3rd December 2025

The 3-5 Dec'25 MPC decision is on close watch as the consensus is highly divided in terms of the rate decision. The backdrop of the current MPC decision shows that the decision for the MPC is not as straightforward as it appeared at the time of Oct'25 policy decision when it laid down ground for further policy easing as space has opened up by lower inflation numbers. The US Fed is widely expected to cut rates on 10th Dec'25 while domestically, real GDP growth is very strong at 8%, inflation at record lows (0.25% in Oct'25), Rupee has weakened beyond the 90 mark, while bond markets have seen sharp curve steepening and eagerly await cues from RBI for any steps to support liquidity (given the sharply adverse FX-led impact) and markets *(read OMOs)*.

Our view: As stated in our Oct'25 MPC post policy release, we maintain our call of a final 25bps rate cut in December with policy stance likely to be maintained as neutral. More importantly, we have a stronger view this time that the RBI is likely to assert its assurance on liquidity measures detailed below. On the latter we estimate the need for Rs 1-2 lakh crore of OMOs by the RBI in the rest of FY26.

We maintain our view of a rate cut even as we acknowledge that sharply stronger GDP numbers than expected have complicated the monetary policy reaction function leading to a divide in the consensus view. **Amid the divide on rate decision, the policy guidance will be on close watch and in our view,** it is likely to be similar as in last decision which was balanced with some dovish streaks amid record low inflation levels clocked in October.

We summarise our policy call, via five heated questions, being debated by markets.

1. **Why do we see a rate cut despite such strong real GDP growth?**
   - We are calling for a rate cut despite real GDP growth hitting the psychologically strong 8% mark as nominal GDP growth stays subdued clocking 8.6% in H1FY26 vs. 9.5% in corresponding period last year. For full year our nominal GDP growth projection is 8.3% vs. 9.8% last year
   - We see FY26 is a tale of two halves: 8% in H1 and 7% in H2. While 7% remains strong, it is still a slowdown from the first half which was partly supported by statistical effects, both base effects and low GDP deflator impact. More importantly, we see the potential growth for our economy in the 6.5-7% range and see FY27 growth returning back to this range.
   - In terms of timing, we think that the current timing of rate cut is opportune for an inflation targeting MPC, given inflation slipped to record lows at 0.25% in Oct'25. While inflation is expected to move up in the coming quarters, it is likely to stay subdued and below the MPC's 4% target even in FY27.

2. **Will MPC be deterred by weak rupee, in its rate cut call if any?**
   - ***"In a flexible inflation targeting framework, FX is likely to be the shock absorber as the MPC focuses on weak growth and inflation trends"*** **(Oct'25 Pre-Policy report).**
   - Given that the rupee has already crossed the 90 mark and is on a weak footing, the adverse sentiments related overshooting in the currency levels has already been witnessed before the policy decision on 5th Dec'25. More importantly, fundamentally while we are always in the camp calling for 88-89 threshold on the rupee, currently, at above the 90 threshold, we see the currency having overshot beyond fundamental levels.
   - On balance, while Rupee overshooting is likely in the near term, on delay in trade deal, low market liquidity typically seen in the month of December, we believe in the coming months the currency is likely to return back to sub-90 levels, with a hope of some optimism around the US-India trade deal.

3. **Do we see revisions in growth and inflation projections?**
   - We see revision in growth projections from 6.8% currently for FY26. In our view, the MPC's growth projections will be a key signal with respect to policy guidance (dovish, neutral or hawkish) and hence, possibility of a conservative estimate in an uncertain global environment with lack of clarity on timing of US-India trade deal is expected.
   - On inflation we see revision downwards for FY26 from 2.6% to ~2% in line with our forecast we asserted at the time of Oct'25 policy as well. In Q3 and Q4, our estimate is tracking 0.7% and 2.3%, well below MPC's projections of 1.8% and 40% respectively.
   - For FY27, in Q1 while the MPC is at 4.5%, for us the estimate is tracking below 3.5%, with similar numbers seen for Q2 FY27 as well.

