SBI Research

The persistent Wedge between Bank Deposits and Credit reflects continued geo-political shocks since FY22..FCNR(B) deposits could correct such.. Surge in credit to continue…. Crude oil shocks are the dominant source of such variation in credit

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Executive Summary……..1/3

- Banking system has experienced persistent and rapid expansion in bank credit with a growth of 18.6% for the fortnight ended 30 June'26..Concomitantly, the deposit growth has also improved to 13.3% closely aligning with long term trends in deposit growth, tracking the nominal GDP growth.. **Since FY23, credit growth has consistently surpassed the deposits growth, which has resulted in gap widening to 5.3% in June 2026**

- This phenomenon calls for an explanation by looking at credit and deposit dynamics more closely at granular and system balance sheet level post COVID

- Demand side story with Bank Deposits as a proxy reveals 3 major structural changes post COVID

  - The traditional deposit markets in large metropolitan regions have saturated and there is a shift in bank deposits towards semi-urban and rural with increasing women empowerment and women centric schemes

  - Preference for term deposits has risen across broad institutional sources like nonfinancial and financial corporations away from households with a shift in household savings behavior. Census towns are emerging as the new sources of such institutional deposits. Banks are also mobilizing CASA from institutional sources.

  - Rise of term deposits has seen shift in contractual maturity with share of 1–3-year bucket rising as banks strive to balance asset and liability with shift to EBLR regime…FCNR (B) deposit mobilization could result in some shift towards the 5-year bucket as most of the flows are in that category till now

Executive Summary……2/3

- The growth in credit has been persistent since FY23
  - In 2024, after RBI regulatory action, the share of personal loans has declined and credit supply has spilled over in industry, finance and other sectors driven by de-risking mechanism of ECLGS
  - Post-2022, working capital loans such as cash credit, overdraft, demand loans, export credit have registered relatively faster growth vis-à-vis overall credit and term loans. This pattern is prominently seen in agriculture, industry, services. This trend coincides with the period characterized by multiple supply side shocks such as COVID-19, Russia-Ukraine War, supply chain disruption and now West Asia conflict
  - Share of long-term loans (Housing) have declined in retail loans. With shift to the new tax regime, people are now repaying their loans faster. NBFCs are also aggressively mobilizing housing loans…
- A S-VAR model reveal that such supply-side shocks are transmitted asymmetrically across banking aggregates, with bank credit growth responding more strongly than bank deposits growth. Such supply shock invariably creates liquidity gaps through wedge between deposit and credit growth and indicates one of the many dimensions of geopolitical risk to banking system in India, though the recent FCNR(B) deposit mobilization will result in a pickup in deposit growth
  - Crude oil shocks are the dominant source of such variation in credit, while food inflation becomes increasingly important for deposits over longer horizons. Furthermore, the shocks of food inflation on deposit accumulates over time horizons rather than dissipating… **This conclusion has both historical precedence with similar pattern observed in FY05..**

Executive Summary…3/3.. Summary & Outlook on banking sector balance sheet for FY27

- **Given the aforesaid analysis, if the geopolitical risk and external supply shocks persists, we expect that wedge between deposits growth and credit growth will persist, though deposit growth will pick up with the onset of FCNR(B) deposits and could shift the dynamics much**

- **This conclusion has both historical precedence with similar pattern observed in FY05**

  - During 2004-05, average oil price was $41.3 per barrel which was 42.3% higher than average price of $29 per barrel in previous year. The credit growth observed during the same year was 21.7% compared to 13.5% growth a year ago. Deposit growth which was higher than credit growth in previous year at 17.5% declined to 14.1% completely flipping the credit deposit gap from negative to positive

- Indian banks are well-capitalised, with CRAR holding strong and low NPA, providing a significant cushion for credit expansion and absorption of any macro-driven stress.. **Indian banks are currently in a goldilocks period**… Credit growth is expected to remain strong, supported by consumption demand & capex momentum; Banks to prioritise balance sheet discipline

- **The policy conclusions that emerge form this analysis are as follows:**

  - Liquidity management of banks requires different strategy when supply shocks are accounted
  - Food inflation has significant impact on deposit mobilization, **though impact of food inflation arising out of deficient rains has been contained**
  - Long term energy decoupling is critical for stable growth and sustained capital formation.. India is doing relatively well on this front

Explaining the 3 Structural Changes in Bank Deposits post Covid

Disclaimer: *This report uses **Quarterly Basic Statistical Return (BSR)-1 on Credit by Scheduled Commercial Banks** and **Annual Basic Statistical Return (BSR)-2 on Deposits with Scheduled Commercial Banks** for analysis and conclusions in long trends from FY 15 to FY 26 and granular analysis on post COVID-19 period 2022-2026. Growth rate using BSR and fortnightly data on deposits and credits. Data will differ due to minor difference in coverage, methods of aggregation and recent change in reporting to fortnight from reporting Friday to month end etc.*

Record-High Deposits Accumulation & Accretion to Foreign currency reserves for Fortnight ending 30 June 2026

Fortnight ended	Change in Deposits
30 June 2026	Rs 6.97 lakh crore
31 March 2026	Rs 12.17 lakh crore
31 December 2025	Rs 7.25 lakh crore
Source: RBI. Arranged in chronological order	

THIRD HIGHEST in 29 Years

Reasons

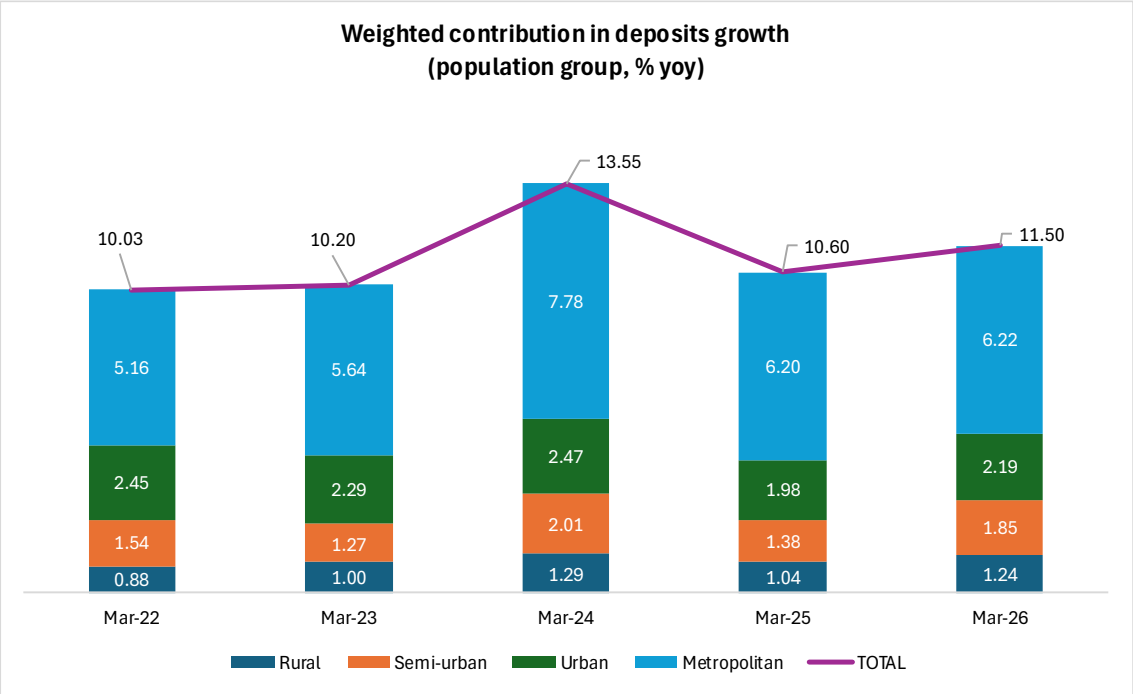
1. Quarter ending Impact of around Rs 3.5-4 lakh crore

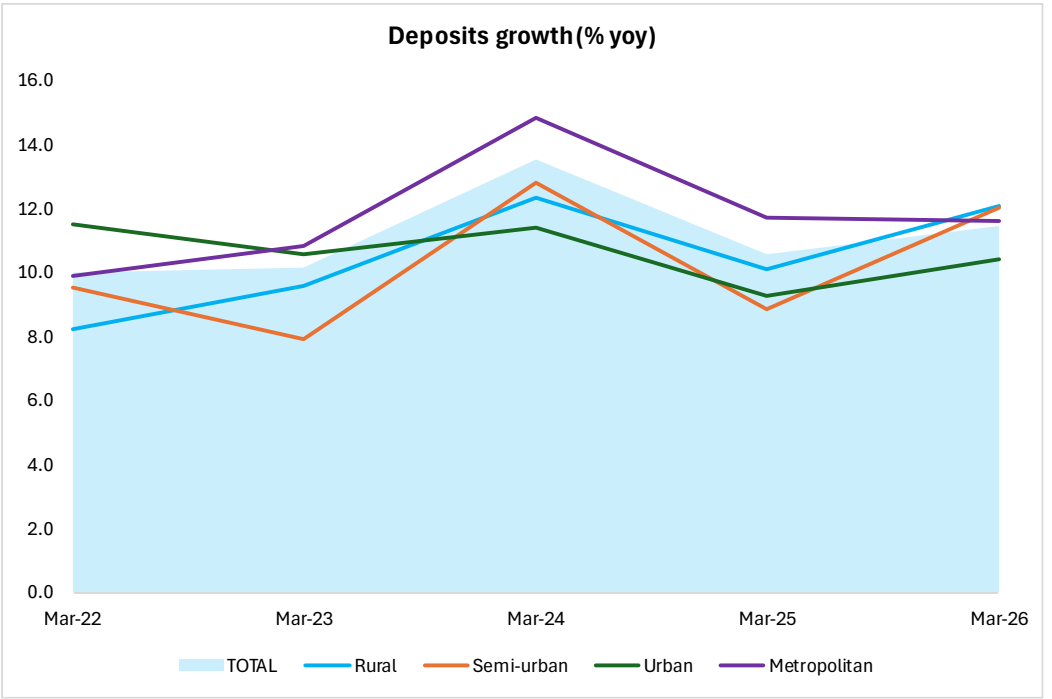
2. Substantial amount of flows primarily due to FCNR (B), portfolio flows, ECB & OFCB: Overall capital flows on account of FCNR(B) ~ $13-14 bn

