

RBI Monetary Policy Meeting

10th April 2026

Executive Summary:

The RBI MPC met on the 6th to 8th of April 2026 to decide the outcome for the 1st Interest Rate decision of FY2027. On the backdrop of the ongoing crisis in West Asia, interest rates were kept unchanged:

Particulars	Interest Rate (Repo)	Standing Deposit Facility (SDF)	Marginal Standing Facility (MSF)	Stance
Current	5.25%	5.00%	5.50%	Neutral
Meaning	Rate at which banks borrow from RBI (regular rate)	Rate at which RBI borrows from banks	Rate at which banks borrow from RBI (emergency rate)	Not biased towards increasing/decreasing interest rates

Backdrop to the RBI Policy -

- West Asia overhang and currency volatility are the dominant macroeconomic overhangs shaping RBI's decisions
- After a prolonged low-inflation period, inflation is **re-emerging** as a meaningful risk

Inflation -

- Indian Economy is coming out of a 2-3 year lower inflationary zone. Inflation now possesses the risk of momentarily breaching RBI's comfort band
- Potential for Super El Niño in 2026 – intense heatwaves, deficient monsoon rains resulting in agricultural risk and possible food inflation spikes
- Energy security challenged by the West Asia crisis as the closed of the Strait of Hormuz suppresses energy imports to India

Fiscal uncertainty -

- Higher Oil prices + high fertiliser subsidy outgo adds pressure to Fiscal Deficit
- Rupee volatility adds further pressure and uncertainty
- Government divestment targets appear questionable

Historical parallel to 2022 –

- Inflation in 2022 was due to a mix of Demand-pull (post-covid spending boom) and Supply-shock (Russia-Ukraine War)
- Long-end of the Indian government bond yields spiked to 7.62% and 7.88% for the 10Y and 30Y respectively



However, the current scenario is primarily inflation from Supply-shock (US-Iran war) and not due to demand-pull. We expect the West Asia crisis to not last as long as the Russia-Ukraine war.

Indian Macroeconomic and policy dynamics:

- Government appears to be better prepared in 2026 than in 2022 – actively shielding consumers from price shocks via:
 - Excise duty cuts (which will hurt fiscal if the current war is prolonged)
 - Subsidies (to shield consumers from increasing fertilizer prices)

Investment implications:

Fixed income -

Duration	Allocation	View
Short (1-3 years)	30%	Attractively positioned; accruals are interesting
Medium (3-5 years)	30%	Better placed v/s Short term. We are evaluating opportunities via bonds as well
Long (5-10 years)	25%	Aggressively allocate when 10Y is above 7.25% in a staggered manner
Very Long (10 years+)	15%	Aggressively allocate when 30Y is above 8.00% in a staggered manner

Source: Pravia Research

Hybrid mutual funds –

We like Balanced Advantage Funds in this category as both Equity and Fixed Income are well-placed in the current environment.

Income plus Arbitrage -

Attractively placed for short term allocations (LTCG is 12.5% if held for 2 years)

REITs/InvITs -

Can present lucrative opportunities if interest rates remain elevated as rental yields can become attractive



Detailed Note:

