MONTHLY MACRO-INSIGHTS

FEBRUARY- 2026

Baroda BNP PARIBAS MUTUAL FUND

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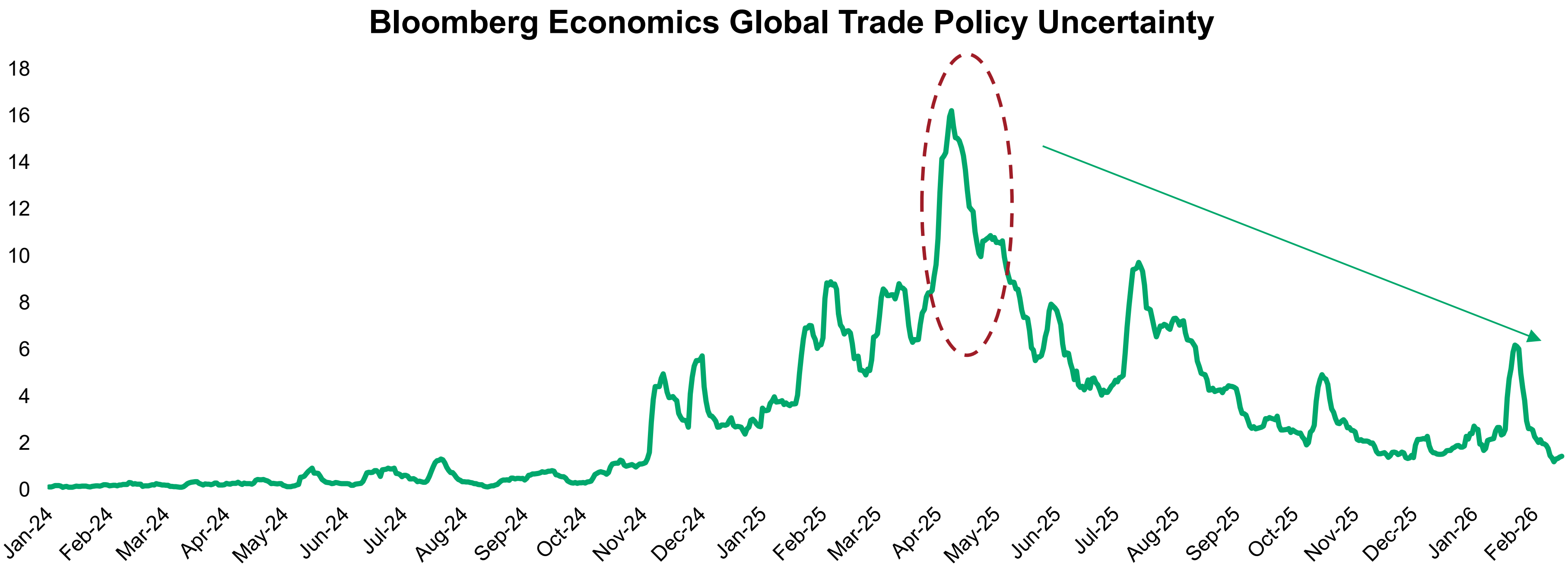
Key Events up to Feb-2026

- ❑ In Union Budget FY27 center has targeted fiscal deficit at 4.3% for FY27, which broadly aligns with its consolidation road map.
- ❑ RBI have revised both growth and inflation projections on the upside. GDP growth is now projected at 6.9% in Q1 FY27 and 7% in Q2 FY27 whereas Inflation is also projected above 4% level for both Q1 and Q2 FY27.
- ❑ India concluded a trade deal with US, bringing down the tariffs on Indian goods down to 18% from earlier 50%.
- ❑ India concluded a Free Trade Agreement (FTA), with European Union, with a combined market estimated at over USD 24 trillion.
- ❑ India concluded a Free Trade Agreement (FTA), with New Zealand and UK expanding trade opportunities.
- ❑ Gold and Silver prices cooled off in Feb-2026, from its high and back to ~USD 5000/ounce levels.
- ❑ Brent Prices have witnessed pressure on the upside led by tension between US and Iran.
- ❑ Domestic yield curve steepened post budget with higher-than-expected gross borrowing number.

