RBI Policy – Oct 2025 – Key Takeaways

RBI Monetary Policy

Repo Rate Now at 5.5% v/s 5.5%	**Unchanged**
Standing Deposit Facility Now at 5.25% v/s 5.25%	**Unchanged**
MSF Bank Rate Now at 5.75% v/s 5.75%	**Unchanged**
Policy Stance Neutral	**Unchanged**

RBI on Growth, Inflation

FY26 GDP Growth	**Projected at 6.8% from 6.5%**
FY26 Inflation Outlook	**Projected at 2.6% from 3.1%**

- **Continuing with neutral stance –** The Monetary Policy Committee (MPC), chaired by RBI Governor Sanjay Malhotra, decided to **maintain the policy repo rate at 5.50%.** Consequently, the standing deposit facility (SDF) rate remains at 5.25%, and the marginal standing facility (MSF) rate and Bank Rate at 5.75%. The MPC unanimously voted to retain the **neutral stance,** focusing on sustaining the medium-term Consumer Price Index (CPI) inflation target of 4% within ±2% band while supporting growth. This decision follows a **100 basis points (bps) rate cut since February 2025.**
- **Growth Outlook –** India's **economy is robust,** with Q1FY26 real GDP growth at 7.8% and GVA at 7.6%. High-frequency indicators show sustained momentum in Q2, driven by an **above-normal monsoon, strong kharif sowing, and high reservoir levels, boosting agriculture and rural demand.** Vibrant services, stable employment, and **GST rationalisation to further support domestic demand.** Rising capacity utilization and favorable financial conditions to fuel investment, though **trade policy uncertainties and geopolitical tensions pose risks.** Structural reforms, like GST streamlining, may counter external challenges. **Real GDP growth for FY26 is projected at 6.8%, with quarterly estimates of 7.0% in Q2, 6.4% in Q3, 6.2% in Q4, and 6.4% in Q1FY27.** Risks remain balanced, ensuring steady economic progress.
- **Inflation –** India's inflation remained benign in FY26 so far, with **actual rates lower than projected,** driven by a sharp **decline in food inflation** due to improved supply prospects and effective government supply chain measures. Core inflation was stable at 4.2% in August, despite pressures from precious metal prices. A satisfactory southwest monsoon, robust kharif sowing, adequate reservoir levels, and ample food-grain buffer stocks are expected to keep food prices low. Recent **GST rate rationalization will further reduce prices of several CPI** basket items. Consequently, **CPI inflation for FY26** is now projected at **2.6%,** with **Q2 at 1.8%, Q3 at 1.8%, Q4 at 4.0%, and Q1 2026-27 at 4.5%.** Risks are evenly balanced, supporting a softer inflation outlook.
- **External Sector –** India's **current account deficit improved to US$ 2.4 billion** (0.2% of GDP) in Q1FY26 from US$ 8.6 billion (0.9% of GDP) in Q1FY25, driven by a higher net services surplus and robust remittance receipts, despite a wider merchandise trade deficit. In July-August 2025, the trade deficit remained high, but strong services exports, particularly in software and business services, and remittance inflows are expected to keep the CAD sustainable. **Net FDI hit a 38-month high in July 2025, while net FPI saw outflows of US$ 3.9 billion.** Foreign exchange reserves reached US$ 700.2 billion by September 26, 2025, covering over 11 months of imports. Despite INR depreciation and volatility, India's external sector remains resilient, with the RBI monitoring and ready to act.
- **Liquidity and Financial Market –** System liquidity, measured by the net position under the Liquidity Adjustment Facility **(LAF),** averaged a **daily surplus of ₹2.1 Lk Crs** since the August 2025 MPC meeting. Moving forward, government cash balance drawdowns and a **75-basis-point CRR cut in October-November will enhance banking system liquidity.** The RBI's two-way operations will manage liquidity to stabilize short-term rates, with money market rates remaining steady amid ample liquidity. Between February and August 2025, a 100-basis-point repo rate cut led to a 58-basis-point drop in the weighted average lending rate (WALR) for fresh rupee loans and 55 basis points for outstanding loans. Fresh deposit rates fell by 106 basis points, and outstanding deposit rates by 22 basis points. Adequate liquidity and the remaining CRR cuts will further support broad-based monetary transmission.
- **Financial Stability –** Scheduled Commercial Banks (SCBs) maintain strong capital adequacy, liquidity, asset quality, and profitability. Non-Banking Financial Companies **(NBFCs) also show robust metrics with sufficient capital and better GNPA** ratios. Bank credit growth, though lower than last year, supports economic activity. The overall flow of financial resources to the economy is key for productive sectors. In FY26, non-bank sources provided ₹2.66 Lk Crs to the commercial sector, offsetting a ₹0.48 Lk Crs drop in non-food bank credit
- **Additional measures –**
  - The Expected Credit Loss (ECL) framework of provisioning with prudential floors will be applicable to Scheduled Commercial Banks (excluding SFBs, PBs, RRBs) and AIFIs from April 1, 2027. A glide path until March 31, 2031, will ease the impact of higher provisioning on existing books.
  - Revised Basel III capital adequacy norms for commercial banks (excluding SFBs, PBs, RRBs) will be effective from April 1, 2027.

