

# SPECIAL UPDATE

## Monetary Policy

Feb 06 ,2026

### Monetary Measures

- Monetary Policy Committee (MPC) voted unanimously to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.25 per cent.
- Consequently, the standing deposit facility (SDF) rate remains at 5.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate remains at 5.50 per cent.
- The MPC also decided to continue with the neutral stance.

### Analysis & Outlook

- **Inflation:** Headline CPI inflation remained low at 0.7 per cent in November and 1.3 per cent in December, 2025. While food group continued to be in deflation, inflation within the fuel group remained moderate in November 2025 and December 2025. Core inflation (CPI excluding food and fuel) too remained benign, despite the pick up in prices of precious metals. Excluding gold, core inflation remained stable at 2.6 per cent in December 2025. Near-term outlook suggests that food supply prospects remain bright on the back of healthy *kharif* production, adequate buffer stocks of foodgrains and favourable *rabi* sowing. Core inflation, barring potential volatility induced by prices of precious metals, is expected to be range-bound. Geopolitical uncertainty coupled with volatility in energy prices and adverse weather events are other possible upside risks to inflation. In terms of headline inflation trajectory, unfavourable base effects stemming from large decline in prices observed in Q4:2024-25 could lead to an uptick in y-o-y inflation in Q4:2025-26, despite the anticipated momentum being muted. Considering all these factors, CPI inflation for 2025-26 is now projected at 2.1 per cent with Q4 at 3.2 per cent. CPI inflation for Q1:2026-27 and Q2 are projected at 4.0 per cent and 4.2 per cent, respectively. Excluding precious metals, the underlying inflation pressures remain muted. The risks are evenly balanced
- **Growth:** The global economy showed remarkable resilience in 2025, aided and supported by trade front-loading, a milder-than-anticipated impact of tariffs, broad fiscal stimulus and accommodative monetary policy. Inflation is on a path of gradual decline, although it remains above target in several advanced economies. US yields are trading with an upward bias amidst receding expectations of imminent rate cuts underpinned by firm economic data. Equities, supported by sustained investment in tech stocks, have advanced, even as fiscal strains, geopolitical uncertainty and monetary policy divergence continue to impart volatility to financial markets. On the domestic front, real gross domestic product (GDP), as per the First Advance Estimates (FAE), is estimated to grow at 7.4 per cent (y-o-y) in 2025-26. Private consumption and fixed investment contributed significantly to overall growth. Net external demand, however, continued to be a drag, with imports outpacing exports. On the supply side, real GVA growth of 7.3 per cent is driven by buoyant services sector, resilient agricultural sector and revival in manufacturing activity. Looking ahead, sustained buoyancy in services sector, GST rationalisation, healthy *rabi* prospects, monetary easing and benign inflation environment expected support private consumption. Investment activity, supported by high capacity utilisation, conducive financial conditions, healthy balance sheets of financial institutions and corporates, robust credit growth and Government's continued thrust on capital expenditure, is expected to maintain its momentum. Moreover, robust domestic demand is likely to attract fresh investments by the private sector. While services exports are expected to remain strong, merchandise exports may get a boost from the prospective trade deal with the US. The landmark comprehensive trade pact with the European Union coupled with trade deals with New Zealand and Oman expected to help diversify exports and strengthen the external sector. On the other hand, headwinds from geopolitical tensions, uncertain global trade environment, volatility in global financial markets and international commodity prices continue to pose downside risks to the outlook.

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Taking all these factors into consideration, real GDP growth projections for Q1:2026-27 and Q2 are revised upwards to 6.9 per cent and 7.0 per cent, respectively. The risks are evenly balanced.

- Liquidity: Going ahead, the Reserve Bank 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. Liquidity management would be pre-emptive with sufficient allowance for unanticipated fluctuations in government balances, changes in currency in circulation, forex intervention, etc.
- Yields in the short tenor ( 1 to 3 year) rose by around 3-5 bps from yesterday's close at the time of writing. Yields in the longer tenor rose by around 5bps from yesterday's close at the time of writing

### Position of Funds

#### Duration funds:

- The absolute yield levels are relatively attractive from a medium to long-term investment horizon. Therefore, it represents a good opportunity for investors to invest in fixed income duration funds with a medium to long-term horizon.
- However geopolitical risks remain key risks. Markets may remain volatile in the near term.

**Money market funds:**The yields at the shorter end of the curve will move in tandem with the liquidity in the system. The short-end rates are expected to be anchored around the repo rate.

**Source: RBI Monetary Policy (Feb 2026)**

### MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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