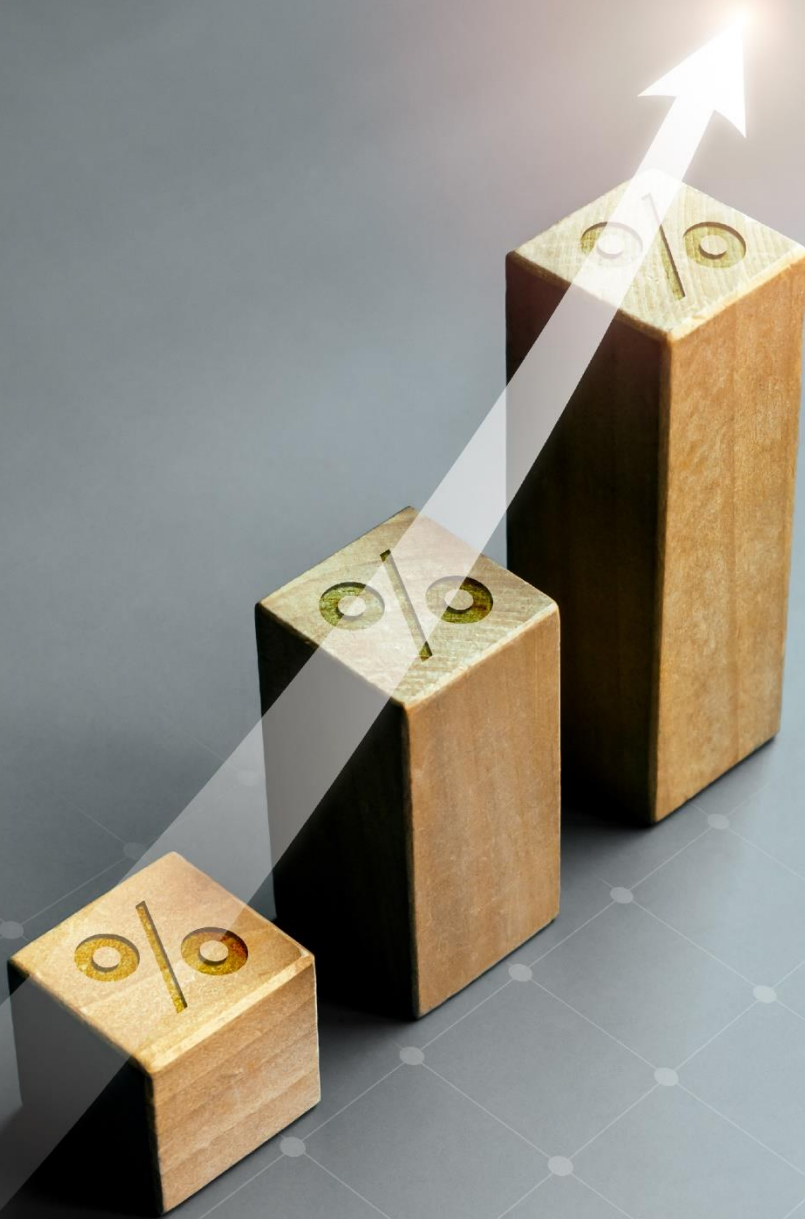




RBI Monetary Policy Review



Monetary Policy Update – October 2025**Repo Rate: Maintained at 5.5% RBI Governor signals "Pause; track and monitor previous rate cuts"****Outlook and View:**

- The RBI MPC **maintained** the policy **repo rate at 5.5%** and reiterated its neutral stance, as most of the domestic high frequency indicators suggest that economic activity continued to remain resilient, despite global tariff-related uncertainties.
- The MPC upgraded the growth outlook for the current fiscal, projecting **real GDP growth at 6.8% (+30bps vs. last projection) for FY26E**, supported by benign inflation cycle, favorable financial environment and consumer demand amid GST rationalization drive by the GST council in its 56th meeting held on September 3, 2025, offset by expected weakness in exports led by prolonged global trade pressures.
- Although, the repo rate has been cut by 100bps cumulatively, it has exerted marginal pressure on bank's Net Interest Margins (NIMs), led by **judicious and effective cost of funding (CoF) for major Indian banks**. The impact has been selective, with **impact on ICICI bank and Union bank on the lower side**, while the impact has been **higher on SBI and other PSU banks of the higher side**. The expected impact is to be higher for banks with a higher share of floating-rate assets.
- Despite MPC continued with neutral stance and kept repo rates unchanged, **consumer confidence remains buoyant**, driven by festive demand, recent GST cuts on majority of the consumption basket and expected improvement in credit environment, expected to boost demand for low ticket items such as consumer durables and high-ticket items including autos and real estate.
- **We remain positive selectively on banks including ICICI Bank and HDFC Bank on private side, while SBI on the PSU side being our top picks, led by there stronger balance sheet, robust asset quality, and superior return ratios. We also remain positive on selective NBFC's such as Bajaj Finance, led by healthy credit momentum and franchise strength.**

