



Complete Investment Banking Solutions

RBI MONETARY POLICY UPDATE

A PRELUDE TO A RATE CUT?

01 OCTOBER 2025



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EXECUTIVE SUMMARY

Repo rate stays put even as a changed dynamic opens the door for rate cuts

Repo rate was kept at 5.50% by a unanimous decision. The policy stance has been retained at “Neutral”, though two members wanted it be to changed to “Accommodative”. Confidence on curbing inflation remains high, helped by bounteous monsoons, though Core inflation and fuel prices should be in the line of sight. Growth projections were adjusted upwards, though the downward sloping trajectory as FY26 ends was steepened. *We anticipate another ~25bps rate cut in the current cycle, with the timing depending on growth figures in H2*

Inflationary concerns now in the background leading to sharp cut in projections

Projection for consumer inflation was dragged down sharply to 2.6% y/y for FY26, a full 50bps below Aug’25 figure. The benign food inflation seen in 5MFY26 is expected to continue for the remainder of the fiscal based on excellent food production expected on good monsoons and GST rate rationalisation driving down prices. Inflation concerns have clearly receded, but volatility remains at the forefront, highlighted by the sharp change in RBI’s projections in a matter of months. With Core staying stiff on precious metal prices and crude prices prey to geopolitical tussles, inflation will remain a monitorable

Growth outlook pulled up for FY26 on a stellar H1 and hope for consumption boost in H2

Even as the real GDP growth for FY26 was pushed up 30bps to 6.8% y/y, much of the hike hinges on what precipitated in H1FY26. The outlook for H2 downward sloping, with projection for Q3 being slashed to 6.4% from 6.6% and for Q4 cut to 6.2% from 6.3%. The Governor admitted that fiscal measures such as GST rate changes will only partially offset the hit to exports from tariffs. In any case, with borrowing for the Union in FY26 likely to be Rs. 100 bn below BE, there is ample headroom to deliver booster shots as needed, and its alacrity on capex has been seen in 5M. *On balance, we retain our nominal GDP forecast at 8.5% y/y*

External front in check, foreign investor interest could improve going ahead

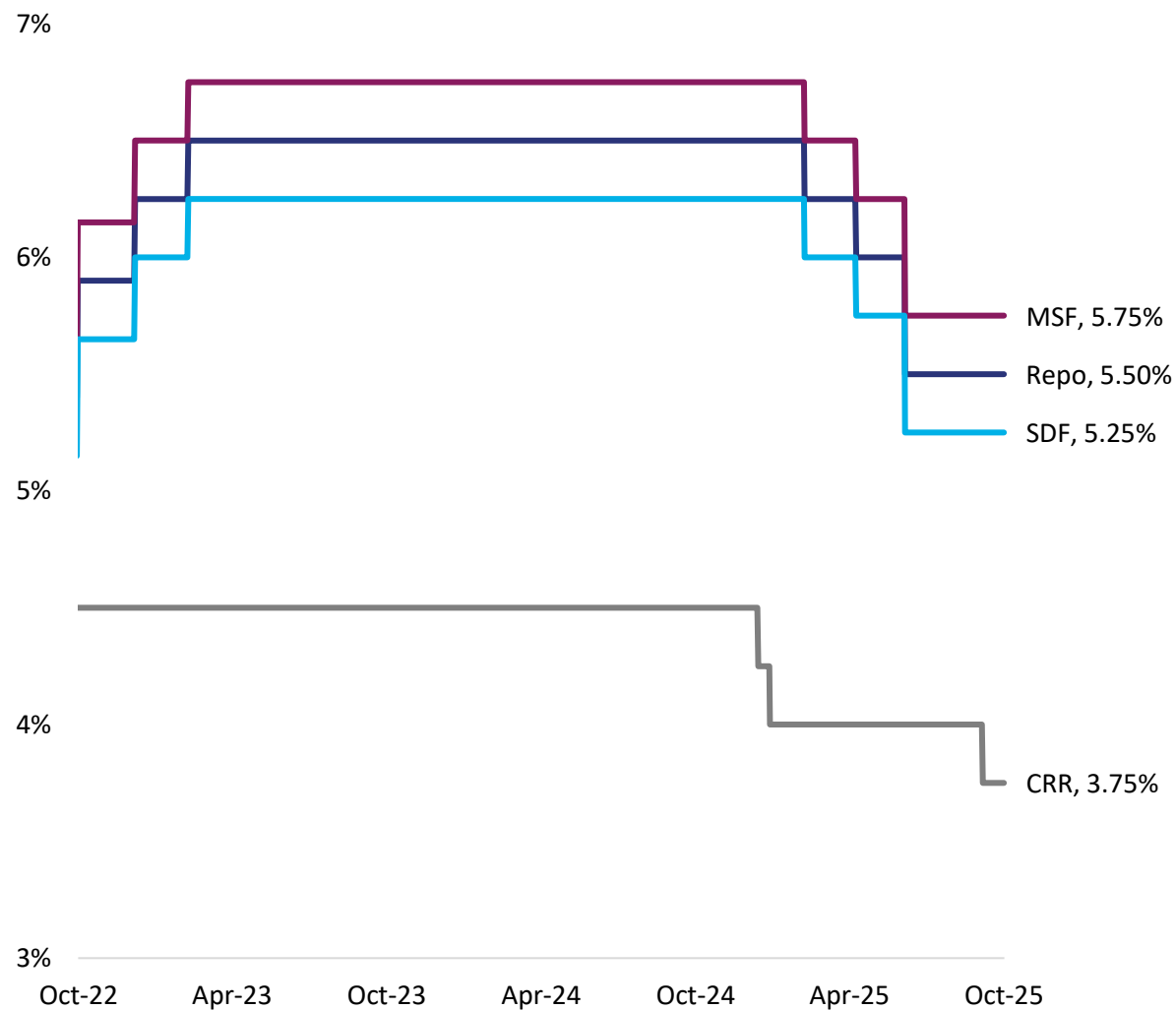
CAD is likely to be manageable for FY26, and import cover is at a comfortable 11 months based on generous forex buffers, balancing out concerns generated by a fall in INR (vs. USD) to all-time low. The soundness of this conclusion is evidenced by the fact that net FDI flows increased by more than 200% y/y in 4MFY26 to USD 10.8 bn, with Jul’25 recording a 38-month high.

Rate disparity between bond markets and banks reduces as rate transmission is efficient, yields to remain anchored near current levels

Transmission of ~100 bps of repo rate cuts since Feb’25 has been remarkably efficient, with it being complete to fresh deposits. Transmission to outstanding deposit rates has been much slower vs. lending rates. Further, Union G-sec yields are likely to remain anchored near current levels (6.50% \pm 0.25%), keeping spreads between MCLR and benchmark bond yields low. The steepness in the yield curve is due to demand-supply dynamics and evolving liquidity.

