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RESERVE BANK OF INDIA

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Governor's Statement: December 05, 2025

Good morning and Namaskar. We are in the last month of an eventful and a challenging 2025. We look back at the year so far with satisfaction. The economy witnessed robust growth and benign inflation; the banking system further consolidated and the regulatory framework was refined to strengthen the financial system, enhance ease of doing business, and improve consumer protection. At the same time, we approach the new year with hope, vigour and determination to further support the economy and accelerate progress.

2. Since the October policy, the Indian economy has witnessed rapid disinflation, with inflation coming down to an unprecedentedly low level. For the first time since the adoption of flexible inflation targeting (FIT), average headline inflation for a quarter at 1.7 per cent in Q2:2025-26, breached the lower tolerance threshold (2 per cent) of the inflation target (4 per cent). It dipped further to a mere 0.3 per cent in October 2025. On the other hand, real GDP growth accelerated to 8.2 per cent in Q2, buoyed by strong spending during the festive season which was further facilitated by the rationalisation of the goods and services tax (GST) rates. Inflation at a benign 2.2 per cent and growth at 8.0 per cent in H1:2025-26 present a rare goldilocks period.

3. Contrary to earlier expectations, global growth has been relatively strong. Evolving geopolitical and trade environments, however, continue to weigh on the outlook. Inflation paths remain divergent with headline inflation remaining above target in most advanced economies, while pressures in most emerging markets are contained, providing room for accommodative monetary policy. Conflicting pulls and pressures from AI-fuelled optimism and concerns over high valuations are playing out in global equity markets, while divergence in the monetary policy trajectory of central banks is adding to the uncertainty on capital flows and yield spreads.

Major Decisions of the Monetary Policy Committee (MPC) and the RBI

4. The Monetary Policy Committee (MPC) met on the 3rd, 4th and 5th of December to deliberate and decide on the policy repo rate. After a detailed assessment of the evolving macroeconomic conditions and the outlook, the MPC voted unanimously to reduce the policy repo rate by 25 basis points (bps) to 5.25 per cent with immediate effect. Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) 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.

5. Moreover, in view of the evolving liquidity conditions and the outlook, the Reserve Bank has decided to conduct OMO purchases of government securities of

₹1,00,000 crore and a 3-year USD/INR Buy Sell swap of USD 5 billion this month to inject durable liquidity into the system.

6. I shall now briefly set out the rationale for the decisions of the MPC.

7. The MPC noted that headline inflation has eased significantly and is likely to be softer than the earlier projections, primarily on account of the exceptionally benign food prices. Reflecting these favourable conditions, the projections for average headline inflation in 2025-26 and Q1:2026-27 have been further revised downwards. Core inflation, which had been rising steadily since Q1:2024-25, eased at the margin in Q2:2025-26 and is expected to remain anchored in the period ahead. Both headline and core inflation are expected to be at or below the 4 per cent target during the first half of 2026-27. The underlying inflation pressures are even lower as the impact of increase in price of precious metals is about 50 basis points (bps). Growth, while remaining resilient, is expected to soften somewhat.

8. 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. Accordingly, the MPC unanimously voted to reduce the policy repo rate by 25 bps to 5.25 per cent. The MPC also decided to continue with the neutral stance.

Assessment of Growth and Inflation

Growth

9. 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.¹ 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.

10. High-frequency indicators suggest that domestic economic activity is holding up in Q3, although there are some emerging signs of weakness in few leading indicators.² GST rationalisation and festival-related spending supported domestic demand during October-November. Rural demand³ continues to be robust while urban demand is recovering steadily.⁴ Investment activity remains healthy⁵ with private

¹ Private final consumption expenditure (PFCE) expanded by 7.9 per cent during Q2:2025-26 as against 7.0 per cent in Q1:2025-26. Gross fixed capital formation (GFCF) also remained resilient at 7.3 per cent in Q2:2025-26.

