259.3	6.1	1.6	-48.3	8.8%
2012-13	677	-6.1	128.1	257.1	-0.8	-7.1	-20.6	11.0%
2013-14	691	2.0	128.7	265.1	3.1	5.7	17.9	12.7%
2014-15	688	-0.4	128.1	252.0	-4.9	-11.9	-33.0	7.7%
2015-16	692	0.6	125.1	251.5	-0.2	-13.7	-23.3	7.7%
2016-17	732	5.8	138.3	275.1	9.4	-2.6	-45.2	3.4%
2017-18	720	-1.6	140.5	285.0	3.6	-4.7	-11.4	7.0%
2018-19	723	0.5	141.5	285.2	0.1	-9.6	-44.0	0.1%
2019-20	709	-2.0	143.8	297.5	4.3	9.9	29.2	1.3%
2020-21	724	2.2	150.6	310.7	4.5	8.8	0.7	3.2%
2021-22	729	0.6	155.4	315.6	1.6	-0.7	43.7	9.4%
2022-23	707	-3.0	155.7	329.7	4.5	6.5	19.1	3.2%
2023-24	706	-0.1	155.8	332.3	0.8	-5.3	-8.5	7.7%
2024-25	735	4.1	169.5	357.7	7.7	7.4	-3.1	8.2%
2025-26	757	2.9	176.0	376.6	5.3	7.7	10.9	-1.4%
FY 27(P)	**745**	**-1.6**	**196.2**	**373.9**	**-0.7**	**-13.0**	**-12 to 12%**	**6.2 to 6.5%**

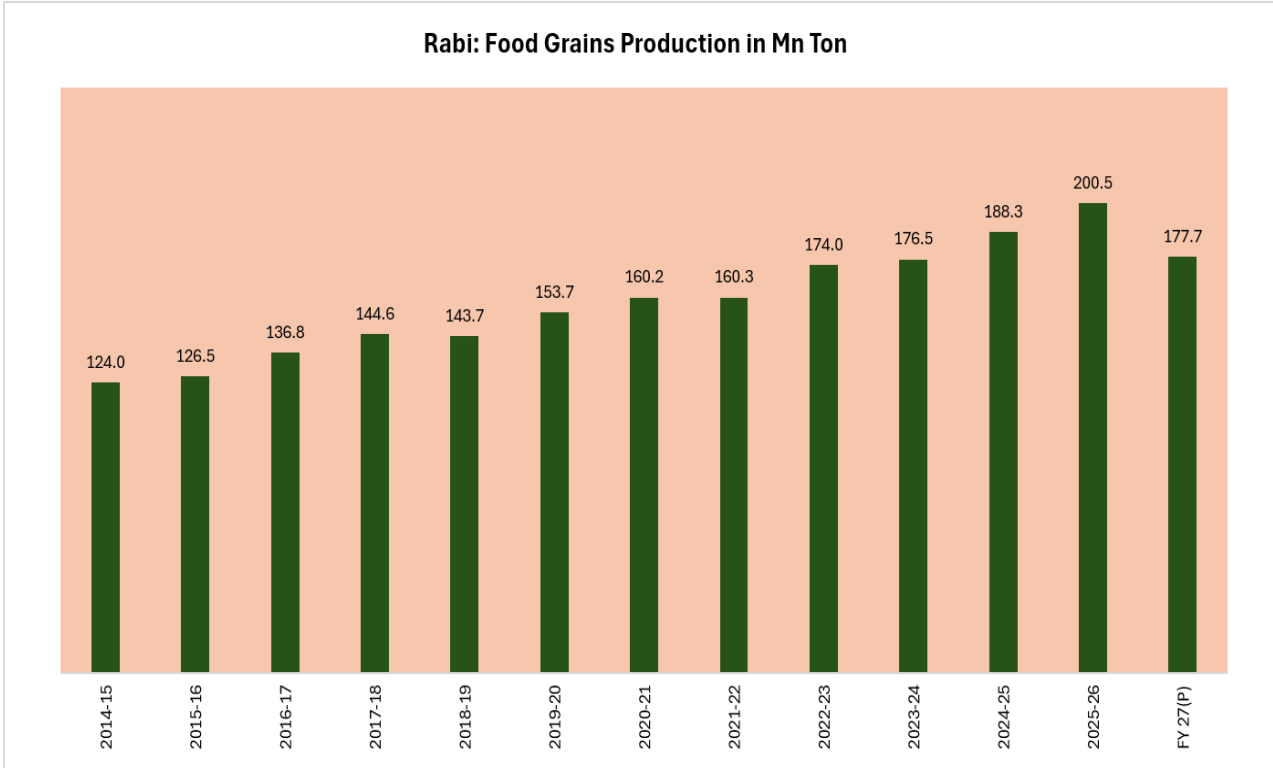
Source: CEIC, CMIE, PIB, IMD, SBI Research