STATUS QUO ON KEY POLICY PARAMETERS

KEY RATES



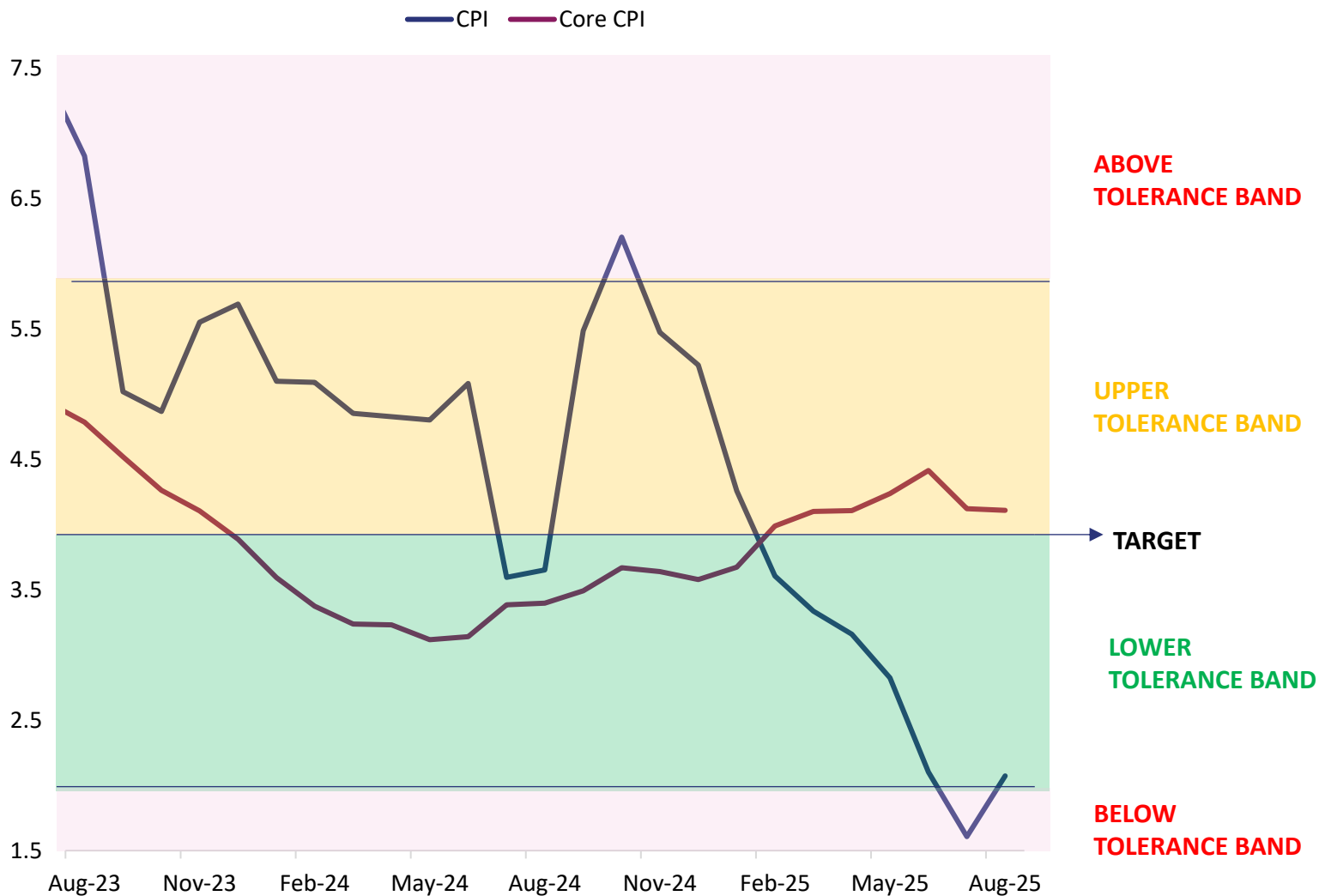
STANCE OF POLICY

| DATE | STANCE | VOTE |
|-----------|-----------------------------|------|
| 30-Sep-22 | WITHDRAWAL OF ACCOMMODATION | 5-1 |
| 07-Dec-22 | WITHDRAWAL OF ACCOMMODATION | 4-2 |
| 08-Feb-23 | WITHDRAWAL OF ACCOMMODATION | 4-2 |
| 06-Apr-23 | WITHDRAWAL OF ACCOMMODATION | 5-1 |
| 08-Jun-23 | | |
| 10-Aug-23 | | |
| 06-Oct-23 | | |
| 08-Dec-23 | | |
| 08-Feb-24 | | |
| 05-Apr-24 | | |
| 07-Jun-24 | WITHDRAWAL OF ACCOMMODATION | 4-2 |
| 07-Aug-24 | WITHDRAWAL OF ACCOMMODATION | 4-2 |
| 09-Oct-24 | NEUTRAL | 6-0 |
| 05-Dec-24 | | |
| 07-Feb-25 | | |
| 09-Apr-25 | ACCOMODATIVE | 6-0 |
| 06-Jun-25 | NEUTRAL | 6-0 |
| 06-Aug-25 | | |
| 01-Oct-25 | NEUTRAL | 4-2 |

- Repo & associated rates were kept unchanged unanimously. Stance was kept at Neutral by a slimmer majority than last time, indicating changing mood of MPC towards cuts
- We anticipate another ~25bps rate cut in the current cycle, with the timing depending on growth figures in H2

CPI PROJECTIONS SLASHED, WELL WITHIN TARGET RANGE NOW

CPI AND CORE CPI (% Y/Y)



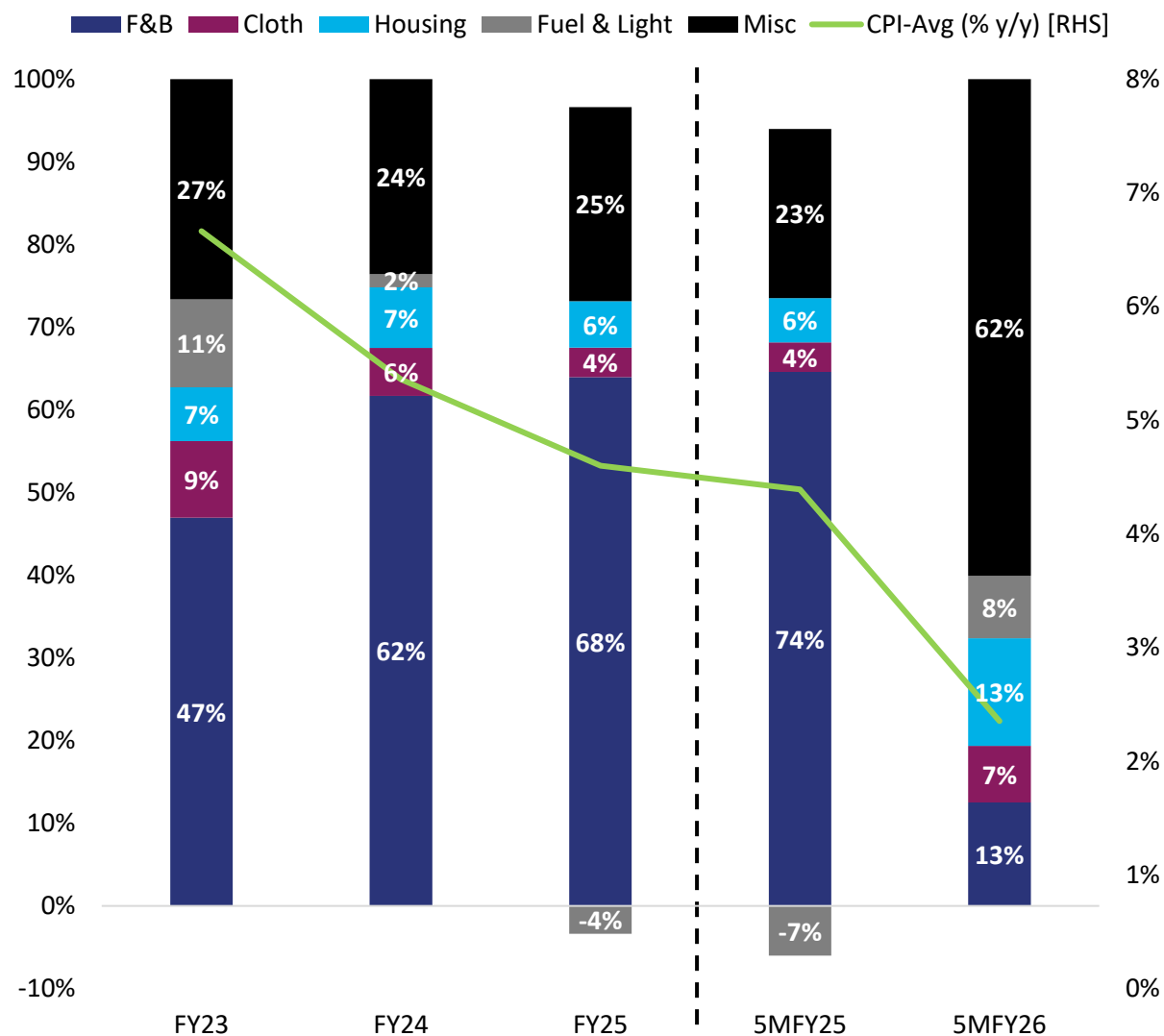
PROJECTED CPI (Y/Y) AS PER RBI

| Period | 06-Aug-25 Meeting | 01-Oct-25 Meeting |
|--------|-------------------|-------------------|
| Q2FY26 | 2.1% | 1.8% ↓ |
| Q3FY26 | 3.1% | 1.8% ↓ |
| Q4FY26 | 4.4% | 4.0% ↓ |
| FY26 | 3.1% | 2.6% ↓ |
| Q1FY27 | 4.9% | 4.5% ↓ |

