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RBI POLICY: 25 BPS RATE HIKE…SHIFT IN TONE FROM WATCHFULNESS TO EXPLICIT TIGHTENING… RUPEE GUARDRAILS MUST BE IN FOCUS TO PULL IT BACK THROUGH A SET OF CALIBRATED MEASURES… NEXT HIKE SHOULD BE 50 BPS (ON/ OFF CYCLE?)… 6% REPO RATE IN SIGHT IN DEC POLICY ITSELF

Issue No. 28, FY27
Date: 07 Oct 2026

The RBI's MPC delivered a decisive policy message today... a unanimous 25 bps increase in the repo rate to 5.50%, marking the first rate hike in about four years. More importantly, the rate action was accompanied by a shift in the policy stance from neutral to calibrated tightening. **Rate cuts are off the table in the near term… policy choice ahead is now effectively restricted to rate hike or pause, depending on the evolving inflation-growth dynamics.** RBI has raised projection for both GDP growth (by 40 bps to 7.1%) and CPI inflation (by 20 bps to 5.20%) for FY27. **We believe that Q2FY27 GDP growth is likely to touch 7.5%.**

Beyond the rate action itself, we believe the October policy communication represents a transition from watchfulness to explicit tightening. Our analysis of the Governor's Statement and the Monetary Policy Statement reveals a marked convergence in their degree of hawkishness this time around... a significant change from the communication divergence that we had identified in the previous policy cycle. In our earlier report, our NLP analysis had highlighted a communication puzzle in the RBI's policy cycle (The "Chalk and Cheese" problem in monetary policy). Our reading of the Governor's Statement suggests that it is more vivid and risk-heavy in its presentation, with greater emphasis on fragile market sentiment, oil-price volatility and the possibility of an unwieldy correction in AI-stock valuations. The MPC resolution, in contrast, is more restrained, effectively stating that the current stance only signals a near-term choice between a hike and a pause.

Furthermore, India needs a clear AI policy to facilitate capital flows. Without a clear policy, capital flows in unlikely. Thus the need of hour to provide guardrails for rupee that is effectively moving towards a dreaded benchmark now.

Peak policy rate poised for 6%..our estimates now point towards a jumbo rate hike of 50 bps hike (or off cycle?). Our analysis of historical RBI policy cycles suggests that the extent of monetary tightening has broadly been calibrated to the intensity and persistence of inflationary pressures. Interestingly, as the inflation environment moderated across successive RBI regimes, the peak policy rate also tended to moderate. **Against this historical backdrop, our estimates suggest that with inflation currently expected to peak at around 6.8% in November 2026, the corresponding peak repo rate could be around 6.0%.** However, the quantum and pace of rate hikes could differ materially depending on the evolution of the inflation trajectory.

The pace of the tightening cycle is equally important. Our assessment of previous policy cycles shows that the RBI has, at times, delivered sizeable adjustments through a relatively limited number of policy reviews. The 125 bps cumulative rate cut under Shri Sanjay Malhotra was delivered through four policy actions, while the much larger 250 bps tightening cycle during Shri Shaktikanta Das's tenure was effected through six policy actions. **Given the steepening inflation trajectory currently underway, we believe that the Dec policy cycle could mostly deliver a jumbo 50 bps rate hike depending on the global conditions. Given that global conditions are likely to turn volatile soon, the window of opportunity of RBI rate hike in small increments must be avoided. A 6% repo rate by December could be the best possible option.**

Meanwhile, in order to support rupee (which plunged 5-months low today), we propose certain measures:

