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Shaktikanta Das: Good afternoon! I will first make the statement on Part A, that is, the matter covering the resolution of the MPC; and Part B, announcements on certain regulatory and developmental policy initiatives.

The Monetary Policy Committee (MPC) met on 5th, 6th and 7th August, 2019 and deliberated over the evolving macroeconomic outlook, against the backdrop of recent developments and incoming data. Today, the MPC voted unanimously to reduce the policy repo rate and to maintain the accommodative stance of monetary policy. As set out in the MPC's resolution, four members voted for a reduction in the policy repo rate by 35 basis points, while two members voted to reduce the policy repo rate by 25 basis points.

I take this opportunity to express my gratitude to the MPC members for valuable and insightful discussions that culminated in the policy decision.

I also wish to thank our teams in the Reserve Bank and express my appreciation for their hard work and dedication with which they supported the MPC's work.

In reviewing global developments, the MPC noted that global economic activity has slowed down since its meeting in June in an environment rendered hostile by elevated trade tensions and geo-political uncertainty. Reflecting subdued demand conditions, crude oil prices have fallen sharply since mid-May. On the other hand, gold prices have risen, propelled by increased safe haven demand. These developments exemplify the high uncertainty weighing on the outlook, amidst rising downside risks to growth. Increasingly, central banks across the world are easing monetary policy, including through 'insurance' rate reductions, and are committing to maintaining accommodation in their policy stances. Meanwhile, inflation remained benign across major advanced and emerging market economies. Financial markets have turned volatile on the back of the monetary policy stances of major central banks and the uncertainty generated by trade and geopolitical tensions.

On domestic developments, the MPC observed that the south-west monsoon is rapidly catching up, with the cumulative rainfall being 6 per cent below the long-period average (LPA) and 25 of the 36 sub-divisions having received normal or excess rainfall as on August 6, 2019. The India Meteorological Department has forecast normal rainfall in August and September. Catch-up is also underway in the area sown under *kharif* crops, which is only 6.6 per cent lower as on August 2 than a year ago. Industrial growth, measured by the index of industrial production (IIP), moderated in May 2019, pulled down by manufacturing and mining. Electricity generation picked up on strong demand. The manufacturing PMI rose to 52.5 in July from 52.1 in June, underpinned by a pick-up in production, higher new orders and optimism on future demand conditions. High frequency indicators of services sector activity for May-June present a mixed picture. Indicators of rural and urban demand as well as construction activity weakened, whereas domestic air passenger traffic growth turned positive in June after three consecutive months of contraction. The services PMI expanded to 53.8 in July from 49.6 in June, on increase in new business activity, new export orders and employment.

Retail inflation, measured by y-o-y change in the CPI, edged up to 3.2 per cent in June from 3.0 per cent in April-May. Food inflation rose to 2.4 per cent in June from 2.0 per cent in May and 1.4 per cent in April, while inflation in the fuel and light group moderated. Excluding food and fuel, inflation remained unchanged after having fallen by 50 basis points to 4.1 per cent in May from 4.6 per cent in April. The softness in inflation in this category was broad-based. Inflation expectations of households moderated by 20 basis points for the one year ahead horizon.

Merchandise exports contracted in June 2019. Imports also contracted and as the fall in imports was larger than that of exports, the trade deficit declined modestly during May-June on a y-o-y basis. On the financing side, net foreign direct investment flows moderated to US$ 6.8 billion in April-May 2019 from US$ 7.9 billion a year ago. Net foreign portfolio investment (FPI) flows in the domestic capital market amounted to US$ 2.3 billion during the current financial year so far (up to August 5, 2019) as against net outflows of US$ 8.5 billion in the same period last year. India's foreign exchange reserves were at US$ 429.0 billion on August 2, 2019 – an increase of US$ 16.1 billion over end-March 2019.

In view of these developments and considering that inflation for the first quarter of 2019-20 was in alignment with its June projections, the MPC has retained its inflation projection at 3.1 per cent for Q2:2019-20 and revised the projection for H2:2019-20 to 3.5-3.7 per cent, with risks evenly balanced, from 3.4-3.7 per cent projected in June. CPI inflation for Q1:2020-21 has been projected at 3.6 per cent.

The MPC has revised downwards the projection of real GDP growth to 6.9 per cent for 2019-20 - 5.8-6.6 per cent for H1:2019-20 and 7.3-7.5 per cent for H2 - with risks somewhat tilted to the downside, against 7.0 per cent in its June resolution - 6.4-6.7 per cent for H1:2019-20 and 7.2-7.5 per cent for H2 – with risks evenly balanced. The downward adjustment in the GDP growth projection was warranted by various high frequency indicators pointing to weakening of both domestic and external demand conditions. On the other hand, the MPC was of the view that the impact of monetary policy easing since February 2019 is expected to support economic activity, going forward.

