SBI Research

Economic Outlook 2026-27: THE AUDACITY OF FLEETING HOPE

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Will Science Trump Finance?....

- The prolonged talks, mostly dead-locked and partially filled with a false semblance of hope at once, **reminiscent of *Kabhi Haan, Kabhi Naa*** *(Strait of Hormuz closed, then opened, again closed….)* syndrome have a hidden layer beneath the blinking shifts of pangs of fear leading to choked capital flows across competing asset classes while also erupting in exuberance, a part vicious-part virtuous self belief in transformative AI-led tech architecture unfolding unevenly

- **One of the most striking consequences of the war has been the destruction of key production facilities** across the Persian Gulf, a region peculiarly blessed with close to 1/5th of the pressurized gas (hydrocarbons) reservoirs across South Pars-North Dome fields, notably those that produce humongous quantities of Helium, Methane and LNG that help keep churning of chips to fertilizers plants, plastic to fuels as inputs for diverse product range… **the key question that financial markets seem to heeding no attention to is the scenarios of rebuilding the lost capacity (not its cost component from Petro Dollar perspectives)**

- The complex process of procuring key components like BAHX (Brazed Aluminum Plate-Fin Heat Exchanger) in LNG liquification train / air separation unit for Helium production plants / methane cooling process **where the suppliers are just a select few and waiting period stretches for years from competing firms** as demand skyrockets from semiconductor industry and data centres looms large over rebuilding saga. Same goes true for large frame gas turbines for LNG main refrigeration compressors and air separation units that remove nitrogen

- **Rebuilding these capacities are not being properly factored as of now by models running Stress tests or Scenario analysis, we understand, questioning the near innocent beliefs that are centered around the half-baked attempts to call the semi colon a full stop as far as the badly truced mediations have gone to broker peace amongst the warring sovereigns, without any amicable solution as key actors like Israel, China or Japan are not being paid close attention to…..**

Key Lessons Learnt from FY26 and Outlook for India for FY27

- *The year 2026-27 looks to usher in a protracted version of the proverb "May you live in interesting times…."*

- Historical analysis indicates that post every major oil shocks, the US economy went through a recession..However, unlike during earlier oil shocks, U.S. households are receiving substantial tax refunds, and US is energy self-sufficient—in contrast to earlier episodes. Thus as an oil exporter, the U.S. now keeps higher energy spending at home when prices rise….

- **As far as India is concerned, the country has entered the global geo-political conflict from a situation of strength this time with FY26 growth at 7.6%, similar to Russia and Ukraine crisis, when India was expanding at more than 9%.. India is projected to grow at 6.8% in FY27, as fears of Super El Nino could cloud growth estimates.. with inflation average at 4.5%.. Fiscal deficit likely to 4.5-4.6%.. India has a strong Banking sector.. There is a need for a comprehensive package to support Balance of Payments and hence Rupee**

- **While the war has created multiple vortexes of headwinds across its Second and Third tier impacts, across agri to MSMEs to consumption patterns and fed ample rigidity in global supply/value chains, there are some green shoots too that can strategically be leveraged in the long run by the country repositioning itself in the global value chain**

- From the perspective of finance, the Dubai and Abu Dhabi financial centres are entering a period of uncertainty. Initial reactions suggest that rising geopolitical tensions in West Asia are prompting some global investors and non-resident Indians to reassess concentrated exposure to Dubai. **This presents a good opportunity for IFSC GIFT City as a stable global financial destination**

- With disruptions shaking the Middle-East, India can position itself as transit hub for international tourists. With sky becoming unsafe over parts of Mid-East/UAE, **airports in China and India could gain ground** in global aviation as the Iran conflict disrupts traditional routes through the Middle East, creating an opening for alternative transit hubs. However, this may require investments in airport infrastructure, connectivity and passenger experience

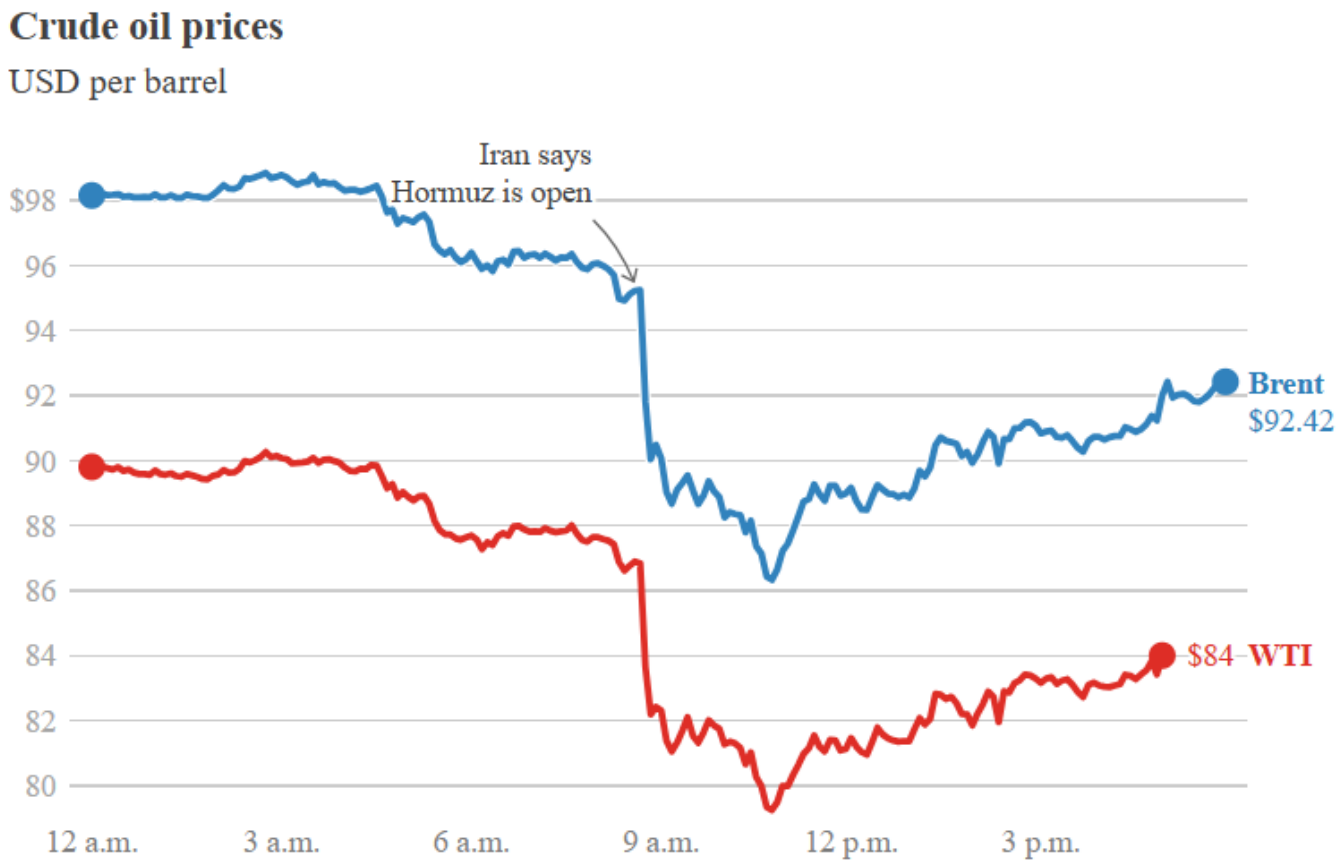
GLOBAL MACROS

How the war threatens to impact the Global Value Chain…..

Communication Matters…What Matters most is the Action (Peace!)

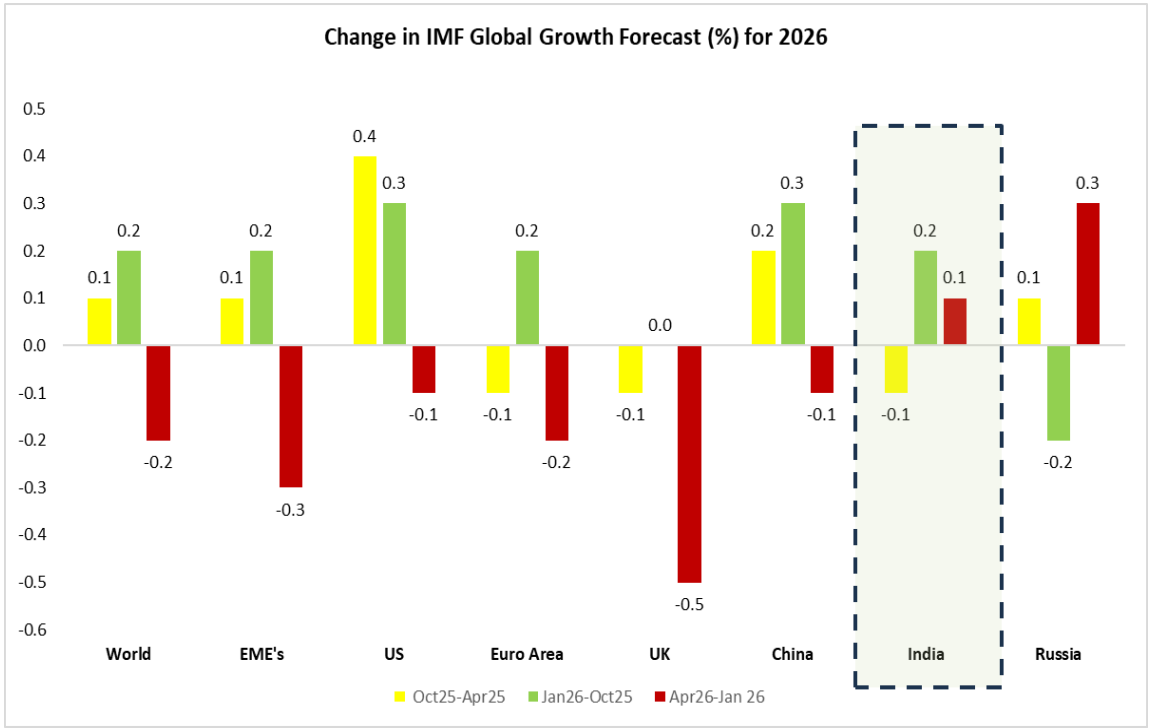
- When only a news of open of Hormuz impact crude oil vehemently, imagine the situation when the WAR will cease …

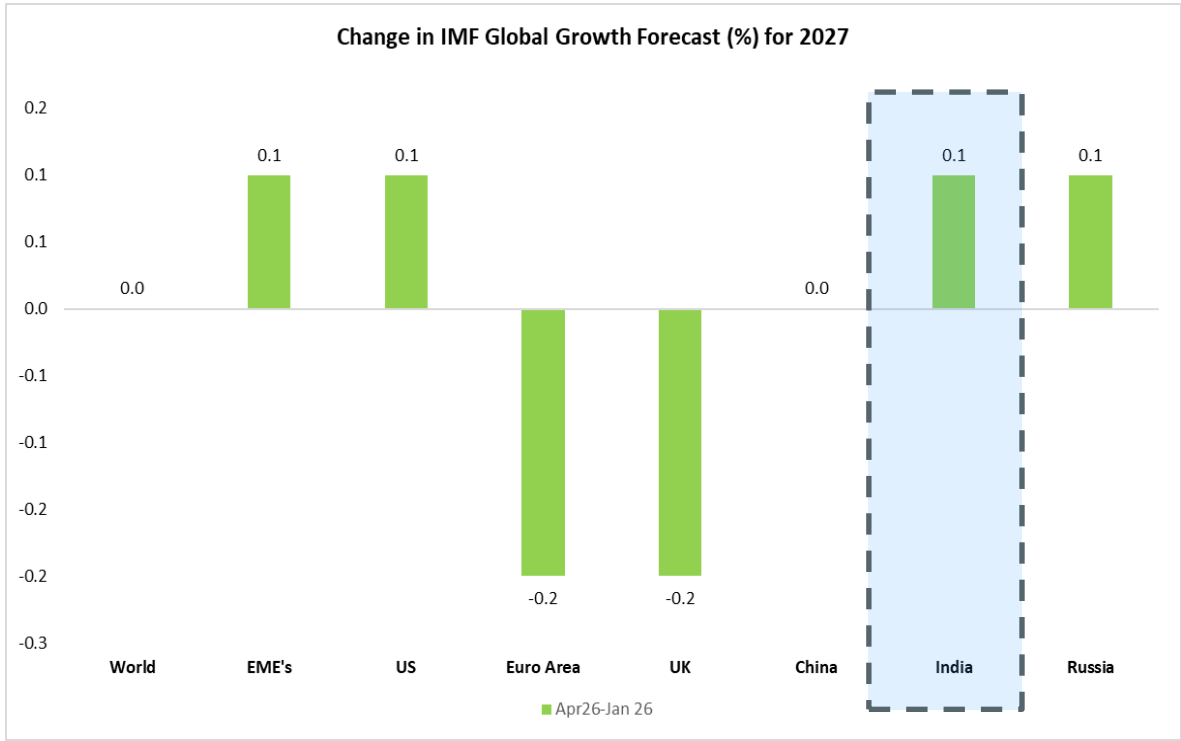
- Though supply side constraints take time to recuperate….till then OIL will be ~$90 per barrel



Global economy growth to slow in 2026 but Outlook is clouded

- IMF in its latest WEO has revised downward world growth forecast by 20 bps to 3.1% for 2026 and 3.2% for 2027, driven by escalating Middle East conflicts causing supply chain disruptions
- Contrary to the global trend, the IMF slightly increased India's growth projection to 6.5% for 2026-27, driven by strong domestic demand

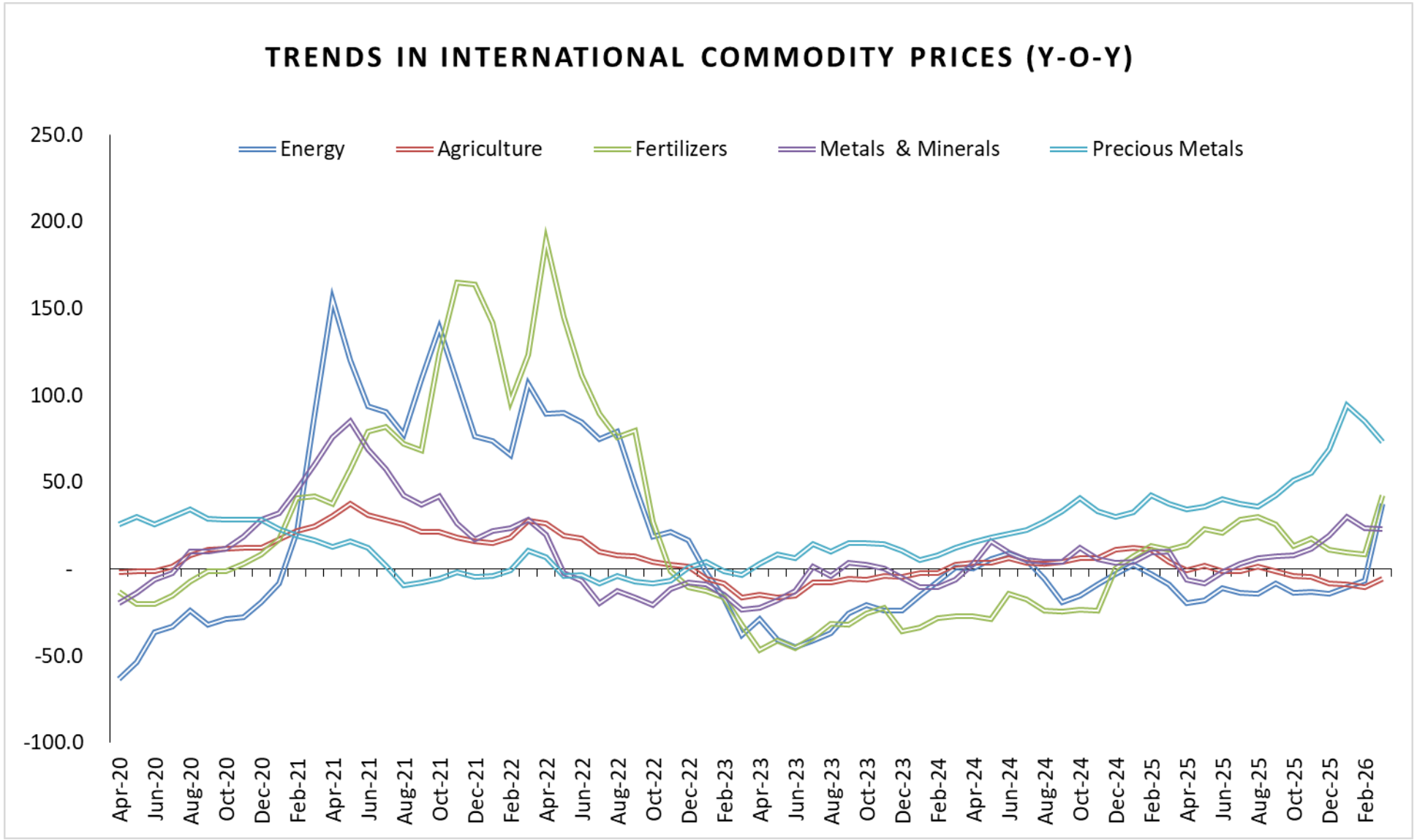




Growth Outlook Revised Downwards for all but India, Russia and Brazil the exceptions…

Country	Forecasted GDP Growth in 2026		Remarks
	April-2026	Jan-2026	
US	2.3	2.4	Growth supported by AI but still moderating
Euro Area	1.1	1.3	Faces near term slowdown from energy shocks, then gradual recovery
Japan	0.7	0.7	Fiscal stimulus will partly offset energy drag
China	4.4	4.5	Exports strong but property slump weighs on domestic demand
India	6.5	6.4	Energy dependence slows activities a bit
Russia	1.1	0.8	Growth soft but higher energy prices provide a lift
Brazil	1.9	1.6	Modest growth amid policy uncertainty and higher input costs
World	**3.1**	**3.3**	Global economy is again disrupted, this time with the outbreak of war in the Middle East. Rising commodity prices, firmer inflation expectations, and tighter financial conditions are testing the recent resilience

International commodity prices show rising trends… China's Growth remains a key driver



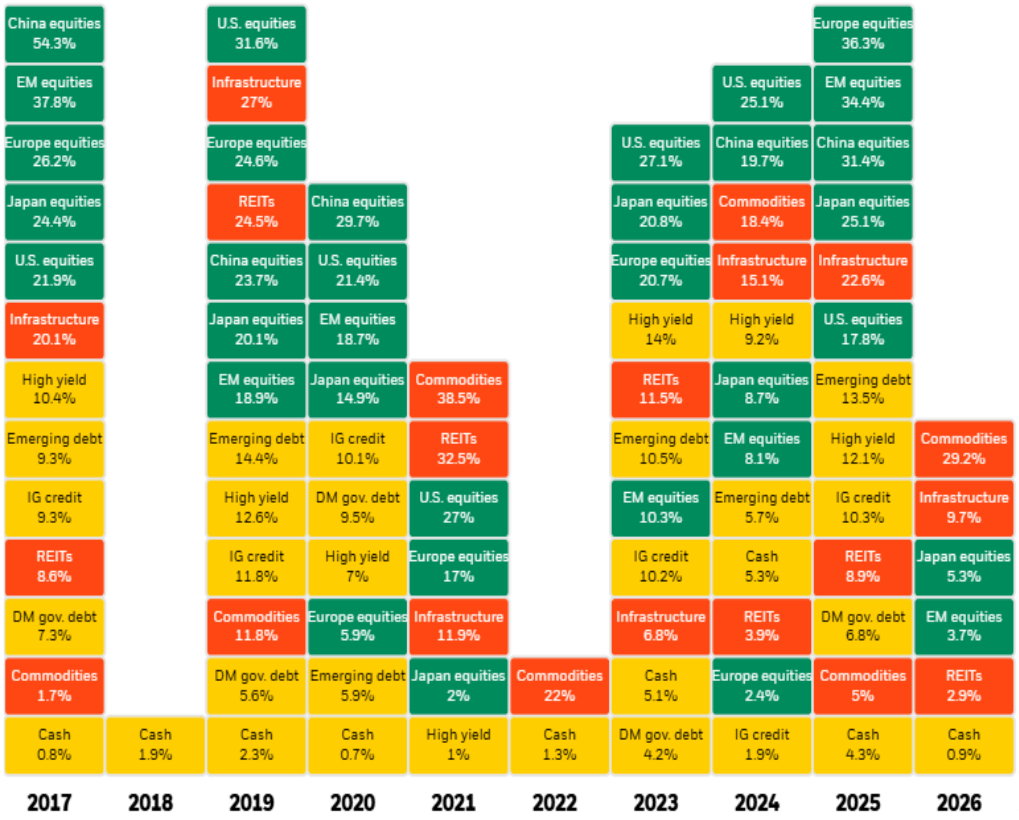
Rate actions in 2026: Differentiation of monetary policies in major jurisdictions is expected to continue

