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Governor's Statement: February 06, 2026

Good morning. I welcome you all to the first policy of 2026. We are only in the second month of the new year and have already witnessed momentous actions on the geopolitical and trade-tariff fronts.

2. Amidst heightened geo-political tensions and elevated uncertainty, the Indian economy is in a good spot with strong growth and low inflation. Inflation remains below the tolerance band and its outlook continues to be benign. High frequency indicators suggest continuation of the strong growth momentum in Q3:2025-26 and beyond. With the signing of a landmark trade deal with the European Union and the US trade agreement in sight, growth momentum is likely to be sustained for a longer period.

3. Global growth, supported by tech-investments, accommodative financial conditions and large-scale fiscal stimulus, is expected to be marginally stronger in 2026 than projected earlier. However, the confluence of escalating geopolitical frictions and rising trade tensions is unravelling the existing world economic order. Inflation outcomes are heterogeneous across jurisdictions – remaining above target in most major advanced economies – prompting a divergence in monetary policy actions as central banks near the end of their current easing cycles. Against a global backdrop that has increasingly become more cautious, bond market sentiments remain bearish reflecting fiscal sustainability concerns. However, equity markets, driven by tech stocks, remain upbeat.

Decisions of the Monetary Policy Committee (MPC)

4. The Monetary Policy Committee (MPC) met on the 4th, 5th and 6th of February to deliberate and decide on the policy repo rate. After a detailed assessment of the evolving macroeconomic conditions and the outlook, the MPC voted unanimously to keep the policy repo rate unchanged at 5.25 per cent; consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) remains at 5.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 5.50 per cent. The MPC also decided to continue with the neutral stance.

5. I shall now briefly set out the rationale for the MPC's decision.

6. The MPC noted that since the last policy meeting, external headwinds have intensified though the successful completion of trade deals augurs well for the economic outlook. Overall, the near-term domestic inflation and growth outlook remain positive.

7. Headline inflation during November-December remained below the tolerance band of the inflation target. The revised outlook for CPI inflation in Q1:2026-27 and Q2 at 4.0 per cent and 4.2 per cent, respectively, continues to be benign and near the inflation target. The slight upward revision in the inflation outlook is primarily due to increase in prices of precious metals, which contribute about 60-70 basis points. The underlying inflation continues to be low.

8. On the growth front, economic activity remains resilient. The First Advance Estimates suggest continuing growth momentum, driven by domestic factors amidst a challenging external environment. The growth outlook remains favourable.

9. Based on a comprehensive review of the domestic macroeconomic conditions and the outlook, the MPC is of the view that the current policy rate is appropriate. Accordingly, the MPC voted to continue with the existing policy rate. The MPC also agreed to retain the neutral stance. Going forward, the MPC will be guided by the evolving macroeconomic conditions and the outlook based on data from the new series in charting the future course of monetary policy.

Assessment of Growth and Inflation

Growth

10. The Indian economy continues on a steadily improving trajectory, with real GDP poised to register significantly higher growth of 7.4 per cent in 2025-26, as compared to the previous year. Amidst global headwinds, private consumption and fixed investment supported growth.¹ Net external demand, however, remained a drag, with imports outpacing exports. On the supply side, growth in real GVA, on the back of a strong contribution from the services sector and revival in manufacturing activity, is estimated at 7.3 per cent in 2025-26.²

11. Going forward, economic activity is expected to hold up well in 2026-27. Agricultural activity will be supported by healthy reservoir levels,³ robust rabi sowing,⁴ and improvement in crop vegetation conditions.⁵ Improving corporate sector performance⁶ and sustained momentum in informal sector should boost manufacturing activity. Construction sector growth is expected to remain firm.⁷

¹ As per the first advance estimates (FAE), private final consumption expenditure (PFCE) is estimated to grow at 7.0 per cent in 2025-26 vis-à-vis 7.2 per cent in the previous year. Gross fixed capital formation (GFCF) is estimated to expand strongly by 7.8 per cent as against 7.1 per cent growth in the last year.

