

4th April 2019

MPC reduced the policy repo rate by 25 bps to 6% with immediate effect and decided to maintain the neutral monetary policy stance.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate to 6.25%.

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 2.8% in Q4 FY 19 and 3.2-3.4% in H1 FY 20 and 3.9% in Q3FY20.

Beyond the near term, several uncertainties cloud the inflation outlook

- With the domestic and global demand-supply balance of key food items expected to remain favorable, the short-term outlook for food inflation remains benign. However, early reports suggest some probability of El Niño effects in 2019. There is also the risk of an abrupt reversal in vegetable prices, especially during the summer months.
- Inflation in fuel group items, particularly electricity, firewood & chips saw unprecedented softening in H2 FY19. There is, however, uncertainty about the sustainability of this softening in inflation in fuel items.
- The outlook for oil prices continues to be hazy, both on the upside and the downside. On the one hand, continuing OPEC production cuts will reduce supplies. On the other hand, there is considerable uncertainty about demand conditions. Should there be a swift resolution of trade tensions, a pick-up in global demand is likely to push up oil prices. However, should trade tensions linger and demand conditions worsen, crude prices may fall from current levels, despite production cuts by OPEC.
- Inflation excluding food and fuel has remained elevated over the past twelve months with some pick up in prices in February. However, should the recent slowdown in domestic economic activity accentuate, it may have a bearing on 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.
- The fiscal situation at the general government level requires careful monitoring

GDP growth for 2018-19 projected at 7.2% (6.8-7.1 % in H1FY20) and 7.3-7.4% in H2.

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

- Since the previous GDP growth projections in Feb policy, there are some signs of domestic investment activity weakening as reflected in a slowdown in production and imports of capital goods. The moderation of growth in the global economy might impact India's exports. On the positive side, however, higher financial flows to the commercial sector augur well for economic activity.
- Private consumption, which has remained resilient, is also expected to get a fillip from public spending in rural areas and an increase in disposable incomes of households due to tax benefits.
- Business expectations continue to be optimistic.

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