



# Reserve Bank of India

Monetary policy committee meeting outcome –  
June 2026 and India's GDP review FY26

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Sustained growth momentum versus policy pause:  
Capitalizing on FY26 capex amid narrowing easing space

## Key takeaways

### Key takeaways

#### Key Policy Rates

<b>REPO RATE</b> <b>5.25%</b> <i>Unchanged – Hold</i>	<b>SDF RATE</b> <b>5.00%</b> <i>Floor of LAF Corridor</i>	<b>MSF RATE</b> <b>5.50%</b> <i>Ceiling of LAF Corridor</i>	<b>STANCE</b> <b>Neutral</b> <i>Flexible &amp; Data-Driven</i>
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#### Macroeconomic projections – FY 2026-27

Indicator	Q1 FY27	Q2 FY27	Q3 FY27	Q4 FY27	FY27 Avg.
Real GDP Growth (%)	6.6%	6.3%	6.5%	6.8%	6.6%
CPI Inflation (%)	4.2%	5.1%	5.9%	5.4%	5.1%

#### Key policy themes & rationale

	<b>West Asia conflict - Primary global risk</b> Prolonged conflict has disrupted energy markets, elevated crude prices, raised freight & insurance costs, and introduced supply-chain volatility. RBI flagged this as the biggest external uncertainty.
	<b>Monsoon - Key domestic uncertainty</b> Below-normal monsoon risk identified as the primary domestic threat. Adverse weather could impair agricultural output, rural incomes and food prices, with direct CPI implications.
	<b>Credit growth - Continued momentum</b> Bank credit expanded 15.4% in FY26, reflecting robust borrowing by businesses and consumers. The MPC noted credit flows remain supportive of investment and consumption.
	<b>Policy space - Limited further easing</b> Following 125 bps of cumulative cuts since Feb 2025 (to current 5.25%), the MPC signalled that the space for additional easing has narrowed. Neutral stance preserves flexibility both ways.

#### Risk radar

 <b>Energy prices</b> Crude oil & fuel cost pressures from West Asia conflict	 <b>Monsoon risk</b> El Nino threat; weak south-west monsoon impacts food & rural demand	 <b>Geopolitical tensions</b> Supply-chain disruptions; global trade uncertainty	 <b>FPI outflows</b> Net outflows of USD 13.4 bn (equities) & USD 0.3 bn (debt) during April 1-June 2, 2026
 <b>Positive: Food prices</b> Domestic food inflation moderating; supply conditions improved	 <b>Positive: Private consumption</b> Household spending remains resilient; urban + rural demand steady	 <b>Positive: Capex momentum</b> Govt capex + fixed investment momentum intact despite rising costs	 <b>Positive: Trade Pacts</b> Trade agreements with UK, NZ signed; EU deal concluded

#### Policy outlook

<b>Near-term outlook</b> <b>Rate on HOLD</b> MPC will monitor evolving inflation trajectory, global energy prices and monsoon progress. Space for further easing remains limited with CPI forecast at 5.1%.	<b>Growth drivers</b> <b>6.6% GDP Target FY27</b> Private consumption resilient; fixed investment robust. Govt capex, strong credit growth (15.4% in FY26) & improving trade partnerships support momentum.
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## Executive summary

### 1. Executive summary

*The hawkish hold: Central bank guards against inflation as FY27 growth forecast wanes*

