

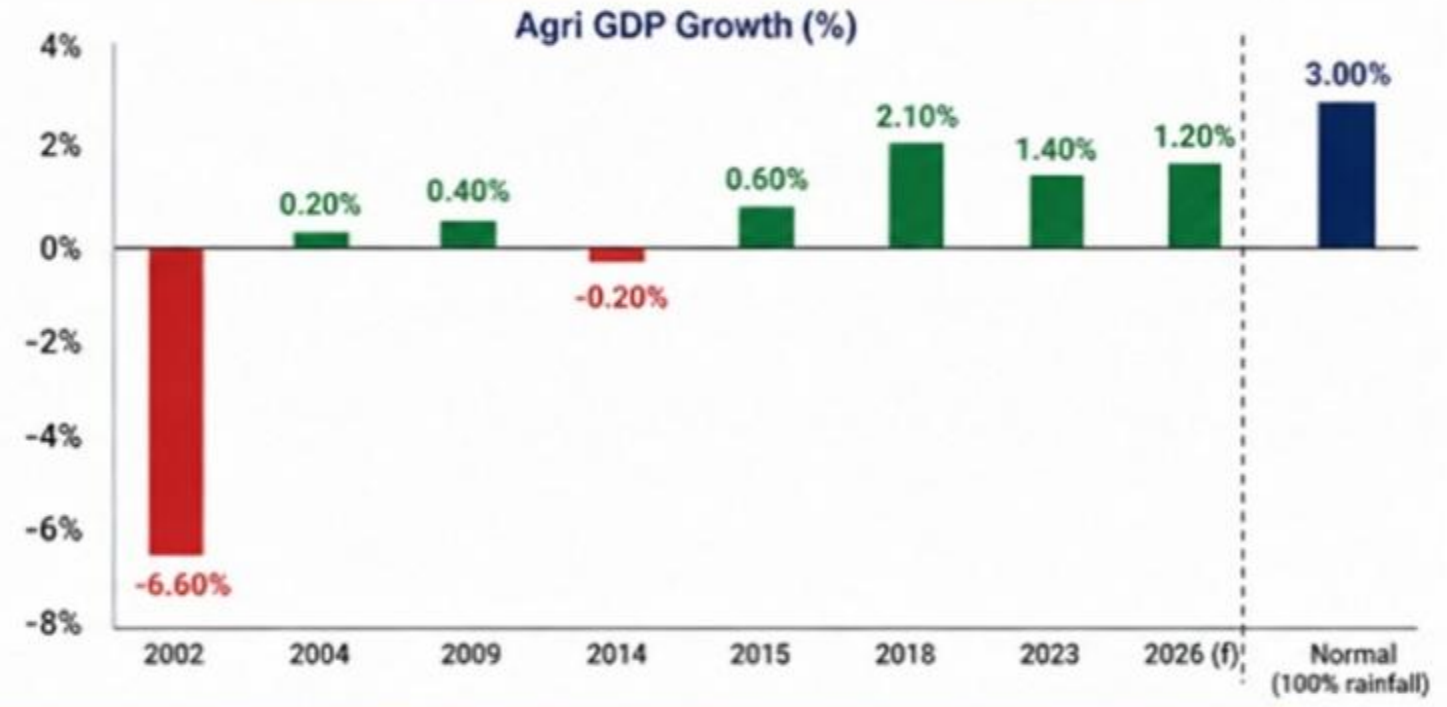
Below-Normal Monsoon 2026

(Implications for Indian Economy and Banking Sector)

Agri GDP Growth (%) During El Niño Years vs Normal

El Niño Years	Rainfall (% of LPA)	Agri GDP Growth (%)
2002	81%	-6.60%
2004	86%	0.20%
2009	78%	0.40%
2014	88%	-0.20%
2015	86%	0.60%
2018	91%	2.10%
2023	94%	1.40%
2026 (f)	90%	1.20%
Average	86%	-0.11%
Normal (100% rainfall)		3.00%

During El Niño years agri GDP growth was muted and negative against 3% during normal times



- IMD 2026 forecast revised to 90% of LPA.
- Agri GDP growth for FY27 estimated at ~1.0% under current rainfall assumptions.
- Agriculture (~18% of GVA) could shave 30-50 bps from overall GDP growth if monsoon underperforms.

But Indian industry has decoupled from Rural/Agricultural performance during drought periods....

Period (2002 -2025) : No of Drought Years =8				
Indicator	Included Data Points (All 8 Years)	Mathematical Average	Normal Year Base Line	Net Growth Loss
Rainfall (% of LPA)	81%, 86%, 78%, 88%, 86%, 91%, 94%, 90%	86.7%	***	***
Agricultural GDP Growth (%)	-6.60%, 0.20%, 0.40%, -0.20%, 0.60%, 2.10%, 1.40%, 1.20%	-0.11%	3.0%	-3.11%
Industrial GDP Growth (%)	2002 (6.5-7.5%) to 2026 (6.5-7.5%)	6.8% to 7.8%	7.5%	-0.20% (Negligible)

