

Monetary Policy-October 2026

MPC hiked the Repo Rate by 25bps; Stance changed to Calibrated Tightening

The MPC bi-monthly meeting was held from 05-7th October with the widely expected outcome of hike in the repo rate by 25bps to 5.50% amidst the rising crude oil prices, elevated global bond yields and a weakening rupee adding to inflation risks. The policy stance has also been changed from Neutral to Calibrated Tightening. The last repo rate hike was in February 2023.

RBI hiked the repo rate to 5.50% and changed the stance to Calibrated Tightening; reverse repo rate remains unchanged at 3.35%.

Highlights of Monetary Policy:

- **Repo Rate:** 5.50% (5.25% in August 2026)
- **Reverse Repo Rate:** 3.35% (3.35% in August 2026)
- **Standing Deposit Facility:** stands adjusted at 5.25%
- **Bank Rate:** 5.75% (5.50% in August 2026)
- **MSF:** 5.75% (5.50% in August 2026)
- **GDP Projection:** Real GDP growth for FY27 is projected at 7.1%. Q2FY27 at 7.2%, Q3FY27 at 6.9%, Q4FY27 at 6.8% and Q1FY28: 7.1%
- **CPI Inflation:** CPI forecast for FY27 is projected at 5.2%. Q2FY27 at 4.9%, Q3FY27 at 6.0%, Q4FY27 at 5.7% and Q1FY28: 5.6%

Some Highlights:

- Domestic economic activity exhibited resilience amidst global headwinds as evident from real GDP growth of 7.8% in Q1FY27. Growth was driven by resilient private consumption and strong investment activity while contribution of net exports also remained positive
- Despite deficient and uneven southwest monsoon, kharif sowing, although somewhat above its normal level, has been marginally lower than last year. Manufacturing activity, despite cost pressures, is holding well, as indicated by IIP and PMI. Services sector activity remained steady and broad-based, owing to buoyant domestic and external demand
- CPI inflation increased to 4.8% in August 2026 from 4.5% in July. This was largely driven by higher inflation in food and fuel components. Food price increases have become more broad-based along with notable spikes in certain items. Core inflation also increased to 4.2% in August after remaining unchanged at 3.9% for 3 consecutive months. The near-term outlook on inflation points towards continued pressures from supply side, on account of the deficient Southwest monsoon, El Nino conditions and high volatility in international oil prices
- As measured by the net position under the LAF, system liquidity stood at an average daily surplus of Rs5.9lk-cr since the last MPC meeting in Aug'26. The measures taken to absorb liquidity combined with quarterly advance tax outflows moderated the surplus liquidity in September. Short-term money market rates, especially rates of CPs and certificates of deposit moderated significantly in Aug-Sept. G-sec yields hardened from mid-Aug to Sept amidst renewed geopolitical tensions in West Asia, rise in global bond yields and increase in crude oil prices
- India's CAD remained modest and well below the sustainable levels in Q1FY27 despite enduring external shocks. India's merchandise trade deficit increased to USD58.7bn during July-Aug'26 from USD55.1bn in July-Aug'25, mainly driven by imports of electronic goods and crude oil
- Net FDI registered sustained improvement with inflows at USD13.8bn during Apr-Aug'26 higher than USD9.6bn a year ago, driven by higher gross inflows and a slowdown in the growth of outward FDI. While FPIs recorded net outflows of USD10.3bn during Apr to 05th Oct'26

Other Measures Announced:

(1) Regulation:

- **Measures to enhance the customer convenience through the Account Aggregator Framework:** With an objective to enhance customer convenience, it has been decided to implement interoperability among NBFC-Account Aggregators (NBFC-AA). This will enable customers to access and share their financial information, across different financial information providers, through any NBFC-AA of their choice. Additionally, depositories are being facilitated to include information related to bank deposit accounts in their Consolidated Account Statement (CAS) through the NBFC-AAs. This will enable demat account holders to view information relating to their demat account holdings and bank deposit accounts at one place in the CAS. Customers, including those who do not have demat accounts, can continue to obtain a consolidated view of their financial information and share the same through the NBFC-AAs also. Both measures are expected to be implemented by 31st Dec'26

Oct 07, 2026

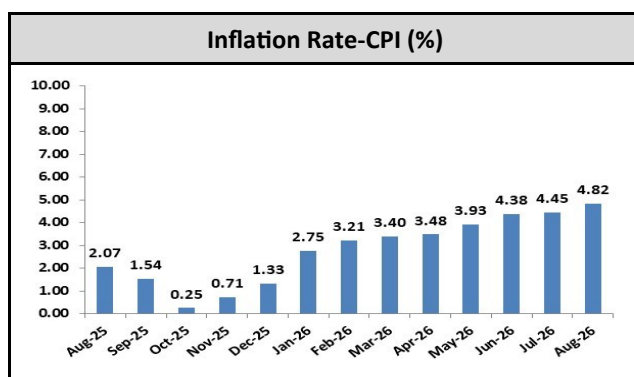
ECONOMIC UPDATE

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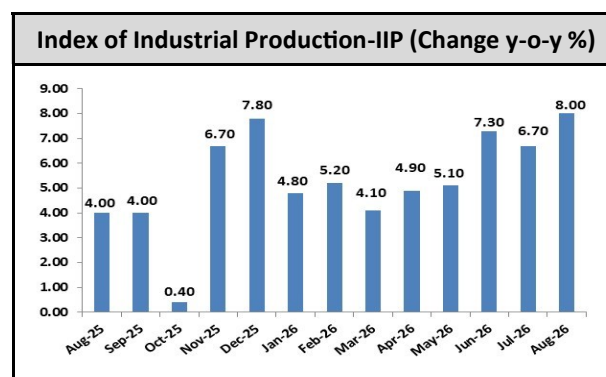
Other Measures Announced (contd.):

(2) Financial Markets:

- **Constitution of the Financial Market Consultative Committee (FMCC):** The RBI has decided to constitute a Technical Consultative Committee for financial markets. The committee will serve as a forum for structured engagement with market participants and stakeholders by the RBI on policy and operational matters related to money, government securities and foreign exchange markets as well as the respective derivative markets and infrastructure



Source: tradingeconomics.com



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Our View:

The most sort after economic announcement was as hawkish as it could get. The MPC sealed the unanimous view with a rate hike of 25bps taking the repo rate to 5.50%; an across-the-board expectation in the current global scenario of broadening inflationary pressures, evolving liquidity conditions and renewed repricing of global risks. The hike has been almost after 3.5 years with rising inflation pressure led by the continuing West Asia conflict. Furthermore, the bigger surprise was the change in stance that also clearly indicates that rate cuts are off the table in the near term; so, whether three or four hikes or a pause happens in coming quarters would depend on the evolving conditions, but no more cuts to expect. There has been an upward revision of 40bps and 20bps respectively for the growth and inflation projections for FY27; real GDP at 7.1% and inflation at 5.2%. As an economy, private consumption has remained broadly resilient, with continued support from discretionary spending. The high-frequency indicators point towards sustained economic momentum in Q2, despite some moderation compared with the previous quarter. Overall, in the financial market volatility, re-calibrating the policy is imperative with another 50bps hike expectation being built in by the end of the year.

FINAL VERDICT			
MPC Meetings	REPO	REVERSE	CURRENT STANCE
October 2026	5.50%	3.35%	Stance changed to Calibrated Tightening
August 2026	5.25%	3.35%	

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