Edited Transcript of Reserve Bank of India's Monetary Policy Press Conference: February 05, 2021

Participants from RBI:
Shri Shaktikanta Das – Governor, Reserve Bank of India
Shri B.P. Kanungo – Deputy Governor, Reserve Bank of India
Shri M. K. Jain – Deputy Governor, Reserve Bank of India
Dr. Michael D. Patra – Deputy Governor, Reserve Bank of India
Shri M. Rajeshwar Rao – Deputy Governor, Reserve Bank of India
Shri Yogesh Dayal – Chief General Manager, Reserve Bank of India

Yogesh Dayal (Moderator):

Good afternoon, all of you. I welcome the Governor and Deputy Governors for this press conference, and, as I mentioned earlier, we'll have an orderly arrangement in this press conference and call out the names of the persons for asking questions. So we can make the best use of time. May I start the proceeding, sir?

Shaktikanta Das:

Yes, go ahead.

Yogesh Dayal:

Thank you, sir. I will request Latha Venkatesh from CNBC TV18 to start her question, please.

Latha Venkatesh, CNBC TV18:

Thank you very much for the opportunity, Governor. Well, the first question I have is the Reserve Bank had given this forward guidance of accommodative stance into the next year. The market had understood it as June. Would you want to extend it, well into 2021 calendar? As well, you have started normalising by introducing the variable rate reverse repo for 14 days. By when can we expect a full normalisation of the entire

LAF proceedings into variable rate? And, the internal committee of the monetary policy review of inflation targeting- when is that expected, Sir?

Shaktikanta Das:

Thank you, before I reply to your question, I just want to mention one point by way of information. This is very important from RBI's point of view and from the point of view of financial literacy. Every year in February, we celebrate the financial literacy week. This year, the financial literacy week would be observed from 8th February to 12th February on the theme credit discipline and credit from formal institutions. And, RBI and all the banks and other entities are fully geared to carry out this task of financial literacy. We consider this as very important.

Now, coming to your question, the market has its own way of interpreting things. We have said that accommodative stance into the next year, we have not seen anywhere about June and the situation, i.e., the overall situation macro-economic situation is constantly evolving. And so, we will take a call, but we have not spelt out June as the date by which this forward guidance would end.

Latha Venkatesh:

Sir, you have started the variable rate reverse repo auction. So, when will you normalise the entire LAF operations? What is the timetable, if you can give a guidance?

Shaktikanta Das:

If you go through my statement that has now been uploaded in the RBI website, and our MPC resolution is also there in the website; I have explained what exactly the variable rate reverse repo auctions means. It is a part of our toolkit, which was very much there before the pandemic set in. And, if you see it carefully, the overall liquidity remains the same. And out of that, a certain portion is taken under the 14 day, reverse repo window. Otherwise, the total liquidity available to the banking system remains the same. And I have explained this question of normalisation, I mean, what you are referring to as normalisation, I have put it in proper context and explained it. And our liquidity stance at the moment continues to be accommodative, and is in consonance with the overall monetary policy stance of being accommodative. So, I'll stop here.

Yogesh Dayal:

Thank you, Sir. May I request madam Mythili Bhusnurmath from ET Now to ask her question?

Mythili Bhusnurmath, ET Now:

Thank you. I'm taking off from where Latha left on the forward guidance of keeping monetary policy accommodative. This is presumably based on the assumption earlier that the fiscal deficit would be in the range of 6 to 7%. Now that we know it's going to be around 9.5% this year and maybe 6.8% next year, and maybe even these are under estimates. Was there any discussion in the MPC on the wisdom of such long term guidance, particularly since it seems to have boosted asset markets more than the real economy? And earlier there was an MPC member who expressed his reservations about the use of the word 'decided' in giving forward guidance.

And if I may ask a certain question, you had said that the evolution of an orderly yield market is a public good. Would you like to qualify that and say that it is a public good not for all stakeholders, but for some stakeholders, because for savers, it has definitely not been a public good, they are getting negative real rates of interest.