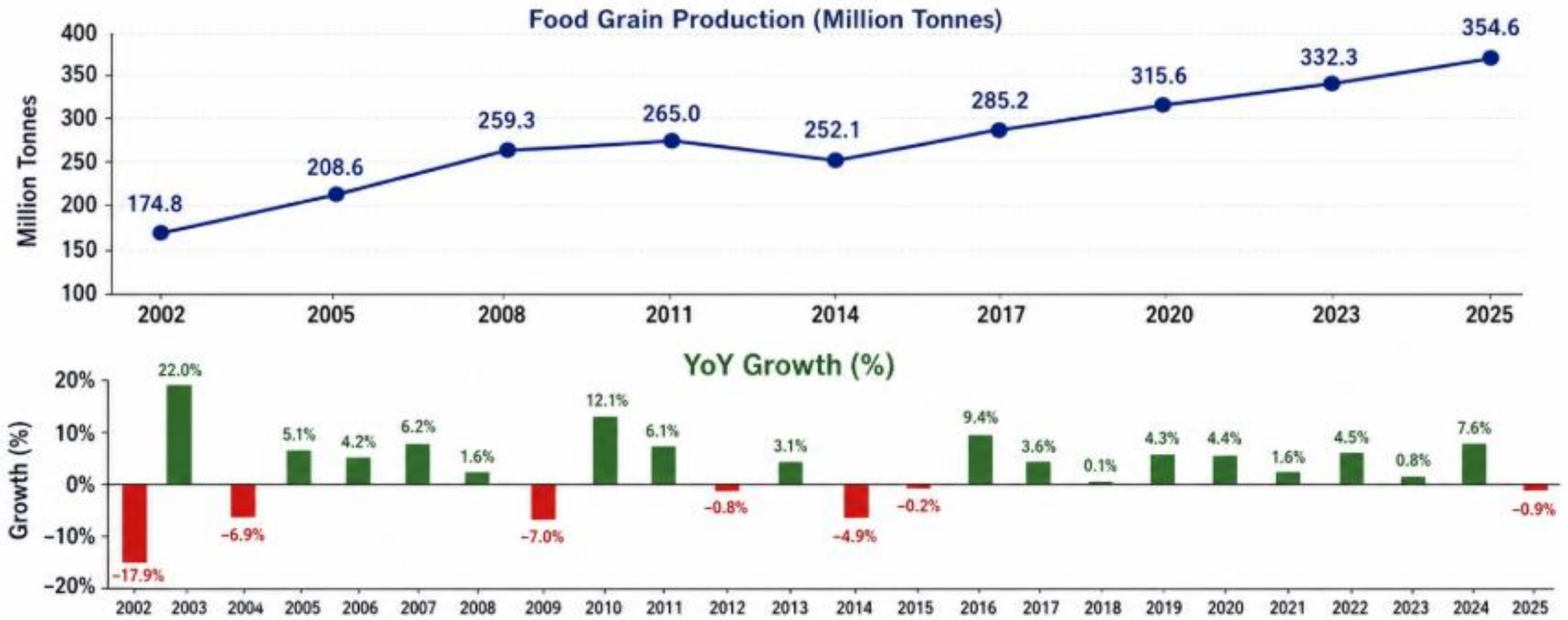
Shorter Period Period (2015-2025) : No of Drought Years =4				
Indicator	Included Data Points (All 4 Years)	Exact Mathematical Average	Normal Year Base Line	Net Growth Loss
Rainfall (% of LPA)	86%, 91%, 94%, 90%	90.25%	***	****
Agricultural GDP Growth	0.60%, 2.10%, 1.40%, 1.20%	1.32%	+3.0%	-1.68%
Industrial GDP Growth	7-8%, 6-7%, 7-8%, 6.5-7.5%	6.63% to 7.63%	+7.50%	-0.37% (Negligible)

