

RBI Monetary Policy: A prudent pause

The RBI's Monetary Policy Committee (MPC) expectedly maintained a status quo at its June 2026 meeting, with a cautious undertone, as it sought to balance elevated inflation risks, external sector pressures, geopolitical uncertainty and emerging growth moderation. Accordingly, the policy repo rate was kept unchanged at 5.25%, while the stance was retained as 'neutral', supported by headline inflation remaining within the target band and underlying price pressures staying benign. However, supply-side disruptions, elevated energy prices and monsoon-related risks have sharpened the growth-inflation trade-off, warranting continued policy vigilance.

Reflecting these risks, the FY27 CPI inflation forecast was revised up by 50 bps to 5.1% with a broad-based upward revision across quarters, while the real GDP growth projection was lowered by 30 bps to 6.6%. Liquidity conditions remained in surplus, aided by the RBI's proactive mix of durable and transient liquidity operations, with weighted average call rate (WACR) broadly aligned within the policy corridor. Transmission of the cumulative 125 bps policy easing since January 2025 has been healthy, albeit incomplete. On the external front, measures to attract foreign capital and provide support to the BOP included expanding Fully Accessible Route (FAR)-eligible G-Secs, easing FPI limits under the General Route, raising investment limits for NRIs and OCIs in equity instruments, concessional FX swaps for PSU ECBs, among others (refer Table 1). These measures along with tax incentives announced under the [Income Tax Ordinance](#) today—exempting long term capital gains and withholding tax for FPIs in G-Secs—are expected to strengthen capital flows. Overall, policy is likely to remain vigilant and data-dependent in the remainder of the fiscal, with a focus on second-round inflation spillovers, rupee volatility and evolving growth-inflation dynamics.

- **Status quo maintained with a tinge of cautiousness:** Amidst a confluence of elevated inflation risks, external sector pressures, geopolitical uncertainties and concerns over growth moderation, the RBI's MPC chose to hold fort, unanimously deciding to keep the policy repo rate unchanged for the third consecutive time. Consequently, the Standing Deposit Facility (SDF) and Marginal Standing Facility (MSF) rates—the lower and upper bounds of the liquidity adjustment facility (LAF) corridor—also remained unchanged at 5.0% and 5.5%, respectively. Although inflation remained within the target range and underlying price pressures remained benign, providing the RBI comfort to maintain status quo in the current policy and retain a neutral stance, the policy tone was cautious and guarded as supply-side disruptions and monsoon-related risks have sharpened the growth-inflation trade-off. This has prompted the MPC to remain data-dependent and watchful of second-round spillovers as the growth-inflation dynamics evolved over the remainder of the fiscal.
- **Inflation projections revised higher...** The MPC noted that underlying inflationary pressures remain contained for now, with limited pass-through of higher global crude prices into domestic prices. However, these pressures could firm up over the coming months and push headline CPI higher. Additionally, a likely deficient south-west monsoon, along with El-Nino risks, could also add to food inflation pressures. Factoring in these upside risks, the FY27 headline CPI inflation forecast has been raised by 50 bps to 5.1%, with Q1FY27 up 20bps to 4.2% and Q2/Q3/Q4 revised up by 70 bps each to 5.1%/5.9%/5.4%, respectively. While inflation is expected to move closer to the upper tolerance band by Q3FY27, the supply-shock impact is likely to start easing from Q4 onwards. Core inflation, on the other hand, is projected at 4.7% in FY27, and even lower, excluding precious metals, indicating that demand-side price pressures remain modest.

The RBI's MPC decided to unanimously keep the policy repo rate unchanged for the third consecutive meeting at 5.25%, while retaining the stance at "Neutral."

FY27 inflation has been revised higher by 50 bps to 5.1%, while the GDP growth projected to be 30bps lower at 6.6%

- **...GDP projections revised down:** The MPC also noted that while domestic economic activity has remained resilient so far, the prolonged West Asia conflict has increased downside risks to growth through higher energy and input costs, supply chain disruptions, elevated freight charges and weaker global demand. Nevertheless, high-frequency indicators continue to point to steady momentum in the economy, with resilient private consumption, sustained investment activity, positive business sentiment, and robust manufacturing and services PMIs. Considering prolonged global supply chain disruptions, volatility in the global financial markets and weather-related shocks, the MPC revised its FY27 real GDP growth projection to 6.6% (down 30bps from April 2026 policy) with varying degrees of downward revisions across quarters. Real GDP growth for Q1/Q2 is projected at 6.6%/6.3% while for Q3/Q4, it is estimated at 6.5%/6.8%. That said, the MPC also highlighted that while rising cost pressures and external headwinds could weigh on activity in the near term, continued government capex, healthy capacity utilisation, sustained credit flows, GST rationalisation, resilient services exports and various government measures to strengthen domestic supply chains are expected to support growth.
- **Liquidity continued to remain in surplus:** Banking system liquidity continues to remain in surplus even as the average monthly surplus has moderated from Rs 3.9 lakh crore in April 2026 to Rs 1.7 lakh crore in May 2026. The RBI has been proactive in undertaking a mix of durable and transient liquidity measures which has ensured the WACR to closely trade within the policy corridor. The sustained period of benign liquidity conditions coupled with accommodative policy actions since January 2025 has transmitted across both lending and deposit channels. The weighted average lending rate (WALR) on fresh rupee loans declined by 83 bps while the weighted average term deposit rate (WADTDR) on fresh deposits declined by 85 bps. The RBI has reiterated its commitment to proactive and pre-emptive liquidity management to ensure adequate system liquidity in line
- **Policy vigilance to strengthen amid supply-led headwinds:** The outlook is likely to be shaped by a trilemma of inflationary risks, external sector volatilities and emerging growth trade-offs. While headline inflation still provides policy comfort, the balance of risks has meaningfully turned less benign amidst elevated energy and possible food price pressures. Two imminent supply-side risks viz. geopolitical uncertainty and monsoon-related shock could sharpen the inflation-growth trade-off while the key policy concern being whether the impact remains transitory or has broader second-round spillovers. Furthermore, the weakness in rupee amidst volatile capital flows could complicate the RBI's policy reaction function, as the impossible trinity constraint could keep the policy stance cautious. Overall monetary policy during the year is likely to remain vigilant and data-dependent while playing a supportive role within the monetary-fiscal coordination framework to address the supply-led headwinds.

