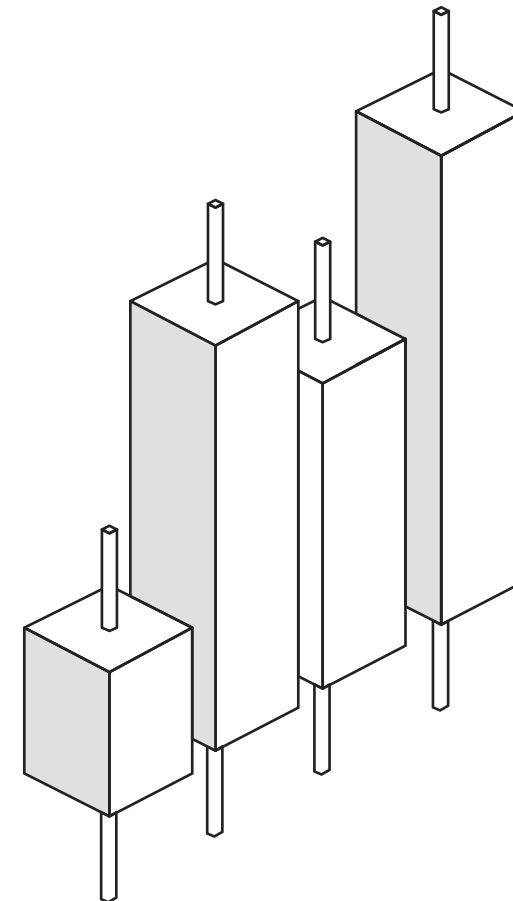


RBI Monetary Policy Committee Meeting

October 2026 Policy Review — Rates, Inflation & Growth Outlook



What's Inside This Report

01	Executive Summary
02	Inflation Watch
03	Key Macro Risks
04	Growth Outlook
05	Key Takeaways

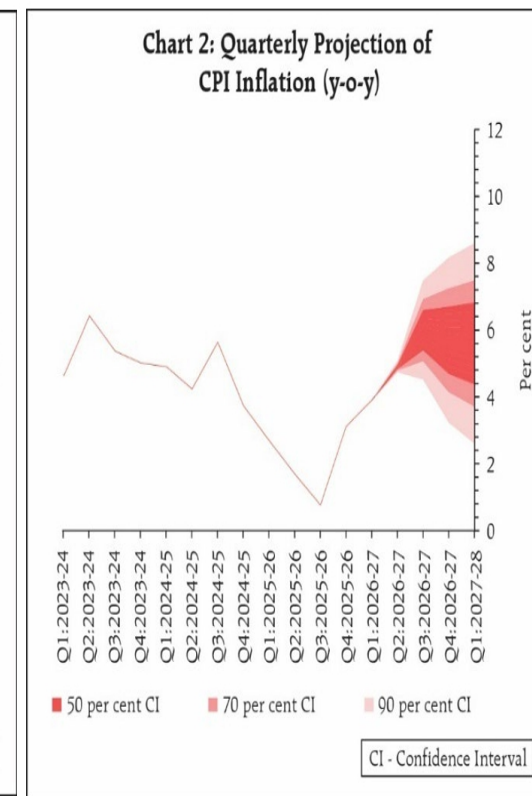
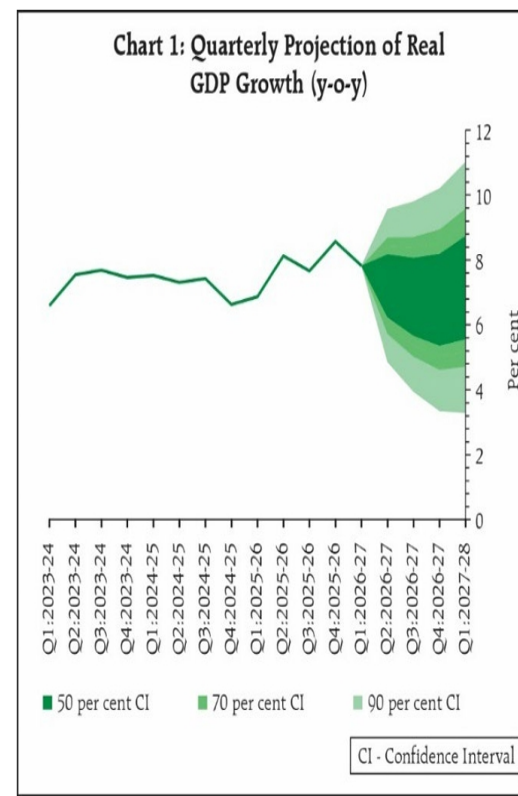
Executive Summary

- **The Move:** Unanimous 25 bps hike; stance shifts from neutral to calibrated tightening. A near-term rate cut is unlikely.
- **The Trigger:** CPI has risen in every 2026 print (Jan 2.74% → Aug 4.82%); food at 5.95%, WPI at 9.92%, crude near \$100 and the rupee past 96/\$.
- **The Cushion:** Q1 FY27 GDP grew 7.8% with investment up 11.9%; September PMIs at 55–57 give room to tighten without derailing growth.
- **Forward Guidance:** “Under the prevailing conditions, a rate cut was unlikely in the near term.”

