

Special Coverage:

RBI stays on hold, keeps the door open for future cuts

Key takeaways

- ◆ The Reserve Bank of India (RBI) kept the policy rate unchanged at 5.5% for the second consecutive meeting and retained the monetary stance at “neutral”.
- ◆ The RBI raised its FY 26 (April 2025 – March 2026) GDP growth forecast to 6.8% from 6.5% previously. It also cut its inflation projection for FY26 to 2.6% (from 3.1% previously), owing to the good monsoon season, which should result in softer food price inflation. The RBI also released its 4QFY27 inflation forecast at 3.9%.
- ◆ Based on the guidance from the RBI, we believe that should the 50% tariffs continue till year-end, the central bank is likely to cut rates by 0.25% to 5.25% in the December MPC meeting. We retain our neutral stance on Indian equities and favour domestically oriented sectors, which should be relatively more resilient. We are overweight on the consumer discretionary, financials, industrials and healthcare sectors.



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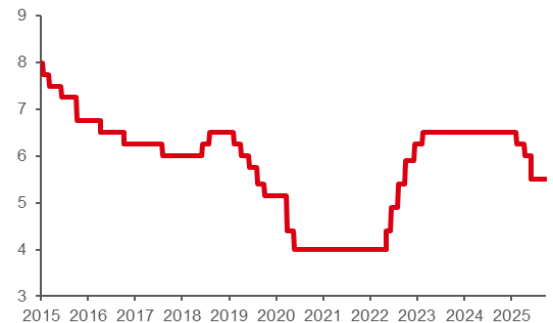
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What happened?

- The recent Monetary Policy Committee (MPC) meeting of the Reserve Bank of India (RBI) was largely in line with our expectations. The central bank kept the policy rates unchanged at 5.5% for the second consecutive meeting and retained the monetary policy stance at “neutral”.
- While all the MPC members voted to keep the rates unchanged, two members voted to change the monetary policy stance to “accommodative”, signalling a mild dovish bias within the committee. The decision doesn't come as a surprise, as the MPC prefers to wait and see the progress in the ongoing US-India trade talks, as well as the impact of the recently announced GST rate cuts.
- On a positive note, the RBI raised its FY 26 (April 2025 – March 2026) GDP growth forecast to 6.8% from 6.5% previously. The upgrade likely reflected a combination of the strength in recent economic data, and the expected boost to GDP growth due to the GST rate cuts.

RBI keeps the repo rate unchanged at 5.5% for the second consecutive meeting



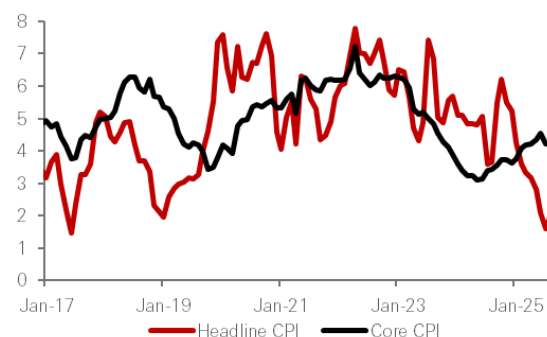
Source: Bloomberg, HSBC Private Bank and Premier Wealth as of 1 October 2025. Past performance is not a reliable indicator of future performance.

- Additionally, it also cut its inflation projection for FY 26 to 2.6% (from 3.1% previously), owing to the good monsoon season, which should result in softer food price inflation.
- The RBI also released its 4QFY27 inflation forecast at 3.9%. The fact that the RBI projects inflation to be well below its 4.0% target for the foreseeable future, suggests that there is room for the central bank to cut rates further.
- RBI Governor Malhotra appeared to be mildly optimistic in the press conference. He cautioned about the potential downside risks from prolonged trade tensions, while noting that the implementation of pro-growth policies had partly mitigated these risks.
- He also highlighted India's robust FX reserves and mentioned that the RBI was keeping a close eye on currency movements. Based on the guidance from the RBI, we believe that should the 50% tariffs continue till year-end, the central bank is likely to cut rates by 0.25% to 5.25% in the December MPC meeting.

Investment implications

- RBI's monetary policy decision was viewed positively by the equity markets, which rose following the announcement. The INR strengthened modestly versus the USD (at the time of writing) while bond yields moved 0.4%-0.5% lower.
- We retain our neutral stance on Indian equities. While the upgrade of GDP growth forecasts is a positive for Indian equities, we continue to believe that the risks are broadly balanced at present. From a fundamental perspective, earnings growth expectations continue to be sluggish and continued selling by foreign investors is weighing on the markets.
- However, we may consider turning more positive on the market should we see evidence of a sustained uptick in earnings momentum and a shift in foreign investor sentiment.
- Within Indian equities, we retain our preference for large-cap stocks. We favour domestically oriented sectors which should be relatively more resilient. We are overweight on the consumer discretionary, financials, industrials and healthcare sectors.
- We are bullish on Indian local currency bonds. We view the sharp rise in yields after the GST overhaul announcement as temporary and expect further RBI rate cuts and a resumption of foreign demand to drive 10-year yields towards the lower end. Despite cheap fundamental valuations, the heightened geopolitical risks are likely to keep USD/INR elevated in the near-term.

India's headline CPI inflation remains well-below the 4% target



Source: Bloomberg, HSBC Private Bank and Premier Wealth as of 1 October 2025. Past performance is not a reliable indicator of future performance

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