India June'26 MPC: Hawkish Hold, Capital gates opened for FIIs

05th June 2026

Fig 1: Macro projections, June'26 vs Apr'26 MPC

RBI MPC's Growth & Inflation Projections				
	GDP		CPI	
	Apr'26	June'26	Apr'26	June'26
FY26	7.6	7.6	2.1 (actual)	
Q1	6.8	6.6	4.0	4.2
Q2	6.7	6.3	4.4	5.1
Q3	7.0	6.5	5.2	5.9
Q4	7.2	6.8	4.7	5.4
FY27	6.9	6.6	4.6	5.1

UBI vs RBI MPC Projections				
	GDP		CPI	
	MPC	UBI	MPC	UBI
FY26	7.6	7.5	2.1 (actual)	
Q1	6.6	6.5	4.2	4.1
Q2	6.3	6.3	5.1	4.9
Q3	6.5	6.4	5.9	5.9
Q4	6.8	6.7	5.4	5.5
FY27	6.6	6.5	5.1	5.1

Source: CEIC, RBI, UBI Research

Fig 2: FCNR cost calculation

S no		2013	2026
A	FCNR deposit cost (3yr, %)	4	6
B	USDINR Hedge cost (3yr, %) (C + D)	6	4
	o/w		
C	*Borne by RBI*	*2.5*	*3.5*
D	*Borne by Bank*	*3.5*	*0.5*
E	Total FCNR deposit cost to Bank (%)	7.5	6.5
	Cost to RBI (USD mn)	850	2730*

**assuming $ 26bn worth FCNR flows, similar to 2013 are clocked this time as well;*

Source: RBI, Bloomberg, UBI research

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RBI Signals Vigilance on Inflation While Government and RBI Launch a Coordinated Push for Foreign Capital Inflows

The Monetary Policy Committee (MPC) unanimously decided to keep the policy repo rate unchanged at 5.25%, while retaining the neutral stance. The decision was largely in line with our and market expectations. It clearly signals a delinking of rates for the inflation targeting MPC with FX policy by the RBI with the latter managed via a coordinated policy push to expedite Dollar supply with a bazooka of measures announced.

The retention of stance reflects RBI's preference to preserve policy flexibility amid elevated uncertainty arising from the ongoing West Asia conflict, rising crude oil prices, supply chain disruptions and weather-related risks. The MPC emphasized that while India's macroeconomic fundamentals remain resilient, the evolving global environment warrants caution and close monitoring of inflation dynamics. The policy statement marks a shift towards a more cautious assessment of the macroeconomic outlook. More importantly, the MPC remains concerned about spill over of the supply shock into generalised price pressures and hence, into core inflation dynamics.

Status Quo Policy with Hawkish Undertones

In line with consensus expectations, the Monetary Policy Committee (MPC) left the policy repo rate unchanged while retaining the neutral stance. While the policy outcome itself was largely anticipated, the accompanying guidance reflected growing concerns over inflation risks. The MPC revised its FY27 CPI inflation forecast higher to 5.1% (same as UBI projections) from 4.6% projected in April, risks tilted to upside. Hence, the hike in core inflation forecast to 4.7% from 4.4% is worrying even as the RBI Governor asserted that underlying price pressures measured by core inflation ex metals remains subdued. At the same time, the FY27 GDP growth projection was lowered to 6.6% (UBI forecast: 6.5%) from 6.9%, with risks to downside, reflecting the anticipated impact of a weaker global backdrop and elevated geopolitical uncertainties.

The Governor acknowledged that supply-side disruptions may have only a temporary impact on economic activity. However, greater emphasis was placed on the risk of second-round effects through wages and broader core inflation dynamics. The MPC also indicated that crude oil prices are now expected to average significantly above the $85/bbl assumption embedded in the April projections.

The RBI's latest policy communication signals a notable evolution in its liquidity management approach, with Governor Sanjay Malhotra emphasizing the provision of "appropriate" rather than "sufficient" liquidity to the banking system. While the overall monetary policy stance remains neutral, the change in terminology reflects a shift toward more calibrated and tactical liquidity management. The RBI appears focused on maintaining liquidity conditions that adequately support productive credit demand and smooth policy transmission, while avoiding excess systemic surplus that could exacerbate inflationary pressures or contribute to financial market distortions. Against the backdrop of heightened global uncertainty, elevated crude oil prices, and an upward revision to the inflation outlook, the central bank is likely to rely on targeted liquidity operations, including Variable Rate Repo (VRR) auctions, to align liquidity conditions with evolving macroeconomic requirements.

Going forward, policymakers are expected to closely monitor developments relating to the West Asia conflict, including its duration, the extent of supply disruptions, and the speed with which global supply chains normalize. The potential impact of El Niño-related weather disruptions on food CPI, agri output and rural demand also remains an important variable. In fact, we see another 40-50bps upside risk to inflation projection of 5.1% in case of a strong El Nino.