- Many Developed Market central banks have paused, in 2026 following the rate cuts in 2025
- Central Banks would be reassessing the glide path afresh if a promising deal (however unstable) is brokered for peace in the raging West Asia, duly incorporating the impact of domestic macros, trade headwinds, fiscal constraints and currency perils, often at odds
- Given the growth-inflation paradox, there is little room for a rate decision at this juncture by the RBI and status quo would be maintained for a period till the full impact of the war, as also evolving climate patterns become clear, implying a lower for longer regime to continue

Emerging and developed Central banks rate action and inflation

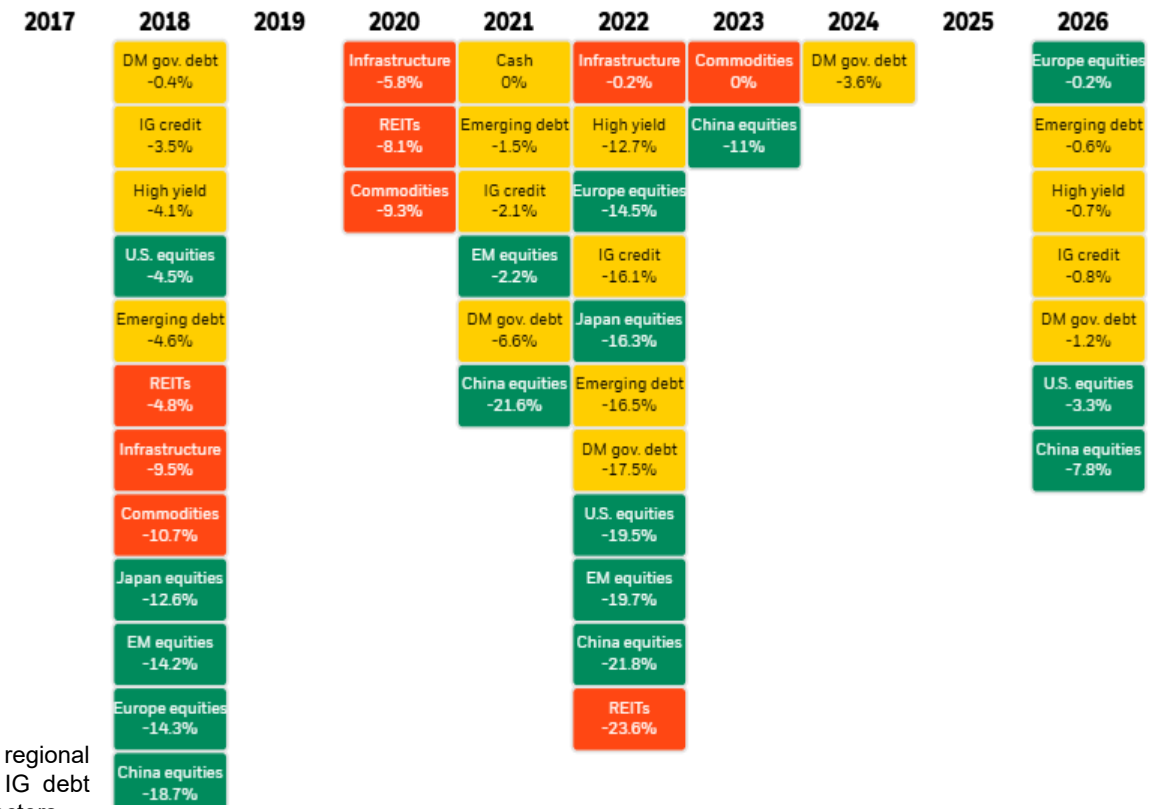
	latest rate	Rate action in last policy	Latest inflation	Central banks inflation target for 2026
Brazil	14.8	-0.25	4.14	3%
Russia	15.0	-0.5	5.9	4.5%-5.5%
Japan	0.8	hold	1.3	2.00%
Vietnam	4.5	hold	4.65	4.50%
Malaysia	2.8	hold	1.4	1.5%–2.5%
China	3.0	hold	1	2%
India	5.3	hold	3.4	4+/-2%
South Korea	2.5	hold	2.2	2.00%
Thailand	1.0	hold	-0.08	1% to 3%
South Africa	6.8	hold	3	3.00%
Switzerland	0.0	hold	0.3	0% to 2%
United Kingdom	3.8	hold	3	2%
United States	3.8	hold	3.3	3%
Indonesia	4.8	hold	3.48	2.5%±1%
Philippines	4.3	hold	4.1	2%-4%
European Union	2.2	hold	2.1	2.00%
Mexico	6.8	-25	4.59	3%

Asset Classes Globally appear Disjointed and moving away from clustered approach….

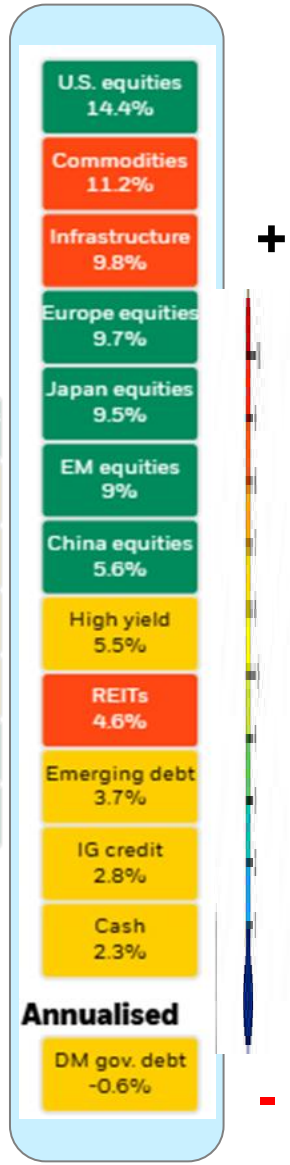


RETURNS IN POSITIVE ZONE

RETURNS IN NEGATIVE TERRITORY



Annualized (2017-2026)



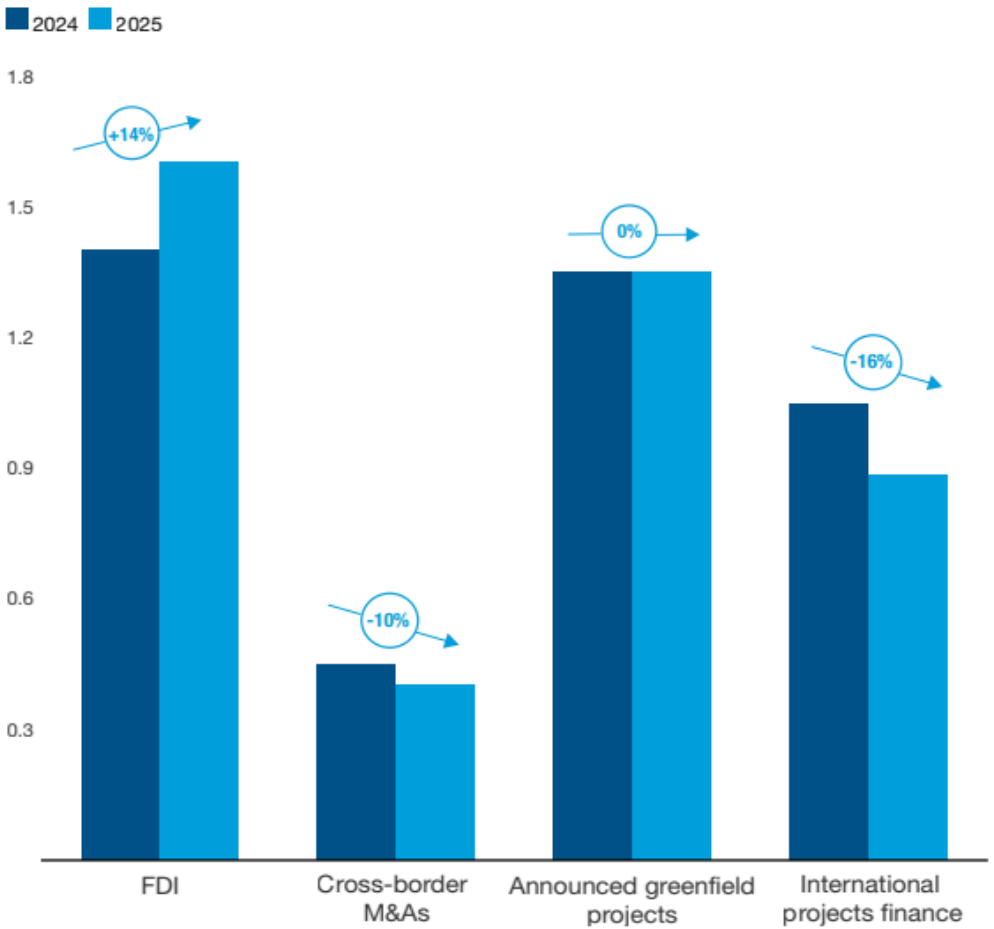
Within overall performances, intra regional performances would be worth noticing (viz. IG debt across EMs) or broader equities sans select sectors

All return figures in %, scaled to zero

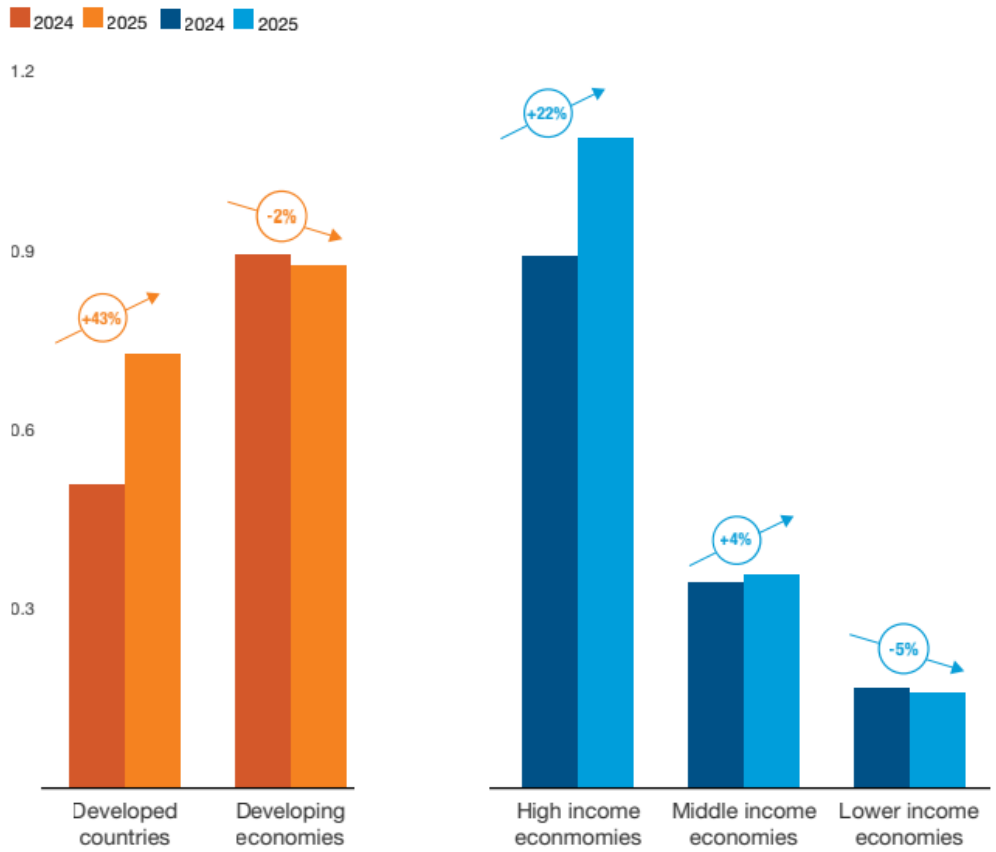
Source: BlackRock Inc., SBI Research, April'26 data up to 06 April

Global FDI flows are in select new-age sectors and territories…. EMs on receiving end!

Global investment trends, 2025 vs 2024 (US$ Tn)



FDI inflows, by country grouping, 2025 vs 2024 (US% Tn)



Global FDI bounced back in 2025, but was channeled to DMs largely as AI / data centers wave and Europe's defense push vied for Higher capacity building…. Many DMs can be flabbergasted if M&A cross border deals too taper while not much happens on lumpy Greenfield and Projects financing front…jurisdictions need to think long term

Source: UNCTAD GITM, SBI Research

US headed for a recession??

US economy heading towards a recession?:This time may be different….Impact on India?

- Historical analysis indicates that post every major oil shocks, the US economy went through a recession. For instance, In 2007, latest within a year and earliest within a month..
- However, unlike during earlier oil shocks, U.S. households are receiving substantial tax refunds, and US is energy self-sufficient—in contrast to earlier episodes. Thus as an oil exporter, the U.S. now keeps higher energy spending at home when prices rise….
- **As far as India is concerned, India has entered the global geo-political conflict from a situation of strength this time with FY26 growth at 7.6%, similar to Russia and Ukraine crisis, when India was expanding at more than 9%**

Historic Oil Shocks and Global Recessions

Sl No	Oil Shock	Period	Price Movement	Price Change %	Start of Ensuring Recession
1	Arab Oil Embargo	11/73 - 03/74	$3 to $12	300	11/73, one month later
2	Fall of the Shah of Iran	Feb-79	$14 to $35	150	01/80, 11 months later
3	Oil spike during the Gulf War	08/90 - 01/91	$20 to $40	100	07/90, already in recession
4	Global oil surge preceding the Global Financial Crisis	06/07 - 06/08	$70 to $147	110	12/07, 5 months later
5	Russia-Ukraine war	01/22 - 12/22	$ 80 to $ 127	59	While not universally deemed a "global recession" in 2022, it pushed several nations to the brink of recession
6	West Asia Crisis	Feb-26	$ 70 to -	-	-

Source: Hoisington Investment management company, SBI Research, Bloomberg

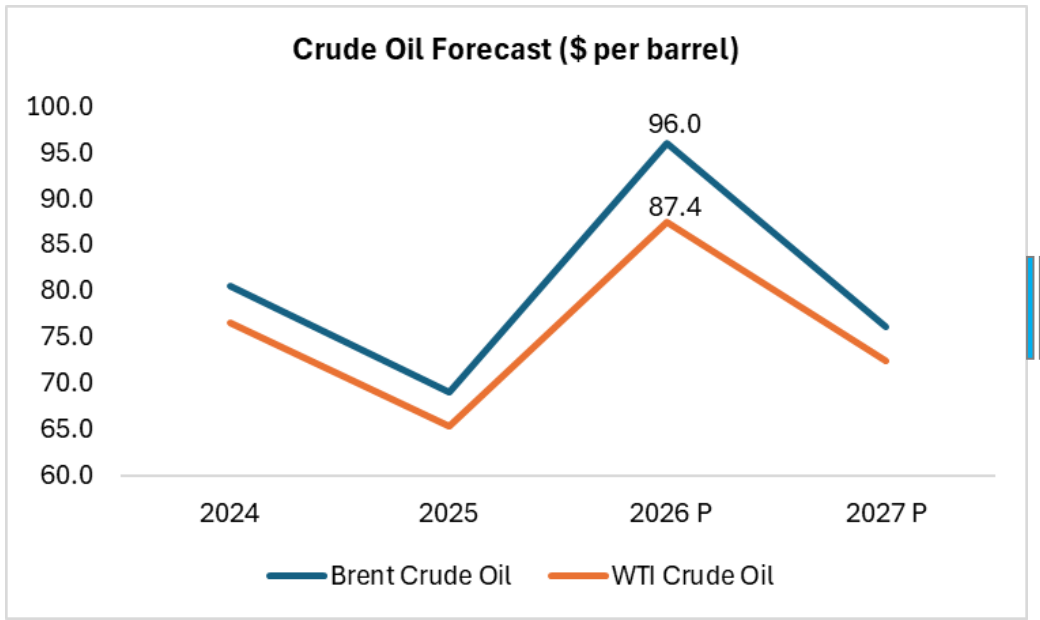
India Vs US

Sl No	Oil Shock	U.S. Real GDP Peak-to-Trough Decline	India real GDP growth	Global Real GDP per capita change	Change in World Trade Volume
1	Arab Oil Embargo	-3%	-0.6% in FY 73	-$66 in 1975	-12% in 1975
2	Fall of the Shah of Iran	-2.2% (1980 recession) -2.9 % (Jul. 1981-Nov. 1982 recession)	-5.2% in FY80	-$85 in 1982	-3.2% to -5% in 1981 to 1985
3	Oil spike during the Gulf War	-2%	1.1% in FY92	-$ 30 in 1991	-2.5% in 1990
4	Global oil surge preceding the Global Financial Crisis	-4%	3.1% in FY 09	-$ 235 in 2009	-14.3% in 2009
5	Russia-Ukraine war	3%	9.70%	$ 279 in 2022	-6% in 2022
6	West Asia Crisis	2.1%(IMF)	6.5%(IMF)	-	2.6%(WTO)

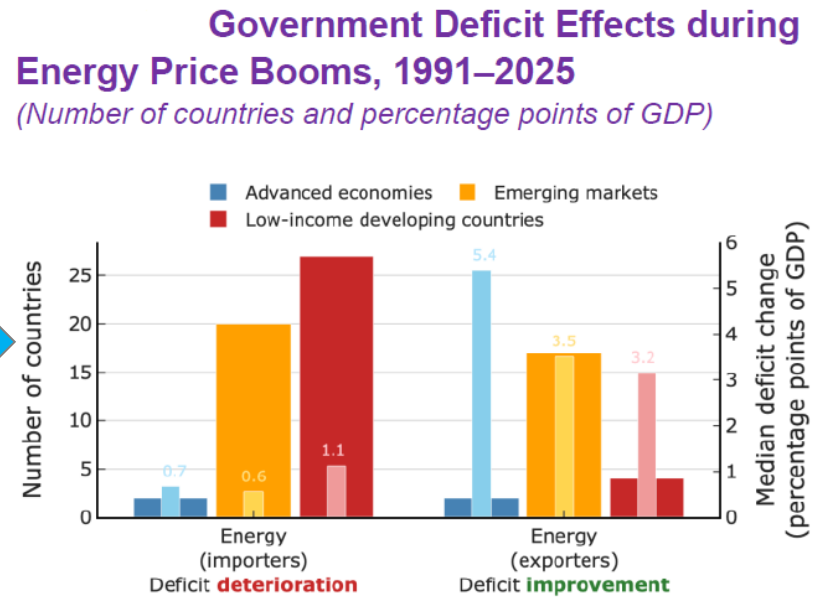
Source: Hoisington Investment management company, SBI Research, Bloomberg,Federal Reserve Bank of St. Louis

…But impact of Energy Shocks on Government Deficits likely to be large

- Brent crude is expected to remain closer to ~$100 per barrel for 2026 (as compared to merely $69 per barrel in 2025)
- IMF in its Fiscal Monitor (April 2026) indicate that this energy price shocks may generate large and unequal fiscal effects. Low-income developing countries have typically faced the sharpest deterioration, as higher energy import bills strain already limited fiscal space. Fiscal balances may deteriorate materially during energy price booms
- By contrast, energy exporters have historically seen their fiscal positions improve



Impact on Fiscal



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Source: https://www.eia.gov/analysis/

India’s Growth Outlook

A ‘Super El Niño*’ is a large possibility

- Climate scientists believe that a rare, strong El Niño—typically known as a “Super El Niño” could form in the coming months

- As per independent estimates*, strong El Niños do not happen often—there have been only five since 1950, with the last taking place from 2015 to 2016. Scientists still aren’t sure whether an El Niño is certain this year, but the likelihood is increasing, with the National Oceanic and Atmospheric Administration predicting on April 9 **a 61% chance of an El Niño, and a one in four chance that it might be strong**

- The effects of El Nino are felt differently around the world:
  - A quieter Atlantic hurricane season, but could bring more hurricanes to the Central Pacific
  - The **summer monsoon season in South Asia could be weaker**, and the fall and winter could bring drought conditions to parts of the Amazon and Australia
  - In the U.S., parts of the South might see more rain and cooler temperatures, while the northern areas could experience warmer-than-average temperatures

- An El Niño could also **pose a threat to food security** amid a number of other global crises— including price spikes for fuel and fertilizer due to the Iran war

Source: *TIME Magazine *Not a scientific category

El Niño and Indian Monsoon: What Research Indicates?

