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Governor's Statement: June 05, 2026

Good morning and Namaskar. Over the past few months, the global economy has been shaped by heightened uncertainty, disruptions to key trade routes and supply chains, increased market volatility, and cautious business sentiment.

2. Let me at the outset emphasise that the Indian economy entered this episode of global turbulence with much better fundamentals than in previous similar episodes. While we remain confident to withstand these shocks with minimum pain, it is important to not only confront and address these challenges but also take them as an opportunity to further enhance resilience.

3. Global economic outlook remains clouded by the continuing geopolitical impasse in West Asia, as sharply escalating energy prices and global supply chain disruptions continue to hinder economic activity. Faced with difficult trade-offs, monetary policy has turned more cautious. Major advanced economy central banks are likely to pivot towards monetary policy tightening. While equity markets remain buoyant driven by AI-fuelled optimism, global bond markets remain bearish amidst renewed inflation fears and continuing debt sustainability concerns. Risk-off sentiments and safe haven demand are imparting volatility to forex markets, with a depreciating trend in many EME currencies.

Decisions of the Monetary Policy Committee (MPC)

4. The Monetary Policy Committee (MPC) met on the 3rd, 4th and 5th of June to deliberate and decide on the policy repo rate. 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 at 5.50 per cent. The MPC also decided to continue with the neutral stance.

5. I shall now briefly set out the rationale for these decisions.

6. The committee noted that 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.

7. CPI inflation remains below the target despite 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 due to the sub-normal south-west monsoon forecast and *El Niño* risks.

8. As for growth, the MPC noted that 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.

9. The MPC was of the opinion that there are considerable risks to the 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.

Assessment of Growth and Inflation

Growth

10. The Second Advance Estimates released by the National Statistical Office (NSO) placed India's real GDP growth at 7.6 per cent in 2025-26, owing to strong expansion in private consumption and fixed investment.¹ Robust performance of manufacturing and services sectors were the growth drivers from the supply side.

11. As per several high frequency indicators, domestic economic activity remained largely steady since the outbreak of the conflict.² India's manufacturing and services PMI suggest that both sectors continue to be resilient, and business expectations are still positive.³ On the demand side, private consumption, aided by discretionary spending, has remained resilient so far.⁴ Fixed investment has also maintained its

¹ Real GDP expanded by 7.8 per cent in Q3:2025-26. Private consumption and gross fixed capital formation (GFCF) grew by 8.7 per cent and 7.8 per cent, respectively, in Q3:2025-26. On the supply side, gross value added (GVA) at basic prices expanded by 7.8 per cent in Q3:2025-26. Manufacturing rose by 13.3 per cent and services registered growth of 9.1 per cent in Q3.

² GST E-way bills increased by 11.8 per cent in April 2026, while toll collections increased by 12.6 per cent in May 2026. GST revenue rose by a healthy 8.7 per cent in April 2026. Domestic air cargo posted a growth of 8.2 per cent in April 2026. Motor vehicle sales (retail) grew by 5.7 per cent in May 2026. Port cargo witnessed a growth of 7.1 per cent in FY:2025-26.

³ PMI services for May 2026 improved to 59.8 from 58.8 in April 2026, riding on higher demand for services such as freight, digital solutions, e-commerce, entertainment and IT. India's manufacturing PMI rose to 55.0 in May 2026, up from 54.7 in April.

⁴ Two-wheeler and tractor retail sales registered double digit growth of 20.5 per cent and 16.4 per cent, respectively, in March-April 2026. Demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) declined by 31.0 per cent in April-May 2026.

momentum despite cost pressures.⁵ Merchandise exports recorded strong growth in April 2026, notwithstanding elevated freight and insurance costs. Services exports are also holding up well, reflecting sustained demand despite concerns about AI. Overall, the economic situation has broadly exhibited resilience and withstood the conflict spillovers, although the impact of cost pressures is becoming visible.

12. Going ahead, the rise in prices of energy and other inputs, coupled with supply disruptions, is likely to weigh on economic activity. While import diversification in affected commodities is likely to improve supply, it would come 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 pass-through of higher energy prices to retail products is already evident. Additionally, the projected deficiency in the south-west monsoon will have implications for agricultural production 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.

