

*Governor's Statement**

Sanjay Malhotra

Namaskar. Greetings on the last day of Navaratri, and my best wishes for a Happy Dussehra and Gandhi Jayanti tomorrow.

Since the August policy meeting, significant developments on the domestic front amidst a fast-changing global economic landscape have altered the narrative on growth-inflation dynamics in India. Buoyed by a good monsoon, the Indian economy continues to exhibit strength by registering a higher growth in Q1:2025-26. At the same time, there has been a considerable moderation in headline inflation. The rationalisation of the goods and services tax (GST) rates is likely to have a sobering impact on inflation while stimulating consumption and growth. Tariffs on the other hand will moderate exports.

As for the global economy, it has been more resilient than anticipated, with robust growth in the US and China. The outlook, however, remains clouded amidst elevated policy uncertainty. Inflation has remained above respective targets in some advanced economies, posing fresh challenges for central banks as they navigate the shifting growth-inflation dynamics. Financial markets have been volatile. The US dollar strengthened after the upward revision of US growth numbers for the second quarter, and treasury yields hardened recently as expectations of rate cuts by the Federal Reserve ebbed. Equities have remained buoyant across several advanced and emerging economies.

Decisions of the Monetary Policy Committee (MPC)

The Monetary Policy Committee (MPC) met on the 29th, 30th of September and 1st October to deliberate and decide on the policy repo rate. After a detailed assessment of the evolving macroeconomic conditions

and the outlook, the MPC voted unanimously to keep the policy repo rate 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 remain at 5.75 per cent. The MPC also decided to continue with the neutral stance.

I shall now briefly set out the rationale for these decisions. The MPC observed that the overall inflation outlook has turned even more benign in the last few months, due to a sharp decline in food prices and the rationalisation of GST rates. The average headline inflation for 2025-26 has been revised lower from 3.7 per cent projected in June and 3.1 per cent in August, to 2.6 per cent. Headline inflation for Q4:2025-26 and Q1:2026-27 too have been revised downwards and are broadly aligned with the target, despite unfavourable base effects. Core inflation for this year and Q1:2026-27 is also expected to remain contained.

The MPC also noted that growth outlook remains resilient supported by domestic drivers, despite weak external demand. It is likely to get further support from a favourable monsoon, lower inflation, monetary easing and the salubrious impact of recent GST reforms. However, growth continues to be below our aspirations. Even though the growth projection for the current financial year is being revised upwards, the forward-looking projections for Q3 and beyond are expected to be slightly lower than projected earlier, primarily due to trade related headwinds, despite being partially offset by the impetus provided by the rationalisation of GST rates.

Summarising, the MPC concluded that 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

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playing out. The trade 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. Accordingly, the MPC unanimously voted to keep the policy repo rate unchanged at 5.5 per cent and decided to retain the stance at neutral.

Assessment of Growth and Inflation

Growth

Economic activity has remained resilient with growth of real gross domestic product (GDP) surprising on the upside at 7.8 per cent and gross value added (GVA) at 7.6 per cent for Q1: 2025-26.¹ As suggested by high frequency indicators available so far, domestic economic activity continues to sustain momentum in Q2:2025-26.²

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 GST. Rising capacity utilisation, conducive financial conditions, and improving domestic demand should continue to facilitate fixed investment. However, ongoing tariff and trade policy

uncertainties will impact external demand. Prolonged geopolitical tensions and volatility in international financial markets caused by risk-off sentiments of investors 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. 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.

Inflation

Inflation conditions remained benign during 2025-26 so far with actual outcomes turning out to be significantly lower than projections.³ Low inflation is primarily attributed to a sharp fall in food inflation,⁴ aided by improved supply prospects and measures by the government to effectively manage the supply chain.⁵ Core inflation⁶ remained largely contained with the August reading at 4.2 per cent, despite continued price pressures on precious metals.⁷

Turning to the inflation outlook, the progress of the southwest monsoon has been satisfactory. Healthy *kharif* sowing,⁸ adequate reservoir levels⁹ and

¹ During Q1:2025-26, private final consumption, government consumption, and gross fixed capital formation (GFCF) grew by 7.0 per cent, 7.4 per cent, and 7.8 per cent, respectively. Real GVA of agriculture, manufacturing and services posted a growth of 3.7 per cent, 7.7 per cent and 9.0 per cent, respectively, in Q1.