Source: BBNPP Research, Data as on February 20, 2026

Global Economy

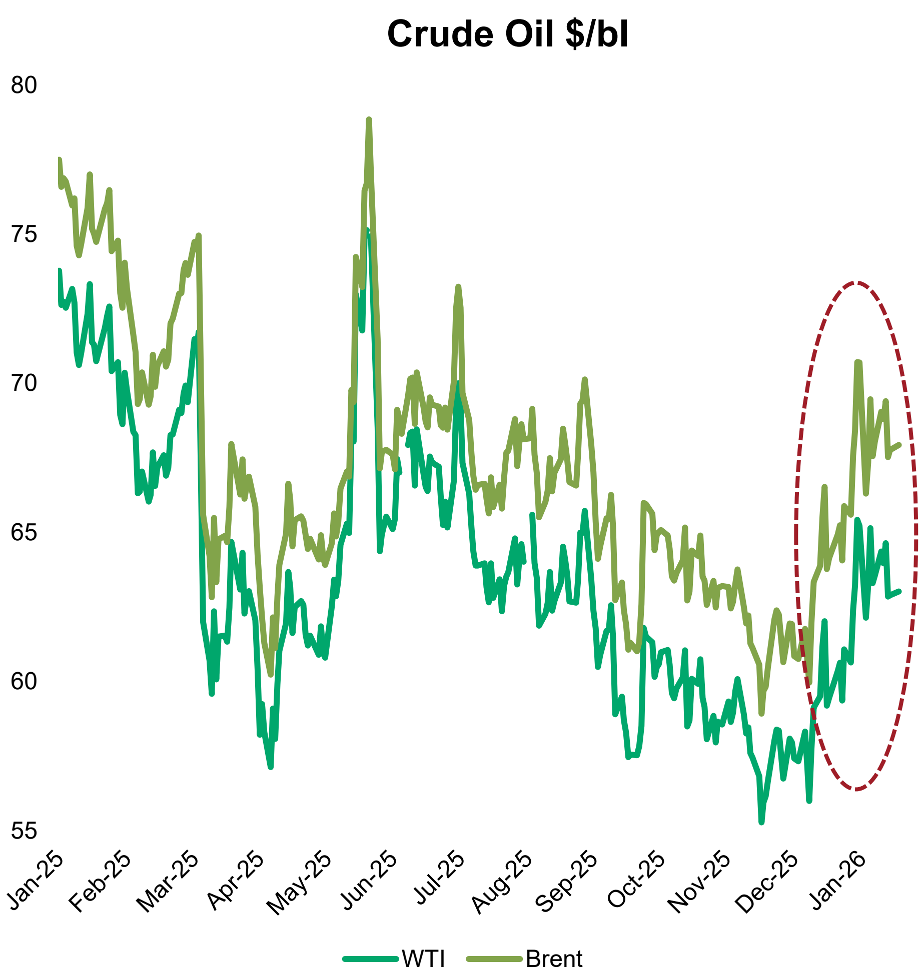
Trade Uncertainty Retreats



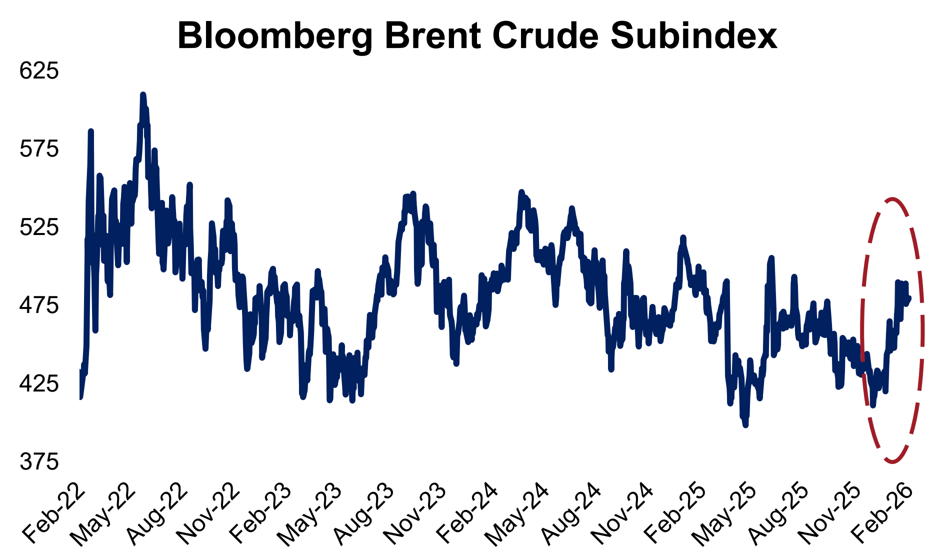
The Bloomberg global trade policy uncertainty index retreated from its recent high as countries negotiate and close trade deals with the US.
The index touched its all time high in April 2025, driven by aggressive U.S. tariff policies, shifting global trade alliances, and rising protectionism.
This index measures news coverage of trade risks, reflecting intense uncertainty that dampens business investment and complicates supply chain management.

Source: Bloomberg, Data as on February 18 , 2026

Brent Prices Riding on…..



- ❑ Renewed US-Iran tensions are lifting oil while disruptions to supply and logistics dent the argument that an abundant surplus will moves prices lower longer term.
- ❑ The added uncertainity on supply is visible in the future delta of future prices measured through Bloomberg brent crude subindex.



Source: Bloomberg, Data as on February 18 , 2026

India – Key FTA's amidst global chaos!

Meanwhile India has concluded major FTAs mentioned below –

- India has concluded major FTAs with UK, New Zealand and European Union.
- The most significant of the deals is India-EU FTA, with an combined **market estimated at ~USD 24 trillion.**
- The EU's average tariff rate on Indian goods will **drop from 3.8% to 0.1%.**
- **This** could boost India's exports and imports from EU which have been stagnant of late.
- **EU accounts for ~17% of India's exports** and India enjoys a trade surplus with EU.
- The FTA reduces tariffs on 99% of India's exports to EU and 97% of EU's exports to India over time.

- **EU-India FTA is a comprehensive agreement that spans both goods and services.**
- **More importantly, there is a comprehensive agreement on mobility for movement of skilled and semi-skilled professionals.**

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Source: Bloomberg, Data as on February 18 , 2026

Domestic Economy

Key Highlights of Budget FY27

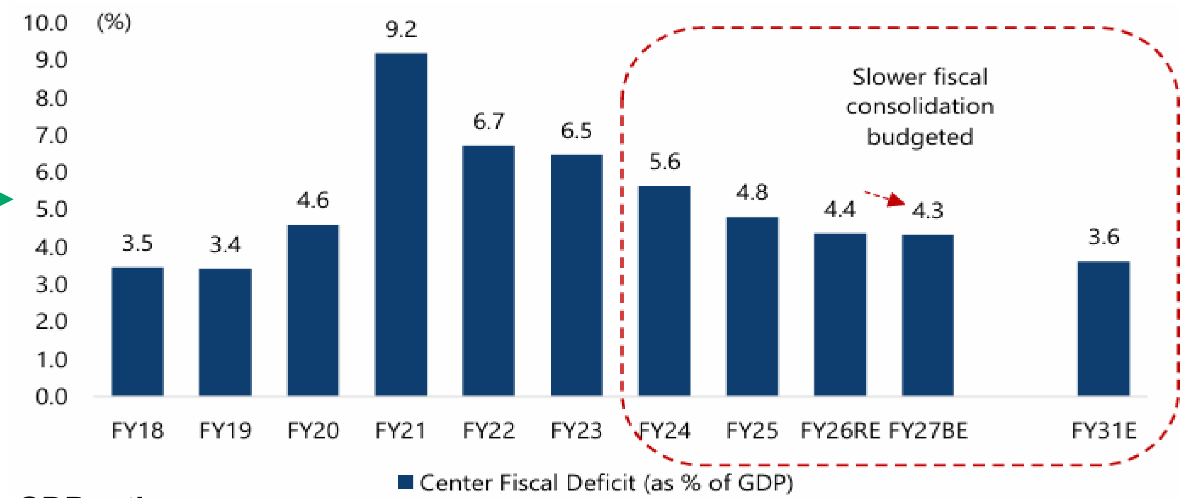
Continued focus on fiscal consolidation	Shift to targeting decline in debt to GDP ratio	Assumptions on tax revenue are realistic
RBI dividend is going to provide the adequate support	Capital expenditure remains elevated with focus on roads, railways and defense.	Revex (ex interest payments) to decline as % of GDP
Focus on MSMEs, AI mission, higher education, and job creation	Divestment receipts ambitious in FY27	Thrust on support to rural employment support

Source: BBNPP Research, Data as on February 04th, 2026

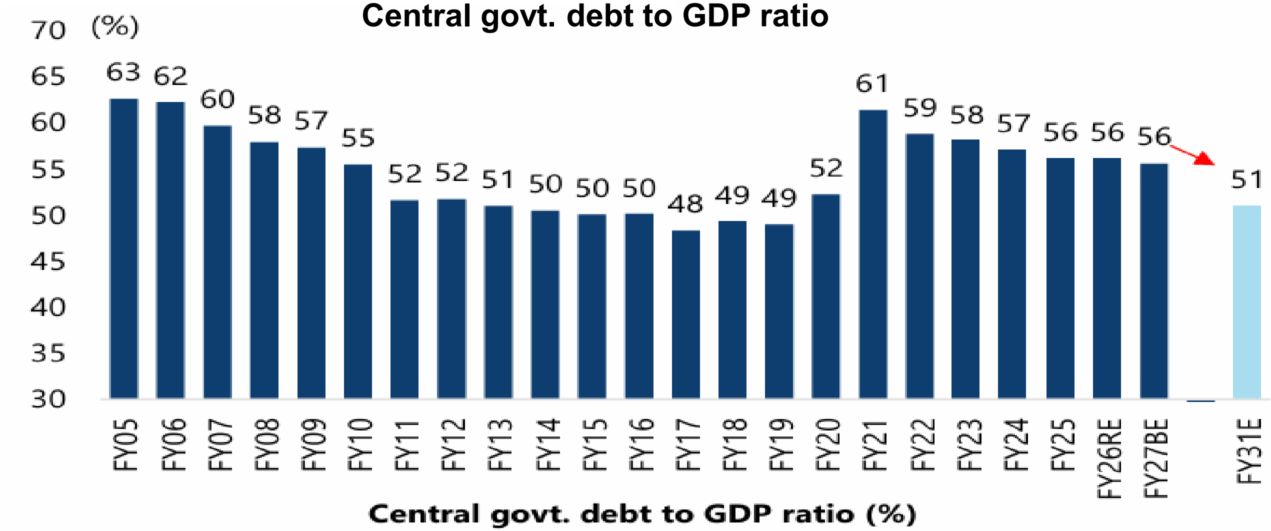
Fiscal Consolidation – Slower but on track!

