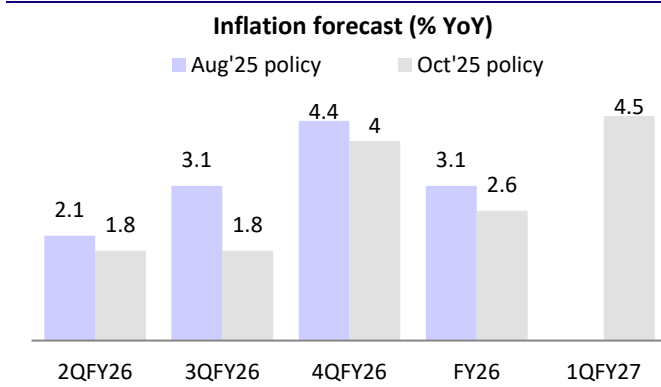


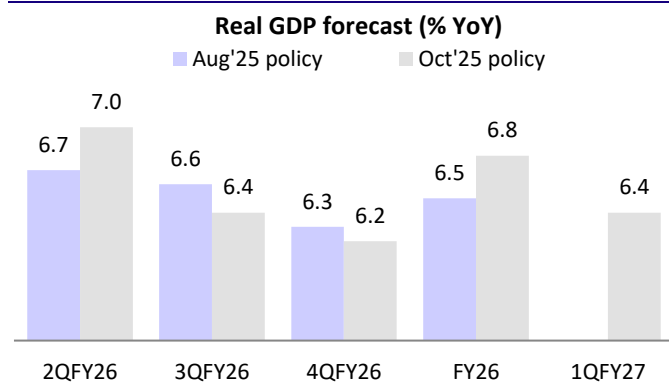
## RBI Policy: Room for additional 50bp rate cut

- The RBI kept the repo rate unchanged at 5.5% and the stance neutral. But we believe it is a dovish pause as:
  1. FY26 inflation forecast was reduced to 2.6% from 3.1% earlier. All quarterly forecasts were trimmed, citing lower food prices and GST cut impact.
  2. Despite having increased the FY26 GDP growth forecast to 6.8% from 6.5%, the RBI cautioned against the impact of tariffs on exports and was watchful about the demand pickup in the festive season. More importantly, the Governor stated that the growth remains below the aspirational level (of 7-8%) and lowered the GDP forecasts for 2HFY26.
  3. Policy stance is retained at 'neutral' with a majority vote of 4-2. Two voted in favor of an 'accommodative' stance.
  4. Lastly, in both the Governor's statement and post-policy conference statement, the MPC conceded that a policy space has opened up for supporting the growth further.
- While awaiting the complete pass-through of 100bp of rate cut in CYTD25 (only 50-55bp of pass-through on fresh and outstanding INR loans has happened so far), we see a window of 50bp rate cut opening up in Dec'25/Jan'26.
- USD/INR: The RBI upped the baseline exchange rate assumption for 2HFY26 to 88 from an average of 86 assumed for FY26 (MPR Oct'26) amid volatile FII flows and tariff-led uncertainty. In our view, the regulatory easing on banks and NBFCs is likely to be a positive catalyst for near-term flows into the sector and the currency to an extent. Overall, the RBI is unlikely to allow for sharper depreciation given the adverse impact on inflation. But with the near-term inflation outlook contained, the RBI appears to be more comfortable with the INR trajectory. As such, USD/INR at an average of 88 in 2HFY26 appears realistic.
- Our view: The significant moderation in inflation (remaining below the 4% target for the past seven months), along with the expected growth deceleration in 2HFY26 due to prevailing tariff-related developments, has created additional policy space to support growth. The MPC observed that the effects of front-loaded monetary policy actions and recent fiscal measures (GST rate cuts) are still unfolding, while trade-related uncertainties continue to evolve. While awaiting the complete pass-through of the 100bp rate cut in CYTD25 and the impact of GST rate cut rationalization, we see a window of a 50bp rate cut opening up in Dec'25/Jan'26. This is seen in tandem with the starting of the rate cut cycle in the US.

