

## RBI Monetary Policy Highlights – Dec'25

### Rate Cut Triumphs in the Game of 'Cut vs Pause'

The RBI has finally reduced the repo rate by 25bps after keeping rates unchanged since Jun'25. The MPC's unanimous vote in favour of the cut signals a clear shift toward supporting economic growth, even though Q2 GDP growth numbers were robust. However, the policy felt like a "game of two halves," as views were split between those expecting a rate cut and those anticipating the RBI would maintain its pause. The RBI has continued to maintain its 'Neutral' stance. The regulator has revised its inflation forecast lower for FY26 to 2% vs 2.6% earlier, largely led by benign food inflation. The growth forecast has been revised upwards for the year to 7.3% vs 6.8% earlier, following a strong show in Q2.

For banks, Q2 delivered some margin-related surprises, with many banks reporting an earlier-than-expected recovery even after absorbing the full impact of the 50bps rate cut of Jun'25. **With the latest 25 bps cut, we expect the effect on NIMs to remain manageable and limited, taking cues from banks' performance during the 100bps rate reduction implemented by the regulator between Feb-Jun'25. We anticipate that the impact of CRR cuts and ongoing TD repricing will offset the yield pressure arising from the recent rate cut.**

On the growth front, the latest data points to a revival in credit growth momentum (at 11.4% as on Nov 14, 2025), supported by improved consumption demand. **We pencil in ~14% CAGR credit growth over FY26-28E for our coverage universe banks, supported by (i) Falling interest rates, (ii) Consumption demand driven by GST rate rationalization, (iii) Consumption boost from the tax rate cut, and (iv) Demand recovery in the unsecured segments as stress normalizes. We expect our coverage universe banks to deliver a healthy credit growth of ~12-12.5% in FY26.** Thus far, credit growth has been driven by the retail segment, with banks continuing to remain selective on the corporate side; we expect stronger growth delivery in H2. Asset quality concerns appear to be easing, with the unsecured segment showing better trends. We expect this trend to sustain and drive credit costs lower.

**The earnings growth for the banks will appear lacklustre in FY26 with H1 performance dented by margin pressures and higher credit costs and some near-term impact as banks navigating the current 25bps rate cut. However, we expect a stronger recovery from FY27 onwards. Despite the rate cut in the current policy, we continue to believe the earnings-downgrade cycle is now behind and expect earnings growth to improve from here on.** We continue to favour banks that demonstrate promising growth prospects, healthy deposit franchises, stable asset quality metrics, and strong and steady management teams.

### \*Stock Picks:

**Banks – HDFC Bank, Kotak Mahindra Bank, SBI, Federal Bank, Ujjivan SFB, AU SFB**

**NBFCs – Shriram Finance, Bajaj Finance, SBI Cards**

(\*Pls note these are event-based picks)

### Key Rates

	Current (%)	Previous (%)
Repo Rate	5.25	5.50
Reverse Repo Rate	3.35	3.35
MSF	5.50	5.75
SDF	5.00	5.25

### GDP Growth Estimates

	Current (%)	Previous (%)
Q3FY26	7.0	6.4
Q4FY26	6.5	6.2
<b>FY26</b>	<b>7.3</b>	<b>6.8</b>
Q1FY27	6.7	6.4
Q2FY27	6.8	N.A

### Inflation Estimates

	Current (%)	Previous (%)
Q3FY26	0.6	1.8
Q4FY26	2.9	4.0
<b>FY26</b>	<b>2.0</b>	<b>2.6</b>
Q1FY27	3.9	4.5
Q2FY27	4.0	N.A

### Dnyanada Vaidya

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

### Abhishek Pandya

Research Associate

Email: abhishek.pandya@axissecurities.in

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Compliance Officer Details: Name – Mr Rajiv Kejriwal, Tel No. – 022-68555574, Email id – [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in);

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Paré, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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