Timing of El Niño

Research (Feb 2025)* indicates that, "*the Indian region experiences a significant average negative deviation of 26% from normal rainfall across 30% of the country during spring El Niño (February to May). Whereas a summer El Niño (June to September) is distinguished by a significant negative deviation over 15% of the Indian region with an average deviation of 22% across the country*". So, **Summer El Niño may pose greater threat to Indian monsoon**.

Govt. of India

Union Minister of State for Science & Technology and Earth Sciences in a written reply in the Lok Sabha (11 Dec 2024) said that, "*In general, during the El Nino event, the Indian summer monsoon is weaker than normal, and the intensity of the event also decides the amount of impact on the monsoon. Since 1950, there have been 16 El Niño years, out of which 7 years had impacted Indian monsoon rainfall when rainfall was below normal. However,* ***there is a stronger inverse relationship between El Niño and rainfall during the later half of the monsoon season*** *(particularly with September rainfall)*."

ICRIER Report

According to ICRIER working paper 276 (June 2014), "*Looking at the relation between El Nino and Indian droughts since 1950, it is observed that India faced 13 droughts, and 10 of these were in El Niño years and one in a La Niña year. This indicates that* ***there may not be a one-to-one correspondence between El Niño and Indian droughts****. However, it may be worth noting that since 1980, all the six droughts faced by India were in El Niño years but still not all El Niño years led to drought in the country. But this relation appears to have strengthened in the 21st century. In the last 14 years, e.g., out of the four El Niño years globally, three resulted in Indian droughts*."

*Reema Kasera, Vijay K. Minocha, Impact of El Niño onset timing on Indian Monsoon Rainfall patterns, Global and Planetary Change, Volume 245, 2025

Impact of Monsoon on Agri Growth and Inflation

2026 IMD forecast of 92% is lowest since 2002

Rainfall: Forecast and Actual (% of LPA)									
Year	First Forecast		Actual	Regio-wise (Actual)				Average Food inflation (Jun-Sep)	Agri GVA Growth (% YoY)
	IMD	Skymet		East & North East	North West India	Central India	South peninsula		
2026	92%	94%	-						
2025	105%	103%	108%	80%	127%	115%	110%	-1.4%	3.1
2024	106%	102%	108%	87%	126%	119%	114%	8.2%	4.6
2023	96%	94%	94%	82%	101%	100%	92%	7.7%	2.7
2022	99%	98%	106%	82%	101%	119%	122%	3.2%	6.3
2021	98%	103%	99%	88%	96%	104%	111%	9.4%	4.6
2020	100%	100%	109%	106%	84%	115%	129%	3.2%	4.0
2019	96%	93%	110%	88%	98%	129%	116%	1.3%	6.2
2018	97%	100%	91%	76%	98%	93%	98%	0.1%	2.1
2017	96%	95%	95%	96%	90%	94%	100%	7.0%	6.6
2016	106%	105%	97%	89%	95%	106%	92%	3.4%	6.8
2015	93%	90%	86%	93%	83%	84%	84%	7.7%	0.6

Source: IMD; Skymet; NSO; SBI Research

Year 2018 is worthy to mention. Even after below average rainfall, **no impact on inflation**

REASON: Better Spatial distribution

Root Mean Square Error:

IMD Forecast & Actual: 6.8%
Skymet Forecast & Actual: 7.8%

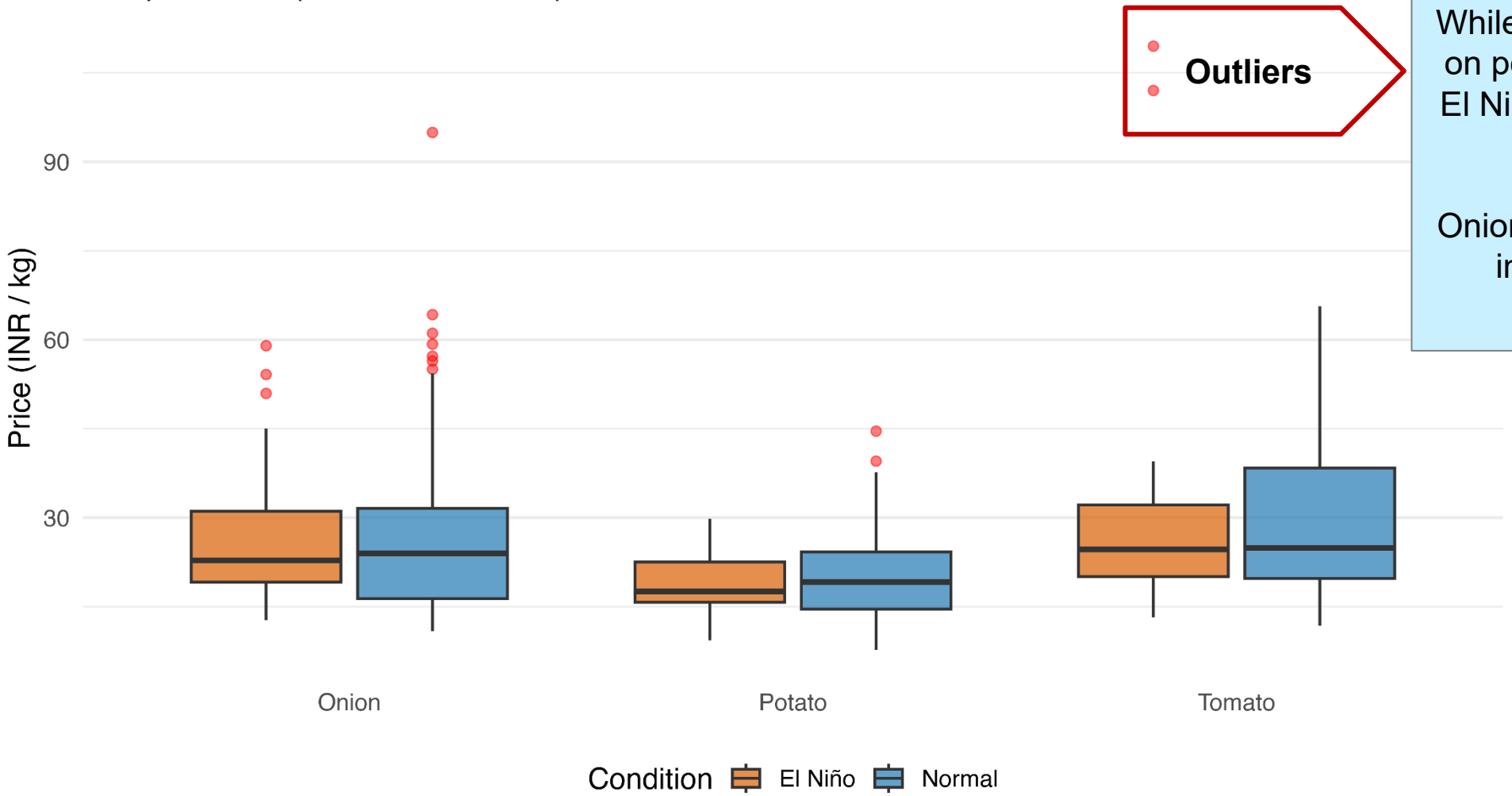
Only two years (2023/2015) when food inflation was more than 7% and Agri growth less than 3%

In both cases, Rainfall below 95% of LPA

Among TOP, Tomato prices may shoot up if El Niño comes

Price Distribution & Volatility Profile

Comparative dispersion of baseline prices under Normal vs. El Niño conditions

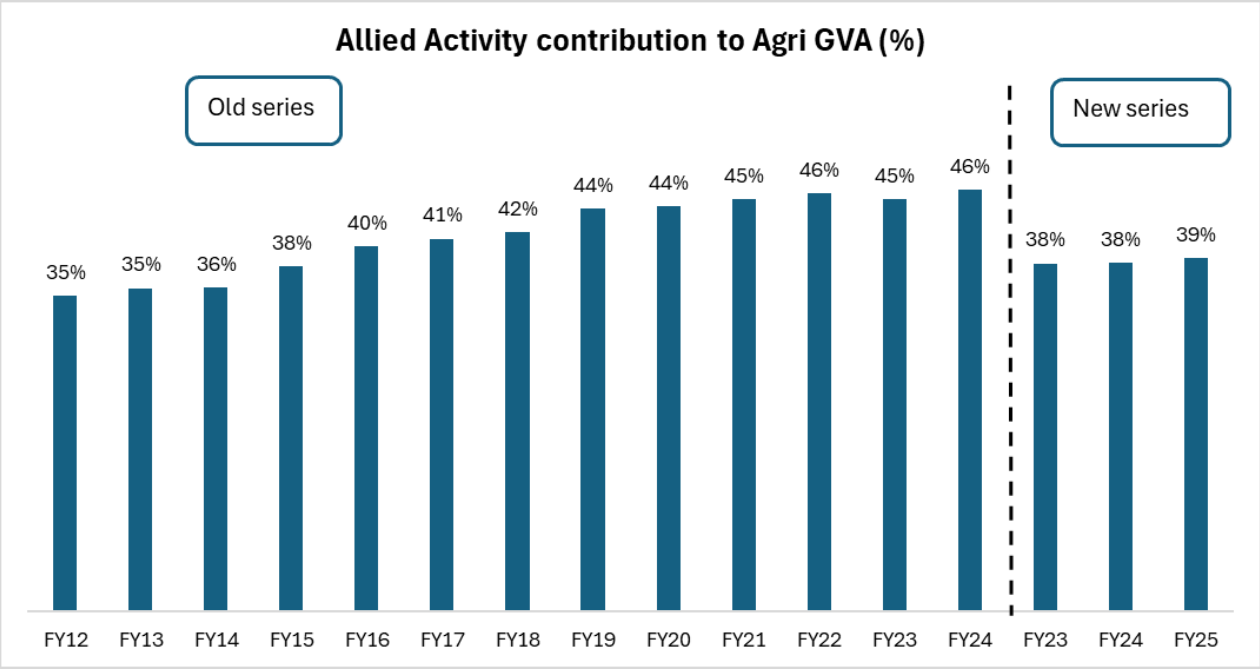


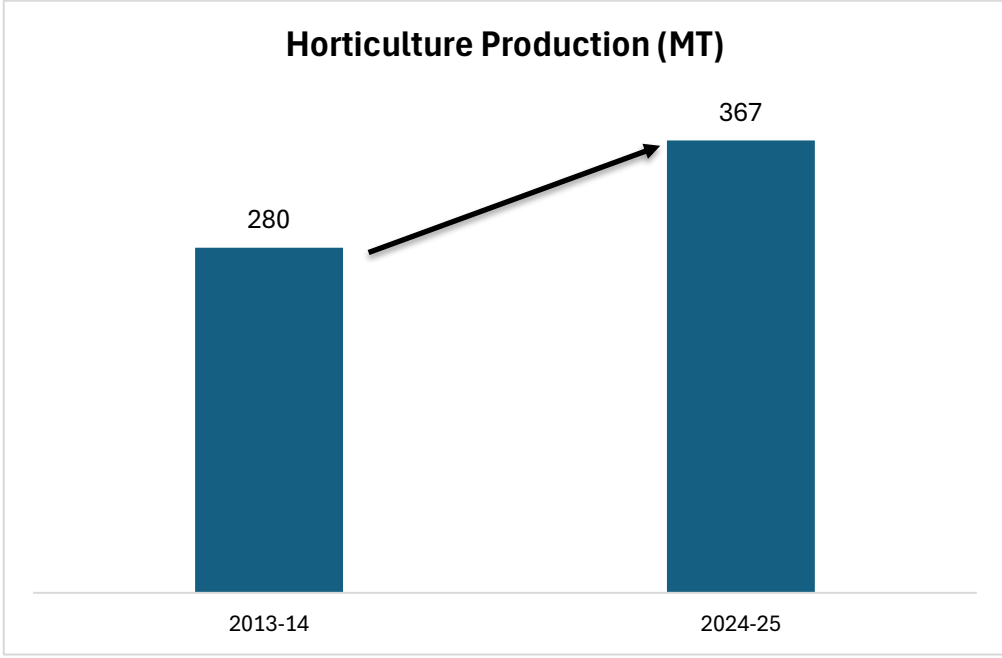
While there is no impact on potato prices due to El Niño…Tomato prices may shoot up

Onion brings tears even in a normal year

Contribution of Allied Activities in Agri GVA could cushion the impact

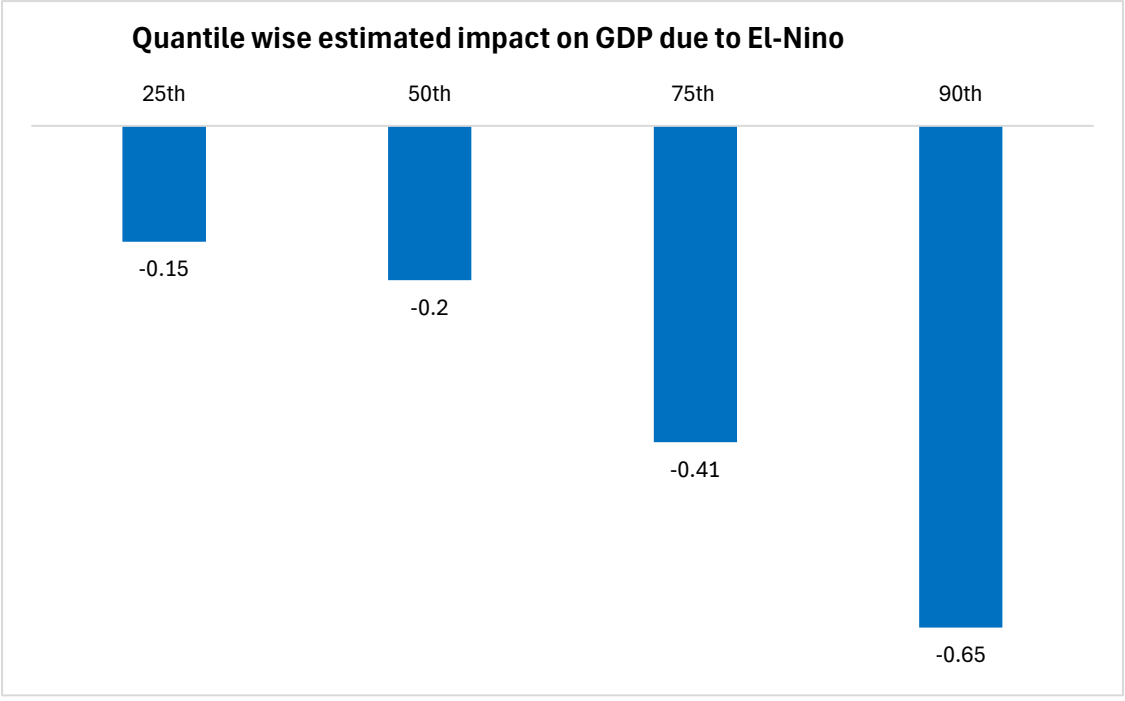
- The contribution of Allied activities in agri GVA has been constantly expanding from 35% in FY12 to ~46% by FY24///In terms of diversification, horticulture production has also witnessed a significant expansion
- This implies that the impact of El-Nino is likely to be contained





Drought + El-Nino can affect India's GDP by 20 bps in median estimate…

- We quantify the impact of El-Nino on GDP using a quantile regression model as well as an augmented model with the combined impact of drought + El-Nino. Our results indicate that only El-Nino is likely to have negligible impact on GDP growth as our results are insignificant and near zero
- However, El-Nino + drought is estimated to bring down GDP by ~20 bps in the median estimate and ~65 bps in the extreme scenario

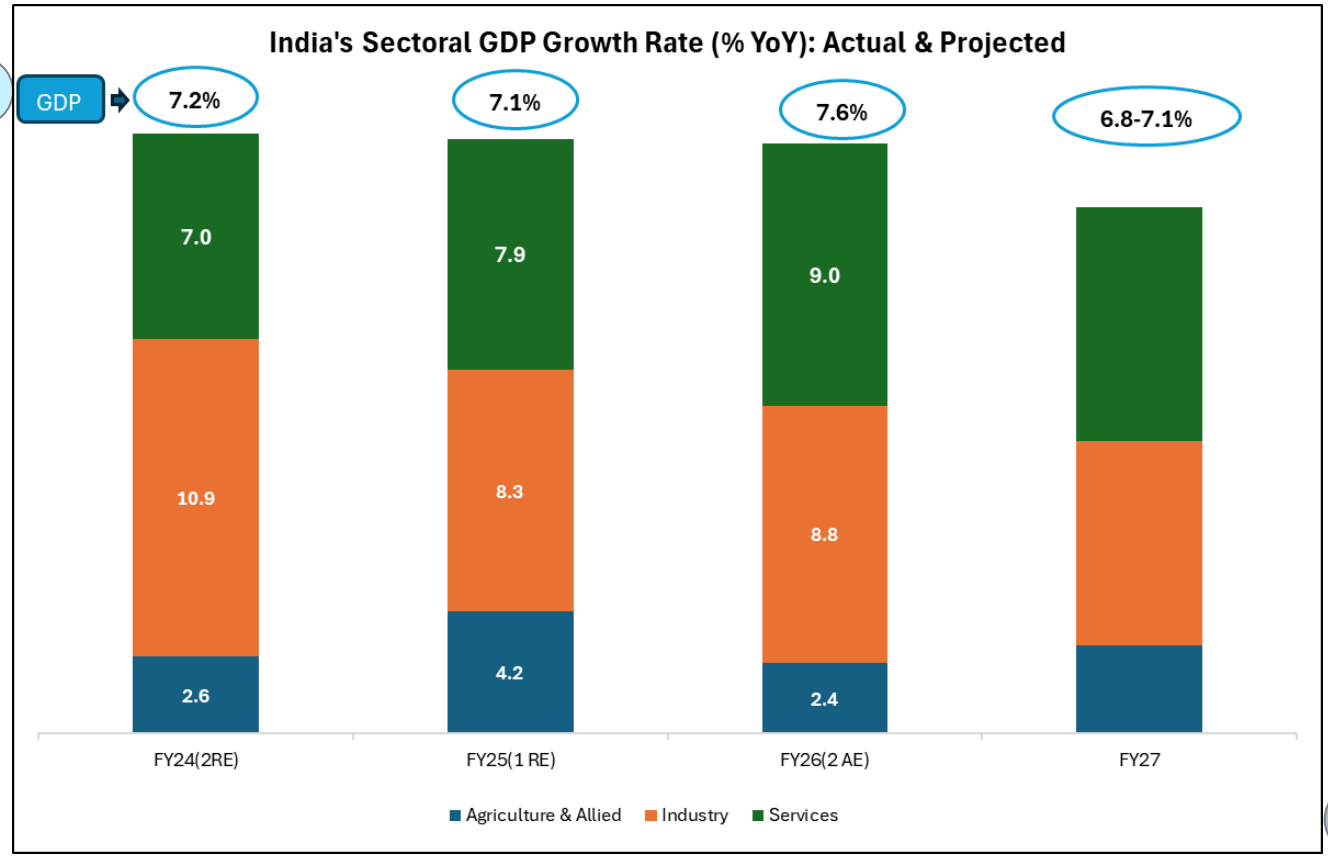


We project GDP growth in FY27 at 6.8%

- India continues to demonstrate resilience with GDP likely to grow in the range of around 6.8%-7.1%, despite global uncertainties and regional conflicts

