India MPC: 'Calibrated & moderately hawkish' start to rate hike cycle

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Fig 1: Macro projections, Oct'26 vs Aug'26 MPC

RBI MPC's Growth & Inflation Projections				
	GDP		CPI	
	Aug'26	Oct'26	Aug'26	Oct'26
Q1	7.8		3.9	
Q2	6.4	7.2	4.7	4.9
Q3	6.5	6.9	5.9	6.0
Q4	6.8	6.8	5.5	5.7
FY27	6.7	7.1	5.0	5.2
Q1FY28	7.3	7.1	5.3	5.6

Source: CEIC, RBI, UBI Research

Fig 2 Macro projections, MPC vs UBI

UBI vs RBI MPC Projections				
	GDP		CPI	
	MPC	UBI	MPC	UBI
Q1	7.8		3.9	
Q2	7.2	7.6	4.9	5.1
Q3	6.9	6.5	6.0	6.3
Q4	6.8	6.2	5.7	6.1
FY27	7.1	7.0	5.2	5.4
Q1FY28	7.1		5.6	

Source: CEIC, RBI, UBI Research

MPC unanimously voted for rate hike, partially dissented on stance change

The MPC policy outcome today was completely aligned with our expectations. The unanimous 25bps rate hike and shift in stance to calibrated tightening (with two dissent votes, though the MPC does not officially vote on stance) was a prudent and a credible start to the rate hike cycle, in our view, More importantly, while the policy guidance was hawkish as expected with upward revision in inflation (headline and core) and growth forecasts, the RBI Governor balanced it somewhat by asserting that only limited signs of supply side pressures getting embedded in pricing behaviour, base effects playing a role in inflation spike, and liquidity is likely to normalise on its own due to seasonal factors.

Market reaction has been mixed with the Rupee depreciating to 96.83 levels, despite RBI following the Fed to support US-India rate differentials, even as the Governor asserted that the REER suggests that Rupee is undervalued. Bond yields showed a much more subdued reaction of 2-4 bps across the yield curve as the policy outcome was largely priced-in.

On balance, with policy decision as expected, going forward we maintain our call of another 50bps rate hike taking repo rate to 6% in this cycle, with hikes divided between Dec'26 and Feb'27 policy meetings. While there was no announcement of specific liquidity measures, we see active liquidity management playing a primary role in ensuring adequate monetary policy transmission. Banks are likely to benefit with an estimated favourable impact on margins of ~5-7 bps over next 4 quarters.

Some 'signs' of generalisation emerging in inflation

The MPC expressed concern on the inflation front, raising its FY2026-27 CPI inflation projection to 5.2% (crude oil price assumption: $95/bbl). The MPC noted that inflation outlook faces continued pressures from the ongoing El Nino conditions and high energy and commodity prices and their continued pass through. Therefore, CPI projection for FY27 has been revised upwards to 5.2% from 5% earlier with Q2 at 4.9% (vs 4.7%), Q3 at 6.0% (vs 5.9%) and Q4 at 5.7% (vs 5.5%). Headline CPI inflation is projected to average nearly 5.8% over the next three qtrs., including the current qtr, thereby making a case for policy tightening. The projection of core inflation has also been revised upwards from 4.3% earlier to 4.4%. Our projections are more hawkish than the MPC's current projections tracking 6.3% in Q3 and 6.1% in Q4, making us expect further policy tightening of 50bps before end of FY27.

More importantly, the RBI Governor's comments were completely in consonance with our latest thematic research on inflation asserting that some signs of generalisation are slowly emerging. MPC has noted that the weighted share of items in headline CPI recording inflation above 4% stands at about 37% in August. The feedback loop of prolonged energy shock and impact of super El Nino on inflation expectations is likely to be witnessed with a lag, thereby making case for monetary policy tightening to curtail the second-round effects. That said, the policy statement also balances out this assertion by stating that, *"while there is some evidence of elevated inflation expectations and generalisation of inflation, there are only limited signs of supply side pressures getting embedded in pricing behaviour"*.

Growth stays resilient; high frequency indicators moderated in Q2

The upward revision in the FY27 GDP growth forecast to 7.1% from 6.7% previously reflects confidence that domestic demand will continue to offset external uncertainties. Our growth projections are also broadly aligned with MPC's forecasts though we expect a sharper slowdown in H2. Governor in the post policy conference stressed that the economy is well placed to absorb the modest policy tightening. RBI Dy. Governor Poonam Gupta mentioned that 7.8% Q1FY27 GDP growth rate existed with very low inflation rate. While the full year outlook has been revised upwards, the projection for Q4FY27 has been maintained at 6.8% (same as earlier) while the growth projection for Q1FY28 has been revised downward from 7.3% previously to 7.1% indicating that MPC expects mild moderation in growth towards the end of FY27. Geopolitical tensions, elevated crude oil prices, weather-related risks and global financial market volatility remain key downside risks to growth going forward.