The pace of fiscal consolidation has been
reduced in FY27 with fiscal deficit down 10 bps of GDP

Trends in fiscal deficit over the past decade; fiscal deficit expected to decline to 4.3% of GDP in FY27BE



Central govt. debt to GDP ratio

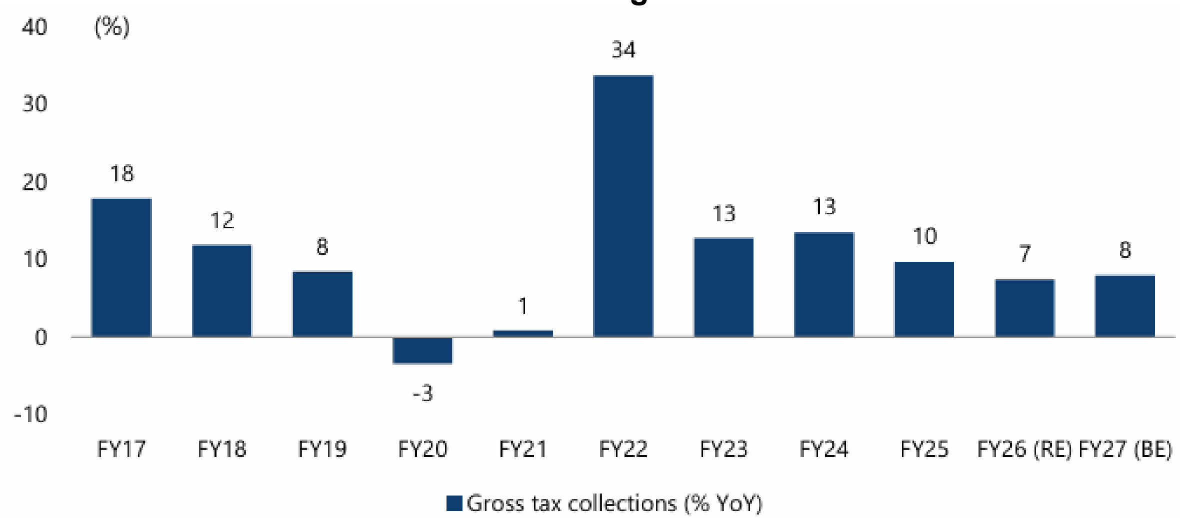


The centre's debt to GDP ratio is projected to maintain its ~1ppt reduction path over the next 4 years

Source: Bloomberg, Jefferies, Data as on February 04th, 2026

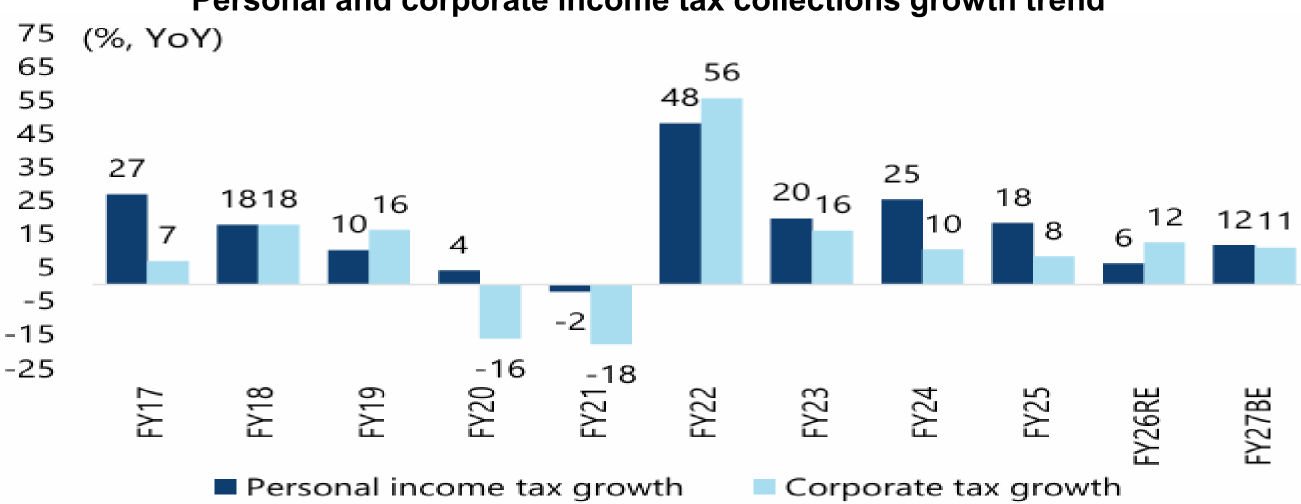
Fiscal Revenue Math - Realistic

Gross tax collections growth trend



Overall gross tax collection growth estimates are lower by 2% from nominal GDP growth at 10%.

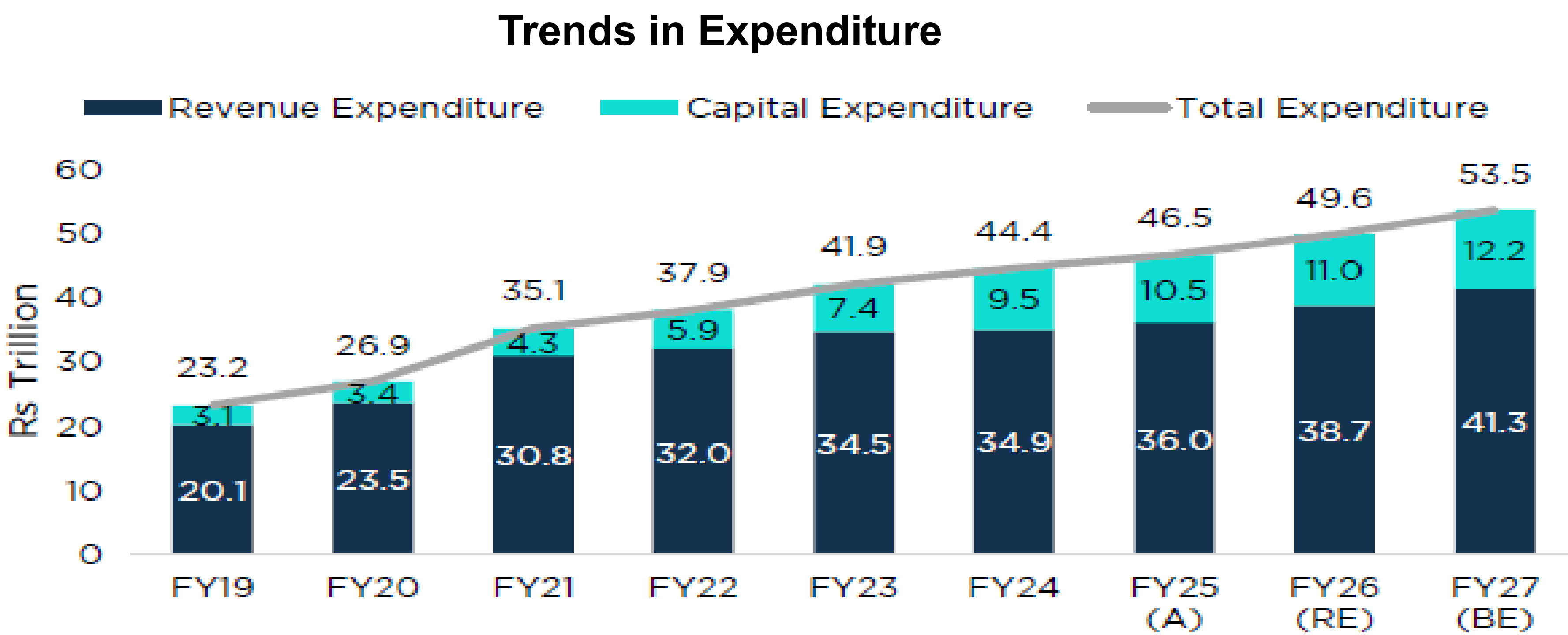
Personal and corporate income tax collections growth trend



