



## ICRA COMMENTS ON RBI'S 4<sup>th</sup> BI-MONTHLY MONETARY POLICY MEETING FOR 2025-26

Dovish pause keeps door open for a final  
rate cut predicated on growth-inflation  
outcomes

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OCTOBER 2025



## HIGHLIGHTS



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*In line with ICRA's expectations, the MPC unanimously kept the repo rate unchanged at 5.5% in October 2025.*

*The FY2026 CPI inflation forecast was expectedly pared by 50 bps to 2.6%, while the GDP growth projection was raised by 30 bps to 6.8%.*

*A final 25 bps rate cut is possible in December 2025 or February 2026; the timing of the same remains dependent on transmission of rate cuts and growth implications of GST rejig and tariffs.*

The Monetary Policy Committee (MPC) unanimously kept the repo rate unchanged at 5.5% in the October 2025 policy review, in line with ICRA's expectation. Additionally, it decided to maintain the monetary policy stance at neutral, albeit with a majority of 4:2 members. The tone of the policy was quite dovish, with the statement clearly articulating that the current macroeconomic conditions and outlook have opened up policy space for further supporting growth. Moreover, the Committee pared its CPI inflation projection by a sizeable 50 bps to 2.6% (in line with ICRA's forecast), citing benign food prices as well as the positive impact of the GST rationalisation. Simultaneously, it raised its GDP growth forecast by 30 bps to 6.8%, partly owing to the higher-than-expected Q1 growth print, even as the estimated trajectory beyond Q2 has been reduced by 10-20 bps. Given the benign tone of the policy document and signals in favour of further easing, ICRA believes that the window remains ajar for a final 25 bps rate cut either in December 2025 or February 2026 meeting. The exact timing of the same would be contingent on two key factors – the degree of further transmission of the cumulative 100 bps rate cuts to the credit market and the growth impact of the GST rate rationalisation and the downside emerging from elevated tariffs.

- In the fourth bi-monthly monetary policy for FY2026, the MPC unanimously maintained status quo, keeping the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.50% in October 2025, for the second consecutive meeting, in line with ICRA's expectations. Consequently, the standing deposit facility (SDF) rate was held at 5.25%, and the marginal standing facility (MSF) rate and the Bank Rate at 5.75% each. Additionally, it decided to continue with the neutral monetary policy stance, albeit with a vote of 4:2.
- The Committee pared its inflation expectation for FY2026 by 50 bps to 2.6% from 3.1% projected earlier in August 2025. On a quarterly basis, it reduced the CPI inflation projection through FY2026 - Q2 (+1.8% in October 2025 vs. +2.1% in August 2025), Q3 (+1.8% vs. +3.1%), and Q4 (+4.0% vs. +4.4%) by 30-130 bps. Subsequently, the Committee expects inflation to print at 4.5% in Q1 FY2027, lower than the 4.9% projected in August 2025, with risks evenly balanced.
- The Committee expects private consumption and investment activity to remain upbeat, even as the external outlook is likely to be challenged by ongoing tariff uncertainty. Overall, it raised the FY2026 GDP growth forecast to 6.8% from 6.5% indicated in the August 2025 policy, amid higher-than-expected print for Q1, and upward revision for Q2 FY2026 (+7.0% vs. +6.7%). However, the projections for Q3 FY2026 (+6.4% vs. +6.6%), Q4 FY2026 (+6.2% vs. +6.3%) and Q1 FY2027 (+6.4% vs. +6.6%) were revised downwards.
- A final 25 bps rate cut may be likely in the December 2025 or the February 2026 meeting, and the timing of the same would be contingent on the further transmission of rate cuts and the growth implications of the GST rate restructuring as well as sizeable tariffs.

**Outlook:** We expect downward revisions in the expected growth trajectory to drive the rate cut decision, rather than the benign CPI inflation outlook, with the latter being driven by tax policy changes and not weaker demand. The GoI's H2 FY2026 borrowing programme has reduced the duration of the upcoming supply. The states indicative calendar for Q3 FY2026 is keenly awaited to assess the planned duration of states' borrowings, which will also affect yields and spreads. ICRA foresees the 10-year G-sec yield (6.33 GS 2035) to remain in the range of 6.45-6.55%, until further monetary easing appears imminent.

