

RBI Policy: Status Quo Maintained Amid Elevated Uncertainty

June 05, 2026 | Economics

In line with our expectations, the MPC has kept the policy rate and stance unchanged, adopting a more data-dependent approach amid an increasingly uncertain global environment. The monetary policy stance was maintained at 'neutral'. The June monetary policy comes against the backdrop of heightened geopolitical tensions in West Asia, which have threatened global energy supply chains—posing a significant challenge for a net energy-importing country like India. At the same time, there is an increasing risk of a below-normal monsoon, with a rising probability of El Niño conditions, which will challenge the agricultural sector. The external sector remains volatile, marked by a notable depreciation of the Indian rupee—around 4.7% since the onset of the West Asia conflict—amid accelerating foreign capital outflows. Additionally, the current account deficit is expected to widen, adding further pressure on macroeconomic stability.

Today's decision reflects the RBI's wait-and-watch approach to assess the evolving impact of external developments and their implications for domestic growth and inflation before going for policy rate adjustments. Amid elevated energy prices, the risk of below-normal monsoon and persistent supply-side bottlenecks, the RBI has revised its FY27 GDP growth forecast downward to 6.6% from 6.9% earlier, with a more pronounced downward revision in the second half of the fiscal year. On the inflation front, the RBI has projected CPI inflation to average at 5.1% for FY27, up from the earlier forecast of 4.6%, citing twin risks arising from expected below-normal monsoon amid El Niño conditions and elevated energy prices. Furthermore, it also emphasised the risks stemming from the second-round effects of higher WPI inflation. With this revision, RBI's growth and inflation projections for FY27 broadly align with our estimates of 6.7% and 5%, respectively.

RBI Lowers Growth Forecast for FY27

Amid heightened volatility in the external sector due to ongoing geopolitical tensions, the growth projection for FY27 was revised downward by 30 bps to 6.6% at the June policy meeting, compared with the previous policy meeting. The downward revision in the growth projection is more pronounced in the second half at 45 bps compared to 30 bps in the first half of the fiscal year. In comparison, our FY27 growth projection stands at 6.7%, premised on crude oil prices averaging USD 90/bbl. However, it can dip further if the conflict lingers, and crude oil prices remain high.

Downside risks to India's growth outlook remain, particularly in the event of a prolonged conflict and sustained elevation in energy prices. Going forward, the duration of the conflict and its potential impact on global supply chains will be key factors to monitor. Persistent geopolitical tensions, volatile financial market conditions, and evolving trade dynamics continue to pose risks to the overall growth outlook. Furthermore, the potential impact of El Niño conditions poses downside risks, particularly for the agricultural sector, which is already facing pressures from elevated fertiliser and input costs.

RBI's Growth Outlook (%)					
	Q1 FY27	Q2 FY27	Q3 FY27	Q4 FY27	FY27
Jun-26 (Current Meeting)	6.6	6.3	6.5	6.8	6.6
Apr-26 (Previous Meeting)	6.8	6.7	7	7.2	6.9

Source: RBI

RBI Raises its Inflation Forecasts

The CPI inflation forecast for FY27 has been revised upward to 5.1% from 4.6% earlier. For the full year FY27, the RBI's projection broadly aligned with our estimate of about 5%. The upward revision in the inflation is largely due to the energy price shock following the conflict in West Asia and the rising probability of below-normal rainfall. The IMD has already predicted a below-normal rainfall season at 90% of the long-period average (LPA). Below-normal monsoon could further add to food inflation, as agricultural output may be impacted. For the full year FY27, the RBI projects core inflation at 4.7%.

The government has already begun passing on the impact of higher global energy prices to consumers. Following a Rs 60-per-cylinder increase in domestic LPG prices, retail fuel prices have also been adjusted upward, with petrol and diesel witnessing a cumulative hike of approximately Rs 7.5 per litre each. Despite the recent increase in retail fuel prices, there remains further scope for upward revisions, depending on the trajectory of global crude oil prices. The cumulative increase in retail fuel prices following the conflict in West Asia is estimated to have a direct impact of around 35 bps on headline CPI inflation. Indirect inflationary pressures may add another 10–15 basis points to overall CPI inflation. High WPI inflation in April to 8.3% increases the risk of faster pass-through to consumers.

RBI's Inflation Outlook (%)					
	Q1 FY27	Q2 FY27	Q3 FY27	Q4 FY27	FY27
Jun-26 (Current Meeting)	4.2	5.1	5.9	5.4	5.1
Apr-26 (Previous Meeting)	4.0	4.4	5.2	4.7	4.6

Source: RBI

External Sector: RBI announces Measures to Attract Foreign Inflows

Apart from the assessment of growth-inflation dynamics and the policy rate decision, measures to attract foreign inflows emerged as a key highlight of the policy, particularly amid sustained pressure on the rupee in recent months. In total, the RBI announced five measures, complemented by tax relief measures from the government.