Fortnight ended	Foreign Currency Assets ($ bn)	Accretion in FCA ($ bn)
19 June 2026	541.2	-
3 July 2026	545.6	4.4 (~Rs 89,000 crore)
Source: RBI		

- **~ $13-14 billion has come through FCNR (B) window till now. Owing to this, aggregate deposit is estimated to grow by 14.5%-15% in FY27**

Firstly, geographic shift in bank deposit mobilization towards semi-urban and rural…



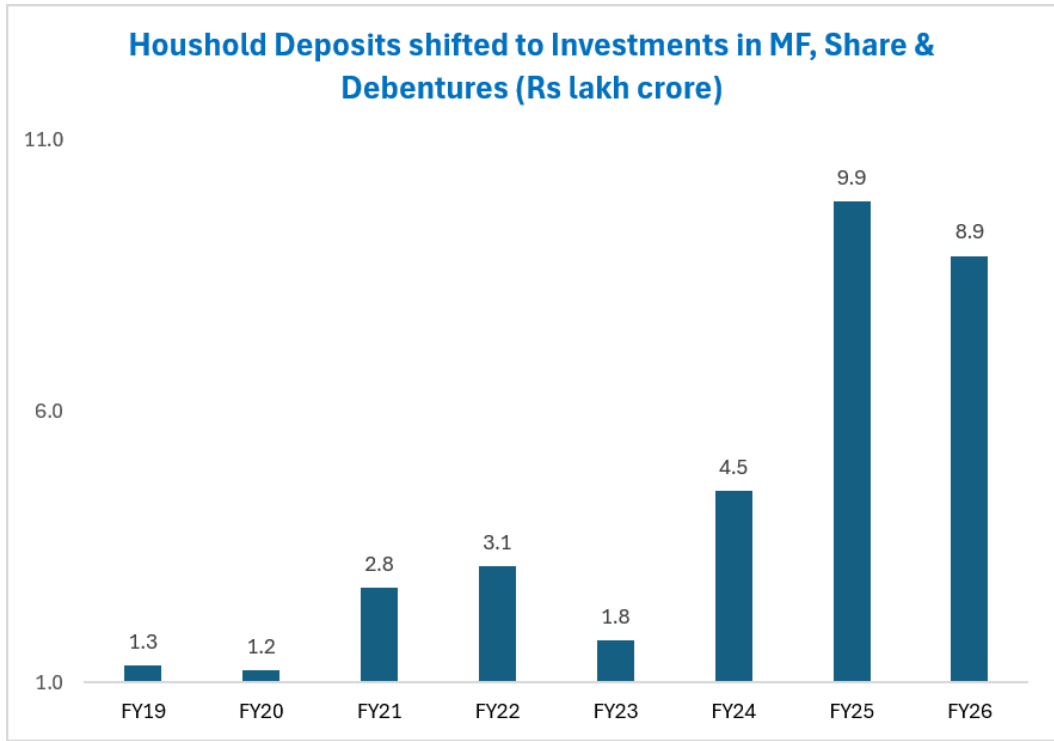


- The traditional deposit markets in large metropolitan regions have saturated
- There has been a shift in deposits dynamics towards semi-urban and rural
- This geographic shift is the **first dimension of structural change** in deposit markets of banks

.. Even as Rural & Semi-Urban share in deposits is increasing…

- Deposits in rural and semi-urban areas are surging because rising household incomes are boosting purchasing power, while aggressive banking expansion has brought formal financial services to these regions…Out of 58 crore PMJDY accounts, 45 crore accounts belong to the beneficiaries at rural/ semi-urban center bank branches
- A part of the rise in income is also due to Government's focus (including state Governments) on rural development schemes like income transfer to women, PM-KISAN, etc. **In FY26, ~ Rs 4 lakh crore were transferred under women welfare by Centre (Rs 1.7 lakh crores by States on income transfer)**
- **Meanwhile, urban investors are increasingly shifting their savings from bank deposits to higher-yielding market assets like mutual funds and equities….subsequently, the share of MF/Equities share in retail deposits has increased to 6% in FY26 from 1% in FY20**

Scheme-wise allocation in 2026-27 (Rs crore)			
Major schemes	Actuals 2024-25	Revised 2025-26	Budgeted 2026-27
VB-G RAM G	0	0	95,692
MGNREGS	85,834	88,000	30,000
Jal Jeevan Mission/National Rural Drinking Water Mission	22,612	17,000	67,670
PM-KISAN	66,121	63,500	63,500
PMAY – Rural	32,327	32,500	54,917
Samagra Shiksha	36,288	38,000	42,100
National Health Mission	38,889	37,100	39,390
Saksham Anganwadi and POSHAN 2.0	21,014	20,949	23,100
PM Surya Ghar Muft Bijli Yojana	7,818	17,000	22,000
Memo Items:			
Rural Development Total	**1,79,307**	**1,88,753**	**1,97,023**
Welfare of Women	**3,59,722**	**3,97,885**	**5,00,879**
Source: PRS India, SBI Research			

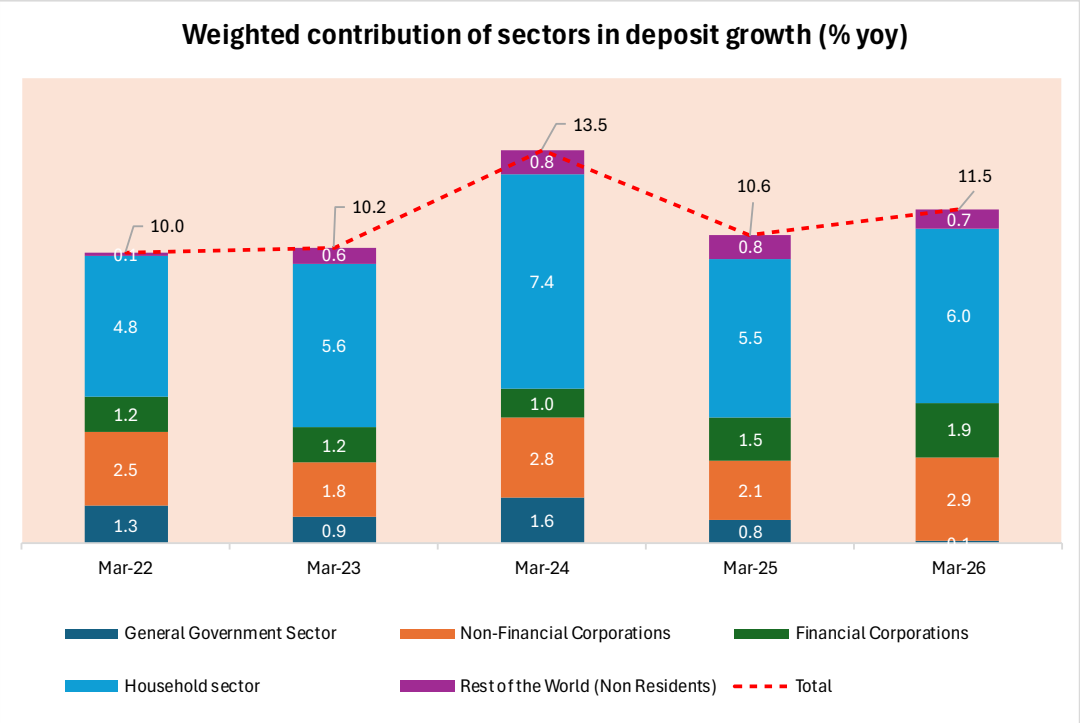


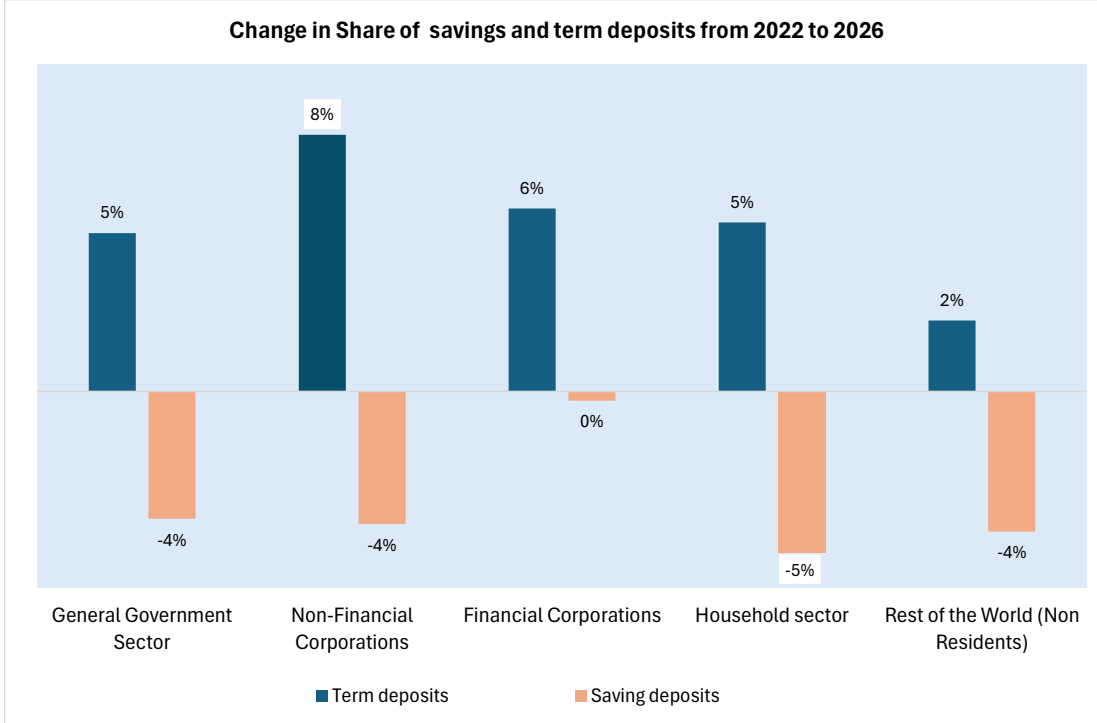
Secondly, there is a concomitant change in deposit ownership structure