- Consumer inflation entered the target range in Aug'25 after tanking vegetable prices mooted a sojourn below it in Jul'25
- Core inflation has been above 4% for multiple months. Increased festive demand in coming season promises to stiffen this

OUTLOOK FOR FOOD INFLATION REMAINS BENIGN ON GOOD MONSOON

CONTRIBUTION TO Y/Y CHANGE IN CPI (%)



CHANGE IN PRICES OF KEY COMMODITIES

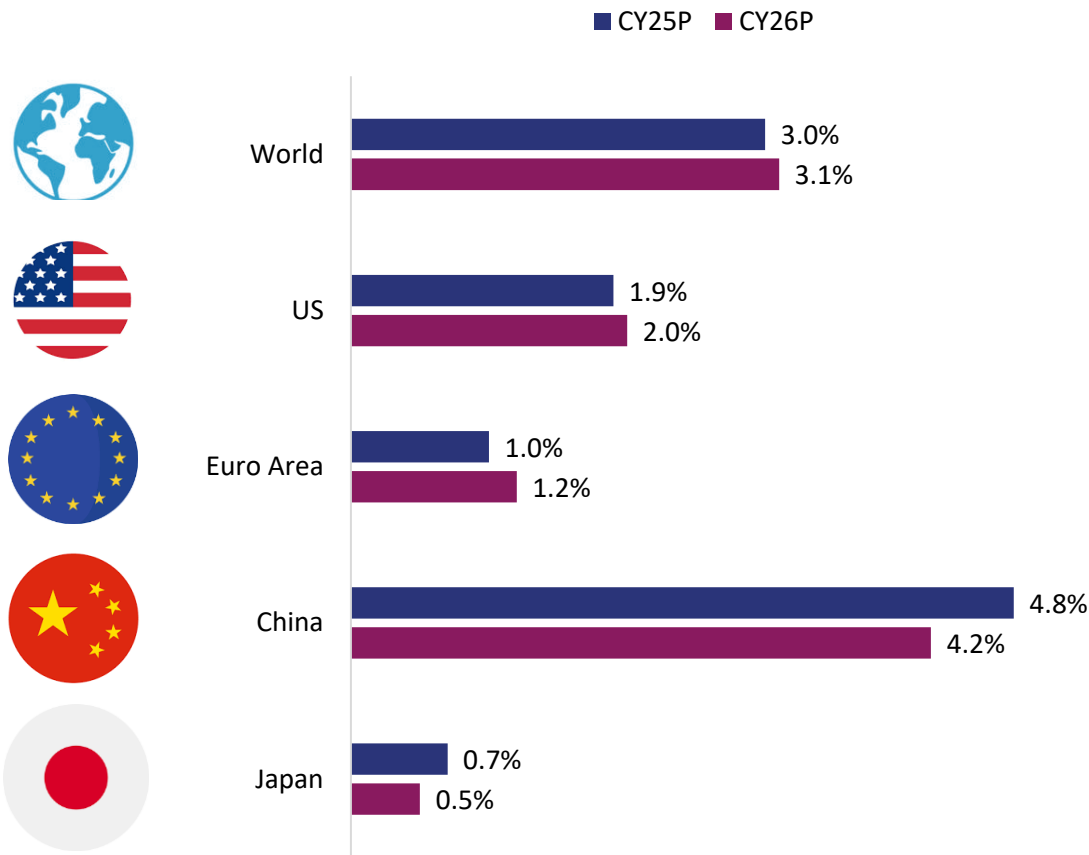
| | %1M change | %1Y change |
|------------------|------------|------------|
| LME Metals Index | 4% | 3% |
| Copper | 6% | 5% |
| Aluminium | 2% | 1% |
| Iron Ore 62% Fe* | 3% | 13% |
| Gold | 11% | 45% |
| Brent | -1% | -6% |
| Natural Gas | 9% | 12% |
| Newcastle Coal | -4% | -24% |

*As on 30th Sep'25

- Unlike FY25, food has played a minor role in inflation in 5MFY26 due to high base and low vegetable prices. Given the bountiful monsoon and fair progress of kharif sowing, the outlook remains benign
- Select global commodities, especially metals have seen large price spikes. This has led to a sharp rise in Core inflation
- Geopolitical riff-raff around India's purchases of Russian crude and talks of the former buying more US energy could push up its energy basket price

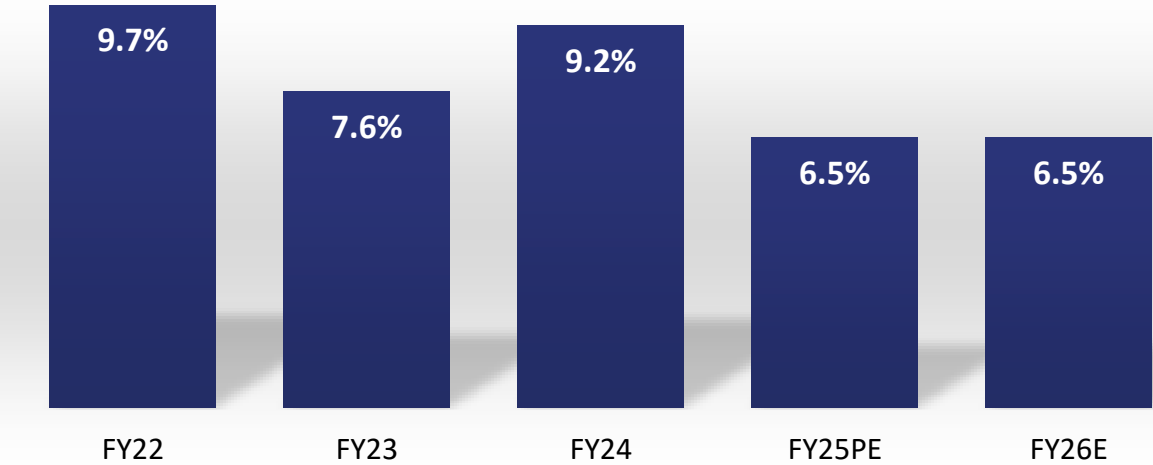
GROWTH OUTLOOK HINGES ON DOMESTIC BOOSTERS

REAL GDP GROWTH (Y/Y)

