

RBI maintains status quo

The MPC unanimously decided to keep its policy rates on hold. Stance of the monetary policy was also retained at neutral, as it will allow the central bank to act as per evolving global situation. RBI statement took cognisance of crisis in the West Asia. Noting its impact on growth and inflation, GDP estimates for Q1 and Q2 have been cumulatively revised downwards by 40bps and inflation for Q2FY27 has been revised upwards by 20bps. Overall growth in FY27 is projected at 6.9% given sustained momentum in domestic activity. We also expect the ceasefire between US and Iran to be permanent now and expect GDP at around 7% in this fiscal year. On the inflation front as well, MPC members took note of higher fuel prices on inflation and expect CPI to average 4.6% in FY27. The risks are tilted to the upside as they may emerge from rise in freight and insurance costs and intensity of El-Nino in H2FY27. The central bank also released its bi-annual Monetary Policy Report (MPR), which assumes crude prices to average at US\$ 85/bbl in FY27, and exchange rate is assumed at Rs 94/\$. The report has also laid out different scenarios which could emerge in deviation from its baseline scenario.

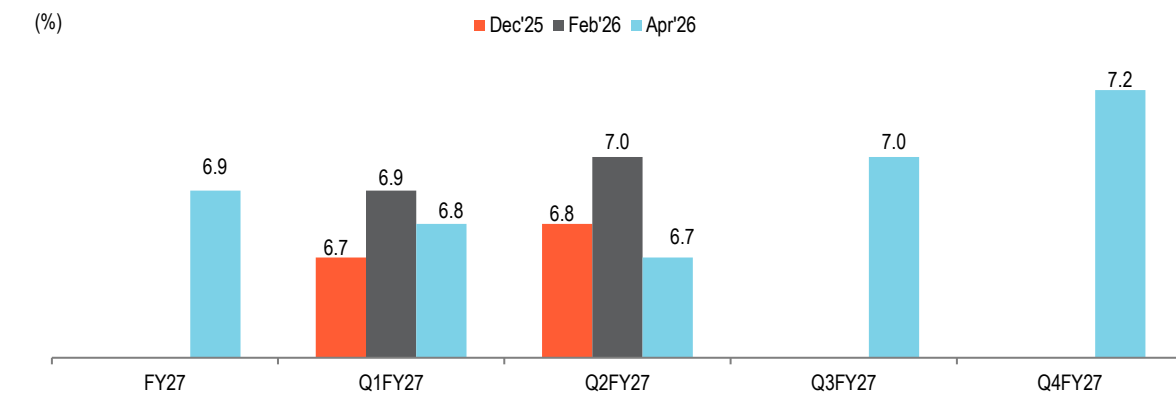
MPC decision:

RBI's monetary policy committee (MPC) voted unanimously to keep the policy repo rate on hold at 5.25%. The MPC also continued with the neutral stance, stating that it helps "retaining the flexibility to respond judiciously to incoming information".

Assessment of growth outlook:

- In line with NSO's first advanced estimate for FY26 GDP, RBI also expects growth to come in at 7.6%. For FY27, growth is expected lower at 6.9%.
- MPC members agree that "elevated energy and other commodity prices coupled with supply shock due to disruptions in the Strait of Hormuz would act as a drag on domestic production in 2026-27".
- As a result, Q1 and Q2 GDP projections were lowered to 6.8% and 6.7% respectively, from 6.9% and 7% projected earlier in Feb'26, implying a cumulative 40bps downward revision.
- Growth is expected to remain at around 7% mark as domestic fundamentals remain strong.
- This forecast also assumes that "the adverse impact of the conflict would remain contained in the near term".
- GDP Growth will be supported by sustained domestic activity as services sector will continue to benefit from GST rate rationalisations. Also, robust capacity utilization of the manufacturing sector, healthy financial system and rise in government spending will help boost economic activity.
- Geo-political and weather-related developments (El-Nino), pose downside risks to growth.
- The statement highlights that "merchandise exports may be adversely impacted from disruptions to key shipping routes and the concomitant rise in freight and insurance costs in case the conflict is long-drawn".
- We also expect growth range around 7%, as we believe the ceasefire announced between US and Iran will be permanent in nature.

Figure 1: Growth projection for H1FY27 revised lower

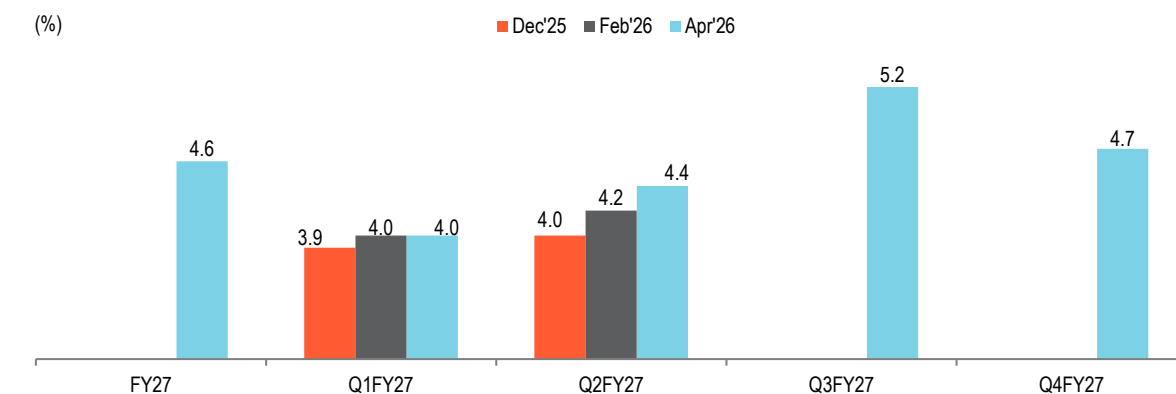


Source: RBI, Bank of Baroda Research

Assessment of inflation outlook:

