

RBI's season of giving

Economics
India

Cuts rates, infuses liquidity, underlines dovishness

- ◆ The RBI cut rates by 25bp as expected, and unveiled plans of infusing domestic liquidity in December via OMO purchases and FX swaps
- ◆ The RBI cut inflation forecasts, discussed sectors where growth could soften, and assured ample liquidity
- ◆ We believe weaker growth down the line, low for long inflation, and tight fiscal policy may require growth supportive monetary policy in 2026

In a unanimous decision across the six MPC members on 5 December, the RBI cut the policy repo rate by 25bp, taking it to 5.25%. This was in line with our expectation. But this is not where the accommodative policy ended.

The RBI also unveiled its plans to infuse domestic liquidity, announcing INR1trn OMO purchases of government securities and a 3-year USD/INR buy-sell swap of USD5bn in December. These, we believe, can infuse about INR1.45trn of liquidity in December.

Dovish on many counts

On inflation, the RBI lowered its FY26 and 1H FY27 inflation forecasts by 60bp and 50bp respectively. It further emphasised that underlying inflation (core excluding gold) is even lower (at 3% in the last 3 months).

On growth, GDP numbers were raised, from 6.8% to 7.3% in FY26, but in our view, primarily on the back of stronger-than-expected numbers in 2QFY26. The governor spoke about the exports sector being weaker in the press conference and he also said that he expects "growth to somewhat slow".

On liquidity, not only is the RBI providing INR1.45trn worth of funds in December, the governor mentioned that more could be made available if needed.

On rates, the governor mentioned that in the season of easing, the odds for lower rates are more than for higher rates.

Why this dovishness?

We believe there are two main reasons for the dovishness this time.

First, the inflation targeting regime has some symmetry (4%, +/- 2%), which needs to be respected for the regime to strengthen and succeed. We would expect rate hikes and hawkish commentary if inflation were to run higher than 6% for 6 months. In the same vein, if inflation runs lower than 2% for 6 months, we would expect the RBI to cut rates and sound dovish, which is what it did in the December policy meeting.

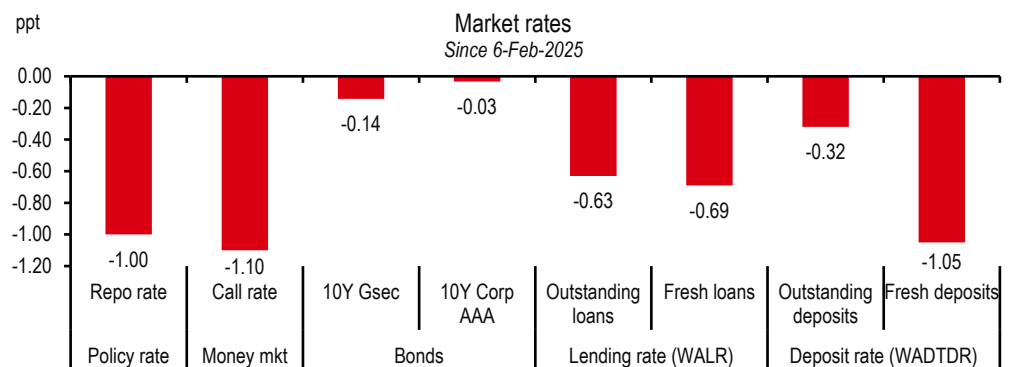
Second, the macro economy needs loose monetary policy as per our forecasts. We expect inflation to remain below 4% in FY26 and FY27. We believe growth is strong now, but will soften by the March quarter due to fiscal tightening, weaker exports, and the GST boost fading. We think fiscal policy will remain tight in a world of fiscal intolerance, and the onus for supporting growth will fall on the RBI.

What next?

Even though the RBI has lowered 1HFY27 inflation forecast by 50bp (4.5% previously to 4% now), our forecasts are 50bp lower (c3.5%). If we are correct, and the RBI eventually makes further downward adjustment to inflation, there would be space to ease further, if growth requires it. As such, we believe there are risks of further rate cuts in FY27, alongside more liquidity infusion.

Finally, while the RBI did not provide much new colour on its INR policy, we believe the ongoing FX depreciation can be the best and most fitting shock absorber, improving export competitiveness in the face of elevated tariffs.

1. RBI monetary policy transmission



Source: CEIC, RBI policy statement, HSBC

2: India's key forecasts

	Unit	FY26f (Apr'25-Mar'26)	FY27f (Apr'26-Mar'27)
Real gross domestic product (GDP)	%y-o-y	7.7	6.5
Consumer price index (CPI)	%y-o-y	1.8	3.8
Central government fiscal balance	% GDP	-4.4	-4.4
Current account balance (C/A balance)	% GDP	-1.4	-1.3
Repo rate	%, end-period	5.25	5.25

Source: HSBC forecasts

Disclosure appendix

Important disclosures

- 1 This report is dated as at 08 December 2025.
- 2 All market data included in this report are dated as at close 05 December 2025, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

