



# BANKING MONTHLY

DECEMBER 2025

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## Prevailing Rates

### I. Policy Rates

Repo Rate	5.25%
Reverse Repo Rate	3.35%
Standing Deposit Facility Rate	5.00%
Marginal Standing Facility Rate	5.50%
Bank Rate	5.50%

### II. Lending/Deposit Rates

Base Rate	8.35% -10.00%
MCLR Rate (Overnight)	7.80% -7.95%
Savings Deposit Rate	2.50%
Term Deposit Rate > 1 Year	5.85% -6.60%

### III. Reserve Ratio

CRR	3.00%
SLR	18.00%

## Global Banking:

### **US economy remains strong in Q3, with GDP rising 4.3%**

The US economy expanded by 4.3% q-o-q in the third quarter well above the consensus forecast of 3.2% and a modest acceleration from Q2 being at 3.8%. The consumer spending rose by a healthy 3.5% q-o-q, following a smaller gain of 2.5% in Q2. Both goods (+3.1%) and services (+3.7%) spending was higher in the quarter. Business investment rose 2.8% q-o-q, marking a deceleration from a very strong first half of the year. In terms of the breakdown, both equipment (+5.4%) and intellectual property products (+5.4%) were higher, while spending on structures (-6.3% q-o-q) declined for a seventh consecutive quarter. Residential investment declined 5.1% q-o-q, as both homebuilding and sales activity remained subdued. Government spending rose a 2.2%, with both federal (+2.9%) and state & local spending (+1.8%) higher on the quarter. International trade had a smaller (but still meaningful) influence on Q3 GDP. Imports fell 4.7% q-o-q while exports rose 8.8% q-o-q, resulting in net exports adding 1.6% to growth.

### **Our Comments:**

The US economy has maintained considerable momentum in the third quarter, despite headwinds. Consumer spending recorded another solid quarter, while capital expenditures continued to expand at healthy clip, aided by further investments in AI but also some broadening to more traditional forms of equipment spending.

### **BoJ rate hike signals confidence in Japan's economy, not start of aggressive tightening: Matt Orton**

Bank of Japan's (BoJ) decision to raise interest rates reflects growing confidence in Japan's economy, while reassuring investors that policy will remain cautious and data-dependent rather than aggressively hawkish. The 25bps hike was largely expected by the market and should be seen more as a vote of confidence than the start of a steady tightening cycle.

### **Our Comments:**

The BoJ has deliberately avoided committing to a clear path of future hikes, choosing instead to keep financial conditions accommodative and flexible. This approach has helped the Central Bank thread a needle; allowing it to normalise policy without unsettling markets, which is why Japanese equities have continued to move higher.

### **China's economy is forecast to grow faster than expected in 2026**

China's surprising strength in exports and its commitment to more advanced manufacturing in a new Five-Year Plan boost are raising expectations for GDP growth. China's economy is likely to grow more quickly than previous forecast, helped by the government's determination to advance the competitiveness of manufacturing and boost exports. China's real export growth is now expected to grow by 5-6% annually for the next few years, up from a previous forecast of 2-3%, as Chinese goods gain global market share.

### **Our Comments:**

The forecast for China's 2025 real GDP growth from 4.9% to 5.0%, and with even bigger increases for forecasts for the next two years, on the view that stronger exports will drive overall economic expansion. The real GDP forecast increased for 2026 from 4.3% to 4.8% and for 2027 from 4.0% to 4.7%.

### Indian Economy:

RBI's Monetary Policy Committee (MPC) met from 03rd-05th Dec'25 to review the benchmark interest rates and announced its fifth bi-monthly policy. The committee unanimously decided to cut the repo rate by 25bps to 5.25% from the earlier 5.50%; first policy easing move after a long rate pause. It has maintained the Neutral stance. This year, the RBI has lowered the repo rate by a cumulative 125bps in four meetings, beginning in February.

