

## RBI Monetary Policy: Pause with dovish signals

In a favourably balanced growth-inflation environment, the RBI's Monetary Policy Committee (MPC) expectedly maintained status quo for the second consecutive meeting, keeping the policy repo rate unchanged at 5.5%. The policy stance was also retained at *neutral* with a 4:2 vote, as two members (*Dr. Nagesh Kumar and Prof. Ram Singh*) dissented and voted for an *accommodative* stance. The MPC underscored the prudence of waiting to gauge the transmission of earlier front-loaded monetary easing and the impact of recent structural fiscal measures before considering further policy adjustments, particularly amid ongoing tariff and trade-related uncertainties. The growth outlook was revised higher, with FY26 GDP growth raised by 30bps to 6.8%, supported by resilient rural and services demand, festive-led consumption, rising capacity utilisation and favourable financial conditions. While risks from tariff and trade disruptions persist, they are expected to be partially offset by structural fiscal measures such as income tax and GST rationalisation as well as lower interest rates. On the inflation front, outlook remains benign, with the headline inflation for FY26 revised down by 50bps to 2.6%, providing policy space should growth headwinds intensify. Banking system liquidity has remained in surplus, facilitating smooth transmission across banking and money market rates, with deposit rates adjusting more quickly than lending rates.

Looking ahead, the MPC is likely to maintain a calibrated, data-dependent stance through the rest of the fiscal, keeping policy space available should growth risks intensify. Inflationary conditions are expected to remain benign, aided by the disinflationary effects of GST rationalisation and the forthcoming base-year revision. The confluence of subdued inflation and lingering growth uncertainties does not entirely preclude the end of the current rate cut cycle, imparting a dovish undertone to the policy narrative. Given this backdrop, the RBI is likely to remain agile in its liquidity management, deploying its policy toolkit as needed, while allowing time for the transmission of earlier rate cuts to feed through to credit growth and broader economic activity.

- Status quo on policy rates and stance:** In line with market expectations, the RBI's MPC unanimously decided to keep the policy repo rate unchanged at 5.5% for the second consecutive policy. With this, the Standing Deposit Facility (SDF) and the Marginal Standing Facility (MSF) rates—the upper and lower bounds of the Liquidity Adjustment Facility (LAF) corridor—remained unchanged at 5.25%, and 5.75% respectively. The *neutral* stance was also retained with a 4:2 vote. *Notably, two members dissented and voted for a change in stance to accommodative.* The MPC has underscored the importance of allowing the effects of earlier front-loaded monetary easing and recent fiscal measures to transmit through the economy, while preserving policy space to respond, should risks to growth intensify against the backdrop of benign inflation.
- Inflation projections revised lower to 2.6% in FY26:** The headline CPI inflation forecast for FY26 has been revised down by 50bps to 2.6%, with projections for Q2 and Q3 cut by 30bps and 130bps, respectively, to 1.8% each, and the Q4 estimate lowered by 40 bps to 4.0%. The downward revisions reflect supportive supply-side conditions: the south-west monsoon delivered ~8% excess rainfall, reservoir levels stand at 90% of capacity, and foodgrain stocks are at 1.2 times the buffer norm. These, along with the pass-through of GST rate rationalisation, benign food prices, and a favourable base effect over the next two quarters, have eased price pressures. Looking ahead, while the Q1FY27 forecast has also been trimmed by 40bps to 4.5%, a large adverse base effect is expected to push the print higher, keeping it above the median inflation target.
- GDP growth forecast raised to 6.8% in FY26:** GDP growth for FY26 has been revised upward to 6.8%, with Q2 estimates raised by 30bps to 7.0%. The stronger-than-expected Q1 print of 7.8%, along with the upward revision to Q2, more than

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*The RBI kept the policy repo rate unchanged at 5.5%, while retaining the stance as “neutral” with a 4:2 majority.*

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*FY26 inflation forecast has been reduced further by 50bps to 2.6% while the GDP growth estimate has been revised higher by 30bps to 6.8%.*

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offsets modest downward adjustments to Q3 and Q4 projections (by 20bps to 6.4% and 10bps to 6.2%, respectively), resulting in the net upgrade of 30bps for the fiscal year. Growth momentum is expected to be underpinned by brighter prospects for agriculture and rural demand, buoyancy in the services sector, and a consumption boost from the festive season and GST rate rationalisation. Rising capacity utilisation and supportive financial conditions are also likely to facilitate investment activity. That said, downside risks persist from tariff and trade policy uncertainties, prolonged geopolitical tensions, and volatility in global financial markets. Nonetheless, the implementation of structural reforms—including income tax rationalisation, streamlined GST rates, and earlier monetary easing—should help cushion the impact of external headwinds.

- **Surplus banking system liquidity supports transmission:** Banking system liquidity continues to remain in surplus, though it has moderated from an average of Rs 3.1 lakh crore in July to Rs 1.6 lakh crore in September. These favourable conditions have enabled smooth transmission across banking and money market rates. Transmission has been more pronounced on the deposit side, with the weighted average domestic term deposit rate (fresh deposits) declining by 106bps, compared with a 58bps decline in lending rates on fresh rupee loans. Money market rates have also adjusted seamlessly, with the WACR down 92bps, the 3M T-bill rate lower by 1.2pp, and the 3M CP rate lower by 1.5pp. While liquidity briefly shifted into deficit at times due to income-tax and GST outflows, it is expected to remain in surplus, aided by the drawdown of government cash balances and the remaining 75bps CRR cut scheduled for October–November.
- **Policy space available; rate cut hinges on growth risks playing out:** The RBI's MPC is expected to maintain a data-dependent, calibrated, wait-and-watch stance through the remainder of the fiscal, preserving policy space for a further rate cut should growth risks become more pronounced. Although the growth projection has been revised higher and remains resilient, the outlook in H2FY26 is likely to be shaped by countervailing forces—on the one hand, tariff-related uncertainty is likely to weigh on economic activity, while on the other, supportive policy measures such as income tax rationalisation, GST rate reductions, and cumulative monetary easing are providing impetus. Inflationary conditions remain benign, reinforced by the disinflationary impact of GST rationalisation and the prospective effect of base year revisions commencing February 2026. Given this backdrop, the RBI is likely to remain agile in its liquidity management, deploying its policy toolkit as needed, while allowing time for the transmission of earlier rate cuts to feed through to credit growth and broader economic activity.

