

SPECIAL UPDATE

Monetary Policy

Apr 08, 2026

Monetary Measures

- Monetary Policy Committee (MPC) voted unanimously to keep the policy repo rate under the Liquidity Adjustment Facility (LAF) unchanged at 5.25 per cent.
- Consequently, the Standing Deposit Facility (SDF) rate remains at 5.00 per cent and the Marginal Standing Facility (MSF) rate and the Bank Rate remains at 5.50 per cent.
- The MPC also decided to continue with the neutral stance.

Analysis & Outlook

- **Inflation:** As per the new CPI series (2024=100), headline inflation increased to 3.2 per cent in February 2026 from 2.7 per cent in January 2026. The uptick was primarily driven by unfavourable base effects even as the momentum remained muted. While food inflation increased in February, core (excluding food and fuel) inflation remained unchanged. Excluding precious metals, core inflation remained moderate at 2.1 per cent in Jan'26 and Feb'26, suggesting subdued underlying inflation pressures.
- The ongoing conflict in the west asia has led to large volatility in international energy and other commodity prices imparting considerable uncertainty to the near-term inflation outlook. The pass-through of higher global energy prices has resulted in price increases in select fuels such as premium petrol and LPG and diesel for industrial use. On the other hand, the near-term food supply prospects have been boosted by robust rabi crop providing some comfort. Considering all these factors, CPI inflation for 2026-27 is projected to be at 4.6 per cent, with Q1 at 4.0 per cent; Q2 at 4.4 per cent; Q3 at 5.2 per cent; and Q4 at 4.7 per cent. Persistently elevated energy prices due to the West Asia conflict and possible El Niño conditions (which could have a negative impact on southwest monsoon) pose upside risks to inflation. Core inflation is projected at 4.4 per cent for 2026-27 and, excluding precious metals, it is even lower indicating that underlying inflation pressures are expected to remain contained.
- **Growth:** The outbreak of the conflict in West Asia has led to severe disruption of global supply chains. This poses an unprecedented challenge for the global economy – higher prices and lower global growth.
- On the domestic front, the Indian economy remained resilient in 2025-26. Real Gross Domestic Product (GDP) is estimated to grow by 7.6 per cent (y-o-y) during the year, as per the Second Advance Estimates (SAE) of the new GDP series (base year 2022-23). Private consumption and fixed investment contributed significantly to overall growth, while net external demand remained soft. On the supply side, estimated real Gross Value Added (GVA) growth of 7.7 per cent was driven by buoyant services sector and robust manufacturing activity.
- Looking ahead, 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. Heightened volatility in global financial markets with its spillover on domestic financial conditions would weigh on growth prospects. On the external front, merchandise exports may be adversely impacted from disruptions to key shipping routes and the rise in freight and insurance costs in case the conflict is long-drawn. On the other hand, sustained momentum in services sector, persisting impact of GST rationalisation, rising capacity utilization in manufacturing, and healthy balance sheets of financial institutions and corporates should continue to support domestic demand. In this backdrop the Government's focus on scaling up domestic manufacturing in several strategic and frontier sectors announced in the Union Budget 2026-27 bodes well for India's ensuing growth trajectory. Taking all these factors into consideration and on the assumption that the adverse impact of the

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conflict would remain contained in the near term, real GDP growth for 2026-27 is projected at 6.9 per cent, with Q1 at 6.8 per cent; Q2 at 6.7 per cent; Q3 at 7.0 per cent; and Q4 at 7.2 per cent. Further escalation of the conflict, its continuation over a wider geographical spread and uncertainty regarding the damage to the energy infrastructure, apart from weather related events, pose downside risks to the domestic growth outlook.

- **Liquidity:** Going ahead, the Reserve Bank will remain proactive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy and to facilitate monetary policy transmission. Liquidity management would be pre-emptive with sufficient allowance for unanticipated fluctuations in government balances, changes in currency in circulation, forex intervention, etc.
- Given the ceasefire announcement between Iran and US and, policy along expected lines, yields across the curves have fallen meaningfully by about 8-15 bps from yesterday's close at the time of writing.

Position of Funds

Duration funds:

- The absolute yield levels are attractive from a medium to long-term investment horizon. Therefore, it represents a good opportunity for investors to invest in fixed income duration funds with a medium to long-term horizon.
- However geopolitical risks remain key risks. Markets may remain volatile in the near term.

Money market funds:

- The yields at the shorter end of the curve will move in tandem with the liquidity in the system. The overnight rates are expected to be anchored around the repo rate.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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