INDIAN ECONOMY 07 October 2026

RBI Hikes Rates; Government to Tackle Inflation

The Reserve Bank of India's Monetary Policy Committee (MPC) hiked interest rates to curb future inflation expectations.

This news highlights the Reserve Bank of India's (RBI) use of interest rates to manage inflation and the government's broader responsibility in controlling price pressures.

KEY EXAM POINTS

- The **Reserve Bank of India**'s **Monetary Policy Committee** (MPC) decided to hike **interest rates**.
- The **repo rate** was increased from **5.25%** to **5.50%**.
- The **hike** is primarily aimed at controlling expectations of future inflation levels.
- The **government** is expected to shoulder the heavy lifting on **inflation**, especially concerning **fuel and food pressures**.
- **RBI Governor Sanjay Malhotra** was present at the press conference announcing the decision.
- The **MPC meeting** commenced on Monday, **October 5, 2026**.

DID YOU KNOW..!?

The **Reserve Bank of India** (RBI) was established on **April 1, 1935**, under the **Reserve Bank of India** Act, 1934.

The **Monetary Policy Committee** (MPC) was constituted in **2016** to set the policy interest rate required to achieve the **inflation target**.

The MPC consists of **six members**: three from the **RBI** and three appointed by the **Central Government**.

The **Repo Rate** is the rate at which **commercial banks** borrow money from the **RBI** by selling securities with an agreement to repurchase them.

Inflation refers to the rate at which the general level of **prices for goods and services** is rising, and subsequently, **purchasing power** is falling.

Monetary policy is the process by which the **central bank** controls the supply of money, often targeting an inflation rate or interest rate to ensure **price stability** and general trust in the currency.

Fiscal policy, on the other hand, refers to the **government's decisions** regarding **taxation and public spending**.

The primary objective of the **MPC** is to maintain **price stability** while keeping in mind the **objective of growth**.

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RBI's Monetary Policy Committee hiked the repo rate to 5.50% to manage future inflation expectations.

Syllabus Relevance: High

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