

MONETARY POLICY

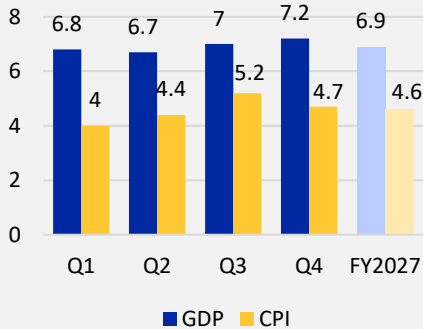
Status quo and cautious tone in April 2026 policy amidst geopolitical uncertainty; extended pause seen

APRIL 2026



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EXHIBIT: MPC's forecasts on growth and inflation for FY2027 (YoY; %)



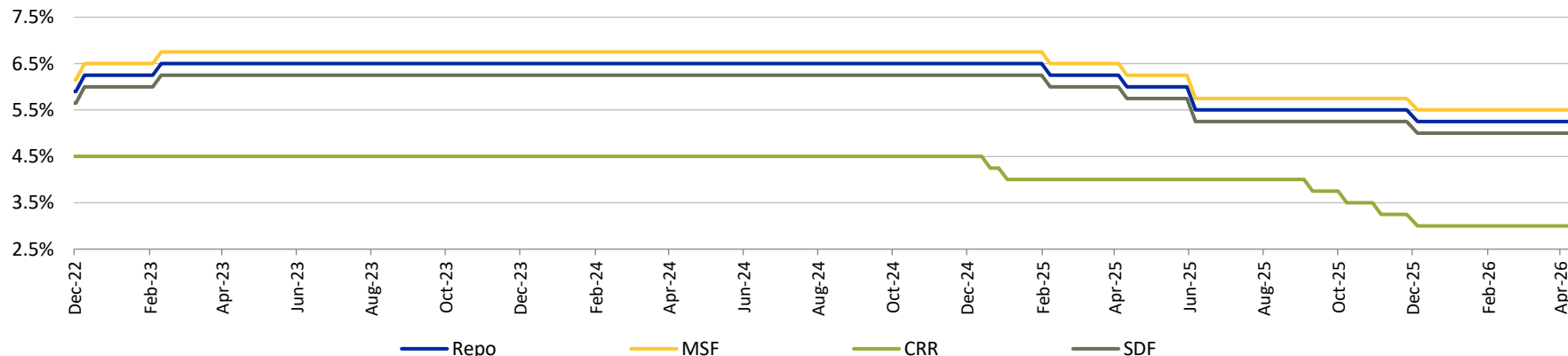
Source: RBI; ICRA Research

The Monetary Policy Committee (MPC) expectedly kept the policy rates unchanged and maintained neutral stance in the April 2026 policy. The tone appeared to be cautious and circumspect, amid heightened uncertainty regarding the intensity and duration of West Asia conflict, and resultant damage to energy and other infrastructure adding risks to India's growth-inflation outlook. While the Committee pegged the CPI inflation at a higher-than-expected 4.6% for FY2027 (ICRA: +4.3%), its projection for GDP growth appeared to be relatively optimistic at 6.9% (ICRA: +6.5%). Interestingly, it stressed on upside and downside risks to the outlook for inflation and growth, respectively, in contrast with the typical statements on risks being balanced around both, while highlighting that it would remain vigilant and closely monitor the incoming information and assess the balance of risks. While ICRA expects the MPC to remain data and development dependent, amid heightened uncertainty, we believe that an extended pause is underway. The next move on rates is likely to be a hike rather than a cut, although the timing of the same would be back ended.

