

The RBI's Monetary Policy Committee (MPC) meeting scheduled for 4-6 February 2026 will be closely watched as it marks the final policy review of the current FY. After 125 basis points (bps) of rate cuts in 2025 that brought the repo rate down to 5.25%, the MPC is widely expected to keep rates unchanged and maintain a neutral policy stance, balancing the need to sustain growth with evolving inflation dynamics and liquidity challenges. The decision will also be closely watched for commentary on inflation, liquidity conditions, and guidance on the future policy trajectory amid mixed economic signals following the Union Budget and global developments.

In the Dec'25 MPC, the RBI surprised market participants by cutting the repo rate by 25bps to 5.25% (4th cut in 2025), while retaining a neutral stance and upgrading the FY26 GDP forecast to 7.3% alongside a sharply lower inflation outlook. The RBI also unveiled liquidity support measures (including significant open market purchases and forex swap) to aid transmission amidst rupee weakness and external vulnerabilities. Since the last MPC, the rupee stayed under pressure, with bond yields also rising by more than 25bps amid larger than expected borrowing programme. Nevertheless, with recent finalisation of US-India deal, pressure on rupee has eased significantly with hopes of return of capital flows even as bond yield continue to stay under upward pressure on demand-supply mismatch.

Policy action: After the 25 bps repo rate cut in Dec'25, the MPC is expected to keep policy rates unchanged in the current review, as inflation, though broadly below target, is showing upward pressure from food price components while underlying macro momentum remains strong, prompting a cautious stance. In this backdrop, guidance is likely to remain dovish with balanced undertones, similar to the previous policy, with the MPC emphasizing data dependence and macro uncertainty (especially from global conditions) and opting to assess incoming inflation and growth signals before adjusting the policy rate again.

1. Inflation stays well behaved yet witnessing upward pressure; base year change poses upside risk yet on close watch

Consumer Price Index (CPI) inflation in December continued to firm in the month printing 1.33%, compared with 0.71% in November, while crossing the 1% mark but still below 2% for the 4th consecutive month. Our Jan'26 print is tracking above 2.0%. However, the base year will change and the consequent impact on CPI inflation dynamics will be on close watch. We expect food inflation to remain largely negative in FY26, supported by a high base and seasonal winter cooling. However, risks remain skewed to the upside, stemming from potential unseasonal winter rains and possible supply-side disruptions. Our CPI projection for Q4FY26 is tracking at 2.4%, lower than RBI's projection of 2.9%. For FY27, while the MPC has projected CPI inflation of 3.9% in Q1 and 4.0% in Q2, our estimates are tracking slightly lower at 3.2% and 3.3% for Q1 and Q2 respectively (Kindly note that these projections are based on old CPI base year 2011-12 with implementation of new base year 2023-24 scheduled on 12th Feb'26). However, the projections are subject to revision with availability of item wise weights as food and beverage items have been assigned lower weights in the new series. In our opinion, CPI will increase by 40-50 bps considering new weights under new series.

A key metric to watch will be RBI's viewpoint on impact of implementation of new base year on CPI projections. While consensus estimates signal a rise in CPI inflation by 25-50bps vs. the old base, it is key to note that the underlying CPI momentum with the base year shift will be more important for the RBI led MPC to track.

2. Growth impulse remains strong

The RBI Jan'26 Bulletin notes that India's growth impulse remains strong, driven by resilient domestic demand and broad-based economic activity. As per first advance estimates, real GDP growth for FY26 is at about 7.4%, higher than the previous year's 6.5%, underscoring strong underlying momentum. High-frequency data for December showed continued buoyancy in growth impulses, driven by broad-based activity across sectors and upbeat demand conditions. Manufacturing activity has rebounded, services continue to expand robustly, and overall gross value added (GVA) growth remains well supported. These trends underline that growth is not narrow or uneven but anchored in multiple engines of the economy.

