



HSBC Mutual Fund

The Macro Sphere

RBI Monetary Policy Review

6 February, 2026



A Neutral Hold: Now, in wait & watch mode

The MPC in a unanimous vote decided to maintain a pause on the Repo Rate at 5.25% while maintaining a neutral stance. We see today's policy decision as a neutral hold and the possibility of the final cut is likely to be data driven – more so because the key indices for monetary policy consideration – inflation & growth indices are expected to be revamped and released in this month. The MPC stated that the April policy would incorporate the new projections; we believe the MPC's policy standing becomes clearer once we have the MPC's revised forecasts and resultantly, the likely course of policy action.

Meanwhile, we continue to believe that the RBI may continue with its liquidity support, currency demand, FX interventions and govt. cash balances to influence the choice of instrument it deploys. Possibly why might the RBI have refrained from providing a template of steps to manage liquidity. Besides, the details of the India-US trade deal might also influence the choice of liquidity instrument – whether durable or temporary liquidity infusion is required. Overall, owing to seasonal factors, we think the RBI is likely to continue providing liquidity, durable or temporary is largely contingent on evolving conditions. The Governor, at the presser, stated that RBI remains pro-active and pre-emptive to keep liquidity conditions ample while leaving the deployment of tools and timing at its discretion.

The MPC's policy outcome is broadly in line with our expectations including the 'wait & watch' approach till new data series for CPI and GDP are released. On policy stance, while there is no voting, interestingly, one external member of the six panel members continued to opine to change the policy stance to accommodative from neutral.

The growth-inflation dynamics in the current global backdrop and the recent bilateral trade agreements have clearly shaped the MPC's economic growth outlook. Along with the policy, the other measures announced by RBI focus on strengthening the regulatory frameworks, enhancing customer protection, promoting financial inclusion, deepening the financial markets, and building institutional capacity, with emphasis on operational efficiency. These all support the RBI MPC's growth-facilitating policy approach (table at the end of the note).

Growth-inflation outlook:

Real GDP growth for FY26 is estimated at 7.4% YoY as per govt. First Advance Estimates. Growth driven by private consumption, fixed investment, and a buoyant services sector; net external demand remains a drag. For Q1 and Q2 of FY27 GDP growth projections revised upwards to 6.9% and 7.0%, respectively. As per MPC, domestic growth is supported by GST rationalisation, healthy rabi prospects, monetary easing, and robust investment activity. India's external sector is set to benefit from new trade deals with the EU, New Zealand, and Oman (and the prospective deal with the US). The downside risks to growth could emanate from the geopolitical tensions, global trade uncertainty, financial market volatility, and commodity price fluctuations.

CPI inflation is projected to be at 2.1% for FY26, with Q4 being higher at 3.2%. For Q1 and Q2 of FY27 CPI inflation is also revised modestly higher and projected at 4.0% and 4.2%, respectively. However, the policy stated that the slight upward revision in inflation outlook is mainly attributed to precious metals prices, with ~60–70 bps impact; and that the underlying inflation continues to be low.

While the overall near-term domestic inflation and growth outlook remains positive, the forecasts below are subject to revision following the release of the new data series. The April policy will entail the forecasts based on the new series.



Table 1: MPC's growth and inflation forecasts are laid out below:

Period	Growth Forecast				Inflation Forecast			
	Oct-25	Dec-25	Feb'26*	Revision (last policy)	Oct-25	Dec-25	Feb'26	Revision (last policy)
Q1 FY2026	7.80%	7.80%	7.80%	-	2.70%	2.70%	-	-
Q2 FY2026	7.00%	8.20%	8.20%	-	1.80%	1.70%	-	-1.70%
Q3 FY2026^	6.40%	7.00%	7.00%	0.00%	1.80%	0.60%	0.80%	0.20%
Q4 FY2026^	6.20%	6.50%	6.50%	0.00%	4.00%	2.90%	3.20%	0.30%
FY2026*	6.80%	7.30%	7.40%	0.10%	2.60%	2.00%	2.10%	0.10%
Q1FY27	6.40%	6.70%	6.90%	0.20%	4.50%	3.90%	4.00%	0.10%
Q2FY27	-	6.80%	7.00%	0.20%	-	4.00%	4.20%	0.20%