- A draft Standardised Approach for Credit Risk, expected to lower capital requirements for MSMEs and residential real estate, will be issued soon.
- Capital requirements for operational risk were finalized in 2023, while market risk requirements are being finalized. These measures align with international standards tailored to national priorities, strengthening capital adequacy for banks and AIFIs.
- A finalized circular on Forms of Business and Prudential Regulation for Investments, issued after October 2024 consultations, removes restrictions on business overlap within bank groups, leaving allocations to Bank Boards.
- Risk-based deposit insurance premiums are proposed, with the current flat rate as the ceiling, to encourage sound risk management and reduce premiums for better-rated banks.

➢ **Flow of credit improvement measures –**

- To expand capital market lending, an enabling framework is proposed for Indian banks to finance acquisitions by Indian corporates.
- Proposals include: (a) removing the regulatory ceiling on lending against listed debt securities, and (b) increasing lending limits against shares from ₹20 Lks to ₹1Cr and for IPO financing from ₹10 Lk to ₹25 Lk per person.
- The 2016 framework disincentivizing lending to specified borrowers (with credit limits of ₹10,000 Crs and above) is proposed to be withdrawn. The Large Exposure Framework addresses credit concentration risk at the bank level, while system-level concentration risk will be managed through macroprudential tools when needed.
- To reduce infrastructure financing costs, risk weights for NBFC lending to operational, high-quality infrastructure projects are proposed to be lowered.
- A discussion paper on licensing new Urban Co-operative Banks (UCBs) is proposed, responding to positive sector developments and stakeholder demand, as licensing has been paused since 2004.

➢ **Promoting Ease of Doing Business**

- Approximately 9,000 circulars and directions have been consolidated by subject across 11 types of regulated entities, with drafts to be issued soon for public consultation.
- Banks will be given greater flexibility to open and maintain transaction accounts (current accounts and CC/OD accounts) for borrowers, especially those regulated by a financial sector regulator, and restrictions on collection accounts will be withdrawn.
- **To strengthen the export sector and enhance EoDB:**
  a) The repatriation period for Indian exporters' foreign currency accounts in IFSC will be extended from one month to three months.
  b) The forex outlay period for Merchanting Trade transactions will be increased from four months to six months.
  c) The reconciliation process for outstanding export and import entries in EDPMS/IDPMS reporting portals will be simplified.

➢ **Simplifying foreign exchange management**

- Key provisions in ECB regulations under FEMA, including eligible borrowers, recognized lenders, borrowing limits, cost, end-use, and reporting, are proposed to be rationalized.
- FEMA regulations for non-residents establishing a business presence in India are proposed to be rationalized.
- The bouquet of services for Basic Savings Bank Deposit account holders, without minimum balance charges, will be expanded to include digital banking (mobile/internet banking) services.
- The Internal Ombudsman mechanism will be strengthened to improve grievance redressal by regulated entities.
- The RBI Ombudsman Scheme will be revised for better grievance redressal and will include rural cooperative banks under its ambit.

➢ **Internationalising Indian Rupee**

- Authorize AD banks to provide Indian Rupee loans to non-residents from Bhutan, Nepal, and Sri Lanka for cross-border trade transactions.
- Set transparent reference rates for currencies of India's major trading partners to support INR-based transactions.
- Allow SRVA balances to be used for investments in corporate bonds and commercial papers.

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