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PARTICIPANTS FROM RBI:

MR. SHAKTIKANTA DAS – GOVERNOR, RESERVE BANK OF INDIA
MR. N. S. VISHWANATHAN – DEPUTY GOVERNOR, RESERVE BANK OF INDIA
MR. B. P. KANUNGO – DEPUTY GOVERNOR, RESERVE BANK OF INDIA
MR. MAHESH KUMAR JAIN – DEPUTY GOVERNOR, RESERVE BANK OF INDIA
DR. MICHAEL D. PATRA – DEPUTY GOVERNOR, RESERVE BANK OF INDIA
MR. T. RABI SANKAR – EXECUTIVE DIRECTOR, RESERVE BANK OF INDIA

Shaktikanta Das: Good afternoon. I welcome all the media persons and my colleagues from the Reserve Bank to the last Monetary Policy of the current financial year, and what also happens to be the first Monetary Policy Committee press conference of the new calendar year.

So, there is an element of consistency between the last meeting in December and this meeting in January in terms of the fact that we have kept the rates unchanged and the stance also unchanged. So, there is continuity, but it should not be read as a pointer for the future action or the Monetary Policy Committee. The Monetary Policy Committee will be guided by the evolving situation and take whatever steps are required at the appropriate time in the most opportune manner to optimize the impact of various Monetary Policy actions.

So, with these words, I would first like to make the statement, thereafter my colleagues and I we will answer your questions.

Over the last three days, i.e., during 4th, 5th and 6th February, 2020 the Monetary Policy Committee (MPC) met and assessed current and evolving macroeconomic and financial conditions and the outlook. After extensive and drill-down review and discussions, the MPC voted unanimously to keep the policy rate unchanged. It also decided to continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.

While this decision may be on expected lines and perhaps widely discounted, it is important not to discount the RBI! It has to be kept in mind that the central bank has several instruments at its command that it can deploy to address the challenges that the Indian economy currently faces in terms of the sluggishness in the growth momentum. Consequently, even though the present monetary policy decision is constrained by elevated inflation pressures, there are other ways in which the RBI can strive to revive growth. I know I have whetted your curiosity, but first let me briefly explain the main considerations underlying the MPC's decision.

At this stage, I would like to express my gratitude to the MPC members for their insights and careful evaluation, which shaped the policy decisions. The MPC's Resolution has just been released on the RBI's website.

I also want to thank our teams in the RBI for their continued high-quality support to the MPC's work through their hard work, research and logistics.

The MPC noted that since its meeting in early December 2019, global economic activity remains subdued; however, some variations in macroeconomic performance are becoming evident among major economies. In the US, the pace of growth has been broadly maintained in the second half of 2019; but in the euro area, the UK and Japan, economic activity has slowed down in Q4. Among emerging market economies (EMEs), the Chinese economy decelerated to a 29-year low in 2019, while a loss of momentum was manifest in Russia, Brazil and South Africa. Crude oil prices have softened from mid-January with a sharp fall towards the end of the month, triggered by the outbreak of the coronavirus. With international food prices rising on higher demand and supply disruptions, inflation has edged up in some major AEs and EMEs. Global financial markets remained resilient in December 2019 and January 2020 as thawing US-China trade relations and improved prospects of an orderly Brexit buoyed investors' sentiments.

Turning to the Indian economy, the first advance estimates (FAE) released by the National Statistical Office (NSO) on January 7, 2020 placed India's real gross domestic product (GDP) growth for 2019-20 at 5.0 per cent. In terms of high frequency indicators, both production and imports of capital goods – two key pointers of investment activity – continued to contract in November and December. Government expenditure, especially of the Centre, is providing counter-cyclical support to domestic demand.

On the supply side, Rabi sowing has been higher by 9.5 per cent up to January 31, 2020 compared with a year ago, and horticulture production is estimated to have risen by 0.8 per cent to a record level in 2019-20. Industrial activity improved in November after contracting in the previous three months. The output of core industries returned to positive territory in December after four months of contraction, which augurs well for the December 2019 industrial production print. Capacity utilisation (CU) in the manufacturing sector, however, fell in Q2:2019-20 even on a seasonally adjusted basis. The manufacturing sector faced weak demand conditions in Q3:2019-20, though business sentiment is improving. This is corroborated by the manufacturing purchasing managers' index (PMI) which picked up sharply in January 2020 on the back of increased output and new orders. In the services sector, several high frequency indicators have turned upwards in the recent period, such as tractor sales (representing rural demand), domestic air passenger traffic (an indicator of urban demand), three-wheeler sales, railway freight and port traffic. The PMI services index also improved sharply in January 2020, boosted by a rise in new business and output. On the other hand, passenger vehicle sales contracted in December.

Retail inflation, measured by the CPI, surged to 7.4 per cent in December, the highest reading since July 2014. Food inflation rose to double digits, primarily caused by a spike in onion prices due to unseasonal rains in October-November (excluding onions, headline inflation would have been 5.2 per cent). Prices of several other food sub-groups such as milk, pulses, cereals, edible oils, eggs, meat and fish also firmed up. Fuel prices moved out of deflation. Inflation in CPI excluding food and fuel (or core inflation) continued to edge up from its October trough.

