

Monetary Policy and Economic Outlook Briefing – Dec 5, 2025

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Key Policy Rates

	Rate	Change
Repo Rate	5.25%	-25 bps
Reverse Repo	3.35%	0 bps
Bank Rate	5.50%	-25 bps
MSF Rate	5.50%	-25 bps
SDF Rate	5.00%	-25 bps
SLR	18.00%	0 bps
CRR	3.25%	0 bps

RBI GDP Forecasts

Period	GDP Growth	Change
Q3 FY26E	7.0%	+60 bps
Q4 FY26E	6.5%	+30 bps
FY26E	7.3%	+50 bps
Q1 FY27E	6.7%	+30 bps
Q2 FY27E	6.8%	NA

RBI Inflation Forecasts

Period	Inflation	Change
Q3 FY26E	0.6%	-120 bps
Q4 FY26E	2.9%	-110 bps
FY26E	2.0%	-60 bps
Q1 FY27E	3.9%	-60 bps
Q2 FY27E	4.0%	NA

Source: RBI, Choice Institutional Equities

Open market operations to keep system flush with liquidity

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CIE View & Forecasts

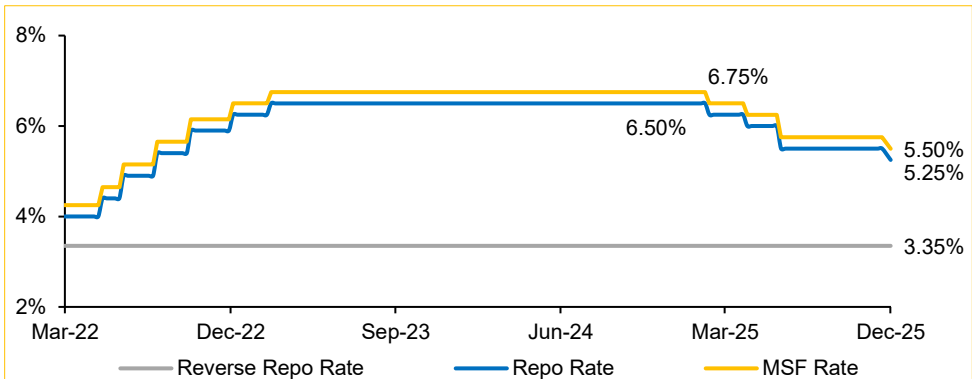
RBI's MPC unanimously voted to **cut the repo rate by 25 bps to 5.25%**, while maintaining a **neutral stance**, which is **in-line with our expectation**. Inflation at record lows (0.25% YoY for Oct, 25) and weak high-frequency indicators were the critical factors on which the decision was based. Further, a stronger case of rate cut was also supported by 69 bps reduction in Weighted Average Lending Rates (WALR) for fresh rupee loans from January to October, 25.

We expect credit to grow in the range of 11.5%–12.0% for FY26E. Lower global interest rates, expected softer inflation and challenging demand environment drive our forecast for another 25 bps cut by Q1FY27E.

Repo Rate Cut by 25 bps to 5.25% with a Neutral Stance

- Both Repo Rate (short-term rate) and Bank Lending Rate (long-term rate) were reduced unanimously by 25 bps to 5.25% and 5.50%, respectively. Rate cut was driven by current growth-inflation dynamics and benign inflationary scenarios against the backdrop of weak high-frequency indicators.
- Similarly, SDF Rate and MSF Rate (overnight rates) were cut by 25 bps to 5.0% and 5.5%, respectively,