- MPC voted for status quo, while turning cautious:** In view of geopolitical uncertainty and supply disruptions in West Asia, the MPC unanimously kept the policy repo unchanged at 5.25% in the April 2026 policy. While it stuck to the neutral stance, the tone of the document was quite cautious. Unlike the trend of balanced risks around its projections in the past, it placed upside risks to inflation (FY2027: +4.6%) and downside risks to growth (+6.9%) in this policy, with outlook being mired by unpredictable nature of the conflict and the sustenance of global commodity price shock and supply disruptions.
- FY2027 GDP growth forecast pegged at 6.9%, assuming short-lived impact of conflict:** The Committee expects adverse impact on merchandise exports, with high energy and other commodity prices posing a drag on domestic production in FY2027, even as prospects for domestic demand seems healthy. Overall, it forecasts the GDP expansion at an optimistic 6.9% for FY2027 (ICRA: +6.5%), with downside risks from further escalation of conflict and adverse weather events. Besides, the quarterly projections are anchored in a narrow range of 6.7-7.2% between Q1 and Q4 FY2027. While the growth trajectory is expected to be upward sloping in H2, we expect a materially larger hit from the West Asia crisis to manifest in Q1 FY2027 vis-à-vis the MPC, both on account of volumes and margins, and a recovery thereafter.
- CPI inflation projected at 4.6% in FY2027, with upside risks:** While the MPC acknowledged that robust rabi output in 2025-26 does provide some comfort in near term, the surge in international prices of energy and other commodities would weigh on domestic prices for industrial use. Besides, the impact of potential El Nino conditions developing in the Southwest Monsoon season pose upside risks to the inflation outlook.

MPC expectedly maintained status quo on policy rate and stance in April 2026

EXHIBIT: Movement in Key Rates

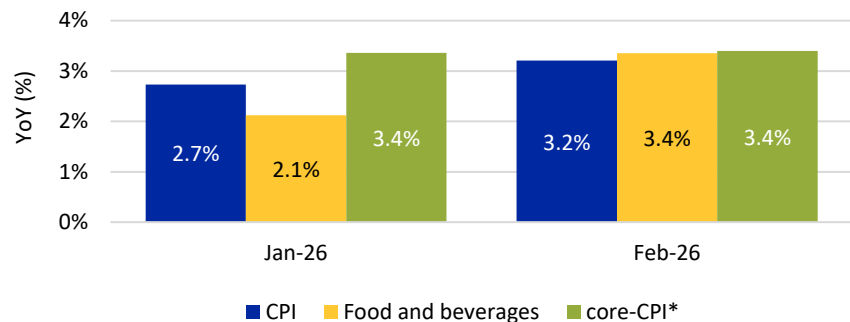


Source: RBI; ICRA Research

- The MPC unanimously decided to keep the policy repo rate under the LAF unchanged at 5.25% in the April 2026 review meeting, in line with ICRA's expectation of a status quo. Accordingly, the SDF rate stands unchanged at 5.0%, and the MSF and Bank Rate at 5.5% each.
- Further, the Committee also decided to continue with the neutral stance, thereby retaining the flexibility to respond judiciously to incoming information. Besides, it stated that it would "continue to remain vigilant, closely monitoring incoming information and assessing the balance of risks".
- **The Committee expectedly resorted to cautious commentary, while stressing on upside and downside risks to the outlook for inflation and growth, respectively, in contrast with the typical statements on risks being balanced around both.**

CPI inflation projected at 4.6% in FY2027, with risks tilted to the upside, higher than ICRA's estimate of 4.3%

EXHIBIT: YoY inflation trends in CPI, food and beverages, and core-CPI



*CPI excluding food and beverages, and fuel and light; Source: NSO; ICRA Research

EXHIBIT: RBI's earlier and current CPI inflation forecasts

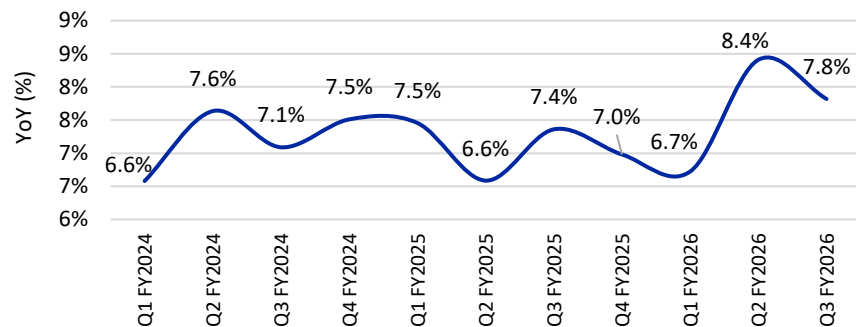
YoY (%)	CPI Inflation		
	MPC Policy Reviews	February 2026	April 2026*
Q1 FY2027		4.0%	4.0%
Q2 FY2027		4.2%	4.4%
Q3 FY2027			5.2%
Q4 FY2027			4.7%
FY2027			4.6%

*based on 2024 series, with the assumption of the average price of crude oil at \$85/barrel and a normal monsoon in FY2027; Source: RBI; ICRA Research

