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RBI MPC Oct policy preview

26- September - 2025

RBI MPC expected to hold rates given sharp weakness in INR, trade deal uncertainty; guidance around further easing watched

- The Reserve Bank of India led monetary policy committee (RBI-MPC) will likely hold key benchmark rates steady at its fourth bi-monthly policy meeting this year. We believe that a rapid depreciation in INR along with lingering trade policy uncertainties may push the prospects of easing in its forthcoming meeting next week. While a segment of markets anticipate the RBI to ease policy rates as early as Oct given weaker CPI inflation ahead, we believe that the Dec meeting will be more desirable given an increased clarity on the passage of recent GST rationalization, and US trade deal developments by then.

A quick review on macros since the Aug policy meeting:

- India August CPI inflation came in largely along expected lines at 2.07% vs 1.55% previous on account of less negative contribution from the food component. The core inflation was steady at 4.21%, with higher inflation in personal care and effects segment (on precious metals) offset by softer inflation in other components (health, transport and education).[Chart 1]
- India Q1 FY26 real GDP growth came in stronger than expected at 7.8%[Chart2], boosted by strength in private consumption as well as government spending (lower base last year also helped). On the supply side, good growth was seen across manufacturing (despite soft corporate earnings), trade, and financial services (even with slower non-food credit growth). However, sharper rise in real growth metrics was said to be on account of lower deflator used for Q1 FY26. [Chart2]
- The GST council announced major structural reforms, simplifying rates in a two slabs – set to boost tax buoyancy, lower retail prices as well as support consumption growth drivers. The central bank's projection on the impact of GST rationalization on the headline inflation as well as on real GDP will be closely watched.
- India surplus liquidity conditions moderated in Sep, with system slipping into deficit[Chart3&5] following frictional tax outflows (quarterly advance tax and monthly GST payments). However, the operating rate – the weighted average call rate (WACR) remained within the policy corridor[Chart4] (aided by RBI's fine-tuning operations). In addition, the durable liquidity surplus also came in lower given anecdotes of RBI intervention[Chart8] as well as on a sharper pickup in currency in circulation. Conditions have returned to surplus in late Sep on G-sec redemption, with further support seen from potentially heavy month-end GOI spending (adding to frictional liquidity) as well as forthcoming CRR cuts (adding to durable liquidity). In the Jun MPC meeting, RBI announced to cut CRR by 100 bps in four equal tranches – this is said to infuse INR 2.5tn of durable liquidity by Dec'25. (Note- the first tranche of CRR is already effective and currently stands at 3.75%).
- The local currency has witnessed rapid depreciation this year **(it's fallen by 3.6% YTD** vs USD) and has underperformed most EM currencies[Chart9]. This was on account of sustained FPI outflows from domestic equities[Chart6] along with lingering trade negotiations with the US. India's real effective exchange rate (a metric to gauge the competitiveness of a currency against its trading partners) slipped further away from 100 – indicating that the currency is undervalued vs major trading partners.[Chart7]
- On the Global front, the FOMC cut its benchmark rate, moving towards a more neutral policy stance, but classified the easing as a risk management cut – limiting rally in treasuries. Among other DM central banks, both the ECB and the BOE held rates, while among EMDEs, Indonesia, Mexico and Thailand central banks cut policy rates by 25 bps.