So Expected Loss to the GDP (Based on Past Trends) = 0.40% to 0.50%

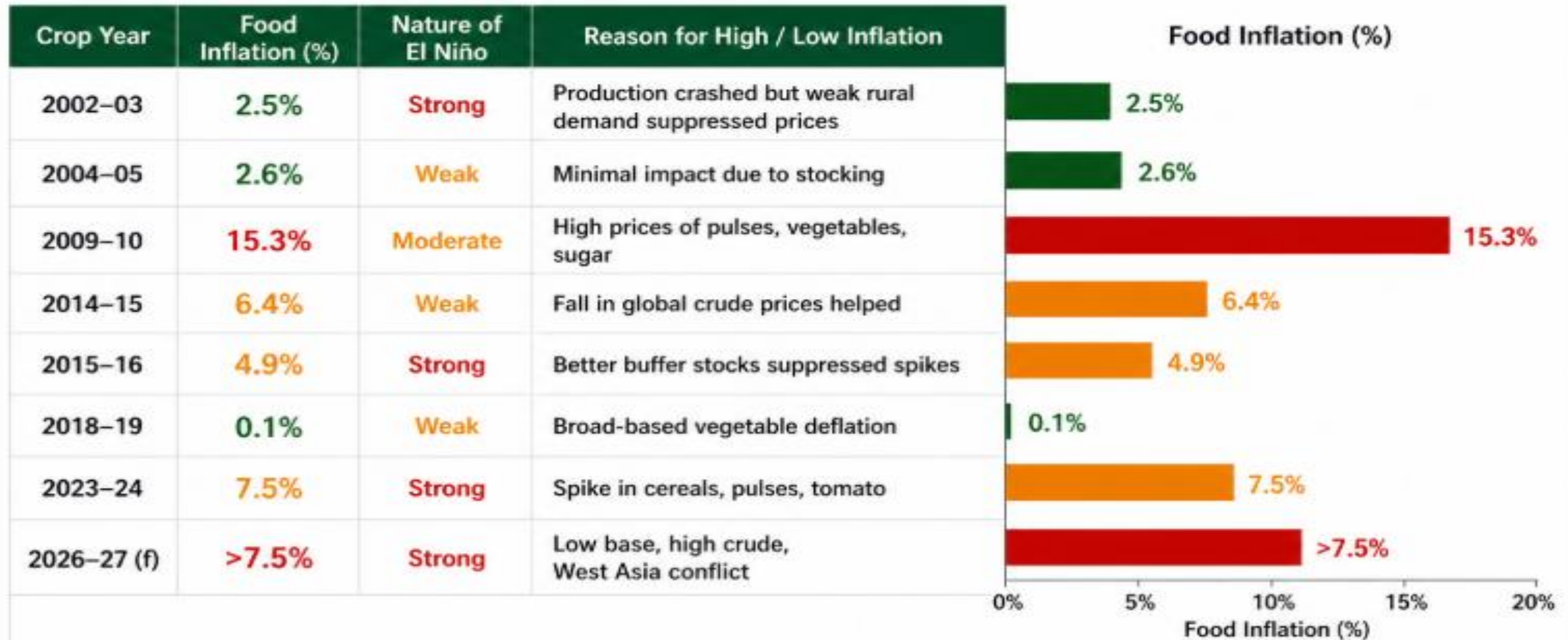
Isolation of Industrial Growth from Bad Monsoon & Slow Agri Growth

How food grain production Behaved during El Nino vs normal years

DURING EL NINO VS NORMAL YEARS

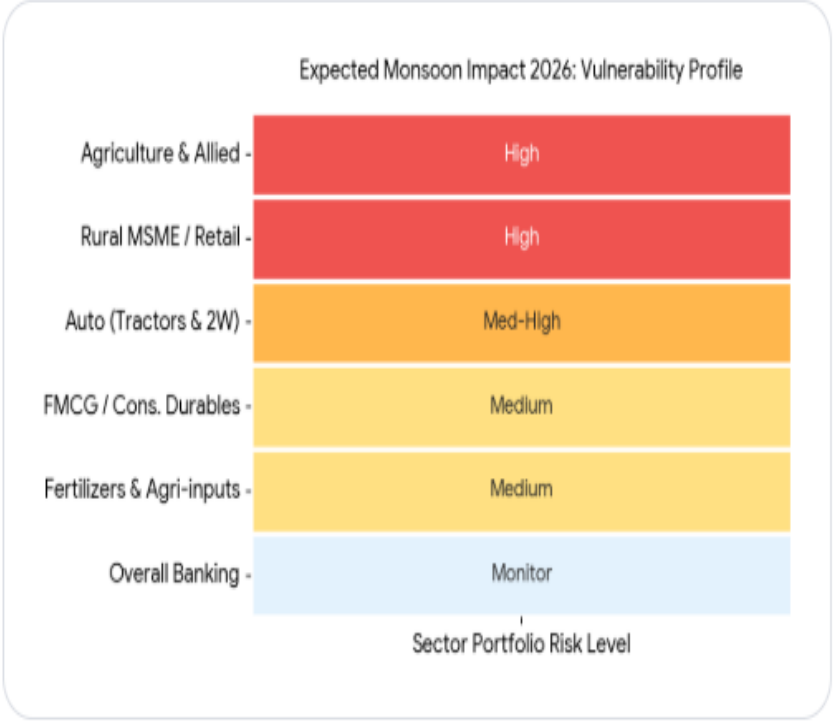


 All El Niño years have been accompanied by significant decline in food grain production.



- Since 2002, **50%** of El Niño occurrences were weak and remaining **50%** strong.
- Reports suggest a strong El Niño in 2026-27, with probability of extending up to December 2026.
- This phenomenon alone could add **30-50 bps** to food inflation.

