

February 06, 2026



Vikas Garg
Head – Fixed Income



As expected, it was a non-event policy, with the RBI maintaining the status quo on both policy rates and stance. The RBI revised Q1/Q2 FY27 GDP estimates upward, supported by robust commentary on domestic factors and recent tariff related trade agreements. Q1/Q2 FY27 inflation projections were also revised slightly higher, though nothing concerning. Full year FY27 projections will be released in the April policy, incorporating the revised CPI and GDP series.

While the Governor reiterated a pre-emptive approach to liquidity management, the absence of specific announcements on additional liquidity measures disappointed the market. The current growth inflation dynamics suggest that the present rate cut cycle may have come to an end, unless growth surprises negatively. For now, we expect an extended pause in policy rates. However, the RBI may continue to infuse durable liquidity through OMOs to aid better rate cut transmission, particularly in the short tenor segment.

Key decisions/Highlights



Repo rate Unchanged

- Policy repo rate kept unchanged at 5.25%
- Standing Deposit Facility (SDF) rate at 5.00%
- Marginal Standing Facility (MSF) rate and the Bank Rate remains at 5.50%.



Policy stance retained as Neutral

- MPC voted with a majority of 5 out of 6 members to retain the monetary policy stance as Neutral



FY26 Real GDP projected at 7.4%

- FY26 projection at 7.4% (up from 7.3%)
- Q4FY26 at 6.5%
- Q1FY27 at 6.9% (up from 6.7%)
- Q2FY27 at 7.0% (up from 6.8%)



CPI projected at 2.1% for FY26

- FY26 projection at 2.1% (up from 2.1%)
- Q4FY26 at 3.2% (up from 2.9%)
- Q1FY27 at 4.0% (up from 3.9%)
- Q2FY27 at 4.2% (up from 4.0%)

RBI maintains the status quo; as expected...

After a 25 bps rate cut in the previous policy meeting in December, which cumulatively added up to 125 bps in the current rate cycle, it was expected that the RBI would maintain the status quo. There were no surprises in the latest policy meeting as the RBI decided to keep policy rates unchanged. The MPC also maintained its neutral policy stance (voted by a 5-to-1 majority) on the back of resilient economic growth and marginally higher revisions in inflation projections from low levels. It noted that though external headwinds remain, successful completion of trade deals augurs well for future economic outlook.

The MPC also noted that CPI inflation has remained below the lower tolerance band of 2% in recent months. Though revised marginally higher, the inflation outlook for the first two quarters of FY27 continues to be benign and very close to the inflation target. On the growth front, the outlook is favourable and the FY26 growth estimate indicates continuing momentum amidst a challenging external environment. Overall, the near-term domestic inflation and growth outlook remains positive.

The RBI has deferred the projections for the full year 2026-27 to the April 2026 monetary policy after incorporating the new GDP and CPI series (base 2024) which is expected to be released later this month. The new series is likely to incorporate methodological changes, improved data collection and revised weights. Going forward, the MPC will be guided by the evolving macroeconomic conditions as well as data from the new series in charting the future course of monetary policy.

February 06, 2026

Domestic growth continues to be resilient with improving outlook...

Real GDP estimated to grow at a healthy pace of 7.4% in 2025-26. Private consumption and fixed investment contribution to GDP growth is robust. Sustained growth in services sector, continued impact of GST rationalization, healthy agriculture output prospects, monetary easing and benign inflation environment should support private consumption. Net external demand continued to be a drag, with imports outpacing exports through the year. Investment activity is expected to maintain its momentum, supported by high capacity utilization, healthy corporate balance sheets, robust credit growth and government's continued thrust on capital expenditure. While services exports are expected to remain strong, merchandise exports will get a boost from the prospective trade deal with the US. The comprehensive trade pact with the European Union coupled with trade deals with New Zealand and Oman should help diversify exports and strengthen the external sector. However, 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.

Muted inflation pressures continue; still within the comfort zone...

Headline CPI inflation has been strikingly low in recent months, well below the inflation target, at 0.7% in November and 1.3% in December 2025. Food group remained in negative territory while fuel inflation remained moderate. Core inflation (excluding food and fuel) too remained benign, despite the surge in prices of precious metals. Leaving aside potential volatility induced by price movements of precious metals, core inflation is expected to be range-bound. Geopolitical uncertainty coupled with volatility in energy prices are other possible upside risks to inflation. Thus, apart from precious metals, the underlying inflation pressures remain muted.

Evolving growth-inflation dynamics may not warrant any further rate cuts...