² As per the FAE of 2025-26, services sector GVA recorded a growth of 8.8 per cent and manufacturing sector GVA expanded by 7.0 per cent.

³ All-India reservoirs level stood at 66.6 per cent of the total capacity as on February 5, 2026, as against 61.4 per cent a year ago and a decadal average of 53.3 per cent.

⁴ Rabi sowing grew by 2.4 per cent as on January 30, 2026.

⁵ Satellite-based Vegetation Condition Index (VCI) monitored by ISRO indicates improved rabi crop vegetation health in north-western and western regions during January 2026 relative to the corresponding period last year.

⁶ Early results from a limited set of listed private manufacturing companies indicate an increase in operating profit by 8.3 per cent in Q3:2025-26 (2.7 per cent in Q3:2024-25).

⁷ Cement production growth accelerated to 11.1 percent in Q3:2025-26.

Services sector should continue to be resilient, with strengthening domestic demand.⁸ Early results from IT firms suggest an improvement in business activity.⁹

12. On the demand side, the momentum in private consumption is expected to sustain in 2026-27. Rural demand remains steady,¹⁰ with improving agricultural activity and rural labour market conditions.¹¹ Recovery in urban consumption should further strengthen with continued support from GST rationalisation and monetary easing. High capacity utilisation,¹² accelerating bank credit,¹³ conducive financial conditions, and government's continued emphasis on infrastructure¹⁴ should give an impetus to investment activity. Moreover, several measures announced in the Union Budget should also be conducive for growth.¹⁵ The recently concluded India-EU free trade agreement (FTA) and the prospective India-USA trade deal along with several other trade agreements will support exports over the medium-term. Services exports should remain resilient.¹⁶ The spillovers emanating from geopolitical tensions, volatility in international financial markets and shifting trade patterns pose risks to the outlook.

13. Taking all these factors into consideration, real GDP growth projections for Q1:2026-27 and Q2 are revised upwards to 6.9 per cent and 7.0 per cent, respectively.¹⁷ The risks are evenly balanced. We are deferring the projections for the full year to the April policy as the new GDP series will be released later in the month.

Inflation

14. Headline CPI inflation remained low in November and December even as it firmed up by one percentage point in these two months. This increase was largely

⁸ Services PMI remained in a strong expansionary zone at 58.0 in December and strengthened further to 58.5 in January 2026.

⁹ Early results of IT companies suggest an improvement in performance, with net sales growth rising to 8.4 per cent in Q3:2025-26 from 6.7 per cent in Q2:2025-26, and operating profit growth increasing to 10.3 per cent from 7.2 per cent in the previous quarter. Wage growth also accelerated in Q3 (from 5.6 per cent to 6.5 per cent), indicating a broad-based increase in the nominal GVA of IT companies.

¹⁰ Two-wheeler and tractor retail sales registered double digit growth of 18.7 per cent and 28.8 per cent, respectively, in Q3:2025-26.

¹¹ According to the monthly periodic labour force survey (PLFS), all-India unemployment rate remained low at 4.8 per cent in December. Demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) declined by 29.0 per cent in December.

¹² As per the quarterly order books, inventories, and capacity utilisation (OBICUS) survey of the RBI, seasonally adjusted capacity utilisation (CU) of the manufacturing sector at 74.8 per cent in Q2:2025-26 was above the long-term average of 73.9 per cent.

¹³ Bank credit to textiles, chemicals, base metals, and engineering goods increased y-o-y by 11.8 per cent, 14.8 per cent, 14.2 per cent, and 30.4 per cent, respectively, in December 2025.

¹⁴ The central government's capex is budgeted to expand by 11.5 per cent in 2026-27. Effective capital expenditure (including grants-in-aid to state governments for capital expenditure) is budgeted to grow at 22.1 per cent.

¹⁵ Major sectoral measures include (i) setting up of MSME Growth Fund, India Semiconductor Mission (ISM) 2.0, regional medical hubs, new Freight Corridors, Infrastructure Risk Guarantee Fund, three dedicated Chemical Parks and (ii) introduction of Scheme for Enhancement of Construction and Infrastructure Equipment, Scheme for Container Manufacturing, and Integrated Programme for labour intensive textile sector.

