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Our Leadership Speaks

The Repo Rate Rise

The RBI has raised the repo rate by 25 basis points to 5.50%, its first hike since February 2023, while shifting its stance from neutral to calibrated tightening. The decision reflects growing inflation risks from crude oil above \$100 a barrel, a weaker rupee, and uneven monsoon conditions. With GDP growth still strong, the RBI has chosen to address inflationary pressures before they become entrenched. The message is clear: the era of easier monetary conditions may be coming to an end.

The immediate impact will be higher borrowing costs. Floating-rate loans are likely to reprice, while deposit and lending rates may gradually move higher. For businesses, this means greater pressure on financing costs, working capital, and investment decisions. Companies with significant floating-rate debt should reassess interest-rate sensitivity, while those exposed to imported inputs must also account for currency and commodity risks. Equity valuations and long-duration debt instruments could remain under pressure as higher rates increase the cost of capital.

For businesses and investors, the appropriate response is preparation rather than alarm. Companies should stress-test debt, strengthen working-capital discipline, and review pricing strategies where input costs are rising. Investors should reassess duration and avoid taking excessive interest-rate risk. The next phase will depend heavily on crude prices, currency movements, and the persistence of inflation. The RBI has acted while growth remains resilient. For businesses, the priority now is to ensure that their balance sheets remain equally resilient.

Inside the
Edition

01

Never miss a date

02

Happy to enhance our footprints

03

All you need to know about The First Interest Rate Hike in Nearly Four Years

Never miss a date

November 7th Securities Transaction Tax - Due date for deposit of tax collected for the month of October, 2026	November 7th Commodities Transaction Tax - Due date for deposit of tax collected for the month of October, 2026	November 7th Declaration under section 394(2) of the Act to be made by a buyer for obtaining goods without collection of tax received in the month of October, 2026	November 7th Due date for deposit of tax deducted/collected for the month of October, 2026
November 14th Due date for issue of Certificate under section 395(4) for tax deducted at source in the month of September, 2026	November 15th Monthly statement to be furnished by a stock exchange in respect of transactions in which client codes have been modified after registering in the system for the month of October, 2026	November 15th Certificate under section 395(4) for tax collected at source for the quarter ending September 30, 2026	November 15th Certificate under section 395(4) for tax deducted at source other than on salary paid to an employee under section 392 or pension or interest income of specified senior citizen under section 393(1) for the quarter ending September 30, 2026
November 15th Due date for furnishing Form 137 by an office of the Government for TDS/TCS Book Adjustment Statement for the month of October, 2026	November 30th Payment of Self Assessment Tax, if due date of submission of return of income is November 30, 2026	November 30th Return of income for Assessment Year 2026-27 in the case of an assessee required to submit a report under section 92E pertaining to international or specified domestic transaction(s)	November 30th Declaration to be filed by the assessee claiming deduction under section 80GG (Form 10BA), if due date of submission of return of income is November 30, 2026
November 30th Statement of eligible investment received (Form 10BD), if due date of submission of return of income is November 30, 2026	November 30th Audit report in the case of an electoral trust (Form 10BC), if due date of submission of return of income is November 30, 2026		

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ALL YOU NEED TO KNOW ABOUT THE FIRST INTEREST RATE HIKE IN NEARLY FOUR YEARS

Background

On 7 October, the Reserve Bank of India raised its policy repo rate by 25 basis points to 5.50%, beginning a rate-hike cycle. The Monetary Policy Committee voted unanimously. The move is symbolic as much as financial: it is the first hike since February 2023, ending a run in which the RBI had cut rates through 2025 and then sat still.

The rate matters less than the signal. The RBI also changed its stance from “neutral” to “calibrated tightening.” In central-bank language, that is the difference between “we’re watching” and “we’re leaning.” Governor Sanjay Malhotra was blunt about the road ahead: future action can only be a hike or a pause. Rate cuts are off the menu for now.

Think of the repo rate as the price of money at the wholesale counter. Banks borrow from the RBI at that price and add their margin before lending to you. When the wholesale price rises, everything downstream gets more expensive, slowly and unevenly.

