TATA CAPITAL WEALTH

RBI MONETARY POLICY

October 2026

RBI hikes repo rate by 25 bps; recalibrates inflation and growth outlook



RBI hikes rate from 5.25% to 5.50%, shifts stance to 'calibrated tightening'

RBI Stance → **Calibrated Tightening**

Key Highlights:

- MPC members unanimously voted to hike repo rate by 25 bps to 5.50%.
- Stance changed to 'Calibrated Tightening'.
- FY27 GDP growth forecast revised upwards by 40 bps from 6.7% to 7.1%.
- SDF & MSF adjusted to 5.25% and 5.75%, respectively.
- India's CPI inflation projections for FY27 increased to 5.2% from 5.0% earlier.
- Domestic demand remains resilient despite global uncertainty, geopolitical tensions and climate risks.

Policy Rates / Reserve Ratio	05 Aug '26	07 Oct '26	Status
Repo Rate	5.25%	5.50%	↑
Standing Deposit Facility Rate (SDF)	5.00%	5.25%	↑
Marginal Standing Facility Rate (MSF)	5.50%	5.75%	↑
Bank rate	5.50%	5.75%	↑
Fixed Reverse Repo Rate	3.35%	3.35%	↔
Cash Reserve Ratio (CRR)	3.00%	3.00%	↔
Statutory Liquidity Ratio (SLR)	18.00%	18.00%	↔

Growth Outlook:

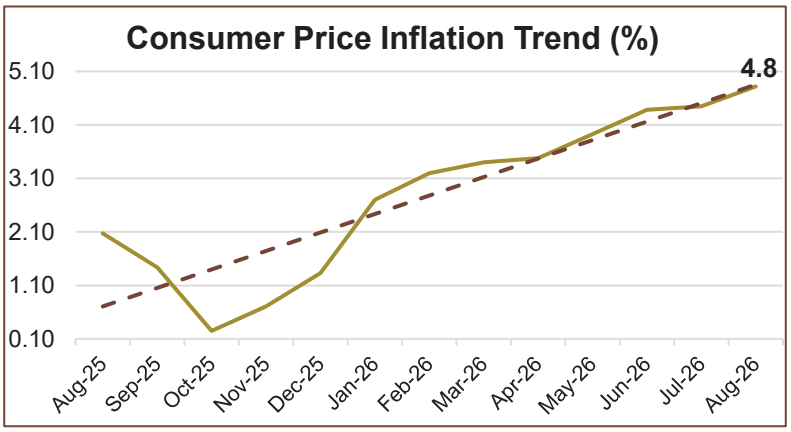
- Bank credit remained strong, with **scheduled commercial bank credit growth remaining robust at 18.1% YoY in September 2026,** supporting domestic economic activity.
- Investment activity continued to gain traction, with Gross Fixed Capital Formation (GFCF) growth at 11.9% YoY and the **GFCF improving to 34.3% of GDP**.
- **Private Final Consumption Expenditure (PFCE) grew by 7.1% YoY** in Q1:2026-27, supported by resilient domestic demand conditions.
- **Manufacturing and Services PMI remained in expansion territory** during Q FY27, signalling continued momentum in economic activity.
- **Merchandise exports recorded 17.8% growth**, while services exports remained buoyant with 10.9% growth during Apr-Aug FY27.
- Reflecting resilient domestic demand and investment activity, **real GDP growth for FY27 is projected at 7.1%,** with quarterly projections of Q2: 7.2%, Q3: 6.9%, Q4: 6.8%.

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Inflation Outlook:

- **Headline CPI inflation increased to 4.8% in August 2026,** primarily due to higher food and fuel prices. RBI revised FY27 CPI inflation to 5.2% from 5.0%.
- **Core inflation (inflation excluding food and energy) is projected at 4.4%** for FY27, up by 0.1% from earlier projection.



	Date	FY27	Q2FY27	Q3FY27	Q4FY27	Q1FY28
CPI Inflation Projections	07-Oct-26	5.2%	4.9%	6.0%	5.7%	5.6%
	05-Aug-26	5.0%	4.7%	5.9%	5.5%	5.3%

External Sector:

- **The current account deficit remained contained at 0.5% of GDP** in Q1 FY27 (US$ 4.2 billion), despite a wider merchandise trade deficit.
- India's **foreign exchange reserves stood at US$734.6 billion** as of 2 October 2026, **providing nearly 11 months of import cover** and covering 94.4% of external debt, underscoring the resilience of the external sector.
- **Net FDI inflows improved to US$13.8 billion** during Apr-Aug 2026, up from US$9.6 billion a year ago, supported by stronger gross inflows. External Commercial Borrowing agreements increased to US$30.4 billion during the year
- Net FPI outflows stood at US$10.3 billion. Measures introduced by the RBI in June 2026 helped strengthen capital inflows, supporting expectations of a healthy balance of payments surplus in FY27.
- The RBI reiterated its commitment to facilitating orderly and calibrated exchange-rate movements while containing excessive volatility to preserve external sector stability.

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Summary:

The **RBI's October 2026 policy marked a shift towards a tighter monetary policy stance, with the MPC raising the repo rate by 25 bps and changing its stance to *Calibrated Tightening*.** While the central bank remains constructive on India's growth prospects, it acknowledged that the inflation outlook has become less favourable due to rising food prices, elevated crude oil prices and increasing geopolitical uncertainties stemming from the West Asia conflict. Weather-related risks from a deficient monsoon and El Niño conditions were also highlighted as key concerns for agricultural output and food inflation.

Despite these challenges, the RBI retained a positive assessment of domestic economic activity. The central bank expects growth to be supported by resilient domestic demand, strong private consumption, robust investment activity, healthy credit flows and continued government spending on infrastructure. High-frequency indicators continue to point to sustained momentum across manufacturing and services sectors, while merchandise and services exports remain supportive of economic activity despite an uncertain global backdrop.

On inflation, the RBI expects price pressures to remain elevated in the near term, driven primarily by food and fuel components, although underlying inflation trends remain relatively contained. The external sector continues to provide stability, supported by improving FDI inflows, comfortable foreign exchange reserves and a manageable current account position. Overall, the policy reflects the RBI's confidence in the economy's resilience while prioritising inflation control and preserving macroeconomic and financial stability amid heightened global and domestic risks.

Source: RBI Governor's Policy Statement 07 October 2026. News articles

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