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Governor's Statement: August 5, 2026

Good morning and Namaskar.

2. The West Asia conflict continues to challenge the global economy by disrupting key trade routes and supply chains, amplifying market volatility and depressing business sentiments. Trade uncertainty lingers as US imposed fresh tariffs. The global economic environment has become increasingly unstable. Global growth is projected to soften while inflation forecast is higher for 2026 *vis a vis* the previous year. Some central banks have tightened policy, while others remain vigilant. Crude oil prices, currencies and financial markets remain volatile, fluctuating in line with the changing intensity and uncertainties of the West Asia conflict.

Decisions of the Monetary Policy Committee (MPC)

3. In this global backdrop, the Monetary Policy Committee (MPC) met for its third bi-monthly meeting of the financial year 2026-27 on 3rd, 4th, and 5th of August 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 decided 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 shall remain unchanged 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.

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

5. The MPC noted that headline CPI inflation edged up above the target, as expected. The realised inflation for Q1, however, remained marginally lower than projections reflecting limited pass-through of cost pressures. The higher inflation is mostly on account of fuel and food with little signs of generalisation of price pressures so far. Core inflation excluding precious metals continues to be benign. As projected earlier, headline inflation is expected to rise further in the near term and peak in Q3:2026-27, primarily due to food and fuel, before moderating thereafter. The underlying inflation, reflected by core inflation excluding precious metals, which has been benign for some time, is set to align with core inflation towards the end of the financial year.

6. Growth continues to be supported by resilient domestic demand, sustained expansion in manufacturing and services activity, and robust exports, reaffirming India's position as the world's fastest-growing major economy.

7. To sum up, even though headline inflation is projected to increase, it is primarily on account of supply side pressures caused by food and fuel; it is not getting broad-based; core inflation remains moderate and is expected to decline after peaking in Q3. Growth, *albeit* resilient, is expected to be lower in 2026-27. The outlook, however, is hazy because of the uncertainties regarding south-west monsoon, *El Niño*, geopolitics and global trade policy. There is a need for greater clarity to emerge, especially regarding inflation, its path and composition before taking any policy action. Any such action would also have to consider the need for recalibration of policy rates in line with the evolving growth-inflation dynamics, especially the normalisation of the underlying inflation from its benign levels seen hitherto.

8. Considering all these factors, the MPC voted to keep the policy rate unchanged. The MPC also decided to retain the neutral stance to respond appropriately to macroeconomic developments. The MPC underscored that it will maintain a close vigil and remain resolute in its commitment to align inflation with the target.

Assessment of Growth and Inflation

Growth

9. The supply-side pressures caused by the West Asia conflict have eased somewhat since June 2026, leading to withdrawal of temporary measures undertaken by the government and normalisation of key input supplies.¹ However, the re-escalation of the conflict since the first week of July has amplified volatility in energy prices and renewed uncertainty about supply chains.

10. Amidst persistent global uncertainty, domestic economic activity has exhibited resilience as reflected by the high frequency indicators available for Q1:2026-27. Early results of corporates for Q1 indicate healthy performance in the manufacturing sector². This is also corroborated by an expansionary PMI.³ Services activity too maintained its momentum in the wake of strong domestic demand.⁴ Private consumption continued to be driven by buoyant discretionary spending,⁵ while investment activity remains steady on the back of robust government spending on infrastructure and construction.⁶ Merchandise exports rebounded with double digit growth while services

¹ On June 25, 2026, the government removed all sectoral restrictions on the supply of Non-Domestic Packed LPG and restored supplies to the levels prevailing prior to the West Asia crisis. With effect from July 1, 2026, temporary regulatory measures governing the sale and distribution of motor spirit and high-speed diesel through retail outlets of public sector oil marketing companies were also withdrawn.

² As on August 1, 2026, the results of 413 listed private manufacturing companies reported a growth of 21.9 per cent in net sales and 15.7 per cent in operating profit in Q1:2026-27. IIP manufacturing recorded a growth of 6.3 per cent in Q1. Within the Manufacturing sector, 16 out of 23 industry groups at NIC 2 digit-level have recorded a positive growth in Q1:2026-27 over Q1:2025-26.

³ The manufacturing PMI at 54.6 in Q1:2026-27 continued to remain in expansionary zone (55.4 in Q4:2025-26).