Shaktikanta Das:

With regard to the MPC deciding, you said that earlier one member had a different point of view, this time both components of our decision, whether it relates to the rate or it relates to the stance; both the decisions this time are unanimous, and even in the last meeting, both the decisions were unanimous. With regard to the orderly evolution of the yield curve, we had said 'public good' and I would not agree that it is only for one segment of the market, that is, the G-sec market. Basically, the G-sec yields are the benchmarks on which the entire corporate bond markets and all the bonds are priced. So, the bond pricing as well as a host of other activities, other segments of the financial market, the corporate bond market, even to some extent the bank lending approach and the rates are also influenced by the G-sec rates. So, they act as the benchmark and the base on which all these other segments, their interest rates and yields are built up. So, therefore, it is a public good, because eventually the G-sec yields impacts a wider cross section of financial markets. And I had said that financial stability and orderly evolution of yield curve are public goods, I had said it earlier, and I have repeated it this time also.

Mythili Bhusnurmath:

Except for the savers, Governor.

Shaktikanta Das:

Well, that is another call. When the banks are reducing their lending rates, naturally, part of it also goes to the savers. We must also recognise that the small savings schemes, which Government runs or the RBI deposits schemes which we run, these are other avenues and small investors, small savers can use those facilities. And that is how I would like to reply to that. That's it.

Yogesh Dayal:

May I request Ira Dugal from Bloomberg Quint to ask a question please.

Ira Dugal, Bloomberg Quint:

Governor, I'm veering away from monetary policy this time around because of the exciting announcement around G-secs and retail access. I know the details are yet to be announced, but could you just give us some sort of understanding on what direct accounts with the central bank would mean? What would be the nature of something like this? And, would it be too much of a leap to say that if this experiment works well, it in some ways gives us a guardrail or, some rails on which to build access to a central bank digital currency?

Shaktikanta Das:

I would just like to say that this is a major structural reform. I have described it as a structural reform and I'm doing so because world over, very few countries have done that. And as far as I know, very few countries like United States and Brazil have that and in Asia, we are the first country to do it, to the best of my information. And, it has been our endeavour, both of the Government and the RBI for a long time, to make the G-sec market accessible to retail investors. And, we have this aggregator model through stock exchanges and other types of access, which we have provided, but now we are giving a direct access to the retail investors and about the modalities and all, I would request our Deputy Governor, Mr. Kanungo to supplement. With regard to digital currency, we have already released our digital payments document, which spells out that digital currency is a work in progress in the RBI. So, I will pass on the question with regard to these individual Gilt accounts. Mr. Kanungo, Deputy Governor, could you elaborate on that.

B. P. Kanungo:

Thank you, Governor. And, thank you Ira. As Governor has already mentioned, this is a very significant development. As you know, for the past so many years, we have been trying to broad base the Government securities market and with the size of the Government borrowing, it is absolutely necessary that the investor base is broadened. So, this is an important step that has been taken. So far, the retail investors were in a position to access the NDS-OM through an aggregation model, I mean, the stock exchanges were allowed to aggregate the demand and place it to the Reserve Bank of India in the NDS-OM. So, now, going forward, we thought that we should move beyond this and you and I can place a direct bid with the NDS-OM system or our requirement of the Government securities. And in the interest of the DVP system, what it entails is, that this is a paradigm shift that you and I also can open a Gilt account with the Reserve Bank in the e-Kuber system. So, that is what it is that it will be a direct participation in the Government securities market, in the bidding process and in order to operationalize that, the individuals will be allowed to open a Gilt account in the Reserve Bank's e-Kuber system. Please wait for the details, we are coming out with the details very soon. And as Governor has mentioned, on the central bank digital currency, you would recall that it was a Monetary Policy announcement long back, then we had a committee that is still on the drawing board. In fact, an internal committee is taking a close look to decide on the model of the central bank digital currency. And you will hear from the Reserve Bank very soon in the matter. Thank you.