The MPC has voted for a policy rate reduction of 35 basis points instead of the conventional 25 basis points. Let me explain the rationale underlying this action. Considering the evolving macro-economic outlook, the Reserve Bank has been pre-emptive in its monetary policy actions and stance. Since February 2019, it has reduced the policy repo rate by a cumulative 75 basis points. In addition, it has changed the stance of policy from neutral to accommodative, which is effectively a further reduction in the policy rate since it takes rate increases off the table, while committing to either rate reductions or *status quo*, going forward. Furthermore, sufficient liquidity has been provided to the system, resulting in overnight money market rates trading below the policy rate throughout July and August so far. In today's meeting, the MPC judged that with inflation projected to remain within the target, addressing growth concerns by boosting aggregate demand, especially private investment, assumes the highest priority at this juncture. Against the backdrop of policy actions taken so far, the MPC felt that it is prudent to remain accommodative. While remaining consistent with the inflation mandate, the MPC considered it necessary to calibrate the size of the policy rate cut to the dynamics of the situation. Accordingly, the MPC was of the view that the standard 25 basis points might prove to be inadequate in view of the evolving global and domestic macroeconomic developments. On the other hand, reducing the policy repo rate by, say, 50 basis points might be excessive, especially after taking into account the actions already undertaken. Reducing the policy repo rate by 35 basis points was, therefore, viewed as a balanced level of cut under the circumstances.

Now, I shall turn to some developmental and regulatory policy measures that we have announced today in the areas of financial markets; payment and settlement systems; banking regulation, financial inclusion and credit flows to NBFCs.

As regards financial markets, the Reserve Bank has been making continuous efforts to develop the market for State Development Loans (SDLs) in both primary and secondary segments. In continuation of these efforts, it has been decided to introduce the stripping/reconstitution facility for SDLs in consultation with State governments.

In order to enhance the efficiency and soundness of the payment and settlement systems, several measures are proposed. First, the National Electronic Funds Transfer (NEFT) payment system operated by the Reserve Bank as a retail payment system will be made available on a 24x7 basis from December 2019. This is expected to revolutionise the retail payments system of the country. Second, all categories of billers (except prepaid recharges) who provide for recurring bill payments will be permitted to participate in the Bharat Bill Payment System (BBPS), an interoperable platform for repetitive bill payments, on a voluntary basis. Apart from digitisation of cash-based bill payments, these segments would also benefit from the standardised bill payment experience for customers, centralised customer grievance redressal mechanism, prescribed customer convenience fee and the like. Third, it has been decided to enable diversification of risk and encourage innovation and competition by offering 'on tap' authorisation to entities desirous to function/operate/provide platforms for (i) Bharat Bill Payment Operating Unit (BBPOU); (ii) Trade Receivables Discounting System (TReDS); and (iii) White Label ATMs (WLAs). Fourth, the Reserve Bank will also facilitate the creation of a Central Payment Fraud Registry for tracking payment system frauds. Participants in payment systems will be provided access to this registry for near-real time fraud monitoring. The aggregated fraud data will be published to disseminate information on emerging risks.

In the area of banking regulation, it has been decided to reduce the risk weight for consumer credit including personal loans, but excluding credit card receivables, to 100 per cent from 125 per cent or higher.

Over the last one year, the Reserve Bank has taken several measures to enhance credit flow to the non-banking financial companies (NBFC) sector (which are detailed in the statement on developmental and regulatory policies). In continuation of these efforts, two more measures are now being announced. First, it has been decided to raise a bank's exposure to a single NBFC to 20 per cent of Tier-I capital of the bank, as a step towards harmonisation of the counterparty exposure limit to a single NBFC with that of the general limit. Second, in order to augment the flow of credit to priority sectors that contribute significantly to exports and employment, it has been decided to allow bank lending to registered NBFCs (other than MFIs) for on-lending to (i) agriculture (investment credit) up to ₹ 10 lakhs; (ii) Micro and Small Enterprises up to ₹ 20 lakhs; and (iii) housing up to ₹

20 lakhs per borrower (up from ₹ 10 lakhs at present), to be classified as priority sector lending.

