



RBI Holds Rates, Reinforces Policy Continuity amid Benign Inflation

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RBI holds repo rate at 5.25%; maintain Neutral stance, Growth forecast raised to 7.4%

Policy rate & stance

- **Repo rate unchanged at 5.25%** - the Reserve Bank of India (RBI) held its key policy rate steady, as widely expected.
- **Neutral monetary policy stance retained** - Signaling continuity and stable policy action and future action will be dependent on evolving macroeconomic scenarios.
- The **Standing Deposit Facility (SDF) rate** remains at 5.00%, and the **Marginal Standing Facility (MSF) & Bank Rate** stay at 5.50%, prioritizing stability over further easing. Liquidity management and transmission efficiency are now the focus rather than further rate cuts

Growth outlook:

- **FY26 GDP growth forecast:** Revised upward to 7.4% (from earlier estimates around 7.3%) **Projections for FY 2026–27:** Q1: 6.9 %, Q2: 7.0 % (Compared with previous MPC forecasts, both figures were marginally revised upwards.)
- **Drivers behind strength:** Domestic demand, strong services activity, elevated capex, revival in manufacturing activities and supportive external conditions from trade deals and measures announced in Budget 2026.

Inflation view

- **CPI inflation forecast for FY 2025-26 revised up slightly to ~2.1%** (from earlier ~2 %). Inflation expected to rise modestly in FY27: Q1 ~4.0 %, Q2 ~4.2 %. The RBI noted inflation remains **benign and below tolerance band**, with underlying pressures muted

Key significance

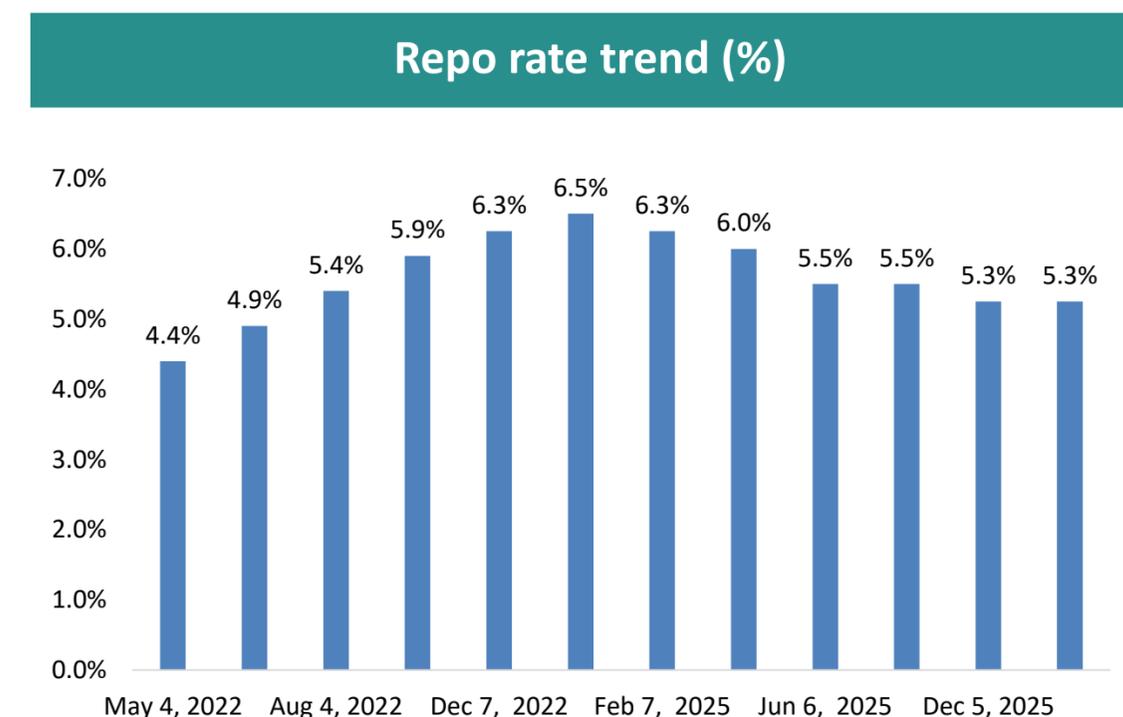
- This pause after prior rate cuts (cumulatively 125 basis points in FY25-26) reflects broad MPC consensus that current settings balance strong domestic growth with benign inflation below the tolerance band. It underscores resilience in high-frequency indicators, durable GDP momentum projected at 7.4%, and support from recent trade deals with the EU and US.