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*The weighted average call money rate has declined from 6.6% in January'25 to 5.47% in September'25.*

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**Table 1: Current policy rates**

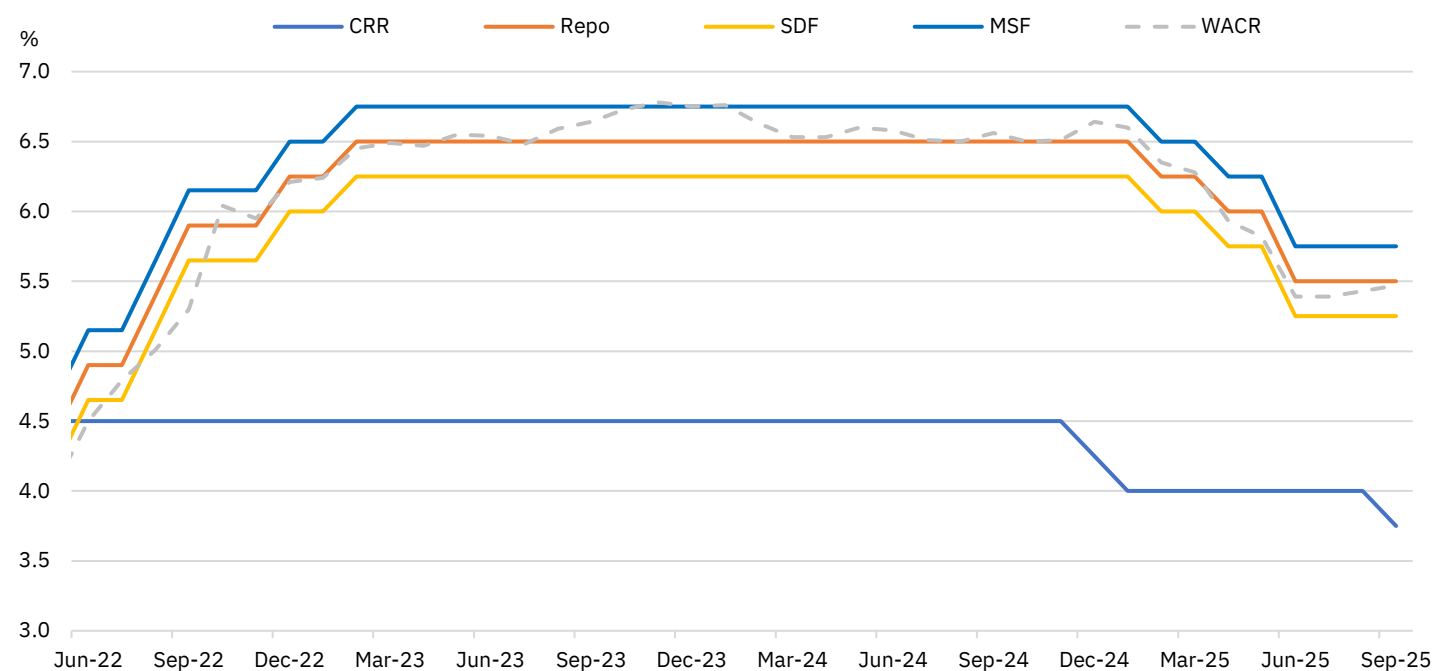
The policy repo rate was unanimously retained at 5.5% in the October'25 policy, marking a second consecutive pause. The policy stance was maintained at *“Neutral”* with a 4:2 majority.

Key rates	April 2025	June 2025	August 2025	October 2025
Repo Rate	6.00%	5.50%	5.50%	5.50%
Standing Deposit Facility (SDF)*	5.75%	5.25%	5.25%	5.25%
Marginal Standing Facility (MSF)	6.25%	5.75%	5.75%	5.75%
Bank Rate	6.25%	5.75%	5.75%	5.75%
Cash Reserve Ratio (CRR)	4.00%	3.00% <sup>1</sup>	3.00% <sup>1</sup>	3.00% <sup>1</sup>

Source: RBI, NSE EPR. \* Introduced in April 2022 policy as the new floor of the LAF corridor.

**Figure 1: Movement in key policy rates**

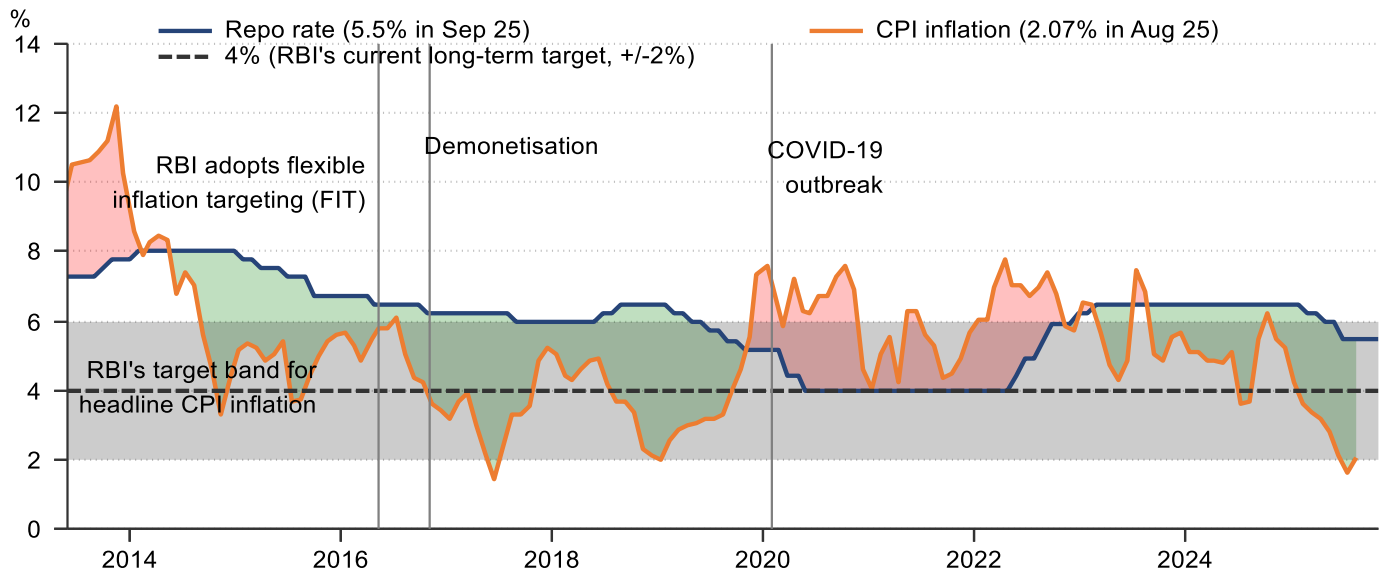
The Weighted Average Call Money Rate (WACR) has softened from an average of 6.6% in January'25 to 5.47% in September'25, closely tracking the cumulative fall of 100bps announced during the current rate cut cycle.