It will be remiss of me not to address issues relating to monetary policy transmission and liquidity management, which have been flagged for prioritized focus in previous statements on developmental and regulatory policies. I also appreciate that market participants and analysts will be looking forward to developments in these spheres.

With regard to monetary policy transmission, it may be recalled that an easing cycle of monetary policy commenced in February 2019, with a cumulative reduction in the policy rate by 75 basis points during February-June. The stance of policy was changed from neutral to accommodative in June. These policy impulses have been transmitted through financial markets fully. The weighted average call money rate (WACR) has declined by 78 bps, market repo rate by 73 bps and 10-year benchmark g-sec yield by 102 bps. Banks, on the other hand, have reduced their interest rates on fresh rupee loans by 29 basis points so far (February-June 2019). Our interactions with various stakeholders, including both public sector and private sector banks, indicate that steps are being taken by them on an ongoing basis to progressively lower their interest rates so that the benefits of the policy rate reductions are passed on to the economy. Accordingly, we expect higher transmission of monetary policy actions and stance by the banks in the weeks and months ahead.

On liquidity management, the system has experienced large surplus conditions since June. The Reserve Bank absorbed liquidity of ₹ 51,710 crore in June, ₹ 1,30,931 crore in July and ₹ 2,11,140 crore in August (up to August 5) on a daily net average basis under the LAF. Two OMO purchase auctions amounting to ₹ 27,500 crore were conducted in June, thereby injecting durable liquidity into the system. The weighted average call money rate (WACR) – the operating target of monetary policy – was aligned with the policy repo rate in June, but it traded below the policy repo rate on a daily average basis by 14 bps in July and 17 bps in August so far. As announced in the Statement of Developmental and Regulatory Policies of June 6, 2019, the Reserve Bank constituted an internal working group to comprehensively review the existing liquidity management framework. The group has reached an advanced stage in its deliberations and its recommendations will be available shortly for public comments. Meanwhile, the Reserve Bank has injected a substantial amount of liquidity into the system through a combination of instruments, including the LAF, open market operations and forex swaps. There is an abundance of liquidity in the system currently, warranting absorptions of surpluses by the Reserve Bank. Surplus liquidity parked in the reverse repo window of the Reserve Bank was almost ₹ 2.0 lakh crore on August 6. The Reserve Bank is committed to ensuring that sufficient liquidity is available so that the needs of all productive sectors of the economy are met. Towards this objective, the Reserve Bank will use its liquidity management instruments to ensure that the system’s requirements of both day-to-day liquidity and durable liquidity are adequately provided.

Thank you.

Pradeep Pandya CNBC Awaaz: Sir, this is a first time in the world that a central bank has done a rate cut of 35 basis points. I remember when you gave your speech, you had said that you wanted to give a strong signal. So, is this a signal for the banks that they should do rate cuts urgently? And is it also a signal that you have a bigger headroom to do rate cuts, so can we expect more such rate cuts in the future?

Shaktikanta Das: What will happen in the future will depend on the incoming data, I do not want to give any sort of indication on that. And, examples are there, precedence is there. When the advanced economies did rate cuts earlier, we had seen rate cuts of 10 to 15 basis points as well. In an increased cycle, perhaps nobody has done rate cuts 35 basis points, or not in multiples of 25 basis points. So, as I explained, in light of the evolving economic situation that we have, the assessment that MPC has about demand conditions and investment conditions, as per MPC's assessment 25 basis point was inadequate, and next multiple of 50 basis points which would have been excessive. So, that's why we have taken a balanced call. At this moment, keeping in view the economy's requirement, MPC has taken this decision.

Ira Dugal

Bloomberg Quint: Governor, just had a basic underlying question on growth. Now, I know you have talked about the sectoral issues etc., but growth has come down very, very steeply from 8% four quarters ago to now 5.8% in the last quarter, maybe 5.6%. What is the RBI's underlying understanding of what is happening in the economy? People have talked about structural issues, whether it's income growth, whether it's savings that is going to be a structural impediment to growth, what is the basic analysis of what is hurting growth right now? Not the sectoral sir, but underlying issues?

Shaktikanta Das: Now, as we have already stated in the MPC resolution, which has already put in the public domain, there is a demand and investment slowdown, both put together are having a dampening effect on the growth. We have ourselves reduced our growth production to 6.9% with risks slightly to the downside. Now, to go into whether it's a structural or cyclical or it is a momentary thing- that is an aspect which requires deeper analysis. Our understanding is that at this point, it is perhaps a cyclical slowdown, not really a deep structural slowdown. But nonetheless, we have to recognize that there is room for certain structural reforms which need to be undertaken. But at this point of time it would appear that it is a cyclical slowdown. And we are still working on it, I think the conclusion would be sort of, I mentioned it a little prematurely, but this is our understanding at this point of time.

