THE BIG PICTURE

BAJAJ MUTUAL FUND

MPC KEEPS POLICY RATES UNCHANGED

5th August 2026

EXECUTIVE SUMMARY

- In line with our expectations, the RBI kept the repo rate unchanged at 5.25% and retained its neutral stance.
- More importantly, the tone was distinctly more dovish than markets had feared, with the RBI more reassuring on inflation and offering no hawkish signal.
- The growth-inflation mix remains favourable: growth projections were upgraded and inflation projections lowered.

POLICY RATES REMAIN UNCHANGED	
POLICY REPO RATE	5.25%
STANDING DEPOSIT FACILITY (SDF)	5.00%
MARGINAL STANDING FACILITY (MSF)	5.50%

INFLATION-GROWTH DYNAMICS

PERIOD	GDP GROWTH ESTIMATES		CPI INFLATION ESTIMATES	
	Jun-26	Aug-26	Jun-26	Aug-26
1QFY27	6.6%	7% ↑	4.2	
2QFY27	6.3%	6.4% ↑	5.1	4.7 ↓
3QFY27	6.5%	6.5% →	5.9	5.9 →
4QFY27	6.8%	6.8% →	5.4	5.5 ↑
FY2027	6.6%	6.7% ↑	5.1	5 ↓

- Growth remains resilient, supported by domestic demand, manufacturing and exports, prompting an upgrade to the outlook.
- At the same time, the inflation trajectory has improved despite near-term pressures from food and fuel.
- More importantly, benign core inflation excluding precious metals and limited second-round effects indicate that price pressures are not broad-based.

OUR OUTLOOK

We expect the RBI to remain on hold in the near term. With inflation concentrated in food and energy rather than broad-based demand pressures, tightening, at this stage, appears unwarranted and could unnecessarily weigh on investment and growth.

The external backdrop has also improved, supported by strong FDI, positive debt flows, FCNR and ECB inflows and robust foreign-exchange reserves. With crude oil retreating from recent peaks and the West Asia risk appearing less severe than earlier feared, pressure on the Rupee should ease, giving the RBI greater flexibility to manage liquidity while preserving external stability. Liquidity is already comfortable and is expected to peak in Q2FY27 before normalizing in the second half as the FCNR window closes and credit demand absorbs excess funds. That said, going forward, the market's focus is likely to shift away from the repo rate and towards liquidity dynamics.

Against this backdrop, we remain constructive on the 1-3 year segment which appears better positioned to benefit from abundant liquidity, easing money market rates and diminishing fears of near-term policy tightening. While, on the other hand, the longer end remains exposed to global yields, fiscal risks and term-premium shifts.

Source: RBI Governor's Speech, Internal Analysis. Data as on 5th August 2026.

FCNR is Foreign Currency Non-Resident and ECB is External Commercial Borrowing.