Over the last 12 months, repo rate has been cut by 125 bps

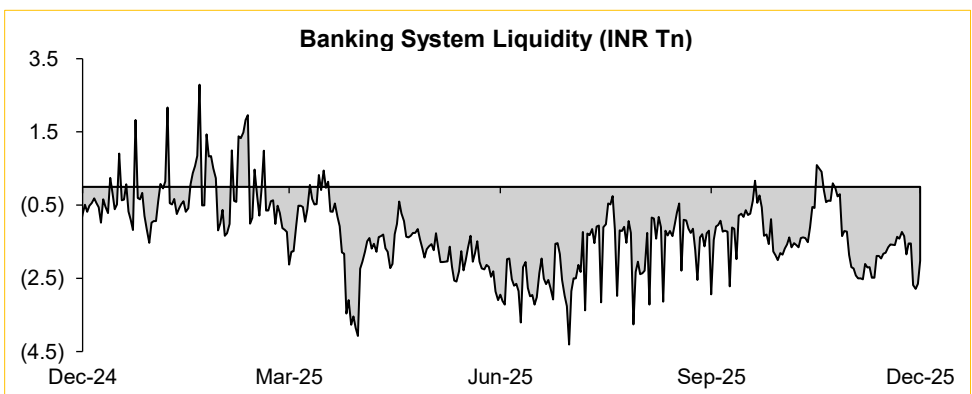


Source: RBI, Choice Institutional Equities

RBI to Inject ~INR 1.4 Tn in A Bid to Sway Credit Growth Higher

- To maintain adequate and sustained liquidity in the system, RBI has announced **OMO purchases of INR 1.0 Tn** in two tranches of INR 500 Bn each, to be held on **December 11 and December 16, 2025**.
- Further, **RBI will conduct a USD 5 Bn auction of USD-INR swaps** for a tenor of up to 3 years, on December 16, 2025, so as to support liquidity in the forex market and curb volatility.

Liquidity surplus of INR ~2.6 Tn is likely to support stronger credit growth



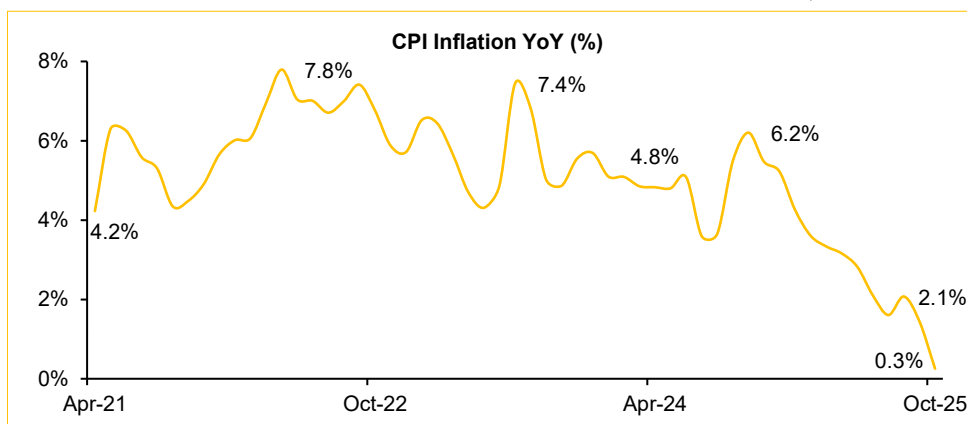
Source: CMIE, RBI, Choice Institutional Equities

Core inflation of 2.6%, while negative Food inflation drives overall inflation to decadal lows

Inflation at Decadal Lows: Weak Commodity Pricing and Soft Demand

- CPI inflation for **Oct-25 stood at multi-year low of 0.25%**, declining for the third consecutive month. Food inflation with 50%+ weight was a major contributor to soft prices, coming in at -5.0% in October 2025 (vs. 10.87% Oct, 24).
- RBI expects average inflation of 0.6% and 2.9% for Q3FY26E and Q4FY26E, respectively. For **FY26E inflation is forecasted to be 2.0%. However, as base effect kicks in, inflation is expected to improve to 3.9% and 4.0% in Q1FY27E and Q2FY27E, respectively.**
- Core inflation in October, 2025 stood in a narrow range of 4.3%–4.4%, while Core inflation (ex. gold) came in at 2.6%.
- Higher kharif production, healthy rabi sowing, adequate reservoir levels and conducive soil moisture contributed to a lower food inflation.