Pradeep Pandya: Both urban and rural demand are seeing a hit right now?

Shaktikanta Das: Yes, both urban and rural demand. If you look at it, just to take some examples, let's say rural demand in the form of two wheelers or tractors, or urban demand symbolized by sales of passenger cars have slowed down. So, there is a slowdown, but we are of the view that it is perhaps counter cyclical, and with adequate measures taken by all stakeholders; Reserve Bank on its part has done its part, and the government has initiated certain measures, for example, in the NBFC sector in the budget they have announced package for first loss guarantee up to 10% in the case of NBFCs. So, therefore, I think with measures undertaken, we can see, in our own projection also we have said that in the last quarter we expect the growth in the current year to be 7.5%.

Latha Venkatesh: CNBC TV18 Governor, thank you very much. You said that 50 basis points would still be excessive, but if you look at the current inflation number at 3.1%, and your current repo rate of 5.4%, it is a natural real rate of 210 basis points. And even if I took the one year forward at 3.6% inflation and this 5.4%, the difference is 170 to 180 basis points. So, what is the real rate you are working with? Do you think that in a cutting cycle, the real rate should be lower, should move towards 125, what is the RBI's thinking? And I must ask the other question which is so important, what is the Reserve Bank's view on dollar bond, are you net-net for it or net-net against it.

Shaktikanta Das: See, on dollar bonds I have said it earlier also in the press conference in Delhi immediately after our central board meeting, which was attended by the Finance Minister. We have conveyed our views internally to the government.

Latha Venkatesh: Sir, there has been so much public discussion, can you please give your view point on this.

Shaktikanta Das: No, it's like this. Between the RBI and government there are so many discussions that take place on various issues, and in this case, especially as the debt manager to the government; government does consult and is consulting the Reserve Bank. We are conveying our views and we are discussing with the government, internally. So, for the moment, therefore, I would leave it like at that. I would not like to express my views on this issue- this or that way through the media. Let the discussion move as it is.

And with regard to your question about real interest rate, let me say that this is not the time to look at real interest rates. Currently our focus is to meet the output gap, and there is also a gap in inflation. So, currently our focus is to meet the output, to fill up the output gaps. So, therefore, that is what is now the determining factor with regard to the MPC's decision.

Latha Venkatesh: Sir, you are saying 35 is okay, 50 is excessive. I mean, why is that so?

Shaktikanta Das: Okay. I note your point. But our focus is now to fill the output gap.

Nivrita Ganguly BTVi: Governor, just a follow-up on growth. Because like you mentioned your target has actually been revised slightly upwards for the second half of the year, some of this on account of base effect loss end of those numbers but where you see the recovery being led from, and to that end, I mean, the RBI has been truly accommodative, we already seen a 75 basis points rate cut, and additional 35 basis points rate cut. What more do we need to see for growth to conclusively improve the growth picture? And also, if you could give us an idea of on the transmission front- 29 basis points being passed on after 75 basis point cuts since February that's abysmal at this point, what are the concerns of that? How are they being addressed? You unit say that in the coming weeks and months you are expecting some transmission to go through- what gives you that confidence?

Shaktikanta Das: We have had meetings with both public and private sector banks in two separate sittings, and the system today also, if I can use the word, flushed with liquidity. I have given the numbers. So, therefore, the rate cuts done by the RBI and the liquidity which we have injected, both have now initiated the cycle of rate cuts so far as the fresh new loans from banks are concerned. We have a sense that there will be improvement, RBI is monitoring it regularly. And in future whatever steps are required to ensure faster transmission of rates, the RBI will not hesitate to take those steps.

With regard to growth, let me mention that the combined impact of the measures taken by the government and RBI, you have to see them together. Several measures have been announced by the government in the budget and by various other ministries. Our expectation is, and I am saying this on the basis of our discussions and interaction with the government- that the government will take necessary further measures as may be required to deal with various issues. I heard the Finance Minister the other day commenting in the media that government will address sectoral issues also. So, that plus the RBI's decision to cut the policy rates ensure a situation where the system is surplus with liquidity. I think the credit flow will now revive. And with the measures that we have taken today, it will augment the credit flow into the system. So, therefore, growth numbers will pick up.