4. **What are the potential liquidity announcements from the RBI expected in this policy decision?**
   - The RBI Governor typically assures adequate liquidity support to promote credit growth in productive sectors; however, this policy is expected to emphasize durable liquidity injections to enhance interest rate transmission while maintaining overall system liquidity near 1% of Net Demand and Time Liabilities (NDTL).
   - The structural liquidity is also under pressure with credit growth (11.4%) above deposit growth (10.2%) currently with a gap of ~120bps.
   - It is estimated that the RBI will provide a durable liquidity injection of Rs 1-2 lakh crore by the end of FY26 to ensure sufficient liquidity, with other potential liquidity measures under close market scrutiny amid recent upward pressure on bond yields.

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- RBI's intervention in dollar sales, in response to a 5% depreciation of the rupee year-to-date, has already resulted in a significant liquidity withdrawal exceeding Rs 4 lakh crore during FY26 and over Rs 2.7 lakh crore since September *(Fig 6)*, effectively neutralizing the liquidity expansion from the CRR cut during the same period.

5. How many more rate cuts do we see in the coming quarters?

- On balance, Dec'25 MPC decision is a close call, while we are holding on to our view of 25bps rate cut. Yes, there is a possibility that the MPC chooses to stay on pause to preserve ammunition for a later date as strong real growth numbers limit the incentive to reduce rates at the current juncture.
- That said, beyond December policy (cut or no cut), we see rates staying lower for longer. The last 25-50bps policy ammunition is likely to be utilized in case of an unforeseen event, global or local that can lead to a growth disruption, demanding an urgent attention of policy makers.
- While the policy stance is likely to stay neutral, from a liquidity standpoint, we see the RBI staying committed to provide adequate liquidity (read 1% of NDTL surplus) and accordingly undertake measures to provide for the same.

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Fig 1: Macro Projections: UBI vs MPC *(% YoY)*

UBI vs RBI MPC Projections

	GDP		CPI	
	MPC	UBI	MPC	UBI
Q2	7.0	8.2 *(actual)*	1.8	1.7 *(actual)*
Q3	6.4	7.5	1.8	0.7
Q4	6.2	6.7	4.0	2.3
FY26	6.8	7.6	2.6	1.8
Q1	6.4	-	4.5	3.2
Q2	-	-	-	3.4
Q3	-	-	-	4.3
Q4	-	-	-	4.5
FY27	-	6.5 - 7.0	-	3.8

Fig 2: UBI's CPI projections are significantly trailing below MPC's CPI projections *(% YoY)*

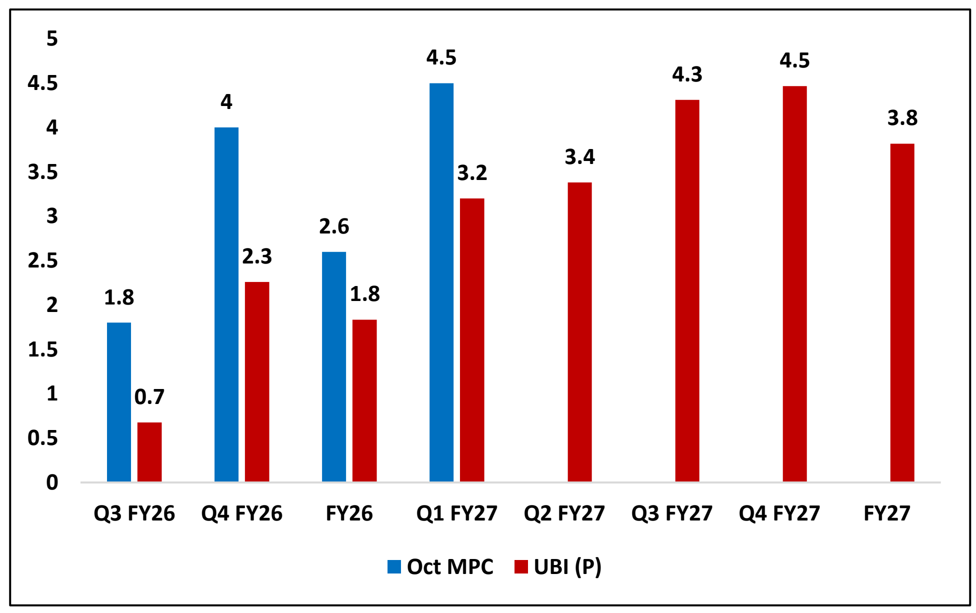


Fig 3: Nominal growth slipped in H1 FY26 & tracking sharply lower at 8.3% in FY26 vs 9.8% in FY25