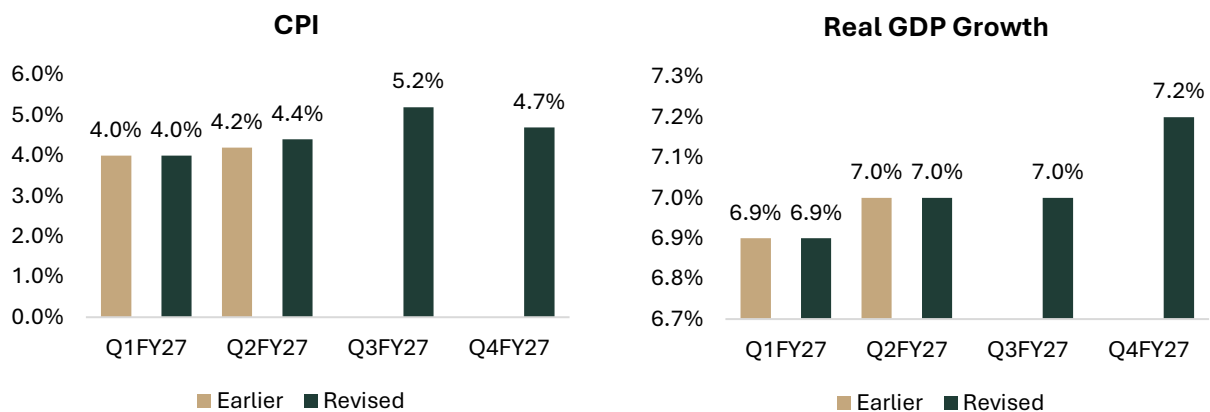
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These decisions were taken on the back of:

- **The crisis in West Asia has disrupted global energy markets and supply chains.** Trade tensions have taken a backseat as the war between US & Israel v/s Iran is on the forefront, primarily due to uncertainty regarding access to the Strait of Hormuz
- **Increased currency volatility** saw the Indian Rupee depreciate significantly, with the USD/INR reaching 95 levels before a sharp reversal on the back of banking regulations

India isn't completely insulated from global shocks despite being better placed than most under Emerging markets – many of which are struggling due to increasing fuel prices. The RBI has increased forecasts for Inflation and given a real GDP growth target which is lower than FY26.



Source: RBI

This policy was all about navigating the West Asia conflict and anticipating the subsequent macro risks while trying to maintain strong growth outlook. Inflation was on a downward trajectory since Aug'23 and is now beginning to become a concern. However, inflation this time around is turning out to be a supply-shock induced, not demand-pull inflation.



The current crisis shares a lot of similarities to the Russia-Ukraine crisis:

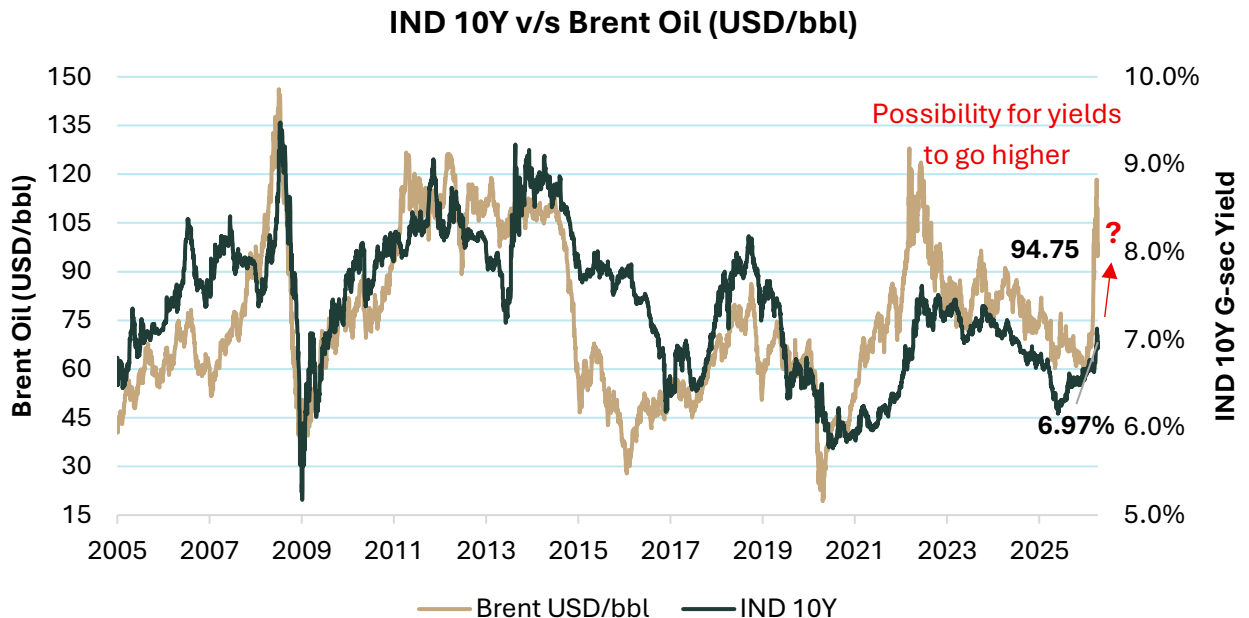
Russia-Ukraine 2022		West Asia conflict 2026	
Shock type	Energy + food supply disruption Brent Oil spike to ~\$127/bbl	Shock type	Energy + LNG/fertiliser supply disruption Brent Oil spike to ~\$118/bbl
RBI response	Repo hiked aggressively from 4% → 6.5%; 10Y Gsec and 30Y Gsec reached 7.62% and 7.88% respectively	RBI response	Repo holding at 5.25%; neutral stance; FX reserves used to stabilise rupee
Outcome	Rate hikes compressed spread sharply as short rates caught up; fiscal managed supply-side	Key difference	India's track record from 2022 allows more calibrated response; ceasefire signs offer partial relief
Lesson	Monetary policy effective only in cooling demand-pull component; supply side needs fiscal/administrative action	Yields	10Y Gsec and 30Y Gsec reached peaks of 7.13% and 7.82% respectively

