

# RBI Maintains a Status-Quo on Policy Repo Rate; US–Iran Ceasefire Eases Near-Term Risks



- As expected, the RBI's Monetary Policy Committee (MPC) kept the policy repo rate unchanged at 5.25% with a neutral policy stance, adopting a wait-and-watch approach amid the evolving Middle East conflict.
- The MPC assessed that both the intensity and duration of the ongoing conflict, along with the resulting damage to energy and other infrastructure, pose risks to the inflation and economic growth outlook. It highlighted multiple transmission channels through which the conflict could impact the Indian economy, noting that the initial supply shock could potentially evolve into a demand shock over the medium term if supply chain disruptions persist.
- However, the RBI assessed that the economy's fundamentals are on a stronger footing, providing greater resilience to withstand shocks than in the past.
- The RBI published its first full-year FY27 projections, assuming a crude oil price of ~\$85/bbl, in line with our base case. Real GDP growth is projected at 6.9% YoY in FY27, with risks tilted to the downside stemming from any escalation of Middle East conflict, global financial market volatility, and adverse weather events.
- The RBI projects CPI inflation for FY27 at 4.6% YoY, peaking in Q3 at 5.2%, with upside risks. Core inflation is projected at 4.4% in FY27, and excluding precious metals, it is assessed to be even lower, indicating that underlying inflationary pressures are expected to remain relatively contained.
- Our FY27 projections of real GDP growth at ~7.0% (with downside risks) and CPI inflation at ~4.3% (with upside risks) are broadly consistent with the RBI's projections; the slight difference likely reflects somewhat higher assumed energy price pass-through in the RBI's framework.
- The RBI did not announce new OMO purchases or liquidity measures but committed to remaining proactive and pre-emptive in liquidity management. FX reserves stood at ~USD 697 billion as of April 3, providing ~11 months of import cover and cushioning the economy against external volatility.
- On the geopolitical front, the US and Iran agreed to a two-week ceasefire, offering an opportunity for de-escalation and a potential pathway to a broader agreement. Importantly, the ceasefire does not address Iran's nuclear or missile programmes nor include a commitment to lift sanctions, leaving the underlying drivers of the conflict unresolved.
- The ceasefire triggered a sharp market relief rally today: Brent crude price fell ~17% to ~\$90.6/bbl, the Nifty 50 Index rose ~3.8%, India's 10-year G-Sec yield eased to ~6.91% from yesterday's close of ~7.05%, and the rupee appreciated to ~Rs 92.58/USD from yesterday's close of ~Rs 93.
- The path forward remains uncertain. The ceasefire needs to progress toward a durable agreement and translate into actual normalisation in the Strait of Hormuz for the outlook to improve. For now, we continue to see downside risks to our economic growth projection and upside risks to our inflation forecast, and will await greater clarity on supply normalisation and the direction of negotiations.

## Pramod Chowdhary

Chief Economist

pramod.chowdhary1@dmifinance.in

## Bhawna Sachdeva

Economist

bhawna.sachdeva@dmifinance.in

## Shantanu Sharma

Economist

shantanu.sharma@dmifinance.in



[www.dmifinance.in](http://www.dmifinance.in)



+91 11 4120 4444



## DMI Finance Private Limited

Express Building, 9-10, 3rd Floor,  
Bahadur Shah Zafar Marg,  
Delhi – 110002.

### RBI Policy and US–Iran Ceasefire: Wait-and-Watch on Policy Rate, Relief Rally on US-Iran Ceasefire

April 8 has been a day of two important developments affecting India's macro-outlook. First, the US and Iran agreed to a two-week ceasefire, triggering a sharp global relief rally. Then, the RBI's MPC delivered a status quo policy decision, adopting a wait-and-watch approach with a neutral policy stance. We assess both and their implications for the economic and policy outlook below.

### RBI Holds Policy Repo Rate at 5.25%; Wait-and-Watch Approach as Conflict Weighs on Outlook

As expected, the RBI's MPC unanimously kept the policy repo rate unchanged at 5.25%, maintaining a neutral policy stance to preserve flexibility to respond to shifting geopolitical dynamics and macroeconomic developments. The Standing Deposit Facility rate remains at 5.00%, and the Marginal Standing Facility rate and Bank Rate remain at 5.50%.