***RBI has cut the repo rate by 25bps to 5.25% but maintained the stance at Neutral; reverse repo rate remains unchanged at 3.35%.***

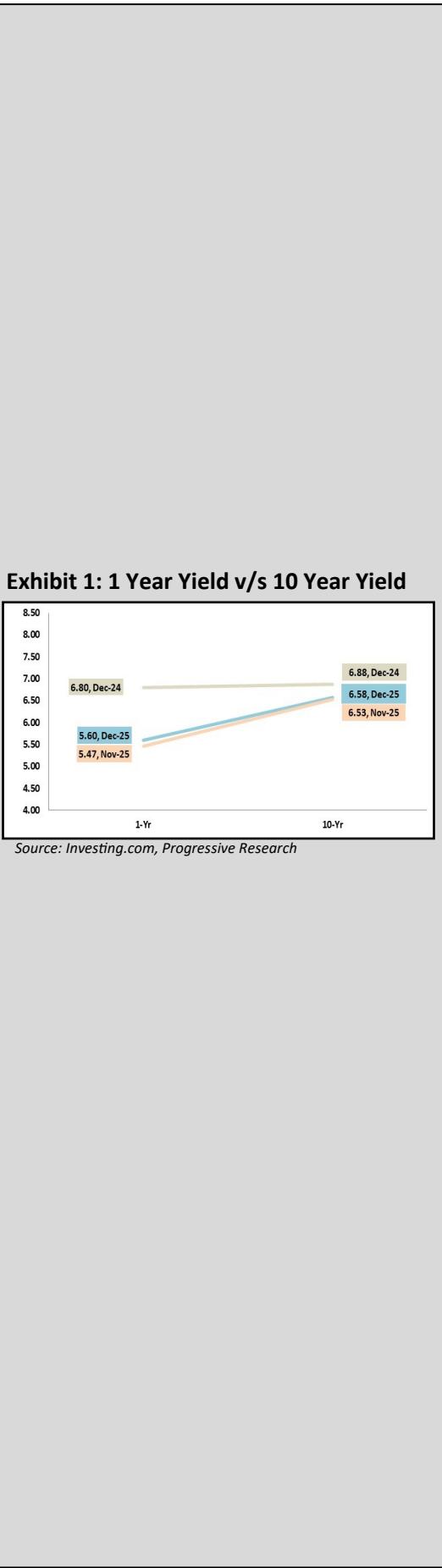
### **Highlights of Monetary Policy:**

- **Repo Rate:** 5.25% (5.50% in October 2025)
- **Reverse Repo Rate:** 3.35% (3.35% in October 2025)
- **Standing Deposit Facility:** stands adjusted at 5.0%
- **Bank Rate:** 5.25% (5.75% in October 2025)
- **MSF:** 5.25% (5.75% in October 2025)
- **GDP Projection:** Real GDP growth for FY26 is projected at 7.3% from the earlier estimate of 6.8%. Q3FY26 at 7.0% and Q4FY26 at 6.5%. Q1FY27 is projected at 6.7% and Q2FY27 at 6.8%
- **CPI Inflation:** CPI forecast for FY26 is projected at 2.0% from earlier estimate of 2.6%. Q3FY26 at 0.6% and Q4FY26 at 2.9%. Q1FY27 is projected at 3.9% and Q2FY27 at 4.0%

### **Our View:**

In the current economic scenario, which the RBI Governor calls the 'rare Goldilocks period', with GDP growth being strong while inflation under control; the MPC has taken the decision of 25bps cut in the repo rate taking it to 5.25%. However, the stance has been maintained at Neutral; giving the much needed flexibility to adjust to the evolving macroeconomic and financial conditions. Since the last review, the economy has been giving mixed signals where the GDP growth exceeded expectations, rising to 8.2% in Q2FY26 after 7.8% in Q1. The retail inflation cooled sharply to 0.25% in October, aided by record-low food prices and GST cuts. The December review has taken place amid easing inflation, faster GDP growth, rupee that has slipped past 90 per dollar, and ongoing geopolitical uncertainties. Overall, it has been a cautious and balanced approach towards sustaining economic stability. The RBI has announced Rs1tn open market operation (OMO) and a three-year dollar-rupee buy-sell swap to inject durable liquidity into the banking system. RBI pegs India's GDP growth rate at 7.3% versus 6.8% earlier while the inflation has been revised to 2.0% from the earlier 2.6% for FY26. The outcome shows the focus being on boosting consumption and supporting a growth friendly environment. The committee is well on track to respond to any external conditions and focussed to maintain the financial stability and economic momentum.