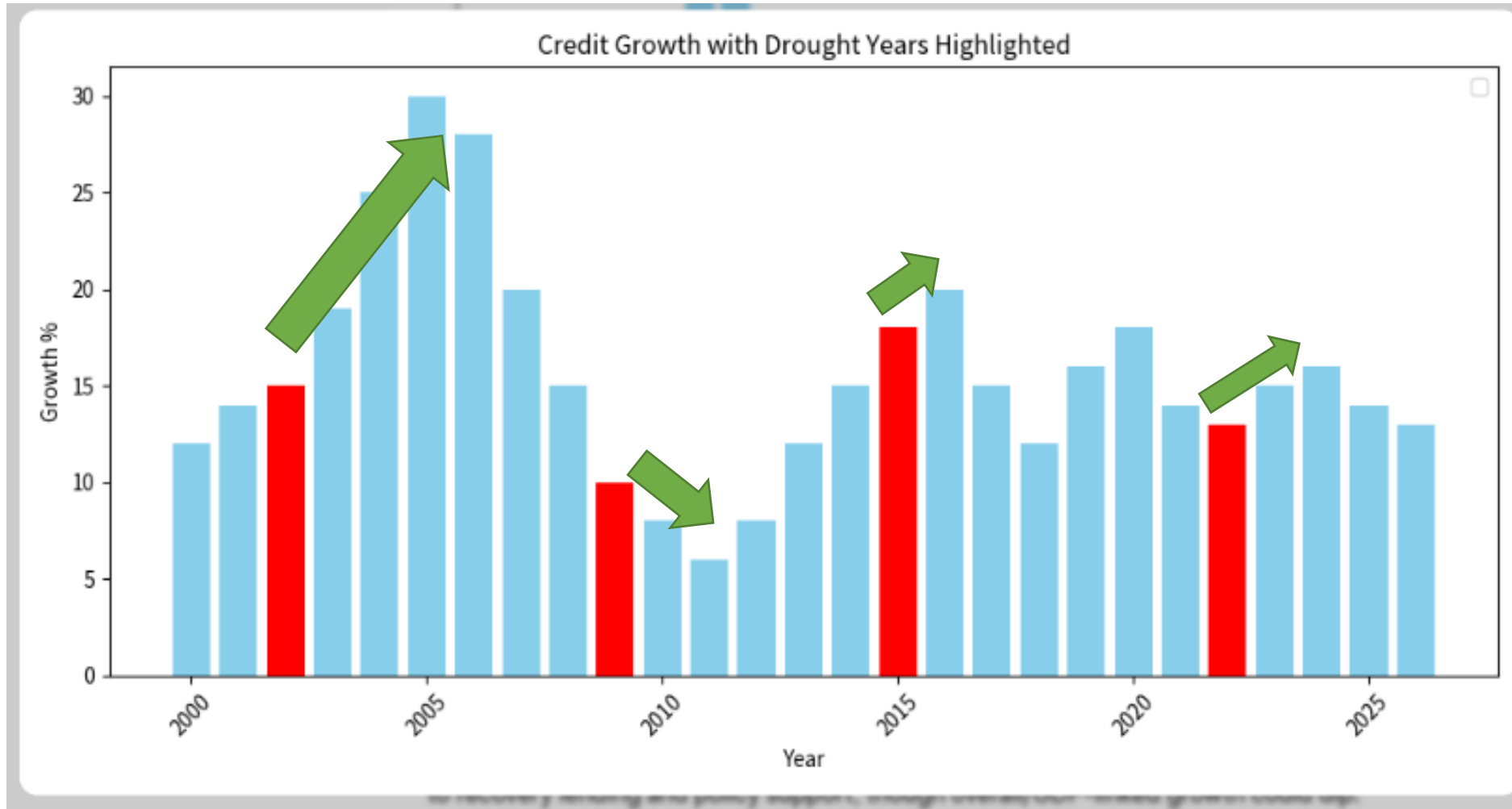
Sectors Hit Hard in Previous Deficient Monsoon Years...



Sector / Portfolio	Historical Impact (Deficient Years)	Expected Impact 2026 (90% LPA)	Bank's Risk Level
Agriculture & Allied	<ul style="list-style-type: none"> Agri NPAs grew 2.5x (FY2012-17) to ₹60,200 Cr GNPA ratio spiked to 7.7% (Mar 2023) 2014-15: Doubled in some PSBs 	+20-35 bps GNPA rise; higher slippages in rainfed areas	High
Rural MSME / Retail	<ul style="list-style-type: none"> 8-12% drop in credit demand (2009, 2015) Elevated stress in KCC loans 	+10-25 bps GNPA; 8-15% slower growth	High
Auto (Tractors & 2W)	<ul style="list-style-type: none"> Rural sales fell sharply (e.g., tractor demand down in 2014-15 & 2023) Weak rural incomes hit repayment 	Spillover via corporate & dealer financing	Medium-High
FMCG / Consumer Durables	<ul style="list-style-type: none"> Rural volumes down 5-10% in weak years 38-40% of FMCG demand is rural 	Indirect pressure on working capital loans	Medium
Fertilizers & Agri-inputs	<ul style="list-style-type: none"> Lower kharif sowing → reduced demand Input cost pressures amplify farmer distress 	Working capital stress for corporates	Medium
Overall Banking	<ul style="list-style-type: none"> RoA compression 3-6 bps (2015) PSBs hit harder (1.5-2x private banks) 	10-25 bps provisioning hit; NIM pressure	Monitor