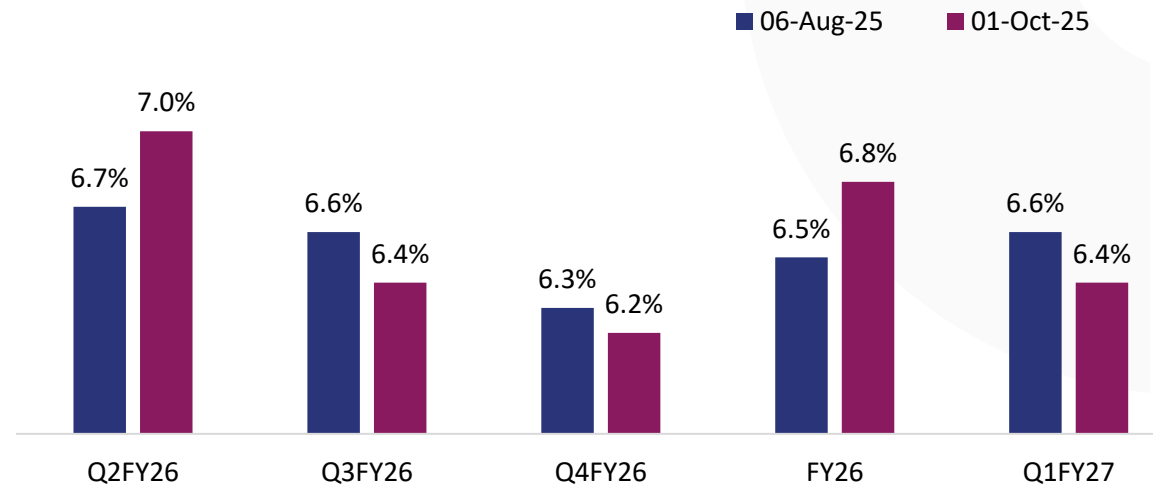


- Growth projections were upward revised by IMF in Jul'25, reflecting tariff-related front-loading, lower effective tariff rates and better financial conditions in major jurisdictions.
- Domestic demand in India has some upward drivers in H2, though significant global challenges remain underpinning our 9% y/y nominal growth forecast for FY26

INDIA REAL GDP (Y/Y)



PROJECTED REAL GDP (Y/Y) AS PER RBI



UNION MAINTAINS FISCAL PATH WITH BORROWINGS IN CHECK

| ITEM (Rs. bn) | FY24A | FY25RE | FY26BE | GROWTH FY26BE/FY25RE | 5MFY25 | 5MFY26 | GROWTH 5MFY26/5MFY25 | 5MFY26/FY26BE |
|--|-----------------|-----------------|-----------------|-------------------------|---------------|---------------|-------------------------|---------------|
| Corporation Tax | 9,111 | 9,868 | 10,820 | 9.7% | 2,246 | 2,293 | 2.1% | 21.2% |
| Income Tax | 10,447 | 11,830 | 14,380 | 21.6% | 4,523 | 4,410 | -2.5% | 30.7% |
| Customs Duty | 2,331 | 2,329 | 2,400 | 3.1% | 943 | 831 | -11.9% | 34.6% |
| Excise Duty | 3,054 | 3,003 | 3,170 | 5.6% | 1,040 | 1,119 | 7.6% | 35.3% |
| Service Tax | 4 | 0 | 1 | | 0 | -2 | | |
| GST | 9,572 | 10,316 | 11,780 | 14.2% | 4,325 | 4,543 | 5.0% | 38.6% |
| Other Taxes | 39 | 50 | 50 | 0.0% | 33 | 22 | | |
| Gross tax revenue | 34,655 | 37,952 | 42,702 | 12.5% | 13,327 | 13,440 | 0.8% | 31.5% |
| (-) Transfer to States, UTs | 11,295 | 12,869 | 14,224 | 10.5% | 4,557 | 5,301 | 16.3% | 37.3% |
| Net tax revenue | 23,273 | 24,987 | 28,374 | 13.6% | 8,738 | 8,104 | -7.3% | 28.6% |
| Non-Tax Revenue | 4,018 | 5,375 | 5,830 | 8.5% | 3,345 | 4,403 | 31.7% | 75.5% |
| Non-debt Capital Receipts | 598 | 418 | 760 | 81.7% | 89 | 320 | 260.6% | 42.1% |
| Total Receipts | 27,888 | 30,781 | 34,964 | 13.6% | 12,172 | 12,827 | 5.4% | 36.7% |
| Revenue Expenditure | 34,943 | 36,035 | 39,443 | 9.5% | 13,514 | 14,493 | 7.2% | 36.7% |
| Capital Expenditure | 9,492 | 10,520 | 11,211 | 6.6% | 3,010 | 4,316 | 43.4% | 38.5% |
| Total Expenditure | 44,434 | 46,555 | 50,653 | 8.8% | 16,524 | 18,809 | 13.8% | 37.1% |
| Revenue Deficit | 7,652 | 5,671 | 5,238 | -7.6% | 1,431 | 1,985 | 38.8% | 37.9% |
| Fiscal Deficit | 16,546 | 15,773 | 15,689 | -0.5% | 4,352 | 5,982 | 37.5% | 38.1% |
| Nominal GDP | 2,95,357 | 3,27,718 | 3,56,979 | 8.9% | | | | |
| Fiscal Deficit (% of Nominal GDP) | 5.6% | 4.8% | 4.4% | | | | | |

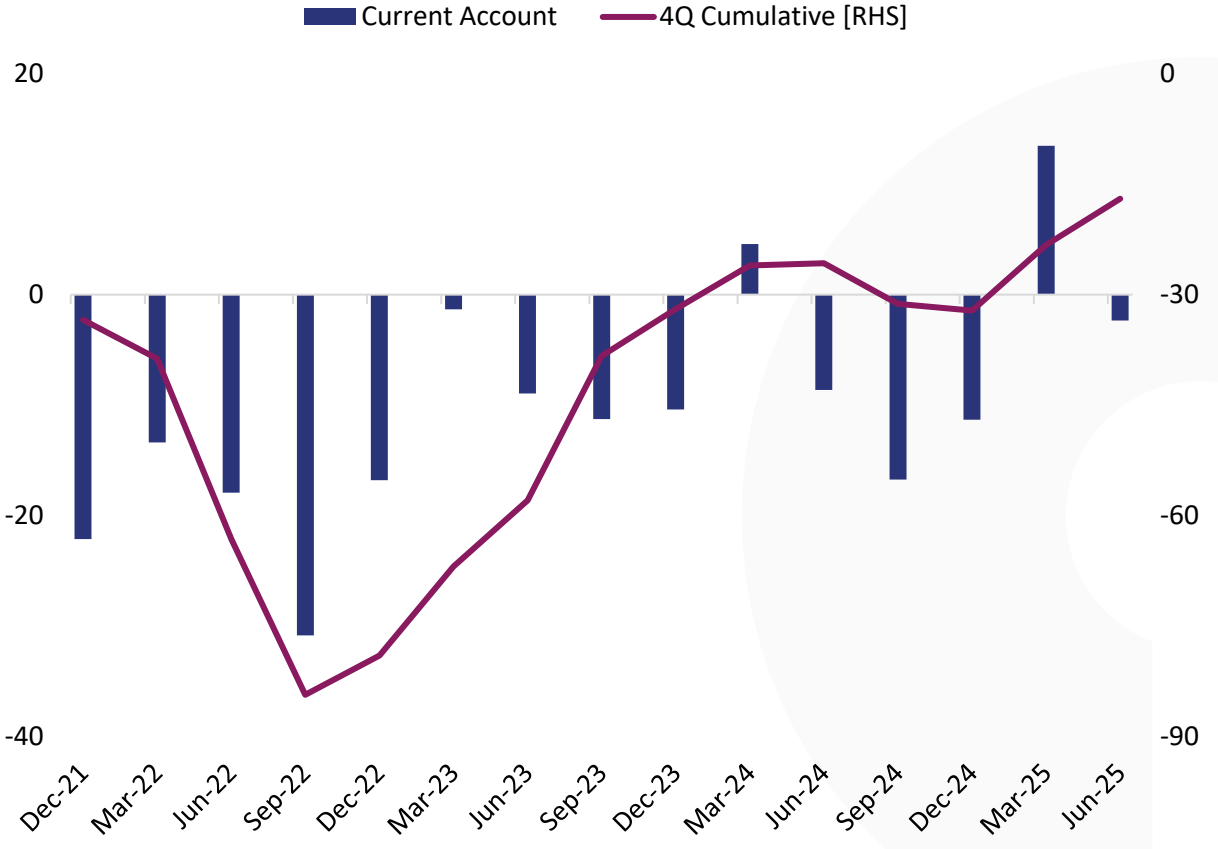
- Gross tax revenues have remained flattish in 5MFY26 due to a fall in income tax collections being offset by moderate rise in corporation taxes and GST. GST relief provided is expected to lead to a shortfall of ~Rs. 480 bn
- Expenditure has steadily increased on both capital and revenue front as the Union has taken pole position once again in stimulating the GDP amidst lagging private capex. Nevertheless, with borrowings for FY26 expected to be ~Rs. 100 bn below BE, fiscal deficit goals are likely to be achieved