Corporate tax growth budgeted at 11.0% YoY in FY27, (-1ppt YoY) while income taxes growth is budgeted to pick up by 6ppt YoY to 12% in FY27

Source: Bloomberg, Jefferies, Data as on February 04th, 2026

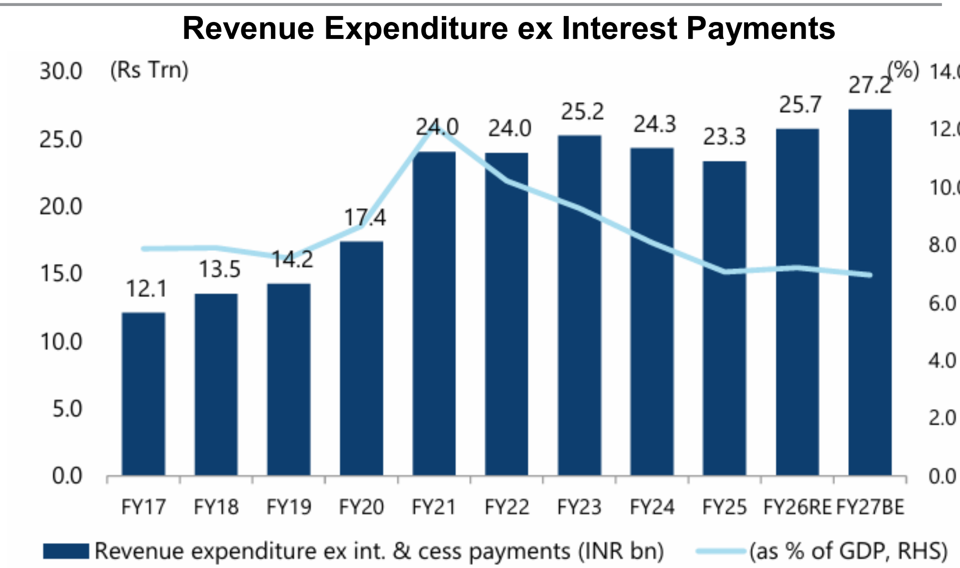
India Expenditure Profile

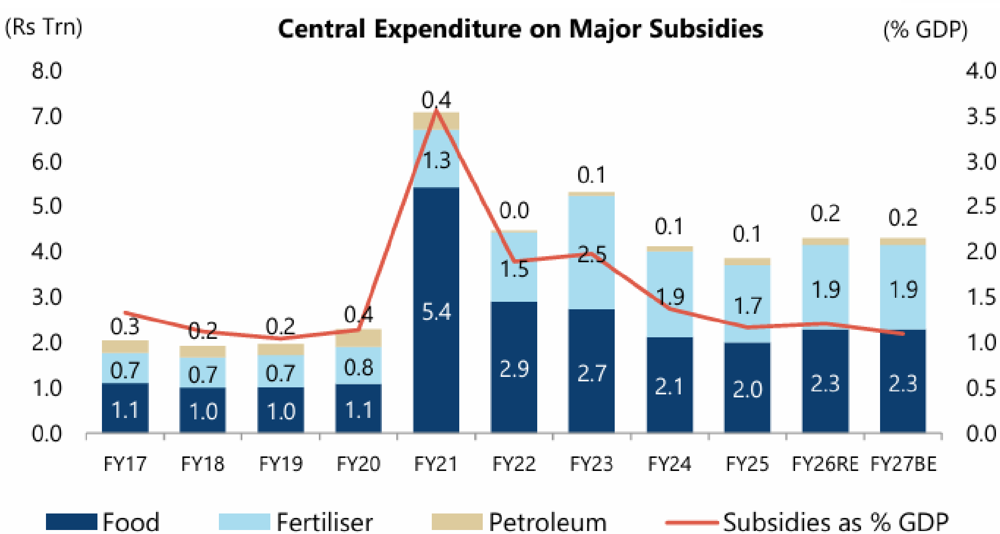


- In FY27, capex is budgeted to be at Rs 12.2 trillion, rising 11.5% (y-o-y).
- Total expenditure-to-GDP is budgeted to decline to 13.6% in FY27 (Vs 13.9% in FY26), amid revex rationalization while capex momentum is maintained.
- With this the Centre's spending quality (capex-to-revex ratio) is budgeted to improve marginally to 0.30 in FY27 from 0.28 in FY26 (RE).
- The spending quality continues to remain above the pre-pandemic average of 0.15 (FY15-19).

A shift in Revenue Expenditure

The revenue expenditure (ex-interest and GST compensation) is budgeted to increase by 5.6% YoY in FY27, declining post covid.



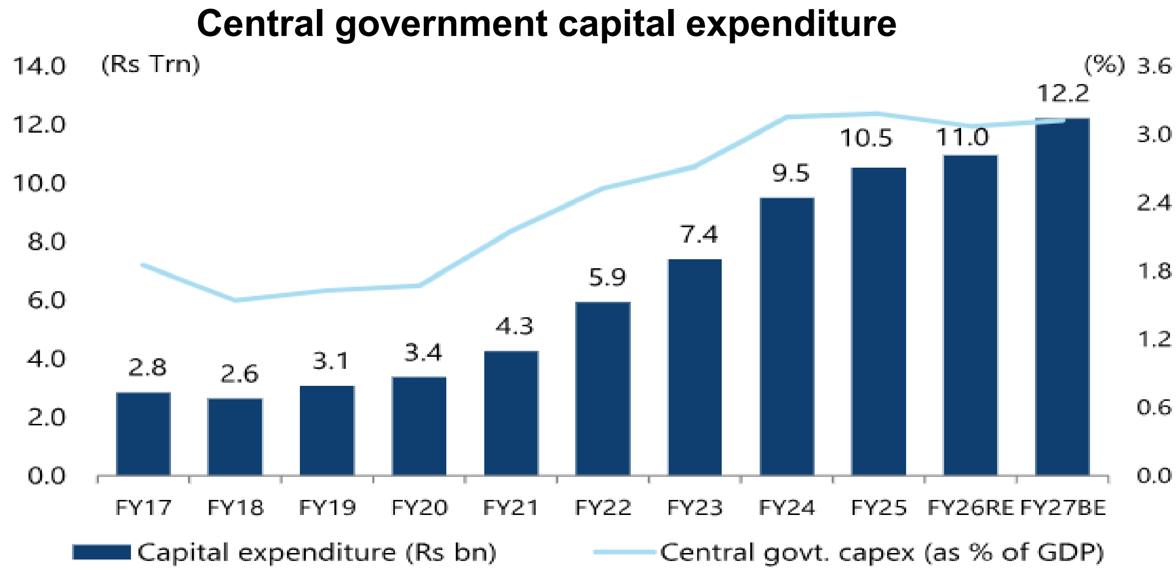


Marginal decrease in subsidies is budgeted, with the ratio as % GDP dropping to the lowest levels in more than a decade.