*The MPC unanimously kept the policy repo rate unchanged at 5.50% in October 2025, for the second consecutive meeting; it also maintained the monetary policy stance at neutral, albeit with a majority of 4 out of 6 members.*

*Looking forward, the Committee expects the CPI inflation to remain benign in the near term, amid above-normal SW Monsoon, healthy kharif sowing, adequate reservoir levels, and positive impact of the GST rationalisation on prices of several items.*

*However, inflation is expected to inch up to 4% from Q4 FY2026 onwards, owing to a low base.*

## **MPC UNANIMOUSLY KEPT REPO RATE UNCHANGED AT 5.50% IN OCTOBER 2025; STANCE MAINTAINED AT NEUTRAL**

In its fourth bi-monthly monetary policy meeting for FY2026, the MPC unanimously decided to keep the policy repo rate under the LAF unchanged at 5.50% for the second consecutive review meeting in October 2025 (refer Exhibit 1), in line with ICRA's expectations. Accordingly, the SDF rate stands unchanged at 5.25%, and the MSF and Bank Rate at 5.75% each. The Committee clearly highlighted that it "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, it decided to continue with the neutral stance, albeit with a majority of 4:2 members, with the dissenting members voting in favour of an accommodative stance.

**MPC's CPI inflation projection for FY2026 pared by 50 bps to 2.6%:** The YoY CPI inflation expectedly rebounded to 2.1% in August 2025 from a multi-year low of 1.6% in July 2025, with the food and beverage (F&B; 0.0% in August vs. -0.8% in July) segment being the predominant driver. In addition, the core-CPI inflation (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) stayed above 4% for the seventh consecutive month, inching up to 4.3% from 4.2%, driven by miscellaneous items, barring petrol and diesel for vehicles (to +5.4% from +5.3%; particularly personal care and effects) and pan, tobacco and intoxicants (to +2.5% from +2.4%).

Going ahead, the MPC now expects the near-term CPI inflation trajectory to be more benign compared to its August 2025 assessment. This is on account of the above-normal rainfall in the Southwest (SW) Monsoon season, adequate reservoir levels, healthy kharif sowing, and comfortable buffer stocks of foodgrains. Additionally, the GST rationalisation would soften prices of several items in the CPI basket. However, the Committee expects the CPI inflation to inch up to 4.0% from Q4 FY2026 onwards, amid unfavourable base effects. Overall, it tempered its inflation expectation for FY2026 sharply by 50 bps to 2.6% (in line with ICRA's projection) from 3.1% projected earlier in August 2025. Notably, it has cut the CPI inflation projections for Q2 FY2026 (+1.8% in October 2025 vs. +2.1% in August 2025), Q3 FY2026 (+1.8% vs. +3.1%), and Q4 FY2026 (+4.0% vs. +4.4%) by a sizeable 30-130 bps. Additionally, the MPC pared the inflation forecast for Q1 FY2027 (+4.5% vs. +4.9%) by 40 bps, with risks evenly balanced.

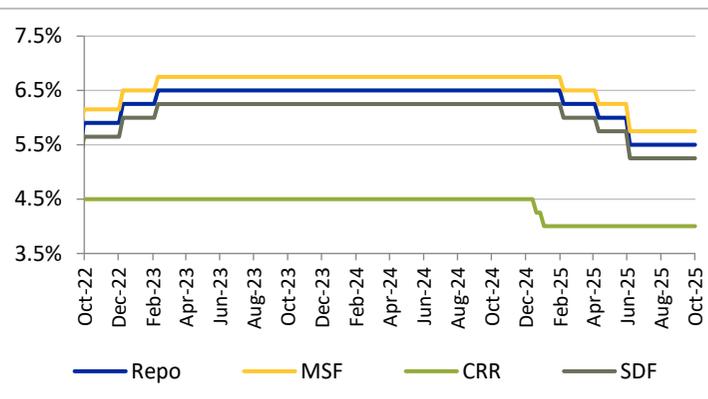
**In ICRA's view, the GST rationalisation could dampen the headline CPI prints by 25-50 bps during Q3 FY2026-Q2 FY2027 relative to our earlier estimates, taking the average for FY2026 to ~2.6%, in line with the MPC's projection. While October 2025 may mark a fresh low for the CPI inflation, the trajectory subsequently remains upward sloping even though the level has shifted downwards largely owing to the impact of the tax changes. Moreover, the latest downward revision in the CPI inflation forecast for FY2026 appears to be entirely tax-cut driven and will be associated with higher demand, not driven by weak demand in the economy.**

