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संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001

Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort,

Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

June 05, 2026

Monetary Policy Statement, 2026-27
Resolution of the Monetary Policy Committee
June 3 to 5, 2026

Monetary Policy Decisions

The Monetary Policy Committee (MPC) held its 61st meeting from June 3 to 5, 2026, under the chairmanship of Shri Sanjay Malhotra, Governor, Reserve Bank of India. The MPC members Dr. Nagesh Kumar, Shri Saugata Bhattacharya, Prof. Ram Singh, Dr. Poonam Gupta and Shri Indranil Bhattacharyya attended the meeting.

2. After a detailed assessment of the evolving macroeconomic and financial developments and the outlook, the MPC voted unanimously to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.25 per cent. Consequently, the standing deposit facility (SDF) rate remains at 5.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate remain at 5.50 per cent. The MPC also decided to continue with the neutral stance.

Growth and Inflation Outlook

Global Outlook

3. As the West Asia conflict prolongs without any meaningful resolution in sight, risks to both inflation and growth have increased. Energy markets have been volatile; crude oil reserves are declining and global commodity prices have firmed up. Faced with difficult trade-offs, monetary policy has turned more cautious. Major advanced economy central banks are likely to pivot towards monetary policy tightening. Global financial markets have shown mixed trends, with equities remaining buoyant driven by AI optimism, while sovereign bond yields have hardened on fiscal sustainability concerns and inflation worries. The US dollar index has appreciated recently amid shifting rate expectations and changing risk sentiment.

Domestic Outlook

4. As per several high frequency indicators, domestic economic activity remained largely steady since the outbreak of the conflict. Private consumption has been resilient, while fixed investment maintained its momentum despite cost pressures. Merchandise exports recorded strong growth in April 2026, though elevated freight and insurance costs remain a drag. Services exports continued to be robust. While the economy has withstood the conflict spillovers with limited impact so far; the strains are increasingly becoming visible.

5. Looking ahead, elevated energy and other commodity prices coupled with continued supply disruptions are likely to affect economic activity. While import diversification in affected commodities has helped in improving supply, it comes at a higher cost. The full impact, however, will depend on the duration of the conflict, time taken for normalisation of supply chains and the burden-sharing approach among the stakeholders. The south-west monsoon is expected to be deficient, with implications for agricultural activity and rural demand. However, the programmes and initiatives for crop diversification, water harvesting and conservation, climate-resilient practices and short-duration crops, among others, are expected to mitigate the impact. Furthermore, sustained momentum in services, continuing impact of GST rationalisation, and broadly stable employment conditions should continue to support urban consumption. Strong capacity utilisation, sustained credit flows from bank and non-bank sources, and the government's capex are expected to support investment activity. While weak global demand and elevated freight and insurance costs are headwinds for merchandise exports, services exports are expected to remain steady.

6. Several measures undertaken by the Government, including support to MSME and export sectors, efforts to ramp up domestic gas and crude supplies, encouraging use of domestically produced alternatives to imported inputs, and diversification of critical imports have strengthened the economy's resilience to cope with external shocks.

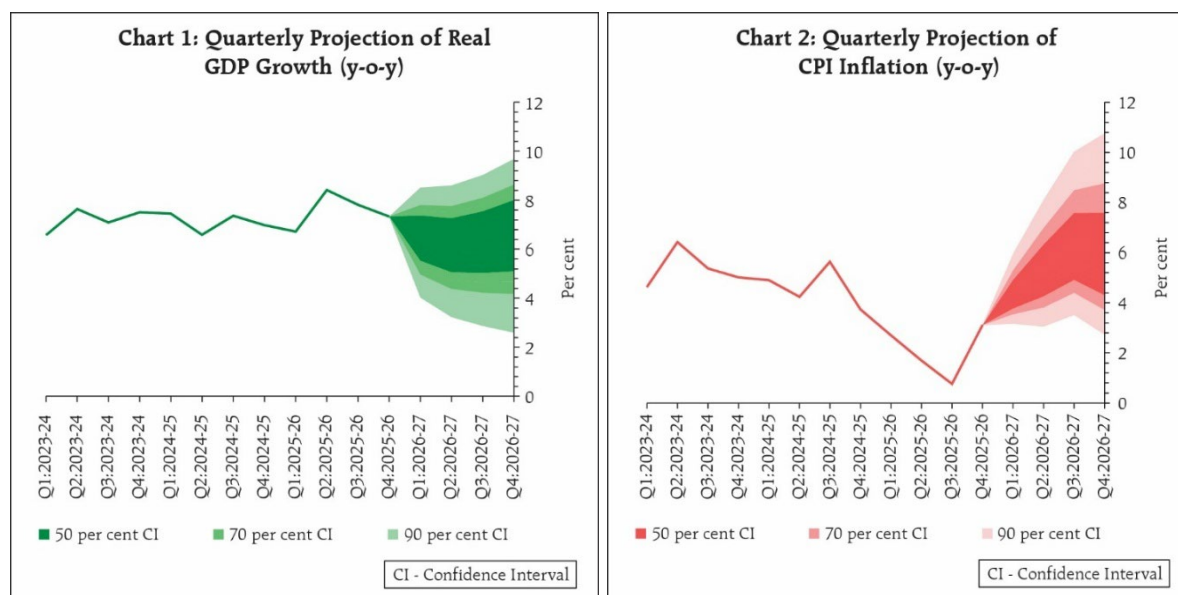
7. Taking all these factors into consideration, real GDP growth for 2026-27 is projected at 6.6 per cent, with Q1 at 6.6 per cent; Q2 at 6.3 per cent; Q3 at 6.5 per cent; and Q4 at 6.8 per cent (Chart 1). Prolonged global supply chain disruptions, heightened volatility in global financial markets, and weather-related shocks continue to pose downside risks to the domestic growth outlook.