Internal

Banking Sector - Drought Key Risks

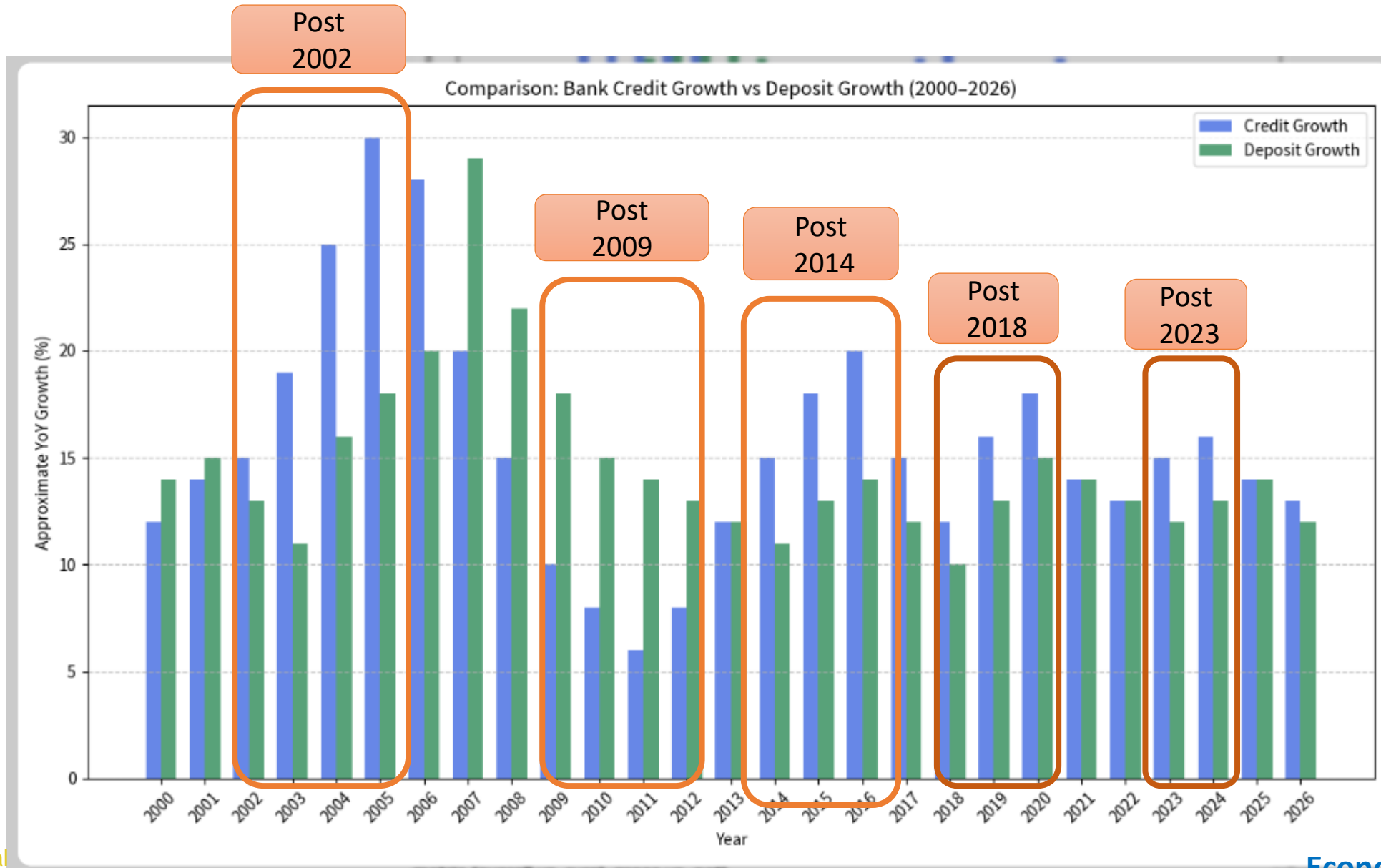


Quick Fact

Credit growth (especially agricultural) frequently held up or rose post-drought due to recovery lending and policy support, though overall/GDP-linked growth could dip.






















*Red bars mark notable drought years

The Gap Between Credit Growth & Deposit Growth Widens post Drought



Drought Effect:

Deposits weaken more noticeably but credit (especially agri) is supported by policy relief.

 IMPACT OF DEFICIENT MONSOON ON BANKING SECTOR (2026) 			
Risk Assessment & Bank Exposure Overview			
 RISK AREA	 HISTORICAL IMPACT (DEFICIENT MONSOON YEARS)	 EXPECTED IMPACT 2026 (90% LPA)	 BANK'S POTENTIAL EXPOSURE
 1. ASSET QUALITY (AGRI NPAS)	<ul style="list-style-type: none"> 2014-15: Agri NPA ratio doubled for some banks (13% → 16.9%) FY2012-17: Agri NPAs grew 2.5x to ₹60,200 Cr 2023: Elevated slippages in rain-fed regions 	 +15-30 bps rise in agri/MSME GNPA	 HIGH (if >12-15% rural/agri book)
 2. CREDIT GROWTH	<ul style="list-style-type: none"> Rural credit demand fell 8-12% in 2009 & 2015 Agri lending growth slowed sharply post-weak <i>kharif</i> 	 Slowdown of 8-15% in rural/agri segments	 MEDIUM-HIGH
 3. DEPOSIT MOBILIZATION	<ul style="list-style-type: none"> Rural deposit growth moderated by 4-7% in weak years (lower farm incomes) 	 Moderate slowdown (3-6%)	 MEDIUM
 4. PROVISIONING & PROFITABILITY	<ul style="list-style-type: none"> RoA impact: 3-6 bps in 2015 (India Ratings) Higher provisioning in PSBs with heavy agri exposure 	 Higher provisioning (10-20 bps hit to NIM possible)	 MONITOR CLOSELY
 5. INDIRECT RISKS	Auto/FMCG corporate books under pressure due to weak rural demand	 Spillover to consumption-linked sectors	 MEDIUM

RBI Policy Rate Approach during Drought



RBI MONETARY POLICY RESPONSE DURING EL NIÑO / DROUGHT YEARS

Historical evidence shows RBI responds to inflation & growth conditions, not monsoon alone