13. Sustained momentum in services, continuing impact of GST rationalisation, and broadly stable employment conditions⁶ should continue to support urban consumption,⁷ even though rising inflation could be a drag on the purchasing power of households. Government capex is expected to remain robust.⁸ While the elevated capacity utilisation⁹ and sustained credit flows from bank¹⁰ and non-bank sources are supportive of corporate investment, cost escalation and heightened uncertainty could dampen investor sentiment. Weak global demand and high logistics costs are headwinds for merchandise exports. Services exports¹¹, on the other hand, are expected to sustain their momentum as demand for Indian services remains healthy.

14. Several measures undertaken by the Government, including support to MSME and export sectors, efforts to ramp up domestic gas and crude production, encouraging use of domestically produced alternatives to imported inputs, and diversification of critical imports should help cope up with the external shocks.

15. 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. Prolonged global supply chain disruptions, volatility in global financial markets, and weather-related shocks continue to pose downside risks to the domestic growth outlook.

⁵ Credit to infrastructure increased by 9.5 per cent during H2:2025-26 (1.9 per cent in H1:2025-26). Production and imports of capital goods increased by 14.2 per cent and 13.8 per cent, respectively, in H2. IIP infrastructure and construction recorded a robust growth of 10.0 per cent during H2, which is also corroborated by strong growth in steel consumption and cement production at 7.6 per cent and 9.6 per cent, respectively. Fixed assets of listed non-government non-financial companies (based on 4613 companies) registered a growth of 6.0 per cent during H2, on a high base of 8.7 per cent last year.

⁶ According to the monthly periodic labour force survey (PLFS), all-India unemployment rate remained low at 5.2 per cent in April.

⁷ Passenger vehicles sales at retail and wholesale level recorded a double-digit growth of 11.5 per cent and 24.6 per cent, respectively in April.

⁸ The central government's capex is budgeted to expand by 11.5 per cent in 2026-27. Effective capital expenditure (including grants-in-aid to state governments for capital expenditure) is budgeted to grow at 22.1 per cent. Capital expenditure (capex) by large central public sector enterprises (CPSEs) and four key government entities rose by 63 per cent year-on-year in April 2026.

⁹ As per the early results of quarterly order books, inventories, and capacity utilisation (OBICUS) survey of the RBI, capacity utilisation (CU) of the manufacturing sector at 75.2 per cent in Q4:2025-26 was above the long-term average of 74.0 per cent.

¹⁰ Bank credit to textiles, chemicals, base metals, gems and jewellery and engineering goods increased y-o-y by 8.3 per cent, 16.1 per cent, 17.7 per cent, 26.0 per cent and 30.8 per cent, respectively, in April 2026.

¹¹ Services export expanded sharply by 7.2 per cent in March and 12.7 per cent in April 2026.

Inflation

16. Although firming up marginally from 3.2 per cent in February, headline CPI inflation was below the target during March and April 2026 (3.4 per cent and 3.5 per cent, respectively). While food inflation edged up¹², fuel inflation remained muted as retail prices of petrol and diesel were unchanged in March and April.¹³ Core¹⁴ inflation remained stable at 3.7 per cent during March-April. Excluding precious metals, core inflation was much lower at 2.1-2.2 per cent during the same period. International crude oil prices (Indian basket) have averaged around US\$110/barrel during April-May 2026¹⁵ and indications are that average oil prices for 2026-27 would be substantially higher than what were assumed during the last policy statement. Higher energy prices and an increase in several input prices also led to a sharp spike in WPI inflation in April 2026.¹⁶

17. Turning to the inflation outlook, the partial pass-through of high global crude oil prices to domestic pump prices of petrol and diesel started since May.¹⁷ Prices of several inputs such as commercial LPG, industrial raw materials, chemicals, base metals, rubber, and plastic products, among others, have increased.¹⁸ These could exert upward pressure on CPI inflation in the coming months as firms pass on higher input costs.

