

October 1, 2025

Implications of October 2025 MPC

The Monetary Policy Committee (MPC) announced a status quo on the repo rate and retained it at 5.5% by a unanimous vote. Consequently, the MSF and SDF rate stand at 5.75% and 5.25% respectively. This decision was in line with market expectations. The policy stance has also been retained as 'neutral', which signifies the central bank's commitment to flexibility for future rate actions. Two members, however, suggested a shift to an 'accommodative' stance. The GDP growth estimate for FY26 has been revised upwards to 6.8% from the earlier projection of 6.5%. This revision reflects the strong momentum in the domestic economy, supported by robust Q1 growth, a good monsoon and recent GST reforms. The MPC noted that while tariff-related developments and geopolitical uncertainties pose downside risks to the growth outlook in the second half of FY26, the domestic growth drivers are expected to provide resilience.

ECL (Expected Credit Loss)

Under the MPC's recent proposals, the Expected Credit Loss (ECL) framework will be introduced for banks and financial institutions from April 1, 2027. This accounting approach requires banks to estimate and set aside provisions for potential credit losses in advance, rather than waiting for defaults to occur. The change aims to strengthen risk management, improve transparency and align with global prudential norms. A "glide path" is being given until March 2031 to let banks phase in higher provisioning requirements gradually.

MPC Growth (Real GDP) forecasts:

	Q2FY26	Q3FY26	Q4FY26	FY26	Q1FY27
June 2025	6.7	6.6	6.3	6.5	--
August 2025	6.7	6.6	6.3	6.5	6.6
October 2025	7.0	6.4	6.2	6.8	6.4

RBI MPC October 2025 resolution, India's economy has shown strong resilience with real GDP growing 7.8% in Q1 FY26 (GVA 7.6%). The MPC noted that robust monsoon, higher kharif sowing and buoyancy in the services sector have brightened rural and urban demand. For the full year FY26, GDP growth is projected at 6.8% (Q2: 7.0%, Q3: 6.4%, Q4: 6.2%), while Q1 FY27 is expected at 6.4%. The MPC cautioned, however, that external factors such as global trade weakness, tariff uncertainties and geopolitical tensions may weigh on exports. Domestic reforms like GST rationalization and rising capacity utilization are expected to cushion these risks.

CPI inflation forecasts

	Q2FY26	Q3FY26	Q4FY26	FY26	Q1FY27
June 2025	3.4	3.9	4.4	3.7	4.5
August 2025	2.1	3.1	4.4	3.1	4.9
October 2025	1.8	1.8	4.0	2.6	4.5

The MPC October 2025 statement underlined a sharp moderation in inflation, with CPI falling to 1.6% in July 2025 (an eight-year low) and inching up to 2.1% in August. The decline was attributed to lower food inflation, comfortable food grain stocks and GST rate rationalization. Accordingly, the MPC revised down the FY26 inflation forecast to 2.6% (Q2: 1.8%, Q3: 1.8%, Q4: 4.0%), compared to earlier projections of 3.1% in August and 3.7% in June. For Q1 FY27, CPI inflation is projected at 4.5%, reflecting base effects. The MPC observed that this benign inflation outlook has created policy space to support growth, but preferred to wait-and-watch given evolving global uncertainties.

Implication Monetary developments & Regulatory developments

MPC meeting kept the policy repo rate unchanged at 5.5% with a neutral stance, reflecting stability in monetary conditions. Inflation has sharply moderated, touching an eight-year low of 1.6% in July 2025 before rising slightly to 2.1% in August. On this basis, the RBI revised down its inflation forecast for FY26 to 2.6%, creating space for future policy support. Growth momentum remains healthy with GDP expanding 7.8% in Q1 FY26 and full-year growth projected at 6.8%, driven by rural demand, services and manufacturing revival. Liquidity conditions continue to be in surplus at around ₹2.1 lakh crore, ensuring smooth credit transmission. Lending rates on fresh loans have already softened by 58 bps, while deposit rates have declined by 106 bps since the repo rate cuts earlier in the year. Externally, stability is visible with the current account deficit narrowing to 0.2% of GDP and forex reserves rising to \$700 billion, even as the rupee faced some volatility. Regulations: Strengthening the Banking System.

The Reserve Bank of India (RBI) issued a Statement on Developmental and Regulatory Policies on October 1, 2025.