Year	Monsoon Situation	Repo Rate (Year-end / Prevailing)	Avg Inflation (%)	Policy Bias (vs Previous Year)	Key RBI Message / Rationale
2002	Severe Drought	6.0 – 6.25%	4.3	↓ Easing	Growth support amid drought impact
2004	Weak Monsoon	4.75% – 6.0%	3.8	↓ Easing	Low inflation allowed accommodative stance
2009	Severe Drought + GFC	4.75%	10.9	⇓ Aggressive Easing	Growth stabilization took priority
2014	Weak Monsoon	8.0%	6.0 – 6.7	↑ Tight	Inflation control remained priority
2015	El Niño	7.75% → 6.75% (Multiple rate cuts)	4.9	↓ Gradual Easing	Disinflation enabled rate cuts
2023	El Niño	6.50%	5.4 – 5.7	→ Pause	Food inflation risk but no tightening



KEY INSIGHTS



Inflation, not rainfall, drives policy: RBI's actions have been dictated more by inflation dynamics and growth conditions than by monsoon performance.



Easing in most El Niño / drought years: Out of six major episodes since 2000, RBI eased in 4 years, tightened in 1 year, and paused in 1 year.



Context matters: When inflation is high (2014) or food price risks persist (2023), RBI stays cautious even if monsoon is weak.



TAKEAWAY FOR FY27



RBI reacts to inflation, not rainfall alone.

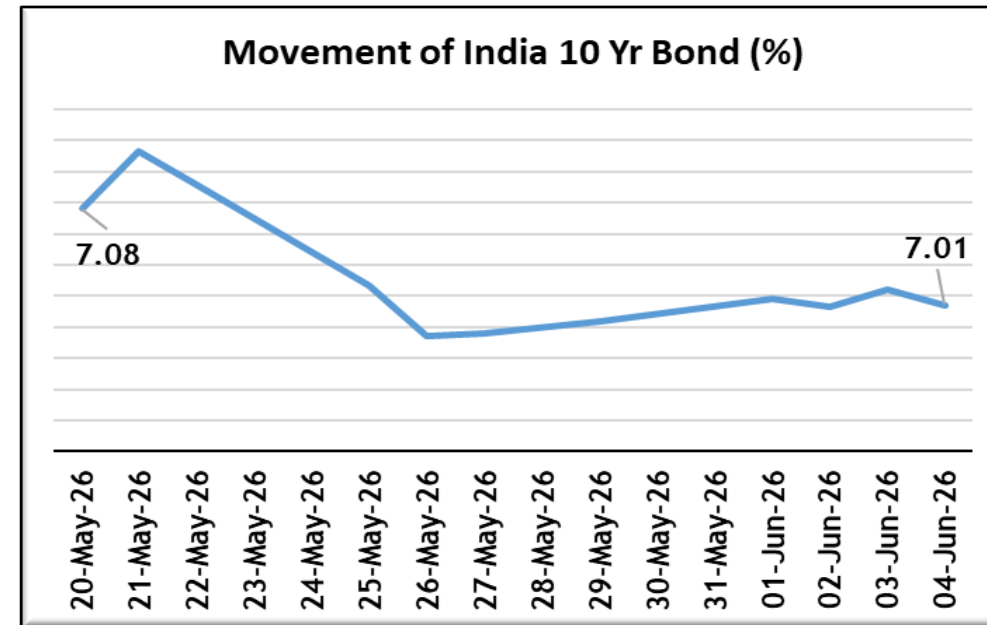
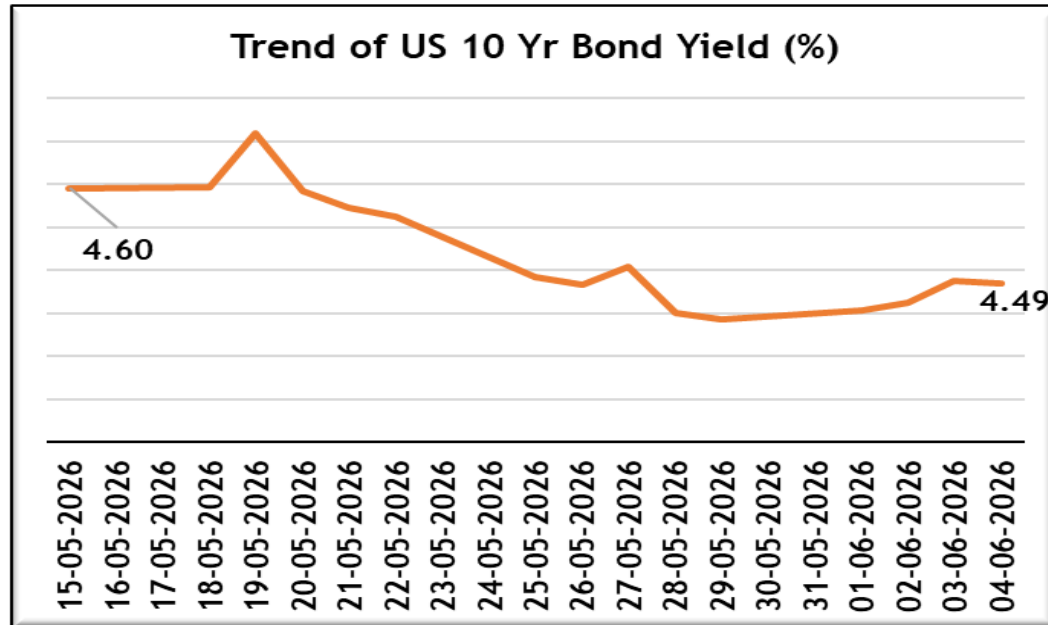
Even during El Niño years, monetary policy has often remained accommodative when growth risks dominate.