Source: LSEG Workspace, NSE EPR. Notes: 1) The CRR as of end-September is 3.75% and is likely to be reduced by additional 75bps to 3% by the end of November'25

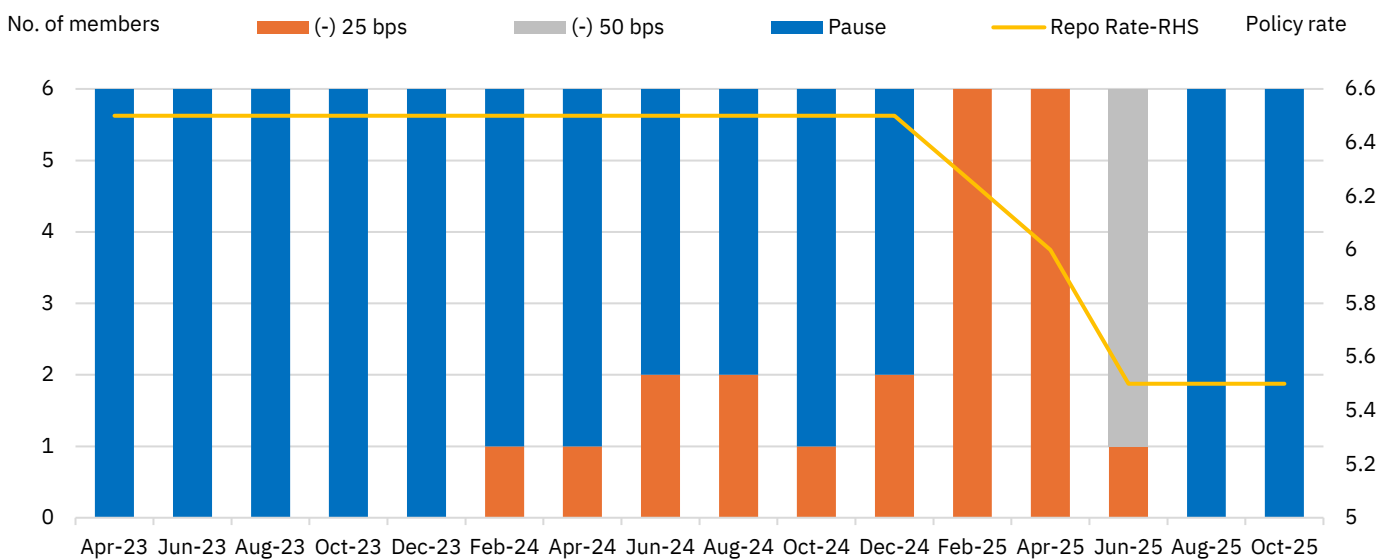
<sup>1</sup> This announcement of CRR cut of 50bps has been in the June'25 and will be reduced in a staggered manner of 25bps each in four separate tranches during September 2025 – November 2025

**Figure 2: Movement in real interest rates**



Source: LSEG Workspace, NSE EPR.

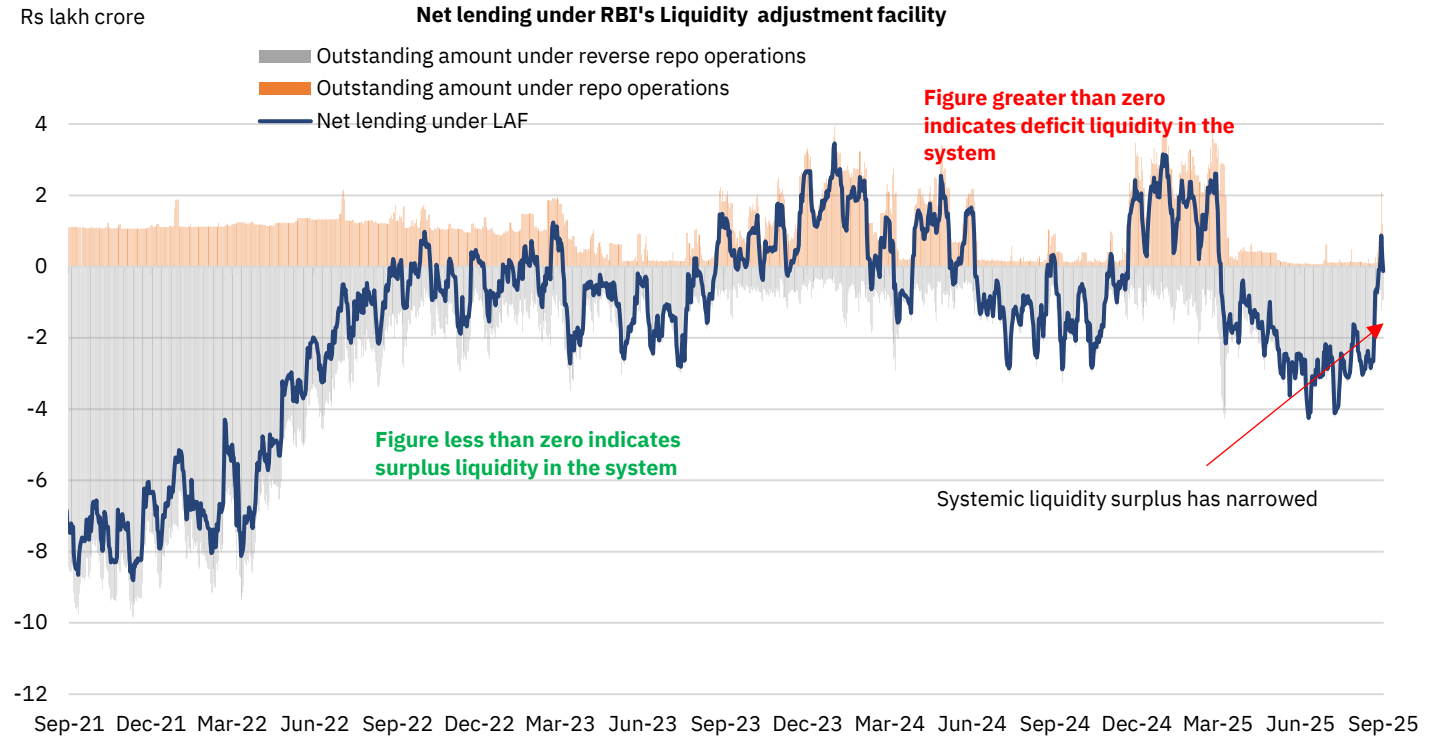
**Figure 3: MPC members' voting pattern**



Source: RBI, NSE EPR.