The WACR stood at 5.24% in May'26 and has traded closely within the policy corridor, reflecting RBI's nimble banking system liquidity operations.

Table 1: Key policy measures announced by the RBI to incentivise foreign capital inflow

Measure	Detail	Implications
Expansion of FAR securities and easing of FPI investment norms	1) Inclusion of new issuances of 15, 30, 40-year G-Secs under Fully Accessible Route (FAR). 2) Limits related to short-term investment, concentration and individual securities on FPI investment under the General Route to be removed. 3) <i>As per Income Tax Ordinance</i> , from April 2026, FPIs investing in G-Secs have been exempted from the long-term capital gains tax of 12.5% and a withholding tax of 20%.	1) These measures will help incentivise foreign capital inflows across sovereign debt, equities, bank deposits and external borrowings. 2) FX measures as well as the government's tax changes for FPIs in G-Secs should provide support to India's balance of payment through incremental capital flows along with inflows into NRI deposits and ECBs.
Higher investment limits for NRIs, OCIs and PROIs in listed equities	Investment limits for NRIs and OCIs in listed equity instruments without SEBI registration have been increased. Similar access has been extended to all individual Persons Resident Outside India (PROIs) at par with NRIs and OCIs.	
Concessional forex swap facility for ECBs by PSUs	A concessional forex swap facility will be available until Sept 2026 for External Commercial Borrowings raised by PSU.	
Hedging support for FCNR(B) deposits	Authorised Dealer banks will be provided a facility to bear the full hedging cost for raising fresh 3-5year FCNR(B) deposits until Sept 2026.	
Restoration of export proceeds realisation period to nine months	The time limit for realisation and repatriation of export proceeds proposed to be restored to 9 months.	

Source: RBI, NSE EPR.

Table 2: Current policy rates

The policy repo rate was unanimously kept unchanged at 5.25%, with the stance retained at "Neutral".

Key rates	December 2025	February 2026	April 2026	June 2026
Repo Rate	5.25%	5.25%	5.25%	5.25%
Standing Deposit Facility (SDF)*	5.00%	5.00%	5.00%	5.00%
Marginal Standing Facility (MSF)	5.50%	5.50%	5.50%	5.50%
Bank Rate	5.50%	5.50%	5.50%	5.50%
Cash Reserve Ratio (CRR)	3.00%	3.00%	3.00%	3.00%

Source: RBI, NSE EPR. * Introduced in April 2022 policy as the new floor of the LAF corridor.