Charts

Chart 1: Item wise contribution to headline inflation %

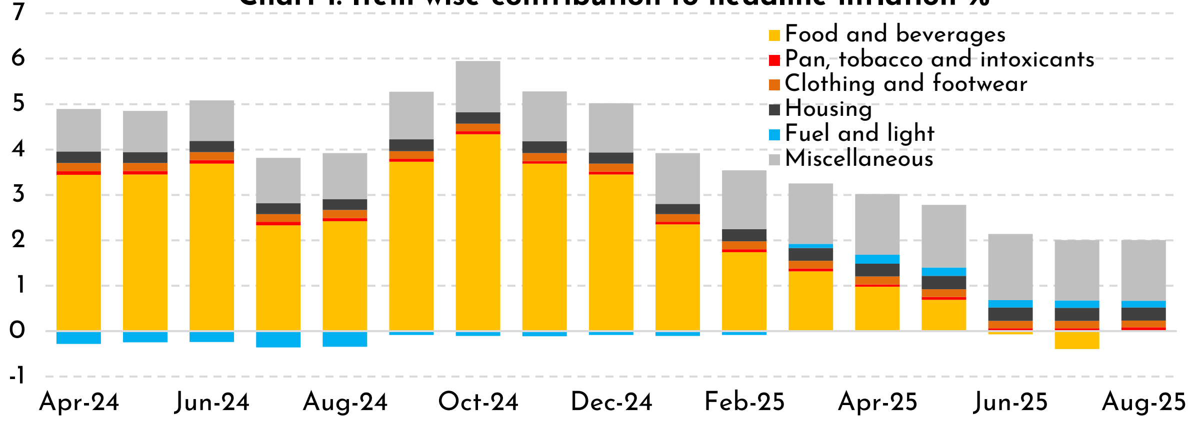
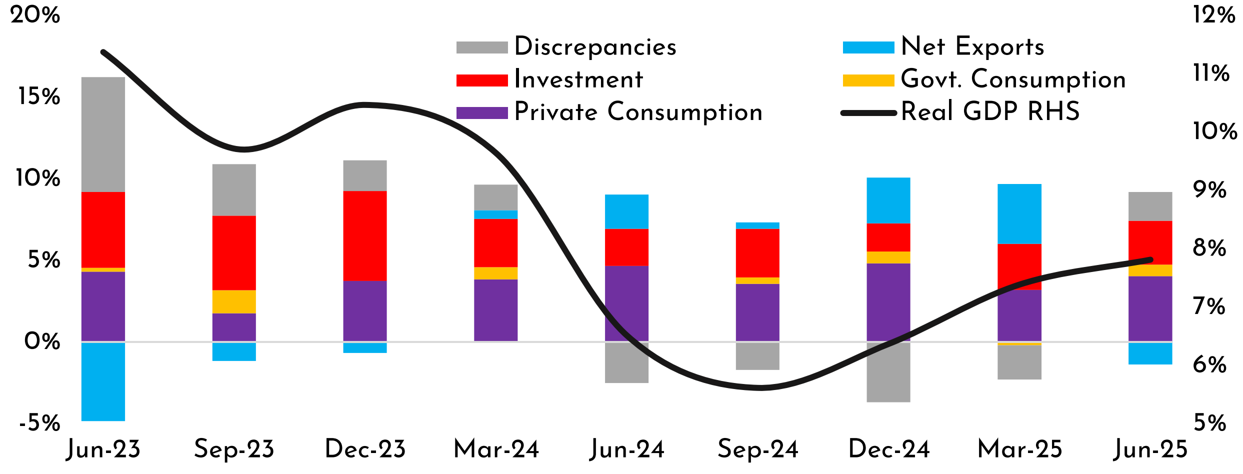
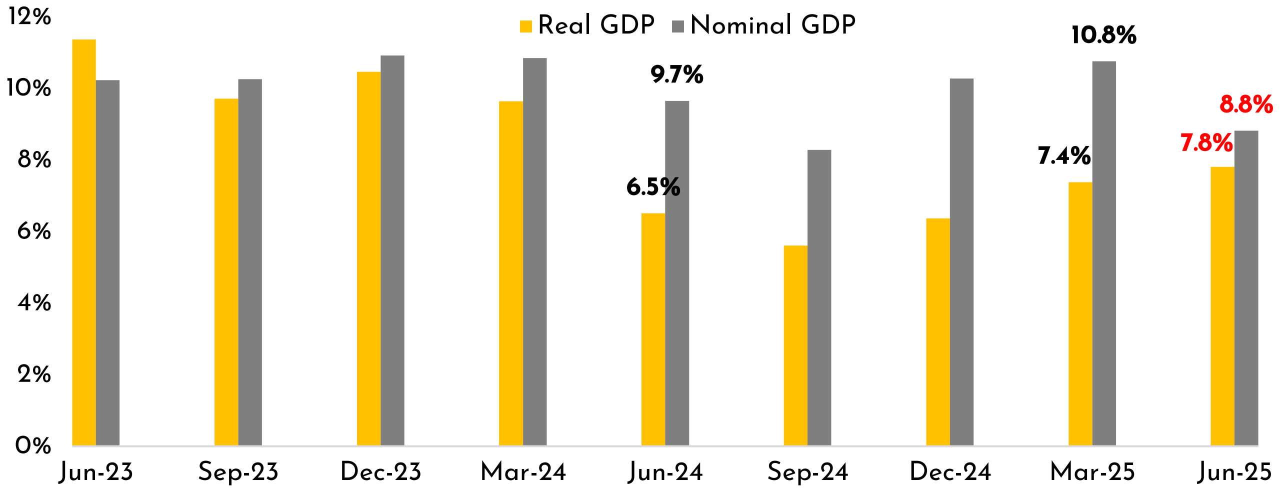