⁴ GST E-way bills increased by a healthy 12.4 per cent in Q1:2026-27, while toll collections (volume) increased by 16.1 per cent. GST revenue rose by 8.6 per cent in Q1:2026-27. Domestic air cargo posted a growth of 9.1 per cent in Q1:2026-27. Motor vehicle sales (retail) grew by 14.5 per cent in Q1:2026-27. Port cargo witnessed a growth of 6.1 per cent in Q1:2026-27.

⁵ Two-wheeler and tractor retail sales registered double digit growth of 15.1 per cent and 21.4 per cent in Q1:2026-27, respectively. Moreover, retail passenger vehicle sales and IIP consumer durables grew at a robust pace of 21.0 per cent and 7.2 per cent in Q1:2026-27, respectively.

⁶ Steel consumption grew by 8.3 per cent while cement production increased by 8.8 per cent in Q1:2026-27.

exports growth sustained its momentum.⁷ Overall, the India economy performed better than expected in Q1.

11. Looking ahead, the prospects for agriculture are clouded by deficient and uneven southwest monsoon⁸ amidst *El Niño* conditions. The reservoir levels, which remain close to normal, bode well.⁹ The government's initiatives for crop diversification including short duration as well as climate-resilient crops, and water harvesting and conservation, *inter alia* are expected to mitigate the impact of deficient rainfall. Although manufacturing sector may face cost pressures, the growing diversification of global supply chains should help mitigate the impact. Services sector is expected to maintain its buoyancy on the back of strong domestic demand.¹⁰ On the demand-side, impact of weak monsoon on rural consumption may be partly offset by supportive allied sector activities and various government schemes. Buoyancy in services sector and steady employment conditions should support urban consumption. Strong capacity utilisation, robust credit flow¹¹ and the government's continued thrust on infrastructure are expected to sustain investment activity. Net external demand is expected to derive strength from bilateral trade agreements and market diversification. Renewed tensions in West Asia which are disruptive of global supply chains, volatility in international financial markets, and weather-related shocks, however, pose downside risks to growth. Taking all these factors into consideration, real GDP growth for 2026-27 is projected at 6.7 per cent, with Q1 at 7.0 per cent; Q2 at 6.4 per cent; Q3 at 6.5 per cent; and Q4 at 6.8 per cent. The risks are evenly balanced.

Inflation

12. While CPI inflation increased to 4.4 per cent in June 2026 after remaining below the target for 16 consecutive months, it turned out to be lower by 30 basis points (bps) than what was earlier projected¹² for Q1:2026-27. The increase in June was primarily due to higher food¹³, fuel¹⁴ and fuel-induced inflation in select categories such as restaurant services.¹⁵ Notwithstanding the pressure from higher input costs, core (CPI excluding food and fuel) inflation remained unchanged at 3.9 per cent during May-June.¹⁶ Core inflation, excluding precious metals, was even lower at 2.3-2.5 per cent during this period.

⁷ Merchandise exports grew by 15.9 per cent in Q1:2026-27, while imports rose 19.9 per cent during the same period. Service exports grew by 9.6 per cent during Q1:2026-27, while service imports rose by 10.1 per cent during the same period.

⁸ As on August 3, 2026, cumulative deviation of South-west monsoon from normal was 11.9 per cent.

⁹ All-India water storage in 166 major reservoirs stood at 44.4 per cent of the total capacity as of July 30, 2026, as against 69.3 per cent a year ago and decadal average of 47.7 per cent.

¹⁰ PMI services for Q1:2026-27 at 58.7 inched up from 58.0 in Q4:2025-26 and remained comfortably above both the neutral mark of 50.0 and its long-run average, suggesting strong expansion.

¹¹ On a y-o-y basis, non-food bank credit grew by 17.4 per cent as on July 15, 2026, compared to 9.7 per cent during the corresponding period of the previous year (*i.e.*, July 11, 2025).

¹² Actual Headline CPI inflation in Q1:2026-27 was 3.9 per cent as compared to 4.2 per cent projected in June 2026 policy.

¹³ Inflation in CPI food and beverages division increased to 4.5 per cent and 5.1 per cent, respectively, in May and June from 4.0 per cent in April 2026. The increase in food and beverages inflation remained broad-based, with meat, edible oils, fruits, and spices recording inflation above 8 per cent in June 2026.