In the external sector, merchandise export growth continued to contract in November-December 2019, reflecting the slowdown in global trade. Import growth slumped further in November-December 2019, reflecting the underlying weakness in domestic demand. Net foreign direct investment, however, rose to US$ 24.4 billion in April-November 2019 from US$ 21.2 billion a year ago. Net foreign portfolio investment was of the order of US$ 8.6 billion in 2019-20 (up to February 4) as against net outflows of US$ 14.2 billion in the same period last year. In addition, net investments by FPIs under the voluntary retention route have aggregated US$ 7.8 billion since March 11, 2019. External commercial borrowings were higher at US$ 13.4 billion during April-December 2019 as compared with US$ 2.5 billion during the same period a year ago. India's foreign exchange reserves were at US$ 471.4 billion on February 4, 2020 – an increase of US$ 58.5 billion over end-March 2019.

Taking into consideration these factors, the MPC revised the CPI inflation projection upwards to 6.5 per cent for Q4:2019-20; 5.4-5.0 per cent for H1:2020-21; and 3.2 per cent for Q3:2020-21, with risks broadly balanced. It also projected GDP growth for 2020-21 at 6.0 per cent – in the range of 5.5-6.0 per cent in H1 and 6.2 per cent in Q3. While doing so, the MPC noted that inflation has surged above the upper tolerance band around the target in December 2019. Over the coming weeks and months, onion prices are likely to ebb as supply conditions improve but this could be tempered by hardening of prices of other food items, notably those of pulses and proteins, and adjustments to telecom charges. Accordingly, the MPC will remain vigilant about the potential generalisation of inflationary pressures. At the same time, the economy remains weak and the output gap is negative. Financial flows to the commercial sector have improved in recent months. The Union Budget 2020-21 has introduced several measures to provide an impetus to growth, including the emphasis on boosting the rural economy and infrastructure, income tax rate readjustments, GST rate reductions and the corporate tax rate cuts of September 2019. Given the evolving growth-inflation dynamic, the MPC felt it appropriate to maintain status quo on the policy repo rate but resolved to continue with the accommodative stance as long as necessary to revive growth, while ensuring that inflation remains within the target. The MPC also recognised that there is monetary policy space for future action.

I want to use the backdrop of the MPC's deliberations to explain how the RBI envisages the impact of the monetary policy decision on reviving growth while ensuing price stability. It is necessary to recognise that the transmission of policy rate reductions has been sizable across various money and bond market segments. As against the cumulative reduction in the policy repo rate by 135 bps since February 2019, transmission to various money and corporate debt market segments ranged from 146 bps (overnight call money market) to 190 bps (3-month CPs of non-banking finance companies). Transmission through the longer end of government securities market was at 73 bps (5-year government securities) and 76 bps (10-year government securities).

Moreover, transmission to the credit market is gradually improving. The 1-year median marginal cost of funds-based lending rate (MCLR) has declined by 55 bps during February 2019 and January 2020. The weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks has declined by 69 bps and the WALR on outstanding rupee loans by 13 bps during February-December 2019. The external benchmark system introduced from October 1, 2019 has strengthened monetary transmission further. Most banks have linked their lending rates for housing, personal and micro and small enterprises (MSEs) to the policy repo rate of the Reserve Bank. During October-December 2019, the WALRs of domestic banks (public and private sector) on fresh rupee loans declined by 18 bps for housing loans, 87 bps for vehicle loans and 23 bps for loans to micro, small and medium enterprises (MSMEs). These developments should amplify the effects of the cumulative policy rate reductions since February 2019 and help boost domestic demand going forward.

Underlying the decline in GDP growth in 2019-20 is a deceleration in private consumption, stagnation in investment and contraction in both exports and imports under the impact of the slowdown in global growth and trade. Looking ahead, the pick-up in GDP growth in 2020-21 is likely to be led by private consumption, which should benefit from higher spending power on account of the reduction in GST rates and income tax rate reductions for middle-income slabs. Rural incomes would be supported by the expected bumper rabi production and the recent improvement in terms of trade for the farm sector on account of higher food prices. The outlook for investment is also showing signs of improvement. The corporate tax regime brought in from September 2019 should improve the competitiveness of Indian businesses. There is some evidence from unaudited balance sheets of listed firms that the corporate tax cut has bolstered their retained earnings which, in turn, is being ploughed back into creation of fixed assets rather than into financial investments or cash holdings. Furthermore, the Union Budget envisages that capital outlay excluding defence would expand by 26.2 per cent, which could crowd in private investment. Overall, gross fixed investment could rise and propel domestic demand, income and employment. Sectors that could benefit from the Union Budget's capex commitments are power, cement, aviation and transport, and roads. The RBI will continue to be watchful of how these growth potentials actually play out.

