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

Policy repo rate remains unchanged at 6.50% 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 at its meeting today, 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	7th June 2016	09th August 2016	4th October 2016	7th December 2016	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
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%	4.00%	4.00%	4.00%
Repo Rate	6.5%	6.5%	6.25%	6.25%	6.25%	6.25%	6.25%	6.00%	6.00%	6.00%	6.00%	6.00%	6.25%	6.50%	6.50%
Reverse Repo Rate	6.00%	6.00%	5.75%	5.75%	5.75%	6.0%	6.0%	5.75%	5.75%	5.75%	5.75%	5.75%	6.0%	6.25%	6.25%
WPI Inflation	0.34% (Apr-2016)	1.62 (Jun-16)	3.74% (Aug-16)	3.39% (Oct-16)	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)
CPI inflatio	5.77	5.77 (Jun-16)	5.05% (Aug-	4.2% (Oct-16)	3.4% (Dec-16)	3.65% (Feb-17)	2.99% (Apr	1.5% (Jun-17)	3.36% (Aug	3.6% (Oct	5.2% (Dec	4.44%	4.6%	5.00%	3.69%

n\@			16)				-17)		-17)	-17)	-17)	(Feb-18)	(Apr-18)	(Jun-18)	(Aug-18)
IIP growth	0.1% (Mar 16)	-0.8% (Apr-16)	-2.4% July 2016	0.7% (Sep-16)	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-18)	4.4% (Mar-18)	3.2% (May-18)	6.60% (Jul-18)
Real GDP growth	7.6%^#	7.6%^#	7.6%^#	7.1% ^##	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 $####

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, ^#GVA growth projection for 2016-17 by RBI \@CPI inflation for the respective month of the year. ^##GVA growth projection for 2016-17 by RBI in monetary policy dated 7 Dec 2016. ^### 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

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

Since the last MPC meeting in August 2018, global economic activity has remained resilient in spite of ongoing trade tensions, but is becoming uneven and the outlook is clouded by several uncertainties. Among advanced economies (AEs), the United States (US) economy appeared to have sustained pace in Q3:2018 as reflected in strong retail sales and robust industrial activity. In the Euro area, economic activity remained subdued due to overall weak economic sentiment, weighed down mainly by political uncertainty. The Japanese economy has so far maintained the momentum of the previous quarter, buoyed by recovering industrial production and strong business optimism.

Economic activity in major emerging market economies (EMEs) has been facing headwinds from both global and country-specific factors. In China, industrial production growth has moderated with slowing exports and the ongoing deleveraging of the financial system weighing on growth prospects. The Russian economy has been gathering steam with the manufacturing sector turning around, and the employment scenario remaining upbeat on rising oil prices. In Brazil, economic activity is recovering from the setback in Q2, supported by improving business and consumer sentiment, though weak domestic demand and the sluggish pace of recovery in manufacturing activity point to a slow revival. The South African economy slipped into recession in Q2:2018, pulled down by the negative contribution from agriculture on account of a strong unfavourable base effect.

Growth in global trade is weakening as reflected in export orders and automobile production and sales. Crude oil prices eased during the first half of August on concerns of reduced demand from EMEs due mainly to the spillover from country-specific turmoil, and accentuated by rising supplies. However, prices rebounded on expectation of reduced 2 supplies due to sanctions on Iran and falling US stockpiles. Base metal prices witnessed selling pressure in anticipation of weak demand from major economies. Gold prices continued to slide lower on a strong US dollar, though they recovered somewhat on safe haven demand from the mid-August lows. Inflation remained firm in the US, reflecting tightening labour market and elevated energy prices, while it persisted much below the central bank's target in Japan. In the Euro area, inflation pressures have been sustained by elevated crude prices. Inflation in many key EMEs has risen on surging crude prices and currency depreciations, caused by a firm dollar and domestic factors.

On the domestic front, real gross domestic product (GDP) growth surged to a nine quarter high of 8.2 per cent in Q1:2018-19, extending the sequential acceleration to four successive quarters. Of the constituents, gross fixed capital formation (GFCF) expanded by double digits for the second consecutive quarter, driven by the government's focus on the road sector and affordable housing. Growth in private final consumption expenditure (PFCE) accelerated to 8.6 per cent, reflecting rising rural and urban spending, supported by retail credit growth. However, government final consumption expenditure (GFCE) decelerated, largely due to a high base. The growth of exports of goods and services jumped to 12.7 per cent, powered by non-oil exports on the back of strong global demand. In spite of import growth continuing to surge, high exports growth helped reduce the drag from net exports on aggregate demand.