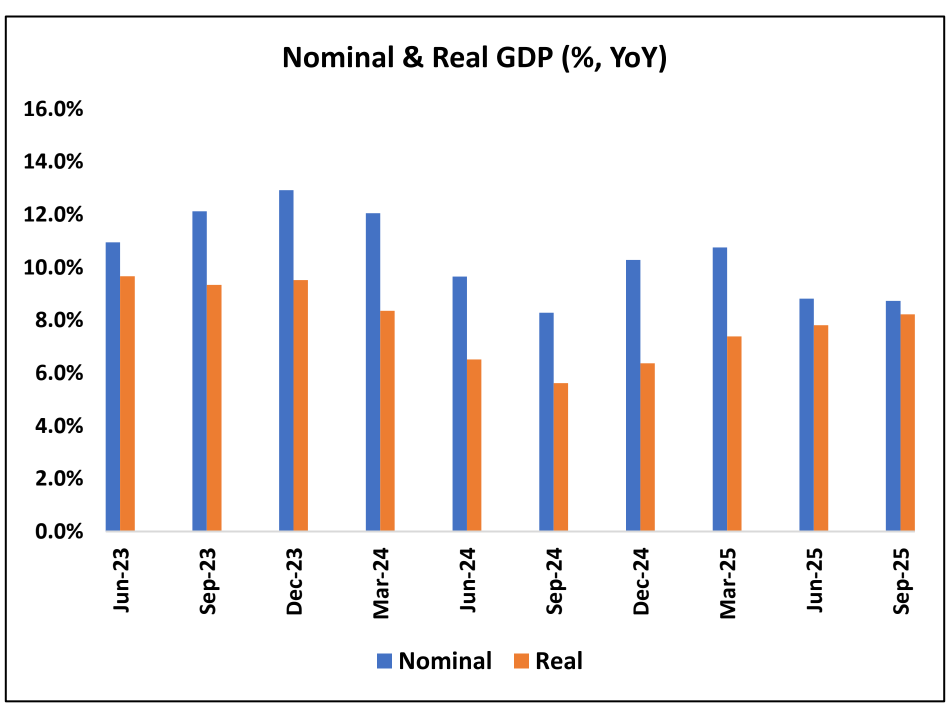
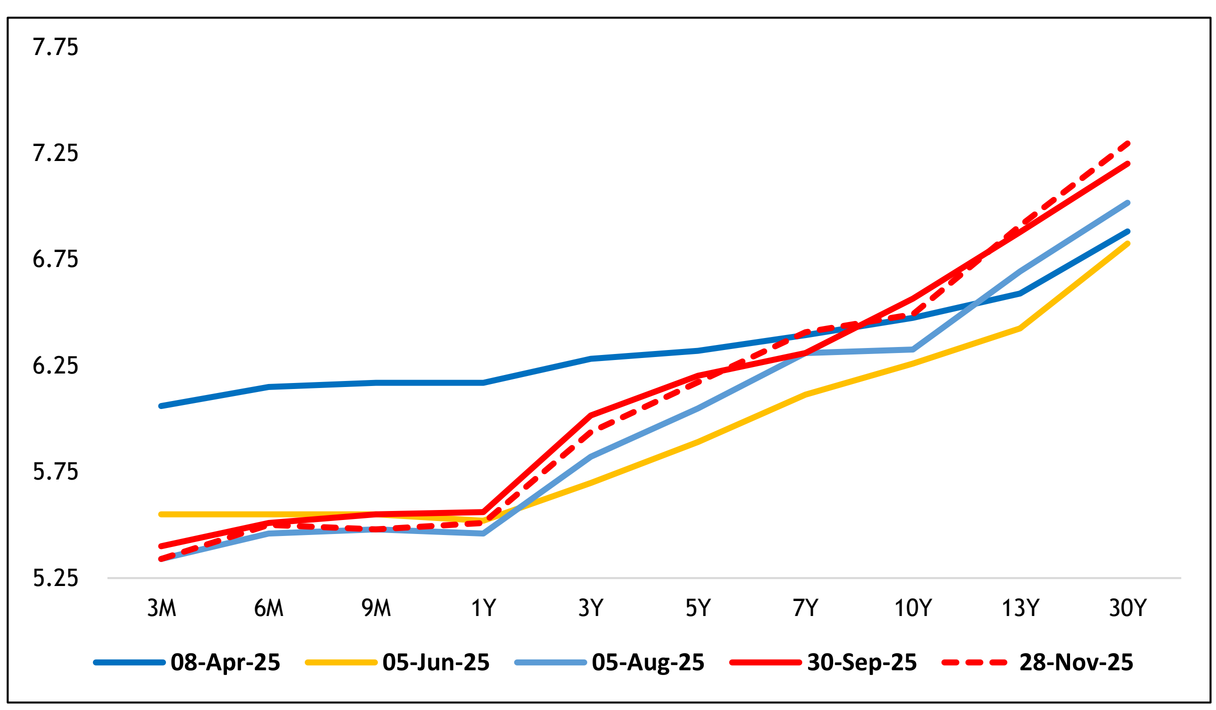