EXTERNAL POSITION REMAINS MANAGEABLE

USD/INR EXCHANGE RATE (Rs. per USD)



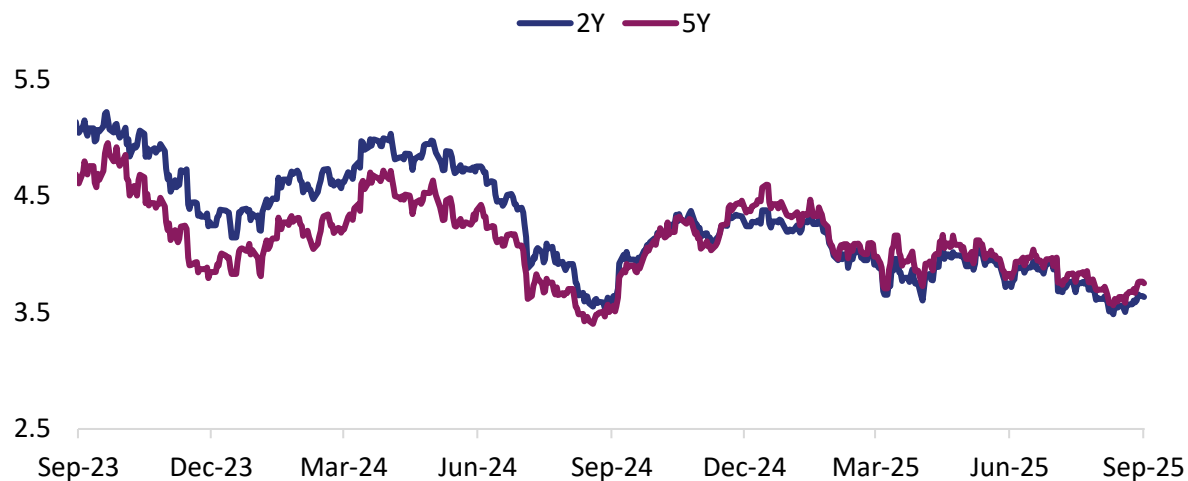
CURRENT ACCOUNT BALANCE (USD bn)



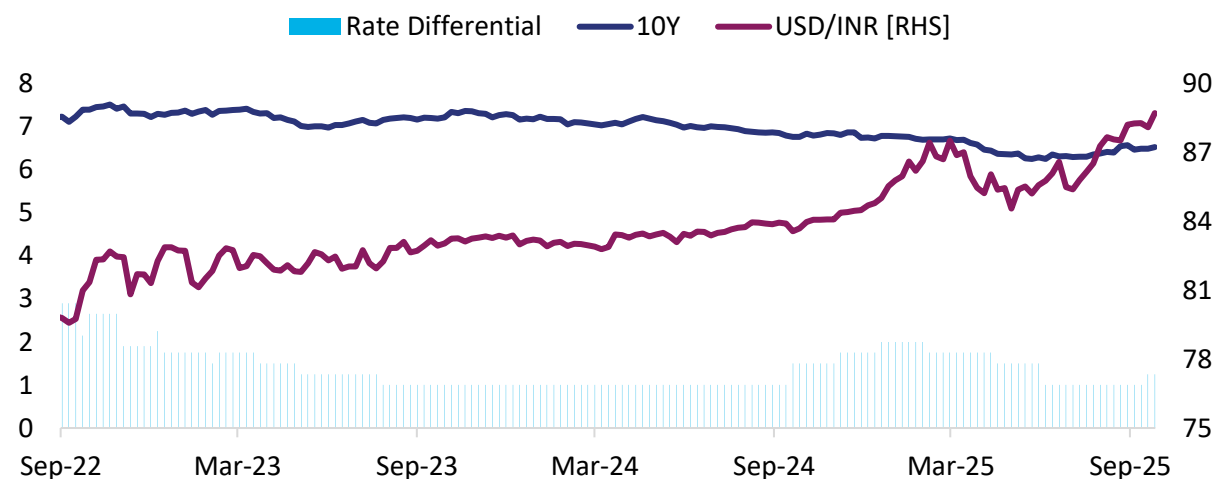
- Shifting immigration policies, uncertain trade negotiations and drag from capital outflows led to the INR slipping to record low of 88.80 against the greenback in Sep'25, with RBI likely intervening in the spot market.
- RBI has notably been trimming its net short forward position, with outstanding book shrinking to USD 57.8 bn in Jul'25, with slower net USD sales and maturing forward book.

POLICY UNCERTAINTY REMAINS IN THE USA

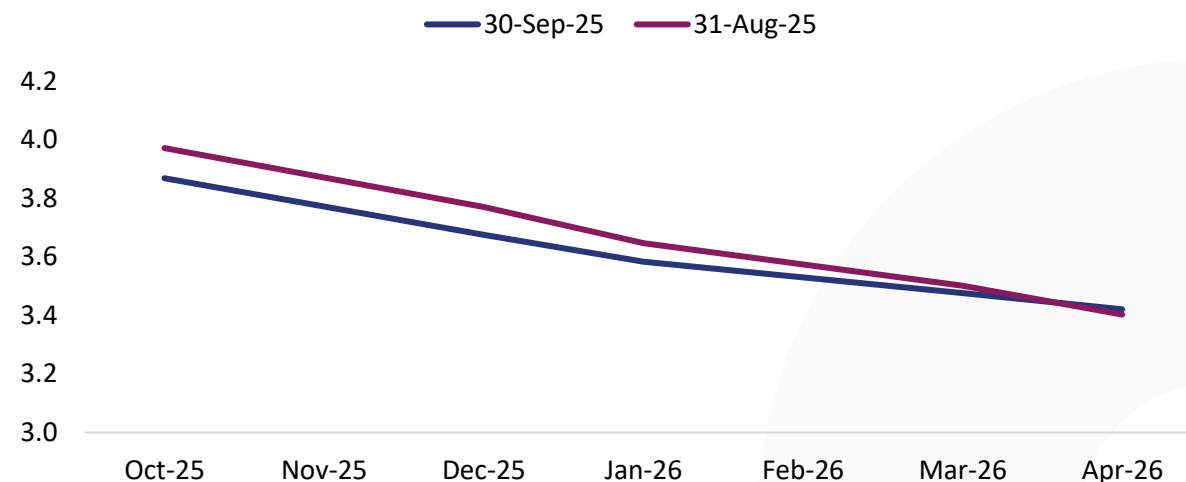
US G-SEC YIELDS (%)