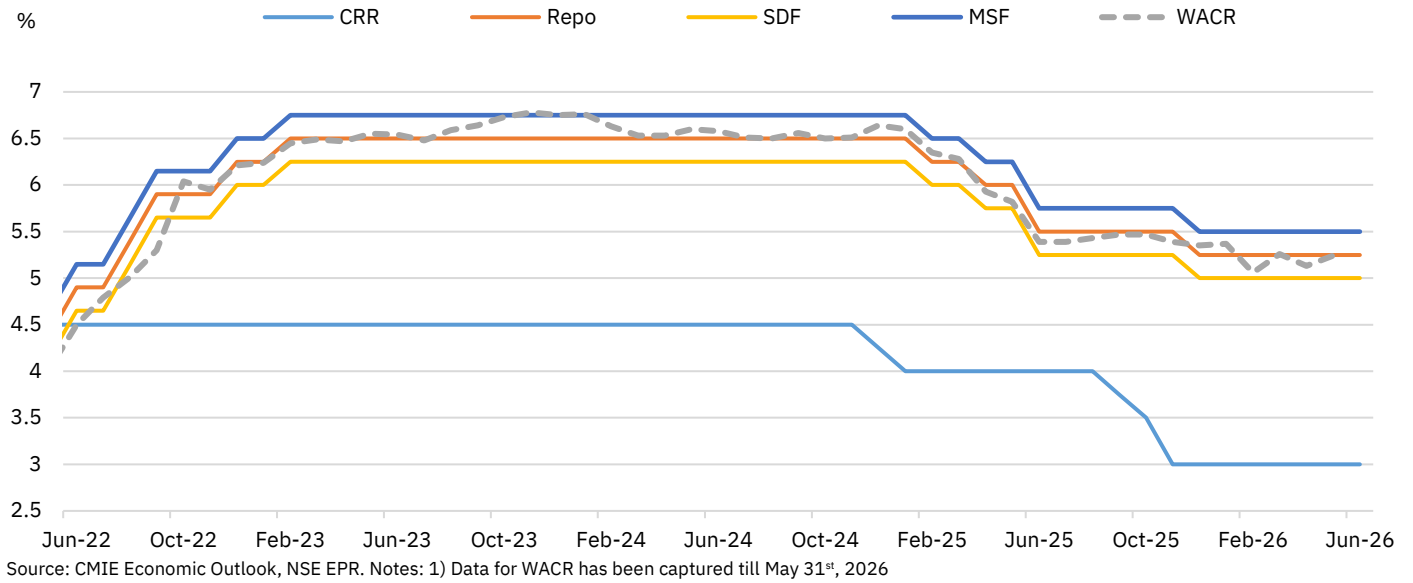
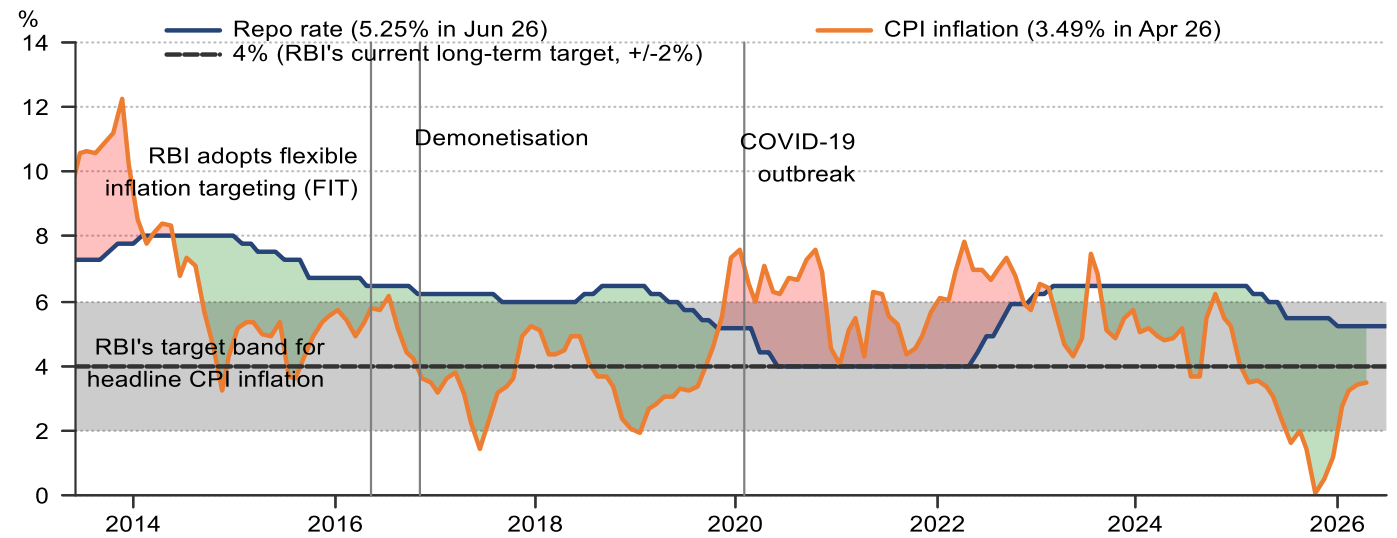
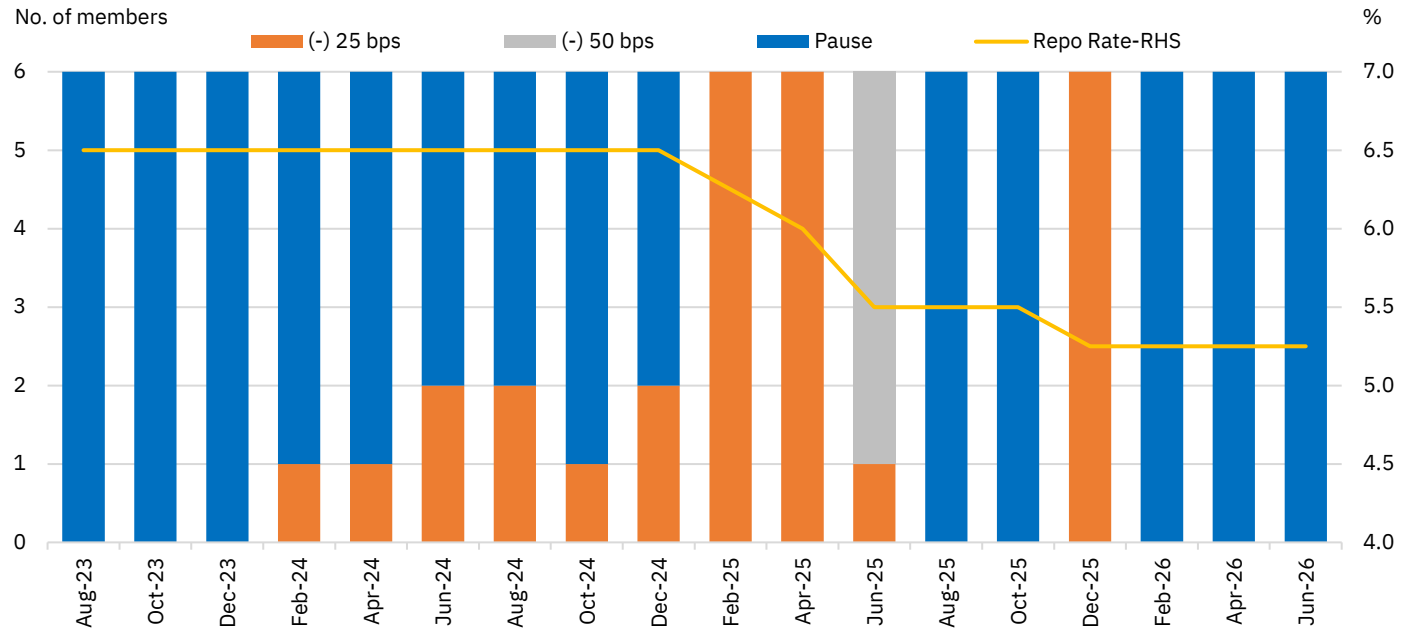
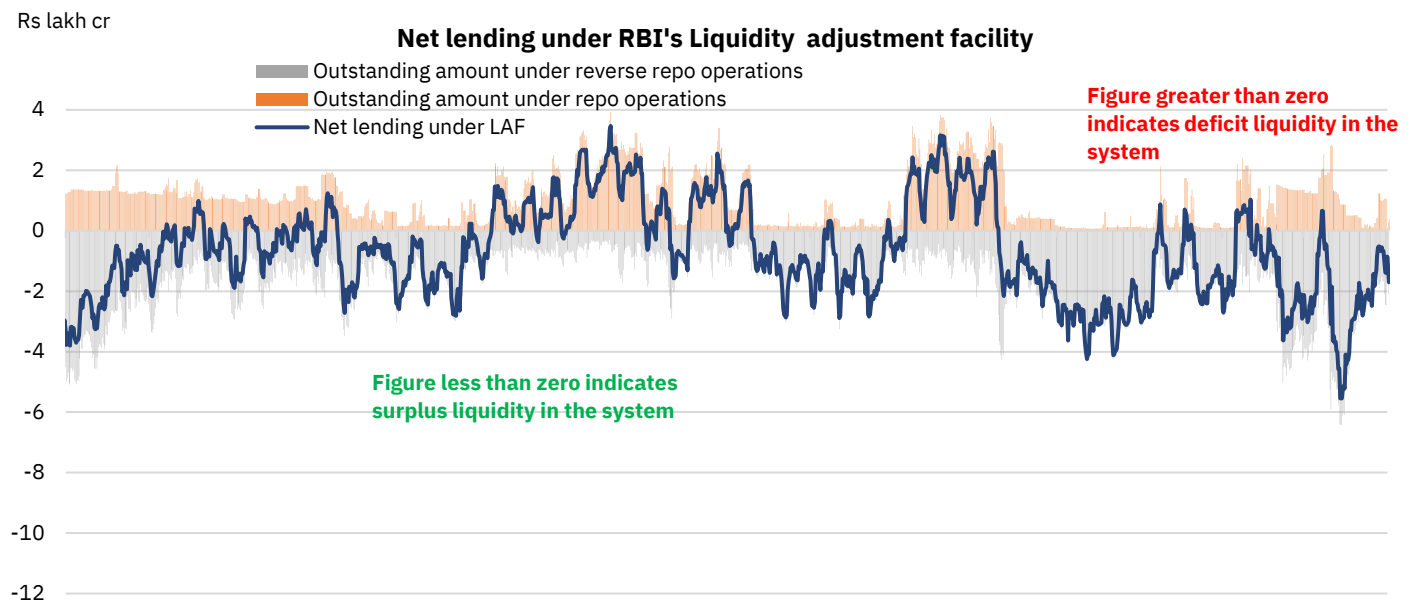
Figure 1: Movement in key policy rates

Figure 2: Movement in real interest rates


Figure 3: MPC members' voting pattern


Source: RBI, NSE EPR.

