

RBI delivers the much-awaited rate cut

RBI MONETARY POLICY

DECEMBER 2025



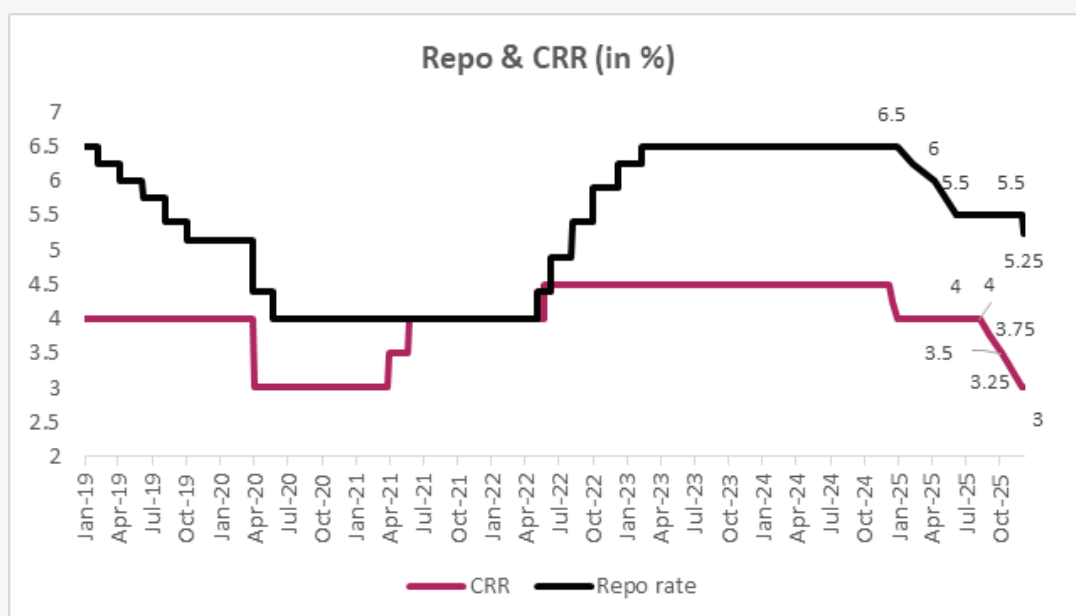
As anticipated in our policy preview, **“RBI’s December Dilemma – To Pause or Lower Rates,”** the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) lowered interest rates by 25 bps to 5.25% and maintained a neutral stance. This decision was shaped by a “goldilocks” backdrop—robust growth and exceptionally low inflation despite a weaker currency.

In the run-up to the policy, we highlighted the unique macro environment: inflation near record lows, growth at a six-quarter high and the rupee at an all-time low. These factors contributed to heightened market uncertainty and made the policy outcome particularly pivotal.

We believe the RBI’s neutral stance is appropriate and signals the beginning of a “lower for longer” interest rate environment. The central bank also announced liquidity infusion measures through Open Market Operations (OMOs) and FX buy-sell swaps, reinforcing accommodative financial conditions.

Policy Decision

- 1 MPC members voted unanimously for a rate cut
 - Repo rate lowered by 25 bps to 5.25%
 - SDF rate now stands at 5.0% and MSF rate & bank rate stands at 5.5%
- 2 Policy stance maintained as neutral, as 5 MPC members voted for no change and 1 voted for changing the stance to accommodative



