



RBI Monetary Policy: Repo Rate Unchanged, GDP Outlook Brightens

01 October, 2025

Key Takeaways

- RBI kept the repo rate unchanged at 5.50 per cent with a neutral stance.
- RBI revised India's GDP growth forecast for FY 2025-26 upwards to 6.8% from earlier estimate of 6.5%
- RBI has lowered its CPI inflation forecast for FY 2025-26 to 2.6%, down from 3.1%
- India's current account deficit narrowed to 0.2% of GDP in Q1 FY 2025-26 from 0.9% a year ago
- During April-September of FY 2025-26 so far (up to September 26), Indian equity markets remained on an upward trajectory

The Reserve Bank of India (RBI) released its Monetary Policy Report (October 2025) following the 57th meeting of the Monetary Policy Committee held from September 29 to October 1, 2025. RBI has kept **the repo rate unchanged at 5.50% with a neutral stance**. It signals a balanced approach that supports economic momentum while ensuring financial stability. The report further highlights resilient domestic demand, supportive financial conditions, and a stable external sector, reflecting a cautiously optimistic outlook for the Indian economy.

Stronger Growth Ahead

The RBI revised India's GDP growth forecast for FY 2025-26 upwards to 6.8% from earlier estimate of 6.5%.

Domestic growth is performing well due to strong consumption, investments, and government spending, with supportive factors like a good monsoon, GST 2.0, better credit flow, and rising capacity utilisation sustaining the positive outlook.



India's real GDP **grew 7.8% in Q1 FY 2025-26**, up from 7.4% in the previous quarter, the fastest pace in seven quarters, led by strong investment and consumption.

Growth for FY 2025-26 is projected at 6.8% (Q1: 7.8%, Q2: 7.0%, Q3: 6.4%, Q4: 6.2%), while FY 2026-27 is estimated at 6.6%, assuming normal monsoon and stable conditions.

Consumers' optimism for the year ahead, which is measured by the future expectations index, strengthened further for both urban and rural households, remaining in optimistic territory.

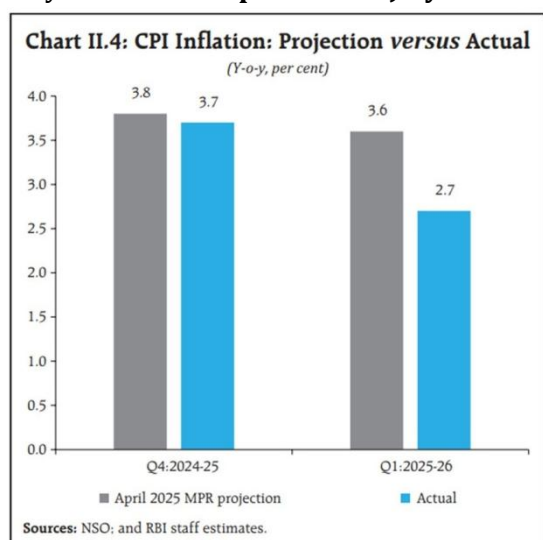
Global Agencies Reaffirm Growth

Several global agencies have **maintained India's strong economic growth prospects**, highlighting the country's resilience amid global uncertainties. **IMF (FY26: 6.4%), Fitch (FY26: 6.9%, FY27: 6.3%), S&P Global (FY26: 6.5%), United Nations (FY26: 6.3%, FY27: 6.4%), CII (FY26: 6.4-6.7%) and OECD (FY26: 6.7%)** have noted robust domestic demand, expanding investments, and a stable external sector as key drivers. Strong policy support, structural reforms, and a vibrant services sector are further reinforcing the positive growth outlook. These projections highlight broad confidence in India's ability to sustain high growth amidst global challenges.

Prices Stay Stable

RBI has lowered its CPI inflation forecast for FY 2025-26 to 2.6%, down from 3.1%.

Headline consumer price index (CPI) inflation declined for nine consecutive months to reach an 8-year low of **1.6 per cent in July 2025** before edging up to 2.1 per cent in August, remaining



within the RBI inflation target range.

While the inflation was earlier projected at 3.8% (Q4 FY 2024-25) and 3.6% (Q1 FY 2025-26), the **actual outcomes were lower by 90 bps**. The fall was driven by a steep, prolonged 9-month food price decline of 10.5%, the longest in the CPI series.

Milder summer temperatures further eased seasonal price pressures, keeping realised inflation below expectations in Q1 and Q2 FY 2025-26.

