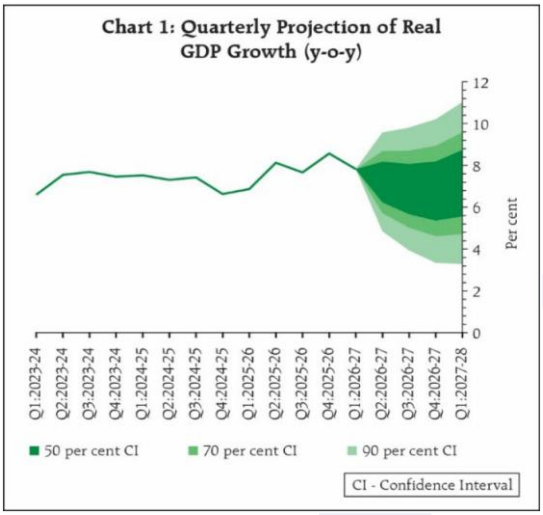
7th OCT 2026

RBI Monetary Policy Update: October 2026

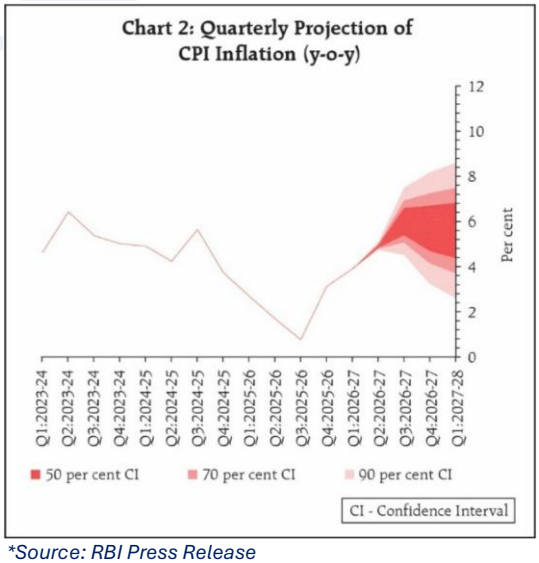
The Monetary Policy Committee raised the policy repo rate by 25 bps to 5.50% at its October meeting, with the decision on rates taken unanimously. The Standing Deposit Facility (SDF) rate, at which banks can park surplus funds with the RBI, now stands at 5.25%. The Marginal Standing Facility (MSF) rate, at which banks can borrow overnight from the RBI when they need urgent funds and the Bank Rate have both moved to 5.75%. The more significant change was in the MPC's stance, which moved from neutral to calibrated tightening, notwithstanding two members out of six, who favoured retaining neutrality. The guidance was equally clear, with the RBI stating that rate cuts are off the table in the near term and that its next move can only be a hike or a pause.



Source: RBI Press Release

Real GDP growth for FY27 has been upgraded to 7.1% from 6.7% in the August policy, with risks to the outlook assessed as broadly balanced. The quarterly trajectory remains robust, at 7.2% in Q2, 6.9% in Q3 and 6.8% in Q4, with Q1 FY28 projected at 7.1%. The upgrade follows a considerably stronger than anticipated Q1 outturn of 7.8%, well ahead of the RBI's earlier estimate of 7.0%, driven by vigorous private consumption, firmer fixed investment and a rebound in merchandise exports alongside buoyant services exports. This momentum has extended into Q2, with manufacturing output accelerating to 8.6% and exports remaining buoyant. Some moderation is nevertheless evident in the PMIs and domestic air traffic, while a deficient monsoon and emerging El Niño conditions remain the principal risks to rural demand.

CPI inflation for FY27 is projected at 5.2%, up from 5.0% in August. The quarterly path runs 4.9% in Q2, 6.0% in Q3 and 5.7% in Q4, with Q1 FY28 at 5.6%. The Q3 peak is now marginally higher at 6.0% against 5.9% earlier and headline inflation is expected to average almost 5.8% over the next three quarters. Headline CPI rose to 4.8% in August from 4.5% in July, with food price increases becoming broader based and sharp spikes in sugar and onion. The more important shift was in core inflation, which rose to 4.2% in August after holding at 3.9% for three consecutive months, while core excluding precious metals rose to 2.9% from 2.3% to 2.5% earlier. The weighted share of CPI items with inflation above 4% increased to about 37%. Energy remains a key pressure point, with the Indian crude basket averaging $116.1 per barrel in September against $82.0 in July. Core inflation for FY27 is now projected at 4.4%.



Source: RBI Press Release

The RBI's decision was driven principally by the shift in the inflation outlook, with growth remaining firm. The MPC noted some evidence of firmer inflation expectations and a broader transmission of price pressures, although there remains limited evidence of these supply side pressures becoming entrenched in pricing behaviour. It also highlighted the continued strength of monetary and credit aggregates, with bank credit growth accelerating to 18.1% from 10.4% a year earlier. Further tightening will depend on the persistence of underlying inflation, the breadth of price pressures and the extent of any second round effects. While the two dissenting members agreed with the rate hike, their preference for a neutral stance indicated some divergence within the committee on the extent of further tightening.

OUTLOOK

The global environment has also become less accommodative, with the US Fed raising rates by 25 bps in September and global bond yields remaining elevated amid renewed tensions in West Asia. Domestically, system liquidity has averaged a surplus of ₹5.9 lakh crore since the August meeting, keeping the call rate 14 bps below the repo rate on average and the RBI has indicated that it will use its liquidity tools to bring the call rate closer to the policy rate. G-sec yields have also hardened since mid August. The path ahead will depend on the rabi outlook, crude prices and the persistence of core inflation, with the December meeting likely to clarify whether the RBI pauses or tightens further.

PORTFOLIO IMPLICATIONS

We continue to believe that earnings will be the key driver for equities from here. The recent sell off has brought valuations to more comfortable levels, while the RBI's 40 bps upgrade to its growth forecast keeps the earnings outlook intact despite higher borrowing costs. With rate cuts off the table for now, equity performance will depend on earnings delivery and valuations. With the next move likely to be a hike or a pause, the case for duration has weakened. G-sec yields have already hardened, while short-term rates could firm as the RBI absorbs surplus liquidity. We therefore prefer maturities of up to one year, given the current inflation and liquidity environment. Precious metals have been a meaningful contributor to inflation, with core at 4.2% against 2.9% excluding them. While a firmer dollar and record global bond yields may slow the pace, a healthy correction and geopolitical risks keeps gold relevant as a diversifier. We prefer building positions gradually through small, staggered allocations.

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