

RBI MPC cut policy repo rate by 25bps to 5.25%; announced measures to inject durable liquidity in the banking system

December 11, 2025

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RBI MPC meeting highlights, December 2025

Policy decisions

- In its policy decision on 5-Dec, the RBI MPC cut the policy repo rate unanimously by 25bps to 5.25%. The standing deposit facility (SDF) rate stood adjusted to 5.00%, and the marginal standing facility (MSF) rate and Bank Rate at 5.50%.
- The MPC kept the monetary policy stance at 'neutral'. But the decision was not unanimous, with one external member, Prof. Ram Singh voting for a change in stance to accommodative.

Liquidity easing

- In his statement, the Governor announced measures by the RBI to inject durable liquidity into the banking system. These included –
  - OMO purchases of government securities for an aggregate amount of Rs.1 lakh crore in two tranches of Rs.50,000 crore each to be held on 11-Dec-2025 and 18-Dec-2025.
  - USD/INR Buy/Sell Swap auction of USD 5 billion for a tenor of three years to be held on 16-Dec-2025.

Growth outlook

- The RBI MPC raised real GDP growth forecast for FY26 to 7.3% from 6.8% earlier. The forecasts for Q3 and Q4 of FY26 and for Q1 of FY27 were all revised higher, while estimate for Q2-FY27 was introduced at 6.8%.
  - Q3-FY26: 7.0%YY from 6.4% in Oct policy.
  - Q4-FY26: 6.5% from 6.2%.
  - Q1-FY27: 6.7% from 6.4%.

Inflation outlook

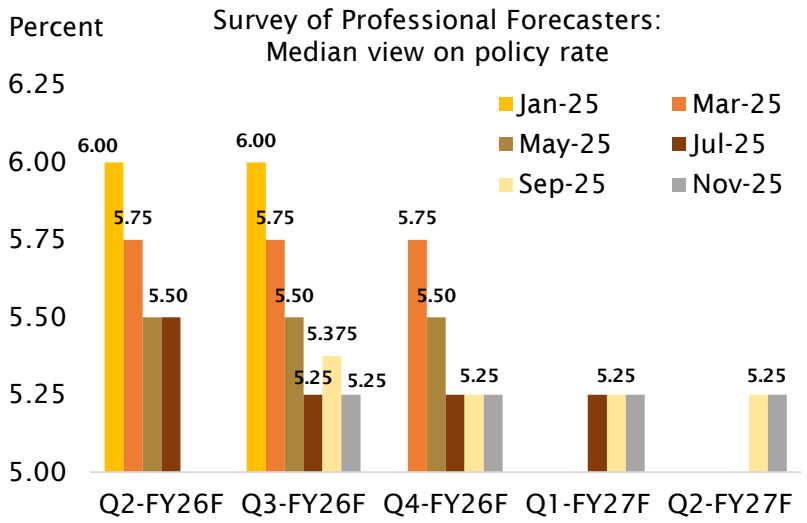
- The MPC lowered CPI inflation forecast for FY26 to 2.0% from 2.6% in the previous meet, with downward revisions across Q3 and Q4 of FY26 and for Q1 of FY27. The projection for Q2-FY27 was introduced at 4.0%.
  - Q3-FY26: 0.6% from 1.8% in Oct policy.
  - Q4-FY26: 2.9% from 4.0%.
  - Q1-FY27: 3.9% from 4.5%.

