

RBI Holds Repo at 5.25%: Geopolitical Shocks Temper Growth Outlook

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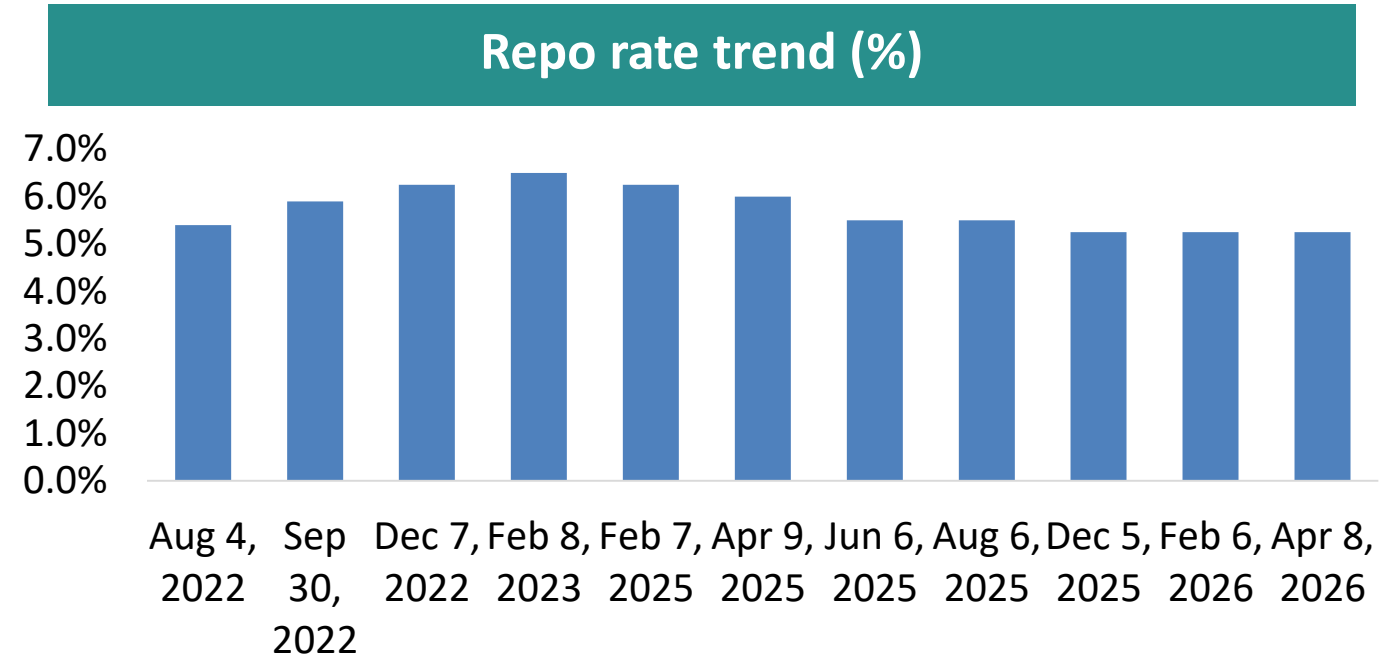
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RBI holds repo rate at 5.25%; Maintain “neutral” stance amid global turbulence, rising risks

