



Monetary Policy Review



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PRIME
RESEARCH
— Empowering decisions —

Devarsh Vakil
devarsh.vakil@hdfcsec.com
Dilip Parmar
dilip.Parmar@hdfcsec.com
Atul Karwa
atul.karwa@hdfcsec.com

Done with Rate Cuts for Now, Focus on Liquidity

- ❑ The Reserve Bank of India's decision to reduce the repo rate by 25 basis points to 5.25% while maintaining a neutral stance aligns with our expectations and reflects a calibrated approach to monetary easing.
- ❑ This brings the total cumulative easing for 2025 to approximately 125 basis points, signalling that the central bank has delivered substantial accommodation while preserving policy flexibility.
- ❑ The combination of muted inflation and strong growth has created an unusually favourable macro environment. With inflation at just 2.2% and H1 2025-26 growth running at a robust 8.0%, the economy is effectively in a “Goldilocks” phase.
- ❑ We believe RBI is transitioning from a front-loaded easing cycle to a more cautious, data-dependent framework in the future.
- ❑ We expect the 10-year bond yield to trade in a range of 6.45% to 6.55% over the coming quarter, supported by the substantial OMO program, improved liquidity conditions, and the dovish bias embedded in the rate cut.
- ❑ The combination of Open Market Operation purchases and USD/INR swap facility announcement should lower funding costs across the system and enhance monetary transmission, with the belly of the curve (3 - 7 Year segment) likely to benefit most as liquidity conditions ease and term premiums compress. This should support corporate borrowing costs and facilitate credit expansion, both of which are critical for sustaining the upgraded growth forecast.
- ❑ The USD/INR swap and the OMO program demonstrates the RBI's commitment to managing both domestic liquidity and external sector stability simultaneously. This dual mandate has become increasingly important as India's integration into global financial markets deepens.
- ❑ Going forward, key monitorable will be the pace of credit growth, the strength of private-sector investment, and the evolution of core inflation. As long as these variables continue to evolve favourably, the RBI's gradualist approach should support a soft-landing scenario in which growth accelerates toward the 7.3% forecast without triggering renewed inflationary pressures.

Key Highlights of The Policy

- The MPC voted unanimously to reduce the policy repo rate by **25 basis points** under the liquidity adjustment facility (LAF) to 5.25%. Consequently, the standing deposit facility (SDF) rate shall stand adjusted to 5.00% and the marginal standing facility (MSF) rate and the Bank Rate to 5.50%. The MPC also decided to continue with the **neutral stance**.
- The Reserve Bank has decided to conduct OMO purchases of government securities of Rs.1,00,000 crore in two tranches first on Dec. 11 and second on Dec. 18. The 3-year USDINR Buy Sell swap of \$5 billion on Dec. 16 to inject durable liquidity into the system.

Change in Policy Rates

Date	CRR	Repo Rate
05-Dec-25	3.00%	5.25%
01-Oct-25	3.00%	5.50%
06-Aug-25	3.00%	5.50%
06-Jun-25	3.00%	5.50%
09-Apr-25	4.00%	6.00%
07-Feb-25	4.00%	6.25%
06-Dec-25	4.00%	6.50%
09-Oct-25	4.50%	6.50%
08-Aug-24	4.50%	6.50%
07-Jun-24	4.50%	6.50%

External Sectors:

- India's external **Debt to GDP** ratio declined to 18.9% at end-June 2025 from 19.1% at end-March 2025.
- India's **current account deficit** moderated from 2.2% of GDP in Q2:2024-25 to 1.3% in Q2:2025-26 on account of robust services exports and strong remittances.
- Net inflows under external commercial borrowings (**ECB**) to India moderated to \$6.2 billion during April-October 2025-26 from \$8.1 billion a year ago.
- India's **inward remittances** increased by 10.7% (y-o-y) to \$39.0 billion in Q2:2025-26.
- Gross foreign direct investment (**FDI**) flows to India grew by 19.4% to \$51.8 billion in April-September 2025-26 from \$43.4 billion during the same period a year ago.
- Net FDI inflows increased by 127.6% to \$7.7 billion in April-September 2025-26 from \$3.4 billion during the same period a year ago.

