

RBI MPC delivered a dovish pause, two members favored change in stance to accommodative

October 7, 2025

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RBI MPC meeting highlights, October 2025

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Policy decisions

- In its policy decision on October 1, the RBI MPC held the policy repo rate at 5.50% by a unanimous vote. The standing deposit facility (SDF) rate was unchanged at 5.25%, and the marginal standing facility (MSF) rate and the Bank Rate at 5.75%.
- The MPC also kept the monetary policy stance at 'neutral'. But the decision was not unanimous, with two external members Dr. Nagesh Kumar and Prof. Ram Singh voting for a change in stance to accommodative.

Growth outlook

- The MPC raised real GDP growth forecast for FY26 to 6.8% from 6.5%. The forecast for Q2 was revised up by 30bps, while estimates for Q3 and Q4 were cut by 20bps and 10bps, respectively. The projection for Q1-FY27 was pruned by 20bps.
- As per the bi-annual Monetary Policy Report, the RBI has pegged real GDP growth estimate for FY27 at 6.6%, with Q1 at 6.4%, Q2 at 6.6%, Q3 at 6.8% and Q4 at 6.5%.

Inflation outlook

- After lowering CPI inflation forecast for FY26 to 3.1% in August from 3.7% in June, the MPC further trimmed it by 50bps to 2.6%, with downward revisions across quarters, including for Q1-FY27.
- In the latest bi-annual Monetary Policy Report, the RBI has projected FY27 CPI inflation at 4.5%, with Q1 and Q2 both at 4.5%, Q3 at 5.1% and Q4 at 3.9%.

Real GDP %YY	Feb-25	Apr-25	Jun-25	Aug-25	Oct-25
Q1:FY26 F	6.7	6.5	6.5	6.5	
Q2:FY26 F	7.0	6.7	6.7	6.7	7.0
Q3:FY26 F	6.5	6.6	6.6	6.6	6.4
Q4:FY26 F	6.5	6.3	6.3	6.3	6.2
FY26 F	**6.7**	**6.5**	**6.5**	**6.5**	**6.8**
Q1:FY27 F				6.6	6.4

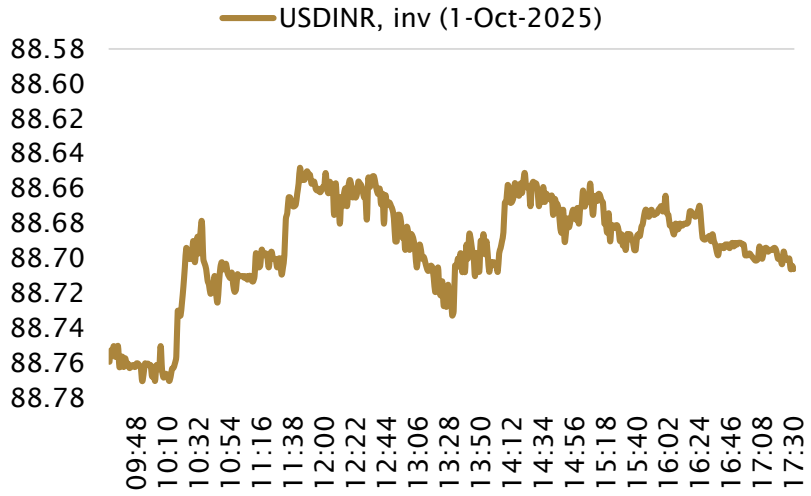
CPI %YY	Feb-25	Apr-25	Jun-25	Aug-25	Oct-25
Q2:FY26 F	4.0	3.9	3.4	2.1	1.8
Q3:FY26 F	3.8	3.8	3.9	3.1	1.8
Q4:FY26 F	4.2	4.4	4.4	4.4	4.0
FY26 F	**4.2**	**4.0**	**3.7**	**3.1**	**2.6**
Q1:FY27 F				4.9	4.5

