

Policy Highlights:

Reserve Bank of India (RBI) Governor Sanjay Malhotra on October 1, 2025 announced that MPC voted unanimously to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.50 per cent. Consequently, the standing deposit facility (SDF) rate remains at 5.25 per cent while the marginal standing facility (MSF) rate and the Bank Rate remains at 5.75 per cent. The MPC also decided to continue with the neutral stance.

Outlook:

In India, real gross domestic product, driven by strong private consumption and fixed investment, recorded a robust growth of 7.8 per cent in Q1:2025-26. On the supply side, growth in gross value added at 7.6 per cent was led by a revival in manufacturing and steady expansion in services. Available high frequency indicators suggest that economic activity continues to remain resilient. Rural demand remains strong, riding on a good monsoon and robust agriculture activity, while urban demand is showing a gradual revival. Revenue expenditure of the Union and State Governments registered robust growth during the fiscal year so far (April-July). 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. Recovery in manufacturing sector continues while services activity is sustaining its momentum. Looking ahead, 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 rationalisation of goods and services tax (GST) rates. However, ongoing tariff and trade policy uncertainties will impact external demand for goods and services. Prolonged geopolitical tensions and volatility in international financial markets caused by risk-off sentiments of investors also pose downside risks to the growth outlook. Taking all these factors into account, real GDP growth for 2025-26 is now projected at 6.8 per cent, with Q2 at 7.0 per cent, Q3 at 6.4 per cent, and Q4 at 6.2 per cent. Real GDP growth for Q1:2026-27 is projected at 6.4 per cent. The risks are evenly balanced.

Overall, the inflation outcome is likely to be softer than what was projected in the August MPC resolution, primarily on account of the GST rate cuts and benign food prices. Considering all these factors, CPI inflation for 2025-26 is now projected at 2.6 per cent with Q2 at 1.8 per cent; Q3 at 1.8 per cent; and Q4 at 4.0 per cent. CPI inflation for Q1:2026-27 is projected at 4.5 per cent. The risks are evenly balanced. To summarize, there has been a significant moderation in inflation. Moreover, the prevailing global uncertainties and tariff related developments are likely to decelerate growth in H2:2025-26 and beyond. 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.

Policy Rates								
Y-O-Y Growth (%)	Mar-25	Apr-25	May-25	June-25	July-25	Aug-25	Sept-25	Oct-25
Repo	6.25%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
CRR	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.75%	3.75%*
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	Jan-25	Feb-25	Mar-25	Apr-25	May-25	June-25	July-25	Aug-25
Inflation (WPI)	2.51%	2.45%	2.25%	0.85%	0.13%	-0.19%	-0.58%	0.52%
Inflation (CPI)	4.26%	3.61%	3.34%	3.16%	2.82%	2.10%	1.61%	2.07%
GDP Growth								
Y-O-Y Growth (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
GDP (% Growth)	9.34%	9.51%	8.35%	6.51%	5.61%	6.37%	7.38%	7.81%
GVA (% Growth)	9.22%	8.00%	7.27%	6.55%	5.81%	6.49%	6.77%	7.63%

*From 4 October 2025 CRR Rate will be reduced to 3.50%

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