Figure 4: Net lending under RBI's Liquidity Adjustment Facility

Average banking system liquidity has moderated from Rs 3.9 lakh crore in April 2026 to Rs 1.7 lakh crore in May 2026 with RBI conducting a mix of 11 VRRs and one long-term buy/sell swap auction of US\$ 5 bn since the previous policy.



Jun-22 Sep-22 Dec-22 Mar-23 Jun-23 Sep-23 Dec-23 Mar-24 Jun-24 Sep-24 Dec-24 Mar-25 Jun-25 Sep-25 Dec-25 Mar-26 Jun-26

Source: CMIE Economic Outlook, NSE EPR. Note: Data till June 3rd, 2026

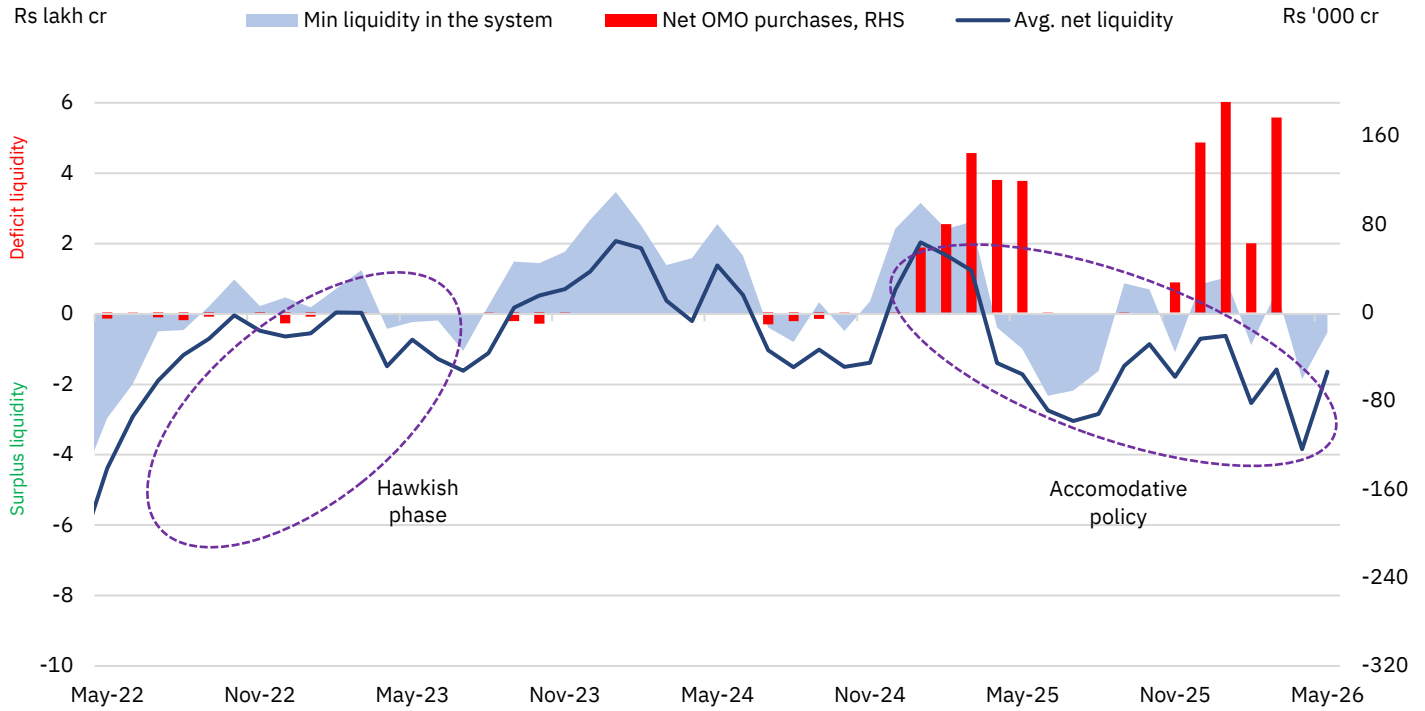
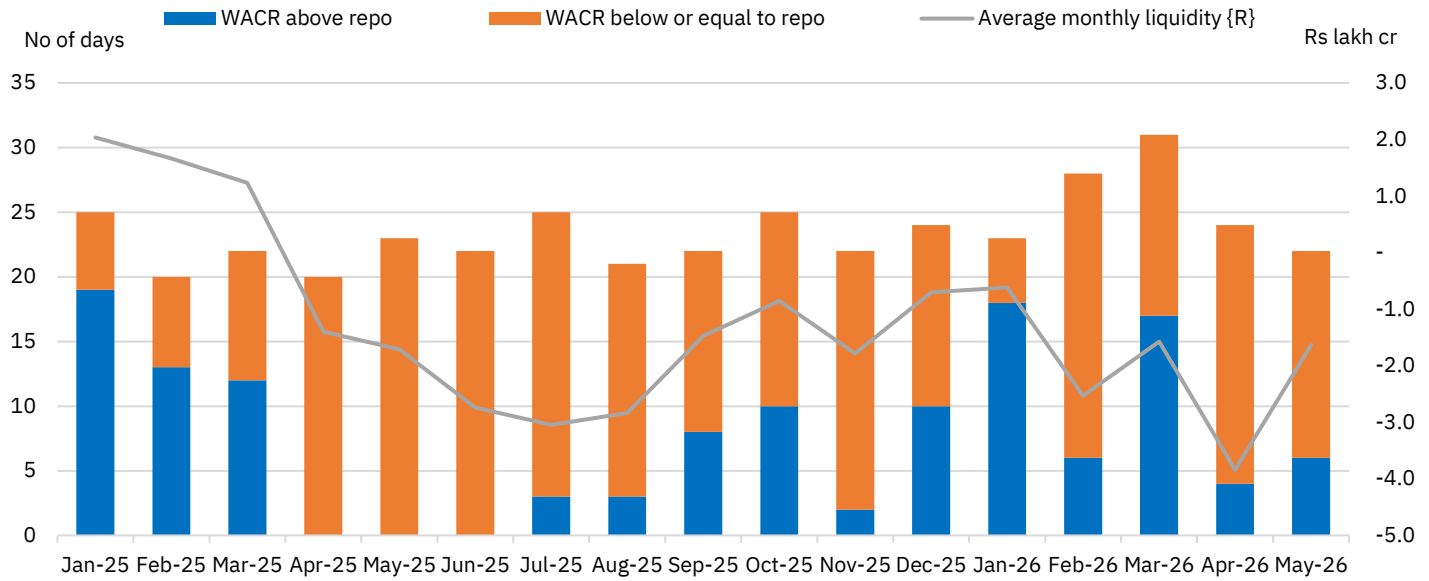
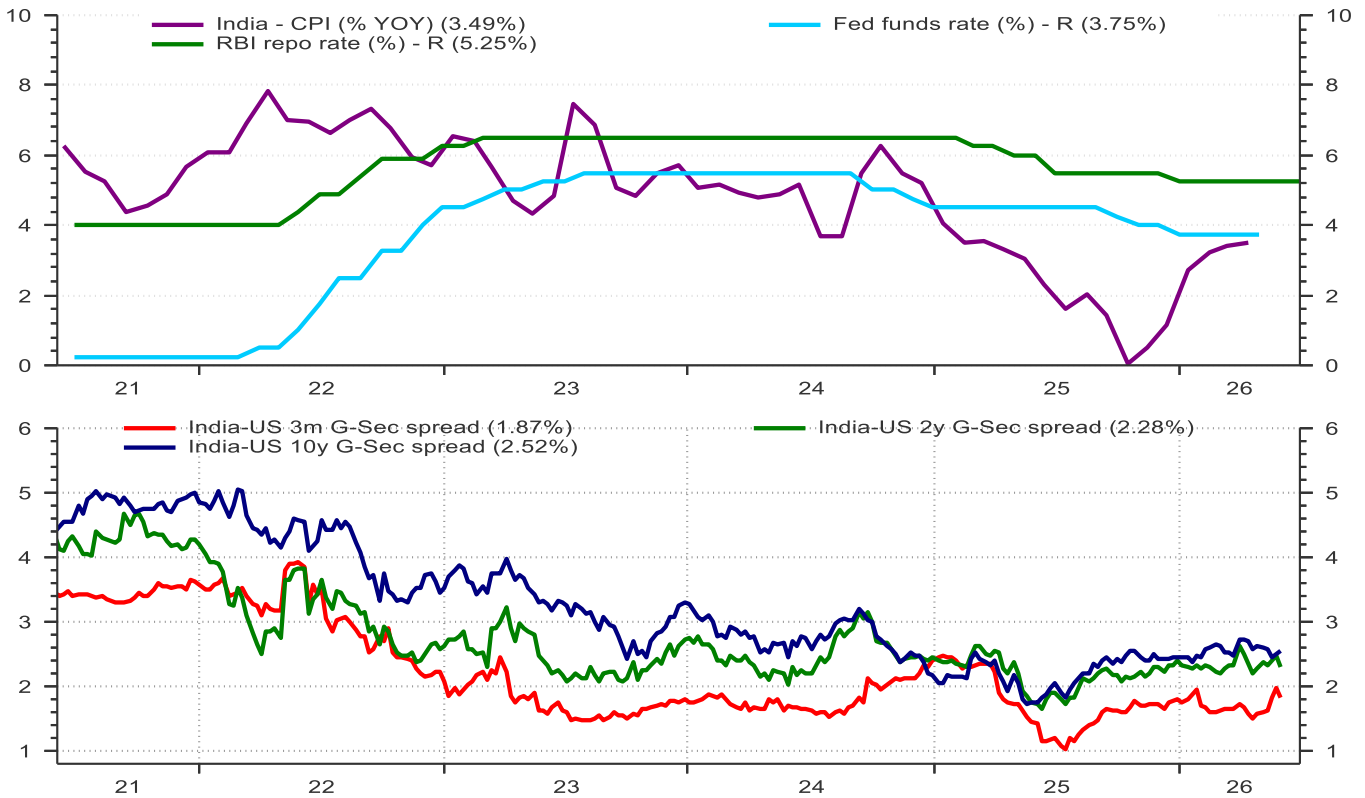
Figure 5: Monetary easing supported by Open Market Operations

