



MACRO ECONOMICS

RBI and monetary policy

What the policy is for, who decides it, the words RBI uses, and how to read a policy statement

Position as on 7 October 2026, the date of the latest policy announcement

For training and education only. Not investment advice.

Monetary policy is RBI's use of interest rates and the supply of money to keep prices stable.

The law gives it one primary objective: price stability, while keeping in mind the objective of growth. Since 2016 price stability has had a number attached to it.

The target, the law and the test

4%



The target

Consumer price inflation of 4%, in a band of 2% to 6%. Kept unchanged in March 2026, up to 31 March 2031.

2016



The law

The RBI Act was amended in May 2016. The Government sets the target once in five years, in consultation with RBI.

3



The test

RBI has failed if average inflation stays above 6% or below 2% for three quarters in a row. It must then report why to the Government.

This is flexible inflation targeting: a number to aim at, a band around it, and growth kept in mind.

Sources: Reserve Bank of India Act, 1934, preamble and sections 45ZA and 45ZN; RBI, Monetary Policy overview (target reviewed 25 Mar 2026; failure factors).

Who decides: the six-member committee

	What the law and RBI's rules say
Members	Six. Three from RBI: the Governor as chairperson, the Deputy Governor for monetary policy and one RBI officer. Three appointed by the Government.
Voting	One vote each; the majority decides. On a tie the Governor has a casting vote. Quorum is four, with the Governor or his deputy.
Meetings	At least four a year by law. Six are scheduled for 2026-27, and the dates for the year are announced in advance.
Minutes	Published on the 14th day after each meeting. They show each member's vote and a written statement of that member's reasons.
Reports	A Monetary Policy Report once every six months, with RBI's projections of inflation and growth and the risks around them.

Sources: RBI Act, sections 45ZB, 45ZI, 45ZL and 45ZM, and RBI's Monetary Policy Committee and Monetary Policy Process Regulations, 2016, as set out on RBI's Monetary Policy overview page.

The stance words, in RBI's own terms

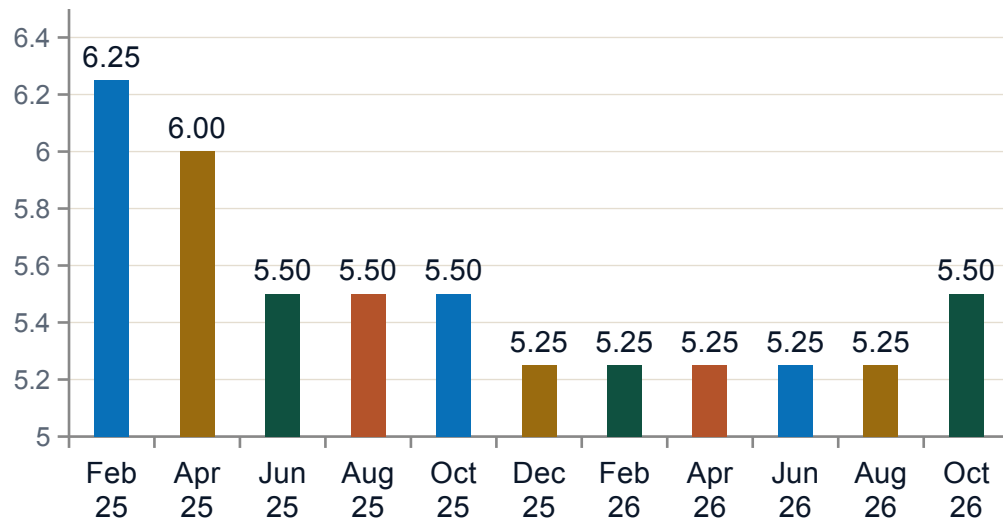
Stance	What RBI has said it means	When it applied
Accommodative	Unless there is a shock, the committee is weighing only two options: hold the rate or cut it.	9 April 2025 to 6 June 2025
Neutral	RBI has said this stance gives it the flexibility to remain nimble and respond to incoming data.	Until 9 April 2025, then 6 June 2025 to 7 October 2026
Calibrated tightening	Rate cuts are off the table in the near term. The next action can only be a rise or a pause.	From 7 October 2026

The stance signals the direction of the policy rate. RBI says it gives no direct guidance on liquidity.

Sources: Governor's Statement, 9 Apr 2025; Governor's speech, 12 May 2026; Monetary Policy Statements, 7 Feb and 6 Jun 2025, 7 Oct 2026.

The repo rate, meeting by meeting

Repo rate after each meeting, % (axis from 5)



Read the chart

- Four cuts in 2025 took the rate from 6.50% to 5.25%: 25, 25, 50 and 25 basis points.
- The committee then held the rate at 5.25% at four meetings in 2026.
- On 7 October 2026 it raised the rate to 5.50%. All six members voted for the rise.

Source: RBI Monetary Policy Statements (resolutions of the Monetary Policy Committee) for the eleven meetings from 7 Feb 2025 to 7 Oct 2026. Each is listed on the sources slide.

Why the committee often waits: the lag

A rate change does not reach prices at once. It works through the economy in stages.

