RBI Monetary Policy – December 2025

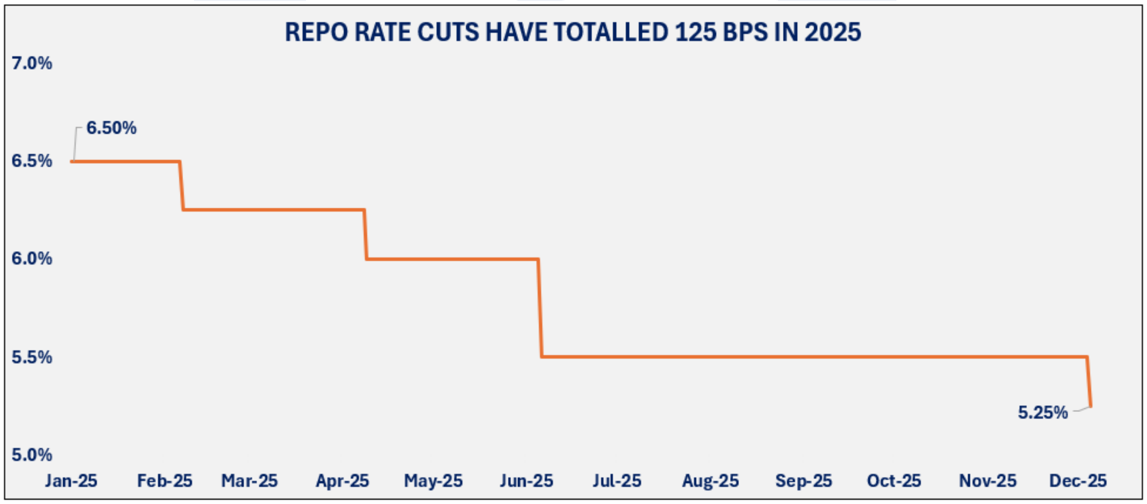
5th DECEMBER 2025

The RBI's Monetary Policy Committee (MPC) conducted its 5th monetary policy meeting of FY26 from December 3 to December 5, 2025. The MPC convened its policy meeting against the backdrop of robust economic growth, historically low inflation, and the Indian rupee hovering near record low levels of near ₹90 per USD. After assessing the evolving macroeconomic conditions and outlook, the MPC voted unanimously to reduce the policy repo rate by 25 bps to 5.25%. The MPC also decided to continue with the "neutral" stance.

CPI Inflation Forecast

Headline inflation has declined sharply since the October 2025 policy, reaching historically low levels. Average CPI inflation eased to 1.7% in Q2FY26, breaching the lower tolerance band of 2% for the first time under the flexible inflation targeting framework, and fell further to 0.25% in October 2025. Global inflation dynamics remain uneven, with inflation trending above target in most major developed economies, while emerging markets show contained pressures. The faster than anticipated decline in inflation was led by correction in food prices, contrary to the usual trend witnessed during the months of September – October.

As for inflation outlook, Healthy kharif output, ample reservoir levels, and sufficient stocks of food grains are likely to keep food inflation under control. Excluding precious metals, underlying inflation pressures are weaker. CPI inflation for FY26 is now projected at 2% with Q3FY26 at 0.6%; and Q4FY26 at 2.9%. In FY27, CPI inflation for Q1 and Q2 are projected at 3.9% and 4% respectively. Both headline and core inflation are expected to be around the 4% target during the first half of FY27.



Source: RBI

Key GDP Growth Outlook

Real GDP grew 8.2% in Q2 FY26 – the highest in six quarters – supported by resilient domestic demand amid global trade and policy uncertainties. Economic activity during H1FY26 benefited from income tax and GST rationalization, softer crude oil prices, front-loading of government capital expenditure, and accommodative monetary and financial conditions supported by soft inflation. Inflation at a benign 2.2%and growth at 8% in H1FY26 present a rare goldilocks period.

Rural demand continues to be robust while urban demand is recovering steadily. Investment activity remains healthy with private investment gaining steam on the back of expansion in non-food bank credit, and high-capacity utilization. Looking ahead, domestic factors such as healthy agricultural prospects, continued impact of GST rationalization, benign inflation, healthy balance sheets of corporates and financial institutions and congenial monetary and financial conditions should continue to support economic activity.

External uncertainties continue to pose downside risks to the outlook, while outcomes of various ongoing trade and investment negotiations present upside potential. Taking all these factors into consideration, real GDP growth for FY26 is projected at 7.3%, with Q3FY26 at 7%; and Q4FY26 at 6.5%. Real GDP growth for Q1FY27 is projected at 6.7% and Q2FY27 at 6.8%.

Liquidity and Financial Market Conditions

System liquidity stood at an average surplus of ₹1.5 lakh crore for the period since the MPC last met in October 2025. RBI remains committed to providing sufficient durable liquidity to the banking system. After reviewing the liquidity situation and the outlook, the central bank decided to conduct open market operation (OMO) purchases of government securities amounting to ₹1 lakh crore and 3-year USD/INR Buy Sell swaps of USD 5 billion this month.

The governor reiterated that RBI expects that changes in the short-term interest rates will transmit to various long-term rates. Additionally, the primary purpose of open market operations is to provide sufficient liquidity and not to directly influence G-sec yields.

Global Economy

Contrary to earlier expectations, global growth has been relatively strong. Evolving geopolitical and trade environments, however, continue to weigh on the outlook. Inflation remains above target in advanced economies but contained in emerging markets, allowing accommodative policy. Conflicting pulls and pressures from AI-fueled optimism and concerns over high valuations are playing out in global equity markets, while divergence in the monetary policy trajectory of central banks is adding to the uncertainty on capital flows and yield spreads.