Drivers

1. Strong domestic consumption
2. Investment in infrastructure
3. Robust services sector



Risks

1. Geopolitical
2. Oil prices and
3. Supply chain disruptions
4. El Nino

India’s Public Finance Outlook

India can potentially save ~ $10 bn if the spread between Sour and Sweet is $10 /bbl

- The basket ratio of Indian Crude oil formula in Mar'26 comprised of 61% weight to Brent and 39% to average of Oman and Dubai oil benchmarks
- The ratio Changed from a weight of 79% to Sour and only 21% to Brent(Sweet) till Feb'26..Prior to that the highest share given to Sweet was 43% in 2005
- **As per our calculation, India can make an annual savings of $10 to 15bn as per the new ratio if the Sour Sweet spread will continue at elevated levels of say ~$20/bbl for a good part of fore coming months** (*it has a diminishing probability but then things have gone awry when least expected*)

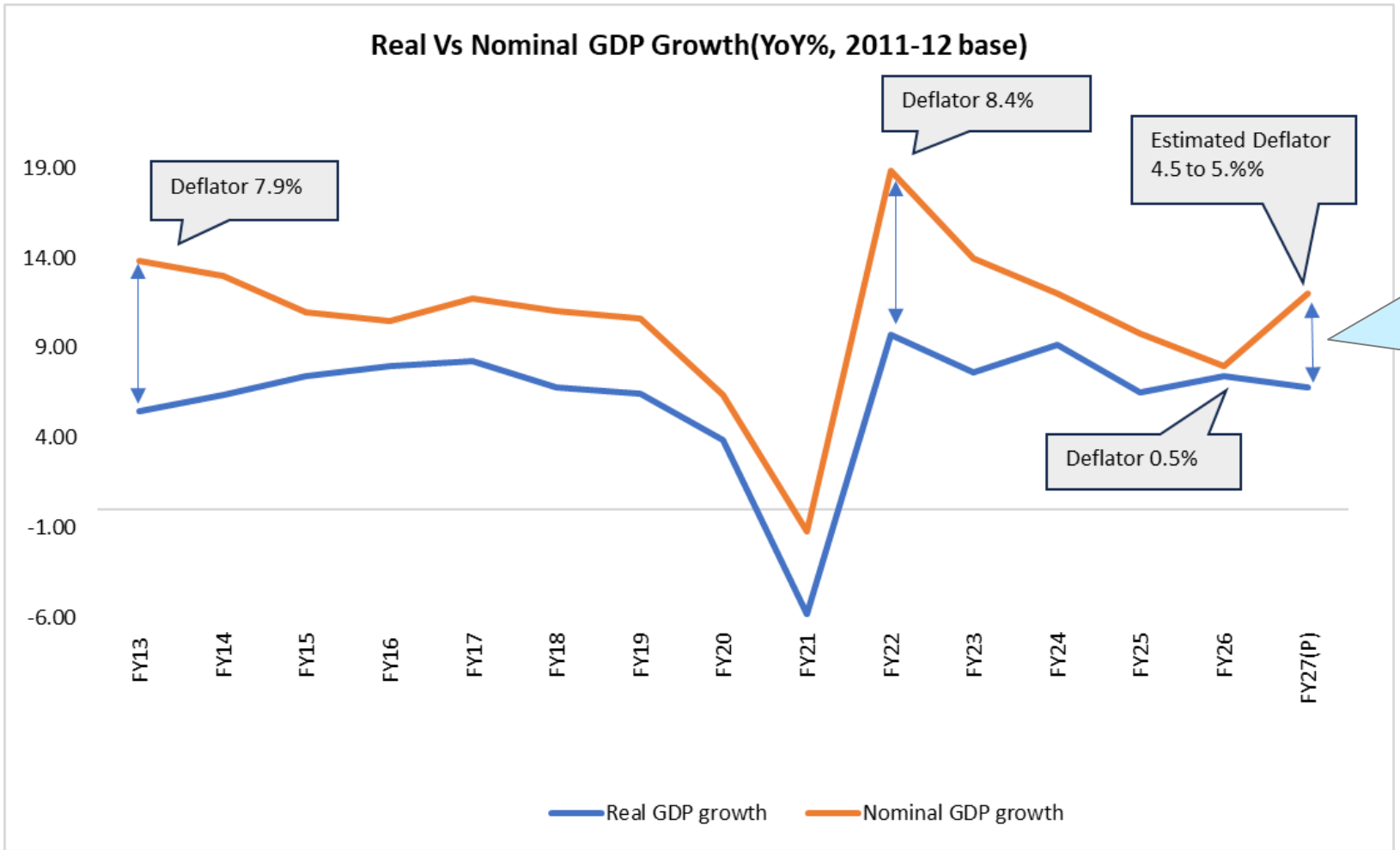
Annual impact table

Sour Sweet Spread	Benefit of Indian Basket price from old ratio($/bbl/day)	Indias Annual Crude oil import	Annual Savings in $ bn
$ 20 /bbl	7.6	5 million bbl/day	10 to 15
$ 10/bbl	4		5 to 10

Ratio of Sour to Sweet grade in Indian Baseket Crude oil import

FY	Average Crude Oil Price (Indian Basket)($/bbl)	Ratio of Oman & Dubai for sour grades	Ratio of Brent (Dated) for sweet grade
2000-01	26.924	57	43
2004-05	39.206	57	43
2005-06	55.720	58	42
2006-07	62.460	60	40
2013-14	105.520	70	30
2014-15	84.156	72	28
2015-16	46.166	72	28
2016-17	47.558	71	29
2017-18	56.427	72	28
2018-19	69.880	75	25
2019-20	60.471	75	25
2020-21	44.822	76	24
2021-22	79.181	76	24
2022-23	93.152	76	24
2023-24	82.580	76	24
2024-25	78.560	79	21
2025-26 Till Feb	66.810	79	21
Mar-26	113.49	39	61
Apr-26	119.94	39	61
Source: PPAC			

Nominal GDP growth may be ~12% this fiscal



The gap between real and nominal GDP growth see-sawed and for FY27 it will widen to 4.5 to 5.0% from merely 0.5% in FY26

FY27 data on new Base

FY27 Fiscal deficit could still head towards 4.5% budgeted (new base)

- The Gross Fiscal Deficit for FY27 is estimated at Rs 16.95 lakh cr. With an estimated hike in subsidies of Rs 60,000 cr and expected loss of Rs 1.1 lakh cr due to excise duty cuts, there will be an additional fiscal burden of Rs 1.7 lakh cr . With this, the GFD could go up to Rs 18.7 lakh cr
- **Assuming a 12% nominal growth rate and with expenditure rationalization of Rs 1 lakh crore, the FD could be still contained at below ~4.6% with the Rs 1 lakh crore Economic Stabilisation Fund…**

Fiscal Maths for FY 27 (Rs Lakh Cr)	
Gross Fiscal Deficit (BE)(1)	16.95
Economic Support (RELIEF Scheme)	0.01
Estimated hike in Subsidies	0.60
Expected loss in Excise duty cuts	1.1
Additional Fiscal Burden(2)	1.7
Economic Stabilisation Fund(3)	1.0
Estimated GFD(4=1+2-3)	17.7
	FD as % of GDP
BE (2011-12 base) at 10% nominal GDP growth	4.3
BE(2022-23 base) at 10% nominal GDP growth	4.5
Nominal GDP at 12 % growth (2022-23 base)	4.6

State Finance continues to be in strain…Capital expenditure increasing with contribution from SASCI

- States utilizing only 56% of their estimated combined budget by February 2026 vs 57.5% in FY25

- 24 States FD is estimated at 3.1% in FY 27 vs 3.7 % in FY 26 RE

- **Capex of the states is witnessing an upward trajectory from Rs 11 lakh Cr in FY26 to Rs 9.3 lakh cr in FY27 augmented by SASCI**

States Expenditure as % of Budgeted estimates

State	Capital Expenditure		State	Capital Expenditure	
	FY26(Apr- Feb)	FY25(Apr- Feb)		FY26(Apr- Feb)	FY25(Apr- Feb)
Andhra Pradesh	60.8	40.7	Odisha	50.6	60.3
Assam	69.0	77.9	Punjab	53.3	78.1
Bihar	84.8	98.2	Rajasthan	44.3	66.7
Chhattisgarh	37.2	32.8	Tamil Nadu	62.7	61.6
Gujarat	65.6	58.7	Telangana	132.0	97.9
Haryana	94.2	55.4	Tripura	36.4	42.4
Himachal Pradesh	91.0	61.3	Uttar Pradesh	42.4	47.3
Jharkhand	50.7	61.1	Uttarakhand	49.7	48.4
Karnataka	56.7	68.4	West Bengal	33.6	43.0
Kerala	65.2	78.1	**Total states**	**56.2**	**57.5**
Madhya Pradesh	74.3	82.4	**Central Gov**	**84.8**	**79.7**
Maharashtra	48.0	44.0	-		

Source: SBI Research, CGA, CAG, CEIC

State's Budget Summary (Total of 24 states*, Rs lakh cr)

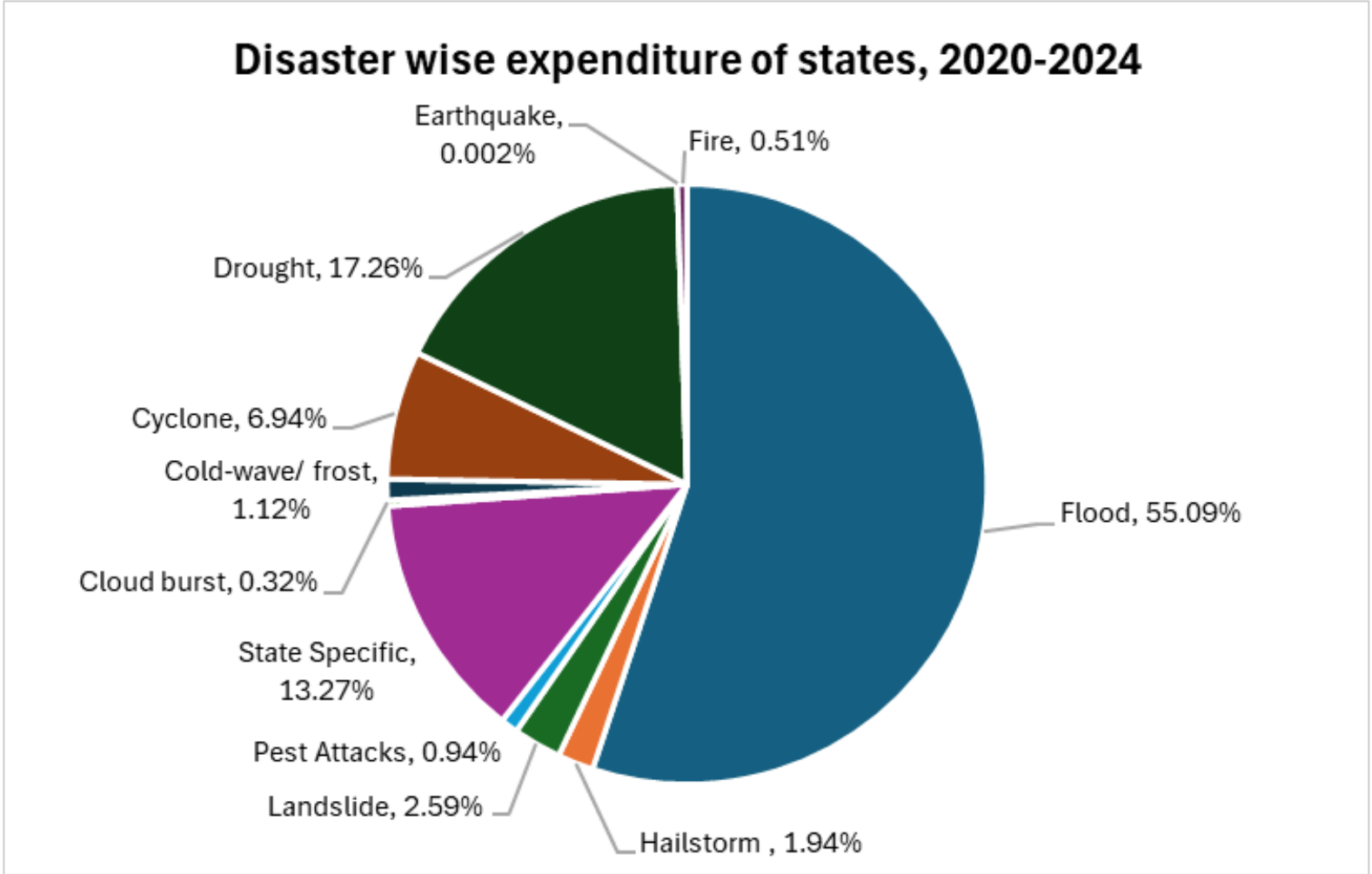
Items	FY 26 RE	FY 27 BE	YoY%
Total Revenue receipts	46.4	52.4	13.1
State own tax revenue	23.5	26.8	14.0
States own non tax revenue	3.9	4.3	9.8
States share in Central taxes	13.1	14.6	11.2
Grants from Centre	5.8	6.6	14.3
Revex	49.0	53.1	8.4
Capital Outlay	9.3	10.7	15.2
RD as % of GDP	0.7	0.2	
FD as % of GDP	3.7	3.1	

Source: SBI Research, PRS, State Budget Documents,*including Delhi

Inadequate rains could still have minimal impact on state finances as the Centre is now contributing 75% of SDRF and SDMF..90% for NE states

- Indian states spend 17.3% of their total disaster expenditure (2020-24) on drought
- **So even a possible drought will impact states finances by ~Rs 7,000 crore only (SDRF and SDMF fund)**

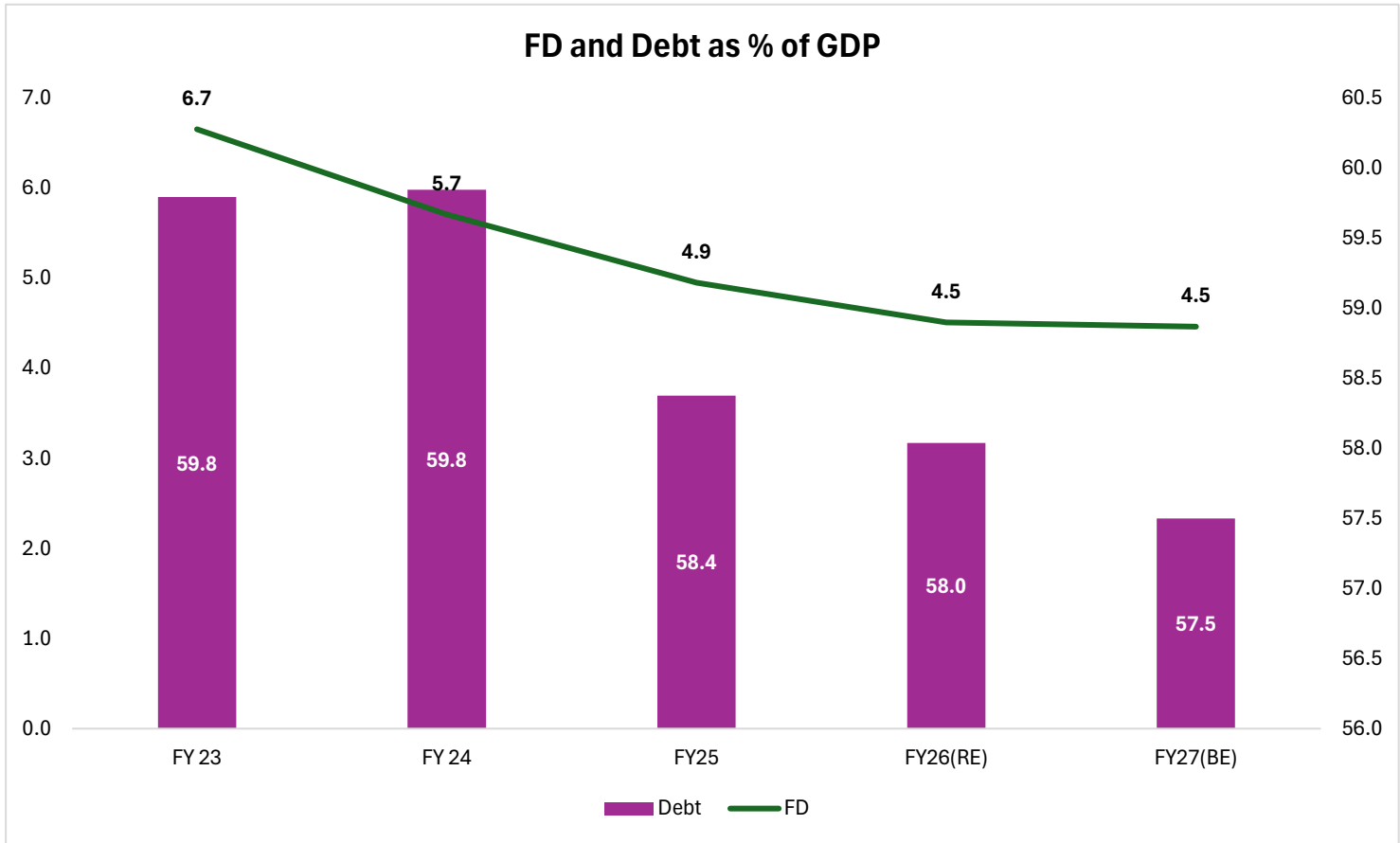
- However, possible farm loan waivers due to drought may dent the state finances



Source: 16 FC Report

Central Government Debt is expected to decline to 57.5% in FY27

- Government has projected fiscal deficit of Rs 16.9 lakh crore or 4.5% of GDP for FY27(2022-23 base)
- Meanwhile, debt is expected to decline to 57.5% of GDP in FY27