² PMI Manufacturing has moderated to a 9-month low of 56.6 in November 2025. Growth in index of industrial production (IIP) moderated to 0.4 per cent in October 2025 from 4.6 per cent in September 2025. Construction indicators viz., steel consumption and cement production recorded modest growth of 2.4 per cent and 5.3 per cent, respectively, during October. Electricity demand remained in contractionary zone in November 2025.

³ Retail two-wheeler sales expanded by 51.8 per cent in October 2025. The demand under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) declined by 33.4 per cent in October-November, reflecting improvement in farm sector employment.

⁴ Retail passenger vehicle sales increased by 11.3 per cent (y-o-y) in October on the back of festive demand and GST cuts. Domestic air passenger traffic witnessed a growth of 5.2 per cent in October-November.

⁵ Imports of capital goods expanded by 8.7 per cent during October.

investment gaining steam⁶ on the back of expansion in non-food bank credit,⁷ and high capacity utilisation⁸. Merchandise exports declined sharply in October amid subdued external demand, accompanied by softer services exports.⁹ On the supply side, agricultural growth is supported by healthy *kharif* crop production,¹⁰ higher reservoir levels¹¹ and better *rabi* crop sowing.¹² Manufacturing activity continues to improve, while the services sector is maintaining a steady pace.¹³

11. Looking ahead, domestic factors such as healthy agricultural prospects, continued impact of GST rationalisation, benign inflation, healthy balance sheets of corporates and financial institutions and congenial monetary and financial conditions should continue to support economic activity. Continuing reform initiatives would further facilitate growth. 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 various 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.

Inflation

12. Headline CPI inflation declined to an all time low in October 2025.¹⁴ The faster than anticipated decline in inflation was led by correction in food prices¹⁵, contrary to the usual trend witnessed during the months of September-October. Core inflation (CPI headline excluding food and fuel) remained largely contained in September-October, despite continued price pressures exerted by precious metals.¹⁶ Excluding

⁶ Growth in fixed assets of private manufacturing companies has accelerated to 9.0 per cent during H1:2025-26 based on half-yearly balance sheet of listed companies.

⁷ Bank credit to food processing, textiles, chemicals, base metals, and engineering goods increased y-o-y by 10.2 per cent, 9.1 per cent, 12.2 per cent, 13.1 per cent, and 25.1 per cent, respectively, in October 2025.

⁸ As per the early results, seasonally adjusted capacity utilisation (CU) of manufacturing sector at 74.8 per cent in Q2:2025-26 is well above the long-term average.

⁹ India's merchandise exports contracted by 11.9 per cent (y-o-y) to US\$ 34.4 billion, while imports rose sharply by 16.6 per cent to US\$ 76.0 billion in October 2025. Services exports grew by 12.5 per cent and services imports expanded by 7.8 per cent in September but moderated sharply to 2.2 per cent and 2.9 per cent, respectively, in October.

¹⁰ The production of kharif food grains in 2025-26, as per the first advance estimates (FAE), is estimated at 2.3 per cent higher than the final estimates of 2024-25.

¹¹ All-India water storage in 155 major reservoirs stands at 87.8 per cent of the total capacity as of November 27, 2025, as against 81.9 per cent a year ago and decadal average of 72.3 per cent.

¹² As on 28th November, rabi crop sowing is higher by 9.9 per cent when compared to the same period last year.

¹³ GST revenues rose by 4.6 per cent and 0.7 per cent, respectively, in October and November 2025 despite rate rationalisation. Port cargo traffic increased by 12.0 per cent in October while toll collections registered an expansion of 2.9 per cent in November. Aggregate bank credit and deposits registered robust growth of 11.4 per cent and 10.2 per cent, respectively, as on November 14, 2025.

¹⁴ Based on the current CPI series (Base: 2012 = 100).