….Rabi crops are going to be impacted by El Niño

As per IMD, strong El Niño conditions are currently prevailing over the equatorial Pacific Ocean, with sea surface temperatures well above average (especially in the east-central and eastern equatorial Pacific) with neutral IOD

Consequently, monthly rainfall over the country as a whole during October 2026 is likely to be below normal (<85% of LPA)

Government has approved higher Minimum Support Prices (MSPs) for all mandated Rabi crops for the 2027-28 Marketing Season



In Mn Tonnes	2025-26	2026-27 P	% change
Kharif	176.0	196.2	+11.5%
Rabi	200.6	177.7	-11.4%
Total	376.6	373.9	-0.7%

Multiplier and Liquidity

Liquidity under the hood is a more meaningful description

- We expect Core Surplus liquidity may fall from 13.9 lakh crore peak as 15 Sep'26 to ~Rs 7 lakh crore as on end Dec 26 and may come down to ~3.5 lakh crore as on End Mar'27
- **Meanwhile, system liquidity declined to Rs 4.8 lakh crore due to Government cash balances of Rs 9.0 lakh crore**

Liquidity Estimation	
Items	**Amount (Rs Lakh Cr)**
Core liquidity surplus as on 15 Sep'26	**13.9**
1. Currency in circulation	0.15
2. CRR drawdown	-0.117
3. OMO Sale	-1
4. Forex intervention	-1.5
5. FCNR(B) inflow	1.5
Core liquidity as on end Sep'26	**13.0**
1. CRR drawdown	-0.25
2.Forex intervention	-2.5
3. CIC increase	-1.5
4. OMO Sale	-1.5
Core liquidity as on end Dec'26	**7.2**
1. CRR drawdown	-0.4
2.Forex intervention	-1
3. CIC increase	-2.5
Core liquidity as on end Mar'27	**3.3**
System liquidity adjusted with Gov Cash	1.8
Source: RBI, SBI Research	

Average Outstanding Liquidity Position (Rs lakh crore)		
Indicator	**FY 27 Average**	**30-Sep-26**
Total Repo Outstanding	0.39	0.00
Reverse Repo Total	1.36	2.29
SDF	2.20	2.67
Net LAF (-absorption)	-3.07	-4.85
Government Cash Balance *	3.25	9.29
Net durable liquidity [surplus (-)]**	-6.30	-13.94
Source: SBI Research, RBI,* estimated from previous fortnight core liquidity which may change as per the latest fortnight, **fortnight outstanding		

Huge Deposit inflows due to FCNR (B)

- While record FCNR(B) inflows are argued to translate into a significant increase in bank deposits and, consequently, system liquidity, we argue that the headline increase in deposits may overstate the effective liquidity creation in the banking system

- Banks operate within binding regulatory constraints such as the CRR, Statutory Liquidity Ratio SLR and LCR, which require a portion of incremental resources to be maintained in prescribed liquid assets or with the RBI rather than being deployed as fresh credit

