

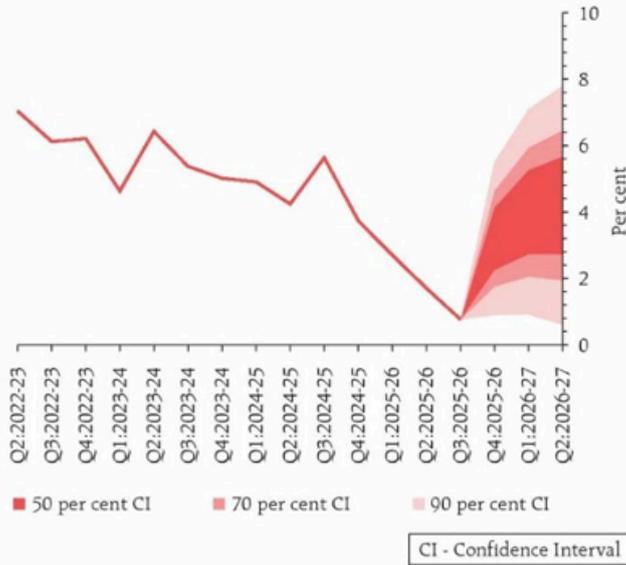
MPC Policy February 2026



MPC delivers a Status Quo policy; Re-iterates commitment to Liquidity Support

The Monetary Policy Committee (MPC), in its February meeting, kept rates unchanged at 5.25% (unanimously voted). Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) remains at 5.00% and the marginal standing facility (MSF) rate and the Bank Rate at 5.50%. The Cash Reserve Ratio (CRR) stands at 3%. Policy stance remains unchanged at "neutral", reflecting a balanced approach in response to the evolving domestic growth inflation dynamics and ongoing geopolitical uncertainties. The MPC noted that given domestic macroeconomic conditions and the outlook ahead, the current policy rate is appropriate.

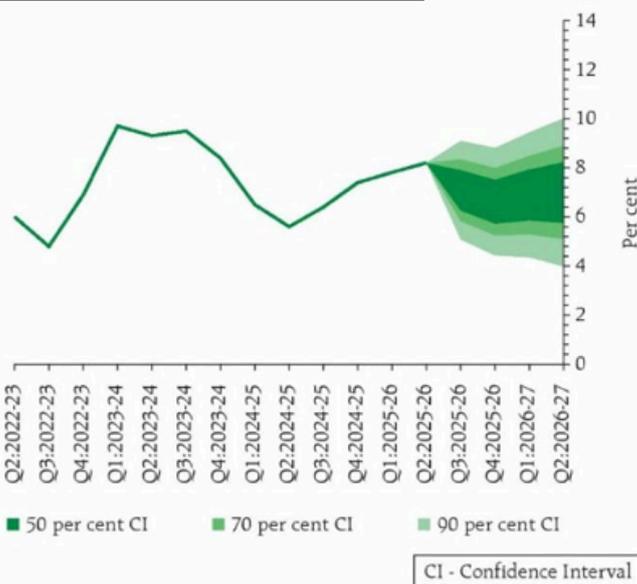
Assessment & Outlook on Inflation:



Headline CPI inflation remained subdued in November and December, while core inflation stayed benign despite higher precious metal prices. Excluding gold, core inflation was stable at 2.6% in December. Looking ahead, food supply conditions are expected to remain favourable, keeping core inflation largely range bound, barring volatility from precious metals. However, geopolitical risks, energy price fluctuations and adverse weather events remain key upside risks. Headline inflation is likely to see a temporary uptick in Q4 FY26 due to unfavourable base effects, even as underlying price momentum stays muted.

Against this backdrop, RBI has marginally revised its FY26 CPI inflation forecast to 2.1% (from 2.0%), with Q4 FY26 at 3.2% (up from 2.9%). CPI inflation for Q1 FY27 and Q2 FY27 is estimated at 4.0% and 4.2%, respectively (up from 3.9% and 4.0%).

Assessment & Outlook on Growth:



High-frequency indicators point to sustained growth momentum into Q3 FY26 and beyond. Strong services activity, GST rationalisation, healthy rabi prospects, monetary easing and benign inflation should support private consumption and spur fresh private-sector investment.

Services exports are expected to remain resilient, while merchandise exports could benefit from the prospective US trade deal. The comprehensive EU trade pact, alongside agreements with New Zealand and Oman, should aid export diversification and strengthen the external sector.

Given this backdrop, real GDP growth has been revised upwards to 7.4% (from 7.3%) for FY26. GDP for Q1 and Q2FY27 has been revised upwards to 6.9% and 7.0% respectively (from 6.7% and 6.8%).