**Given the dovish tone of the policy document, ICRA believes that the door remains open for a final 25 bps rate cut either in the December 2025 or the February 2026 meeting, while the exact timing of the same would be contingent on the quantum of further transmission of rate cuts as well as the growth implications of the GST rate restructuring and tariffs.**

The MPC pared its FY2026 CPI inflation projection by 50 bps to 2.6% in October 2025 from the earlier estimate of 3.1%, in line with ICRA's forecast.

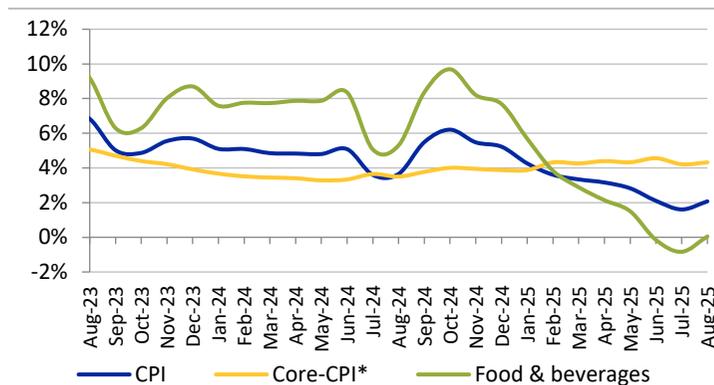
The Committee has revised its inflation projection for Q2-Q4 FY2026 downwards by 30-130 bps, relative to August 2025; thereafter, it expects CPI inflation to print at 4.5% in Q1 FY2027 vs. 4.9% projected earlier.

**EXHIBIT 1: Movement in Key Rates**



Source: RBI; CEIC; ICRA Research

**EXHIBIT 2: CPI Inflation, CPI-food and core-CPI inflation (YoY)**



\*Due to unavailability of data for March-May 2020, we have not excluded petrol and diesel indices for vehicles in computation of core CPI index for these months; Source: NSO; CEIC; ICRA Research

**EXHIBIT 3: RBI's earlier and current GDP growth and CPI inflation forecasts**

YoY (%)	CPI Inflation		GDP Growth (at constant 2011-12 prices)	
	August 2025	October 2025	August 2025	October 2025
<b>MPC Policy Reviews</b>				
Q2 FY2026	2.1%	1.8%	6.7%	7.0%
Q3 FY2026	3.1%	1.8%	6.6%	6.4%
Q4 FY2026	4.4%	4.0%	6.3%	6.2%
<b>FY2026</b>	<b>3.1%</b>	<b>2.6%</b>	<b>6.5%</b>	<b>6.8%</b>
Q1 FY2027	4.9%	4.5%	6.6%	6.4%

Source: RBI; ICRA Research

*The MPC expects the rural demand in FY2026 to remain supported by good progress of kharif sowing and adequate reservoir levels, which augurs favourably for the rabi crop outlook.*

*Moreover, domestic demand prospects have improved, following the GST rationalisation, lower inflation and monetary easing.*

*However, the external sector faces adverse headwinds from tariff policies, although it is likely to be partly offset by the positive impetus provided by the GST rate cuts.*

*Aided by strong Q1 print, MPC raised its FY2026 GDP growth forecast to 6.8% from 6.5% indicated in August 2025; while the Q2 estimate has been raised by 30 bps, prints for Q3-Q4 have been pared to the tune of 10-20 bps.*