Chart 2: Contribution to real GDP %





Source: MOSPI, SWL research

Charts

Chart3: WACR and system liquidity (INR bn)

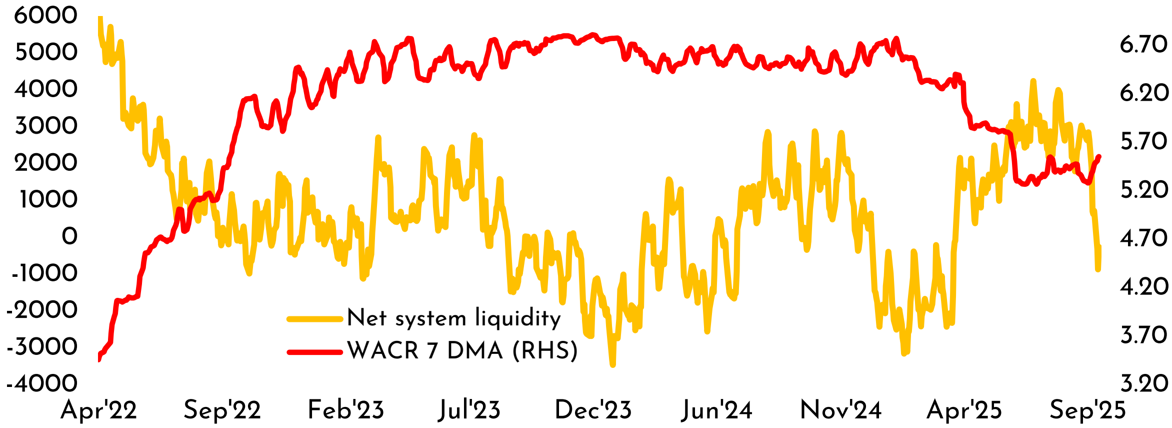