1

Days: money markets

Overnight and short-term market rates move almost at once.

2

Months: bank rates

By June 2026, sixteen months after the first cut, average rates on existing bank loans were down 91 of the 125 basis points.

3

Quarters: prices

A 2012 RBI staff paper put the peak effect of a rate change on one inflation measure at five quarters.

4

So the committee waits

In August 2025 it held the rate to wait for its earlier cuts to pass through to credit markets and the economy.

Sources: RBI Governor's Statement, 5 Aug 2026; RBI Working Paper 9/2012 (press release of 25 Jun 2012); RBI Monetary Policy Statement, 6 Aug 2025.

Where things stand

From the policy statement of 7 October 2026. The projections are RBI's own and change at each meeting.

POLICY REPO RATE

5.50%

Raised 25 basis points by a 6-0 vote. Stance changed by 4 votes to 2.

RBI INFLATION PROJECTION

5.2%

CPI inflation for the year 2026-27. RBI projects 6.0% for October to December.

RBI GROWTH PROJECTION

7.1%

Real GDP growth for 2026-27.

MINUTES DUE

21 Oct

For the October meeting. Next meeting: 2 to 4 December 2026.

Source: RBI Monetary Policy Statement, 2026-27, Resolution of the Monetary Policy Committee, October 5 to 7, 2026 (Press Release 2026-2027/1264).

How to read a policy statement

1

The decision

The repo rate, and how the six members voted. A split vote tells you the committee was not of one mind.

2

The stance

The word used, whether it changed, and who disagreed. Read RBI's own explanation of the word.

3

The projections

Inflation and growth, quarter by quarter. Compare them with the projections made at the previous meeting.

4

The reasons

Which pressures the committee names: food, fuel, core inflation, global events, demand at home.

5

After the day

The Governor's statement covers liquidity and bank rates. The minutes, two weeks later, give each member's reasoning.

If you learnt this from older material

The rates and the corridor have also changed. The deck 'RBI's toolkit' covers those.

What older decks say

- There was no statutory committee and no inflation target in the RBI Act.
- Its aims are price stability and enough credit for productive sectors.
- RBI alone decides, and its reasoning is not published member by member.

What holds now

- The committee meets at least four times a year; six meetings are set for 2026-27.
- The primary objective in law is price stability, keeping growth in mind (2016).
- Six members vote. Votes and reasons are published on the 14th day (2016).

Sources: Reserve Bank of India Act, 1934, as amended in 2016 (preamble, sections 45ZB and 45ZL); RBI, Monetary Policy overview and meeting schedule for 2026-27.

Four things people get wrong



'The Governor decides the repo rate.'

Six members vote, one vote each. The Governor has a second, casting vote only if the votes are tied.



'Inflation above 6% means RBI has failed.'

The test is average inflation outside the 2% to 6% band for three quarters in a row, not one month's figure.



'The stance is a promise.'

It signals direction under current conditions. The April 2025 stance was changed at the very next meeting.



'A rate change works at once.'

Money markets move in days and bank rates over months. The effect on prices takes quarters.

Check yourself

Q1

The repo rate was 6.50% at the start of 2025. RBI cut it by 25, 25, 50 and 25 basis points, then raised it by 25. Where does it stand?

Q2

Average inflation in three quarters running is 6.3%, 6.5% and 5.8% (assumed figures). Has RBI failed to meet its target under the rules?

Q3

RBI's stance is 'calibrated tightening'. A client asks whether rates will go up in December. What can you say?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Objective, target, failure test, committee, voting, minutes, reports, 2026-27 schedule: RBI Act, 1934 (preamble, ss. 45ZA, 45ZB, 45ZI, 45ZL, 45ZM, 45ZN) and RBI, Monetary Policy overview, rbi.org.in.
- Repo rate 2025: RBI Monetary Policy Statements, Press Releases 2024-2025/2094 (7 Feb), 2025-2026/61 (9 Apr), /489 (6 Jun), /841 (6 Aug), /1216 (1 Oct), /1633 (5 Dec).
- Repo rate 2026: RBI Press Releases 2025-2026/2053 (6 Feb), 2026-2027/36 (8 Apr), /385 (5 Jun), /809 (5 Aug), /1264 (7 Oct). Rate of 6.50% before February 2025: statement of 6 Dec 2024.
- Stance meanings: RBI Governor's Statement, 9 Apr 2025; RBI Monetary Policy Statements of 7 Feb 2025, 6 Jun 2025 and 7 Oct 2026.
- Projections, votes, minutes date and next meeting: RBI Monetary Policy Statement, Press Release 2026-2027/1264, 7 Oct 2026.
- Pass-through to bank rates: RBI Governor's Statement, 5 Aug 2026. Lag to inflation: RBI Working Paper 9/2012, press release of 25 Jun 2012.

This material is for training and investor education only. It is not investment, tax or legal advice and is not a recommendation to buy, sell or hold any security or scheme. Examples use assumed figures unless a source and date are shown. Mutual fund investments are subject to market risks; read all scheme related documents carefully. Trustner Asset Services Pvt. Ltd. is an AMFI-registered Mutual Fund Distributor (ARN-286886).