

FEBRUARY MPC MINUTES

21 February 2019

Dovish tilt by MPC members

Growth seems to be the overwhelming concern for MPC members as global and domestic slowdown bites. It has gained a pre-eminence as inflation is well within RBI's durable target of 4%. A muted global growth bodes well for domestic inflation as oil prices should remain at current levels. Global and domestic food inflation outlook is also benign. Inflation has continued to decelerate even in Jan'19. A disappointing Q3GDP and benign Feb'19 inflation print will open room for further reduction. Higher oil prices are a risk to our view.

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Jahnvi

jahnvi@bankofbaroda.com

Sonal Badhan

sonal.badhan@bankofbaroda.com

MPC members vote for growth: Most MPC members agreed that growth is slowing down on account of a global slowdown due to trade tensions and Brexit. In addition, domestic consumption, services and manufacturing has been decelerating as evident in high frequency indicators such as car and two-wheeler sales, muted IIP growth and exports and railway freight and air passenger traffic. Only Dr. Ghate was of the view that growth is robust despite some soft spots. MPC members revised FY20 growth to 7.4% from 7.6% (Dec'18 forecast). On the output gap, only one MPC member believes that gap has almost closed while others believe there is room to support growth through lower interest rates as inflation trajectory is below RBI's target.

Majority expect inflation to be benign: RBI revised its inflation outlook lower by as much as 70bps for H1FY20. For Q3FY20 inflation is projected at 3.9%. Dr. Ghate and Dr Acharya were of the view that it might be prudent to wait and consider a few more inflation prints before reducing rates. Most members did raise concern on inflation excluding food and fuel remaining high. However, the increase in education and health could be one-off. This along with a benign structural view on global and domestic food supply implies lower food and retail inflation over the next 12 months. Lower global growth outlook implies lower oil prices and thus benign inflation outlook for India.

Room for further rate cuts: The tone of minutes suggest that MPC members are likely to consider more rate cuts if growth disappoints. As Dr Patra stated that if the primary target for headline inflation is achieved on a reasonably lasting basis, it opens up some headroom to address the objective of growth. Jan'19 inflation decelerated to 2.05% from 2.2% in Dec'18. The above backdrop opens up room for further easing. Disappointing Q3GDP and muted Feb'19 inflation may make a case for another rate cut by RBI.

KEY HIGHLIGHTS

- Growth forecast for FY20 revised downwards to 7.4%.
- Inflation expected to remain subdued, oil prices and food inflation, key to watch.
- Space opening up for more rate cuts.



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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com