

## APRIL MPC MINUTES

18 April 2019

### Rate cut if data supports

**The downward revision in growth and inflation trajectory prompted MPC members to reduce rates in April. Stance was maintained given the uncertain growth and inflation outlook. The deviation from RBI's growth and inflation trajectory will decide the future course of policy rates. The recent increase in oil prices confounds the outlook. Benign food inflation is likely to continue led by cereal inflation as vegetable prices increase. We believe muted growth and dovish outlook of global central banks is likely to open up room for another cut in H1.**

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### KEY HIGHLIGHTS

- Growth remained a major concerns for MPC members.
- Negative output gap and benign inflation outlook led to rate cut.
- Dr Ghate & Dr Acharya remained cautious on inflation.

**Growth concerns drove MPC to cut rates:** MPC members took cognizance of the recent slowdown in domestic and global growth momentum, notably with domestic private and government consumption, exports and non-oil-non-gold imports slowing down. Since MPC meeting, the scenario has not changed much with incremental data such as IIP growth at a 20-month low of 0.1% and (-) 2.7% decline in non-oil-non-gold imports suggesting a continued slowdown. While state governments seem to have stepped up spending in Q4FY19, FY20BE suggest deceleration in spending by state governments as well. Exports are also unlikely to revive soon. However, Dr. Ghate echoed his February view that blip in growth is temporary.

**Rising oil prices a concern:** MPC members spoke about benign CPI inflation on the back of 1) moderate food inflation, 2) 160bps and 170bps decline in 3-month and 1-year ahead inflation expectations of households over the last four surveys and 3) some moderation in CPI inflation excluding food and fuel. RBI again revised its inflation projections for Q4FY19 and H1FY20 by as much as 40bps and 30bps respectively to 2.4% and 3% respectively. Actual Q4 print is 2.5%. The recent run-up in oil prices (4% in Mar'19 and 5% in Apr'19) is negative for inflation outlook. However, a normal monsoon will help in ensuring benign food inflation. The forecast for 1-year ahead period is still at 4%.

**Room for further rate cuts?:** The tone of minutes suggest a lot depends upon incoming data. Growth is likely to be weaker than what RBI is projecting as visible in data released since last MPC meeting. However, CPI inflation has also risen for two consecutive months. While food inflation will increase on the back of higher vegetable prices, the moderation in cereal inflation is positive. If CPI inflation continues to undershoot RBI's trajectory, another rate cut is on the cards. Will it be less than 25bps, is another question that time will tell.



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