Yogesh Dayal:

Thank you, sir. May I request Mr. Govardhan Rangan from the Economic Times to ask his question?

Govardhan Rangan, The Economic Times:

Sir, you predicted a 10.5% growth for next year, at the same time you mentioned about cost push inflation pressures and still you have kept an accommodative stance. How do you justify the accommodative stance when these two factors are strong? And at the same time, you have staggered the withdrawal of the CRR benefit that you gave to banks and you have said that SLR benefits, the Held To Maturity benefits, that also goes off in two years. How do we read both these measures which appear to be kind of conflicting?

Shaktikanta Das:

I will answer the first part of the question, and second part, I will pass on to Deputy Governor, Dr. Patra. With regard to the 10.5% growth for next year, which we have projected and we have referred to cost push factors, all these aspects have been taken into account and have been duly factored in, in our projection for the CPI inflation, which we are saying will be 5.2% in the current quarter and then going forward, 5.2-5% and thereafter, it is 4.3%. So, all these factors are taken into consideration while giving that projection. So, based on that, the MPC has decided to continue the accommodative stance and I will now request Dr. Patra to supplement and reply to the next question on CRR reduction.

Dr. Michael D. Patra:

Thank you, Governor. Govardhan, if you recall, when we announced the CRR reduction, we had said then, that it would be normalised on March 27 of this year. We gave a full year of dispensation and decided to normalise it on March 27. But we went one step forward. What we did was we did not normalise it in one step. We normalised it in two steps so that 50% will happen on March 27 and 50% is pushed to May. And if you have heard the Governor speaking in the morning, what he said was that the withdrawal of liquidity through CRR will be replenished through more durable liquidity in other forms, which are more market friendly. As regards the dispensation on HTM, the RBI is very conscious that the borrowing programme of the Government needs to go through in a smooth manner just as it happened last year. Just like RBI did several things last year to ensure a smooth, seamless borrowing programme, we will ensure the same for this year, given the size of the borrowing programme, and that is why the HTM dispensation. It is essentially to help banks deal with new issuances of Government securities during the year as part of the borrowing programme while protecting the balance sheets from interest rate risks.

Govardhan Rangan:

And the normalisation that has begun, is it going to be staggered?

Dr. Michael D. Patra:

In case of every normalisation, you have to cross the river by feeling the pebbles. We will calibrate it to how the market responds, how market sentiment pans out, it will not be programmed in a cold turkey method. It has to be in sync with the market sentiment.

Yogesh Dayal:

Thank you, sirs. May I request Swati Khandelwal from Zee Business to ask her question, please?

Swati Khandelwal, Zee Business:

My question is about the NBFC guidelines and the work that's been done so far. So what will we see in this area and any meetings etc. lined up to get the final shape? What are the kinds of timelines that you have set in for the NBFCs and the way forward, Sir?

Shaktikanta Das:

The NBFCs discussion paper is out, we have called for comments. And we have given 30 days' time, the document was released on 22nd January, 2021. So, once the comments come in, we will examine that and take it forward. The key thing to be noted about the NBFC document is the kind of focus it is giving on all aspects of governance. And that is something which you see in our overall approach, running through, whether it relates to banks, or relates to NBFCs, or it relates to the other co-operative banks. The focus of governance is the key thing that you will see as the common underlying theme on all our regulatory and supervisory approaches to various segments of the market, particularly, banks and NBFCs and regulated entities. So, once we get the comments, we will take a decision in this regard. And may also just request all participants to please just confine yourself to one question, so that we are in a position to entertain more questions from more number of participants. Thank you.

Yogesh Dayal:

Thank you, sir. We'll keep that in mind. May I request Shri Anup Roy from Business Standard to ask his single question?