Source: Pravia Research

Similar yet different

Inflation in the current scenario can be considered similar to the one caused during the 2022 Russia-Ukraine war. In the current scenario – consumers are **forced** to pay higher energy and eventually higher food prices (**supply-side inflation**). In 2022 however, inflation was a combination of the post-covid spending boom (demand-pull) + amidst Russia-Ukraine war (supply shock). In response, RBI hiked Repo rate aggressively. Interest rate hikes however, are not very effective in suppressing supply-shock induced inflation, and by nature is built for demand-pull inflation.

Pravia's Insights - Interest rate hikes make it expensive for consumers to spend like they used to – they cut out the excess demand. However, the current crisis is due to a supply-shock induced inflation on the back of strait of Hormuz (**there isn't excess demand in the economy to begin with**). RBI hikes will have limited impact contrary to Russia Ukraine where there was both demand + supply inflation



Source: Investing.com; Pravia Research



The Indian government 10-year bond yield went from 6.16% in May-25 to climbing almost 1% to 7.13% at the start of Apr-26 (just before the US-Iran ceasefire announcement). The 10Y bond yield has followed oil prices closely – with the oil prices almost acting as leading indicators. With Brent now being significantly above previous prices, risk premiums across the globe, including India are increasing – resulting in higher yields.

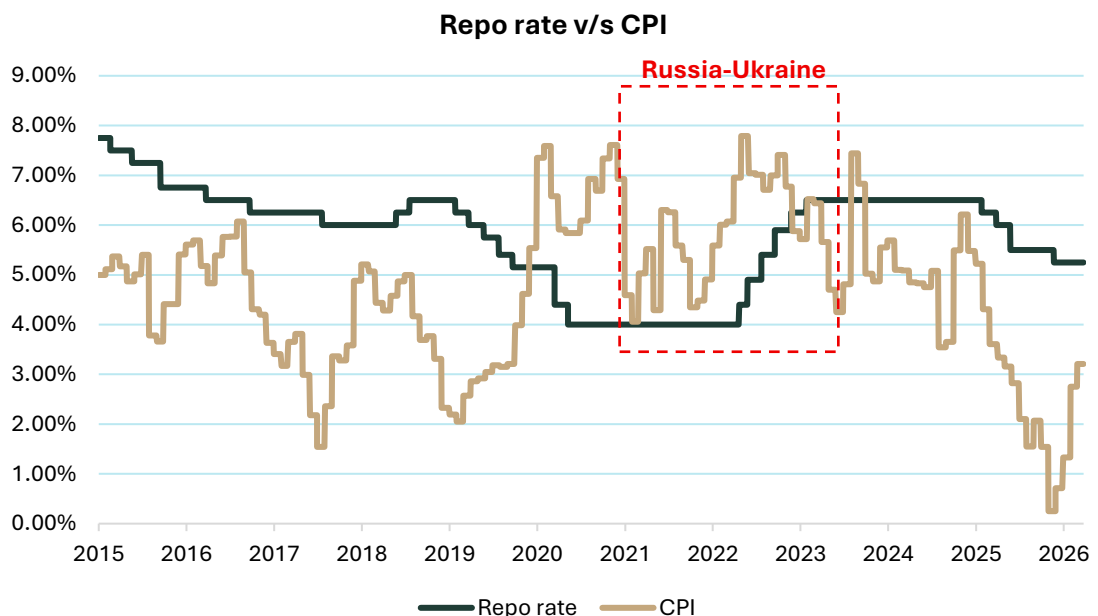
Based on this, we are looking at 3 scenarios:

