

RBI lifts growth outlook; benign inflation offers policy space

Key Highlights

- ⇒ The outcome of the MPC meeting was in line with our expectations, with the RBI unanimously deciding to cut the policy repo rate by 25bps to 5.25% under the Liquidity Adjustment Facility (LAF).
- ⇒ Consequently, the standing deposit facility (SDF) rate was reduced to 5.00%, and the marginal standing facility (MSF) rate was decreased at 5.50%.
- ⇒ The monetary policy maintained its neutral stance (Prof. Ram Singh dissented for accommodative), taking into consideration balanced growth-inflation dynamics and volatile global uncertainties.
- ⇒ Real GDP growth for FY26 has been revised upwards to 7.3% from 6.8%. The RBI Governor stated that the strong agricultural prospects, ongoing effects of GST rationalization, low inflation levels, healthy balance sheets of institutions, and supportive monetary and financial conditions are expected to sustain the momentum of economic activity.
- ⇒ The GDP growth forecast has been revised upwards, with Q3FY26 raised to 7.0% from 6.4%, Q4FY26 to 6.5% from 6.2%, and Q1FY27 to 6.7% from 6.4%, while the forecast for Q2FY27 is set at 6.8%. Volatile external factors continue to cloud the MPC's forecast. However, ongoing trade and investment negotiations, particularly those centered around the US-India trade deal, present an optimistic outlook.
- ⇒ The consumer price inflation forecast for FY26 was downwardly revised to 2.0% from 2.6%, with the outlook improving on the back of softer food prices. The consumer price inflation forecast for Q3FY26 was revised downwards to 0.6% from 1.8%, Q4FY26 was also revised downwards to 2.9% from 4.0%, and Q1FY27 was cut to 3.9% from 4.5% earlier. CPI inflation for Q2FY27 is set at 4.0%. CPI inflation declined to an all-time low of 0.25% in October 2025.

Our View

The RBI's decision to reduce the repo rate by 25 bps to 5.25% was well within expectations. The decision was mainly influenced by the growth inflation dynamics. With inflation falling to just 0.25% in October 2025, the RBI had room to cut rates without worrying about overheating the economy. Going forward, excluding some metals, overall commodity inflation is expected to be softer. On the growth front, domestic demand continues to hold up well, supported by a favorable monsoon, monetary easing, and the positive impact of recent GST reforms. On the external demand front, services exports are likely to remain strong, while merchandise exports face some headwinds. Following a robust six-quarter high GDP growth of 8.2% in Q2FY26, the RBI has revised its FY26 GDP estimates upward to 7.3% from 6.8%; projections for Q3 and beyond appear higher than earlier expectations owing to optimism around the US-India trade deal. Taking into account the sharp Rupee depreciation, the RBI has moved to ease liquidity strains and support currency stability through targeted measures. This will also help to mitigate higher import costs. **In our assessment, the central bank's neutral stance is appropriate, as it balances recent expansionary measures with caution over key events. The current need for stimulus amid global uncertainties makes this support vital to maintain growth momentum and ensure much-needed liquidity. Overall, the tone of the policy remains supportive of continued growth.**

Key Rates

	Current (%)	Previous (%)
Repo	5.25	5.50
Reverse Repo	3.35	3.35
MSF	5.00	5.25
SDF	5.50	5.75

GDP Growth Estimate

	Current (%)	Previous (%)
FY26	7.3%	6.8%
Q3FY26	7.0%	6.4%
Q4FY26	6.5%	6.2%
Q1FY27	6.7%	6.4%
Q2FY27	6.8%	-

Inflation Estimate

	Current (%)	Previous (%)
FY26	2.0%	2.6%
Q3FY26	0.6%	1.8%
Q4FY26	2.9%	4.0%
Q1FY27	3.9%	4.5%
Q2FY27	4.0%	-

