

Fig 1: Macro projections, Oct'25 vs Aug'25 MPC

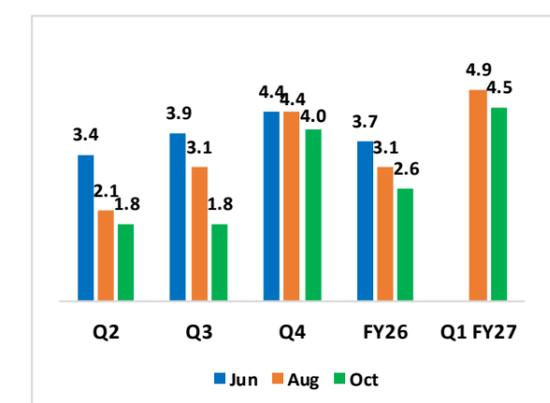
RBI MPC's Growth & Inflation Projections				
	GDP		CPI	
	Aug'25	Oct'25	Aug'25	Oct'25
Q2	6.7	7.0	2.1	1.8
Q3	6.6	6.4	3.1	1.8
Q4	6.3	6.2	4.4	4.0
FY26	6.5	6.8	3.1	2.6
Q1FY27	6.6	6.4	4.9	4.5

Fig 2: UBI vs MPC Macro projections

UBI vs RBI MPC Projections				
	GDP		CPI	
	MPC	UBI	MPC	UBI
Q2	7.0	7.0	1.8	1.7
Q3	6.4	6.0	1.8	1.2
Q4	6.2	6.0	4.0	2.5
FY26	6.8	6.7	2.6	2.0
Q1FY27	6.4	-	4.5	3.4

Source: RBI, UBI Research

Fig 3: Sharp downward revision in MPC's FY26 inflation projections in recent meetings



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➤ A dovish pause by RBI, as 'space for policy easing has opened up'

The MPC voted unanimously to retain the policy repo rate at 5.50%. The market was however divided on a probable 25bps cut (our view was of 25bps rate cut and we now see this as a probable outcome in December meeting). The MSF rate and the Bank Rate remain at 5.75% and the standing deposit facility (SDF) rate under the Liquidity Adjustment Facility (LAF), at 5.25%. Interestingly, while the MPC does not vote on stance (as seen in recent meetings), the policy statement indicated that two government nominees, Dr. Nagesh Kumar and Prof. Ram Singh, were of the view that the stance be changed from neutral to accommodative (despite voting for status quo on rates).

The guidance was balanced with dovish streaks as the MPC further noted that "current macroeconomic conditions and the outlook has opened up policy space for further supporting growth". Despite this, opened up policy space, rates were kept unchanged amid heightened global uncertainty and as the impact of fiscal policy steps (GST rate cut) and frontloaded 100bps rate cuts and liquidity easing steps are still flowing through the economy and markets. 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.

➤ Inflation, GDP projection revisions in line with our expectations

Inflation projections were revised lower for Q2 and Q3 FY26 to 1.8% (from 2.1% and 3.1% earlier) while Q4 FY26 now seen at 4.0% (from 4.4%). FY26 inflation projection was revised dramatically lower to 2.6% from 3.1% with risks evenly balanced (Fig 1 & 2). The Governor stated that "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." While inflation projections were revised lower, FY26 growth forecasts were revised upwards from 6.5% to 6.8%, with Q2 at 7.0%, Q3 at 6.4% and Q4 growth seen at 6.2% respectively. Real GDP growth for Q1FY27 is projected at 6.4%. In line with our view, the FY26 growth forecast was revised up to 6.8%, yet the Governor acknowledged the downward revision in Q3 and Q4 FY26 growth outlook amid tariff related uncertainty.

➤ We see the macro prudential steps as key positive in boosting transmission and credit

The macro prudential measures are likely to support in following ways.