Rationale for policy decisions and outlook

- **Rationale for policy decisions and liquidity easing steps:** In his statement, the RBI Governor characterized the current growth-inflation dynamics as a rare goldilocks period whereby inflation dipped below the 2% lower tolerance threshold for the first time since the RBI adopted flexible inflation targeting framework. CPI inflation averaged 1.7% in Q2-FY26 and growth printed above 8%, buoyed by festive season spending and GST rate cuts. Though resilient, the MPC noted that it expected growth to soften as some of the supportive factors from H1 were likely to fade in H2. On the other hand, the MPC expected inflation to remain low mainly due to benign food prices, with both headline and core inflation slated to be at or below 4% in H1-FY27. In fact, the Governor noted that excluding precious metal prices, underlying inflation pressures were lower by about 50bps. This growth-inflation balance continued to provide the policy space to support the growth momentum. The Governor noted that the announced OMO purchases and the USD/INR Buy Sell swap were to ensure adequate durable liquidity in the banking system and further facilitate monetary transmission.
- **Rationale for growth outlook:** The MPC noted that growth hit a six quarter high in Q2, as domestic demand offset headwinds from external uncertainties. The committee viewed that growth in H1 benefited from income tax relief and GST rate cuts, low crude oil prices, front-loading of government capex, and facilitative monetary and financial conditions supported by benign inflation. But it noted that some of these factors were likely to dwindle in H2, as evinced in high-frequency data that showed economic activity holding up in Q3, but with emerging signs of weakness in few leading indicators. It noted that external sector woes could continue to weigh on outlook, particularly for goods exports. These could linger in the backdrop of prolonged talks for a US-India trade deal. MPC forecasts suggested average real GDP growth at 6.8% in H2-FY26 versus 8.0% in H1.
- **Rationale for inflation outlook:** The MPC noted that the faster-than-expected decline in headline CPI inflation was due to correction in food prices, which also drove down projections till H1-FY27. The policy statement noted that the decline in inflation had become more generalized and that food supply prospects remained bright due to higher kharif production, healthy rabi sowing, adequate reservoir levels and conducive soil moisture. The committee also expected global commodity prices to ease, except some metals.
- **Insights from post policy conference:** 1) When questioned about whether the MPC still had policy space to support growth, the Governor noted that the focus would need to be on monetary policy transmission and that the MPC would have a policy-by-policy or data dependent approach, mostly implying a pause at the February meeting. 2) The Governor reiterated that the RBI will remain committed to providing ample liquidity to the banking system, "especially as long as we are in this phase where the interest rates have to go down." 3) Additionally, the Governor noted that the MPC expected inflation to remain benign, which would lend support to keeping the policy repo rate low rather than high, indicating lower for longer scenario.

Macro and policy outlook; market reaction to policy decisions

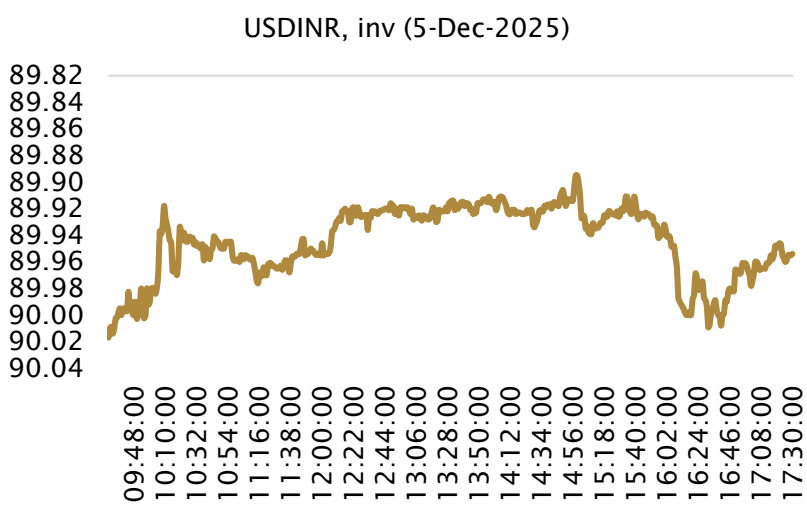
RBI's SPF survey signals MPC pause after latest rate cut; MPC raised real GDP estimate for FY27, cut CPI inflation forecast