Source: RBI MPC Policy Resolutions, Revision over last policy

Note: ^same as prior policy*Provisional GDP data released by MoSPI, as of Jan'26

Liquidity:

While the Governor in his speech and at the presser, reiterated on providing ample liquidity, the policy did not provide any fresh liquidity measures. At the presser, with regards to the rising Credit-Deposit (CD) ratio, the Governor comments indicated that in an increasing credit growth cycle, that is a natural phenomenon, as observed in previous cycles. On hardening of Gsec yields, the Governor stated that the G-sec yields, mirroring global trends, have continued to harden over the last eight months due to a host of factors while reiterating the pre-emptive approach to liquidity management without any forward guidance.

Our Take:

The policy outcome is broadly in line with our expectations, including our assessment of its growth-inflation outlook as well as a neutral policy undertone, even as it remains data-driven. We continue to believe that the scope and space for that one final incremental rate cut remains alive in 1H CY26, the risk to this view emanates from the base change of key economic indicators especially CPI and GDP. Compared to last policy, the bilateral trade deals have receded concerns around downside risks to growth, but the actual implications on growth remain unclear until finer details are known and also, until the revised format of the news series are made available (owing to revision in weights, etc). On liquidity, given the recent measures, current liquidity stands at ~0.8% of NDTL and absence of any fresh steps today suggest that the evolving macroeconomic conditions (currency demand, need for FX intervention, govt. cash balances, etc.) will shape the RBI's next set of liquidity measures from the toolkit to manage liquidity. So far, in CY26, the RBI has infused ~INR 5.7 lakh crore - both, durable and fine-tuning operations by deploying OMOs, FX buy/sell swaps, longer-dated Variable Rate Repo (VRR) auctions and even short-dated VRRs. The reiteration and reaffirmation by the Governor at the post policy conference does suggest that liquidity steps may continue, but whether these steps would be durable or ad-hoc in nature remains to be seen.

All-in-all, the neutral hold and current dynamics still suggest there is room for one final cut, the final policy action remains data dependent. The markets are likely pricing in the end of the rate easing cycle; Hence, even if the final cut comes through it might bring little cheer to the bonds market and we are likely to see policy rates stay lower for longer and markets are likely to see consolidation with focus on RBI's liquidity measures.

Market View:

With markets at the fag end of the rate easing cycle and RBI already conducted a large amount of OMOs this year, most of the positives are already accounted for. The borrowing calendar, as per the Union Budget, was higher than market expectations. That clubbed with sizeable SDL supply remains a concern from a demand supply perspective. While RBI might need to conduct OMOs next financial year as well, the demand supply dynamics remains slightly unfavourable. Hence, keeping these factors in mind, we have reduced our duration positioning on IGBs to underweight on our duration funds. Liquidity on the other hand remains positive and with RBI's comments today that liquidity management will be pre-emptive, markets will believe that liquidity measures will continue. While, increased CD supply this quarter will keep pressure on short end rates, we believe that spreads overnight rates offer favourable pick up, therefore, we continue to remain positive on 1-3-year corporate bonds. Additionally, SDLs offer good value over IGBs and once we move into next quarter there is possibility of spread compression. We have started allocating SDLs across our funds and will continue to tactically add position as spreads increase further.

Investors with short-term investment horizon can look at the liquid plus category i.e. Ultra Short Duration, Money Market Fund and Low Duration Fund as they offer attractive pick-up over Liquid Funds.

For investors with a medium-term horizon, Short Duration Fund, Banking & PSU Debt Fund and Corporate Bond Fund can be a good investment opportunity as they provide accrual plus opportunities to create alpha through capital gains.

For investors with 2-year horizon, Income Plus Arbitrage FOF provides a tax efficient solution in a debt product. The underlying vis-à-vis Short Duration Fund, Banking, PSU Debt Fund, Corporate Bond Fund and Ultra Short Duration focus on accrual. The FOF also takes tactical calls in duration products to generate alpha depending on market opportunities.