Supportive financial and macroeconomic conditions are reinforcing this momentum. Credit flow to the commercial sector remains healthy, enabling investment and capacity expansion, while inflation staying within tolerance limits provides policy space and supports purchasing power. Although global uncertainties and weak external demand pose risks, India's strong domestic fundamentals, ongoing export diversification efforts, conclusion of trade deals with EU and US, and policy support gives RBI confidence that the economy is well-placed to sustain its growth trajectory in the near term.

3. Monetary policy transmission has seen a reversion

The latest data on lending and deposit rates is signalling an upward bias during the month of December under both metrics. This is partially attributed to three factors: Credit growth staying above deposit growth

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consistently, with credit growth coming in at 13.1% and deposit growth at 10.7% as on fortnight ended 15th Jan'26; Systemic liquidity dynamics coming under pressure due to combined factors like FX intervention, currency leakages and govt. balance. Consequently, funding pressure remains for the banking system which is likely to see seasonal spike in Q4 FY26.

4. Liquidity came under pressure due to FX dynamics driving call rate above repo on average basis

Banking system liquidity remained under stress due to FX swaps, tax outflows, sustained currency leakages, and a widening credit-deposit gap. Banks increased reliance on wholesale funding, pushing outstanding CDs to ~Rs 5.3-5.4 trillion, near record levels. CD rates hardened meaningfully with 3-6 month CDs moving into the 6.6-6.9% range and 1-year CDs crossing 7.0%, up from ~6.65% earlier. Elevated CD rates indicate that liquidity tightness is becoming more persistent rather than episodic. While confirmation of the US-India trade deal has eased CD rates by 10-15 bps, near-term pressures persist. With Rs 4.84 lakh crore of CD redemptions due and typical year-end seasonality, demand for funding is expected to remain strong. During Q4 FY26 (up to 31st Jan'26), gross CD issuance stood at Rs 1.48 lakh crore, resulting in net issuance of Rs 0.49 lakh crore against maturities of Rs 0.99 lakh crore. The remaining Rs 3.84 lakh crore of maturities due in Feb-March 2026 are likely to keep money market rates under pressure.

90-day VRR operations helped stabilize the WACR, preventing it from drifting materially above the policy repo rate. However, VRR remains a tactical tool and does not fully offset structural liquidity pressures.

5. Focus will be on any regulatory/liquidity reforms in this policy

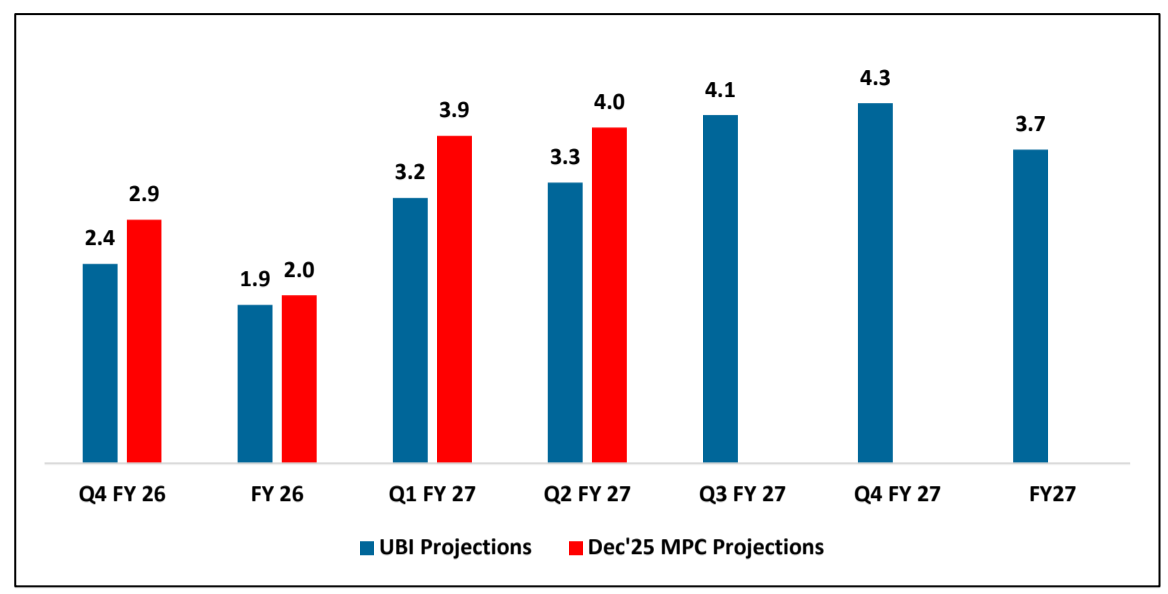
- Since the Dec'25 policy, the RBI has stepped up liquidity support significantly via a combination of OMOs and FX swaps.
- We see continued liquidity assurance in this policy in order to maintain adequate liquidity to ensure credit creation for productive sectors of the economy.
- That said, the impact on markets and rates both shorter and longer end of the curve may require further regulatory measures in order to support markets with media reports discussing the following ([Banks ask RBI for leeway on liquidity rules](#)).
 - i. CRR daily maintenance limit relaxation in order to tide over this quarter.
 - ii. LCR related measures
 - (a) CRR carve out for banks to maintain LCR in the current quarter;
 - (b) LCR implementation preponement from 1st April to current;
 - (c) Any changes in runoff factors to further ease LCR burden;
 - (d) Any liquidity facility for banks with an underlying like export credit etc. and not Gsecs will be LCR positive for banks
 - iii. Lowering tenor of infra bond from seven years to allow them to raise more funds through these instruments.