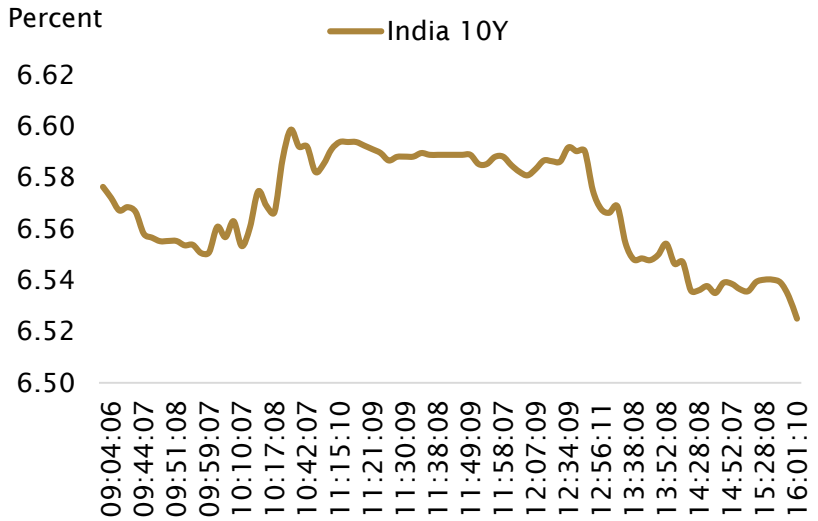
Rationale for policy decisions and outlook

- **Rationale for policy decisions:** Perhaps as a signal for likely easing at its upcoming meeting in December, the policy statement noted that "the current macroeconomic conditions and the outlook has opened up policy space for further supporting growth" but also added that the committee considered it prudent to wait for the impact of front-loaded monetary policy actions and recent fiscal measures to play out. The committee also awaited clarity on trade-related uncertainties before deciding on the next course of action. In the latest SPF survey, the median estimate for terminal policy rate in the current easing cycle remained at 5.25%, though the timeline shifted to Q4-FY26, instead of Q3 that was penciled in the previous round of survey.
- **Rationale for growth outlook:** The MPC noted the resilience in domestic activity, as indicated by the upside surprise in Q1-FY26 GDP that led to upgrade of Q2 forecast, and subsequently for entire FY26. The committee expects support from domestic drivers of growth such as favorable monsoon, low inflation, monetary easing and the recent GST reforms. The MPC also views that the impact of weak external demand due to tariff-related concerns was likely to play out in H2-FY26, for which it cut growth forecasts, including for Q1-FY27.
- **Rationale for inflation outlook:** The MPC stated that the outlook for inflation had become more benign than in the previous policy meeting. The progress in southwest monsoon, healthy Kharif sowing, adequate reservoir levels, and comfortable buffer stocks of food grains are expected to keep food inflation low, and the recent GST rate cuts are likely to further ease prices of various items in the CPI basket.
- **Additional highlights:**
  - View on INR: In his statement, the Governor noted the recent depreciation and volatility in the INR, and stated that the RBI was keeping a close watch, with readiness to act, as needed.
  - Regulatory reforms: The Governor announced a package of measures that seemed mainly aimed at credit easing, among other factors such as (i) strengthening resilience and competitiveness of the banking sector (ii) improving the flow of credit (iii) promoting ease of doing business (iv) simplifying foreign exchange management (v) enhancing consumer satisfaction (vi) internationalisation of INR.
    Some key proposals were: (i) The Expected Credit Loss framework of provisioning with prudential floors to be made applicable to SCBs and all India financial institutions from April 1,2027, with a glide path till March 30, 2031. (ii) Expanding capital market lending by banks by providing a framework for Indian banks to finance acquisitions by Indian corporates, removing regulatory ceiling on lending against listed debt securities, enhancing limits per person for lending by banks against shares and for IPO financing. (iii) Reducing cost of infrastructure financing by lowering risk weights applicable to lending by NBFCs to high quality projects (iv) Rationalizing ECB regulations under FEMA (v) Allowing balances under Special Rupee Vostro Accounts (SRVA) to be invested in corporate bonds and CPs.