FINAL VERDICT			
MPC Meetings	REPO	REVERSE	CURRENT STANCE
December 2025	5.25%	3.35%	Retained the Neutral Stance
October 2025	5.50%	3.35%	



### Indian Economy:

#### **RBI announces Rs2lk-cr OMO bond purchases, dollar swap to boost liquidity**

The RBI unveiled a fresh set of liquidity measures, announcing large-scale government bond purchases and a foreign-exchange swap to inject durable liquidity into the banking system. The Central Bank will conduct OMO purchases of GOI securities worth Rs2lk-cr in four equal tranches of Rs500bn each. The auctions are scheduled for 29th December, 05th January, 12th January and 22nd January. In addition, the RBI will carry out a USD/INR buy-sell swap auction of USD10bn with a three-year tenor on 13th January, 2026, as part of efforts to stabilize funding conditions.

#### **Our Comments:**

The measures come after liquidity in the banking system slipped into deficit following sizeable outflows linked to advance tax and GST payments. System liquidity currently stands at a deficit of about Rs548.52bn, after remaining in surplus for nearly two months. Market participants said the size of the announced OMO purchases is at the higher end of expectations and could help cool bond yields. The benchmark 10-year government bond yield has risen around 12bps this month to 6.63% amid tighter liquidity and increased state-level debt supply.

#### **8.2% GDP: India's growth story strengthens**

India's economic ascent continues to capture global attention. Already the world's fourth largest economy, the nation is charting a confident course towards becoming the third largest by 2030, with GDP projected at USD7.3tn. The current growth phase reflects the strength of decisive policymaking, structural reforms, and India's deepening global integration.

#### **Our Comments:**

With growth accelerating, India has once again outpaced global peers, reinforcing its position as the fastest-growing major economy. The surge is supported by resilient domestic demand, moderating inflation, and higher labor force participation. A revival in domestic investment and strong investor sentiment signals a stable and broad-based economy. As reforms gather pace and consumption remains optimistic, India's economic outlook continues to upbeat, signaling sustained momentum and growth across sectors.

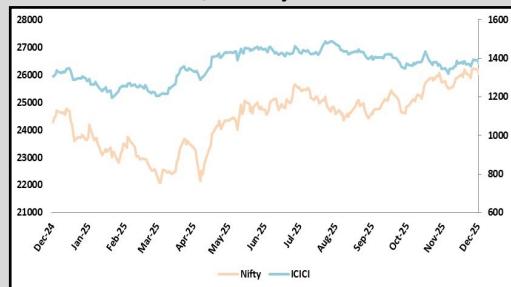
#### **GST rationalisation, festival-related spending supported domestic demand during Oct-Nov: RBI bulletin**

The RBI's bulletin mentioned that the GST rationalization and festival-related spending supported domestic demand during October and November. 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. GST rationalization and festival-related spending supported domestic demand during October-November. Rural demand continues to be robust while urban demand is recovering steadily.

#### **Our Comments:**

India's economy expanded by 8.2% in the July-September quarter, its fastest pace in six quarters, showing remarkable resilience amidst persistent global trade uncertainties. India cut taxes on hundreds of consumer items ranging from soaps to small cars to spur domestic demand in the face of economic headwinds from punishing US tariffs.

### Exhibit 2: ICICI v/s Nifty



Source: Ace Equity, Progressive Research

### Indian Economy (contd.):

#### India, New Zealand announce FTA conclusion: PM Modi assures 'enhanced market access, deeper investment'

India and New Zealand announced the conclusion of negotiations on their FTA that will liberalize trade and will bring in investment of USD20bn in the Indian economy.

#### Our Comments:

The deal will come into force in the next 7-8 months. Through the agreement India will get zero duty access to 100% tariff lines of New Zealand. New Zealand currently maintains 10% tariffs on 450 tariff lines of interest to India. Gains are expected in labor intensive sectors, agriculture, engineering and automobiles. Average MFN tariff for India now stands at 16.2%.

