RBI's MPC delivers again, takes 2025 rate cut tally to 125 bps

Repo rate cut by 25 bps, stance still neutral; liquidity boost via ₹1 trn OMO in Dec

MANOJIT SAHA
Mumbai, 5 December

With the conviction that headline inflation will stay benign for the next six to nine months, the six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) unanimously decided to lower the policy repo rate by another 25 basis points (bps) to 5.25 per cent on Friday, the lowest in over three years.

Lending rates for retail home loans and car loans which are linked to external benchmarks like the repo rate, will be adjusted immediately. One basis point equals 0.01 per cent. Moreover, with an eye on transmission of policy rates to lending and deposit rates, the central bank announced ₹1 trillion of fund infusion by open market operation and a 3-year USD/₹ Buy Sell swap of $5 billion – both to be conducted in December, so that liquidity with banks remains ample.

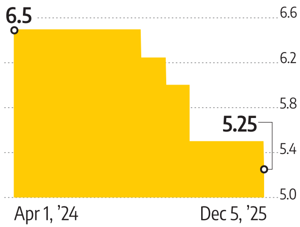
The mild inflation trends along with the 8 per cent growth recorded by the economy in the first half of 2025-26 (FY26) present a "rare Goldilocks period" for India, said RBI Governor Sanjay Malhotra.

Turn to Page 7 ▸

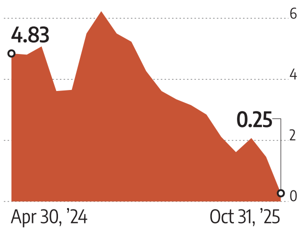
■ Full coverage on pages 6 & 7

Downward cycle

Repo rate (%)



CPI inflation (% Y-o-Y)



Source: RBI/ Mospi/Blooomberg
Compiled by BS Research Bureau

Changing projections

(RBI forecast in %)

	Inflation		GDP growth	
	Oct	Dec	Oct	Dec
Q3FY26	1.80	0.60	6.40	7.00
Q4FY26	4	2.90	6.20	6.50
FY26	2.60	2.00	6.80	7.30
Q1FY27	4.50	3.90	6.40	6.70
Q2FY27	x	4	x	6.80

Source: RBI

The likely impact of rate cut

	Rate: (%)	Impact
Home loan	7.45-8.35*	Down
Auto loan	7.6-12	Down
Fixed deposit	6.6-7.2 (across tenure for SCBs)	Down but gradually
Personal loan	9-18	Down but gradually
Savings a/c interest rate	2.5-3 (Up to ₹1 lakh)**	Stable for now

*charged by leading banks
** rates go up to 5.5% in case of SFBs

What Malhotra said:

"GROWTH, WHILE REMAINING RESILIENT, IS EXPECTED TO SOFTEN SOMEWHAT"

"INDIA'S EXTERNAL SECTOR REMAINS RESILIENT. WE ARE CONFIDENT OF MEETING OUR EXTERNAL FINANCING REQUIREMENTS COMFORTABLY"

Sanjay Malhotra, RBI governor

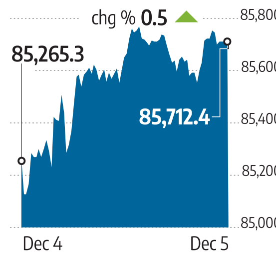
PAGE 13

RBI policy rate cut lift mkt sentiment

India's stock benchmarks closed Friday with gains after the RBI cut lending rates by 25 basis points. The Nifty rose 0.6 per cent to 26,186.45 and the Sensex added 0.5 per cent to 85,712.37 on Friday.

Positive signs

Sensex



Source: Bloomberg/Exchanges

PAGE 6
■ Rupee weakens after 25 bp cut
■ Yields partially bounce back on profit-booking
PAGE 14
■ Lock into prevailing FD rates before further decline

FROM PAGE 1

MPC delivers again, takes 2025 rate cut tally to 125 bps

The MPC – which Malhotra chairs – has lowered the policy repo rate by 125 bps in 2025.

"The MPC noted that headline inflation has eased significantly and is likely to be softer than the earlier projections, primarily on account of the exceptionally benign food prices," said Malhotra, who will complete one year at the Mint Road next week. He stressed that underlying inflation pressures are even lower as the impact of increase in price of precious metals on retail inflation is about 50 bps.

Except the panel's external member Ram Singh, all other members decided to keep the monetary policy stance neutral. Singh wanted the stance to be changed to accommodative.

India's growth, the governor said, remained resilient, but is expected to soften somewhat, even as the RBI raised its FY26 growth forecast from 6.8 per cent to 7.3 per cent. "The growth rate of about 8 per cent in the first half will not be sustained at the same level," Malhotra said.

The RBI lowered the inflation projection for FY26 to 2 per cent as compared to 2.6 per cent projected in its October policy. Moreover, inflation in Q1FY27 has been revised lower to 3.9 per cent from 4.5 per cent earlier, with Q2FY27 inflation projected at 4 per cent. "Both headline and core inflation are expected to be at or below the 4 per cent target during the first half of FY27," he said. The MPC's target is 4 per cent inflation with 2 percentage points variation on both sides.

"We expect inflation to remain benign. If this continues, policy rates are likely to be low rather than high," Malhotra said, when asked if there is a space for further rate cuts during the post policy press conference. He said further scope or need for rate cut, would be dependent on data.

Equity markets cheered the rate cut with the benchmark Sensex rising half a percent to 85,712.37 points. Bond yields, which fell after the rate and OMO announcement, gave up gains by the end of the trading day due to profit booking.

While retail lending rates are set to decline further post the rate cut, banks will find it tough to lower deposit rates that have fallen by 102 bps following the 100 bps policy repo rate reduction between February and September.

Deposit mobilisation has become challenging even as credit growth is picking up momentum, and this is reflected in the credit-deposit rate of 80.29 per cent as on November 14. Malhotra said he expects the deposit rate to moderate as inflation adjusted real rates are high.

While the RBI signalled further rate cuts will be dependent on data, economists expect more rate cuts. "With such unprecedented level of downward revisions [of inflation] and further prospects of downward revision looming large, the RBI has kept the door ajar for future rate decisions. However, for now, repo rate at 5.25 per cent will be lower for longer," said Soumya Kanti Ghosh, group chief economic adviser, SBI.

Nomura also reckoned that the rate easing cycle is not over.

The next meeting of the MPC is scheduled from February 4 to 6, 2026.