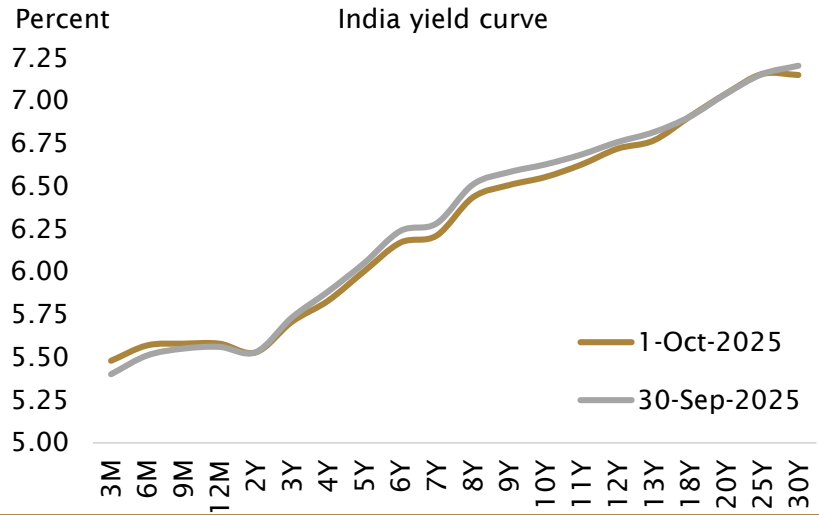
Market reaction to policy decisions

USDINR and 10Y benchmark were volatile on policy day; INR pared some initial gains, 10Y rallied post policy conference

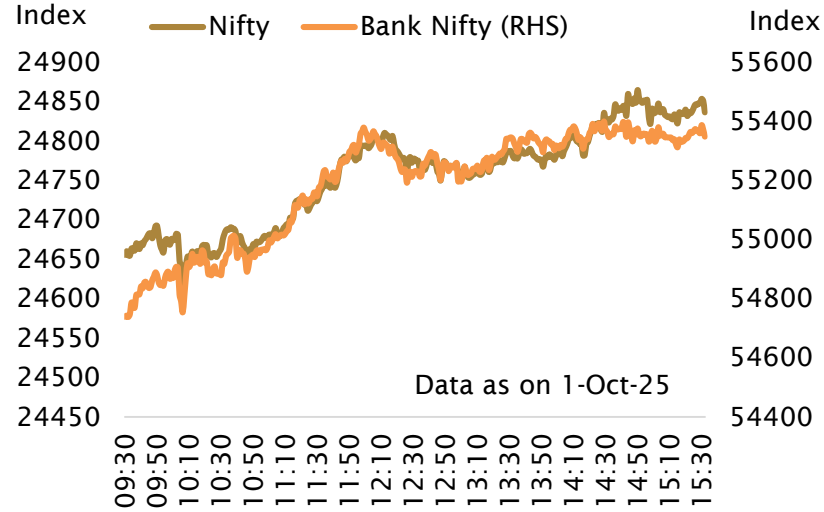




Yields increased slightly at short end of the curve



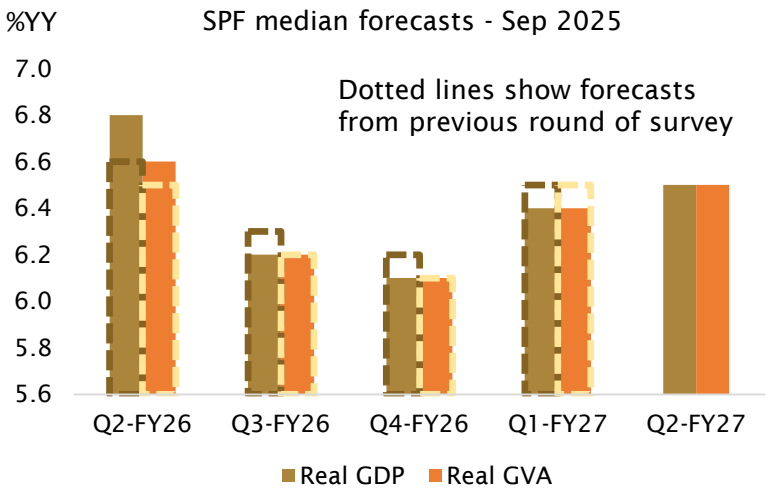
Equities, esp. banking, gained on RBI regulatory easing

