

MPC maintains status quo, keeping powder dry!

Quick View – The MPC voted unanimously to maintain a pause on rate cuts, keeping the repo rate at 5.5% while retaining its neutral stance.

Repo Rate	5.50%
SDF Rate	5.25%
Bank Rate	5.75%
CRR	3.75%
SLR	18.00%
USDINR	88.79

Dolat View - The Monetary Policy Committee (MPC) kept the repo rate unchanged, retaining a neutral stance amid persistent external and domestic vulnerabilities. While headline inflation has remained subdued so far, the RBI projects an uptick in H2FY26.

On growth front, Q1FY26 GDP recorded a robust 7.8% expansion; however, private consumption and investment have since lagged, as businesses and consumers defer spending in anticipation of GST rationalization. The rupee has come under pressure from FPI outflows and tight global financial conditions limiting policy space despite Fed’s rate cut. Against this backdrop, RBI has opted for a cautious pause, prioritizing currency stability and external resilience while ensuring adequate liquidity.

Way Forward - With its neutral stance and a lower inflation forecast, RBI is expected to lay more emphasis on supporting growth with the odds for 25 bps rate cut in the December meeting remain evenly balanced.

The RBI maintained a status quo on rates to support growth amid mixed signals, while remaining vigilant to emerging inflation risks and external vulnerabilities.

ASSESSMENT OF GLOBAL AND DOMESTIC ECONOMIC CONDITIONS

The global economy in 2025 has shown stronger-than-expected resilience, led by robust growth in the US and China. However, policy uncertainty, elevated inflation in some advanced economies, and volatile financial markets continue to cloud the outlook. In India, GDP grew by 7.8% in Q1FY26, supported by strong consumption, investment, a revival in manufacturing, and steady services growth. Rural demand benefited from a favorable monsoons and healthy agriculture, while urban demand is gradually recovering. High-frequency indicators suggest sustained momentum, with construction activity holding firm despite moderation in capital goods. The outlook appears optimistic due to favorable monsoon conditions, robust kharif planting, a vibrant services sector, consistent employment levels, increased capacity utilization, and GST reforms, which collectively boost economic prospects. However, potential risks such as trade uncertainties, geopolitical tensions, and fluctuations in financial markets, could pose challenges. Nonetheless, ongoing structural reforms like GST streamlining are anticipated to mitigate some external pressures, supporting sustained economic resilience and growth.

Amit Khurana, CFA

Head of Equities

+91 22 40969745

amit@dolatcapital.com

Naman Gola

Research Associate-
Economist

+9122 61764835

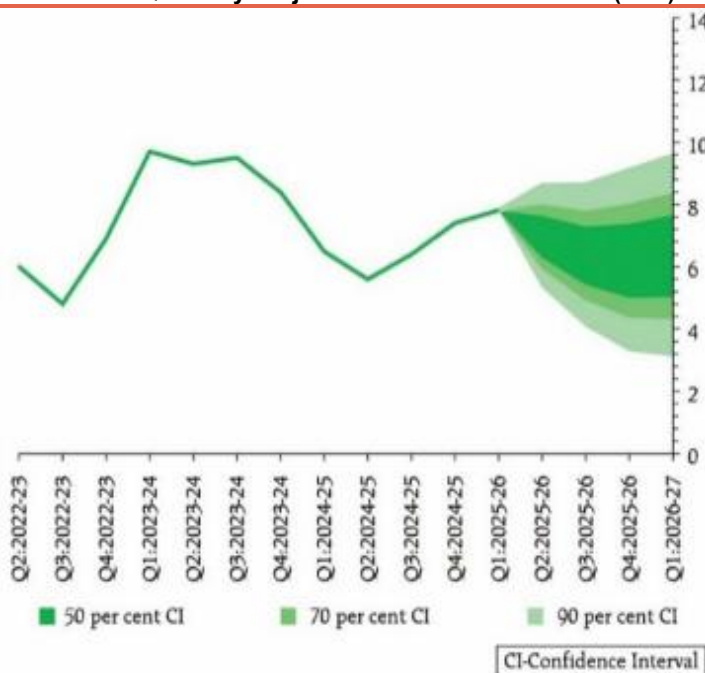
namang@dolatcapital.com

REVISION IN BOTH INFLATION AND GROWTH ESTIMATES

The projected headline CPI for FY26 has been revised downward to 2.6 % (vs 3.1%). On a quarterly basis, inflation estimates were lowered to 1.8% for Q2 (vs. 2.1%), 1.8% for Q3 (vs. 3.1%), and 4.0% for Q4 (vs. 4.4%), translating to an average of 2.5% for the remainder of FY26. For Q1FY27, however, the projection has been revised upward to 4.5% (vs. 4.1%).