Source: Bloomberg, Jefferies, Data as on February 04th, 2026

Focus on Capital Expenditure

Capex to GDP ratio doubled over FY20-24 and is now being maintained at those levels



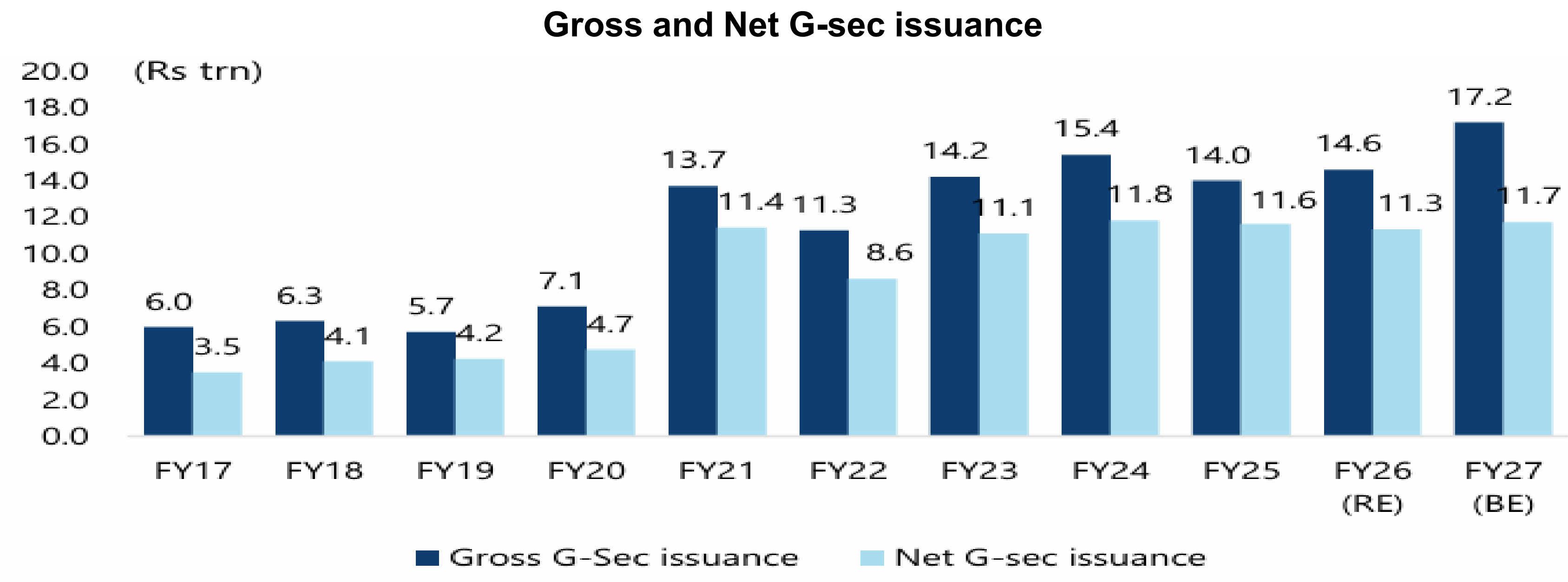
Central Govt Capex Split

Rs bn	FY26 RE	FY27 BE	Growth %
Ministry of Road Transport and Highways	2,721	2,942	8
Ministry of Railways	2,520	2,778	10
Transfer to States	1,750	2,264	29
Ministry of Defence	1,974	2,310	17
Ministry of Housing and Urban Affairs	330	348	6
Ministry of Communications (ex BSNL)	181	201	11
Department of Atomic Energy	121	100	-17
Others	936	971	4
BSNL infusion	69	285	314
New Schemes (Nuclear mission, Maritime fund, NaBFiD partial credit enhancement, etc.)	357	20	-94
Total capital expenditure	**10,958**	**12,218**	**12**

Defense capex to grow by 17% while road and railways capex to grow by 8% and 10% Respectively.

Source: Bloomberg, Jefferies, Data as on February 04th, 2026

Funding the Deficit



- ❑ Gross market borrowings budgeted at Rs 17.2 trillion for FY27, amid higher redemptions.
- ❑ Net market borrowings estimated at Rs 11.7 trillion for FY27.
- ❑ Gross borrowing is slightly higher than our expectations, which could increase upward pressures.
- ❑ Net borrowings to fund 69% of fiscal deficit in FY27, up from 67% in FY26.
- ❑ The recent buyback and switch by RBI of ~75,000 crore will offset upward pressure on yields from higher gross issuance.

Source: Bloomberg, Jefferies, Data as on February 04th, 2026

RBI MPC Feb 2026- Onset of long pause

- MPC maintained a pause on repo rate while retaining the neutral stance.
- The policy is in line with broader projections on growth and inflation, both being revised upwards with further clarity to come with release of the new series.

Key Policy Highlights –

Monetary transmission and liquidity measures still in hand -

- Even though rate cut seem to be distant, the governor's emphasized on preemptive liquidity measures.
- This reflects RBI's commitment to ensure ample and orderly banking system liquidity, therefore supporting transmission of rate cuts in the economy.

Global trade tariffs and clarity on the same –

- Recent announcements on India US trade deal and lowering of tax from 25% to 18% has been positive for Indian rupee and has released some pressure from INR.