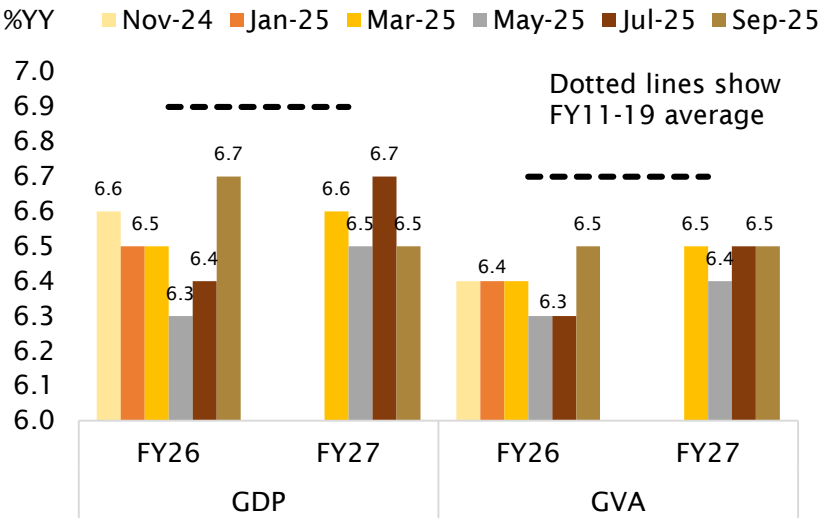


Insights from RBI Surveys – Survey of Professional Forecasters

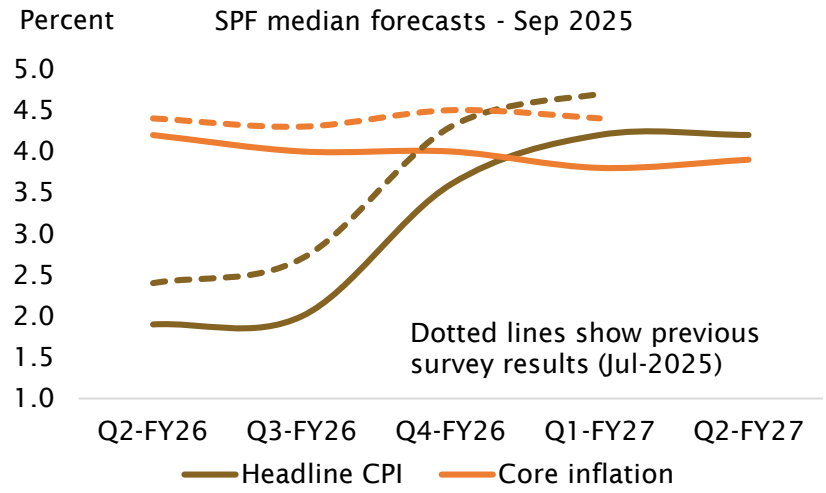
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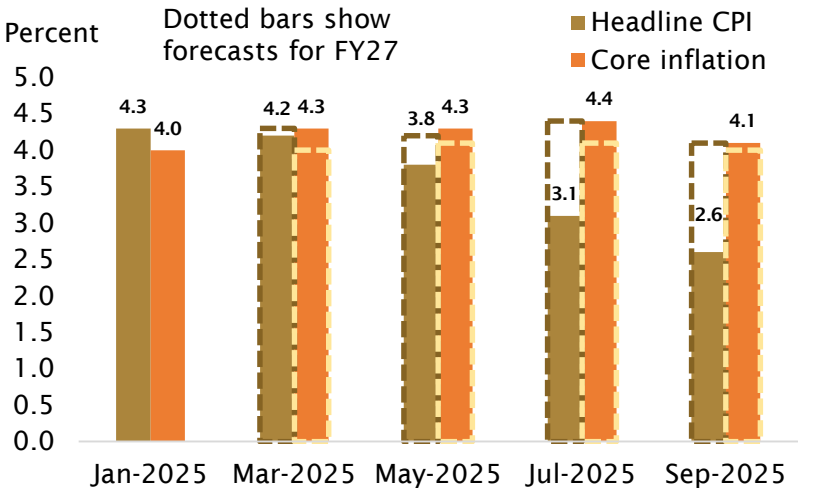
Higher growth expected in Q2 and FY26 due to strong momentum in Q1; forecasts for H2 pruned due to external risks





