

Status quo in line with expectations with balanced guidance

The unanimous MPC decision of keeping rates unchanged was in line with our and consensus expectations ([our Apr'26 policy preview](#)). The MPC also decided to continue with the neutral stance, retaining the flexibility to respond judiciously to incoming information. The policy decision comes against the backdrop of elevated geopolitical tensions, volatile crude oil prices, currency pressures, and emerging supply-side risks, which have introduced greater uncertainty into the macroeconomic outlook. The RBI has projected real GDP growth at 6.9% for FY27, reflecting a moderation from the estimated 7.6% growth in FY26. On the inflation front, the CPI inflation was projected at 4.6% for FY27, with risks tilted to the upside.

Overall, the RBI's baseline outlook reflects a carefully balanced macroeconomic scenario, where growth remains resilient but faces external headwinds, while inflation is expected to remain within the tolerance band but subject to supply-side risks. The central bank has emphasised the need for continued vigilance against second-round effects from imported inflation and geopolitical spill overs, reinforcing a cautious and data-dependent policy approach going forward.

Also, with the focus on macro prudential measures in this policy, we estimate that they are likely favourably impact banking system capital ratios by at least 80-100bps. Hence, RBI is providing pro-cyclical relief, unlocking capital to ensure that banks can support credit flows, maintain profitability, and actively participate in the bond market. This regulatory liberalization complements RBI's broader focus on currency defence and inflation management while signalling confidence in the resilience of India's banking system.

➤ Status quo maintained amid heightened uncertainty

Status quo was maintained amid heightened global and domestic uncertainty, reflecting a cautious and balanced approach to evolving macroeconomic risks. The MPC underscored that while domestic growth fundamentals remain resilient, the external environment has turned increasingly volatile due to geopolitical tensions, elevated commodity prices, and persistent currency pressures. In the post-policy press conference, RBI Governor highlighted that the decision to hold rates was driven by the need to carefully assess the transmission of past policy actions while remaining vigilant to emerging inflationary risks, particularly from imported price pressures and supply-side disruptions. The policy communication emphasized that while growth continues to be supported by strong domestic demand and investment activity, inflation risks remain tilted to the upside, warranting a data-dependent and nimble policy approach in the months ahead.

➤ Growth impulses as of now positive yet risks remain; Upside risks increased for inflation

The MPC highlighted the continuation of strong momentum in economic activity supported by robust private consumption and investment demand. In the post policy press conference also, the Governor has reiterated that the macroeconomic fundamentals are very strong, and the economy is resilient. Duration of the West Asia conflict and resultant damage, however, may add risk to the growth outlook. Elevated crude oil prices on the one hand can increase imported inflation and on the other hand, cause disruptions in energy markets and commodities affecting industry, agriculture and services. While real GDP growth for FY26 is estimated at 7.6% as per the new GDP series (base year 2022-23), the GDP growth rate for FY27 has been projected at 6.9% (UBI: 6.7%) with Q1 at 6.8%; Q2 at 6.7%; Q3 at 7.0% and Q4 at 7.2%. Risks are on the downside due to the ongoing West Asia conflict. On inflation front, RBI Governor has maintained that headline inflation remains contained and below the target, though geopolitical uncertainties have heightened since the last policy meeting. Increased energy price pressures and possible weather disturbances pose upside risks to the inflation outlook. Though petrol and diesel prices remain unchanged so far, few other fuel items have undergone some price increases due to pass through of higher global energy prices. Food price outlook remains comfortable though may face risk from possible emergence of El Nino conditions. Core inflation is still muted as of now but prone to risks arising from supply chain dislocations. MPC has projected CPI inflation for FY27 at 4.6% with Q1 at 4.0%; Q2 at 4.4%; Q3 at 5.2% and Q4 at 4.7%. For the first time, MPC has projected core inflation for FY27 at 4.4%. The risks are on the upside.

