

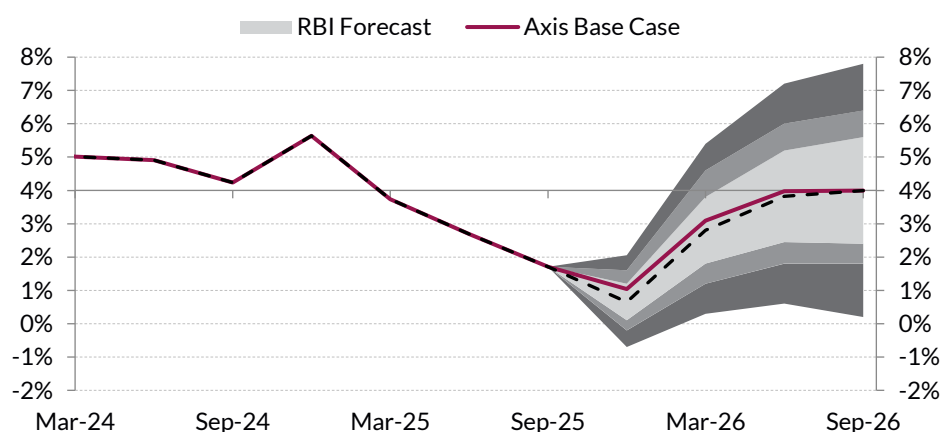
## MPC measures should help reduce economic slack

The MPC cut rates by 25 bps (6-0 vote), with significant cuts to inflation projections (now ~4% in H1FY27E), and a still too-conservative growth forecast of <7% in H1E despite upgrades. This hurts chances of further easing, as growth may beat MPC estimates. That said, the economy is showing signs of significant slack (5-11% below trend on various start points and trend-growth estimates) and can run hotter than trend for some time before inflationary pressures build up. Rather than rate cuts, continued enablement of growth through quantity (projections indicate more OMOs after the Rs1tn announced in Dec) and regulatory measures might be appropriate, and are being undertaken.

December 05, 2025

MPC update

### Exhibit 1 - Inflation projections trimmed further, but still reaching 4%



Source: RBI, MOSPI, Axis Bank Research

### MPC cuts rates (6-0), stance neutral; H1FY27E inflation estimates cut 40-60 bps

The MPC voted 6-0 for a rate cut, as expected by us, with inflation projections in FY26/27E cut further, driven by continued unseasonal weakness in food prices; importantly, H1FY27E is now just below the 4% target (Figs 1-2). The MPC noted that underlying inflation was even lower than this, with the impact of precious metals of at around 50 bps. We recently explored several measures of underlying inflation which showed significant weakness ([link](#), Fig 3). The MPC expects inflation to remain benign given favourable agri trends.

### Despite upgrades, FY27E growth projections subpar; bias to further action?

Unlike in Oct, when the upgrades to FY26E growth estimates were backward-looking (a strong Q1), H2FY26E forecasts were raised 30-60 bps; but FY26E at 7.3% still assumes a deceleration in H2E. Further, H1FY27E projections are solidly below 7.0% (Fig 4), perhaps factoring in unusually high numbers in the base this year. We expect FY27E growth to be above 7%, as monetary and fiscal headwinds fade further. Market growth downgrades have reversed (Fig 5), and nominal growth should be back to double-digits in FY27E (Fig 6). This reduces chances of further easing, given that MPC estimates seem too conservative.

### Need for rate cuts limited; maintaining liquidity essential for support to growth

The RBI announced OMO purchases of Rs1tn in Dec, with more likely to come later, as per our liquidity projection (Fig 7). This will be required to preserve durable liquidity (Fig 8) and offset shocks to deposit growth (Fig 9) from FX intervention. We continue to believe that adjusting the duration of supply ([link](#)) and firm communication on how long rates may remain low ([link](#)) can also speed up transmission and thence flow of funds to the broad economy, especially the MSME sector (Fig 10-11).