- **The ownership (households, governments, and corporations) structure of bank deposits is changing with increasing preference of household saving for market related instruments**
- Households (HH) remain the largest depositors, but their share is gradually declining as they diversify into mutual funds, equities, and other instruments.. **Share of deposits under Financial Institutions**…has increased by 2.6 percentage points during FY22-26…
- Separately, **the share of deposits under Non-Financial Corporations** (Trusts, Societies, Clubs, Educational Institutions accounts etc are being increasingly sourced by Banks to strengthen the CASA base) has jumped by 1.5 percentage points during FY22-FY26

Ownership Share (%) of Deposits in Total Bank Deposits						
Particulars	FY19	FY20	FY22	FY25	FY26	Change (%) FY26/FY22
Government Sector	9.2	8.4	9.0	9.1	8.3	-0.7
Non-Financial Corporations	14.2	15.3	17.0	17.7	18.5	1.5
Financial Corporations/Institutions	6.2	5.5	5.2	6.8	7.8	2.6
Household sector	63.2	63.5	62.6	60.2	59.3	-3.3
Source: RBI, SBI Research, the figures does not add up to 100 as the residual is rest of world						

Weighted contribution of drivers of deposit growth by institutional source of deposit





- Preference for term deposits has risen across broad institutional sources
- Highest rise in share is seen in case of non-financial corporations
- **This represents the second dimension of changing deposit base dynamics of banks**

Census towns – New engines of growth for institutional deposits

Perhaps Census towns which exhibit urban characteristics but are still governed as a rural area, are the centers for such increase in deposits. They have grown at a decadal rate of 185% (2011-2001)

Future Growth Centres/ transition to Statutory towns

These towns lack formal urban infrastructure, direct municipal funding, and planned local governance. It would make sense to incentivize the transition of these towns to statutory towns

Benefit of focusing on their growth

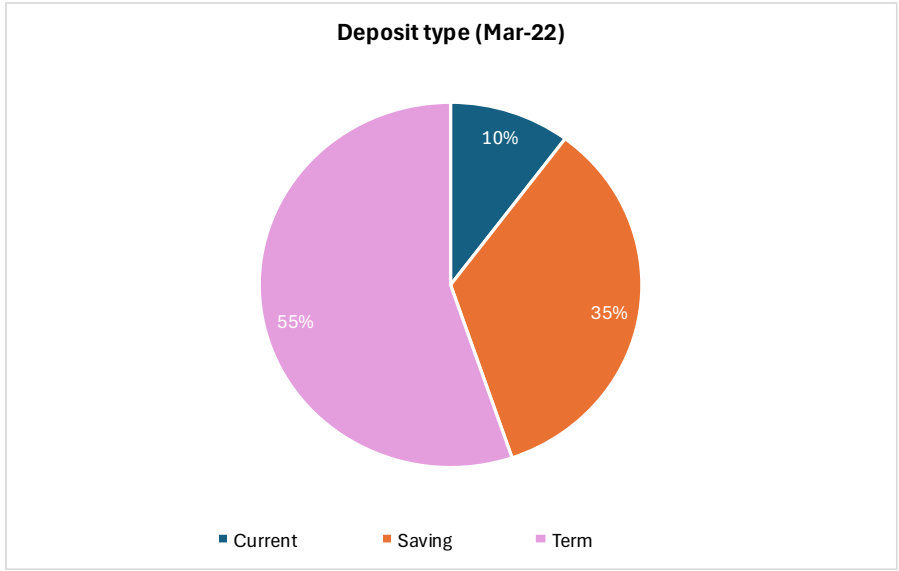
Help in diversifying geographic concentration of economic activity, alleviate rural poverty via alternative opportunities, reduce rural migration, development of regional clusters and balanced growth, promote entrepreneurship and supporting small businesses, boost local economy, increase in tax revenue and land value

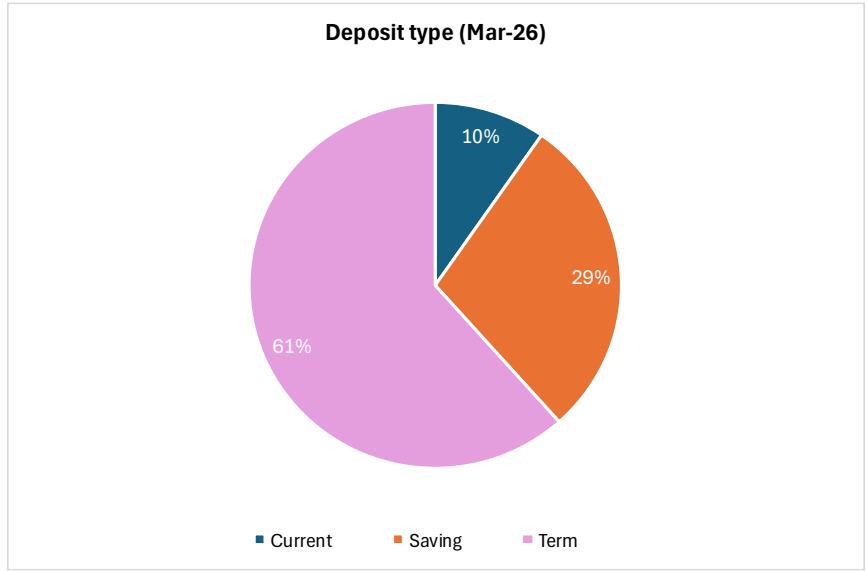
What is needed for the transition

Strengthened local administration; improved efficiency of service delivery with increased own source revenue; and improved planning-building norms critical for CTs to emerge as sustainable growth hubs

State and Centre support critical in this transition

Thirdly, share of 1–3-year bucket in term deposits have risen the most….

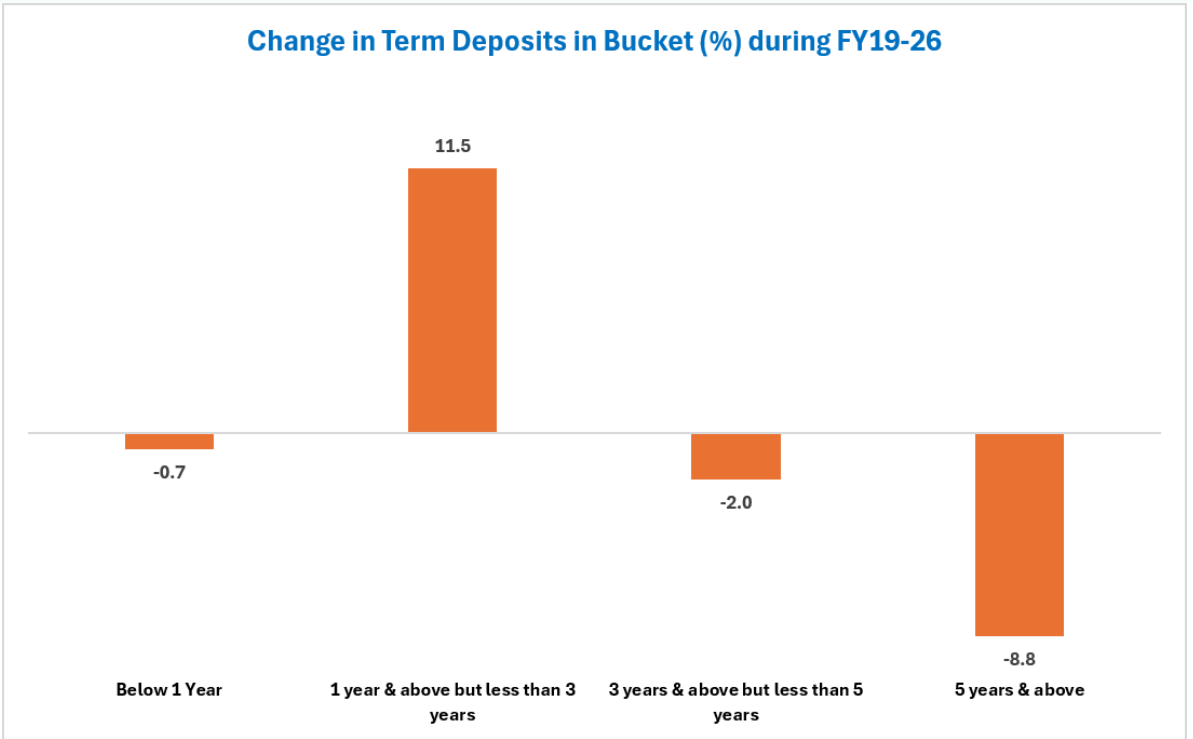




- Share of term deposits has visibly risen between the period 2022-2026 at the expense of savings accounts
- **Rise of term deposits has also seen shift in contractual maturity with share of 1–3-year bucket rising, as banks are offering higher interest rate for special deposits which falls in this bucket, while keeping the rates in other regular tenures unchanged**
- **This represents the third dimension of changing deposit base dynamics of banks**