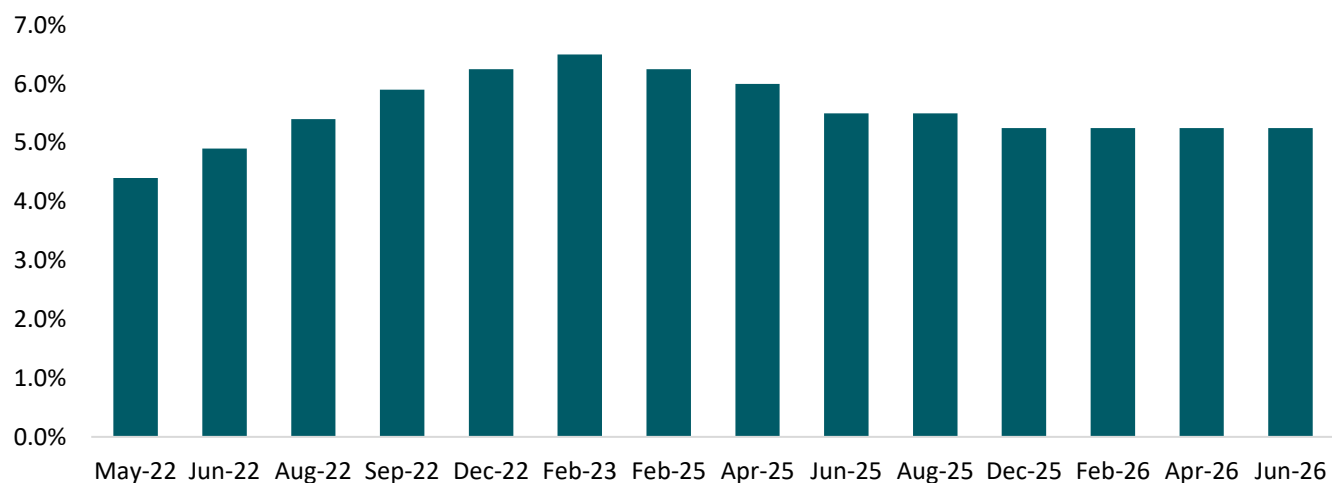
The Reserve Bank of India's Monetary Policy Committee (MPC) concluded its bi-monthly deliberations on June 5, 2026, by maintaining a strict status quo across all benchmark policy rates. The repo rate remains unchanged at 5.25%, which consequently keeps the Standing Deposit Facility (SDF) rate at 5.0% and both the Marginal Standing Facility (MSF) rate and the Bank Rate at 5.50%, while maintaining the 'neutral' stance. This marks the third consecutive status quo, firmly pausing the aggressive easing cycle that began in early 2025 and yielded a cumulative 125 basis points of cuts.

**Table 1: Key parameters at a glance**

Rate / Parameter	Previous policy	Current level	Status
Repo rate	5.25%	<b>5.25%</b>	Unchanged
SDF rate	5.00%	<b>5.00%</b>	Unchanged
MSF rate	5.50%	<b>5.50%</b>	Unchanged
Bank rate	5.50%	<b>5.50%</b>	Unchanged
Policy stance	Neutral	<b>Neutral</b>	Unchanged - 3rd Consecutive Pause
FY27 GDP growth	6.90%	<b>6.60%</b>	Cut by 30 bps
FY27 CPI inflation	4.60%	<b>5.10%</b>	Raised by 50 bps
Policy tone	Cautious, data-dependent	<b>More cautious, risk-aware</b>	Sharpened downside vigilance
Direction of bias	Wait-and-watch	<b>Pause with inflation watch</b>	No near-term easing

Source: Reserve Bank of India; Brickwork Research.

**Figure 1: Repo rate trend (%)**



Source: Reserve Bank of India; Brickwork Research.

## India's GDP and inflation estimate

### 2. Downward revision to GDP growth

*FY27 real GDP growth revised to 6.6% from 6.9%; near-term caution amid global headwinds*

One of the most major announcements was the downward revision of India's FY27 real GDP growth projection to 6.6% from the earlier estimate of 6.9%. RBI Governor cited elevated risks from the prolonged West Asia conflict, rising crude oil prices, supply-chain disruptions, and monsoon uncertainty as the primary drivers behind this downward revision.

The RBI projected quarterly GDP growth for FY27 at 6.6% in Q1, 6.3% in Q2, 6.5% in Q3, and 6.8% in Q4, reflecting a cautious near-term outlook with gradual recovery expected in the latter half. Concurrently, the central bank raised its FY27 CPI inflation forecast to 5.1% from 4.6%, underscoring the inflationary pressures stemming from fuel prices and weather-related uncertainties. Despite the revised growth outlook, the Monetary Policy Committee kept the repo rate unchanged, maintaining a neutral stance to balance growth support with inflation management.