Lower food inflation causes CPI to come in at 0.3% for October, 2025



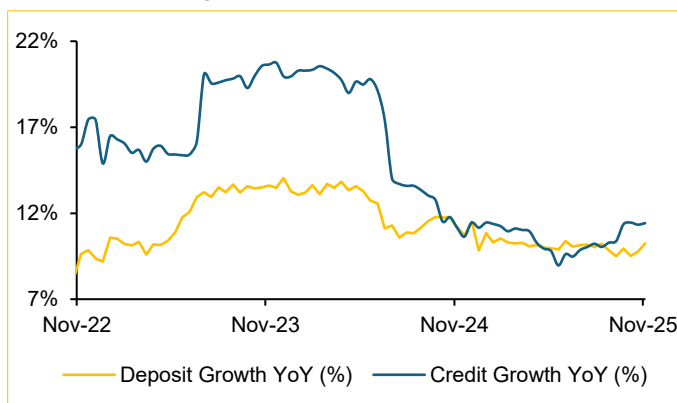
Source: RBI, Choice Institutional Equities

Credit Growth to Recover Further as Rate Transmission Remains Satisfactory

November saw a marked uptick in credit growth, coming in at 11.5%

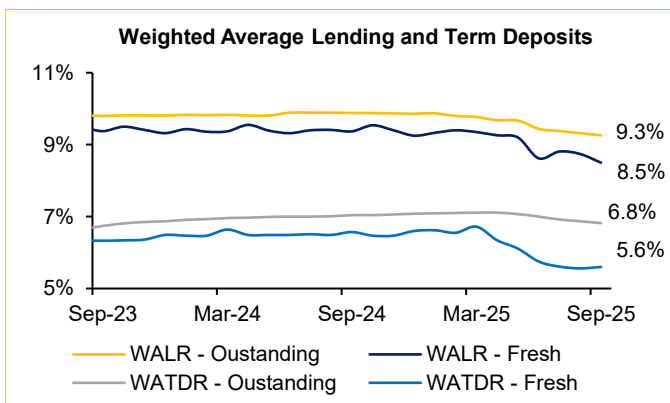
- WALR for Fresh Loans **witnessed a reduction of 69 bps** from January, 2025 to September, 2025 in line with RBI expectations.
- Moreover, **credit growth** for the fortnight ended November 14 **was 11.5% YoY**. Further, driven by the current rate cut and better transmission of previous cuts, we expect credit growth to come in the range of **11.5%–12.0% by FY26E**.
- Systematic deposit growth stood at 10.2% YoY as of November 14, 2025.

Festive Demand and Lower Interest Rates Pushed Credit Growth Higher in Nov-25



Source: RBI, Choice Institutional Equities

Outstanding Term Deposit Rates Barely Budged, Affecting NIMs



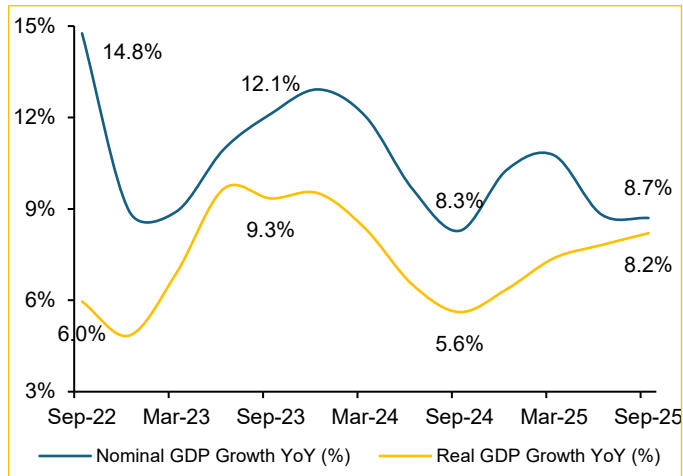
Source: RBI, Choice Institutional Equities

Healthy Manufacturing and Agri Growth Led to A Higher GDP Growth Projection for FY26E

FY26E full-year GDP growth forecast of 7.3%.