Change in Term Deposit Buckets

- During FY19-26, term deposits of banks has increased by 11.5% in the bucket '1 year above & below 3 years' , while it declined by 8.8% in the '5 years & above' bucket…**as banks have ensured to keep the cost of financial intermediation under check**
  - **Peak Interest Rates:** Banks often offer the highest yields on 1 to 3-year tenures and consumer demand for liquidity.
  - **Loans Linked to External Benchmarks:** Earlier bank loans were reset post changes in base rate/MCLR. With the implementation of EBLR on 01.10.2019, banks asset prices reset instantly with the change in policy repo rate. To align with asset liability, banks have also reset the liabilities of 1-3 years buckets, to manage liquidity and margins judiciously
- **With FCNR (B) deposits coming predominantly in 5 years maturity, share of 5-year bucket is likely to increase in FY27**



Retail Domestic Term Deposit Rates		
Buckets	**09-May-19**	**15-Dec-25**
7 days to 45 days	5.75	3.05
46 days to 179 days	6.25	4.90
180 days to 210 days	6.35	5.65
211 days to less than 1 year	6.40	5.90
1 year to less than 2 years	7.00	6.25
2 years to less than 3 years	6.75	6.40
3 years to less than 5 years	6.70	6.30
5 years and up to 10 years	6.60	6.05
Source: SBI Research		

The 3 reasons explaining the surge in Bank Credit post Covid and continued persistence

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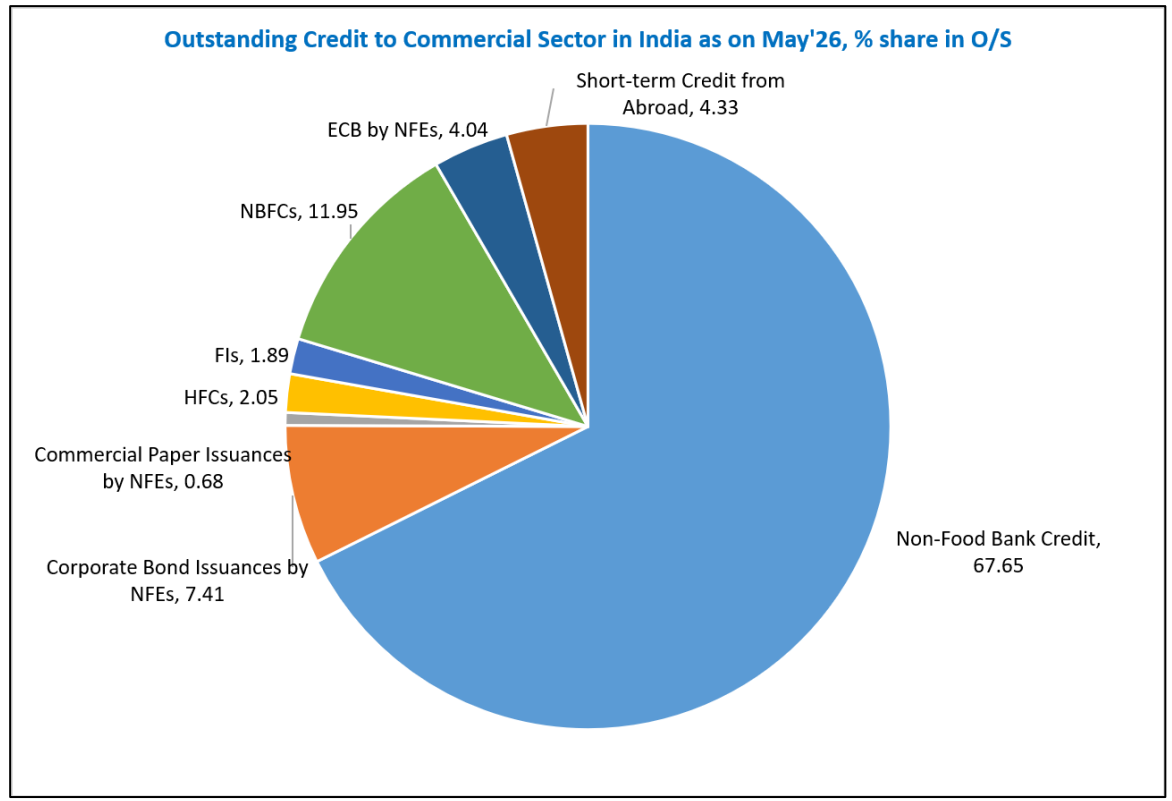
Apr-May Flow of Resources to Commercial Sector is 8 times higher than previous year

- Total flow of financial resources to the commercial sector during Apr-May, FY27 is at Rs 2.82 lakh crore, which is 8-times higher of Apr-May, FY26..among all, bank credit increased substantially, compared to last year
- SCBs credit grew by 18.6% for the fortnight ended 30 June 2026, compared to last year growth of 9.5%, while aggregate deposits grew by 13.3%, compared to last year growth of 10.1%. **On YTD basis, credit grew by Rs 5.6 lakh crore and deposits by Rs 3.09 lakh crore during Apr-June, FY27**

Resources Flows to Commercial Sector			
Heads	FY25	FY26	No of Times (in X)
A. Non-Food Bank Credit	**-1.6**	**0.9**	-
B. Flow from Non-Banks (B1+B2)	**1.9**	**1.9**	1.0
B1. Domestic Sources	**1.3**	**0.8**	0.6
1. Equity Issuances by NFEs	0.4	0.1	0.2
4. Commercial Paper Issuances by NFEs	1.1	0.8	0.7
5. Credit by HFCs (Net of Bank Borrowings)	-0.3	0.1	-0.3
6. Credit by RBI-regulated AIFIs	-0.2	-0.2	0.8
B2. Foreign Sources	**0.6**	**1.1**	1.8
1. External Commercial Borrowings by NFEs	0.2	0.0	0.0
3. Short-term Credit from Abroad	0.0	0.1	12.6
4. Foreign Direct Investment to India	0.4	1.1	2.5
C. Total Flow of Resources (A+B)	**0.3**	**2.8**	**8.1**

Source: SBI Research, RBI NFEs: Non Financial Entities



Industry & Personal Loans is contributing to 75% of Incremental Credit Growth

- The sectoral incremental credit growth data during Apr-May, 2026 indicates that 'industry and personal loans' has contributed 75% of the incremental credit growth
- **Among industry, Infrastructure (especially Power), Chemicals, Vehicles & Parts and All Engineering are contributing ~70% of the incremental industry credit (positive categories)**
- **Among personal loans, 70% (Rs 529 bn out of 753 bn) is contributed by 'loans against gold jewellery' alone…Gold Jewellery credit is ~60% of the incremental NF credit during Apr-May, FY27**

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

Sectors	FY26 (Apr-May-25)		FY27 (Apr-May-26)		YoY %	
	Rs bn	%	Rs bn	%	FY26	FY27
Agri. & Allied	**117**	**0.5**	**-28**	**-0.1**	**7.5**	**14.9**
Industry	**-520**	**-1.3**	**396**	**0.9**	**5.3**	**17.5**
MSE (Priority)	1710	7.6	845	2.9	18.7	23.7
Infrastructure	-164	-1.2	145	1.0	-1.3	11.6
Services	**-729**	**-1.4**	**-162**	**-0.3**	**8.4**	**20.4**
NBFCs	-730	-4.5	187	0.9	1.0	33.7
Personal Loans	**1085**	**1.8**	**753**	**1.1**	**11.1**	**15.4**
Housing (Including Priority)	269	0.9	131	0.4	9.0	10.9
Other Personal Loans	145	0.9	116	0.7	7.2	12.5
Loans against gold jewellery^	440	21.3	529	11.5	132.7	105.5
Gross Bank Credit	**434**	**0.2**	**1545**	**0.7**	**9.0**	**17.7**

Source: RBI, SBI Research ^including Agri Gold Loans

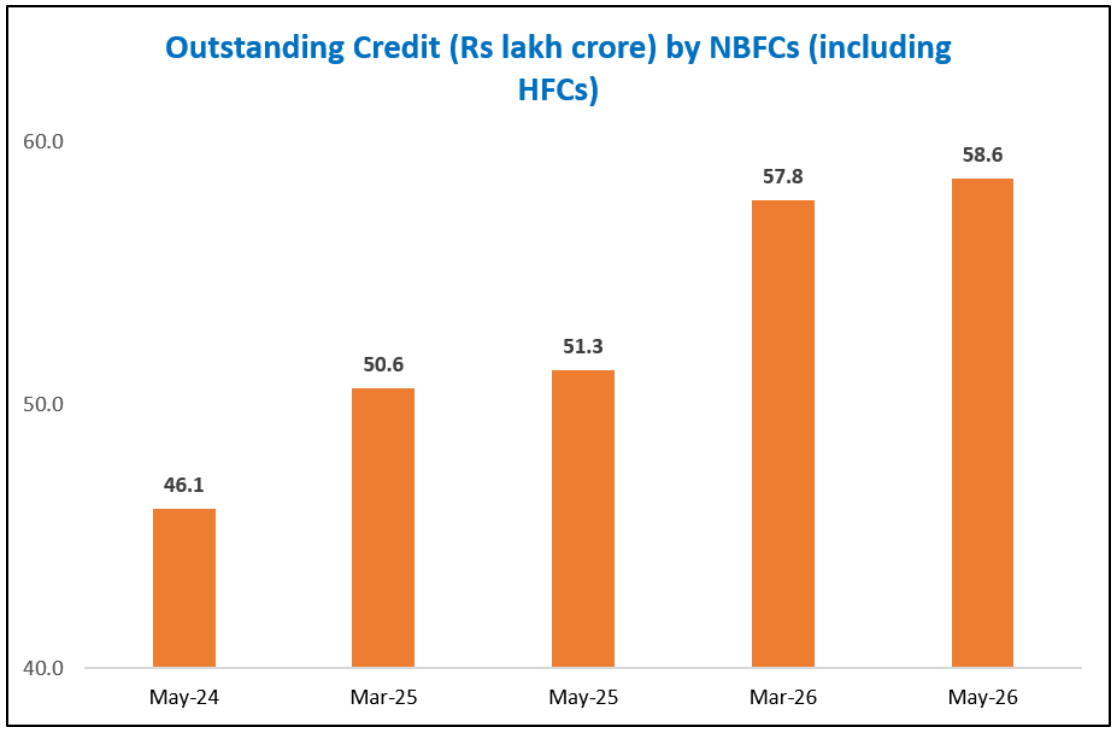
Major industries Incremental Credit Growth during FY27 (Apr & May)