**Table 2: GDP growth estimates (%)**

GDP growth estimate (%)	Current forecast	Previous forecast
<b>FY27</b>	<b>6.6%</b> ↓	6.9%
<b>Q1 FY27</b>	<b>6.6%</b> ↓	6.8%
<b>Q2 FY27</b>	<b>6.3%</b> ↓	6.7%
<b>Q3 FY27</b>	<b>6.5%</b> ↓	7.0%
<b>Q4 FY27</b>	<b>6.8%</b> ↓	7.2%

*Source: Reserve Bank of India; Brickwork Research.*

### 3. Upward trajectory for inflation forecasts

*FY27 CPI raised to 5.1% from 4.6%; inflationary pressures expected to intensify in H2 FY27*

The RBI raised its FY27 inflation forecast to 5.1% from 4.6%. Quarterly consumer price index (CPI) inflation is seen at 4.2% (Q1), 5.1% (Q2), 5.9% (Q3) and 5.4% (Q4), signalling intensifying inflation as firms pass higher input costs to consumers. Core inflation is projected at 4.7%, indicating manageable but notable underlying pressures. The upward revision reflects volatile energy prices, supply disruptions from geopolitical tensions, and persistent food-price risks. The RBI warned that renewed fuel and services pressures could push inflation toward the upper end of its 2-6% target, underscoring policy vigilance to balance growth and price stability.

The main near-term risk is transmission of elevated global crude prices into domestic retail energy costs: retail petrol and diesel were cumulatively raised by 7.4% and 8.4% in May 2026, adding an estimated 36 basis points to headline CPI. Secondary risks include rising industrial raw-material costs (base metals, commercial LPG) that may generate second-round effects as producers protect margins. A sub-normal southwest monsoon, aligned with El Niño patterns, adds uncertainty to food inflation. While public wheat and rice buffer stocks provide short-term relief, vegetable and pulse prices could remain volatile through Sep-Dec 2026, coinciding with the MPC's projected Q3 FY27 peak.

## India's GDP and inflation estimate

Table 3: Inflation estimates (%)

CPI inflation (%) estimate	Current forecast	Previous forecast
FY27	5.1% ↑	4.6%
Q1 FY27	4.2% ↑	4.0%
Q2 FY27	5.1% ↑	4.4%
Q3 FY27	5.9% ↑	5.2%
Q4 FY27	5.4% ↑	4.7%

Source: Reserve Bank of India

### 4. The West-Asia conflict as a primary headwind

*Escalating US-Iran tensions disrupt energy markets, amplify imported inflation and external financing pressures*

Faced with severe external headwinds, primarily stemming from the escalating US-Iran conflict in West Asia, the central bank engaged in a delicate balancing act between safeguarding domestic resilience and acknowledging global vulnerabilities. While domestic economic activity continues to exhibit structural resilience, the compounding global supply-side shocks forced the RBI to sharply revise its macroeconomic forecasts.

The escalating US-Iran conflict in West Asia has disrupted energy markets and supply chains, amplifying imported inflation risks and external financing pressures. Against this backdrop, the central bank sharply revised its macroeconomic forecasts, signalling that while India's domestic economy continues to exhibit structural strength through consumption, infrastructure investment, and services exports, global supply-side shocks are eroding near-term growth momentum. The RBI's recalibration underscores its dual mandate: maintaining stability in the face of geopolitical volatility while ensuring that monetary conditions remain supportive enough to preserve India's medium-term growth trajectory.

### 5. External capital & forex management initiatives

*RBI unveils suite of reforms to bolster FX buffers and domestic debt markets*

The Reserve Bank of India announced external capital and forex measures to strengthen resilience against global shocks and deepen domestic markets. Equity investment limits for NRIs, OCIs, and resident individuals abroad were liberalised: individual caps in listed companies are doubled to 10% and the aggregate limit raised to 24%, with no direct SEBI registration required. To develop the sovereign curve, the Fully Accessible Route (FAR) now covers newly issued long-duration government securities of 15, 30 and 40-year tenors. Operational constraints for Foreign Portfolio Investors under the General Route—short-term, concentration and security-wise limits, were removed to ease participation. To bolster FX buffers and reduce spot intervention, the RBI introduced a concessional forex swap window for public-sector External Commercial Borrowings and agreed to absorb full hedging costs for commercial banks raising 3-5 year FCNR(B) deposits. Collectively, these steps aim to attract stable long-term inflows, diversify funding amid volatile crude prices and rupee pressures, and shift policy emphasis from ad-hoc currency intervention toward structural capital-account liberalisation and deeper, more liquid domestic debt markets.

