Implications of Feb 2026 MPC

The Monetary Policy Committee (MPC), at its February 2026 meeting, **maintained a status quo on policy rates, keeping the repo rate unchanged at 5.25% and retaining a 'neutral' policy stance**. The neutral stance gives MPC the flexibility on rate changes depending on data.

The combination of 4% average retail inflation (CPI) and 7% plus growth rate in FY27 leaves very little room for a rate cut in the near future. With an average CPI inflation of 4% and repo rate at 5.25%, real interest rate would be 1.25% which is higher than prevailing real rates in other economies. This aids incremental FII flows and exchange rate stability. Moreover, the new CPI series with revised consumption basket and modified weights will ensure better representation and lower volatility in the data series, aiding policy making. However, while the key policy rates remain unchanged, measures to ensure orderly liquidity conditions will continue so that weighted average call rate remain within the SDF-MSF corridor and banks are comfortable on the LCR front. As year-end liquidity pressures due to elevated credit deposit ratios and advance tax outflows are expected to persist, further OMOs/VRRs are expected.

An inflation rate of 4% is ideal for an economy of our structure as it gets reflected in nominal GDP. Nominal GDP growth is expected to exceed the 10% assumed in the FY27 Union Budget. This augurs well for fiscal and debt metrics. Bond yields are likely to stay elevated as inflation forecasts have been revised upwards to more than 4% for the first two quarters of FY27.

The removal of the cap on voluntary retention route (VRR) for investment in debt by FIIs will help to increase foreign investment inflows in debt as 80% of the limit has been utilised. Bringing VRR under general debt investment limits for FIIs will open more room for FII flows into debt papers. This assumes added importance as inclusion of Indian debt in Bloomberg index has been postponed due to operational issues. Currently FII debt investment limits are 6% of the outstanding stock of dated central government securities, 2% under state government securities and 15% under corporate bonds. Accordingly, the investment limits for FIIs would be as below:

Particulars	Outstanding (Rs lakh Cr)	Limits (Rs lakh Cr)
Central dated securities	120	7.2
State govt securities	65	1.3
Corporate bonds	60	9.0
Total	**245**	**17.5**

The VRR route has been subsumed under the general category as it has been underutilised. However, the VRR clause had a mandatory retention period of 3 years. Under the general FII investment limit the headroom available is much more as shown above.

MPC Growth (Real GDP) forecasts:

	Q2FY26	Q3FY26	Q4FY26	FY26	Q1FY27	Q2FY27
June 2025	3.4	3.9	4.4	3.7	4.5	-
August 2025	6.7	6.6	6.3	6.5	6.6	-
October 2025	7.0	6.4	6.2	6.8	6.4	-
December 2025	8.2	7.0	6.5	7.3	6.7	6.8
February 2026				**7.4**	**6.9**	**7.0**

Inflation Dynamics and Revised Projections

On inflation, the MPC revised **FY26 CPI inflation marginally upward to 2.1% from 2.0%**, reflecting fading food deflation and base effects. Forecast for **Q4 FY26 was raised to 3.2%**, while projections for **Q1 and Q2 of FY27 stand at 4.0% and 4.2%**, respectively, signalling normalisation towards 4%.

Though RBI expects **core inflation (excluding food & fuels) to remain range-bound**, it flagged **upside risks from energy prices, geopolitical tensions, adverse weather events, and commodity price volatility**. The RBI also noted that revised CPI and GDP series, expected shortly, could alter inflation readings and warrant a wait-and-watch approach.

CPI inflation forecasts

	Q2FY26	Q3FY26	Q4FY26	FY26	Q1FY27	Q2FY27
June 2025	3.4	3.9	4.4	**3.7**	4.5	-
August 2025	2.1	3.1	4.4	**3.1**	4.9	-
October 2025	1.8	1.8	4.0	**2.6**	4.5	-
December 2025	1.7	0.6	2.9	**2.0**	3.9	4.0
February 2026		0.6	3.2	**2.1**	**4.0**	**4.2**

Liquidity Conditions and Policy Transmission

The **transmission of earlier rate cuts has been strong**, with the weighted average lending rate of banks declining by about **105 bps against cumulative policy easing of 125 bps**.

System liquidity has improved meaningfully which had averaged around ₹70,000 crore surplus since the last MPC meeting. Surplus liquidity is currently around **₹2 lakh crore**, following RBI's durable liquidity measures in recent months. Going ahead, the RBI clearly signalled that **liquidity management, rather than rate action, will remain the primary policy tool**. The central bank is likely to **continue further liquidity measures**, including OMOs and fine-tuning operations, to ensure smoother transmission and alignment of market rates with the policy corridor (SDF-repo-MSF).

Other Regulatory and Developmental Measures

- **Finalisation of revised ECB norms.**
- Exemption from registration for eligible NBFCs not availing public funds and not having customer interface.
- NBFC-Investment credit companies exempted from taking RBI approval for opening branches.
- Announcement of **Kisan Credit Card (KCC) revamp guidelines** and a **unified Lead Bank Scheme portal**.
- Proposal to raise the **collateral-free loan limit for MSMEs from ₹10 lakh to ₹20 lakh**.
- Introduction of a **payment fraud compensation framework up to ₹25,000** per customer in case of small value transactions.
- Permitting bank finance to Real Estate Investment Trusts (REITs)

Overall, the February 2026 MPC reflects a calibrated pause after substantial easing, by maintaining a neutral stance, upgrading growth projections, revising inflation forecasts upward and emphasising liquidity management, the RBI has kept policy flexibility intact while signalling that the rate-cut cycle is likely at or near its end, barring a significant macroeconomic shock.

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