The RBI noted that before the start of the conflict in the Middle East, high-frequency indicators through February 2026 indicated continued strong momentum in economic activity, with inflationary pressures remaining contained. The widening and intensification of the conflict in March introduced adverse supply-side conditions, including disruptions to energy supplies, elevated energy prices, and disruptions to trade through the Strait of Hormuz.

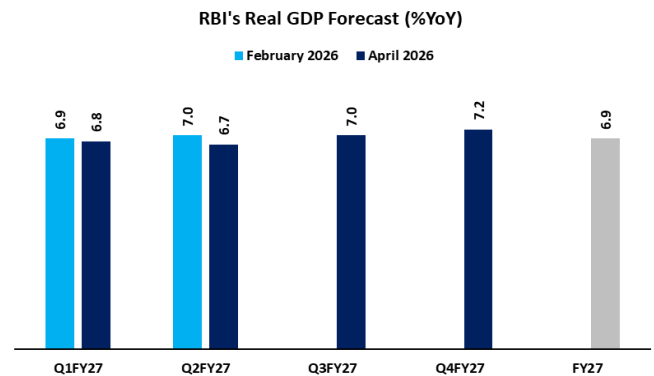
The MPC noted that the intensity and duration of the conflict, and the resultant damage to energy and other infrastructure, add risk to both the inflation and growth outlooks. The RBI Governor noted five key transmission channels through which the Indian economy may be impacted by the Middle East conflict: elevated crude oil prices increasing imported inflation and widening the current account deficit; disruptions in energy markets, fertilisers, and other commodities adversely impacting industry, agriculture, and services; heightened uncertainty, increased risk aversion, and safe-haven demand impacting domestic liquidity, consumption, and investment; weaker global growth prospects dampening external demand and reducing remittance flows; and adverse spillovers from global financial markets tightening domestic financial conditions and raising the cost of borrowing. It noted that the initial supply shock could potentially transform into a demand shock in the medium term if the restoration of supply chains is delayed.

However, the MPC assessed that the economy's fundamentals are on a stronger footing, providing it with greater resilience to withstand shocks than in the past. This, coupled with elevated uncertainty, led the MPC to judge it prudent to wait and watch the changing circumstances and the evolving growth-inflation outlook, keeping the policy repo rate unchanged and maintaining a neutral stance.

### RBI's FY27 Projections: Initial Impact Visible, Underlying Resilience Intact

The RBI published its first full-year projections for FY27, reflecting the ongoing conflict's initial impact on both economic growth and inflation while highlighting underlying resilience. It projects real GDP growth for FY27 at 6.9%, with Q1 at 6.8%, Q2 at 6.7%, Q3 at 7.0%, and Q4 at 7.2%. The RBI assumed an average crude oil price of \$85/bbl for FY27, in line with our assumption. Elevated energy and commodity prices, along with shocks to input availability from Hormuz disruptions, are likely to weigh on economic growth in FY27. On the other hand, sustained momentum in services, the persisting impact of GST rationalisation, healthy balance sheets of financial institutions and corporates, favourable agricultural conditions, ongoing recovery in private consumption, and the government's focus on scaling up domestic manufacturing in strategic sectors and infrastructure spending, should continue to support economic activity. While external trade is likely to be affected by geopolitical developments, exports may benefit from recent trade agreements. Overall, the RBI assessed that risks to its baseline growth projection are tilted to the downside, stemming from any escalation of conflict, heightened volatility in global financial markets, and weather-related events.

### RBI Projects Economic Growth at 6.9% in FY27

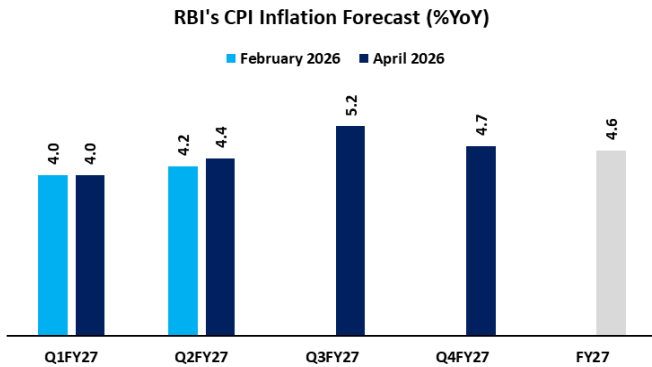


*Source: RBI; Note: February 2026 and April 2026 refer to projections given by the RBI in its February 2026 and April 2026 MPC updates, respectively*