**Key concerns & challenges**

**6. Liquidity, financial stability & external sector**

*Liberalised foreign and NRI inflows designed to deepen markets and stabilise forex liquidity*

**5.1 Domestic liquidity management**

System liquidity conditions have remained in meaningful surplus throughout the current fiscal year, averaging INR 2.63 trillion on a daily basis since April 2026. This sustained liquidity abundance reflects the cumulative effect of the RBI's open market operations, foreign exchange purchases, and government spending flows. Notwithstanding this surplus, monetary policy transmission through the credit channel remains incomplete, reflecting the structural rigidities and risk calibration dynamics that characterize the Indian banking system's lending behaviour in an environment of elevated global uncertainty.

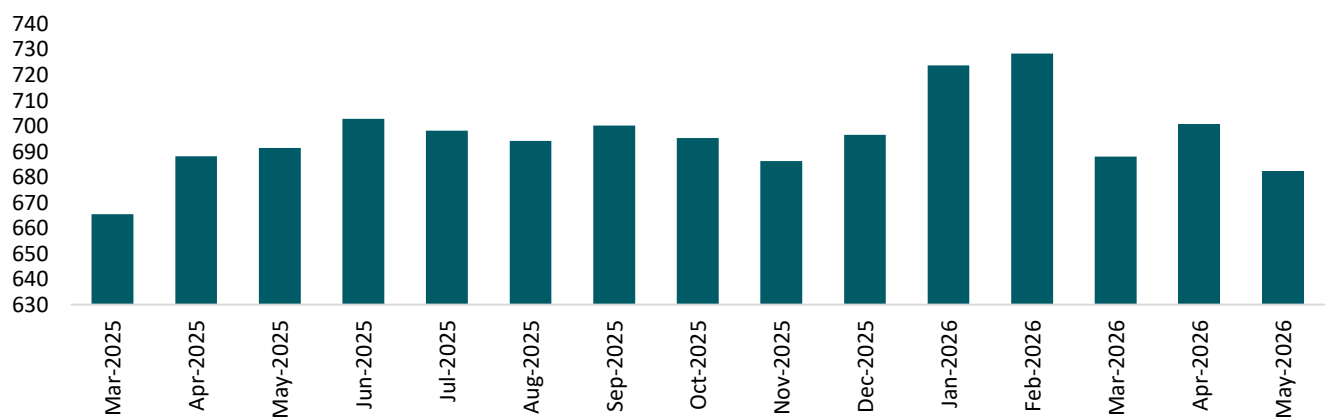
Bank credit to the commercial sector has grown at a robust 15.4% YoY in FY26, testament to resilient domestic investment demand and household consumption credit. The RBI has reaffirmed its commitment to ensuring that system liquidity conditions remain appropriately calibrated to support productive economic activity while simultaneously anchoring the effective transmission of the policy rate signal.

**5.2 External sector resilience & strategic measures**

India's external sector presents a picture of structural resilience, tempered by pockets of vulnerability. Foreign exchange reserves stand at a formidable USD 682.3 billion as of May 29, 2026, equivalent to approximately 11 months of import cover, representing one of the most substantial reserve buffers among peer emerging market economies and providing a potent firewall against external sector volatility.

The current account dynamics, however, merit close monitoring. Rising energy import costs pose an upside risk to the current account deficit, though this is partially offset by sustained growth in services exports (particularly IT and business process outsourcing) and resilient inward remittances. The recent net FPI outflow of USD 13.7 billion since April 2026 underscores the latent vulnerability to shifting global risk appetite and warrants ongoing vigilance.

**Figure 2: Forex reserves trend (USD million)**



Source: Reserve Bank of India; as of May 29, 2026.