² Tractor and two-wheelers sales grew robustly by 17.3 per cent and 7.9 per cent, respectively, during July-August 2025. According to NielsenIQ, FMCG sales volume increased by 8.3 per cent and 4.1 per cent, respectively, in rural and urban areas during July-August 2025. Domestic air passenger traffic contracted by 1.7 per cent during this period. Consumption of finished steel and production of cement increased by 8.7 per cent and 8.8 per cent, respectively in July-August 2025. Domestic production of capital goods expanded at 5.6 per cent in July-August 2025 following a strong growth during Q1:2025-26 at 9.8 per cent, while imports of capital goods expanded by 5.4 per cent during July-August. Manufacturing PMI surged to a 17.5-year high of 59.3 in August, along with strong business optimism. Services PMI reached a 15-year high of 62.9 in August 2025, led by rising new orders.

³ The actual outcome for Q1 and projection for Q2 of 2025-26 turned out to be lower by 90 bps and 210 bps, respectively, than what was set out in April policy, primarily on account of the faster than expected decline in food inflation. Core inflation largely evolved as projected.

⁴ Food group registered a deflation of -0.8 per cent in July (lowest since January 2019), before closing with zero inflation in August 2025.

⁵ Within food group, deflation was observed in prices of vegetables (-15.9 per cent), pulses (-14.5 per cent), and spices (-3.2 per cent) in August. Decline in inflation within cereals sub-group to 2.7 per cent in August 2025 as compared with 7.3 per cent a year ago also contributed to the overall moderation in food inflation.

⁶ CPI headline excluding food and fuel.

⁷ Core excluding gold and silver recorded a y-o-y inflation on 3.0 per cent in August 2025.

⁸ As on September 19, 2025, the area sown under *kharif* crops stood at 11.2 crore hectares, 2.2 per cent over higher than the normal sowing area for the season.

⁹ As of September 25, 2025, reservoir levels stood at 90 per cent of total capacity, exceeding the levels recorded a year ago and the decadal average.

comfortable buffer stocks of food-grains¹⁰ 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. Overall, the inflation outcome is likely to be softer than what was projected in August, 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.

External Sector

India's current account deficit moderated to US\$ 2.4 billion (0.2 per cent of GDP) in Q1:2025-26 as compared with US\$ 8.6 billion (0.9 per cent of GDP) in Q1:2024-25 due to increased net services surplus and strong remittance receipts despite higher merchandise trade deficit.¹¹ During July-August 2025, merchandise trade deficit continued to remain elevated. Notwithstanding rising global trade uncertainties, India's services exports, driven by software and business services, witnessed robust growth in July-August 2025.¹² Furthermore, robust services exports coupled with strong remittance receipts is expected to keep the current account deficit (CAD) sustainable during 2025-26.

On the external financing side, net foreign direct investment reached a 38-month high in July 2025, driven by increased gross foreign direct investment and a moderation in repatriation and outward foreign direct investment.¹³ However, net FPI recorded

outflows of US\$ 3.9 billion in 2025-26 so far (April 01-September 29) due to outflows in both equity and debt segments.¹⁴ As on September 26, 2025, India's foreign exchange reserves stood at US\$ 700.2 billion, sufficient to cover more than 11 months of merchandise imports.¹⁵ Overall, India's external sector continues to be resilient, and we remain confident of meeting our external obligations comfortably.¹⁶

Notwithstanding the robust domestic macroeconomic fundamentals, the INR has witnessed some depreciation accompanied by phases of volatility. RBI is keeping a close watch on movements of the INR and will take appropriate steps, as warranted.

Liquidity and Financial Market Conditions

System liquidity, as measured by the net position under the Liquidity Adjustment Facility (LAF), stood at an average daily surplus of ₹2.1 lakh crore since the last MPC meeting in August 2025.¹⁷ Going ahead, the drawdown of government cash balances and the remaining 75 basis points cut in the cash reserve ratio (CRR) during October-November will aid banking system liquidity in the near-term. Through our two-way operations, we will actively manage liquidity to anchor short-term rates.