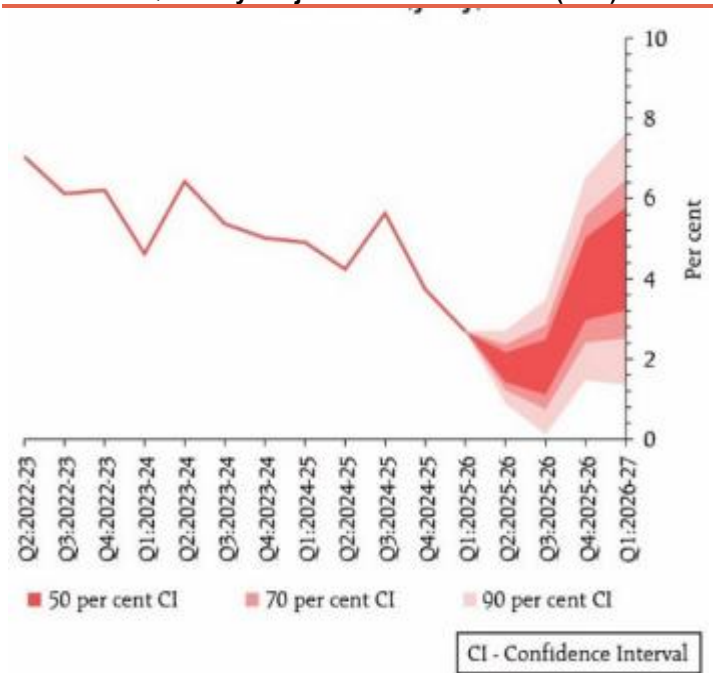
Real GDP growth for FY26 has been revised upward to 6.8% (from 6.5%). On a quarterly basis, Q2FY26 growth is projected at 7.0% (vs. 6.7%), while forecasts for Q3FY26 and Q4FY26 have been lowered to 6.4% (vs. 6.6%) and 6.2% (vs. 6.3%), respectively. The average real GDP growth for the remainder of FY26 is estimated at around 6.5%.

Exhibit 1: Quarterly Projection of Real GDP Growth (YoY)



Source: RBI

Exhibit 2: Quarterly Projection of CPI Inflation (YoY)



Source: RBI

LIQUIDITY

Systemic liquidity averaged a surplus of around ₹2.2 lakh crore during Aug-Sept 25, down from ₹2.9 lakh crore in Jun-Jul 25. Despite this tightening, liquidity conditions are expected to remain in surplus, aided by the phased implementation of CRR cuts.

Core liquidity tightened from ₹5.63 lakh crore in Jun-Jul 25 to ₹4.9 lakh crore in Aug-Sept 25.

Dolat View – MPC maintains status quo, keeping powder dry!

