

RBI Policy – October 2026 – Key Takeaways

RBI Delivers a Hawkish Hike!

- > **Rates Hiked:** The RBI's Monetary Policy Committee (MPC) unanimously decided to raise the repo rate by 25 basis points (bps) to 5.50% – the first hike since February 2023 – in line with consensus expectations. The SDF and MSF rates consequently move to 5.25% and 5.75%. The MPC cited rising crude prices, broadening domestic inflation and robust growth, which gave it the room to hike. The Governor added that, with inflation driven by supply factors, monetary policy works by containing second-round effects through inflation expectations and firms' pricing behavior.
- > **Stance Changed:** The stance was also shifted from *neutral* to *calibrated tightening* on a 4–2 vote, delivering a more hawkish-than-expected message, as the market expected a rate hike with a neutral stance. The change signals that rate cuts are off the table in the near term, with the extent and duration of the hiking cycle tied to incoming growth and inflation data.
- > **Inflation Projections Revised Up:** FY27 CPI inflation is now projected at 5.2% (5.0% in August), with the quarterly path raised by 10–30 bps: Q3 and Q4 FY27 are now expected at 6.0% and 5.7%, and Q1 FY28 at 5.6%. The core inflation projection was revised up to 4.4% (from 4.3%), and the RBI raised its crude oil assumption from \$85 in the August meeting to \$95. August CPI rose to 4.8% (July: 4.5%), and the statement noted that price increases have become more broad-based, with a larger share of the CPI basket now recording inflation above 4%.
- > **Market Reaction:** 10-year yields hardened by 5 bps to 7.24% immediately after the policy announcement, reflecting the change in stance and expectations of a longer inflationary cycle. The sell-off was contained, however, as the Governor did not signal a reliance on OMO sales alone to absorb excess liquidity and instead indicated openness to using the full RBI liquidity toolkit. INR fell by 15 paise against the USD despite the hawkish hike, underscoring the importance of not relying on rate hikes as a tool to target the currency.
- > **Our View:** The policy is consistent with the RBI's own inflation and growth forecasts. Even after the hike, the repo rate sits ~30 bps below the ~5.8% average CPI inflation the RBI projects over the next three quarters, leaving the forward real policy rate negative. This, along with the upward revision to projections, sets the stage for a December hike, unless crude prices correct substantially by then. However, our data analytics suggest inflation is still concentrated – a basket of 10 items contributed 50% of August inflation, with Food and Jewelry alone accounting for 55%. The RBI uses a slightly different metric to assess whether inflation is broadening, and the policy is consistent with those measures.
- > **Growth Forecast Revised Up but at Risk in Our Opinion:** The RBI revised up its FY27 GDP forecast by 40 bps to 7.1% after a 7.8% print in Q1, with Q2 and Q3 raised to 7.2% and 6.9%. The rate-hike cycle itself can drag consumption, as a large part of discretionary consumption is now credit-financed, with household debt at ~45% of GDP (up from 39% in 2021). Softness in rural 2W and tractor sales on a m/m basis, deteriorating rural sentiment, and rising demand for work under the government job guarantee scheme point to a potential slowdown in the rural economy.
- > **Liquidity:** The RBI acted prudently by not hiking the CRR applicable to banks, as it would have hurt smaller banks that did not participate in FCNR(B) flows. The RBI will continue to use VRRR auctions and OMO sales to drain liquidity.
- > **Read-through for Financials:** Repo-linked (EBLR) loans reprice almost immediately while deposits reprice with a lag, which should support bank NIMs in the near term, more so for lenders with a higher share of floating-rate loans and stronger CASA. Hardening yields, however, point to treasury MTM pressure. For NBFCs, incremental borrowing costs rise ahead of asset repricing, leaving fixed-rate lenders more exposed than floating-rate housing financiers.
- > **Global Tightening:** The RBI's policy was guided by domestic growth and inflation dynamics, rather than by an objective to track other central banks. We view this as a rational policy motivation, with Indian yields already among the highest in Asia; further, Malaysia, Indonesia, and Thailand held their policy rates at their latest meetings, keeping India's rate advantage vs Asian peers intact.

Policy Snapshot – October vs August

Rates and forecasts	Aug-26	Oct-26	Change	Quarterly projections	Aug-26	Oct-26	Change
Repo rate	5.25%	5.50%	+25 bps	CPI inflation, Q2 FY27	4.7%	4.9%	+20 bps
SDF rate	5.00%	5.25%	+25 bps	CPI inflation, Q3 FY27	5.9%	6.0%	+10 bps
MSF / Bank Rate	5.50%	5.75%	+25 bps	CPI inflation, Q4 FY27	5.5%	5.7%	+20 bps
Policy stance	Neutral	Calibrated tightening	4–2 vote	CPI inflation, Q1 FY28	5.3%	5.6%	+30 bps
CPI inflation, FY27	5.0%	5.2%	+20 bps	GDP growth, Q2 FY27	6.4%	7.2%	+80 bps
Core inflation, FY27	4.3%	4.4%	+10 bps	GDP growth, Q3 FY27	6.5%	6.9%	+40 bps
GDP growth, FY27	6.7%	7.1%	+40 bps	GDP growth, Q4 FY27	6.8%	6.8%	Flat

Source: RBI, Way2Wealth Research. August figures are the projections published at the 5 August 2026 policy.

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