

RBI Monetary Policy Review

8 April, 2026



A Neutral Hold: MPC's calm amid chaos

The MPC in a unanimous vote decided to maintain a pause on the Repo Rate at 5.25% while maintaining a neutral stance.

Our Take: The RBI-MPC maintained a calm demeanor amid a chaotic environment. The policy statement reinforces that India is at a good starting point and thus, better equipped to navigate the current external headwinds/shock. Based on our analysis and assumptions, we believe that the RBI MPC is likely to maintain a long pause on policy rates while keeping the liquidity conditions in sufficient surplus.

The external environment would continue to shape and influence the policy dynamics. At this juncture, we believe that the Repo Rate stays at 5.25% throughout CY26 and the risks of rate hikes in CY27 would start building up if oil prices/energy shock persist, and if weather-related risks seep into prices. At this juncture, to us, it looks like a long pause on policy rates.

The MPC's policy outcome is broadly in line with our expectations including the neutral hold and a wait & watch approach.

Despite no material announcements on policy rates, liquidity, or the INR, market pricing moved favourably - bond yields eased and the INR strengthened. This reflects (i) clear RBI communication with a neutral stance and explicit risk/scenario framing amid global uncertainty, and (ii) improved risk sentiment following a temporary US-Iran two-week ceasefire linked to Tehran reopening the Strait of Hormuz, which is expected to pause the American-Israeli military campaign.

Growth-inflation outlook faces risks - Downside to GDP, Upside to Inflation

On the growth inflation dynamic, the RBI revised the growth projection slightly lower (-20bps) for H1FY27 to 6.75%. For FY27 the GDP growth is estimated at 6.9% YoY with crude assumed at US\$ 85/bbl. For GDP growth, key downside risks include the West Asia conflict disrupting supply chains and shipping routes (freight/insurance costs), volatility in global financial markets, and potential damage to energy infrastructure.

Inflation is forecast at 4.6% for FY27, with H1FY27 projected at 4.2% YoY (up 10 bps), assuming crude oil at US\$85/bbl. Core CPI inflation has been introduced in the policy resolution and incorporated in response to market feedback; the MPC's initial projection for Core CPI is 4.4% YoY for FY27. For inflation, the upside risks emanate from elevated global energy/commodity prices from the conflict; possible El Niño affecting the monsoon and food prices; and the risk of second-round effects from supply-chain dislocations.

Table 1: MPC's growth and inflation forecasts are laid out below:

Period	Growth Forecast			Inflation Forecast		
	Feb'26	Apr'26	Revision (last policy)	Feb'26	Apr'26	Revision (last policy)
Q4 FY26	6.50%	NA	-	3.20%	-	-
FY26*	7.40%	7.60%	0.20%	2.10%	1.9%^	0.00%
Q1FY27	6.90%	6.80%	-0.10%	4.00%	4.00%	0.10%
Q2FY27	7.00%	6.70%	-0.30%	4.20%	4.40%	0.20%
Q3FY27	-	7.00%	-	-	5.20%	-
Q4FY27	-	7.20%	-	-	4.70%	-
FY27	-	6.90%	-	-	4.60%	-

Source: RBI MPC Policy Resolutions, Revision over last policy

Note: ^data for Apr-Feb'26; *Second Advance Estimate data released by MoSPI, as of Feb'26

MPC is of the view that the intensity and the duration of the conflict and the resultant damage to the energy and other infrastructure add risk to the inflation and growth outlooks. In RBI's Monetary Policy Report (MPR), it has actually laid out the scenarios stating that the uncertainty in global macroeconomic conditions, if crude oil prices were to be higher, could change the dynamics, with a bigger impact on growth by FY28. As per the MPR's scenario with higher crude — Crude US\$ 95/bbl (FY27) & US\$ 85/bbl (FY28) CPI 5.0% (FY27), 5.1% (FY28); GDP 6.7% (FY27), 6.4% (FY28).

Liquidity:

While the Governor in his speech and at the presser, the need to remain proactive and preemptive in liquidity management while ensuring liquidity remains sufficient.

The policy did not provide any fresh liquidity measures, but the MPR did have interesting insights with regards to the adequate level of liquidity in the banking system which is consistent with the guiding principle of RBI's liquidity management, i.e., aligning the spread (weighted average call rate over policy repo rate) with the prevailing liquidity conditions (net LAF).

It finds that when liquidity is in surplus - around 0.6% to 1.1% of NDTL - the WACR typically trades about 5–10 bps below the Repo Rate.

In contrast, when liquidity is in deficit - around 0.4% to 0.7% of NDTL - the WACR tends to stay about 5–10 bps above the repo rate. Overall, keeping the WACR close to the Repo Rate requires different liquidity levels depending on whether the system is in surplus or deficit, and the degree of alignment depends on the extent of the surplus or deficit.