Classification: Public

Fig 3: Liquidity drivers:

Drivers of Liquidity (₹ lakh crore)				
Sr. No		Sep-26	Q3 FY27 (Proj	Q4 FY27 (Proj
A	Opening core liquidity	13.93 (as on 15th Sept)	12.18	7.76
B	BoP-linked net FX impact	(1.14)	(1.68)	0.24
C	Currency in circulation impact	0.32	(1.02)	(2.15)
D	CRR impact	(0.04)	(0.22)	(0.24)
E	OMO sales absorption	(0.75)	(0.63)	(0.63)
F	FX swaps absorption	(0.15)	(0.88)	(0.87)
G	Closing core liquidity (A+B+C+D+E+F)	12.18	7.76	4.11
H	Govt cash balance at RBI	4.01	3.03	2.05
I	Closing banking-system liquidity (G-H)	8.17	4.73	2.06

**Assumption: H2 FY27 BoP deficit assumed at US$15.2 billion, with BoP used as a proxy for RBI's net FX liquidity impact at ₹95/USD. CIC follows historical seasonality; required cash reserves follow recent growth trends, with the CRR rate unchanged. Total OMO sales of ₹2 lakh crore and FX swap absorption of US$20 billion (₹1.90 lakh crore) assumed over the forecast period. Government cash balance at RBI declines gradually to ₹2.05 lakh crore by March 2027.*

Liquidity likely to normalise due to seasonal factors in H2 FY27

While liquidity assurance was provided, absence of specific measures (OMO calendar or CRR hike as expected by some sections of the market) shows that RBI will continue to undertake active liquidity management outside the MPC policy meetings, in order to achieve its objective of aligning the weighted average call rate with repo rate.

RBI indicated that the FCNR(B)-led liquidity surge is temporary, with a substantial portion expected to be absorbed within FY27. Surplus liquidity averaged ₹5.9 lakh crore since the August MPC and ₹7.3 lakh crore since September; nearly 2.7% of deposits following one-off dollar inflows of around US$144 billion. RBI conducted 55 VRRR auctions, including two term auctions, and ₹1 lakh crore of OMO sales; these, alongside advance-tax outflows, moderated September's surplus. However, WACR averaged 14 bps below repo, underscoring the need for further absorption to strengthen policy transmission. The Governor expects currency demand, reserve requirements and RBI operations including VRRRs, OMO sales, FX sell/buy swaps and spot intervention to reduce the surplus, while explicitly keeping option of using all tools, including CRR, available.

In our view, liquidity assurance without a future OMO calendar or CRR hike suggests continued active management outside MPC meetings, with VRRRs, OMOs and FX swaps remaining the principal instruments. We expect banking-system surplus liquidity to moderate to around 1% of NDTL by March 2027, assuming ₹2 lakh crore of OMO sales, half already completed, and US$20 billion of FX swaps, largely completed according to media reports.

We see case for 50bps further rate hikes by end of FY27

October MPC was seen as the beginning of rate-hike cycle with 25 bps and a total of 75 bps this FY with repo reaching 6% by end-FY27. RBI Governor has also signalled "further action could involve a rate hike or a pause; near-term cuts are off the table. The extent and duration of tightening will depend on the inflation outlook, broadening price pressures and demand impulses." We see a calibrated approach as prudent as domestic growth stays delicately poised amid heightened global uncertainty even as it is necessary and urgent to curb second round effects of prolonged supply shocks on inflation expectations.

Fig 4: RBI regulatory developments:

Category	Specific Policy Action	Core Objective & Market Impact
Interoperability among NBFC-Account Aggregators (NBFC-AAs)	RBI has decided to implement interoperability among NBFC-Account Aggregators (NBFC-AA).	Enable customers to access and share their financial information, across different Financial Information Providers, through any NBFC-AA of their choice.
Bank deposit information in consolidated Account Statement (CAS)	SEBI- regulated depositories will be able to include bank deposit account information in the CAS through the NBFC-AAs.	This will allow demat account holders to view both their securities holdings and bank deposit details in a single statement. Customers not having demat accounts can continue to obtain a consolidated view of their financial information and share the same through the NBFC-AAs also.
Constitution of the Financial Market Consultative Committee (FMCC)	It is proposed to set up a Technical Consultative Committee for Financial Markets which will serve as a forum for structured engagement with market participants and stakeholders and cover issues relating to money, govt securities, forex, derivatives markets and infrastructure.	The composition and the terms of reference for the committee shall be notified separately.