Economic implications

- From a credit rating perspective, the pause consolidates earlier easing, stabilizes funding costs, and supports macro credibility. Sectoral beneficiaries include real estate, industrials, and consumer demand, while banks and NBFCs face stable cost of funds; focus shifts to credit growth and asset quality. Stability in monetary policy supports sovereign and corporate ratings; risks lie in food inflation, global shocks, volatile oil prices and changing weather conditions

Outlook

- **Policy bias:** RBI is in a wait-and-watch mode after cumulative easing.
- **Next move:** April 2026 cut looks unlikely unless inflation softens further; mid-2026 more probable for next easing.



Source: RBI

Inflation estimates		
Period	Current Forecast	Previous Forecast
FY 2025-26	2.1%	2.0%
Q4 FY26	3.2%	2.9%
Q1 FY27	4.0%	3.9%
Q2 FY27	4.2%	4.0%

Source: RBI

Additional measures announced

Consumer protection & digital safety

- RBI proposed a compensation framework under which customers may receive up to ₹25,000 or 85% of the loss for small-value fraudulent digital transactions - a move to protect retail users affected by cyber frauds. Moreover, RBI plans to introduce tighter guidelines on mis-selling of financial products and loan recovery practices to protect customers.

Credit access & sector support

- **MSME support:** RBI proposed to double the collateral-free loan limit for micro, small and medium enterprises from ₹10 lakh to ₹20 lakh, boosting access to formal credit for smaller businesses.
- **REIT lending:** Banks may now be allowed to lend to Real Estate Investment Trusts (REITs) under prudential safeguards, expanding financing options in the real estate sector.

Easier regulatory norms for NBFCs

- Certain **NBFCs (non-bank financial companies)** with no public funds and no customer interface and an asset size \leq ₹1,000 crore may be exempted from RBI registration requirements.
- RBI also proposed relaxing the requirement for certain NBFCs to obtain prior approval before **opening more than 1,000 branches**, reducing regulatory burden.

Strengthening urban cooperative banks

- RBI announced Mission-SAKSHAM, a capacity-building and training initiative to strengthen governance, technical skills, and lending capacity of urban cooperative banks (UCBs).
- Easing housing loan norms for larger UCBs to support credit flow in the housing segment.

Liquidity management

- RBI reaffirmed a **proactive approach to liquidity management** — ensuring sufficient liquidity to support monetary policy transmission and productive credit growth.
- RBI acknowledged improvement in transmission but noted that **full pass-through to borrowers remains uneven**, particularly in certain loan segments.

RBI upgrades FY26 GDP growth estimates to 7.4%, bolstering credit stability amid policy continuity

- The RBI upgraded its FY2026 GDP growth estimate to **7.4%**, citing strong domestic demand as the primary driver. Urban consumption remains robust, supported by services and discretionary spending, while rural demand is gradually improving with favorable agricultural output. This resilience in demand conditions reinforces confidence in India's growth trajectory, providing comfort to credit markets that corporate cash flows and household purchasing power will remain stable.
- **Policy continuity:** The neutral stance and rate pause provide a stable baseline for modelling interest rate exposures across sectors. This supports stable interest rates for borrowers and lenders, reducing uncertainty in credit cost assumptions.
- **Inflation watch:** Inflation trends need ongoing monitoring - upward surprises may compress real margins and affect leverage.
- **Liquidity management:** RBI's emphasis on **pre-emptive liquidity operations** helps ensure smoother policy transmission and mitigates short-term funding disruptions, strengthening overall credit conditions in the banking system.
- **Regulatory relaxations** for small NBFCs, expanded collateral-free lending for MSMEs, and new bank lending permissions to REITs widen the credit ecosystem — enhancing access and potential credit diversification.
- **External sector dynamics:** Trade developments could shift sectoral risk perceptions - exporters may outperform while import-dependent firms may face margin headwinds.