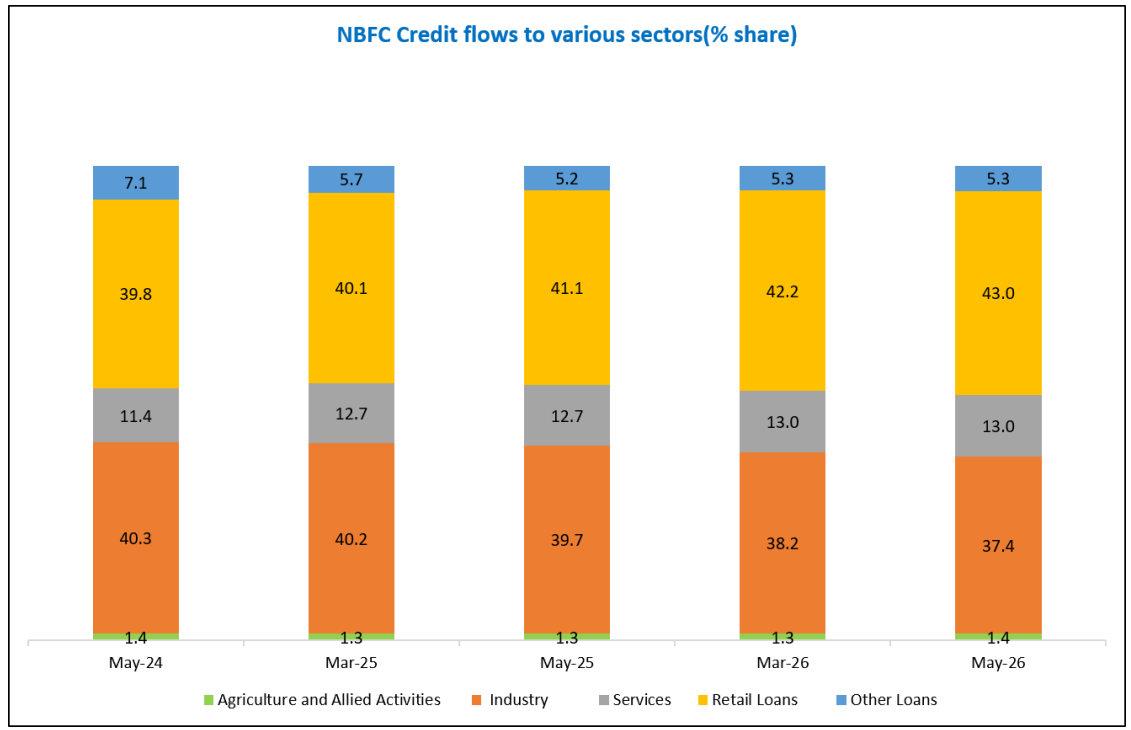
Major Industries	Rs Bn	% Share in incremental Industry credit(positive categories)
Infrastructure	145	24.1
Chemicals and Chemical Products	125	20.8
Vehicles & Parts and Transport Equipment	80	13.3
All Engineering	69	11.6
Food Processing	49	8.1
Basic Metal and Metal Product	41	6.9
Cement and Cement Products	34	5.7
Construction	23	3.8
Paper and Paper Products	17	2.8
Rubber, Plastic and their Products	11	1.8
Wood and Wood Products	5	0.8
Leather and Leather Products	2	0.3
Industries_Total for positive categories	**601**	
Industries_Total	**396**	

Source: SBI Research, RBI; Industries with positive growth considered

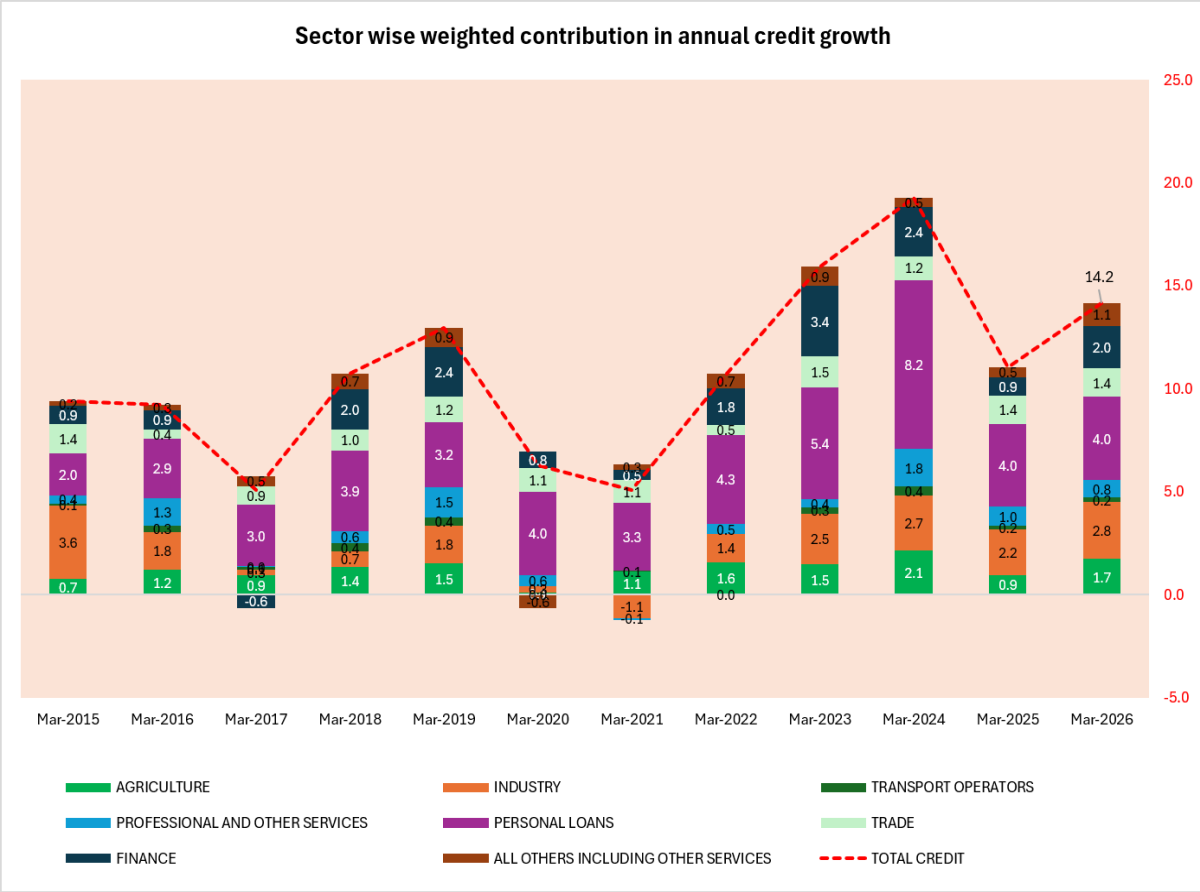
Retail Loans of NBFCs (including HFCs) hold 43% Share in Total Credit

- In the current year so far (till May'26), NBFCs (including HFCs) registered a growth of 14.2% YoY to reach outstanding credit of Rs 58.6 lakh crore, compared to last year growth of 11.4%
- Among the sectors, Retail loans share in increasing over the years and now stands at 43%...within retail loans the share of 'loans against gold jewellery' is increasing and is now at 13%





Firstly, long term trends in bank credit at broad sector level shows tilt towards Industry

