7th August 2019

Policy repo rate cut by 35 bps to 5.4% and policy stance to remain accommodative.

Consequently, the reverse repo rate under the LAF stands revised to 5.15%, and the marginal standing facility (MSF) rate and the Bank Rate to 5.65%.

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 3.1% in Q2 FY 20 and 3.5-3.7% in H2 FY 20 and 3.6% in Q1 FY 21.

The baseline inflation trajectory for the next four quarters will be shaped by several factors

- The uptick in food inflation may be sustained by price pressures in vegetables and pulses as more recent data suggest. Uneven spatial and temporal distribution of monsoon could exert some upward pressure on food items, though this risk is likely to be mitigated by the recent catch up in rainfall.
- Despite excess supply conditions, crude oil prices may likely remain volatile due to geo-political tensions in the Middle-East.
- The outlook for CPI inflation excluding food and fuel remains soft. Manufacturing firms participating in the industrial outlook survey expect output prices to ease in Q2.
- One year ahead inflation expectations of households polled by the Reserve Bank have moderated.

GDP growth for 2019-20 projected at 6.9% vs 7% (5.8-6.6% in H1FY20) and 7.3-7.5% in H2.

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

- Various high frequency indicators suggest weakening of both domestic and external demand conditions.
- The Business Expectations Index of the Reserve Bank's industrial outlook survey shows muted expansion in demand conditions in Q2, although a decline in input costs augurs well for growth.
- The impact of monetary policy easing since February 2019 is also expected to support economic activity, going forward. Moreover, base effects will turn favorable in H2:2019-20.