Anup Roy, Business Standard:

Sir, one question about this retail direct scheme. It's a great scheme. Just one clarification, have you considered what impact it will have on banks' deposit mobilisation and mutual funds etc., all these fixed income schemes, they will be rendered probably useless by savvy investors, particularly what impact it will have on the banking system as far as deposit mobilisation is concerned, what are your assessments around that?

Shaktikanta Das:

As the GDP grows, as the country comes back to a higher growth trajectory, as the size of the economy grows, the total volume of savings and deposits, naturally, will expand and the banks have so many other functions and so many other services, which they render. So, we feel that it will not undermine the flow of deposits to banks or mutual funds, it is one more avenue which is now made available, the process has been made now much easier. And, in any case, please remember that even today the small savings rates offer much higher rates than the bank deposits. Notwithstanding that, the bank deposits this year have grown by 11.3%, that is the deposit growth. So, we don't feel that it will in any manner cut in to the bank deposits. I think the size of the pie is too large to support and this is a kind of a new access which we are giving.

Yogesh Dayal:

Thank you sir. May I request Bijoy Idicheriah from Informist Media to ask his question please? Thank you.

Bijoy Idicheriah, Informist Media:

Sir, just a quick question on- you've spoken about how you've been trying to manage how the markets understand your communication and the disconnect that have happened. But there still seems to be a disconnect in the markets' choice of what they would like to see as tools from the RBI and what the RBI seems to be providing, whether it is variable rate and how it was seen by the market or the fact that OMO sizes are now at ₹10,000 even though the RBI had initially set ₹20,000. So, is there any communication that you would want to share on exactly what the liquidity framework is for the markets at this point of time?

Shaktikanta Das:

You see, what happens is that sometimes the market takes a little more time to probably understand our communication and over a period of time the markets do have a better appreciation of what is our communication. With regard to the OMOs, we had announced that we will enhance the OMO to 20,000 crore but then, the situation is constantly evolving. We have a mix between the Operation Twist direct OMO purchase of 20,000 crore, then we made 10,000 crore that was based again on a certain kind of market feedback because the system was already flushed with six and a half lakh crore of liquidity. So, it was in a specific situation that we had taken that decision and it's a constantly evolving situation. The situation is very dynamic and we will use all instruments that I have said in my statement very clearly. In fact, now that the statement is there in the public domain in the website, I think that the liquidity guidance that we have provided could not have been more explicit than what it is. So, I am sure that the market will slowly appreciate it over the next few days.

Yogesh Dayal:

Thank you, sir. May I request Shri Pradeep Pandya from CNBC Awaaz to ask his question?

Pradeep Pandya, CNBC Awaaz:

Governor Sir, my question is on Bad bank. There is a lot of excitement among bankers and investors regarding the concept of bad bank. We want to understand one thing, in your earlier statement we had got to know that it would be an ARC but in the budget speech it was told that it would be an Asset Management Company (AMC). So, what kind of structure would it be and what are the talks in this regard that are going on and what kind of loans would go into this structure? What decision has been taken on this and by when would it be complete, if you could throw some light on this.

Shaktikanta Das:

There have been discussions between RBI and Ministry of Finance on bad bank. And as of now, we await the formal proposal from the Government. Once we receive a formal proposal then we will examine it and take a view. Till the time we don’t get a formal proposal, it will not be right on our part to prematurely comment on it. So, we are waiting for the formal proposal from the Government.

Yogesh Dayal:

Thank you, sir. May I request Mr. Anirban Nag from Bloomberg to ask this question.

Anirban Nag, Bloomberg:

Hello, Governor, good to see you. My question to you is in reference to paragraph 13 in your statement, where you bring about the forex inflows because of risk appetite, a part of the reason is a lot of people tell us is because of the high forward premia that is there in the market, which is encouraging the carry trade. Is there something that you want to do about the forward premium rates?