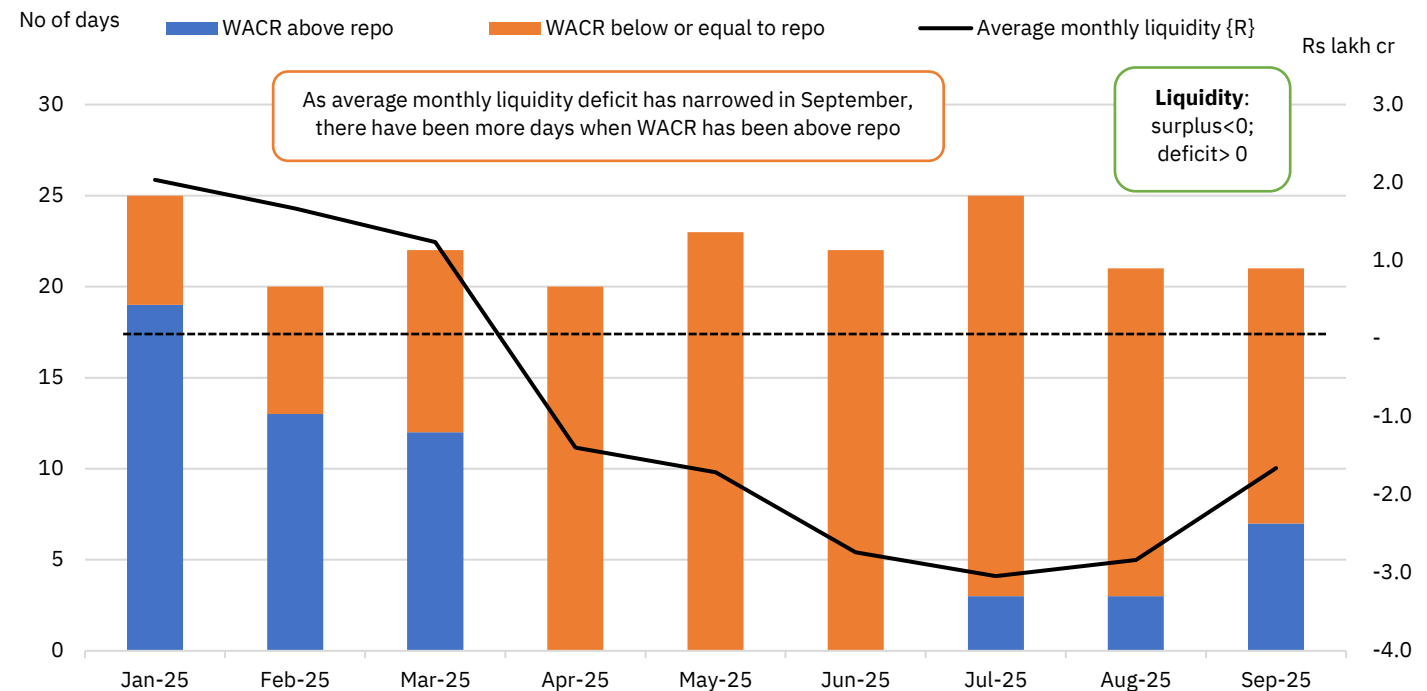
**Figure 4: Net lending under RBI's Liquidity Adjustment Facility**

The banking system liquidity continues to remain in surplus, facilitating the policy rate transmission to the broader money markets and banking channels. That said, the average daily liquidity surplus has narrowed from Rs 3.1 lakh crore in July to Rs. 1.6 lakh crore in September'25.

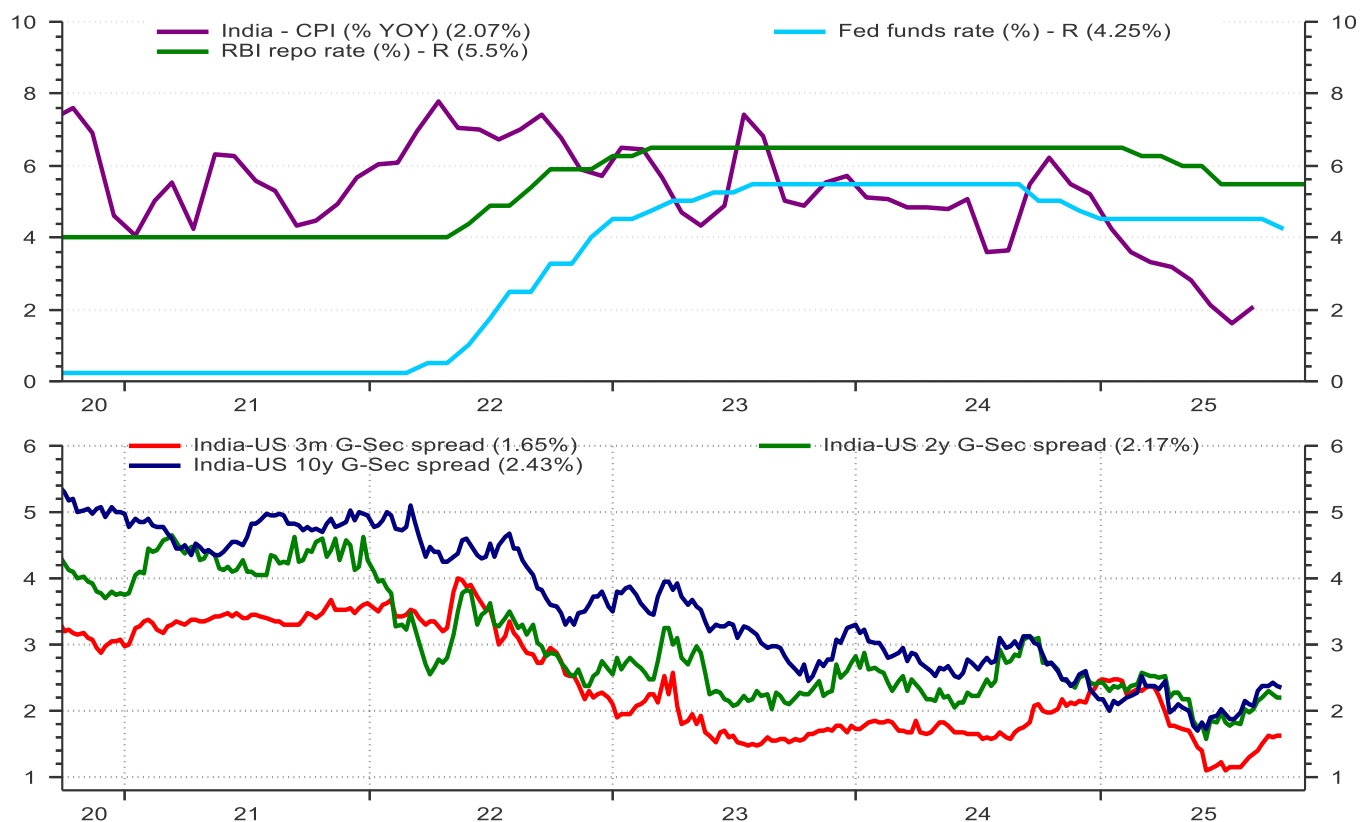


Source: CMIE Economic Outlook, NSE EPR.

