# RBI CUTS RATES BY 25 BPS

RBI maintains policy stance at "**Neutral"** and announces to conduct **OMO (Open Market Operations) purchases of ₹1 Lakh Crore**.

### Revised Policy Rates

| Policy Tools | New Rates (5th December 2025) | Previous Rates (1st October 2025) | Change |
|---|---|---|---|
| **Repo** | 5.25% | 5.50% | 25 bps ↓ |
| **Marginal Standing Facility (MSF)** | 5.50% | 5.75% | 25 bps ↓ |
| **Standing Deposit Facility (SDF)** | 5.00% | 5.25% | 25 bps ↓ |
| **Bank Rate** | 5.50% | 5.75% | 25 bps ↓ |

### Inflation and Growth Estimates

| RBI Quarterly CPI inflation forecast | | |
|---|---|---|
| Q3FY26 | **0.6%** from 1.8% | Lowered |
| Q4FY26 | **2.9%** from 4.0% | Lowered |
| Q1FY27 | **3.9%** from 4.5% | Lowered |
| Q2FY27 | **4.0%** | New Estimate |
| RBI FY26 CPI estimates cut to **2.0%** from 2.6%. | | |

| RBI Real GDP growth estimates | | |
|---|---|---|
| Q3FY26 | **7.0%** from 6.4% | Raised |
| Q4FY26 | **6.5%** from 6.2% | Raised |
| Q1FY27 | **6.7%** from 6.4% | Raised |
| Q2FY27 | **6.8%** | New Estimate |
| RBI FY26 GDP growth estimates raised to **7.3%** from 6.8% | | |

### Monetary Policy Update

The RBI delivered a **25 basis points** (bps) repo rate cut, bringing the policy rate to **5.25%** while maintaining a **neutral stance**. The move reinforces accommodative financial conditions at a time when the economy is positioned in what the Governor described as a "rare Goldilocks period"— robust growth, exceptionally low inflation, and manageable external risks. With a **cumulative 125 bps** of easing since February, policy rates believed to be now at or near terminal, with only a small probability of another 25 bps cut if inflation stays anchored near 2%.

Liquidity was the defining feature of this policy. The RBI announced **₹1 trillion of OMO purchases** and a **$5 billion USD/INR swap** to inject durable rupee liquidity. These measures should help contain term premia, enhance money market stability, and create a constructive backdrop for the rates curve.

Source: RBI Monetary Policy Statement 5th December 2025
MPC – Monetary Policy Committee, CPI – Consumer Price Index, GDP – Gross Domestic Product

External risks like slowing global growth, trade headwinds, and market volatility were acknowledged but remain secondary to India's strong domestic macro foundation.

Market reaction was in line with expectations, with the 10-year G-sec yield softening modestly after the policy. More importantly, the RBI's liquidity infusion creates a favourable demand environment for government bonds. This backdrop supports taking some duration exposure, particularly in the 4–8 year "belly" of the curve, where demand from both domestic liquidity and foreign investors is likely to remain robust.

**Our View**

The latest policy backdrop reflects a macro environment where inflation has collapsed to historic lows even as growth remains impressively resilient. This combination has sharpened the RBI's dovish tilt, with inflation for FY26 now projected at 2% and growth revised up to 7.3%. The first half of the year resembled a near-textbook Goldilocks phase, supported by festive spending and GST rationalisation. Importantly, a meaningful part of recent inflation came from precious metals, suggesting underlying demand-side pressures are even softer than headline readings imply.

The communication signals that the RBI is increasingly comfortable with the disinflation trend, creating space for a more meaningful debate around the possibility of further easing if medium to long-term growth risks intensify — particularly given uncertainties such as the unresolved trade negotiations with the U.S. While not the base case, a scenario where the policy rate moves toward 5% cannot be dismissed entirely. For now, however, the emphasis remains on ensuring effective transmission of the easing already delivered.

Policy trade-offs have shifted decisively toward growth support, reflected in the RBI's commitment to maintaining a minimum level of durable liquidity. This assurance provides commercial banks greater comfort as they navigate a landscape where the balance between inflation control and growth revival is evolving.

From an investment perspective, the improving liquidity backdrop supports a constructive stance across shorter segments of the curve. Liquid and Money Market Funds remain efficient deployment avenues as overnight rates soften. The 2–5 year sector is likely to stay well-bid, offering a favourable risk–reward balance. Banking & PSU strategies continue to be appropriate for investors reallocating from longer-duration exposures. At the ultra-long end, spreads and absolute yield levels remain attractive, though suitability is limited to genuinely long-term investors, given we are approaching the end of the rate-cut cycle.

Source: RBI Monetary Policy Statement 5th December 2025
GST – Goods and Services Tax

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