

April 08, 2026

In an expected move, the Monetary Policy Committee (MPC) unanimously decided to keep the policy repo rate unchanged at 5.25% and retained the ‘neutral’ policy stance.

The committee noted that the ongoing conflict in West Asia poses unprecedented uncertainty for the global economy and is likely to be a *drag on domestic production in FY27* as supply chain gets disrupted. However, the committee also noted that India’s macro fundamentals are on a much stronger footing than previous crises episodes and therefore its in a much better position to withstand shocks.

The RBI indicated that ‘*it remains vigilant, closely monitoring incoming information*’ and that the neutral stance provides it with the flexibility to respond as per need of the situation based on incoming data.

On Growth: The RBI highlighted global growth could be lower and prices higher due to supply chain disruptions due the conflict in West Asia. It also noted that globally, sovereign bond yields which were already elevated before the conflict started have hardened further due to concerns around inflation.

GDP Growth (%)	Feb-26E	Apr-26E
FY26	7.4*	7.6**
Q1FY27	6.9#	6.8
Q2FY27	7.0#	6.7
Q3FY27		7.0
Q4FY27		7.2
FY27		6.9

Source: RBI; * according to First Advance Estimates (FAE). ** according to Second Advanced Estimates (SAE). #: as per old GDP series

On domestic front, RBI mentioned that growth was on a strong footing before the conflict started due to several measures taken by the Government and the RBI. However, elevated energy prices and constrained supply will adversely affect domestic production in FY27. The growth however will be supported by ongoing positive impact of GST rationalisation, robust services sector growth and rising capacity utilisation. Taking all this into consideration, GDP growth for FY27 is projected at 6.9% YoY (compared to 7.6% in FY26). The RBI also highlighted that the risk to this forecast is tilted towards the downside if there is further escalation in the conflict.

On Inflation: The RBI indicated that uptick in January 2026 and February 2026 CPI prints (under the new CPI series) was primarily due to the base effect and overall inflation momentum was benign before the conflict started as core inflation ex of precious metals has averaged just 2.1% in Jan 26-Feb 26. It further noted that the ongoing conflict and *large volatility in international energy and commodity prices* imparts considerable uncertainty to near term inflation outlook. Moreover, the RBI also highlighted that possibility of El Niño conditions this year will add further uncertainty to food prices as El Niño conditions adversely affect south-west monsoon and hence domestic food production. Taking all this into consideration, CPI inflation for FY27 is projected at 4.6% (as against average of 1.9% in 11MFY26). Notably, **the RBI has also given core inflation (ex-food and fuel) projection for the first time and expects it to average at 4.4% in FY27.**

CPI (%)	Feb-26E	Apr-26E
Q1FY27	4.0*	4.0
Q2FY27	4.2*	4.4
Q3FY27		5.2
Q4FY27		4.7
FY27		4.6

Source: RBI, *as per old CPI series

Conclusion and Outlook

The fixed income market rallied sharply (even before RBI announcement) driven by the announcement of West Asia conflict ceasefire and subsequent plunge in oil prices. Further, RBI's decision to keep the policy rate and stance unchanged was largely on expected lines. RBI governor's comment on real rates still being high and probability of rates being lower for longer along with only marginal upward revision in inflation forecast for FY27, moderated the rate hike expectations and pulled yield lower. Moreover, RBI's assurance that it will *continue to be proactive and pre-emptive in liquidity management and ensure sufficient liquidity* also went well from yields perspective.

Going forward, while the uncertainty is likely to remain high, we believe medium term outlook on Indian fixed income market remains favorable, considering:

- Fall in oil prices should ease pressure on CAD and INR and could result in capital flows improving, thus easing pressure on BoP.
- Risk of growth surprising to downside due to supply chain disruption along with expectation of inflation remaining within comfortable range, reduces risk of significant rise in policy rates
- Liquidity is likely to be in ample surplus in the coming few months in view of constant assurance by RBI governor's to maintain sufficient surplus to meet the real economic needs.
- Supply and demand dynamics for SLR is favourable placed in view of likely revival of demand from Banks (due to lower SLR holding) and Pension funds. Further, to maintain sufficient liquidity, RBI might be required to conduct open market purchases of Gsec in FY27 as well.

Key risks to the favorable outlook

- Reescalation of tension of West Asia conflict resulting in oil prices higher than forecasted
- El Nino conditions in FY27 leading to large deficiency in southwest monsoon and reduced crop production
- Slight risk of fiscal slippage remains as the projected oil price could result in additional fertilizer subsidy and lower revenue due to reduction in excise duty. The possibility of expenditure rationalization and higher dividend from RBI is likely to cushion impact, to a large extent.

Entire Gsec yield curve has shifted lower driven by ceasefire between US and Iran and slightly dovish policy. At the current levels of yield, the entire yield curve appears favorably placed. In view of ample surplus liquidity and likelihood of capital flows, short end of the curve (up to 4 years) is likely to shift lower in the near to medium term. Thus, in our view, one can consider investing in the short to medium duration funds. Further, at the long end, in view of reduced supply, possibility of improvement in pension demand (relative to last year) and relatively higher absolute levels of yields (which possibly factors in most of negatives) one can also consider investing in longer duration funds in line with individual risk appetite.

Glossary	
BPS	Basis points (1 bps = 0.01%)
CPI	Consumer Price Index
CAD	Current Account Deficit
CRR	Cash Reserve Ratio
GDP	Gross Domestic Product
LCR	Liquidity coverage ratio
MSF	Marginal Standing Facility
PMI	Purchasing Manager Index
RBI	Reserve Bank of India
SDF	Standing Deposit Facility
SLR	Statutory Liquidity Ratio
AE	Advanced Economies
GST	Goods and Services Tax

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