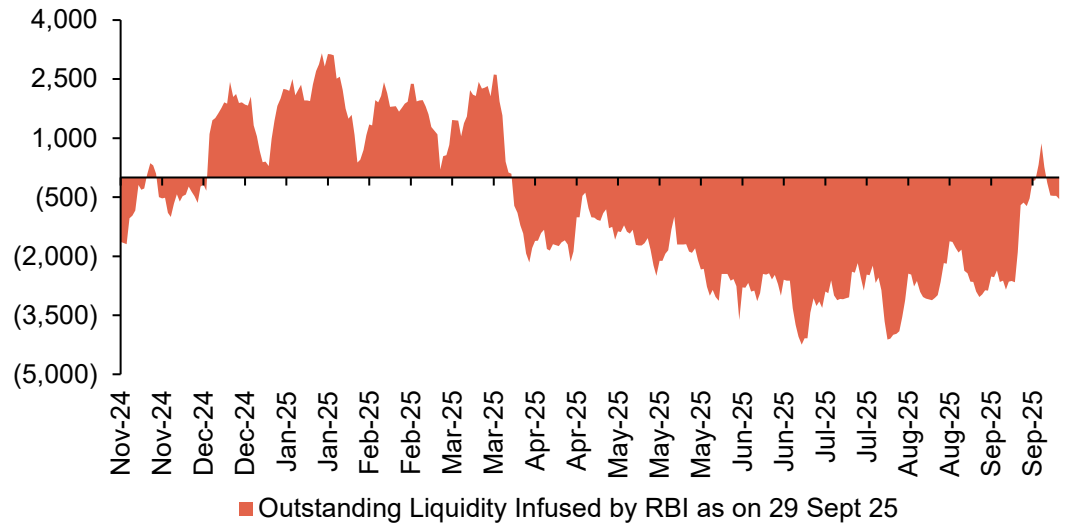
The RBI continues to preserve monetary space, keeping itself positioned to deliver a rate cut if required. Market participants expect that any policy action will be contingent on the evolving impact of GST rationalization on consumer demand and investment pickup. Current dynamics, especially the recent move to a two-slab GST and the imposition of additional 25% tariffs on general goods and 100% on select pharma exports, are being closely monitored by the RBI, especially amid lingering geopolitical uncertainties and ongoing pressures in the US economy.

Domestic inflation remains well contained, with headline CPI averaging around 2.5%, core remains anchored near 4% and our food and fuel index even shows a deflation of 1.15% YoY in Sept-25; only a slight uptick in food prices is expected due to above-average monsoon rainfall in some regions. Going forward, due to unfavorable base effects, inflation could move upwards to 4% in H2FY26.

Growth indicators remain moderate, with IIP and core sector data reflecting a gradual but steady recovery led by infrastructure and capital goods. Rural demand is stabilizing, as seen in positive tractor sales, while government capex continues to provide a strong boost. Liquidity remains comfortable, supported by a durable surplus and the upcoming phased CRR cuts. Credit growth at 9–10% is stable, though skewed more towards services and personal loans. Monetary transmission remains efficient in the overnight market; however, public sector banks have lagged in passing on rate reductions to borrowers, while foreign banks have adjusted more swiftly across both deposit and lending rates. Externally, merchandise exports have been resilient despite new tariffs, though labor-intensive sectors such as gems, textiles, and seafood are showing signs of stress. Continued uncertainty on trade agreements may necessitate a more proactive RBI stance, especially as rupee depreciation offsets some adverse tariff effects, and further FPI outflows loom.

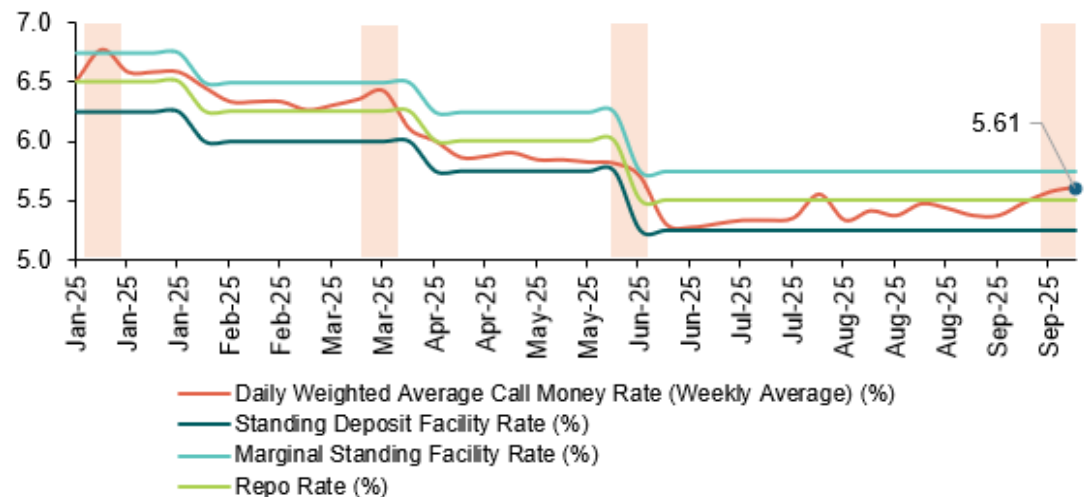
To summarise, the RBI's approach remains data-driven and responsive, with future action contingent on policy clarity around GST rationalization and tariff transmission. With ample liquidity, subdued inflation, and fiscal support through GST reforms, growth remains well supported, even as global uncertainties linger.