RBI's assessment of the Macro environment

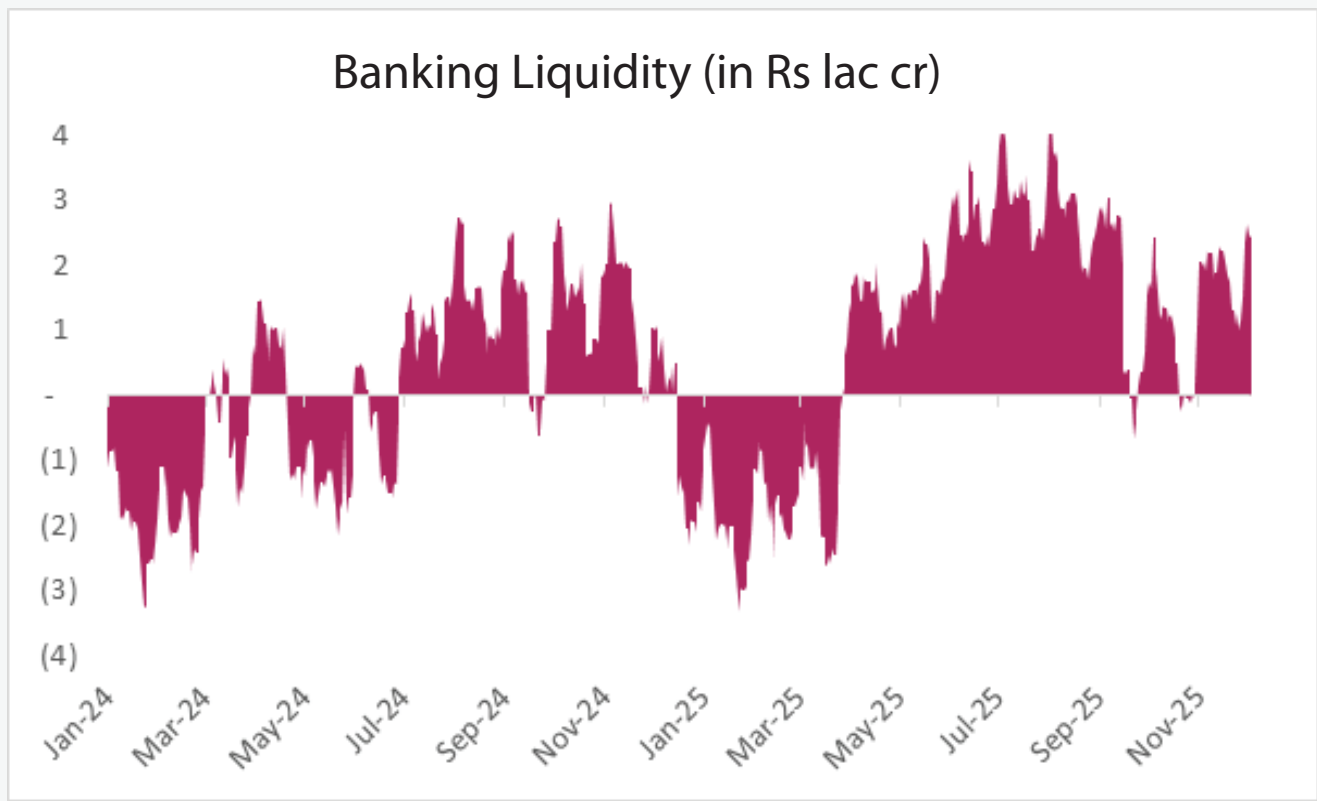
Since the October policy, growth and inflation dynamics have undergone a notable shift. Since the beginning of Flexible Inflation Targeting, inflation touched an unprecedented all time low of 0.25% surprising markets with a sharper than expected decline led by food price corrections, contrary to seasonal trends. Core inflation remained contained despite pressures from precious metals, and excluding gold, moderated further. The disinflationary trend has become broad-based, reinforcing a benign outlook. However, these lows are unlikely to persist, and inflation targets have been revised upward.

Economic activity strengthened significantly in the second quarter, supported by resilient domestic demand despite global trade and policy uncertainties. On the supply side, industrial and services sectors continued to perform well, aided by factors such as GST rationalization, softer crude prices, front-loaded government spending, and accommodative monetary conditions. High-frequency indicators point to sustained momentum in the current quarter, driven by festive spending and robust rural demand, though some early signs of weakness are emerging in select leading indicators.