**Exhibit 1: RBI reduced its FY26 inflation forecast to 2.6% in Oct'25 policy from 3.1% in Aug'25 policy**



**Exhibit 2: RBI increased its FY26 real GDP growth forecast to 6.8% in Oct'25 policy from 6.5% in Aug'25 policy**

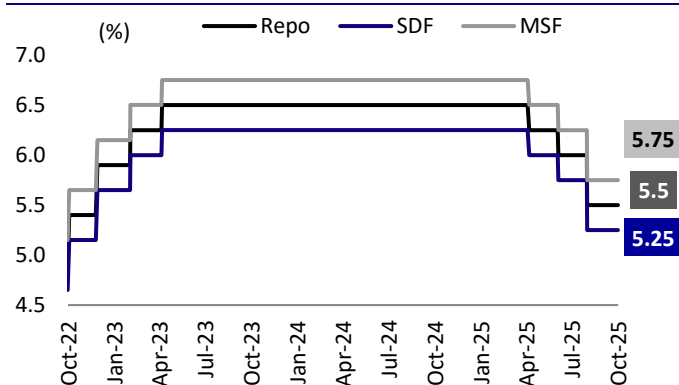


Source: RBI, MOFSL

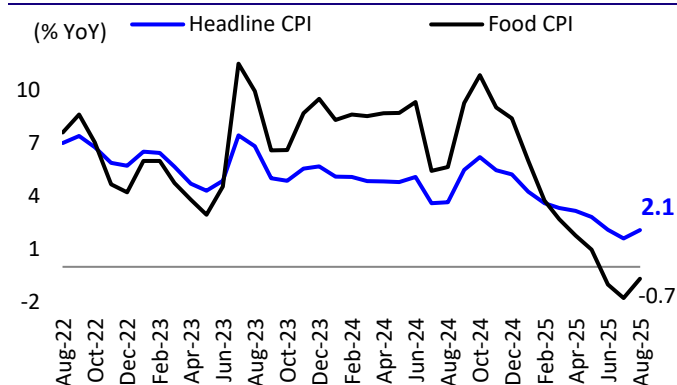
## MPC Highlights

- As widely expected, the RBI's Monetary Policy Committee (MPC) unanimously voted to keep the benchmark repo rate unchanged at 5.5%, aided by a resilient growth outlook coupled with significant moderation in inflation (Exhibit 3).
- The MPC observed that the inflation outlook has turned even more benign in the last few months on the back of lower food prices and supply measures taken by the govt. Headline inflation stood at 2.1% in Aug'25, below the RBI's 4% target for the seventh consecutive month (Exhibit 4). For FY26 YTD, inflation has averaged 2.4%, much lower than 4.4% in the same period last year. The RBI has reduced its FY26 inflation forecast to 2.6% in Oct'25 policy (with 2Q/3Q/4QFY26 at 1.8%/1.8%/4%) from 3.1% projected in Aug'25 policy (with 2Q/3Q/4QFY26 at 2.1%/3.1%/4.4%) and 3.7% in the Jun'25 policy, a reduction of more than 1% in FY26 forecast as compared to the Jun'25 policy, primarily on account of benign food prices and recently announced GST rate cuts. The RBI has also given inflation projection for 1QFY27 at 4.5% (Exhibit 1).
- The Governor mentioned that while real GDP growth has surprised on the upside in 1QFY26 at 7.8% vs. the RBI's projection of 6.5%, it remains below the RBI's aspirations. Even though the growth projection for FY26 has been upgraded, the forecasts for 2HFY26 are expected to be slightly lower than projected in the last meeting. The downward revision in 2HFY26 is attributed to tariff-related headwinds despite being partially offset by the boost from the rationalization of GST rates. The MPC increased the FY26 real GDP growth forecast to 6.8% in Oct'25 policy (with 2Q/3Q/4Q at 7%/6.4%/6.2%) from 6.5% projected in the Aug'25 policy (vs. 2Q/3Q/4Q at 6.7%/6.6%/6.3%). Real GDP growth for 1QFY27 is projected at 6.4% (Exhibit 2).
- The average daily net absorption under the liquidity adjustment facility (LAF) remained in surplus during Aug'25/Sep'25, though lower than in Jul'25. It stood at INR2.9t in Aug'25 and INR1.6t in Sep'25 (up to 29<sup>th</sup> Sep'25) compared to an average daily surplus of INR3.1t in Jul'25. (Exhibits 5 & 6). Going ahead, adequate system liquidity and the remaining 75bp cut in the CRR during Oct-Nov'25 would support monetary transmission further.
- The significant moderation in inflation (remaining below the 4% target for the past seven months), along with the expected growth deceleration in 2HFY26 due to prevailing tariff-related developments, has created additional policy space to support growth. The MPC observed that the effects of front-loaded monetary policy actions and recent fiscal measures (GST rate cuts) are still unfolding, while trade-related uncertainties continue to evolve. While awaiting the complete pass-through of 100bp rate cut in CYTD25 and the impact of GST rate cut rationalization, we see a window of 50bp rate cut opening up in Dec'25/Feb'26.

**Exhibit 3: Repo rate was unchanged at 5.5% in the Oct'25 policy**

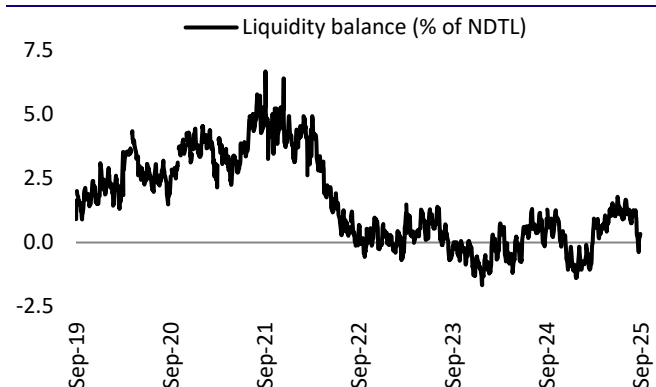


**Exhibit 4: Inflation remained below the RBI's 4% target for the seventh consecutive month in Aug'25**



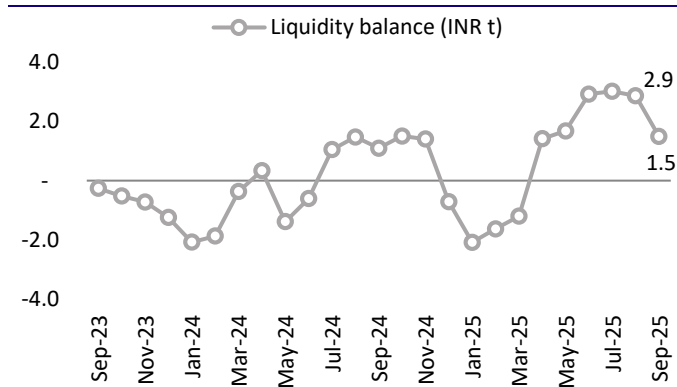
Source: RBI, MOFSL

**Exhibit 5: System liquidity averaged to a surplus of 0.6% of NDTL in Sep'25, down from 1.2% in Aug'25**



Updated as of 30<sup>th</sup> Sep'25

**Exhibit 6: System liquidity remained in surplus for last six months in a row**



{(-) means deficit, (+) means surplus}

Source: RBI, MOFSL

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NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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