In a strategically significant set of complementary measures, the RBI has unveiled a calibrated suite of interventions designed to attract durable foreign capital inflows and fortify the INR:

## Key concerns & challenges

**Table 4: Comprehensive overview of RBI's currency and capital market measures**

Measure	Details	Policy Objective
FAR expansion	Inclusion of 15-, 30- & 40-year G-secs under fully accessible route	Deep long-duration sovereign market; foreign inflows into EM bonds
FPI limit removal	Short-term, concentration, and individual security limits under General Route removed	Enhanced market depth; reduced portfolio allocation friction
NRI/OCI equity limits	Enhanced investment thresholds for NRIs, OCIs & PROIs without SEBI registration	Diaspora-driven inflows; supports INR and equity markets
PSU ECB swap	Concessional forex swap for PSU ECBs (until Sep 30, 2026)	Reduces PSU borrowing cost; INR stabilisation measure
Foreign Currency Non-Resident (Bank) FCNR(B) Hedging	Full hedging cost support for AD banks on fresh 3-5 year FCNR(B) deposits (until Sep 30, 2026)	Incentivises NRI deposit mobilisation; builds forex cushion
Export proceeds	Realization timeline restored to 9 months	Supports exporter liquidity; bolsters current account

Source: Reserve Bank of India

These measures, in the collective assessment of this office, represent a thoughtfully architected response to the twin risks of portfolio outflows and currency depreciation. By deepening the market for long-duration sovereign bonds under Fully Accessible Route (FAR) and reducing friction for FPI participation in the debt market, the RBI is simultaneously building a structural demand base for G-secs while reducing the effective cost of sovereign borrowing at the long end, a dual dividend of considerable fiscal and monetary significance.

## 7. Key concerns & challenges

*Multiple headwinds: energy prices, geopolitical tensions, rupee depreciation, and monsoon uncertainty*

The RBI MPC highlighted several critical concerns driving this policy decision.

### **Rising global energy prices & crude oil risks**



Elevated global energy prices pose significant upside risks to India's inflation trajectory. The ongoing volatility in crude oil markets, driven by geopolitical tensions, creates substantial uncertainty for the country's import bill and domestic price stability. Rising upstream cost pressures from energy prices are already transmitting through the economy, affecting multiple sectors.

### **West-Asia conflict & geopolitical spillover**



The ongoing West Asia conflict represents the most significant external risk factor, creating substantial uncertainty with potential spillover effects on India's economy. The conflict's impact manifests through multiple channels: higher global fuel prices, disrupted supply chains, and increased commodity prices. The prolonged nature of tensions could pose downside risks to growth while simultaneously creating upside risks for inflation, creating a challenging policy environment.

## Policy rationale



### Weakening Rupee pressure

The Indian rupee has been depreciating continuously since the beginning of 2026, adding to inflationary pressures by making imports costlier. This currency weakness compounds the inflation challenge, as import-dependent sectors face higher costs that eventually transmit to consumer prices. The rupee's depreciation trajectory is closely linked to global risk sentiment and capital flow dynamics.



### Below-normal monsoon expectations

The prospect of a below-normal monsoon raises serious concerns about food inflation, which has already shown some increase in recent months. Core inflation remained stable at 3.7%, but fuel inflation concerns combined with expected monsoon weakness could push overall inflation higher in coming months. The monsoon's impact will be particularly critical for rural economic activity and agricultural prices.



### Global supply chain disruptions

Persistent global supply chain disruptions remain a key risk factor affecting economic activity and inflation. These disruptions, exacerbated by geopolitical tensions, affect India's import-dependent sectors and contribute to upstream cost pressures that ultimately affect consumer prices.

Balancing these risks, however, are several positives that provide resilience. Domestic food prices have moderated with improved supply conditions, private consumption remains steady across urban and rural segments, and government-led capex momentum continues to drive infrastructure and fixed investment. In addition, recent trade agreements with the UK, New Zealand, and the EU bolster external sector prospects. Together, these positives offset some of the risks, reinforcing India's structural resilience even as external shocks and monsoon uncertainty demand vigilant policy calibration.