Exhibit 3: Average systemic liquidity surplus declined to ~Rs 1500 Bn in Sept-25



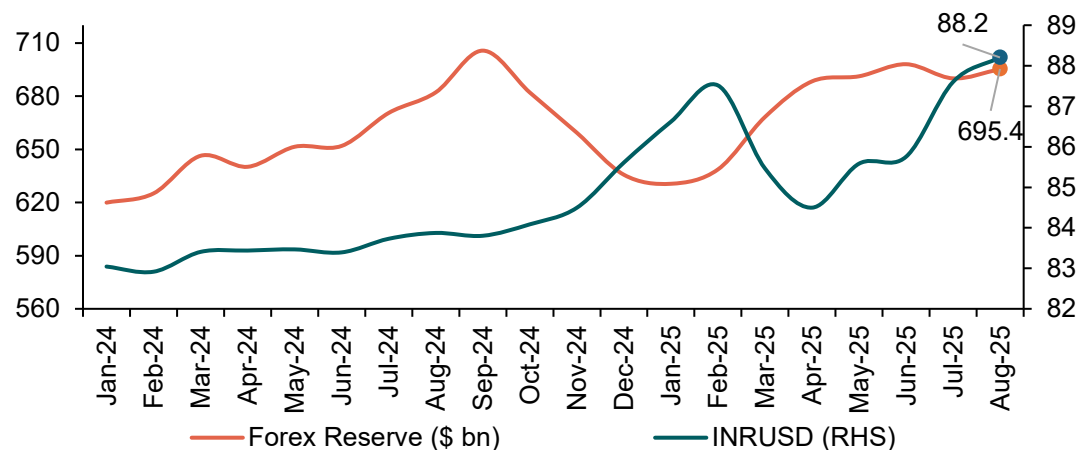
Source: IndiaDataHub, Dolat Capital | Data as on 29th Sep 2025 | -ve amount in the chart implies liquidity surplus, whereas +ve amount implies liquidity deficit

Exhibit 4: Overnight money market rate remains within the LAF window



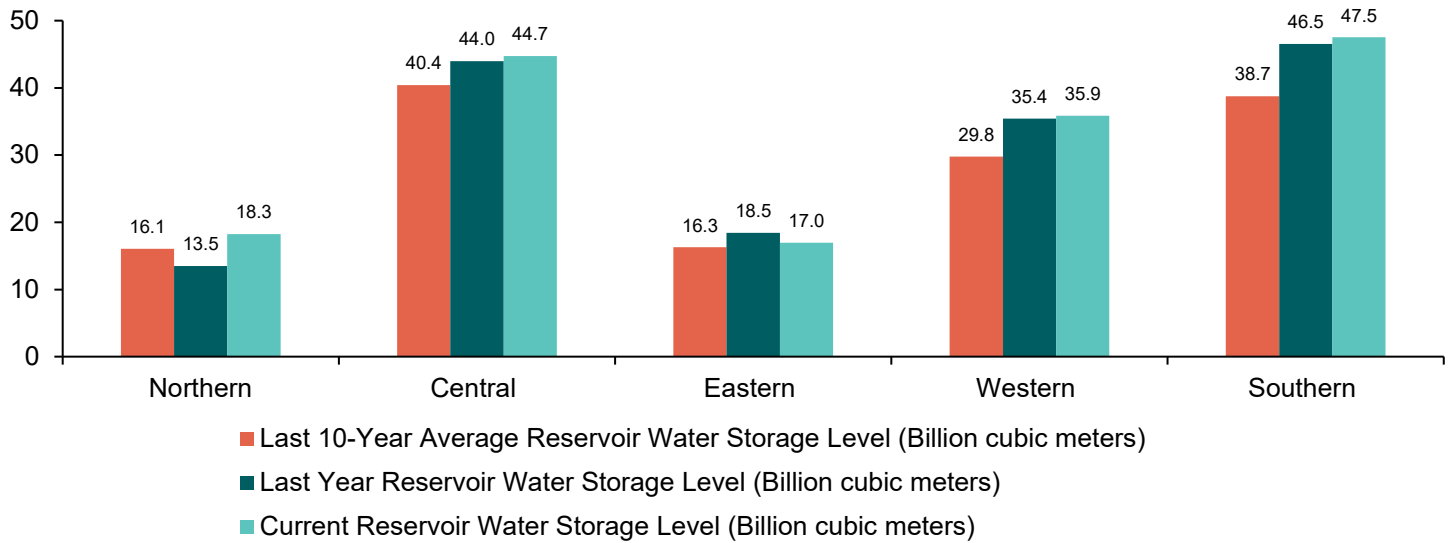
Source: IndiaDataHub, Dolat Capital | Red bar implies liquidity tightening as WACR moves closer to LAF ceiling (MSF)