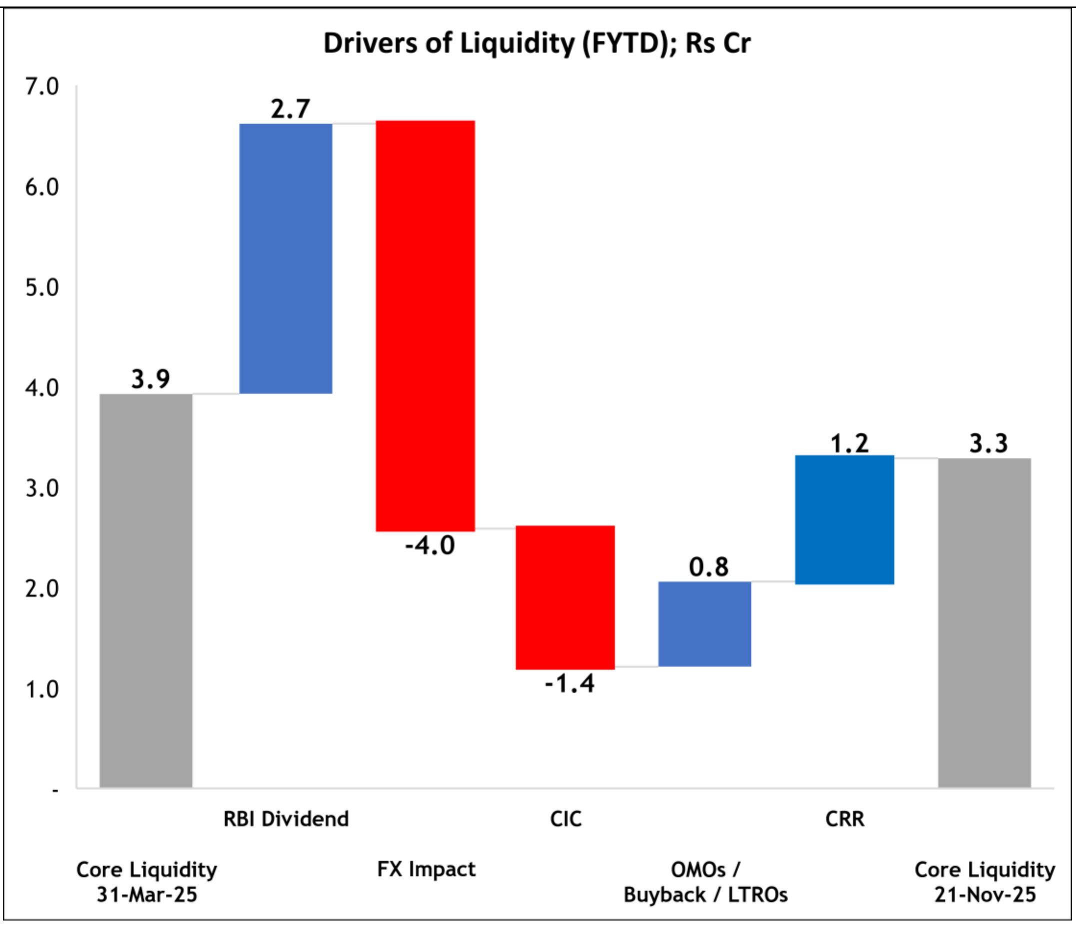
Fig 4: Bond markets eagerly await MPC outcome and guidance post sharp steepening pressures witnessed in recent months



Source: RBI, CEIC, UBI research

Charts

Fig 5: FX-led liquidity impact of ~Rs 2.7 lakh crore since 5th Sep'25, more than offsetting CRR cut impact