**Figure 5: Monthly trend in weighted call money rate and average monthly banking liquidity**



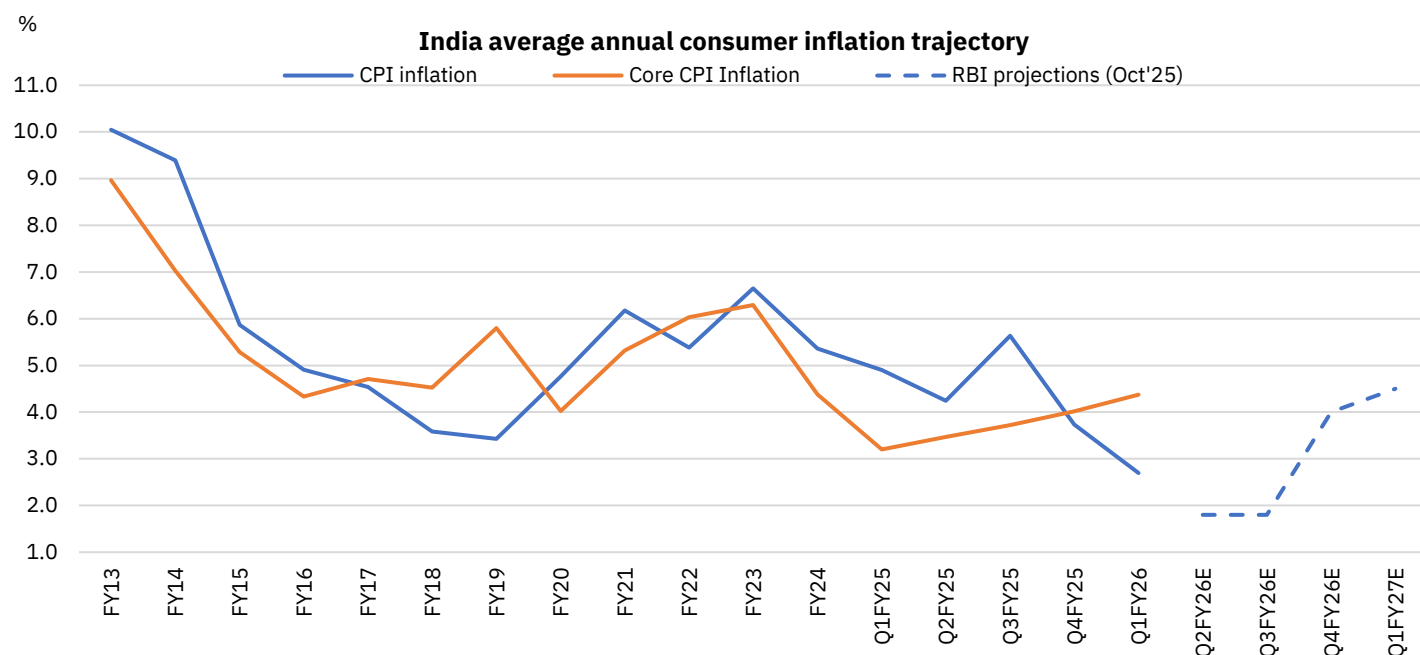
Source: CMIE Economic Outlook, NSE EPR. Note: 1) Positive values indicate deficit, while negative values indicate surplus 2) Data has been captured till September 29<sup>th</sup>, 2025.

**Figure 6: India vs. US policy rates and yield differential**


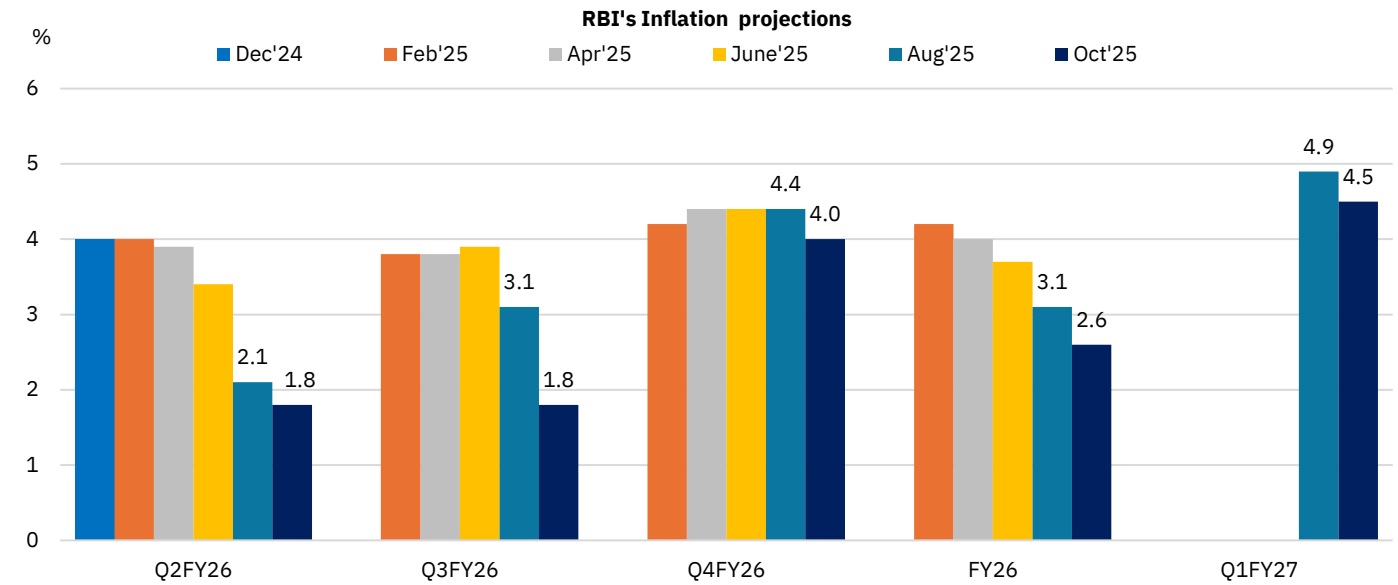
Source: LSEG Datastream, NSE EPR.

**Figure 7: India's consumer inflation trajectory and RBI's forecasts**

Headline inflation estimates have been lowered by 50bps to 2.6% in FY26 with downward revisions in each of the remaining three quarters of the fiscal. Q2 and Q3 inflation has been projected at 1.8% each while Q4/Q1-FY27 has been projected at 4%/4.5%.