Chart 4: WACR vs policy corridor

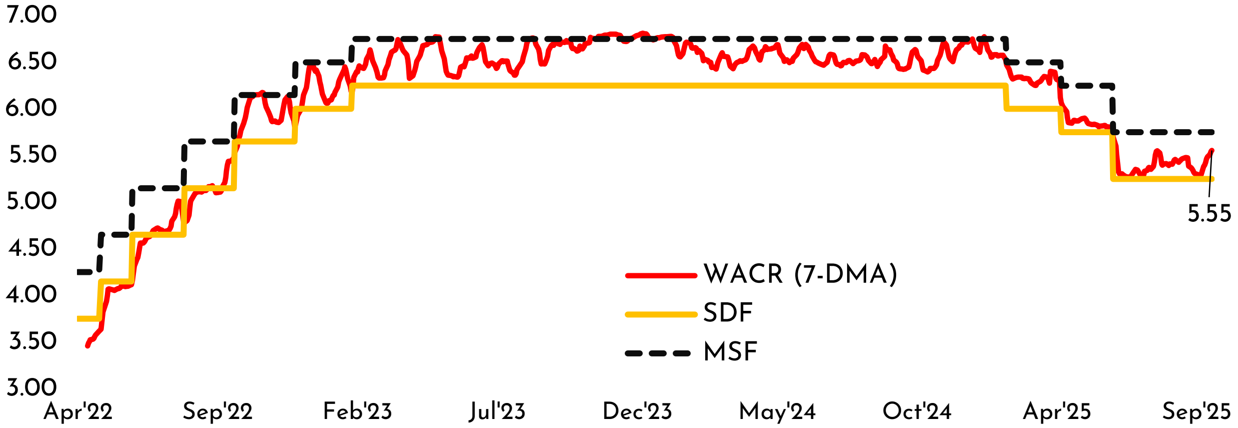
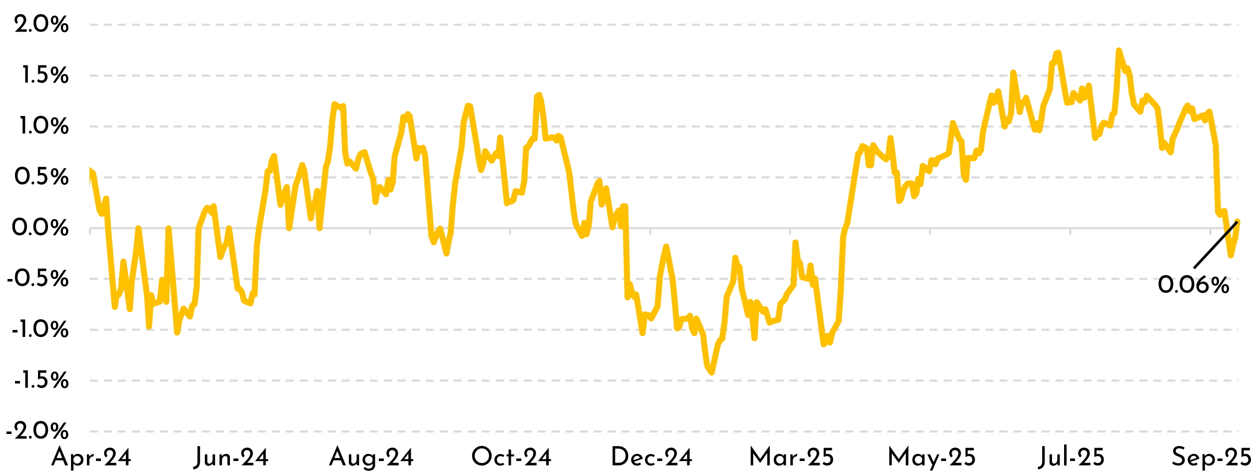
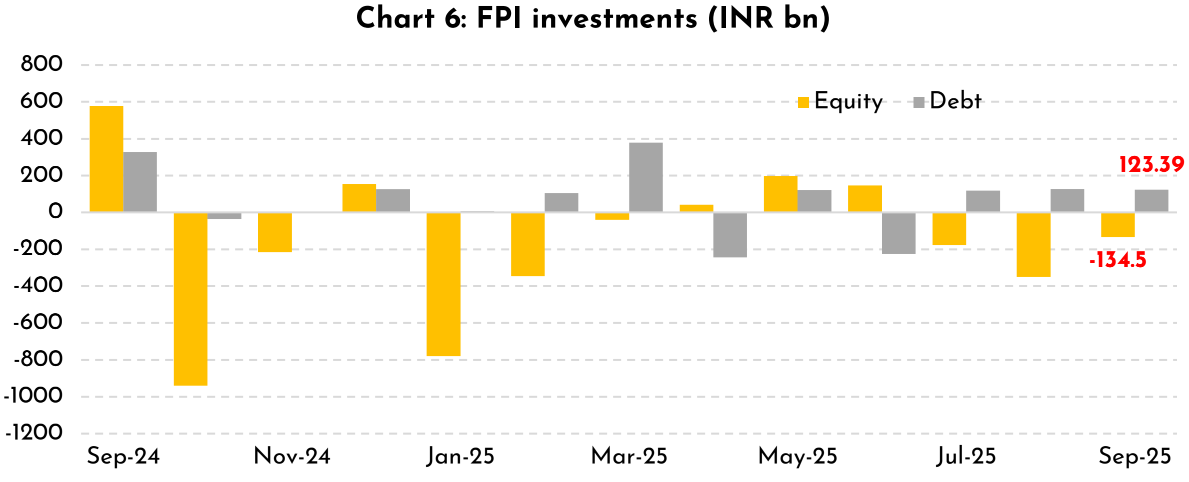