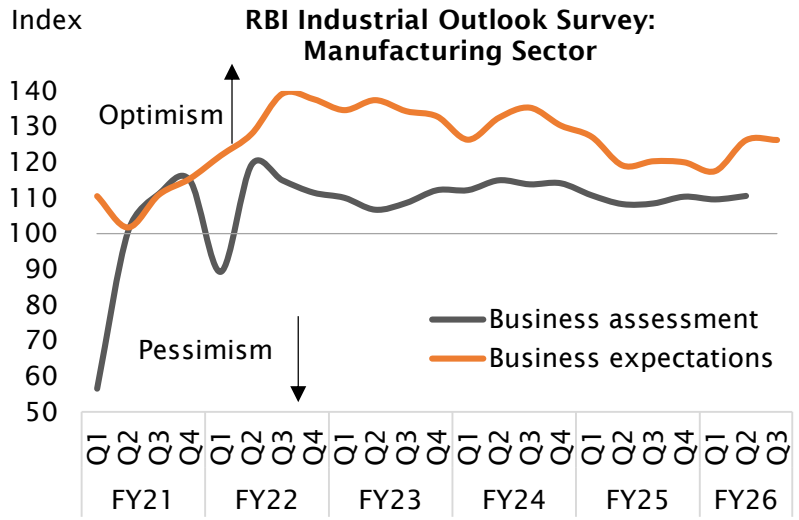
Quarterly and annual Inflation forecasts for FY26, FY27 cut due to benign outlook on food inflation, lower GST rates

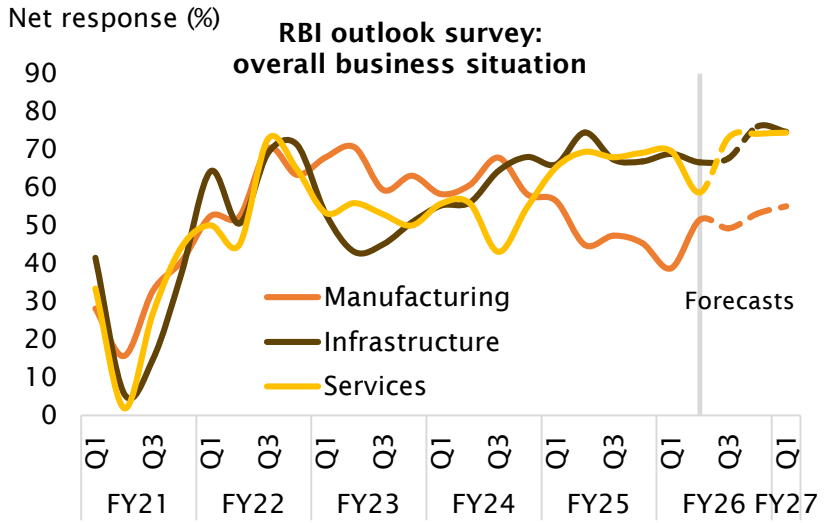




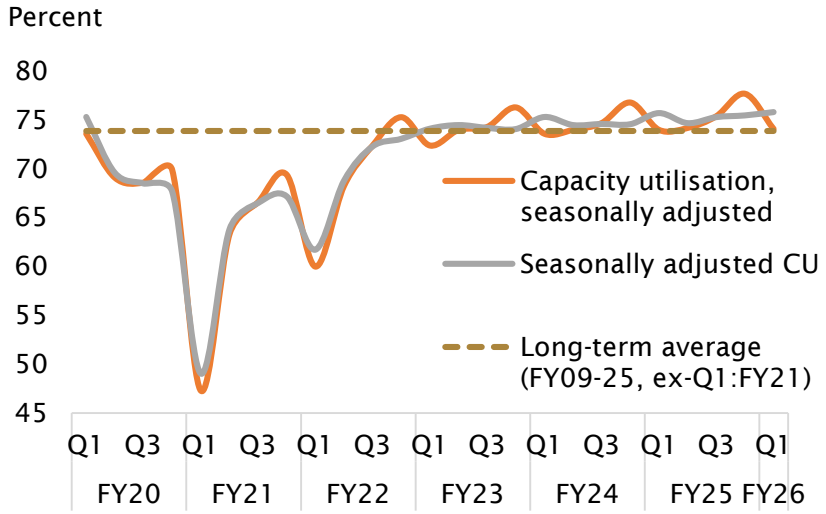
Insights from RBI Surveys – Manufacturing, Services, Infrastructure Outlook

There is tempering of business optimism for Q3-FY26, particularly manufacturing, amid hope for improvement in H1-26

