

RBI Monetary Policy Review

5 June, 2026



MPC stays data-tight; RBI turns on the dollar-mobilization spigot

The MPC in a unanimous vote decided to maintain a pause on the Repo Rate at 5.25% while maintaining a neutral stance.

Our Take: MPC yet again maintained a calm demeanor amid a chaotic environment, signalling patience rather than complacency. While inflation has stayed soft, below target so far, the balance of risks is shifting on the higher side given the geopolitics and weather-related supply shocks- so the pause is best read as cautious and data-dependent. While the MPC has paused, the RBI has pivoted on policy front as it announced a slew of measures to attract dollar inflows. The RBI and MPC's policy choices clearly reflect the macroeconomic priorities and also the clear demarcation of the policy objectives. The targeted measures for rates/FX segments are expected to be positive for dollar flows.

The policy is broadly in line with our expectations, with a few positive surprises in it too. RBI's steps for rates/FX clearly signal the need to bring in flows and since it's a narrow window from now till Sep'26, the flows may quickly start to come through.

Absence of de-escalation in Middle East and risks of poor weather fanning inflation trajectory would be the key factors to bring about a policy reversal. At the current juncture, a rate reversal cycle looks nearer than before, largely driven by the external shocks which has ratcheted up India's inflation trajectory. While there is increased possibility of a rate hike in the latter half of 2HFY27, but the timing is unclear & highly data dependent – war & weather weigh on outlook. Apart from war and weather, the additional risk to the timing of the first-rate hike is the US Fed's policy rate path.

The war and weather risks are visible in MPC's growth-inflation forecasts wherein it revised growth outlook lower by 30bps (we expected a 25bps downtick) and for inflation, was revised higher by 50bps (we expected 30-50bps uptick), inflation forecasts encapsulate and acknowledge the headwinds.

In conclusion, the RBI is prioritising stability, orderly markets, and external-sector buffers while using targeted measures to support capital inflows and balance of payments strength. A meaningful amount in inflows will help narrow the balance of payments deficit gap and ease the pressure on INR. A de-escalation in the Middle East conflict would further manifest into improved external sector position.

Policy steps to attract dollar inflows

Regulatory easing: For debt foreign investors it broadened the basket of eligible G-secs to attract foreign demand, and it removed restrictions on certain short-term investment limits for FPIs.

RBI has turned on the dollar-mobilization spigot by incentivizing banks to raise fresh foreign currency deposits by absorbing banks' hedging costs, this is similar to the CY13 playbook and FCNR (B) specifically helped India mobilize about ~US\$26bn. While interest rates globally and in India were far different compared to today, and hence, remains to be seen how much of it will eventually flow into the system. Having said that it is a positive step and may eventually help narrow the gap in the expected Balance of Payments for FY27. Also, fresh deposits are likely to be exempted from reserve requirements, which make these deposits even more lucrative for banks to mobilize. The window closes end-Sep'26, which is likely to fasten the activity and bring in dollar flows; helping capital flows and easing pressure on the currency.

External financing: RBI to provide concessional FX swaps for PSU ECBs and the window remains active till end Sep'26. The window to realize export proceeds has been restored to 9-months which should augur well & provide operational flexibility.

Additionally, today the government exempted foreign investors from tax on G-Sec investments; further bolstering FX. This measure comes ahead of the mid-year review of India's inclusion to the Bloomberg Global Aggregate Index and the streamlining of these steps along with RBI's efforts to ease restrictions on short-term investments may help accelerate India's inclusion into the bond index and give a leg-up to debt FPI inflows.

Growth-inflation outlook altered – GDP revised lower, Inflation Higher

On the growth-inflation dynamics, the Middle East conflict has culminated into an external shock, impacting India's economic activity and also, putting pressure on inflation. This coupled with poor weather conditions, mainly the Southwest Monsoon season which runs from Jun-Sep, is adding further upside risks to inflation. For FY27 the GDP growth is marked down by 30bps to 6.6% YoY. The MPC assesses domestic growth as resilient but is increasingly exposed to external and supply-side shocks. It does see growth support come from, the services momentum, GST rationalization impact, broadly stable employment, strong capacity utilization, sustained credit flows, and government capex.