¹⁴ Fuel represents the group 'Electricity, gas and other fuels' and class 'Fuels and lubricants for personal transport equipment'. Fuel inflation increased to 4.5 per cent in June from 0.4 per cent and 1.9 per cent in April and May, respectively. Retail Petrol and Diesel prices were cumulatively increased by 7.4 per cent and 8.4 per cent, respectively, in May.

¹⁵ Inflation in 'Restaurant and accommodation services' division increased to 5.7 per cent and 6.9 per cent, respectively, in May and June from 4.2 per cent in April 2026.

¹⁶ 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').

13. Going forward, *El Niño*'s impact on temporal and spatial rainfall distribution continues to remain a major risk¹⁷, although proactive supply management and adequate stock of foodgrains should provide comfort.¹⁸ Global oil prices have remained highly volatile with sharp two-way movements triggered by geopolitical developments, blurring the near-term outlook.¹⁹ Although generalised inflation pressures continue to remain modest so far, the risks of second-round impact of higher food, fuel and other input prices translating to broad-based inflation persist.

14. After considering all factors, CPI inflation for 2026-27 is projected to be 5.0 per cent with Q2 at 4.7 per cent; Q3 at 5.9 per cent; and Q4 at 5.5 per cent. Inflation for Q1:2027-28 is projected at 5.3 per cent with risks being evenly balanced. Core inflation is projected at 4.3 per cent for 2026-27. Core inflation excluding precious metals is projected to be lower, though it is likely to align with core inflation from Q4.

Liquidity and Financial Market Conditions

15. System liquidity, as measured by the net position under the LAF, stood at an average daily surplus of ₹1.0 lakh crore since the last MPC meeting in June 2026.²⁰ Going ahead, the usual return of currency during the monsoon season, drawdown of government cash balances and our special measures to attract capital inflows are expected to aid banking system liquidity in the near-term.

16. Since the June meeting, the weighted average call rate traded within the policy corridor averaging 5.31 per cent. Short-term money market rates, especially rates of commercial papers and certificates of deposit, moderated in July.²¹ G-Sec yields, buoyed by measures undertaken by the Government and the Reserve Bank to attract foreign capital into Indian debt markets, eased across maturities during June and July. Transmission in the credit market, however, moderated during May-June with hardening of deposit and lending rates.²² Nevertheless, credit growth continues to remain robust²³ and broad-based²⁴ across sectors.

¹⁷ Cumulative seasonal rainfall remained 11.9 per cent below the Long Period Average (LPA) as on August 3, 2026. Spatial distribution also remained uneven, with 15 out of 36 meteorological sub-divisions recording deficient rainfall. India Meteorological Department forecasts that the prevailing *El Niño* conditions are likely to persist and strengthen, increasing the risk of below-normal rainfall during August–September, with expectations of neutral Indian Ocean Dipole conditions.

¹⁸ As on July 16, 2026, the rice and wheat stocks stood at 654.7 lakh tonnes (4.8 times the buffer norm) and 516.3 lakh tonnes (1.9 times the buffer norm), respectively.

¹⁹ According to Petroleum Planning and Analysis Cell (PPAC), the Indian basket of Crude Oil (ICB) declined to average US\$ 83.22 per barrel in June from US\$ 106.23 in May. However, with resumption of hostilities in West Asia, oil prices have rebounded since the first week of July. Brent and Indian Basket crude oil prices have increased by 34.5 per cent and 32.5 per cent, respectively, over end-June levels (as on July 31, 2026).

²⁰ The average daily net absorption under the LAF moderated from ₹1.7 lakh crore in May 2026 to ₹0.9 lakh crore in June but thereafter increased to ₹1.1 lakh crore in July.

²¹ The WACR on average traded 6 basis points above the policy repo rate for the period June 6–July 31, 2026. The rates on 3-month treasury bill, 3-month certificates of deposit and 3-month commercial paper averaged 5.27 per cent, 6.72 per cent and 7.07 per cent, respectively, since June policy compared to 5.31 per cent, 6.67 per cent, and 7.52 per cent, respectively between April and June policy.

²² 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 80 bps for fresh rupee loans, and 91 bps for outstanding rupee loans during February 2025 to June 2026. On the deposit side, the weighted average domestic term deposit rate (WADTDR) on fresh deposits has declined by 63 bps while that on outstanding deposits has softened by 51 bps during the same period. There has been moderation in transmission to fresh lending rates in recent months reflecting robust credit demand.