- **Policy pause continues amid global tensions:** The Reserve bank of India (RBI) maintained status quo on repo rate at 5.25%, with the standing deposit facility at 5.00%, the marginal standing facility and Bank rate at 5.50%, signaling a cautious pause as geopolitical risks and supply shocks increase global uncertainty.
- **"Neutral" stance maintained for maximum flexibility:** The RBI continued with a neutral stance, reflecting the central bank’s intent to retain flexibility amid heightened global uncertainty. Headline inflation has stayed below target in recent months, but risks have risen due to energy price spikes and potential weather disturbances.
- **West Asia conflict emerges as the key macro risk:** Rising energy prices, supply chain disruptions and global financial volatility linked to geopolitical tensions pose significant downside risks to growth and upside risks to inflation. Crude oil, fertilizers, shipping disruptions threaten current account deficit (CAD) and output.
- **Growth projections tempered by geopolitical shocks:** While FY26 real GDP growth of India is projected higher at 7.6%, the RBI has projected a moderated real GDP growth of 6.9% for FY27, hampered by the West Asia conflict, higher input costs, and supply-chain disruptions in the Strait of Hormuz
- **FY27 inflation projected at 4.6%:** Inflation in India is expected to gradually rise during the year, peaking around 5.2% in Q3 FY27. While core inflation remains muted at 4.4%, the RBI warned of upside risks from energy price spikes and potential El Niño conditions
- **Resilience powered by strong macroeconomic fundamentals:** Despite global headwinds, the RBI emphasized that India’s domestic fundamentals are stronger now than in previous crisis episodes. Private consumption (growing at 7.7% in FY26) and investment demand remain the primary drivers of economic resilience.
- **External sector faces rising pressures:** Global trade slowdown, rising imports and geopolitical risks may widen the trade deficit, although strong services exports and remittances provide a buffer.
- **Financial system remains strong and stable:** Banks and NBFCs continue to exhibit strong capital adequacy, improves asset quality and robust credit growth, supporting financial stability. Scheduled commercial banks (SCBs) capital to risk-weighted assets ratio (CRAR) at 16.9%, NBFC CRAR at 25.6%, and gross non-performing assets (GNPA) ratios have remained low .
- **Liquidity surplus maintained:** System liquidity at INR 2.3 trillion and the RBI reiterated its commitment to proactive liquidity management to ensure sufficient funding for productive sectors of the economy.



Inflation estimates		
Period	Current forecast	Previous forecast
FY27	4.6%	Na
Q1 FY27	4.0%	4.0%
Q2 FY27	4.4%	4.2%
Q3 FY27	5.2%	Na
Q4 FY27	4.7%	Na

GDP growth estimates		
Period	Current forecast	Previous forecast
FY27	6.9%	Na
Q1 FY27	6.8%	6.9%
Q2 FY27	6.7%	7.0%
Q3 FY27	7.0%	Na
Q4 FY27	7.2%	Na

Source: Reserve Bank of India

Robust domestic fundamentals and resilience

Despite global "souring" of sentiments, India's fundamentals are on a stronger footing than in previous crisis episodes. Growth continues to be supported by robust private consumption (growing at 7.7% in FY26) and sustained investment demand.

Strong external buffers

India's **foreign exchange reserves** reached USD 697.1 billion as of April 3, 2026. These reserves are deemed adequate by standard metrics, providing approximately 11 months of import cover.

Regulatory easing for bank capital

To support capital adequacy, the RBI proposed two key relief measures:

- **Quarterly profit inclusion:** The RBI proposed removing the condition regarding NPA provisioning for the inclusion of quarterly profits in the computation of a bank's CRAR.
- **Investment fluctuation reserve (IFR):** The requirement for banks to maintain an IFR as an additional buffer against depreciation in investment value has been removed.

Development of money market

Expanded participation: Certain additional categories of non-bank entities permitted to participate in the term money market.
SPD borrowing limit enhanced: Standalone primary dealers (SPDs) will have higher borrowing limits in the term money market, deepening liquidity and market development

Ease of doing business

Rationalization of bank board tasks: The RBI proposes to revise and rationalize the matters requiring the attention of Bank Boards to facilitate better utilization of their time.

Consolidation of supervisory instructions: Following the consolidation of regulatory instructions into Master Directions, a similar exercise has now been completed to consolidate all supervisory instructions.

Support for MSMEs: To facilitate easier operations of MSMEs, the RBI proposes to dispense with the due diligence requirement while onboarding them onto TReDS platforms.

Real GDP growth estimates

While the Indian economy showed a strong momentum of 7.6% growth in FY26, the RBI has moderated its expectations for the upcoming year.