And let me say that the last quarter growth is by and large in alignment with what we had projected earlier. It's not as if we have increased that, it is by and large in alignment with what the MPC had projected in June. There is an element of base effect also which comes to play in the second half, especially in the second half and more particularly in Q4 of this year. Therefore, the combined impact of all this gives the confidence that the growth will be better, and there is the base effect aspect also.

Swati Khandelwal: Zee Business

While you are saying that there is liquidity in the system, but when we talk to market participants, there seems to be a bit of discrepancy. Lending is the need of the hour, private sector lending is of highest priority. But that is not happening. And following up from what my colleague just said, banks' rates transmission is a very big concern that you have tried to address, but exactly how do you think it will pan out? And according to you what should be the timelines when you will start seeing the effect of whatever is being done to improve the systems and improve the condition the economy is right now facing?

Shaktikanta Das: You see the lending activity by banks depends on their risk perception. And we cannot tell the banks to whom to lend and to whom to not. As a regulator we cannot say that, it is for banks to consider and examine individual loan applications, individual applications for credit and give the loans. So, far RBI is concerned, we are providing an enabling situation where the banks should be able to ensure better credit flow. We have today, for example, reduced the risk weight for consumer loans, I mentioned that, other than credit card outstanding. Now, we have reduced the risk weight for that- that also would facilitate greater flow of credit. In the NBFC sector we have also said that for priority sector lending, the banks can now do through NBFCs in these sectors which I mentioned, that is, investment loans in agriculture, MSME loans and housing loans up to certain limits. So, therefore, credit flow will pick up. And let us remember that the banks have just come out of the overhang of the NPA and other problems. They were experiencing continuous quarters of loss that they were incurring. Now, I think some of them are turning around. So, given the overall situation, our expectation is that the credit flow will improve in the coming weeks and months.

Mythili Bhusnurmath
ET Now: In a scenario where the MPC is a rate setting body, but the Governor still remains the interface between monetary and fiscal policy, is it incumbent on the Governor to caution the government about excessive reliance on monetary policy, because, when you do that, it is like a bullock cart driven by one pulling head and the other not. For the simple reason that RBI's control over inflation is limited, given the weightage of food and fuel, as you said that in case of financial markets the pass through has been much more rapid, so government G-sec yield have fallen more; so there is a case for greater government flexibility also along with RBI. Otherwise, it will serve no purpose and inflation could again come back. So, as RBI's

Governor as a friend, philosopher and guide to government- is it incumbent on the Governor to caution the government and have you done that?

Shaktikanta Das: I cannot claim to be the philosopher and guide of the government. But let me say that we have constant interaction with the government at very high levels, and we do convey our views on various issues. There was a question about the external sovereign bond issue and the other issues which you have mentioned. There is a constant interaction between the RBI and the government. And, we do convey whatever we feel is required for the economy, whatever are our expectations from the economy, we do convey with the government. It is a very active interaction with the government which goes on.

Mythili Bhusnurmath: Isn't too much is being demanded from the monetary policy front?

Shaktikanta Das: The decision of the MPC is its own independent autonomous decision.

Mythili Bhusnurmath: True. But you are the person who conveys that decision, and while conveying the decision it is not just 35 basis points cut, there is something more that you add. So, are you adding that to the government?

Shaktikanta Das: It's for you to judge.

Govardhan Rangan:

Economic Times You cut the growth forecast and you have been maintaining that cut so far, I mean, almost 100 basis points if one takes the liquidity measures as well as the shift in the stance. And despite that there has been a demand slump. So, what stopped you from going back to 50 basis points cut now and why would that be excessive? Why did the MPC think that 50 bps would be excessive when the despite the total basis points cut so far, the demand has slumped.

Shaktikanta Das: You see, in policymaking there is something called, 'you take a call'. Now when you take a call there is something more than mere numbers,

numbers are important, numbers are paramount, our assessment of the incoming data, how we see the incoming data, we have given our projection for inflation, for growth. Similarly, for other areas also we have an appreciation, we have an assessment of the incoming data. But, finally when you take the decision there is something called- you need to take a call, which is little beyond what is there just in the data. It's not just that, it is something more. So, therefore, the MPC in its considered opinion took the view that 35 basis points is adequate.

Govardhan Rangan:
Economic Times So, what was that more that stopped you from going for a 50 basis points rate cut?