 Source: CMIE Economic Outlook, NSE EPR. Note: Data till May 31st, 2026

Figure 6: Monthly trend in weighted call money rate and average monthly banking liquidity


Source: CMIE Economic Outlook, NSE EPR. Note: 1) Positive values indicate deficit, while negative values indicate surplus

Figure 7: India vs. US policy rates and yield differential


Source: LSEG Workspace, NSE EPR.

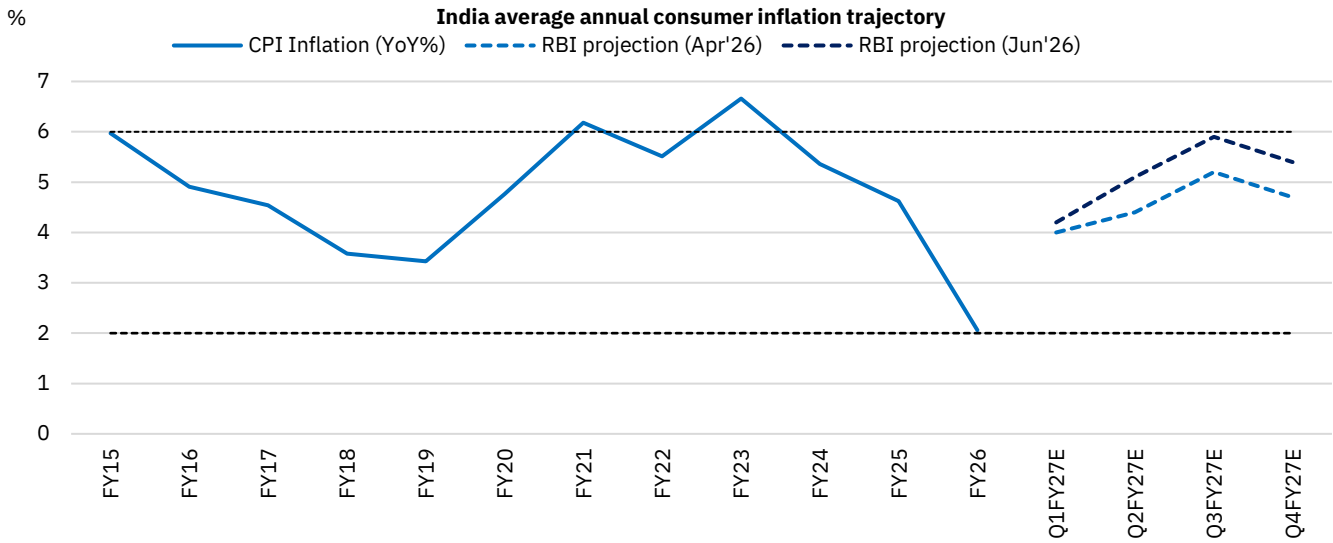
Table 3: Monthly trends in major currency movements (MoM%)