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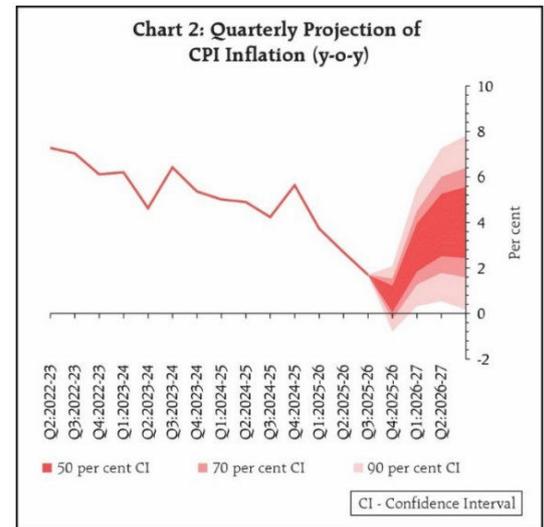
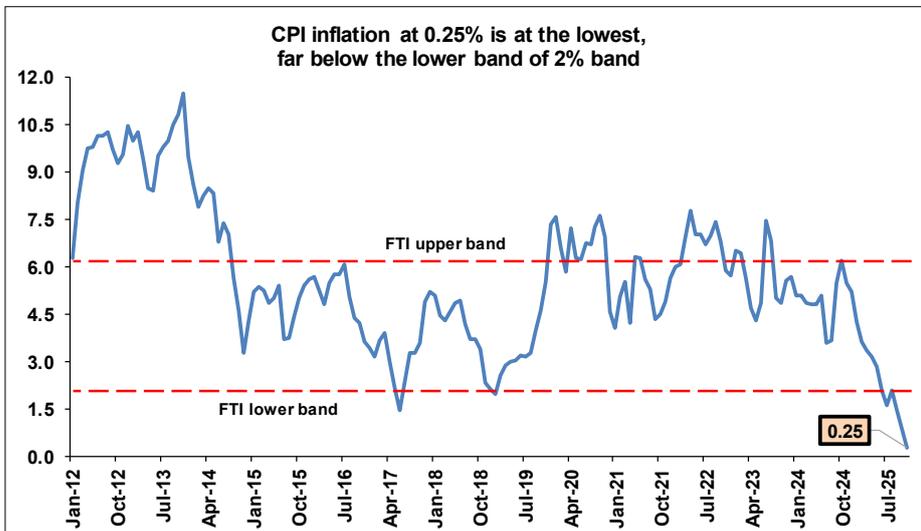
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RBI MPC (December 2025) - Review

Macro & Policy Outlook

Inflation

- The consumer price inflation forecast for FY26 was downwardly revised to 2.0% from 2.6%.
- The headline CPI inflation declined to an all-time low in October 2025. The faster-than-anticipated decline in inflation was led by a correction in food prices, contrary to the usual trend in September and October. Core inflation (CPI headline excluding food and fuel) remained largely contained in September-October, despite continued price pressures exerted by precious metals. Excluding gold, core inflation moderated to 2.6% in October.
- **Inflation Outlook: Food supply prospects remain positive, supported by higher kharif output, healthy rabi sowing, adequate reservoir levels, and favourable soil moisture. Except for certain metals, international commodity prices are expected to ease further. Overall, inflation is likely to be softer than projected in October, primarily due to the decline in food prices. CPI inflation is now expected to reach 4% by Q4FY27, rising more gradually than earlier projected.**