Shaktikanta Das:

We are very watchful about the forward premia rates and it's not off our radar. And at present, globally, there is a lot of liquidity floating around internationally. And as I mentioned in my statement, India continues to attract a lot of forex capital inflows now. So we are watchful of the forward premia, and if you go by our track record, we have taken measures as and when we consider it necessary. And that's it. We will take steps when it becomes necessary. Dr. Patra, would you like to supplement?

Dr. Michael Patra:

Thank you, Governor. Anirban, our first objective is to protect our domestic markets from these high global spill-overs and you know that there are very high surges of capital inflows and not only that, there is a hunt for yield. And obviously, we have to protect our markets, our markets will remain domestically oriented. So, to that extent, they are premium spikes, we are watchful of them, but through our market operations, we will ensure orderly conditions in all segments of the markets.

Yogesh Dayal:

May I request Mr. Mayur Shetty from Times of India to ask his question please?

Mayur Shetty, The Times of India:

Thank you, my question, Governor, is on the consumption demand. The policy is very optimistic on revival. So, is it clear now, all the growth numbers are being driven by fresh consumer demand and not pent up demand as it was seen earlier?

Shaktikanta Das:

Yes, that is becoming increasingly evident. And we have been tracking some high frequency indicators, the list of these indicators we monitor is a fairly long and in almost all segments we are seeing a sort of growth of demand. So, therefore, demand has now moved beyond pent up demand due to actual demand coming up and as the lockdown gets steadily lifted, and movements are allowed within cities and across the country, the demand will pick up. So, it is no more pent up demand, and I think the demand curve is expected to be much more sustained now.

Yogesh Dayal:

Thank you, sir. May I request Ms. Gopika Gopakumar from Mint to ask a question?

Gopika Gopakumar, Mint:

Governor, this is on the asset quality of banks. In your stress tests, you had mentioned that the gross NPA of banks will go up to 13-13.5% by September. Now, this differs from the projection of banks and rating agencies. And of course, the market wants to know whether there will be a rethink or will RBI revisit how these stress tests are done, so that it gives a clearer picture to the market about any eminent risks. Could you clarify on that?

Shaktikanta Das:

The models for stress tests have been there for quite some time, and we do various scenarios. We do it under baseline scenario, we do it under moderate stress, we do it in severe stress scenario. If you see the baseline scenario that we have projected, is that it will be 12.5%. And, we have been collecting the data from various banks with regard to the size of their individual stress, what kind of NPAs they have. Apart from what comes out in the media, under our supervisory process also, as part of our regular supervision, we do an independent assessment of the actual, the true state of NPAs that the banks have. And, we also take it up with the banks to make provisions for such accounts proactively. And I'm happy to note that many banks have really proactively made provisions in anticipation of high NPAs. And, that's a very positive development, that's a positive feature of the banking sector in the sense that there is wide realisation in the banking sector than they need to provide adequately for the build-up of stress. So, therefore, we are constantly monitoring it and the impact of the standstill which is there on asset classification, the impact of the COVID related resolution framework- all this data is flowing into us on a daily basis. So, we will have a clearer picture as we move ahead.

Yogesh Dayal:

Thank you, sir. May I request Mr. K. Ramkumar from Hindu Business Line to ask his question please?

K. Ramkumar, Hindu Business Line:

Governor, I just wanted to know about, the economic survey is calling for Asset Quality Review once the regulatory forbearance is removed, actually. So I just wanted to know your thoughts, will RBI do a second kind of AQR? Thank you.

Shaktikanta Das:

I just mentioned that as a part of our supervision, and I have said this before also. In the last two years or so, we have really deepened our supervision. In the context of

NBFCs, I had said it two years ago, that short of announcing an AQR, our supervision is doing a deep dive to get a clear picture about the true state of affairs with regard to the non-performing assets or the bad assets and the stressed assets. Similarly, with regard to the banks, it is a part of our supervisory process, we are doing a deep dive, as I just mentioned in response to the previous question, we are making our own assessment of the true state of the NPA level in each of the banks, so, we have a sense of the overall situation. So, we are exactly doing what an AQR needs to do. And, that's already happening as a part of our supervision.