**GDP growth printed at a stronger-than-expected 7.8% in Q1 FY2026:** As per the GDP data released by the NSO for Q1 FY2026, India's GDP growth surged to a 5-quarter high of 7.8%, well above the MPC's estimate (+6.5%). Government final consumption expenditure (GFCE; to +7.4% from -1.8%) and private final consumption expenditure (PFCE; to +7.0% from +6.0%) contributed to the boost in GDP expansion in Q1 FY2026 vs. Q4 FY2025. On the GVA side, the 7.6% growth in Q1 FY2026 stemmed from stronger-than-expected prints for services (at +9.3%), and manufacturing (at +7.7%).

**MPC raised its FY2026 GDP growth by 30 bps to 6.8%, even as H2 estimates were pared:** The Committee stated that economic activity has remained resilient, with some signs of revival in urban consumption and continued strong momentum in rural demand aided by above normal monsoon rainfall and reasonable increase in agricultural output in 2024-25. The manufacturing output has improved in Q2 FY2026 so far, while services sector indicators showed sustained momentum in activity. Besides, the trends in cement production and steel consumption in July-August 2025 suggest healthy growth in infrastructure activity, even as capital goods' output saw lower growth in this period, as compared to Q1 FY2026. Looking ahead, the MPC expects rural demand to be supported by the healthy progress of kharif sowing and adequate reservoir levels, which augurs favourably for the rabi crop outlook. Additionally, domestic demand prospects have improved, following the GST rejig, lower inflation and monetary easing. While these factors, combined with rising capacity utilisation levels, would favour the outlook for fixed investment, prolonged geopolitical tensions may dampen the prospects for growth. More importantly, the external sector faces adverse headwinds from trade and tariff-related policies, although it is likely to be partly offset by the positive impetus from the GST rate cuts.

Taking all these factors into account, the Committee raised the FY2026 GDP growth forecast to 6.8% from 6.5% indicated in the August 2025 policy. This stemmed from higher-than-expected print for Q1, and upward revision in the estimate for Q2 FY2026 (to +7.0% from initial +6.7%), even as projections for Q3 FY2026 (to +6.4% from +6.6%), Q4 FY2026 (to +6.2% from +6.3%) and Q1 FY2027 (to +6.4% from +6.6%) have been revised downwards, compared to what were provided in the August 2025 policy. The paring of estimates for H2 FY2026 and Q1 FY2027 factors in the adverse impact of steep US tariffs on exports, although partly being cushioned by expected upside to growth from GST rate cuts.

**ICRA expects GDP growth to print at 6.5% in FY2026, mildly lower than the MPC's estimate of 6.8%. While the estimates for H2 FY2026 are largely in line with our expectations, the upward revision in the Q2 FY2026 is somewhat surprising, given the expected adverse impact of the US tariffs and penalties on exports in September 2025 and the likely slowdown in the growth in GoI's capex in the quarter vis-à-vis Q1. Besides, the timing of the implementation of the GST rejig would have led to some inventory management as well as deferral of discretionary purchases, with the favourable demand impact of the same largely manifesting in Q3 FY2026.**

**The outlook for H2 FY2026 is decidedly mixed, with positive impact from GST rate cuts on private consumption taking away some of the tariff-related pain on exports and jobs in certain sectors. Besides, after frontloading in 5M FY2026, GoI's capex is set to moderate on YoY basis in rest of the fiscal, which is unlikely to provide a sharp impetus to the growth in H2 FY2026. The high frequency data for September - November 2025 would be key to assess the impact of these factors on growth outcomes. Additionally, some clarity would also emerge over the next few months on the impact of US's Halting International Relocation of Employment (HIRE) Act changes on outsourcing, and India's service export sector.**

*The size of the average systemic liquidity surplus halved to 0.6% of NDTL in September 2025 from 1.2% of NDTL in August 2025, dampened by tax outflows.*

*The daily average systemic liquidity posted transient deficit of Rs. 280 billion between Sept 20-24, before reversing to surplus mode in the last 6 days (averaging at Rs. 578 billion).*