- The YoY CPI inflation edged up to 3.2% in February 2026 from 2.7% in January 2026, primarily driven by the food and beverages segment (F&B; to +3.4% from +2.1%).
- The MPC highlighted that the recent spike in energy prices amid the West Asia conflict is likely to impose upside risks to the inflation trajectory. While the retail selling prices of petrol and diesel have been kept unchanged, that for other fuel items such as LPG and some variants of premium petrol has seen price hikes. The food inflation outlook remains favourable amid robust rabi output and adequate reservoir levels, even as the likely development of El Nino conditions remains a key monitorable.
- Considering these factors, the Committee pegged the CPI inflation at 4.6% in FY2027, while keeping the forecast for Q1 FY2027 unchanged at 4.0%, and raising the same for Q2 FY2027 (+4.4% in Apr 2026 vs. +4.2% in Feb 2026). Additionally, it estimated inflation to spike to 5.2% in Q3 FY2027, before easing to 4.7% in Q4 FY2027. Moreover, it also pegged the core-CPI inflation at 4.4% in FY2027. Notably, it highlighted that risks to inflation were tilted to the upside in contrast to the usual commentary of risks being balanced.
- **ICRA expects the CPI inflation to average at 4.3% in FY2027 (base case; average crude oil price at \$85/bbl), lower than the MPC's projection, with substantial variations in quarterly forecasts vis-à-vis those of the MPC. However, higher energy prices and potential development of El Nino conditions pose material upside risks to our estimates. However, a likely correction in gold prices could slightly curb the expected increase in inflation in FY2027. Moreover, higher-than-historical reservoir levels could soften the impact of a potential El Nino.**

MPC pegs GDP expansion forecast at 6.9% in FY2027, assuming adverse impact of conflict to be short-lived; downside risks remain

EXHIBIT: YoY trends in GDP (base year: 2022-23)



Source: NSO; ICRA Research

EXHIBIT: RBI's earlier and current GDP growth forecasts

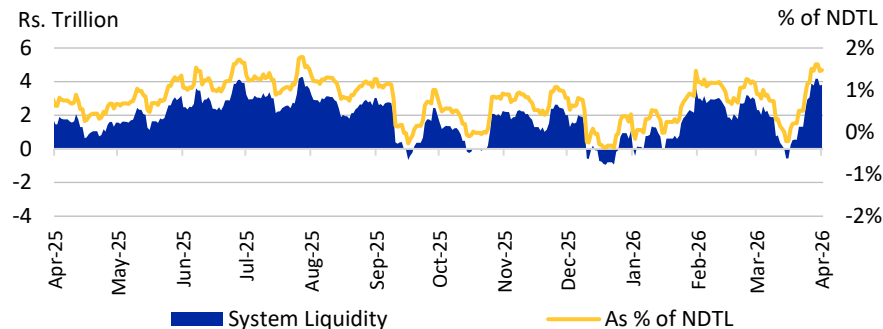
YoY (%)	GDP Growth	
	February 2026	April 2026*
MPC Policy Reviews		
Q1 FY2027	6.9%	6.8%
Q2 FY2027	7.0%	6.7%
Q3 FY2027		7.0%
Q4 FY2027		7.2%
FY2027		6.9%

*at constant 2022-23 prices, with the assumption of the average price of crude oil at \$85/barrel and a normal monsoon in FY2027; Source: RBI; ICRA Research

- The MPC foresees domestic production in FY2027 to be weighed down by elevated energy prices and supply shocks triggered by disruptions in West Asia region, with slowing global growth, re-routing of shipping routes and rising insurance and freight costs set to adversely dampen prospects for merchandise exports. In contrast, sustained momentum in services sector, continued gains from GST rate rationalisation, and rising capacity utilisation of manufacturing sector are expected to support domestic demand in FY2027.
- It forecasts the GDP expansion at 6.9% for FY2027, with downside risks pertaining to further escalation of conflict, uncertainty of damage to energy infrastructure, and weather events. It lowered estimates for Q1 and Q2 FY2027 by 10-30 bps to 6.8% and 6.7%, respectively, from the levels indicated in the February 2026 policy. Thereafter, the Committee expects sequential improvement in growth in Q3 FY2027 (+7.0%) and Q4 FY2027 (+7.2%).
- **ICRA's growth projection is somewhat lower at 6.5% for FY2027, with adverse implications to domestic investment and exports, owing to elevated energy prices and constrained availability of key inputs, as well as margin pressure owing to sub-optimal capacity utilisation. While the growth trajectory is expected to be upward sloping, we expect a materially larger hit from the West Asia crisis to manifest in Q1 FY2027 vis-à-vis the MPC.**