INDIA-US POLICY RATE DIFFERENTIAL VS. INDIA YIELD VS. CURRENCY



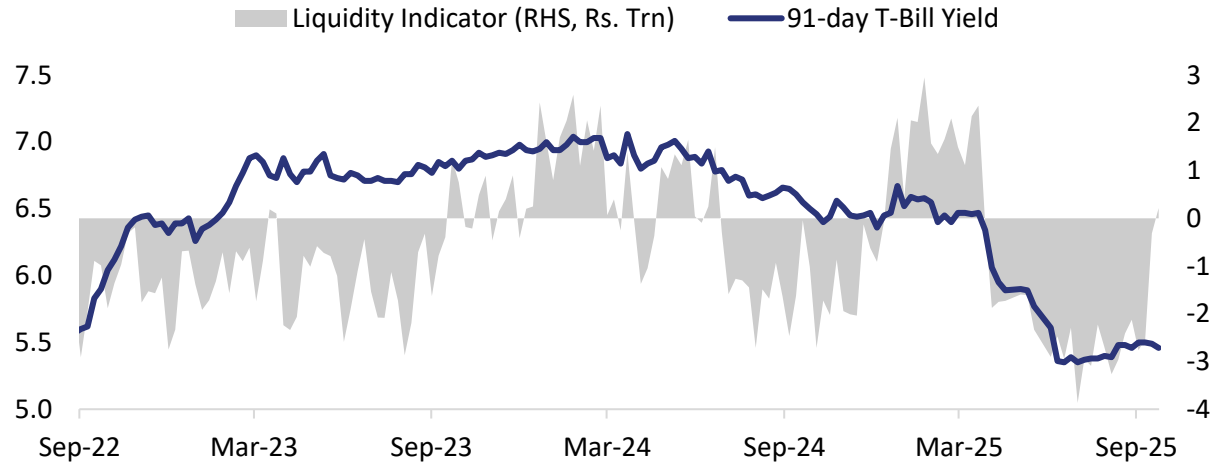
MARKET-IMPLIED PATH OF US FED POLICY RATE (IN %)



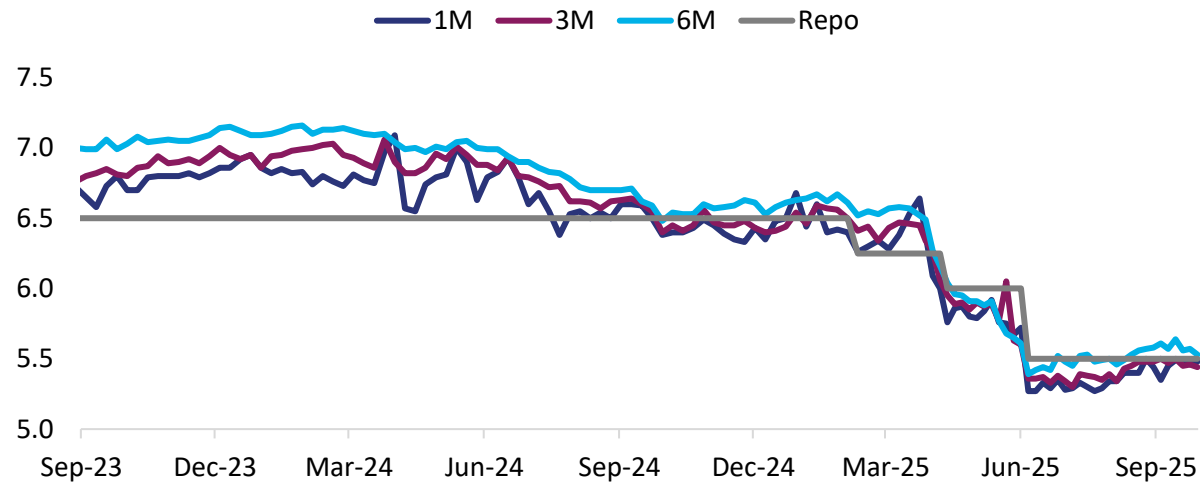
- US FOMC cut policy rates by 25 bps to 4% - 4.25%, with 11-1 vote, as downside risks to softening labour markets have risen. Dissenter Mr. Miran opted for outsized 50 bps cut
- Mr. Powell noted a complex divergence in the dual mandate in a “low hiring-low firing” economy with tariffs complicating the persistently above target inflation path.
- SEP points towards 2 more rate cuts in CY25 and another in CY26, 25 bps lower vs previous. Consequently, markets are pricing in 72% chance of 2 rate cuts in CY25

LIQUIDITY IS CAREFULLY MANAGED BY THE RBI

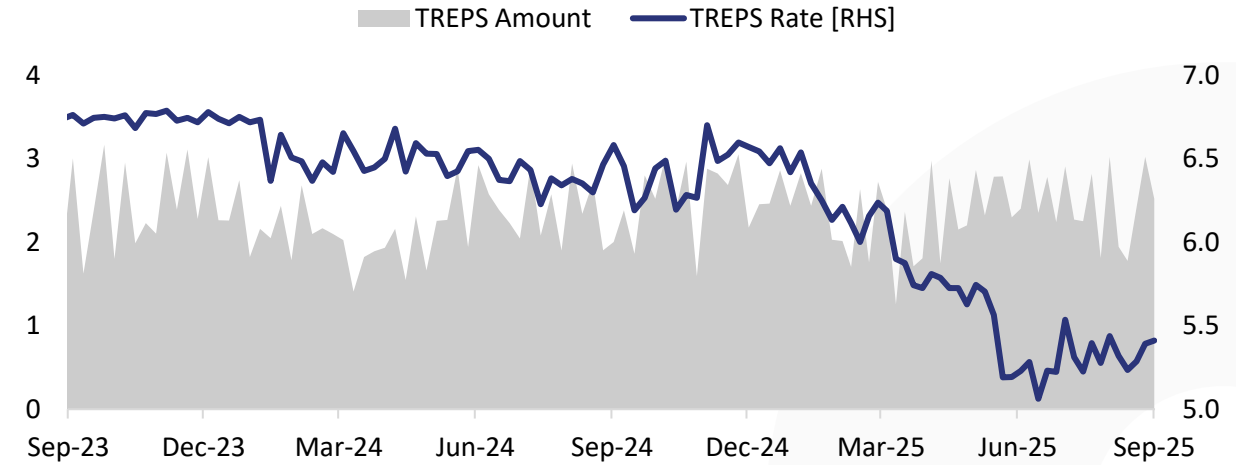
91-DAY T-BILL YIELD VS. BANKING LIQUIDITY*



T-BILL SECONDARY YIELDS VS. REPO



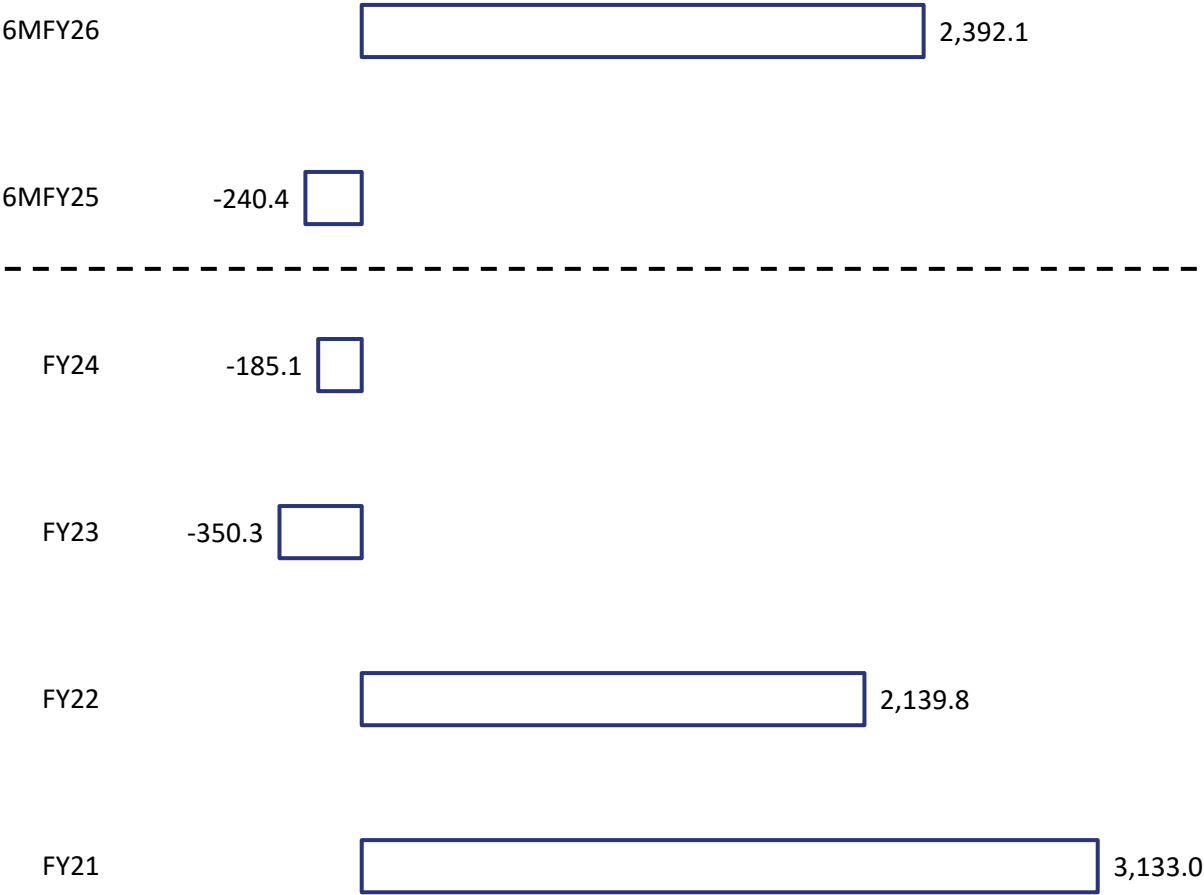
TREPS DAILY AVG VOLUME (Rs. trn) AND RATE (%)