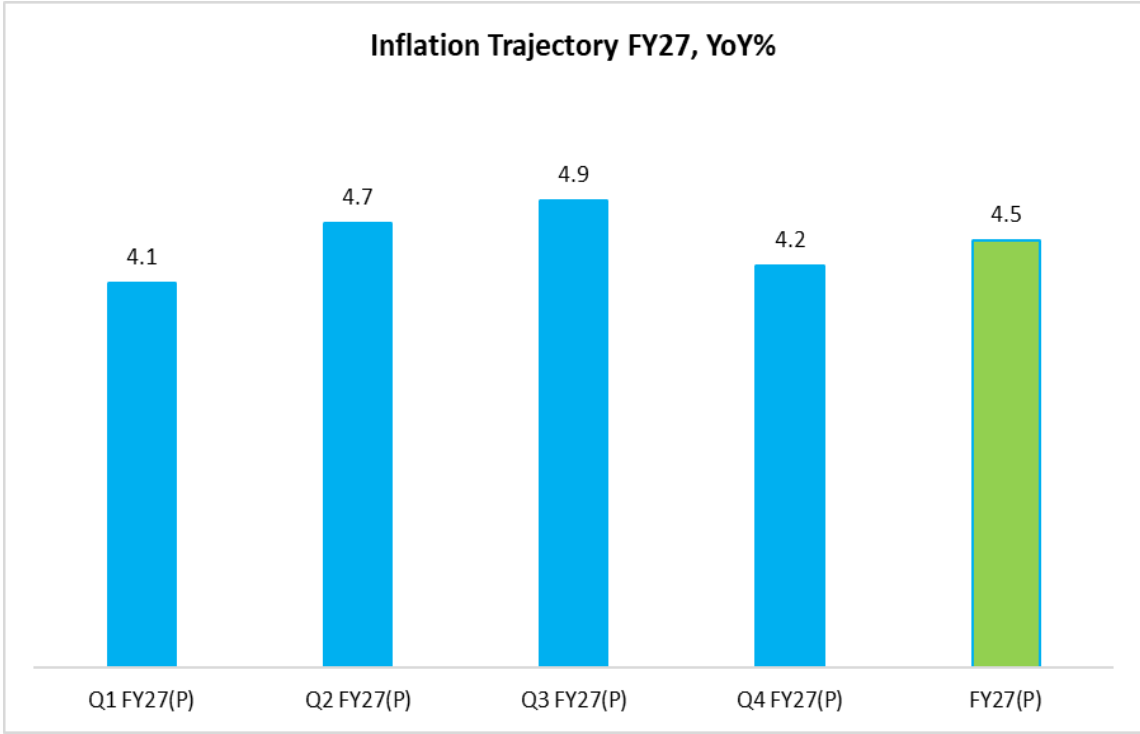


Debt-GDP Ratio targeted to be 50±1% in FY31

Interest Rates, Liquidity and Inflation Outlook

CPI FY27 numbers could have an upward bias

- Exchange rate fluctuations and external shocks like supply chain disruptions, imported inflation (100 items, weight: 21.8%) is already at 6.49% (309 bps more than the headline) for Mar'26 and is expected to increase considerably further
- **Consequently, CPI trajectory (as of now) may indicate more than 4.5% inflation for the Q2 and Q3 quarters….though the FY27 projections are well under RBI's target range**
- However, Government's recent decision for full customs duty exemption on a wide range of critical petrochemical products till June 30, 2026, may lower input costs and hence may have benign impact on imported inflation



Liquidity position may remain comfortable in FY27 though G-secs might remain elevated sans any RBI action

- The system liquidity position has been rather comfortable, Rs 4.10 trillion on 17th April 2026 (April MTD avg. Rs 4.20 lakh cr), primarily fueled by bond redemptions/maturity payments. It is likely that RBI may conduct Variable Rate Reserve Repo operations for effectively managing short term rates. We expect that RBI will continue to supply/support durable/core liquidity to fund credit needs of the economy
- RBI needs to concomitantly explore the probability of conducting Operation Twist (in sync with OMOs and other measures as needed) that should elevate the short-term yield while sobering the yield on long term curve ensuring various reference rates remain within the prescribed bands, aligned with policy rate in calibrated manner. **Subsequently, in FY27, we expect 10-Yr G-sec yield to remain in the 6.75%–7.0% band, with a downward bias should the calm after the conflict prolong materially,** attuned to higher gross borrowing plan, persistent geopolitical risks, and inflation concerns stemming from volatile oil prices. **However, without any concomitant action, 10-year G-sec yield could however stay much above 7% in FY27**

Net Injection in FY26	
Indicators	**Rs lakh crore**
Forex Sale (till Jan'26)	-4.5
CRR cut	2.5
Buy sell swap	2.3
OMO incuding secondary	8.8
CIC circulation	-4.4
VRR	1.6
Total	**6.3**

Liquidity situation in FY27 will be largely comfortable

Banking Sector Outlook

(Well Capitalised & Strong Banks with Lowest NPA in a Decade)

Indian Banking Sector has 5 key takeaways

Policy Takeaways

1. **Start strong:** banks enter FY27 with low NPAs, solid capital and restored profitability

2. **Grow, but more normally:** credit should hold in the low-mid teens, with less earnings windfall than FY26

3. **Funding is the constraint:** deposit mobilization not capital, is the main system-wide binding issue

4. **Digital is core:** UPI-scale rails now shape cost, reach, inclusion and customer expectations

5. **Supervise for resilience:** the frontier has materially shifted from legacy bad loans to liquidity, fraud, climate and governance

FY27 operating scenario: growth continues, quality holds

13–14%

Credit growth

Retail, MSME and selective corporate demand keep the system in low double digits.

11–12%

Deposit growth

Liability mobilisation improves but still lags loan demand in the base case.

1.8-1.9%

Asset Quality

Starting conditions are strong enough for asset quality to stay broadly stable.

1.35–1.40%

RoA

Profitability normalizes rather than collapses as margins and treasury gains cool.

MSME formalization

Cash-flow data and digital rails widen the addressable base.

Secured retail

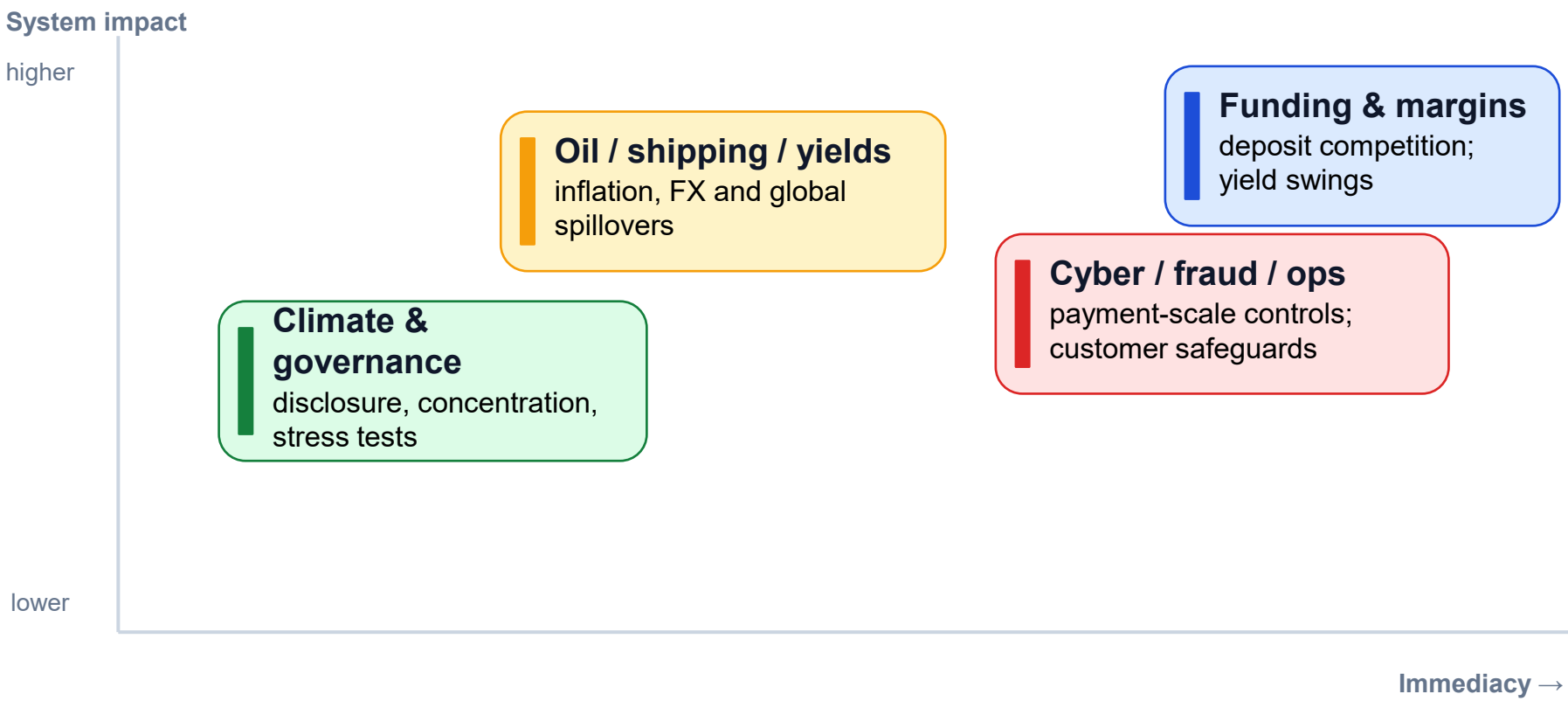
Housing and collateral-backed borrowing remain sturdier than unsecured pockets.

Selective corporate & infrastructure

Capex, supply chains and public investment keep selected pipelines open.

Unsecured retail stays under tighter guardrails — it should be watched, not lead the cycle.

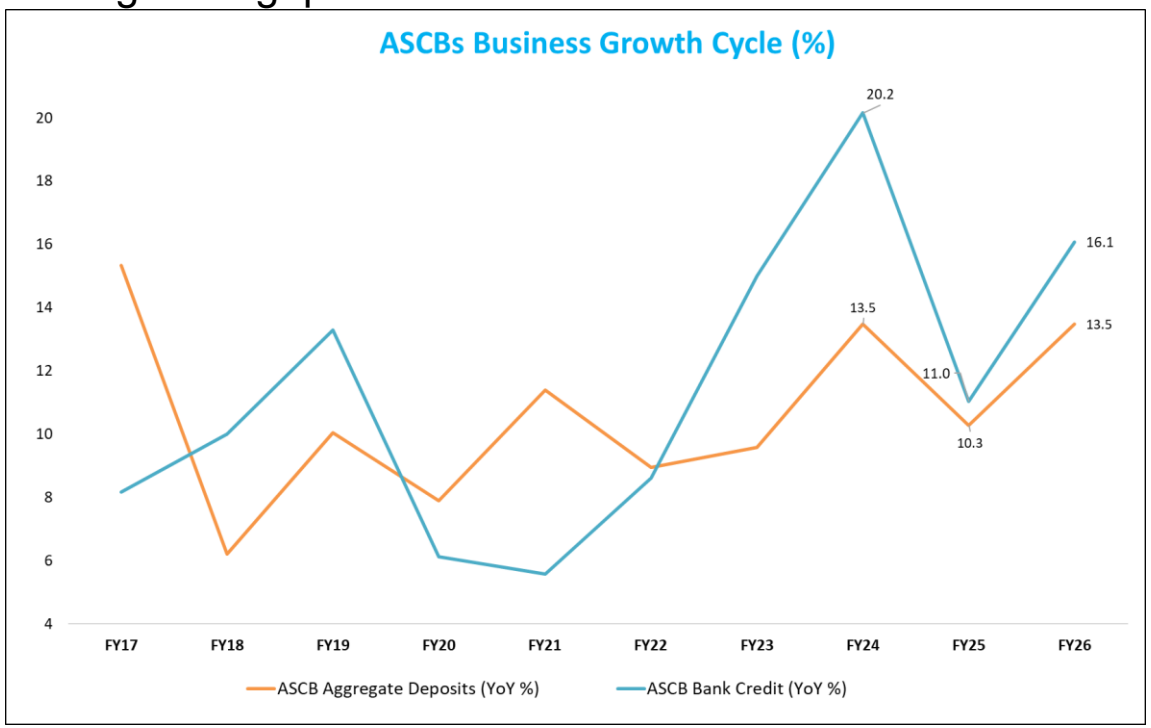
The risk frontier has moved outward

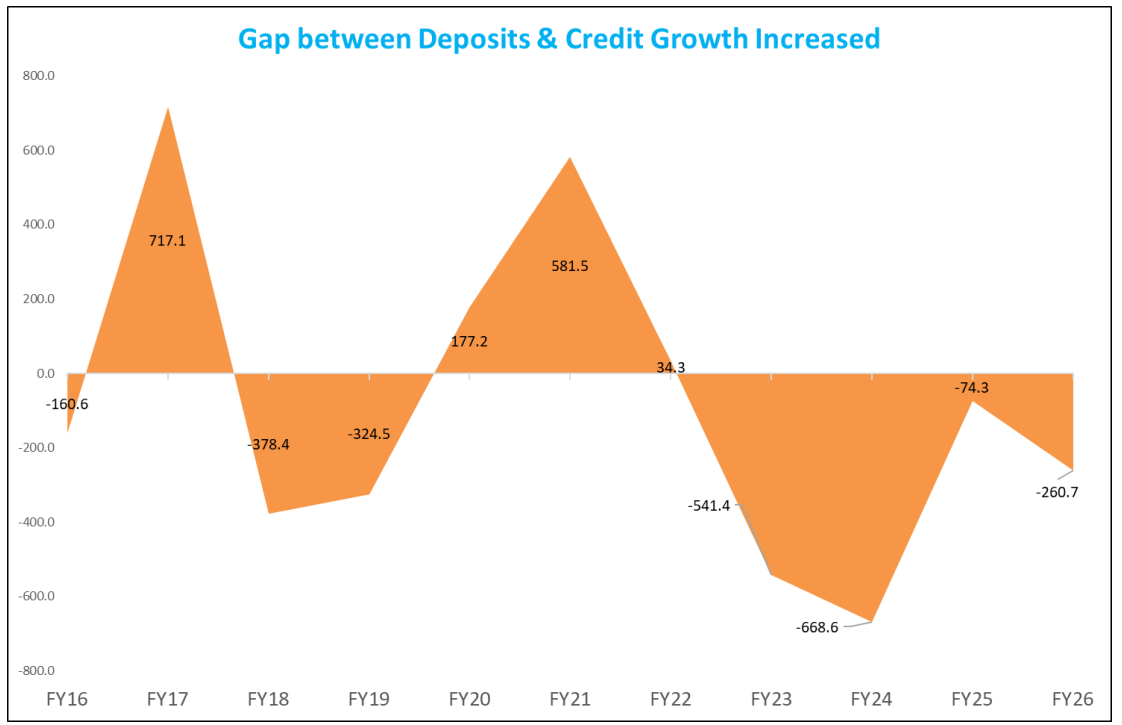


The clean-up cycle reduced credit risk; operational and external channels now deserve equal supervisory attention.

Liability pressure; CD Ratio at all time high

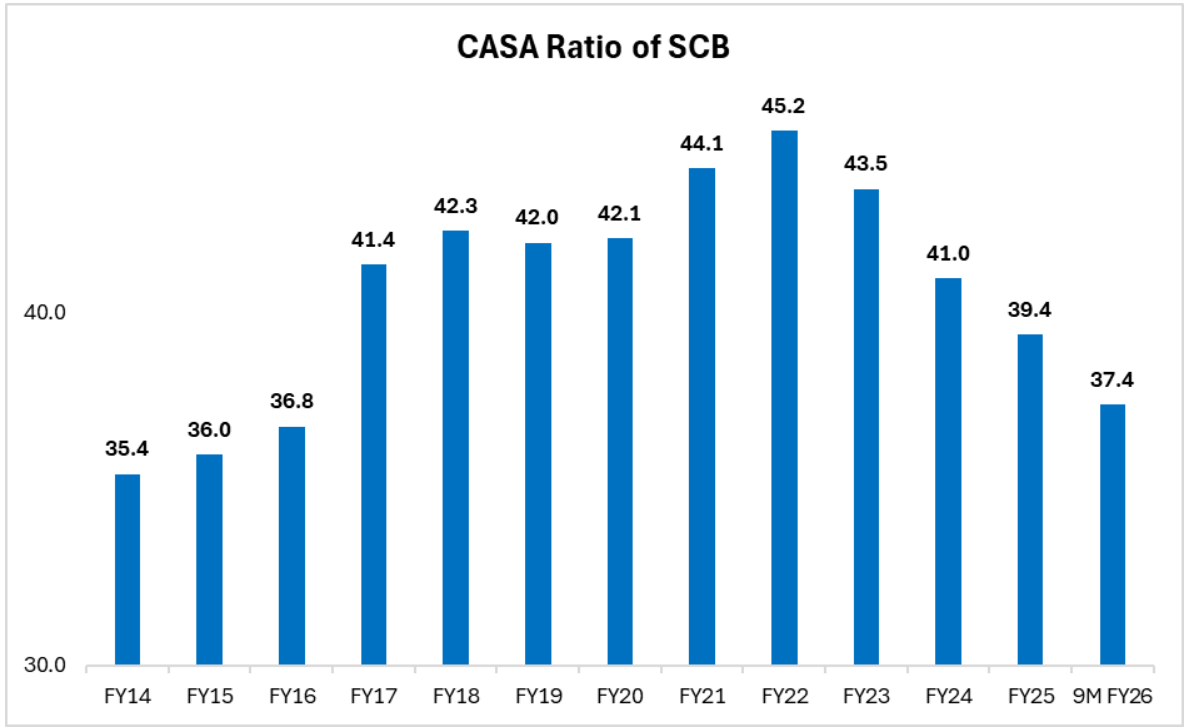
- Growth in bank credit of SCBs accelerated to **16.1% in FY26**, up from 11.0% in FY25. While aggregate deposits growth remained muted at 13.5% in FY26, compared to 10.3% growth in FY25.
- Incremental CD ratio stood at 95% and CD ratio itself has reached an all-time high of 85%. The wedge between deposits and credit growth has increased to 2.6%
- **In FY27, aggregate deposit (AD) is estimated to grow by 11%-12%, while credit growth is expected at 13-14%.** In the current year, LCR is likely to free up Rs 2.7-3.0 lakh crore of lendable resources, which will help to bridge the deposits and credit growth gap

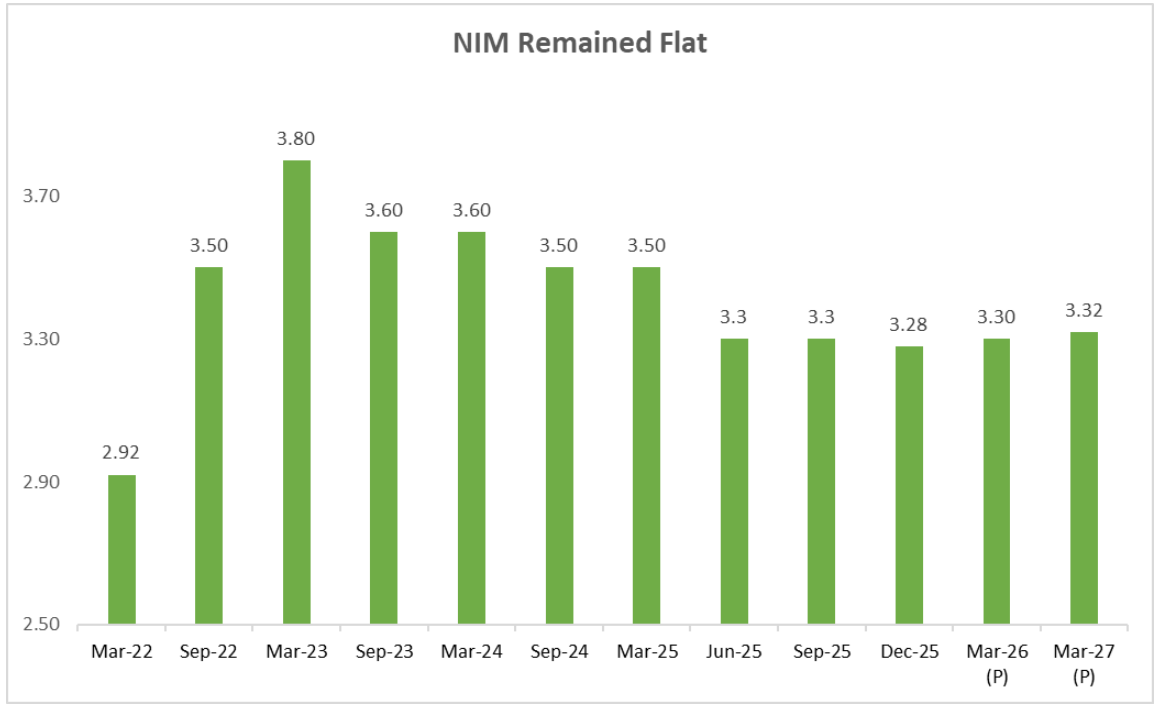




With Declining CASA Deposits; Net Interest Margins might remain Flat with External Benchmarking