Money market rates have remained relatively stable amidst comfortable liquidity conditions.¹⁸

¹⁰ As on September 16, 2025, the Food Corporation of India's wheat stocks were 1.2 times the buffer norms (highest in last 4 years) while rice stocks were 3.5 times the buffer norms.

¹¹ In this context, it is pertinent to inform that we have reduced the time lag of releasing the quarterly balance of payments data and press release from 90 days to 60 days.

¹² As per provisional figures, India's services exports grew by 6.5 per cent during July-August 2025, while services imports increased by 1.5 per cent during this period. Net services exports grew by 12.2 per cent during July-August 2025.

¹³ Gross foreign direct investment (FDI) inflows grew by 33.2 per cent to US\$ 37.7 billion in April-July 2025-26 from US\$ 28.3 billion during the same period a year ago. Net FDI inflows increased by more than 200 per cent to US\$ 10.8 billion in April-July 2025-26 from US\$ 3.5 billion a year ago.

¹⁴ During April-September 2025 (till September 29), there were net outflows of US\$ 3.3 billion and US\$ 0.6 billion in equity and debt segments, respectively.

¹⁵ Based on actual merchandise imports (on a BoP basis) during the four quarters period (Q2:2024-25 to Q1:2025-26), sufficient to cover around nine months of imports of goods and services combined and around 94 per cent of total external debt as on end-June 2025.

¹⁶ India's CAD/GDP ratio moderated to 0.6 per cent in 2024-25 from 0.7 per cent during 2023-24. India's external debt to GDP ratio moderated to 18.9 per cent at end-June 2025 from 19.1 per cent at end-March 2025. The net International Investment position to GDP ratio improved to (-) 8.0 per cent from (-) 8.6 per cent during the same period.

¹⁷ The average daily net absorption under the liquidity adjustment facility (LAF) during June and July stood at ₹2.8 lakh crore and ₹3.1 lakh crore, respectively. The average daily net absorption under the LAF declined to ₹2.9 lakh crore in August 2025 and ₹1.6 lakh crore in September 2025 (up to 29th).

¹⁸ In response to the cumulative policy repo rate cut of 100 basis points (bps) in the current easing cycle (up to September 29), the WACR, the 3-month T-bill rate, the 3-month CP issued by NBFCs, and the 3-month CD rate declined by 92 bps, 105 bps, 118 bps, and 147 bps, respectively.

During February-August 2025, in response to the 100-basis points (bps) cut in the policy repo rate, the weighted average lending rate (WALR) of Scheduled Commercial Banks moderated by 58 bps for fresh rupee loans; 71 bps is on account of interest rate effect. The moderation for outstanding rupee loans is to the extent of 55 bps. On the deposit side, the weighted average domestic term deposit rate (WADTDR) on fresh deposits declined by 106 bps, while that on outstanding deposits softened by 22 bps over the same period. Transmission has been broad-based across sectors. Going forward, adequate liquidity in the system and the remaining CRR cuts will further facilitate monetary transmission.

Financial Stability

The system-level financial parameters related to capital adequacy, liquidity, asset quality and profitability of the Scheduled Commercial Banks (SCBs) continue to remain healthy.¹⁹ Similarly, the system-level parameters of NBFCs too are sound, with adequate capital and improved GNPA ratios²⁰.

Bank credit growth, despite being lower than last year, continues to be healthy and supportive of real economic activity.²¹ I would like to emphasise here that, as other sources of funding are gradually but

steadily increasing their footprint, it is the overall flow of financial resources to the economy that is more pertinent for assessing flow of funds to the productive sectors. The total flow of resources from non-bank sources to the commercial sector increased by ₹2.66 lakh crore in 2025-26 so far, more than offsetting the decline in non-food bank credit by ₹0.48 lakh crore).²²

Additional Measures

I shall now announce a package of twenty two additional measures aimed at strengthening the resilience and competitiveness of the banking sector, improving the flow of credit, promoting ease of doing business, simplifying foreign exchange management, enhancing consumer satisfaction, and internationalisation of Indian Rupee.