Turning to inflation, the main driver of the recent surge has been onion and other vegetable prices, as explained earlier. Softening of onion prices has already commenced with arrivals of the late kharif crop. As regards prices of other vegetables, the usual winter softening has been delayed but potato prices have started to ease and prices of other vegetables may soften over the coming weeks. Cereal prices may also soften if destocking sales are undertaken in order to accommodate procurement of the bumper rabi crop. On the other hand, the staggered revisions of milk prices may have a more lasting influence on headline inflation. Prices of pulses are firm but they may remain range-bound on pro-active supply management measures by the Government. Overall, the greatly improved prospects for the rabi harvest augur well for food prices in the summer of 2020. One-off cost push increases in respect of mobile telephone charges and prices of essential medicines are likely to push up CPI inflation excluding food and fuel and the possible spillovers will need careful monitoring. The projections indicate that inflation pressures could ebb in the second half of 2020-21 and ease below the target in Q4.

Meanwhile, downside risks to global growth have increased in the context of the outbreak of the coronavirus, the full effects of which are still uncertain and unfolding. A well executed contingency plan may, however, minimise the negative impact of this headwind.

Barring the intensification of global risks, I would like to emphasise that there is policy space available for future action. This space needs to be used appropriately and should be suitably timed to optimise its impact on growth. Although monetary policy action is constrained at this juncture by the inflation outlook, these pressures should ease going forward. In such a situation, the RBI has several other instruments to address the challenges to growth by improving monetary transmission as well as by incentivising the flow of bank credit to productive sectors of the economy. The policy initiatives announced under developmental and regulatory measures address these objectives, thereby amplifying the intent of monetary policy to support growth, while ensuring that inflation remains within the target. Needless to add that the aspect of financial stability is always kept in mind while designing any new regulatory measure.

Thus the developmental and regulatory policy measures seek to facilitate credit flows to certain sectors, reinforce monetary transmission, strengthen regulation and supervision, broaden and deepen financial markets and improve the payment and settlement systems.

Revised Liquidity Framework

As announced in the Statement on Developmental and Regulatory Policies of June 6, 2019, an Internal Working Group was set up to review the liquidity management framework. Based on the feedback received on the draft report from stakeholders and members of the public, the liquidity management framework is being revised. The framework is simplified by doing away with targeted provisions linked to net demand and time liabilities (NDTL). Multiple operations for multiple tenors would be replaced by one fortnightly operation at the beginning of the reporting fortnight, followed by fine-tuning operations every day, as required. Liquidity operations shall ensure adequate provision of liquidity to the banking system. The corridor system remains unchanged, and the call money rate continues to be the operating target of liquidity operations. Finally, the revised framework introduces longer term liquidity management instruments to manage durable liquidity.

Long Term Repo Operations (LTROs)

Since June 2019, the Reserve Bank has ensured that comfortable liquidity is available in the system to facilitate the transmission of monetary policy actions. With a view to assuring banks about the availability of durable liquidity at reasonable cost relative to prevailing market conditions and to further encourage banks to undertake maturity transformation smoothly and seamlessly so as to augment credit flows to productive sectors, the Reserve Bank shall conduct term repos of one-year and three-year tenors in appropriate sizes for up to a total amount of ₹ 1,00,000 crore from the fortnight beginning on February 15, 2020 at the policy rate.

Incentivising Bank Credit to Specific Productive Sectors

Alongside sustained efforts to improve monetary transmission, the Reserve Bank is actively engaged in revitalizing the flow of bank credit to productive sectors having multiplier effects to support impulses of growth. Accordingly, scheduled commercial banks will be allowed to deduct the equivalent of incremental credit disbursed by them as retail loans for automobiles, residential housing and loans to micro, small and medium enterprises (MSMEs), over and above the outstanding level of credit to these segments as at the end of the fortnight ending on January 31, 2020 from their net demand and time liabilities (NDTL) for maintenance of cash reserve ratio (CRR). This exemption will be available for incremental credit extended up to the fortnight ending on July 31, 2020.

External Benchmarking of New Floating Rate Loans by Banks to Medium Enterprises

Drawing upon the experience of linking all new floating rate personal or retail loans and floating rate loans to micro and small enterprises (MSEs) to external benchmarks, the pricing of loans by scheduled commercial banks for medium enterprises is also being linked to an external benchmark effective April 1, 2020.

Extension of One-time Restructuring Scheme for MSME advances

In order to create an enabling environment for the micro, small and medium enterprises (MSME) sector in its efforts towards increased formalisation and to facilitate them to tide over this transition, the Reserve Bank has decided to extend the benefit of one time restructuring without an asset classification downgrade to GST registered MSME accounts that were in default but standard as on January 1, 2020. The restructuring under the scheme has to be implemented latest by December 31, 2020. Incidentally, the theme of this year's financial literacy week has been selected as "Micro, Small and Medium Enterprises (MSMEs)," which will be observed from February 10 to February 14, 2020.