- **Annual projection:** Real GDP growth for FY27 is projected at 6.9%.
- **Quarterly path:** Real GDP growth estimates revised down to 6.8% (from 6.9%) in Q1 FY27 and 6.7% (from 7%) in Q2 FY27. Domestic demand is the growth anchor.
- The RBI's 6.9% GDP projection reflects a cautious stance amid uncertainty, with risks skewed to the downside from the West Asia conflict, global financial volatility, and domestic cost pressures. Still, resilient consumption and stronger public investment could deliver upside surprises, offering scope for growth

Transmission channels of the West Asia conflict

The RBI identified several specific channels through which the conflict is expected to impede India's growth trajectory:

- **Oil shock and the Input cost pressures:** Elevated crude oil prices, a spike in international freight and insurance costs are raising the cost of production.
- **Supply chain disruptions:** Specific disruptions in the Strait of Hormuz are expected to constrain the availability of key inputs for downstream sectors.
- **Dampened external demand:** Weaker global growth prospects and lingering tariff uncertainties are likely to impact merchandise exports.
- **Tightening financial conditions:** Adverse spillovers from global markets could result in capital outflow and currency depreciation.

CPI revision upwards

The RBI underscored that India's current inflation pressures stem primarily from geopolitical disruptions rather than excess domestic demand, with crude oil, freight, insurance, shipping bottlenecks, and input supply constraints acting as the main transmission channels.

- **Energy price spikes:** The West Asia conflict has caused a sharp rise in global energy prices, leading to domestic price hikes in LPG, bulk diesel, and premium petrol variants. Shipping disruptions (Strait of Hormuz) add freight and insurance costs, impacting downstream sectors.
- **Climate risks:** There is a 62% probability of El Niño emerging during June-August 2026, which poses a substantial upside risk to food prices despite current comfortable buffer stocks.
- **Core inflation stability:** Core inflation (excluding precious metals) remains benign at 2.1%, indicating that underlying domestic price pressures are currently contained

Sectoral implications- industries affected (1/2)

Sector	Key drivers	Credit rating implication	Impact & outlook
Banks (SCBs)	Healthy CRAR (16.91%) and improved GNPA (1.89%) in December 2025 ; removal of NPA provisioning for quarterly profit inclusion in CRAR ; removal of IFR requirement.	Positive / Stable	Enhanced capital adequacy flexibility and robust balance sheets support high credit quality. Reduced regulatory burden on capital buffers allows for better capital deployment.
NBFCs	Total CRAR at 25.59% and improved GNPA ratios in December 2025 ; improved credit growth broad-based at 14.3%.	Stable	Strong capital positions and improved asset quality mitigate risks from potential rising borrowing costs due to global spillovers.
Energy & Logistics	Domestic LPG price hike (INR 60), bulk diesel price increase (25%), and higher international freight/insurance costs.	Negative / Cautious	Rising input costs and shipping disruptions in the Strait of Hormuz may compress margins and weaken interest coverage ratios for leveraged players.
Agriculture	62% probability of El Niño (June-Dec 2026) ; healthy reservoir levels (47%) ; increased tractor sales, up 28.5% in January-February 2026	Neutral to Negative	While currently resilient, a potential El Niño-induced supply shock poses a threat to rural cash flows and future credit performance in the agri-loan segment.
Manufacturing	Capacity utilization at 75.5% (above long-term average) in Q3FY26 ; industrial growth estimated at 9.5% in FY26 ; high credit growth in gems/jewellery (40.2%) and engineering (36.0%) in February 2026	Stable to Positive	Robust domestic demand and high capacity utilization support revenue growth, though supply chain bottlenecks for key inputs remain a monitorable risk.
Services & IT	Services growth estimated at 8.7% in FY26; resilient services exports (up 9.8% in January 2026) ; greenfield FDI in IT from Amazon/Microsoft/Google.	Positive	Continued strong momentum and investor optimism provide a solid buffer against global headwinds, maintaining strong credit metrics.
Consumer goods & Retail	Food inflation contained, rural demand robust, urban consumption buoyant.	Stable	Ratings outlook stable; resilient demand supports profitability despite energy cost pressures.
Real estate & housing finance	Demand supported by lower inflation expectations Moderation in borrowing costs; inflation expectations anchored; steady urban demand	Neutral to mildly positive;	Moderation in borrowing costs aids affordability, though funding constraints could limit aggressive expansion
Infrastructure & capital goods	Public capex push; government investment pipeline; crowding-in effect on private investment	Positive bias	Strong government investment pipeline offsets private sector caution, improving long-term visibility

Source: Reserve Bank of India, Brickwork Research

Note: The industries mentioned in the table were the ones facing an immediate consequence due to the RBI's specific decisions.

