RBI maintains status quo in Fifth Bi-Monthly Monetary Policy Statement, 2018-19

Policy repo rate remains unchanged at 6.5% and the reverse repo rate under the LAF stands at 6.25%

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) has decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.5 per cent. Consequently, the reverse repo rate under the LAF remains at 6.25 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. 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 per cent, while supporting growth.

The RBI policy rates so far

Components	8th February 2017	6th April 2017	07th June 2017	02nd August 2017	4th Oct 2017	6th Dec 2017	7th Feb 2018	05th April 2018	06th June 2018	01st Aug 2018	05th Oct 2018	5th Dec 2018
CRR	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Repo Rate	6.25%	6.25%	6.25%	6.00%	6.00%	6.00%	6.00%	6.00%	6.25%	6.50%	6.50%	6.50%
Reverse Repo Rate	5.75%	6.0%	6.0%	5.75%	5.75%	5.75%	5.75%	5.75%	6.0%	6.25%	6.25%	6.25%
WPI Inflation	3.39% (Dec-16)	6.55% (Feb-17)	3.85% (Apr-17)	0.9% (Jun-17)	3.24% (Aug-17)	3.59% (Oct-17)	3.6% (Dec-17)	2.5% (Feb-18)	3.2% (Apr-18)	5.77% (Jun-18)	4.53% (Aug-18)	5.28% (Oct-18)
CPI inflation \@	3.4% (Dec-16)	3.65% (Feb-17)	2.99% (Apr-17)	1.5% (Jun-17)	3.36% (Aug-17)	3.6% (Oct-17)	5.2% (Dec-17)	4.44% (Feb-18)	4.6% (Apr-18)	5.00% (Jun-18)	3.69% (Aug-18)	3.31% (Oct-18)
IIP growth	5.7% (Nov-16)	2.7% (Jan-17)	2.5% (Mar-17)	1.7% (May-17)	1.2% (July-17)	3.8% (Sep-17)	8.4% (Nov-17)	7.5% (Jan	4.4% (Ma	3.2% (May-18)	6.60% (Jul	4.5% (Sep-18)

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Real GDP growth	7.4%^ ###	7.4%^ &*	7.3% ^&**	7.3% ^&**	6.7% ^&^	6.7% ^&^^	6.6% ^&^*	7.4% (2018-19) $#	7.4% 2018-19)$##	7.4% 2018-19)$###	7.4% 2018-19 $####	7.4% 2018-19 $####^

Source: PHD Research Bureau, compiled from various sources, Note:, , #Data for Gross domestic product for Q2 of 2014-15, ^Data for Oct 2014, ^^ Data for November 2014 , ^^^December 2014," Data for Jan 2015, "" Data for Feb 2015, *Data for Sep 2014, ** Data for Oct 2014 and *** Data for Nov 2014.@ Data for Dec 2014. Note: The Ministry of Statistics & Programme Implementation has released the new series of national accounts, revising the base year from 2004-05 to 2011-12. With this backdrop, real GDP growth for 2012-13 is estimated at 5.1% and 6.9% for 2013-14, $Advance estimates of national income 2014-15 MOSPI, @*** Data for August 2015 @#* Feb 2016 @#** January 2016 @^^^^Data for Sep 2015; RBI projection of GVA growth for 2015-16, \@CPI inflation for the respective month of the year. ^### GVA growth as per Sixth Bi-monthly Monetary Policy Statement 2016-17 ^&* GVA growth for 2017-18 as per First Bi-monthly Monetary Policy Statement, 2017-18, ^&** GVA growth for 2017-18 as per Second Bi-monthly Monetary Policy Statement, 2017-18, ^&*** GVA growth for 2017-18 as per Third Bi-monthly Monetary Policy Statement, 2017-18. ^&^ GVA growth for 2017-18 as per Fourth Bi-monthly Monetary Policy Statement, 2017-18. ^&^^ GVA growth for 2017-18 as per Fifth Bi-monthly Monetary Policy Statement, 2017-18. ^&^* GVA growth for 2017-18 as per Sixth Bi-monthly Monetary Policy Statement, 2017-18. $# Projections by RBI in First Bi-monthly Monetary Policy Statement, 2018-19, $## Projections by RBI in Second Bi-monthly Monetary Policy Statement, 2018-19, $### Projections by RBI in Third Bi-monthly Monetary Policy Statement, 2018-19, $#### Projections by RBI in Fourth Bi-monthly Monetary Policy Statement, 2018-19, $####^ Projections by RBI in Fifth Bi-monthly Monetary Policy Statement, 2018-19