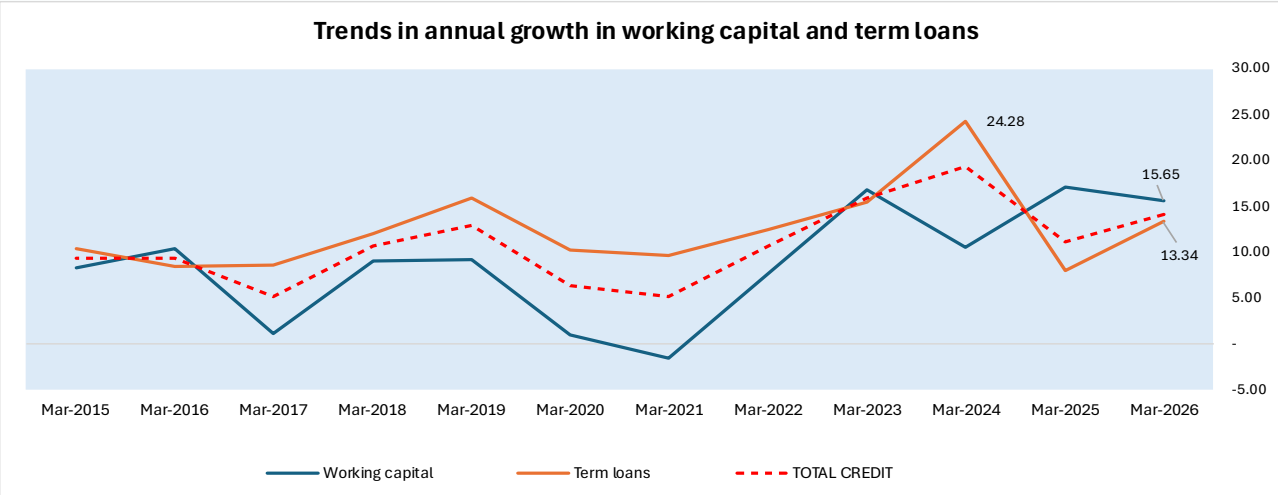


Industry wise credit growth (YoY%): Post COVID Trends					
Industry sub sectors	Mar-2022	Mar-2023	Mar-2024	Mar-2025	Mar-2026
INDUSTRY	4.8	9.1	10.3	9.3	11.8
1. Mining & Quarrying	-10.6	9.0	-3.9	13.7	21.4
2. Food Manufacturing & Processing	3.5	13.3	17.2	11.8	16.6
3. Beverage & Tobacco	4.5	38.6	30.8	-4.5	18.7
4. Textiles	7.0	4.4	10.9	7.6	5.8
5. Paper, Paper Products & Printing	2.1	9.6	8.3	11.0	6.1
6. Woods and Wood Products	-2.3	19.6	15.6	15.5	9.3
7. Leather & Leather Products	3.2	-1.1	11.9	6.0	5.0
8. Gems and Jewellery	16.1	-3.8	12.3	-4.6	30.6
9. Rubber & Plastic Products	13.5	9.6	8.3	13.7	9.1
11. Petroleum, Coal Products & Nuclear Fuels	15.6	48.2	-14.5	15.6	3.8
12. Manufacture of Cement & Cement Products	-7.1	19.0	6.0	-4.0	13.1
13. Basic Metals & Metal Products	-8.2	21.8	12.6	16.9	17.9
14. Engineering	4.6	2.4	26.2	19.1	17.4
15. Vehicles,Vehicle Parts & Transport Equipme	11.9	4.8	8.3	12.2	31.6
16. Other Industries	4.5	14.8	47.6	-13.1	9.8
17. Electricity, Gas & Water	2.8	0.9	9.0	16.2	9.9
18. Construction	8.8	5.9	2.7	3.7	4.6

Source: Quarterly BSR, RBI; Green >15%, Yellow<10%-15%; Pink: 5%-10%, Red <5%

- Post COVID-19 credit growth has been robust driven by pent up demand and strong GDP growth
- Till 2024 growth was driven by personal loans and broad recovery in industry
- **In 2024, after RBI regulatory action, the share of personal loans has declined and credit supply has spilled over in industry, finance and other sectors driven by de-risking mechanism of ECLGS. This is the first dimension of continued surge in bank credit for a prolonged period**

Secondly, long term trends in bank credit at facility level shows shift towards working capital



Working capital growth heat map of major Industries (YoY%): Post COVID Trends					
	Mar-2022	Mar-2023	Mar-2024	Mar-2025	Mar-2026
INDUSTRY	4.8	11.4	8.7	17.0	12.7
1. Mining & Quarrying	-7.2	3.8	-7.0	23.8	7.8
2. Manufacturing & Processing	7.0	12.3	11.0	15.7	15.3
3. Electricity, Gas & Water	4.7	-5.7	-0.5	31.9	1.2
4. Construction	-5.5	23.2	4.5	14.5	4.4

Source: Quarterly BSR on Credit, Green: >15%, Yellow: 10<Growth<15, Pink:: 5<Growth< 10, Red: Growth< 5

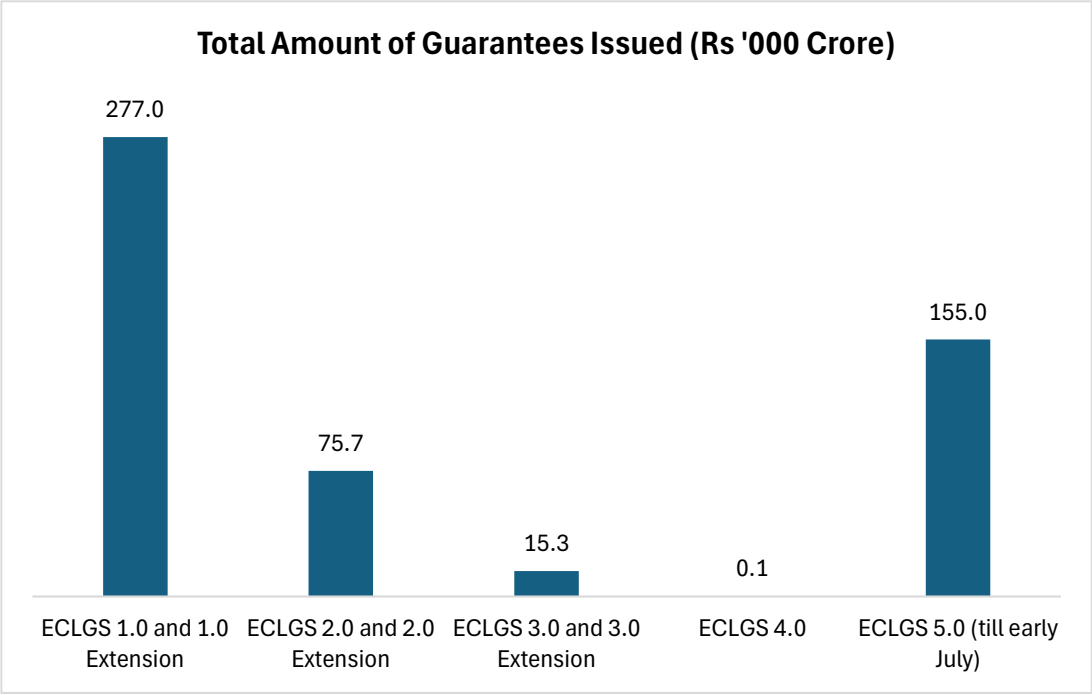
Term loan growth heat map of major Industries (YoY%): Post COVID Trends					
	Mar-2022	Mar-2023	Mar-2024	Mar-2025	Mar-2026
INDUSTRY	4.7	7.4	11.5	3.8	11.1
1. Mining & Quarrying	-13.6	13.9	-1.2	5.6	34.2
2. Manufacturing & Processing	1.5	13.9	18.8	1.8	13.3
3. Electricity, Gas & Water	2.2	2.9	11.7	12.4	12.5
4. Construction	12.7	1.9	2.1	0.6	4.6

Source: Quarterly BSR on Credit, Green: >15%, Yellow: 10<Growth<15, Pink:: 5<Growth< 10, Red: Growth< 5

- The broad sector level growth do not reveal the dynamics and source of credit demand
- A facility level analysis shows that after 2024 working capital loans such as cash credit, overdraft, demand loans, export credit have registered relatively faster growth vis-à-vis overall credit and term loans.. This pattern is prominently seen in agriculture, industry, services. **This is the second dimension of changes in bank credit**
- A higher growth of this type can indicate both strong demand and input cost pressures

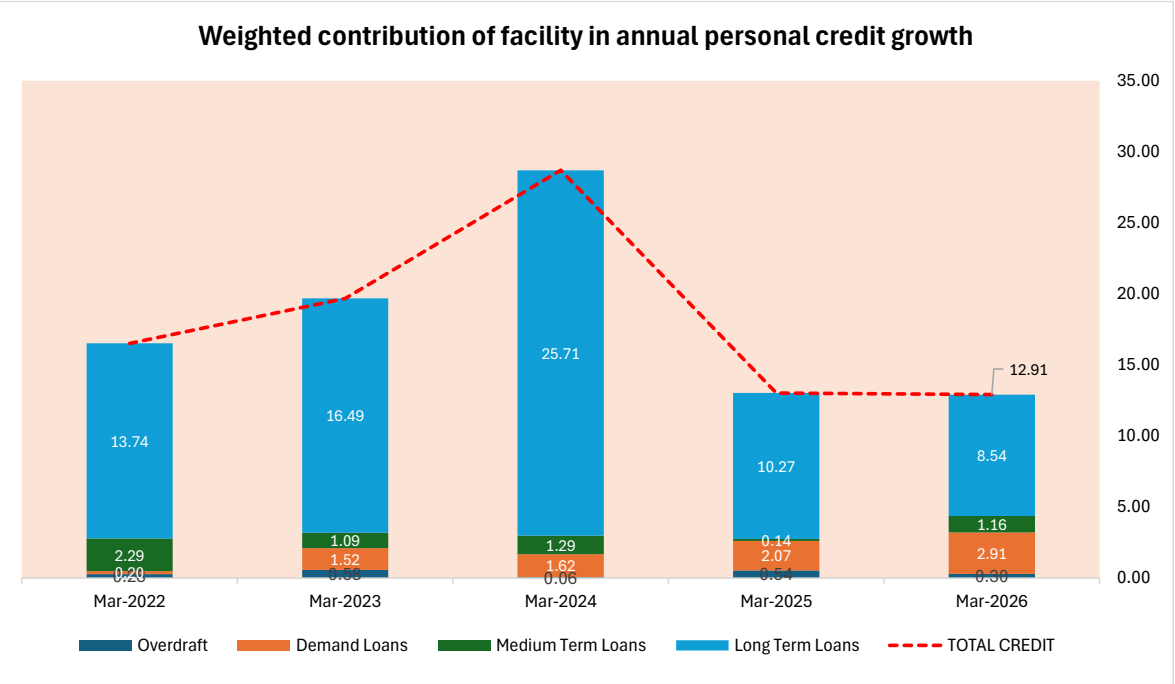
…ECLGS contributing to higher credit growth particularly in working capital segment

