BANKING MONTHLY

SEPTEMBER 2025

Prevailing Rates

I. Policy Rates

Repo Rate	5.50%
Reverse Repo Rate	3.35%
Standing Deposit Facility Rate	5.25%
Marginal Standing Facility Rate	5.75%
Bank Rate	5.75%

II. Lending/Deposit Rates

Base Rate	8.50% -10.30%
MCLR Rate (Overnight)	7.80% -8.00%
Savings Deposit Rate	2.50%
Term Deposit Rate > 1 Year	5.85% -6.60%

III. Reserve Ratio

CRR	3.75%
SLR	18.00%

Global Banking:

Global economic outlook weakens as policy uncertainty weighs on demand

The global economy was more resilient than anticipated in the first half of 2025, but downside risks loom large as higher barriers to trade and geopolitical and policy uncertainty continue to weigh on activity in many economies. The latest OECD Interim Economic Outlook projects global growth slowing from 3.3% in 2024 to 3.2% in 2025 and 2.9% in 2026, as early stockpiles of goods accumulated in anticipation of higher tariffs are drawn down, and as the implementation of tariffs and continuing policy uncertainty weigh on investment and trade.

Our comments:

GDP growth in the US is projected to decline to 1.8% in 2025 and 1.5% in 2026. In the Euro area, growth is expected to be 1.2% in 2025 and 1.0% in 2026. China's growth is projected to ease to 4.9% in 2025 and 4.4% in 2026. Inflation is projected to decline in most G20 economies as economic growth moderates and labor market pressures ease. Headline inflation is projected to decline from 3.4% in 2025 to 2.9% in 2026, with core inflation in G20 advanced economies remaining broadly stable at 2.6% in 2025 and 2.5% in 2026.

US economic growth revised up on strong consumer spending

The US economy grew faster than previously thought this spring, fueled by robust consumer spending and falling imports, according to new government data. GDP, which measures goods and services production, rose at an annualized rate of 3.8% in the period from April through June, up from the previous estimate of 3.3%. The second quarter growth; the fastest pace in nearly two years; followed a contraction earlier this year.

Our comments:

Consumer spending rose by 2.5% in the year to the end of June, up from a previous estimate of 1.6%. In the first three months of 2025, the US economy shrank at a rate of 0.6% as companies rushed in imports to get ahead of Trump's tariffs, which chipped away at GDP. American consumers, the engine of the world's largest economy, have remained resilient in the face of tariffs and economic uncertainty. Retail sales rose 0.6% in August from the prior month, beating expectations, according to data from the Commerce Department released last week. The continued strength in spending, which has defied worries about a slowdown, is in contrast to recent data showing a weakening labor market.

Citi to sell 25% stake in Banamex to Fernando Chico Pardo for USD2.3bn

Mexican Financier Fernando Chico Pardo has agreed to acquire Citi's 25% equity stake in Grupo Financiero Banamex for around USD2.3bn. The purchase is to be made through a company wholly-owned by Chico Pardo and members of his immediate family and will see the entrepreneur purchase around 520mn shares of Banamex's outstanding common shares at a fixed P/B ratio of 0.80x.

Our comments:

Citi originally acquired Banamex in 2001 for USD12.5bn. While the financial group has been considering a public offering, Citi notes that decisions regarding the timing and structure of any potential Banamex IPO will continue to be guided by several factors, including market conditions and receipt of regulatory approvals. In preparation for this move, Citi separated Banamex from its Mexican institutional banking business, Grupo Financiero Citi México, last December. Expected to be completed in the second half of 2026, pending regulatory approvals, Citi describes the deal with Chico Pardo as a significant step towards its divestiture of Banamex, which the banking giant confirms remains a strategic priority.

Please Turn Over

Indian Economy:

RBI's Monetary Policy Committee (MPC) met from 29th Sept to 01st Oct'25 to review the benchmark interest rates and announced its fourth bi-monthly policy. Although it was a close call between a rate cut and status quo; the MPC decided to keep the rates unchanged at 5.5%. It also maintained the Neutral Stance. The RBI has so far cut the repo rate by 1% or 100bps this year from 6.5% to 5.5%.

RBI keeps the repo rate unchanged at 5.5% and also maintains the stance at Neutral; reverse repo rate remains unchanged at 3.35%.

