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INDIAN ECONOMY

Crisil Insights

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Through the monthly Crisil Insights Indian Economy series, we delve into how the country's growth dynamics are expected to change in the fiscal. In this issue, we explore the deficient rainfall in India and its implications for kharif and rabi output and food inflation.

When risks become the baseline

Resilience has been the defining theme of the global economy since the tariff-related turbulence began in 2025 and, more recently, the crisis began in West Asia.

Neither has been fully resolved. Yet the global economy, including India, continues to outperform expectations. S&P Global raised its global gross domestic product (GDP) growth forecast 10 basis points (bps) to 3.2% for 2026; it expects a similar pace of expansion in 2027. India is projected to grow 7% this fiscal, compared with 7.8% last fiscal.

Several factors explain this resilience. One is the significant boost to the United States (US) economy from artificial intelligence (AI)-related investment, with spillover benefits for economies supplying inputs for AI infrastructure. Another is the relatively modest increase in global crude prices despite disruptions to oil infrastructure and the Strait of Hormuz problem.

Inventory drawdowns by countries such as China helped moderate demand and contain the rise in oil prices. This has provided some relief to India, which imports more than 85% of its crude oil requirements. While crude import prices have risen, export prices have increased faster, partly because refining infrastructure has been damaged. Hence, India's petroleum exports grew 37% in the first half, helped by favorable prices. This marks a turnaround from the average annual decline of 17% in petroleum exports over the previous three fiscals.

That advantage is being tested. Crude prices have moved higher again as the decline in supply has outpaced the decline in demand. But trade has proved resilient as countries, including India, have rerouted trade and diversified export markets, maintaining robust activity.

The domestic picture, however, presents a different set of risks. The monsoon season ended with cumulative rainfall 13% below the long-period average (LPA), along with significant spatial and temporal distortions in its distribution, raising concerns about agricultural output and food prices. We have closely tracked this year's monsoon through our proprietary Deficient Rainfall Impact Parameter (DRIP) and Rainfall Distortion Index (RDI), along with other food economy indicators. Against this backdrop, this month's theme examines the implications for both kharif and rabi output and what these could mean for food inflation.

The global food supply situation is also becoming concerning. A recent S&P Global Institute article highlights rising food security risks. Our Quickonomics article in October observed a rare, synchronized rise in global food prices could complicate India's food-price management. Accordingly, we have revised our retail inflation forecast for this fiscal to 5.3% from 5.1%. We expect the 10-year government security yield to end the fiscal at 7.2%.

With inflationary pressures broad-based, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) recalibrated its stance towards tightening to safeguard price stability. After the 25bps repo rate hike in October, we expect a similar increase in December.

Financial conditions	Industrial production	Inflation
Rate hikes begin	Robust thrum	The heat is out of the kitchen

Financial conditions

- With the MPC action, the repo rate is at 5.50%, the standing deposit facility at 5.25% and marginal standing facility at 5.75%. The committee shifted its stance from neutral to calibrated tightening and raised the inflation and growth forecast to 5.2% and 7.1%
- The RBI absorbed Rs 7.8 lakh crore, or 2.6% of net demand and time liabilities, in September versus Rs 3.7 lakh crore in August. Strong FCNR(B) inflows lowered the credit-deposit ratio to 80.98% from 82.0% in July
- The central bank intensified liquidity absorption through average variable rate reverse repo operations of Rs 2.9 lakh crore and open-market sales of government securities worth Rs 1 lakh crore in September
- Six-month certificate of deposit and commercial paper rates eased to 6.66% and 7.13%. The one-year marginal cost of funds-based lending rate fell 9 bps to 8.61%. Bank credit growth rose to 19.4% and the weighted average call rate declined to 5.08%
- The rate hike reflected firming retail inflation and greater upside risks from crude oil, commodity and food prices as monsoon concerns materialized. Meanwhile, stronger-than-expected growth and robust credit demand gave the MPC room to tighten policy
- We expect another 25 bps repo rate hike in December as inflation risks are elevated. Surplus liquidity should moderate due to RBI absorption, festive-season demand and higher currency circulation. Bank credit growth is expected at 14.5%-15.5% this fiscal

Industrial production

- The Index of Industrial Production (IIP) grew 8.0% on-year in August, accelerating from 7.4% in July. Industrial growth averaged 7.7% in July-August, compared with 6.2% in the first quarter, supported by domestic and export demand
- Manufacturing remained the primary driver, with growth rising to 9.0% from 8.2%, while electricity and gas supply growth accelerated to 12.3% from 8.7%. In contrast, the contraction in mining widened sharply to 5.6% from 0.9%
- Intermediate goods growth strengthened to 13.7%, while capital goods posted the fastest expansion at 16.9% albeit moderating. Consumer non-durables recovered, but consumer durables, infrastructure and construction goods, and primary goods softened
- Primary goods growth moderated to 3.5% from 4.2% amid West Asia uncertainty, higher crude prices and weaker mining output. Petroleum-linked segments came under pressure, but electricity growth surged to 13.3%
- Consumer-sector growth improved to 5.9% from 4.6%. Consumer non-durables rebounded to 2.1%, aided by food products and pharmaceuticals, while durables remained strong at 11.1%. Rural demand indicators softened from first-quarter levels
- Industrial growth is expected to moderate in the second half as elevated input costs, higher interest rates, softer global demand and monsoon-related pressures weigh on activity. Still, government capex and state cash transfers should provide support