¹⁶ Services export expanded sharply by 13.0 per cent in December from 6.7 per cent recorded in November 2025.

¹⁷ Projections for full year 2026-27 will be set out in the Monetary Policy Statement to be announced in April 2026 after incorporating the new GDP and CPI series (base 2024=100) to be released on February 27 and February 12, 2026, respectively.

driven by the lower rate of deflation in the food group.¹⁸ Excluding gold, core inflation remained stable at 2.6 per cent in December¹⁹.

15. Near-term outlook suggests that food supply prospects remain bright on the back of healthy *kharif* production²⁰, sufficient buffer stocks of foodgrains²¹, favourable *rabi* sowing and adequate reservoir levels. Core inflation, barring potential volatility induced by prices of precious metals, is expected to be range-bound. Geopolitical uncertainty coupled with volatility in energy prices and adverse weather events pose upside risks to inflation.

16. In terms of the headline inflation trajectory, despite the anticipated momentum being muted, unfavourable base effects stemming from large decline in prices observed during Q4:2024-25 would lead to an uptick in y-o-y inflation in Q4:2025-26. Considering all these factors, CPI inflation for 2025-26 is now projected at 2.1 per cent with Q4 at 3.2 per cent. CPI inflation for Q1:2026-27 and Q2 are projected at 4.0 per cent and 4.2 per cent, respectively. Excluding precious metals, the underlying inflation pressures remain muted. The risks are evenly balanced.

17. In view of the impending release of the new CPI series (base 2024=100) on February 12, 2026²², similar to growth, we will present CPI inflation projection for the full year 2026-27 in the April 2026 Policy Statement.

External Sector

18. Despite heightened uncertainty, global trade remained relatively robust. India's merchandise exports, supported by trade diversification efforts, grew by 1.9 per cent (y-o-y) in Q3:2025-26 whereas merchandise imports grew by 7.9 per cent (y-o-y) during the same period resulting in a widening of the trade deficit.²³ Robust services exports²⁴ and healthy inward remittance receipts²⁵ would keep India's current account deficit for the current year moderate and sustainable. Moreover, India's proactive efforts in pursuing bilateral and regional trade agreements with major trading partners are expected to boost international trade and investment, diversify trading partners and integrate India into global value chains.²⁶

¹⁸ Food group registered a deflation of (-) 1.8 per cent in December 2025 on a y-o-y basis, narrowing from (-) 3.7 per cent and (-) 2.8 per cent in October and November respectively. Within food group, vegetables, pulses, and spices recorded a deflation of (-) 18.5 per cent, (-) 15.1 per cent and (-) 2.2 per cent, respectively, *albeit* at a slower rate.

¹⁹ Core inflation hardened to 4.6 per cent in December from 4.3 per cent during October-November, owing to a surge in gold prices. Gold inflation (over 50 per cent y-o-y since October 2025) contributed disproportionately to headline and core numbers.

²⁰ As per the First Advance Estimates of agricultural production, *kharif* foodgrains in 2025-26 is estimated to be 2.3 per cent higher than the final estimates of 2024-25.

²¹ As on January 16, 2026, the rice and wheat stock stood at 731 lakh tonnes (9.6 times the buffer norm) and 269 lakh tonnes (1.9 times the buffer norm), respectively.

²² The new series is likely to incorporate methodological changes, improved data collection and revised weights based on the HCES 2023-24.

²³ As India's merchandise imports grew faster than merchandise exports, trade deficit rose to US\$ 91.5 billion in Q3:2025-26 from US\$ 88.0 billion in Q2:2025-26 and US\$ 78.7 billion in Q3:2024-25.

²⁴ During Q3:2025-26, services exports at US\$ 111.2 billion grew at 7.5 per cent y-o-y, while services imports at US\$ 53.7 billion expanded by 2.7 per cent. Net services exports grew by 12.3 per cent y-o-y and stood at US\$ 57.5 billion during the same period.

²⁵ India's inward remittances increased by 10.7 per cent y-o-y to US\$ 39.0 billion in Q2:2025-26.

