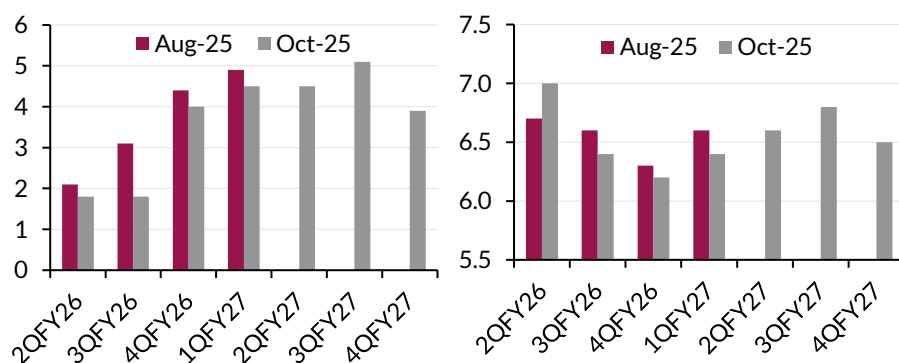


RBI prioritising EoDB to support growth

As expected, the MPC held rates (unanimous) and maintained its stance (two dissents to change to accommodative). It stated a bias to ease but held back to see the effects of front-loaded easing, fiscal steps and trade uncertainty. While FY27 growth was raised, it was mostly due to the 1Q surprise. At the same time, forecasts for FY27 show inflation staying above 4% (avg. 4.5%). Market pricing seems to be at the other extreme – hikes two years later. Clarity could be months if not quarters away: without evidence to reduce terminal rate for this cycle, rate action is unlikely. Prudently, the RBI has embarked on EoDB and easing regulations to support growth, announcing some positive measures.

October 01, 2025

MPC update

Exhibit 1 - FY27 inflation (L) projected above 4%; growth (R) above 6.5%


Source: RBI, MOSPI, Axis Bank Research

MPC holds rates unanimously and sees space to ease more, differs on stance

As expected, the MPC held rates (unanimous) and maintained its neutral stance (dissents from two external members). It stated, 'macroeconomic conditions ... (have) ... opened up space for further supporting growth,' noting downward adjustment to inflation projections (FY26 cut from 3.7% in June to 3.1% in Aug and 2.6% now), and cuts to 2-4QFY26 growth which remain 'below aspirations.' However, with front-loaded monetary policy actions and recent fiscal measures (GST) still playing out, and heightened uncertainties on trade, it decided to stay on hold. We note, though, that in their estimate FY27 inflation may stay >4% (Fig 1 & 2: avg. 4.5%), and growth, while still ~6.5%, is estimated to rebound through FY27.

Markets seem to be at the other extreme, clarity some time away

The market seems to have moved to pricing in rate hikes in two years (Fig 6), steepening the curve (Fig 7). At the other end, while MPC comments indicate a bias for further easing. Clarity may be several months if not quarters away, in our view: further rate actions would depend on if the terminal rate for this cycle shifts downward from 5.5%, which in turn would depend on a growth disappointment, or FY27 inflation being revised down meaningfully.

RBI focusing on Ease of Doing Business to support growth

Improving Ease of Doing Business (EoDB) may help drive credit growth more than rate cuts. The decision to remove the proposed bar on overlap in businesses undertaken by a bank and its group entities and leave the 'strategic allocation of business streams among group entities ... to the wisdom of bank boards' is a positive step. The RBI has also now allowed banks to do acquisition financing, reversing a 2004 decision, raised thresholds for lending against securities, and clarified the Expected Credit Loss (ECL) framework for provisioning.

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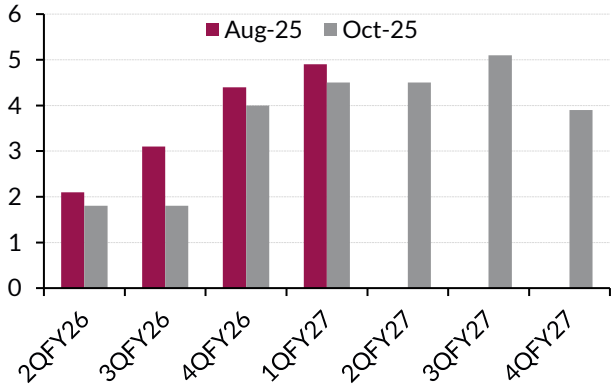
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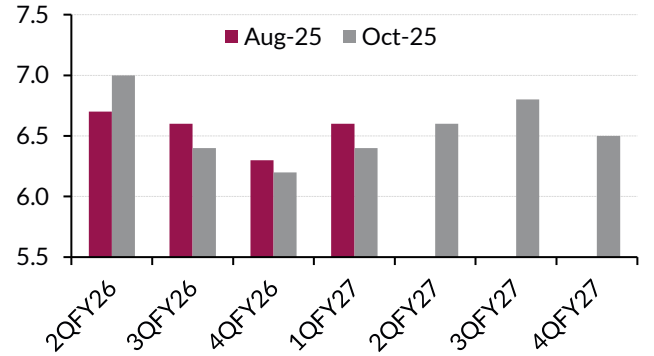
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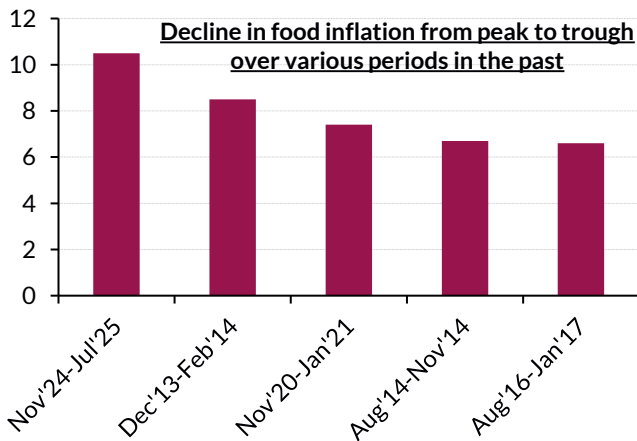
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Exhibit 2 - FY27 Inflation projection remains above 4%