Scenario A – Repo rates remain status quo/decline (50% probability):

- The government is able to manage the supply shock by diversifying energy sources (Oil & Gas) fast – further reducing dependence on the Strait of Hormuz
- Normal/healthy monsoon season curbs food inflation
- Oil prices decreasing soon creates a scenario of continued increasing growth
- **Bond yields would decrease and risk premium would erode eventually**
- **Risk for Scenario A to not play out: Continued crisis in West Asia beyond 2 months**

Scenario B – Repo rates are increased, but not to the extent of the Russia-Ukraine war (35% probability):

- Since the RBI now has recent experience of handing a similar geopolitical shock, interest rates won't be as volatile as before. This combined with a lower starting point for inflation gives the RBI more time to analyse the situation before acting
- If the USD/INR goes above 96-97 levels and CPI breaches 5.5% for a few consecutive quarters, there might be the risk of rate hikes of 25-50 bps
 - **Bond yields move up in near term and look for further events to play out**



Source: Investing.com; Pravia Research

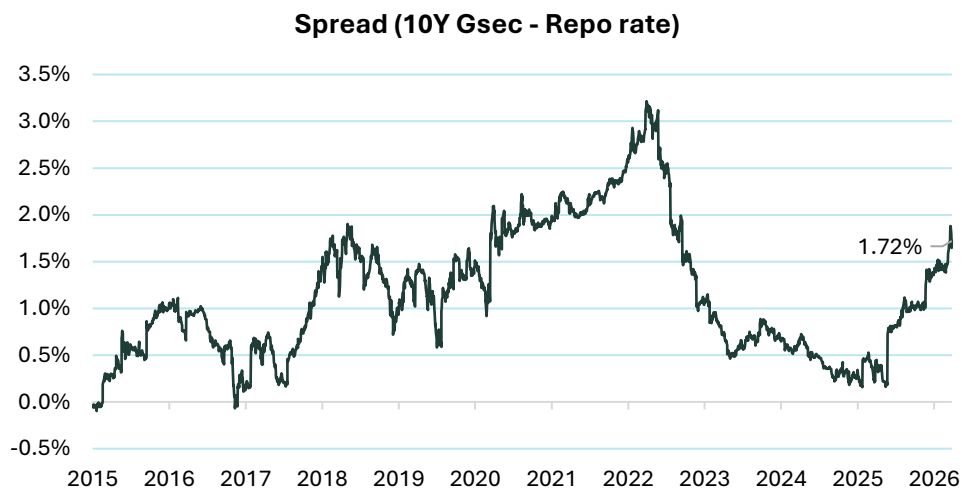


Scenario C – Repo rates are increased substantially + elevated Monsoon Risk (15% probability):

- If the current temporary ceasefire doesn't result into a meaningful final resolution – we risk oil prices to be elevated for longer. Here the focus will shift to the government to step in and help manage the supply side (Energy, Food, Fertilizers etc.)
- This would result in risk premiums to increase further from already elevated levels
- Higher energy prices would hurt the current account and result in increasing deficits
- **Bond yields increase further as investors demand higher rates as compensation for uncertainty**