It projects CPI inflation for FY27 at 4.6%, peaking in Q3 at 5.2% (partly due to base effects) as energy price pass-through accelerates, with upside risks. The RBI assessed that, while retail prices of petrol and diesel have remained unchanged, some pass-through of higher global energy prices has already led to price increases in LPG (domestic and commercial) and diesel for industrial use. However, the government also announced measures such as excise duty cuts on petrol and diesel to absorb the larger share of the burden from high energy prices. Core inflation is projected at 4.4% in FY27; excluding precious metals, core inflation is even lower, indicating that underlying inflationary pressures

outside the energy channel and precious metals are expected to remain relatively contained. The likely emergence of El Niño conditions poses an additional upside risk through food prices. The neutral policy stance preserves flexibility to respond to the evolving conditions.

### RBI Projects FY27 CPI Inflation at 4.6% with Peak in Q3



Source: RBI; Note: February 2026 and April 2026 refer to projections given by the RBI in its February 2026 and April 2026 MPC updates, respectively

The RBI's real GDP growth projection of 6.9% is marginally below our expectation of ~7.0% (with downside risks), while its inflation projection of 4.6% is above our estimate of ~4.3% (with upside risks), likely reflecting somewhat higher energy price pass-through assumptions. We maintain our projections for now and will reassess as the pace of transit normalisation through Hormuz and the direction of negotiations become clearer.

### Liquidity Management to be Proactive but No New OMO Announcements; FX Buffers Provide External Cushion

On liquidity management, the RBI did not announce any fresh OMOs or new liquidity measures at this meeting. However, the Governor committed to remaining proactive and pre-emptive in liquidity management to ensure sufficient liquidity to meet the economy's productive requirements. System liquidity remained in average daily surplus of Rs 2.3 lakh crore since the last policy meeting in February, with the WACR trading in the lower half of the policy corridor except towards the end of March. The RBI had already conducted OMO purchases of Rs 1.5 lakh crore and a long-term forex buy-sell swap of USD 10 billion during February and March. The 10-year G-Sec yield, which stood at ~7.05% as of April 7, has since eased to ~6.91% today, aided by the ceasefire and the resultant correction in Brent crude price. The RBI also did not announce targeted sectoral relief measures; such measures, if warranted, could be announced by the government in the coming weeks, depending on geopolitical developments.

On the external front, the RBI expects global trade to slow in 2026 relative to 2025 due to lingering tariff uncertainties, the Middle East conflict, and elevated energy prices, posing upside risks to India's current account deficit in FY27.

Recent bilateral and regional trade agreements are expected to partially offset these headwinds. FX reserves stood at USD 697.1 billion as of April 3, providing ~11 months of import cover and covering 91.1% of outstanding external debt, cushioning the economy against external volatility. The RBI reiterated that its FX intervention is aimed at smoothening excessive and disruptive volatility without targeting any specific level or band for the exchange rate.

### US-Iran Ceasefire: Two-Week Reprieve, Risks Linger

On the geopolitical front, with less than two hours to spare before President Trump's self-imposed deadline, the US and Iran agreed to a two-week ceasefire. Trump indicated the US had received a 10-point proposal from Iran, describing it as "a workable basis" for negotiations. Importantly, the ceasefire does not address Iran's nuclear, missile, or drone programmes, nor does it include any commitment to lift sanctions, meaning the underlying drivers of the conflict remain unresolved.

The ceasefire provides an opportunity for de-escalation and a potential pathway to a broader agreement during the two-week window. Negotiations are expected to advance, with talks reportedly being arranged later this week. The process, however, is unlikely to be linear. The critical watch points are the trajectory of negotiations over the two-week window; whether any miscalculation by either side triggers re-escalation before a broader agreement is reached; and the pace and extent of Hormuz reopening in practice, along with the ability of GCC producers to ramp output following weeks of curtailed production.

The ceasefire has reduced the immediate risk of escalation and triggered a sharp market relief rally. Brent crude fell ~17% to ~\$90.6/bbl at the time of writing. The Nifty 50 rose ~3.8% today, and the rupee appreciated to ~Rs 92.58 against the dollar compared to yesterday's close of ~Rs 93.

The ceasefire is broadly consistent with our base case, which assumed a few weeks of active conflict and disruption to the Strait of Hormuz, with Brent crude oil price averaging ~USD 85/bbl in FY27. With Brent price correcting toward ~\$90-91 level today, that assumption broadly aligns with developments, though a geopolitical risk premium above pre-conflict levels (~\$73) is likely to persist through at least Q1 FY27 as markets price in residual re-escalation risk and the time required for supply normalisation.