While the RBI did cite that adverse spillovers from global financial markets, if the conflict drags, could tighten domestic financial conditions and raise the cost of borrowing. But given Governors' remarks, RBI's net short forward book, the recent INR measures and the absence of liquidity absorption via VRRRs do suggest that the financial conditions may not tighten abruptly. Here too, global developments are likely to influence the policy choices. At this juncture, we assume liquidity conditions will remain fairly comfortable.

In summary, the RBI MPC held the Repo rate steady at 5.25% with a neutral stance, signalling a prolonged pause supported by surplus liquidity amid global uncertainty. Growth forecasts were trimmed slightly while inflation projections were raised, with key risks tied to West Asia-related energy and supply disruptions, market volatility, and weather-driven food inflation; markets reacted positively adding momentum to the relief rally post the ceasefire news.

Annexure

Table 1: Some of the other measures, outside of the monetary policy announced, are as follows:

Measure	Action	Remarks	Implication
Development of Term Money Market	"Expands eligible participants beyond banks and standalone primary dealers to include non-banks (AIFs, NBFCs incl. HFCs, companies, etc.); Enhances borrowing limit for standalone primary dealers. Revised directions issued separately."	Intended to deepen participation and liquidity and strengthen monetary policy transmission.	Broader market participation and liquidity in term money; potentially better rate transmission from overnight to longer tenors and more funding avenues.
Simplifying onboarding of MSMEs in TReDS	Proposes dispensing with the requirement of due diligence of MSMEs while onboarding on TReDS platforms; comprehensive review of other instructions underway	TReDS guidelines originally 2014; updated 2018; expanded 2023 to include insurance companies as fourth participant.	Faster/easier MSME onboarding and potentially higher participation; could improve MSME access to working capital via receivables discounting.
Review of guidelines for inclusion of Quarterly Profits in CRAR computation – Commercial Banks	Proposes dispensing with the condition linked to deviation in incremental NPA provisions ($\leq 25\%$ of the 4-quarter average) for including quarterly net profits in CRAR.	Applies to commercial banks excluding Regional Rural Banks (RRBs) and Local Area Banks (LABs).	Easier inclusion of quarterly profits in regulatory capital calculations; reduces a specific constraint tied to provisioning volatility.
Review of Guidelines on Investment Fluctuation Reserve (IFR)	Proposes dispensing with IFR requirement for certain commercial banks; revising IFR guidelines for other bank categories to address operational challenges and harmonise instructions.	IFR removal proposed for commercial banks including LABs, but excluding Small Finance Banks, Payment Banks and RRBs. Other categories' rules to be revised for clarity/consistency.	For in-scope banks, reduces an additional buffer requirement against investment depreciation; for others, expected clearer and more consistent IFR compliance expectations.
Review of matters placed before the Boards of the Banks	Comprehensive review and rationalisation of RBI-mandated items/policies to be placed before bank Boards (for approval/review/information).	Aims to help Boards use time effectively and focus on strategy and risk governance.	Potential reduction in Board agenda clutter; improved quality of Board oversight on strategy and risk.

Table 2: A few highlights from the RBI Monetary Policy Report (MPR):

Chapter	MPR Chapters	Key take aways/highlights	MPR: Forecasts / outlook / projections
Summary	Global backdrop; domestic markets/ liquidity; growth drivers; inflation drivers; forward risks; policy intent	Global growth resilient but below average; uncertainty elevated due to West Asia conflict. Domestic markets volatile in H2; liquidity surplus; INR depreciation pressures late H2. Domestic activity resilient (consumption + investment); services buoyant; manufacturing strengthened; agriculture moderated. Inflation rose from Oct-25 low but stayed below target; food drove pickup; imported input costs rose in Mar-26; energy shock risk. Policy focus: reinforce price stability while supporting growth.	Outlook: Risks upside to inflation and downside to growth due to crude/supply disruptions from West Asia conflict.
External Environment	Global growth, trade, commodities, inflation, global monetary policy and markets	Global growth revised up pre-conflict; outlook now highly contingent on West Asia conflict path. Energy prices rose in Q1:2026; gold surged then corrected; base metals up on supply disruptions. Global disinflation uneven; renewed energy-driven upside inflation risks.	IMF WEO (Jan-26): World output 2026: 3.3%, 2027: 3.2%. OECD (Mar-26): global growth FY26: 2.9%, FY27: 3.0%. WTO (Mar-26): global trade growth 2026: 1.9% (vs 2025: 4.6%). IMF projections: India FY26: 6.4%, FY27: 6.4%.
Liquidity Conditions and Financial Markets	Liquidity drivers/ management; money, G-sec, corporate bond, equity, FX markets; credit; transmission	System liquidity surplus in H2; RBI injected durable liquidity via OMO purchases, USD/INR swaps, term repos . Money market rates moved with liquidity/policy; WACR briefly above repo in Dec–Jan. G-sec yields hardened on crude/global cues; equities volatile; INR depreciated (West Asia escalation). Credit growth improved; transmission continued but deposit-credit gap led banks to raise term deposit rates and issue more CDs.	Policy actions: MPC had cut repo 25 bps (Dec-25) ; cumulative 125 bps since Feb-25 ; stance neutral . Transmission (Feb-25 to Feb-26): WALR fresh loans -89 bps ; outstanding loans -87 bps ; WADTDR fresh deposits -97 bps ; outstanding deposits -47 bps . Small savings (Q1FY27): rates unchanged; gap vs formula-based rates flagged as a transmission friction. Prudential FX measure (27-Mar'26): NOP-INR limit US\$ 100m EOD for authorised dealers.