²⁶ Trade deals with the UK and Oman have been signed; trade deal with the European Free Trade Association (EFTA) came into effect from October 1, 2025; trade deals with New Zealand and the European Union have been concluded; and trade deal with the US has been announced.

19. On the external financing side, gross foreign direct investment (FDI) to India increased at a robust pace during April-November 2025. Net FDI also increased as repatriations declined, despite a rise in outward FDI.²⁷ India continues to remain an attractive FDI destination for greenfield projects.²⁸ Foreign portfolio investment (FPI) to India this year so far (April- February 3)²⁹, however, recorded net outflows of US\$ 5.8 billion. As on 30th January, 2026, India's foreign exchange reserves stood at US\$ 723.8 billion, providing a robust merchandise import cover of more than 11 months. Overall, India's external sector remains resilient.³⁰ We are confident of meeting our external financing requirements comfortably.

Liquidity and Financial Market Conditions

20. System liquidity, as measured by the net position under the Liquidity Adjustment Facility (LAF), stood at a surplus of ₹0.7 lakh crore (on a daily average basis) since the last MPC meeting in December 2025.³¹ The Reserve Bank undertook several measures to provide durable liquidity in December and January³². Based on assessment of systemic liquidity and its outlook, the Reserve Bank announced and undertook further durable liquidity augmenting measures in the second half of January and February 2026.³³

21. In response to the cumulative 125 bps cut in the policy repo rate, the weighted average lending rate (WALR) of Scheduled Commercial Banks declined by 105 bps for fresh rupee loans during February-December 2025 (the interest rate effect³⁴ is 94 bps)³⁵. The weighted average domestic term deposit rate (WADTDR) on fresh deposits declined by 95 bps, while that on outstanding deposits softened by 41 bps over the same period.

²⁷ Gross foreign direct investment (FDI) flows to India grew by 16.1 per cent to US\$ 64.7 billion in April-November 2025-26 from US\$ 55.8 billion a year ago. Net FDI inflows stood higher at US\$ 5.6 billion during April- November 2025-26 from US\$ 0.8 billion a year ago.

²⁸ During 2025-26 (April-November), greenfield project announcements to India stood at US\$ 56 billion, marginally lower than US\$ 63 billion a year ago. Top 5 FDI announcements during the year have been by the Amazon, Microsoft, Google, MUFG Bank and Hynfra, which augurs well for FDI inflows, going forward.

²⁹ During 2025-26 (April-February 3), FPI to India recorded net outflows to the tune of US\$ 7.5 billion from the equity segment, while debt segment registered net inflows of US\$ 1.7 billion.

³⁰ India's external debt to GDP ratio rose marginally to 19.2 per cent at end-September 2025 from 19.1 per cent at end-March 2025, while the net international investment position (IIP) moderated to (-) 7.2 per cent of GDP at end-September 2025 from (-) 8.6 per cent of GDP at end-March 2025.

³¹ The average daily net absorption under the liquidity adjustment facility (LAF) during October and November stood at ₹0.9 lakh crore and ₹1.9 lakh crore, respectively. The average daily net absorption under the LAF declined to ₹0.8 lakh crore in December 2025 and January 2026. In February 2026 (up to February 4), average daily net absorption under the LAF increased to ₹1.8 lakh crore.

³² The Reserve Bank conducted OMO purchase auctions amounting to ₹3,50,000 crore and long-term forex buy/sell swap auction of USD 15.1 billion in December 2025 and January 2026.

³³ The Reserve Bank conducted additional OMO purchase auctions amounting to ₹1,00,000 crore, long term forex buy/sell swaps of USD 10 billion, 90-day VRR operation of ₹25,000 crore and a second 90-day VRR operation of ₹1,11,500 crore for January and February 2026.

³⁴ Interest rate effect on transmission to weighted average lending rate (WALR) is calculated by keeping the weight constant (as of January 2025).

³⁵ The moderation in the weighted average lending rate (WALR) of outstanding rupee loans has been to the extent of 81 bps. Transmission has been broad-based across sectors.