Sectoral implications- industries affected (2/2)

Sector	Key drivers	Credit rating implication	Impact & outlook
Automobile & vehicle finance	Resilient domestic demand; credit flow to vehicle loans; competitive lending environment	Stable	Credit demand from vehicle finance remains robust, but margin compression persists due to competitive lending
Aviation	Rising fuel costs; global demand volatility; financing costs sensitive to interest rates	Negative	Higher crude and jet fuel costs directly compress margins and may weaken demand if fares rise.
Chemicals / fertilisers	Input cost volatility; dependence on global commodity cycles; government subsidy support	Negative	Imported input costs and supply-chain disruption may pressure margins and production schedules.
Automobiles	Consumer demand resilience; credit availability; export headwinds	Stable	No immediate increase in EMIs supports demand; however, rising input costs (metals/oil) may compress margins for OEMs.
Metals/engineering	Commodity price volatility (steel, aluminium, copper) and slowing global demand weigh on export competitiveness. Shipping disruptions and global financial volatility affect export flows and input procurement. Strong public capex pipeline supports engineering demand, providing order book visibility.	Neutral to negative	Short-term margin compression from higher input costs and financing rates; medium-term resilience from domestic infrastructure and capital goods demand, supporting engineering firms' order books; long-term outlook hinges on diversification and policy support

- **Export-oriented industries** face a cautious credit outlook, with merchandise exports contracting 0.2% YoY in Jan–Feb 2026 and shipping disruptions adding pressure. Short-term risks stem from weakened external demand and logistics hurdles, though new trade deals with the UK, EU, and US provide long-term diversification benefits, partially offsetting immediate challenges.
- MSMEs carry a **positive credit outlook**, driven by strong sectoral growth (e.g., textiles at 8.2%) and regulatory support through the proposed removal of due diligence for TReDS onboarding. Easier access to liquidity via TReDS enhances working capital management, lowers delinquency risks, and strengthens overall credit profiles.

Protecting margins amidst a 'wait and watch' policy stance

- From a rating standpoint, supply-side shocks tend to erode credit quality more gradually than demand shocks. At first margins get squeezed along with liquidity, and later consumption weakens. Subsequently, these pressures weaken the working capital cycles, and debt service capacity. Consequently, sectors with high import dependence, fuel sensitivity, or export exposure are most vulnerable to rating pressures should the conflict persist.
- **Corporate margin pressure:** For energy-sensitive sectors (chemicals, logistics, and manufacturing), the rise in bulk diesel and freight costs may lead to short-term margin compression if they cannot pass on costs to consumers.
- **Rural consumption vulnerability:** While rural demand is currently robust, evidenced by growth in tractor sales, a potential El Niño-induced spike in food inflation could dampen discretionary spending in the hinterlands.
- **Monetary stance as a buffer:** By maintaining the repo rate at 5.25% and a neutral stance, the RBI is prioritizing stability. This “wait and watch” approach prevents a premature tightening of credit conditions while the MPC assesses whether supply shocks will lead to "second-round effects" on broader inflation.
- **External sector strength:** With foreign exchange reserves at USD 697.1 billion, the RBI has the firepower to contain “excessive and disruptive volatility” in the Rupee, which helps mitigate the risk of "imported inflation" from a depreciating currency.

The MPC's balancing act: Navigating West Asia shocks with domestic resilience

- The committee's decision to maintain the status quo reflects a strategic "wait and watch" approach during a period of supply shocks.
- By retaining a **neutral stance**, the MPC preserves the flexibility to respond judiciously as the growth-inflation trade-off evolves. Keeping rates unchanged amid global volatility protects debt-servicing capabilities for leveraged corporates and prevents immediate spikes in the cost of borrowing.
- **Prioritizing stability:** The decision to hold rates balances the need to support growth impulses against the risk of second-round effects from energy price volatility.
- **Resilience as a buffer:** The RBI emphasizes that India's stronger macroeconomic fundamentals, including record forex reserves of USD 697.1 billion—allow the committee to remain vigilant without making premature policy shifts.



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