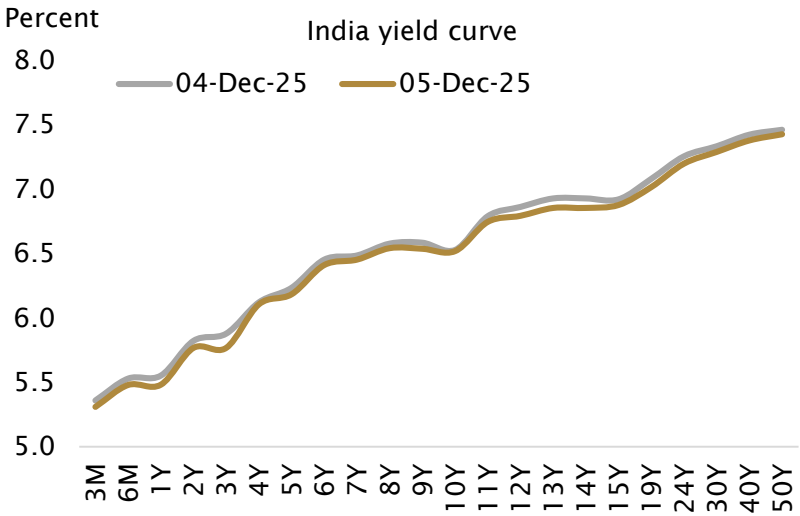


Real GDP %YY	Jun-25	Aug-25	Oct-25	Dec-25
Q1:FY26 F	6.5	6.5		
Q2:FY26 F	6.7	6.7	7.0	
Q3:FY26 F	6.6	6.6	6.4	7.0
Q4:FY26 F	6.3	6.3	6.2	6.5
FY26 F	**6.5**	**6.5**	**6.8**	**7.3**
Q1:FY27 F		6.6	6.4	6.7
Q2:FY27 F				6.8

CPI %YY	Jun-25	Aug-25	Oct-25	Dec-25
Q2:FY26 F	3.4	2.1	1.8	
Q3:FY26 F	3.9	3.1	1.8	0.6
Q4:FY26 F	4.4	4.4	4.0	2.9
FY26 F	**3.7**	**3.1**	**2.6**	**2.0**
Q1:FY27 F		4.9	4.5	3.9
Q2:FY27 F				4.0

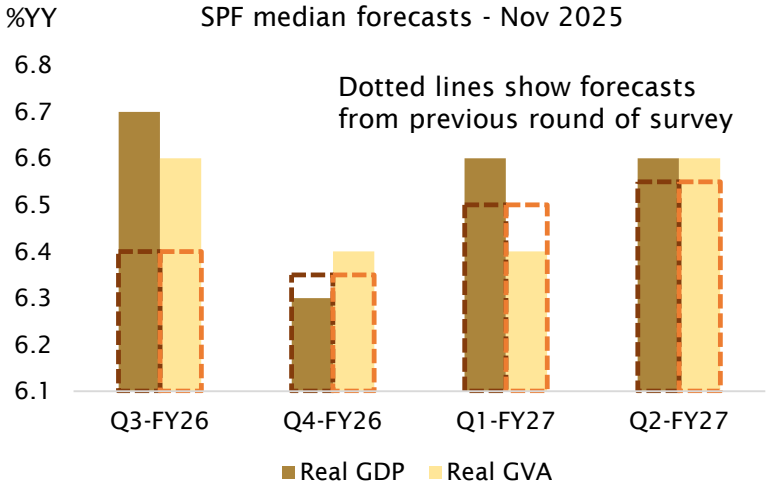
USDINR closed below 90/USD on RBI policy day; yields eased at the front end due to rate cut, liquidity easing steps

