

MPC likely to hold steady on rate, keep neutral stance

OMOs for liquidity infusion expected, say economists

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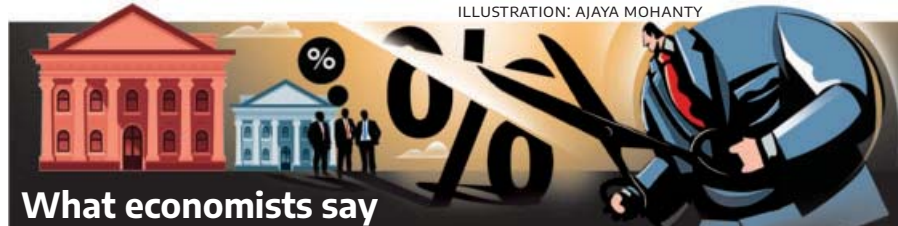
The six-member Monetary Policy Committee (MPC) of the Reserve Bank of India is expected to maintain the status quo on its stance at the December policy meeting, scheduled for December 3-5, according to a Business Standard poll of economists from 12 financial institutions. They anticipate the RBI to hold a neutral stance with a dovish undertone.

As many as seven of the respondents believe no rate cut will be announced on Friday. Strong second-quarter GDP figures announced last week are a key reason many expect the rate-setting panel to maintain a pause on repo rate, which is currently at 5.50 per cent.

“Expectations built until a few days ago of a shallow rate cut of 25 basis points appear to have faded, as finer readings of the strong Q2 growth print and the evolving playbook make the choice tilted in favour of a pause in the December policy,” said Soumya Kanti Ghosh, group chief economic advisor at the State Bank of India.

The domestic rate-setting committee kept the repo rate unchanged at its previous two meetings, following a 50-basis point cut in June. The December policy will be framed against the backdrop of resilient growth and extremely low inflation, turning the decision into a close call between a cut and a pause.

ILLUSTRATION: AJAYA MOHANTY



What economists say

Institution	Do you expect a repo cut in Dec? If yes, by how much?	Will the RBI to change its stance?	Where do you see the terminal rate in the current rate cut cycle?	Will the RBI raise its FY26 growth forecast? If yes, by how much?	Will the RBI to revise its FY26 inflation forecast? If yes, by how much?	Do you expect the RBI to announce OMO calendar?
SBI	No	No	—	—	Yes, to 2.1%-2.2%	Yes
Standard Chartered	No	No	5.5%	Yes, towards 7.5%	Yes, towards 2%	Yes, but later
YES Bank	No	No	—	Yes, to 7%	Yes, to 2%	No
RBL Bank	No	Yes; accommodative	5.25%	—	—	Yes
Bank of Baroda	No	No	5.5%	Yes, to 7%	Yes, to 2.4%-2.5%	Yes
CRISIL	Yes, 25bps	No	5.25%	No	Yes, downwards	—
IDFC First Bank	No	No	5.25%-5.5%	Yes, to 7%+	Yes, to 2.3%	No
ICRA	Yes, 25 bps	No	5.25%	Yes	Yes	No
Emkay Global Financial	Yes	—	—	Yes, to 7%+	Yes, downward by 50 bps-60 bps	₹ 1.5 trn- ₹ 2 trn in next qtr
ICICI Bank	No	No	—	Yes, to 7.3%-7.5%	Yes, to 2.1%-2.3%	-
STCI	Yes, 25 bps	—	5%	No	Yes, downward by 20 bps-30bps	Yes
ICICI Securities	Yes, 25 bps	No	5.25%	Yes, to 7%	Yes, by 30bps-50 bps	Yes, but later

■ Bond yields may ease ahead of MPC meet

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The respondents said the RBI is likely to hold the rate steady, as the limited space for easing is better saved for a period when clearer down-

side risks to growth appear. “The RBI is expected to maintain status quo as space for easing is limited and should be utilised when downside

risk to growth materialises,” said Gaura Sen Gupta, chief economist at IDFC FIRST Bank.

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“Looking ahead, the real challenge for monetary policy is to ensure the banking system is able to support credit growth of 11-12 per cent, when deposit growth remains below 10 per cent. The credit-to-deposit ratio remains near its historical high at 80 per cent,” she said, pointing to the need for deposit growth to strengthen.

With deposits forming nearly 78 per cent of banks’ liabilities and the system-wide credit-deposit ratio hovering around 80 per cent, banks are running with tight liquidity buffers and rely heavily on household deposits to fund credit. In such conditions, lowering deposit rates is not a viable option, as it risks discouraging household savings, which account for about 35 per cent of total deposits. Many banks have instead raised rates on special-term deposits to attract funds. The structural tightness suggests that even if the RBI opts for easing, policy transmission may remain weak. “Growth is strong and both fiscal and monetary stimulus have been front-loaded. Also, rupee liquidity injection is a bigger priority than rate cuts,” said Anubhuti Sahay, head of India economics research at Standard Chartered Bank. Most economists expect the MPC to signal a neutral stance with dovish tilt, combined with liquidity-support measures such as an open market operation (OMO) calendar. “It will continue to usher in a plentiful

liquidity regime, even if it means continuing with a neutral stance,” said SBI’s Ghosh, adding that liquidity measures including OMOs, operation twist and clearer communication are expected. Operation twist refers to the central bank buying longer-tenure bonds while selling shorter-term ones to bring down long-term interest rates and support growth.

The banking system is likely to require liquidity support in the final quarter of the financial year, as the RBI has intervened aggressively in the foreign exchange market to contain rupee volatility, with its short positions in forwards, including NDFs, likely exceeding \$70 billion.

A majority of economists see the terminal rate for the current rate-cut cycle between 5.25 per cent and 5.5 per cent. “Do not expect the next rate cut before April, although February is a possibility. April is safer, as the US rate cut could warm up better by then,” said Anitha Rangan, chief economist at RBL Bank.

India’s real GDP expanded by 8.2 per cent in the second quarter (July-September) of FY26, taking first-half growth to 8 per cent. The robust performance was driven by strong momentum in manufacturing, construction and services. Notably, this growth has come despite external pressures, including US tariffs on Indian exports, underscoring the economy’s resilience.