February 06, 2026

In an expected move, the Monetary Policy Committee (MPC) decided to keep the policy repo rate unchanged at 5.25% and retained the '*neutral*' policy stance. While the decision to keep repo rate unchanged was unanimous, one out of six members voted for stance to be changed to '*accommodative*' from '*neutral'*.

The Committee noted that the "*outlook for CPI inflation in Q1 and Q2FY27 continues to be benign and near the inflation target"* due to favourable outlook on food inflation and range-bound core inflation. The Committee was of the view that given the prevailing macroeconomic conditions, current policy rate was *appropriate*.

The RBI indicated that it will be data dependent from hereon and in this sense the new series on CPI and GDP (both scheduled to be launched in February 2026) will have a bearing on the *future course of monetary policy*.

On Growth: The RBI highlighted that the global growth showed *remarkable resilience* in CY25 which was driven by trade front loading, less impact of tariffs than earlier anticipated and fiscal stimulus. However, it warned that fiscal strains and geopolitical uncertainty has kept financial markets volatile and could be a potential risk going forward.

GDP Growth (%)	Dec-25E	Feb-26E
Q3FY26	7.0	
Q4FY26	6.5	
FY26	**7.3**	**7.4***
Q1FY27	**6.7**	6.9
Q2FY27	**6.8**	**7.0**

Source: RBI; * according to First Advance Estimates (FAE)

On domestic front, RBI mentioned that FY26 growth is likely to be 7.4% YoY (FY25: 6.5%) according to Government's First Advance Estimates (FAE) and growth this year was supported by strong private consumption and fixed investments. GDP growth rate for Q1 and Q2FY27 was raised by 20bps each compared to December policy review. This optimism is based on steps taken by both the Government and the RBI such as GST rationalisation and monetary easing. Furthermore, trade pacts with several countries especially that with EU and US bode well from external demand perspective and could provide fillip to growth going forward. However, the RBI cautioned that still uncertain global trade environment and volatility in financial and commodity markets pose risks to growth outlook. Since the new GDP series is scheduled to be released from this month onwards, the RBI mentioned that the full year growth projections for FY27 will now be available in April policy review using the new GDP series.

On Inflation: The RBI indicated that overall inflation remains benign with food group in continued deflation mode and subdued core inflation despite flare up in precious metals prices. Going forward, healthy kharif production and prospects of favourable rabi production bode well for food inflation and ex of precious metals, core inflation is also likely to remain range bound. However, RBI noted that CPI inflation trajectory will be subject to unfavourable base effect in Q4FY26 which may lead to uptick in YoY inflation even if underlying momentum remains muted. Consequently, headline inflation for Q4FY26 is now projected at 3.2% (2.9% earlier) with FY26 average inflation now projected at 2.1% (2% earlier).

CPI (%)	Dec-25E	Feb-26E
Q3FY26	0.6	0.8*
Q4FY26	2.9	3.2
FY26	2.0	2.1
Q1FY27	**3.9**	4.0
Q2FY27	**4.0**	**4.2**

Source: RBI, *Actual

CPI inflation for Q1 and Q2FY27 was raised by 10 and 20bps to 4% and 4.2% respectively. Since the new CPI series is scheduled to be released from this month's onwards, the RBI mentioned that the full year CPI projections for FY27 will now be available in April policy review using the new CPI series

Conclusion and Outlook

The RBI's decision to keep the policy rate and stance unchanged was on expected lines. Though RBI has indicated that it will remain data dependent from hereon, the upgrade in forecast for both inflation and growth suggests that the RBI is likely to go on a long pause. The RBI's assurance that it 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'* bodes well from yields perspective, especially at the short end

In our view, medium term outlook on Indian fixed income market remains favorable, considering:

- Government commitment to fiscal consolidation path in recent budget
- Benign inflation outlook which is likely to persist and average near RBI's target of 4% in H1FY27
- Liquidity is likely to be in ample surplus in the coming few months in view of constant assurance by RBI governor to maintain sufficient surplus to meet the real economy needs.
- Key trade deals especially with US and EU likely to improve sentiments and lead to higher capital inflows
- Higher than budgeted flows from small savings schemes can lead to lower borrowing calendar than expected

Key Risks to the Favourable Outlook:

- Weather related uncertainty leads to rise in food prices
- Growth surprises on the upside especially after trade deals with the US and EU
- Flare up in geopolitical tensions leads to further rise in commodity prices

Overall, in our view, post fiscal year end, yields on the shorter end are likely to have a downward bias as RBI ensures sufficient liquidity, inflation remains close to target and Government expenditure at the end of the fiscal year augments liquidity. Also, after the recent rise in money market rates, medium term CD / bond yields are trading at attractive spreads over the policy repo rate/Gsec. Hence, investment in to 1-4 years duration category schemes appears to be a good investment opportunity.

Glossary	
BPS	Basis points (1 bps = 0.01%)
CPI	Consumer Price Index
CAD	Current Account Deficit
CRR	Cash Reserve Ratio
GDP	Gross Domestic Product
LCR	Liquidity coverage ratio
MSF	Marginal Standing Facility
PMI	Purchasing Manager Index
RBI	Reserve Bank of India
SDF	Standing Deposit Facility
SLR	Statutory Liquidity Ratio
AE	Advanced Economies
GST	Goods and Services Tax

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