Yogesh Dayal:

May I request Ms. Swati Bhat Shetye from Thomson Reuters to ask a question?

Swati Bhat Shetye, Thomson Reuters:

Good afternoon, sir. I just wanted to understand, with the Government having taken a bold decision to announce higher fiscal deficit, we are actually moving away from the glide path which was originally projected. So, are you aware of any discussions that happened between the Government and rating agencies prior to taking this bold decision? And, is this likely to have any rating impact on India, now that we've taken this move? Thank you.

Shaktikanta Das:

On the rating impact, I would not like to comment. It's for the rating agencies to take their own view. Because it has an impact on the Government borrowing, these things are discussed between the Finance Ministry and the Reserve Bank of India before the budget also. And, the Finance Commission has given a glide path. The deviation from the previous FRBM targets was quite inevitable, considering the impact of the COVID pandemic, when the Government revenues, not only of the Central Government but also State Governments, all the revenues crashed for a few months. But, now it is good to note that the GST revenues have not only come back, but they're actually showing better collections. So, there is a glide path that the Finance Commission has indicated and the Finance Minister has also mentioned that they would be coming out with a glide path so as to reach 4.5% of fiscal deficit by 2025-26. So, we will wait for the Government to take a final view on this and go forward. So as far as RBI is concerned, as the debt manager of the Government, what concerns us is the overall Government borrowing programme and the Debt to GDP of the Government, because we have to manage the debt and it is already under discussion between the Government and the RBI. It was an extraordinary situation, which happened, it's a once in 100 years kind of extraordinary situation. So, we have to see the deviation in that context. But we are confident of dealing with the overall situation in the sense that the current year's borrowing programme, we are confident of managing it in a very non- disruptive and seamless manner. Please go by our track record, we did it in 2020, we have done it in 2021, the lowest borrowing cost in last 15 or 16 years, the average maturity has also got elongated, I have given the figure in my statement. And, we are confident that going forward in 21-22 also, we will be able to implement Government borrowing programme in the most non-disruptive manner. So let there not be any doubt about this. Thank you.

Yogesh Dayal:

I'll invite Mr. Hitesh Vyas from PTI to ask his question.

Hitesh Vyas, PTI:

Sir, my question was regarding PMC Bank. There were three potential investors and they were given time till February 1st to submit their final offers. So, have they submitted their offers and any decision been taken on that?

Shaktikanta Das:

I have been informed that three bids have been received, the final offers have been received. And again, I'm given to understand that the PMC Bank itself is evaluating the offers. They received on 1st of February, today is the 5th of February, they are evaluating it and they will approach us after their evaluation is over for any regulatory permissions. So they will approach us. It is under evaluation. Three offers have been received and they are under evaluation by the bank, that is what I've been informed.

Yogesh Dayal:

May I request Mr. Ankur Mishra from Financial Express to ask the last question please?

Ankur Mishra, Financial Express:

Sir, I wanted to understand what was the thought behind retail Gilt accounts and will there be any definition of retail, if you can clarify?

Shaktikanta Das:

The intention behind it, I have mentioned it and Deputy Governor Mr. Kanungo has also explained it. It is basically to give access to the retail investors to the G-sec market and it is one more option which we would want to provide to the retail investors and with regard to the other aspect that you are mentioning, I would request you to please wait for our guidelines in this regard. We will provide clarity.

Yogesh Dayal:

Thank you, sir. With this, we should come to a close of this press conference. I would like to thank the Governor and the Deputy Governors for making it interactive and all of the participants from all the media houses for being patient and a sport to participate with us. We look forward to more future interactions. Thank you. Good day, stay safe.

Shaktikanta Das:

Thank you. Thank you, everyone. Thank you for your participation.