Strengthening the resilience and competitiveness of the banking sector

There are four measures for strengthening the resilience and competitiveness of the Indian banks.

The Expected Credit Loss (ECL) framework of provisioning with prudential floors is proposed to be made applicable to all Scheduled Commercial Banks (excluding Small Finance Banks (SFBs), Payment Banks (PBs), Regional Rural Banks (RRBs)) and All India Financial Institutions (AIFIs) with effect from 1st April 2027.

They will be given a glide path (till March 31, 2031) to smoothen the one-time impact of higher provisioning, if any, on their existing books.

Further, it is proposed to make the revised Basel III capital adequacy norms effective for commercial banks (excluding SFBs, PBs and RRBs) from 1st April 2027.

In furtherance of this, a draft of the Standardised Approach for Credit Risk shall be issued shortly. Under

¹⁹ **SCB Parameters:** The outstanding credit and deposit increased by 10.4 per cent and 11.3 per cent on a y-o-y basis, respectively, between June-24 and June-25. The system-level Capital to Risk Weighted Assets Ratio (CRAR) of 17.54 per cent in June 2025 was well above the regulatory minimum level. Ratio of non-performing loans improved further (GNPA ratio at 2.22 per cent in June 2025 vis-à-vis 2.67 per cent in June 2024, NNPA Ratio at 0.51 per cent in June 2025 vis-à-vis 0.60 per cent in June 2024). Liquidity buffers were robust, with an LCR of 132.69 per cent as of end June 2025. The annualised return on assets (RoA) and return on equity (RoE) stood at 1.30 per cent and 13.02 per cent, respectively, in June 2025. Net Interest Margin was 3.25 per cent for June 2025 (3.54 per cent in June 2024).

²⁰ **NBFC Parameters:** Total CRAR of NBFCs was 25.69 per cent and Tier I CRAR was 23.78 per cent in June 2025, well above the minimum regulatory requirements. GNPA ratio has improved from 2.54 per cent in June 2024 to 2.23 per cent in June 2025, while NNPA ratio also improved from 1.07 per cent in June 2024 to 0.98 per cent in June 2025. RoA for the sector decreased slightly from 2.66 per cent in June 2024 to 2.64 per cent in June 2025. NIM has slightly decreased from 4.85% in June 2024 to 4.50% in June 2025.

²¹ Non-food bank credit recorded a year-on-year (y-o-y) growth of 10.2 per cent as on September 5, 2025, compared to 13.3 per cent a year ago.

²² Among the non-bank sources, issuances of corporate bonds by non-financial entities increased by ₹1.66 lakh crore while net inward FDI increased by ₹0.93 lakh crore.

the revised approach, the proposed lower risk weights on certain segments are expected to reduce the overall capital requirements, particularly for MSMEs and residential real estate (including home loans).

It may be recalled that capital requirements for operational risk have already been finalised (in 2023) whereas the capital requirements for market risk are under finalisation after receipt of comments from the public.

These measures will help align our guidelines with international standards adapted to our national conditions and priorities, and strengthen the capital adequacy framework for banks and AIFIs.

A draft circular on Forms of Business and Prudential Regulation for Investments was issued in October, 2024. It has been finalised after public consultations and will be issued shortly. The proposed regulatory restriction on overlap in the businesses undertaken by a bank and its group entity(ies) is being removed from the final guidelines. The strategic allocation of business streams among group entities will be left to the wisdom of Bank Boards.

It is further proposed to introduce risk-based deposit insurance premium with the currently applicable flat rate of premium as the ceiling. This will incentivise sound risk management by banks and reduce premium to be paid by better rated banks.

Improving the flow of credit

I will announce five measures to improve flow of credit.

One, to expand the scope of capital market lending by banks, it is proposed to provide an enabling framework for Indian banks to finance acquisitions by Indian corporates.