We continue to believe that the policy cycle has shifted towards gradual normalization. Our base case remains three rate hikes during H2-FY27, which would take the policy repo rate towards 6.0%. This is also based on the need to re-align real policy rates to close to 100bps (6% repo rate and 5.1% average CPI inflation). While market expectations for an earlier move in August policy have increased, we would prefer to monitor the evolution of core inflation before advancing our rate hike expectations.

Government Delivers Long-Awaited Tax Reforms for FIIs

One of the most significant announcements today came from the Government through the promulgation of an Income Tax Amendment Ordinance aimed at improving India's attractiveness as an investment destination.

The removal of taxes on both interest income and capital gains for foreign investors addresses a long-standing demand from global funds and aligns India's taxation framework more closely with competing international jurisdictions. The measure materially improves post-tax investment returns and is likely to enhance India's competitiveness in attracting global capital.

In our view, this represents a structural reform rather than a cyclical policy response. At a time when the external sector faces pressure from elevated oil prices and a widening import bill, stronger capital inflows can help augment dollar supply and support currency stability.

RBI Revives Dollar-Attraction Measures

Alongside the tax reforms, the RBI announced a set of measures aimed at attracting foreign currency inflows and strengthening external sector resilience. The reintroduction of concessional swap facilities for FCNR deposits and incentives for 3–5 year external commercial borrowings (ECBs) by public sector entities echoes measures deployed successfully in 2013. These initiatives helped mobilize approximately USD 35 billion of inflows during a period of external vulnerability even when the RBI was undertaking a swap cost of only 250bps (out of total 600bps) while this time the complete cost is being borne by the RBI. However, the current environment differs materially from 2013. The India-US interest rate differential has narrowed considerably, implying that the attractiveness of these schemes will depend on the final operational details and economics for investors. The RBI also expanded avenues for foreign participation in the domestic bond market by widening the universe of government securities eligible under the Fully Accessible Route (FAR) and facilitating additional participation by non-resident investors.

Outlook: Strong Near-Term Flows and Potential Structural Gains

Taken together, the coordinated measures announced by the Government and the RBI represent one of the most significant policy efforts in recent years to attract foreign capital and bolster external sector stability. ***We estimate that these measures could generate capital inflows of approximately USD 35-50 billion over the next four months, depending on the extent of FCNR-related inflows and investor participation***. The more important medium-term implication lies in the possibility that the tax reforms improve India's eligibility and attractiveness for inclusion across major global bond indices like Bloomberg etc. If that materializes, India could attract relatively stable and sticky foreign debt inflows in the range of USD 45-50 billion over the next two years.

Overall, policymakers appear to be pursuing a dual-track strategy: maintaining vigilance on inflation risks through a hawkish monetary policy while simultaneously strengthening the external sector through reforms designed to attract durable foreign capital. This coordinated approach should help cushion the economy against ongoing geopolitical uncertainties and support macroeconomic stability in the period ahead.

Fig 3 : Measures announced to attract foreign capital

Category	Target Route	Specific Policy Action	Core Objective & Market Impact
Sovereign Debt (RBI - FPI)	**Fully Accessible Route (FAR)**	Expanding the universe of 'specified securities' to include all **new 15-, 30-, and 40-year tenor G-Secs**.	Deepens long-duration sovereign bond markets and aligns with passive global index tracking.
Debt Markets (RBI - FPI)	**General Route**	**Complete removal** of limits pertaining to short-term investment, concentration, and individual securities with respect to FPI investments under General Route, it has been decided to remove the three restrictions, viz. short-term investment limit, concentration limit while retaining the overall quantitative investment limit of 6% of the outstanding stock of the Central Government securities & 2% of the State Government securities.	Grants maximum operational flexibility; eliminates forced portfolio rebalancing or holding caps for global funds.
Taxation (Cabinet / Govt)	**Government Securities (G-Secs)**	**Completely eliminated the interest and capital gains taxes on FIIs**	**Drastically reduces the tax burden on foreign investors,** directly boosting the net yield on Indian sovereign debt. Currently, tax rates applicable to FIIs: ***1)*** *20% on income in respect of securities* ***2)*** *12.5% on Long-term capital gains* ***3)*** *20-30% on Short-term capital gains*
Equity Markets (RBI)	**NRIs & OCIs**	Increasing the investment limits in equity instruments traded on the stock market **without requiring SEBI registration**.	Simplifies compliance and leverages the massive wealth pool of the global Indian diaspora.
Equity Markets (RBI)	**Foreign Individuals (PROIs)**	Extending the direct, registration-free stock market investment facility to **all individual Persons Resident Outside India (PROIs)** at par with NRIs/OCIs.	Broadens the global retail investor base by eliminating structural entry friction for non-resident individuals.
Corporate Debt (RBI)	**External Commercial Borrowings (ECBs)**	Providing a **concessional forex swap facility** valid until **September 30, 2026**, specifically for Public Sector Undertakings (PSUs).	Lowers the cost of borrowing and insulates state-run entities from currency volatility when raising external capital.
Banking Channels (RBI)	**FCNR (B) Deposits**	Providing a facility to **bear the full hedging cost** until **September 30, 2026**, to Authorized Dealer (AD) banks for fresh 3–5-year deposits.	Incentivizes commercial banks to aggressively pull in foreign currency non-resident deposits to bolster national forex reserves.
Trade Flows (RBI)	**Export Proceeds**	Restoring the permitted time window for the **realisation and repatriation of export proceeds to 9 months**.	Gives Indian exporters a more flexible, normalized timeline to bring foreign currency revenue back into the domestic ecosystem.