Key highlights:

- The Monetary Policy Committee (MPC) voted to maintain the policy repo rate at 5.5%, keeping it unchanged for the current review. Consequently, the Standing Deposit Facility (SDF) rate under the Liquidity Adjustment Facility (LAF) stands steady at 5.25%, while both the Marginal Standing Facility (MSF) rate and the Bank Rate remain aligned at 5.75%. The decision underscores a calibrated approach to policy normalization amid evolving global and domestic macroeconomic dynamics.
- The decision remains in consonance with the RBI's medium-term objective of anchoring headline CPI inflation at 4.0% within a tolerance band of $\pm 2.0\%$.
- The Monetary Policy Committee (MPC) maintained its neutral stance, to track and monitor that previous rate cuts flows fully through the system, and act at appropriate time after considerable review of the banking liquidity and credit environment.

CPI Inflation forecast at 2.6% for FY26E, revised downwards from the earlier 3.1% mark:

- CPI headline inflation **eased for the ninth consecutive month to 1.6 % YoY in Jul'25 (at an eight-year low)**, while recovered to 2.1% YoY in Aug'25 (first time in nine months), majorly driven by a sharp decline in food inflation amid robust agricultural output and effective supply-side measures. All India avg. **food inflation** slipped and remained into negative territory **at -1.0%, -1.8% and -0.7% for Jun'25, Jul'25 and Aug'25, respectively**, marking the deflationary print since Feb'19.
- Core inflation stood **at ~4.1% and ~4.0% in Jul'25 and Aug'25**, respectively, compared to the 4.1% to 4.2% range observed during 1HCY25, primarily led by stable service prices and favorable base effects.
- The inflation outlook for FY26E has **turned more benign** than previously anticipated, aided by favorable base effects, above normal monsoon, good progress of kharif sowing and adequate reservoir levels, driving improvement in prospects of agriculture and rural demand. Moreover, with GST cuts on auto's, the sector remains key volume growth driver for the rural India.
- Assuming a normal monsoon, CPI inflation for **FY26E is projected at 2.6% (earlier: 3.1%)**, with Q2FY26E at 1.8% (earlier: 2.1%); Q3FY26E at 1.8% (earlier: 3.1%); and Q4FY26E at 4.0% (earlier: 4.4%). CPI inflation for Q1FY27E is projected at 4.5% (earlier: 4.9%). The expected moderation in inflation is primarily on account of the GST rate cuts and benign food prices.

GDP growth for FY26E seen at 6.8%, driven by buoyant domestic demand and growth-inducing structural reforms:

- Domestic growth remains buoyant and is expected to improve, supported by pent-up consumer demand (led by GST cuts converging with festivity period), higher private CapEx outlay (on account of strong rural demand) and healthy government capex spending. On the supply side, above normal monsoon, healthy kharif sowing and adequate reservoir levels will support agricultural output. Growth recently, has been driven by stronger growth in services; however industrial growth has remained subdued, weighed down by sluggish electricity and manufacturing performance.
- We expect a gradual recovery in consumer demand, majorly driven by a supportive monetary and fiscal policy, along with steady increase in capital expenditure spending of the government. The services sector is anticipated to remain resilient, led by sustained traction in construction and trade. However, external demand conditions remain uncertain, weighed down by evolving tariff actions and prolonged trade negotiations.
- The real GDP growth for FY26E is **forecasted at 6.8% (earlier: 6.5%)**; Q2FY26E at 7.0% (earlier: 6.7%), Q3FY26E at 6.4% (earlier: 6.6%) and Q4FY26E at 6.2% (earlier: 6.3%). The real GDP growth for Q1FY27E is projected at 6.4% (earlier: 6.6%).