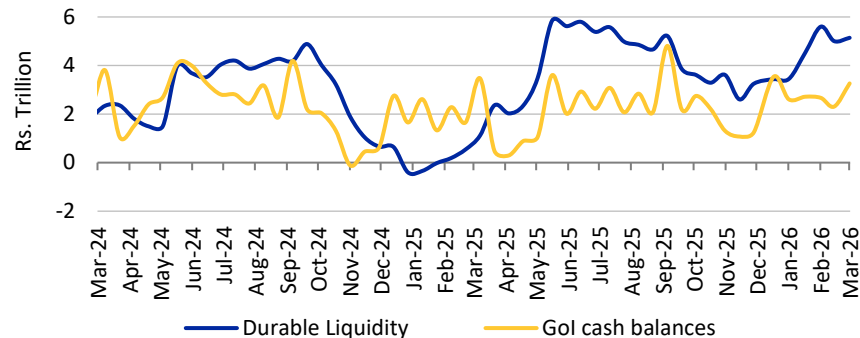
OMOs boosted liquidity in Q4 FY2026, despite seasonal leakage, capital outflows

EXHIBIT: Systemic liquidity (Rs. Trillion) and as % of NDTL



Data as on April 7, 2026; Source: RBI, ICRA Research

EXHIBIT: Durability liquidity and GoI cash balances with the RBI

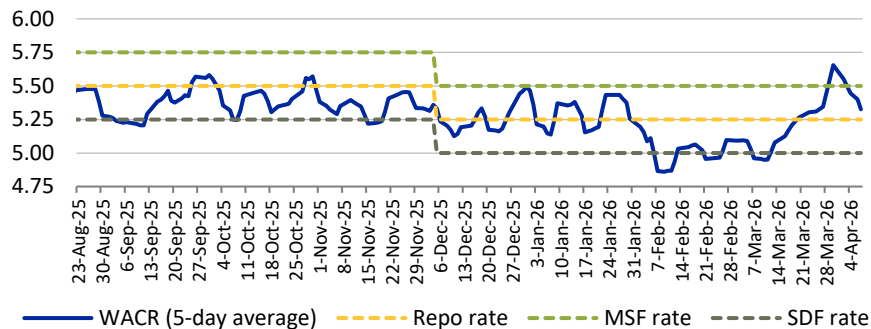


*Data as on March 15, 2026; Source: RBI, ICRA Research

- The size of average systemic liquidity surplus increased to Rs. 1.6 trillion (0.6% of Net Demand and Time Liabilities; NDTL) in the just-concluded quarter from Rs. 1.1 trillion in Q3 FY2026 (0.5% of NDTL). In monthly terms, the surplus nearly quadrupled from Rs. 0.7 trillion each in December 2025 and January 2026 to Rs. 2.6 trillion in February 2026, before moderating to Rs. 1.6 trillion in March 2026. This was attributed to sizeable liquidity injection during the quarter via the OMO purchases of G-secs amounting to Rs. 4.6 trillion (vs. Rs. 1.8 trillion seen in Q3), outweighing the seasonal currency leakage seen during Q4 FY2026 (incremental uptick in CWP at Rs. 2.2 trillion up to March 15 vs. Rs. 1.2 trillion in Q3 FY2026), and sizeable capital outflows from the country triggered by the West Asia war. Besides, the RBI conducted VRRs, which boosted liquidity by Rs. 9.8 trillion in Q4 FY2026, albeit lower than the amount of injection through this tool during Q3 (Rs. 15.0 trillion).
- Thereafter, the systemic liquidity surplus has risen significantly in the ongoing month, averaging at Rs. 3.8 trillion up to April 7, 2026, after the end of the busy season.
- The durable liquidity improved materially to Rs. 5.6 trillion by mid-February 2026 from the low of Rs. 2.6 trillion at end-November 2025, while the increase in GoI cash balances was relatively limited (to Rs. 2.7 trillion from Rs. 1.1 trillion) between this period. Thereafter, the durable liquidity remained elevated at Rs. 5.1 trillion as of mid-March 2026 or 2.0% of NDTL.