¹⁵ Food group registered a deflation of (-) 3.7 per cent on a y-o-y basis after registering (-) 1.4 per cent deflation in September. Within food group, vegetables, cereals and spices recorded a deflation of (-) 27.6 per cent, (-) 16.2 per cent and (-) 3.3 per cent, respectively.

¹⁶ Core inflation moved within a narrow range of 4.3-4.4 per cent during September-October.

gold, core inflation moderated to 2.6 per cent in October. Overall, the decline in inflation has become more generalised.¹⁷

13. Turning to the inflation outlook, food supply prospects have improved on the back of higher *kharif* production, healthy *rabi* sowing, adequate reservoir levels and conducive soil moisture. Barring some metals, international commodity prices are likely to moderate going forward.¹⁸ 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. The underlying inflation pressures are even lower as the impact of increase in price of precious metals is about 50 bps. The risks are evenly balanced.

External Sector

14. India's current account deficit moderated from 2.2 per cent of GDP in Q2:2024-25 to 1.3 per cent in Q2:2025-26 on account of robust services exports¹⁹ and strong remittances.²⁰ In October 2025, merchandise exports contracted year-on-year, whereas merchandise imports continued to increase for the second consecutive month, resulting in a widening of the trade deficit.²¹ Healthy services exports coupled with strong remittance receipts are expected to keep CAD modest during 2025-26.

15. On the external financing side, gross foreign direct investment (FDI) to India increased at a robust pace during the first half of the year. Net FDI also increased significantly due to a decline in repatriation despite a rise in outward FDI.²² Foreign portfolio investment (FPI) to India recorded net outflows of US\$ 0.7 billion in 2025-26 so far (April-December 03), due to outflows in the equity segment. Flows under external commercial borrowings and non-resident deposit accounts moderated as compared to last year.²³ As on November 28, 2025, India's foreign exchange reserves stood at US\$ 686.2 billion, providing a robust import cover of more than 11 months.

¹⁷ Nearly 80 per cent of the CPI basket recorded less than 4 per cent inflation in October 2025, as compared with 63 per cent in April and about 60 per cent a year ago. The CPI-Combined diffusion index, a measure of dispersion of price changes, declined to 55.8, its lowest value since July 2020.

¹⁸ As per the World Bank Commodity Price Forecasts (October 2025), energy, food, raw materials and fertiliser prices are projected to decline in 2026 from the 2025 levels.

¹⁹ India's services exports grew by 8.8 per cent (y-o-y) during Q2:2025-26, while services imports rose by 3.7 per cent with net services exports growing by 14.5 per cent during the same period. In October 2025, services exports at US\$ 35.2 billion grew at 2.2 per cent, while services imports at US\$ 17.7 billion increased by 2.9 per cent. Net services exports grew by 1.5 per cent and stood at US\$ 17.4 billion.

²⁰ India's inward remittances increased by 10.7 per cent (y-o-y) to US\$ 39.0 billion in Q2:2025-26.

²¹ In October 2025, India's merchandise exports contracted by 11.9 per cent on a y-o-y basis, whereas merchandise imports rose by 16.9 per cent to reach an all-time high of US\$ 76.1 billion, resulting in a widening of the merchandise trade deficit to US\$ 41.7 billion in October 2025.

²² Gross foreign direct investment (FDI) flows to India grew by 19.4 per cent to US\$ 51.8 billion in April-September 2025-26 from US\$ 43.4 billion during the same period a year ago. Net FDI inflows increased by 127.6 per cent to US\$ 7.7 billion in April-September 2025-26 from US\$ 3.4 billion during the same period a year ago.

²³ Net inflows under external commercial borrowings to India moderated to US\$ 6.2 billion during April-October 2025-26 from US\$ 8.1 billion a year ago. Non-resident deposits recorded net inflows of US\$ 6.1 billion in April-September 2025-26, lower than US\$ 10.2 billion in the same period last year.