8. Headline CPI inflation inched up to 3.4 per cent in March and 3.5 per cent in April 2026 primarily due to higher food inflation. Fuel inflation remained modest as retail fuel prices largely remained unchanged in March and April despite the sharp spike in international energy prices. Core (CPI excluding food and fuel) inflation remained unchanged at 3.7 per cent during January to April. Excluding precious metals, core inflation remained much lower at 2.1-2.2 per cent. This indicates that the input cost pressures, as reflected in a sharp increase in April WPI, have not yet fully manifested in CPI.

9. Since May, however, retail fuel prices have been raised cumulatively by 7.4 per cent for petrol and 8.4 per cent for diesel. The increase implies a direct impact of about 36 basis points on headline inflation, which, along with second order effects, would get reflected in CPI inflation in the coming months. Pass-through of higher global energy prices are also visible in several other inputs such as commercial LPG, industrial raw materials, chemicals, rubber and plastic products. The second-round impact of higher input costs could exert upside pressure on CPI inflation going forward.

10. Considering all these factors, CPI inflation for 2026-27 is projected to be 5.1 per cent with Q1 at 4.2 per cent; Q2 at 5.1 per cent; Q3 at 5.9 per cent; and Q4 at 5.4 per cent. Core inflation is projected at 4.7 per cent for 2026-27 (Chart 2). Excluding precious metals, core inflation is projected to be lower, suggesting that demand pressures remain contained. These forecasts are subject to upside risks due to global supply chain disruptions and uncertainty about the spatial and temporal distribution of

monsoon. However, adequate stock of foodgrains and satisfactory reservoir levels provide some comfort.



Rationale for Monetary Policy Decisions

11. The global environment has deteriorated since the last policy meeting with the conflict lingering amidst a fragile truce. The adverse implications of the extended disruption in supply chains and elevated energy prices are reflected in the moderation of growth and increase in inflation projections from the April policy as discussed above.

12. CPI inflation remains below the target despite the global shock as the passthrough to domestic prices has been limited. While the baseline projections point towards headline inflation firming up towards the upper tolerance level in Q3:2026-27, the impact of the supply shock is expected to wane Q4 onwards. The underlying inflation pressures continue to remain benign at this juncture. However, generalisation of inflation through second-round effects on expectations and wages is a distinct possibility, warranting a close vigil. The outlook also remains clouded by the sub-normal south-west monsoon forecast and *El Niño* risks.

13. As for growth, elevated energy prices coupled with global supply constraints are having adverse spillovers on economic activity. While domestic demand remains resilient and manufacturing and services sectors activity continue to expand, there are incipient signs of moderation in some sectors as suggested by high frequency indicators.

14. As discussed above, there are considerable risks to the MPC's baseline assessment of inflation and growth due to the uncertainty about the duration and intensity of the conflict, magnitude of its spillover effects and the pace of restoration of supply chains. Additionally, the food outlook remains uncertain on account of the sub-normal south-west monsoon forecast and *El Niño*. Although risks of higher inflation have amplified, the MPC felt it would be prudent to wait for greater clarity to emerge. Accordingly, the MPC voted to keep the policy rate unchanged. At the same time, the MPC will continue to remain data-dependent and closely monitor the developments, including supply side pressures getting embedded in the general price level and inflation expectations. The MPC also decided to retain the neutral stance.

15. The minutes of the MPC's meeting will be published on June 19, 2026.
16. The next meeting of the MPC is scheduled for August 3 to 5, 2026.

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(Brij Raj)
Chief General Manager