Highlights of Monetary Policy:

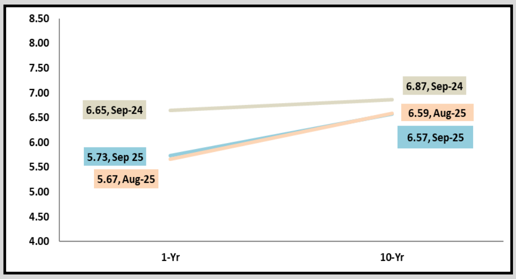
Repo Rate: 5.50% (5.50% in August 2025)
Reverse Repo Rate: 3.35% (3.35% in August 2025)
Standing Deposit Facility: stands unchanged at 5.25%
Bank Rate: 5.75% (5.75% in August 2025)
MSF: 5.75% (5.75% in August 2025)
GDP Projection: Real GDP growth for FY26 is projected at 6.8% from the earlier estimate of 6.5%. Q2FY26 at 7.0%, Q3FY26 at 6.4% and Q4FY26 at 6.2%. Q1FY27 is projected at 6.4%
CPI Inflation: CPI forecast for FY26 is projected at 2.6% from earlier estimate of 3.1%. Q2FY26 at 1.8%, Q3FY26 at 1.8% and Q4FY26 at 4.0%. Q1FY27 is projected at 4.5%

Our View:

Pause, But Not That Dovish!
Most of the economists had expected the RBI to maintain status quo on the repo-rate as global economic uncertainty persists. However, some believed that with the CPI inflation being benign and well within MPC's target range, the Central Bank may surprise with a 25bps rate cut. However, finally the MPC went with the majority and maintained the repo rate at 5.5% and also the stance at neutral. The current macroeconomic conditions and the outlook has opened up policy space for further supporting growth. However, the MPC noted that the impact of the front-loaded monetary policy actions and the recent fiscal measures is still playing out. The trade related uncertainties are also unfolding. The MPC, therefore, considered it prudent to wait for the impact of policy actions to play out and greater clarity to emerge before charting the next course of action. Although the external environment deteriorated after the last policy in August, Indian economy remains poised to register high growth going forward. MPC has revised its projection for India's GDP to 6.8%, against the earlier estimate of 6.5% for FY26. There have been revisions across the quarterly projections as well. The CPI forecast has also been reduced to 2.6% from 3.1% earlier for FY26. Lower CPI and GST cuts would fuel positivity. There has been a charter of banking reforms also opened by the measures announced in the policy. With forward guidance clearly given that room for cuts exists if data permits; the overall policy is well balanced and in line with major expectations. Tariff remains the concern while the MPC aims to remain vigilant of the incoming data, working for price stability supporting growth.

FINAL VERDICT			
MPC Meetings	**REPO**	**REVERSE**	**CURRENT STANCE**
October 2025	*5.50%*	*3.35%*	**Retained the Neutral Stance**
August 2025	**5.50%**	**3.35%**	

Exhibit 1: 1 Year Yield v/s 10 Year Yield



Source: Investing.com, Progressive Research

Indian Economy:

US tariffs pose major risk to India's growth: Crisil Intelligence

High tariffs imposed by the US on Indian goods pose a major risk to the country's growth. The tariffs will impact both Indian goods exports and investments. However, domestic consumption, driven by benign inflation and rate cuts, is expected to support growth.

Our comments:

The country's GDP rose to a five-quarter high of 7.8% in Q1FY26, up from 7.4% in the similar quarter in the previous year. Nominal GDP growth, however, slowed to 8.8% from 10.8% during the same period. The report said CPI inflation is likely to soften to 3.5% in the current fiscal from 4.6% in the previous year. Healthy agricultural growth is expected to keep food inflation under check, though the impact of excess rain was yet to be fully assessed. Lower crude prices and benign global commodity prices are expected to contain non-food inflation.

Banking liquidity turns deficit in FY26 as tax outflows rise, RBI steps in

Banking system liquidity has tipped into the deficit mode for the first time in FY26 on tax outflows, prompting the Central Bank to infuse additional funds to help overnight rates stay anchored to the policy repo rate. System liquidity moved to a deficit of around Rs320bn from a surplus of Rs70bn. Liquidity surplus narrowed sharply before moving into deficit mode after an estimated Rs2.5-3.0lk-cr moved out on tax payments, including both GST and advance taxes.