Presently, we continue to see downside risks to economic growth and upside risks to CPI inflation. The ceasefire, if it holds and leads to progressive Hormuz normalisation, would reduce the probability of the downside scenario. We will await greater clarity on the pace of energy supply normalisation and the direction of negotiations. The RBI's status quo policy, with balanced economic growth and

inflation projections and a watchful neutral policy stance, was the right call for the current environment.

### **RBI's Developmental and Regulatory Measures**

The RBI announced a set of regulatory and developmental measures aimed at easing the cost of doing business, supporting banks' capital adequacy, and advancing money market development.

#### **1. Development of Term Money Market**

- To further develop the term money market, the RBI has decided to permit additional categories of non-bank entities, viz., AIFs and NBFCs, including housing finance companies, to participate in this segment. At present, only banks and standalone primary dealers are eligible to participate in the term money market.
- The borrowing limit in the term money market for standalone primary dealers will also be enhanced.

#### **2. Promoting Ease of Doing Business**

- To facilitate better utilisation of bank boards' time, the RBI proposed revising and rationalising the matters requiring their attention. Draft directions will be issued for public consultation.
- Following the earlier consolidation of over 9,000 regulatory instructions into 238 Master Directions, the Governor stated that a similar exercise has now been completed for all supervisory instructions. Accordingly, the drafts of 64 Master Directions, consolidating extant supervisory instructions across up to nine functional areas, will be published for public comment.
- To facilitate the ease of doing business for MSMEs, the RBI has dispensed with the due diligence requirement when onboarding them onto the TReDS platforms. Draft directions will be issued for public consultation.

#### **3. Supporting Capital Adequacy of Banks:**

- The RBI has proposed to remove the condition regarding NPA provisioning for inclusion of quarterly profits in CRAR computation. Presently, 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 NPAs at the end of any of the four quarters of the previous financial year have not deviated more than 25% of the average of the four quarters. Draft amendment directions will be issued for public comments.
- In view of developments in the prudential framework over the years, it has proposed to dispense with the requirement to maintain an Investment Fluctuation Reserve (IFR) as an additional buffer against depreciation in the value of their investments, subject to

mark-to-market (MTM) requirements. Draft directions will be issued for public consultation.

## DISCLAIMER

This research report/material (the "Report") is for the personal information of the authorised recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without DMI's prior permission.

In the preparation of this Report, DMI has used information that is publicly available as well as data gathered from third party sources. Information gathered and material used in this Report is believed to have been obtained from reliable sources. DMI, however makes no warranty, representation or undertaking, whether expressed or implied, that such information is accurate, complete or up to date or current as of the date of reading of the Report, nor does it assume any legal liability, whether direct or indirect or responsibility for the accuracy, completeness, currency or usefulness of any information in this Report. Additionally, no third party will assume any direct or indirect liability. It is the responsibility of the user or recipient of this Report to make its/his/her own decisions or enquiries about the accuracy, currency, reliability and correctness of information found in this Report.

Any statement expressed as recommendation in this Report is general in nature and should be construed strictly as current opinion of DMI as of the date of the Report and may be subject to change from time to time without prior intimation or notice. The readers of this Report should carefully read, understand and investigate or enquire (either with or without professional advisors) into the risks arising out of or attached to taking any decisions based on the information or opinions contained in this Report. DMI or its officers, directors, personnel and employees, including persons involved in the preparation or issuance of this Report may have potential conflict of interest with respect to any recommendation and related information and opinions.

Neither DMI nor any of its officers, directors, personnel and employees shall be liable for any loss, claim, damage of whatsoever any nature, including but not limited to, direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this Report or the information therein or reliance of opinions contained in this Report, in any manner.

No part of this Report may be duplicated or copied in whole or in part in any form and or redistributed without the prior written consent of DMI. Any reproduction, adaptation, distribution or dissemination of the information available in this Report for commercial purpose or use is strictly prohibited unless prior written authorization is obtained from DMI. The Report has been prepared in India and the Report shall be subject only to Indian laws. Any foreign reader(s) or foreign recipient(s) of this Report are requested to kindly take note of this fact. Any disputes relating to the Report shall be subject to jurisdiction of Republic of India only.