

# RBI Monetary Policy Review

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Rate Unchanged,  
Raises Inflation  
Forecast

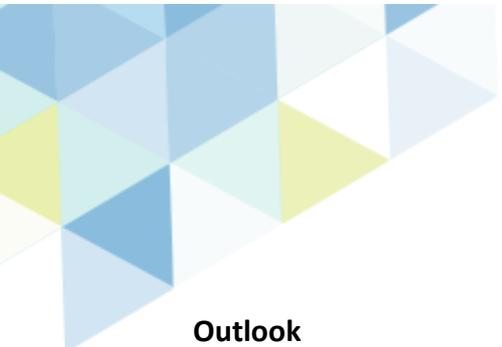


# RBI Leaves Interest Rate Unchanged, Raises Inflation Forecast

The six-member Monetary Policy Committee (MPC) of Reserve Bank of India, headed by Governor Urjit Patel; as widely expected kept repo rate unchanged at 6.0 per cent in its sixth bimonthly monetary policy meeting of FY18; cited concerns about the inflationary push by rising global crude oil prices. Consequently, MSF (Marginal Standing Facility Rate) and Bank rate remained unchanged at 6.25 per cent each. Five on the six-member monetary policy committee voted for the decision, with one seeking a hike.

## Key Policy Stance

- On expected lines, RBI has nudged the near-term inflation forecast upwards. The RBI pegged CPI inflation in the range of 5.1-5.6 per cent for the H1FY19, factoring in the diminishing statistical HRA impact of central government employees. It projected 4.5-4.6 per cent in H2FY19, with risks tilted to the upside. The projected moderation in inflation in the second half is on account of strong favourable base effects, including unwinding of the 7th CPC's HRA impact, and a softer food inflation forecast, given the assumption of normal monsoon and effective supply management by the government.
- After sticking to a GVA (gross value added) growth target of 6.7% for FY18 for long, the RBI has marginally tweaked it down to 6.6% in this policy, although it remains higher than CSO's forecast of 6.1%. However, its overall tone on growth was optimistic. The central bank alluded to improved business sentiment in the Indian manufacturing sector as reflected in its Industrial Outlook Survey (IOS). Consequently, GVA growth for FY19 is projected at 7.2 per cent – in the range of 7.3-7.4 per cent in the first half and 7.1-7.2 per cent in the second half. This is closer to the recent Economic Survey's projected GDP growth rate between 7-7.5% in FY19.
- The MPC notes that the economy is on a recovery path, including early signs of a revival of investment activity. Global demand is improving, which should help strengthen domestic investment activity.
- The RBI also flagged the government's new medium-term fiscal consolidation roadmap as another key worry.



## Outlook

The Reserve Bank of India keeps the repo rate unchanged at 6%, a third consecutive pause for the monetary policy. The Monetary Policy Committee has now pegged CPI inflation in the range of 5.1-5.6 per cent for the H1FY19, factoring in the diminishing statistical HRA impact of central government employees. It projected 4.5-4.6 per cent in H2FY19, with risks tilted to the upside. The RBI inflation outlook suggests moderation in second half of FY19 and will have a positive impact on bond markets. While, after sticking to a GVA (gross value added) growth target of 6.7% for FY18 for long, the RBI marginally tweaked it down to 6.6% in this policy, although it remains higher than CSO's forecast of 6.1%. However, the overall tone on growth was optimistic. Thus, in this policy while striking the balance between inflation and growth, RBI has given priority to growth at this juncture, which will now calm sentiments of an otherwise nervous markets. Accordingly, we continue to stick to accrual funds for investments and some allocation towards short-term bond funds.



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