²³ On a year-on-year basis, bank credit registered a growth of 17.7 per cent as on July 15, 2026 as compared to 9.9 per cent a year ago. As per the latest available data, credit from all sources grew by 16.3 per cent (y-o-y) in 2026-27 as compared to 11.5 per cent a year ago.

²⁴ Sector-wise data indicates buoyant credit flows to retail and services 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.

17. Through its conduct of two-way operations, the Reserve Bank will proactively ensure sufficient liquidity in the banking system, guided by the objective of aligning the weighted average call rate (WACR) to the policy repo rate.

Financial Stability

18. 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 Net Interest Margin (NIM) as compared to last year.²⁵ Similarly, the system-level parameters of NBFCs too are sound, with adequate capital position, improved GNPA ratios and higher profitability.²⁶

External Sector

19. Let me now turn to the external sector. Despite the challenging and turbulent global macroeconomic environment, India's current account deficit in 2025-26 remained modest and much below the levels considered to be sustainable for emerging markets.²⁷ During April-May this year, the current account recorded a surplus of US\$ 2.8 billion, primarily led by robust surplus in services trade²⁸ and strong remittance receipts²⁹. In Q1:2026-27, India's merchandise trade deficit widened to US\$ 86.6 billion from US\$ 68.7 billion in Q1:2025-26, mainly driven by imports of crude oil, electronic goods and gold.³⁰ Going forward, moderation in global trade growth³¹, surge in energy prices and persistent trade policy uncertainties pose upside risks to India's current account deficit in 2026-27. On the other hand, implementation of the India-UK trade deal along with other recent agreements with major trading partners, healthy services exports and buoyant inward remittances are expected to mitigate these risks.

20. On the external financing front, gross foreign direct investment (FDI) inflows were buoyant at US\$ 30.7 billion during April-June 2026, higher than US\$ 26.7 billion a year ago, underscoring the continued interest of global investors in India³². Net FDI

²⁵ **SCB Parameters:** The outstanding credit and deposit increased by 18.6 per cent and 13.3 per cent on a y-o-y basis, respectively, between June-25 and June-26. The system-level Capital to Risk Weighted Assets Ratio (CRAR) of 17.78 per cent in June 2026 was well above the regulatory minimum level. Ratio of non-performing loans improved further (GNPA ratio at 1.68 per cent in June 2026 vis-à-vis 2.22 per cent in June 2025, NNPA Ratio at 0.40 per cent in June 2026 vis-à-vis 0.51 per cent in June 2025). Liquidity buffers were robust, with an LCR of 126.94 per cent as of end June 2026. The annualised return on assets (RoA) and return on equity (RoE) in June 2026 stood at 1.32 per cent (1.30 per cent in June 2025) and 13.23 per cent (13.02 per cent in June 2025), respectively. Net Interest Margin was 3.21 per cent for June 2026 (3.26 per cent in June 2025).

²⁶ **NBFC Parameters:** Total CRAR of NBFCs was 25.41 per cent and Tier I CRAR was 23.58 per cent in June 2026, well above the minimum regulatory requirements. GNPA ratio has improved from 3.09 per cent in June 2025 to 2.50 per cent in June 2026, while NNPA ratio also improved from 1.00 per cent in June 2025 to 0.84 per cent in June 2026. RoA for the sector increased from 3.01 per cent in June 2025 to 3.37 per cent in June 2026. NIM has increased from 4.99 per cent in June 2025 to 5.39 per cent in June 2026.

²⁷ India's current account deficit stood at 0.6 per cent of GDP in 2025-26 (US\$ 25.4 billion), around a similar level as in 2024-25 (0.6 per cent of GDP; US\$ 23.1 billion).

²⁸ Services trade surplus stood at US\$ 34.3 billion during April-May 2026 vis-à-vis US\$ 31.7 billion during April-May 2025.

²⁹ Net transfers, primarily comprising worker's remittances, stood at US\$ 29.6 billion during April-May 2026, higher than US\$ 20.0 billion during April-May 2025.