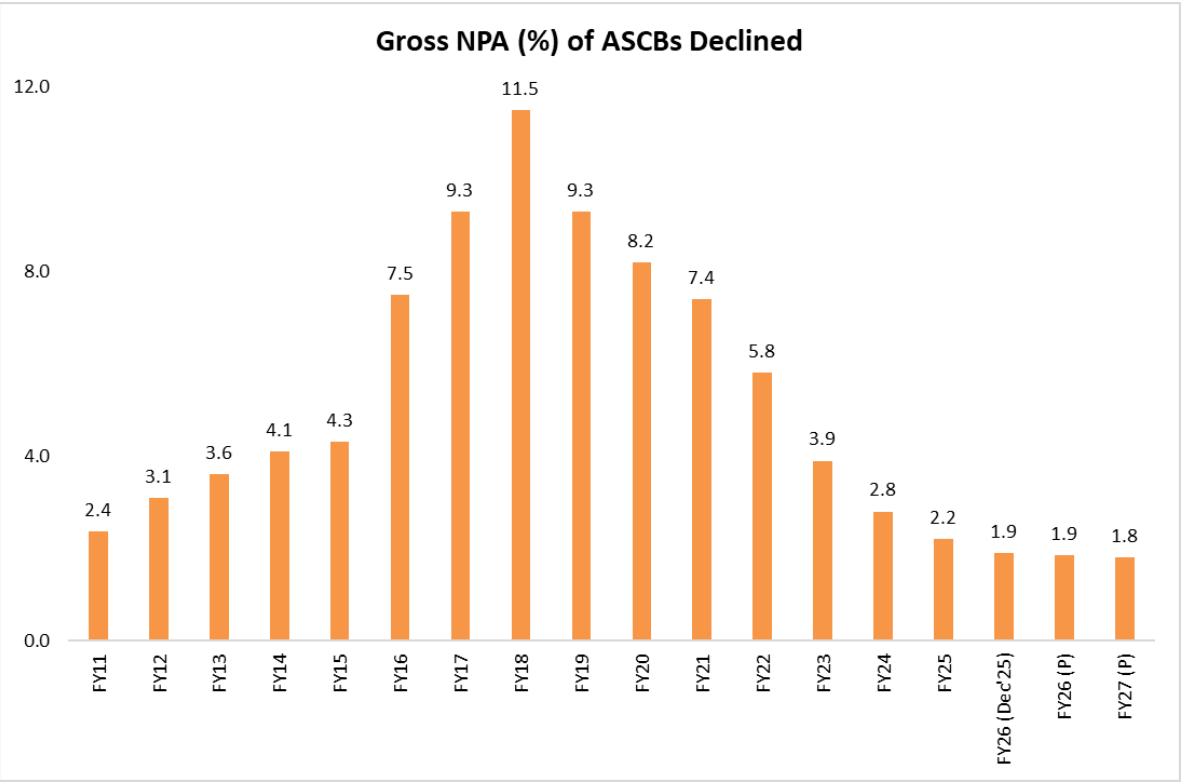
- Declining Current Account and Savings Account (CASA) ratios are a major concern for banks, as they signal a shift from low-cost, stable deposits to more expensive funding sources, compressing Net Interest Margins (NIMs)
- The share of the external benchmark-based lending rate (EBLR) linked loans in total outstanding floating rate loans of SCBs increased from **62.9% as at end-June 2025** to 65.4% as at end-December 2025

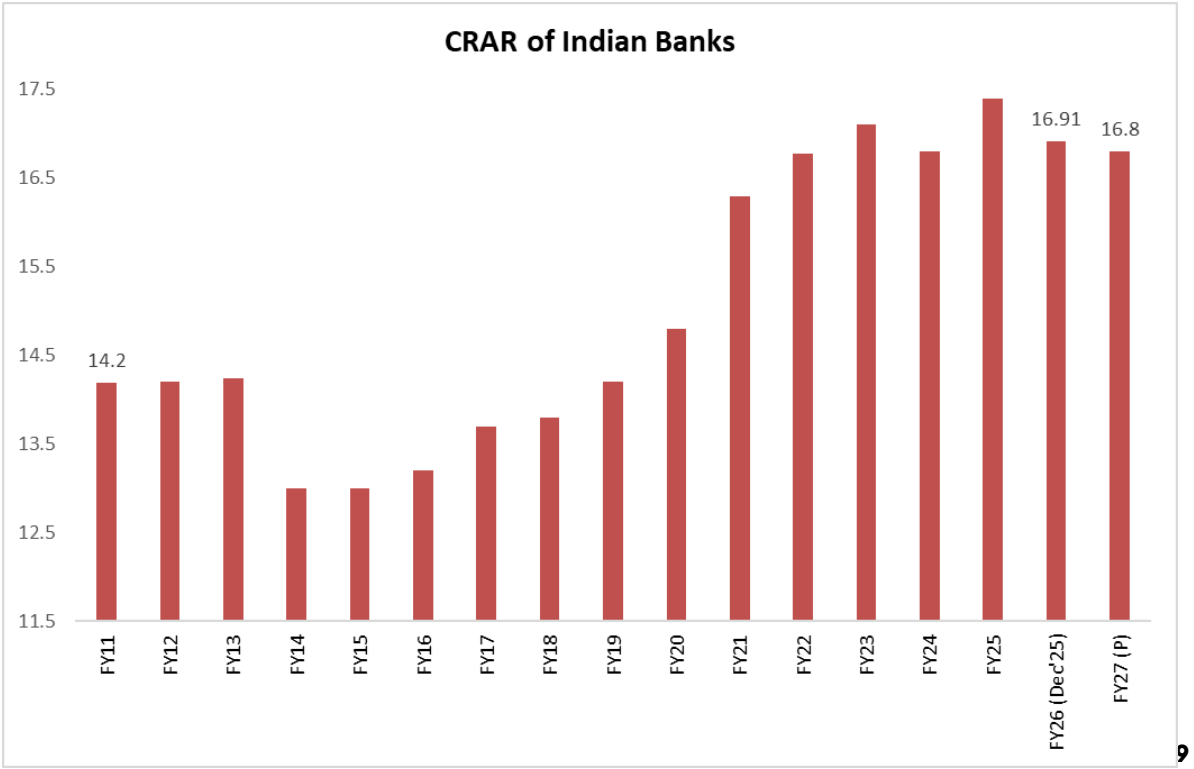




Indian Banks will remain sound and well capitalized in FY27 also

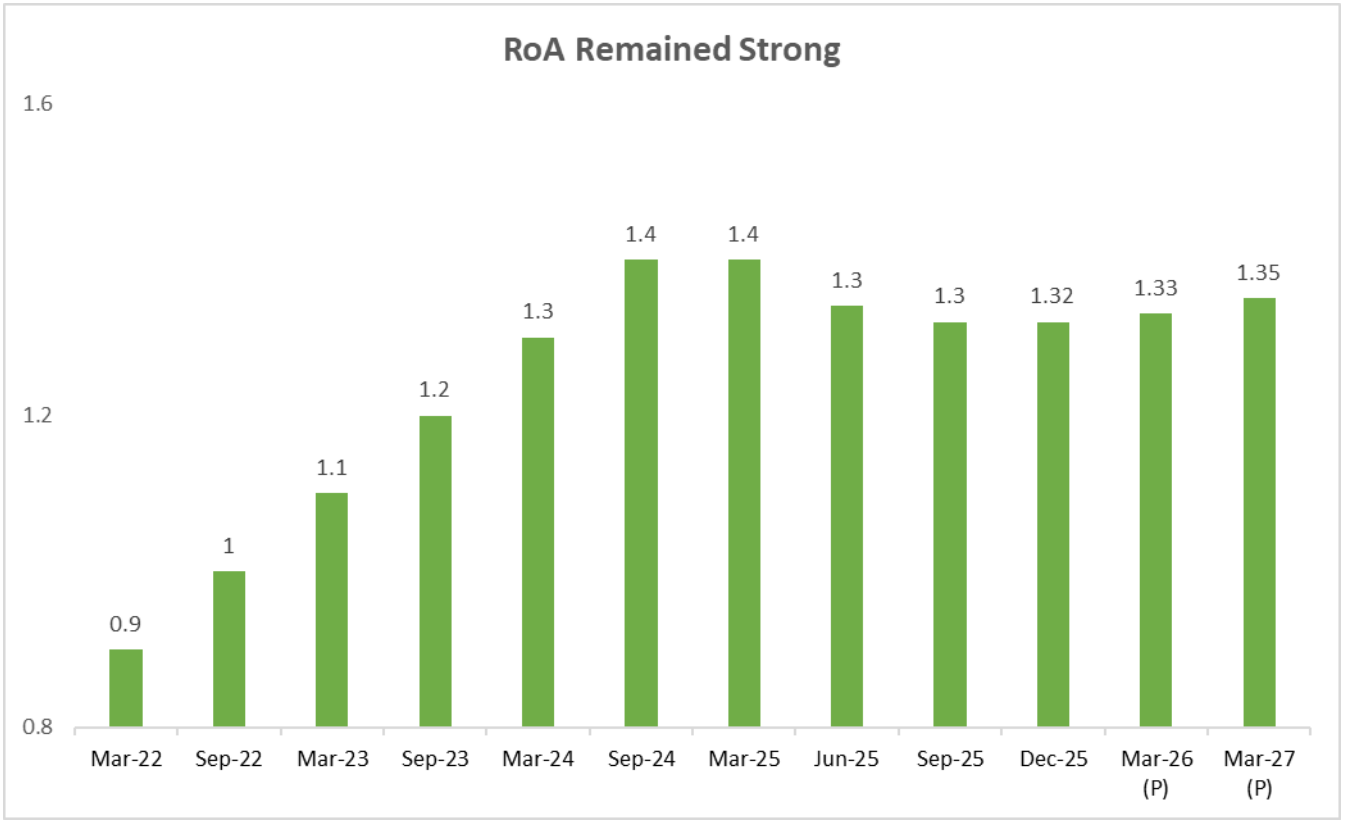
- The health of the SCBs remains resilient with strong capital and liquidity buffers, improved asset quality and robust profitability
- **Under the baseline macro-economic growth, banking industry GNPA will remain minimal in the range of 1.8-1.9% in FY27 and CRAR will be around 17%, much above the regulatory requirements**





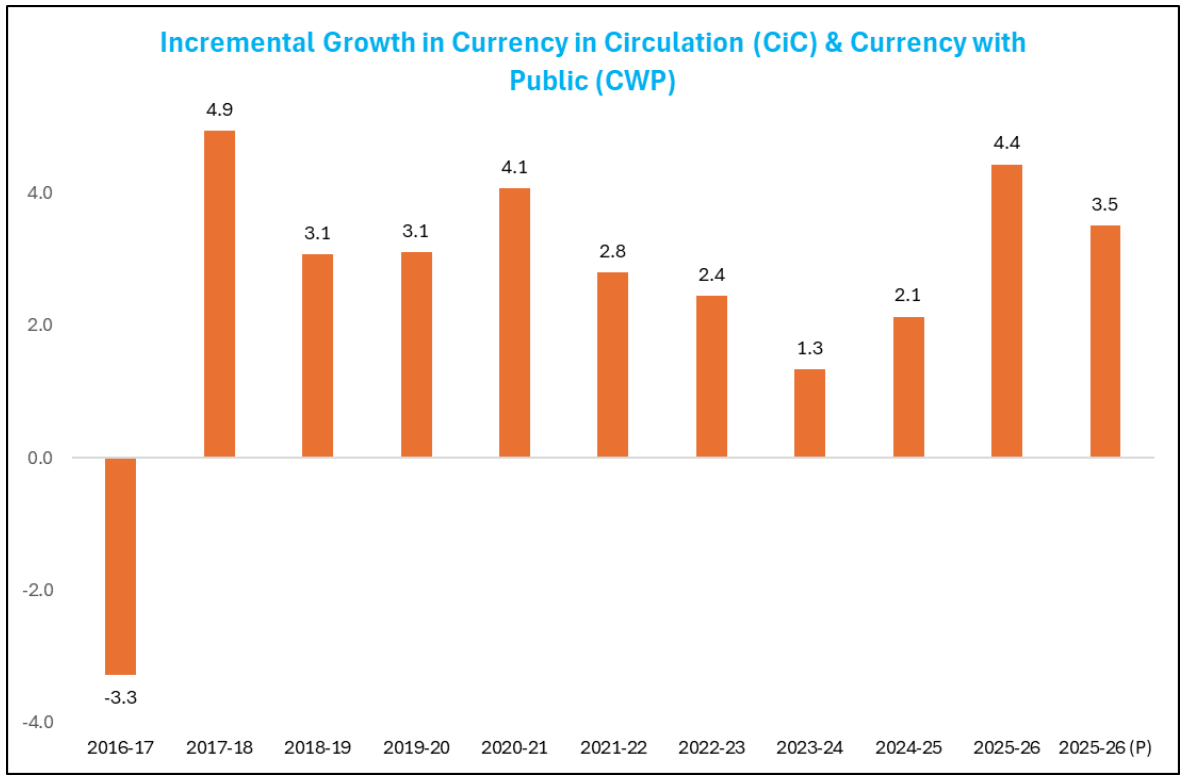
Return on Assets (RoA) strengthened significantly

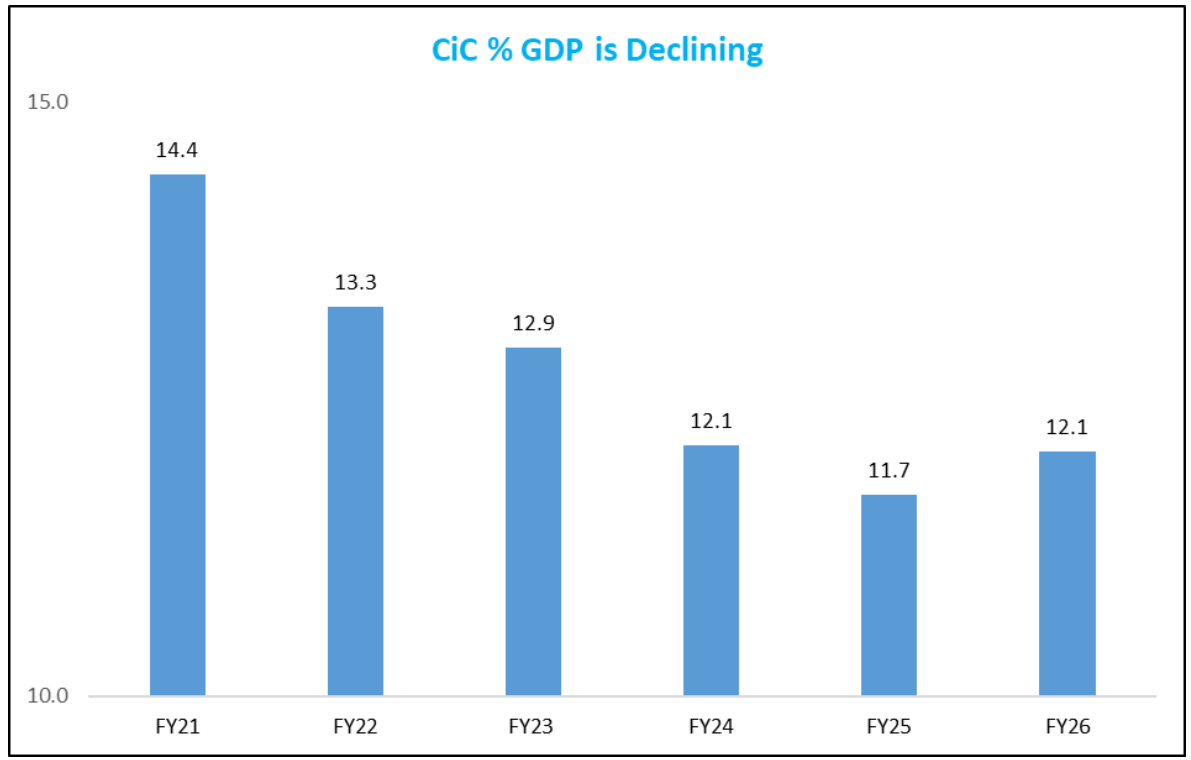
- ROA for SCBs has remained strong, with recent data showing it at a healthy in FY26, representing a significant improvement from previous years. This stability is driven by structural reforms, improved asset quality, and robust net interest margins (NIMs)
- PSBs have seen a major turnaround, with their ROA improving to 1% in Q2FY26, driven by higher other income and growth in advances. **With the reduction in NPA, we expect that RoA of banks will sustain in the range of 1.35%-1.40% in FY27**



Dominance of Currency may prevail in FY27 also……

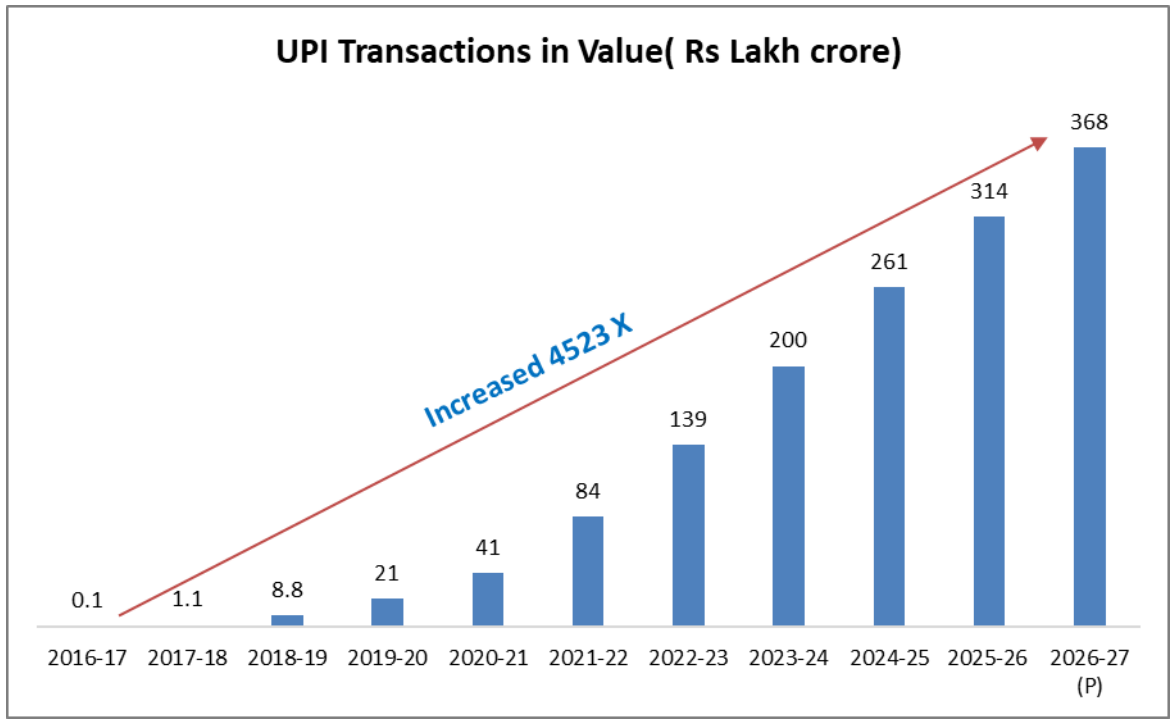
- Digital payments are changing how India transacts, not how it stores value. Rising CiC alongside surging UPI reflects persistent **precautionary demand and informal sector dynamics**
- By looking at the incremental growth numbers, CiC has increased by Rs 4.4 trillion, which is highest since post demonetisation in 2016, when it had increased by Rs 4.9 trillion





……UPI may also cross Rs 1 trillion per day transaction in FY27

- In FY26, UPI transactions in value have increased by 20.6% to Rs 314 trillion, while currency in circulation (cic) has increased by 11.9% to the all-time high level of Rs 41.6 trillion
- Many argue that it is not right to compare CiC and UPI..as UPI transactions value is multiplying with velocity. This may not be true as CiC also changes with the needs of the economy
- **We estimate that UPI transactions will be ~ Rs 370 trillion in FY 27 and Rs 425 trillion in FY28, from Rs 314 trillion in FY26. Further, the currency in circulation will continue to increase but will remain around 12-12.5% of GDP in FY27 to FY28**



Per Day Average UPI Transactions

FY22: 0.2 trillion
FY26: 0.9 trillion
FY27: 1.0 trillion

Five times increase in 5 years

We expect a smaller number of Digital Frauds going forward..