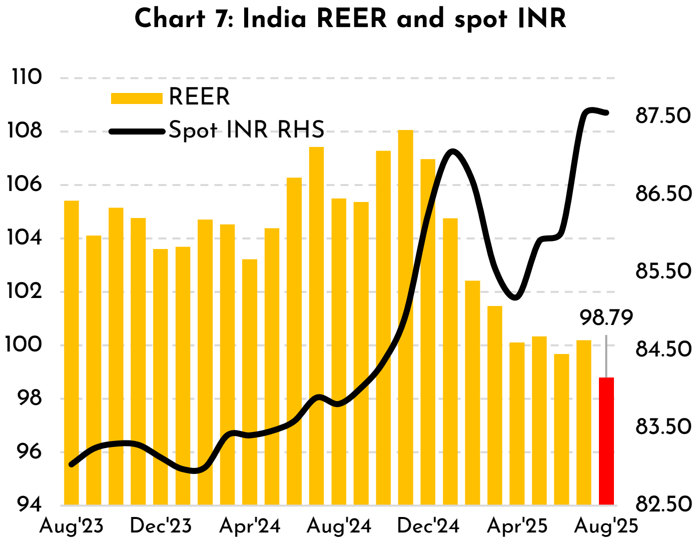
Chart 5: System liquidity % of NDTL

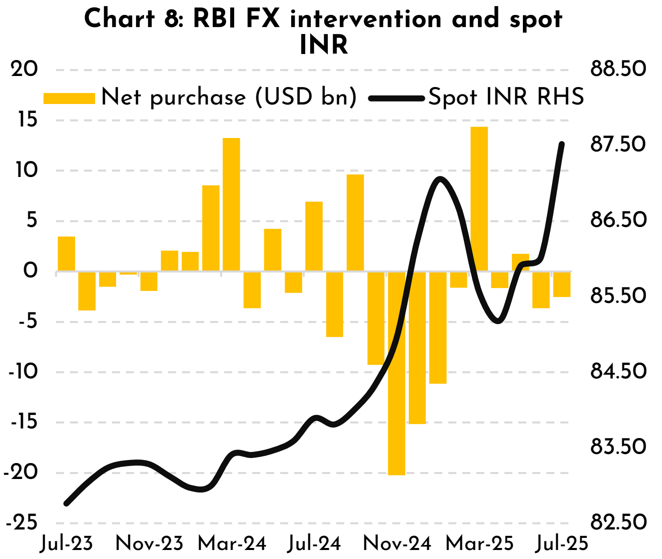


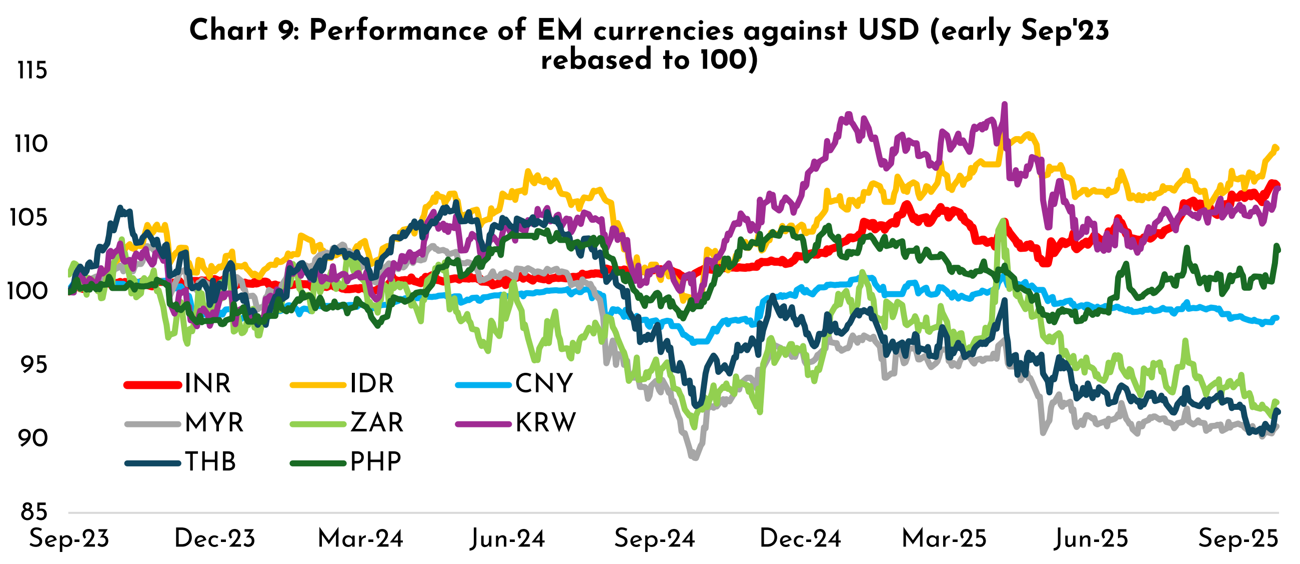
Source: RBI, SWL research

Charts









Source: NSDL, RBI bulletin, Trading Economics, SWL research.
(*levels above 100 denotes depreciation, and below 100 indicates appreciation)

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India Macro heatmap - High frequency indicators* for manufacturing & services at decadal high in Aug

*Note the data point to YoY% growth across Indicators, except for PMIs

Economic activity	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
GST e-way bills	12.9	18.5	16.9	16.3	17.6	23.1	14.7	20.2	23.4	18.9	19.3	25.8	22.4
GST revenue	10	6.5	8.9	8.5	7.3	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5
Toll collections	6.8	6.5	7.9	11.9	9.8	14.8	18.7	11.9	16.6	16.4	15.5	14.8	12.7
Electricity demand	-5	-0.8	-0.4	3.7	5.1	1.3	2.4	5.7	2.8	-4.8	-2.3	2.6	3.9
Fuel consumption	-3.1	-4.4	4.1	10.6	2	3	-5.2	-3.1	0.2	0.7	0.5	-3.9	2.6