Fig 1: Macro Projections: UBI vs MPC (% YoY)

UBI vs RBI MPC Projections				
	GDP		CPI*	
	MPC	UBI (P)	MPC	UBI (P)
Q2	7.0	8.2 (actual)	1.8	1.7 (actual)
Q3	7.0	7.5	0.6	0.8 (actual)
Q4	6.5	6.7	2.9	2.4
FY26	7.3	7.6	2.0	1.9
Q1	6.7	-	3.9	3.2
Q2	6.8	-	4.0	3.3
Q3	-	-	-	4.1
Q4	-	-	-	4.3
FY27	-	-	-	3.7

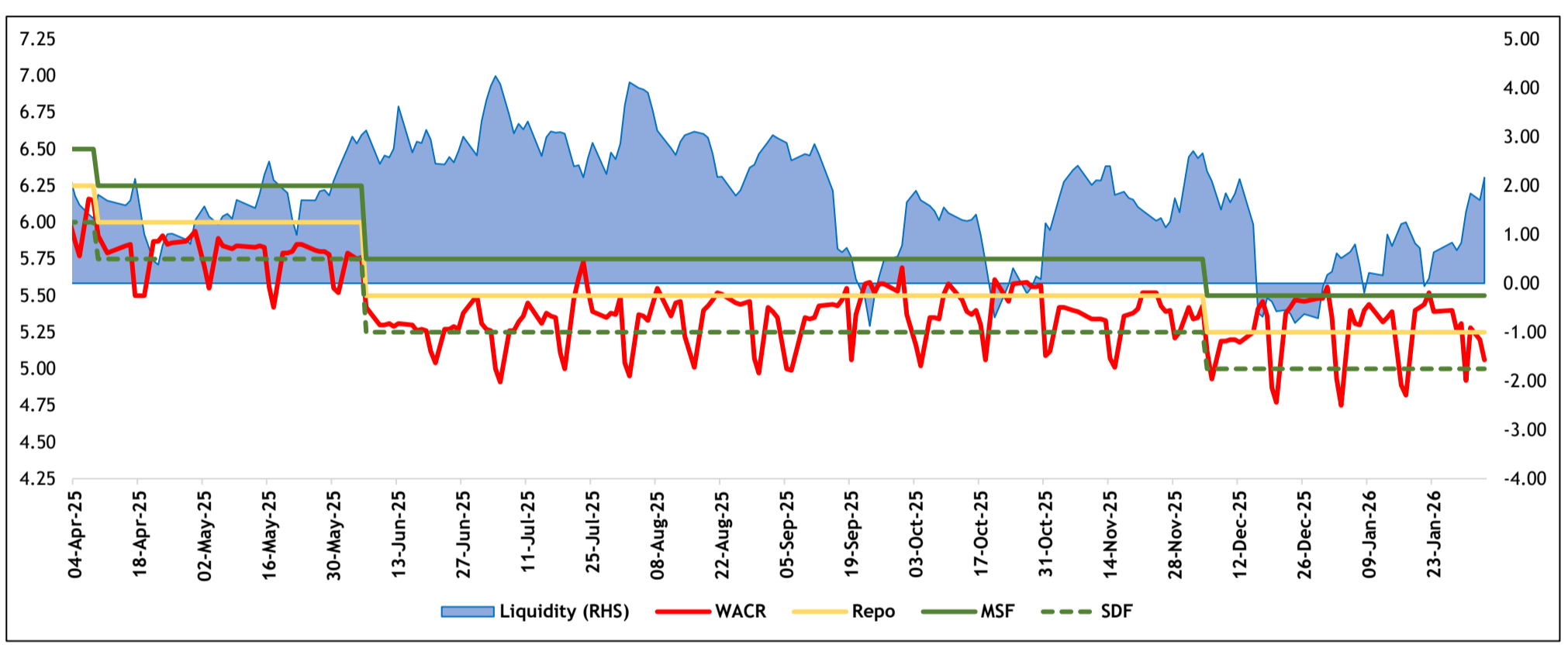
*as per old base 2011-12. With new projections as per revised base year, guidance in this regard on close watch.