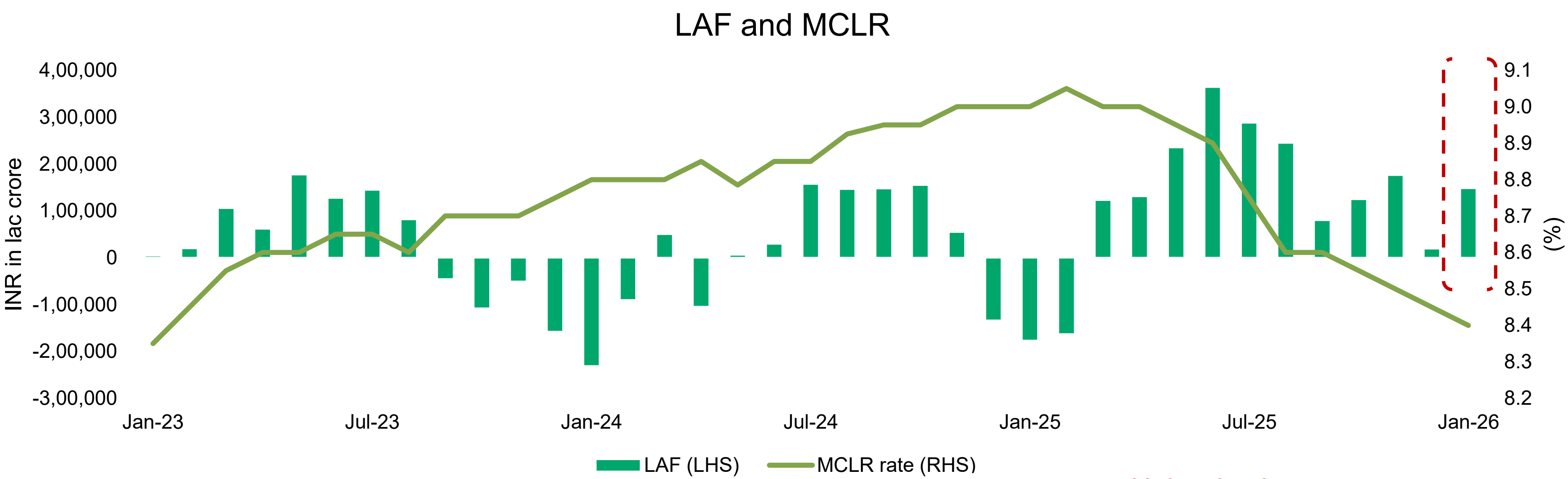
RBI Inflation Estimates	FY26	Q1 FY27	Q2 FY27
February-2026 Policy	2.1	4.0	4.2
December-2025 Policy	2.0	3.9	4.0
RBI Growth Estimates	**FY26**	**Q1 FY27**	**Q2 FY27**
February-2026 Policy	7.4	6.9	7.0
December-2025 Policy	7.3	6.7	6.8

Our View

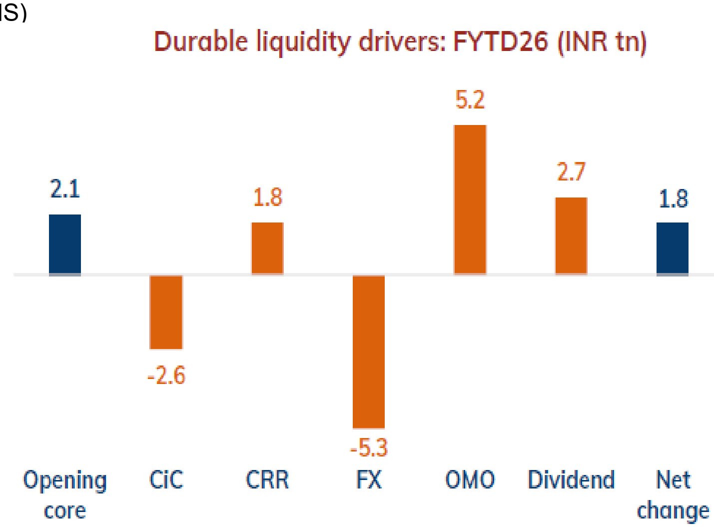
- The decision to pause aligns with broader projections on inflation and growth, both being revised upwards.
- Looking in retrospect, RBI did a lot of heavy lifting of pushing growth since last year by cutting rates and providing almost ~18-20trn of liquidity support amidst global headwinds and weak domestic conditions.
- Clearly transmission of rate cuts is where we see RBI's focus for next couple of policies.

Source: RBI, Data as on Feb 06th , 2026

Improving Liquidity and Transmission of Rate cuts!



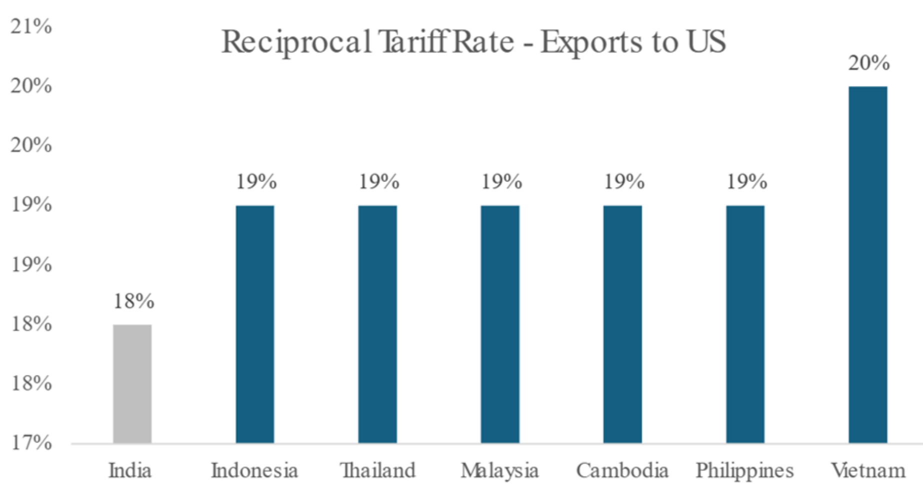
- RBI continued its liquidity easing measures, system liquidity conditions improved.
- The month-end government spending is expected help in improving system liquidity back to around 1.25-1.5% of NDTL.
- RBI is likely to manage the frictional year end liquidity requirement through VRR operations across various tenors.
- We expect rates to remain closer to the lower end of the LAF corridor as system liquidity remains comfortable.



Source: Bloomberg, RBI Data as on Feb, 06th , 2026
MCLR- Marginal Cost of Lending rate
LAF – Liquidity Adjustment Facility

US India Tariff Deal

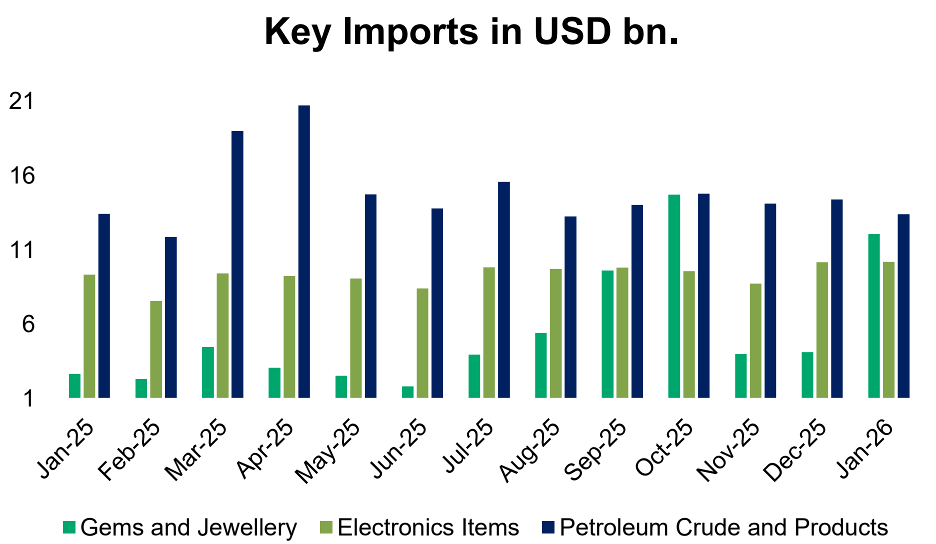
- USD/INR appreciated after US cut import tariffs on India were slashed to 18% from earlier 50%.
- This removes a key source of uncertainty with respect to the growth outlook and bodes well for external demand to support the growth trend, with improving business sentiment.