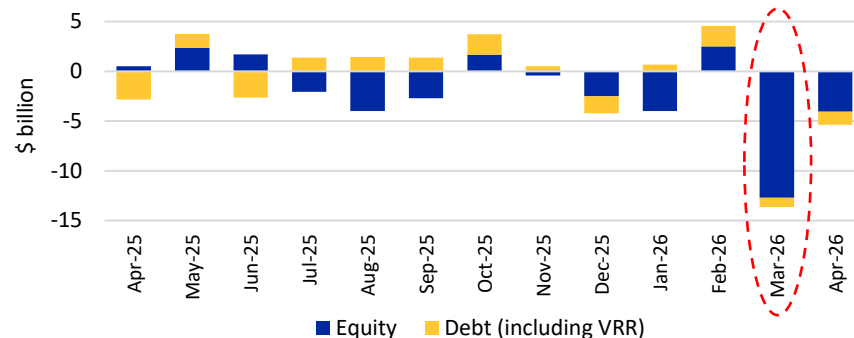
Seasonally lower demand for cash and credit to augur well for liquidity conditions, even as capital outflows exert pressure

EXHIBIT: Trends in WACR (%)



Data as on April 7, 2026; Source: RBI, ICRA Research

EXHIBIT: Trends in net FII equity and debt flows

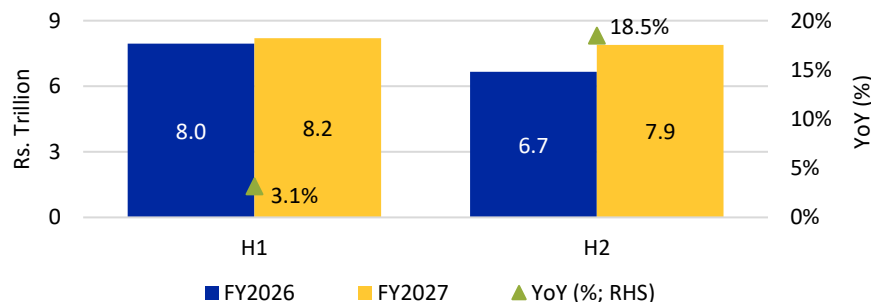


Data for April 2026 is till April 7; Source: NSDL; CEIC; ICRA Research

- The monthly weighted average call money rate (WACR) witnessed a moderation of 32 bps to 5.06% in February 2026, the lowest level in 42 months, benefitting from the sharp jump in systemic liquidity seen during the month. Subsequently, it rose to 5.26% in March 2026, a shade above the repo rate, given the transient liquidity stress in the period of advance tax outflows as well as sizeable amount of FPI outflows during the month. In FY2026, the WACR eased to 3-year low of 5.45%, 107 bps lower than 6.52% recorded in FY2025, in light of rate cuts and ample liquidity support provided during the fiscal.
- The seasonal moderation in currency demand, along with lean season for credit (as offtake tends to be lower than that seen in Q4) is expected to augur well for liquidity conditions in the near term. Simultaneously, capital outflows owing to the West Asia conflict, and the consequent stress on the balance of payments position would continue to impose stress on the liquidity conditions, which would determine the extent of the support required from the Central Bank.
- **The RBI Governor has highlighted that the Central Bank will continue to be proactive and pre-emptive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy. We expect it to conduct open market operations (OMOs) and variable rate repo (VRR) auctions, as and when needed to manage liquidity in the near term.**

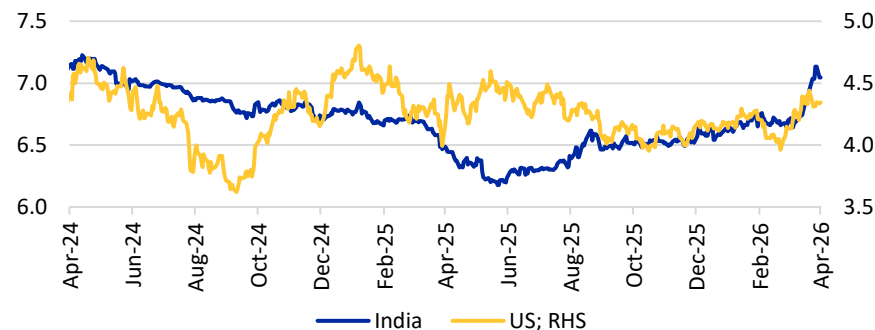
G-sec yields may remain elevated amid increased risks of fiscal slippage owing to West Asia crisis