Our comments:

Before this, the average surplus was above the Central Bank's threshold of 1% of banks' deposit (net demand and time liabilities), which works to around Rs2.5lk-cr. In addition to monthly GST payments, there were also advance tax outflows. That had put pressure on systemic liquidity. However, this is expected to be transitory, and liquidity is expected to move to surplus by the end of this month as government spending picks up.

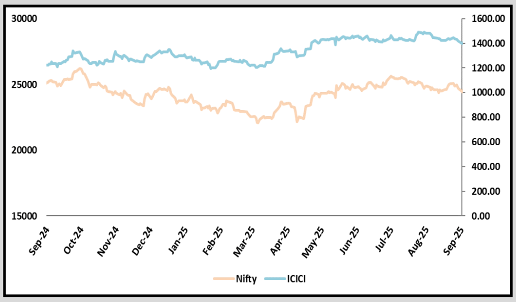
India's inflation rises to 2.07% in August, in line with expectations

After easing for nine straight months, India's consumer inflation climbed to 2.07% in August, in line with estimates. Despite the August uptick, India's inflation is hovering close to the RBI's target inflation band of 2% to 6%. The Central Bank last month forecast CPI growth of 3.1% for the fiscal year ending March 2026. Benign inflation readings offer the Central Bank room to loosen monetary policy and cushion the impact of the US tariffs on the country's growth.

Our comments:

India's inflation remains below trend, which is likely to support private demand and facilitate additional monetary policy easing by the RBI, partially mitigating the impact of tariff-related uncertainty on growth.

Exhibit 2: ICICI v/s Nifty



Source: Ace Equity, Progressive Research

Coverage News:

ICICI Bank gets RBI nod to acquire additional stake upto 2% in ICICI Prudential AMC

ICICI Bank has received the RBI's approval to acquire an additional 2% stake in ICICI Prudential Asset Management Company (AMC). The nod signals the regulator's confidence in the lender's ability to expand its influence in the asset management business, at a time when India's mutual fund industry is witnessing sustained growth and inflows.

Our comments:

The additional stake will deepen ICICI Bank's involvement in ICICI Prudential AMC, one of the country's largest asset managers. With mutual fund penetration rising across India, the acquisition comes at a crucial time to capture a greater share of the expanding investor base. For ICICI Bank, this strengthens its strategy of diversifying revenue streams beyond core banking, reinforcing its foothold in wealth and investment services.

Non Coverage News:

SMBC becomes biggest shareholder in Yes Bank with 24.22% holding

Japan's Sumitomo Mitsui Banking Corp (SMBC) has become the biggest shareholder in Yes Bank after it boosted its holding to 24.22% by way of an off-market deal. SMBC acquired 1323.9mn additional shares on 22nd Sept increasing its holding from 20% to 24.22%, or 7,595.1mn shares in total. The acquisition came after SBI offloaded a 13.18% stake to SMBC for Rs88.88bn. With this sale, SBI's holding has now fallen from 24% to just over 10%.

Our comments:

The Bank remains committed to de-stressing assets and increasing retail lending, while gearing up for more robust balance sheet growth in FY26. Experts are keenly observing if SMBC will ultimately pursue an increase in stake further, perhaps cementing a controlling stake for the long term.

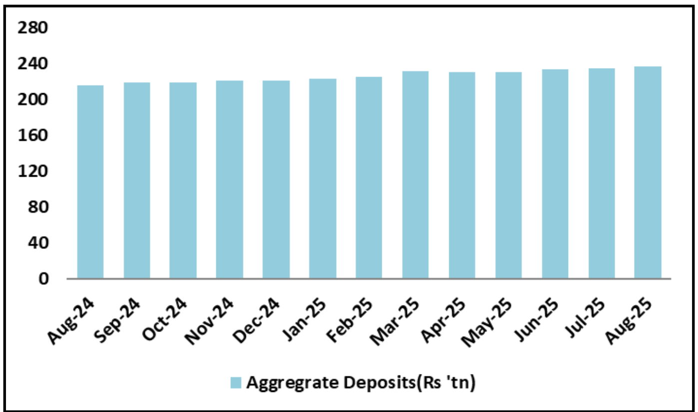
HDFC Bank's Dubai branch barred by DFSA from onboarding new clients

The Bank said that its Dubai International Financial Centre (DIFC) branch has received a decision notice from the Dubai Financial Services Authority (DFSA). The DIFC branch has been prohibited from soliciting or conducting any business with new clients who had not completed the onboarding process as of 25th Sept'25. The restriction covers financial services activities, including advising on financial products, arranging deals in investments, arranging credit, advising on credit, and arranging custody.

