August 05, 2026

The Monetary Policy Committee (MPC) unanimously decided to keep the policy repo rate unchanged at 5.25% and retained the 'neutral' policy stance.

The Governor noted that *the West Asia conflict continues to pose challenge to global economy by disrupting supply chains and depressing business sentiments.* However, he stressed on the fact that despite heightened external uncertainty, India's growth has been resilient supported by sustained expansion in both manufacturing and services activity and although inflation is expected to rise from hereon its primarily because of supply side pressure rather than sustained demand pressure.

On Growth: The RBI noted that high frequency indicators for India points towards robust demand conditions in Q1FY27. Furthermore, it highlighted that merchandise exports have rebounded sharply in Q1 complementing already strong services exports which should also support growth going forward. However, it also highlighted that renewed *tensions in West Asia, volatility in international financial markets, and weather-related shocks* pose downside risk to growth from hereon. Taking all this into consideration, GDP growth for FY27 has been revised up by 10bps to 6.7% (from 6.6% in the previous policy) with risks evenly balanced.

GDP Growth (%)	Jun-26E	Aug-26E
Q1FY27	6.6	7.0
Q2FY27	6.3	6.4
Q3FY27	6.5	6.5
Q4FY27	6.8	6.8
FY27	**6.6**	**6.7**
Q1FY28	NA	7.3

Source: RBI

On Inflation: The RBI indicated that the recent uptick in inflation was on expected lines and driven primarily by food and fuel and that there is no evidence of inflation getting generalised with core inflation ex of precious metals remaining subdued. However, it highlighted that El Nino and its effect on monsoon coupled with volatile oil prices remain key risks to inflation going forward. Taking all this into consideration CPI inflation for FY27 was revised down to 5.0% (from 5.1% earlier). Core inflation (excluding food and fuel) for FY27 was also revised down to 4.3% (from 4.7% earlier). The RBI also pointed out that core inflation (ex of precious metals) which has been 2.5% in June, will slowly gravitate towards core inflation.

CPI (%)	Jun-26E	Aug-26E
Q1FY27	4.2	3.9*
Q2FY27	5.1	4.7
Q3FY27	5.9	5.9
Q4FY27	5.4	5.5
FY27	**5.1**	**5.0**
Q1FY28	NA	5.3

Source: RBI. *Actuals

Conclusion and Outlook

The policy decision by MPC was on expected lines. The fixed income markets had rallied before the policy announcement on the back of the constructive news on a potential deal between US and Iran and resultant fall in crude oil prices. Post the policy, yields traded in a narrow range.

Going into the policy, the response to recent measures by the Government and the RBI to attract capital flow has been quite encouraging. Since the measures were announced in June, inflows under the FCNR(B) scheme have been significantly stronger than expected, and FPI participation has turned positive, led primarily by the debt segment. With two months still left for the FCNR(B) scheme, we remain optimistic that inflows may exceed market expectations. While the non-inclusion of G-secs in the Bloomberg indices was a temporary setback, the prospects for inclusion remain strong.

Going forward, while the geo-political uncertainty persists, we believe outlook on Indian fixed income market is positive as:

- Inflation is likely to remain within the tolerance band despite adverse base effects and prospect of below normal monsoon which reduces risk of rise in policy rates. Moreover, as highlighted in the policy there is no evidence of inflation getting generalized beyond food and fuel.
- Measures to attract capital flows should help ease pressure on INR, improve liquidity and moderate credit to deposit ratio of banks
- Fall in oil prices bode well from inflation, CAD and BoP perspective
- Liquidity is likely to be in surplus in the coming months in view of likely increased foreign flows due to steps taken by the RBI.
- Supply and demand dynamics for SLR is favourably placed in view of likely revival of demand from Banks (due to lower SLR holding) and Pension funds.
- Risk of fiscal slippage has diminished due to fall in crude oil and fertilizer prices

Key risks to the favourable outlook

- Elongation of conflict in West Asia leading to disruption of supply chain and significant and sustained rise in crude oil prices
- El Nino conditions in FY27 leading to large deficiency in southwest monsoon and uptick in food and overall inflation

Overall, the combination of stable growth–inflation dynamics, a strengthening external sector, and a positive outlook for foreign flows and liquidity - bodes well for fixed income markets from a medium to long-term perspective. Given current corporate bond yields and expectations of supportive liquidity conditions, we anticipate a gradual softening of yields. Additionally, with the G-sec yield curve remaining steep, the long end appears well positioned, making this an opportune time to consider increasing allocations to long-duration debt funds in line with one's risk appetite.

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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