EXHIBIT: Gol's market borrowing programme



Note: Actuals for FY2026 and planned data for FY2027 has been used; Data for H2 FY2027 is implicitly calculated based on the FY2027 data of Rs. 16.1 trillion and planned borrowings for H1 FY2027; Source: RBI, ICRA Research

EXHIBIT: Trends in 10Y India G-sec and UST yields



Data for April 2026 is up to April 7; Source: Refinitiv; ICRA Research

- The Gol had conducted switches of Rs. 1.1 trillion during February-March 2026, which were not indicated earlier in the Union Budget FY2027. This translates to lower redemption of G-secs for FY2027, at Rs. 4.4 trillion (vs. Rs. 5.5 trillion in FY2027 BE). Consequently, the Gol's gross market borrowings for FY2027 is now estimated at Rs. 16.1 trillion (BE: Rs. 17.2 trillion), while the net market borrowings remains unchanged at Rs. 11.7 trillion. Of this, the Gol has planned to borrow Rs. 8.2 trillion (51.0% of total) in H1 FY2027 (vs. 54.0% in H1 FY2026), which appears to be less front-loaded than that seen in the recent years.
- India's 10Y G-sec yield surged from 6.66% at end-February 2026 to 7.04% on March 31, 2026, and crossed 7.1% in early April 2026 amid increasing risks of a fiscal slippage owing to the adverse impact of the West Asia conflict. However, following the ceasefire, the yields corrected sharply to 6.92% intraday on April 8, 2026. **We expect the 10-year G-sec yield to trade in a range of 6.85-7.0% in the near term.**
- The risks of a fiscal slippage against the budgeted 4.3% of GDP for FY2027 remain, owing to lower excise duty and corporate tax collections, and dividend payouts by Oil Marketing Companies (OMCs), as well as a higher subsidy burden, despite some buffer provided by the Economic Stabilisation Fund (ESF), which would continue to put pressure on yields. This along with continued pressure on the USD/INR pair, would result in tightening financial conditions, which could hurt growth, in addition to high energy prices, even if policy rates remain unchanged.

- **Supporting Capital Adequacy**

RBI proposes norms to support capital adequacy ratios

Impact: The RBI has proposed to remove the condition regarding NPA provisioning for inclusion of quarterly profits in capital ratios. With this change, the banks will be able to include quarterly profits while reporting their capital ratios. Currently, Tier I capital ratios tend to decline steadily over interim quarters due to growth-led capital consumption; this trend is likely to change into a more stable capital trajectory with the inclusion of quarterly profits. In addition, the RBI has proposed to dispense with the need for maintaining investment fluctuation reserve (IFR). This change will result in some improvement in reported Tier I ratios of the banks as IFR is currently included in the Tier II capital of the banks. However, given the strong capital ratios for most of the banks, the increase in Tier I capital ratio will not have material positive impact on the overall capital ratios. We expect this change to have a positive impact of 6-12 basis points (bps) on Tier I capital ratio of banks

- **Developing Money Market**

The RBI takes steps to enhance term money market operations

Impact: At present only banks and standalone primarily dealers (SPDs) are permitted to operate in the term money market, however, the RBI has decided to permit certain additional category of non-bank entities in this market segment. In addition, it is enhancing the borrowing limit of SPDs in the term money market. With inclusion of more participants in the term money markets, the overall volumes can improve compared to current volumes, which are a fraction of volumes in the overnight money market. In addition, the move can help improve the liquidity and funding for broader market participants. Further as the borrowing limits of SPDs is proposed to be enhanced for borrowings in the term money market, this shall improve their financial flexibility to participate in the Non-SLR market.

- **Promoting Ease of Doing Business**

The RBI proposes measure to help MSMEs onboard TReDS platform comfortably

Impact: The RBI proposes to dispense with the requirement of due diligence of micro, small and medium enterprises (MSMEs) while onboarding them on Trade Receivables Discounting System (TReDS) platform. This will facilitate the onboarding process of MSMEs and help them avail benefits of the platform comfortably.