Our comments:

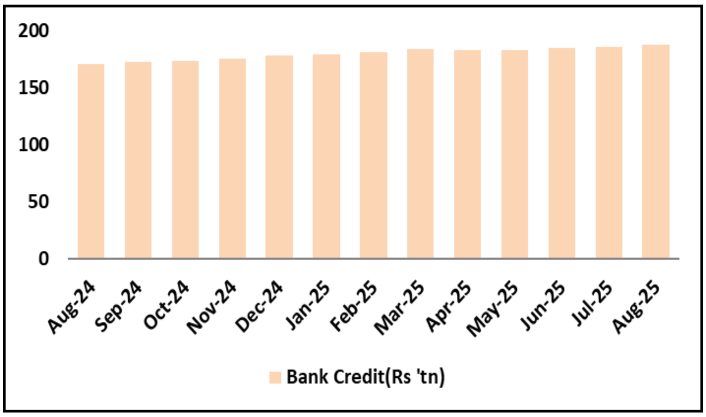
The branch cannot solicit, onboard, or engage in financial promotions with new clients. However, the prohibition does not extend to the continued servicing of existing customers or to onboarding clients who had earlier been offered or provided financial services but were not formally on boarded at that time.

Exhibit 03: Trend of Aggregate Deposits of SCBs



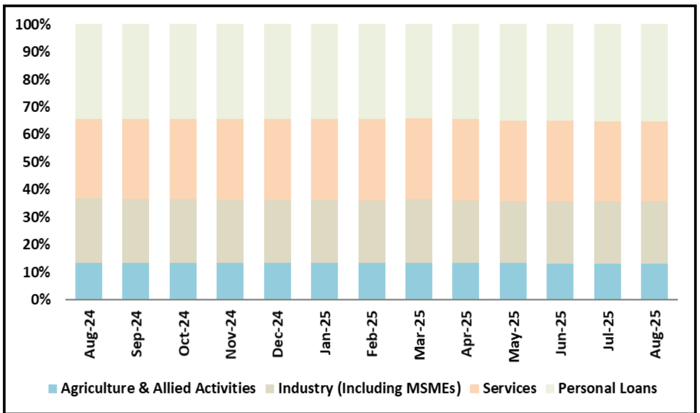
Source: Investing.com, Progressive Research