Guidelines on Projects under implementation in Commercial Real Estate sector

Complementing the initiatives taken by the Government of India in the real estate sector, the reserve bank has decided to permit extension of the date of commencement of commercial operations (DCCO) of project loans for commercial real estate, delayed for reasons beyond the control of promoters, by another one year without downgrading the asset classification in line with the treatment accorded to other project loans for the non-infrastructure sector.

Regional Rural Banks - Permission for Merchant Acquiring Business

To give a fillip to digital banking and to enable RRBs to provide cost effective and user-friendly solutions to their customers, Regional Rural Banks (RRBs) are being allowed, like other commercial banks, to act as merchant acquiring banks using Aadhaar Pay – BHIM app and POS terminals.

Financial Markets

With regard to financial markets, transparency of the rupee interest rate derivative (IRD) market is sought to be enhanced by proposing that all rupee IRD transactions of market makers and their related entities globally shall be accounted for in India. This measure would, in addition, encourage non-resident participation, enhance the role of domestic market makers in the offshore market, and strengthen regulatory oversight.

The introduction of legislation for netting of financial transactions, proposed in the Union Budget 2020-21, would be a significant enabler for efficient margining. A proper margining system would enhance credibility of the market mechanism and discourage excessive risk-taking. Accordingly, directions are being issued regarding exchange of variation margin (VM) for non-centrally cleared derivatives (NCCDs) by end-March 2020.

Payment and Settlement System

Measures in the payment and settlement space include (a) construction and dissemination of a composite 'Digital Payments Index' (DPI) to capture the extent of digitisation of payments; (b) a framework for a Self-Regulatory Organisation (SRO) for orderly operations of the entities in the digital payment system; and (c) expanding the reach of cheque truncation system (CTS) pan-India.

So, with this I will stop and we will now entertain questions which, as I said, my colleagues and I will be will be happy to answer.

Govardhan Rangan

The Economic Times: Sir, unlike last time, there is no surprise on the interstate side. But you have come up with long-term repo operations of ₹1 lakh crore and you have exempt CRR, so, some of these things. So, if you could explain what is the idea behind the broader theme? Is a kind of interest rate cut hidden there?

Shaktikanta Das: No, basically it is an effort to ensure better Monetary Policy transmission, because we are giving it at the policy rate. So ₹ 1 lakh crore we want to inject into the banking system and that will enable the banks to reduce their lending rates.

Pradeep Pandya

CNBC Awaaz: Sir, you said that there is space is available for policy action, and from your inflation forecast it seems that inflation will peak out by the next policy, as per our current projection of CPI. So, will this be sufficient for the next rate cut action? Or you are seeing a certain level of CPI, like it should become below 5.5% or 5%, and only then you will take action?

Shaktikanta Das: If you see the experience of last year's in the Monetary Policy statements of 2019, it was full of surprises. The unseasonal rains which happened in October and November were completely unexpected. And that's why I have said that the onion prices alone accounted for something like 328 basis points in food inflation, and about 2%, about 200 basis points in the overall headline inflation. That was a big surprise. On vegetable prices also there were surprises. As of now, as it looks, I think in the current quarter we have peaked the headline inflation, according to our projection. Further, the inflation is expected to go down, headline inflation 5.4%, then 5.1%, and then it goes below 4%, i.e., 3.2%. So, once the downward slope starts, then we have to see how quickly and how steeply the downward slope is actually playing out. Then, based on that the Monetary Policy Committee will take decision at that time. I cannot say at this point of time when the MPC will act, because so many other factors also play their role and impact inflation.

Pradeep Pandya: So, any rate cut can be expected, but when will it happen that decision is yet to be taken?

Shaktikanta Das: Definitely. I have said that policy space is available. So that is very clear that we have policy space, but it will depend on the evolving situation. And the MPC, as in 2019, will be very very productive, even in 2020.

Latha Venkatesh
CNBC TV 18: Sir, can you give us some date for the inclusion of Indian bonds in global indexes? Any timeline on when will the first security without FPI limits be issued? Any details that you can add on that? As well, now the new thing that you have announced is this long-term repo, one year and three years- is it only ₹ 1 lakh crore or will it be systematic, you will do more? And will that mean that it will replace OMOs to some extent?

Dr. Michael D. Patra: The long-term repo operations are not intended to replace the OMO, the OMOs are outrights, right? So, the idea is to somehow help banks to reduce the cost of funds for on-lending. That's why it's at the repo rate. And it also gives some the assurance of durable liquidity in their hands, and that should encourage them, especially when they are seeing the deposit rates are rigid downwards. That's the idea.

Latha Venkatesh: Index?

Shaktikanta Das: Probably you are referring to the statement in the Budget Speech by the Finance Minister, but the certain government bonds will have no limit with regard to non-resident participation. But, the primary objective of that is that it reflects the robustness of the Indian economy now that we can accept higher foreign investment, mobilize higher foreign capital to meet our domestic requirements, but that will flow in terms of rupees, it's not a dollar investment. So, it is basically reflective of the robustness of the Indian economy. And also, to a considerable extent, foreign savings are being mobilized to meet our domestic requirements. So, therefore, the pressure on the domestic savings to meet the requirements of the government to that extent also gets minimized. And with regard to inclusion in index, that is something which has to be worked out.

