

Weaker Monsoon Prediction, War Cloud Growth Outlook

Rising farm input costs due to Iran war may test resilience of rural economy

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New Delhi: Forecasts of a below-par monsoon this year, on top of soaring farm input costs due to the Iran war could test the resilience of India's rural economy and exacerbate growth risks this fiscal year, economists said, though emphasising that it's too early to presume a rural distress.

Strong water reservoir levels and granaries brimming with stocks will partly cushion the weak monsoon impact, some of the economists told ET, adding that the government has the playbook ready to weather any such situation.

Rural demand will likely stay strong through the first half of FY27, buoyed by improved earnings following a good Rabi harvest, before losing pace in the second half, economists said. Supply-side shocks, already stoked by the war, could rise, they added.

The India Meteorological Department last week predicted a below-normal monsoon rainfall for 2026, at 92% of the benchmark long period average.

"It's turning out to be like a twin shock—both energy and weather issues—and then there is the interaction between these two shocks," said Pranjal Bhandari, chief India economist at HSBC.

Growth risks and the silver lining Bhandari argued that water reservoir levels need to be more closely tracked than the seasonal shower, given climate change has impacted rain patterns and timing. Currently, water reserves are about 10 percentage points higher than the normal average for this time of the year.

Bhandari said below-par monsoon will "turn out to be more of a growth shock than an inflation shock". On the inflation front, the new Consumer Price Index, with reduced weight of volatile food products, makes India a little more resistant to the monsoon shocks than earlier.

"And we have strong rice and wheat stocks and good water reservoir levels—all of these can give us some buffer," she said. "But growth is something where we don't have much of a buffer."

If Brent crude averages \$80 a barrel this fiscal, then India's economic growth could be closer to about 6.3%, slower than an estimated 7.6% in FY26. But if it averages \$100 or higher, growth could slip to about 5.8-6%, she added.

"Rural demand is expected to remain steady in the immediate term, aided by the farm cash flows on account of the rabi harvest that started in March 2026," said Aditi Nayyar, chief economist at ICRA. However, some "caution may creep in" due to constrained remittances from migrants working in sectors affected by the West Asia crisis.

NR Bhanumurthy, director at the Madras School of Economics, said below-normal rains could expedite the need for supply-side reforms. Greater thrust on improving the production of edible oils and pulses, where India's import reliance is significant, and on expanding irrigation network is crucial, he said. Large part of our edible oil output comes from semi-arid regions.

"The rising risk of El Nino in the current fiscal year is likely to aggravate exist-

Monsoon of Optimism

Rural demand steady in near term: Strong rabi harvest and good reservoir levels will support

Rural income, consumption, and crop yields may decline due to weak rains and possible El Nino impact

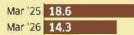
Tractor Sales (Growth Y-o-Y, %)



Inflation, reverse migration, risks weigh on wages and demand

Strong food stocks, govt readiness may limit damage

MNREGA Demand (Households / Million)



ting supply-side pressures in the economy particularly those stemming from the West Asia crisis," said Rajani Sinha, chief economist at CareEdge Ratings.

The resilience of the rural economy gained traction over the past two years. As of March, some of the rural indicators remained strong, with double-digit growth in tractor sales and higher rabi sowing. The March 2026 round of the Rural Economic Conditions and Sentiments Survey, conducted by Nabard, indicated some softening in rural sentiment, but consumption growth improved.

Megha Arora, director-economics, India Ratings and Research cautioned that rural production and consumption may decelerate in the second half of the summer as reservoir levels would be impacted due to a likely El Nino from mid-2026.

"Consequently, crop yields of oilseeds, pulses, rice, and wheat may decline, which may result in lower income for farmers," she said. "This could hit demand for tractors, two-wheelers, and other fast-moving consumer goods."

A deficient monsoon in 2023 caused weaker sowing, lower reservoir levels, and high food inflation.

"Historically, since the 1970s, El Nino years have been associated with an average contraction of 5.4% in Kharif production and an average 0.3% decline in agricultural gross value added growth," noted Sinha.

A State Bank of India report said El-Nino only may have a limited impact on growth, but when combined with drought conditions, it could shave off 20 basis points from gross domestic product (GDP) in a median scenario and up to 65 bps in an extreme case.

Economists anticipate FY27 GDP growth in the range of 6.3-7%.

RURAL CONSUMPTION

While the government and oil marketing companies have absorbed much of the energy shocks so far due to the Iran war, risks from higher fuel prices and weak Kharif output could keep inflation elevated. Rural inflation rose to 3.6% in March from 3.4% in February, surpassing urban inflation (3.1%) and overall retail inflation (3.4%).

Higher inflation and lower agricultural output are likely to weigh on both farm growth and rural consumption, said Sinha.

Gupta also flagged labour market risks. "If the Iran conflict leads to widespread reverse migration, an oversupply of labour in rural areas can depress rural wages and therefore income and demand," she said.