Exhibit 5: Rupee weakens amid strong reserve buffers of \$695 bn



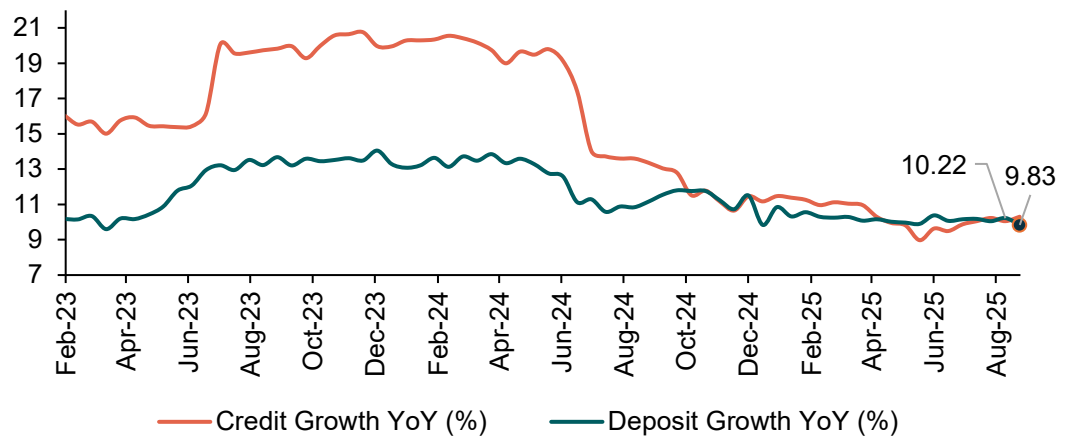
Source: IndiaDataHub, Dolat Capital

Exhibit 6: Reservoir levels remain healthy in all parts of the country



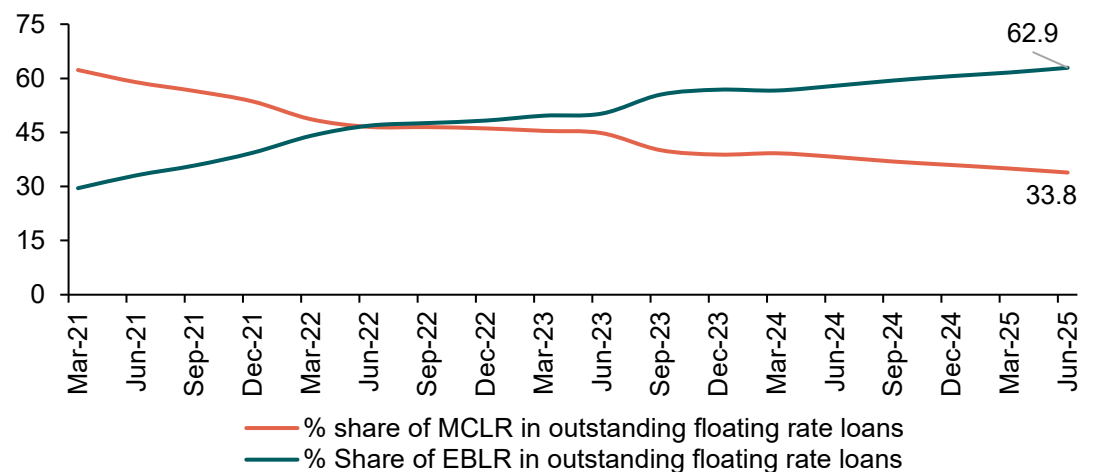
Source: IndiaDataHub, Dolat Capital

Exhibit 7: Moderation in credit growth at 9.83%



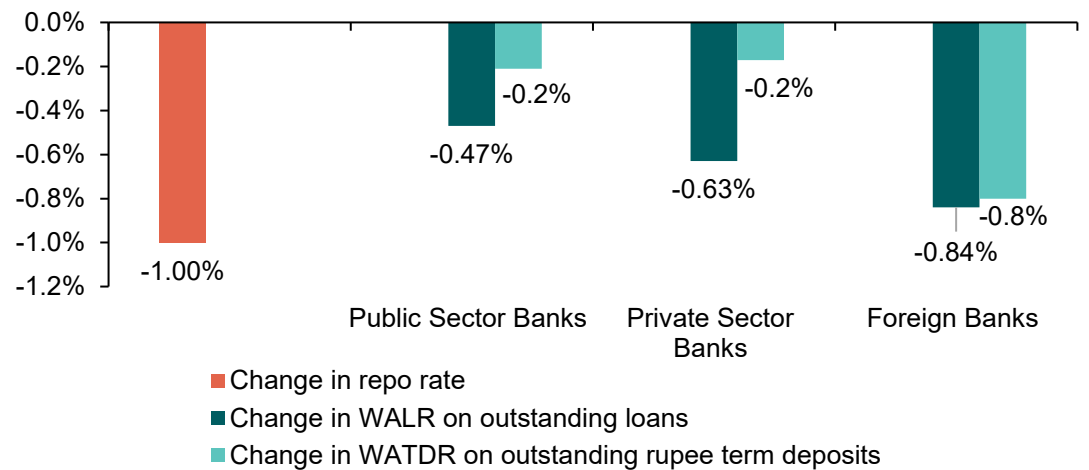
Source: IndiaDataHub, Dolat Capital

Exhibit 8: Higher EBLR share to aid transmission of future rate changes



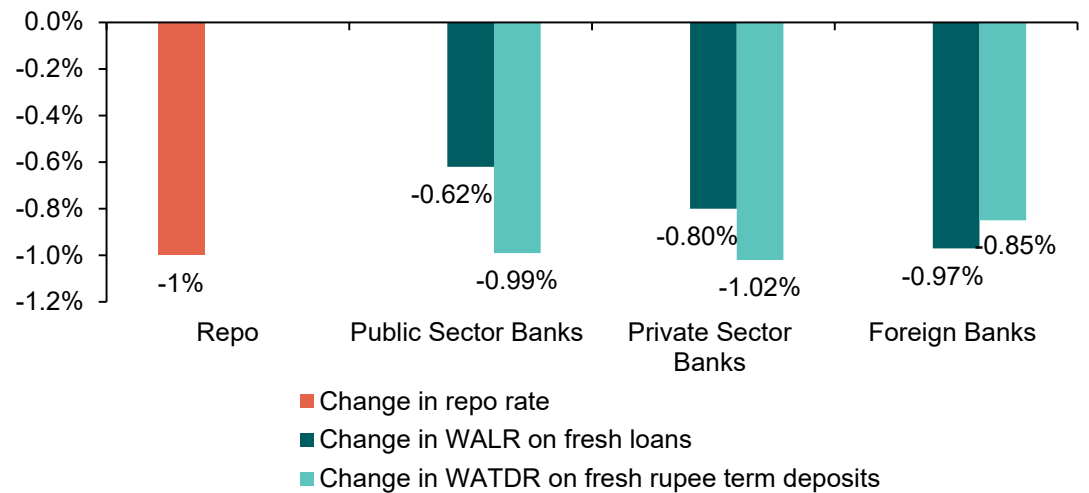
Source: RBI, Dolat Capital

Exhibit 9: Weak transmission for outstanding loans



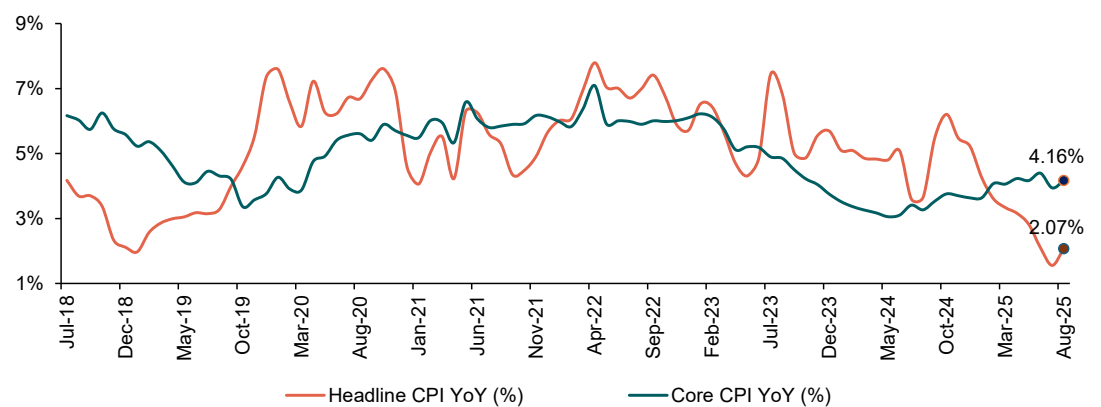