Fig 2: UBI's CPI projections are significantly trailing below MPC's CPI projections (% YoY)



*as per old base 2011-12. With new projections as per revised base year, guidance in this regard on close watch.

Fig 3: WACR has been trading above repo rate for larger part of last 2 months; In recent days, however its trading below repo



Source: RBI, CEIC, UBI research

Fig 4: FX-led drag on liquidity dynamics continue to remain significant with the pressure likely to ease post US-India trade deal

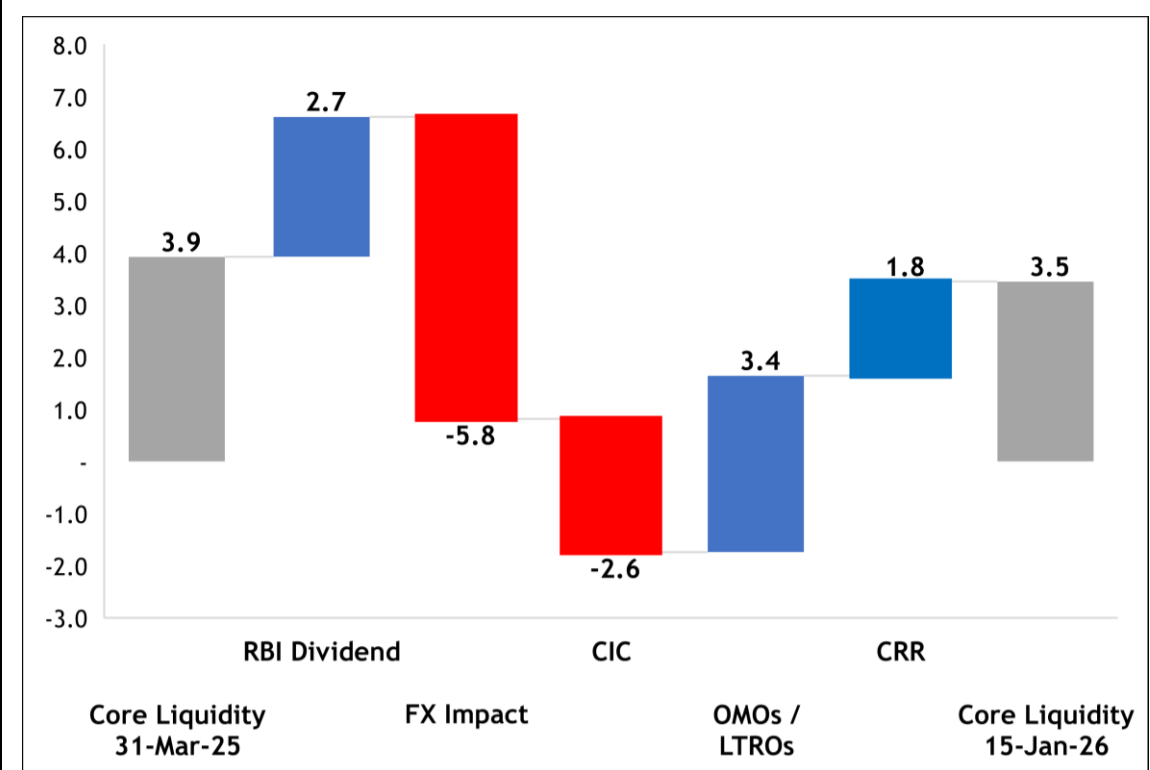


Fig 5: Given seasonal effects & as credit growth remains above deposit growth, CD-Tbill spread continue to remain elevated with some pressure easing this week

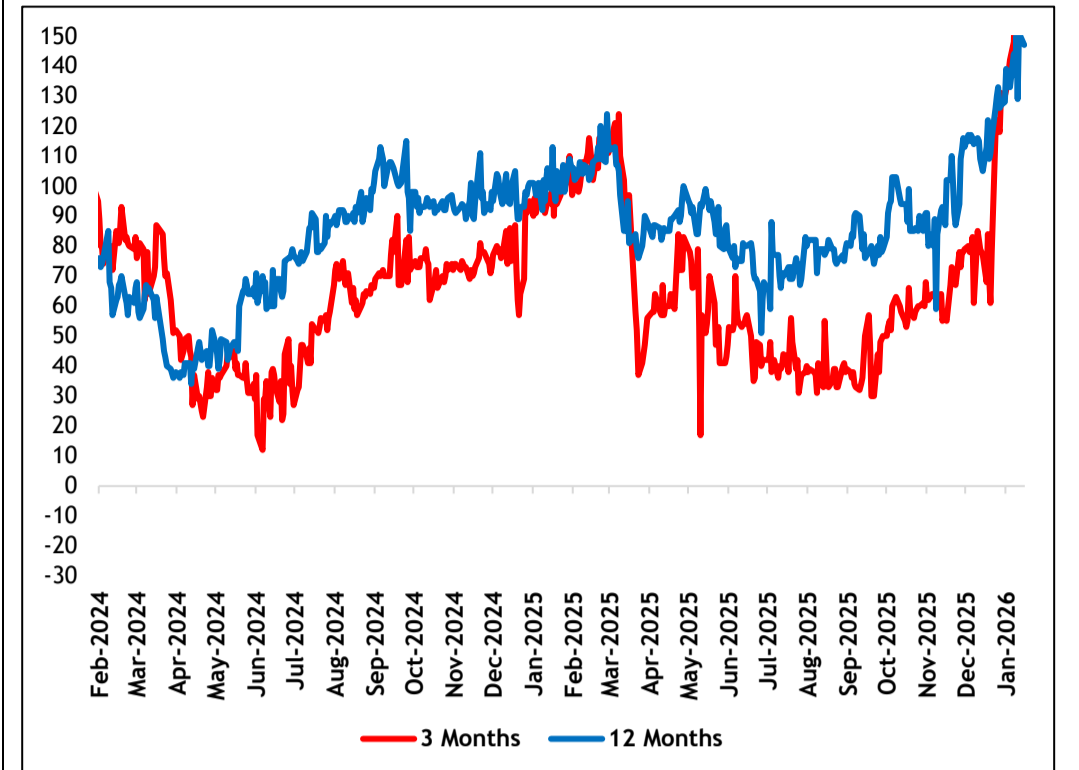


Fig 6: System liquidity is likely to see sharp improvement by end-March on govt. spending assuming that the FX drag on liquidity remains capped