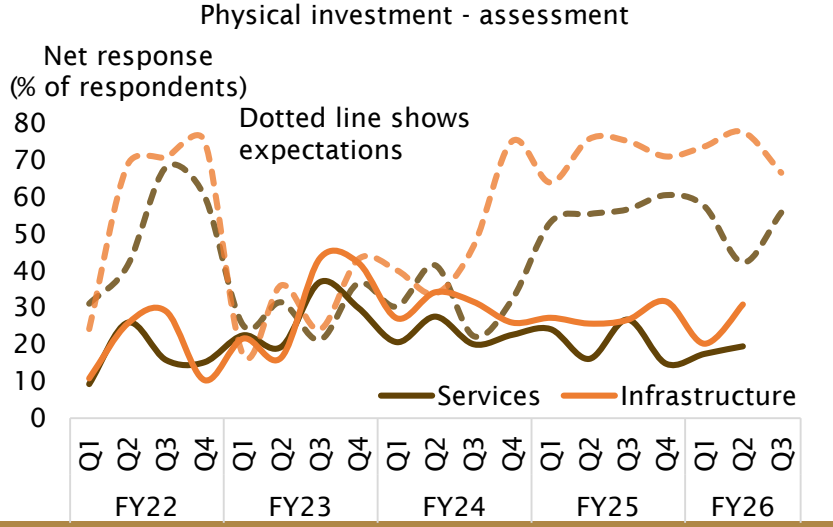




Seasonally adjusted capacity utilization improved in Q1

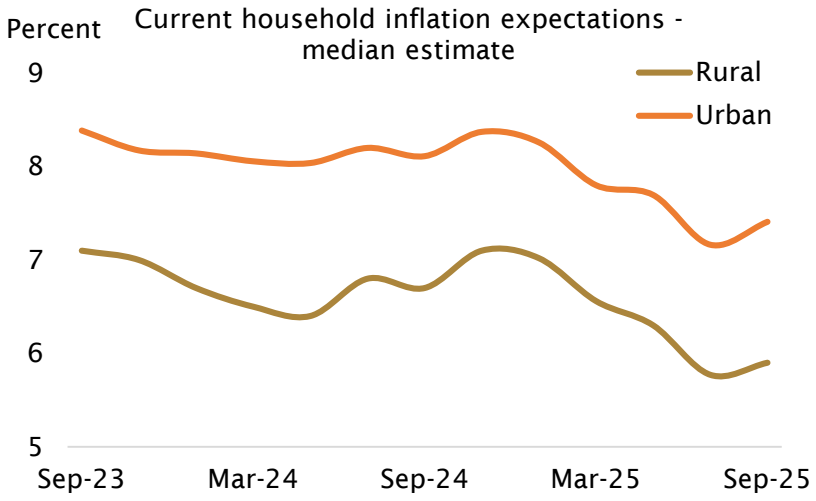


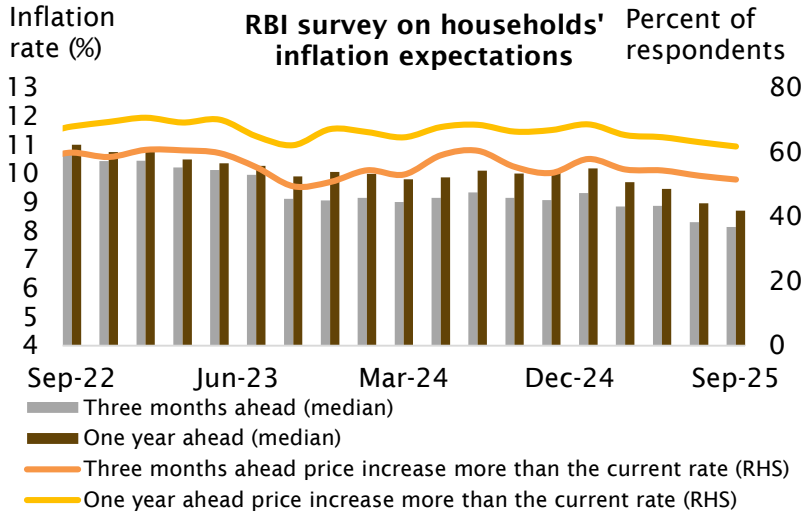
Actual investment remains lower than intentions