Real GDP growth estimates raised amid resilient domestic demand		
Period	Current Forecast	Previous Forecast
FY 2025-26	7.4%	7.3%
Q4 FY26	-	6.5%
Q1 FY27	6.9%	6.7%
Q2 FY27	7.0%	6.8%

- Despite external uncertainties - ranging from US Fed policy shifts to geopolitical tensions- the RBI nudged its growth outlook higher, reaffirming confidence in domestic resilience. The central bank acknowledged risks from global commodity volatility but emphasized India's strong internal demand and policy support as buffers.
- For credit markets, this highlights a favorable environment where domestic stability offsets external risks, sustaining India's positive credit outlook.

Sectoral implications

Sector	Credit rating Implications	Impact
Banks & NBFCs	Neutral to positive	<ul style="list-style-type: none"> Stable rates improve asset yield predictability, aiding net interest margins (NIM) assessments. Liquidity support and manageable credit demand growth mitigate stress in short-term funding markets
Real estate & housing finance	Positive	<ul style="list-style-type: none"> Continued low policy rates sustain affordability, aiding sales momentum. Neutral stance supports risk-adjusted pricing models for longer-term mortgage portfolios A major development is RBI's move to allow banks to lend to REITs, extending a regulated funding channel beyond capital markets. This enhances long-term funding for income-producing assets such as commercial office and retail spaces. Banks' ability to fund REITs diversifies lenders' portfolios and reduces reliance on securitization. For REITs and developers, improved funding access can enhance cashflow stability and leverage profiles, an important rating consideration.
Corporate borrowers	Neutral to positive	<ul style="list-style-type: none"> With growth prospects intact and predictable rate outlook, investment decisions may proceed with less refinancing risk, supporting capex plans and debt servicing capability
SMEs & MSMEs	Positive	<ul style="list-style-type: none"> Policy continuity and active liquidity support can help smaller firms reliant on short-term credit lines, reducing rollover risk.
Interest rates & credit growth		<ul style="list-style-type: none"> The status quo in policy rates provides predictability for lenders and borrowers, supporting loan origination trends in sensitive sectors such as housing, auto, and MSME. Neutral stance reduces uncertainty in rate repricing, aiding risk modelling and cash-flow projections for rated entities.
Bond & yield environment	Neutral	<ul style="list-style-type: none"> Bond markets exhibited bearish sentiment with elevated yields, partly due to the absence of fresh liquidity cues in this meeting. From a credit rating perspective, higher yields tighten financing conditions, particularly for highly leveraged corporates or those refinancing near-term debt
Currency dynamics		<ul style="list-style-type: none"> The Indian rupee exhibited strength ahead of the policy outcome, influenced by U.S.–India trade developments. A stronger currency can lower imported inflation pressures but may affect exporters' competitiveness
Liquidity & policy transmission		<ul style="list-style-type: none"> RBI's commitment to pre-emptive liquidity management enhances short-term funding stability, countering FX and government cash flow effects. This strengthens banks' ALM (asset-liability management). Improved liquidity aids credit transmission - crucial for banks' lending beat and reducing stress in high-yield segments.
Infrastructure & Capital Goods	Neutral to Positive	<ul style="list-style-type: none"> Policy continuity supports investment planning. Capex push from government budget complements monetary policy.

