

Policy Highlights:

Reserve Bank of India (RBI) Governor Sanjay Malhotra on October 7, 2026 announced that the MPC voted unanimously to increase the policy repo rate under the liquidity adjustment facility (LAF) by 25 bps to 5.50 per cent. Consequently, the standing deposit facility (SDF) rate stands adjusted at 5.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 5.75 per cent. The MPC also decided to change the stance to calibrated tightening.

Outlook:

Since the last MPC meeting in August 2026, the re-escalation of the conflict in West Asia and the consequent sharp volatility in crude oil prices has kept the global economy in a state of flux. Global growth has remained resilient. Acceleration of inflation in key economies has prompted a shift towards hawkish monetary policy. The US Fed hiked by 25 bps in September. Tighter global financial market conditions coupled with fiscal sustainability concerns in major economies are keeping global bond yields at record high levels. Notwithstanding these persisting global headwinds, the Indian economy has remained resilient. Strong private consumption and fixed investment, rebound in merchandise exports and sustained buoyancy in services exports supported growth. Looking ahead, global economic uncertainty will continue to have some bearing on domestic economic activity. While energy prices and supply chain pressures have continued, their near-term trajectory remains uncertain amidst the lingering West Asia conflict. Deficient south-west monsoon and strong El Niño conditions pose risks to agriculture sector’s outlook and rural demand, although healthy buffer of foodgrains and proactive policy interventions by the government are expected to mitigate the impact. Considering all these factors, real GDP growth for 2026-27 is projected at 7.1 per cent, with Q2 at 7.2 per cent; Q3 at 6.9 per cent and Q4 at 6.8 per cent. Real GDP growth for Q1:2027-28 is projected at 7.1 per cent. The risks are evenly balanced.

CPI inflation increased to 4.8 per cent in August 2026 from 4.5 per cent in July. While the increase has been predominantly on account of higher inflation in food and fuel groups, core inflation has also picked up indicating some signs of widening price pressures. The near-term outlook on inflation points towards continued pressures from supply side on account of the deficient monsoon, ongoing El Niño conditions and high energy and other commodity prices, the pass through of which is still continuing. Considering all factors, CPI inflation is projected to be 5.2 per cent for 2026-27 with Q2 at 4.9 per cent; Q3 at 6.0 per cent; and Q4 at 5.7 per cent. Inflation for Q1:2027-28 is projected at 5.6 per cent with risks being evenly balanced. Core inflation is projected at 4.4 per cent for 2026-27. It only signals that given the current conditions, rate cuts are off the table in the near term and policy action ahead can only be a rate hike or a pause, depending on the evolving conditions and the outlook. The duration and extent of rate hike cycle would be contingent on the actual growth-inflation developments and outlook, especially that of underlying inflation, the extent of broadening of price pressures and second round effects of the supply shock, as also the impact of demand impulses.

Policy Rates								
Y-O-Y Growth (%)	Mar-26	Apr-26	May-26	Jun-26	July-26	Aug-26	Sept-26	Oct-26
Repo	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.50%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
CRR	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	July-26	Aug-26
Inflation (WPI)	1.19%	2.18%	3.98%	8.36%	9.88%	9.97%	9.78%	9.92%
Inflation (CPI)	2.74%	3.21%	3.40%	3.48%	3.94%	4.38%	4.44%	4.82%
GDP Growth								
Y-O-Y Growth (%)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
GDP (% Growth)	7.30%	7.42%	6.62%	6.86%	8.12%	7.65%	8.56%	7.82%
GVA (% Growth)	7.01%	7.61%	6.55%	6.95%	8.31%	7.59%	8.69%	8.23%

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