SBI RESEARCH

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RECORD NET RBI LIQUIDITY INJECTION AT RS 5.5 LAKH CRORE IN CURRENT FISCAL HAS STILL RESULTED IN ASYMMETRIC TRANSMISSION..NEED TO INNOVATE ON OMO MANAGEMENT AS A BETTER SIGNALLING DEVICE

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Even as the RBI has cut repo rate by 125 basis points and has proactively injected / announced Rs 6.6 lakh crore in the current fiscal as part of OMO, yields are refusing to budge down. This is unprecedented as this is the largest OMO in the history of monetary management. **Factoring in the CRR injection, the buy/sell swap, the currency leakage, total liquidity injection is around Rs 5.5 lakh crore.**

In effect, such level of liquidity management has resulted in asymmetric transmission across market segments.

Firstly, the good thing. **Owing to higher decline in bank lending rate commensurate to the corporate bond yield the pricing gap has narrowed down, thereby making corporates shifting back to banks for loans with bank credit now being more lucrative than market borrowing**. The spread between AAA 10 year corporate bond yield and WALR has declined from 200 bps in April 2024 to 150 bps in November 2025. And if we look at the 10 year AAA NBFC paper, its spread with WALR increased from 180 bps in April 2024 to around 186 in May 2025 and declined thereafter to reach 127 bps in November 2025. The reduction in pricing arbitrage between bank loans and bond market, leading to shift towards bank loans is more visible in higher rated corporates. **Market sources point out that risk premia over and above core funding cost are not fairly acknowledging the inherent credit risk. For example, short tenor working capital loans of less than 1 year are given even with finer rates at lower than 6% linking with 1M/3M T Bill rates. More than 1 year loans are being priced at around 6.5%.**

Secondly, with 65% of the loans benchmarked to EBLR, transmission to bank lending rates has been swift with weighted average lending rate (WALR) on fresh rupee loans declining by 62 bps in 2025 to 8.71% in November 2025.

Thirdly, however on the other side, when we look at the money market rates, the transmission has been a story of downward and then upward movements. For example, CP weighted average yield (WAY) declined by 122 bps in 2025 to 6.55% in December 2025 and in NBFC space WAY declined by 131 bps to 6.61% in December 2025, and 3 months CD rate also declined by 141 bps. However, monthly trends indicate increase in the money market rates since August 2025 and even in December the rates increased compared to November, though the monetary policy was eased further. When we look at the bond market, AAA Corporate bond yield for 10-year which declined till early June, started increasing after that.

Fourthly, the asymmetry is further stark in case of state development loans with weighted average yield of borrowing during Apr-Dec'25 higher at 7.16% (only 7 bps lower than 23% in Apr-Dec'24). Historically high OMOs support by the regulator, while having a much needed liquidity support when credit growth is eclipsing deposit mobilization by banks, needs to have a sobering effect on yields management dynamics given the elevated costs of borrowing with elevated risk premiums on account of hardening of yields. **Interestingly, RBI being the debt manager to the Government (both State and Centre) needs to manage the borrowing costs / yield management of the Government as there is no independent public debt management agency in India. Also yield curve has been classified as a public good by RBI in the past.**

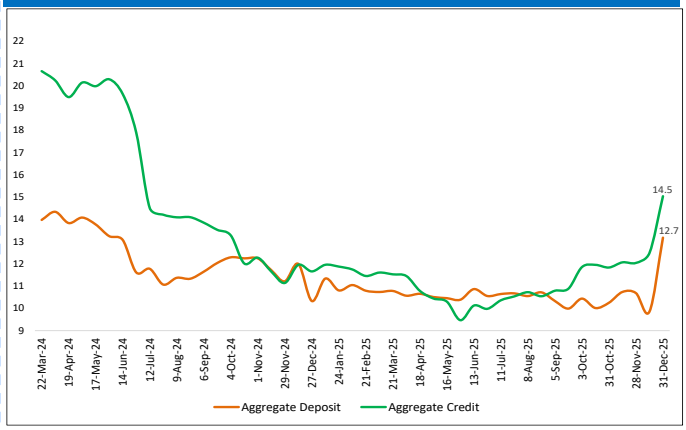
Interestingly, the decision by RBI to prepay the full amount borrowed in repo for 90 days as notified today is something not seen in any other country. It might inject some volatility, but the good thing is that RBI is introducing innovations in liquidity management and it may even result in new bidding strategies. **We propose that RBI does OMO in papers that are liquid to make a meaningful impact on yields. For example, the current 10 year paper is 6.48% 2035. The RBI can do OMO in just the preceding 10 year paper, that is 6.33% 2035 / immediate outgoing benchmark paper. This will ensure yield curve signaling in the most recent liquid paper that could revive market sentiments across different segments. In effect, the signalling should be from liquid papers to illiquid papers which could reduce the term premium and not the other way around as is being currently done.**

As a corollary, rising share of gold in Central Bank reserves is reminiscent of the swinging 60s and 70s when gold share (by value) fluctuated between 60-70%-Plus… With a fascinating run up, are we back to the heady days with some twist?