Latha Venkatesh: Sir, there is no amount or anything on the special securities?

Shaktikanta Das: We are working on that; it is a work in progress.

Ira Dugal

Bloomberg Quint: Governor, I am a little confused about the broader framework of Monetary Policy. On the one hand, you are saying that you cannot reduce rates right now due to the inflation pressures, you have said they are elevated, highly uncertain, slight hawkish tinge is there to the tonality. On the other hand, liquidity is in extreme surplus, it continues to be that way. And, between December and February you have introduced the Operation Twist. It is not clear then what is sort of the framework of Monetary Policy within which you are operating? And, what were you trying to achieve through Operation Twist if it wasn't just for bringing down rates broadly?

Dr. Michael D. Patra: The Monetary Policy framework as defined in the RBI Act, has the main objective of price stability, keeping in mind the objective of growth, that doesn't change. Liquidity management is the operating procedure of Monetary Policy, the way it is implemented, that remains the same. It's only been simplified, and refined, and new instruments have been brought in.

Ira Dugal: No, my question was different. You are, sort of, accommodative, but your liquidity is ₹ 2 lakh crore to ₹ 3 lakh crore surplus, continuing that way. T-Bill rates have now moved up, but there was a period where they were close to reverse repo rate. So, there is then de-facto another cut, some private borrowers were borrowing at close to reverse repo, and you had Operation Twist wanting to bring down rates at the long end. So, if you wanted to bring down rates you could have just cut the repo rate, right?

Shaktikanta Das: You see, there are several options available to the Reserve Bank of India. And we use these instruments. You are suggesting one option, but we decided to choose the other option. In any case, the surplus liquidity as I have stated earlier, we are keeping so as to ensure that there is better Monetary Policy transmission. So, that is why we are keeping the rate as a surplus, because notwithstanding our 135 basis points, there has to be adequate liquidity. So, it's only from June that the system became surplus in liquidity.

Ira Dugal: Operation Twist for instance, what was it targeted at? Was it targeted at bringing the long end down or pushing up the short end?

Shaktikanta Das: No, 'Operation Twist' is again an instrument used to ensure better Monetary Policy transmission. As you know, the corporate bonds are benchmarked to the lending rates in the G-Sec segment. So, by Operation Twist, if you are able to soften the yields on government securities at the longer end, let's say 10 year G-Sec rate, if you are able to bring it down, then that acts as a benchmark for the corporate loan rates. So, the effort was mainly to ensure better policy transmission to the corporate bond market, not so much to manage the yield on government securities. Yield in government securities, it comes in the line of transmission, in the middle of transmission.

Ira Dugal: So, then how far will you go to manage the long end of the curve?

Shaktikanta Das: That will depend on the evolving situation, we are monitoring. As and when it is required we will take necessary steps.

Mythili Bhusnurmath
ET Now: Governor, I have a question. The Union Budget had a number of steps to incentivize forex flows in to the country, whether it is sovereign wealth funds, investing infrastructure area, also in terms of the specified government securities without limit. At a time when we have got huge forex inflows, whether by FPI, ECBs, etc., is this the right time to incentivize further flows? Because it creates huge problems for the RBI in terms of managing liquidity, in terms of rupee appreciation. And there is always a danger of this flowing over into higher inflationary pressures.

My second question is that you have adopted a slightly convoluted route I thought, to incentivizing credit flows in certain sectors- incremental credit, over 31st March, up to 31st of July etc.; why not lower the risk? I invite your attention to Mark Carney's interview to Financial Times where he said that if you want to increase credit flow, apart from Monetary Policy, this must be supplemented by easing capital requirements of banks. And this comes from a former governor of the Bank of England. So, is the RBI kind of thinking a little bit about getting a little bit more relaxed about capital adequacy? If you really want to incentivize, why not lower risk weights for these sectors?

Shaktikanta Das: As I said in my statement, the underlying theme of all our decisions is financial stability. So, therefore, before touching certain macro prudential regulations, with regard to capital and risk weight, etc., we have to be very, very careful. I would request Deputy Governor Vishwanathan to reply.

N.S. Vishwanathan: There are various views on this. I can also refer you to very interesting IMF working papers which say that use of risk weights is not the right tool to incentivize credit flow. So, there isn't one single view on this. So, we believe that prudence is one part, and you should not lower prudence in whatever you do. In whatever we do, as Governor has spelled out, financial stability is the underpinning and that's why we thought this is the way to do it.

Latha Venkatesh: Why only six months, why not for a longer period? The facility of lower CRR for incremental housing, car and MSME loans?

Shaktikanta Das: No, it's a balanced call that we have taken at this point of time, it is too early.