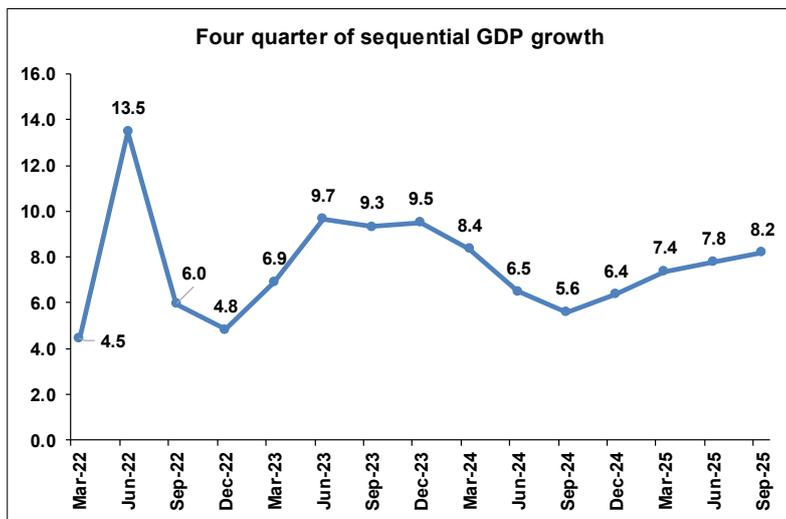


Source: Bloomberg, BP Equities Research, RBI

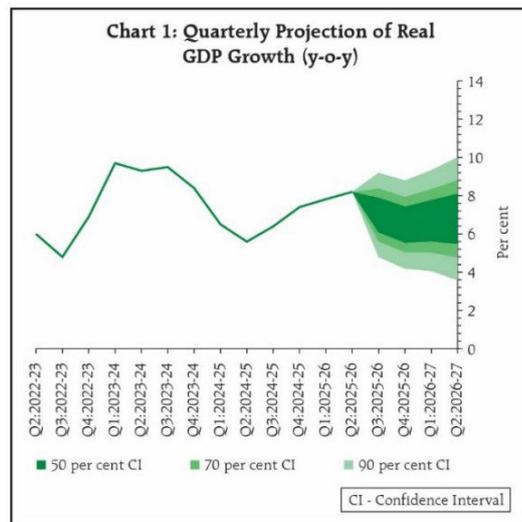
Growth

- The consumer price inflation forecast for FY26 was downwardly revised to 2.0% from 2.6%.
- The real GDP registered a six-quarter high growth of 8.2% in Q2FY26, underpinned by resilient domestic demand amidst global trade and policy uncertainties. On the supply side, real gross value added (GVA) expanded by 8.1%, aided by buoyant industrial and services sectors. Economic activity during the first half of the financial year benefited from income tax and GST rationalization, softer crude oil prices, front-loading of government capital expenditure, and facilitative monetary and financial conditions supported by benign inflation.
- **Growth Outlook: Domestic activity is expected to stay resilient, driven by GST rationalization, festive demand, strong rural consumption, and steady urban recovery. Private investment is picking up, agriculture remains healthy, and manufacturing and services are stable. Though notable, there are some emerging signs of weakness in a few leading indicators. Looking ahead, the rate cut provides a base for growth, but the outlook remains uncertain, with much hinging on the outcome of the US-India trade deal.**

RBI MPC (December 2025) - Review



Source: Bloomberg, BP Equities Research, RBI

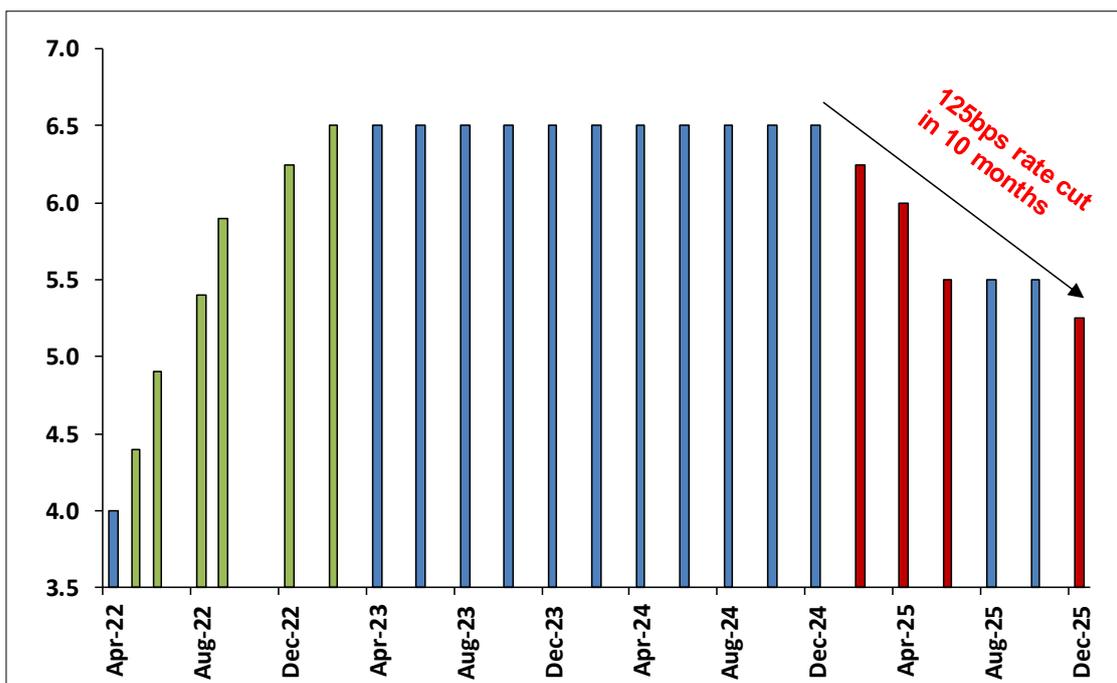


Additional measures

- To ease liquidity strains amid rupee pressures, the RBI announced Rs. 1 lakh crores in OMO purchases of government securities and a 3-year USD/INR buy-sell swap worth USD 5 billion in December, injecting durable funds and supporting forex stability as the USD strengthened on safe-haven flows.

Despite a challenging external environment, the Indian economy has demonstrated remarkable resilience and is positioned for strong growth. The inflation outlook has provided headroom, enabling the RBI to support growth. With limited control over global spillovers, the RBI balances anchoring inflation expectations with actively supporting domestic demand.

Repo rate - Trend



Source: Bloomberg, BP Equities Research, RBI

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

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