Inflation

- Consumer Price Index-based inflation accelerated to 5.5% in September from 4.8% in August. The increase reflected an adverse base, surging onion prices and a synchronized rise in global prices of food commodities
- Food inflation rose sharply to 7.7% from 6.0%, led by cereals, pulses, sugar and vegetables. Onion inflation surged to 108.1% amid tight supplies, while deflation in tomatoes and potatoes eased. Higher global prices also lifted edible oil inflation
- Core inflation increased to 4.3% from 4.2%. Excluding gold and silver, it rose to 3.2% from 2.9%, indicating broadening input-cost pass-through. Price pressures strengthened across transport, household goods, communication, restaurants and clothing
- Fuel-related inflation edged up to 5.3% from 5.2%. LPG, petrol and diesel inflation remained elevated but broadly stable. Higher crude prices and energy costs are likely to keep pressure on transport, household fuel and services inflation
- Wholesale Price Index-based inflation surged to 11.4% from 9.8%, with food and non-food inflation rising. Fuel and power inflation reached 25.9%, while manufactured-product inflation rose, signalling input-cost pressure and pass-through to consumer prices
- Food inflation should remain firm because of rainfall-related risks and elevated global prices. Higher crude, robust demand and waning benefits from goods and services tax rationalization will lift core inflation. We have raised our inflation forecast 20 bps to 5.3% this fiscal

Interest rate	Rupee	Trade
Yield spike	Holding ground	Resilient exports

Interest rate

- The benchmark 10-year government security yield averaged a 28-month high of 7.04% in September, rising 22 bps on-month and 53 bps on-year. It ended the month at 7.18%, up 23 bps from August
- The rise was driven by Brent crude surging 28.5% on-month to $116.8 per barrel and the US 10-year Treasury yield averaging 4.99%. Foreign portfolio investors withdrew $2.2 billion as the US-India yield spread narrowed to 205 bps
- Higher systemic liquidity surplus and lower central government borrowing capped the rise. The Centre's borrowing slowed 5.2% on-month to Rs 1.2 lakh crore and is projected at Rs 16 lakh crore this fiscal, with ~26% of H2 borrowing in 10-year securities
- The yield curve steepened as yields hardened across tenures. The five-year yield recorded the sharpest increase of 39 bps, while the 10-year term premium over the repo rate rose to 179 bps from 157 bps, its highest since September 2022
- Headwinds intensified in October, with the 10-year yield reaching 7.39% by October 15. The RBI's 25-bps repo rate hike, shift to calibrated tightening and moderating systemic liquidity added to pressure from elevated global yields and crude prices
- We expect the 10-year yield to reach 7.2% by fiscal-end versus 6.7% a year earlier. Further monetary tightening, elevated crude, inflation risks, heavy government borrowing and uncertainty surrounding the West Asia conflict will keep yields under pressure

Rupee

- The rupee averaged 95.5 per US dollar in September, unchanged from August. However, it weakened during the month to close at 96.0 per dollar, compared with 95.5 at end-August
- A stronger dollar, foreign portfolio investor (FPI) outflows and higher crude prices pressured the rupee. September marked the first net FPI outflow after three consecutive months of inflows
- The US Dollar Index rose 0.5% after the Federal Reserve raised its policy rate 25 bps to 3.75-4.00%, its first increase since 2023. Elevated US inflation and the prospect of another hike this calendar year also supported the dollar
- FPIs recorded a net outflow of $6.1 billion following a $2.7 billion inflow in August. Equity outflows reached $3.8 billion amid heightened West Asia risks, while debt outflows rose to $2.2 billion as US yields reduced the attractiveness of Indian bonds
- Major currencies recorded a mixed performance. The Japanese yen appreciated 1.5%, while the euro and British pound depreciated 0.8% and 1.1%. Among emerging-market currencies, the Chinese renminbi and Indonesian rupiah strengthened
- A widening current account deficit and volatile capital flows are likely to keep the rupee under pressure. However, we expect it to recover partially to an average of 94.5 per dollar in March 2027, assuming West Asia tensions ease and capital inflows revive

Trade

- Merchandise export growth was robust at 23.1% on-year in September, moderating from 26.1% in August. Oil and core export growth slowed; gems and jewellery surged. Merchandise exports grew 18.5% in the first half, limiting the rise in the trade deficit
- Core exports grew 22.0%, supported by stronger chemicals, pharmaceuticals and textiles, despite moderation in electronics and engineering goods. Labor-intensive exports improved sharply, while agricultural exports remained healthy
- Merchandise import growth moderated sharply to 8.0% from 14.1% in August, primarily because of a steeper contraction in gems and jewellery imports. However, oil and core import growth accelerated
- Gems and jewellery imports contracted 63.7%, led by an 81.3% fall in gold imports. Higher global crude prices lifted oil imports, while electronic goods, machinery, chemicals and transport equipment drove stronger core import growth
- The merchandise trade deficit narrowed to $30.2 billion from $33.0 billion a year earlier as imports slowed faster than exports. However, services exports contracted 0.9%, reducing the services trade surplus to $16.9 billion from $18.8 billion
- We expect the current account deficit to widen to 1.5% of GDP this fiscal from 0.6%, mainly because of higher crude prices. Resilient global growth and lower US tariffs should support exports, but geopolitical disruptions pose downside risks

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About Crisil

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