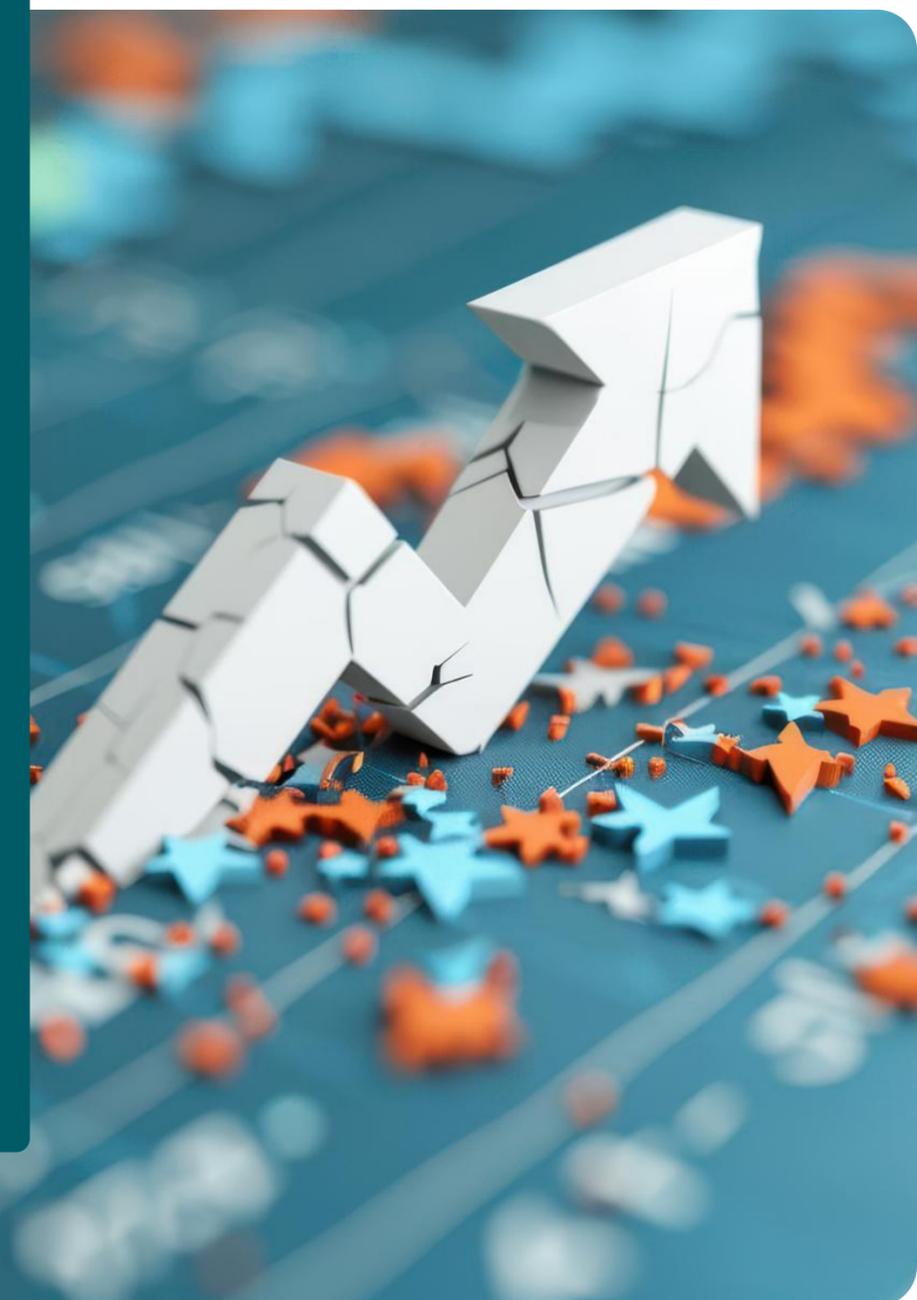
Macroeconomic assessment by RBI

The RBI's macroeconomic assessment reflects a broadly stable growth–inflation balance, allowing the MPC to maintain policy continuity. The central bank reiterated confidence in India's medium-term growth trajectory, supported by resilient domestic demand, sustained public capex, and improving private investment sentiment. While global growth remains uneven, India's relative macro strength continues to provide insulation against external shocks.

- **GDP growth trajectory:** RBI assessed growth momentum as sustained but moderating, with domestic drivers offsetting external headwinds. Services activity remains robust, manufacturing shows gradual improvement aided by easing input cost pressures, and agriculture benefits from a normal monsoon outlook.
- **Inflation trends (headline & core):** Headline CPI inflation remains comfortably aligned with the 4% target, supported by easing food inflation and benign core inflation. However, the RBI highlighted core inflation stickiness, particularly in services, warranting continued vigilance.
 - **FY26:** Inflation projected to remain around the target, supported by easing food prices and contained core inflation.
 - **FY27:** Inflation expected to stay broadly stable, assuming normal monsoons and no major global shocks.
- **Demand conditions (urban vs rural):** Urban demand continues to outperform, driven by services, discretionary consumption, and formal sector employment. Rural demand shows early signs of recovery, aided by improving agricultural incomes and government support, though it remains uneven.
- **Global macro and financial market risks:** RBI flagged risks from volatile global commodity prices, US Fed policy uncertainty, geopolitical tensions, and capital flow volatility, which could impact inflation dynamics and financial conditions.
- **Key risks highlighted:** Supply-side inflation shocks, external financial spillovers and weather-related food price volatility
- **Credit relevance:** The RBI's assessment signals confidence in growth sustainability, while acknowledging downside risks that could affect corporate cash flows, demand visibility, and sector-specific credit profiles.