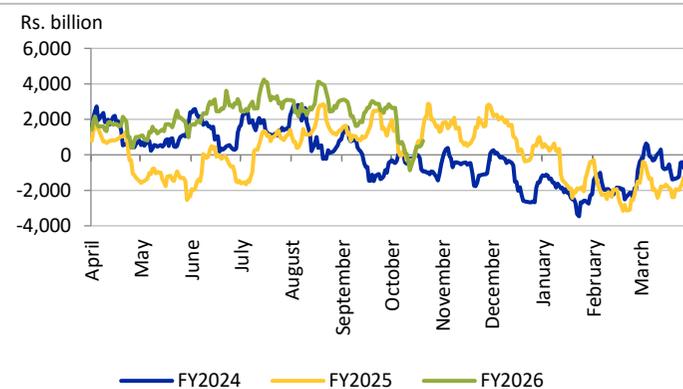
*The durable liquidity surplus remains quite ample, although the extent of the same eased mildly to Rs. 4.7 trillion as on September 5, 2025, from Rs. 5.8 trillion as on June 27, 2025.*

**Systemic liquidity surplus halved to 0.6% of NDTL in September 2025 from 1.2% in August, amid tax outflows:** Liquidity conditions have remained comfortable since June 2025, with average systemic liquidity surplus rising from 0.7% of net demand and time liabilities (NDTL) in May 2025 to 1.2-1.3% of NDTL in each of the months during June-August 2025, aided by the RBI’s liquidity infusion measures. Thereafter, it cooled in September 2025 (+0.6% of NDTL), largely owing to advance tax and GST payments, notwithstanding the CRR cut-led infusion of ~Rs. 0.6 trillion in the early part of the month. Notably, systemic liquidity temporarily transited into deficit mode during September 20-24, with daily average deficit of Rs. 280 billion, from an average surplus of Rs. 2.2 trillion in the first 20 days of the month. Subsequently, the liquidity turned back into surplus, amounting to Rs. 578 billion on average during September 25-30, 2025, aided by the VRR operations that injected liquidity to the tune of Rs. 5.4 trillion (overnight to 4-day tenures) in the second half of the month (of the notified Rs. 11.3 trillion).

**Durable liquidity remained elevated in Q2 FY2026:** The durable liquidity surplus also remains quite ample, although the extent of the same eased mildly to Rs. 4.7 trillion as on September 5, 2025, from Rs. 5.8 trillion as on June 27, 2025, partly owing to reversal of 6-month buy-sell USD/INR swap auction of \$5 billion or Rs. 440 billion (conducted on January 31, 2025) on August 4, 2025.

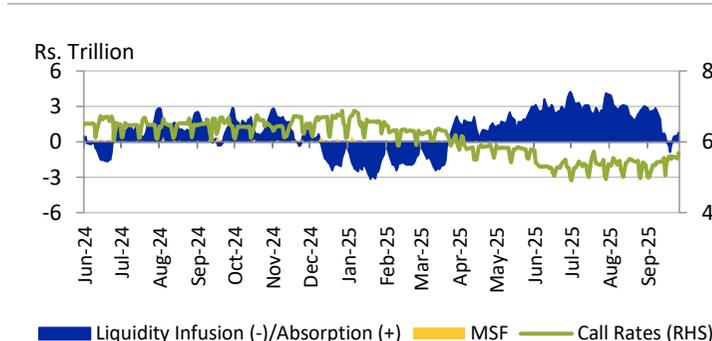
Correspondingly, the GoI’s cash balances with the RBI had eased from Rs. 3.5 trillion at end-March 2025 to Rs. 2.9 trillion as on June 27 and further to Rs. 2.2 trillion by mid-July 2025, likely owing to enhanced spending by the GoI. Subsequently, it rebounded to Rs. 3.1 trillion as on July 25, before falling to Rs. 2.1 trillion as on September 5, 2025, largely echoing the trends seen in same period of FY2025.