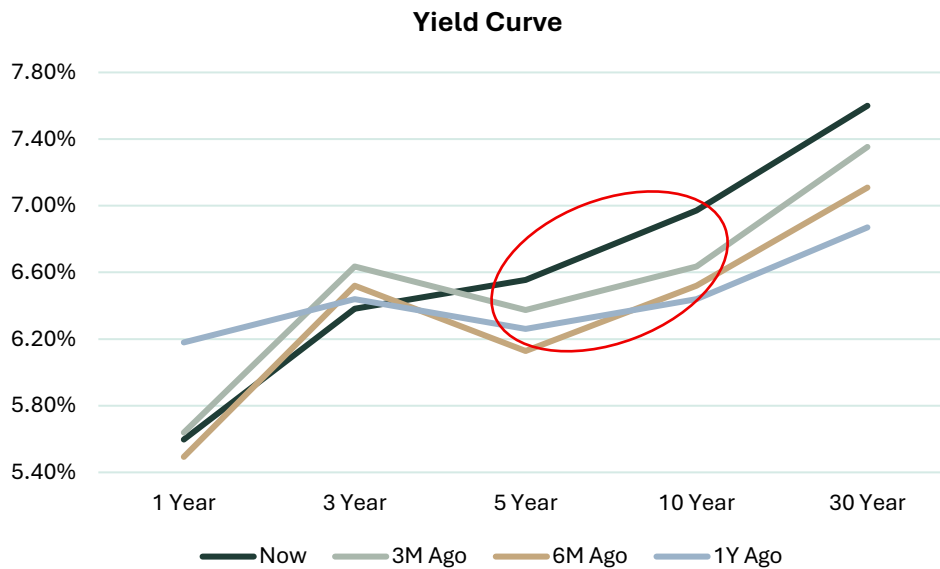
The Spread between the 10Y G-sec and Repo rate elevated to ~3.22% (India 10Y at 7.22% when Repo rate was 4.0%) during the peak of the Russia-Ukraine crisis. This spread is climbing currently as well from the bottom of 0.16%.

If the spread were to increase to 2% (10Y G-sec at 7.25%), we would find it lucrative to start investing aggressively into the long end in a staggered method.



Source: Investing.com; Pravia Research

Investment Implications:



Source: Investing.com; Pravia Research; **Data is as on 09-April-2026**

- **Fixed Income:**
 - **Liquid/Liquid+/Arbitrage funds (0-1 year):** Status quo continues. No effect of the recent rise in interest rates in this duration.
 - **Short-term (1-3 years) and Medium-term (3-5 years):**
 - Currently, the short end of the Yield curve looks favourable due to its steepness. Accrual opportunities are well-placed in this duration
 - The Medium term is however better placed than the short term given rates can fall further and steepened the yield curve
 - We are also opportunistically evaluating bond opportunities in the medium duration as we feel Macros are still comfortably placed
 - **Long-term (5-10 years) and Very Long-term (10+ years):**
 - **While we like this duration, we wait for the 10Y to reach 7.25% and the 30Y to reach 8.00% to begin aggressive staggered allocation**
- **Income plus Arbitrage Funds:**
 - We would like to allocate funds which have a holding period of 2+ years to **Income plus Arbitrage** funds (underlying is a combination of corporate bond funds and arbitrage funds) due to its favourable taxation
 - LTCG if held for >2 years is at 12.5% - same as Equity
- **Hybrid Mutual Funds:**
 - We believe Balanced Advantage funds offer a great opportunity post-2022 to create allocation as both Equity and Fixed Income markets are well placed
 - Since Apr-22 (4 years ago), Balanced Advantage funds as a category have outperformed Nifty 50 by ~0.5% (9.49% vs 9.01% CAGR) – with lower volatility
- **REITs/InvITs:**
 - Can present lucrative opportunities if interest rates remain elevated as rental yields can become attractive

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