of which Petrol	8.6	3	8.7	9.6	11.1	6.7	5	5.7	5	9.2	6.8	5.9	5.5
Diesel	-2.5	-1.9	0.1	8.5	5.9	4.2	-1.3	0.9	4.2	2.1	1.5	2.4	1.2
ATF	8.1	10.4	9.4	8.5	8.7	9.4	4.2	5.7	3.9	4.3	3.3	-2.3	-2.9
Digital payments - volume	34.9	36.3	40.3	30.1	33.1	33	26.7	30.8	30	29.2	28.3	30.9	28.8
Digital payments - value	16.7	21.5	27.5	9.5	19.6	18.6	9.5	17.3	18.4	12.6	17.4	16.6	5.6

	Rural & Urban demand	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
Urban demand	Domestic air passenger traffic	6.7	7.4	9.6	13.8	10.8	14.1	12.1	9.9	9.7	2.6	3.7	-2.5	-1.1
Urban demand	Retail PV sales	-4.5	-18.8	32.4	-13.7	-2	15.5	-10.3	6.3	1.6	-3.1	2.5	-0.8	0.9
Rural demand	Retail auto sales	2.9	-9.3	32.1	11.2	-12.5	6.6	-7.2	-0.7	2.9	5.4	4.8	-4.3	2.8
Rural demand	Retail tractor sales	-11.4	14.7	3.1	29.9	25.8	5.2	-14.5	-5.7	7.6	2.8	8.7	11	30.1
Rural demand	Retail 2-wh sales	6.3	-8.5	36.3	15.8	-17.6	4.2	-6.3	-1.8	2.3	7.3	4.7	-6.5	2.2
Rural demand	MGNREGA work demand	-16	-13.4	-7.6	3.9	8.2	14.4	2.8	2.2	-6.5	4.4	4.4	-12.3	-26.1