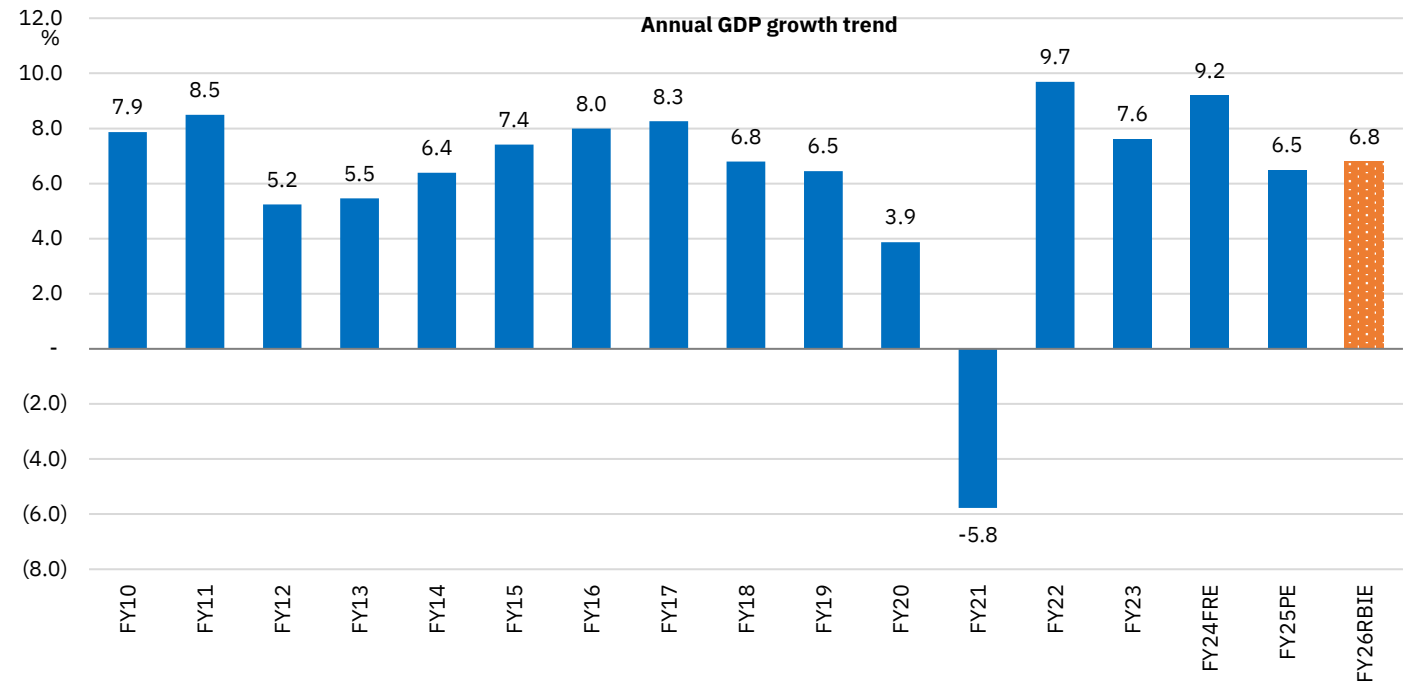
Source: CMIE Economic Outlook, RBI, NSE EPR. Core inflation is calculated as CPI inflation excluding food, pan, tobacco &amp; intoxicants and fuel &amp; light.

**Figure 8: Quarterly and annual inflation forecasts by RBI**


Source: RBI, NSE EPR.

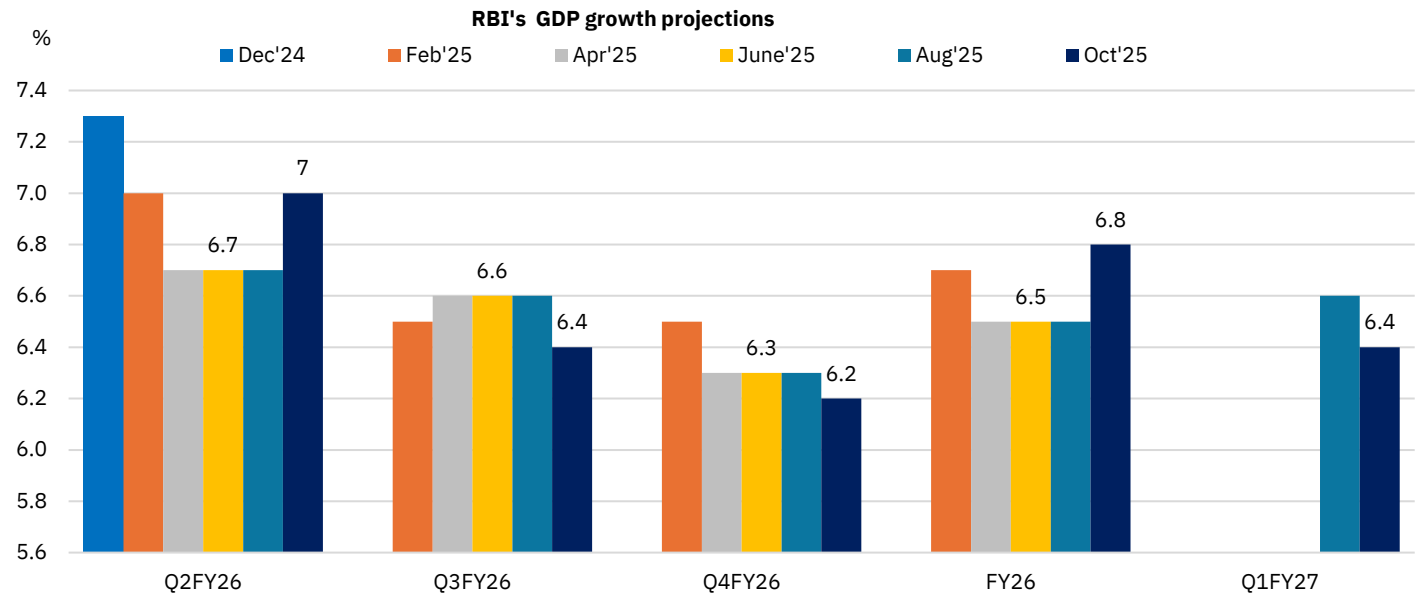
**Figure 9: GDP growth trend and RBI's estimates**

The GDP growth projection for the fiscal year FY26 has been revised higher to 6.8% (+30bps) with upward revisions in Q2 (7%), while downward revisions expected in Q3 (6.4%), Q4(6.2%) and Q1FY27 (6.4%).