System liquidity

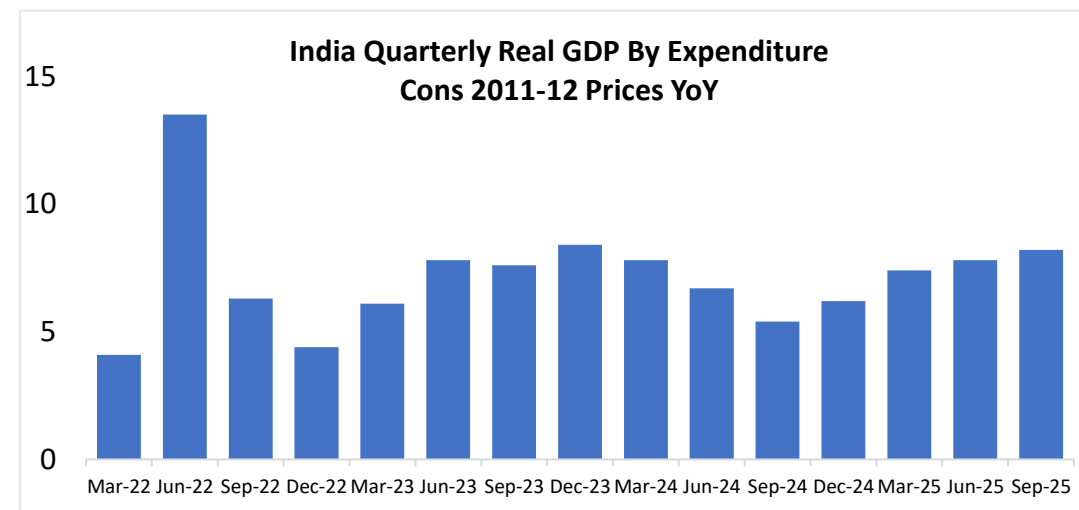
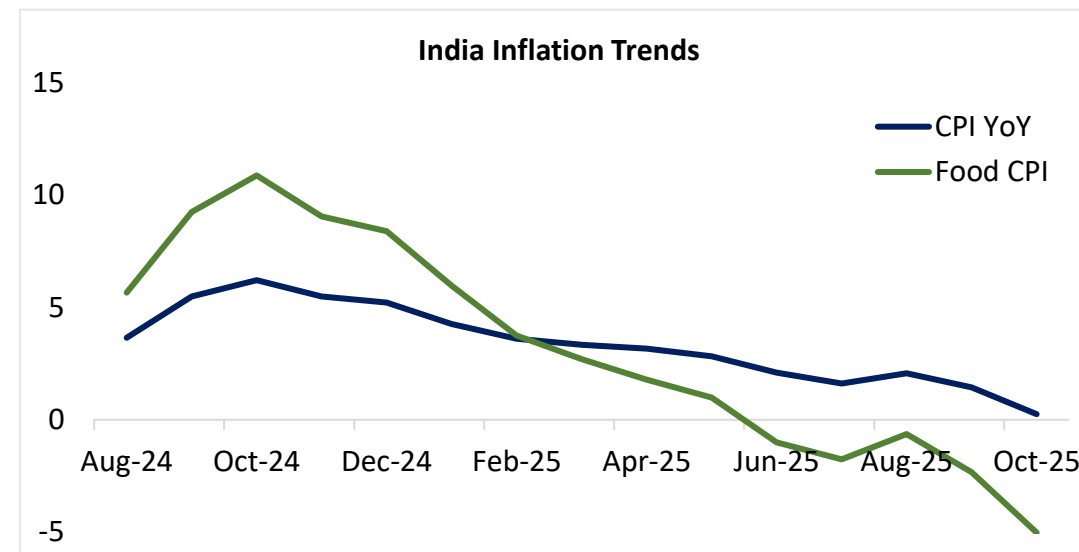
- As measured by the net position under the LAF, stood at an average **surplus of Rs.1.5 lakh crore** for the period since the MPC last met in October 2025
- On a year-on-year basis, **bank credit registered a growth** of 11.4% as on November 14, 2025, compared to 11.2% a year ago.

RBI's Inflation Expectation: Revised downward to 2.0% from 2.6% for FY26

Inflation Expectations	2Q FY26	3Q FY26	4Q FY26	1Q FY27	2Q FY27	FY26
Dec. Projection	1.7	0.6	2.9	3.9	4.0	2.0
Oct. Projection	1.8	1.8	4.0	4.4	4.9	2.6
Aug. Projection	2.1	3.1	4.4	4.9	--	3.1
Jun. Projection	3.4	3.9	4.4	--	--	3.7
Apr. Projection	3.9	3.8	4.4	--	--	4.0