Industrial growth, measured by the index of industrial production (IIP), accelerated in June-July 2018 on a year-on-year (y-o-y) basis, underpinned mainly by high growth in consumer durables, notably two-wheelers, readymade garments, stainless steel utensils, auto components and spares, and accessories. Growth in consumer non-durables also accelerated in July. The infrastructure and construction sector continued to show solid growth. Primary goods growth accelerated, driven by mining, electricity and petroleum refinery products. Growth in capital goods production spiked in June, but decelerated sharply in July.

The output of eight core industries growth remained strong in July, driven by coal, petroleum refinery products, steel and cement, but moderated in August. Capacity utilisation (CU) declined from 75.2 per cent in Q4:2017-18 to 73.8 per cent in Q1:2018-

19, while seasonally adjusted CU increased by 1.8 percentage points to the long-term average of 74.9 per cent. Based on the Reserve Bank's business expectations index (BEI), the assessment for Q2:2018-19 improved, led by enhanced production, order books, exports and capacity utilisation. The August and September manufacturing purchasing managers' index (PMI) remained in expansion zone; the September print rebounded close to the July level confirming robustness of manufacturing activity.

Exports maintained double digit growth in July and August 2018, driven mainly by petroleum products (which benefitted from elevated crude oil prices), engineering goods, gems and jewellery, drugs and pharmaceuticals, and chemicals. However, imports grew faster than exports, reflecting not only a higher oil import bill, but also higher imports of gold, coal, electronic goods and machinery. This led to a widening of the trade deficit to US$ 35.3 billion in July-August 2018 from US$ 24.6 billion a year ago over and above the expansion in Q1:2018-19. However, higher net services receipts and private transfer receipts helped contain the current account deficit to 2.4 per cent of GDP in Q1:2018-19 from 2.5 per cent a year ago. On the financing side, net foreign direct investment (FDI) flows improved in April July 2018. By contrast, foreign portfolio investors have been net sellers in both the equity and debt segments so far on a cumulative basis in 2018-19 due to higher US interest rates, risk off sentiment in EMEs and escalation of trade wars. India's foreign exchange reserves were at US$ 400.5 billion on September 28, 2018.

<u>Outlook</u>

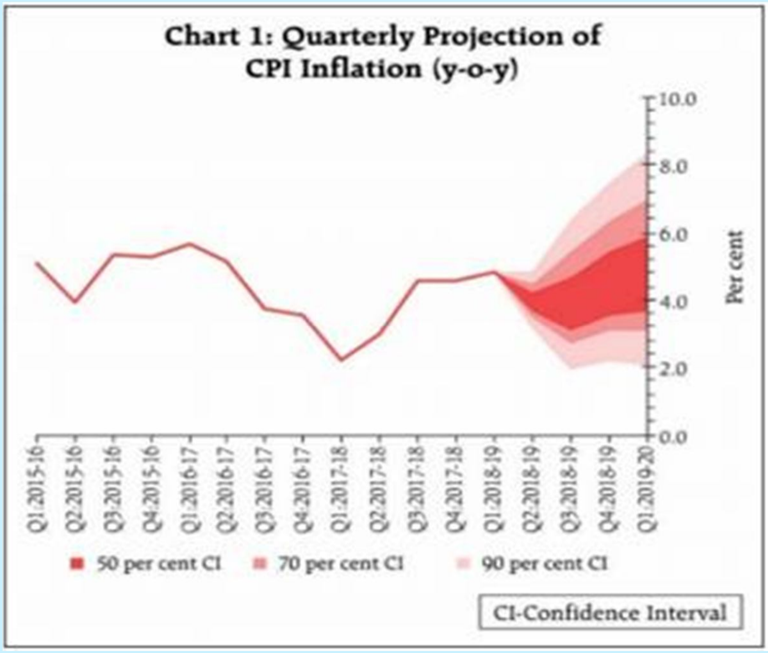
<u>CPI inflation was projected at 4.6 per cent in Q2:2018-19, 4.8 per cent in H2 and 5.0 per cent in Q1:2019-20, including the HRA impact for central government employees, with risks evenly balanced. While, GDP growth projection for 2018-19 is retained at 7.4 per cent as in the August resolution, with risks broadly balanced; GDP growth for Q1:2019-20 is projected marginally lower at 7.4 per cent as against 7.5 per cent in the August resolution, mainly due to the strong base effect.</u>