Latha Venkatesh: This is not the busy season, busy season is post October. You are giving an encouragement in the slack season, that's why I asked.

Shaktikanta Das: We have just announced it today. The circular will be issued. So too early to say whether we will give an extension. So, at this point if there was such a thing we would have straightaway announced it.

Mythili: What about forex flows, sir? You didn't answer my questions about forex flows? Are you okay with encouraging it even more? Short-term, hot money?

Shaktikanta Das: No, hot money is your definition, I am not saying so. And usually the government bonds that will be selected, if they are longer tenure bonds then certainly the money which will come in, will not be hot money, it will come in for 10 years or five years or whatever, or even longer tenor, whatever is selected. So, therefore, at this point of time, we are, as I again mentioned, it is a balanced and a calibrated call that we have taken. With regard to forex inflows, we are regularly, as you know, it is very carefully and intensely monitored in the Reserve Bank of India. And it again reflects the strength and the rising robustness and the strength of the Indian economy that today we can absorb so much, and our reserves have already touched US$ 471.6 billion, which I announced today. So, we will be able to deal with the inflows. And there are various instruments available to the Reserve Bank, if a situation warrants at any time to intervene.

Anup Roy

Business Standard: Governor, sir, I just need a clarification on this three year repo that you mentioned. You said that it will improve transmission. Now, what happens if a bank borrows now at 5.15% and one year down the line you increase interest rate, the banks will be obliged to pass on the rate that time, because they have locked in three year money with you? That is one clarification that I need, how that transmission works?

Another is that, under the FRBM Act, once the trigger clause is exercised, the government can also monetize their deficit with RBI. So, is that a concern for you?

Shaktikanta Das: No, at the moment there is no such plan, let me be very clear. At the moment there is no such plan of monetizing the government deficit. The borrowing numbers also are there before you. The increase in the borrowing in the next financial year, in fact in the current financial year despite the fiscal deficit going up to 3.8% the open market borrowing number remains the same. And next year, the increase is only by ₹ 70,000 crore. And if you I think calculated as a percentage of GDP, it compares very well, I think it's little lower than the current year borrowing.

With regard to the other point, which you mentioned, I would request the DG to reply.

N. S. Vishwanathan: This is basically liquidity management that we are getting into. It's a possible thing that you are saying- how the banks would act is a call the banks will have to take based on the three year interest rate scenario. That is a possibility. But currently, what we are looking at is that the banks, if they are just borrowing overnight, it comes back to us overnight in the reverse repo window. So, we want them to borrow for a longer term, which will actually again move in the form of lending. So, we want banks to be able to lend rather than come back to us in the form of a reverse repo, overnight.

Dr. Michael D. Patra: It is mentioned in the policy that these three years repo will be given at the policy rate today, i.e., 5.15%. So, repo locks that in. If we change the policy rate, and we undertake repos at that time, they will be at different rates, but this is locked in at 5.15%.

Anup Roy: If it is locked in, how does the transmission happen then?

Dr. Michael D. Patra: So, you get funds at 5.15%, whereas the average cost of funds, taking into account the deposits and wholesale is much higher than that.

Anup Roy: Sir, can the banks return the money? Or they are locked in for three years? And, what will the interest be?

Dr. Michael D. Patra: They will return the money after three years at 5.15%.

Shaktikanta Das: We will offer this and the banks will only take that much which they require. It is not a compulsory thing. It's an option that we are giving to the banks. So, it is for the banks to take it and I am sure the banks will assess their requirement.

Mayur Shetty
The Times of India: Governor, you made funds cheaper for lending to retail and housing and auto. But at the same time, these segments are linked to the repo rate. So how do you expect the rates to be passed on, is it through a revision of the spread? And also, wouldn't the deposit insurance increase make cost of funds higher for banks?

B.P. Kanungo: About deposit insurance cover, as you know, the Budget announcement was made. The deposit insurance cover has been increased from ₹1 lakh to ₹5 lakh. The premium is something which we are considering, it will be increased from 10 paisa to 12 paisa per ₹100 for the time being. So, the impact on the bank's balance sheet is not likely to be much. So, that is as regards the DICGC part is concerned.

Participant: What about transmission by banks, since they are linked now to repo rate?

Shaktikanta Das: No, when they get cheaper funds, it will quicken the process of transmission.

Manojit Saha
The Hindu: I have two questions. One is that the fiscal deficit of 3.8% of the current financial year, was that factored in by RBI? What is the view on the fiscal slippage? Number two is

that the response to the RBI's Specialized Supervisory Cadre was not very good, there was a very poor response. So why do you think there the response was not so good?

Shaktikanta Das: On the second question, it's a purely an internal administrative matter, deal relating to our personnel. It's an in-house issue, we will resolve it in-house. So, I don't want to talk about it in the media. And it will be resolved. With regard to the first point, with regard to fiscal deficit, yes, if you see the MPC resolution, there is a reference to the fiscal deficit. And what RBI is concerned mostly as the debt manager to the government, is about the borrowing numbers, as to what are the borrowing numbers. And on borrowing numbers, I have said that next year's borrowing increases by ₹ 70,000 crore. If I remember correctly, as a percentage of GDP it is a little lower than what we have in the current year. And secondly, part of the borrowing also government has also announced that there will be no limit with regard to non-resident investment in certain government securities. So, therefore, we do hope that it will go through in a non-disruptive manner.