- This move brought back competitive power to Indian goods in the export market by placing India favorably amongst Asian EM's.

Source: Bloomberg, Data as on February 18 , 2026

India Trade Dynamics

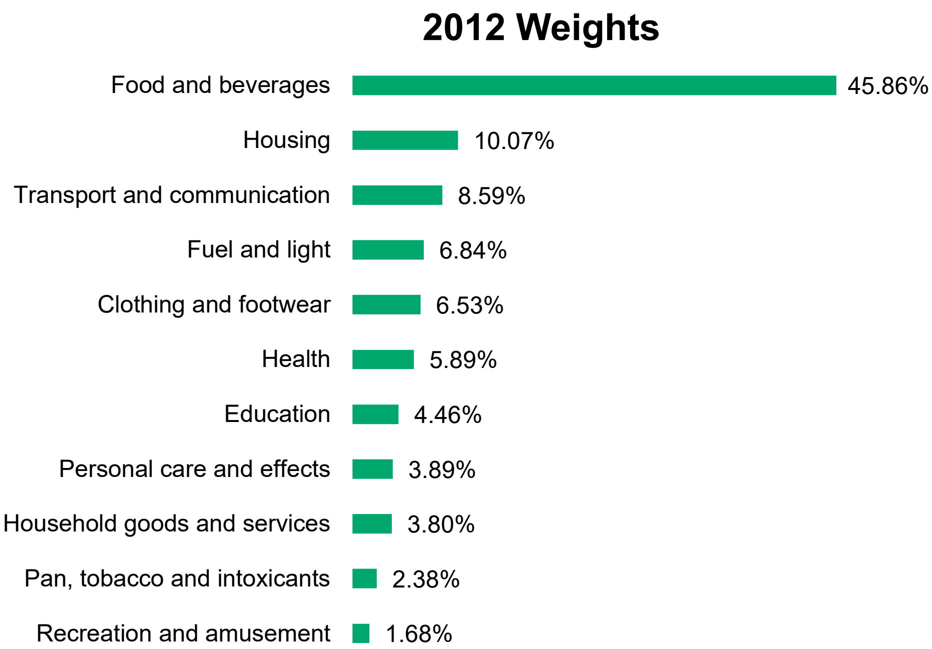


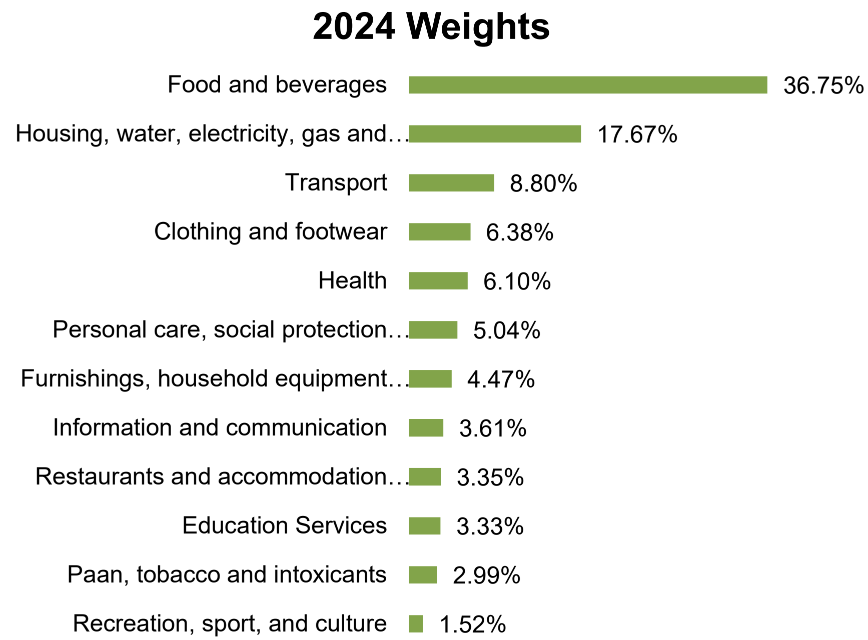
- India's trade deficit jumped to a three-month high in January-26 at US$34.7bn v/s US$25bn deficit in December -25.
- The rise in the deficit was led by gold imports which rose to US$12.1bn in January v/s US$4.1bn in December-25.
- Exports were lower by US$2bn MoM, led mainly by non-oil exports.
- India's trade balances have faced headwinds from US tariffs to higher commodity prices. Another brewing headwind can arrive from pick up in brent prices as US Iran situation worsens.
- Therefore, INR mobility will largely depend on the core fundamentals of trade balances and thus can go sideways.

India's monthly exports to US were flat YoY during Sep-Dec'25

Source: Bloomberg, MCI, Data as on February 18 , 2026

India Inflation – New Series



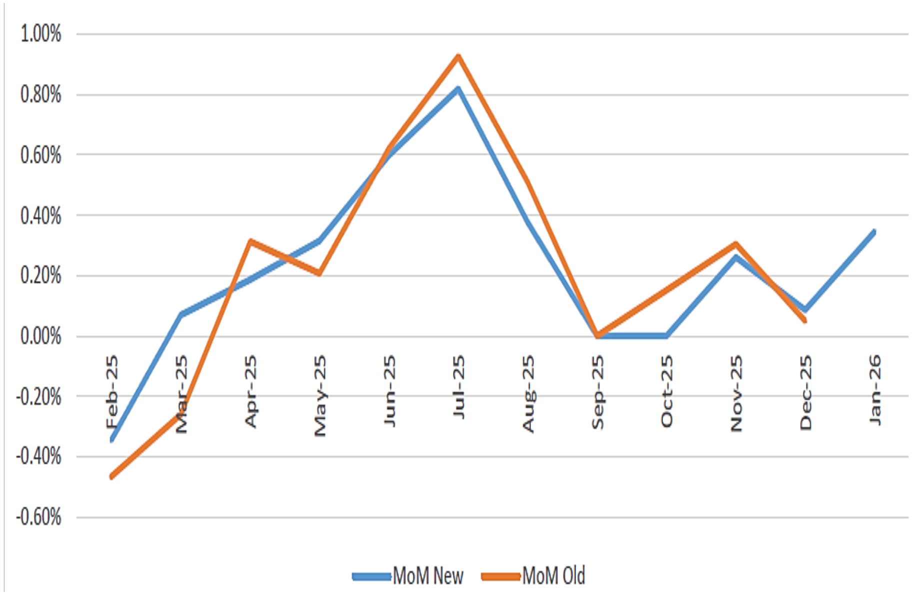


- The new base year series will reduce the volatility in headline inflation with lower weight to food inflation and higher weight to core inflation.
- Momentum in food inflation will pick up in the new series given the shift in weights, also the change weights reflect the current consumption pattern given the change in per capita income.
- Core inflation (CPI excl. food, beverages and fuel) stood at 3.4%, lower than the the old series, which was around 4.3%, largely reflecting lower inflation for housing, healthcare, transport, communication and other services.
- The weight on core items in the new base year series has increased to 51% from 44.9% in old base year series. Meanwhile, the weight of food and beverages has declined to 40.1% from 45.9% in old base year series.
- In the new base year series, housing inflation is captured for both urban and rural areas compared to only urban areas in the old base year series.

