GlobalBull Financial Services LLP

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The MPC kept rates unchanged and cuts SLR by 25 bps.

RBI statement - The decision of the MPC is consistent with the stance of calibrated tightening of monetary policy 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 between 2.7-3.2 % in H2 FY 19 and 3.8-4.2% in H1 FY 20.

Even as inflation projections have been revised downwards significantly and some of the risks pointed out in the last resolution have been mitigated, especially of crude oil prices, several uncertainties still cloud the inflation outlook.

- Inflation projections incorporate benign food prices based on the realized outcomes of food inflation in recent months. The prices of several food items are at unusually low levels and there is a risk of sudden reversal, especially of volatile perishable items.
- The available data suggest that the effect of revision in minimum support prices (MSPs) announced in July on prices has been subdued so far. However, uncertainty continues about the exact impact of MSP on inflation, going forward.
- The medium-term outlook for crude oil prices is still uncertain due to global demand conditions, geo-political tensions and decision of OPEC which could impinge on supplies.
- Global financial markets continue to be volatile.
- Though households' near-term inflation expectations have moderated in the latest round of the Reserve Bank's survey, one-year ahead expectations remain elevated and unchanged.
- Fiscal slippages, if any at the centre/state levels, will it influence the inflation outlook, heighten market volatility and crowd out private investment.

GDP growth for 2018-19 projected at 7.4 % (7.2-7.3 % in H2) & for H1: FY 20 at 7.5 %.

The growth outlook will be influenced by several factors:

- Lower rabi sowing may adversely affect agriculture and hence rural demand.
- Financial market volatility, slowing global demand and rising trade tensions pose negative risk to exports.
- The decline in crude oil prices is expected to boost India's growth prospects by improving corporate earnings and raising private consumption through higher disposable incomes.
- Increased capacity utilization in the manufacturing sector also portends well for new capacity additions.
- Credit offtake from the banking sector has continued to strengthen even as global financial conditions have tightened.
- FDI flows could also increase with the improving prospects of the external sector.