18. Considering all these factors, CPI inflation for 2026-27 is projected to be at 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. These forecasts are subject to upside risks due to global supply chain disruptions¹⁹, global commodity price shocks²⁰, uncertainty about the spatial and temporal distribution of the south-west monsoon²¹ and *El Niño*²² conditions. Adequate stock of foodgrains²³ and satisfactory reservoir levels, however, provide some comfort.

¹² Inflation in CPI food and beverages division increased to 3.7 per cent and 4.0 per cent, respectively, in March and April from 3.3 per cent in February 2026.

¹³ Fuel represents the group 'Electricity, gas and other fuels' and class 'Fuels and lubricants for personal transport equipment'. Fuel recorded a modest inflation of 0.9 per cent and 0.4 per cent in March and April, respectively.

¹⁴ CPI core is defined as CPI excluding food and beverages division, and fuel (both the group 'Electricity, gas and other fuels' and the class 'Fuels and lubricants for personal transport equipment').

¹⁵ According to Petroleum Planning and Analysis Cell (PPAC), the Indian basket of Crude Oil (ICB) represents a derived basket comprising of Sweet grade (Brent Dated) and Sour grade (Oman and Dubai average) of Crude oil imported by Indian refineries during each month. ICB Ratio for April 2026 was 61.02: 38.98 and that for May 2026 was 70:30. ICB prices averaged \$114.5 in April and \$106.2 in May.

¹⁶ WPI inflation increased from 3.9 per cent in March to 8.3 per cent in April as the index recorded a m-o-m increase of 3.9 per cent, the highest momentum observed so far in the current series (2011-12=100).

¹⁷ Petrol and Diesel prices were cumulatively increased by 7.4 per cent and 8.4 per cent, respectively, in May which will contribute about 36 basis points to headline CPI.

¹⁸ WPI for manufacture of rubber and plastic products, base metals, chemical and chemical products and textiles increased by 1.4 per cent, 3.3 per cent, 3.4 per cent and 2.6 per cent, respectively, during April 2026.

¹⁹ Prior to the conflict, vessels passing the Strait accounted for close to 35 and 20 per cent, respectively, of global seaborne trade in crude oil and refined petroleum products, as well as 20 per cent of trade in liquefied natural gas (LNG).

²⁰ World Bank commodity price index increased by 30.3 per cent during March-May 2026. On a year-on-year (y-o-y) basis, the index increased by 40.6 per cent in May.

²¹ On May 29, 2026, the Indian Metrological Department (IMD)'s forecast for the southwest monsoon over the country was at 90 per cent of long period average (LPA) with a model error of ± 4 per cent.

²² IMD forecasts that *El Niño* conditions are likely to develop during the southwest monsoon season. The National Oceanic and Atmospheric Administration, United States, projects an 82 per cent of probability of *El Niño* emerging during May-July 2026, and is expected to persist through December 2026 to February 2027 with 96 per cent probability.

²³ As on May 16, 2026, the rice and wheat stocks stood at 695.5 lakh tonnes (5.1 times the buffer norm) and 465.1 lakh tonnes (6.2 times the buffer norm), respectively.

Liquidity and Financial Market Conditions

19. System liquidity, as measured by the net position under the LAF, stood at an average daily surplus of ₹2.63 lakh crore since the last MPC meeting in April 2026.²⁴ The Reserve Bank proactively undertook durable²⁵ and transient liquidity measures²⁶ to ensure appropriate liquidity in the banking system. Going ahead, the usual drawdown of government cash balances after the RBI's surplus transfer and the return of currency during the monsoon season will aid banking system liquidity in the near-term.

20. Since the April meeting, the weighted average call rate traded within the policy corridor, while short-term money market rates, especially rates of commercial papers and certificates of deposit moderated before coming under pressure again in May.²⁷ G-Sec yields eased in April following the ceasefire announcement in West Asia but firmed up in May. Transmission in the credit market has moderated during March-April with some hardening in deposit and lending rates.²⁸

21. The Reserve Bank would ensure appropriate liquidity in the banking system to meet the productive requirements of the economy and facilitate monetary policy transmission.