Instrument	Aug 2026	Oct 2026	Change
Policy repo rate	5.25%	5.50%	+25 bps
SDF rate	5.00%	5.25%	+25 bps
MSF & Bank Rate	5.50%	5.75%	+25 bps
CRR	3.00%	No change reported	—
Stance	Neutral	Calibrated tightening	Hawkish
MPC vote	6–0 hold	Unanimous hike	—

Inflation Watch

- **Current inflation:** CPI inflation rose to 4.8% in August 2026 from 4.5% in July, driven mainly by higher food and fuel inflation, with fuel also affected by unfavourable base effects.
- **Broadening pressures:** Core inflation climbed to 4.2% (2.9% excluding precious metals). Food price increases are more broad based, with spikes in sugar and onion, and about 37% of the CPI basket now shows inflation above 4%.
- **Supply-side drivers:** A deficient monsoon, strong El Niño conditions and elevated energy and commodity prices, whose pass-through is still continuing, are expected to keep pressure on prices.
- **FY27 projection:** CPI inflation is projected at 5.2% for 2026-27, with quarterly readings of 4.9% (Q2), 6.0% (Q3) and 5.7% (Q4), and core inflation at 4.4%.
- **FY28 outlook:** Q1:2027-28 inflation is projected at 5.6%, with risks evenly balanced.



Key Macro Risks on the Radar

❖ Crude Oil/ West Asia

The re-escalation has made crude prices sharply volatile, and the near-term path for energy prices and supply chains remains uncertain with no resolution in sight.

❖ Deficient monsoon and El Niño

These threaten agricultural output and rural demand, and add to food inflation, which is already broadening with spikes in sugar and onion.

❖ Broadening inflation and second-round effects

Core inflation is rising (4.2%), about 37% of the CPI basket is above 4%, and there is some evidence of elevated inflation expectations.

❖ Tighter Global Financial Conditions

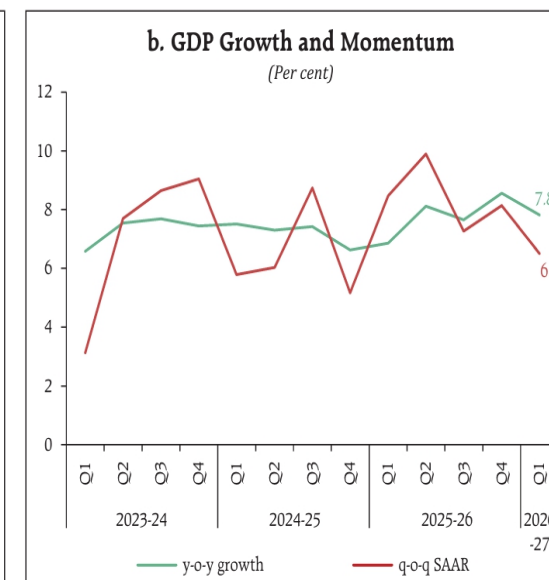
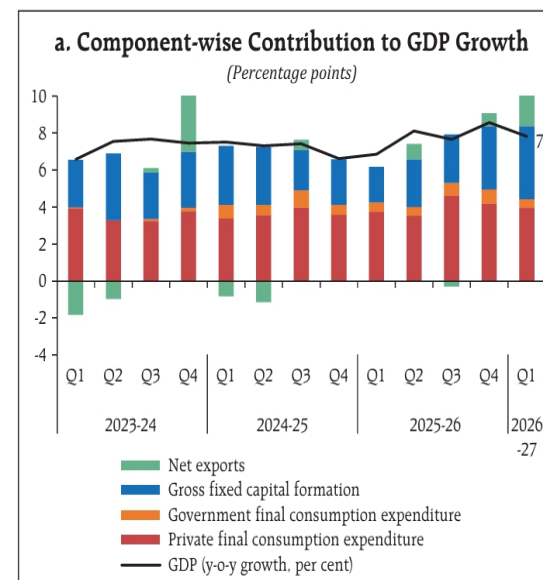
The Fed hiked 25 bps in September, other major central banks are tightening, and global bond yields are at record highs amid fiscal sustainability concerns.

❖ Strong credit growth and elevated global asset valuations

Rapid monetary and credit expansion could add demand-side pressure, while elevated AI-related asset valuations and high public debt are flagged as global downside risks.

Growth Outlook

- **Growth projection:** Real GDP growth for 2026-27 is projected at 7.1%, with quarterly readings of 7.2% (Q2), 6.9% (Q3) and 6.8% (Q4), and 7.1% for Q1:2027-28, with risks evenly balanced.
- **Current momentum:** Q1:2026-27 growth came in at 7.8%, higher than expected, supported by strong private consumption, fixed investment, rebounding merchandise exports and buoyant services, while high frequency indicators for July-August point to sustained momentum.
- **Supporting factors and risks:** Services momentum, stable employment, strong capacity utilisation, robust credit flows and infrastructure thrust should support demand, while the West Asia conflict, deficient monsoon and El Niño pose risks to rural demand and agriculture.



Notes: SAAR: seasonally adjusted annualised rate. * and # are implicit estimates for Q4 based on the second advance estimates for 2025-26.

Sources: NSO; and RBI staff estimates.

Key Takeaways

Rate hike and stance shift

The MPC voted unanimously to raise the repo rate by 25 bps to 5.50%, with the SDF at 5.25% and the MSF and Bank Rate at 5.75%. Stance changed to calibrated tightening, which signals rate cuts are off the table and the next move can only be a hike or pause. Two members preferred retaining the neutral stance.

Inflation outlook worsens

CPI inflation is projected at 5.2% for 2026-27 (Q3 at 6.0%, Q4 at 5.7%) and core inflation at 4.4%. The MPC said inflation is no longer as benign as last year, citing the deficient monsoon, El Niño, high energy prices and signs of broadening price pressures.

Growth stays resilient

Real GDP growth is projected at 7.1% for 2026-27, after a stronger-than-expected 7.8% in Q1. Broad-based momentum continues despite global headwinds from the West Asia conflict and tighter global financial conditions.

Technical Consultative Committee for Financial Markets

The RBI will set up this committee as a forum for structured engagement with market participants on policy and operational matters across money, government securities and forex markets, plus their derivatives and market infrastructure. Its composition and terms of reference will be notified separately.

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