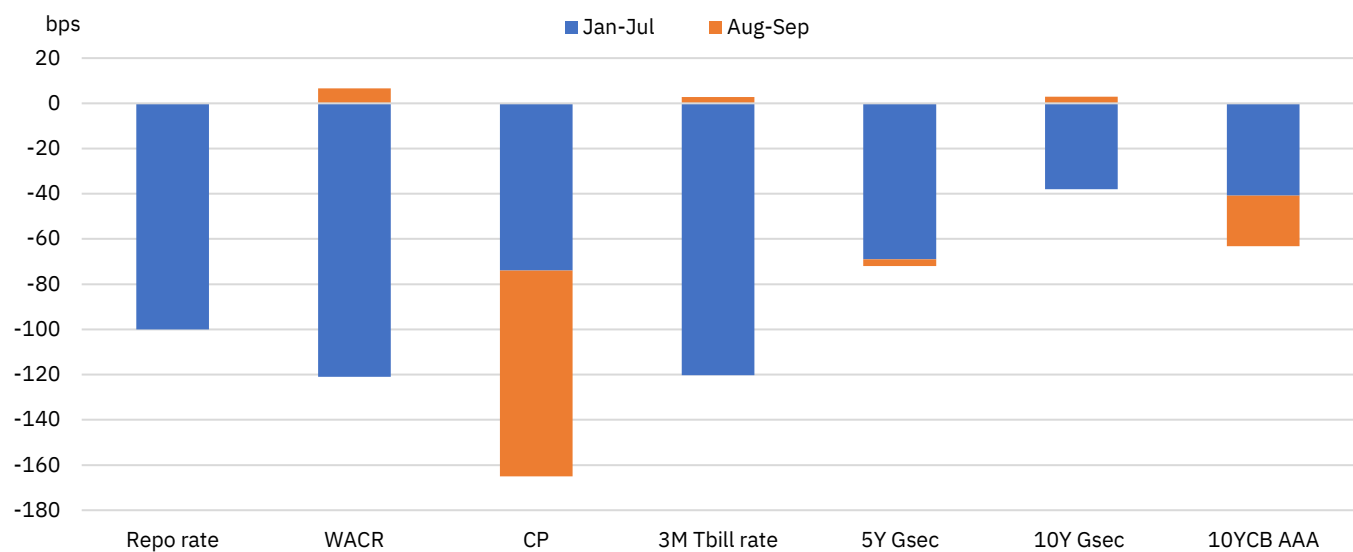
Source: CMIE Economic Outlook, RBI, NSE EPR. RBIE = RBI estimate, FRE= First Revised Estimates, PE= Provisional estimates

**Figure 10: RBI's quarterly and annual GDP growth forecasts**



Source: RBI, NSE EPR.

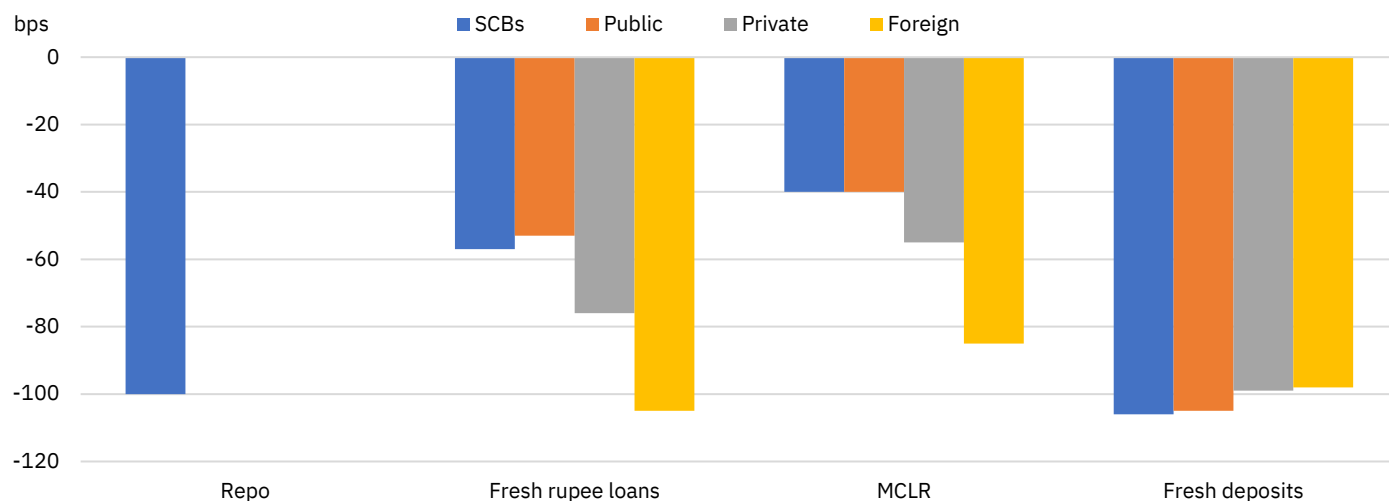
**Figure 11: Change in policy and other interest rates during the current rate cut cycle**



Source: CMIE Economic Outlook, NSE EPR

Notes: 1) For all the above indicators, barring commercial papers (CP) and government securities (G-Secs), the average values for July have been subtracted from the average values for Jan in the Jan-July period and the average value for September has been subtracted from the August period in the Aug-Sep period. 2) In case of CPs, the data for September is available till the fortnight ended September 15<sup>th</sup>, 2025. 3) The interest rate in case of CPs is the simple average of their low and high rates. 4) For G-Secs and corporate bonds (CBs), the weighted average yields for the respective residual maturity, have been considered for calculation. 5) In case of daily data, information available till September 29<sup>th</sup> has been considered for analysis.