### Coverage News:

#### ICICI Bank hit with Rs2,380mn GST demand order, Rs210mn penalty imposed

ICICI Bank said that the tax authorities have slapped a demand notice of Rs2,380mn on it for alleged short payment of GST. On 17th December, the Bank has received an order under Section 73 of the Maharashtra GST Act, 2017, from the relevant authority, raising a GST demand of ~Rs2379mn comprising ~Rs2162.73mn in tax and ~Rs216.27mn as penalty, along with interest as applicable for the same subject matter.

#### Our Comments:

While the Bank is in litigation (including writ petition) on similar issues raised in orders/SCNs in the past, since the aggregate/cumulative amount involved in the above crosses the materiality threshold.

### Non Coverage News:

#### LIC partners with Yes Bank to expand reach through new bancassurance deal

LIC has entered into a strategic bancassurance partnership with Yes Bank. This collaboration will enable Yes Bank customers to access LIC's life insurance products through its branch network and digital platforms.

#### Our Comments:

Leveraging the combined strength of over 3,600 LIC branches and satellite offices along with Yes Bank's 1,295 branches and 235 business correspondent outlets, the partnership aims to make life insurance more accessible nationwide and contribute meaningfully to the national vision of Insurance for All by 2047. Yes Bank customers will be able to access LIC's range of term plans, endowment policies, pension products and unit-linked insurance plans.

#### Bank of India raises Rs100bn via long-term infra bonds

Bank of India raised funds through issue of long-term infrastructure bonds of Rs100bn at 7.23% p.a. The base issue size was Rs50bn with green shoe option of Rs50bn. The Bank received total of 83 bids amounting to Rs153.05bn out of which the Bank accepted 37 bids totaling to Rs100bn.

#### Our Comments:

The funds raised through long term bonds will be used for funding long term projects in infrastructure sub-sectors and affordable housing in accordance with RBI guidelines. The funds raised by the Bank through this issue is not meant for financing any particular project.

### Non Coverage News:

#### **RBI approves HDFC Bank group to buy upto 9.5% stake in IndusInd Bank**

RBI has given the regulatory nod to HDFC Bank group for acquiring a stake of 9.5% in IndusInd Bank, enabling it to breach the 5% cap without seeking a special permission as a Bank shareholder. The sanction, is valid for one year from 15th December 2025 and is issued when IndusInd Bank is seeking to stabilize operations after governance and financial shocks.

#### **Our Comments:**

There are certain restrictions, including that the HDFC Bank group entity a combination of HDFC Mutual Fund, HDFC Life Insurance, HDFC Pension Fund, HDFC ERGO and HDFC Securities shall not collectively exceed 9.5% of IndusInd Bank paid-up share capital or voting rights. The approval shall be valid for the group entities and not be applicable to individual acquisitions. HDFC Bank has clarified that it is not planning to invest directly in IndusInd Bank. The aggregate exposure of the group, however, would be observed under the approved ceiling. As at end-September, the HDFC group held about 4.23% in IndusInd Bank, which suggests there is scope for further acquisition up to the permissible limit.

#### **India prepares to invite bids for USD7.1bn IDBI Bank stake: Report**

India is preparing to invite bids for the sale of its majority stake in IDBI Bank, valued at USD7.1bn. This is a part of the government's ongoing strategy to privatize the previously troubled lender and advance its divestment strategy. The discussions with potential buyers have currently reached an advanced stage.

#### **Our Comments:**

The government plans to sell 60.72% of the lender, equivalent to approx. USD7.1bn, based on the Bank's current market valuation. The bidding process is likely to begin as early as this month. IDBI Bank, which previously had significant non-performing assets, has reported a return to profitability following capital infusions and asset recoveries.

#### **Government stake in Indian Overseas bank falls to 92.44% after OFS**

The GOI has reduced its stake in Indian Overseas Bank after selling 2.17% equity through an offer for sale. Following the transaction, the govt.'s shareholding in the public sector lender has come down to 92.44%.