ASYMMETRIC TRANSMISSION

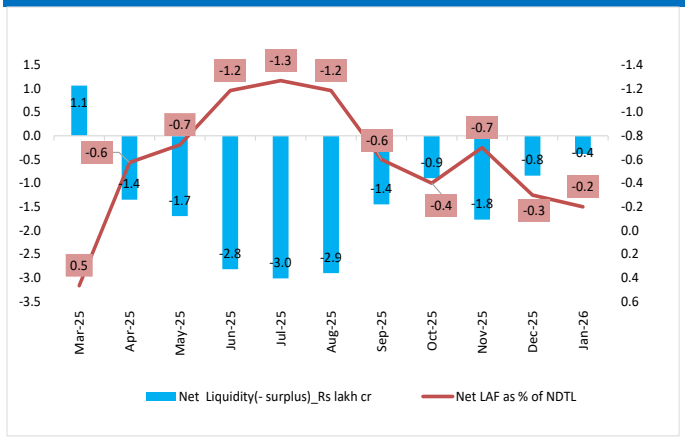
- Credit growth, which has been on a declining trend since April 2024, started reviving after May 2025. The latest data shows growth in advances picking up to 14.5% yoy as on 31 Dec'25 from a low of 9.0% yoy as on 30 May 2025. Sectoral data of credit shows increase in credit growth to industry to around 10% by November 2025 from 4.8% in May 2025. Within industry, MSME credit has been performing significantly well around 25% yoy as on November 2025. However, even credit to large industry has been reviving with growth of 4.6% as on November 2025 compared to around 1% in May 2025.
- The decline in repo rate has been one of the driving factors impacting bank credit growth.
- Meanwhile, banking system liquidity has remained in the surplus mode since April 2025 which supports policy transmission. However, the surplus has been declining since August 2025 and average liquidity surplus is currently averaging 0.4 lakh crore or 0.2% of NDTL in January 2026.
- Notably, there has been asymmetric transmission in the bank credit, money market and G-sec market. The repo rate declined by 125 bps in 2025, moving from 6.5% at the beginning of the year to 5.25% by December 2025.
- The transmission to the bank lending rates has been faster since 65% of the outstanding floating rate rupee loans is now benchmarked to EBLR as on September 2025. The weighted average lending rate (WALR) on fresh rupee loans has declined to 8.71% in November 2025, 62 bps in 2025 (compared to 100 bps repo rate decline).
- When we look at the money market rates, the transmission has been one of decline and then increase. Thus, CP weighted average yield (WAY) declining by 122 bps in 2025 to 6.55% in December 2025 and in NBFC space WAY declined by 131 bps to 6.61% in December 2025. Three months CD also declined to an average of 6.05% in December 2025 from 7.45% in January 2025 (141 bps decline) while average 1 year CD rate declined 6.59% in December 2025 from 7.64% in January 2025. However, monthly trends indicate increase in the money market rates since August 2025 and even in December the rates increased compared to November, though the monetary policy was eased further.

SCB Deposit & Credit growth (% yoy)