- Over the past decade, digital payments in India have expanded at an unprecedented pace, reflecting a structural shift in the way individuals and businesses conduct financial transactions. However, this has been accompanied with growing sophistication and magnitude (~10x increase in frauds in just 5 years) of fraudulent activities targeting customers
- Against this backdrop, RBI in its Discussion Paper (Exploring safeguards in digital payments to curb frauds) suggests lagged credit for authorised push payments
- Under this approach, once a customer initiates an 'Authorised' Push-Payment (APP) **transaction exceeding ₹10,000, a lag period of one hour could be applied**. The lag can be applied at the payer's end or at the payee's end or both. During this period, the payer's bank would provisionally debit the customer's account, and the payer would retain the option to cancel the transaction for any reason

Year	Number of frauds reported	Value of frauds (in ₹ Crore)
2021	2.6 lakh	551
2022	6.9 lakh	2,290
2023	13.1 lakh	7,465
2024	24 lakh	22,848
2025	28 lakh	22,931

Source: RBI

External Sector and Rupee Outlook

Trade Dynamics will remain muted in FY27

Overview of Trade (USD Billion)				
		FY25	FY26	% YoY
Merchandise	Exports	437.7	441.8	0.9
	Imports	721.2	775.0	7.5
Services	Exports	387.6	418.3	7.9
	Imports	198.7	204.4	2.9
Total Trade	Exports	825.3	860.1	4.2
	Imports	919.9	979.4	6.5
Trade Balance		-94.7	-119.3	-
Memo:				
Non- petroleum exports		374.3	387.9	3.6
Non- petroleum imports		535.4	601.0	12.3
Non-petroleum & Non Gems & Jewellery exports		344.5	359.7	4.4
Non-petroleum & Non Gems & Jewellery imports		454.6	498.6	9.7
Source: Ministry of Commerce				

FY27 Estimates
Exports: 5-5.5%
Imports: 6.5-7%

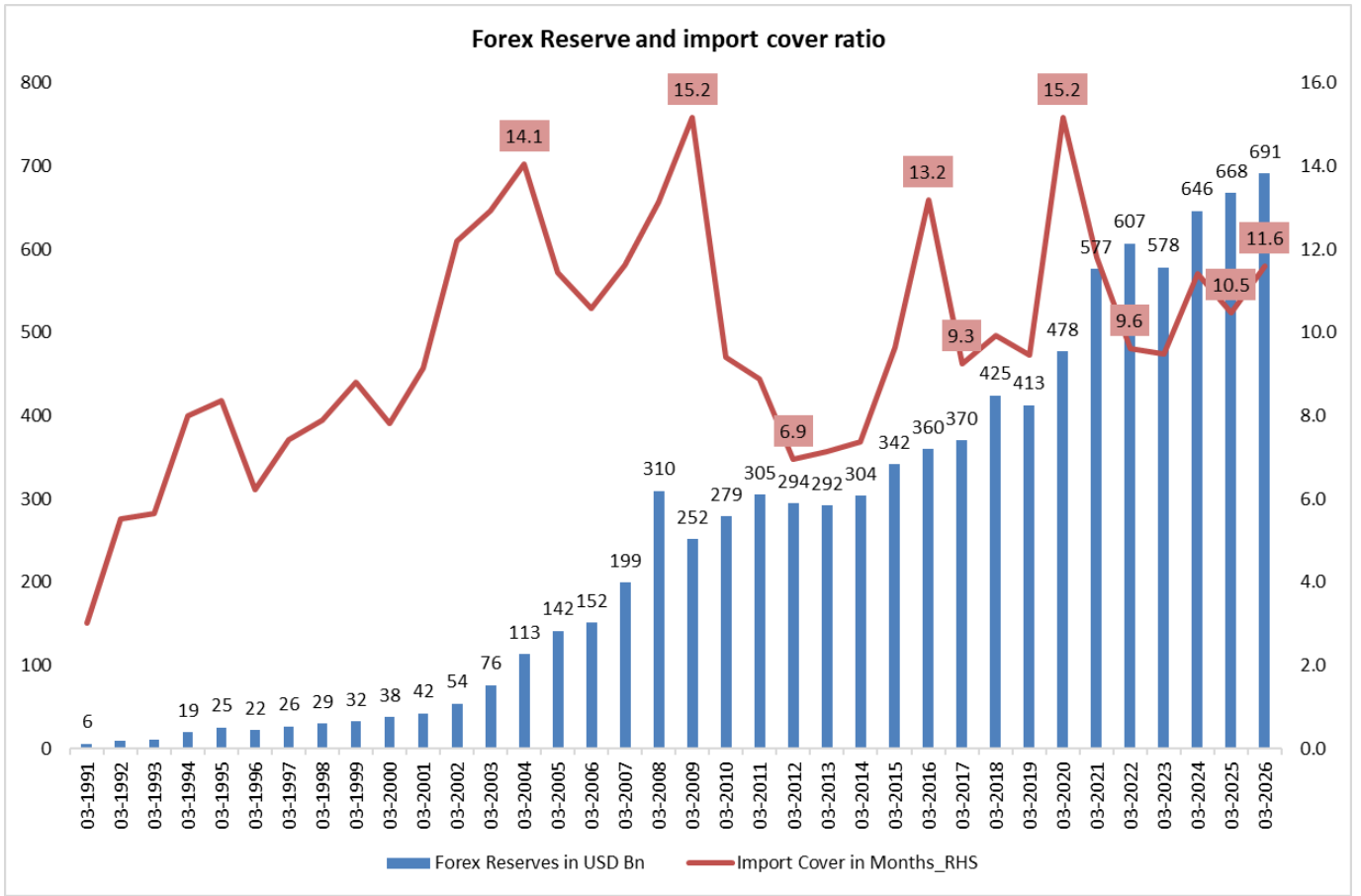
Merchandise trade will remain muted in FY27 also

US will remain the largest Export destination and China will remain the largest Import destination

New export destinations may also emerge like Spain, Vietnam, Hong Kong, etc.

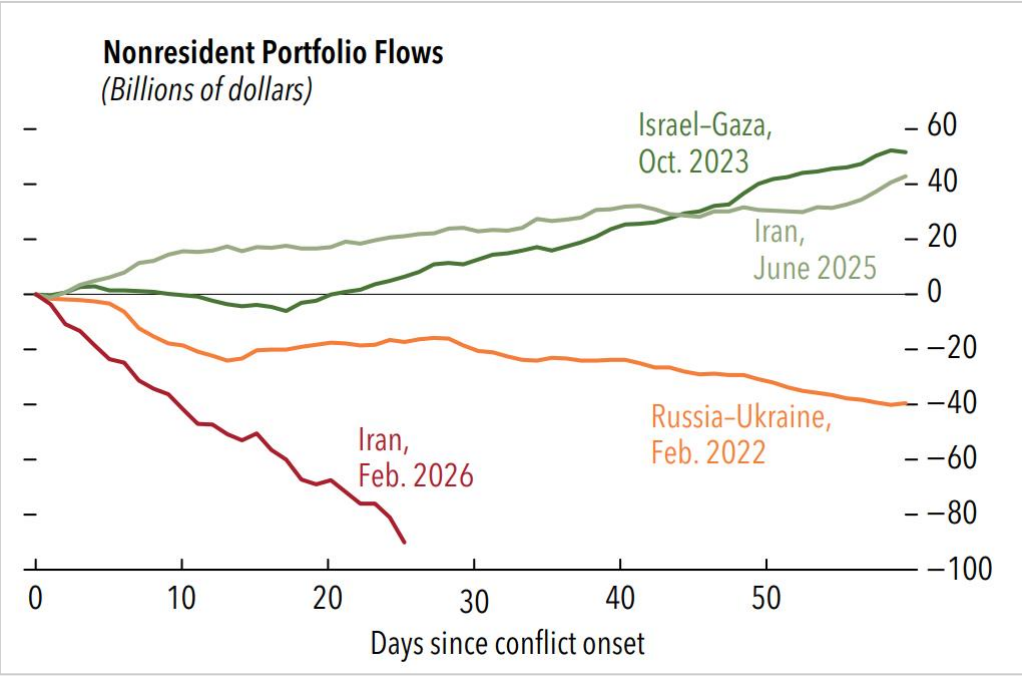
India's foreign exchange reserves are robust, providing a comfortable import cover

- As of early 2026, India's foreign exchange reserves are robust, hovering around $ 700 billion, providing a comfortable import cover of approximately 11-12 months
- This high level of reserves acts as a critical cushion against external economic shocks, currency volatility, and ensures stability for servicing external debt



FY26 exhibited highest FII outflow since 1991…Hope for a better FY27!!

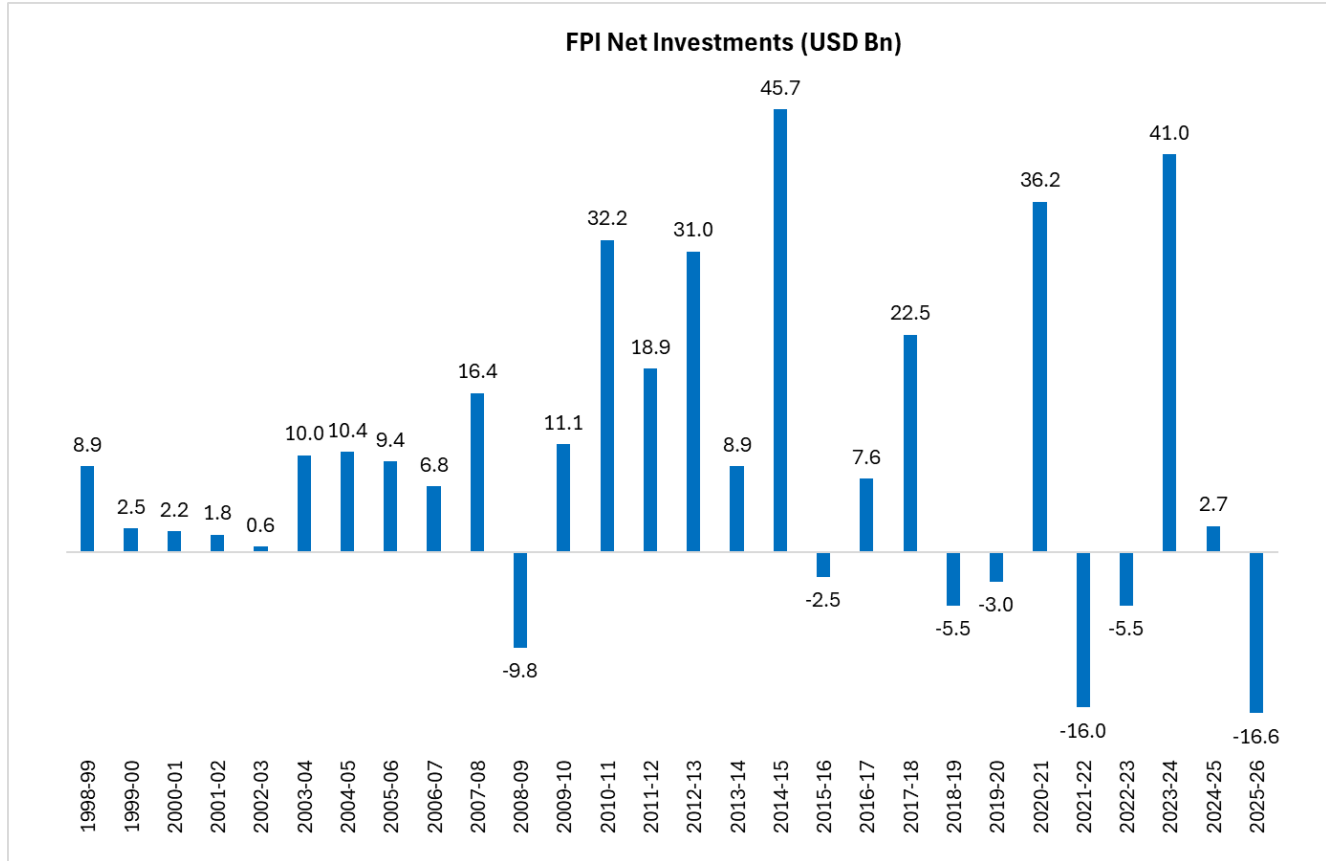
Portfolio outflows have been significantly lower in pre and post Iran conflict compared with other recent geopolitical risk events



Source: IMF GFSR (April 2026)

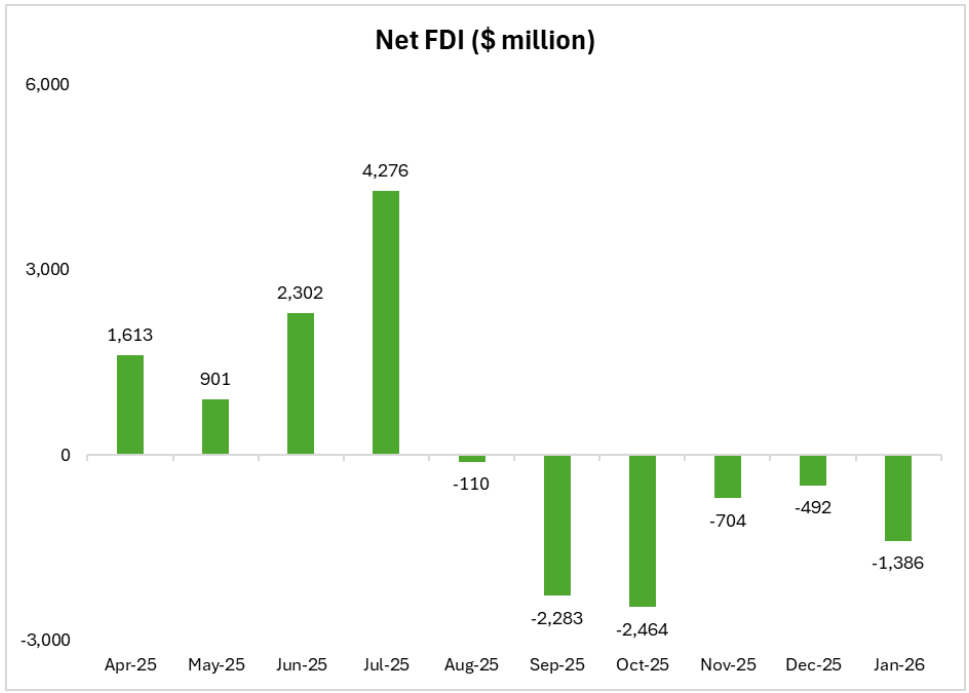
FY26 exhibited highest FII outflows, since 1991, at $16.6 billion

May expect some reversal in outflows but it is largely contingent upon the global financial situation



India's Net FDI Negative for 5th Straight Month…higher Outward FDI & Repatriation of Funds

- India's net FDI has been negative for 5th consecutive month, reaching a net outflow of $1.4 billion in Jan'26 as repatriation and disinvestment by foreign companies outpaced fresh inflows
- Cumulatively, during the 10MFY26 (Apr-Jan), there is a gross FDI inflow of $79.3 billion while outflows of $77.7 billion by repatriation/disinvestment and outward FDI. So, the net FDI is $1.7 billion during this period, compared to $2.2 billion during Apr-Jan'2025
- **Net FDI inflows are expected to increase from $1 billion in FY25 to $2 billion in FY26(P) and further $3 billion in FY27(P), reflecting a improving foreign investor confidence**



India's Net FDI Trend ($ Billion)				
Year	Net FDI	Gross Inflows/Gross Investments	Repatriation/Disinvestment (Equity & Others))	Outward FDI
2019-20	43.0	74.4	18.4	13.0
2020-21	44.0	82.0	27.0	11.0
2021-22	38.6	84.8	28.6	17.6
2022-23	28.0	71.4	29.3	14.0
2023-24	10.2	71.3	44.5	16.7
2024-25	1.0	80.6	51.5	28.2
2024-25 (Apr-Jan)	2.2	69.2	46.5	20.5
2025-26 (Ap-Jan)	1.7	79.3	49.5	28.1
Source: RBI				

The puzzle of high net outward FDI flows….There could be reversal of outward flows post the West Asia crisis

- Over the years, repatriation/disinvestment and outward investment have increased. About 60% of India's outward FDI flows through low-tax financial hubs such as Singapore, Mauritius and the UAE
- More than 90% of outward FDI is concentrated in a few sectors: like financial services, Manufacturing, Trade and Hospitality
- The West Asia crisis has put capex investment of at least 800 small and medium companies at risk. The impact would be high on companies from the retail and hospitality sector where 280 Indian companies had invested about $400 million

Why Indian firms invest there

Country	Approx Share*	Notes
Singapore	23	Regional financial hub; gateway to ASEAN
United States	12	Technology acquisitions and market access
UAE	9	Trade hub for West Asia
Mauritius	11	Holding structures and tax treaty advantages
Netherlands	6	European headquarters and tax structuring
United Kingdom	5	Financial services and corporate acquisitions
Germany	3	Manufacturing and industrial investments
Australia	2	Mining and resources
Others	29	Various smaller destinations

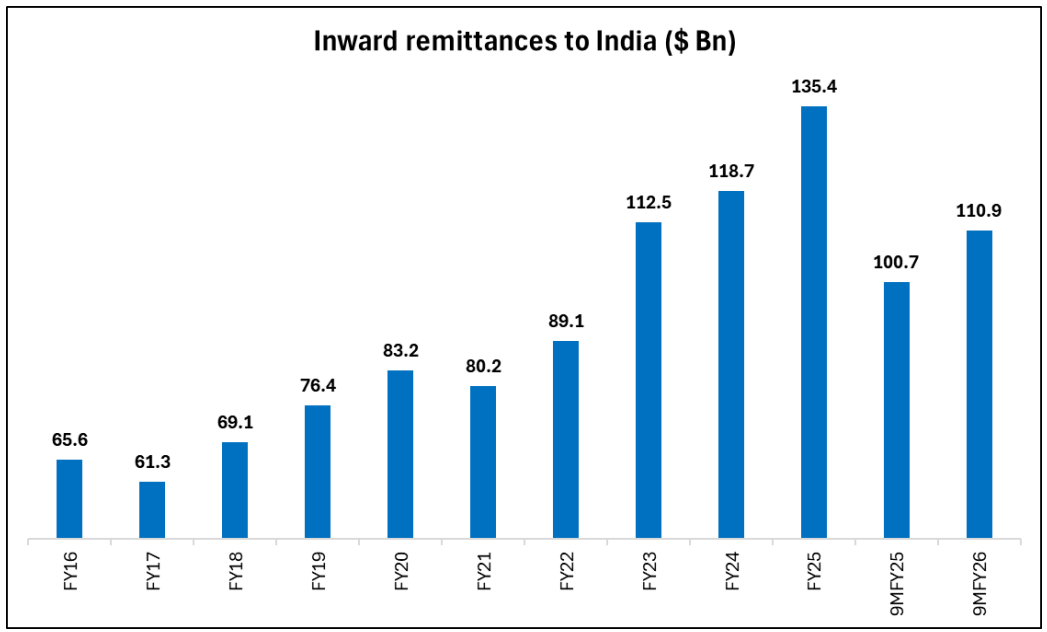
*of India's Outward FDI (%)