Shaktikanta Das: You see, it's difficult to spell out. And if I say gut feeling, then you will interpret saying that RBI decides to on the basis of gut feeling, it is not so. Let me say it is not on the basis of gut feeling, it is driven by data, a lot of discussion which takes place. And at this point of time, it was considered that 35 basis points is adequate. Now, you tell me if I counter this question with another question, why should it be 25, why should it be 50, what is so sacred about multiples of 25? I have articulated it earlier also. There is nothing sacred about 25 or multiples of 25, it has just been adopted and it has become the convention. So, therefore, when you do something little out of convention, too much should not be read into it. So, it is a judgment call, which the MPC has taken and let me once again say that there is nothing sacrosanct about 25 or multiples thereof. MPC in its considered opinion though 35 is adequate.

Manojit Saha:
The Hindu The rupee is under pressure once again and given the outlook for oil prices now it could depreciate a little further. Do you think the rupee movement going ahead could constrain RBI in its effort to push growth?

Shaktikanta Das: On the rupee front, it will not be correct, it will not be appropriate for me to give some kind of a forward guidance. I will just repeat the stated policy of the RBI. It is RBI's responsibility to manage volatility of the rupee. So, beyond that, it will not be right for me to give any kind of indication or forward guidance.

Pradeep Pandya:
CNBC Awaaz Sir, while projecting CPI, what is the rupee assumption that you have?

Dr. Michael D. Patra: We use the prevailing exchange rate. It is an average. It has to be of the relevant period.

Shaktikanta Das: Roughly we take, as he said, about previous 2 weeks or so, we take the average.

Shayan Ghosh
Mint: While there is a lot of emphasis on transmission of rates, why has not the RBI yet mandated the external benchmarking? Why is it still being deferred after revealing it several months ago?

Shaktikanta Das: We do recognize that the banks are coming out of their problem of NPAs. Deposit growth has been slow. So, administratively, we did not want to mandate it at that particular time, but as I mentioned little earlier, we are monitoring the situation and RBI will take whatever steps are required to ensure better transmission. It is better to allow the market forces to play. Wherever regulatory interventions are required, the RBI will take necessary regulatory measures.

Shayan Ghosh: Is it off the table?

Shaktikanta Das: No, I did not say that it is off the table or on the table. I only had stated earlier that on the external benchmark, we are again having stakeholder consultation and we have put it into review. So, all options are available to the Reserve Bank. So, we will take a considered call as and when the situation warrants.

Swati Bhat Shetye:

Reuters Governor I want to understand, you mentioned all the measures that you have taken for the NBFCs, but right now shadow banks or NBFCs have become a kind of bad word in the market, nobody is going to them, they are still saying that they still are not able to raise money. And you have cut rates quite significantly, but despite that they do not have access to borrow at the cheaper rates and we are opening up ECBs for them but how soon do you think credit will actually start flowing with that sector because like you mentioned in the policy statement yourself that a large part of the economy depends on this NBFC sector. So, the entire change that we are talking of- growth could not come in without them reviving. So, how soon you think that will happen?

Shaktikanta Das: Let me say that even today as we are talking here, there are NBFCs, a good part of NBFCs have strong balance sheet and they are able to access the market for credit. I was looking at the commercial paper rates. There are today NBFCs with solid and better looking balance sheets which are able to access commercial paper let us say - 3 months CP or 1 month CP- they are able to get it at rates which prevailed last year in July that is last year in June or July, that is, pre-IL&FS. So, they are able to access it at that rate. So, credit flow is there. There are some NBFCs which are stressed because of various factors and to them the credit flow has not happened, but then again it is for banks to make their risk assessment and take their call.

Bijoy Idicheriah:

Cogencis You spoke about the system being flush with liquidity. So, at this point of time there is a sense that the RBI is comfortable with a lot of action that is happening in the market, driven at the reverse repo rate. Is that a good reading for what the RBI is doing at this point? Also, as you said it is a convention, but does 35 bps throw in more uncertainty in figuring out where the next move will come- whether it will be 15 bps, whether it will be 25 bps, whether it will be 35 bps- does it throw more uncertainty into the policy making mix?

And, I know I am just pushing my luck here, but on currency manipulation, you had spoken out a few days ago at the IMF event, if you could use this forum to speak out on the fact that bilaterally if countries are going to tag each other as currency manipulators what the fallout of that would be for emerging markets like us?

Shaktikanta Das: No, I think on currency front, I have already articulated my views. All that I said is that it is necessary for a multilateral forum like IMF to play a more proactive role and they have come out with a policy framework during the April 2019 spring meeting of the IMF. I articulated that it should become the basis of the framework to deal with all these issues. As regards with current currency skirmish if you can call it, it is between two other countries, it is not proper for me to comment on that.

Bijoy Idicheriah: Reverse repo and the uncertainty on that?

