

RBI's October 2026 Monetary Policy:

Repo rate hike by 25 bps to 5.50% & stance changed to calibrated tightening

In its meeting from October 5th–7th, 2026, the RBI raised the repo rate by 25 bps and shifted its monetary policy stance from **neutral to calibrated tightening**. The tone was notably more cautious than in August, with the Governor highlighting rising inflationary pressures from elevated crude oil prices, food prices and weather-related risks. At the same time, confidence in the resilience of the Indian economy remained intact.

Policy Decisions At A Glance:

Policy Tools	Current Policy Review (%)	Last Policy Review (%)	Changes
MSF	5.75	5.50	Increase by 25 bps
Repo Rate	5.50	5.25	Increase by 25 bps
SDF	5.25	5.00	Increase by 25 bps
CRR	3.00	3.00	unchanged
SLR	18.00	18.00	unchanged

Headline CPI Inflation Projections

MPC	Q1 FY27	Q2 FY27	Q3 FY27	Q4 FY27	FY27 (Yearly)	Q1 FY28
Aug-2026 Meeting	5.30%	4.70%	5.90%	5.50%	5.00%	-
Oct-2026 Meeting	5.30%	4.90%	6.00%	5.70%	5.20%	5.60%

Real GDP Projections (New Series)

MPC	Q1 FY27	Q2 FY27	Q3 FY27	Q4 FY27	FY27 (Yearly)	Q1 FY28
Aug-2026 Meeting	7.10%	6.40%	6.50%	6.80%	6.70%	-
Oct-2026 Meeting	7.10%	7.20%	6.90%	6.80%	7.10%	7.10%

Rationale for Policy Decisions:

- **RBI adopted a stance of calibrated tightening**, signalling that it is prepared to tighten policy further if inflation remains elevated, while keeping future decisions dependent on how inflation and growth evolve.
- **The RBI raised its FY27 GDP growth projection to 7.1%**, reflecting continued resilience in domestic demand, manufacturing and services, giving the central bank greater room to focus on inflation.
- **Inflation has emerged as the key policy concern**, with broader price pressures and risks from elevated crude prices and weather-related risks. **Core inflation for FY27 has been revised upwards by 10 bps to 4.40%.**
- Liquidity increased substantially as banking system has been running with **average daily liquidity surplus of ₹5.9 lakh crore against ₹1 lakh crore since last MPC meeting.**
- **WACR has been in the lower half of the policy corridor** and short-term money-market rates also moderated significantly over the past two months but the **credit growth remained robust and broad-based.**



Key Highlights:

- **Forex reserves** currently offers a strong external buffer with over 11 months of import cover and coverage of around 94.4% of external debt.
- Private consumption remains broadly resilient with **some weakness in non-durable goods and domestic air traffic.**
- **Agriculture continues to face near-term risks from El Niño-induced weak and uneven monsoons with probable effect on rabi season. This could weigh on rural demand and food inflation.**
- **Current account deficit widened in July**, reflecting a **higher merchandise trade deficit**, which stood at \$58.7 billion during July–August, up from \$55.1 billion in the same period last year, **driven mainly by higher imports of electronic goods and crude oil.**
- **Net FDI inflows remained strong at \$13.8 billion during April–July, up from \$9.6 billion a year earlier**, supported by higher gross inflows and a moderation in outward FDI. **FPI flows, however, remained negative, with net outflows of \$10.3 billion through October 5.** Despite these pressures, the **balance of payments is expected to remain in healthy surplus this year.**

Outlook:

Inflation emerged as the most visible concern in this meeting. It was not limited to the potential impact of the West Asia conflict and higher crude prices; but also stemmed from food-price pressures amid adverse weather conditions. With inflation above 4% across a significant share of the CPI basket (~37%), the MPC's concern around the broadening and persistence of inflation was clearly evident. This was in contrast with the confidence around growth, with services activity remaining buoyant and high-frequency indicators holding up well. While the RBI has not committed to a further hike, we won't rule out a December hike if inflationary pressures persist.

Surplus liquidity was another prominent feature of the current environment, with average daily system liquidity remaining substantially above levels seen since the previous MPC. The RBI, however, appears focused on gradually absorbing the excess liquidity and aligning money-market conditions more closely with the policy stance.