Annexure: Some of the other measures, outside of the monetary policy ambit, that it announced are as follows:

Heading	Name	Action	Implication
Regulations	Guidelines on Product Sales	Issue comprehensive guidelines on advertising, marketing, and sales of financial products by regulated entities	Banks and FIs must align sales practices; increased compliance and customer trust; reduced mis-selling risk.
	Harmonisation of Recovery Practices	Harmonise and review conduct-related instructions for loan recovery and engagement of recovery agents	Uniform standards; improved customer protection; may require retraining of staff and agents.
	Customer Liability in Digital Transactions	Review and revise customer liability framework in digital transactions, including compensation for small-value frauds	Enhanced customer protection; banks need to strengthen fraud detection and compensation processes.
	Bank Lending to REITs	Permit commercial banks to lend to REITs; harmonise InvIT lending guidelines	Expands lending opportunities; supports real estate sector; requires robust risk management.
	UCB Lending Norms Rationalisation	Rationalise lending norms for Urban Co-operative Banks (UCBs)	Greater flexibility for UCBs; tiered, simplified rules; must maintain prudential discipline.
	NBFC Registration Exemption	Exempt eligible Type-I NBFCs (no public funds, no customer interface, assets \leq ₹1,000 crore) from RBI registration	Reduces compliance burden for small NBFCs; encourages innovation and operational efficiency.
	NBFC Branch Approval Dispensation	Remove prior RBI approval requirement for NBFCs (lending against gold, $>1,000$ branches) to open new branches	Faster expansion for large NBFCs; supports financial inclusion and growth.

Heading	Name	Action	Implication
Payments System	Digital Payment Safeguards	Issue discussion paper on safeguards in digital payments to curb frauds (e.g., lagged credits, extra authentication for senior citizens)	Banks/payment providers may need to implement new controls; improved security, especially for vulnerable users.
Financial Inclusion	Lead Bank Scheme Revision	Revise Lead Bank Scheme (LBS) guidelines and launch unified data reporting portal	Improved coordination and data quality; enhances effectiveness of financial inclusion efforts.
	Kisan Credit Card Guidelines Update	Revise Kisan Credit Card (KCC) guidelines (expand coverage, standardise crop season, extend tenure, etc.)	Easier access to credit for farmers; supports agricultural innovation and stability.
	Business Correspondent Guidelines Review	Review guidelines for use of Business Correspondents (BCs) by banks	Banks may need to adapt BC operations; improved rural outreach and service quality.
	Collateral-Free Loan Limit Enhancement	Enhance collateral-free loan limit for MSEs from ₹10 lakh to ₹20 lakh (from April 1, 2026)	Greater access to credit for small businesses; boosts entrepreneurship and economic growth.
Financial Markets	Corporate Bond Market Derivatives	Introduce derivatives on credit indices and total return swaps on corporate bonds	Enhanced risk management tools; improved liquidity and investor participation in corporate bonds.
	Foreign Exchange Dealing Norms Rationalisation	Rationalise foreign exchange dealing norms for Authorised Dealers	More flexibility for banks/dealers; supports innovation and global competitiveness.
	VRR for FPI Debt Investment Review	Align Voluntary Retention Route (VRR) for FPI debt investment with General Route; add operational flexibilities	Simplifies FPI investment process; may attract more foreign capital.
Capacity Building	Mission Saksham for UCBs	Launch "Mission Saksham" for UCB sector capacity building	Strengthens skills and resilience in UCBs; supports sustainable growth and financial inclusion.

Abbreviations:

IGBs: Indian Government Bonds	CRR: Cash Reserve Ratio	G-Sec: Government Securities
RBI: Reserve Bank of India	SDL: State Development Loan	EMs: Emerging Markets
MPC: Monetary Policy Committee	OMO: Open Market Operations	FX: Foreign Exchange
SDF: Standing Deposit Facility	GDP: Gross Domestic Product	
MSF: Marginal Standing Facility	CPI: Consumer Price Index	

Source - RBI MPC Policy Resolutions, HSBC MF Research, Data as on February 06, 2026.

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

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