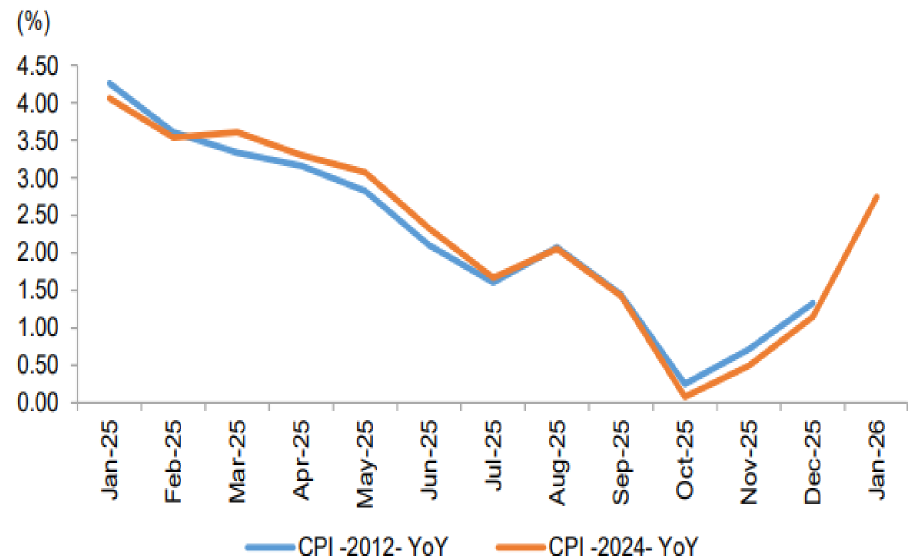
Source: Bloomberg, Data as on February 13th , 2026

India Inflation – New Series

MoM change in CPI – Old vs New

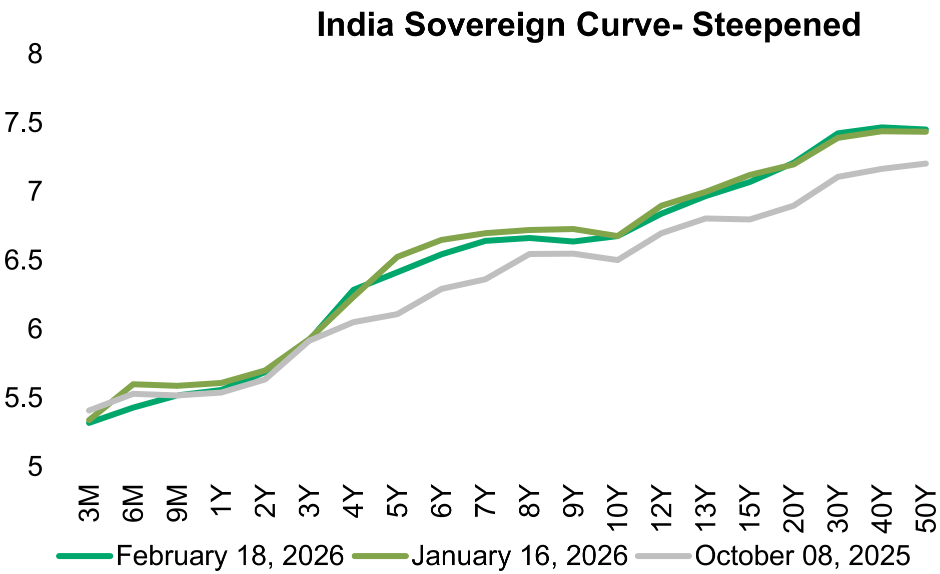


CPI YoY% – Old vs New



- Headline CPI inflation in Jan-2026 stood at 2.75%, based on the new CPI series with the base year as 2024.
- Food items such as vegetables, pulses and cereals witnessed strong decline in prices.
- Whereas higher-than-expected food inflation was driven by fruits, dairy products, eggs, meat and edible oils.
- RBI assessment of underlying inflation momentum is unlikely to change with core inflation for previous months remaining in line with the new series.
- Given RBI's projection for Q1 and Q2 FY27 inflation rising towards target levels and strong domestic demand conditions we expect RBI to remain on a prolonged pause.
- The focus of monetary policy will remain on liquidity management, to ensure that transmission of past rate cuts via the banking system.

India Rates!



Measure	Amount in crores
Security bought back by the Government from RBI	**75,504**
Switch/Conversion Transactions with the Government of India	**25,000**

- Post budget, till early feb-2026, we saw domestic bonds markets went in a sell off, with higher than anticipated gross borrowing number at Rs. 17.2 trn.
- Additionally higher SDL borrowing too dented the sentiments.
- This led to elevated rates and spreads.
- Recently, New CPI data along with much softer-than-expected core inflation aided the bond market sentiments.
- RBI policy maintained its pause on repo but the language on pre-emptive liquidity measures gave confidence on comfortable liquidity conditions going forward.
- Therefore later we witnessed overnight rates to have fallen below repo.
- The bond market sentiments got another lift after the government announced a switch with the RBI, reducing the FY2027 maturities by Rs 75,000.
- The gross borrowing amount has accordingly reduced to Rs16.4 tn for FY27.
- We find value in 1-5 year g-sec curve, 1 year CD and 3 year corporate bond given elevated spreads.

Source: Bloomberg, Data as on February 18 , 2026

Fixed Income Markets Outlook

Global Monetary Dynamics –

- FOMC and Bank of Japan continue with contrary monetary policy outlook.
- The pressure of the above can keep high uncertainty in the global rates market.
- We expect FED to remain accommodative on rates front amidst political pressure and soft labour market.

Domestic Growth & Inflation –

- Shift in base year for GDP and inflation looks fundamentally positive for the economy.
- Growth and inflation projections will change as the base year changes.
- The new index for inflation has reduced weights for food cpi and higher weights for core CPI.
- This will give a better picture of actual inflation in the economy.
- Overall, RBI's language on growth is supportive and comfortable on inflation.

Currency-

- Recent announcement of US trade deal is expected to support INR and FII sentiments.
- Latest FTA deals are sentiment boosting and also opens different market access to India for both goods and services.
- Therefore, at current levels we see INR valuations being closer to fair level.
- This provides an entry point opportunity for foreign investors in domestic fixed income markets.

Spreads and Rates

- RBI has been very proactive on liquidity and rates front. Even though the spreads are elevated due to higher CD ratio.
- We believe RBI's concerns on growth, will be visible on rates through liquidity measures.
- Also, next quarter we expect some normalization of CD ratio.
- With expectations of further RBI liquidity measures we expect yield curve steepening.
- Going ahead, spreads and accrual would be a major source of alpha as compared to duration in the portfolio.

Source: PIB, RBI, Bloomberg, BOJ, FOMC, BOE, ECB, MOSPI. Data as on Feb 20 2026**.**
Past performance may or may not be sustained in future and is not a guarantee of any future returns.

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