Monetary Policy Update – October 2025**Liquidity profile:**

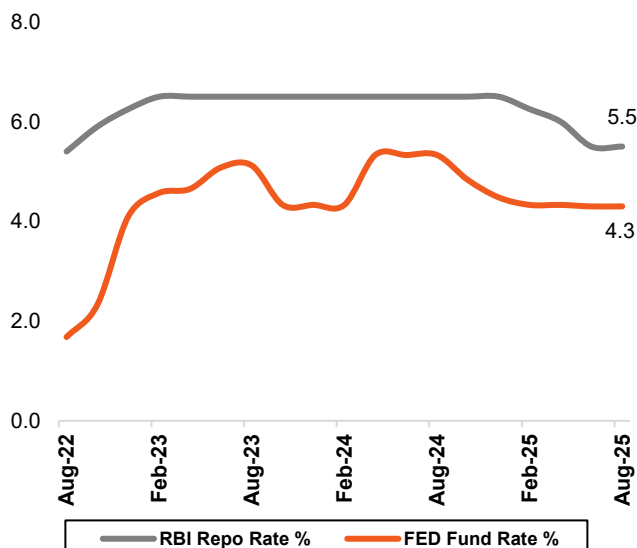
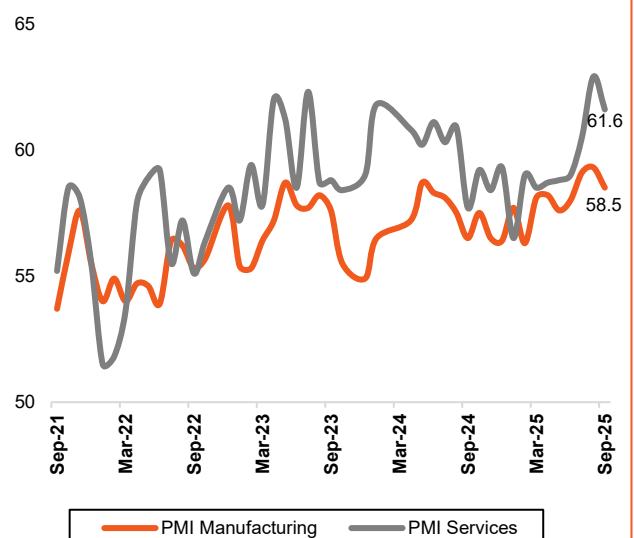
- **System liquidity** has remained in surplus, with the **net position** under the Liquidity Adjustment Facility (LAF) **averaging at INR 3tn per day since the Aug'25**, significantly higher recorded during May and June 2025, led by continuous support from RBI's proactive liquidity management including **variable rate repo auctions** and other fine-tuning measures.
- Further, the sustained systematic surplus liquidity has been driven by factors such as **large open market operations (OMOs)**, a recent **CRR cut injecting an estimated ₹2.5 lakh crore**, and **RBI's liquidity infusion** aimed at ensuring sufficient system-wide liquidity to support economic growth while managing inflation.
- The Reserve Bank remains committed to a nimble and flexible approach to liquidity management. It will continue to ensure adequate system liquidity to support the productive needs of the economy and facilitate seamless transmission across money and credit markets.

Other Measures:

- The RBI has proposed to **liberalize gold metal advance norms**, allowing Gold Metal Loans (GML) for outsourced jewelry manufacturers, to **improve cash flow for jewelers and expand financing access**. Further, the central bank has proposed for **weekly credit data reporting by credit institutions**, to improve data accuracy and improve error tracing.
- The RBI has increased the **loan limit against shares for individuals from INR 20 lakh to INR 1 crore**, aimed at **boosting credit availability to retail investors**, and aid them in their wealthy creation journey, while the regulatory ceiling on lending against listed debt securities has been removed.
- To ease cost of financing to infrastructure sector, the central bank proposed to **reduce risk weights** for loans provided by **NBFCs** to operational and high-quality infrastructure projects, paving a way for higher private investments in infrastructure creation.

Press Briefing:

- RBI anticipates lower inflation in FY26 at 2.6% vs. 3.1% earlier, led by sharp decline in **food prices and rationalization of GST rates**, which is expected to improve consumer confidence in the short-term.
- RBI Governor emphasized that **external headwinds with key trade partners would impact the country's export and won't fully offset the gain in GDP growth rate**, to be realized from the current GST rationalization.
- The transmission of earlier repo rate cuts **of 100bps cumulatively is underway and has been gradual**, with borrowing costs remain somewhat elevated, particularly for central and state government borrowings. The central bank wants to track and monitor the full impact of earlier cuts to percolate through the system.
- Indian Rupee **has lately experienced weakness**, led by the **US tariffs impact and strengthening of the US dollar**.
- The monetary policy stance remains watchful to balance growth support and inflation containment, with a possible limited rate cut in the December 2025 meeting depending on economic data.

