

Policy Highlights:

Reserve Bank of India (RBI) Governor Sanjay Malhotra on December 5, 2025 announced that the MPC voted unanimously to reduce the policy repo rate under the liquidity adjustment facility (LAF) to 5.25 per cent. Consequently, the standing deposit facility (SDF) rate shall stand adjusted to 5.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.50 per cent. The MPC also decided to continue with the neutral stance.

Outlook:

In India, real gross domestic product (GDP) registered a six-quarter high growth of 8.2 per cent in Q2:2025-26, underpinned by resilient domestic demand amidst global trade and policy uncertainties. On the supply side, real gross value added (GVA) expanded by 8.1 per cent, aided by buoyant industrial and services sectors. Economic activity during the first half of the financial year benefited from income tax and goods and services tax (GST) rationalisation, softer crude oil prices, front-loading of government capital expenditure, and facilitative monetary and financial conditions supported by benign inflation. High-frequency indicators suggest that domestic economic activity is holding up in Q3, although there are some emerging signs of weakness in a few leading indicators. GST rationalisation and festival-related spending supported domestic demand during October-November. Rural demand continues to be robust while urban demand is recovering steadily. On the supply side, agricultural growth is supported by healthy kharif crop production, higher reservoir levels and better rabi crop sowing. Manufacturing activity continues to improve, and the services sector is maintaining a steady pace. On the external front, services exports are likely to remain strong, while merchandise exports face some headwinds. External uncertainties continue to pose downside risks to the outlook, while speedy conclusion of ongoing trade and investment negotiations present upside potential. Taking all these factors into consideration, real GDP growth for 2025-26 is projected at 7.3 per cent, with Q3 at 7.0 per cent; and Q4 at 6.5 per cent. Real GDP growth for Q1:2026-27 is projected at 6.7 per cent and Q2 at 6.8 per cent. The risks are evenly balanced.

Overall, inflation is likely to be softer than what was projected in October, mainly on account of the fall in food prices. Considering all these factors, CPI inflation for 2025-26 is now projected at 2.0 per cent with Q3 at 0.6 per cent; and Q4 at 2.9 per cent. CPI inflation for Q1:2026-27 and Q2 are projected at 3.9 per cent and 4.0 per cent, respectively. In fact, the underlying inflation pressures are even lower as the impact of increase in price of precious metals is about 50 basis points (bps). The risks are evenly balanced. Thus, the growth-inflation balance, especially the benign inflation outlook on both headline and core, continues to provide the policy space to support the growth momentum.

Policy Rates								
Y-O-Y Growth (%)	May-25	June-25	July-25	Aug-25	Sept-25	Oct-25	Nov-25	Dec-25
Repo	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
CRR	4.00%	4.00%	4.00%	4.00%	3.75%	3.50%	3.00%	3.00%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	Mar-25	Apr-25	May-25	June-25	July-25	Aug-25	Sept-25	Oct-25
Inflation (WPI)	2.25%	0.85%	0.13%	-0.19%	-0.58%	0.52%	0.13%	-1.21%
Inflation (CPI)	3.34%	3.16%	2.82%	2.10%	1.61%	2.07%	1.44%	0.25%
GDP Growth								
Y-O-Y Growth (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
GDP (% Growth)	9.51%	8.35%	6.51%	5.61%	6.37%	7.38%	7.81%	8.23%
GVA (% Growth)	8.00%	7.27%	6.55%	5.81%	6.49%	6.77%	7.63%	8.12%

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