The RBI has raised its growth projections for the upcoming quarters with FY26 growth now expected at 7.3%, up from 6.8% (October policy) and Q1FY27 growth at 6.7%, up from 6.4%. Inflation projections have been revised downwards across all periods providing the RBI with room to cut rates. The inflation projection for FY26 now stands at 2%, down from 2.6% and for Q1FY27 at 3.9%, down from 4.5%, both comfortably below the RBI's threshold.

RBI Projections	Policy	Q3FY26	Q4FY26	FY2025-26	Q1FY27	Q2FY27
Real GDP	Dec	7.0%	6.5%	7.3% ↑	6.7% ↑	6.8%
	Oct	6.4%	6.2%	6.8%	6.4%	-
	Aug	6.6%	6.3%	6.5%	6.6%	-
	June	6.6%	6.3%	6.5%	-	-
CPI	Dec	0.6%	2.9%	2.0% ↓	3.9% ↓	4.0%
	Oct	1.8%	4.0%	2.6%	4.5%	-
	Aug	3.1%	4.4%	3.1%	4.9%	-
	June	3.9%	4.4%	3.7%	-	-

Liquidity



Source: Bloomberg

Liquidity has remained in surplus since the end of March 2025, despite some periods of tightening in recent months. Going forward, due to fx interventions and increased currency in circulation, we anticipate surplus liquidity to be closer to natural. To proactively address these pressures, the RBI will inject liquidity into the banking system in December 2025 through two key operations – (a) OMO purchase auctions of Government of India securities for an aggregate amount of Rs 1 lac cr, split in two tranches of Rs 50,000 cr each to be held on December 11, 2025, and December 18, 2025 (b) USD/INR Buy/Sell Swap auction of US\$ 5 billion for a tenor of three years to be held on December 16, 2025.

Market Reaction

Post the announcement, yields across the curve traded 5-10 bps lower.

Our View

The RBI's policy outcome closely mirrors our pre-policy expectations, with a focus on supporting growth amid benign inflation. The neutral stance and liquidity measures reinforce an accommodative environment, setting the stage for a "lower for longer" rates regime. The central bank's neutral stance, coupled with the rate cut and liquidity guidance through tools such as OMOs and FX swaps, aligns closely with our expectations.

We expect 10yr GSec to trade in a range of 6.4-6.6% for the remaining part of FY26.

In the near term, markets will be guided by lower inflation, strong growth, OMOs in December and possibility of inclusion in Bloomberg indices, which may provide a tactical opportunity for long bond investing.

Risks to our view

- 1) Currency
- 2) Growth shocks globally and in India



Products to consider

Product	Modified Duration	Current Positioning
Axis Money Market Fund	143 days	Actively managed high quality money market strategy
Axis Corporate Bond Fund	3.3 years	Actively managed corporate bond portfolio. 100% AAA /SOV/A1+ oriented
Axis Income Plus Arbitrage Active FOF	2.05 years [^]	Fund of funds scheme investing in debt oriented mutual fund schemes and arbitrage funds
Axis Gilt Fund	8.99 years	Investment in government securities with active duration management

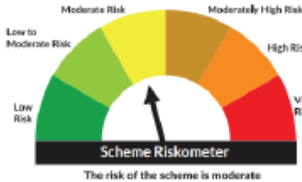
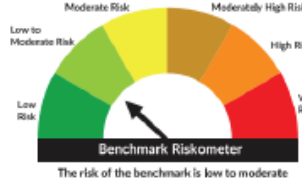
Allocation and strategy is based on the current market conditions and is subject to changes depending on the fund manager's view of the markets. Data as on 30th Nov 2025. [^]Quants for Axis Income Plus Arbitrage Active FoF as on 31st Oct 2025.



*Investors will be bearing the recurring expenses of the scheme in addition to the expenses of other schemes in which Fund of Funds scheme makes investment.