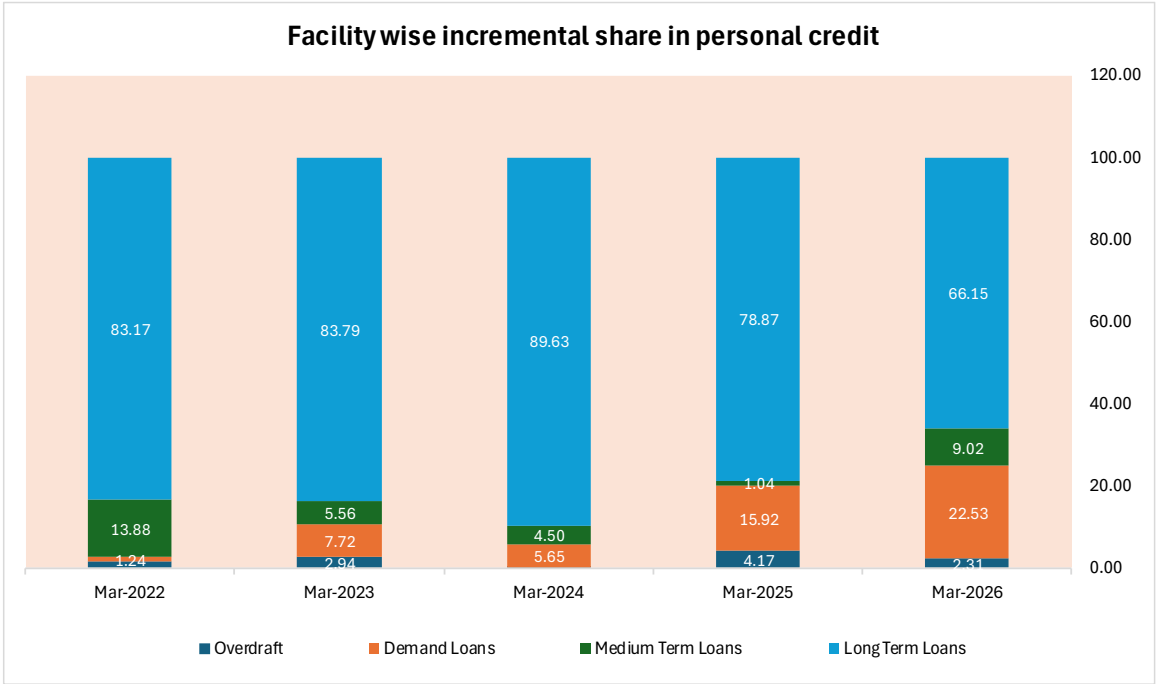
- Under ECLGS 1.0 to 4.0, total 1.2 crore guarantees were issued for a total amount of Rs 3.68 lakh crore
- ECLGS 5.0 is approved by the government on 5 May 2026
- De-risking mechanism of ECGLS is strong incentive for flow of funds to industry
- **ECLGS 5.0 crossed 4.11 lakh guarantees with guaranteed amount reaching over ₹1.55 lakh crore in early July**
- MSMEs have emerged as the biggest beneficiaries of the scheme, with 98% of the guarantees issued going to the sector, while 82% of the total guaranteed amount has also been extended to MSMEs



Source: Ministry of Finance, various press release

Thirdly, surge in personal loans at facility level shows tilt towards demand loans like gold loan and credit card



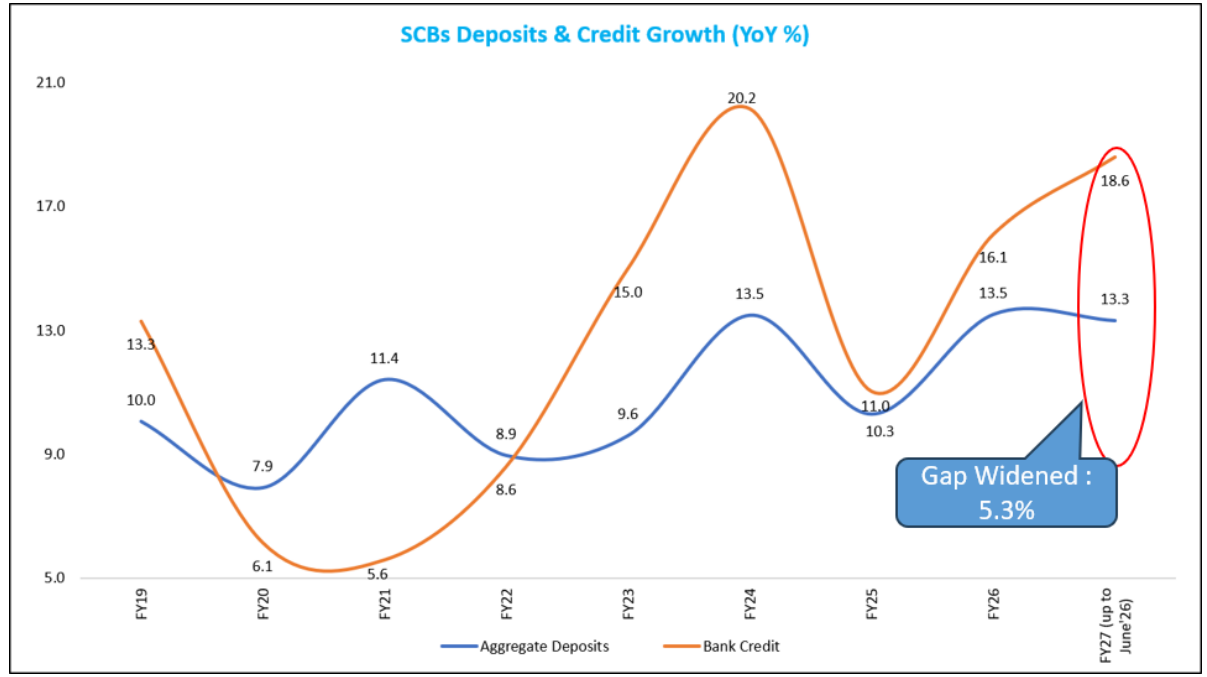


- Higher personal credit growth driven by demand loans such as gold loan, credit cards etc.
- **Share of long term loans (Housing) have declined. With shift to the new tax regime, people are repaying their loans faster. There has also been a shift of home loans to NBFC which has increased to Rs 8.21 lakh crore in FY26 from Rs 7.45 lakh crore in FY25.. This is the third dimension of changes in bank credit**

Dynamics of Bank Balance Sheet with a continued surge in credit and trend deposit growth

Gap between Deposits and Credit is widening…at 5.3% in June 2026….

- During FY01-10, bank credit grew by 1.82 times nominal GDP growth, but declined to 1.0 times in FY11-20, because of the asset quality issues of banks
- Further, it declined during FY21-23, as GDP contracted but reversed the trend since FY24 and is at 1.59 times during FY24-26
- **Since FY23, credit growth has consistently surpassed the deposits growth, which has resulted in gap widening to 5.3% in June 2026. This raises concerns among the banks to finance the credit demand, which has pushed up their CoF as they have to depend on other sources of funding like CDs, Money Market including TREPs, Bonds (local/overseas) etc**



Banks average borrowing under CBLO/TREP is consistent around ~Rs 4.5-5 lakh crore in FY27 so far, which leads to uptick in Cost of Funds (CoF)

.. How this is transmitting into banking balance sheet coupled with current external supply shocks

- **The shift in the demand for working capital is visible from 2021 onwards with the period characterized by multiple supply side shocks such COVID-19, Russia-Ukraine War, supply chain disruption and now West Asia conflict**

- This calls for looking at impact of external supply shocks on banks at balance sheet level using structural modeling

  - A S-VAR framework comprising of deposits, credit and crude oil prices was done using quarterly data for last 10 years

- The results clearly show that that supply-side shocks are transmitted asymmetrically across banking aggregates, with bank credit growth responding more strongly than bank deposits growth

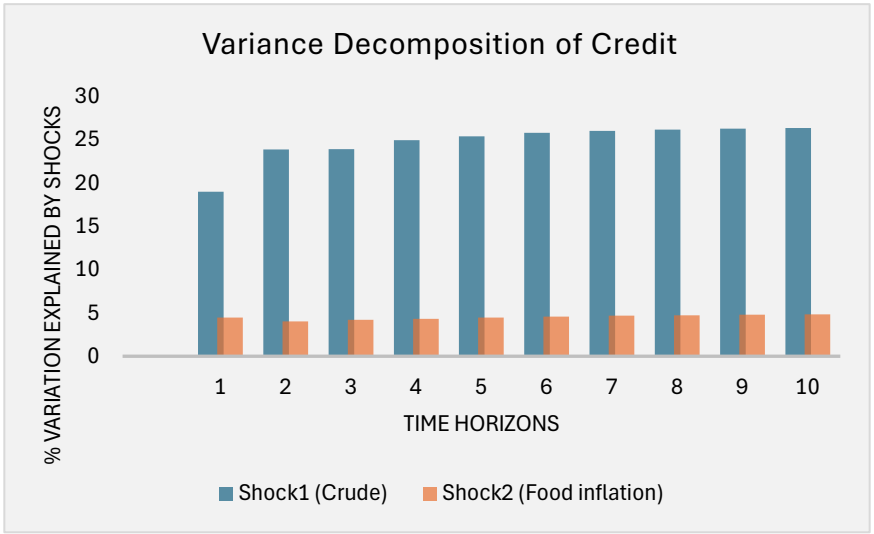
- **The variance decomposition indicates that supply-side shocks are more important in explaining fluctuations in bank credit than in bank deposits.** The combined contribution of crude oil and food inflation shocks to credit variance rises from 23.48% in the first quarter to 31.19% by the tenth quarter, compared with an increase from 6.26% to 17.60% for deposits