RBI's Policy Decision: Comparison of policy statements, June'2026 *(paraphrased)*

Policy Decision	February 2026	April 2026	June 2026
Repo rate	**5.25%**	**5.25%**	**5.25%**
Stance	**Neutral**	**Neutral**	**Neutral**
Growth Projection	▪ The real GDP growth for FY26 is expected at 7.4% (from 7.3% earlier), in line with First Advance Estimates (FAE). Real GDP growth projections for Q1FY27 and Q2FY27 are revised upwards to 6.9% (from 6.7% earlier) and 7.0% (from 6.8%), respectively. ▪ *However, headwinds from geopolitical tensions, uncertain global trade environment, volatility in global financial markets and international commodity prices continue to pose downside risks to the outlook.*	▪ The real GDP growth for FY26 is expected at 7.6% (from 7.4% earlier), in line with 2nd advance estimates (SAE) of the new GDP series. FY27 GDP growth is seen at 6.9% with Q1 at 6.8% (from 6.9% earlier), Q2 at 6.7% (from 7.0% earlier), Q3 at 7.0% and Q4 at 7.2%. ▪ However, *further escalation of the conflict, its continuation over a wider geographical spread and uncertainty regarding the damage to the energy infrastructure, apart from weather related events, pose downside risks to the domestic growth outlook.*	▪ The real GDP growth for FY27 GDP growth is seen at 6.6% (from 6.9% earlier) with Q1 at 6.6% (from 6.8% earlier), Q2 at 6.3% (from 6.7% earlier), Q3 at 6.5% (from 7.0% earlier) and Q4 at 6.8% (from 7.2% earlier). ▪ *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.*
Inflation Projection	▪ FY26 inflation projection was revised marginally higher to 2.1% from 2.0% with Q4 at 3.2% (from 2.9% earlier) and risks evenly balanced. Q1FY27 now seen at 4.0% (from 3.9% earlier) and for Q2FY27 seen at 4.2% (from 4.0%). ▪ *Excluding precious metals, the underlying inflation pressures remain muted. However, geopolitical uncertainty coupled with volatility in energy prices and adverse weather events are possible upside risks to inflation.*	▪ FY27 inflation projection is seen at 4.6% with Q1 at 4.0% (same as earlier), Q2 at 4.4% (from 4.2% earlier), Q3 at 5.2% and Q4 at 4.7%. Oil price is assumed at $85 for FY27. ▪ Core inflation is projected at 4.4% for FY27 and, excluding precious metals, it is even lower indicating that underlying inflation pressures are expected to remain contained. ▪ Persistently elevated energy prices due to the West Asia conflict and possible El Niño conditions (which could have a negative impact on southwest monsoon) pose upside risks to inflation.	▪ FY27 inflation projection is seen at 5.1% (from 4.6% earlier) with Q1 at 4.2% (from 4.0% earlier), Q2 at 5.1% (from 4.4% earlier), Q3 at 5.9% (from 5.2% earlier) and Q4 at 5.4% (from 4.7% earlier). ▪ Core inflation is projected at 4.7 (from 4.4% earlier) for FY27. *Excluding precious metals, core inflation is projected to be lower, suggesting the 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 food grains and satisfactory reservoir levels provide some comfort.*
Liquidity	▪ RBI will remain proactive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy and to facilitate monetary policy transmission. ▪ Liquidity management would be pre-emptive with sufficient allowance for unanticipated fluctuations in govt. balances, changes in currency in circulation, forex intervention, etc.	▪ To ensure sufficient liquidity in the banking system, the RBI proactively undertook durable and transient liquidity measures. ▪ Going ahead, the RBI will continue to be proactive and pre-emptive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy.	▪ To ensure appropriate liquidity in the banking system to meet the productive requirements of the economy and facilitate monetary policy transmission. ▪ Going ahead, the usual drawdown of govt 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.
Policy guidance	▪ The policy guidance was broadly balanced with dovish streaks with Governor clearly asserting that "underlying inflation pressures stay benign (looking at core ex gold inflation at 2.6%)". The external headwinds also warrant caution. Liquidity measures from the RBI will remain in focus in the coming months	▪ The policy guidance was broadly balanced as MPC acknowledged downside risks to growth (FY27 projection: 6.9%) & upside risks to inflation (FY27 projection:4.6%). *The economy is confronted with a supply shock. It is prudent to wait and watch the changing circumstances and the evolving growth-inflation outlook.*	▪ The policy guidance was broadly balanced as MPC acknowledged downside risks to growth (FY27 projection at 6.6%) & upside risks to inflation (FY27 projection at 5.1%). *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.*

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