## 8. Policy rationale - What led RBI to these measures

*Balancing inflation risks against growth imperatives in an uncertain global environment*

### ■ The classic policy dilemma

The RBI faced a classic monetary policy dilemma, needing to balance mounting inflation risks against the critical need to support economic growth. With inflation facing multiple upside pressures from energy prices, currency weakness, and monsoon uncertainty, aggressive rate cuts could have destabilized price expectations. However, cutting rates too aggressively could have compromised the inflation fight, while raising rates could have hurt growth in an already uncertain environment.

### ■ Sustained policy vigilance required

Governor Sanjay Malhotra explicitly stated that elevated global energy prices, a depreciating rupee, rising upstream cost pressures, and the prospect of a below-normal monsoon all call for sustained policy vigilance. These multiple risk factors collectively necessitated a cautious approach rather than aggressive monetary easing or tightening.

### ■ Inflation positioning & caution

Current CPI inflation at 3.48% in April 2026 had moved closer to the medium-term target of 4%, creating room for caution rather than aggressive easing. This positioning suggested that inflation was under control but faced significant upside risks, making a pause in rate cuts prudent. The upgraded inflation forecast to 5.1% for FY27 indicates the RBI expects inflation to remain above the 4% target, potentially limiting scope for further rate cuts.

## Economic impact

### ■ Previous policy adjustments & wait-and-watch approach

The February 2026 policy had already adopted a 'wait-and-watch' stance after the substantial monetary easing cycle that delivered 125 basis points of cuts. The committee needed time to assess the effects of these previous adjustments before taking further action. The heightened global uncertainty due to the West Asia conflict made continuing this cautious approach particularly prudent.

### ■ Unanimous consensus on caution

The MPC's decision was unanimous, reflecting broad consensus among all members on the need for caution amid multiple risk factors. This unanimity indicates that the policy decision represented a balanced assessment rather than a contentious debate, strengthening the credibility of the stance.

## 9. Economic impact - How these measures will shape India's economy

*Stability in borrowing costs, cautious growth outlook, and improved FPI norms to counter external pressures*

**Table 5: Economic impact of RBI policy measures**

#### Interest rate stability & borrowing costs

The neutral stance with unchanged repo rate means borrowing costs for home loans and business financing are expected to remain stable in the near term, providing predictability for borrowers. This stability helps businesses plan their investment decisions and households manage their debt servicing without uncertainty.

#### Growth outlook & investor sentiment

The downward GDP revision to 6.6% reflects the RBI's cautious economic outlook, which may influence investor sentiment and fiscal policy decisions. The downgrade signals that external headwinds and supply-side disruptions are expected to persist, potentially affecting corporate earnings and investment appetite.

#### Credit growth moderation

The policy stance indicates that credit growth will continue but without additional stimulus from rate cuts, which could moderate consumption and investment demand. This moderate credit growth trajectory may affect overall economic activity, particularly in interest-sensitive sectors like real estate and automotive.

#### Savings & fixed deposit outlook

Savers will likely see fixed deposit rates remain near current levels, as banks are not expected to adjust deposit rates significantly without a change in the policy rate. This provides stability for retail savers and helps maintain consistent returns on savings instruments.

#### Foreign exchange & capital inflows

The announced measures to strengthen foreign exchange inflows through relaxed FPI norms should help support the rupee and bring in foreign capital. These measures aim to counter the rupee's depreciation trend and improve the country's external position, potentially reducing imported inflation pressures.

#### Liquidity & market conditions

The cumulative rate cuts delivered since February 2025 have already provided significant monetary easing, and the current pause represents a calibration rather than a policy reversal. Market liquidity should remain adequate, with the RBI continuing to monitor money market conditions closely.