22. As per the latest available data, credit from all sources grew by 15.4 per cent (y-o-y) in 2025-26 as compared to 12.1 per cent a year ago. Bank credit growth continued to remain robust²⁹ and broad-based³⁰ as market-based funding became costlier.

²⁴ The average daily net absorption under the LAF increased from ₹1.7 lakh crore in March 2026 to ₹3.9 lakh crore in April but thereafter moderated to ₹1.7 lakh crore in May 2026. System liquidity averaged 1.3 lakh crore in June (up to June 3).

²⁵ The Reserve Bank conducted long-term forex buy/sell swap auction of USD 5 billion in May 2026.

²⁶ Since the last MPC meeting in April, 11 VRR and 2 VRRR operations were conducted (up to June 3, 2026).

²⁷ The WACR on average traded 4 basis points below the policy repo rate. The rates on 3-month treasury bill, 3-month certificates of deposit and 3-month commercial paper averaged 5.34 per cent, 6.75 per cent and 6.99 per cent, respectively, since April policy as compared to 5.32 per cent, 7.16 per cent and 7.45 per cent, respectively, between February and April policy.

²⁸ In response to the 125-basis points (bps) cut in the policy repo rate cumulatively, the weighted average lending rate (WALR) of Scheduled Commercial Banks declined by 83 bps for fresh rupee loans and 89 bps for outstanding loans during February 2025 - April 2026. On the deposit side, the weighted average domestic term deposit rate (WADTDR) on fresh deposits declined by 85 bps, while that on outstanding deposits softened by 50 bps during the same period.

²⁹ On a year-on-year basis, bank credit registered a growth of 16.2 per cent as on May 15, 2026, compared to 9.8 per cent a year ago.

³⁰ Sector-wise data indicates buoyant credit flows to retail and service sector. Industrial credit strengthened further, aided by sustained credit growth in MSMEs and pickup in credit to large industries. Agricultural credit grew at a steady pace.

Financial Stability

23. The system-level financial parameters related to capital adequacy, liquidity, asset quality and profitability of Scheduled Commercial Banks (SCBs) continue to remain healthy, although there is some moderation in profitability as compared to last year.³¹ Similarly, the system-level parameters of NBFCs too are sound, with adequate capital position and improved GNPA ratios³².

External Sector

24. I will now speak about the external sector. It successfully navigated the challenges of elevated tariff and trade related uncertainties in 2025-26 amidst a turbulent global economic environment. The surge in energy prices and persistent trade policy uncertainties continue to pose upside risks to India's current account deficit in 2026-27. Services trade surplus and inward remittances are expected to provide some comfort.

25. On the external financing front, buoyant gross foreign direct investment (FDI) and higher net FDI in 2025-26³³ underscore the continued interest of global investors in India. The FDI flows have also been encouraging in April 2026. During 2026-27 so far (till June 2), net FPI to India, however, witnessed outflows of US\$ 13.7 billion, primarily in the equity segment.³⁴

26. As on May 29, 2026, India's foreign exchange reserves stood at a healthy US\$ 682.3 billion, adequate in terms of the standard metrics of reserve adequacy including import cover (about 11 months) and external debt (89.1 per cent). Various policy initiatives are expected to strengthen our balance of payments. These include the recent agreements with major trading partners³⁵, opening the insurance sector to 100 per cent FDI, ethanol blending program, push for energy transition, easing of FDI restrictions for land-bordering countries, liberalisation of the ECB framework, and several others.

27. To attract foreign capital, I also have a few measures to announce today.

³¹ **SCB Parameters:** The outstanding credit and deposit increased by 16.52 per cent and 12.09 per cent on a y-o-y basis, respectively, between April-25 and April-26. The system-level Capital to Risk Weighted Assets Ratio (CRAR) of 17.68 per cent in March 2026 was well above the regulatory minimum level. Ratio of non-performing loans improved further (GNPA ratio at 1.73 per cent in March 2026 vis-à-vis 2.22 per cent in March 2025, NNPA Ratio at 0.40 per cent in March 2026 vis-à-vis 0.50 per cent in March 2025). Liquidity buffers were robust, with an LCR of 123.70 per cent as of end March 2026. The annualised return on assets (RoA) and return on equity (RoE) stood at 1.33 per cent and 13.06 per cent, respectively, in March 2026. Net Interest Margin was 3.26 per cent for March 2026 (3.46 per cent in March 2025). Net profit growth of SCBs moderated from 14.67% in FY 2025 to 6.0% in FY 2026 on a y-o-y basis, alongside a 20 bps compression in NIM from 3.46% to 3.26%, indicating increasing pressure on profitability during the period.