Overall, India's external sector remains resilient.²⁴ We are confident of meeting our external financing requirements comfortably.

Liquidity and Financial Market Conditions

16. System liquidity, as measured by the net position under the LAF, stood at an average surplus of ₹1.5 lakh crore for the period since the MPC last met in October 2025.²⁵

17. Money market rates have remained largely aligned to the policy repo rate amidst comfortable liquidity conditions.²⁶ G-sec yields have remained range-bound since the last policy. In response to the cumulative 100 bps cut in the policy repo rate, the weighted average lending rate (WALR) of Scheduled Commercial Banks has declined by 69 bps for fresh rupee loans during February-October 2025 (the interest rate effect²⁷ is 78 bps). The moderation in the weighted average lending rate (WALR) of outstanding rupee loans has been to the extent of 63 bps. Transmission has been broad-based across sectors. On the deposit side, the weighted average domestic term deposit rate (WADTDR) on fresh deposits has declined by 105 bps, while that on outstanding deposits has softened by 32 bps over the same period.

18. I would like to reiterate that we are committed to provide sufficient durable liquidity to the banking system. We continuously assess the durable liquidity requirements of the banking system due to changes in currency in circulation, forex operations, and reserve maintenance. Going forward too, we shall continue to do so. After reviewing the liquidity situation and the outlook, we have decided to conduct open market operation (OMO) purchases of government securities amounting to ₹1,00,000 crore and 3-year USD/INR Buy Sell swaps of USD 5 billion this month. The details will be notified separately later today. These measures will ensure adequate durable liquidity in the system and further facilitate monetary transmission.

19. I would also like to take this opportunity to clarify that injection (absorption) of liquidity through purchase (sale) of government securities under OMOs and that through operations under the LAF (VRR or VR_{RRR}) of short term duration serve very different purposes. While the objective of purchase (sale) under OMO is to provide (absorb) durable liquidity, the purpose of repo operations is to manage transient liquidity so as to align the operating target – the Weighted Average Call Rate (WACR) – to the policy repo rate. So, it is quite possible that we inject durable liquidity through purchase of government securities under OMO on the one hand while simultaneously withdrawing transient liquidity through a VR_{RRR} operation on the other hand.

²⁴ India's external debt to GDP ratio declined to 18.9 per cent at end-June 2025 from 19.1 per cent at end-March 2025, while the net international investment position (IIP) moderated to (-) 8.0 per cent of GDP at end-June 2025 from (-) 8.6 per cent of GDP at end-March 2025.

²⁵ The average daily net absorption under the LAF stood at ₹2.9 lakh crore and ₹1.6 lakh crore in August and September, respectively, . The average daily net absorption under the LAF declined to ₹0.9 lakh crore in October 2025 but improved to ₹1.9 lakh crore in November 2025. As on December 03, net absorption under the LAF stood at ₹2.6 lakh crore.

²⁶ In response to the cumulative policy repo rate cut of 100 bps in the current easing cycle (up to December 03), the WACR, the 3-month T-bill rate, the rate on 3-month CPs issued by NBFCs, and the 3-month CD rate declined by 110 bps, 113 bps, 124 bps, and 140 bps, respectively.

²⁷ Interest rate effect on transmission to weighted average lending rate (WALR) is calculated by keeping the weight constant (as of January 2025).

20. I would further like to reiterate that the primary instrument of monetary policy is the policy repo rate.²⁸ It is expected that changes in the short term interest rates will transmit to various long-term rates. At the same time, the primary purpose of open market operations is to provide sufficient liquidity and not to directly influence G-sec yields.

Financial Stability

21. The system-level financial parameters related to capital adequacy, liquidity, asset quality and profitability of Scheduled Commercial Banks (SCBs) continue to remain robust.²⁹ Similarly, the system-level parameters of NBFCs too are sound, with adequate capital position and improved gross non-performing asset (GNPA) ratios³⁰.

