RBI FIFTH BI-MONTHLY POLICY REPORT FY25 -26

5th December, 2025

RBI's MPC unanimously voted to reduce Repo Rate by 25bps to 5.25% & have decided to continue with the "Neutral" stance.

India enters the end of the year 2025 with strong growth and exceptionally low inflation**. The Governor of RBI calls <u>the period "a rare goldilocks period" with inflation at 2.2% and growth at 8.0% in H1FY26</u>.** The 58th meeting of the Monetary Policy Committee (MPC) took place from Dec 3rd -5th , 2025. Following an detailed evaluation of the macroeconomic environment that witnessed robust growth and benign inflation, the MPC unanimously decided to cut the policy repo rate to 5.25% from current 5.5%, **Likewise Standing Deposit Facility (SDF) rate under the liquidity adjustment facility (LAF) remains unchanged at 5.0% and marginal standing facility (MSF) & Bank rate at 5.5%.**

The "Neutral" stance decision was unanimously taken by MPC, as for the first time since the establishment of flexible inflation targeting (FIT), average headline inflation for Q2FY26 came in at 1.7%, surpassed the lower tolerance barrier (2%) of the inflation target of (4%) on upside. In October 2025, it fell even lower to just 0.3%. High spending during Puja Holiday season which was aided by GST rationalization, propelled real GDP growth to 8.2% in Q2FY26.Taking all these factors into account projection for real GDP growth for FY25-26 has been revised at 7.3%, with Q3FY26 at 7.0%, Q4FY26 at 6.5% ,Q1FY27 & Q2 at 6.7% & 6.8% respectively. In October 2025, the CPI inflation fell to an all time low contrary to the typical trend observed during the month of September-October in past. The correction in food prices was the driving force behind the faster than expected decrease in inflation. On CPI Inflation Front, the RBI has projected 2.0% for FY25-26, with Q3Y26 at 0.60%, Q4FY26 at 2.90% ,3.90% in Q1FY27 and Q2FY27 at 2.90% respectively.

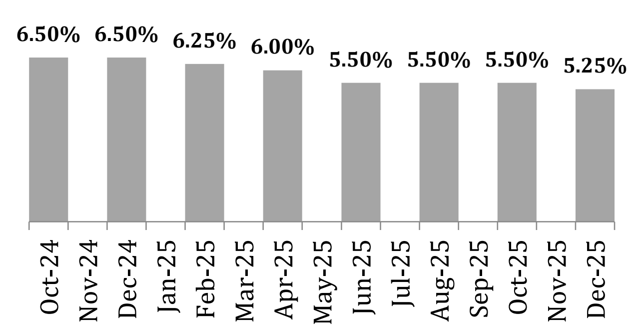
RBI's GDP GROWTH OUTLOOK

Period	Projection	Earlier
Q3FY26	7.00%	6.40%
Q4FY26	6.50%	6.20%
FY25-26	**7.30%**	**6.80%**
Q1FY27	6.70%	6.40%
Q2FY27	6.80%	-

RBI's CPI INFLATION OUTLOOK

Period	Projection	Earlier
Q3FY26	0.60%	1.80%
Q4FY26	2.90%	4.00%
FY25-26	**2.00%**	**2.60%**
Q1FY27	3.90%	4.50%
Q2FY27	4.00%	-

RBI REPO RATES (%)



MARKET's REACTION*

Nifty50	**26186.45** ▲ **152.70**	▲ **0.59%**
Nifty Bank	**59777.20** ▲ **50.90**	▲ **0.82%**

*Data as on 5th December 2025

❖ Liquidity and Financial Market Conditions

- System liquidity , measured by net position under LAF, stood at an average surplus of Rs.1.5 lakh crore since the last MPC meeting in October 2025, indicating comfortable system liquidity, preventing volatility in short term rates and supporting smoother monetary transmission.
- Money market rates remained largely aligned to the policy repo rate, signaling orderly market functioning. G-Sec yield stayed range-bound, despite external uncertainties.
- Weighted average lending rate (WALR) on fresh rupee loans declined by 69bps during Feb-Oct 2025 vs the policy rate cut of 100 bps, showing transmission effectiveness.
- On outstanding rupee loans, Weighted Average Domestic term deposit rate (WADTDR) has softened by 32 bps, while on fresh deposit side has declined by 105 bps.
- RBI ensures that there is enough liquidity in the system that would allow lending and borrowing in the economy smoothly. It keeps checking how much liquidity (money) the banking system needs based on factors like cash demand by people, foreign exchange flows, and reserve requirements of banks.
- RBI has decided to inject durable long-term funds by buying government securities (OMO purchases) worth Rs.1,000,00 crores and conducting 3-year USD/INR buy-sell swaps of USD 5 billion this month. These steps will add long-term liquidity, keep interest rates stable, and help banks pass on policy rate cuts faster to borrowers (meaning cheaper loans for businesses and households).
- RBI reiterated that the repo rate remains the primary instrument for monetary policy. OMO operations aim only to ensure adequate liquidity, not to guide G-sec yields. It also suggests that yield curve movements will continue to be market-driven, not artificially suppressed.