Exhibit 04: Trend of Bank Credit of SCBs



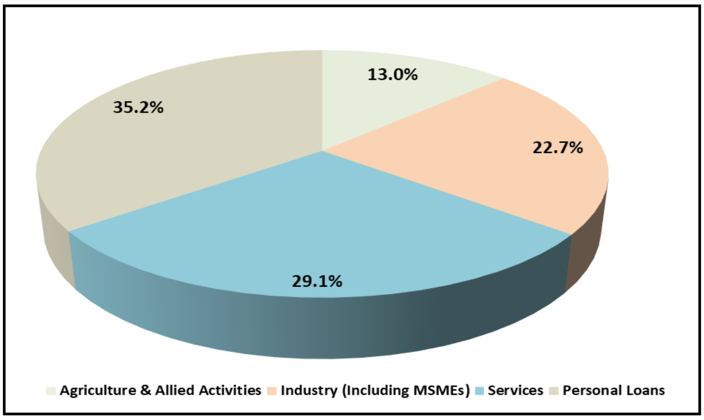
Source: RBI, Progressive Research

Exhibit 05: Deployment of Gross Bank Credit by major sectors



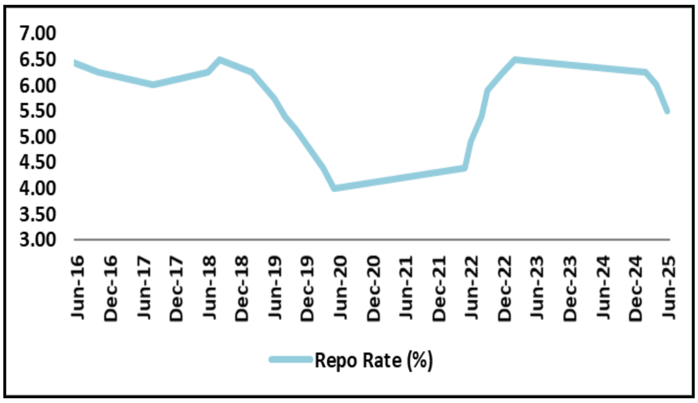
Source: RBI, Progressive Research

Exhibit 06: Sectoral breakup of Gross Bank Credit of the major sectors in August



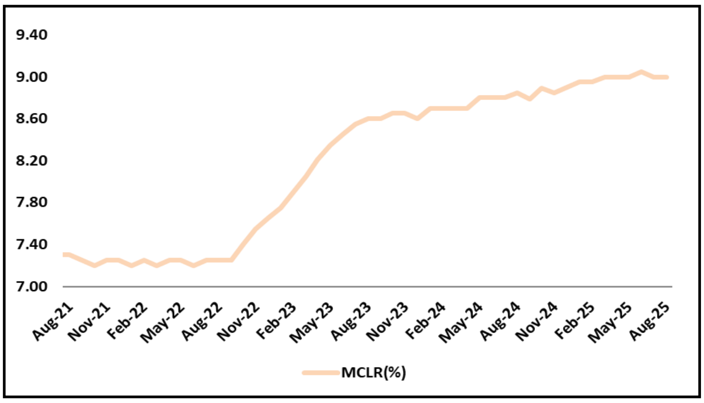
Source: RBI, Progressive Research

Exhibit 07: Repo Rate Trend



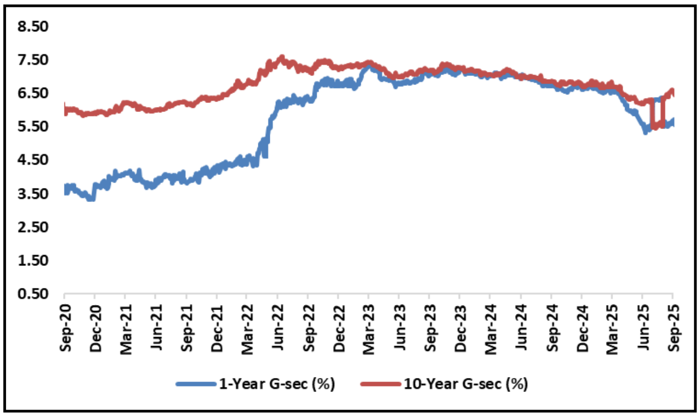
Source: NSE, Progressive Research

Exhibit 08: MCLR trend in the last 3 years



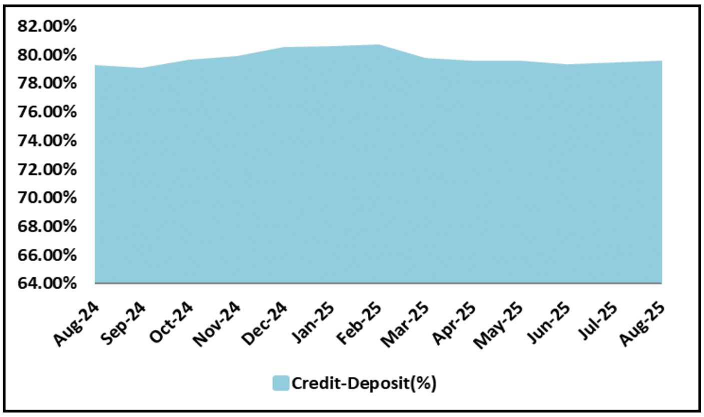
Source: Ace Equity, Progressive Research

