Spark Capital
Private Wealth Management

RBI MPC Highlights

Status quo on rates, but ‘dovish’ tone surprises markets

August 2026

RBI MPC Aug'26 – Quick Overview

	Earlier (June'26)	Latest (Aug'26)
Repo Rate	**5.25%**	**5.25%**
Growth projections (FY27)	**6.6%**	**6.7%**
Q1	6.6%	**7.0%**
Q2	6.3%	**6.4%**
Q3	6.5%	6.5%
Q4	6.8%	6.8%
Growth Projections (Q1FY28)		**7.3%**
CPI Inflation Projections (FY27)	**5.1%**	**5.0%**
Q1	4.2%	3.9% (actual)
Q2	5.1%	**4.7%**
Q3	5.9%	5.9%
Q4	5.4%	**5.5%**
Core Inflation	**4.7%**	**4.3%**

- In a unanimous decision, the MPC left **repo rate unchanged at 5.25% whilst retaining neutral stance**, in line with market expectations.

- The **RBI revised its inflation forecast lower**, with average FY27 CPI forecast reduced marginally to 5.0% from 5.1% earlier and core inflation lowered by 40 bps to 4.3%. – this is largely led by lower realized inflation in Q1FY27. Despite near-term pressures from food and fuel prices, the MPC noted that **inflation remains largely supply-driven,** with limited signs of broader generalization.

- Growth outlook has improved at the margin (despite risks from El Niño conditions and geopolitical developments), supported by strong domestic demand, sustained manufacturing and services activity, robust investment and improving exports. The **RBI raised its Q1 FY27 growth forecast by 40 bps to 7.0% and Q2 forecast by 10 bps to 6.4%, while keeping second-half projections unchanged.** Notably, growth projections for FY28 have been introduced with Q1FY28 pegged @ 7.3% over and above the upwardly revised Q1FY27 growth estimate.

- While the policy statement reflects a wait-and-watch approach largely owing to external factors (geopolitics, monsoons), the **overall undertone has been more dovish than expected**. Favorable revisions to both the growth and inflation outlook suggest that **the RBI sees limited urgency for immediate policy rate action**, preferring to await greater clarity on the evolving inflation trajectory before recalibrating policy further.

Source: RBI MPC statement

FAIR Framework

Facts	▪ Repo rate unchanged at 5.25%; stance remains neutral ▪ FY27 growth raised to 6.7% from 6.6% | Growth projections for Q1FY28 pegged @ 7.3%. ▪ FY27 inflation projected lower at 5.0%, Core inflation forecast reduced by 40 bps
Assessment	▪ **Policy was more dovish than expected**, particularly given elevated uncertainty around global energy prices and elevated inflation risks relative to the 4% policy target. The modest reduction in the inflation forecast was driven by lower realized inflation in 1HFY27 and possibly by better-than-feared monsoon outcomes. ▪ Limited evidence of a broadening in price pressures (as indicated by stable core inflation) appears to be providing the RBI/MPC with greater comfort on the inflation front, allowing it to maintain a wait-and-watch approach despite headline inflation remaining above target. ▪ That said, the RBI's own forecasts imply **average inflation of ~5.7% in H1 CY27 against the 4% target**, while the repo rate remains at **5.25%**, suggesting the possibility of a **negative real policy rate** while growth is expected to remain above **7%**. Leaves limited room for a prolonged pause if current policy expectations were to materialize. ▪ Global policy rates and bond yields continue to move higher. While the RBI has reiterated that domestic factors will drive local policy decisions, global developments remain a relevant consideration to avoid risk of domestic monetary policy falling behind the global rate cycle. ▪ RBI has indicated that liquidity will be comfortable and growth supportive, which should help stabilize short-term yields. In the post-policy press conference, the Governor indicated that higher FCNR(B) inflows may not translate into an equivalent increase in systemic liquidity, as they would be offset by the unwinding of the RBI's short FX positions and usual trends of higher credit offtake and currency in circulation into the festive season (2HFY).
Implication	▪ Post the announcement, yields eased marginally across the curve (10Y by 5 bps, 5Y by 10 bps), while 12M OIS yields (reflecting rate hike expectations) fell by ~11 bps and the INR gained ~40 paise against the USD. ▪ The policy has likely **pushed back market expectations for the next rate hike into 2HFY27 from earlier bets of an Oct'26 rate hike** although the prospect of negative real policy rate suggests eventual policy normalization unless inflation prints materially lower than current forecasts. ▪ With energy prices moderating, the rate outlook improving at the margin and growth remaining strong, fiscal concerns may abate at the margin. However, global cues continue to remain unfavorable. Consequently, the longer end of the yield curve is likely to remain sticky, while the shorter end could decline further, resulting in a steeper yield curve – which is in line with the global trend. ▪ From a strategy perspective, we **continue to avoid the long end of the curve** and would use interim rallies in the medium-long segment to **lighten our positions in this segment and build exposures to the shorter end of the curve via TMFs and ST/ money-market oriented strategies**
Risks (to our view)	× FCNR(B) and ECB inflows fall short of expectations × A sharp rise in global bond yields, the US Dollar or crude prices reduces RBI policy flexibility and exerts upward pressure on domestic rates. × Upside risks : El Niño-related risks turn out to be lower than feared, limiting the upside pressure on food inflation.

Source: RBI MPC statement

Portfolio Strategy – Fixed Income

- **Rates & Liquidity Backdrop** : **System liquidity eased in Jul'26**, supported by a gradual pick-up in **FCNR(B)** and **ECB** inflows. However, liquidity improvement is likely to remain measured as the RBI appears to be utilising a part of these inflows to reduce its short USD positions rather than fully adding to forex reserves. Asides, CD issuances have remained subdued leading to easing of bank CD yields, reflecting expectations of stronger deposit mobilisation under the FCNR(B) scheme through **Sep'26**. However, 6 – 12M T-bill yields have risen **20–30 bps** over the past month, pricing in **1–2 RBI rate hikes from Oct'26.** Thus, returns from money market funds normalised in Jul'26 after a spike in Jun'26 and going forward, returns from the funds may likely broadly track portfolio YTMs, with limited scope for further yield resets

- **Long Duration View** : The long end of the curve is likely to remain sensitive to **crude oil prices** in the near term. Beyond this, challenging fiscal arithmetic and elevated global bond yields should continue to exert upward pressure on domestic yields. Accordingly, we **continue to avoid the long end of the curve** and would use any sharp, interim rally to **gradually reduce exposure to this segment.**

- **Portfolio Positioning**

  - **Accrual as the core**: We prefer **locking in attractive carry** as liquidity conditions improve, which should support gradual spread compression. Focus remains on **high-quality short- to medium-term accrual strategies**, with selective exposure to performing credit — including **hybrid structures with potential equity upside.** We remain **constructive but selective** in this space. The local private credit market remains structurally distinct from that in the US — with **limited leverage at the fund level, focus on a cash-flow-generating businesses with adequate collateral and widely spread across sectors, and no ALM mismatches** given the closed-ended structure of these AIFs.

  - **Real assets / hybrid yield strategies** : Remain constructive on **income-oriented REITs/InvITs** and **hybrid "debt-plus" strategies** employing market-neutral or derivative-based overlays, supported by defined downside protection and tax-efficient structures

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