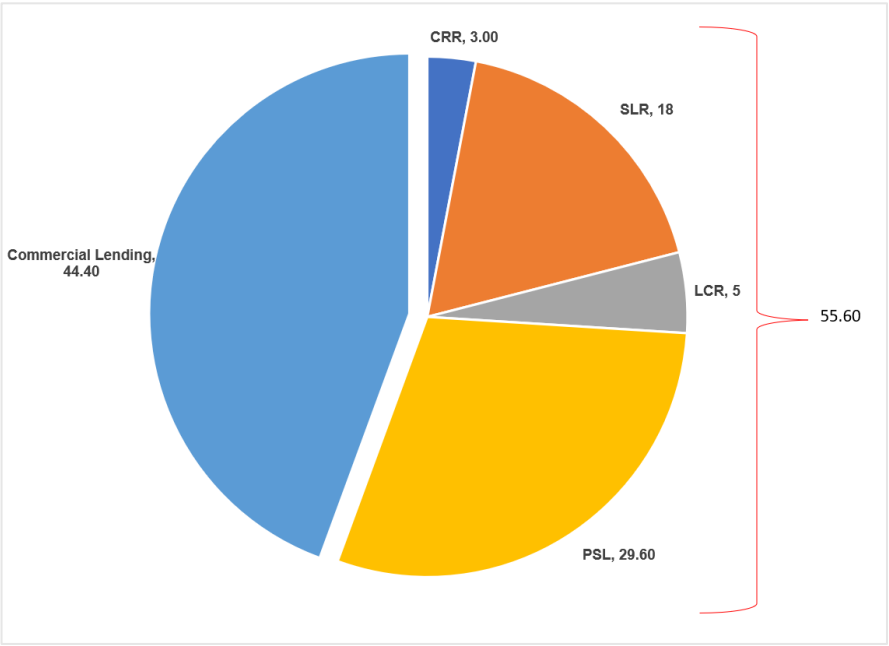
- **Thus, a more better measure of liquidity / liquidity under the hood for deposit creation and broader monetary expansion could be considerably more muted once these regulatory requirements are accounted for**

- **We believe that this would automatically lead to liquidity normalization going forward**

FCNR(B) and Forex Reserves	
Amount in $ bn	**As on 18 Sep' 26**
FCNR(B) Deposits	133
OFCBs	5
ECBs	5
Total	**144**
Foreign Currency Assets as on 18.09.26	631
Regained from 05 Jun26	88
Forex recoup as % of FCNR(B)Inflows	**66**
Totel Forex reserve as on 18.09.26	766

Regulatory requirements dampen operating multiplier…

- We firmly believe that the operating multiplier is way below the RBI's 6.15 (2026) due to :
  1. Shifting of HHs/Retail deposits towards FI deposits (that will attract 100% run-off factor as compared to merely 5%-10% in case of retail deposits)
  2. Impact of SNA-Sparsh
  3. Impact of UPI
- **We estimate that to support an assumed credit growth of 16% for FY27 (incremental credit: Rs 34 lakh crore), the system deposit requirement due to regulatory dispensation in the form of CRR/SLR/LCR and Sparsh and UPI, is still falling short by Rs 8.2 lakh crores, even after the FCNR deluge. Hence, going forward system liquidity will automatically adjust and there is no need for additional maneuvering**



Impact on Deposits

in Rs lakh crore	FY27 ESTIMATES
Incremental Deposits FY27 (assuming 15.5% growth)	40.0
Incremental Credit FY27 (assuming 16.0% growth)	34.0
Incremental Deposits required to support credit growth as per regulatory requirements (CRR/SLR/LCR) in addition to UPI & Sparsh	48.2
Deposit GAP even after FCNR inflows	**-8.2**

* Using multiplier formula

Disclaimer:
This Report is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in this Report.

Contact Details:
Dr. Soumya Kanti Ghosh
Member, 16th Finance Commission &
Group Chief Economic Advisor
State Bank of India, Corporate Centre
Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone:022-22742440
:@kantisoumya