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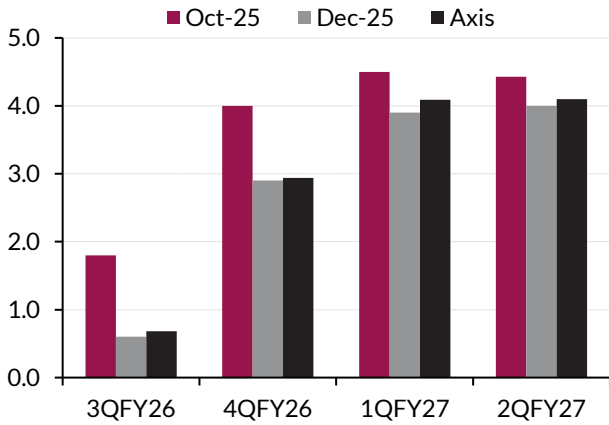
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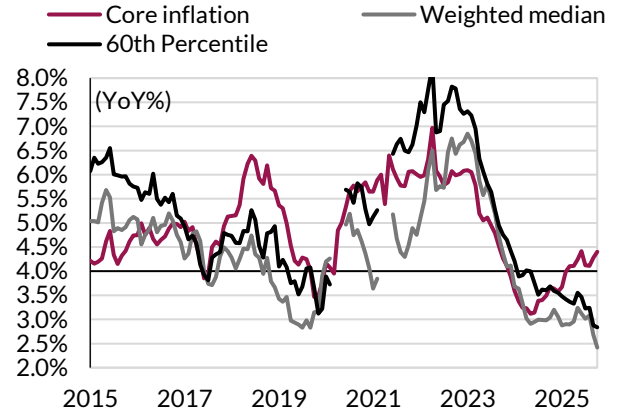
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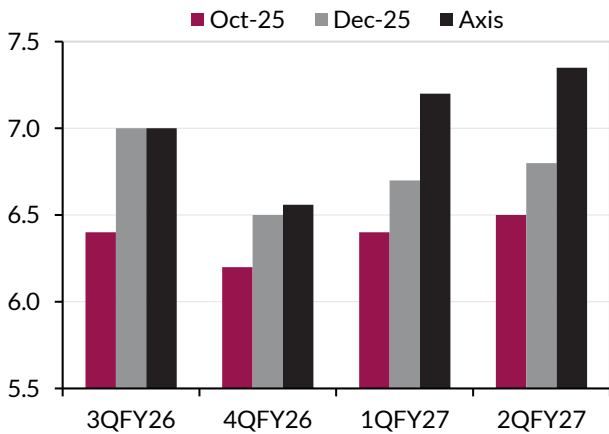
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**Exhibit 2 - Inflation projections trimmed further**