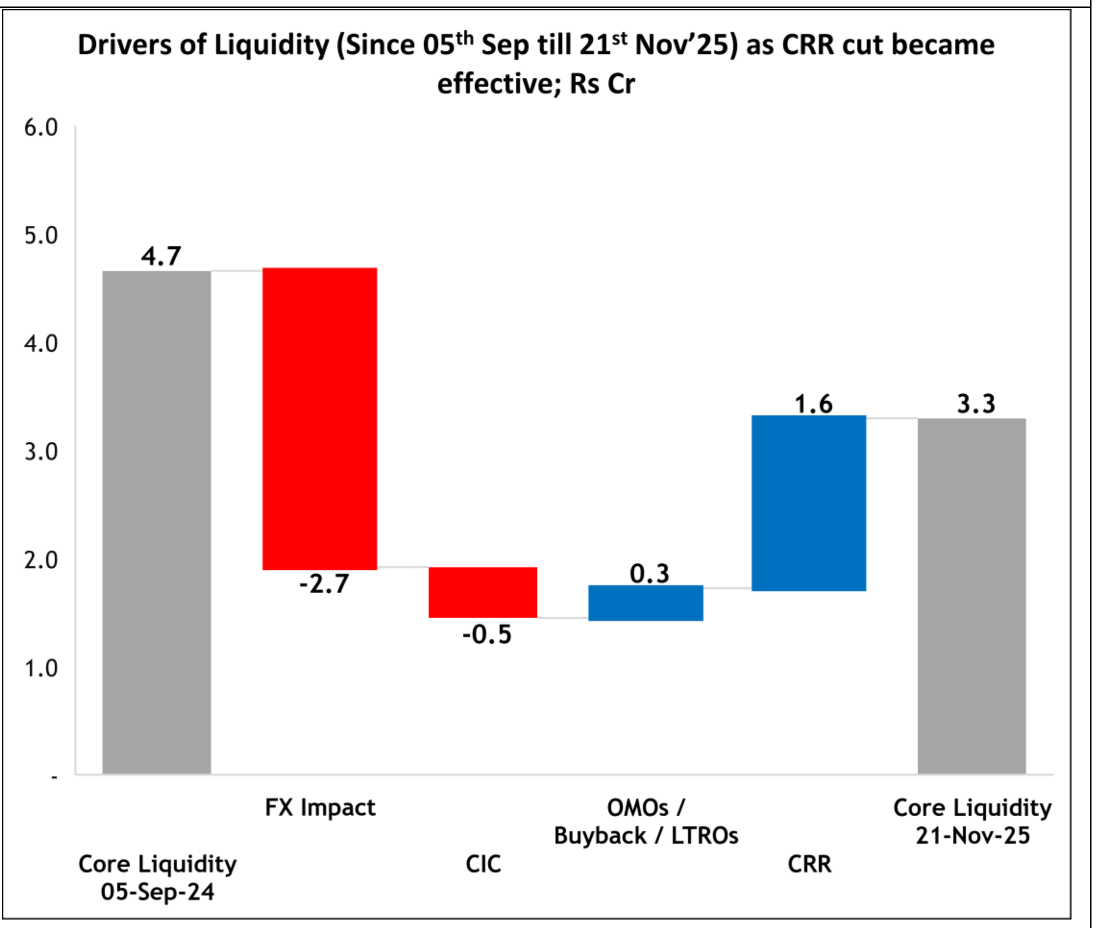


Fig 6: We estimate need for durable liquidity injection of ~Rs 1-2 lakh crore in rest of FY26

Rs Lakh Crore	Systemic Liquidity Balance	Govt. Balance with RBI	LTRO	Core Liquidity		Fx Impact	OMOs	LTROs	RBI Dividend	CIC	CRR
FY26 YTD#	1.30	1.99	-	3.29		-4.01	2.67	-1.83	2.69	1.37	-1.23
FY 26 Est.	2.53	0.75	-	3.28		-4.01	3.45*	-1.83	2.69	2.60	-1.66

**We estimate additional OMOs of atleast Rs 0.78 lakh crore; however, further spot intervention to limit Fx pressures in recent trading sessions and maturing forward covers in next 6 months may intensify the FX-related liquidity drain, taking the required OMO amount to Rs 1.0-2.0 lakh crore. #YTD is upto 21st Nov'25*

Fig 7: Market expectations with respect to RBI's liquidity announcements in the MPC meeting