³² **NBFC Parameters:** Total CRAR of NBFCs was 24.70 per cent and Tier I CRAR was 22.86 per cent in March 2026, well above the minimum regulatory requirements. GNPA ratio has improved from 2.25 per cent in March 2025 to 1.83 per cent in March 2026, while NNPA ratio also improved from 0.98 per cent in March 2025 to 0.81 per cent in March 2026. RoA for the sector decreased slightly from 2.90 per cent in March 2025 to 2.56 per cent in March 2026. NIM has marginally increased from 4.55 per cent in March 2025 to 4.56 per cent in March 2026.

³³ Gross FDI flows to India grew by 17.3 per cent to a historical peak of US\$ 94.5 billion in 2025-26 from US\$ 80.6 billion in 2024-25. Net FDI inflows increased to US\$ 7.7 billion during 2025-26 from US\$ 1.0 billion in 2024-25.

³⁴ During April 1-June 2, 2026, net outflows from the equity and debt segments stood at 13.4 billion and US\$ 0.3 billion, respectively.

³⁵ Trade deals with the UK and New Zealand have been signed; trade deals with the European Free Trade Association (EFTA) and Oman came into effect from October 1, 2025 and June 1, 2026, respectively; trade deal with the European Union have been concluded; and the interim trade deal with the US was announced in February 2026 with re-negotiations ongoing since April 2026. Many more trade agreements are in the pipeline, for example, with Canada, Peru, Mexico, Bahrain, Qatar and South Korea.

- First, for government securities under the Fully Accessible Route (FAR), we are expanding the universe of 'specified securities' by including all new issuances of 15-, 30- and 40-year tenor G-secs. In addition, limits pertaining to short-term investment, concentration and individual securities on FPI investment under the General Route are being removed. These measures along with the tax benefits provided by the government this morning should help attract foreign capital for government borrowing.
- Second, the limits for investment by NRIs and OCIs in equity instruments traded on the stock market without SEBI registration are being increased. Further, the same facility is being extended to all individual Persons Resident Outside India (PROIs) at par with NRIs and OCIs.
- Third, a facility of concessional forex swap will be provided till 30th September 2026 to incentivize ECBs by PSUs.
- Fourth, a similar facility for bearing the full hedging cost shall be provided till 30th September 2026 to AD banks for raising fresh 3–5-year FCNR (B) deposits.
- Fifth, it is proposed to restore the time for realisation of export proceeds to nine months.

28. While these measures are expected to strengthen our balance of payments, we will continue to make the right policy adjustments to further promote exports and attract and incentivise capital inflows.

29. As I have often reiterated, our exchange rate policy remains unchanged. We do not target any specific level or band; instead, we allow the exchange rate to be determined by market forces. Our experience, however, suggests that it may sometimes witness movements, often caused by speculative pressures, especially in the wake of heightened uncertainty, that are not in sync with fundamentals and are disruptive of economic activity. While our objective is not to resist market-driven adjustments, we will curb excessive volatility and prevent disorderly market movements. While our foreign exchange reserves provide a strong buffer against external shocks, we have a broad range of regulatory and market-based instruments to respond effectively as may be required. In this regard, we remain vigilant and are fully prepared to do whatever it takes to preserve orderly market conditions.

Concluding Remarks

30. To conclude, global economic conditions and sentiments continued to be frayed without any meaningful resolution of the West Asia conflict. While these have adversely impacted the domestic growth-inflation outlook, the economy at this point is relatively strong. We shall put in place policies to meet the challenges while taking measures to further strengthen the macroeconomic fundamentals of the country.

31. Thank you. Namaskar and Jai Hind.