Two, it is proposed to (a) remove the regulatory ceiling on lending against listed debt securities and (b) enhance limits for lending by banks against shares

from Rs. 20 lakh to Rs. 1 crore and for IPO financing from Rs. 10 lakh to Rs. 25 lakh per person.

Three, it is proposed to withdraw the framework introduced in 2016 that disincentivized lending by banks to specified borrowers (with credit limit from banking system of Rs.10,000 crore and above).

While the Large Exposure Framework since put in place for banks addresses credit concentration risk to a particular entity or group at an individual bank-level, concentration risk at the banking system level, as and when considered necessary, will be managed through specific macroprudential tools.

Four, to reduce the cost of infrastructure financing by NBFCs, it is proposed to reduce the risk weights applicable to lending by NBFCs to operational, high quality infrastructure projects.

Five, since 2004, licensing for Urban Co-operative Banks (UCBs) had been paused. Considering the positive developments in the sector during the last two decades and in response to the growing demand from the stakeholders, we propose to publish a discussion paper on licensing of new UCBs.

Promoting Ease of Doing Business

I now come to measures related to EoDB. We have seven announcements including those related to FEMA.

First, a large number of circulars and directions totalling about 9000, have been consolidated, subject wise, across 11 types of regulated entities. Drafts of the same shall be issued shortly for public consultation.

Second, it is proposed to provide greater flexibility to banks for opening and maintaining transaction accounts of borrowers (viz. current accounts and CC/OD accounts). This will particularly help borrowers which are regulated by a financial sector regulator. Restrictions with respect to collection accounts are also proposed to be withdrawn.

The export sector is a vital part of India's economy. To further strengthen the sector and enhance ease of doing business, we shall:

- extend the time period for repatriation from foreign currency accounts of Indian exporters in IFSC, from one month to three months.
- increase the period for forex outlay for Merchanting Trade transactions, from four months to six months; and
- simplify the process of reconciliation of outstanding entries related to exports and imports in the respective reporting portals (EDPMS/IDPMS).

Simplifying foreign exchange management

Sixth, key provisions relating to eligible borrowers, recognised lenders, limits on borrowing, cost of borrowing, end-use and reporting, etc. in ECB regulations, issued under FEMA, are proposed to be rationalised.

Seventh, it is proposed to rationalise FEMA regulations regarding non-residents establishing their business presence in India.

Enhancing consumer satisfaction

I shall now state three consumer centric proposals:

One, the bouquet of services offered to Basic Savings Bank Deposit account holders without levy of minimum balance charges is proposed to be expanded to, inter alia, include digital banking (mobile/internet banking) services.

Two, the Internal Ombudsman mechanism is proposed to be strengthened to make grievance redressal by regulated entities more effective.

Three, the RBI Ombudsman Scheme is also being revised for improved grievance redressal and rural cooperative banks are being included under the ambit of the Scheme.

Internationalising Indian Rupee

We have been making steady progress in the use of Indian Rupee for international trade. Three measures are proposed in this regard:

- First, permit AD banks to lend in Indian Rupees to non-residents from Bhutan, Nepal and Sri Lanka for cross border trade transactions.
- Second, establish transparent reference rates for currencies of India's major trading partners to facilitate INR based transactions.
- Third, permit wider use of SRVA balances by making them eligible for investment in corporate bonds and commercial papers.

Concluding Remarks

Let me now conclude. Despite an external environment that has deteriorated since the August policy, the Indian economy remains poised to register high growth. The sobering of inflation has given greater leeway for monetary policy to support growth without compromising on the primary mandate of price stability. However, the MPC decided to wait for the cumulative impact of recent policy actions to play out before charting the next course of action.

As India strives towards achieving Viksit Bharat by the centenary year of its independence, it would need the coordinated support of fiscal, monetary, regulatory and other public policies to attain its goal. The recent rationalisation of GST rates by the Government is a major step in this direction. Our various policy announcements today will also support the achievement of this goal. In terms of monetary policy actions, we will remain vigilant of the incoming data and stay focussed on our objective of maintaining price stability while supporting growth. In pursuit of this objective, we will be proactive, objective and consistent in our communication while backing it up with credible actions.

Thank you. Namaskar and Jai Hind.