

## First Read

# APAC Economic Comment

## India: RBI rates unchanged; provides guidance

### Economics

#### India

### Next policy decision will probably be taken by MPC

Having left RBI policy rates unchanged as expected the Governor expressed hope that the next (4 Oct) policy decision would be taken by a Monetary Policy Committee (MPC). Everything is in place for the MPC to take over policy setting once the Government has announced its choice of the next Governor and three remaining MPC members. Dr. Rajan stated that Dr Michael Patra would be the RBI's nominee on the committee alongside the (next) Governor and Deputy Governor in charge of monetary policy, currently Dr. Urjit Patel. Dr Patra is a long time RBI staff economist; since November 2014 he has been Executive Director in charge of the departments of communications, economic analysis and policy research and monetary policy. In RBI post policy decision press conferences Dr Patra has provided explanations of the RBI's economic projections and should, possibly along with Dr Patel, be a source of continuity in the policy debate.

### Bias to ease

Dr Rajan's last monetary policy statement highlighted the upside risks to inflation but during the press conference comments by the Governor and Dr Urjit Patel were biased towards why such risks might prove unfounded and what might allow lower policy rates. The unpredictability of the weather has led the RBI to wait for clear evidence of moderating food prices rather than anticipate the impact of the hitherto better than normal monsoon on agricultural prices. The Governor guided that disinflationary moves in food prices, sustained moderate energy price inflation and confirmation of service price inflation below 5% might create space for easier policy. The RBI is waiting for further details on the implementation of Allowances under the Central Pay Commission (CPC) and GST rates. This said, both the Governor and Dr Patel highlighted that GST could push prices down as well as up. Neither the implementation of GST nor the impact of Allowances under the CPC, if they are judged to be temporary in their impact on inflation, appear as yet to be barriers to lower policy rates. In coming policy decisions that judgement should rest on the MPC but the guidance above keeps us comfortable projecting one further 25bp cut in RBI policy rates by end CY 2016.

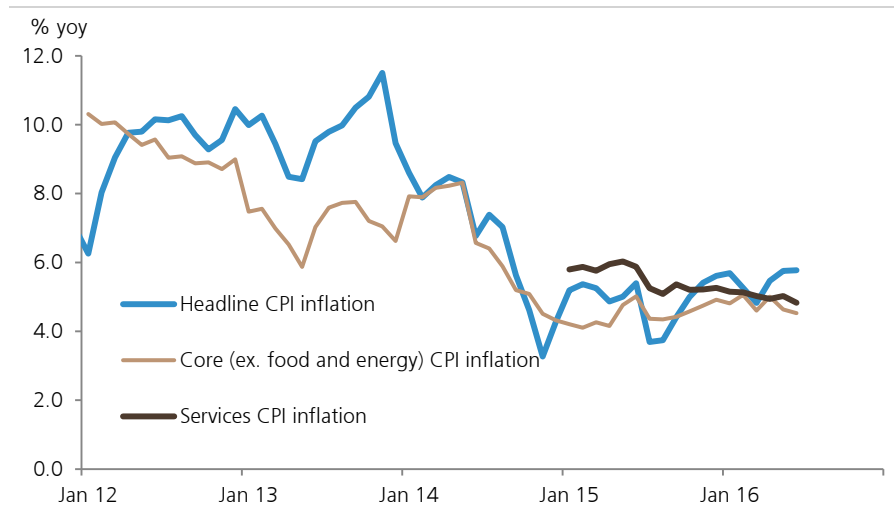
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**Figure 1: Services price inflation below 5% could encourage RBI to cut rates**



Source: UBS, Haver (Note: services CPI is based on UBS weighted avg of services items in CPI)

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