

Repo Rate Cut

(Impact on Liquidity & Bond Yield)



- ❑ GDP forecast revised upwards by 50 bps to 7.3%. Q1 and Q2 FY27 at 6.7% and 6.8%.
- ❑ CPI inflation forecast for FY26 estimated at 2.0%; Q1 and Q2 FY27 3.9% and 4%.
- ❑ Rs 1.45 lakh crore liquidity infusion through OMO and Fx swaps.
- ❑ Stance kept neutral.

Period	Avg repo	10Yr G sec	Avg spread
Dec 2015-Dec 2020	5.81	6.94	113 bps
Dec 2020-Dec 2025	5.54	6.80	126bps
Dec 2022-Dec 2025	6.26	6.89	63 bps
Dec 2015-Dec 2025	5.82	6.95	113 bps
Aug 2019-March 2020	5.25	6.53	128 bps
As On Dec 5 2025	5.25	6.49	124 bps

- ❑ Interestingly when average repo was 5.25% in Aug'19-Mar'20, 10Yr-Repo spread was 128 bps.
- ❑ At current repo rate possibly benchmark G Sec has found its level.
- ❑ last 5 years (Dec 15-Dec 20) the spread was 126 bps. Decadal spread (Dec15-dec'25) is 113 bps.

	10 Yr. G-Sec	CPI inflation	Real irate
India	6.50	0.25	6.25
USA	4.15	3.1	1.05
United Kingdom	4.45	3.6	0.85
Japan	1.81	3.0	-1.19
Germany	2.7	2.3	0.4
Indonesia	6.32	2.9	3.42
China	1.84	0.2	1.64
S. Korea	3.38	1.3	2.08

- India has one of the highest real interest rates.
- This could impact corporate profitability, could be a reason for low private Capex.
- Possibly indicates a case for further rate cuts as MPC tone also supports the same.

Expected Liquidity Position in the Economy			
	Component	Amount (₹ lakh crore)	Impact on Surplus
I	Present Banking system liquidity	2.66	Baseline
II	B. OMO Purchases (Dec 11 & 18)	1.0	Direct Injection
	C. Forex Swap Spot Leg (Dec 16)	0.45	Direct Injection
	D. Banking system deposit growth by end Dec @0.8%	2.04	Injection
	TOTAL	6.15	

Outflows	Amount (in Lakhs Cr.)
Advance tax outflows (15 Dec)	-1.5
GST outflows (20-31 Dec)	-1.70
Likely FX intervention -\$3bn	-0.27
IPO related outflows	-0.30
Total outflows	-3.77
Net surplus	+2.38 (approx. 1% of ndtl)

- ❑ India has one of the highest real interest rates and might lead to further rate cuts.
- ❑ Liquidity surplus expected to be around 1% of NDTL after considering possible outflows.
- ❑ 10 Yr G-Sec repo rate spread expected to be between 113-128 bps.
- ❑ CPI inflation might undershoot RBI estimates.

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