

## Monetary Policy-October 2025

### MPC Keeps the Repo Rate Unchanged; Retained the Neutral Stance

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 5.50% 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%

#### Some Highlights:

- Inflation conditions remained benign during 2025-26 so far with actual outcomes turning out to be significantly lower than projections. However, the prevailing global uncertainties and tariff related developments are likely to decelerate growth in H2FY26 and beyond
- An above normal monsoon, good progress of kharif sowing and adequate reservoir levels have further brightened prospects of agriculture and rural demand. Buoyancy in services sector coupled with steady employment conditions are supportive of demand, which is expected to get a further boost from the rationalization of GST
- India's CAD moderated to USD2.4bn (0.2% of GDP) in Q1FY26 as compared with USD8.6bn (0.9% of GDP) in Q1FY25 on account of increased net services surplus and strong remittance receipts despite higher merchandise trade deficit. India's services exports, driven by software and business services, witnessed robust growth in Jul-Aug'25. Furthermore, robust services exports coupled with strong remittance receipts is expected to keep the CAD sustainable during 2025-26
- As on 26th Sept'25, India's foreign exchange reserves stood at USD700.2bn sufficient to cover more than 11 months of merchandise imports. Overall, India's external sector continues to be resilient and is expected to meet the external obligations comfortably
- The net position under the LAF stood at an average daily surplus of Rs2.1lk-cr since the last MPC meeting in Aug'25. The weighted average lending rate (WALR) of SCBs moderated by 58bps for fresh rupee loans while on the deposit side, the weighted average domestic term deposit rate (WADTDR) on fresh deposits declined by 106bps and on outstanding deposits the same softened by 22bps

#### Other Measures Announced:

##### (1) Regulations:

- **Expected Credit Loss (ECL) framework for provisioning:** The draft directions propose to replace the extant framework based on incurred loss with an ECL approach, subject to a prudential floor, while retaining the existing asset classification norms. The guidelines are expected to enhance credit risk management practices, promote better comparability of reported financials across institutions
- **Basel III guidelines on capital charge for credit risk:** It is proposed to issue the draft guidelines on implementation of the revised Basel framework on standardised approach for credit risk for SCBs (excluding small finance banks, payments banks, and RRBs). This aims to improve the robustness, granularity and risk sensitivity of the standardized approach for calculating the capital charge for credit risk
- **Forms of business and prudential regulation for investments:** The circular envisages to streamline the activities being undertaken by banks and their group entities while providing more operational freedom to the banks and NOFHCs for equity investments and setting up group entities respectively

## Monetary Policy-October 2025

### Other Measures Announced (contd.):

#### (1) Regulations (contd.):

- **Introduction of risk based premium framework for Deposit Insurance in India:** At present, the banks are charged a premium of 12 paise per Rs100 of assessable deposits. It is proposed to introduce a risk based premium model which will help banks that are more sound to save significantly on the premium paid; this is expected to be effective from next FY
- **Review of capital market exposures guidelines for banks:** With the objective of rationalising the extant guidelines and broadening the scope for capital market lending by banks and other regulated entities, it is proposed to (i) provide an enabling framework for banks to finance acquisitions by Indian corporates, (ii) enhance the limit for lending by banks against shares, units of REITs, units of InvITs while removing the regulatory ceiling altogether on lending against listed debt securities and (iii) put in place a more principle-based framework for lending to capital market intermediaries
- **Guidelines on enhancing credit supply for large borrowers through market mechanism-Withdrawal:** Considering the changes evident in the profile of bank funding to corporate sector since the introduction of the guidelines, it is proposed to withdraw the guidelines. While the large exposures framework since put in place for banks addresses concentration risk at an individual bank-level, concentration risk at the banking system level, as and when considered as a risk, will be managed through specific macro-prudential tools
- **Risk weights on infrastructure lending by NBFCs:** With a view to further rationalise the risk weights for infrastructure lending by NBFCs in line with the nuanced risk-profile of operational projects, it has been decided to introduce a principle-based framework which aims to align risk weights with the actual risk characteristics of operational infrastructure projects, promoting better risk assessment and capital allocation
- **Discussion paper on licensing framework for new Urban Co-operative Banks (UCBs):** Considering that more than two decades have passed since the issuance of fresh license and the positive developments in the sector, a discussion paper on licensing of new UCBs is expected to be issued in due course
- **Consolidation of regulatory instructions:** In order to provide ease of access and reduce the compliance cost faced by the regulated entities (REs), the RBI has undertaken an exercise of consolidating the regulatory instructions on an 'as is' basis. The drafts of about 250 master directions consolidating extant instructions on upto 30 areas for 11 types of REs will be placed on the website
- **Review of restrictions on transaction accounts:** The instructions on the operation of CAs, Cash Credit Accounts (CC) and ODs offered by banks have been reviewed and it is proposed to ease some of the stipulations to provide greater flexibility to the banks in this regard, particularly in case of borrowers being entities regulated by a financial sector regulator