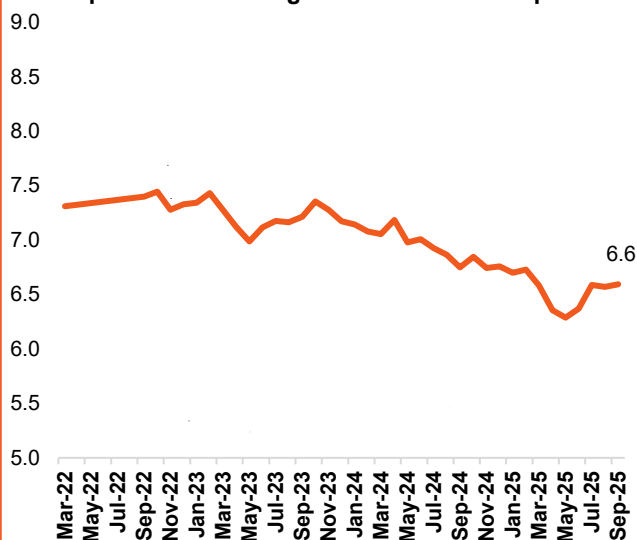
Repo rate remains unchanged after 3 consecutive rate cuts**PMI (Manufacturing and Services)
PMI remains resilient despite trade uncertainties**

Source: RBI, Bloomberg, Deven Choksey Research

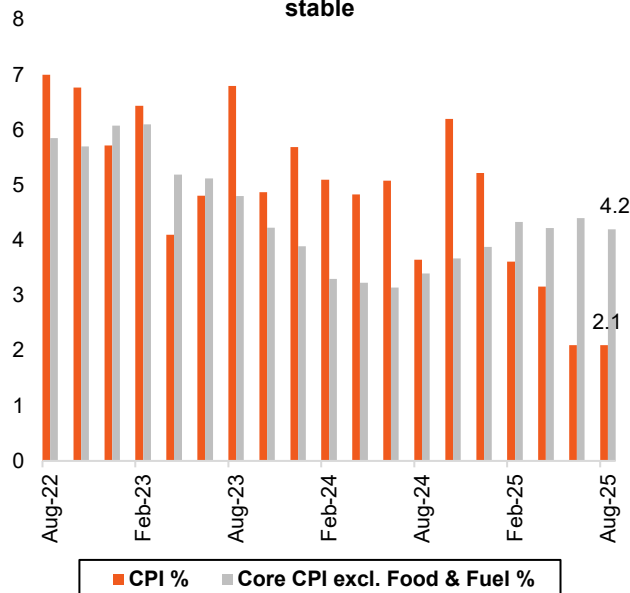
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Macro Indicator Charts

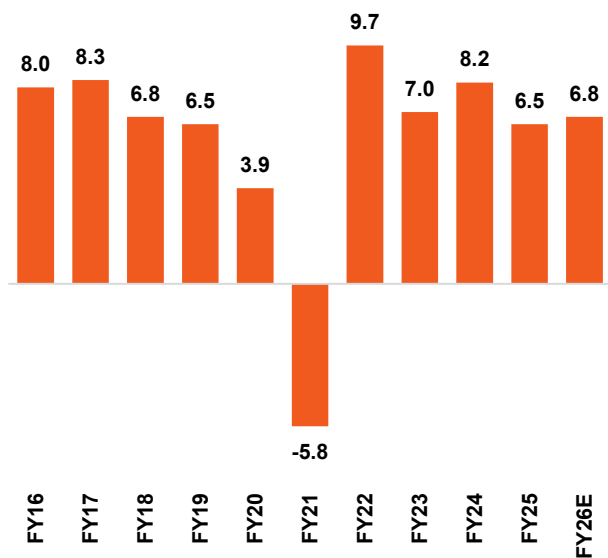
Yields (%) has hardened in the short-term led by weakening rupee, higher demand for 10-year G-sec compared to ultra-long bonds and stable repo rates



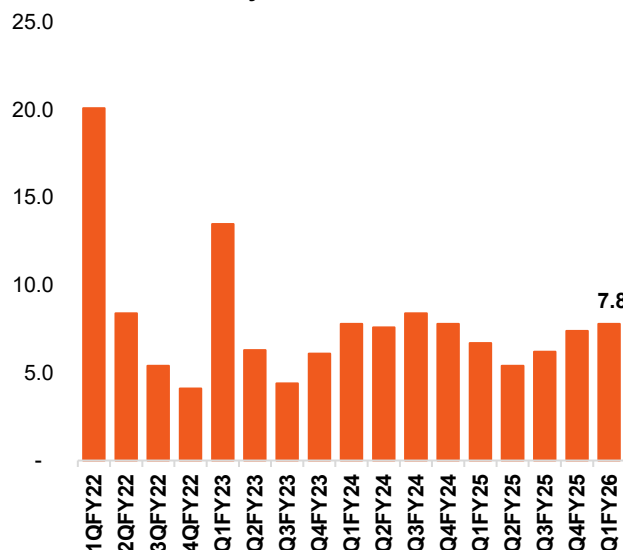
Core inflation gathers steam with as services remain stable



RBI increased its outlook on real GDP growth rate at 6.8% for FY26



Real GDP for Q1FY26 stood stronger at 6.8% vs. 6.7% in Q1FY25, led by buoyant private consumption and healthy fixed investments



Source: RBI, Bloomberg, Deven Choksey Research

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