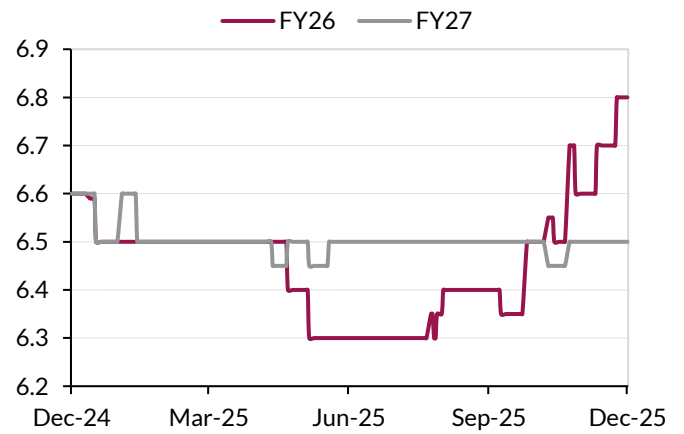
Source: RBI, Axis Bank Research

**Exhibit 3 - Gold biasing inflation, underlying weak**


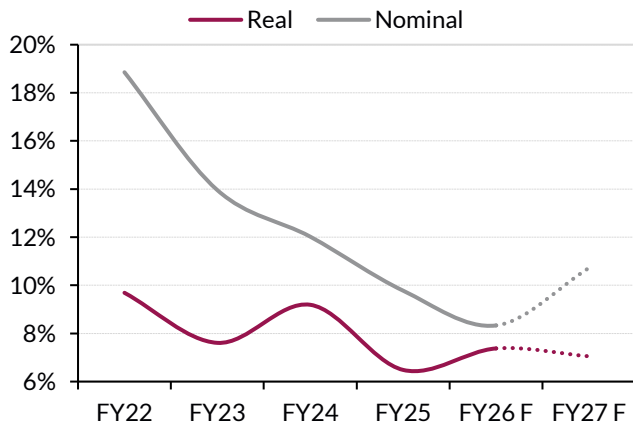
Source: RBI, Axis Bank Research

**Exhibit 4 - Relative conservatism on growth below 7% - stronger numbers are likely**


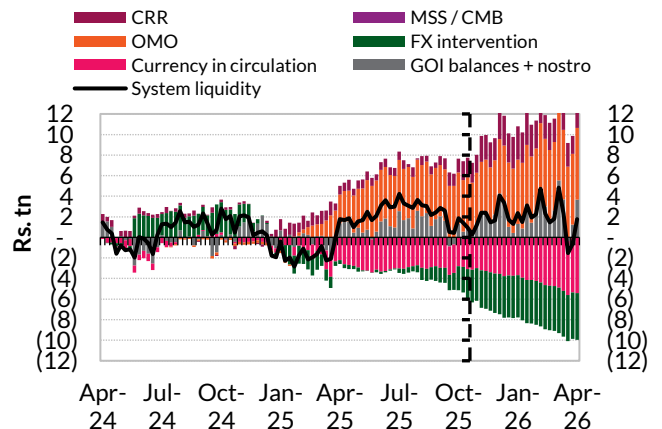
Source: RBI, Axis Bank Research

**Exhibit 5 - Cycle of India growth downgrades at end - analyst forecast medians**


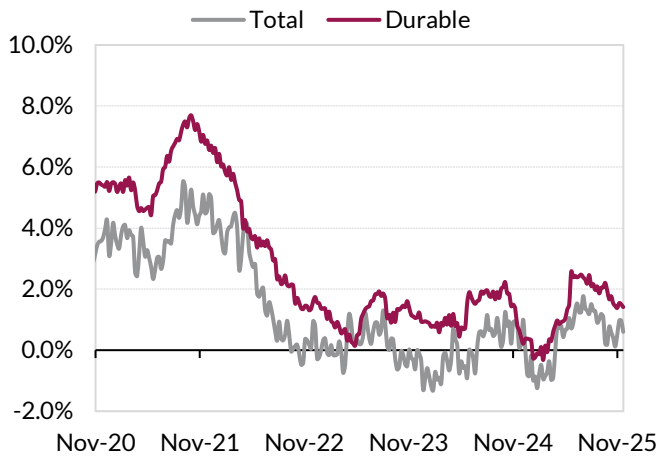
Source: RBI, Bloomberg, Axis Bank Research

**Exhibit 6 - Nominal growth likely to recover ahead**


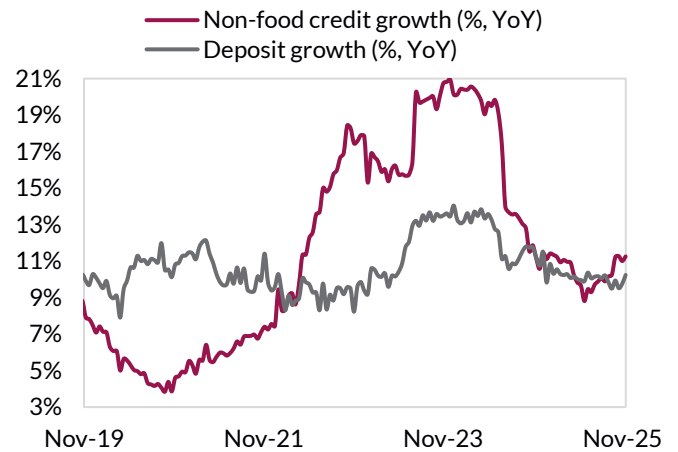
Source: CSO, MOSPI, Axis Bank Research

**Exhibit 7 - Liquidity projections signal additional Rs1tn purchases in Q4E**


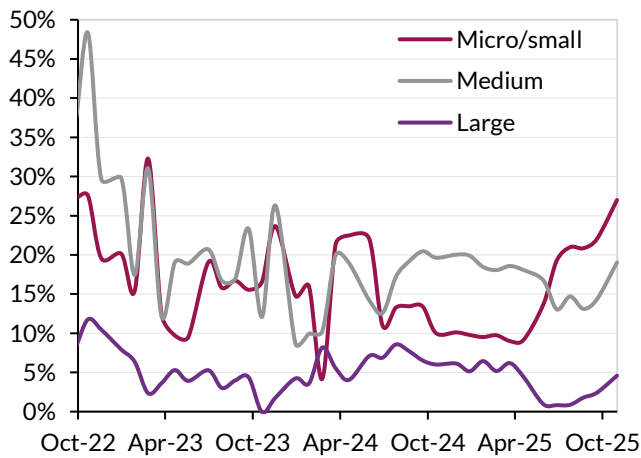
Source: RBI, Bloomberg, Axis Bank Research

**Exhibit 8 - OMOs required to replenish durable liquidity from intervention drains seen**


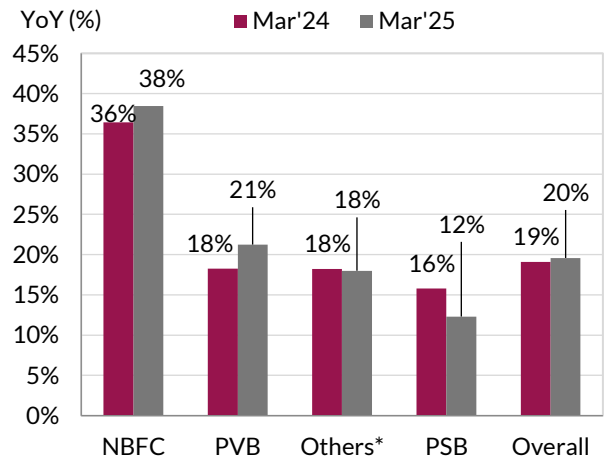
Source: RBI, Axis Bank Research

**Exhibit 9 - Liquidity projections signal additional Rs1tn purchases in Q4E**


Source: RBI, Axis Bank Research

**Exhibit 10 - Industry credit growth favouring MSMEs**


Source: RBI, Axis Bank Research

**Exhibit 11 - NBFC growth to MSME sector rising even faster**


Source: RBI, Axis Bank Research

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