22. The total flow of resources to the commercial sector has strengthened, bolstered by greater non-bank intermediation. In the current financial year so far, the total flow of resources was ₹20.1 lakh crore *vis-à-vis* ₹16.5 lakh crore in the corresponding period of the previous year. Outstanding credit from bank and non-bank sources increased by 13 per cent (y-o-y).

23. Bank credit growth too has seen an uptick in recent months.³¹ Sector-wise³² data reveals that the growth was supported by sustained lending to retail and service sector segments. Industrial credit growth firmed up, aided by buoyant credit flow to micro, small and medium enterprises (MSMEs). Large industries also recorded improvement in credit growth.

Additional Measures

24. Before I conclude, I have one additional measure to announce.

25. We have been focusing on improving customer services. We have taken a large number of measures in this regard. Re-KYC, financial inclusion and “Aapki Poonji, Aapka Adhikar” campaigns are some of the initiatives taken in association with other stakeholders. Earlier in the year, we reviewed our Citizens Charter too. We made applications for all our services online. We are publishing the summary of our monthly

²⁸ We moved away from targeting money supply in 1998.

²⁹ **SCB Parameters:** The outstanding credit and deposit increased by 11.31 per cent and 9.74 per cent on a y-o-y basis, respectively, between October-24 and October-25. The system-level Capital to Risk Weighted Assets Ratio (CRAR) of 17.24 per cent in September 2025 was well above the regulatory minimum level. Ratio of non-performing loans improved further (GNPA ratio at 2.05 per cent in September 2025 *vis-à-vis* 2.54 per cent in September 2024, NNPA Ratio at 0.48 per cent in September 2025 *vis-à-vis* 0.57 per cent in September 2024). Liquidity buffers were robust, with an LCR of 131.69 per cent as of end September 2025. The annualised return on assets (RoA) and return on equity (RoE) stood at 1.32 per cent and 13.06 per cent, respectively, in September 2025. Net Interest Margin was 3.26 per cent for September 2025 (3.52 per cent in September 2024).

³⁰ **NBFC Parameters:** Total CRAR of NBFCs was 25.11 per cent and Tier I CRAR was 23.27 per cent in September 2025, well above the minimum regulatory requirements. GNPA ratio has improved from 2.57 per cent in September 2024 to 2.21 per cent in September 2025, while NNPA ratio also improved from 1.04 per cent in September 2024 to 0.99 per cent in September 2025. RoA for the sector decreased from 3.25 per cent in September 2024 to 2.83 per cent in September 2025. NIM has decreased from 5.51 per cent in September 2024 to 4.24 per cent in September 2025.

³¹ On a year-on-year basis, bank credit registered a growth of 11.4 per cent as on November 14, 2025, compared to 11.2 per cent a year ago.

³² Sectoral non-food credit data are based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 95 per cent of total non-food credit extended by all SCBs, pertaining to the last reporting Friday of the month. Data available till October 2025.

disposal and pendency of various applications on the first of every month. I am happy to note that more than 99.8 per cent of the applications are disposed of within stipulated timelines.

26. However, in the recent past, as a result of, *inter alia*, receipt of a large number of grievances, pendency with the RBI Ombudsman has increased. I exhort all regulated entities to keep customers central in their policies and operations, improve customer service and reduce grievances. Further, we propose to hold a two-month campaign from 1st January next year with an aim to resolve all grievances pending for more than a month with the RBI Ombudsman. I elicit the support of all regulated entities in this endeavour.

Concluding Remarks

27. Let me now conclude. Despite an unfavourable and challenging external environment, the Indian economy has shown remarkable resilience and is poised to register high growth. The headroom provided by the inflation outlook has allowed us to remain growth supportive. We will continue to meet the productive requirements of the economy in a proactive manner while ensuring macroeconomic stability.

28. Thank you. Namaskar and Jai Hind.

(Brij Raj)

Chief General Manager

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