As per the Monetary Policy Report-April 2026, RBI projections are based on oil price assumption of \$85 versus \$70 previously. Our headline CPI projections are broadly aligned with RBI at 4.5%. With respect to core CPI, while RBI's projection is 4.4%, our projection is pegged at 3.6% due to following two factors:

- We are simply looking at core ex-food and fuel, while RBI is also excluding fuel and lubricants for personal transport equipment that includes petrol, diesel and other natural gas.
- If we exclude transport from core, our estimate is 3.8%.

Fig 1: Macro projections, Apr'26 vs Feb'26 MPC

RBI MPC's Growth & Inflation Projections				
	GDP		CPI	
	Feb'26*	Apr'26**	Feb'26*	Apr'26**
FY26	7.4	7.6	2.1	-
Q1	6.9	6.8	4.0	4.0
Q2	7.0	6.7	4.2	4.4
Q3	-	7.0	-	5.2
Q4	-	7.2	-	4.7
FY27	-	6.9	-	4.6

*based on old GDP & CPI base year; **on new base 2024

UBI vs RBI MPC Projections				
	GDP		CPI	
	MPC	UBI	MPC	UBI
Q4	-	6.5	-	3.1
FY26	7.6	7.6	-	2.1
Q1	6.8	-	4.0	3.9
Q2	6.7	-	4.4	4.2
Q3	7.0	-	5.2	5.1
Q4	7.2	-	4.7	4.7
FY27	6.9	6.7	4.6	4.5
FY27 Core CPI	-	-	4.4	3.6

Source: CEIC, RBI, UBI Research

- **Regulatory measures: Greater focus on macro prudential measures (all in Draft stage with guidelines to be issued for public feedback)**

Capital adequacy

1. It is proposed to dispense with the condition 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.

Impact on Banking system:

- CRAR ratio is likely to gradually trend closer towards the 20% mark on implementation of these guidelines
 - As on Sep 2025 (latest period for which data is available), Banking system's CRAR and CET-1 ratio stood at 17.21% and 14.77% respectively. We estimate these ratios may rise by at least 80-100bps, assuming that 80% of the Net Profits for 6 months (Apr-Sep 2025) will be added to reserves and further to capital ratios.
 - Accordingly, we expect CET-1 and CRAR ratios to rise to at least ~15.5% and ~18.0%, respectively, at the system level.
2. It is proposed to dispense with the Investment Fluctuation Reserve (IFR) requirement for commercial banks.

On April 8 2026, the RBI announced the removal of the Investment Fluctuation Reserve (IFR) requirement. Previously, banks had to maintain IFR at 2% of their AFS and FVTPL portfolios, transferring profits to this reserve to buffer against market losses. With this change, banks can rely on Basel III-aligned capital adequacy and modern MTM reporting to manage market risks without the structural drag of IFR contributions. RBI has stated that draft amendment directions will be issued for public comments shortly.

The move strengthens banks' core capital by allowing IFR balances, previously counted as Tier 2, to be reclassified to Tier 1 / CET1 (by at least close to 25bps as per our estimate using RBI estimate of banking system FVTPL book of Rs 22.8 lakh crore as of Sep-25, latest period for which data is available). This directly boosts high-quality capital ratios and enhances financial stability. It also frees up profits that were previously locked into the reserve, giving banks more flexibility to offset MTM losses, pay dividends, or support lending. Finally, removing IFR restrictions reduces P&L volatility and simplifies operations.

Impact: Before vs. After

Feature	Under IFR (Sec 105-108)	Post-April 8 Proposal
Capital Quality	Tier 2 Capital	Tier 1 / Free Reserves
Mandatory Transfer	Lower of trading profit or net profit	None - full discretion
2% Portfolio Rule	Must maintain 2% of AFS/FVTPL	Removed
Usage Flexibility	Restricted below 2%	Full discretion by bank

Ease of doing Business (EoDB)

3. Review of matters placed before the Boards of the Banks. Board to focus on policy matters and leave operational issues to Bank management

Impact on Banking system:

- Positive step from EoDB and operational flexibility perspective.
4. To promote ease of doing business for MSMEs and to encourage their greater participation on TReDS, it is proposed to dispense with the requirement of due diligence of MSMEs while onboarding on TReDS platforms.