Month	INR	DXY	EUR	GBP	JPY	CAD	CHF	CNY	ZAR	BRL	RUB	IDR	TRY
Mar-25	2.4%	-3.2%	4.3%	2.7%	0.4%	0.5%	2.2%	0.4%	1.0%	2.5%	5.6%	0.1%	-3.8%
Apr-25	1.2%	-4.6%	4.7%	3.2%	4.8%	4.3%	7.0%	-0.2%	-1.2%	1.2%	3.4%	-0.2%	-1.3%
May-25	-1.3%	-0.1%	0.2%	1.0%	-0.7%	0.4%	0.4%	0.9%	3.0%	-1.2%	4.3%	1.9%	-2.0%
Jun-25	-0.2%	-2.5%	3.9%	2.0%	0.0%	1.0%	3.7%	0.4%	1.6%	5.0%	0.5%	0.3%	-1.4%
Jul-25	-2.1%	3.2%	-3.2%	-3.8%	-4.5%	-1.8%	-2.4%	-0.4%	-1.7%	-2.5%	-2.4%	-1.3%	-2.0%
Aug-25	-0.7%	-2.2%	2.4%	2.2%	2.5%	0.8%	1.5%	0.8%	2.2%	3.1%	-0.4%	-0.2%	-1.4%
Sep-25	-0.6%	0.0%	0.4%	-0.4%	-0.6%	-1.3%	0.5%	0.2%	2.6%	1.9%	-2.5%	-1.1%	-1.0%
Oct-25	0.0%	2.1%	-1.7%	-2.2%	-4.0%	-0.6%	-1.0%	0.1%	-0.5%	-1.1%	2.1%	0.2%	-1.1%
Nov-25	-0.8%	-0.4%	0.5%	0.6%	-1.4%	0.3%	0.1%	0.5%	1.2%	0.8%	4.4%	-0.2%	-1.0%
Dec-25	-0.5%	-1.1%	1.3%	1.8%	-0.3%	1.8%	1.4%	1.3%	3.4%	-2.5%	-2.2%	-0.1%	-1.1%
Jan-26	-2.3%	-1.4%	0.9%	1.6%	1.2%	0.8%	2.5%	0.6%	3.3%	4.7%	3.9%	-0.7%	-1.2%
Feb-26	1.1%	0.6%	-0.3%	-1.5%	-0.8%	-0.2%	0.6%	1.4%	0.8%	2.1%	-1.5%	0.1%	-1.0%
Mar-26	-4.1%	2.4%	-2.2%	-1.9%	-1.7%	-1.9%	-3.8%	-0.8%	-7.0%	-1.8%	-4.9%	-1.4%	-1.2%
Apr-26	-0.1%	-1.9%	1.5%	2.9%	1.4%	2.5%	2.3%	1.1%	2.5%	4.8%	8.5%	-1.8%	-1.6%
May-26	-0.1%	0.9%	-0.6%	-1.1%	-1.7%	-1.6%	0.0%	1.0%	3.1%	-1.5%	5.5%	-3.1%	-1.5%
2026YTD	-5.4%	0.6%	-0.7%	-0.1%	-1.6%	-0.5%	1.5%	3.2%	2.3%	8.3%	11.4%	-6.7%	-6.4%

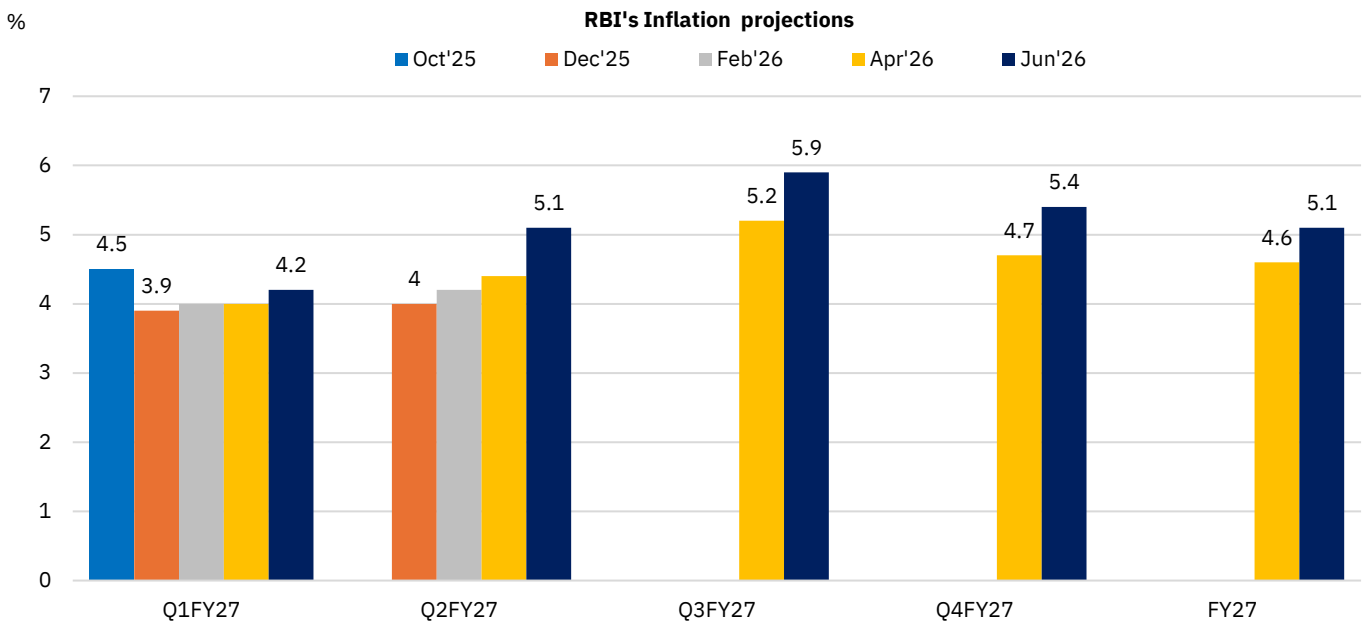
 Source: LSEG Workspace, NSE EPR Notes: 1) 2026YTD is captured till May 31st, 2026. INR= Indian Rupee, DXY= Dollar Index, EUR= Euro, GBP= Pound Sterling, JPY= Japanese Yen, CAD= Canadian Dollar, CHF= Swiss Franc, CNY= Chines Yuan, ZAR= South African Rand, BRL= Brazilian Rial, RUB= Russian Rouble, IDR= Indonesian Rupiah, TRY= Turkish Lira.