- i. *Booster shot for credit growth by easing regulatory restrictions:*
 - a. Withdrawal of 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). This means that large corporates which have shifted to capital markets as a source of financing on exposure limits being hit will likely consider increase share of bank credit in their overall financing. This is positive for industry credit growth (which is currently struggling amid delay in broad based private capex recovery and lower rates in corporate bond markets).
 - b. Supporting a pickup in capital market lending by banks via enabling acquisition financing, raising limits on lending against shares (Rs. 20 lakh to Rs. 1 crore) & IPO financing (Rs. 10 lakh to Rs. 25 lakh per person), units of REITs & InvITs, removing limits on lending against debt securities among others. This is a key positive and in specific M&A deal financing is likely to be positive kicker for bank credit.
 - c. Enabling transmission of front loaded rate cuts
 - The relaxation of risk-weights on mortgages and loans extended to real estate companies for residential housing, along with lower RWAs on MSME lending, will ease capital requirements and strengthen banks' capital ratios across the sector. This step is expected to benefit nearly 25-50% of banks' portfolios, making it a significant policy development. Over the medium to long term, the move is structurally positive.
 - The reduction in risk-weights on infrastructure financing by NBFCs for high-quality projects will be particularly advantageous for power financing entities. In addition, the removal of restrictions that previously prevented banks and NBFCs from undertaking overlapping business is a favorable development for banks with NBFC subsidiaries engaged in such activities.

ii. *Regulatory clarity:*

The Expected Credit Loss (ECL) guidelines will now be implemented from 1st April 2027 with a transition period of 5 years. The final guidelines are awaited to assess the additional impact. As per rating agencies, the additional provisioning impact based on earlier rules was 1-2% of loans. Additionally, revised Basel III guidelines on standardised approach on Capital Charge for credit risk will be issued as well shortly and are on close watch.

iii. *FX related steps to support exporters and promote Rupee internationalization:*

a. It needs to be noted that for the first time the RBI Governor indicated that the central bank will introduce steps to address Rupee depreciation pressures. In this regard, a whole host of FX related regulatory steps have been provided to help smaller exporters (crucial in wake of trade tariff hike impact on labour intensive sectors) and support Rupee internationalisation (as the Dollar hegemony is being reconsidered in today's world)

➤ **Our view remains of a rate cut in December**

We still retain our view of the final leg of rate cut cycle of 25-50bps in H2 FY26, given our view of further downside surprise in inflation (by at least 30-50bps) and downward pressure on growth outlook in H2-FY26 even as GST reform softens the blow on tariff hike led growth impact. Given the surprise in current MPC, we maintain our view of a 25bps rate cut in December.

➤ **Impact on Bond markets**

RBI Governor Sanjay Malhotra noted that “the current macroeconomic conditions and the outlook have opened up policy space for further supporting growth,” which many market participants interpreted as a signal that rate cuts remain on the table. Dr Poonam Gupta added important context, stating: “Yes, Q1 numbers have been good, but those are only one factor in the number of things that we consider for monetary policy action... there is room, but a number of other things will be taken into account before deciding the next action in December”.

The bond market experienced initial volatility, with prices dropping sharply immediately after the policy announcement as traders who had anticipated a 25 basis point rate cut exited their positions. Market sentiment was further dampened by the RBI's unexpected upward revision of the FY26 GDP growth forecast from 6.5% to 6.8%, which lessened expectations for near-term monetary easing. However, the dovish tone of the commentary during post policy press conference helped longer-duration bonds recover partially. The yield on the benchmark 10-year government bond, which had earlier touched a high of 6.60%, softened to around 6.52% during the day, reflecting renewed expectations of a rate cut in December and improved demand ahead of Friday's Rs. 32,000 crore gilt auction. Hence, we stick to our [trade of long duration and tactical 10 year](#) which shall yield fruits in near term.