The RBI's measures included:

- **Expansion of the Fully Accessible Route (FAR):** The universe of government securities under FAR has been widened to include all new issuances of 15-, 30-, and 40-year tenor G-secs. Additionally, limits on FPI investments under the General Route have been withdrawn, enhancing flexibility for foreign investors.
- **Easing investment norms for non-residents:** Limits for investments by Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) in listed equity instruments without SEBI registration have been increased. This facility has also been extended to all individual Persons Resident Outside India (PROIs), placing them at par with NRIs and OCIs.
- **Concessional forex swap facility:** A concessional forex swap window will be available until September 30 to incentivise external commercial borrowings (ECBs) by public sector undertakings (PSUs).
- **Support for FCNR (B) deposits:** The RBI will bear the full cost of hedging for banks mobilising fresh 3–5-year FCNR(B) deposits until September 30. These deposits will continue to be exempt from CRR and SLR requirements.
- **Restoration of export realisation period:** The timeline for realisation of export proceeds has been restored to nine months.

Apart from the RBI's measures, the government has also removed taxes on capital gains and interest for foreign investors in government securities. Together, these measures should support forex inflows and the balance of payments position. While the current account deficit is expected to widen to 2.1% of GDP in FY27, it is relatively better compared with levels witnessed during previous episodes of stress, such as the taper-tantrum episode, where it averaged 3.6% of GDP. The weakness in the rupee in the current context largely stems from the sustained foreign investment outflows. We expect foreign investment inflows at 0.5-0.6% of GDP in FY27, much lower than the average of 2% of GDP seen during the taper tantrum episode. The measures announced today by both the RBI and the government should ease pressure on the rupee. If the conflict de-escalates in the near term and global crude oil prices average around USD 90/bbl in FY27, we expect the rupee to average in the range of 92–93 against the US dollar. However, if Brent Crude prices average closer to USD 100/bbl, the rupee could remain near the 94 per US dollar level.

RBI to support Liquidity Conditions

Average surplus liquidity in the banking system narrowed to Rs 1.6 trillion in May from Rs 3.9 trillion in April. This moderation was driven by tax-related outflows, the absence of support from open market operations purchases, and continued FPI outflows. Despite this decline, system liquidity remains comfortable at around 0.5% of net demand and time liabilities (NDTL).

The RBI had conducted OMO purchases of approximately Rs 8.8 trillion in FY26; however, there have been no significant OMO interventions over the past two months. That said, recent measures—including a forex swap of around USD 5 billion and a buildup in government cash balances following the RBI's Rs 2.9 trillion dividend announcements—are expected to provide support to liquidity conditions. On the liquidity front, the Governor reiterated the RBI's commitment to maintaining adequate system liquidity. We expect the RBI to continue supporting liquidity conditions, which is critical for ensuring effective transmission of past rate cuts and sustaining credit growth momentum.

Some of the policy measures announced—such as the expansion of the Fully Accessible Route (FAR) securities universe and the removal of taxes on foreign investments in government securities—are likely to bolster demand for G-secs. With the recent correction in Brent crude prices to below the USD 100/bbl mark, along with today's policy measures, yields on the 10-year government bond have softened, falling below the 7% threshold. Under our baseline scenario, assuming Brent crude prices average around USD 90/bbl in FY27, we expect G-sec yields to average in the range of 6.8–6.9% over the year.

Way Forward

Looking ahead, the situation remains fragile amid the ongoing West Asia conflict, with intermittent flare-ups highlighting persistent geopolitical risks. Against this backdrop, the MPC's decision to adopt a wait-and-watch approach appears prudent, given the simultaneous pressures on both growth and inflation in an increasingly stagflationary environment. It is important to note that much of the inflation risk stems from supply-side shocks rather than from overheating domestic demand. This is evident from the fact that core inflation, excluding precious metals, stood close to the 2% mark in April. The future trajectory of policy rates will largely depend on the MPC's assessment of evolving growth-inflation dynamics, which remain significantly influenced by external factors. If the external environment stabilises quickly, the MPC may choose to look through the near-term spike in inflation, particularly as projected growth in FY27 remains below the potential rate of around 7%. However, if the conflict persists longer and inflationary pressures become entrenched in household expectations, the possibility of rate hikes toward the latter part of the year cannot be ruled out.

Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Sarbartho Mukherjee	Senior Economist	sarbartho.mukherjee@careedge.in	+91 - 22 - 6754 3483
Akanksha Bhende	Senior Economist	akanksha.bhende@careedge.in	+91 - 22 - 6754 3424
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:     

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

About Us:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd, (II) CARE ESG Ratings Ltd, and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.

Disclaimer:

This report is prepared by CARE Ratings Limited (CareEdge Ratings). CareEdge Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CareEdge Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CareEdge Ratings has no financial liability whatsoever to the user of this report.

Privacy Policy applies. For Privacy Policy please refer to https://www.careratings.com/privacy_policy

© 2026, CARE Ratings Limited. All Rights Reserved.

This content is being published for the purpose of dissemination of information required as per applicable law and regulations and CARE Ratings Limited holds exclusive copyright over the same. Any reproduction, retransmission, modification, derivative works or use or reference to the contents, in whole, in part or in any form, is prohibited except with prior express written consent from CARE Ratings Limited.