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EDITORIAL ANALYSIS

RBI's Neutral Stance — Monetary Policy Caught Between Oil Shock and Growth Imperative

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CONTEXT

The **Business Standard editorial** assesses the **RBI Monetary Policy Committee's (MPC) April 2026 decision** to hold the repo rate at **5.25% with a neutral stance** — pausing after 125 basis points of cumulative cuts since February 2025. The editorial argues that the **West Asia conflict's oil price spike** (Brent crude above $100/barrel) has fundamentally changed the policy calculus, making further easing imprudent even as growth headwinds persist. It examines the fine balance the MPC must navigate through FY27.

THE EDITORIAL ARGUMENT

1. The Oil Shock Changes Everything

The April 2026 MPC meeting took place against a dramatically changed global backdrop from the February 2026 cut:

- **Brent crude crossed $105/barrel** following Iranian retaliatory strikes on Gulf Arab infrastructure
- India's crude oil import bill is projected to exceed **$180 billion in FY27** — a $35 billion increase from FY26
- The **rupee has weakened to Rs 95/$** — imported inflation via oil and manufactured goods

Under these conditions, cutting rates would:

- Widen the **interest rate differential** with other central banks (Fed funds rate remains a
- Accelerate **capital outflows** by institutional investors seeking higher returns elsewhere
- Weaken the rupee further, amplifying imported inflation

2. The Growth vs. Inflation Dilemma

The editorial acknowledges that the growth picture is softening:

- Morgan Stanley cut India's FY27 GDP forecast by 30 basis points to **6.2%**
- Q1 FY27 estimated at **5.9% YoY** — below the FY26 average of 6.8%
- **Current Account Deficit** is widening to ~2.5% of GDP due to oil import costs

Yet the editorial supports the hold decision, arguing that:

- Growth at 6.2% remains "respectable and above potential" — the MPC's mandate is price stability, not growth maximisation
- CPI inflation is projected to average **5.1% YoY** in FY27 — within the 2-6% tolerance band but above the 4% target
- Premature rate cuts would risk **inflation expectations becoming unanchored** — undoing two years of credibility-building

3. The Case for "Flexible Inflation Targeting"

The editorial defends the **Flexible Inflation Targeting (FIT) framework** — which targets CPI inflation at 4% with ±2% band — as the correct institutional structure for India's current challenge. It notes that:

- The RBI is not mechanically inflation-targeting — "flexible" allows it to weigh growth in its decisions
- The neutral stance preserves optionality: if oil prices moderate (Iran ceasefire scenario), cuts can resume in June
- If oil prices escalate (Iran blockade of Hormuz scenario), the MPC may need to pivot to rate hikes to defend the rupee

4. What to Watch

The editorial highlights four indicators that will determine the June 2026 MPC decision:

1. **Brent crude trajectory** — if it falls below $90 on conflict de-escalation, June cut becomes possible
2. **Monsoon onset** — a good monsoon reduces food inflation pressure
3. **Federal Reserve signals** — if Fed cuts in June, differential narrows and INR strengthens
4. **CPI print for April-May** — determines if the 5.1% average forecast is tracking correctly

KEY RATE PARAMETERS

PARAMETER	CURRENT LEVEL
Repo Rate	5.25% (unchanged)
SDF (Standing Deposit Facility)	5.00%
MSF (Marginal Standing Facility)	5.50%
CRR	Unchanged
Policy Stance	Neutral
Cumulative cuts (Feb 2025–Feb 2026)	125 basis points
CPI inflation target	4% (±2% band: 2–6%)

UPSC RELEVANCE

GS Paper 3 — Economy

- **Monetary policy** — MPC composition, repo rate, transmission mechanism
- **Flexible Inflation Targeting (FIT)** — Article 45ZA (RBI Act), 4% CPI target
- **Oil shock and monetary policy** — imported inflation, current account deficit
- **India-West Asia energy nexus** — vulnerability of India's monetary policy to external shocks

Mains Angle

"Rising crude oil prices from the West Asia conflict present the RBI with a classic trilemma between managing inflation, supporting growth, and defending the rupee. Critically analyse." (GS3)

FACTS CORNER

ITEM	FACT
Repo rate	5.25% (unchanged, April 2026)
Policy stance	Neutral
Cumulative cuts since Feb 2025	125 basis points
Brent crude (April 2026)	>$100/barrel (Iran conflict impact)
USD/INR rate	~Rs 95/$
Morgan Stanley FY27 GDP	6.2% (revised down 30 bps)
Estimated CPI FY27	5.1% YoY average
CAD projection FY27	~2.5% of GDP
FIT framework	Article 45ZA, RBI Act — CPI 4% ± 2%
US Fed funds rate	4.5% (differential with India rate: +75 bps)

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