RBI's Policy Decision

Policy Decision	June 2025	August 2025	October 2025
Repo rate	5.50%	5.50%	5.50%
Stance	Neutral	Neutral	Neutral
Growth Projection	FY26 real GDP projection is retained at 6.5%, with Q1 at 6.5%, Q2 at 6.7%, Q3 at 6.6% and Q4 growth seen at 6.3% respectively. Risks are evenly balanced. Spill overs emanating from protracted geopolitical tensions, and global trade and weather-related uncertainties pose downside risks to growth.	FY26 real GDP projection is retained at 6.5%, with Q1 at 6.5%, Q2 at 6.7%, Q3 at 6.6% and Q4 growth seen at 6.3% respectively. Real GDP growth for Q1FY27 is projected at 6.6%. Risks are evenly balanced. Above normal southwest monsoon, lower inflation, rising capacity utilization and congenial financial conditions continue to support domestic economic activity. Services sector is expected to remain buoyant in the coming months. Prospects of external demand, however, remain uncertain amidst ongoing tariff announcements and trade negotiations.	FY26 growth forecast was revised up to 6.8% (from 6.5%), with Q2 at 7.0%, Q3 at 6.4% and Q4 growth seen at 6.2% respectively. Real GDP growth for Q1FY27 is projected at 6.4%. Risks are evenly balanced. The 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. However, 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.
Inflation Projection	FY26 CPI projection was revised downward from 4.0% earlier to 3.7% with Q1 at 2.9% (3.6% earlier), Q2 at 3.4% (3.9%), Q3 at 3.9% (3.8%) and Q4 at 4.4% (same as earlier). Risks are evenly balanced. Weather-related uncertainties and still evolving tariff related concerns with their attendant impact on global commodity prices are upside risks.	FY26 CPI projection was revised downward from 3.7% earlier to 3.1% with Q2 at 2.1% (3.4%), Q3 at 3.1% (3.9%) and Q4 at 4.4% (same as earlier). CPI inflation for Q1FY27 is projected at 4.9%. Large favourable base effects combined with steady progress of the southwest monsoon, healthy kharif sowing, adequate reservoir levels and comfortable buffer stocks of food grains have contributed moderation in inflation. CPI inflation, however, is likely to edge up above 4% by Q4 FY26 and beyond, as unfavourable base effects, and demand side factors from policy actions come into play.	Inflation projections were revised lower for Q2 and Q3 FY26 to 1.8% (from 2.1% and 3.1% earlier) while Q4 FY26 now seen at 4% (from 4.4%). FY26 inflation projection was revised dramatically lower to 2.6% from 3.1% with risks evenly balanced. 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. That said, large unfavourable base effects are likely to exert upward pressure on headline CPI inflation, especially in Q4.
Liquidity	CRR reduced by 100 bps to 3.0% of NDTL, in a staggered manner. The reduction will be carried out in four equal tranches of 25bps each with effect from the fortnights beginning 6 th September, 4 th October, 1 st November and 29 th November, 2025. The cut in CRR would release primary liquidity of about Rs 2.5 lakh Cr to the banking system by Dec'25.	The Governor sounded positive on the pace of transmission of the policy repo rate cuts to the money, bond and credit markets during the current easing cycle on comfortable banking system liquidity. The RBI will continue to be nimble and flexible in its liquidity management. An internal Working Group for revisions in the liquidity management framework has recommended the continuation of overnight weighted average call rate (WACR) as the operating target of monetary policy and variable rate fine tuning operations. The detailed report will be placed on the RBI website shortly for public consultation.	The drawdown of government cash balances and the remaining 75 bps cut in the CRR during October-November will aid banking system liquidity in the near-term. Through two-way operations, the RBI will actively manage liquidity to anchor short-term rates. Transmission has been broad-based across sectors. Going forward, adequate liquidity in the system and the remaining CRR cuts will further facilitate monetary transmission.
Policy guidance	The RBI Governor mentioned that given the current circumstances, monetary policy is left with very limited space to support growth. Going forward, the MPC will be carefully assessing the incoming data and the evolving outlook to chart out the future course of monetary policy in order to strike the right growth-inflation balance.	While headline inflation is much lower than projected earlier, it is mainly due to volatile food prices, especially of vegetables. Inflation is projected to go up from the last quarter of this financial year. Growth has held up well with some pick-up expected in the coming festive season while uncertainties of tariffs are still evolving. MPC will wait for further transmission of the front-loaded rate cuts to the credit markets and the broader economy while staying on close vigil.	The guidance was balanced with dovish streaks as the MPC further noted that <i>“current macroeconomic conditions and the outlook has opened up policy space for further supporting growth”</i> . Despite this opened up policy space, rates were kept unchanged amid heightened global uncertainty and as the impact of fiscal policy steps (GST rate cut) and frontloaded 100bps rate cuts and liquidity easing steps are still flowing through the economy and markets. 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.