Tool / Measure	Market Expectation	Impact
Continued Liquidity Assurance	MPC expected to emphasise continued liquidity support due to tight conditions created by FX impact, year-end tax outflows, and relatively weaker deposit growth vis-à-vis credit growth.	Ensures adequate short-term liquidity and providing enough liquidity for credit creation, keeping money-market rates aligned with repo.
Durable Liquidity Injection - Outright OMO Purchases - Fx Swap operations	- Announcement of a quantum or calendar of RBI buying long-term G-Secs (our estimate of Rs.1-2 lakh crore over coming months) maintaining overall banking system liquidity ~1% of NDTL - Potential USD/INR swap auctions to replenish durable liquidity hole created due to Fx impact - OMO purchases shall be more favorable to the Bond Markets	- Injects durable liquidity, supports bond demand, and lowers G-Sec yields. - Helps offset liquidity drained by forex impact; stabilises INR.
Operation Twist (Buy Long-Sell Short)	- RBI may deploy OT to soften long-term yields if bond yields remain sticky or rise despite adequate liquidity. - About Rs.90,786 crore of G-Secs are set to mature in Jan-2026. The government may allow the RBI to swap its holdings of the 7.59% 2026 bond with longer-term securities, which would create room to reduce long-tenor market borrowings.	Manages the yield curve by lowering long-term yields without adding net liquidity.

Source: RBI, CEIC, UBI research

High frequency indicators for Oct'25 signal positive momentum following GST rate cuts yet sustainability on watch