#### (2) Foreign Exchange Management:

- **Foreign Currency accounts by Indian exporters:** In Jan'25, the RBI had permitted Indian exporters to open foreign currency accounts with a bank outside India for realisation of export proceeds. Funds in these accounts can be used for making import payment or have to be repatriated by the end of next month from the date of receipt of the funds. It has now been decided to extend the time period for repatriation, from 1 month to 3 months, in case of such foreign currency accounts maintained in IFSC in India
- **Merchanting Trade Transactions (MTT):** In terms of extant guidelines on MTT, outlay of foreign exchange is allowed upto 4 months. It has now been decided to increase the period for the forex outlay from 4 months to 6 months, in case of MTT. This relaxation is expected to help Indian merchants overcome the challenges they face in completing their business transactions efficiently while maintaining profitability
- **Relaxation in compliance requirements for small value exporters/importers:** It has been decided to simplify the process of reconciliation in Export Data Processing and Monitoring System (EDPMS) and Import Data Processing and Monitoring System (IDPMS). As per the revised guidelines, bills can be reconciled and closed by an AD bank in EDPMS or IDPMS, based on a declaration by the concerned exporter or importer that the amount has been realized for a shipping bill or paid against a bill of entry (including outstanding entries) in EDPMS/IDPMS of value equivalent to Rs10lk per bill or less
- **Review of ECB framework:** A revised framework that provides for expansion of eligible borrower and recognized lender base, rationalization of borrowing limits, rationalization of restrictions on average maturity period, removal of restrictions on the cost of borrowing for ECBs, review of end-use restrictions and simplification of reporting requirements is proposed to be introduced

## Monetary Policy-October 2025

### Other Measures Announced (contd.):

#### (2) Foreign Exchange Management (contd.):

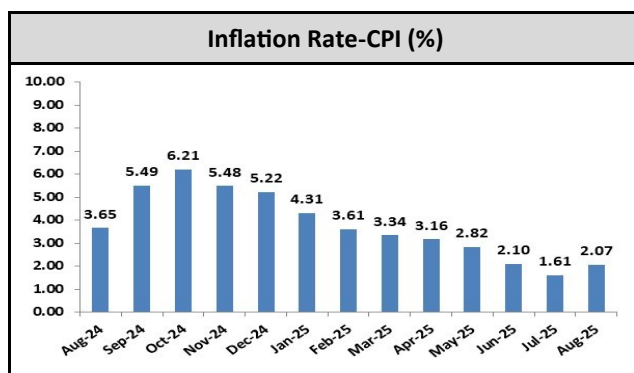
- **Rationalisation of regulations for establishment in India of a branch office/liaison office/project office:** The revised regulations are principle driven and enable delegation of more powers to AD banks and reduction of compliance burden thereby further enhancing the ease of doing business in India
- **Review of instructions on Basic Savings Bank Deposit (BSBD) account:** The extant instructions on BSBD a/c require banks to provide certain minimum facilities free of charge, without the requirement of minimum balance to the holders of such accounts. Therefore, it has been decided to review the extant instructions on BSBD a/c to provide affordable banking facilities to the public and drive enhanced usage of BSBD accounts to deepen financial inclusion

#### (3) Consumer Protection:

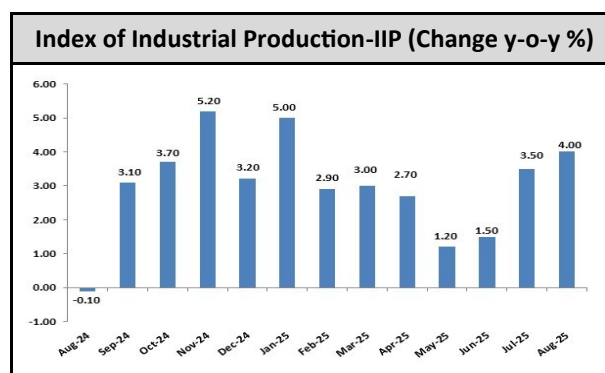
- **Measures for strengthening the Internal Ombudsman (IO) mechanism in REs:** It is proposed that the IOs be equipped with compensation powers and be allowed access to the complainant, aligning the role of IOs more closely with that of the RBI Ombudsman. Additionally, a two-tiered structure may be introduced within REs for grievance redress prior to escalation to the IO
- **Review of the Reserve Bank-Integrated Ombudsman Scheme, 2021:** To enable the customers of the rural co-operative banks to access the mechanism of RBI Ombudsman, it has been decided to bring State Co-operative Banks and District Central Cooperative Banks, hitherto with NABARD, within the scope of the RBI Ombudsman Scheme

#### (4) Financial Markets:

- **Lending in INR by Authorised Dealer (AD) banks to persons resident outside India:** In order to ensure that the INR liquidity is made available and accessible to residents of other countries, it has been decided that the AD banks in India and their overseas branches may be permitted to lend in INR to persons resident in Bhutan, Nepal and Sri Lanka, including a bank in these jurisdictions to facilitate cross border trade transactions
- **Additional reference rates to be published by Financial Benchmarks India Ltd (FBIL):** Currently, FBIL publishes reference rates for USD, EUR, GBP and JPY against INR. It is now proposed to include select currencies of India's major trading partners in the list of reference rates published by FBIL which will further deepen the onshore forex market and encourage banks to quote directly in a larger set of currency pairs
- **Expanding the bouquet of investments for Special Rupee Vostro Accounts (SRVA) holders:** To expand investment opportunities in India for SRVA holders, it has been decided to permit balances of these accounts to be invested in corporate bonds and commercial papers



Source: tradingeconomics.com



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**October 01, 2025**
**ECONOMIC UPDATE**

## Monetary Policy-October 2025

### Our View:

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, the Indian economy remains poised to register high growth going forward. The 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%	

October 01, 2025

ECONOMIC UPDATE

## Monetary Policy-October 2025

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