This document is prepared by The Hongkong and Shanghai Banking Corporation Limited ('HBAP'), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document is distributed by HSBC Continental Europe, HBAP, HSBC Bank (Singapore) Limited, HSBC Bank (Taiwan) Limited, HSBC Bank Malaysia Berhad (198401015221 (127776-V))/HSBC Amanah Malaysia Berhad (200801006421 (807705-X)), The Hongkong and Shanghai Banking Corporation Limited, India (HSBC India), HSBC Bank Middle East Limited, HSBC UK Bank plc, HSBC Bank plc, Jersey Branch, and HSBC Bank plc, Guernsey Branch, HSBC Private Bank (Suisse) SA, HSBC Private Bank (Suisse) SA DIFC Branch, HSBC Private Bank Suisse SA, South Africa Representative Office, HSBC Financial Services (Lebanon) SAL, HSBC Private banking (Luxembourg) SA and The Hongkong and Shanghai Banking Corporation Limited (collectively, the "Distributors") to their respective clients. This document is for general circulation and information purposes only. This document is not prepared with any particular customers or purposes in mind and does not take into account any investment objectives, financial situation or personal circumstances or needs of any particular customer. HBAP has prepared this document based on publicly available information at the time of preparation from sources it believes to be reliable but it has not independently verified such information. The contents of this document are subject to change without notice. HBAP and the Distributors are not responsible for any loss, damage or other consequences of any kind that you may incur or suffer as a result of, arising from or relating to your use of or reliance on this document. HBAP and the Distributors give no guarantee, representation or warranty as to the accuracy, timeliness or completeness of this document. This document is not investment advice or recommendation nor is it intended to sell investments or services or solicit purchases or subscriptions for them. You should not use or rely on this document in making any investment decision. HBAP and the Distributors are not responsible for such use or reliance by you. You should consult your professional advisor in your jurisdiction if you have any questions regarding the contents of this document. You should not reproduce or further distribute the contents of this document to any person or entity, whether in whole or in part, for any purpose. This document may not be distributed to any jurisdiction where its distribution is unlawful.

The following statement is only applicable to HSBC Bank (Taiwan) Limited with regard to how the publication is distributed to its customers: HSBC Bank (Taiwan) Limited ("the Bank") shall fulfill the fiduciary duty act as a reasonable person once in exercising offering/conducting ordinary care in offering trust services/business. However, the Bank disclaims any guaranty on the management or operation performance of the trust business.

The following statement is only applicable to by HSBC Bank Australia with regard to how the publication is distributed to its customers: This document is distributed by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL/ACL 232595 (HBAU). HBAP has a Sydney Branch ARBN 117 925 970 AFSL 301737. The statements contained in this document are general in nature and do not constitute investment research or a recommendation, or a statement of opinion (financial product advice) to buy or sell investments. This document has not taken into account your personal objectives, financial situation and needs. Because of that, before acting on the document you should consider its appropriateness to you, with regard to your objectives, financial situation, and needs.

Important Information about the Hongkong and Shanghai Banking Corporation Limited, India ("HSBC India")

HSBC India is a branch of The Hongkong and Shanghai Banking Corporation Limited. Incorporated in Hong Kong SAR with limited liability. HSBC India is an AMFI-registered Mutual Fund Distributor of select mutual funds and a referrer of other 3rd party investment products. HSBC India does not distribute or refer investment products to those persons who are either the citizens or residents of United States of America (USA), Canada or any other jurisdiction where such distribution or referral would be contrary to law or regulation.

HSBC India will receive commission from HSBC Asset Management (India) Private Limited, in its capacity as a AMFI registered mutual fund distributor of HSBC Mutual Fund. The Sponsor of HSBC Mutual Fund is HSBC Securities and Capital Markets (India) Private Limited (HSCI), a member of the HSBC Group. Please note that HSBC India and the Sponsor being part of the HSBC Group, may give rise to real, perceived, or potential conflicts of interest. HSBC India has a policy in place to identify, prevent and manage such conflict of interest

For more information related to investments in the securities market, please visit the SEBI Investor Website: <https://investor.sebi.gov.in/> and the SEBI Saaṛthi Mobile App. Mutual Fund investments are subject to market risks, read all scheme related documents carefully. Issued by The Hongkong and Shanghai Banking Corporation Limited, India. Incorporated in Hong Kong SAR with limited liability. HSBC Bank ARN - 0022 with validity from 19-Feb-2024 to 18-Feb-2027. Date of initial registration: 19-Feb-2002.

Mainland China

In mainland China, this document is distributed by HSBC Bank (China) Company Limited ("HBCN") and HSBC FinTech Services (Shanghai) Company Limited to its customers for general reference only. This document is not, and is not intended to be, for the purpose of providing securities and futures investment advisory services or financial information services, or promoting or selling any wealth management product. This document provides all content and information solely on an "as-is/as-available" basis. You SHOULD consult your own professional adviser if you have any questions regarding this document.

The material contained in this document is for general information purposes only and does not constitute investment research or advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. HSBC India does not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investments are subject to market risk, read all investment related documents carefully.

© Copyright 2025. The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED.

No part of this document may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.

Important information on sustainable investing

"Sustainable investments" include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors (collectively, "sustainability") to varying degrees. Certain instruments we include within this category may be in the process of changing to deliver sustainability outcomes.

There is no guarantee that sustainable investments will produce returns similar to those which don't consider these factors. Sustainable investments may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for sustainable investments, or the impact of sustainable investments ("sustainability impact"). Sustainable investment and sustainability impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and/or reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of sustainability impact will be achieved.

Sustainable investing is an evolving area and new regulations may come into effect which may affect how an investment is categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

[1270412]