Exhibit 09: RBI trying to keep the gap between short and long term bond in check



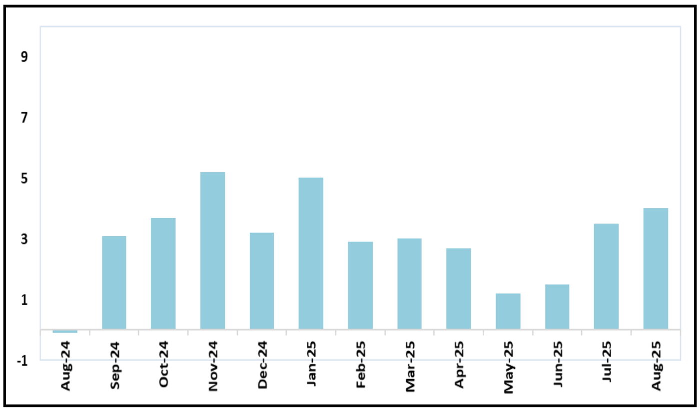
Source: Investing.com, Progressive Research

Exhibit 10: Credit-Deposit ratio of the SCBs in Aug-25



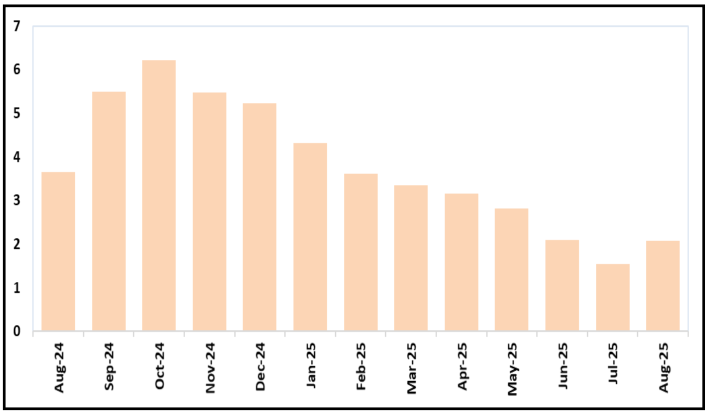
Source: RBI, Progressive Research

Exhibit 11: Retail Inflation Range Bound



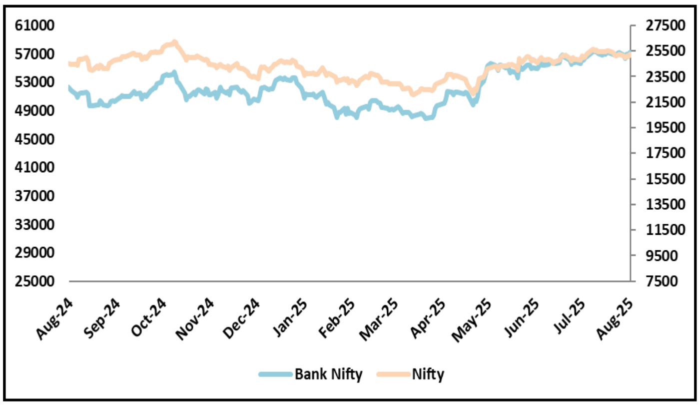
Source: RBI, Progressive Research

Exhibit 12: Change in Y-o-Y IIP data



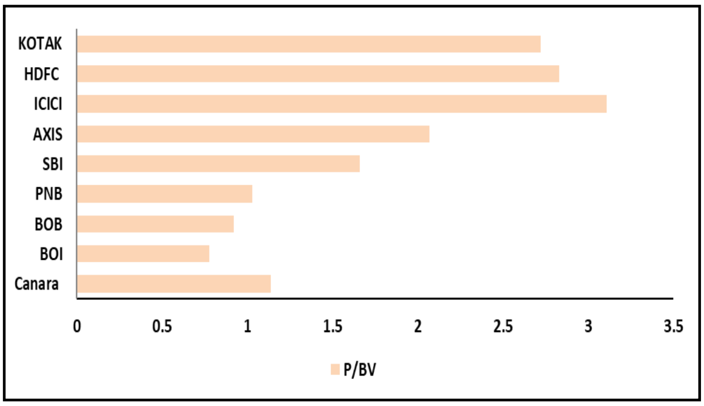
Source: RBI, Progressive Research

Exhibit 13: Bank Index v/s Nifty Index



Source: NSE, Progressive Research

Exhibit 14: Major Banks' Valuation as on 30th Sept, 2025



Source: Ace Equity, Progressive Research

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