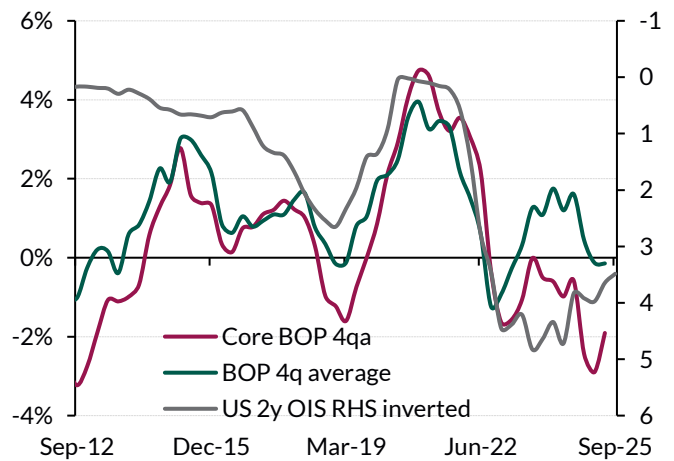
Source: RBI, Axis Bank Research

Exhibit 3 - FY27 growth projection above 6.5%


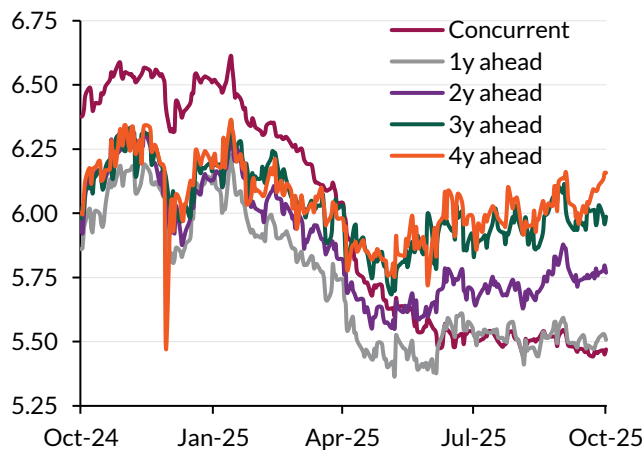
Source: RBI, Axis Bank Research

Exhibit 4 - Current food disinflation highest in 10 years


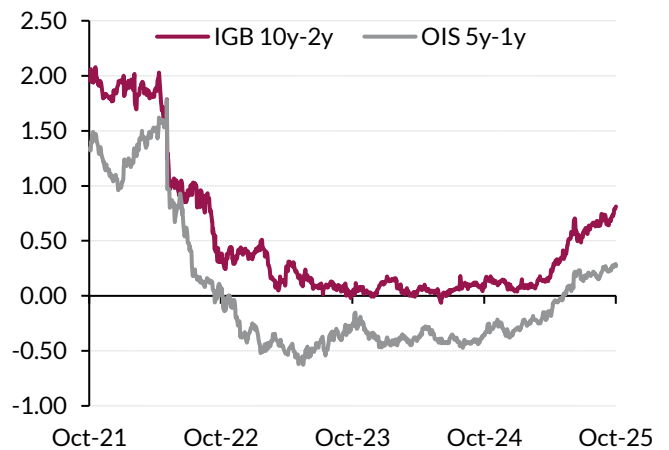
Source: RBI, Axis Bank Research

Exhibit 5 - Core India BOP negative, driven by Fed?


Source: RBI, Bloomberg, Axis Bank Research

Exhibit 6 - 1y OIS starting at different points - are hikes already being priced?


Source: Bloomberg, Axis Bank Research

Exhibit 7 - Rates curves are also steepening, calling the near-end to cuts - can OMOs come?


Source: Bloomberg, Axis Bank Research

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