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# RBI Holds Repo Rate at 5.25% as West Asia Oil Shock Lifts Inflation Forecast

6 June 2026

ECONOMY

GS3

CURATED &amp; WRITTEN BY

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# RBI Holds Repo Rate at 5.25% as West Asia Oil Shock Lifts Inflation Forecast

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## WHY IN NEWS

The **Reserve Bank of India's Monetary Policy Committee (MPC)**, after its meeting concluding on **June 5, 2026**, kept the **repo rate unchanged at 5.25%** and retained its **neutral** stance. The decision came against the backdrop of the prolonged **West Asia crisis**, which has driven up crude oil prices and pressured the rupee. The RBI raised its **CPI inflation forecast for FY2026-27 to 5.1%** and trimmed its **real GDP growth projection to 6.6%**, while flagging a likely below-normal monsoon and El Nino as the key domestic risks.

## THE DECISION AT A GLANCE

ELEMENT	DETAIL
Repo rate	5.25% (unchanged)
Stance	Neutral
CPI inflation forecast FY27	5.1%
Real GDP growth forecast FY27	6.6%
Key risks flagged	West Asia oil shock, below-normal monsoon, El Nino
Governor	Sanjay Malhotra

The **neutral** stance is significant: it signals the RBI is keeping its options open, ready to either raise or cut rates depending on how inflation and growth data evolve, rather than committing to a direction.

## WHY A HOLD, AND WHY NOW

The RBI is caught between two opposing pressures, the classic central-bank dilemma during a supply shock:

- 1 **Imported inflation pushing for a hike.** The West Asia crisis has lifted global crude prices. India imports roughly **85% of its crude oil**, so higher oil feeds directly into fuel, transport and manufacturing costs, and a weaker rupee amplifies the effect. This argues for tighter policy.
- 2 **Slowing growth arguing for a cut.** The RBI cut its FY27 growth forecast to 6.6%, signalling caution about momentum. This argues for looser policy.

A **hold with a neutral stance** is the RBI's way of not choosing prematurely. Crucially, **monetary policy** is a blunt tool against a **supply shock** like an oil-price spike: raising rates does not produce more oil, it only dampens demand. So the RBI is signalling **vigilance** while avoiding an overreaction that could choke growth.

## THE MONETARY POLICY FRAMEWORK

FEATURE	DETAIL
Inflation target	4% CPI, with a tolerance band of +/- 2% (so 2% to 6%)
Framework basis	Flexible Inflation Targeting (FIT), adopted 2016
Legal basis	RBI Act, 1934 (amended 2016)
MPC composition	6 members: 3 from RBI (including the Governor) + 3 external members appointed by the Centre
Casting vote	The Governor has a second, casting vote in case of a tie
Repo rate	Rate at which the RBI lends to commercial banks against government securities

The **MPC** was created by the 2016 amendment to the RBI Act, shifting interest-rate decisions from the Governor alone to a committee, a structural reform toward transparent, accountable monetary policy.

## UPSC RELEVANCE

### Prelims

- Repo rate held at **5.25%**; stance **neutral**; decision June 5, 2026
- CPI inflation forecast FY27: **5.1%**; GDP growth forecast FY27: **6.6%**
- Inflation target: **4% +/- 2%** (Flexible Inflation Targeting, 2016)
- MPC: **6 members** (3 RBI + 3 external); Governor has casting vote
- Legal basis: **RBI Act, 1934** (amended 2016); Governor **Sanjay Malhotra**
- India imports **~85% of crude oil**

## Mains Angles

- 1 GS3 Monetary Policy:** Monetary policy is a blunt instrument against supply-side (oil) inflation. Discuss the limits of inflation targeting during external shocks and the case for fiscal-monetary coordination.
- 2 GS3 Macroeconomic Stability:** Evaluate the trade-off the RBI faces between containing imported inflation and supporting growth during a West Asia oil shock.
- 3 GS3 Institutions:** Assess the shift from Governor-led to MPC-led rate setting (2016) as a monetary-governance reform.

## FACTS CORNER

FACT	DETAIL
Repo rate	5.25% (unchanged, June 5, 2026)
Stance	Neutral
CPI forecast FY27	5.1%
GDP forecast FY27	6.6%
Inflation target	4% (+/- 2%)
Framework	Flexible Inflation Targeting (2016)
Legal basis	RBI Act 1934 (amended 2016)
MPC	6 members (3 RBI + 3 external)
Governor	Sanjay Malhotra
Key risk flagged	West Asia oil shock, monsoon, El Nino
Crude import dependence	~85%

Sources: *Business Standard, RBI, PIB*

Source: RBI Holds Repo Rate at 5.25% as West Asia Oil Shock Lifts Inflation Forecast — Ujyari.com | Free UPSC & State PCS Current Affairs

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