22. Money market rates, especially for commercial papers (CPs) and certificates of deposit (CDs), tightened in January 2026 reflecting (i) moderation in surplus liquidity; (ii) excess supply from bunching of redemptions in CPs and CDs in January; and (iii) year-end seasonal effects.³⁶ G-sec yields, mirroring global trends, have continued to harden over the last eight months³⁷ due to a host of factors.

23. Going ahead, the Reserve Bank will remain proactive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy and to facilitate monetary policy transmission. Liquidity management would be pre-emptive with sufficient allowance for unanticipated fluctuations in government balances, changes in currency in circulation, forex intervention, etc.

Financial Stability

24. The system-level financial parameters related to capital adequacy, liquidity, asset quality and profitability of Scheduled Commercial Banks (SCBs) continue to remain robust.³⁸ Similarly, the system-level parameters of NBFCs too are sound, with adequate capital position and improved asset quality³⁹.

25. As per latest available data, credit from all sources grew at 13.8 per cent (y-o-y), as compared to 11.6 per cent (y-o-y) a year ago⁴⁰. Bank credit growth too recorded an uptick in recent months.⁴¹ This growth⁴² is supported by sustained lending to all sectors, particularly retail, services and MSMEs. Large industries also recorded higher credit growth.

³⁶ In response to the cumulative policy repo rate cut of 125 basis points (bps) in the current easing cycle, the WACR, the 3-month T-bill rate, the 3-month CP issued by NBFCs, and the 3-month CD rate declined by 89 bps, 119 bps, 143 bps, and 127 bps, respectively up to end-December, 2025. However, since the beginning of January and up to February 4, 2026, the 3-month T-bill rate, the 3-month CP issued by NBFCs, and the 3-month CD rate have hardened by 6 bps, 73 bps and 84 bps, respectively.

³⁷ The 10-year G-sec yield hardened to 6.65 per cent as on February 5, 2026 from 6.51 per cent as on December 4, 2025.

³⁸ **SCB Parameters:** The outstanding credit and deposits increased by 14.54 per cent and 12.68 per cent on a y-o-y basis, respectively, between December 2024 and December 2025. The system-level Capital to Risk Weighted Assets Ratio (CRAR) of 17.24 per cent in September 2025 was well above the regulatory minimum level. There was continued improvement in asset quality with the GNPA and NNPA ratios at 2.05 per cent and 0.47 per cent respectively in September 2025 vis-à-vis 2.54 per cent and 0.48 per cent in September 2024. Liquidity buffers were robust, with an LCR of 131.68 per cent as of end September 2025. The annualised return on assets (RoA) and return on equity (RoE) stood at 1.32 per cent and 13.06 per cent, respectively, in September 2025. Net Interest Margin was 3.26 per cent for September 2025 (3.52 per cent in September 2024).

³⁹ **NBFC Parameters:** Total CRAR of NBFCs was 25.11 per cent and Tier I CRAR was 23.27 per cent in September 2025, well above the minimum regulatory requirements. GNPA ratio has improved from 2.57 per cent in September 2024 to 2.21 per cent in September 2025, while NNPA ratio also improved from 1.04 per cent in September 2024 to 0.99 per cent in September 2025. RoA for the sector decreased slightly from 3.25 per cent in September 2024 to 2.83 per cent in September 2025. NIM has slightly decreased from 5.51% in September 2024 to 4.24 per cent in September 2025.

⁴⁰ The total flow of resources from bank and non-bank sources to the commercial sector stood higher at ₹29.6 lakh crore in 2025-26 so far as compared to ₹23.3 lakh crore in the corresponding period of the previous financial year. The increase in flows from non-food bank credit (₹5.04 lakh crore) and corporate bond issuances by non-financial entities (₹1.4 lakh crore) have been the major drivers of this growth.

⁴¹ On a year-on-year basis, bank credit registered a growth of 13.1 per cent as on January 15, 2026, compared to 11.5 per cent a year ago. During the same period, deposit growth at 10.6 per cent was lower than 10.8 per cent a year ago. During 2025-26 (up to January 15, 2026), the incremental credit to deposit (C/D) ratio was placed at 98.4.