Figure 8: India's consumer inflation trajectory and RBI's forecasts

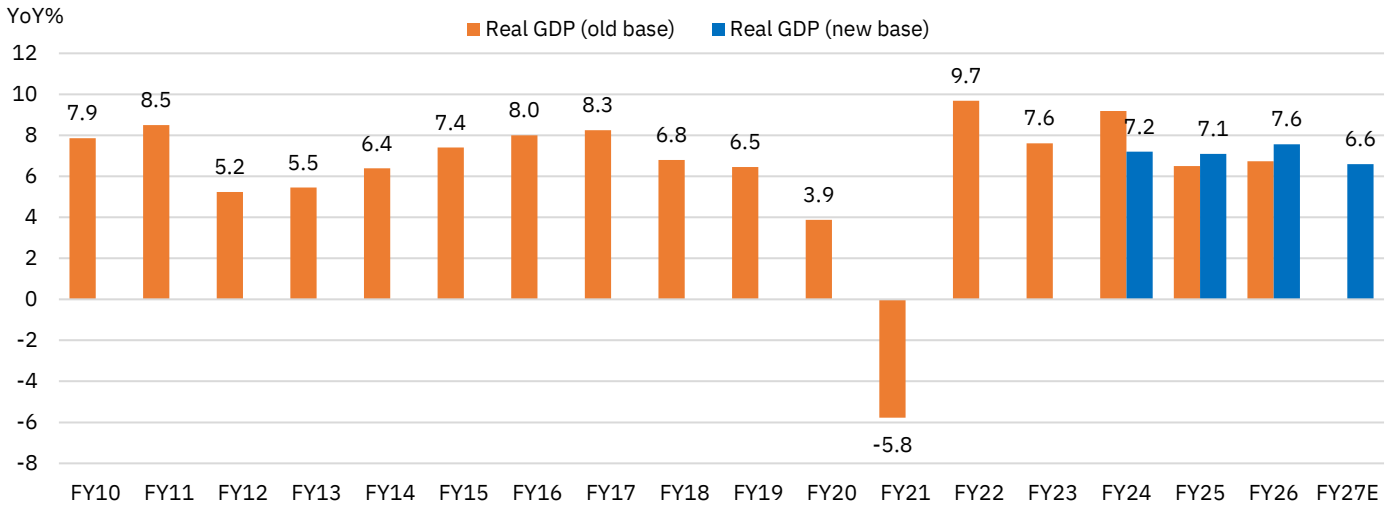
Headline inflation has been revised higher by 50 bps to 5.1% in FY27 with a broad-based increase across the quarters. The sharpest upward revision of 70bps was seen in Q3-FY27.



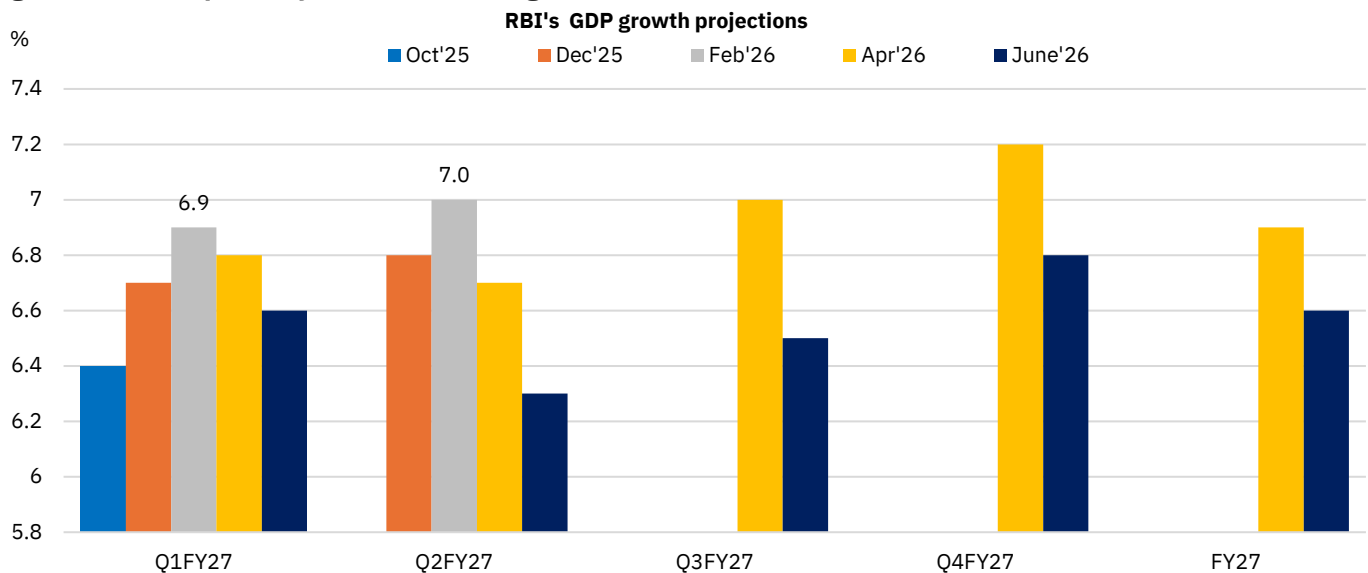
Source: CMIE Economic Outlook, RBI, NSE EPR.

