

# Monetary policy | **First cut**

## Keeping powder dry amid volatility

April 8, 2026

### **Policy rates unchanged as risks to inflation and growth rise**

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept policy rates unchanged at its April meeting and maintained its neutral stance, giving it flexibility on future monetary policy actions. Amid uncertainty triggered by the the West Asia conflict, the MPC chose to wait and watch how growth-inflation risks evolve, while noting the risks are significant. It reiterated its commitment to maintain adequate domestic liquidity amid volatility in the financial market.

---

*The MPC maintaining status quo was in line with our expectations. With the duration of the West Asia conflict unclear, it is prudent to wait and watch how this supply shock affects the growth-inflation mix.*

*We believe the downside risk to growth is a greater concern than the upside risk to inflation in this crisis, given producers are bearing the brunt of energy and other input shortages. Meanwhile, the government is prioritising consumers in energy supply and is so far limiting the passthrough of oil and gas price hikes to consumers.*

*We expect headline inflation to rise to 4.5% this fiscal, remaining within the MPC's target range. However, the conflict prolonging beyond April will increase upside risks to inflation.*

*Financial markets have responded more to global market volatility relative to real sector indicators so far. RBI will need to be nimble to ensure adequate liquidity and stem excessive rupee volatility.*

---

### **Highlights of the April meeting**

- The MPC voted unanimously to maintain the repo rate at 5.25%, the standing deposit facility rate at 5.00% and the marginal standing facility rate at 5.50%
- The Committee maintained policy stance at 'neutral'
- The MPC projects inflation based on the Consumer Price Index (CPI) at 4.6% for fiscal 2027, with an upside risk
- The committee projects real Gross Domestic Product (GDP) growth to slow to 6.9% in fiscal 2027 from 7.6% in the previous year, with risk tilted to the downside. Part of this growth moderation is also due to a high base from fiscal 2026

## MPC pauses as India's Goldilocks moment faces a supply shock

- Since the last policy meeting, risks to growth and inflation have worsened because of the West Asia conflict. While the MPC said the risks were significant, it underscored India's growth-inflation mix has remained healthy so far. As a result, it chose to wait and watch how the risks evolve
- **MPC sees upside risks to inflation:** CPI-based inflation has remained closer to the lower end of RBI's 4-6% target in recent months, averaging 2.9% in January and February under the new CPI series. Given the low base, the MPC expects CPI inflation to rise to 4.6% in fiscal 2027, with upside risks.

The committee expects a steady rise through the fiscal, from 4% in the first quarter to 4.4% in the second, 5.2% in the third and 4.7% in the fourth.

It sees energy prices staying elevated and possible El Nino conditions affecting food inflation as upside risks, but expects robust rabi output to offer some comfort.

For the first time, the RBI also gave a forecast for core inflation (inflation excluding food and fuel), pegging it at 4.4% for fiscal 2027. This is a tad lower than the headline inflation forecast, signalling limited demand pressures. But the passthrough of input cost pressures by producers to consumers remains a monitorable

- **...and a moderation in GDP growth:** Even as real GDP growth for fiscal 2026 was revised up to 7.6% from 7.4% in the previous series, the new fiscal sees greater downside from the West Asian crisis. The MPC expects GDP growth to slow to 6.9% in fiscal 2027, with downside risks.

It expects growth to be slower in the first half than the second, with growth projected at 6.8% in the first quarter, 6.7% in the second, 7% in the third and 7.2% in the fourth.

The MPC believes domestic demand is supported by spillovers from the goods and services tax rate rationalisation, resilient services sector, healthy corporate and bank balance sheets, and rising capacity utilisation in the manufacturing sectors.