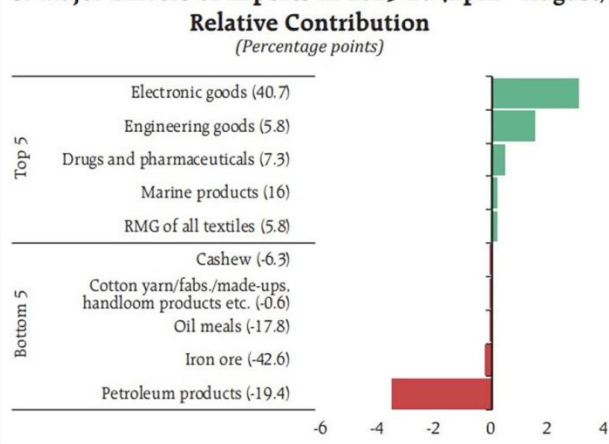
GST rate rationalisation from September 22, 2025, **has simplified taxes and lowered consumer prices**, directly impacting around 11.4% of the CPI basket across product groups.

Global Demand Steady

India's current account deficit narrowed to 0.2% of GDP in Q1 FY 2025-26 from 0.9% a year ago, supported by strong services exports and robust remittances of US\$35.3 billion, keeping India the world's largest recipient of private remittances.

Amid **global trade uncertainty**, India's **merchandise exports rose 2.5%** (April-August 2025) while imports grew 2.1%. Services exports continued double-digit growth, and Q1 FY 2025-26 real exports and imports of goods and services grew 6.3% and 10.9%, respectively.

b. Major Drivers of Exports in 2025-26 (April - August)



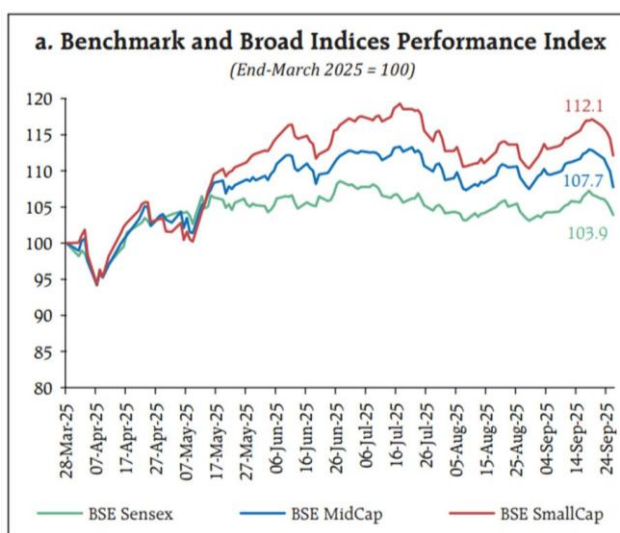
Source: RBI

During April-July 2025, Gross FDI inflows remained strong at US\$ 37.7 billion, underscoring India's continued appeal as a preferred investment destination. The **net inflows rises to US\$10.8 billion**, led by Singapore, the US, Mauritius, UAE, and the Netherlands, which together contributed 76% of total FDI.

Liquidity and Stability

During April-September of FY 2025-26 so far (up to September 26), Indian equity markets remained on an **upward trajectory**, despite a short period of volatility amidst trade policy uncertainty and geopolitical tensions.

The **BSE Sensex increased by 3.9 per cent in April-September of FY 2025-26** (up to 26 September, 2025). The broader market indices outperformed the benchmark during **2025-26** with the BSE MidCap and BSE SmallCap index gaining by 7.7 per cent and 12.1 per cent, respectively.



Source: RBI

The **Indian rupee** showed two-way movements amid global volatility but remained **one of the least volatile emerging market currencies**. Strong fundamentals, including a narrower current account deficit, steady services exports, robust remittances, and healthy foreign exchange reserves, supported its stability.

Conclusion

India's economy remained resilient in April-September of FY 2025-26, supported by robust consumption, investment, and government spending. Inflation stayed below projections, aided by favourable food prices and GST reforms. Well balanced external sector performance, stable liquidity, and healthy financial markets underpinned overall macroeconomic stability.

Reference:

RBI

<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/MPR011020257F52BDBF1F184AE0A627BD9CEB1580FB.PDF>

IMF

<https://www.imf.org/en/Countries/IND>

News on Air

<https://www.newsonair.gov.in/fitch-ratings-upgrades-indias-economic-growth-forecast-to-6-9/>

S&P Global

<https://www.spglobal.com/en/research-insights/special-reports/india-forward/shifting-horizons/how-indian-economic-growth-realigns-with-shifting-global-trends>

PIB Headquarters

<https://www.pib.gov.in/PressNoteDetails.aspx?NoteId=155121&ModuleId=3>

DD News

<https://ddnews.gov.in/en/indias-gdp-growth-projected-at-6-4-6-7-for-fy26-cii/>

OECD

https://www.oecd.org/en/publications/oecd-economic-outlook-interim-report-september-2025_67b10c01-en.html

SK/M