Shaktikanta Das: No, I do not think there is any need for uncertainty. Even when you do a 25 basis points rate cut or rate increase, the uncertainty still remains because no central bank; of course there are advanced economies that do it, but at least in RBI, it is difficult for us, it is not possible for us given the kind of volatility we have. We are subject to the volatility of crude prices. We are subject to the volatility of the US Fed stance and we are subject to volatilities of escalating trade tensions, geopolitical tensions. So, it is very difficult for RBI to give a kind of forward guidance about what is going to be the monetary policy in terms of rate increase or rate pause or rate cut. The only forward guidance that we are able to give is that our stance is now accommodative which means that rate increase is off the table and so that is what it means and uncertainty can arise even if you do a 25 basis points cut.

Latha Venkatesh: When we did CNBC TV18 poll on expectations from the policy, everybody wanted to know whether you can give comfort on liquidity. So, will there be durable liquidity up to 1% of NDTL? Any comfort? People look for it so I am putting that request to you. Second question which I wanted to know is do you suspect the banks are cartelizing and therefore not passing on rate cuts?

Shaktikanta Das: On banks cartelizing, let me be very clear. We do not have that sense at all. I think my colleagues will vouch for me that we do not have that sense at all. There is no cartelization, let us be clear on that. SBI has taken the lead, but others are yet to do that. And with regard to liquidity, I think let me read the last sentence of my statement. Towards this objective, that is, I had said that the Reserve Bank is committed to ensuring sufficient liquidity is available so that needs a whole productive sector of the economy are met. I also said that towards this objective the RBI will use its liquidity management instruments to ensure that the system's requirement for both day to day liquidity and durable liquidity are adequately provided.

Anup Roy:
Business Standard Sir, you mentioned that MPCs priority now is to aid the private sector investment through rate cuts or whatever. But in this environment where there is so much of NPA, banks are becoming very aggressive about recovery. They are dragging them to IBC. Do you think private companies will be wanting to take loans for Capex and do you think the way forward is that the government should start spending- public spending should follow the private spending and investment?

Shaktikanta Das: No, let focus on the MPC decisions, but with regard to the government spending, one point that you would have also noticed that government expenditure has significantly picked up. They were slow in the first quarter that is, in April, May and June. If you look back, it happens in an election year, but from July onwards, government expenditures have picked up. In fact, that is one of the reasons contributing to the surplus liquidity.

Anirban Nag:

Bloomberg Just quick question as far as liquidity tools go that is a CRR cut on the table? Second- how long and how far do you see this rate cut cycle continuing?

Shaktikanta Das: At the moment, there is no such proposal for CRR cut and in any case what decision we will take in the future, I would not like to spell out and I cannot, because as and when the decision is taken, we will put it in the public domain. It is not that we take a decision and hold it back and so as and when any decision is taken on CRR or for that matter, any other aspect, we will put it in the public domain. With regard to the future rate cycle, you have to wait. It will depend on the incoming data and how the macroeconomic situation evolves. We have taken certain measures, government has taken certain measures and more measures are expected. So let us see how the overall situation evolves.

Anand Adhikari:

Business Today Sir, globally we are seeing the Central bankers adding more gold to the reserves. I just wanted to know if RBI is also thinking of the same line in terms of diversifying or adding more gold.

B. P. Kanungo: It is a normal Central Bank practice to diversify their asset portfolio in terms of foreign exchange assets. So, to achieve that objective, the central banks do add gold to diversify their assets and Reserve Bank in the past also has added gold.

Anand Adhikari: It is around 6% of the total reserves?

B. P. Kanungo: No, there is no target in mind. We do it opportunistically if we want to diversify our asset portfolio.

Shritama Bose:

Financial Express Two things- one, to what extent are rate cuts even impacting investment in the economy at the moment and the other question is with respect to the ECB framework being eased for Indian companies. Given their track record on forex hedging, are not you worried about the fresh currency risk arising from the easing of framework?

Shaktikanta Das: On ECBs, we have an overall limit of 6.5% of GDP. That is the overall limit for all FPI inflows for ECB etc., so we constantly monitor it. So, as long as it is within that limit, we do not perceive any extra risk or any such apprehensions we don't have. With regard to the impact on investment, we will have to see how it pans out.

Ira Dugal: Sir, is this the right time be cutting risk weight on consumer credits? There is some concern on overleveraging already that the cycle is maturing in the past, the RBI cautioned the banks and I think too much the retail sector, several data showing certain segments of over leverage. In this kind of a situation, are we cutting risk weight sir?