**EXHIBIT 4: Liquidity Infusion (-)/ absorption (+)**



\*Data for FY2026 is shown up to Sept 30, 2025; Source: RBI; ICRA Research

**EXHIBIT 5: Call money rates**



Source: RBI; ICRA Research

*To ease tight conditions, the RBI conducted 11 VRRs in September 2025 with aggregate notified amount of Rs. 11.3 trillion, that resulted in liquidity injection of Rs. 5.4 trillion in the month.*

*After injecting Rs. 0.6 trillion in early-September 2025, pending CRR cuts of 75 bps would provide further liquidity support in October-November 2025 to manage the busy season and typical currency leakage.*

*Seasonal drawdown of GoI cash balance and upcoming G-sec redemptions worth Rs. 1.0 trillion would further ease liquidity conditions in Q3.*

**RBI conducted 11 VRRs to infuse liquidity amounting to Rs. 5.4 trillion in September 2025:** With the improvement in liquidity conditions, the number of VRR auctions conducted by the RBI had fallen to 47 in Q1 FY2026 (total liquidity infused: Rs. 3.8 trillion) from 69 in Q4 FY2025 (Rs. 51.4 trillion). Subsequently, 14 VRR auctions have been conducted in Q2 FY2026 (Rs. 6.2 trillion), of which 11 were conducted in September 2025 itself (Rs. 5.4 trillion), amid transient deficits arising on account of tax outflows. Correspondingly, the RBI conducted 24 VRRR auctions since end-June 2025 to absorb the surplus liquidity – one VRRR in June (absorption: Rs. 0.8 trillion) and 23 VRRRs in Q2 FY2026 (Rs. 21.2 trillion).

**WACR remains below the repo rate:** The average monthly weighted average call money rate (WACR) eased from 5.88% in April-May 2025 to 5.38% in June-July 2025, before rising slightly to 5.44% in August 2025. Thereafter, it remained stable at 5.44% in September 2025, despite some tightening in liquidity conditions relative to the prior month. Moreover, the WACR has trailed the repo rate throughout FY2026 so far, although the wedge between the two eased to 6 bps in September 2025 from 20 bps in June 2025, with reduction in systemic liquidity surplus.

**Transmission of monetary easing to lending and deposit rates underway:** While the transmission of the cumulative 100 bps rate cut in the current easing cycle to fresh deposits (-106 bps during February 2025-August 2025) is complete, that to outstanding deposits has been quite muted (-22 bps). Similarly, while the weighted average lending rates on fresh loans fell by 58 bps between February and August 2025 (total 71 bps from interest rate cuts), that for outstanding loans eased by 55 bps. Going ahead, while the liquidity injection from the pending CRR reduction would facilitate monetary transmission, the muted pace of repricing of the older deposit base as well as the expected uptick in credit demand during the festive season, may constrain further transmission to lending rates over the next few months.

**CRR cuts to support liquidity conditions during the busy season:** After increasing by Rs. 0.9 trillion in Q1 FY2026 (healthy rural demand aided by strong farm output in 2024-25), CWP has seen a mild dip of Rs. 0.04 trillion in the ongoing quarter (up to September 5), lower than the typical fall seen in Q2. Looking ahead, CWP is expected to increase in Q3 FY2026 as the demand for holding cash starts to pick up in the festive season. The expected boost in festive purchases owing to GST cuts may lead to a higher-than-usual surge in CWP in Q3 FY2026, which would exert pressure on systemic liquidity.

After injecting Rs. 0.6 trillion in the first tranche, the pending CRR cut of 75 bps during October-November 2025 is likely to support liquidity conditions (~Rs. 1.9 trillion). Moreover, the seasonal drawdown of GoI cash balances in H2 would further ease the liquidity conditions. Additionally, the redemption of G-secs worth Rs. 167 billion and Rs. 982 billion on September 25 and November 9, 2025, respectively, is set to infuse liquidity into the system, and is expected to ease some pressure during the busy season.