Annexure A: Monetary Policy Voting Pattern on Policy Repo Rate

EXHIBIT: Monetary Policy Voting Pattern on Policy Repo Rate

Date of Policy	Repo Rate (%)	Voting Decision (bps)	Voting Pattern	Current MPC Members						Past MPC Members			
				Shri Sanjay Malhotra (Chairman)	Dr. Poonam Gupta (DG)	Shri Indranil Bhattacharyya (ED)	Dr. Nagesh Kumar (External)	Shri Saugata Bhattacharyya (External)	Prof. Ram Singh (External)	Shri Shaktikanta Das (Gov)	Dr. Michael Debabrata Patra (DG)	Shri Rajeshwar Rao (DG)	Dr. Rajiv Ranjan (ED)
09-Oct-24	6.50	P	5:1	-	-	-	(-)25	P	P	P	P	-	P
06-Dec-24	6.50	P	4:2	-	-	-	(-)25	P	(-)25	P	P	-	P
07-Feb-25	6.25	(-)25	6:0	(-)25	-	-	(-)25	(-)25	(-)25	-	-	(-)25	(-)25
09-Apr-25	6.00	(-)25	6:0	(-)25	-	-	(-)25	(-)25	(-)25	-	-	(-)25	(-)25
06-Jun-25	5.50	(-)50	5:1	(-)50	(-)50	-	(-)50	(-)25	(-)50	-	-	-	(-)50
06-Aug-25	5.50	P	6:0	P	P	-	P	P	P	-	-	-	P
01-Oct-25	5.50	P	6:0	P	P	P	P	P	P	-	-	-	-
05-Dec-25	5.25	(-)25	6:0	(-)25	(-)25	(-)25	(-)25	(-)25	(-)25	-	-	-	-
06-Feb-26	5.25	P	6:0	P	P	P	P	P	P	-	-	-	-
08-Apr-26	5.25	P	6:0	P	P	P	P	P	P	-	-	-	-

Note: P: Repo Rate unchanged; Source: RBI, ICRA Research

Annexure B: Trends in Interest rates

EXHIBIT: Monthly average interest rates (%)

(%)	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
Repo (end-period)	6.50	6.25	6.25	6.00	6.00	5.50	5.50	5.50	5.50	5.50	5.50	5.25	5.25	5.25	5.25
WACR	6.60	6.35	6.31	5.94	5.82	5.38	5.38	5.44	5.45	5.48	5.41	5.36	5.38	5.06	5.26
1M T-bill	6.47	6.30	6.56	5.91	5.80	5.37	5.30	5.40	5.41	5.40	5.35	5.28	5.17	4.70	5.26
3M T-bill	6.56	6.43	6.46	5.97	5.80	5.40	5.36	5.46	5.48	5.44	5.39	5.27	5.41	5.30	5.32
6M T-bill	6.65	6.54	6.54	6.04	5.80	5.46	5.49	5.54	5.60	5.54	5.53	5.48	5.59	5.53	5.49
1Y G-sec	6.63	6.58	6.56	6.13	5.79	5.58	5.57	5.61	5.63	5.60	5.56	5.51	5.72	5.64	5.69
3Y G-sec	6.70	6.61	6.53	6.15	5.97	5.81	5.85	6.09	5.91	5.83	5.82	5.99	6.09	5.98	6.11
5Y G-sec	6.74	6.63	6.57	6.17	5.99	5.91	6.04	6.23	6.21	6.13	6.19	6.32	6.40	6.33	6.42
10Y G-sec	6.75	6.69	6.66	6.41	6.31	6.33	6.37	6.47	6.50	6.52	6.52	6.57	6.65	6.70	6.74
WALR - SCBs: O/S loans	9.87	9.80	9.77	9.71	9.67	9.44	9.38	9.32	9.26	9.24	9.21	9.06	9.04	9.00	
WALR - SCBs: Fresh loans	9.33	9.40	9.35	9.26	9.20	8.62	8.81	8.72	8.39	8.61	8.71	8.28	8.49	8.44	
WADTDR - SCBs: O/S term deposits	7.09	7.10	7.11	7.11	7.07	7.00	6.92	6.87	6.82	6.78	6.73	6.68	6.64	6.62	
WADTDR - SCBs: O/S Fresh term deposits	6.62	6.55	6.72	6.34	6.11	5.75	5.61	5.56	5.61	5.57	5.59	5.67	5.66	5.65	

SCB: Scheduled Commercial Bank; WALR: Weighted Average Lending Rate; WADTDR: Weighted Average Domestic Term Deposit Rate; Source: CMIE, RBI, ICRA Research



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