Rs Lakh Cr	Systemic Liquidity balance	Govt. Balance with RBI	LTRO	Core Liquidity	Fx Impact	OMOs	LTROs	RBI Dividend	CIC	CRR
FY26 YTD	0.84	2.61	-	3.45	-5.8	5.21	-1.83	2.69	2.56	-1.81

*FY 26YTD Data till 15th Jan'26

Source: RBI, CEIC, UBI research

High frequency indicators for Dec '25 quarter signal positive momentum following GST rate cuts

MACRO-ECONOMIC DASHBOARD														
Industrial Sector	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
IIP (YoY Gr%)	3.7	5.2	2.7	3.9	2.6	1.9	1.5	4.3	4.1	4.6	0.5	7.2	7.8	
Mining (YoY Gr%)	2.7	4.4	1.6	1.2	-0.2	-0.1	-8.7	-7.2	6.6	-0.4	-1.8	5.8	6.8	
Manufacturing (YoY Gr%)	3.7	5.8	2.8	4.0	3.1	3.2	3.7	6.0	3.8	5.6	2.0	8.5	8.1	
Electricity (YoY Gr%)	6.2	2.4	3.6	7.5	1.7	-4.7	-1.2	3.7	4.1	3.1	-6.9	-1.5	6.3	
Core Infra Growth (YoY Gr%)	5.1	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.5	3.3	-0.1	2.1	3.7	
Cement Production (YoY Gr%)	10.3	14.3	10.7	12.2	6.3	9.7	8.2	11.6	5.4	5.0	5.2	14.6	13.5	
Steel Production (YoY Gr%)	7.3	4.7	6.9	8.7	4.4	7.4	9.7	16.6	13.6	14.4	5.9	6.7	6.9	
Petroleum Products (YoY Gr%)	2.8	8.3	0.8	0.2	-4.5	1.1	3.4	-1.1	3.0	-3.7	4.6	-0.9	-1.0	
Fertilizers Production (YoY Gr%)	1.7	3.0	10.2	8.8	-4.2	-5.9	-1.2	2.0	4.6	1.6	7.4	5.6	4.1	
Coal Production (YoY Gr%)	5.3	4.6	1.7	1.6	3.5	2.8	-6.8	-12.3	11.4	-1.2	-8.5	2.1	3.6	
Capital Goods Production (YoY Gr%)	10.5	10.2	8.2	3.6	14.0	13.3	3.0	6.8	4.5	5.4	2.1	10.1	8.1	
PMI Manufacturing	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0	55.4
PMI Services	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0	58.5
Banking Sector	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Bank Credit (YoY Gr%)	11.2	11.4	11.0	11.0	10.3	9.0	9.5	10.0	10.0	10.4	12.5	11.5	14.5	
Agriculture Credit (YoY Gr%)	12.5	12.2	11.4	10.4	9.2	7.5	6.8	7.3	7.6	9.0	8.9	8.7	12.1	
Industry Credit (YoY Gr%)	7.5	8.0	7.1	8.2	6.6	4.8	5.9	6.0	6.5	7.3	10.0	9.6	13.3	
Services Credit (YoY Gr%)	11.5	12.5	12.0	12.0	10.5	8.7	9.2	10.6	10.6	10.2	13.0	11.7	15.3	
Retail Credit (YoY Gr%)	12.0	11.8	11.7	11.7	11.9	11.1	11.7	11.9	11.8	11.7	14.0	12.8	14.4	
Bank Deposits (YoY Gr%)	9.8	12.1	12.0	10.3	9.8	9.9	10.1	10.2	9.3	9.4	10.8	10.2	12.7	
Demand (YoY Gr%)	5.4	13.2	14.2	10.4	6.0	19.2	18.1	17.7	12.5	17.4	22.7	16.9	27.4	
Time (YoY Gr%)	10.4	11.9	11.7	10.3	10.3	8.6	8.9	9.2	8.9	8.3	9.3	9.3	10.7	
C-D Ratio (%)	80.4	80.3	80.4	80.8	79.7	78.9	78.9	79.2	79.0	80.2	80.2	80.5	81.7	