- **First**, the plight of rupee, accentuated by flight of capital from overseas investors as Dollar strengthens rapidly (Debt outflows totalled $2.1 bn in Sep.) needs further countercyclical policy measures beyond Debt segments… **Patient capital in** equity may be incentivized through a minimized Long Term capital gains graded structure beyond a reasonable period say 3 years and beyond (with some parity for domestic investors too) while STCG structure may also be tweaked intermittently, commencing progressively.
- **Second**, **Mint Street should look at widening the effective interest rate corridor by hiking the MSF rate decisively higher (even if for a shorter period) to without touching the policy rate (along similar lines as it had tweaked in April'20 and it need not wait for another MPC meet for this).**
- **Third**, **for such action like widening the rate corridor to be effective, taking a leaf from the RBI's Oct'26 MPR, RBI should continue focussing on liquidity management** through conventional tools of OMOs/VRRs instead of resorting to CRR. **CRR as an instrument of active liquidity management is expensive to administer and "using reserve requirements to fine tune the money supply is like trying to use a jackhammer to cut a diamond" [Mishkin 1997].**
- **Fourth,** the export realization and repatriation period in FC (not when Rupee settled) needs a clear revisit and a shorter period of six months should be the norm (against currently 9 months in vogue), with higher period an exception only allowed on a case-to-case basis to deter withholding pattern.
- **Fifth**, the evolving situation warrants an agile and tactile response on rate front and that may warrant a **jumbo rate hike in the next policy** (or, off cycle should the fist come to a blow).

REPO RATE INCREASED BY 25 BPS TO 5.50%

- After the gap of about four years, MPC unanimously decided to increased the repo rate by 25 bps to 5.50% (last rate hike happened on 08 Feb'23). The MPC also decided to change the stance from neutral to calibrated tightening though not unanimously. Two external members were of the view that the stance be retained at neutral. Governor clearly mentioned in his statement 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.
- RBI has upgraded its FY27 real GDP growth projection by 40 bps to 7.1% with Q2 at 7.2% (earlier: 6.4%); Q3 at 6.9% (earlier: 6.5%) and Q4 at 6.8% (earlier: 6.8%) despite global uncertainties and weak south-west monsoon. The upgrade is mostly hinges upon continuing momentum in services, strong capacity utilisation, robust credit flows, etc.
- ♦ Regarding inflation forecast, RBI has also increased its FY27 CPI inflation projection by 20 bps to 5.2%. The estimate of core CPI has also been increased by 10 bps to 4.4%. The estimate largely depend upon pressures from supply side on account of the deficient monsoon, ongoing El Niño conditions and high energy and other commodity prices. RBI expects Q2 inflation at 4.9%; Q3 at 6.0%; and Q4 at 5.7%.

RBI Growth & Inflation Outlook for India

	CPI Inflation (%)			GDP Growth rate (%)		
	Aug'26	Oct'26	Change in bps	Aug'26	Oct'26	Change in bps
Q2 FY27	4.7	4.9	20	6.4	7.2	80
Q3 FY27	5.9	6.0	10	6.5	6.9	40
Q4 FY27	5.5	5.7	20	6.8	6.8	0
FY27	**5.0**	**5.2**	**20**	**6.7**	**7.1**	**40**
Q1 FY28	5.3	5.6	30	7.3	7.1	-20
FY 27 Core Inflation	4.3	4.4	10			

Source: RBI, SBI Research

Historical analysis of Peak policy rates

Governor	Period	Peak repo rate	Peak Inflation	Average Inflation	Maximum inflation during entire tenure	Minimum inflation during entire tenure
Dr. Raghuram G. Rajan	Sept 4, 2013 to Sept 4, 2016	8 (Jan'14)	11.51 (Nov 13)	6.66	11.51	3.27
Dr. Urjit R. Patel	Sept 4, 2016 to Dec 11, 2018	6.5 (Aug to Dec 18)	3.7 (Sep'18)	3.68	5.21	1.46
Shri Shaktikanta Das	Dec 12, 2018 to Dec 10, 2024	6.5 (Feb'23 to 06 Dec'24)	7.44 (Jul'23)	5.42	7.79	1.97
Shri Sanjay Malhotra	Dec 11, 2024 onwards	6 (SBI Estimate)	6.8 (Nov'26: SBI Estimate)	3.67 (2023 base till now)	4.82 (Till Aug'26)	.04 (old series

