

RBI Policy Rate Pause Explained: Why the RBI Kept Interest Rates Unchanged

February 7, 2026 • vajiramandravi.com



RBI Policy Rate Pause Latest News

- The Reserve Bank of India's **Monetary Policy Committee** (MPC) decided to keep the repo rate unchanged at 5.25%, maintaining the status quo on interest rates.
- As a result, bank lending and deposit rates — and EMIs on home and personal loans — are expected to remain stable.
- The MPC revised India's GDP growth projection **upward** to 7.4% for FY 2026 (from 7.3%) and retail inflation to 2.1% (from 2%), reflecting confidence in growth momentum alongside benign price pressures.
- The committee also retained a **neutral policy stance**, signalling flexibility to respond to evolving domestic and global conditions.
- This comes shortly after India announced trade agreements with the US and the European Union, and follows the Union Budget, which shaped the broader macroeconomic context.
- The pause follows a 25 basis point rate cut in December, which reduced the repo rate to its current level.
- With cumulative rate cuts of 125 basis points in 2025, the decision marks a breather after a phase of sustained monetary easing, as the RBI balances growth support with future policy optionality.

Why the RBI Chose to Hold Interest Rates Steady

- The decision by the Reserve Bank of India to pause on rates reflects a benign inflation outlook alongside strong growth momentum.
- Domestic economic conditions remain broadly resilient, giving the MPC space to wait and watch rather than act immediately.

Budget Measures Supporting Growth

- RBI Governor Sanjay Malhotra noted that several measures announced in the FY26 Union Budget are expected to boost economic activity.
- These include:
 - Income tax cuts, improving household disposable income
 - GST rate rationalisation, easing cost pressures
 - Benefits of earlier RBI rate cuts, supporting credit and consumption
- Together, these factors have strengthened the near-term growth outlook.

External Sector: Cushion from Trade Agreements

- Since the December policy review, India has signed **four trade agreements** with:
 - The United States
 - The European Union
 - Oman
 - New Zealand
- These agreements are expected to:
 - Boost exports and investments
 - Reduce vulnerability to global uncertainties
 - Support medium- to long-term growth
- However, the RBI flagged that global geopolitical developments and external headwinds continue to warrant close monitoring, even as the US trade deal augurs well for the economy.

Consumption as the Main Growth Driver

- Economic growth is being underpinned by robust consumption, projected to grow at around 7% in FY26.
- The consumption outlook has been reinforced by:
 - Subdued inflation
 - Fiscal support measures
 - Monetary easing already delivered
- Additionally, statistical factors, such as a low GDP deflator due to low inflation, contributed to stronger growth in the first half of the fiscal year.

Inflation Outlook: Benign but Watched Closely

- Headline inflation in November and December remained below the tolerance band.
- CPI inflation projections for:
 - Q1 FY27: 4.0%
 - Q2 FY27: 4.2% (slightly revised upwards)
- The RBI clarified that the upward revision is mainly due to higher prices of precious metals, contributing 60–70 basis points, while underlying inflation pressures remain low.

Impact of RBI's Rate Pause on Lending and Deposit Rates

- With the repo rate unchanged, lending rates linked to external benchmarks, particularly the repo rate, are expected to remain stable in the near term.
- As a result:
 - No immediate change in EMIs for home and personal loans linked to the repo rate
 - Borrowers gain certainty over repayment obligations

Possible Movement in MCLR-Linked Loans

- Loans linked to the Marginal Cost of Funds-Based Lending Rate (MCLR) may still see adjustments.
- This is because banks can revise MCLR-based rates based on:
 - Changes in funding costs
 - Liquidity conditions
 - Deposit mobilisation trends
- Thus, MCLR-linked borrowers may experience rate changes even without a repo rate move.

Deposit Rates to Remain Broadly Steady

- On the deposit side:
 - Interest rates are expected to stay stable in the near term.
 - Any change would depend on sustained liquidity pressures or shifts in banks' funding requirements.

The Road Ahead: RBI's Cautious Pause Amid Global Uncertainty

- The Reserve Bank of India appears comfortable with a cautious, wait-and-watch stance.
- With economic growth holding firm, inflation under control, and fiscal spending providing support, there is no immediate need to alter policy rates.
- The February decision thus represents a deliberate pause rather than a shift in policy direction.

Growth Boost from Trade Agreements

- RBI Governor highlighted that recent and forthcoming trade agreements with the European Union and the United States are likely to sustain growth momentum over the medium term.
- He also noted that global growth could be marginally stronger than earlier projections, supported by:
 - Rising technology investments
 - Accommodative financial conditions

- Large-scale fiscal stimulus across major economies

Persistent External Risks

- Despite the positive outlook, risks remain significant:
 - Geopolitical tensions and rising trade frictions
 - Volatile crude oil prices
 - Diverging global monetary policies, as inflation remains above target in many advanced economies and central banks approach the end of easing cycles

Fiscal-Monetary Alignment

- With the government committed to fiscal consolidation, monetary policy is unlikely to face additional pressure.

Source: IE | IE

Source: <https://vajiramandravi.com/current-affairs/rbi-policy-rate-pause-explained/>

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