System liquidity, as measured by the net position under the liquidity adjustment facility (LAF) stood at a surplus of ₹0.7 lk cr (since the last MPC in Dec'25). The RBI undertook several measures to provide durable liquidity in Dec & Jan (OMO purchases amounting to ₹3.5 lk cr and long-term forex buy/sell swap auction of USD 15.1 bn). Based on assessment of systemic liquidity and its outlook, the RBI undertook further durable liquidity augmenting measures in the second half of Jan & Feb-26 (additional OMO purchase auctions amounting to ₹1 lk cr, long term forex buy/sell swaps of \$10bn, 90-day VRR operation of ₹0.25 lk cr and a second 90-day VRR operation of ₹1.115 lk cr). Money market rates, especially for CPs and CDs tightened in Jan (i) moderation in surplus liquidity; (ii) excess supply from bunching of redemptions in CPs and CDs in January; and (iii) year-end seasonal effects. G-sec yields, mirroring global trends, have continued to harden over the last eight months due to a host of factors (10 Year G-sec hardened to 6.65% in Feb from 5.52% in Dec). There were no new steps announced by the RBI even as the forward guidance on liquidity was strengthened.

India's merchandise export grew by 1.9% whereas merchandise import grew by 7.9% (y-o-y) in Q3FY26, thereby increasing the trade deficit to \$91.5bn. Robust services exports (up 7.5%) and healthy inward remittance receipts (10.7% increase) would keep India's current account deficit for the current year moderate and sustainable.

Moreover, India's proactive efforts in pursuing bilateral and regional trade agreements with major trading partners are expected to boost international trade and investment, diversify trading partners and integrate India into global value chains. Gross FDI to India grew at 16.1% (Apr to Nov). India continues to remain an attractive FDI destination for greenfield projects (Top FDI projects this year - Amazon, Microsoft, Google, MUFG Bank and Hynfra). FPI to India so far however recorded net outflow of \$5.8bn (\$7.5bn outflow from equity segment while \$1.7bn inflow into debt). As on 30th Jan, India's forex reserves stood at \$723.8bn, providing a robust merchandise import cover of more than 11 months. Overall, India's external sector remains resilient.

System-level financial parameters related to capital adequacy, liquidity, asset quality and profitability of Scheduled Commercial Banks (SCBs) and NBFCs continue to remain robust. The outstanding credit and deposit for SCBs increased by 14.5% and 12.7% on a y-o-y basis as on Dec-25. Credit grew at 13.8% (y-o-y), as compared to 11.6% (y-o-y). Bank credit growth too recorded an uptick in recent months (13.1%).

Key Additional Measures Announced:

1. Empowering Customers – Three draft guidelines issued relating to mis-selling, recovery of loans & engagement of recovery agents and on limiting liability of customers in un-authorized electronic banking transactions.
2. Advancing financial inclusion and flow of credit - The limit of ₹10 lk for collateral-free loans to MSMEs is proposed to be increased to ₹20 lk. Proposed to allow banks to lend to REITs with certain prudential safeguards.
3. Strengthening UCBs - Raising the financial limits on unsecured loans and loans to nominal members by UCBs.
4. Promoting Ease of doing business for NBFCs - NBFCs having no public funds and customer interface, with asset size not exceeding ₹1000 cr, are proposed to be exempted from the requirement of registration.
5. Deepening financial markets - Propose to issue the regulatory framework for derivatives on corporate bond indices and total return swaps on corporate bonds.

Rate transmission of the recent policy actions has been excellent with weighted loan rates having come off by ~105bps. Inflation forecast mean reverting to 4% basis RBI forecasts suggests RBI might want to be a lot more data dependent going forward before resorting to incremental rate action. External volatility will continue to shape market expectations, and we prefer a dynamic and continuously reassessed approach to debt investments. As outlined in the Budget, higher borrowings will weigh in on market sentiment and will keep pressure on yields which in our view is negative for duration play.

Deployment Strategy:

Investors should continue to allocate upto 45% of fixed income portfolio towards accrual-oriented strategies (upto 3yr average maturities). Consequently, they should maintain allocation to dynamic / long duration strategies upto 20% of fixed income portfolio. Credit environment continues to remain stable, and credit spreads remain attractive. Thus, balance 35% allocation of fixed income portfolio is suggested towards high yielding assets (via bonds /funds).

Debt Market Yields & Spreads (Key Tenors):

| Tenor | Peak Repo Rate | | | | Rate Cut | | | Rate Pause | | Rate Cut | Rate Pause | Spread |
|-----------|----------------|--------|--------|--------|----------|--------|--------|------------|--------|----------|------------|-------------|
| | Feb-23 | Oct-23 | Feb-24 | Oct-24 | Feb-25 | Apr-25 | Jun-25 | Aug-25 | Oct-25 | Dec-25 | Feb-26 | (K-A) (bps) |
| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) | (K) | |
| Repo | 6.50% | 6.50% | 6.50% | 6.50% | 6.25% | 6.00% | 5.50% | 5.50% | 5.50% | 5.25% | 5.25% | -125 |
| 3Y G-Sec | 7.39% | 7.34% | 7.00% | 6.75% | 6.69% | 6.23% | 6.23% | 5.97% | 5.88% | 5.75% | 6.11% | -128 |
| 10Y G-Sec | 7.34% | 7.35% | 7.08% | 6.87% | 6.62% | 6.45% | 6.23% | 6.39% | 6.54% | 6.48% | 6.71% | -63 |

Source: Bloomberg, RBI

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