MACRO-ECONOMIC DASHBOARD														
Industrial Sector	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
IIP (YoY Gr%)	3.7	5.0	3.7	5.2	2.7	3.9	2.6	1.9	1.5	4.3	4.1	4.6	0.4	
Mining (YoY Gr%)	0.9	1.9	2.7	4.4	1.6	1.2	-0.2	-0.1	-8.7	-7.2	6.6	-0.4	-1.8	
Manufacturing (YoY Gr%)	4.4	5.5	3.7	5.8	2.8	4.0	3.1	3.2	3.7	6.0	3.8	5.6	1.8	
Electricity (YoY Gr%)	2.0	4.4	6.2	2.4	3.6	7.5	1.7	-4.7	-1.2	3.7	4.1	3.1	-6.9	
Core Infra Growth (YoY Gr%)	3.8	5.8	5.1	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.5	3.3	0.0	
Cement Production (YoY Gr%)	3.1	13.1	10.3	14.3	10.7	12.2	6.3	9.7	8.2	11.6	5.4	5.0	5.3	
Steel Production (YoY Gr%)	5.7	10.5	7.3	4.7	6.9	8.7	4.4	7.4	9.7	16.6	13.6	14.4	6.7	
Petroleum Products (YoY Gr%)	5.2	2.9	2.8	8.3	0.8	0.2	-4.5	1.1	3.4	-1.1	3.0	-3.7	4.6	
Fertilizers Production (YoY Gr%)	0.4	2.0	1.7	3.0	10.2	8.8	-4.2	-5.9	-1.2	2.0	4.6	1.6	7.4	
Coal Production (YoY Gr%)	7.8	7.5	5.3	4.6	1.7	1.6	3.5	2.8	-6.8	-12.3	11.4	-1.2	-8.5	
Capital Goods Production (YoY Gr%)	2.9	8.9	10.5	10.2	8.2	3.6	14.0	13.3	3.0	6.8	4.5	5.4	2.4	
PMI Manufacturing	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6
PMI Services	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.5
Banking Sector	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
Bank Credit (YoY Gr%)	11.5	10.6	11.2	11.4	11.0	11.0	10.3	9.0	9.5	10.0	10.0	10.4	12.5	
Agriculture Credit (YoY Gr%)	15.5	15.3	12.5	12.2	11.4	10.4	9.2	7.5	6.8	7.3	7.6	9.0	8.9	
Industry Credit (YoY Gr%)	8.1	8.0	7.2	8.0	7.1	8.2	6.6	4.8	5.9	6.0	6.5	7.3	10.0	
Services Credit (YoY Gr%)	12.5	13.0	11.7	12.5	12.0	12.0	10.5	8.7	9.2	10.6	10.6	10.2	13.0	
Retail Credit (YoY Gr%)	12.9	13.3	12.0	11.8	11.7	11.7	11.9	11.1	11.7	11.9	11.8	11.7	14.0	
Bank Deposits (YoY Gr%)	11.5	11.2	9.8	12.1	12.0	10.3	9.8	9.9	10.1	10.2	9.3	8.3	10.8	
Demand (YoY Gr%)	10.2	7.7	5.4	13.2	14.2	10.4	6.0	19.2	18.1	17.7	12.5	10.8	22.7	
Time (YoY Gr%)	11.7	11.7	10.4	11.9	11.7	10.3	10.3	8.6	8.9	9.2	8.9	7.9	9.3	
C-D Ratio (%)	79.4	79.5	80.4	80.3	80.4	80.8	79.7	78.9	78.9	79.2	79.0	80.3	80.2	
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.5	9.4	9.3	9.3	9.4	9.4	9.3	9.2	8.6	8.8	8.7	8.5	8.6	
Weighted Average Deposit Rate (%)	7.0	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.0	6.9	6.9	6.8	6.8	
Banking Sector	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
UPI (No. in Cr)	1658	1548	1673	1700	1611	1830	1789	1868	1840	1947	2001	1963	2070	2047
IMPS (No. in Cr)	46.7	40.8	44.1	44.4	40.5	46.2	44.9	46.4	44.8	48.2	47.7	39.4	40.4	36.9
NPCI Retail Transaction value (YoY Gr%)	29.6	14.9	19.5	20.5	12.3	17.0	15.9	16.7	14.9	15.7	14.4	6.0		
NPCI Retail transactions volume (YoY Gr%)	43.2	31.8	34.4	35.2	29.3	31.6	30.1	30.0	28.5	31.0	30.2	23.8		
Inflation	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
CPI (YoY Gr%)	6.2	5.5	5.2	4.3	3.6	3.3	3.2	2.8	2.1	1.6	2.1	1.4	0.3	
Core CPI (YoY Gr%)	3.7	3.6	3.6	3.7	4.0	4.1	4.1	4.2	4.4	4.1	4.1	4.3	4.4	
WPI (YoY Gr%)	2.8	2.2	2.6	2.5	2.4	2.2	0.9	0.1	-0.2	-0.6	0.5	0.1	-1.2	
Consumer	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
Electricity Consumption (YoY Gr%)	-0.4	3.7	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.6	3.8	3.5	-5.8	
Petroleum Consumption (YoY Gr%)	8.4	2.0	4.0	1.4	-11.3	3.7	-4.1	6.9	-1.0	6.0	9.9	-7.5	-2.4	
Consumer Durables (YoY Gr%)	5.5	14.1	8.1	7.1	3.7	6.9	6.2	-0.9	2.8	7.3	3.5	10.0	-0.5	
Consumer Non Durables (YoY Gr%)	2.8	0.6	-7.1	0.1	-2.1	-4.0	-2.7	-1.0	-0.9	0.5	-6.4	-0.3	-4.4	
Trade	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
Merchandise Export (YoY Gr%)	16.6	-5.3	-1.5	-2.6	-10.9	0.9	-3.8	-1.2	-1.3	13.3	6.1	6.7	-11.8	
Merchandize Import (YoY Gr%)	3.4	16.8	2.7	10.7	-14.8	12.1	20.0	-1.3	-3.4	8.6	-10.1	16.7	16.6	
Service Export (YoY Gr%)	22.7	14.2	16.9	12.1	11.7	18.7	8.9	9.6	12.0	10.3	2.8	12.6	2.2	
Service Import (YoY Gr%)	28.0	26.1	13.9	12.6	-4.7	5.3	1.0	-1.0	5.1	8.5	-5.3	7.8	2.9	
Logistics	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
E Way bill generated (Nos. in Cr)	11.7	10.2	11.2	11.8	11.2	12.5	11.9	12.3	11.9	13.2	12.9	13.2	12.7	
Air Freight (YoY Gr%)	14.3	9.7	8.0	7.0	-4.9	3.8	11.5	5.0	0.2	4.4	5.5	2.5	-2.3	
Fiscal	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
GST Collection (YoY Gr%)	8.9	0.6	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1	4.6	0.7
Govt. Expenditure (YoY Gr%)	31.7	3.6	22.1	12.4	-17.7	9.7	10.0	40.3	37.4	3.3	-9.9	-8.0	-11.1	

Source: CEIC, UBI research

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