³⁰ Merchandise exports recovered in Q1:2026-27, both sequentially and on a year-on-year (y-o-y) basis, partly reflecting higher oil prices and elevated margins on oil exports. During Q1:2026-27, exports at US\$ 129.3 billion grew by 15.9 per cent (y-o-y), as against a contraction of 2.2 per cent (y-o-y) in Q1:2025-26 (US\$ 111.6 billion), mainly driven by petroleum products, engineering goods, and electronic goods. Merchandise imports also grew by double-digit (19.9 per cent y-o-y) to US\$ 216.2 billion in Q1:2026-27 from US\$ 180.3 billion a year ago.

³¹ According to the IMF's WEO (July 2026), world goods and services trade volume growth is expected to moderate to 3.5 per cent in 2026 from 5.0 per cent in 2025.

³² As per the World Investment Report (WIR) 2026 of UNCTAD, India's ranking among the world's top FDI host economies improved from 13th in 2024 to 11th in 2025. In terms of globally announced greenfield FDI projects during H1:2026, India is at 3rd position with an amount of US\$ 33.0 billion.

inflows, driven by higher gross inflows and a slowdown in the growth of outward FDI, also increased during the period³³. Moreover, foreign portfolio investment (FPI) to India has seen a turnaround during June-July 2026 with net inflows of US\$ 7.1 billion, primarily driven by the debt segment, after registering net outflows during April-May 2026.³⁴ Capital flow measures undertaken in June have supported inflows³⁵; as a result, the balance of payments is expected to register a healthy surplus this year.

21. India's foreign exchange reserves³⁶ continue to be adequate in terms of the standard metrics of reserve adequacy with import cover of over 10 months and external debt cover of 90.8 per cent.

22. As for the exchange rate, we will continue with our policy of it being determined by market forces, while curbing excessive volatility, checking speculative behaviour and preventing disorderly movements to ensure that it is not out of sync with fundamentals or disruptive of economic activity. For this purpose, we have a broad range of effective regulatory and market-based instruments.

Additional Measures

23. Before I conclude, I have a few additional [measures](#) to announce.

Cooperative sector

24. I propose two measures to further strengthen the cooperative sector:

- (i) One, on the basis of the feedback received on the discussion paper on licensing of UCBs, we are issuing draft guidelines for resuming licensing of UCBs; and
- (ii) two, in light of the experience gained and the developments since 2008 when the Credit Monitoring Arrangement for Rural Cooperative Banks was last revised, we are issuing draft directions after undertaking a comprehensive review of the arrangement.

³³ Gross FDI flows to India grew by 14.8 per cent during April-June 2026-27. Net FDI inflows increased to US\$ 7.9 billion during April-June 2026-27, higher than US\$ 4.8 billion during April-June 2025-26. Net outward FDI increased by 1.4 per cent to US\$ 9.3 billion during April-June 2026-27 from US\$ 9.2 billion a year ago.

³⁴ During 2026-27 so far (April-July), net FPI to India witnessed outflows of US\$ 4.3 billion. Net outflows in the equity segment stood at US\$ 11.6 billion, while the debt segment registered net inflows to the tune of US\$ 7.3 billion.

³⁵ Inclusion of all new issuances of 15-, 30- and 40-year tenor G-secs under the Fully Accessible Route (FAR), removal of macroprudential limits pertaining to short-term investment, concentration and security-wise investment under the General Route and tax exemption announced by the Government of India for FPIs investing in G-secs.

³⁶ As on July 31, 2026, India's forex reserves stood at US\$ 692.9 billion.

Interest rate on advances

25. In order to enhance transparency in lending rates and strengthen consumer protection, it is proposed to harmonise and standardise the regulatory framework on interest rates on advances for all regulated entities.

Concluding Remarks

26. To conclude, global economic conditions and sentiments continue to remain hostage to the rapidly oscillating developments, both in scale and intensity, of the West Asia conflict. While these have impacted the domestic growth-inflation outlook adversely, the stronger macroeconomic fundamentals of the Indian economy are helping navigate this global shock resolutely. As alluded to in my last Statement, this presents an opportunity to accelerate measures to enhance our resilience to withstand such shocks. We shall continue to implement policies that further fortify our economy. Whether it is facilitating sustainable growth or promoting consumer protection; whether it is preserving stability of prices, the financial system or the currency, we will do whatever it takes to ensure the same.

27. Thank you. Namaskar and Jai Hind.

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(Brij Raj)
Chief General Manager