Key variable to watch: Whether any monsoon deficiency causes a sustained rise in food inflation that spills over into core inflation.



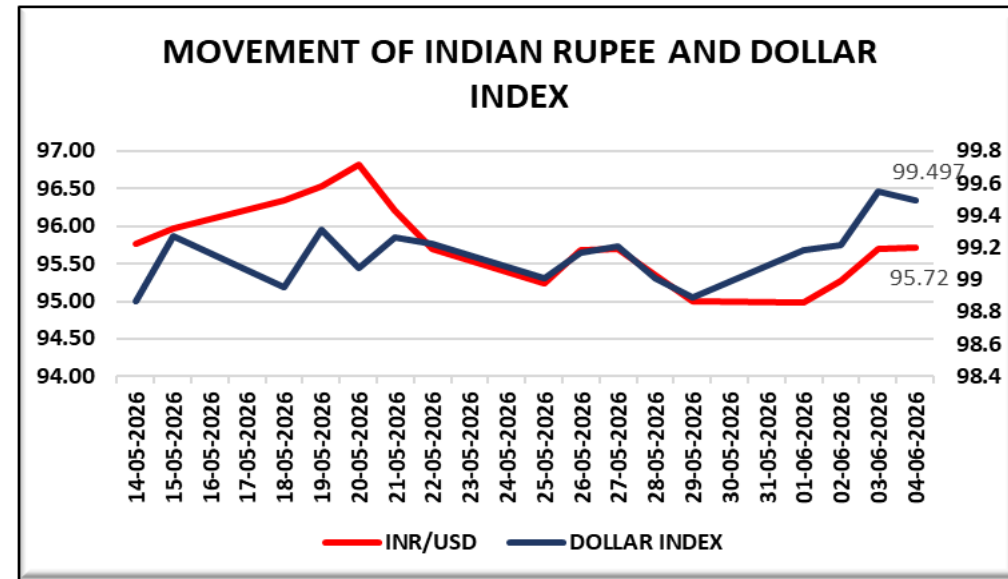
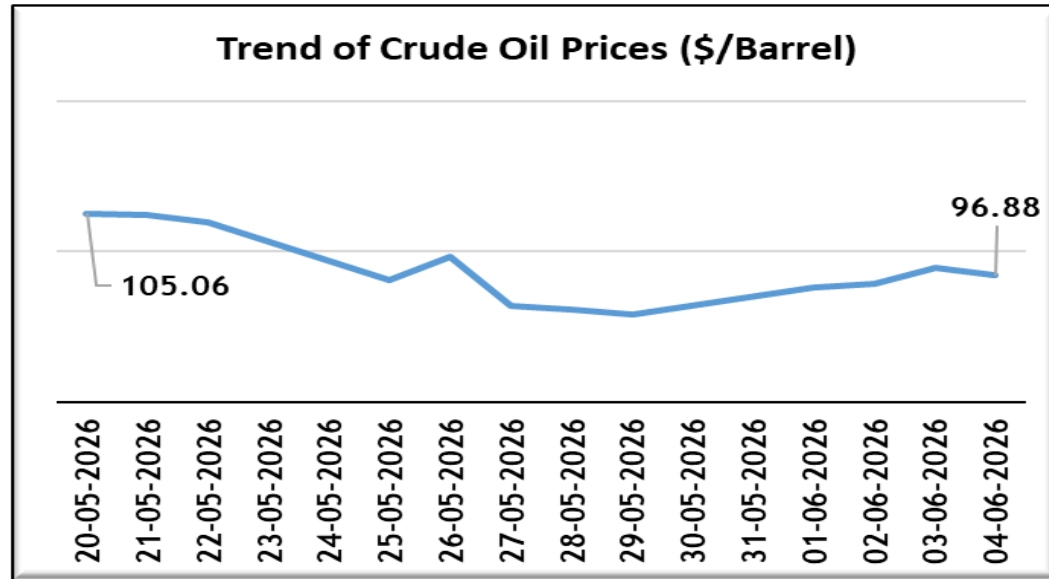
- ❑ *Agri GDP growth could decline more than 2% knocking off 40 bps from GDP growth*
- ❑ *Actual rainfall outcomes likely to undershoot IMD forecasts: Actual rainfall deficit could widen 5% more than IMD forecasts*
- ❑ *Food inflation could spike by 30 to 50 bps due to El Nino alone*
- ❑ *Reservoir capacity in Northern and southern regions very thin and might fall further*
- ❑ *With a 36% weight in CPI basket higher food inflation will push overall CPI closer to 6%*

- ❑ **Last day (03rd June):** Indian government bonds yield little changed after Brent crude jumped more than 2% to about \$97 a barrel, putting the Reserve Bank of India's policy decision on Friday under a brighter spotlight.
- ❑ Today 10 yr benchmark bond yield is trading at 7.01%.