Snapshot of the Fifth Bi-monthly Monetary Policy Statement, 2018-19

Since the last MPC meeting in October 2018, global economic activity has shown increasing signs of weakness on rising trade tensions. Among advanced economies (AEs), economic activity appears to be slowing in the US in Q4:2018, after a buoyant Q3. The Euro area growth lost pace in Q3, impacted by weaker trade growth and new vehicle emission standards. The Japanese economy contracted in Q3 on subdued external and domestic demand. Economic activity also decelerated in major emerging market economies (EMEs) in Q3. In China, growth slowed down on weak domestic demand. The ongoing trade tensions and the possible cooling of the housing market pose major risks to growth in China. The Russian economy lost some traction, pulled down largely by a weak agriculture harvest, though the growth was buttressed by strong performance of the energy sector. The Brazilian economy seems to be recovering gradually from the economic disruption in the first half of the year. The South African economy expanded in Q3, after contracting in the previous two quarters, driven by agriculture and manufacturing.

Crude oil prices have declined sharply, reflecting higher supplies and easing of geopolitical tensions. Base metal prices have continued to decline on selling pressure following weak demand from major economies. Gold price has risen underpinned by safe haven demand triggered by political uncertainty in some geographies, though a strong dollar may stem the 2 rise. The inflation scenario has remained broadly unchanged in the US and the Euro area. In many key EMEs, however, inflation has risen, though the recent retreat in energy prices, tightening of policy stances by central banks and stabilising of currencies may have a salutary impact, going forward.

On the domestic front, gross domestic product (GDP) growth slowed down to 7.1 per cent year-on-year (y-o-y) in Q2:2018-19, after four consecutive quarters of acceleration, weighed down by moderation in private consumption and a large drag from net exports. Private consumption slowed down possibly on account of moderation in rural demand, subdued growth in kharif output, depressed prices of agricultural commodities and sluggish growth in rural wages. However, growth in government final consumption expenditure (GFCE) strengthened, buoyed by higher spending by the central government. Gross fixed capital formation (GFCF) expanded by double-digits for the third consecutive quarter, driven mainly by the public sector's thrust on national highways and rural infrastructure, which was also reflected in robust growth in cement production and steel consumption. Growth of imports accelerated at a much faster pace than that of exports, resulting in net exports pulling down aggregate demand.

India's merchandise exports rebounded in October 2018, after moderating in the previous month, driven mainly by petroleum products, engineering goods, chemicals, electronics, readymade garments, and gems and jewellery. Imports also grew at a faster pace in October relative to the previous month, contributed mainly by petroleum products and electronic goods. Consequently, the trade deficit widened in October 2018 sequentially as also in comparison with the level a year ago. Provisional data suggest a modest improvement in net exports of services in Q2:2018-19, which augurs well for the current account balance.