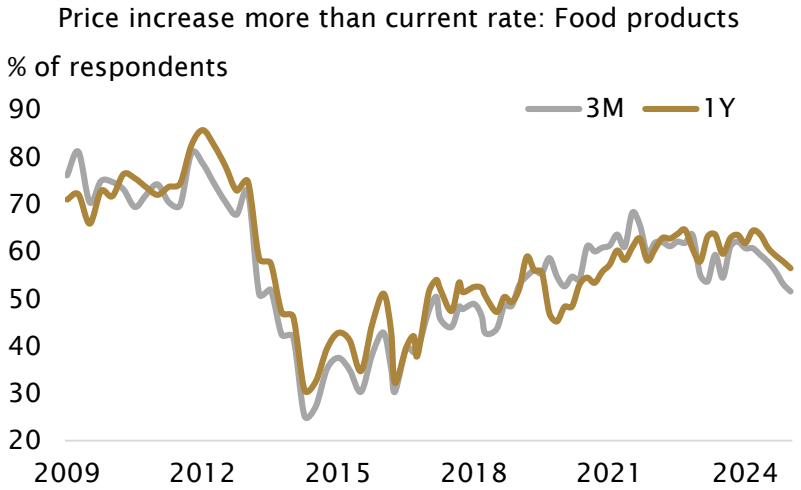
Insights from RBI Surveys – Inflation Expectations

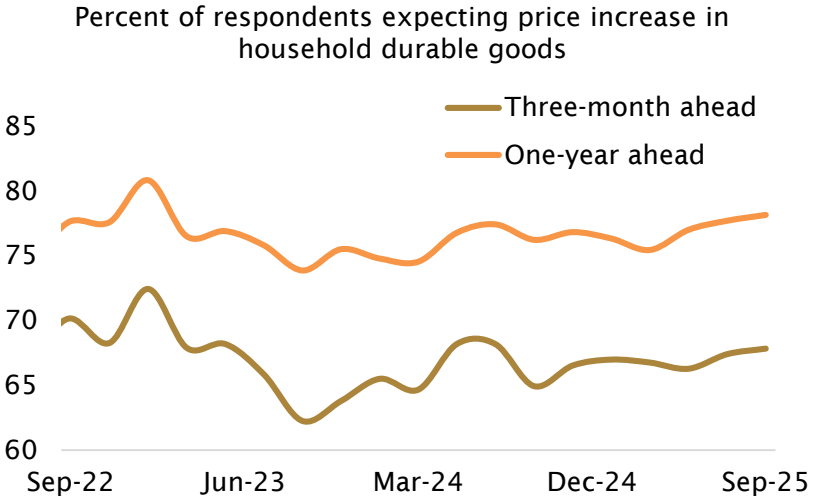
Though households' current period inflation expectation increased, future expectations remained well-anchored





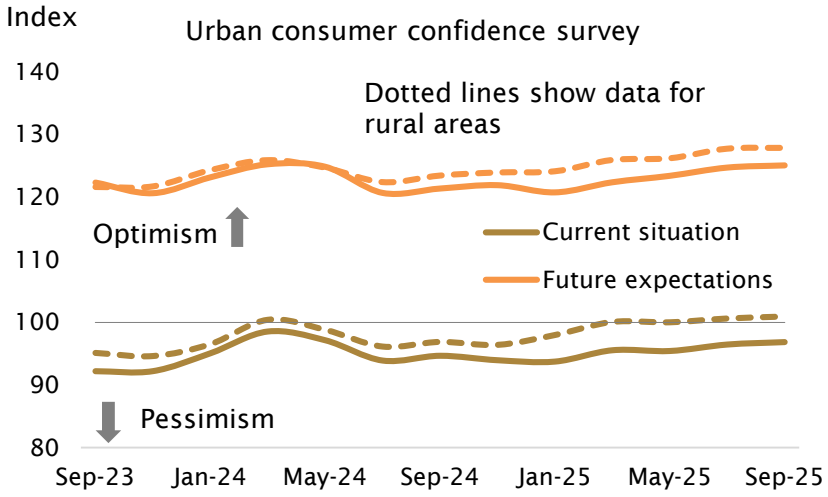
More households increasingly expect food prices to ease, even as they anticipate higher prices for durable goods