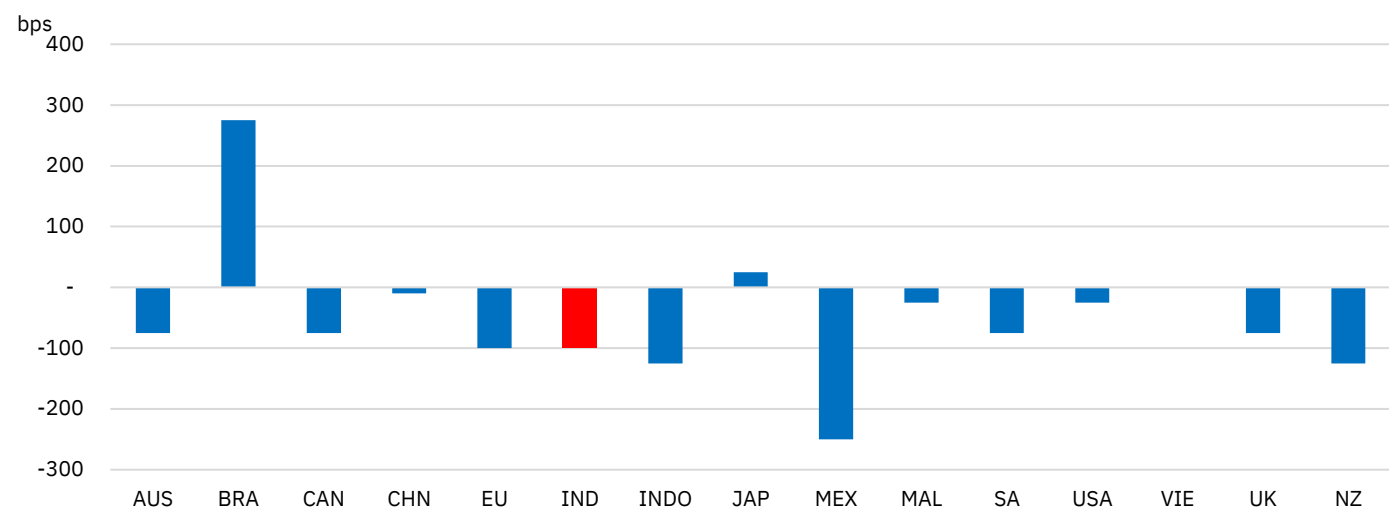
**Figure 12: Change in policy, lending and deposit rate during the current policy rate cycle**


Source: CMIE Economic Outlook, NSE EPR; Notes: 1) The change in repo rate, fresh rupee loans, MCLR and fresh deposits is between end-January'25 and end-August'25

**Table 2: Baseline projections in the Monetary Policy Report October 2025**

Indicator	MPR April 2025	MPR October 2025
Crude Oil (Indian Basket)	US\$ 70 per barrel during 2025-26	US\$ 70 per barrel during H2: 2025-26
Exchange rate	Rs 86/US\$ during 2025-26	Rs 88/US\$ during H2:2025-26
Monsoon	Normal for 2025-26	Normal for 2026-27
Global growth	3.3% in 2025	3.0% in 2025
	3.0% in 2026	3.1% in 2026
Fiscal deficit (per cent of GDP)	To remain within BE 2025-26	To remain within BE 2025-26
	Centre: 4.4	Centre: 4.4
	Combined: 7.1	Combined: 7.4
Domestic economic/structural policies	No major change	GST rationalisation
Inflation (RBI projections)	FY26: 4%, FY27: 4.3%	FY26: 2.6%, FY27: 4.5%
Growth (RBI projections)	FY26: 6.5%, FY27: 6.7%	FY26: 6.8%, FY27: 6.6%

Source: RBI Monetary Policy Report October 2025.

**Figure 13: Variation in policy rates across countries since the start of 2025**


Source: CEIC, LSEG Workspace, NSE EPR. Notes: 1) The variation in policy rates for all countries (barring India) has been computed from the start of the calendar year till policy actions undertaken till September 30<sup>th</sup>, 2025 2) For China, the loan prime rate for 1 year has been considered for computation 3) AUS = Australia, BRA = Brazil, CAN = Canada, CHN= China, EU = European Union, IND= India, INDO=Indonesia, JAP= Japan, MEX=Mexico, MAL=Malaysia, SA= South Africa, USA=United States of America, VIE=Vietnam, UK=United Kingdom, NZ= New Zealand

**Table 3: Summary of select policy measures**

Sr No	Area	Topic	Key points	Implications (if any)
1	Banking Regulation	Expected Credit Loss Framework for provisioning	1) Issue draft directions to replace the extant framework based on incurred loss with an Expected Credit Loss (ECL) approach while retaining asset classification norms. 2) A glide path (till FY31) to be provided to smoothen the one-time impact.	1) Enhance credit risk management practises 2) Promote better comparability of reported financials across institutions
2	Banking Regulation	Basel III – Standardised Approach on Capital Charge for Credit Risk	1) Issue draft guidelines on the implementation of the revised Basel III capital adequacy norms for SCBs (excluding Small Finance Banks, Payments Banks, and Regional Rural Banks) 2) To be implemented from April 1 <sup>st</sup> , 2027	1) To align regulatory framework with the best international practises 2) Improve the resilience of the banking sector
3	Banking Regulation	Forms of Business & Prudential Regulation for Investments	1) Issue draft guidelines on forms of business and investment for banks 2) The proposed bar on overlap in the businesses undertaken by bank and its group entity has been removed	1) To streamline the activities undertaken by banks and their group entities
4	Banking Regulation	Risk-Based Premium for Deposit Insurance	To move from flat-rate deposit insurance premium system to risk-based model	1) To differentiate between banks based on soundness
5	Banking Regulation	Review of Capital Market Exposure (CME) Guidelines	1) Providing an enabling framework for banks to finance acquisitions by Indian corporates 2) Enhance limit for lending by banks against shares, REITs, InvITs	To broaden the scope of capital market lending by banks
6	Banking Regulation	Withdrawal – Guidelines on Credit Supply for Large Borrowers	To withdraw the guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism	To treat concentration risks at the banking system level through other macro-prudential tools
7	Banking Regulation	Risk Weights on Infrastructure Lending by NBFCs	To introduce a principle-based framework to align risks for infrastructure lending by NBFCs	To align risk weights with actual risk characteristics of the infrastructure project
8	Foreign Currency Management	Foreign Currency Accounts by Indian Exporters	Extend the time period for repatriation of funds in foreign currency accounts with a bank outside India from one month to three months	1) Encourage Indian exporters to open accounts with IFSC Banking Units 2) Increase forex liquidity in IFSC
9	Foreign Currency Management	Merchanting Trade Transactions	Extend the time period of outlay of foreign exchange by Indian merchants from four months to six months	1) Help in overcome the challenges faced by Indian merchants due to lingering global uncertainties
10	Foreign Currency Management	Review of External Commercial Borrowing Framework	Draft framework on rationalisation of borrowing limits, removal of restrictions on cost of borrowings for ECBs to be introduced	-
11	Financial Markets	Lending in INR by Authorised Dealer (AD) banks to persons resident outside India	To permit AD banks in India and their overseas branches to lend in INR to persons resident in Bhutan, Nepal and Sri Lanka	To make INR liquidity available and accessible to residents of other countries
12	Financial Markets	Expanding the bouquet of investments for Special Rupee Vostro Accounts	Permit balances in the SRVA accounts to corporate bonds and commercial papers	-
13	Financial Markets	Additional reference rates to be published by FBIL	Include additional currencies of India's major trading partners in the list of reference rates released by FBIL	1) Further deepen the onshore forex markets 2) Eliminate the need for multiple currency conversions

Source: RBI

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