Source: RBI, Dolat Capital

Exhibit 10: Better transmission on fresh loans and term deposits



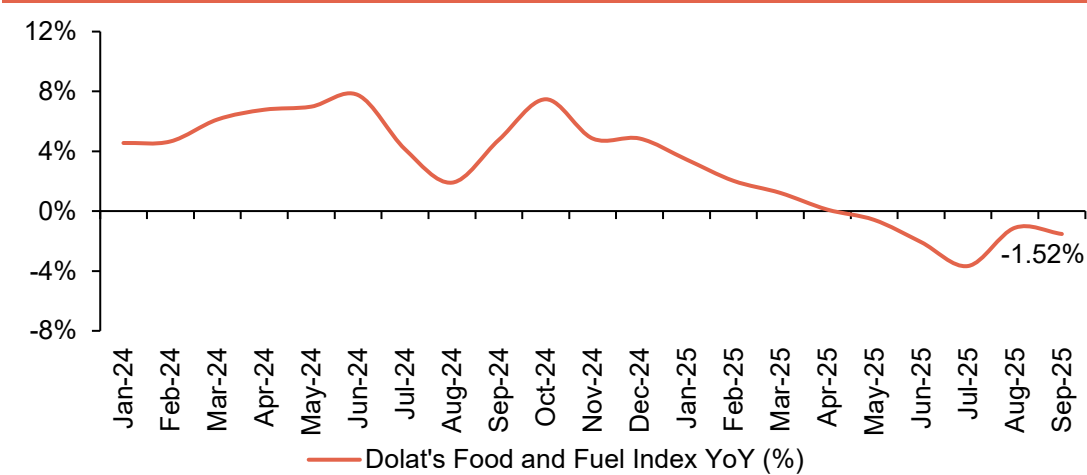
Source: RBI, Dolat Capital

Exhibit 11: Inflation remains under control at 2.07% YoY



Source: IndiaDataHub, Dolat Capital

Exhibit 12: Food and Fuel Index indicate deflation of 1.52% YOY in Sept-25



Source: IndiaDataHub, Dolat Capital

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Dolat Team

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	Director - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	Director - Equity Sales & Corporate Access	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	Director - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Nikhil Thacker	Director - Equity Sales	nikhilt@dolatcapital.com	+9122 4096 9700
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	Director and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	Director - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	Director - Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Director - Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Nishit Sariya	VP - Derivatives Sales Trading	nishits@dolatcapital.com	+9122 4096 9765
Monali Jobanputra	VP - Derivatives Sales Trading	monalij@dolatcapital.com	+9122 6176 4841
Bhavin Mehta	Director Research - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