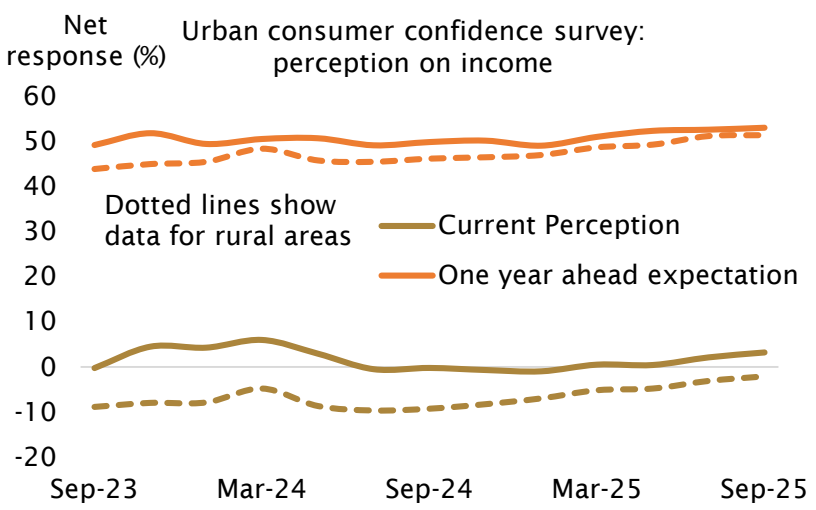




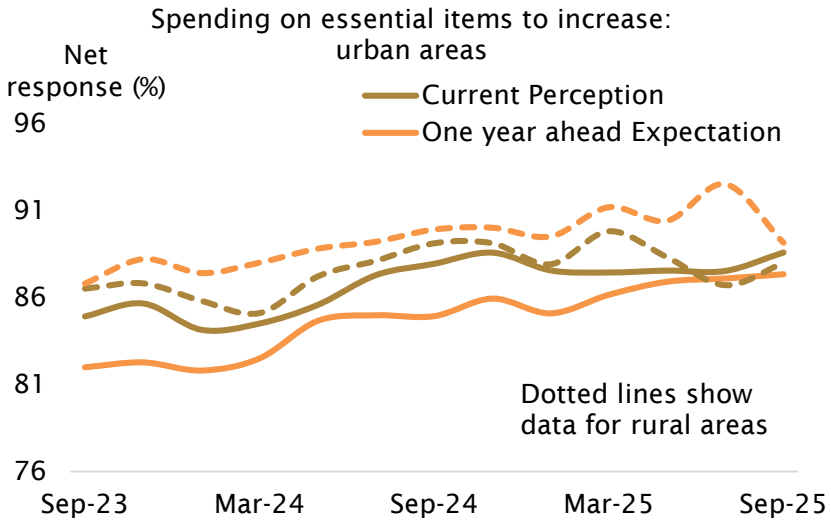
Insights from RBI Surveys – Urban vs. Rural Consumer Confidence

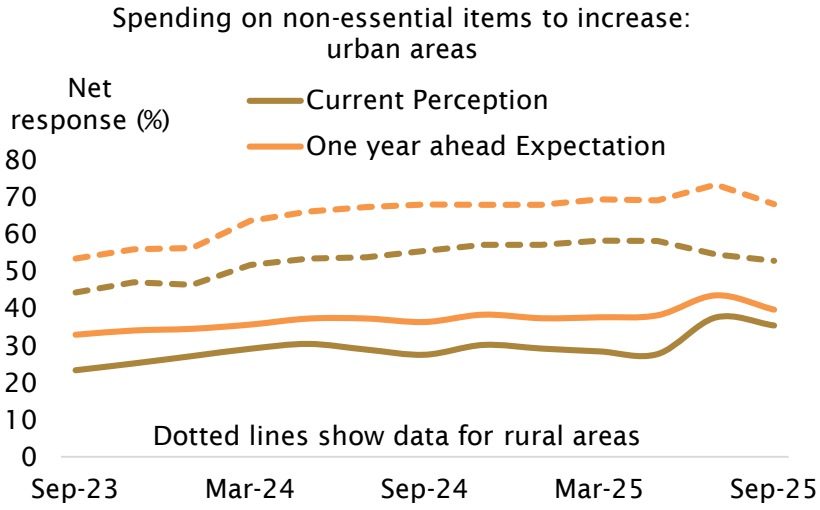
Both urban and rural consumers remain optimistic about future economic conditions, including income expectations





Spending intentions for non-essential items eased, particularly for urban areas, after an uptick in the previous survey





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