⁴² Sectoral non-food credit data are based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 95 per cent of total non-food credit extended by all SCBs, pertaining to the last reporting Friday of the month. Data available till December 2025. Effective December 31, 2025, definition of last reporting fortnight has been changed to the last day of the month under the Banking Laws (Amendment) Act 2025. Accordingly, the y-o-y growth rates from December 2025 onwards are based on end-of-month data for the current year and data for the last reporting fortnight (as per old definition) for the corresponding month of the previous year.

Additional Measures

26. I shall now announce some [measures](#) that aim to enhance customer protection, advance financial inclusion, enhance flow of credit, strengthen UCBs, promote ease of doing business for NBFCs, and deepen financial markets.

Empowering customers

27. For customer protection, we will issue three draft guidelines: one, relating to mis-selling; two, regarding recovery of loans and engagement of recovery agents; and three, on limiting liability of customers in un-authorised electronic banking transactions. It is also proposed to introduce a framework to compensate customers up to an amount of ₹25000/- for loss incurred in small-value fraudulent transactions.

28. We will also publish a discussion paper on possible measures to enhance the safety of digital payments. Such measures may include lagged credits and additional authentication for specific class of users like senior citizens.

Advancing financial inclusion and flow of credit

29. In the financial inclusion space, we have comprehensively reviewed the Lead Bank Scheme, Kisan Credit Card Scheme and the Business Correspondent Model. We shall issue draft revised guidelines with respect to them. A unified reporting portal will also be launched by us for better management of LBS data.

30. The limit of ₹10 lakh for collateral-free loans to MSMEs is proposed to be increased to ₹20 lakh.

31. To further promote financing to real estate sector, it is proposed to allow banks to lend to REITs with certain prudential safeguards.

Strengthening UCBs

32. We have four measures for UCBs.

33. The first two pertain to raising the financial limits on unsecured loans and loans to nominal members by UCBs.

34. We also propose to remove the tenor and moratorium related requirements on housing loans given by Tier III and Tier IV UCBs.

35. To strengthen the managerial and technical capacity of the UCBs, we shall launch Mission-SAKSHAM (Sahakari Bank Kshamta Nirman). The mission intends to train over 1.4 lakh participants from UCBs.

Promoting Ease of doing business for NBFCs

36. NBFCs having no public funds and customer interface, with asset size not exceeding ₹1000 crore, are proposed to be exempted from the requirement of registration.

37. Moreover, it is proposed to dispense with the requirement for certain NBFCs to obtain prior approval to open more than 1000 branches.

Deepening financial markets

38. Coming to financial markets, we had earlier issued revised draft regulations for ECBs. They have been finalized and shall be notified shortly.

39. We also propose to remove the limit of ₹2.5 lakh crore for investments under the Voluntary Retention Route (VRR). Investment through the VRR in each category of securities will be subject to the investment ceiling for the respective category under the General Route.

40. Furthermore, in pursuance of the announcement made in the Union Budget 2026-27, we propose to issue the regulatory framework for derivatives on corporate bond indices and total return swaps on corporate bonds.

41. It is also proposed to issue draft revised guidelines for Authorised Dealer banks and stand-alone primary dealers (SPDs), allowing them more flexibility in undertaking foreign exchange transactions.

Concluding Remarks

42. Before I conclude, I would like to inform that the Reserve Bank observes Financial Literacy Week (FLW) every year on specific themes of financial education. The campaign this year will be launched on 9th February. In continuation of our ongoing endeavour on re-KYC of bank accounts, the theme this year is 'KYC – Your First Step to Safe Banking'. I urge all banks to actively take part in the campaign.

43. To conclude, the Indian economy continues to register high growth despite a challenging external environment clouded by geo-political uncertainties. Benign inflation provides the leeway to remain growth-supportive while preserving financial stability. We remain committed to meet the productive requirements of the economy and sustain the growth momentum.

44. Thank you. Namaskar and Jai Hind.

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(Brij Raj)
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