Outlook

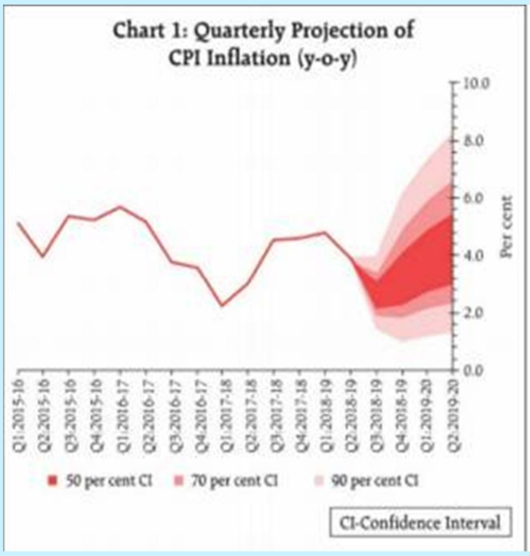
In the fourth bi-monthly resolution of October 2018, CPI inflation was projected at 4.0 per cent in Q2:2018-19, 3.9-4.5 per cent in H2 and 4.8 per cent in Q1:2019-20, with risks somewhat to the upside. Excluding the HRA impact, CPI inflation was projected at 3.7 per cent in Q2:2018-19, 3.8-4.5 per cent in H2 and 4.8 per cent in Q1:2019-20. The actual inflation outcome in Q2 at 3.9 per cent was marginally lower than the projection of 4.0 per cent. However, the October inflation print at 3.3 per cent turned out to be unexpectedly low.

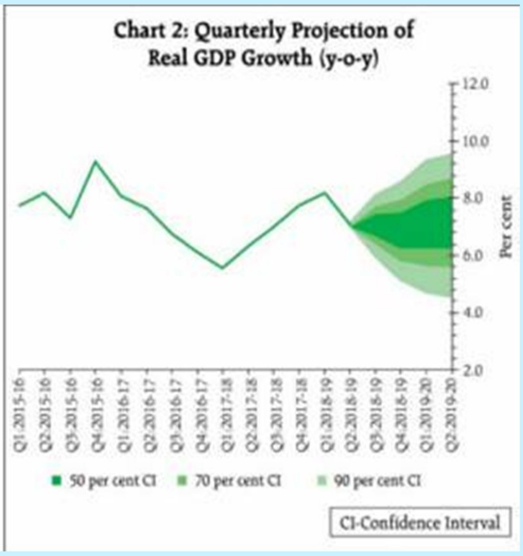
There have been several important developments since the October policy which will have a bearing on the inflation outlook. First, despite a significant scaling down of inflation projections in the October policy primarily due to moderation in food inflation, subsequent readings have continued to surprise on the downside with the food group slipping into deflation. At a disaggregated level, deflation in pulses, vegetables and sugar widened, while cereals inflation moderated sequentially. The broad-based weakening of food prices imparts downward bias to the headline inflation trajectory, going forward. Secondly, in contrast to the food group, there has been a broad-based increase in inflation in non-food groups.

Thirdly, international crude oil prices have declined sharply since the last policy; the price of Indian crude basket collapsed to below US$ 60 a barrel by end-November after touching US$ 85 a barrel in early October. However, selling prices, as reported by firms polled in the Reserve Bank's latest IOS, are expected to edge up further in Q4 on the back of increased demand. Fourthly, global financial markets have continued to be volatile with EME currencies showing a somewhat appreciating bias in the last one month. Finally, the effect of the 7th Central Pay Commission's HRA increase has continued to wane along expected lines. Taking all these factors into consideration and assuming a normal monsoon in 2019, inflation is projected at 2.7-3.2 per cent in H2:2018-19 and 3.8-4.2 per cent in H1:2019-20, with risks tilted to the upside

Turning to growth projections, although Q2 growth was lower than that projected in the October policy, GDP growth in H1 has been broadly along the line in the April policy when for the year as a whole GDP growth was projected at 7.4 per cent. Going forward, 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. However, on the positive side, 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 utilisation in the manufacturing sector also portends well for new capacity additions.

There has been significant acceleration in investment activity and high frequency indicators suggest that it is likely to be sustained. 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. The demand outlook as reported by firms polled in the Reserve Bank's IOS has improved in Q4. Based on an overall assessment, GDP growth for 2018-19 has been projected at 7.4 per cent (7.2-7.3 per cent in H2) as in the October policy, and for H1:2019-20 at 7.5 per cent, with risks somewhat to the downside





Source: RBI

Please contact for any query related to this mail to Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in of PHD Chamber.

Warm regards,

Dr. S P Sharma
Chief Economist

PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016
Ph.: + 91-11-26863801-04, 49545454
Fax: +91- 26855450, 49545451
Email: spsharma@phdcci.in
Website: www.phdcci.in