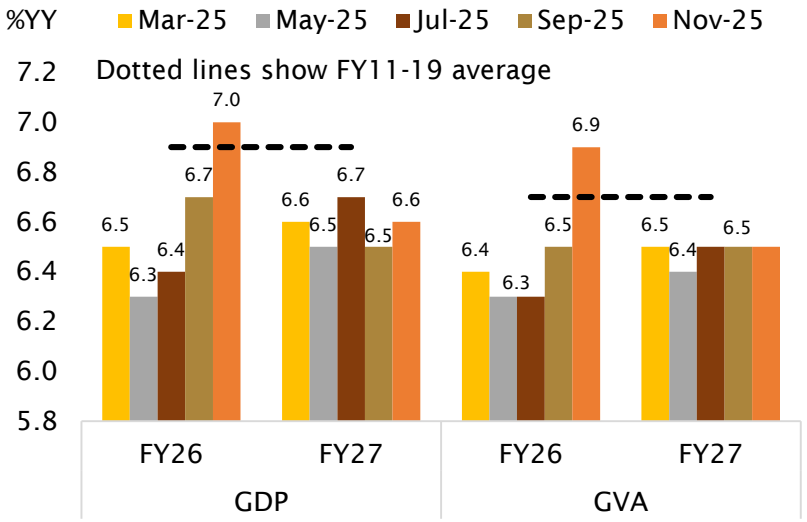




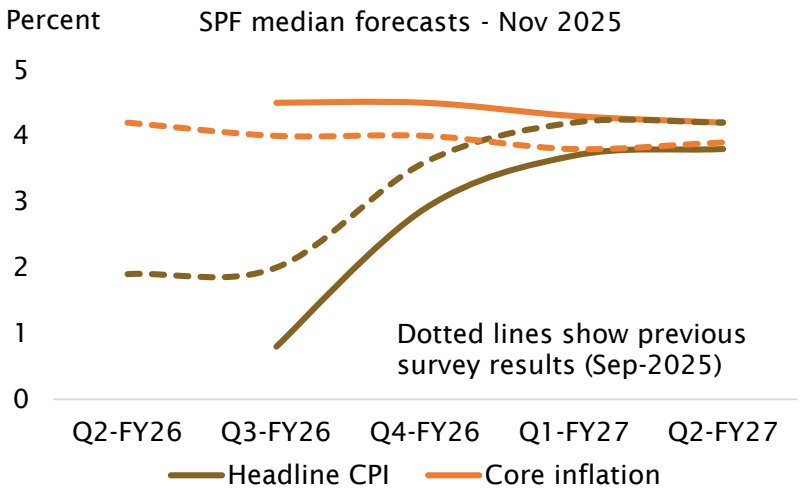
Insights from RBI Surveys – Survey of Professional Forecasters

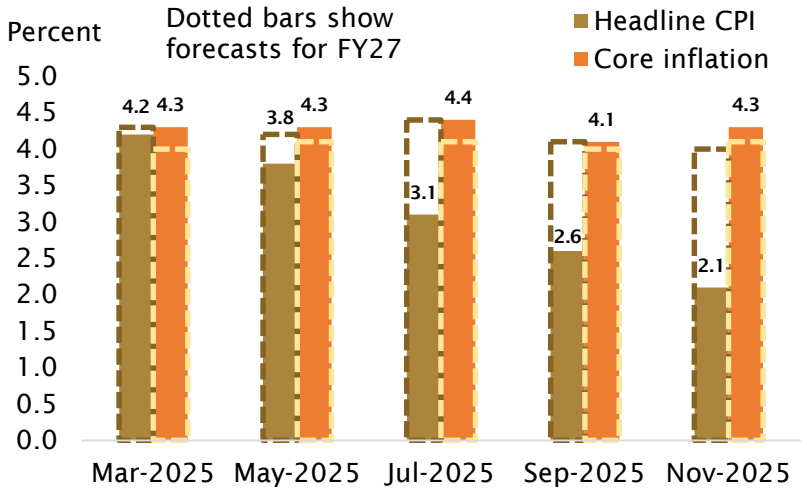
Real GDP and GVA forecasts revised up for FY26 due to strong momentum in H1; largely unchanged for full year FY27





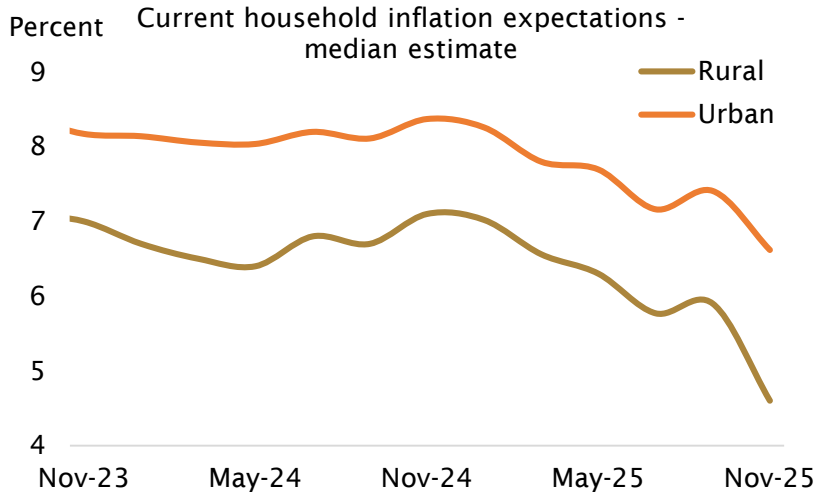
Latest quarterly survey shows lower headline CPI forecasts till H1-FY27 vis-à-vis prior survey; higher for core inflation