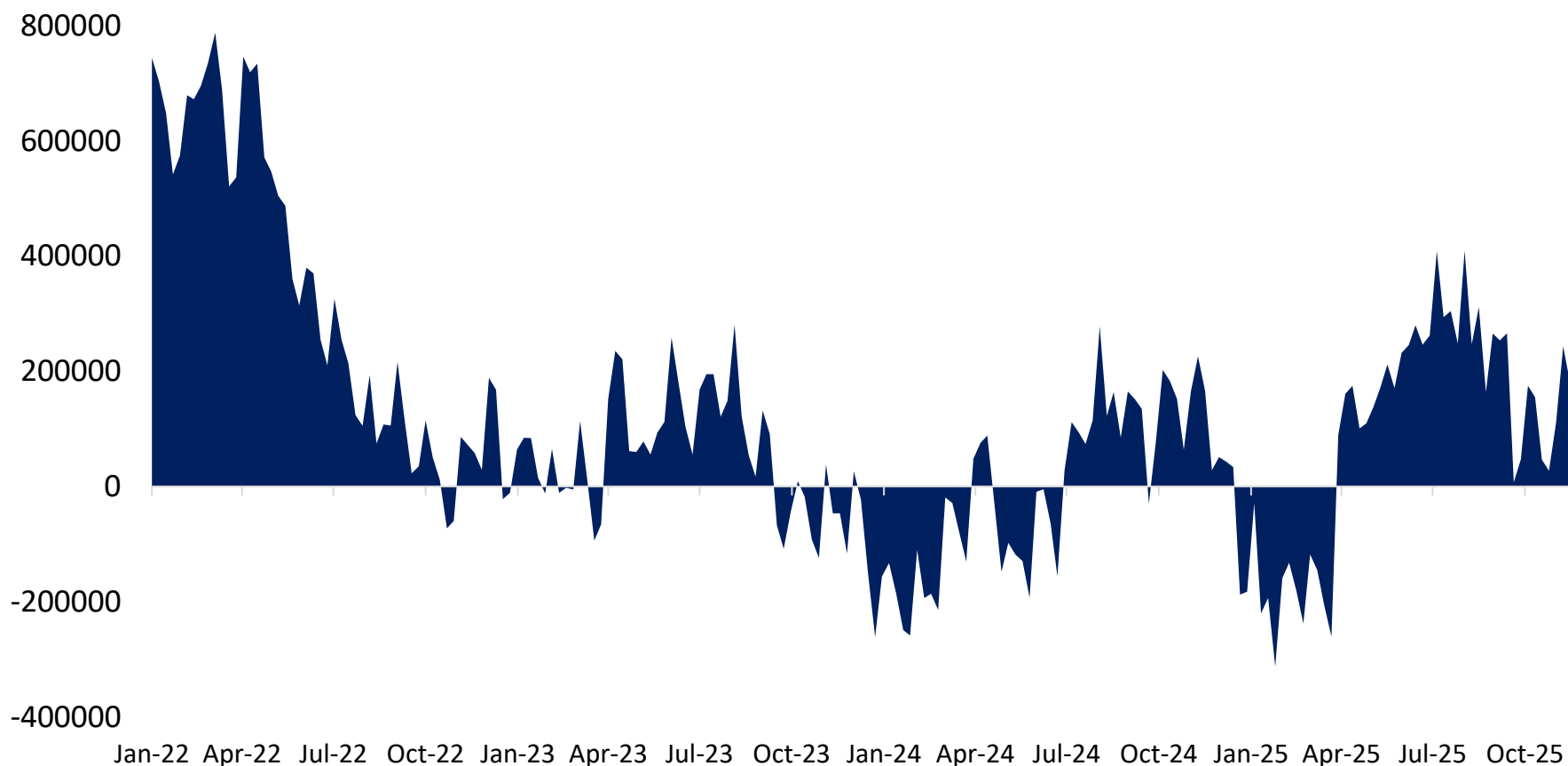
RBI's Growth projections: GDP growth revised upward to 7.3% for FY26

Growth Outlook	2Q FY26	3Q FY26	4Q FY26	1Q FY27	2Q FY27	FY26
Dec. Projection	8.2	7.0	6.5	6.7	6.8	7.3
Oct. Projection	7.8	7.0	6.4	6.2	6.4	6.8
Aug. Projection	6.7	6.6	6.3	6.6	--	6.5
Jun. Projection	6.7	6.6	6.3	--	--	6.5
Apr. Projection	6.7	6.6	6.3	--	--	6.5



