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## RBI & Banking sector

As of August 26, 2025, the Reserve Bank of India (RBI) and the Indian banking sector are focused on managing the economic impact of global trade tensions, with the RBI ready to provide support to affected sectors. The banking system's asset quality has improved, and new laws are being implemented to strengthen governance.

### Monetary Policy & Economic Stance

**Repo Rate Unchanged:** In its August 2025 Monetary Policy Committee (MPC) meeting, the RBI kept the repo rate steady at 5.5% after a cumulative 100 basis point reduction earlier in the year. The decision was based on a combination of factors, including record-low inflation at 2.1% and the need to allow previous rate cuts to fully take effect.

**Response to US Tariffs:** RBI Governor Sanjay Malhotra stated the central bank is prepared to take necessary policy measures to support economic growth, particularly in sectors that might be most impacted by the proposed 50% US tariffs on Indian goods. The government is also considering a support package for exporters.

**Call for Investment:** The Governor has urged banks and corporations to collaborate and invest boldly to initiate a new investment cycle, noting that the balance sheets of both sectors are in a strong position.

### Banking Sector Reforms & Performance

**Banking Laws (Amendment) Act, 2025:** Key provisions of this new law have come into effect

from August 1, 2025. The act aims to improve governance, protect depositors, and enhance audit quality in public sector banks. It also redefines the "substantial interest" threshold from ₹5 lakh to ₹2 crore and extends the maximum tenure for directors in cooperative banks to 10 years.

**Asset Quality Improvement:** A recent report by Care Ratings projects that the share of bad loans (gross non-performing assets) will remain at a 15-year low, at around 2.3%-2.4% in FY26. This is a significant improvement from the 9.11% recorded in March 2021.

**Ease of Doing Business:** The RBI is gradually moving towards a more principles- and outcomes-based regulatory framework, aiming to give banks greater operational flexibility while maintaining oversight and protecting consumer interests.

**Strategic Stake Sale:** The RBI has approved the application of Japan's Sumitomo Mitsui Banking Corporation (SMBC) to acquire up to a 24.99% stake in Yes Bank, clarifying that SMBC will not be classified as a promoter.

### Internationalization of the Rupee

**Special Rupee Vostro Accounts (SRVA):** The RBI has eased regulations for opening SRVAs, allowing Category-I Authorized Dealer banks to open these accounts for foreign banks they have an existing correspondent relationship with without prior RBI approval. This is expected to speed up rupee-based trade settlements and promote the internationalization of the Indian rupee.





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### MCQS

**Question 1: What was the RBI's repo rate as of its August 2025 Monetary Policy Committee (MPC) meeting?**

- A) 6.0%
- B) 5.5%
- C) 5.0%
- D) 4.5%

**Answer: B) 5.5%**

The news states, "the RBI kept the repo rate steady at 5.5% after a cumulative 100 basis point reduction earlier in the year."

**Question 2: According to the RBI Governor, what did he urge banks and corporations to do to initiate a new investment cycle?**

- A) Reduce lending rates
- B) Increase foreign direct investment
- C) Collaborate and invest boldly
- D) Reduce their operational costs

**Answer: C) Collaborate and invest boldly**

The news states, "The Governor has urged banks and corporations to collaborate and invest boldly to initiate a new investment cycle..."

**Question 3: Under the new Banking Laws (Amendment) Act, 2025, what has the "substantial interest" threshold been redefined to?**

- A) ₹1 crore
- B) ₹2 crore
- C) ₹5 crore
- D) ₹10 crore

**Answer: B) ₹2 crore**

The news states that the act "...redefines the 'substantial interest' threshold from ₹5 lakh to ₹2 crore..."







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**Question 4: What is the projected share of bad loans (gross non-performing assets) for the Indian banking sector in FY26, according to Care Ratings?**

- A) 9.11%
- B) 5.0%-5.5%
- C) 2.3%-2.4%
- D) 1.0%-1.5%

**Answer: C) 2.3%-2.4%**

The news states, "A recent report by Care Ratings projects that the share of bad loans (gross non-performing assets) will remain at a 15-year low, at around 2.3%-2.4% in FY26."

**Question 5: Which Japanese bank received RBI approval to acquire up to a 24.99% stake in Yes Bank?**

- A) Mitsubishi UFJ Financial Group (MUFG)
- B) Sumitomo Mitsui Banking Corporation (SMBC)
- C) Mizuho Financial Group
- D) Norinchukin Bank

**Answer: B) Sumitomo Mitsui Banking Corporation (SMBC)**

The news states, "The RBI has approved the application of Japan's Sumitomo Mitsui Banking Corporation (SMBC) to acquire up to a 24.99% stake in Yes Bank..."

**Question 6: To promote the internationalization of the Indian rupee, the RBI has eased regulations for Special Rupee Vostro Accounts (SRVA). What is the key change mentioned?**

- A) Banks now need prior RBI approval for all SRVA accounts.
- B) Only public sector banks can open SRVA accounts.
- C) Banks can open SRVA accounts for foreign banks without prior RBI approval.
- D) SRVA accounts can now be used for all types of financial transactions, including investments.

**Answer: C) Banks can open SRVA accounts for foreign banks without prior RBI approval.**  
The news states that the RBI is allowing banks to open these accounts for foreign banks "...without prior RBI approval."

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