#### **Our Comments:**

Profitability metrics strengthened during the quarter, with domestic NIM rising 14bps y-o-y to 3.35%, while global NIM expanded to 3.21%, up 13bps from the year-ago period. The stake dilution comes against the backdrop of a strong operating performance by the lender in the September quarter.

#### **PNB flags over Rs2,400cr loan fraud tied to SREI accounts, makes full provision**

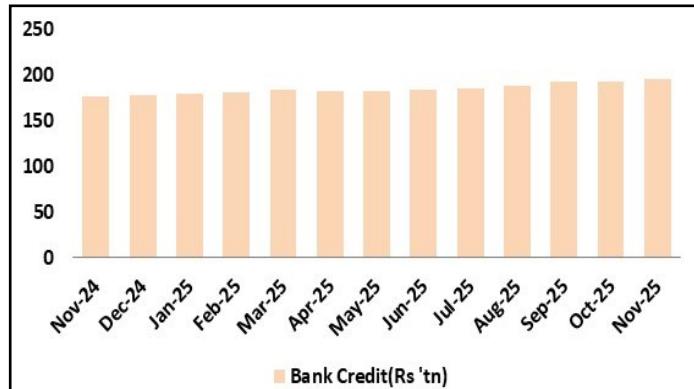
The Bank has reported a borrowing-related fraud of Rs2,434cr to the RBI, linked to the former promoters of SREI Equipment Finance Ltd (SEFL) and SREI Infrastructure Finance Ltd (SIFL). The disclosure, made in a stock exchange filing, underscores the mounting scrutiny on non-performing assets in the banking sector and signals the Bank's intent to address bad loans proactively.

#### **Our Comments:**

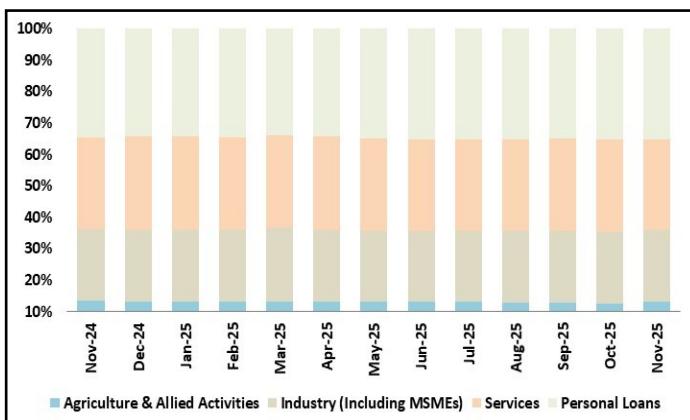
The Bank has already made 100% provisions against the entire outstanding amount.