## India's GDP performance – Provisional estimates FY 2025-26

**10. India's GDP growth accelerates to 7.7% in FY26, Q4 growth at 7.8%***Second consecutive year above 7%; Momentum sustained despite external shocks*

Against a backdrop of persistent geopolitical uncertainties and global economic headwinds, India's economy has demonstrated exceptional structural resilience in FY26, with Real GDP accelerating to 7.7% from 7.1% in FY25, reaching INR 323.12 trillion, while the fourth quarter independently sustained robust momentum at 7.8% growth (INR 87.77 trillion), marking the second consecutive year of growth exceeding 7% and firmly cementing India's position among the fastest-growing major economies globally. Nominal GDP rose 8.9% to INR 346.36 trillion. Real GVA outpaced GDP at 7.9%, underscoring broad-based value creation across manufacturing, construction, and services. However, the RBI revised FY27 GDP growth down to 6.6% (from 6.9%), citing risks from the West Asia conflict, crude oil volatility, supply chain disruptions, and monsoon uncertainty. Quarterly projections for FY27 show a cautious trajectory: Q1 at 6.6%, Q2 at 6.3%, Q3 at 6.5%, and Q4 at 6.8%, indicating recovery only in the latter half.

**Table 6: Annual GDP estimates (FY 2025-26)**

Indicator	FY26	FY25	Growth rate
Real GDP (Constant prices)	INR 323.12 trillion	INR 299.89 trillion	7.7%
Nominal GDP (Current prices)	INR 346.36 trillion	INR 318.07 trillion	8.9%
Real GVA (Constant prices)	INR 294.91 trillion	INR 273.36 trillion	7.9%
Nominal GVA (Current prices)	INR 314.87 trillion	INR 288.54 trillion	9.1%

*Source: Ministry of Statistics & Programme Implementation***Sectoral performance: GVA strength and credit implications**

FY26 GVA growth of 7.9% was driven by manufacturing, construction, and services, with financial, real estate, and professional services leading at 10.4%. Agriculture remained steady at 3.6%, supported by food grain output growth of 5.3%. For credit rating agencies, this sectoral mix is critical: industrial and services expansion improves corporate debt-servicing capacity, while agriculture stabilises rural demand. The RBI's cautious stance ensures borrowing costs remain predictable, but inflation vigilance could limit future easing, affecting interest-sensitive sectors.

**Table 7: Sectoral growth rate (YoY) breakdown (Quarter and annual FY 2025-26)**

Sector	Q4 FY25 (%)	Q4 FY26 (%)	FY25	FY26
<b>Primary sector</b>	4.6	3.8	4.9	3.2
Agriculture	3.8	3.6	4.2	3.0
Mining	12.9	5.4	11.7	5.2
<b>Secondary sector</b>	9.8	7.4	8.0	8.8
Manufacturing	11.8	7.3	9.3	10.7
Electricity, gas, water supply, and others	2.1	4.1	2.9	1.7
Construction	8.0	8.4	7.3	7.4
<b>Tertiary sector</b>	6.8	9.9	7.9	9.3
Trade, hotels, transport & communication	6.3	12.5	6.6	11.0
Financial, real estate, IT & professional services	8.8	10.4	10.0	10.4
Public administration, defence & other services	3.2	5.8	5.0	5.0

## India's GDP performance – Provisional estimates FY 2025-26

<b>GVA at basic prices</b>	<b>7.1</b>	<b>7.9</b>	<b>7.3</b>	<b>7.9</b>
<b>GDP at basic prices</b>	<b>7.0</b>	<b>7.8</b>	<b>7.1</b>	<b>7.7</b>

Source: Ministry of Statistics & Programme Implementation

Services accelerated to 9.3% on the back of strong domestic consumption, logistics expansion, digital adoption, financial services lending, and resilient IT exports. Secondary sector grew 8.8%, supported by robust manufacturing demand in autos, cement, and metals, alongside construction driven by infrastructure and real estate activity, aided by government capex. Agriculture moderated to 3.2% due to El Niño risks, though food grain output (+5.3%) and allied activities sustained rural demand. Manufacturing surged to 10.7% on strong demand across industrial goods and construction materials, while trade, hotels, transport, and communication jumped to 11.0% as vehicle registrations, passenger transport, hospitality recovery, and digital penetration validated resilient consumption. Financial, real estate, IT, and professional services maintained double-digit growth at 10.4%, underpinned by expanded lending, real estate credit demand, and export-driven IT services, reinforcing their role as key engines of India's growth.