Liquidity Remained in Surplus

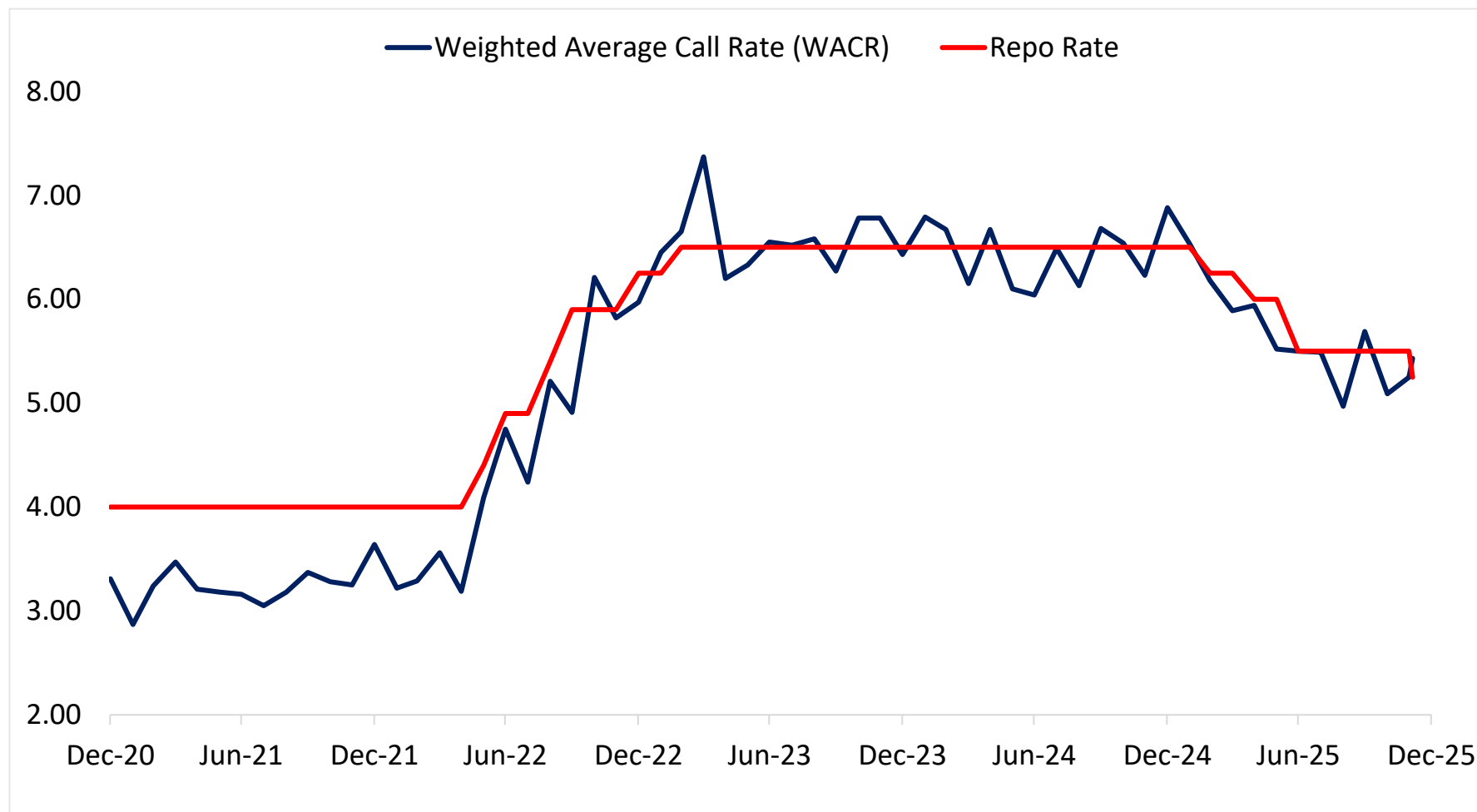
RBI Net Liquidity Injected
(Outstanding Including Today's Operation in Rs. Crore)



The net position under the LAF, stood at an average surplus of Rs. 1.5 lakh crore for the period since the MPC last met in October 2025.

RBI net liquidity injected as of today's operation stood at Rs.2,66,257 crore, as per Bloomberg.

Weighed Average Call Rate (WACR) vs Repo Rate



In response to the cumulative policy repo rate cut of 100 bps in the current easing cycle (up to December 03), the WACR, the 3-month T-bill rate, the rate on 3-month CPs issued by NBFCs, and the 3-month CD rate declined by 110 bps, 113 bps, 124 bps, and 140 bps, respectively.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400

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