Growth outlook and demand conditions

- **Growth outlook and demand conditions:** RBI maintained a **constructive but cautious growth outlook**, supported by domestic demand and investment-led recovery.
- **GDP growth projections:** Growth is expected to remain **robust by historical standards**, with moderation reflecting global uncertainties rather than domestic weakness.
- **Sectoral growth signals:**
 - **Manufacturing:** Gradual recovery aided by input cost normalization and PLI-led investments
 - **Services:** Continues to be the primary growth engine
 - **Agriculture:** Stable outlook contingent on monsoon performance
- **Investment and consumption outlook:** Public capex remains a key growth driver, while **private capex shows early but uneven traction**. Consumption remains resilient in urban areas, with rural recovery lagging but improving.
- **Capacity utilization and capex signals:** Capacity utilization levels remain **above long-term averages**, supporting incremental private investment over the medium term.
- **Credit relevance:** Sustained growth supports **revenue visibility, operating leverage, and deleveraging potential**, particularly for infrastructure, manufacturing, and services-oriented sectors.



Financial stability and banking system health

RBI highlighted the continued resilience of the financial system, supported by strong balance sheets and regulatory oversight.

- **Banking system liquidity:** Liquidity remains adequate, supporting credit intermediation and financial stability.
- **Asset quality trends:** Asset quality indicators remain benign, with GNPA ratios at multi-year lows and provision buffers comfortable.
- **Credit growth momentum:** Credit growth remains healthy, though RBI cautioned against excessive concentration in certain segments.
- **Deposit vs credit growth mismatch:** The RBI flagged the deposit–credit growth gap as an area to monitor, emphasizing prudent balance sheet management by banks.
- **NBFC and HFC commentary:** NBFCs and HFCs continue to demonstrate stable performance, though RBI stressed the need for liquidity discipline and governance standards.
- **Credit relevance:** Direct implications for sector outlook—banks benefit from strong credit demand but face deposit mobilization challenges; NBFCs/HFCs gain from liquidity support but remain sensitive to funding costs.

Benign inflation outlook supports stability

- A stable, below-target inflation trajectory improves predictability of real cash flows for corporates and households, lowering downside risks to earnings and default assumptions in rating models.
- Rate pause post cumulative easing stabilizes credit metrics: The pause following cumulative 125 bps cuts in FY26 stabilizes borrowing costs, supports debt-servicing capacity across sectors, and aligns with fiscal consolidation outlined in Union Budget 2026–27- overall credit-positive.
- Timing of further easing remains data-dependent: The RBI is unlikely to cut rates at the April 2026 MPC unless there is clearer evidence of sustained disinflation and growth moderation. A mid-2026 easing window (June–August) appears more probable, contingent on continued inflation softening, fiscal credibility, and manageable financial stability risks.
- Liquidity management reduces funding volatility: Active RBI liquidity operations are strengthening money-market functioning and improving transmission, reducing volatility in short-term funding costs- an important factor in liquidity stress and refinancing risk assessments.
- MSME credit access improves risk differentiation: Better formal credit access for MSMEs supports growth and reduces dependence on high-cost informal funding, enabling sharper differentiation of credit risk within the segment.

Risks ahead:

- Inflation & commodity risks: While inflation is benign, any unexpected uptick in global commodity prices, supply chain disruptions, or adverse weather could shift the outlook - a key watch variable for credit stress tests
- Global monetary policy shifts: Developments in major central bank policies (e.g., U.S. Fed) can affect capital flows, yields, and exchange rates - relevant for sovereign and corporate credit outlooks
- Data revision effects: The upcoming revised CPI/GDP base years could materially alter the policy assessment landscape; this uncertainty warrants cautious scenario analysis in forward projections.



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