- Liquidity surplus dwindled sharply in mid-Sep'25 driven by copious tax outflows, with buoyant GST collections coupled with advance tax payments
- The liquidity drag seems temporary, with RBI conducting fine tuning VRR auctions to induce liquidity, as CRR cuts are unwound in tranches

RBI LIMITS OMO PURCHASES AND BUYBACKS

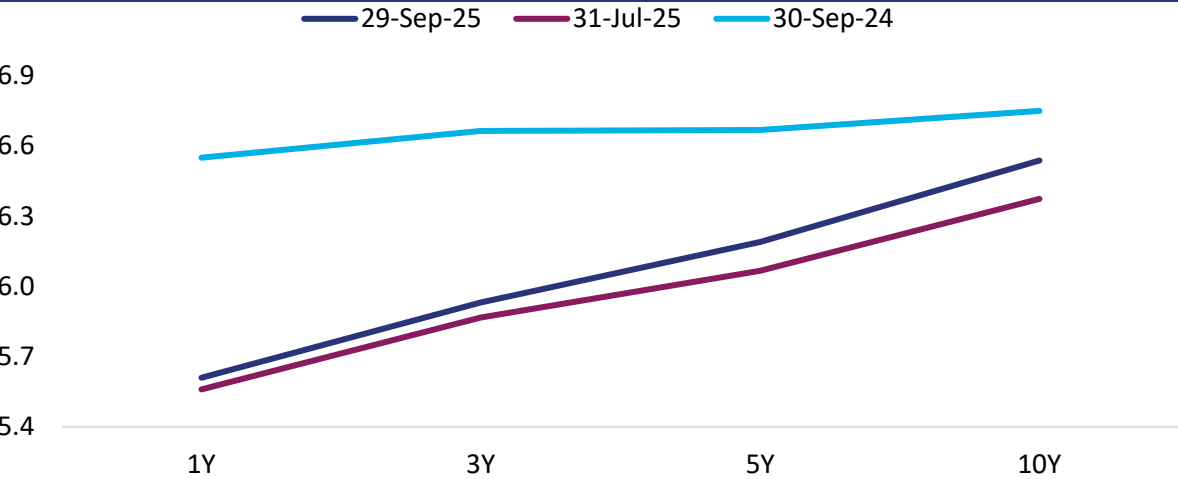
CUMULATIVE NET OMO PURCHASES (Rs. bn)



- RBI used OMO purchases to induce systemic liquidity but has refrained from doing so since Jun'25, since liquidity turned plush

UNION G-SEC YIELDS HAVE INCREASED IN RECENT TIMES

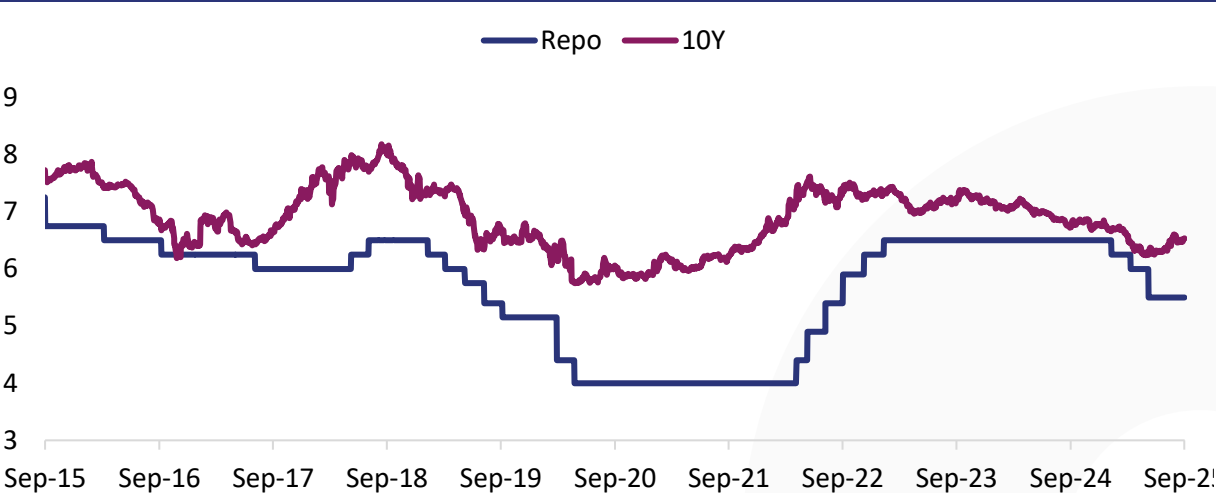
YIELD CURVE (%)



G-SEC YIELD (5 YEARS) (%)



UNION G-SEC YIELD (10 YEARS) VS REPO (%)

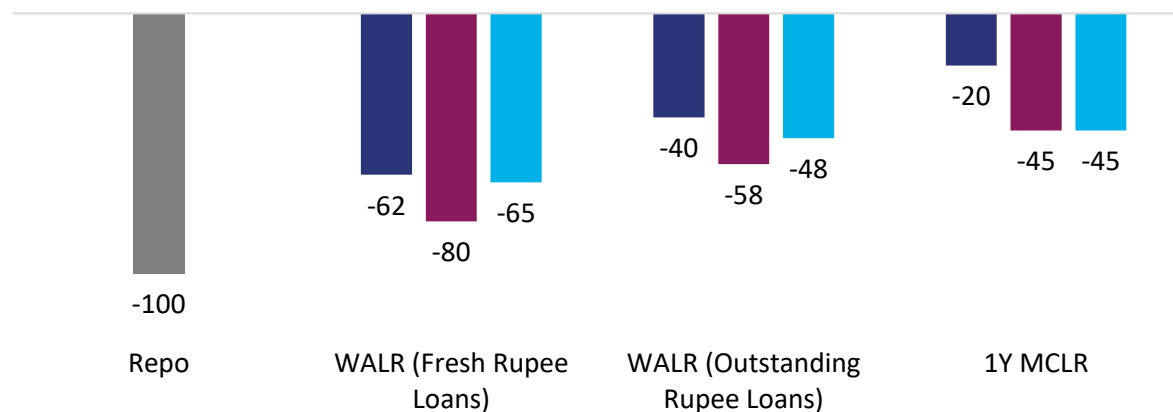


- Union G-sec yields have increased since last MPC (Aug'25) owing to slimmer liquidity combined with lower chance of rate cuts as per the market
- *Broader outlook remains sensitive to currency volatility and the RBI's operations. We expect 10Y Union G-sec to remain at 6.50% ± 0.25%*