❖ Financial Stability

- India's banking system remains fundamentally strong supported by solid balance sheet expansion and improving asset quality. Credit and Deposits grew 11.31% and 9.74% yoy respectively during Oct 2024 to Oct 2025, while capital strength remains robust with CRAR at 17.24%, comfortably above regulatory requirements. Asset quality continues to improve with GNPA at 2.05% and NNPA at 0.48%, supported by strong recoveries and disciplined underwriting. Liquidity buffers are healthy, reflected in LCR (Liquidity Coverage Ratio) of 131.69%, and profitability remains stable with RoA at 1.32%, RoE at 13.06% and NIM at 3.26% Vs 3.52% in Sep 2024.
- NBFCs continue to demonstrate strong financial resilience with total CRAR (Capital to Risk Weighted Asset Ratio) at 25.11% and Tier1 CRAR at 23.27%, signaling comfortable capital adequacy. Asset quality has strengthened further, with GNPA improving to 2.21% and NNPA declining to 0.99% from a year earlier. Profitability momentum remains positive with RoA at 3.2% and RoE improved to 14.42%, while NIM moderated to 4.24% due to competitive lending condition.
- The total flow of financial resources to the commercial sector increased from Rs.16.5 lakh crore in 2024-25 to Rs.20.1 lakh crore in FY25-26,.
- Credit from banks and NBFCs increased 13% YoY, reflecting demand recovery & financial support to industry.
- Strong capital buffer of banks and credit growth create a positive outlook for banking sector valuations.
- Stable liquidity and FX reserves backup helps reduce INR volatility, favoring foreign investors.

❖ External Sector

- India's external position continues to demonstrate resilience, providing a meaningful macro cushion amid global volatility. The current account deficit (CAD) moderated sharply from 2.2% of GDP in Q2FY25 to 1.3% of GDP in Q2FY26, driven by robust services exports and strong remittances.
- Merchandise exports contracted in October 2025 by 11.9% YoY basis where as merchandise import rose by 16.9% to reach an all time high of USD $76.1 billion resulting in widening of trade deficit.
- Yet healthy services exports grew by 8.8% yoy during Q2FY26, while services import rose 3.7% with net exports growing by 14.5% during the same period. In October 2025, services exports at US$ 35.2 billion grew at 2.2 %, , while services imports at US$ 17.7 billion increased by 2.9 %. Net services exports grew by 1.5 % and stood at US$ 17.4 billion. Healthy services export momentum and firm remittance inflows are expected to keep CAD contained through FY26.
- On financing front, gross FDI inflows strengthened significantly, rising 19.4% to US$ 51.8 billion in April-September 2025-26 from US$ 43.4 billion during the same period. Meanwhile, Foreign portfolio investment (FPI) registered net outflows of US$0.7 billion so far (April-December 05) due to outflows in equity segment although flows under ECB borrowing and NRI deposits moderated compared to last year.
- A major pillar of confidence remains the foreign exchange reserves; as of November 28, 2025, reserves stood at US$ 686.20 billion, providing over 11 months of import cover –a level that materially reduces external vulnerability and stabilizes the currency.
- Despite some depreciation phases in the INR due to global risk-off moves and shifting yield dynamics, India's strong fundamentals and ample reserve buffers reinforce confidence in meeting all external financing needs comfortably.

❖ Additional Measures

- RBI is sharpening its focus on customer service accountability across the financial system. A series of measures, like Re-KYC simplification, improved financial inclusion and initiatives like "Aapki Poonji, Aapka Adhikar" have been rolled out to make access to banking more transparent and seamless. Digital processing efficiency has significantly improved, with over 99.8% of customer applications now being disposed within stipulated timelines, reflecting a major operational upgrade.
- However, the rising volume of complaints with RBI Ombudsman has highlighted gaps in grievance handling across regulated entities. To address this, The RBI will launch a two-month nationwide resolution campaign starting 1st January, aimed at clearing grievances pending for more than a month, sending a strong signal that customer –centricity is non-negotiable . The regulator has urged all institutions to tighten service quality, improve transparency and ensure faster issue resolution.

❖ Concluding remarks

- Global macro conditions have evolved more favorably than initially expected. Contrary to earlier concerns, global growth has held up relatively well despite geopolitical tensions and trade uncertainties. However, inflation trajectories remain divergent across major economies, while most advanced markets are seeing inflation easing toward target, headline inflation in many emerging economies remain above comfort levels. This divergence is creating conflicting pushes and pulls in global financial markets. Optimism from AI-driven growth themes is being offset by uncertainty around capital flows, elevated valuations and policy direction from major central banks. This backdrop continues to influence risk sentiment and yield spreads, adding complexity to monetary transmission globally
- Despite a challenging global environment, the Indian Economy has displayed remarkable resilience and is positioned to sustain high growth momentum. With inflation projected to ease further, policy headroom has expanded, providing space to support growth while maintaining macroeconomic stability. RBI reiterated that it will proactively meet the liquidity and credit needs of the economy, ensuring financial conditions remain supportive of real sector activity.
- A resilient macro drop, moderating inflation, comfortable external buffers, stable liquidity conditions, strong financial sector fundamentals and customer-centric reforms positions India for sustained growth while preserving monetary and financial stability.

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