Structural changes are proposed to improve the resilience of banks:

Credit Loss Framework: Scheduled Commercial Banks (SCBs) will transition from an incurred loss to an Expected Credit Loss (ECL) approach for provisioning, with a prudential floor.

Basel III Implementation: Draft guidelines will be issued for the revised Basel framework on the Standardised Approach for Credit Risk for SCBs.

Business & Investment Norms: Finalised guidelines will remove the proposed bar on business overlap between a bank and its group entity, granting greater operational freedom.

Risk-Based Deposit Insurance: The DICGC will introduce a Risk Based Premium model to differentiate charges based on a bank's soundness, helping sound banks save on premiums.

Capital Market Exposure (CME): Guidelines are being rationalised to broaden capital market lending. This includes enabling banks to finance Indian corporate acquisitions. Enhancing lending limits against shares/REITs/InvITs. Removing the regulatory ceiling on lending against listed debt securities.

NBFC Infrastructure Lending: A principle-based framework will be introduced to rationalise risk weights for NBFCs' infrastructure lending, recognizing the lower risk in operational projects.

Other Updates: Guidelines on Lending to Large Borrowers are being withdrawn, a discussion paper on new Urban Co-operative Bank (UCB) licenses will be issued, and restrictions on Transaction Accounts (CA/CC/OD) are set to be eased.

Foreign Exchange and Trade Facilitation:

Measures to simplify compliance and boost foreign trade, Exporters' Repatriation: The time limit for repatriation of funds from foreign currency accounts held in IFSC in India is extended from one month to three months.

Merchanting Trade: The maximum forex outlay period for Merchanting Trade Transactions (MTT) is increased from four months to six months.

Small Trader Compliance: Reconciliation for small value exports/imports (up to INR 10 lakh per bill) in EDPMS/IDPMS can be closed by an AD bank based on the trader's declaration.

ECB and Establishment Norms: The framework for External Commercial Borrowings (ECB) will be simplified. Regulations for the Establishment of Offices in India are also being reviewed to be more principle-driven and delegate more powers to AD banks.

Consumer Protection

Steps to strengthen customer grievance redressal and financial inclusion, Internal Ombudsman (IO): IOs will be equipped with compensation powers and allowed access to the complainant, closely aligning their role with the RBI Ombudsman.

BSBD Account Review: Extant instructions on the Basic Savings Bank Deposit (BSBD) Account will be reviewed to provide more affordable and digitally-aligned banking facilities.

Ombudsman Scheme Scope: The Reserve Bank - Integrated Ombudsman Scheme (RB-IOS) will be expanded to include State Co-operative Banks and District Central Cooperative Banks.

Deepening Financial Markets

Initiatives to promote the Indian Rupee (INR) and enhance market depth, INR Lending Abroad: AD banks are now permitted to lend in INR to persons resident in Bhutan, Nepal and Sri Lanka to facilitate cross-border trade.

Forex Reference Rates: FBIL will include select currencies of India's major trading partners in the reference rates published, aiming to deepen the onshore forex market.

SRVA Investments: Rupee surplus balances in Special Rupee Vostro Accounts (SRVA) can now be invested in corporate bonds and commercial papers, in addition to government securities.

Overall Implications

1. Interest Rates & Liquidity: Unchanged repo rate gives stability & surplus liquidity supports credit flow.
2. Growth: Domestic demand (rural + services + infra) will drive growth & exports face tariff headwinds.
3. Inflation: Low inflation boosts consumer spending however risk of Q4 rebound due to base effects.
4. Banking & Credit: Strong capital ratios and NPAs under control, healthy credit supply, reforms like risk-based deposit insurance & new lending norms reduce costs.
5. External Sector: Resilient due to services exports, remittances, high reserves but volatile FPIs remain a risk.
6. Structural Reforms: GST rationalization as well as new RBI measures (Basel III norms, IPO financing, INR internationalization), better credit flow & stronger financial stability.
7. Overall a balanced policy, supporting growth without losing inflation control, while preparing for external uncertainties.

Conclusion

The October 2025 MPC meeting highlights a rare alignment of strong growth and benign inflation. With GDP growth projected at 6.8% and inflation at 2.6%, India's macroeconomic fundamentals look resilient. However, external risks (trade tensions, global slowdown, FPI outflows) remain key watch points.

For businesses and markets, the policy offers stability in rates, improved liquidity and structural reforms that will support credit flow and investment. For households, lower inflation and steady employment are positives. RBI's cautious stance reflects a balance between supporting growth and safeguarding against global uncertainties.

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