**Exhibit 03: Trend of Aggregate Deposits of SCBs**

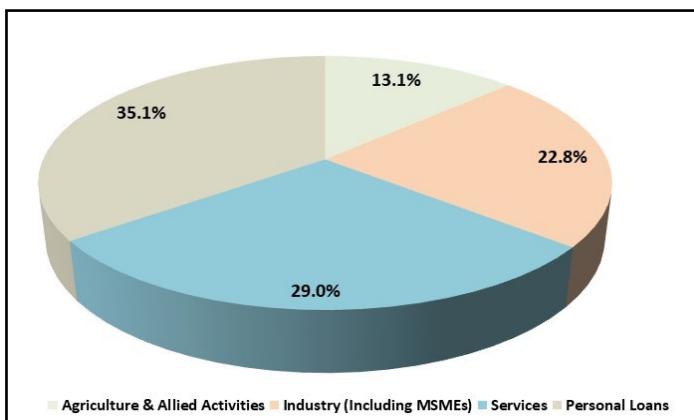

Source: Investing.com, Progressive Research

**Exhibit 04: Trend of Bank Credit of SCBs**


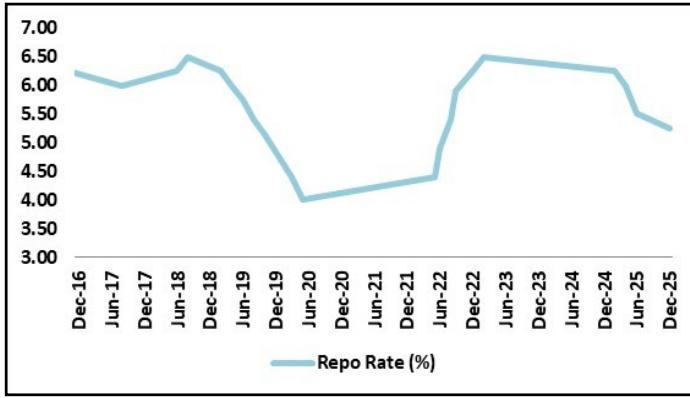
Source: RBI, Progressive Research

**Exhibit 05: Deployment of Gross Bank Credit by major sectors**


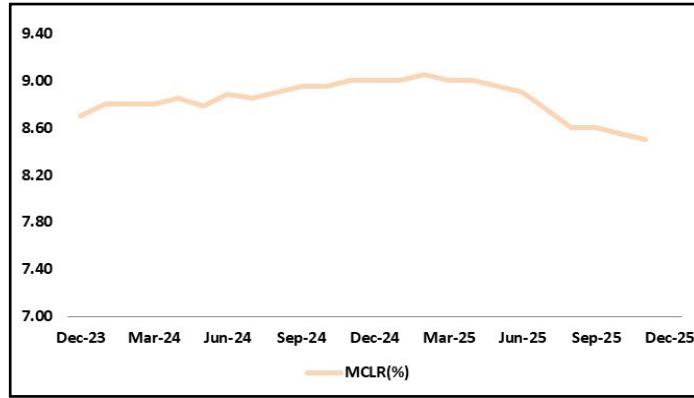
Source: RBI, Progressive Research

**Exhibit 06: Sectoral breakup of Gross Bank Credit of the major sectors in November**


Source: RBI, Progressive Research

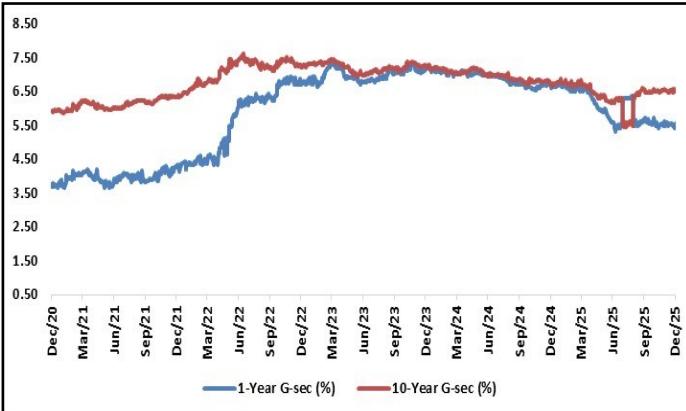
**Exhibit 07: Repo Rate Trend**


Source: NSE, Progressive Research

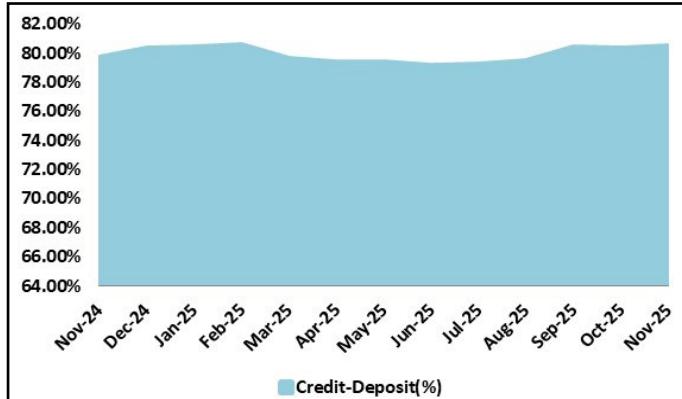
**Exhibit 08: MCLR trend in the last 3 years**