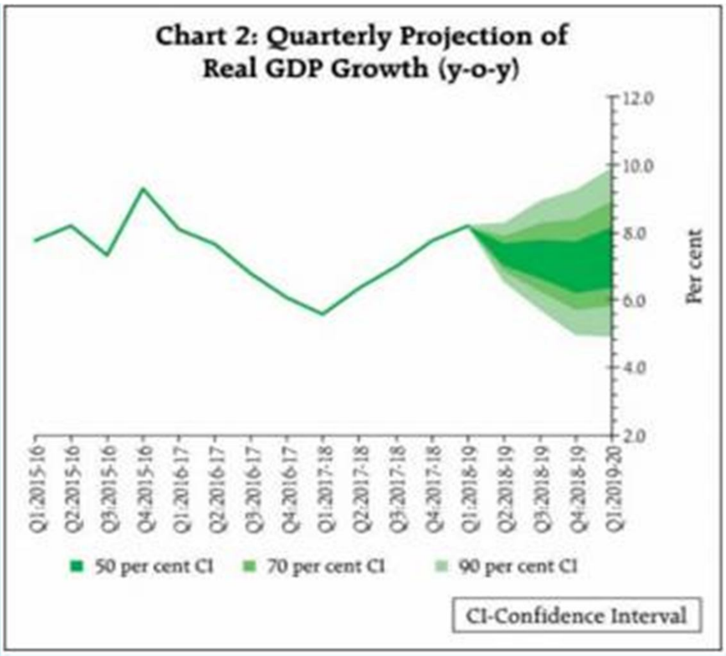
In the third bi-monthly resolution of August 2018, CPI inflation was projected at 4.6 per cent in Q2:2018-19, 4.8 per cent in H2 and 5.0 per cent in Q1:2019-20, with risks evenly balanced. Excluding the HRA impact, CPI inflation was projected at 4.4 per cent in Q2:2018- 19, 4.7-4.8 per cent in H2 and 5.0 per cent in Q1:2019-20. Actual inflation outcomes, especially in August, were below projections as the expected seasonal increase in food prices did not materialise and inflation excluding food and fuel moderated.

Going forward, the inflation outlook is expected to be influenced by several factors. First, food inflation has remained unusually benign, which imparts a downward bias to its trajectory in the second half of the year. Inflation in key food items such as pulses, edible oils, sugar, fruits and vegetables remains exceptionally soft at this juncture. The risk to food inflation from spatially and temporally uneven rainfall is also mitigated, as confirmed by the first advance estimates that have placed production of major kharif crops for 2018-19 higher than last year's record. An estimate of the impact of an increase in minimum support prices (MSPs) announced in July has been factored in the baseline projections. Secondly, the price of the Indian basket of crude oil has increased sharply, by US$ 13 a barrel, since the last resolution. Thirdly, international financial markets remained volatile with EME currencies depreciating significantly. Finally, the HRA effect came off its peak in June and is dissipating gradually on expected lines. Taking all these factors into consideration, inflation is 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 is 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.

Turning to the growth outlook, the GDP print of Q1:2018-19 was significantly higher than that projected in the August resolution. 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 utilisation, larger FDI inflows and increased financial resources to the corporate sector augur well for investment activity. However, 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. This adverse impact will be alleviated to the extent corporates are able to pass on increases in their input costs. Uncertainty surrounds the outlook for exports. Tailwinds from the recent depreciation of the rupee could be muted by the slowing down of global trade 5 and the escalating tariff war. Based on an overall assessment, GDP growth projection for 2018-19 is retained at 7.4 per cent as in the August resolution (7.4 per cent in Q2 and 7.1-7.3 per cent in H2), with risks broadly balanced; the path in the August resolution was 7.5 per cent in Q2:2018-19 and 7.3-7.4 per cent in H2. GDP growth for Q1:2019-20 is now projected marginally lower at 7.4 per cent as against 7.5 per cent in the August resolution, mainly due to the strong base effect.

Quarterly projection of CPI inflation (y-o-y) **Quarterly projection of real GDP growth (y-o-y)**





Source: RBI

The MPC has noted that global headwinds in the form of escalating trade tensions, volatile and rising oil prices, and tightening of global financial conditions pose substantial risks to the growth and inflation outlook. It is, therefore, imperative to further strengthen domestic macroeconomic fundamentals.

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