It expects the West Asia crisis to impact exports and domestic production. Risks will increase with prolonging of conflict

## RBI assures sufficient liquidity amid financial market weakness

- The RBI governor assured that the central bank would be proactive and pre-emptive in maintaining adequate liquidity conditions
- Systemic liquidity remained in surplus till March despite the drag from foreign portfolio investor (FPI) outflows. In line, the call money rate mostly stayed below the repo rate
- Since the last policy, the RBI ramped up its open market operation (OMO) purchases. Net open market purchases of government securities (G-secs) stood at Rs. 1.8 lakh crore in March, the second highest on record after January 2026
- Since March, the central bank has tried to tame rupee depreciation through a mix of market interventions and regulatory actions. Its market interventions are reflected in the forex reserves falling to ~\$688 billion at the end of March from \$716 billion in the previous month. Its regulatory actions included first limiting net open positions of

banks involving rupee in the onshore deliverable market to \$100 billion. It then forbade forex dealers from offering non-deliverable derivative contracts involving INR, capping depreciation of the rupee due to offshore activity

- The governor said the exchange rate policy remains focused on softening excess volatility in the currency, to ensure self-fulfilling expectations do not sway the rupee away from fundamentals
- Amid volatile markets, the RBI assured macro fundamentals remain healthy. Despite weakness in FPIs, net foreign direct investment has improved. It said forex reserves are adequate to cover about 11 months of imports and 91.1% external debt

## Our view

The MPC maintaining status quo on both the policy rate and monetary policy stance was along expected lines. The raft of uncertainties bred by the West Asia conflict calls for prudence.

So far, CPI-based inflation is not a significant concern, given it has been within the MPC's target range till February. Since the start of the West Asian conflict, the government has prioritised consumers through priority supply of LPG and LNG and by maintaining retail petrol and diesel prices (standard variant). However, upside risks have risen as the conflict has prolonged.

We expect retail inflation at 4.5% for fiscal 2027 as prolonged conflict has added pressures to non-food inflation. So far, the availability of fiscal space to absorb part of the higher energy costs due to the conflict has contained their impact on retail inflation. However, if crude oil price pressures persist, the upside risks to retail inflation are inevitable. Also a prolonged West Asia conflict will put pressure through (1) producers passing their input cost pressures, raising core inflation, and (2) fertiliser shortage hitting food production.

We believe the downside to growth is a greater concern than the upside to inflation in the current crisis, given producers are bearing the brunt of energy and other input shortages. Some impact on the economy could be enduring, though the overall fallout will depend on the duration and intensity of the conflict.

The longer the energy disruption persists, the more it will amplify the growth-inflation tradeoff.

Globally, the space for monetary easing has shrunk as the West Asian conflict has sharply raised inflationary pressures. S&P Global expects the European Central Bank and Bank of England to raise their policy rates as early as the second quarter of 2026, while the US Federal Reserve is expected to cut rates once later this year. Divergent policies, coupled with persisting high commodity prices, have created conditions for volatile FPI flows.

It would be premature to draw firm conclusions on the impact or pre-empt the ultimate outcome of the West Asia conflict. At this juncture, all that is required is keeping ready adequate policy buffers and staying nimble to act as the situation evolves.

## Analytical contacts

### Dharmakirti Joshi

Chief Economist, Crisil Ltd  
dharmakirti.joshi@crisil.com

### Dipti Deshpande

Principal Economist  
dipti.deshpande@crisil.com

### Pankhuri Tandon

Director  
pankhuri.tandon@crisil.com

## Media contacts

### Ramkumar Uppara

Media Relations  
Crisil Limited  
M: +91 98201 77907  
ramkumar.uppara@crisil.com

### Roma Gurnani

Media Relations  
Crisil Limited  
M: +91 70662 92142  
roma.gurnani1@ext-crisil.com

### Sanjay Lawrence

Media Relations  
Crisil Limited  
M: +91 89833 21061  
sanjay.lawrence@crisil.com

## About Crisil

Crisil is a global, insights-driven analytics company. Our extraordinary domain expertise and analytical rigour help clients make mission-critical decisions with confidence.

Large and highly respected firms partner with us for the most reliable opinions on risk in India, and for uncovering powerful insights and turning risks into opportunities globally. We are integral to multiplying their opportunities and success.

Headquartered in India, Crisil is majority owned by S&P Global.

Founded in 1987 as India's first credit rating agency, our expertise today extends across businesses: Crisil Ratings, Crisil Intelligence, Crisil Coalition Greenwich and Crisil Integral IQ.

Our globally diverse workforce operates in the Americas, Asia-Pacific, Europe, Australia and the Middle East, setting the standards by which industries are measured.

For more information, visit [Crisil.com](https://www.crisil.com)

Connect with us: [LinkedIn](#) | [Twitter](#)