1. Proposed to issue the draft Reserve Bank (Asset Classification, Provisioning and Income Recognition) Directions, 2025 for Scheduled Commercial Banks (excluding Small Finance Banks, Payments Banks and Regional Rural Banks) and All India Financial Institutions. The draft directions inter alia, propose to replace the extant framework based on incurred loss with an Expected Credit Loss (ECL) approach, subject to a prudential floor, while retaining the existing asset classification norms.
2. Proposed to issue the draft guidelines on implementation of the revised Basel framework on Standardised Approach for Credit Risk for Scheduled Commercial Banks (excluding Small Finance Banks, Payments Banks, and Regional Rural Banks).
3. The draft guidelines on forms of business and investment for banks which was issued in October 2024 has been finalised and shall be issued shortly. Based on feedback and review, the proposed bar on overlap in the businesses undertaken by a bank and its group entity is being removed.
4. Proposed to introduce a Risk Based Premium model for deposit insurance, which will help banks that are more sound to save significantly on the premium paid. Detailed notification will be issued shortly, which will be effective from FY 2026-27.
5. With the objective of rationalising the extant guidelines and broadening the scope for capital market lending by banks and other regulated entities, it is proposed to inter alia: provide an enabling framework for banks to finance acquisitions by Indian corporates; enhance the limit for lending by banks against shares, units of REITs, units of InvITs while removing the regulatory ceiling altogether on lending against listed debt securities; and put in place a more principle-based framework for lending to capital market intermediaries.
6. Withdrawal of guidelines on enhancing credit supply for large borrowers through market mechanism.
7. With a view to further rationalise the risk weights for infrastructure lending by NBFCs in line with the nuanced risk-profile of operational projects, it has been decided to introduce a principle-based framework. The framework aims to align risk weights with the actual risk characteristics of operational infrastructure projects, promoting better risk assessment and capital allocation.
8. A discussion paper on licensing of new Urban Co-operative Banks (UCBs) will be issued shortly.
9. The RBI has undertaken an exercise of consolidating the regulatory instructions administered by the Department of Regulation of the Reserve Bank into a set of Master Directions on an 'as is' basis. The drafts of about 250 Master Directions consolidating extant instructions on up to 30 areas for 11 types of regulated entities shall be placed on the website shortly for comments on their completeness and accuracy.
10. Review of restrictions on the operation of Current Accounts (CA), Cash Credit Accounts (CC) and Overdraft Accounts (OD) (Transaction Accounts) offered by banks. It is proposed to ease some of the stipulations and provide greater flexibility to the banks in this regard, particularly in case of borrowers being entities regulated by a financial sector regulator.
11. Foreign Currency accounts by Indian exporters - extension of time period for repatriation from accounts held in IFSC in India, from one month to three months.
12. It has now been decided to increase the period for the forex outlay from four months to six months, in case of Merchanting Trade Transactions (MTT).
13. With a view to ease compliance for exporters/importers, especially of small value goods and services, it has been decided to simplify the process of reconciliation in Export Data Processing and Monitoring System (EDPMS) and Import Data Processing and Monitoring System (IDPMS).
14. A revised framework that provides for expansion of eligible borrower and recognized lender base, rationalization of borrowing limits, rationalization of restrictions on average maturity period, removal of restrictions on the cost of borrowing for ECBs, review of end-use restrictions and simplification of reporting requirements, is proposed to be introduced.
15. Rationalisation of regulations for Establishment in India of a Branch Office or a Liaison Office or a Project Office or any other place of business.
16. It has been decided to review the extant instructions on Basic Savings Bank Deposit (BSBD) account to provide affordable banking facilities to the public and drive enhanced usage of BSBD accounts to deepen financial inclusion.
17. It is proposed that the Internal Ombudsman (IO) be equipped with compensation powers and be allowed access to the complainant, aligning the role of IOs more closely with that of the RBI Ombudsman. Additionally, a two-tiered structure may be introduced within REs for grievance redress prior to escalation to the IO.
18. Review of the Reserve Bank - Integrated Ombudsman Scheme, 2021.
19. It has been decided that Authorised Dealer (AD) banks in India and their overseas branches may be permitted to lend in INR to persons resident in Bhutan, Nepal, and Sri Lanka, including a bank in these jurisdictions, to facilitate cross border trade transactions.
20. Additional Reference Rates to be published by Financial Benchmarks India Limited: It is now proposed to include select currencies of India's major trading partners in the list of reference rates published by FBIL.
21. Expanding the bouquet of investments for Special Rupee Vostro Accounts (SRVA) holders: To expand investment opportunities in India for SRVA holders, it has now been decided to permit balances of these accounts to be invested in corporate bonds and commercial papers.

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