

Focus on RBI stand on growth, inflation

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At MPC meet, focus on how RBI reads inflation, growth

Central Bank May Hold Rates Amid Rising Strain In System

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Mumbai: At a time when oil prices are over \$100, the rupee is under pressure and traders are recalibrating bets, the focus in India's financial markets has shifted to what the central bank will say rather than what it will do. Reserve Bank of India is widely expected to hold rates in its April 8 policy, but the real attention is on how it reads growth, inflation and strain building in the system.

The last set of projections was left deliberately incomplete. In Feb, RBI nudged up its near-term growth estimates, putting Q1 and Q2 of FY27 at 6.9% and 7%, while holding back the full-year forecast until the new GDP series is released. That pause now assumes significance. Since then, the conflict in West Asia has pushed up oil prices, disrupted supply chains and weakened the rupee by nearly 3%, altering the baseline from which those projections will be drawn.

In this setting, policy action appears straightforward, but the messaging does not. Barclays expects the Monetary Policy Committee to keep the repo rate unchanged and retain a neutral stance, while signalling its intent through guidance. "We expect the RBI MPC to

MULTIPLE CHALLENGES FOR RBI

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—Madan Sabnavis | CHIEF ECONOMIST, BANK OF BARODA

keep the policy repo rate on hold in the 8 April meeting and retain the 'neutral' stance. We also await RBI's FY27 growth and inflation estimates (Barclays: 6.8%, 4%). We expect continued liquidity support and timely FX intervention to keep financial conditions stable," said Aastha Gudwani chief economist with Barclays.

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The inflation-growth mix is beginning to shift. Icera expects CPI inflation to rise to 4.3% in FY27 from 2.1% in FY26, even as growth shows signs of moderation. "In this context, the Monetary Policy Committee is expected to maintain a pause on policy rates for an extended period, even as growth moderates. The Reserve Bank of India may continue to manage liquidity conditions to support the system," said Aditi Nayar, chief economist, Icera.

According to Soumya Kanti Ghosh, chief economist, SBI, because of exchange rate fluctuations and external shocks like supply chain disruptions, imported inflation is already at 5.4% (215 bps more than the headline) for Feb'26 and is expected to increase considerably

further. Consequently, CPI trajectory (as of now) may indicate more than 4.5% inflation for the next 3 quarters. This is still within the 2% tolerance band over the 4% inflation rate.

The other positive on inflation front is the govt's recent decision for full customs duty exemption on a wide range of critical petrochemical products till June 30. It may lower input costs and hence may have benign impact on imported inflation.

Yet, beneath the surface, the currency is driving a different conversation. The rupee's sharp fall has revived the argument for rate action as a defence tool. Higher rates can pull in dollar flows by making rupee assets more attractive, creating an arbitrage that supports the currency. But this is not a conventional cycle.

Analysts say that energy shocks do not lend themselves to standard responses. According to Emkay Global, the earlier policy emphasis was on transmission of past rate cuts, using abundant liquidity to keep overnight rates below the policy rate and ease borrowing conditions. Now the drivers are more diffuse: inflation expectations, growth risks and tighter financial conditions are feeding into the central bank's trade-offs.