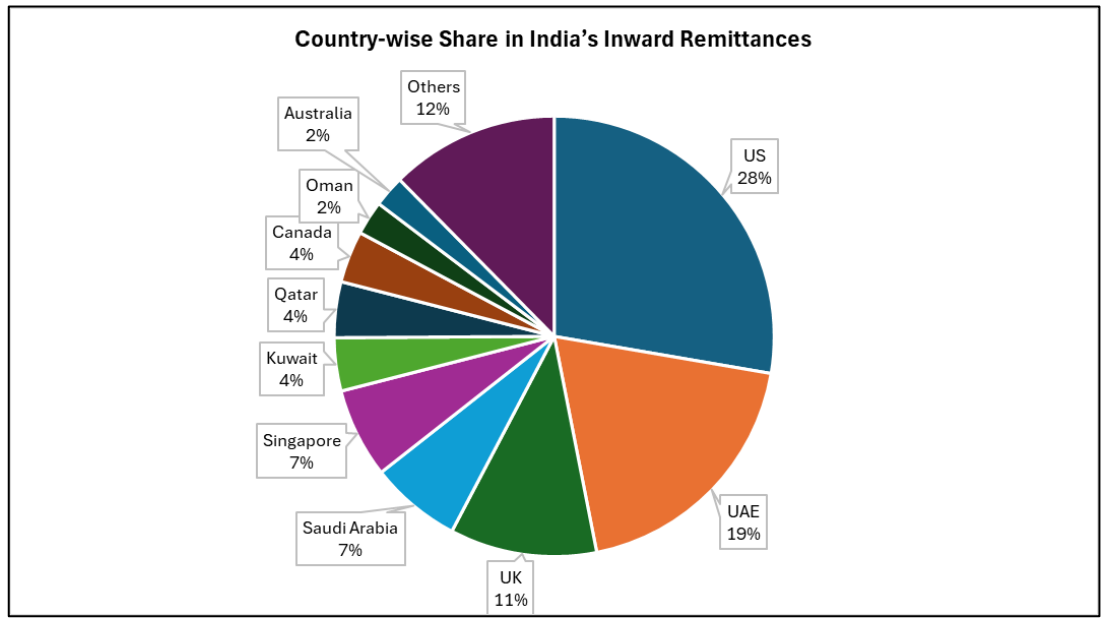
Sector-wise ODI

Sector	Approx Share (%)*	Description
Financial Services	35	Banking, NBFCs, investment companies
Manufacturing	20	Automobiles, metals, chemicals
Wholesale & Retail Trade	15	Global distribution and trading
Information Technology	10	Software services and digital platforms
Hospitality & Tourism	8	Hotels and restaurant chains
Energy & Resources	7	Oil, gas, and mining assets
Others	5	Various sectors

Remittances may still reach $140-145 billion in FY26

- India had the world's largest diaspora, with over 3.5 crore people of Indian origin living abroad (as of 2024). Out of which, around 90 lakh-1 crore Indian expatriates live and work across the six Gulf Cooperation Council (GCC) countries — Saudi Arabia, Kuwait, the UAE, Qatar, Bahrain, and Oman — constituting the largest foreign workforce in the region
- India has topped global remittances for over 25 years since the information technology boom in the 1990s and has consequently received over $100 billion for the third year in a row in FY25. In FY25, diaspora remittances hit a new record of $135.4 billion compared to $118.7 billion in FY24, an increase of 14%. During FY26 (till Dec) India received remittances of ~$110 billion, compared to ~ $100 billion during Apr-Dec'25…. Tail months of FY26 witnessed a knee-jerk reaction to the conflict, remittances shooting off onshore





In FY27, Remittances may hold in the current range of $135-140 billion dollar

With the increased escalation in West Asia, the following impacts may affect remittances to India:

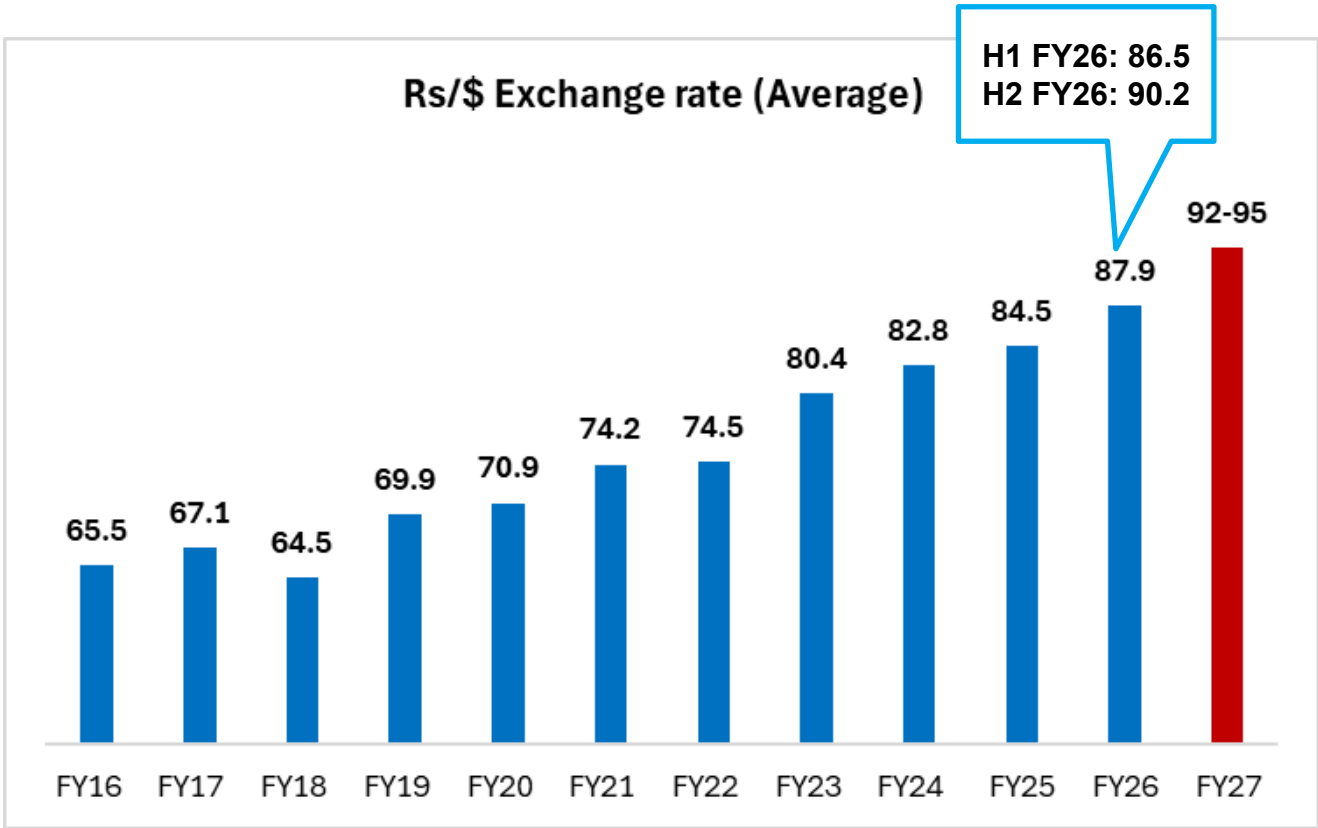
- **Declining Inflows:** Prolonged war could cause job losses in construction services and energy sectors
- **Reverse Migration:** Escalating violence increases the need for large-scale evacuations, halting remittances and placing economic strain on households. We have seen similar reverse migration during Covid-19 pandemic but it is expected that once things normalise, people will again move to the workplaces. So, remittances will not much impacted in FY27

Outlook

- In the post conflict period, we have seen an incremental jump of around 30-35% remittances from West Asia during March 2026, which is mainly due to risk aversion, and fear of worsening conflict and potential evacuations
- **Based on the data of FY20 and FY21, we expect remittances to India may reach all time high of $137-140 billion in FY26 but will be in the range of $135-137 billion in FY27**

Rupee may remain under pressure sans attempt to stabilise capital inflows through a comprehensive package to address Balance of payments deficit

- Based on the recent trends, the Indian Rupee is expected to remain rangebound, with a depreciating bias where we understand the average exchange rate could trade largely in the range of Rs 92 to Rs 95 (INR/$) in FY27, driven by elevated crude oil prices, persistent current account deficit, and ongoing geopolitical tensions impacting global financial markets
- **As capital flows could remain constrained, long-standing reforms on BoP front** (as also taxation front) remain the only solution that reward patient capital providers and offer a boutique of hedging solutions that do not permanently impede the trading prowess of FIs



BoP to remain negative in FY27… India needs a comprehensive package!

- Overall BOP projected to be in negative territory in FY27 (-$30 bn) with trade balance projected to be negative as well
- The capital account is projected to be in surplus of $24.5 bn on the assumption of positive flows next year
- Thus, a comprehensive measure is required given that BoP has been negative for the third consecutive year
- Capital accretive measures need to fine tune policy and regulatory architecture further, making taxation and compliance simple yet invigorating and attracting patient capital providers even as other jurisdictions vie for a greater pie of flows in new age economies (last year, the largest FDI investment was from MGX, UAE in France ($43 Bn) to build an AI campus!
- Basis UNCTAD data, Cross-border mergers and acquisitions (M&As) rose 14% to $443 billion (still below decadal average) while both Greenfield investments and International Project Finance dipped, making FDI look more like Hot money

India's BoP Estimation($ bn)				
	2008-09	2024-25	2025-26(P)	2026-27(P)
Overall Balance of Payments	**-20**	**-5**	**-51**	**-30**
CURRENT ACCOUNT	**-27.9**	**-23.4**	**-31.5**	**-54.1**
As % of GDP	-2.6	-0.6	-0.8	-1.3
Export	189.0	441.8	442.0	466.0
Import	308.5	729.0	775.0	829.1
Oil	-	185.8	175.8	240.8
Gold	-	58.0	72.0	75.0
Trade Balance	**-119.5**	**-287.2**	**-333.0**	**-363.1**
Service Export	106.0	387.5	418.3	451.0
Service Import	52.0	198.7	204.9	215.0
Service Trade balance	**53.9**	**188.8**	**213.4**	**236.0**
Transfers	44.8	123.4	137.3	132.0
Income	-7.1	-48.4	-49.2	-59.0
CAPITAL ACCOUNT	**7.4**	**16.8**	**-19.1**	**24.5**
Foreign Direct Investments	22.4	1.0	2.0	3.0
Portfolio Investments	-14.0	3.6	-16.6	6.0
Others including loans/ capital/ Rupee debt service	-0.9	12.3	-5.0	15.0
Source: RBI,SBI Research				

There is a need to correct NEER & REER data for adequate reflection of Rupee strength

- NEER declined from 91 (FY25) to 85 (FY26) due to global factors such as USD, monetary tightening, capital outflows, and oil-driven external pressures…Rupee appears to have depreciated more in bilateral USD terms compared to NEER, reflecting that USD/INR movements do not fully reflect broader trade-weighted external value adjustments
- REER declined more than NEER, indicating stronger real depreciation driven by inflation differentials

Effective Exchange Rate Index: Trade Weighted: 40 Currencies (Base: 2015-16)			
Year	NEER	REER	Gap
FY17	100	102	2
FY18	103	106	3
FY19	97	101	4
FY20	98	103	5
FY21	94	104	10
FY22	93	105	12
FY23	91	103	12
FY24	91	104	13
FY25	91	105	14
FY26(till February)	85	98	13
FY27(P)*	80-82	92-94	

Source: Computed using RBI, CEIC

*Projections based on recent trends & easing inflation differentials.

Rupee depreciation persists, competitiveness improving, but inflation remains a constraint

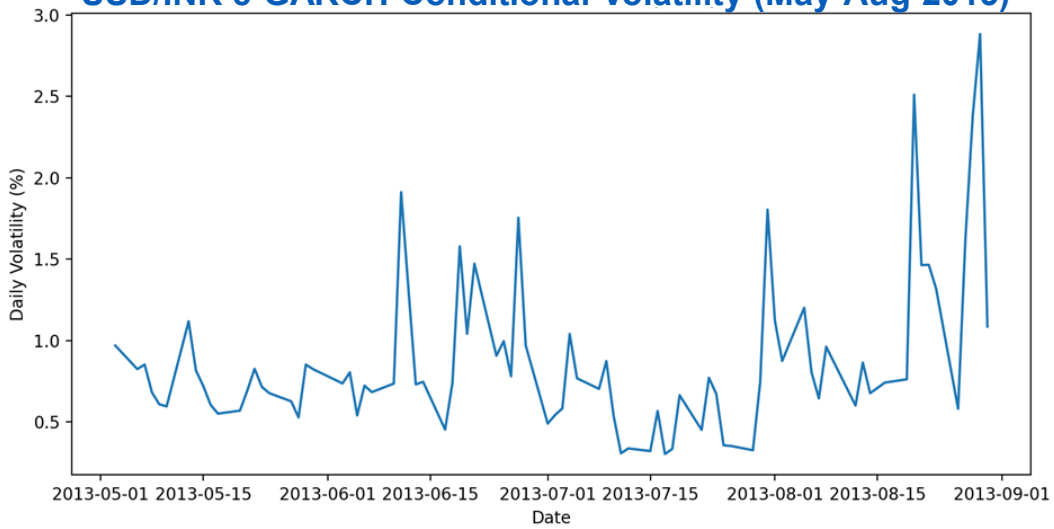
FY27 likely to be range bound, with a little depreciating bias, enabling gradual gains in competitiveness. This trend supports exports competitiveness but may keep import costs elevated

Post-COVID structural shifts and current geopolitical realignments necessitate updating the base year and trade basket

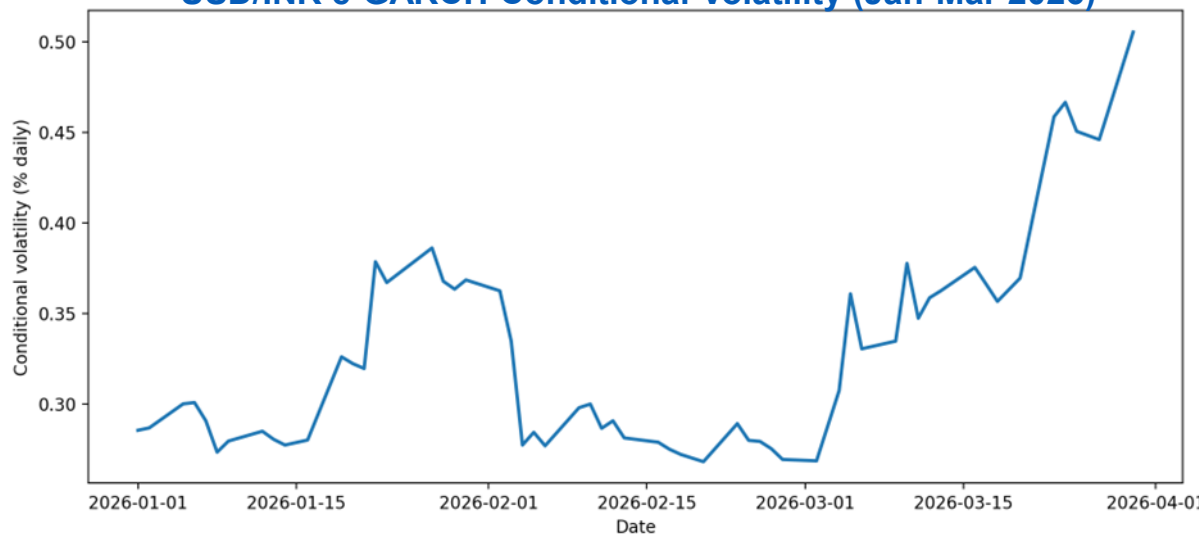
Tracing the Rupee Trajectory Through the Rearview Mirror (e-GARCH)

- The Taper Tantrum period marked a clear stress episode for INR, with a sharp spike in volatility in 2013, with the most severe stress concentrated in August. Later months of 2013 show partial stabilization, 2014 is viewed as an adjustment year and 2015 was the period of gradual further weakness under a calmer volatility regime….The recent increase in volatility in early 2026 points to renewed pressure, but not to the same scale of disruption as in 2013
- **The end-March 2026 volatility score is substantially above the historical average, indicating that USD/INR had entered a distinctly higher-volatility regime, duly prompting regulatory intervention to curb speculative moves**
- With gradual easing anticipated in volatility through 2027, under the baseline path, volatility is expected to move closer to its long-run level by March 2027, assuming no major new external shock(s)…This means FY27 volatility is expected to be higher than the relatively calm post-taper years, but still likely to remain lower than the elevated levels observed during the 2008 Global Financial Crisis crisis (FPI outflows $9.8 bn in FY09 and INR first strengthened and then reversed course) and the 2013 taper tantrum episodes
- **In line with the hypothesis of the *higher highs and lower lows*, the rupee may continue to experience fluctuations, however, the scale of these swings is may not match earlier stress episodes, even as the need for a comprehensive package on BOP remains the most potent regulatory tool**

USD/INR e-GARCH Conditional Volatility (May-Aug 2013)



USD/INR e-GARCH Conditional Volatility (Jan-Mar 2026)



BoP Support Measures for FY27…Time for Deposit Mobilisation Scheme?

- The strain on BoP front has front loaded the question of launching a **Deposit mobilization scheme** reminiscent of 2013, while also evoking success of RIB (1998) and IMD(2000) that had amassed sizeable flows in times of duress

- However, factoring the realities of yield curves across DMs (and its decoupling from policy rates), any such scheme needs to weigh in all the possible '*what if*' scenarios on cost of funds (on resource mobilization front), hedging cost structure and lending costs for borrowers vis-à-vis opportunity costs

- Basis initial estimates, a 3 year foreign currency deposit sourced at say around 6.5-7.0% yield (sufficiently enticing for targeted investors to lock in funds), post hedging cost of 3 years, may spike to end single digits, if not early double digits at lending table, check mating the very desirability of such funds at the end users level

- Also, the fact that in 2013, the super low effective cost of funds across DMs (yields in US were sub-1% for matching durations) had created a 'virtuous' leverage cycle wherein many Financial Institutions outside India had provided loans ballooning own corpus of depositors, with post credit cost (paid to FIs) return of such depositors-investors inching around 8-10%, creating a carry trade like situation…. The upheavals in most financial centers is restrictive of such practices (from both yields as also risks perspective) and hence depositors need a strong passionate emotional connect for anchoring the Viksit Bharat narrative as also exciting returns

- **While a scheme soliciting funds is definitely workable that may also be designed to showcase the connect of the large diaspora spread globally and driving the innovation bandwagon, it has to be calibrated suitably across Corpus (a smaller corpus may entice higher demands while signaling no panic), yield (optimal from deployment angle too), tenor (no Hot money) and tax friendly treatment for investors**

Titbit

New Labour Code may impact companies' wage bill

- The four new Labour Codes (the Code on Wages, 2019, the Industrial Relations Code, 2020, the Code on Social Security, 2020 and the Occupational Safety, Health and Working Conditions Code, 2020) in India officially came into force on November 21, 2025, consolidating 29 central laws

- By modernising labour regulations, enhancing workers' welfare and aligning the labour ecosystem with the evolving world of work, this landmark move lays the foundation for a future-ready workforce and stronger, resilient industries driving labour reforms for Aatmanirbhar Bharat

- Potential restructuring of compensation to keep basic pay at ≥50% of total remuneration, affecting PF and gratuity calculations

- Wipro in its latest result press release (April 16, 2026) quantify the impact of new labour codes and indicate that, "***Adjusted for impact of past service cost on gratuity and remeasurement of leave encashment due to implementation of new labour code amounting to ₹(-)272 Mn for the three months ended 31st March, 2026***."

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