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.3	9.3	9.4	9.4	9.3	9.2	8.6	8.8	8.7	8.4	8.6	8.7	8.3	
Weighted Average Deposit Rate (%)	7.1	7.1	7.1	7.1	7.1	7.1	7.0	6.9	6.9	6.8	6.8	6.7	6.7	
Banking Sector	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
UPI (No. in Cr)	1673	1700	1611	1830	1789	1868	1840	1947	2001	1963	2070	2047	2163	2170
IMPS (No. in Cr)	44.1	44.4	40.5	46.2	44.9	46.4	44.8	48.2	47.7	39.4	40.4	36.9	38.0	37.4
NPCI Retail Transaction value (YoY Gr%)	19.5	20.5	12.3	17.0	15.9	16.7	14.9	15.7	14.4	6.0	-0.4	7.8		
NPCI Retail transactions volume (YoY Gr%)	34.4	35.2	29.3	31.6	30.1	30.0	28.5	31.0	30.2	23.8	17.9	25.9		
Inflation	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
CPI (YoY Gr%)	5.2	4.3	3.6	3.3	3.2	2.8	2.1	1.6	2.1	1.4	0.3	0.7	1.3	
Core CPI (YoY Gr%)	3.6	3.7	4.0	4.1	4.1	4.2	4.4	4.1	4.1	4.3	4.4	4.3	4.6	
WPI (YoY Gr%)	2.6	2.5	2.4	2.2	0.9	0.1	-0.2	-0.6	0.5	0.2	-1.0	-0.3	0.8	
Consumer	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Electricity Consumption (YoY Gr%)	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.6	3.8	3.5	-5.8	-0.6	5.8	5.8
Petroleum Consumption (YoY Gr%)	4.0	1.4	-11.3	3.7	-4.1	6.9	-1.0	6.0	9.9	-8.0	-3.4	2.8	6.3	6.3
Consumer Durables (YoY Gr%)	8.1	7.1	3.7	6.9	6.2	-0.9	2.8	7.3	3.5	10.0	-1.3	11.2	12.3	
Consumer Non Durables (YoY Gr%)	-7.1	0.1	-2.1	-4.0	-2.7	-1.0	-0.9	0.5	-6.4	-0.3	-5.2	8.0	8.3	
Trade	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Merchandise Export (YoY Gr%)	-1.5	-2.6	-10.9	0.9	-3.8	-1.2	-1.3	13.3	5.7	6.1	-12.4	19.3	1.9	
Merchandise Import (YoY Gr%)	2.7	10.7	-14.8	12.1	20.0	-1.3	-3.4	9.1	-9.5	17.7	17.0	-2.0	8.8	
Service Export (YoY Gr%)	16.9	12.1	11.7	18.7	8.9	9.6	12.0	10.4	2.8	12.6	2.2	6.7	13.0	
Service Import (YoY Gr%)	13.9	12.6	-4.7	5.3	1.0	-1.0	5.1	8.5	-5.3	7.9	2.9	-2.1	7.3	
Logistics	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
E Way bill generated (Nos. in Cr)	11.2	11.8	11.2	12.5	11.9	12.3	11.9	13.2	12.9	13.2	12.7	13.0	13.8	
Air Freight (YoY Gr%)	8.2	7.0	-4.9	3.8	11.5	5.0	0.2	4.4	5.5	2.5	-2.3	15.6	9.4	
Fiscal	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
GST Collection (YoY Gr%)	-0.2	4.6	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1	4.6	3.6	6.1	6.2
Govt. Expenditure (YoY Gr%)	22.1	12.4	-17.7	9.7	10.0	40.3	37.4	3.3	-9.9	-8.0	-11.1	12.4	-7.3	

Source: CEIC, UBI research

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