Product Labelling

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer	Potential Risk Matrix (PRC)																					
Axis Corporate Bond Fund (An Open Ended Debt Scheme Predominantly Investing In AA+ And Above Rated Corporate Bonds. A relatively high interest rate risk and moderate credit risk) Benchmark: NIFTY Corporate Bond Index A-II	<p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none">• Regular income over short to medium term• Predominantly investing in corporate debt <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>	 <p>The risk of the scheme is moderate</p>	 <p>The risk of the benchmark is moderate</p>	<table><tr><th colspan="4">Potential Risk Class</th></tr><tr><td>Credit Risk →</td><td rowspan="2">Relatively Low (Class A)</td><td rowspan="2">Moderate (Class B)</td><td rowspan="2">Relatively High (Class C)</td></tr><tr><td>Interest Rate Risk ↓</td></tr><tr><td>Relatively Low (Class I)</td><td></td><td></td><td></td></tr><tr><td>Moderate (Class II)</td><td></td><td></td><td></td></tr><tr><td>Relatively High (Class III)</td><td></td><td>B-III</td><td></td></tr></table>	Potential Risk Class				Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓	Relatively Low (Class I)				Moderate (Class II)				Relatively High (Class III)		B-III	
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Axis Money Market Fund (An open ended debt scheme investing in money market instruments. A relatively low interest rate risk and moderate credit risk.) Benchmark: NIFTY Money Market Index A-I	<p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none">Regular income over short term.Investment in money market instruments with maturity up to one year. <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>			<table><tr><th colspan="4">Potential Risk Class</th></tr><tr><td>Credit Risk →</td><td>Relatively Low (Class A)</td><td>Moderate (Class B)</td><td>Relatively High (Class C)</td></tr><tr><td>Interest Rate Risk ↓</td><td></td><td></td><td></td></tr><tr><td>Relatively Low (Class I)</td><td></td><td>B-I</td><td></td></tr><tr><td>Moderate (Class II)</td><td></td><td></td><td></td></tr><tr><td>Relatively High (Class III)</td><td></td><td></td><td></td></tr></table>	Potential Risk Class				Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓				Relatively Low (Class I)		B-I		Moderate (Class II)				Relatively High (Class III)			
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Product Label	Scheme Riskometer	Benchmark Riskometer
Axis Income Plus Arbitrage Active FOF (An open ended fund of funds scheme investing in debt oriented mutual fund schemes and arbitrage funds) Benchmark: 65% NIFTY Composite Debt Index +35% Nifty 50 Arbitrage TRI This product is suitable for investors who are seeking* <ul style="list-style-type: none"> To generate optimal returns over medium term Investment primarily in debt oriented mutual fund schemes and arbitrage funds *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	Fund 	65% NIFTY Composite Debt Index +35% Nifty 50 Arbitrage TRI 

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Axis Gilt Fund (An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit Risk.) Benchmark: CRISIL Dynamic Gilt Index	<p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none">• Credit risk free returns over medium to long term• Investment mainly in Government securities across maturities <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p>			<table><tr><th colspan="4">Potential Risk Class</th></tr><tr><td>Credit Risk →</td><td rowspan="2">Relatively Low (Class A)</td><td rowspan="2">Moderate (Class B)</td><td rowspan="2">Relatively High (Class C)</td></tr><tr><td>Interest Rate Risk ↓</td></tr><tr><td>Relatively Low (Class I)</td><td></td><td></td><td></td></tr><tr><td>Moderate (Class II)</td><td></td><td></td><td></td></tr><tr><td>Relatively High (Class III)</td><td>A-III</td><td></td><td></td></tr></table>	Potential Risk Class				Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓	Relatively Low (Class I)				Moderate (Class II)				Relatively High (Class III)	A-III		
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DISCLAIMER

Source of Data: RBI Governor' Statement, RBI Monetary Policy Statement & RBI post policy press conference dated 5th December 2025, Axis MF Research

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