RBI Bi-monthly MPC: Cut policy repo rate by 25 bps

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MPC reduced the policy repo rate by 25 bps to 5.75% with immediate effect and decided to change the stance of monetary policy from neutral to accommodative.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.50%, and the marginal standing facility (MSF) rate and the Bank Rate to 6%.

RBI statement - These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth.

RBI projects CPI inflation at 2.4% in Q4 FY 19 and 2.9-3.0% in H1 FY 20.

Beyond the near term, several uncertainties cloud the inflation outlook

- The domestic investment activity has weakened and global demand has been weighed down due to a sharper deceleration in exports relative to imports-On the supply side, agriculture and allied activities contracted, albeit marginally, current weak El Niño and prevailing neutral Indian Ocean Dipole (IOD) conditions may turn positive in the middle of the monsoon season and persist thereafter, which augur well for the rainfall outlook.
- Inflation in fuel group items, particularly electricity, firewood & chips rose to 2.6% in H2 FY19.
- The outlook for Crude oil prices remained volatile, reflecting evolving demand-supply conditions underpinned by the production stance of the OPEC plus, rising shale output, weakening global demand and geopolitical concerns.
- Inflation excluding food and fuel has fell sharply to 4.5% in April from 5.1% in March – the largest monthly decline since April 2017 .However, The moderation in inflation was broad-based, with household goods and services, and personal care and effects sub-groups registering the largest fall in April near-term inflation expectations of households have continued to moderate as stated by the outlook for inflation in this category.
- Financial markets remain volatile reflecting in part global growth and trade uncertainty, which may have an influence on the inflation outlook.
- With uncertainties relating to the monsoon, unseasonal spikes in vegetable prices, international fuel prices and their pass-through to domestic prices, geo-political tensions, financial market volatility and the fiscal scenario requires careful monitoring.

GDP growth for FY20 projected at 7% Vs 7.2% (6.4-6.7% in H1FY20) and 7.2-7.5% in H2.

The growth outlook is likely to be influenced by several factors:

- Since the previous GDP growth projections in April policy, the domestic investment activity has weakened and overall demand has been weighed down partly by slowing exports. Weak global demand due to escalation in trade wars may further impact India's exports and investment activity. On the positive side, however, higher financial flows to the commercial sector augur well for economic activity.
- A sharp slowdown in investment activity along with a continuing moderation in private consumption growth is a matter of concern.