On inflation, the outlook has deteriorated far more in the wake of energy price shock. For FY27, MPC revised inflation higher by 50bps to 5.1% YoY while citing upside risks. MPC is expecting inflation to firm up towards its upper tolerance level in Q3, with the supply shock impact waning from Q4 onwards. However, the outlook is clouded by monsoon and El Niño risks. The MPC noted that inflation risks have risen, but it prefers to wait for greater clarity on the persistence of supply shocks, while staying data-dependent and vigilant on second-round effects.

Table 1: MPC's growth and inflation forecasts are laid out below:

Period	Growth Forecast			Inflation Forecast		
	Apr'26	Jun'26	Revision (last policy)	Apr'26	Jun'26	Revision (last policy)
FY26	7.6%	7.7%*	-	2.1%^	-	-
Q1FY27	6.8%	6.6%	-0.2%	4.0%	4.2%	0.2%
Q2FY27	6.7%	6.3%	-0.4%	4.4%	5.1%	0.7%
Q3FY27	7.0%	6.5%	-0.5%	5.2%	5.9%	0.7%
Q4FY27	7.2%	6.8%	-0.4%	4.7%	5.4%	0.7%
FY27	6.9%	6.6%	-0.3%	4.6%	5.1%	0.5%

Source: RBI MPC Policy Resolutions, Revision over last policy
 Note: *MoSPI Data as of 5 June 2026; ^CPI inflation from FY26 is new base

Liquidity: On liquidity, the RBI stated that RBI reiterates it will ensure appropriate liquidity to support the economy and policy transmission. This was also evident in its recent measures wherein the RBI used both durable (e.g., USD 5bn long-term forex buy/sell swap in May 2026) and transient tools (VRR/VRRR operations) & lately used VRRs to inject liquidity. The regulatory easing and dollar mobilization efforts are likely to lower the need for FX intervention, which may remain favorable for system liquidity conditions. Also, with the RBI dividend transfer to the govt, durable liquidity should remain comfortably positive.

In summary, The RBI is separating objectives - keeping the policy rate steady to avoid over-tightening, while deploying FX/liquidity levers to secure near-term funding and contain volatility; escalation in geopolitics or monsoon slippage are key factors to watch.

Annexure

Table 1: Key Measures announced and intended outcome

Category	Measures announced	Key details / scope	Intended outcome
Foreign portfolio investment (Govt securities)	Expand FAR “specified securities”	Include all new issuances of 15-, 30-, and 40-year tenor G-secs under Fully Accessible Route (FAR)	Broaden eligible G-sec set to attract foreign demand
FPI (General Route) – operational constraints	Remove certain FPI limits	Remove limits on short-term investment, concentration, and individual securities under the General Route	Improve ease of investment; support government borrowing
Equity inflows (Individuals abroad)	Increase limits for NRIs/OCIs; extend facility	Higher limits for NRIs/OCIs investing in listed equity without SEBI registration ; extend same to all individual PROIs	Widen investor base and potential equity inflows
External Commercial Borrowings (PSUs)	Concessional forex swap facility	Available until 30 September 2026 to incentivise PSU ECBs	Lower hedging/FX cost; encourage foreign borrowing inflows
Bank foreign currency deposits	RBI bears full hedging cost (via facility)	For AD banks raising fresh 3–5 year FCNR(B) deposits; available until 30 September 2026	Boost FCNR(B) mobilisation; strengthen FX inflows
Export proceeds	Restore export realisation timeline	Time for realisation of export proceeds restored to 9 months	Support exporters and improve operational flexibility

Abbreviations:

IGBs: Indian Government Bonds
 RBI: Reserve Bank of India
 MPC: Monetary Policy Committee
 SDF: Standing Deposit Facility
 VRR: Variable Rate Repo

VRRRs: Variable Rate Reverse Repo
 MSF: Marginal Standing Facility
 CRR: Cash Reserve Ratio
 SDL: State Development Loan
 OMO: Open Market Operations

GDP: Gross Domestic Product
 CPI: Consumer Price Index
 G-Sec: Government Securities
 EMs: Emerging Markets
 FX: Foreign Exchange

FCNR(B): Foreign Currency Non-Resident (Bank)
 NRIs: Non-Resident Indians
 OCIs: Overseas Citizens of India

Source - RBI MPC Policy Resolutions, HSBC MF Research, Data as on June 05, 2026, or mentioned otherwise.

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

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