Why now: three pressures arriving together

- 1. Oil is back above \$100.** India imports most of its crude, so oil is effectively a tax on the whole economy. Brent has moved above \$100 a barrel. Think of the delivery van, the airline fare, the fertilizer bill, and the plastic packaging. A fuel shock rarely stays in the petrol pump; it seeps into everything that is moved, made, or packed.
- 2. The rupee is under strain.** A weaker rupee, global oil prices, and geopolitical risks all add to the inflation worry. A weak rupee makes imported goods costlier and the oil bill larger. The RBI cannot defend the currency with speeches. Higher domestic rates make Indian assets more attractive to foreign investors and help the currency, which is why elevated global yields were part of the case.
- 3. The monsoon was poor, and inflation is edging up.** CPI inflation was 4.82% in August, and inflation is expected to peak around 5.9% in the third quarter, with deficient monsoon conditions and crude near \$100 adding to the risks. The RBI’s own projection for FY27 inflation is 5.2%, above its 4% target midpoint.

The deeper reason is what the governor called broadening. The duration and extent of any hiking cycle will depend on underlying inflation, how widely price pressures spread, and second-round effects of supply shocks. Second-round effects are the real danger. An oil spike is a one-time hit, but if businesses start raising prices and workers start demanding higher wages in response, inflation becomes self-feeding. Think of a leaking tap versus a burst pipe. The RBI is tightening the tap before the leak becomes the pipe.

Why hike when growth is fine?

Because growth is fine. The RBI has lifted its GDP outlook to 7.1%, and a central bank that sees a strong economy has room to prioritize inflation. Cutting rates into an inflation shock would be like pressing the accelerator while the engine is already overheating. Hiking when growth is resilient is cheaper than hiking later when it is not. The RBI is paying a small premium now to avoid a large bill later.

What will happen next?

Borrowing costs rise, with a lag. Most retail loans are linked to an external benchmark, usually the repo rate, so the hike passes through quickly. Illustratively, on a ₹50 lakh, 20-year home loan, a 0.25 percentage point rise lifts the EMI by roughly ₹800 a month. Small on its own, but it compounds if more hikes follow.

Deposit rates tick up. Banks eventually reprice deposits too, so fixed-income savers should see slightly better rates over the coming months. This tends to lag loan repricing, since banks protect their margins.

Bond yields rise; equities turn cautious. Government bond yields inched up after the stance change. The governor himself said Indian equities are likely to remain cautious, with the rupee, crude prices, and foreign flows the key things to watch. Higher rates raise the discount rate on future earnings, which hits long-duration growth stocks hardest.

More hikes may follow. The Governor’s language suggests optionality rather than a fixed path, but at least one market veteran, VK Vijayakumar, expects two more hikes. That is one view, not a forecast. The path depends mostly on oil and the monsoon aftermath, neither of which the RBI controls.

What to do about it

If you run a business:

- Stress-test floating-rate debt.** Model your interest cover at repo rates of 5.75% and 6.0%. If one more hike hurts, act now rather than after the next policy.
- Consider fixing part of your borrowing** if your lender offers fixed-rate terms at reasonable spreads. If more hikes are coming, fixing early beats fixing late.
- Tighten working capital.** Higher rates make receivables and inventory costlier to carry. Chase collections and cut slow-moving stock.
- Hedge or at least size your FX exposure.** Importers face a double whammy of a weak rupee and costlier credit. Exporters gain on the currency but should not bank on it.
- Rethink pricing power.** Input costs are rising. Decide whether you can pass them on in staggered steps instead of absorbing them until margins crack.

If you are a salaried borrower or investor:

- Prepay floating-rate loans where you can.** Every rupee prepaid earns you the loan rate risk-free, and that return just went up.
- Be wary of locking long-duration debt funds now.** Rising yields hurt bond prices. Short-duration or accrual-style funds are less sensitive to further hikes.
- Hold off on stretching for a bigger home loan.** The cost of waiting is low, because rates are rising rather than falling.
- Keep an eye on fixed deposits.** Rates should improve; you may do better by laddering over a few months than locking everything today.

Conclusion

The RBI has not panicked; it has repositioned. With oil near \$100, a weak rupee and a patchy monsoon, it chose to act while growth is still strong and while inflation is still within its 2-6% band. The sensible reading is that this is insurance, not alarm. But insurance premiums do get paid, and in this case you pay them through your EMI, your cost of capital, and your portfolio’s volatility. The best response is neither panic nor complacency: stress-test your debt, shorten your duration, and watch oil, which is now the real governor of India’s interest-rate cycle.

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