RBI's Policy Decision: Comparison of policy statements, Oct'2026 *(paraphrased)*

Policy Decision	Jun'2026	Aug'26	Oct'26
Repo rate	**5.25%**	**5.25%**	**5.50%**
Stance	**Neutral**	**Neutral**	**Calibrated Tightening**
Growth Projection	▪ The real GDP growth for FY27 GDP growth is seen at 6.6% (from 6.9% earlier) with Q1 at 6.6% (from 6.8% earlier), Q2 at 6.3% (from 6.7% earlier), Q3 at 6.5% (from 7.0% earlier) and Q4 at 6.8% (from 7.2% earlier). ▪ *Prolonged global supply chain disruptions, heightened volatility in global financial markets and weather-related shocks continue to pose downside risks to the domestic growth outlook.*	▪ The real GDP growth for FY27 GDP growth is revised upwards by 10 bps to 6.7% (from 6.6% earlier) with Q1 revised to 7.0% (from 6.6% earlier). GDP growth is projected for Q2 at 6.4% (from 6.3% earlier), Q3 at 6.5% (same as earlier), Q4 at 6.8% (same as earlier) and Q1FY28 at 7.3%. ▪ High frequency indicators are resilient, though monsoon, EL Nino and global trade disruptions are key risks on watch.	▪ FY27 real GDP growth revised upwards to 7.1% from 6.7%. ▪ Q2: 7.2% (6.4% earlier); Q3: 6.9% (6.5% earlier); Q4: 6.8% (unchanged); Q1 FY28: 7.1% (7.3% earlier). ▪ Economic activity remains resilient, although Q2 momentum has moderated from Q1. Deficient monsoon, El Niño, elevated energy prices and global uncertainty remain key risks.
Inflation Projection	▪ FY27 inflation projection is seen at 5.1% (from 4.6% earlier) with Q1 at 4.2% (from 4.0% earlier), Q2 at 5.1% (from 4.4% earlier), Q3 at 5.9% (from 5.2% earlier) and Q4 at 5.4% (from 4.7% earlier). ▪ Core inflation is projected at 4.7 (from 4.4% earlier) for FY27. *Excluding precious metals, core inflation is projected to be lower, suggesting the demand pressures remain contained.* ▪ *These forecasts are subject to upside risks due to global supply chain disruptions and uncertainty about the spatial and temporal distribution of monsoon. However, adequate stock of food grains and satisfactory reservoir levels provide some comfort.*	▪ FY27 inflation projection is revised downward by 10 bps to 5.0% (from 5.1% earlier) as Q1 numbers clocked 3.9% 30 bps lower than 4.2% projected in June MPC. ▪ Inflation is projected for Q2FY27 at 4.7% (from 5.1% earlier), Q3 at 5.9% (same as earlier), Q4 at 5.5% (from 5.4% earlier) and Q1FY28 at 5.3% (details in table). ▪ Core inflation is projected at 4.3% (from 4.7% earlier) for FY27. ▪ Inflation led by supply side disruptions in food and fuel. **No signs yet of generalisation of inflation pressures,** core inflation excluding auto fuels & gold and silver is benign. Risks on second round impact of inflation will be on close watch	▪ FY27 CPI inflation revised upwards to 5.2% from 5.0%. ▪ Q2: 4.9% (4.7% earlier); Q3: 6.0% (5.9% earlier); Q4: 5.7% (5.5% earlier); Q1 FY28: 5.6% (5.3% earlier). ▪ FY27 core inflation projected at 4.4%, against 4.3% earlier. ▪ Price pressures are broadening, with core inflation rising and about 37% of the CPI basket recording inflation above 4% in August. Food and energy pressures, deficient monsoon and El Niño remain as the upside risks to inflation outlook.
Liquidity	▪ To ensure appropriate liquidity in the banking system to meet the productive requirements of the economy and facilitate monetary policy transmission. ▪ Going ahead, the usual drawdown of govt cash balances after the RBI's surplus transfer and the return of currency during the monsoon season will aid banking system liquidity in the near-term.	▪ System liquidity stood at an average daily surplus of ₹1.0 lakh crore since the last MPC meeting. System level liquidity to aid further with drawdown of government cash balances, usual return of currency during monsoon season and RBI special measures to attract capital inflows. WACR traded within policy corridor at 5.31%. ▪ G-Sec yields eased across maturities helped by recent measures of RBI and the Government.	▪ System liquidity averaged a daily surplus of ₹5.9 lakh crore since the August policy, supported by capital inflows. ▪ RBI conducted 55 VRRR auctions, including two term auctions, and ₹1 lakh crore of OMO sales since the August policy. ▪ WACR averaged 14 bps below repo. RBI will use an appropriate mix of liquidity tools to align WACR with the policy repo rate.
Policy guidance	▪ The policy guidance was broadly balanced as MPC acknowledged downside risks to growth (FY27 projection at 6.6%) & upside risks to inflation (FY27 projection at 5.1%). *There are considerable risks to the baseline assessment of inflation and growth due to the uncertainty about the duration and intensity of the conflict, magnitude of its spillover effects and the pace of restoration of supply chains.*	▪ Policy guidance was largely balanced. The growth outlook continues to be constructive despite a less favourable global backdrop. The downward revision in inflation projections is the highlight of the policy statement even as the risks from EL Nino's impact on temporal and spatial distribution of rainfall remain. MPC expects both headline and core inflation to peak in Q3 FY27 and a convergence between the two by end of the financial year.	▪ Near-term rate cuts are off the table; subsequent decisions may involve a hike or pause, depending on evolving conditions. ▪ The duration and extent of tightening will depend on growth, underlying inflation, broadening price pressures, second-round effects of supply shocks and demand impulses. ▪ Headline inflation is expected to average nearly 5.8% over October 2026–June 2027. Strong monetary and credit growth pose potential demand-side risks, although current evidence remains limited.

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