- RBI expects inflation to average at 4.6% in FY27 and core inflation to be lower than headline at 4.4% and “excluding precious metals, it is even lower indicating that underlying inflation pressures are expected to remain contained”.
- CPI projection for Q1FY27 has been left unchanged at 4%, but Q2 has been revised higher by 20bps to 4.4%.
- Robust Rabi crop will provide comfort to inflation in the near-term.
- Inflation is projected to peak in Q3FY27 at 5.2%, before it declines to 4.7% in Q4.
- MPC members noted that heightened volatility in the oil prices has led to increase in certain segments of fuel prices (premium petrol, LPG, diesel for industrial use). This is likely to have an upside impact on prices.
- The statement also cautions that “upside risks to the inflation outlook have increased, driven by increased energy price pressures and probable weather disturbances affecting food prices. Core inflation pressures remain muted, although supply chain dislocations and the risk of second-round effects render the future inflation trajectory uncertain”.
- We also expect CPI to range between 4.5-5% in FY27.

Figure 2: Inflation projections revised higher



Source: RBI, Bank of Baroda Research

Regulatory measures:

- Commercial banks (excluding Regional Rural Banks and Local Area Banks) are permitted to include quarterly net profits in the calculation of CRAR provided that the incremental provisions made for Non-Performing Assets (NPAs) at the end of any of the 4 quarters of the previous financial year, have not deviated more than 25% of the average of the 4 quarters. RBI has now proposed to dispense with this condition.
- RBI has also proposed to dispense with the Investment Fluctuation Reserve (IFR) requirement for those commercial banks which already maintain capital charge for market risk and also follow revised norms on classification, valuation, and operation of investment portfolio.
- In order to promote ease of doing business for MSMEs and to encourage their greater participation on TReDS, RBI has also proposed to dispense with the requirement of due diligence of MSMEs while onboarding on TReDS platforms.
- At present, only banks and standalone primary dealers are eligible to participate in the term money market, with certain prudential limits. With a view to further enhance the depth of participation and liquidity in the term money market segment, it has been decided to (a) expand the participant base in the term money market segment to include non-bank participants—AIFs, NBFCs, including housing finance companies, companies, etc.; and (b) enhance the borrowing limit in the term money market for standalone primary dealers.

Key assumptions made in Monetary Policy Report-Apr'26:

- First assumption is that the baseline for crude oil price has been taken at US\$ 85/bbl for FY27 and US\$ 75/bbl for FY28.
- Second, the baseline assumption for the exchange rate has been revised to Rs 94/\$ as against Rs 88/\$ in the Oct'25 MPR.
- Third, for global economic growth, the report notes that “the global economy showed resilience in responding to the tariff related uncertainty in 2025, the outlook for 2026 is mired by the ongoing West Asia conflict...After the West Asia conflict, global growth is subject to downside risks and global inflation to upside risks emanating from heightened uncertainty, volatile markets, protracted supply chain disruptions and inflationary spikes leading to earlier than expected monetary policy tightening”.
- World merchandise trade volume growth, as projected in March 2026 by the World Trade Organisation (WTO), is expected to decline to 1.9% in 2026 from 4.6% in 2025 and then increase to 2.6% in 2027.
- Services trade volume is expected to moderate to 4.8% in 2026 from 5.3% in 2025 but improve to 5.1% in 2027.

Scenario analysis-MPR Apr'26

- Growth:
 - If global growth turns out to be 100bps below the baseline, domestic growth and inflation could be lower by around 30bps and 15bps, respectively.
 - Conversely, if global growth is higher by 50bps relative to the baseline, domestic growth and inflation could turn out to be higher by around 15bps and 7bps, respectively.
- Oil prices:
 - If crude oil prices are higher by 10% than the baseline, assuming full passthrough to domestic product prices, inflation could turn out to be higher by around 50bps and growth may be lower by around 15bps.
 - If crude oil prices are lower by 10% relative to the baseline, inflation could be lower by around 50bps and GDP growth could be higher by 15bps.
- Exchange rate:
 - In a scenario where the INR depreciates by 5% over the baseline, inflation could be higher by around 40bps, while GDP growth may benefit by around 25bps through the export channel in the short term.
 - An appreciation of INR by 5% relative to the baseline would moderate both inflation and GDP growth by around 40bps and 25bps, respectively.
- Food inflation:
 - In case El-Nino intensifies or there is pressure on availability and cost of critical inputs such as fertilisers and pesticides, due to supply shortages on account of the conflict in West Asia, then these factors could push food inflation higher, resulting in headline inflation being higher by 40bps vis-à-vis the baseline.
 - On the other hand, a benign food price outcome, in conjunction with base effects, could moderate headline inflation by around 20bps relative to the baseline.

Way forward: RBI Governor in his statement noted that “fundamentals of the Indian economy are on a stronger footing, providing it with greater resilience to withstand shocks now than in the past...(thus) it is prudent to wait and watch the changing circumstances and the evolving growth-inflation outlook” The statement and continuation of the neutral stance indicates that the MPC has come to an end of its rate-cutting cycle and will keep rates on hold for a long time to support growth. Inflation and growth estimates provide a view on the impact of war on Indian economy. Given that there are upside risks to inflation not only terms of geo-political risks, but also due to weather related developments, we expect RBI to remain on pause for a prolonged period now.

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com