## HIGHLIGHTS FROM RBI'S STATEMENT ON FINANCIAL STABILITY AND DEVELOPMENT AND REGULATORY POLICIES

*The RBI's proposal to implement ECL framework from April 1, 2027 with a glide path till FY2031 is likely to provide banks with greater flexibility to manage the associated provisioning requirements, which are expected to be lower than earlier estimate of 300-400 basis points impact on capital ratios.*

*Removal of restriction on overlap in the business undertaken by bank and its group entity(ies) is a welcome move, given that the various subsidiaries of banks have overlapping business, as they cater to different profile of customer segments through bank and subsidiaries.*

*Risk based deposit insurance premium is likely to adversely impact the smaller and weaker banks, as they may be forced to offer higher deposit rates, despite elevated deposit insurance cost to remain competitive.*

### 1) Strengthening the resilience and competitiveness of the banking sector

#### **RBI proposes to implement expected credit loss (ECL) framework for banks and AIFIs from April 1, 2027**

**Impact:** RBI proposes to implement ECL framework with prudential floors for Scheduled Commercial Banks (excluding small finance banks (SFBs), payment banks (PBs) and regional rural banks (RRBs)) and All India Financial Institutions (AIFIs) from April 1, 2027 with a glide path till FY2031. This is in comparison to initial expectation of implementation (along with Ind-AS) from April 1, 2025, wherein [ICRA had estimated an impact of 300-400 basis points \(bps\)](#) on core capital ratios of banks, largely emanating from ECL. However, now the proposed implementation from April 1, 2027 onwards will moderate the impact, given the consistent improvement in asset quality in recent years. Further, the phased rollout through FY2031, provides banks with greater flexibility to manage the associated provisioning requirements.

#### **Removal of restriction on overlap in the business undertaken by bank and its group entity(ies)**

**Impact:** The draft guidelines on forms of business and investment for banks, which were issued in October 2024, have been finalised and shall 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. This is a welcome move, given that the various subsidiaries of banks have overlapping business, as they cater to different profile of customer segments through bank and subsidiaries. Certain product segments like used cars, affordable home loans, gold loans may also require different skillset of employees and branch network, thereby requiring them to operate through subsidiary model.

#### **Introduction of risk-based premium model for deposit insurance**

**Impact:** The RBI has proposed to introduce a risk based premium model for deposit insurance compared to existing model wherein all the banks, without any differentiation, pay premium on a flat rate of Rs. 0.12 per Rs. 100 of assessable deposits. On implementation of a differentiated premium model, if larger, well-rated banks choose to pass on the benefit of reduced deposit insurance costs through higher deposit rates, it could enhance their competitive edge. This may, in turn, pressure smaller and weaker banks, adversely impacting their market share. To remain competitive, these banks might be compelled to offer higher deposit rates despite facing elevated deposit insurance costs themselves.

*The expanded lending scope allowing banks to finance corporate acquisitions marks a step in deepening their role in capital market activities.*

*The RBI's proposal to withdraw the guidelines on enhancing credit supply for large borrowers through market mechanism shall release the provisions and capital requirements for the banks, which they will be carrying towards large exposure and will be favourable for their profitability and capital ratios. It could, however, increase the credit flow towards lower rated large borrowers.*

### **Review of Capital Market Exposures Guidelines for banks**

**Impact:** Given the significant growth and development in the capital market structure, along with strengthening of the banking system in the recent years, the RBI has proposed to rationalise the extant guidelines and broaden the scope for capital market lending by banks and other regulated entities. The Central Bank proposes to provide an enabling framework for Indian banks to finance acquisitions by Indian corporates. Further, it proposes to 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. The limits are proposed to be enhanced for lending by banks against shares from Rs. 20.0 lakh to Rs. 1.0 crore and for IPO financing from Rs. 10.0 lakh to Rs. 25.0 lakh per person. Besides, the RBI proposes to put in place a more principle-based framework for lending to capital market intermediaries. The expanded lending scope allowing banks to finance corporate acquisitions marks a step in deepening their role in capital market activities. Additionally, the relaxation of lending norms will further empower banks in supporting market growth, though the higher financing limits enjoyed by NBFCs will continue to provide latter with a competitive edge.