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
Industry													
IIP-Headline	0	3.2	3.7	5	3.7	5.2	2.7	3.9	2.6	1.9	1.5	3.5	
IIP Manufacturing	1.2	4	4.4	5.5	3.7	5.8	2.8	4	3.1	3.2	3.7	5.4	
IIP capital goods	0	3.5	2.9	8.9	10.5	10.2	8.2	3.6	14	13.3	3	5	
PMI Manufacturing	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3
PMI Export Order	54.4	52.9	53.6	54.6	54.7	58.6	56.3	54.9	57.6	56.9	60.6	57.3	56.1
PMI Manufacturing: Future Output	62.1	61.6	62.1	65.5	62.5	65.1	64.9	64.4	64.6	63.1	62.2	57.6	60.5
Eight Core Index	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	4.5	1	1.2	2.2	3.7	6.3
Electricity generation: Conventional	-3.8	-1.3	0.5	2.7	4.5	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.8	1
Electricity generation: Renewable	-3.7	12.5	14.9	19	17.9	31.9	12.2	25.2	28	18.2	28.7	26.4	
Automobile Production	4.4	10.1	10	8	1.3	9.4	2.3	6.5	-1.7	5.2	1.2	10.7	8.1
Passenger vehicle production	0.7	-3.4	-4	6.5	9.2	3.7	4.5	11.2	10.8	5.4	-1.8	0.1	-4.1
Tractor production	-1	2.7	0.4	24.7	20.9	23.7	-7.8	18.5	20.5	9.1	9.8	11.5	9.4
Two-wheelers production	4.9	12.9	13.3	8.8	-0.6	10.3	1.6	5.6	-4.1	4.7	1.4	12.3	10
Three-wheelers production	9	3.9	-6.7	-5.5	7.6	16.2	6.5	6	4.1	16.9	8.6	24	15.8
Crude steel production	3.9	0.3	4.2	4.5	8.3	7.4	6	8.5	9.3	11	12.6	14	11.1
Finished steel production	3	0.7	4	2.8	5.3	6.7	6.7	10	6.6	7	10.9	13.8	13
Import of capital goods	12.3	10.9	7	4.7	6.1	15.5	-0.5	8.6	21.5	14.3	2.6	12.2	
Services													
PMI services	60.9	57.7	58.5	58.4	59.3	56.5	59	58.5	58.7	58.8	60.4	60.5	62.9
International air passenger traffic	11.1	11.2	10.3	10.7	9	11.1	7.7	6.8	13	5	3.4	5.5	7.4
Domestic air cargo	0.6	14	8.9	0.3	4.3	6.9	-2.5	4.9	16.6	2.3	2.6	4.8	
International air cargo	20.7	20.5	18.4	16.1	10.5	7.1	-6.3	3.3	8.6	6.8	-1.2	4.2	
Port cargo traffic	6.7	5.8	-3.4	-5	3.4	7.6	3.6	13.3	7	4.3	5.6	4	2.5
Retail commercial vehicle sales	-6	-10.4	6.4	-6.1	-5.2	8.2	-8.6	2.7	-1	-3.7	6.6	0.2	8.6
Hotel occupancy	0.7	2.1	-5.3	11.1	-0.2	1.2	0.6	1.9	7.2	-2.8	-0.3	-2.4	
Tourist arrivals	-4.2	0.4	-1.4	-0.1	-6.6	-0.2	-8.6	-13.7	-3.8				
Steel consumption	14.1	13.5	12.7	12.3	11.4	11.4	11.3	11.5	6	7.1	7.9	7.7	8.2
Cement production	-2.5	7.6	3.1	13.1	10.3	14.3	10.7	12.2	6.3	9.7	8.2	11.6	6.1

Source: RBI bulletin.

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