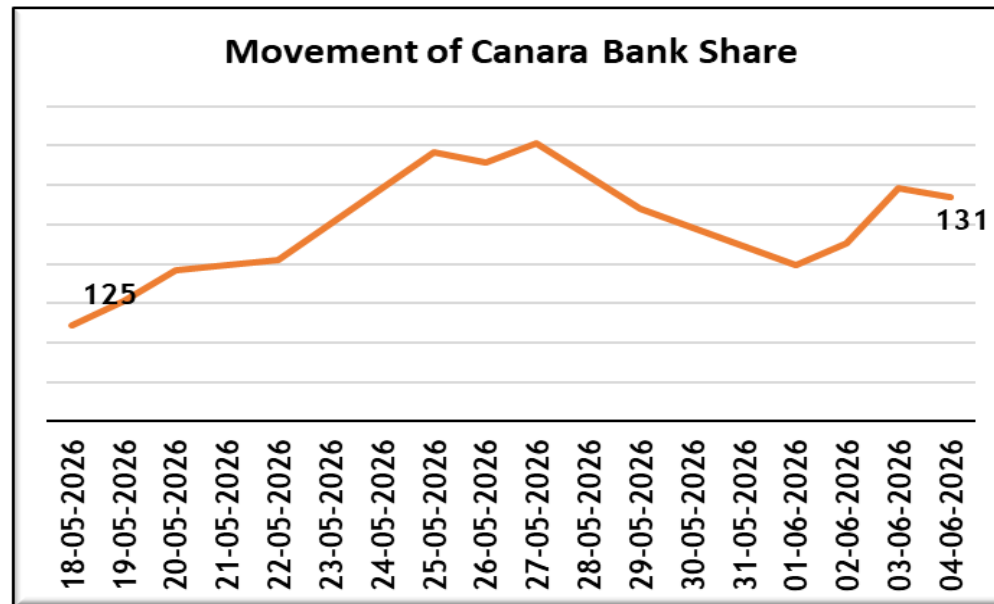
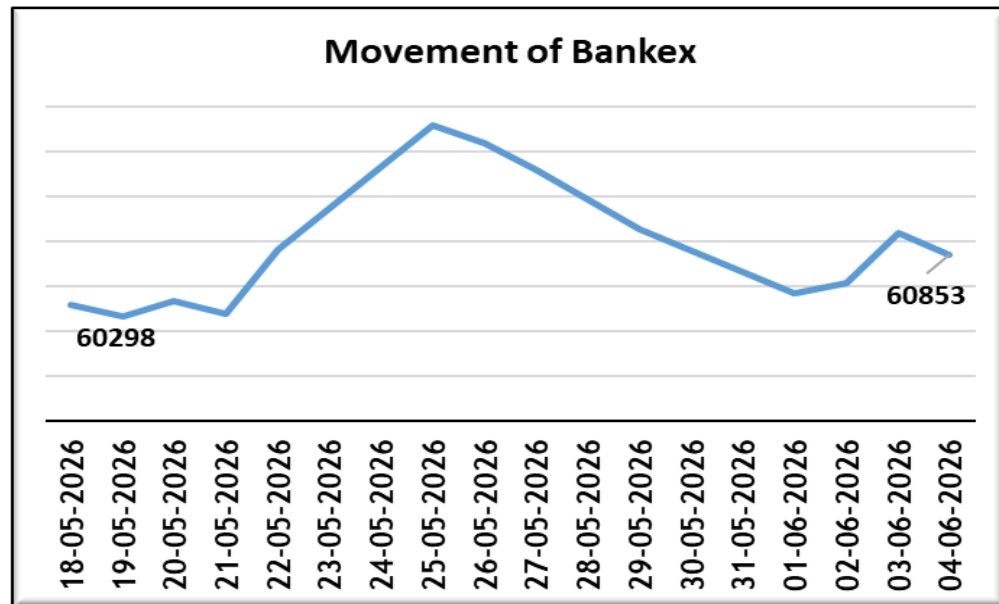


- ❑ Today Gold per Troy Ounce (USD)- 4462.19
- ❑ Today Silver per Troy Ounce (USD)- 73.43

- ❑ **Last day (03rd June) :** The Indian rupee depreciated against the dollar after the U.S. Trade Representative proposed 12.5% additional duties on Indian imports, citing labour violations. Forex traders said strong dollar demand, surging crude oil prices, geopolitical tensions and relentless foreign capital outflows dented investor sentiment further.
- ❑ Today rupee is trading at **95.72\$.**



- Depreciation bias for INR expected and INR outlook depends on
 - ❑ US rates and dollar Index, India's GDP outlook, RBI intervention, Year end dollar demand by importers



- ❑ **Last day (03rd June):** Indian equity market closed negative due to crash in IT stocks following aggressive profit booking after the recent AI-driven rally weighed heavily on the indices. Rising crude oil prices near \$97 per barrel, renewed US-Iran tensions and investor caution ahead of the RBI's monetary policy decision on June 5 added to the pressure.
- ❑ Bankex closed at 61,096 Canara Bank closed at 131.85.
- ❑ Today Bankex is trading at 60,853 and Canara Bank share is trading at 131.37.