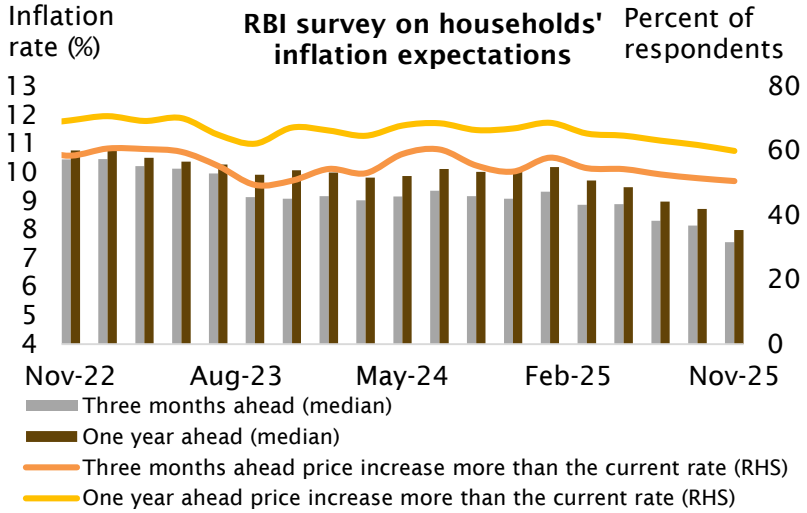




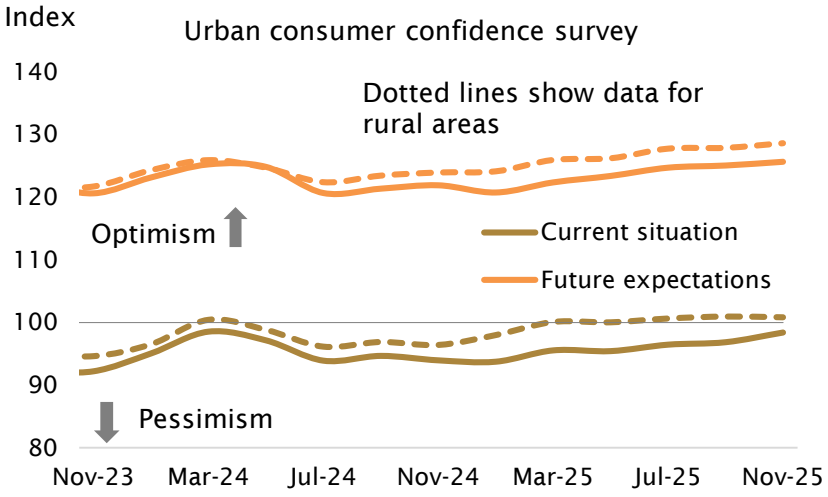
Insights from RBI Surveys – Inflation Expectations and Consumer Confidence

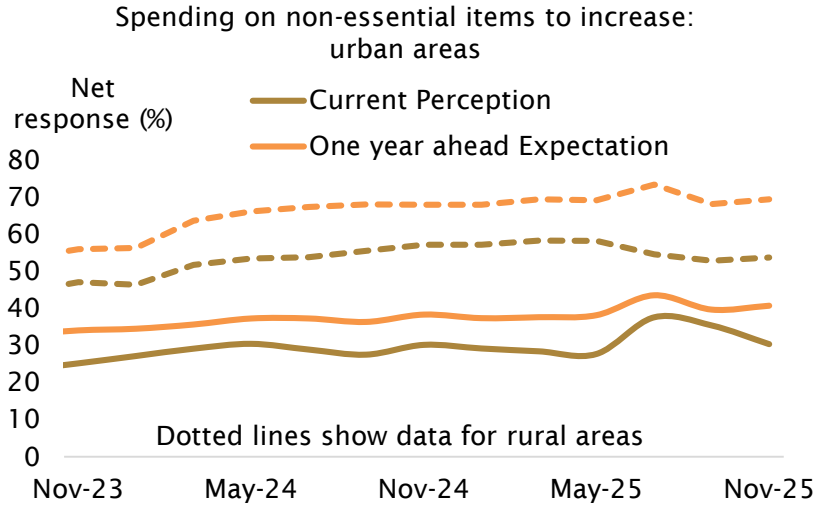
Both urban and rural households' current inflation expectations eased; overall future expectations stayed well-anchored





Urban consumers slowly turning optimistic on current situation; mixed trend on views about non-essential spending





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