RBI has sounded positive on domestic growth factors which are now further supported by the recent tariff deals. Even though the current inflation remains well below the target, FY27 inflation is expected to inch higher than the 4% mark. With growth remaining healthy and forward-looking inflation inching up, we believe that we have reached an end of the current rate-cut cycle with the terminal rate at 5.25%. Any chances of a rate cut can emerge only if the economy witnesses a growth slowdown led by global factors. However, we expect RBI to remain on an extended pause in CY2026 as inflation continues to remain within comfort zone.

However, RBI will continue to provide durable liquidity as and when required...

Market was disappointed as RBI didn't announce any specific liquidity measures like OMOs and saw a sharp sell-off post policy. However, the Governor clearly articulated RBI's intention to maintain adequate liquidity to support the growth and that liquidity operations can be carried out at any point in time, even outside the monetary policy also. Market was also keenly watching the policy rate corridor especially as the RBI has not conducted any VRRR week (Variable Rate Reverse Repo) even when the overnight TREPs yield fell below the SDF rate of 5.00%. The Governor reiterated that they would be keen on maintaining overnight TREPs yield within the policy rate corridor.

February 06, 2026

System liquidity (under the Liquidity Adjustment Facility i.e. LAF), stood at a surplus of Rs.0.7 lakh crore (on a daily average basis) since the last MPC meeting in December 2025. Money market rates tightened in January 2026 reflecting moderation in surplus liquidity and 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.

The RBI has undertaken several measures to provide durable liquidity over the last two months. Given the pre-emptive approach of RBI and the fact that cumulative 125 bps rate cut has not been passed onto the wider market segment especially the capital market, we expect RBI to continue conducting the G-Sec OMOs in FY2027 for providing adequate liquidity.

Additionally, RBI has assured that it would be able to complete the heavy G-Sec borrowing calendar for FY27 in a non-disruptive way as various options like government buy-back, switch with government and tenor management remain at disposal.

Market Reaction

Segment	Broad movement of yields in bps (as on February 06, 2026)	
	G-Sec	AAA Corporates
3 months	+5 bp	+5 bp
6 months	+5 bp	+10 bp
1 year	+5 bp	+10 bp
2 -3 years	+4 bp	+10 bp
4 - 5 years	+6 bp	+10 bp
10 years	+9 bp	+7 bp
15 years	+9 bp	NA
30 years	+9 bp	NA

Source: Bloomberg

Even as the fundamental factors look challenging which can make markets volatile, currently elevated yields provide favourable risk-reward..

At the current juncture, RBI seems to have come to an end of rate cut cycle. On the fiscal front also, gross borrowing of both Central Govt and States is expected to be more than ~Rs 30 trillion in FY27 and will test the market appetite.

Nonetheless, we maintain our constructive view on the domestic fixed income market as we expect the yields to decline in 1HCY2026 from the currently elevated levels. Current 10 yr G-Sec yield at ~6.75% gives a 150 bps term spread over the 5.25% repo rate, such spreads were last seen during the past rate hike cycle. With the current inflation running low at ~2% for FY26, the real yields at more than 4.75% are quite elevated, making risk-reward favourable. Even the short end yields are elevated on supply concerns. Market sentiments have turned positive after the announcement of US-India trade agreement and we expect investor appetite to pick up at these high yields. Also, as RBI conducts more OMOs and possibly G-Sec switch operations, it will help in addressing the huge fiscal supply concerns to some extent.

February 06, 2026

Considering the risk-reward dynamics, we believe Ultra Short, Money Market and Low Duration funds provide limited volatility and high accrual. At the same time, actively managed short-term funds and corporate bond funds with balanced exposure towards 2-4 yr corporate bonds and 5-10 yr G-Secs provide suitable opportunities for core allocation in CY2026. Additionally, even though with a risk of higher volatility, one can look at Gilt funds as a tactical call given that the term spreads have jumped sharply higher. Amidst higher volatility, active duration management across the curve and selective credit for higher carry is likely to offer better risk adjusted outcomes.

MPC – Monetary Policy Committee, RBI – Reserve Bank of India; OMO – Open Market Operations; FY – Financial Year; CY – Calendar Year Bps – Basis Points.
Data Source – RBI Monetary Policy Document, Governor’s Statement, Bloomberg

Disclaimer:

This document alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All figures and data included in this document are as on date and are subject to change without notice. The statements contained herein may include statements of future expectations and other forward looking statements that are based on prevailing market conditions / various other factors and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. The data used in this document is obtained by Invesco Asset Management (India) Private Limited (IAMI) from the sources which it considers reliable. While utmost care has been exercised while preparing this document, IAMI does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. The content of this document is intended solely for the use of the addressee. If you are not the addressee or the person responsible for delivering it to the addressee, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it is prohibited and may be unlawful. The readers should exercise due caution and/or seek appropriate professional advice before making any decision or entering into any financial obligation based on information, statement or opinion which is expressed herein.

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