Source: Ace Equity, Progressive Research

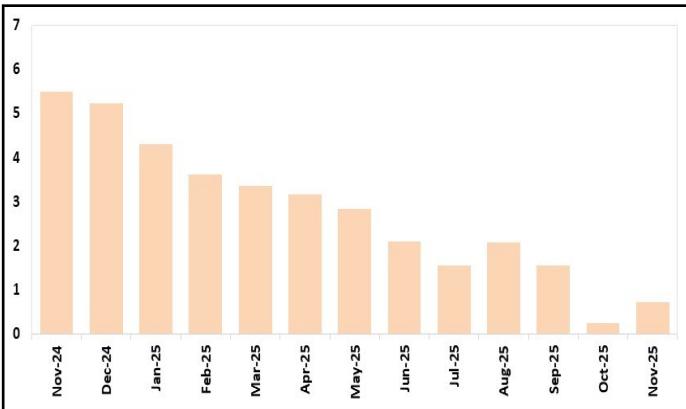
### Exhibit 09: RBI trying to keep the gap between short and long term bond in check



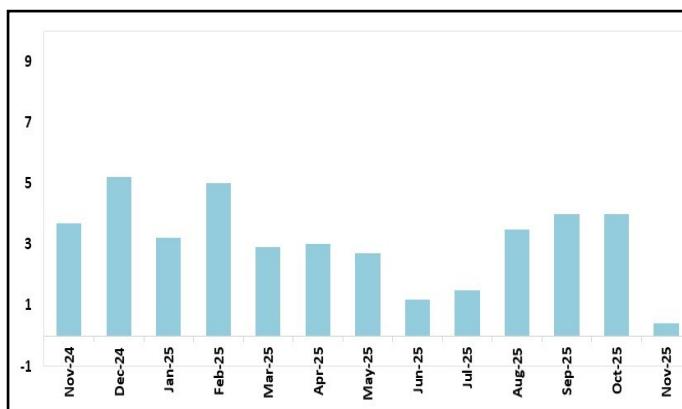
### Exhibit 10: Credit-Deposit ratio of the SCBs in Nov-25



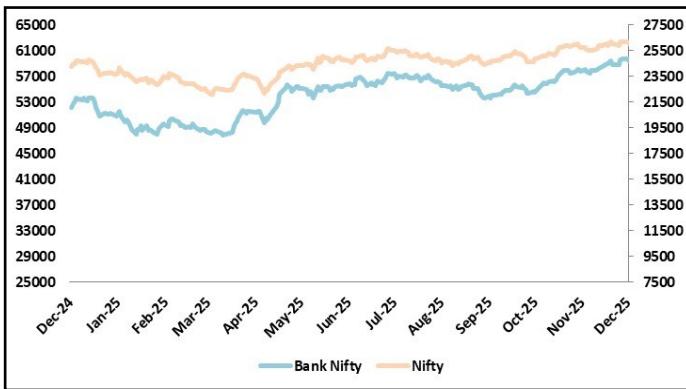
### Exhibit 11: Retail Inflation Range Bound



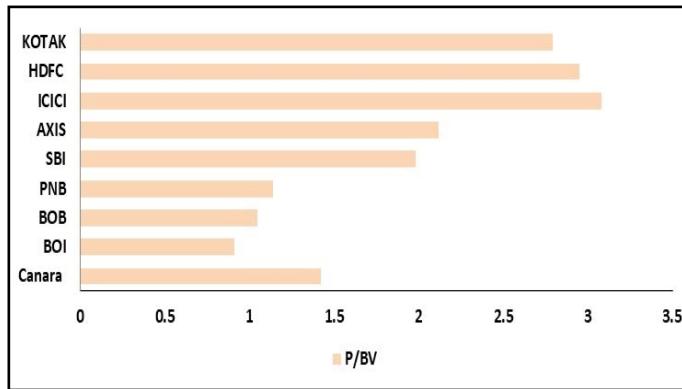
### Exhibit 12: Change in Y-o-Y IIP data



### Exhibit 13: Bank Index v/s Nifty Index



### Exhibit 14: Major Banks' Valuation as on 31st December, 2025




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