Ankur Mishra Financial Express: First question is that, you have mentioned in your statement that outlook for inflation remains uncertain at least twice. So how should one read that, considering the fact you have already explained that if the inflation remains within the target which you have mentioned, should we expect the rate cut from the RBI later?

And other question is that, you have already mentioned that there is ample liquidity in the system, howeve,r the action on CRR has been there. So, I mean, why the action has been taken if ample liquidity is there?

And third, if you can answer. You have mentioned that 55 basis point decline in MCLR, how much do you see that banks can still pass on? Considering the fact that in the last policy, there was no action from RBI side, but banks did cut something.

Shaktikanta Das: What was the first question?

Ankur Mishra: The first question was that you have already mentioned in policy statement at least twice that outlook for inflation remains uncertain.

Shaktikanta Das: I didn't count how many times we mentioned the word uncertainty. But yes, the way inflation has played out last year, definitely it was full of surprises, especially with regard to food inflation. And I said it earlier, the MPC will closely monitor the situation. And the MPC will act in a proactive manner. When and how, that will depend on the evolving situation. So, I cannot spell out at this point.

Ankur Mishra: But it remains within the range which has been specified in the policy, should we expect the action?

Shaktikanta Das: There is space for action, the MPC will act in time and perhaps act ahead of time as it has done in 2019.

Ankur Mishra: Sir, you didn't answer on the third question.

Shaktikanta Das: You have already asked three questions, so we will answer the other question separately. Let us give chance to others also.

Anirban Nag
Bloomberg: Governor, on the borrowing programme; in the Budget, the government is converting a very sharp, highly sharp amount of ₹ 2.7 trillion from short bonds to long bonds. Does that mean that the RBI will be supporting the government borrowing programme through the Operation Twist that you have launched in the past two months?

Shaktikanta Das: No, on 'Operation Twist', the objective I have clearly explained. It's basically to facilitate monetary transmission to the corporate bond segment, not really to, sort of, do yield management for the government or supporting the government's borrowing programme. But as the debt manager of the government, the RBI always will have to ensure that the government borrowing programme goes through in a very non-disruptive manner.

Parnika Sokhi
Moneycontrol: Sir, a little bit more on the CRR exemption. Was this a demand from the banks? Because they have not been complaining on liquidity actually. Also, is this for only disbursements between this period, or this could be pre-sanctioned loans, but the

disbursements happen in this time? And also, would there be any limits within the segments?

Shaktikanta Das: A circular is being issued; all these details will be spelt out in the circular.

Parnika Sokhi: Okay. Sir, the next question on your views on basically the powers for RBI in terms of supervision of cooperative banks, they have been increased. So, I want to understand if you think these are good enough to address the earlier concerns of dual control.

M. K. Jain: I think it's a positive move and definitely it will strengthen our hands and the powers to supervise and regulate these UCBs in a more effective manner.

Anurag Shah
Zee Business: Sir, the way you have given a concession to these three sectors pertaining to CRR, is the motive behind it to give the customers a leeway, because the linkage which has happened with external benchmarking, there too it won't be as helpful as was planned. Sir, my other question is, in the case of Karvy, SEBI has said that it was a problem from the banks' front, and the matter has been sent to RBI. Has RBI taken any decision regarding the same? And are you in favor of increasing the currency trading time, because now NEFT is open 24 hours?

Shaktikanta Das: Three questions you have asked, first question I have forgotten. The last question was with regard to currency trading hours, at the moment we have no such plans. As and when we take a decision it will be announced, I don't want to give any sort of indication to it. But we will see, we have not decided anything on that. Regarding the Karvy case, I mean, that is internally under consideration, under examination, before any decision has been taken I cannot indicate what will be done. And first question was?

Anurag Shah: Sir, regarding the loans to the three sectors.

Shaktikanta Das: I have already replied to it. The cost of funds is for the banks, cost of funds naturally will have impact on the pricing of loans.

Anurag Shah: So, you agree that external benchmarking has not been beneficial as was intended? And so, banks need to be given more leeway?

Shaktikanta Das: As I said in the last MPC press conference, I had said that 49 basis points transmission has happened. Today I said that 69 basis points transmission has happened on new loans. So, it is improving and it will improve. And the measures that we are taking today, it will further accelerate that process.

Bijoy Idicheriah
Cogencis: Sir, the rupee IRD announcement that has been done today, are you targeting people who are trading in the NDF market who are regulated entities with you disclosing their positions now because they will be transacting there? Also, a very basic question. What is your currency strategy at this point of time, because we are bulking up? Two years ago we were in the US list, at this point of time we are talking about sovereign bond indices. So, the link between policy rates and FX is increasing. We have done FX swaps also. So, these links are all coming together. So, what is the RBI's current currency strategy and the IRD NDF position?

