



RBI Holds Rates; Cuts Inflation to 2.6%, Hikes Growth to 6.8%

RBI's Stance

Neutral

Key Highlights:

- Repo rate unchanged at 5.5%.
- Monetary policy stance remains 'Neutral'.
- SDF & MSF stood at 5.25% and 5.75%, respectively.
- For FY26, MPC revised projected inflation at 2.6% as against 3.1% forecasted earlier.
- The RBI stated the global environment continues to be challenging amid tariff uncertainties and market volatility.
- For FY26, RBI has raised India's FY26 GDP growth estimates to 6.8% from the previously projected 6.5%.

Policy Rates / Reserve Ratio	06 Aug '25	01 Oct '25	Status
Cash Reserve Ratio (CRR)	3.00%	3.00%	↔
Statutory Liquidity Ratio (SLR)	18.00%	18.00%	↔
Standing Deposit Facility Rate (SDF)	5.25%	5.25%	↔
Repo Rate	5.50%	5.50%	↔
Marginal Standing Facility Rate (MSF)	5.75%	5.75%	↔
Bank rate	5.75%	5.75%	↔
Fixed Reverse Repo Rate	3.35%	3.35%	↔

The RBI's decided to keep its repo rate steady at 5.5%. This pause comes as the central bank assesses the effects of its earlier rate cuts and recent tax reductions, while keeping an eye on uncertainties in global trade. The MPC noted that the impact of the front-loaded monetary policy actions and recent fiscal measures is still playing out. The traded 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.

Growth Outlook:

- In India, **real gross domestic product (GDP)**, driven by strong private consumption and fixed investment, recorded a growth of 7.8% in Q1FY26. On the supply side, growth in gross value added (GVA) at 7.6% was led by a revival in manufacturing and steady expansion in services. **Rural demand remains strong, riding on a good monsoon and robust agriculture activity**, while urban demand is showing a gradual revival. Recovery in manufacturing sector continues while services activity is sustaining its momentum.
- Investment activity, as suggested by healthy growth in construction indicators i.e., cement production and steel consumption in July-August, is holding up well even though production and import of capital goods witnessed some moderation.
- An above normal monsoon, good progress of kharif sowing and adequate reservoir levels have further brightened prospects of agriculture and rural demand.
- Prolonged geopolitical tensions and volatility in international financial markets caused by risk-off sentiments of investors also pose downside risks to the growth outlook. The implementation of several growth-inducing structural reforms, including streamlining of GST are expected to offset some of the adverse effects of the external headwinds.
- Considering all these factors, **Real GDP growth for FY26 is now projected at 6.8%**, with Q2 at 7.0%, Q3 at 6.4%, Q4 at 6.2%. Real GDP growth for Q1FY27 is projected at 6.4%.

	Date	FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Growth Projections	01-Oct-25	6.8%	7.0%	6.4%	6.2%	6.4%
	06-Aug-25	6.5%	6.7%	6.6%	6.3%	6.6%

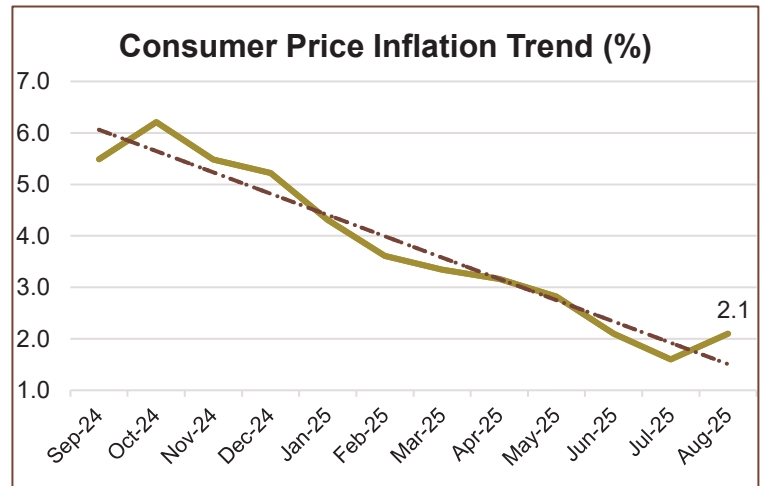
Source: RBI Governor's Policy Statement 01 Oct 2025. News articles

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**Inflation Outlook:**

- **CPI headline Declined to its eight-year low of 1.6% in July before rising to 2.1% in August.**
- **Core inflation remained largely contained at 4.2% in August.** Excluding precious metals, core inflation was at 3.0% in August.
- In terms of inflation outlook, **healthy progress of the south-west monsoon, higher kharif sowing, adequate reservoir levels and comfortable buffer stock of foodgrains should keep food prices benign.**
- **The recently implemented GST rate rationalisation would lead to a reduction in prices of several items in the CPI basket.**



	Date	FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
CPI Inflation Projections	01-Oct-25	2.6%	1.8%	1.8%	4.0%	4.5%
	06-Aug-25	3.1%	2.1%	3.1%	4.4%	4.9%

Source: RBI Governor's Policy Statement 01 Oct 2025. News articles

Other Update:

The RBI announced 22 regulatory steps. Key ones include implementing the Expected Credit Loss Framework and revised Basel III norms from April 2027 with glide path till 2021; enabling banks to finance corporate acquisitions and expand lending against shares/IPO financing; easing infrastructure financing norms for NBFCs. The RBI also outlined steps to advance internationalisation of the rupee.

Summary:

Domestic activity remains resilient and is expected to maintain momentum supported by domestic drivers, despite ongoing weak external demand. The GST 2.0 is expected to boost private consumption and domestic demand. India's recent credit rating upgrades reflect growing global confidence in the country's economic resilience and growth prospects.

Inflation is expected to remain broadly aligned with the target, despite edging up from Q4FY26 as favourable base effects wane and demand strengthen on the back of policy action.

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