



Achintya Securities Limited

# RBI's December 2025 Repo Rate Cut:

Navigating a Goldilocks  
Economy



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# Introduction

The Reserve Bank of India (RBI) has once again signaled its commitment to fostering sustainable growth by slashing the repo rate by 25 basis points (bps) to 5.25% during its December 2025 Monetary Policy Committee (MPC). This move, unanimously approved under the Governor Sanjay Malhotra, represents the fourth rate cut of 2025, culminating in a substantial cumulative reduction of “bps” from the starting level of 6.50% at the beginning of the year. Occurring amidst what experts describe as a "rare Goldilocks period"—characterized by subdued inflationary pressures and robust economic momentum—this decision underscores the RBI's confidence in India's resilient macroeconomic framework.



# Tracing the 5 Easing Cycle: A Timeline of Repo Rate Adjustments

India's monetary policy in 2025 has unfolded as a deliberate easing trajectory, primarily fuelled by sharply declining inflation, including a historic Consumer Price Index (CPI) reading of just 0.25 in October 2025. This environment prompted progressive cuts, interspersed with pauses to monitor global headwinds and domestic impacts.

Here's a detailed chronology of key repo rate decisions:

Date	Repo Rate	Change	Key Notes
December 5, 2025	5.25%	-25 bps	Latest cut; lowest since July 2022
August 6, 2025	5.50%	Unchanged	Steady to assess prior cuts and tax measures
June 6, 2025 5.50%	-50 bps	Aggressive easing amid disinflation	
April 9, 2025	6.00%	-25 bps	Response to softening CPI trends

Date	Repo Rate	Change	Key Notes
February 7, 2025	6.25%	-25 bps	Initial cut of the year
December 6, 2024	6.50%	Baseline	Pre-2025 reference point

Notably, October and August 2025 meetings-maintained rates at 5.50%, providing the MPC time to evaluate the transmission of earlier reductions amid uncertainties like global trade tensions. The December cut brings the repo rate its lowest in over three years, a total easing of - bps across three to four instalments throughout 2025.



# Core Economic Drivers: Inflation Control Meets Growth Resilience

At the heart of this policy shift lies a rapidly cooling inflation landscape, which has undershot RBI's own projections and settled near the lower boundary of its 2-6 mediumterm target band. Retail inflation has eased substantially, with October's 0.25% CPI marking a record low, creating ample headroom for accommodative measures.

Key projections reinforcing the rationale:

- **FY26 inflation forecast:** Downgraded to **2%**, indicating potential for additional easing if disinflation persists.
- **FY25/26 GDP growth forecast:** Steadily held at **7.3%**, bolstered by real GDP outperformance that has consistently beaten expectations.

Governor Horta highlighted the shift to a neutral policy stance, offering flexibility to support expansion while vigilantly monitoring external vulnerabilities such as prospective US tariffs and rupee depreciation. This balanced approach mitigates overheating risks in a high-momentum economy, where low inflation coexists with strong growth prints.



# Strategic Liquidity Infusions: Beyond the Rate

The RBI didn't stop at the repo rate adjustment; it rolled out complementary measures to flood the system with INR 1.4 trillion in liquidity, addressing transmission bottlenecks and stabilizing financial conditions. These included:

1. INR 1 trillion via Open Market Operations (OMO) purchases of government bonds, aimed at compressing funding costs and steepening the yield curve.
2. A novel 3-year FX buy/sell swap totaling US\$5 billion, designed to alleviate pressures on foreign exchange forward yields

Accompanying rate adjustments maintain the structure for efficient liquidity management:

- Reverse Repo Rate: 3.35 (unchanged)
- Standing Deposit Facility (SDF): 5.00% (post-adjustment).
- Marginal Standing Facility (MSF): 5.50%.
- Rate: 5.50%

These unexpected liquidity boosts prioritize repo-linked transmission over bond yields, ensuring cheaper credit flows to the real economy while committing to ample INR liquidity.

# Ripple Effects Across Loans, Sectors, and Markets

The repo rate's descent to 5.25% promises tangible relief for borrowers, with home loan EMIs poised to decline, enhancing housing affordability in a booming growth backdrop. Broader impacts span:

- **Rate-sensitive sectors:** Banks, Non-Banking Companies (NBFCs), automobiles, real estate, telecom, and Banking Financial Services, and Insurance (BFSI) are set for tailwinds from cheaper funding and surging Foreign Portfolio Investor (FPI) inflows
- **Market dynamics:** Government securities (G-sec yields have dipped, supporting equities, though the USD/INR pair could edge toward **92** without a US-India trade pact— a level RBI deems manageable with orderly depreciation.

This cycle's 125 bps total cut positions 2025 as a pivotal year for monetary normalization, likely capping further reductions unless disinflation accelerates further.

## Looking Ahead: Pre-Emptive Easing and Lingering Risks

RBI frames the December action as pre-emptive support for a healthy growth trajectory, with analysts anticipating a hold at 5.25% into 2026 under the neutral stance. The pre-meeting consensus was divided, but benign conditions aligned the outcome with expectations.

### Potential on the February 2026 review include:

- US policy shifts, particularly tariffs.
- INR volatility and global uncertainties.

Overall, this repo rate cut exemplifies prudent policymaking blending data-driven easing with vigilance to sustain India's Goldilocks equilibrium.



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