Figure 9: Quarterly and annual inflation forecasts by RBI


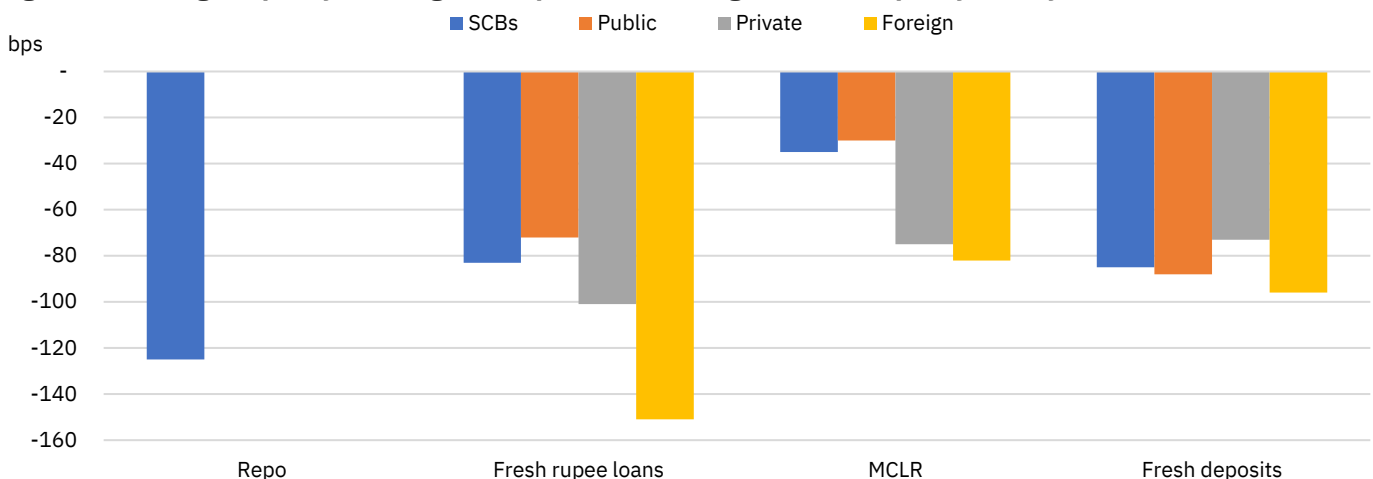
Source: RBI, NSE EPR

Figure 10: GDP growth trend and RBI's estimates


Source: CMIE Economic Outlook, RBI, NSE EPR. FY27E = RBI estimate

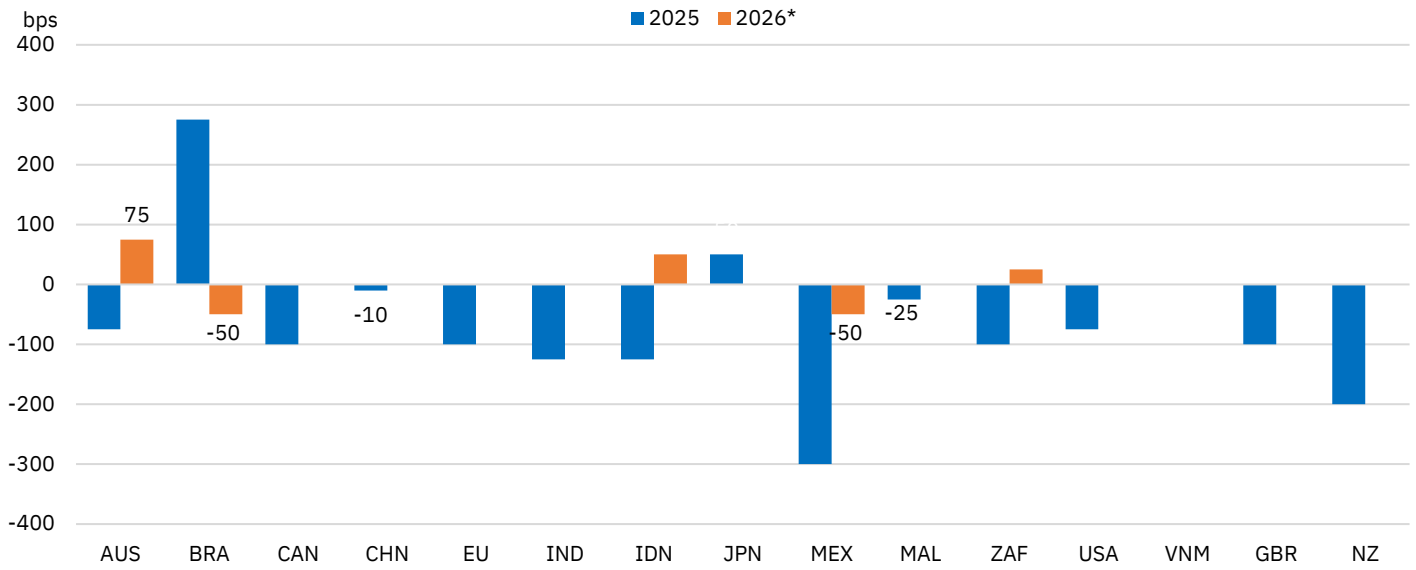
Figure 11: RBI's quarterly and annual GDP growth forecasts


Source: RBI, NSE EPR.

Figure 12: Change in policy, lending and deposit rate during the current policy rate cycle


Source: CMIE Economic Outlook, NSE EPR; Notes: 1) The change in repo rate, fresh rupee loans and fresh deposits is between January'25 and Apr'26, while in case of MCLR, the change is between January'25 and May'26

Figure 13: Variation in policy rates across countries



Source: CEIC, LSEG Workspace, NSE EPR. Notes: 1) For China, the loan prime rate for 1 year has been considered for computation 3) AUS = Australia, BRA = Brazil, CAN = Canada, CHN= China, EU = European Union, IND= India, INDO=Indonesia, JAP= Japan, MEX=Mexico, MAL=Malaysia, SA= South Africa, USA=United States of America, VIE=Vietnam, UK=United Kingdom, NZ= New Zealand. 2) Data captured for other countries is still end-May 2026

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