Chapter	MPR Chapters	Key take aways/highlights	MPR: Forecasts / outlook / projections
Demand and Output	GDP (new base 2022-23), demand components, fiscal, external sector, supply-side GVA by sector	Real activity resilient; demand led by PFCE and GFCF ; services strong; manufacturing strengthened; agriculture moderated due to weather disruptions. Net exports a drag; trade deficit widened. Fiscal consolidation continues; capex supportive; states' capex improving.	<p>Optimal Level of Liquidity: MPR findings show that surplus liquidity in the range of 0.6 to 1.1% of NDTL is likely to keep the spread between 5 to 10 bps below the Repo rate, while liquidity deficit in the range of 0.4 to 0.7% of NDTL is likely to keep the WACR above the repo rate between 5 to 10 bps"</p> <p>NSO SAE (FY23 base): Real GDP growth FY26: 7.6% (vs 7.1% in 2024-25). Quarterly GDP (2025-26): Q1 6.7%, Q2 8.4%, Q3 7.8%, Q4 7.3% (implicit). PFCE FY26: 7.7%; GFCF: 7.1%; GFCE: 6.6%. Real GVA FY26: 7.7%; sector GVA: Agriculture 2.4%, Industry 9.5%, Services 8.7%.</p> <p>Outlook: downside risks from geopolitical tensions, commodity volatility, supply-chain disruptions; West Asia conflict could strain input supplies."</p>
Prices and Costs	CPI inflation (old + new series), food/fuel/core dynamics, imported inflation, costs (WPI inputs, wages), margins	Headline inflation rose from Oct-25 low but remained below target. Food drove pickup; fuel moderate; core contained except precious metals. New CPI series (2024=100) changes weights/measurement (food higher, core lower; transport fuel excluded in core definition). Imported input cost pressures accentuated in Mar-26; energy shock risk.	<p>Inflation prints: Old CPI: 0.3% (Oct-25); 1.3% (Dec-25). New CPI: 2.7% (Jan-26); 3.2% (Feb-26).</p> <p>Risks/outlook: energy price spikes from West Asia conflict; weather risks (above-normal summer temps; possible El Niño) affecting food inflation. Fertiliser risk channel: reliance on West Asia for ~1/3 finished fertiliser and >60% natural gas; stocks 180 lakh metric tonnes (Mar 19, 2026), 30% higher y-o-y (near-term cushion).</p>
Macroeconomic Outlook	Baseline assumptions; inflation and growth projections; scenario analysis; balance of risks and quantified sensitivities	Baseline: resilient domestic demand but West Asia conflict raises uncertainty, energy prices, and supply disruptions. Inflation projected to firm up as base effects wane; within tolerance band; risks tilted up. Growth projected to moderate; risks tilted down.	<p>Baseline assumptions: Brent US\$ 85/bbl (2026-27); US\$ 75/bbl (2027-28). Exchange rate assumption ₹94/US\$ (2026-27). Monsoon normal (FY27, FY28).</p> <p>Global growth 2.9% (2026); 3.0% (2027). RBI baseline projections: CPI 2026-27 avg 4.6% (Q1 4.0, Q2 4.4, Q3 5.2, Q4 4.7); 2027-28 avg 4.6%. Real GDP FY27: 6.9% (Q1 6.8, Q2 6.7, Q3 7.0, Q4 7.2); FY28: 6.6%.</p> <p>Scenario (higher crude): Crude US\$ 95/bbl (FY27) & US\$ 85/bbl (FY28) → CPI 5.0% (FY27), 5.1% (FY28); GDP 6.7% (FY27), 6.4% (FY28).</p> <p>Quantified risk impacts: Global growth -100 bps → India GDP -30 bps, CPI -15 bps; global growth +50 bps → GDP +15 bps, CPI +7 bps. Crude ±10% → CPI ±50 bps, GDP =15 bps. INR ±5% → CPI ±40 bps, GDP ±25 bps (depreciation raises growth in short-term via exports). Food inflation shock: headline CPI +40 bps (adverse) / -20 bps (benign)."</p>

Abbreviations:

IGBs: Indian Government Bonds	SDF: Standing Deposit Facility	SDL: State Development Loan	CPI: Consumer Price Index	FX: Foreign Exchange
RBI: Reserve Bank of India	MSF: Marginal Standing Facility	OMO: Open Market Operations	G-Sec: Government Securities	
MPC: Monetary Policy Committee	CRR: Cash Reserve Ratio	GDP: Gross Domestic Product	EMs: Emerging Markets	

Source - RBI MPC Policy Resolutions, HSBC MF Research, Data as on April 08, 2026.

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

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