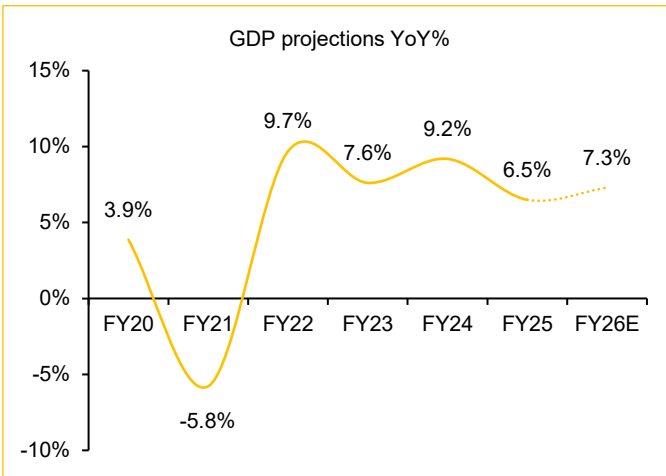
- Real GDP growth in Q2FY26 came in at 8.2%, driven by robust imports (+12.8%), consumption (+7.9%) and capex (+7.3%). Sectorally, growth was led by financial, real estate and professional services (+10.2%), manufacturing (+9.1%) and construction (+7.2%).
- RBI expects real GDP growth of 7.0% (+60 bps) in Q3FY26E and 6.5% (+30bps) in Q4FY26E. For the full year FY26E, growth is expected at 7.3% (+50bps). Growth remains constrained on account of impacted merchandise exports. However, healthy agricultural output, higher manufacturing activity, improving consumption demand, robust balance sheets and sequentially higher credit growth bodes well for GDP growth.

Real GDP growth improved, while Nominal lags behind



Source: RBI, Choice Institutional Equities

RBI forecasts real GDP growth of 7.3% in FY26E



Source: RBI, Choice Institutional Equities

High-frequency economic indicators

Indicator (YoY Growth %)	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
GST Revenue	12.6	16.4	6.2	7.5	6.5	9.1	4.6
Toll Collection	16.6	16.4	15.5	14.8	12.7	4.5	4.6
Electricity Demand	2.8	-4.8	-2.3	2.6	3.8	3.4	-5.6
Petroleum Consumption	0.2	1.1	0.5	-4.4	4.8	7.6	-0.4
ATF Consumption	3.9	4.4	3.3	-2.3	-2.9	-0.8	2.1
IIP - Headline	2.6	1.9	1.5	4.3	4.1	4.0	0.4
IIP Manufacturing	3.1	3.2	3.7	6	3.8	4.8	1.8
IIP - Eight Core Index	1	1.2	2.2	3.7	6.5	3.3	0.0
Electricity Generation: Conventional	-1.8	-8.2	-6.1	-0.8	1	0.8	-10.8
Automobile Production	-1.7	5.2	1.2	10.7	8.1	10.8	-2.8
Crude Steel Production	9.3	11	12.6	13.8	12.8	13.2	9.4
Finished Steel Production	6.6	7	10.9	13.8	13.8	13.8	10
Import of Capital Goods	24.6	15.7	3.4	12	-1.4	10.1	8.7
PMI Manufacturing	58.2	57.6	58.4	59.1	59.3	57.7	59.2
PMI Export Order	57.6	56.9	60.6	57.3	56.1	56.5	54.7
PMI Services	58.7	58.8	60.4	60.5	62.9	60.9	58.9
Unemployment Rate (All-India)	5.1	5.6	5.6	5.2	5.1	5.2	5.2
Retail Consumption Indicator	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Domestic Air Passenger Traffic	9.7	2.6	3.7	-2.5	-0.5	-2.5	2.8
Retail Passenger Vehicle Sales	1.6	-3.1	2.5	-0.8	0.9	5.8	11.4
Retail Commercial Vehicle sales	-1	-3.7	6.6	0.2	8.6	2.7	17.7
Retail Automobile Sales	2.9	5.4	4.8	-4.3	2.8	5.2	40.5
Retail Tractor Sales	7.6	2.8	8.7	11	30.1	3.6	14.2
Retail Two-wheeler Sales	2.3	7.3	4.7	-6.5	2.2	6.5	51.8

Source: RBI, Choice Institutional Equities

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000 Cr Market Cap

*Mid & Small Cap: Less Than INR 20,000 Cr Market Cap

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