GlobalBull Financial Services LLP

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MPC decided to change the stance of monetary policy from calibrated tightening to 'neutral' and reduced the policy repo rate by 25 bps to 6.25% with immediate effect.

Consequently, the reverse repo rate under the LAF stands adjusted to 6.0%, and the marginal standing facility (MSF) rate and the Bank Rate to 6.5%.

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 between 2.7-3.2 % in H2 FY 19 and 3.8-4.2% in H1 FY 20.

Headline inflation is projected to remain soft in the near term reflecting the current low level of inflation and the benign food inflation outlook. Beyond the near term, some uncertainties warrant careful monitoring.

- Vegetable prices have been volatile in the recent period, reversal in vegetable prices could impart upside risk to the food inflation trajectory.
- The oil price outlook continues to be hazy.
- A further heightening of trade tensions and geo-political uncertainties could also weigh on global growth prospects, dampening global demand and softening global commodity prices, especially oil prices.
- The unusual spike in the prices of health and education needs to be closely watched.
- Financial markets remain volatile.
- The monsoon outcome is assumed to be normal, any spatial or temporal variation in rainfall may alter the food inflation outlook.
- Several proposals in the union budget for 2019-20 are likely to boost aggregate demand by raising disposable incomes, but the full effect of some of the measures is likely to materialize over a period of time.

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

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

- Aggregate bank credit and overall financial flows to the commercial sector continue to be strong, but are yet to be broad-based.
- In spite of soft crude oil prices and the lagged impact of the recent depreciation of the Indian rupee on net exports, slowing global demand could pose headwinds.

In particular, trade tensions and associated uncertainties appear to be moderating global growth.