Source: RBI, SBI Research

Number of Rate cuts/ hikes

	From	To	Rate	Cumulative cut/ hike in bps	pattern	# of policies
Dr. Raghuram G. Rajan	20-09-2013	28-01-2014	7.5 to 8	50	2*25	4
	28-01-2014	05-04-2016	8 to 6.5	-150	4*-25 and 1*-50	5
Dr. Urjit R. Patel	04-10-2016	02-08-2017	6.5 to 6	-50	2*-25	3
	02-08-2017	01-08-2018	6 to 6.5	50	2*25	2
Shri Shaktikanta Das	07-02-2019	04-10-2019	6.5 to 5.15	-135	4*-25 and 1*-35	5
	27-03-2020	22-05-2020	5.15 to 4	-115	1*-75 and 1*-40	3
	04-05-2022	08-02-2023	4 to 6.5	250	1*40,3*50,1*35 and 1*25	6
Shri Sanjay Malhotra	07-02-2025	05-12-2025	6.5 to 5.25	-125	3*-25 and 1*-50	6
	07-10-2026	04-12-2026	5.25 to 6	75*	1*25 and 1*50	2

Source: RBI, SBI Research, SBI Research

PEAK POLICY RATE POISED FOR 6%....ANOTHER ROUND OF RATE HIKE OF 50 BPS IN DEC

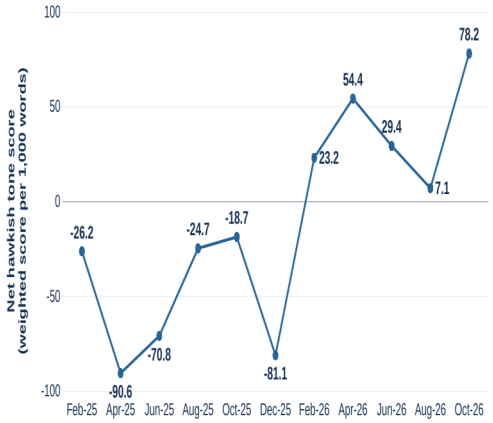
- ♦ The evolution of the policy rate across successive RBI regimes suggests that the extent of monetary tightening has broadly been calibrated to the intensity and persistence of inflationary pressures. The trajectory of monetary tightening across successive RBI regimes indicates that the peak policy rate has moderated alongside the easing of the inflation environment.
- ♦ During Dr. Raghuram Rajan's tenure, inflation touched a high of 11.51%, with the repo rate peaking at 7.75%. Subsequently, as the inflation environment moderated, the peak policy rate also came down to 6.5% under both Dr. Urjit R. Patel and Shri Shaktikanta Das, despite peak inflation reaching 5.21% and 7.79%, respectively.
- ♦ **As per our estimates, with inflation currently estimated to peak at around 6.8% (Nov'26), the historical pattern would suggest a peak repo rate of around 6.0%, implying a further 50 bps of cumulative tightening from the current level of 5.5%.** However, the quantum and pace of rate hikes could differ materially depending on the evolution of the inflation trajectory.
- ♦ The historical rate-cycle pattern indicates that RBI has, at times, executed sizable adjustments within a relatively limited number of policy reviews.
- ♦ The 125 bps cumulative rate cut under Shri Sanjay Malhotra was delivered across four policy actions, while the much larger 250 bps tightening cycle during Shri Shaktikanta Das's tenure was effected through six policy actions, highlighting that the pace of transmission can accelerate as per the evolving macroeconomic situation.
- ♦ **Against this historical backdrop, and given the steepening inflation trajectory currently underway, we believe that the Dec policy cycle could deliver 50 bps rate hike depending on the global conditions.**