Shaktikanta Das: No, it is actually harmonization. I would request my colleague, DG N. S. Viswanathan to explain it.

N. S. Viswanathan: Actually, 125% risk weight is much higher than what Basel requires us to maintain, number one. Number two, the 125% was done at a time when the credit growth in the system was heating up excessively.

Ira Dugal: When was it done, sir?

N. S. Viswanathan: It was in 2004.

Mythili Bhusnurmath: Is the RBI okay with insurance companies and mutual funds wanting to be part of the Inter Creditor Agreement? Because RBI is responsible for the safety of banks but both insurance companies and mutual funds now want to part of the Inter Creditor Agreement, will that not delay the process?

Shaktikanta Das: We came out with the 7th June circular which is replacement of the earlier 12th February circular and we have provided a framework for resolution of bad loans to the banks and we have made the Inter Creditor Agreement mandatory. Now when the banks dealt with individual cases, they found that a good portion of the outstanding of individual corporates or entities- they are from insurance companies from mutual funds and others. Now when you have an intercreditor agreement which covers, let us say only 50 or 60% of the outstanding of the company, then you are not doing anything about the remaining 40 or 50%. So therefore it is necessary to look at the whole situation, look at the whole liability of an entity comprehensively. So, we have had inter-regulator meeting at very senior levels, our deputy governors and the members from SEBI, from IRDA, all the inter-regulator meetings were held and IRDA has taken a decision to enable the insurance companies to be part of the Inter Creditor Agreement. Our discussions with other regulators are ongoing and so unless you look at the total outstanding comprehensively, you may not make good progress. Anything you would like to add, Mr. Vishwanathan?

N. S. Vishwanathan: Basically the simple point is that the Governor said unless all the debtors come to some terms such how to deal with it, it becomes a problem.

Mythili Bhusnurmath: Sir, insurance companies always lend and this was a situation earlier also. Different securities for different loans.

N. S. Vishwanathan: We do not have a problem if ICA provides for different treatment for different types of creditors, we don’t have the problem with that. The idea is that it provides a framework to deal with the stressed assets.

K Ramkumar

Hindu Business Line: Household sector savings is coming down actually. At the same time, household sector liabilities are going up. So how concerned is RBI with this kind of situation? And second question is about payment banks. Out of five payment banks, two have been given up their license, so what is fundamentally wrong with this model?

N. S. Vishwanathan: See, the payments bank applicants, they knew the business model based on which they applied for the license. They made their own assessment and at that time thought that there is space for so many banks to work. Now, based on their assessment of the business models, some of them found that it is not possible for them to pursue that idea. It happens, people have a plan, it does not work, they decide not to pursue that. So, long as it is in the non-disruptive manner, we are fine with that. Some of them want change in the model. Our point is that you applied for this license with your eyes wide open on the terms on which you applied for it. We cannot change the rules of the game mid-way.

Dr. Michael D. Patra: I will refer you to an article which we have published in the Bulletin on the flow of funds in the Indian economy and you will find that the household sector remains the main supplier of funds to the rest of economy. Yes, its liabilities are growing, but its assets in the form of physical assets are also growing quite rapidly. Also, within the supply of funds, the composition is changing away from pure deposits and currency to mutual funds and shares and all that.

Pradeep Pandya: Sir, the growth projection that you have given of 6.9%, in the first half growth you have done a major cut but overall, for the whole year you have not cut much and you also said that many steps have been taken by you and the government, the impact will be seen. But now we are already in August and you are saying that there is not much transmission that has happened?

Shaktikanta Das: The effect of those measures plus the base effect have a role, so, on that basis we have worked out the numbers.

Govardhan Ranjan: Sir, there is a lot of stress in the financial system still and there are some questions about the viability of some institutions including some of the NBFC and banks. What is the RBI policy stand on that- whether RBI would bail them out in terms of troubled institutions or let them sink?

Shaktikanta Das: This question was put in the last post MPC press conference. There is an announcement made in the budget that I mentioned, about the first loss guarantee up to 10% that government is providing to the public sector banks; and to match that, to ensure smooth implementation of that announcement, RBI has announced liquidity backstop to the banks. I have earlier said that we have identified about 50 odd large NBFCs including some HFCs, which we are monitoring. It is our endeavor to ensure that there is no collapse of any large systemically important NBFC or any large NBFC. It is our endeavor. And, in that direction we are monitoring the evolving situation and we will see how it moves forward. That is why we are doing this regular monitoring of the NBFCs. Very intensively it has been done.

Thank you very much.