

SPECIAL UPDATE

Monetary Policy

Dec 05 ,2025

Monetary Measures

- The Monetary Policy Committee voted unanimously to reduce the policy repo rate under the liquidity adjustment facility (LAF) to 5.25 per cent.
- Consequently, the standing deposit facility (SDF) rate 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 retain the stance at neutral.

Analysis & Outlook

- **Inflation:** Headline Consumer Price Index inflation declined to an all time low in October 2025. The faster than anticipated decline in inflation was led by correction in food prices, 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 2025, despite continued price pressures exerted by precious metals. Excluding gold, core inflation moderated to 2.6 per cent in October 2025. Overall, the decline in inflation has become more generalised. Turning to the inflation outlook, food supply prospects remain bright on the back of higher kharif production, healthy rabi sowing, adequate reservoir levels and conducive soil moisture. Barring some metals, international commodity prices may likely moderate going forward. 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. In fact, the underlying inflation pressures are even lower as the impact of increase in price of precious metals is about 50 basis points (bps). The risks are evenly balanced.
- **Growth:** The global economy is holding up better than expected, though the earlier frontloading of trade is showing signs of normalising. Uncertainty has eased somewhat following the end of the US government shutdown and progress on trade agreements, yet it remains elevated. Global inflation dynamics remain uneven, with inflation trending above target in most major advanced economies. The US dollar strengthened primarily on safe haven demand while treasury yields remained range bound. Equity markets remain volatile, driven by shifting views on the monetary policy outlook and concerns surrounding stretched valuations in tech stocks. In India, 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. 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. High-frequency indicators suggest that domestic economic activity is holding up in Q3, although there are some emerging signs of weakness in a few leading indicators. GST rationalisation and festival-related spending supported domestic demand during October-November 2025. Rural demand continues to be robust while urban demand is recovering steadily. Investment activity remains healthy with private investment gaining steam on the back of expansion in non-food bank credit and high capacity utilisation. Merchandise exports declined sharply in October 2025 amid subdued external demand, accompanied by softer services exports. On the supply side, agricultural growth is supported by healthy kharif crop production, higher reservoir levels and better rabi crop sowing. Manufacturing activity continues to improve, and the services sector is

SPECIAL UPDATE

Monetary Policy

Dec 05 ,2025

maintaining a steady pace. 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 could 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 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.

- **Liquidity:** 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. Money market rates have remained largely aligned to the policy repo rate amidst comfortable liquidity conditions. The MPC is committed to provide sufficient durable liquidity to the banking system.
- Yields in the short tenor (1 to 3 year) fell by around 3-5 bps from yesterday's close at the time of writing. Yields in the longer tenor fell by around 2-3bps from yesterday's close at the time of writing

Position of Funds

Duration funds:

- The absolute yield levels are attractive from a medium to long-term investment horizon. Therefore, it represents an opportunity for investors to invest in fixed income duration funds with a medium to long-term horizon.
- However geopolitical risks remain key risks. Markets may remain volatile in the near term.

Money market funds:

- The yields at the shorter end of the curve may move in tandem with the liquidity in the system. The short-end rates are expected to be anchored around the repo rate.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

Disclaimers: The views and information in this document are as of December 5, 2025, unless stated otherwise, and may change without notice. The information in this document alone is not sufficient and should not be used for the development or implementation of an investment strategy. Neither the Sponsors/the AMC/ the Trustee Company/ their associates/ any person connected with it, accepts any liability arising from the use of this information. The sectors/stocks mentioned herein do not constitute any recommendation and the scheme of Union Mutual Fund may or may not have any future position in these sectors/stocks

While utmost care has been exercised while preparing the document, the Sponsors/the AMC/the Trustee Company/their associates/any person connected with it, do not warrant the completeness or accuracy of the information and disclaim all liabilities, losses and damages arising out of the use of this information. The recipients of this material should rely on their investigations and take their own professional advice.

Statutory Details: Constitution: Union Mutual Fund has been set up as a Trust under the Indian Trusts Act, 1882; Sponsors: Union Bank of India and Dai-ichi Life Holdings, Inc.; Trustee: Union Trustee Company Private Limited, [Corporate Identity Number (CIN): U65923MH2009PTC198198], a company incorporated under the Companies Act, 1956 with a limited liability; Investment Manager: Union Asset Management Company Private Limited, [Corporate Identity Number (CIN): U65923MH2009PTC198201], a company incorporated under the Companies Act, 1956 with a limited liability. Registered Office: Unit 503, 5th Floor, Leela Business Park, Andheri Kurla Road, Andheri (East), Mumbai - 400059. Toll Free No. 18002002268/18005722268 · Non-Toll Free. 022-67483333 · Fax No: 022-67483402 · Website: www.unionmf.com · Email: investorcare@unionmf.com