TRANSMISSION TO BANK RATES ALMOST COMPLETE

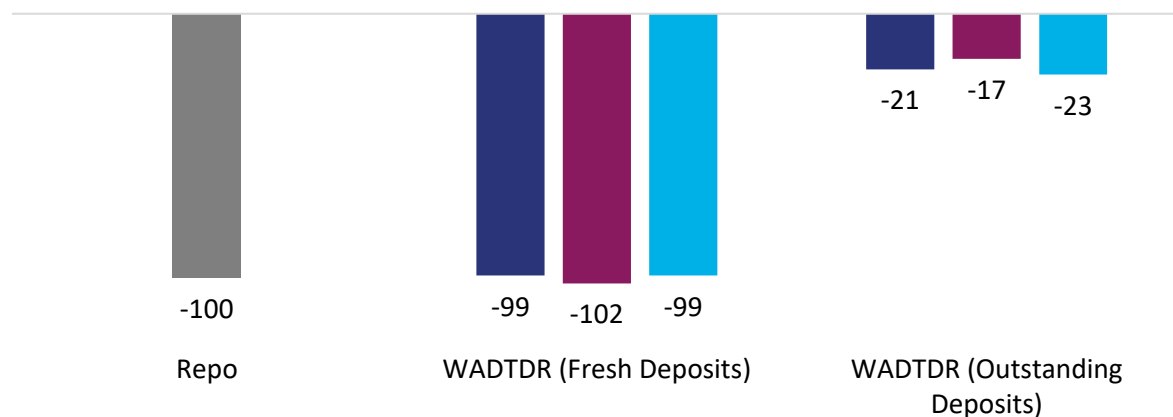
TRANSMISSION TO LENDING RATES (FEB'25 – AUG'25)

Public Sector Banks Private Banks All SCBs



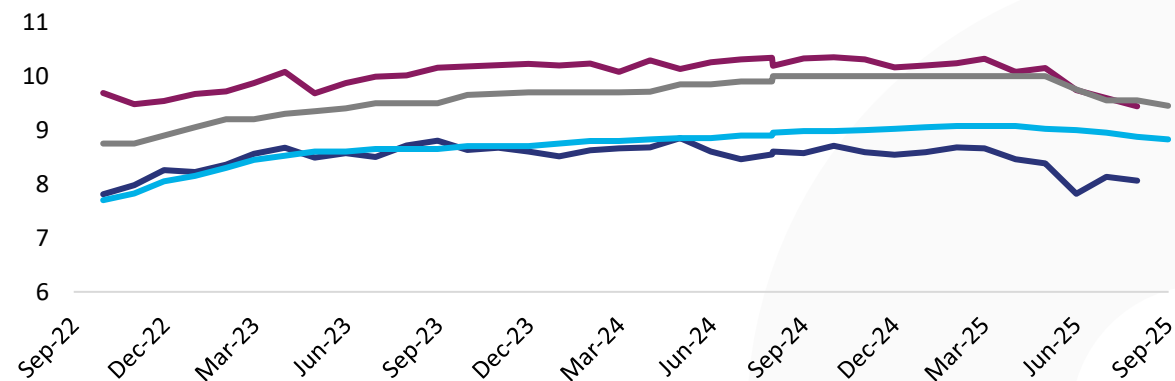
TRANSMISSION TO DEPOSIT RATES (FEB'25 – AUG'25)

Public Sector Banks Private Banks All SCBs



TREPS DAILY AVG VOLUME (Rs. trn) AND RATE (%)

WALR (Fresh Rupee Loans)- PSBs WALR (Fresh Rupee Loans)- PVBs
1Y MCLR- PSBs 1Y MCLR- PVBs

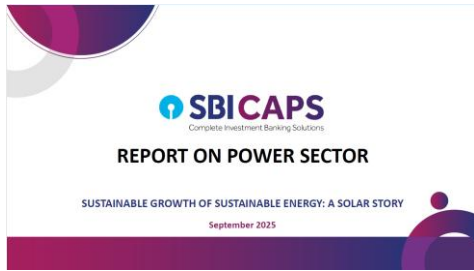


- Transmission to both lending and deposit rates is excellent in the current rate cycle due to high share of EBLR. Transmission to outstanding lending rates is much faster than deposit rates – hence margins could be squeezed for banks
- Bank MCLR to Union G-sec spread is now low compared to historical levels. This means a pickup in bank credit could ensue

RAFT OF BANKING REFORMS NET POSITIVE FOR THE SECTOR

| TOPIC | CHANGE | STAGE |
|---|--|---|
| Basel III Guidelines on Capital Charge for Credit Risk – Standardised Approach | Proposed risk weights for certain segments, particularly MSMEs and residential real estate (including home loans) are expected to reduce | Draft to be issued |
| Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism – Withdrawal | Banking system level concentration risk to borrowers with credit limit >Rs. 100 bn will be dealt with on a case-to-case basis, and is not prohibited as such | Draft to be issued for public consultation |
| Forms of Business and Prudential Regulation for Investments | Proposed ban on overlap of activities between banks and group entities is removed. More operational freedom given for equity investments in such entities | Final guidelines to be issued |
| Review of Capital Market Exposures Guidelines for banks | Acquisition finance is now allowed for banks. Further, lending limit for loans against shares, units of REITs/InvITs stands enhanced, while ceiling on lending against listed debt securities is removed | Draft to be issued |
| Review of Restrictions on Transaction Accounts | Greater flexibility on operation of CA, CC, and OD accounts, particularly for regulated borrowers | Draft to be issued |
| Review of External Commercial Borrowing Framework | Revised framework for expansion of eligible borrower and recognised lender base, rationalisation of borrowing limits and restrictions on average maturity period, removal of restriction on cost of borrowing for ECBs, review of end-use restrictions | Draft to be issued |
| Introduction of Risk Based Premium Framework for Deposit Insurance in India | Change in premium from 12p per Rs. 100 of assessable deposits to a nuanced risk-based framework | Notification yet to be issued; Effective from FY27 |
| Expected Credit Loss (ECL) framework for provisioning | Transition to ECL based norms | Draft to be issued;; Effective from 01 Apr'27, glide path till FY31 |
| Risk Weights on infrastructure lending by NBFCs | Principle based framework for lower risk weights for high quality operational infrastructure projects | Draft to be issued for public consultation |

OUR RECENT REPORTS...



Report on Power Sector: Sustainable Growth of Sustainable Energy: A Solar Story

September 2025



Q1FY26 GDP Update Resilience meets Uncertainty

August 2025



ECOCAPSULE The Cold War Turns Hot

August 2025



Report on Real Estate Sector: Building A New Funding Architecture for Sky-scraping Growth

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Tariffs are Made in the USA, but Resilience is Made in India

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Report on Solar Sector: Integrating to Differentiate: A Solar Module Equation

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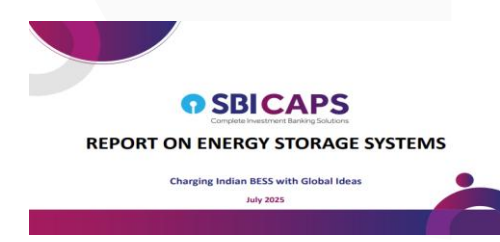
Monetary Policy_Aug'25 Comfortable Growth-inflation Dynamic Enables Status Quo

August 2025



Report on Energy Storage Systems Charging Indian BESS with Global Ideas

July 2025



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