



# MPC KEEPS RATES UNCHANGED: SIGNALS COMFORT ON INFLATION, CONFIDENCE ON GROWTH

## MPC STAYS THE COURSE AS DOMESTIC MACRO HOLDS FIRM

The MPC **kept the repo rate unchanged at 5.25%** and **retained a neutral stance**. The decision reflects confidence in domestic macro conditions amid rising global uncertainty. Policy rates across the corridor were left unchanged.

## BENIGN INFLATION KEEPS GROWTH IN THE DRIVER'S SEAT

Headline inflation remains **benign in the near term** and is projected to stay close to target through early FY27. The upward revision to inflation projections for FY27 is largely attributed to **precious metal prices**, not broad-based pressures.

Food inflation risks are contained due to healthy agricultural output, buffer stocks and favourable rabi prospects. Core inflation is expected to remain range-bound.

Inflation dynamics remain supportive of growth-oriented policy. The RBI assessed the inflation–growth balance as **favourable**. Growth momentum remains strong, supported by consumption, investment and services activity, while inflation remains well below the tolerance band.

This combination provides policy space to **prioritise growth without compromising inflation credibility**.

RBI Projections		April MPC	June MPC	Aug MPC	Oct MPC	Dec MPC	Feb MPC
Inflation	FY 25-26	4.00%	3.70%	3.10%	2.60%	2%	2.10%
	Q3	3.80%	3.90%	3.10%	1.80%	0.60%	
	Q4	4.40%	4.40%	4.40%	4.00%	2.90%	3.20%
	Q1 FY 27	-	-	4.90%	4.50%	3.90%	4.00%
	Q2 FY27					4.00%	4.20%
Growth	FY 25-26	6.50%	6.50%	6.50%	6.80%	7.30%	7.40%
	Q3	6.60%	6.60%	6.60%	6.40%	7%	
	Q4	6.30%	6.30%	6.30%	6.20%	6.50%	
	Q1 FY 27	-	-	6.60%	6.40%	6.70%	6.90%
	Q2 FY27					6.80%	7.00%



## OUR OUTLOOK: POLICY TRADE-OFFS AHEAD

- System liquidity has improved since Dec 2025 due to RBI's sizable durable liquidity injections (~₹6.3 trillion). This, combined with expected easing of factors like government cash balances, CIC leakage, and Foreign Exchange (FX)-related outflows, reduces the need for additional liquidity support. G-sec yields have risen modestly post-policy due to the absence of new infusion measures.
- An upcoming CPI base-year revision (to 2024) by Ministry of Statistics and Programme Implementation (MoSPI) adds uncertainty. Expected changes in expenditure weights—lower food, higher core—may structurally lift headline CPI even without underlying price pressures. Against this backdrop, RBI is likely to proceed cautiously.
- Liquidity conditions are set to improve as FX intervention stabilizes. Lower intervention will lessen rupee absorption, reducing the need for OMOs. Recent liquidity measures (~₹2 trillion injected) have helped normalize money-market conditions, with tri-party repo rates slipping below the Standing Deposit Facility (SDF) rate. System liquidity is trending toward 1% of Net Demand and Time Liabilities (NDTL).



## RATE VIEW

With around **125 bps** of cumulative easing already delivered, the RBI is expected to hold rates at least until the first half of FY27. The terminal repo rate is effectively seen near **5.25%**, consistent with a forward-looking real rate of **1.25–1.5%**, assuming inflation averages above 4% in early FY27. Given recent easing, uncertain inflation dynamics, and global policy shifts, the threshold for further cuts remains high.

Bond market bearishness driven by structural and cyclical factors is likely to persist through FY26, keeping the 10-year yield in the **6.60–6.75%** range. FY27 may bring curve flattening, but risks point to bear-flattening. Structural constraints, unless addressed, may keep yields elevated for longer.

Source: RBI Governor's speech, Internal analysis. || Data as on 6<sup>th</sup> Feb 2026.

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**