POLICY TONE SHIFTS FROM WATCHFULLNESS TO EXPLICIT TIGHTENING

- **The October Governor's statement and the formal MPC resolution convey essentially the same hawkish policy message, but differ in presentation and qualification.** The Governor uses more vivid language around fragile market sentiment, oil volatility and the risk of an unwieldy correction in AI-stock valuations, while presenting calibrated tightening more emphatically. The resolution is more restrained in defining the stance, stating that it "only signals" a near-term choice between a hike and a pause.
- **October represents a shift from watchfulness to explicit tightening—**not simply more anxious language. June acknowledged second-round inflation risks but preferred waiting for greater clarity. August still emphasized limited generalisation of price pressures and benign underlying inflation.
- Governor's statement contains meaningful offsets to hawkish language. Governor statement in October changes the policy message decisively: the 25-basis-point hike to 5.50%, calibrated-tightening stance and exclusion of near-term cuts restrict the stated options to another hike or a pause. Meanwhile, the upward revision of the growth forecast to 7.1% conveys confidence in economic resilience, this reflects a controlled tightening, rather than panic.
- In our earlier report we had analysed how the language of RBI Governor's Statement and MPC statement differs in terms of tone we had found a communication puzzle emerging from the RBI's latest policy cycle: **the August MPC minutes appear more hawkish, keeping inflation risks and the possibility of further tightening in focus while the Governor's statement sound considerably more patient and data-dependent**.
- **This time we analysed the divergence of common themes between the Governor statement, Monetary Policy Statement (incidentally, the shortest one). In fact, this time MPC statement and Governor's Statement are not too different from each in other in terms of hawkishness, reflecting a convergence this time.**

October delivers the clearest tightening signal

RBI Governor statements, February 2025 to October 2026



7 OCTOBER 2026

78.2

Highest decision/rationale score in this 11-statement series.

25 bps hike to 5.50%

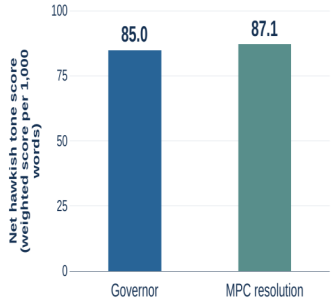
Calibrated tightening. Further hike or pause, depending on the outlook.

June and August held at 5.25%. October changes both the rate and the stance.

Scope: decision, rationale and forward guidance under a common section rule. Zero denotes lexical balance.
Sources: RBI Governor statements and the retained 11-statement corpus. October: RBI, 7 October 2026, paragraphs 3–9.

Governor and MPC share the same tightening rationale

7 October 2026, matched policy-rationale paragraphs



CURRENT READING

October shifts from August's neutral pause to a 25 bps hike and calibrated tightening.

Inflation broadening drives the response. RBI projects FY2026–27 CPI at 5.2%, core inflation at 4.4% and growth at 7.1%.

The hike was unanimous. Two members preferred a neutral stance. Further hikes or pauses depend on inflation persistence and demand.

October member minutes are due 21 October.

Identical weighted evidence

Raw net: 31.1875 for both.
The score gap comes only from length:
367 Governor words versus 358 MPC words.

REGULATORY MEASURES

- **Measures to Enhance the Customer Convenience through the Account Aggregator Framework**: RBI has decided to decided to implement interoperability among NBFC-Account Aggregators (NBFC-AA). This will integrate services across financial services provide. Further it has been decided to include information related to bank deposit accounts in their Consolidated Account Statement (CAS) through the NBFC-AAs. The measure will entail better financial profiling of customers, hyper customization of services and integration of services across financial services.
- **Constitution of the Financial Market Consultative Committee (FMCC)**: RBI has decided to constitute a Technical Consultative Committee for Financial Markets. Forum will be for structured engagement with market participants and stakeholders by the Reserve Bank on policy and operational matters related to money, government securities and foreign exchange markets as well as the respective derivative markets and infrastructure. We believe, under the evolving uncertainty in financial markets, FMCC will serve as coordination mechanism for orderly function of the markets.

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