### **Withdrawal of circular on enhancing credit supply for large borrowers**

**Impact:** The Guidelines on enhancing credit supply for large borrowers through market mechanism were introduced in August 2016 with an objective to address the concentration risk arising from the aggregate credit exposure of the banking system to a single large corporate and encourage such large corporates to diversify their sources of funding. As per the said circular, the banks could only lend to the extent of 50% of incremental funding raised by specified (large) borrowers, having banking exposure larger than Rs. 10,000 crore (April 1, 2019 onwards) by way of loans. Though the higher rated borrowers could raise funds in capital market for balance requirements, but it remained challenging for low rated large borrowers. Upon review, considering, inter-alia, the changes evident in the profile of bank funding to corporate sector since the introduction of the Guidelines, the RBI has proposed to withdraw the guidelines. This shall release the provisions and capital requirements for the banks, which they will be carrying towards large exposure and will be favourable for their profitability and capital ratios. It could, however, increase the credit flow towards lower rated large borrowers.

### **Basel III Guidelines on Capital Charge for Credit Risk – Standardised Approach**

**Impact:** As a part of the broader objective of improving the resilience of the banking sector and aligning the regulatory framework with the best international practices, the RBI has proposed to issue the draft guidelines on implementation of the revised Basel framework on standardised approach for credit risk for scheduled commercial banks (excluding SFBs, PBs, and RRBs). The revised framework aims to improve the robustness, granularity and risk sensitivity of the standardised approach for calculating the capital charge for credit risk. Under the revised approach, the risk weights are proposed to be reduced for certain segments such as micro, small and medium enterprises (MSMEs) and residential real estate. This is likely to reduce the capital requirements and enhance the lending to these segments.

*The proposed reduction in risk weights for NBFCs to operational, high quality infrastructure projects is aimed at lowering the cost of infrastructure financing and encouraging broader participation.*

*The RBI's measures including providing internet/mobile banking to BSBD account holders aims at enhancing the scope of affordable banking services in line with changing customer needs and thereby deepening financial inclusion.*

*The RBI's proposed changes in the ombudsman scheme and inclusion of rural cooperative banks are expected to further improve customers' grievance redressal mechanism.*

### **Risk Weights on infrastructure lending by NBFCs**

**Impact:** To reduce the cost of infrastructure financing by NBFCs, the RBI has proposed to reduce the risk weights applicable to lending by NBFCs to operational, high quality infrastructure projects. The proposed reduction in risk weights for NBFCs is aimed at lowering the cost of infrastructure financing and encouraging broader participation. While Infrastructure Debt Funds (IDF) and NBFC-IFCs already benefit from favourable risk weights of 50%, the proposed relaxation could improve the competitiveness of other NBFCs lending to infrastructure projects and facilitate widening infrastructure financing. However, this relaxation may also enable higher leverage within infrastructure portfolios of NBFCs, which are often relatively concentrated. In this context, prudent capitalisation will be essential for NBFCs to maintain their credit profiles.

### **2) Measures aimed at enhancing consumer protection**

#### **Review of instructions on basic savings bank deposit (BSBD) account**

**Impact:** The bouquet of services offered to basic savings bank deposit (BSBD) account holders without levy of minimum balance charges is proposed to be expanded to, inter alia, include digital banking (mobile/internet banking) services. The extant instructions on BSBD account require banks to provide certain minimum facilities free of charge, without the requirement of minimum balance, to the holders of such accounts. Given the increasing digitisation of financial services, providing features as internet/mobile banking to such customers would enhance the RBI's financial inclusion drive. This will meet the changing requirements of the customers, while providing affordable banking services.

#### **Strengthening the Internal Ombudsman mechanism in REs and review of RBI integrated ombudsman scheme**

**Impact:** The RBI has proposed to strengthen the internal ombudsman mechanism of regulated entities to make grievance redressal more effective. In addition, the Central Bank has proposed to review the RBI Ombudsman Scheme for improved grievance redressal and rural cooperative banks are being included under the ambit of the Scheme. This will help improve the grievance redressal mechanism, thereby providing customers a timely, fair, and effective redress.

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## ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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### **Alliance with Moody's Investors Service**

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

### **The ICRA Factor**

Our services are designed to

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- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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