Impact on Banking system:

- Adopt a Risk Based Onboarding Framework, Replace full due diligence with simplified checks for low risk MSMEs. Applying enhanced checks only for high risk sectors, geographies, or transaction sizes.
- Leverage (digital & API Based Verification) Existing KYC and Regulatory Databases- Allow reliance on KYC already completed by banks / NBFCs under regulatory norms. Central KYC records, GST registration, PAN, and Udyam registration to avoid duplication. (through fintech's aggregators etc)
- Limit Scope of Due Diligence- Restrict checks strictly to identity, legal existence, and basic compliance (Exclude detailed financial, site visits, or extensive background checks at onboarding stage).
- Continuous Monitoring Instead of Upfront heavy due diligence, Transaction level & ongoing monitoring like alerts, red flag indicators, and exception reporting to manage emerging risks.
- Regulatory Clarity on simplified onboarding on TReDS for reliance on platform level checks. Standardised Documentation and Formats for MSME onboarding on TReDS.

RBI's Policy Decision: Comparison of policy statements, April 2026 (paraphrased)

Policy Decision	December 2025	February 2026	April 2026
Repo rate	5.25%	5.25%	5.25%
Stance	Neutral	Neutral	Neutral
Growth Projection	<ul style="list-style-type: none"> FY26 growth forecast was revised up to 7.3% (from 6.8%), with Q3 at 7.0% (earlier 6.4%) and Q4 at 6.5% (earlier 6.2%). GDP growth projections for H1-FY27 are also seen at sub-7% levels, signaling possibility of growth slowdown to below potential levels as statistical effects fade. 	<ul style="list-style-type: none"> The real GDP growth for FY26 is expected at 7.4% (from 7.3% earlier), in line with First Advance Estimates (FAE). Real GDP growth projections for Q1FY27 and Q2FY27 are revised upwards to 6.9% (from 6.7% earlier) and 7.0% (from 6.8%), respectively. However, headwinds from geopolitical tensions, uncertain global trade environment, volatility in global financial markets and international commodity prices continue to pose downside risks to the outlook. 	<ul style="list-style-type: none"> The real GDP growth for FY26 is expected at 7.6% (from 7.4% earlier), in line with 2nd advance estimates (SAE) of the new GDP series. FY27 GDP growth is seen at 6.9% with Q1 at 6.8% (from 6.9% earlier), Q2 at 6.7% (from 7.0% earlier), Q3 at 7.0% and Q4 at 7.2%. However, further escalation of the conflict, its continuation over a wider geographical spread and uncertainty regarding the damage to the energy infrastructure, apart from weather related events, pose downside risks to the domestic growth outlook.
Inflation Projection	<ul style="list-style-type: none"> CPI inflation projections were revised lower for Q3 and Q4 FY26 to 0.6% and 2.9%, respectively (from 1.8% and 4.0% earlier) while Q1 FY27 now seen at 3.9% (from 4.5%) and for Q2 FY27 seen at 4.0% (aligned with MPC's target). FY26 inflation projection was revised dramatically lower to 2.0% from 2.6% with risks evenly balanced. 	<ul style="list-style-type: none"> FY26 inflation projection was revised marginally higher to 2.1% from 2.0% with Q4 at 3.2% (from 2.9% earlier) and risks evenly balanced. Q1FY27 now seen at 4.0% (from 3.9% earlier) and for Q2FY27 seen at 4.2% (from 4.0%). Excluding precious metals, the underlying inflation pressures remain muted. However, geopolitical uncertainty coupled with volatility in energy prices and adverse weather events are possible upside risks to inflation. 	<ul style="list-style-type: none"> FY27 inflation projection is seen at 4.6% with Q1 at 4.0% (same as earlier), Q2 at 4.4% (from 4.2% earlier), Q3 at 5.2% and Q4 at 4.7% (details in table). Oil price is assumed at \$85 for FY27. Core inflation is projected at 4.4% for FY27 and, excluding precious metals, it is even lower indicating that underlying inflation pressures are expected to remain contained. Persistently elevated energy prices due to the West Asia conflict and possible El Niño conditions (which could have a negative impact on southwest monsoon) pose upside risks to inflation.