Shaktikanta Das: See, currency strategy is an internal operating procedure, and anything that I say will be market sensitive, so I don't want to say anything. With regard to NDF, ED Rabi Sankar can reply.

T. Rabi Sankar: The idea is not to interfere with what is happening in the NDF market. But currently the market is extremely opaque to us. It's an important policy variable, the interest rate, so we want to improve the transparency of that market, that is that is the basic driving thinking behind this move.

Bijoy Idicheriah: But do you expect them to actually report their transactions? As in, these are people who have chosen not to disclose in the past also when they were involved in these transactions.

T. Rabi Sankar: We will work out the details, but currently what the announcement is, is that not that the transactions will be reported, but the transactions will be in the books of the Indian entity.

Gopika Gopakumar
Mint: You have announced the extension of date of commencement of commercial operations (DCCO) of project loans to commercial real-estate sector. Has RBI

quantified the amount of loans given which will be extended under the scheme? Also, you have said that 'delayed for reasons beyond the control of promoters', who will decide that? Because most of the major reason, or one of the problems in the sector is that there has been syphoning of funds and so on. So, who decides the delay of projects?

Shaktikanta Das: Even the current regulations with regard to infrastructure projects, with regard to non-infrastructure projects, also these one-year or three years is given with regard to reasons beyond their control. And it is very well spelt out. So, a similar thing will be operational here.

Gopika Gopakumar: Could you quantify?

Shaktikanta Das: No, quantification we have not done. This is not something new we are saying. This is already well defined in the case of infrastructure loans and in the case of other loans it is already there. Even in this case it is currently one year, so it's not a new formulation.

Latha Venkatesh: Sir, what about residential, because that's where the problem is, there's not much of a problem in commercial real-estate.

Shaktikanta Das: You see, counter questions can be asked, like for example, retail loans for housing sector we are doing, we are not doing any measures for the commercial estate sector. In commercial estate sector there are many incomplete projects, so it's basically to deal with those incomplete projects, which got delayed for reasons beyond their control because of some environment clearance getting delayed, or some court stay, or some other kind of impediment, which came in their way. And, it is very well spelt out.

Swati Bhat Shetye
Reuters: Governor, I just wanted to understand, with regard to the NDF markets, I mean, we have maintained that we don't intervene there. But if you look at the RBI bulletin, there are five months in the last one year where in the intervention part of it we have mentioned onshore and offshore markets. And it is not a template change because that's not there in every bulletin. What is the reason for us mentioning onshore and offshore in those intervention, like five times in the last one year, where exactly where we intervening when we say offshore? Just wanted that clarification.

Shaktikanta Das: We will have to check up.

Swati: This is in the section where we gave the dollar buy-sale. So, in the bulletin, just five times in the last one year, it's been a small part, but we have mentioned intervention in onshore and offshore, in brackets, whereas usually it's just onshore rupee markets. So why was that offshore word included there? And are we actually intervening in the NDF markets?

Shaktikanta Das: I will have to checkup which report you are referring to, I will check up and provide that clarification separately.

Ira Dugal: Small clarification, sir LTRO will be government bonds only, right?

Dr. Michael D. Patra: We accept no other collateral.

Mythili Bhusnurmath: Governor, one small clarification. The MPC has accepted 5% GDP growth for this year, whereas after the revised estimates, actually, because of the lowering of the base, it gets bumped up to 5.7%. Was this taken on account by the MPC and did you opt for 5% thinking that actually it will be less, then even with a bump up you finally only get to 5?

Dr. Michael D. Patra: When the first advance estimates are put out by the National Statistics Office, they don't put out a level, they put out a weighted average growth rate. So, they take the indicators, they grow rates, and they average it and give the growth rate. So, the 5% doesn't change.

Mythili Bhusnurmath: If you take the revised estimates, because last year's goes on from 6.8%. The base has changed, 6.8% goes to 6.1%.

Dr. Michael D. Patra: It's just a growth rate, you apply it to any base you will get 5%.

N.S. Vishwanathan: See, that will not alter the 5%. We have checked on that point.

Gopika Gopakumar: Governor, any update on the PMC Bank?

Shaktikanta Das: I think the PMC Bank, the administrator and the Advisory Committee, they have now greater clarity with regard to the various financial position of the bank, and they are working out the next course of action.

George Mathew
Indian Express: Sir, will the benefit of hike in deposit insurance be available to banks, which are currently under administration and could possibly go into liquidation actually?

B.P. Kanungo: Actually, as per the DICGC Act, the insurance premium is paid only when the bank goes into liquidation. But we also have a scheme under which DICGC aides the restructuring. So, there are different schemes.

Shaktikanta Das: Okay then, so, we will conclude. Thank you very much. And if there are other questions which you have, there will be occasion to meet again and we can meet separately also. Thank you very much for your patience.