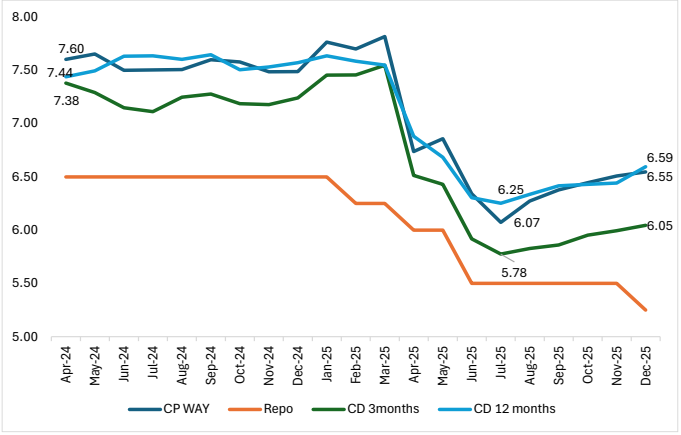
Source: SBI Research

Average Net LAF as % of NDTL



Source: SBI Research

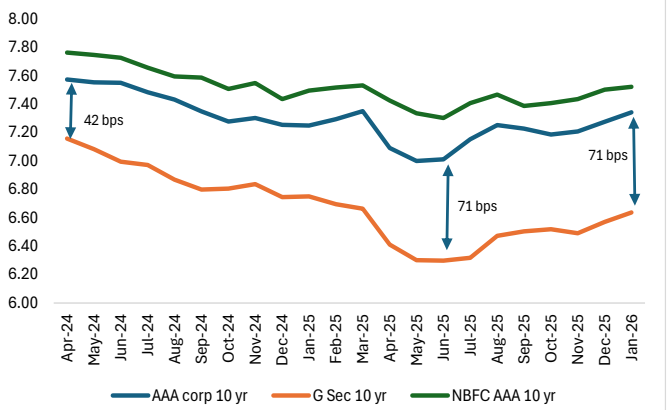
Money market rates & Repo rate (%)



Source: SBI Research

- Meanwhile, AAA Corporate bond yield for 10-year which declined till early June, started increasing after that. Average Spread of 10-year AAA corporate bond, over G-Sec, which was around 42 bps in April 2024 increased to 71 bps in June 2025 and has unchanged at 71 bps in Jan'26 so far. Thus, the market has started charging higher risk premium. However, it remains low compared to the average spread during the pre-pandemic period. The average spread of a AAA 10-year paper was 117 bps in pre pandemic levels over similar tenor G-Sec.
- **Owing to higher decline in bank lending rate commensurate to the corporate bond yield the pricing gap narrowed down, thereby making corporates shifting back to banks for loans with bank credit now being more lucrative than market borrowing due to ease of borrowing.**
- The spread between AAA 10 year corporate bond yield and WALR has declined from 200 bps in April 2024 to 150 bps in November 2025. The average current 10 year AAA corporate bond yield for January is 7.34%.
- And if we look at the 10 year AAA NBFC paper, its spread with WALR increased from 180 bps in April 2024 to around 186 in May 2025 and declined thereafter to reach 127 bps in November 2025. The current average yield on 10 year AAA NBFC paper is 7.52% (18 bps higher than 10 year AAA corporate bond).
- The reduction in pricing arbitrage between bank loans and bond market, leading to shift towards bank loans is more visible in higher rated corporates as the share of AAA corporate bond in overall private bond issuances under private placement in December 2025 has reduced to around 23% compared to more than 60% in earlier months.
- **When we look at borrowings by States, the asymmetry is further stark with weighted average yield of borrowing during Apr-Dec'25 higher at 7.16% (only 7 bps lower than 23% in Apr-Dec'24).**
- Among the major states, West Bengal and Karnataka borrowed at maximum weighted average yield of 7.40%, followed by Jharkhand, Bihar and Telangana. MP, Kerala and Punjab are among other states which borrowed at higher than average WAY of 7.116 during Apr-Dec FY26.

10 yr AAA Corp, AAA NBFC & G-sec yield (%)



Source: SBI Research

State Development Loans during Apr-Dec 25

State	Amount Rs crore	Weighted Average Yield %	State	Amount Rs crore	Weighted Average Yield %
Andhra Pradesh	56447	7.05	Manipur	1650	7.15
Arunachal Pradesh	200	7.50	Meghalaya	2634	7.23
Assam	10204	7.09	Mizoram	800	7.30
Bihar	39810	7.35	Nagaland	900	7.14
Chhattisgarh	11470	6.86	Odisha	8000	7.04
Goa	1200	7.16	Punjab	31750	7.18
Gujarat	32500	6.89	Rajasthan	60300	7.12
Haryana	30500	7.13	Sikkim	1500	7.28
Himachal Pradesh	8269	7.14	Tamil Nadu	95300	7.03
Jammu and Kashmir	8625	7.19	Telangana	69300	7.31
Jharkhand	2000	7.39	Tripura	1300	7.05
Karnataka	12000	7.40	Puducherry	900	7.23
Kerala	36338	7.27	Uttar Pradesh	34515	7.13
Madhya Pradesh	49477	7.29	Uttarakhand	7000	7.12
Maharashtra	99000	7.13	West Bengal	39465	7.40
Total				**753353**	**7.16**

Source: SBI Research, RBI, states marked yellow are revenue deficit states

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Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in,
gcea.erd@sbi.co.in
Phone:022-22742440
: kantisoumya