Liquidity	<p>RBI has decided to conduct the following operations during Dec'25 to inject liquidity into the banking system:</p> <ul style="list-style-type: none"> OMO purchase auctions of G-secs for an aggregate amount of Rs 1 lakh crore in two tranches of Rs 50,000 crore each to be held on 11.12.2025 and 18.12.2025. USD/INR Buy/Sell Swap auction of USD 5 billion for a tenor of three years to be held on 16.12.2025. <p>RBI will continue to monitor evolving liquidity and market conditions and take measures as appropriate to ensure orderly liquidity conditions.</p>	<ul style="list-style-type: none"> RBI will remain proactive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy and to facilitate monetary policy transmission. Liquidity management would be pre-emptive with sufficient allowance for unanticipated fluctuations in govt. balances, changes in currency in circulation, forex intervention, etc. 	<ul style="list-style-type: none"> To ensure sufficient liquidity in the banking system, the RBI proactively undertook durable and transient liquidity measures. Going ahead, the RBI will continue to be proactive and pre-emptive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy.
Policy guidance	<ul style="list-style-type: none"> The guidance was outrightly dovish (<u>after a long gap, last we saw such policy in April</u>) as the MPC further noted that <i>"the growth-inflation balance, especially the benign inflation outlook on both headline and core, continues to provide the policy space to support the growth momentum"</i>. 	<p>The policy guidance was broadly balanced with dovish streaks with Governor clearly asserting that "underlying inflation pressures stay benign (looking at core ex gold inflation at 2.6%)". The external headwinds also warrant caution. Liquidity measures from the RBI will remain in focus in the coming months</p>	<p>The policy guidance was broadly balanced as MPC acknowledged downside risks to growth (FY27 proj: 6.9%) & upside risks to inflation (FY27 proj:4.6%). <i>The economy is confronted with a supply shock. It is prudent to wait and watch the changing circumstances and the evolving growth-inflation outlook.</i></p>

➤ Capital adequacy

- It is proposed to dispense with the condition 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.
- It is proposed to dispense with the Investment Fluctuation Reserve (IFR) requirement for commercial banks.

➤ Ease of doing Business

- Review of matters placed before the Boards of the Banks
- To promote ease of doing business for MSMEs and to encourage their greater participation on TReDS, it is proposed to dispense with the requirement of due diligence of MSMEs while onboarding on TReDS platforms.
- Consolidation of Supervisory Instructions

➤ Development of Money Market

- With a view to further enhance the depth of participation and liquidity in the term money market segment, it has been decided to (a) expand the participant base in the term money market segment to include non-bank participants viz., AIFIs, NBFCs, including housing finance companies, companies, etc.; and (b) enhance the borrowing limit in the term money market for standalone primary dealers.

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank.in
Suneesh K	suneeshk@unionbankofindia.bank.in
Nidhi Arora	nidhiarora@unionbankofindia.bank.in
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank.in
Amit Srivastava	asrivastava@unionbankofindia.bank.in
Jovana Luke George	jovana.george@unionbankofindia.bank.in
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank.in
Akash Deb	akash510@unionbankofindia.bank.in
Rohit Yarmal	rohitdigambar@unionbankofindia.bank.in
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank.in

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