### 11. Investment revival: Capex momentum versus policy pause

*Capex revival validated by high-frequency indicators*

Gross Fixed Capital Formation surged 10.8% in Q4 FY26, nearly doubling from 6.2% in Q4 FY25. High-frequency indicators like commercial vehicle sales (+19%), steel consumption (+10.4%), cement output (+8.7%), and machinery imports (+24.9%), validate strong capex momentum. This investment revival supports NBFC loan demand and asset quality, but the RBI's pause means funding costs will not ease further.

**Table 8: Demand side components: Investment outpaced consumption in Q4, indicating capital-led growth momentum**

Component	Growth rate FY25	Growth rate FY26	Share in GDP (%)	Interpretation
PFCE (Private final consumption)	5.8%	7.7%	55.7%	Household consumption strengthened, reflecting resilient urban and rural demand; remains the backbone of GDP.
GFCE (Government final consumption)	6.5%	5.5%	10.1%	Moderation signals fiscal consolidation and pivot toward capital expenditure rather than revenue spending.
GFCF (Gross fixed capital formation)	6.4%	8.2%	32.3%	Investment momentum accelerated, driven by infrastructure push and private capex revival; key growth driver.
Changes in Stocks	1.7%	10.4%	1.3%	Sharp rise indicates restocking by firms, reflecting confidence in demand and production cycles.
Exports	6.6%	6.3%	22.2%	Slight moderation due to global headwinds; services exports resilient but merchandise exports pressured.
Imports	5.3%	5.6%	23.7%	Higher imports reflect strong domestic demand and capital goods purchases, adding pressure on current account.

Source: Ministry of Statistics & Programme Implementation

## Outlook

### 12. Outlook - What lies ahead

*Data-dependent framework; monsoon, energy prices, and West Asia conflict resolution are critical watchouts*

#### ■ Data-dependent policy framework

The RBI's neutral stance clearly indicates that future policy moves will be data-dependent, with continued monitoring of inflation and growth dynamics. The committee will closely watch incoming data on retail inflation, GDP growth, monsoon performance, and global developments before making further policy adjustments.

#### ■ Inflation trajectory concerns

The upgraded inflation forecast to 5.1% for FY27 suggests the RBI expects inflation to remain above the 4% target, potentially limiting scope for rate cuts in the near term. If inflation continues to rise above the tolerance band, the RBI may need to consider tightening measures, though this would conflict with growth support needs.

#### ■ Monsoon development - Critical watchout

The monsoon's actual performance will be a critical determinant of future policy direction. If the monsoon proves below normal and food inflation rises significantly, the RBI may need to consider tightening measures, creating a challenging policy trade-off with growth objectives. Conversely, a normal monsoon could ease food inflation pressures and provide room for policy flexibility.

#### ■ West-Asia conflict - Resolution or escalation

The resolution or escalation of the West Asia conflict will be a crucial watchout for policymakers, as prolonged tensions could pose downside risks to growth while creating upside risks for inflation. The conflict's duration and intensity will significantly influence the global economic environment and India's external position.

## Conclusion

### Navigating the policy challenge

This June 2026 RBI policy reflects a careful balancing act between preserving price stability and supporting growth amid heightened global uncertainty. By keeping rates unchanged and maintaining a neutral stance, the Monetary Policy Committee signalled a patient, data-dependent approach that prioritises inflation control while retaining flexibility to respond to evolving risks. The decision acknowledges significant external headwinds, geopolitical tensions and volatile global risk sentiment, alongside domestic vulnerabilities that could push inflation higher.

The RBI's stance provides short-term stability and predictability for borrowers and savers, anchoring borrowing costs while avoiding aggressive moves that might hurt growth. However, the downward revision of FY27 GDP to 6.6% injects caution into the near-term outlook, likely tempering earnings expectations in cyclical sectors even as services and consumption-linked industries show resilience. An upward revision to inflation forecasts means the central bank remains vigilant; sustained inflationary pressures would keep policy options constrained.

Markets face limited near-term accommodation: FPI flows will be sensitive to global sentiment and the rupee; short rates may be anchored while long-end yields rise if inflation endures. Key determinants going forward are crude oil prices, rupee movements and monsoon performance.

Key variables: crude oil prices, rupee moves, and monsoon outcomes.

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The editorial deadline for this study was 6 June 2026.

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