5st October 2018

The MPC kept rates unchanged but shifts stance from 'Neutral' to 'Calibrated Tightening'.

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 per cent within a band of +/- 2%, while supporting growth.

RBI revises CPI inflation downwards to 3.9 - 4.5% in H2 FY19 & 4.8% in Q1 FY20.

The outlook is clouded with several uncertainties as follows:

- The government announced in September measures aimed at ensuring remunerative prices to farmers for their produce, although uncertainty continues about their exact impact on food prices.
- Oil prices remain vulnerable to further upside pressures, especially if the response of oil-producing nations to supply disruptions from geopolitical tensions is not adequate.
- The recent excise duty cuts on petrol and diesel will moderate retail inflation.
- Sharp rise in input costs, combined with rising pricing power, poses the risk of higher passthrough to retail prices for both goods and services.
- If there be fiscal slippage at the centre and/or state levels, it will have a bearing on the inflation outlook, besides heightening market volatility and crowding out private sector investment.
- The staggered impact of HRA revision by the state governments may push up headline inflation.

GDP growth for Q1 FY20 is now projected marginally lower at 7.4 % as against 7.5%.

The growth outlook will be influenced by several factors:

- Private consumption has remained robust and is likely to be sustained even as the recent rise in oil prices may have a bearing on disposable incomes.
- Improving capacity utilization, larger FDI inflows and increased financial resources to the corporate sector augur well for investment activity.
- Both global and domestic financial conditions have tightened, which may dampen investment activity.
- Rising crude oil prices and other input costs may also drag down investment activity by denting profit margins of corporates.
- Uncertainty surrounds the outlook for exports.
- The recent depreciation of the rupee, could be muted by the slowing down of global trade and the escalating tariff wars.