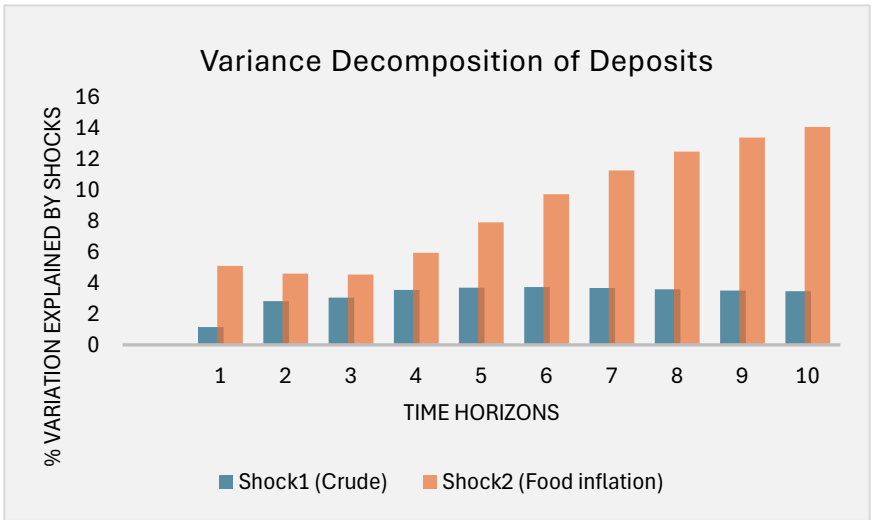
- **Crude oil shocks are the dominant source of supply-driven variation in credit, while food inflation becomes increasingly important for deposits over longer horizons. Furthermore, the shocks of food inflation on deposit accumulates over time horizons rather than dissipating**

- **Supply shock invariably creates liquidity gaps through wedge between deposit and credit growth and indicates one of the many dimensions of geopolitical risk to banking system in India**

Technical summary of S-VAR

Estimated Contemporaneous Structural Relationships (SVAR)	
Structural Relationship	Coefficient
Crude Oil → Bank Credit	0.072***
	(0.019)
Crude Oil → Bank Deposits	-0.043*
	(0.026)
Food Inflation → Bank Credit	-0.002*
	(0.001)
Food Inflation → Bank Deposits	0.004***
	(0.001)
Notes: *** p < 0.01, ** p < 0.05, * p < 0.10.	





Source: RBI Data, Internal calculations

Monsoon so far

Monsoon 2026: Progress so far is dismal…~60% districts witnessed deficit rainfall (Till date)

Year	June-July (% Deviation from Normal)
2002	-32.6%
1972	-29.6%
1987	-26.3%
1918	-26.0%
2026	-24.0%

Source: IMD

2026 (Jun-July) is the fifth driest period in the history of 126 years

Top driest states (June-17 July 2026)
Bihar (-46%)
Gujarat (-31%)
Kerala & Telangana (-33-34%)
Punjab (-38%)

State	Total Districts	% of districts having Deficit/Large Deficit rainfall (01 Jun to 17 Jul'26)
BIHAR	38	95%
KERALA	14	86%
TELANGANA	33	85%
ANDHRA PRADESH	26	81%
UTTAR PRADESH	75	69%
KARNATAKA	31	68%
GUJARAT	33	64%
PUNJAB	22	64%
All India	**741**	**60%**

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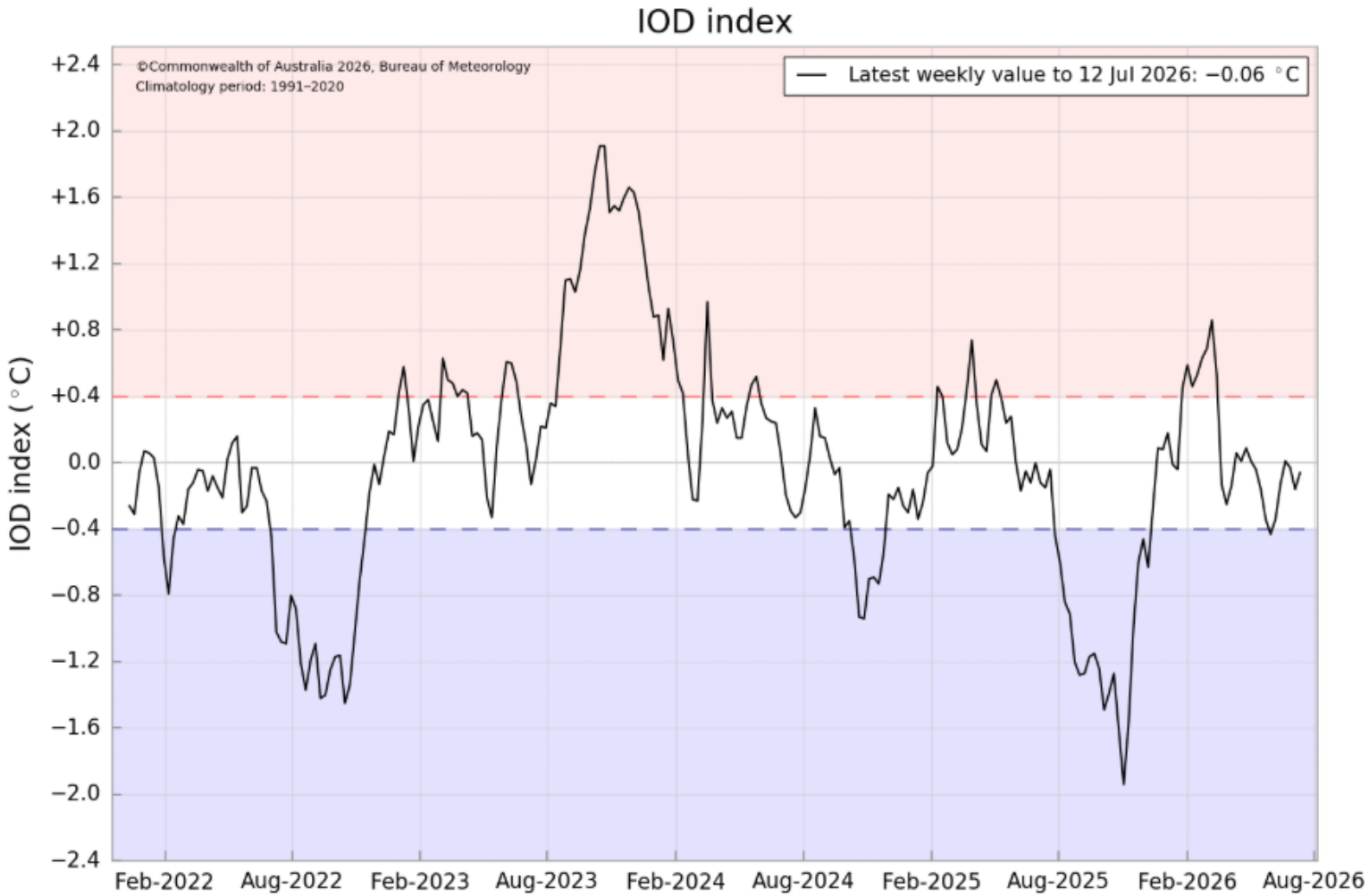
…though impact of El Nino may be nullified by Positive IOD

- The Indian Ocean Dipole (IOD) is defined by the difference in sea surface temperatures between the eastern and western tropical Indian Ocean
- **The Indian Ocean Dipole (IOD) is currently neutral. As of 12 July 2026, the IOD index is −0.06 °C**
- Models suggest IOD could turn positive during August-September, boosting the prospects of the South-West monsoon. However, model forecasts show a large variation in both the timing and strength of this potential event



Source: Australia's Bureau of Meteorology

Impact on Food Inflation likely to be contained

Low rains *per se* do not lead to higher food prices… it depends upon spatial distribution among months and states

Rainfall (% Departure from Normal)						Average food inflation (Jun-Sep)
Year	JUN	JUL	AUG	SEP	JUN-SEP	
2000	14.9	-7.7	-12.7	-21.9	-7.8	3.3%
2001	35.6	-4.8	-19.5	-35.8	-7.8	2.6%
2002	9.4	-54.2	-1.7	-12.9	-19.2	2.4%
2003	9.8	6.5	-4.5	-1.5	2.3	0.9%
2004	-0.8	-19.9	-4.3	-30.0	-13.8	3.0%
2005	-9.5	14.7	-28.4	20.3	-1.3	4.5%
2006	-12.7	-2.0	7.3	2.3	-0.4	8.4%
2007	18.5	-2.4	-1.8	18.4	5.7	9.0%
2008	24.3	-16.5	1.4	-5.5	-1.7	7.2%
2009	-47.2	-4.3	-26.5	-20.2	-21.8	13.1%
2010	-15.6	2.8	4.9	12.0	2.0	17.7%
2011	12.3	-14.8	9.2	7.6	1.6	8.8%
2012	-28.1	-13.4	0.5	11.5	-7.1	11.0%
2013	34.4	7.3	-2.3	-12.0	5.7	12.7%
2014	-41.8	-9.6	-9.0	8.3	-11.9	7.7%
2015	15.5	-16.7	-21.9	-24.0	-13.7	7.7%
2016	-9.8	6.9	-8.3	-3.1	-2.6	3.4%
2017	5.4	0.4	-12.1	-11.6	-4.7	7.0%
2018	-4.8	-5.2	-8.1	-23.5	-9.6	0.1%
2019	-32.8	4.6	15.3	52.4	9.9	1.3%
2020	17.2	-9.9	27.0	4.6	8.8	3.2%
2021	9.3	-6.7	-24.0	34.9	-0.7	9.4%
2022	-7.9	16.6	3.6	8.0	6.5	3.2%
2023	-7.5	12.8	-36.1	13.1	-5.3	7.7%
2024	-10.9	8.6	15.1	11.8	7.4	8.2%
2025	8.9	4.8	5.2	15.3	7.7	-1.4%
2026	-40.0	-7.0	-	-	-24.0	~6% (P)
El Nino Years						2000 to 2011: WPI
Years with deficit rainfall						2012 onwards: CPI

- Year 2018 is worth mentioning. Even after below average rainfall, **no impact on food inflation was seen as there was better spatial distribution**
- In only one El Nino year in 2009, food inflation touched 13.1%.
- However, 2009 witnessed a combination of higher MSP (40% increase), implementation of pay commission recommendations (23.5% hike) and national loan waiver (~Rs 60,000 crores) that pushed up the prices and inflation became generalized

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