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Shri. Shaktikanta Das: Over the past two and a half days i.e., during February 5,6 and 7, 2019 the Monetary Policy Committee (MPC) reviewed the macroeconomic and financial conditions and prospects and voted by a 4/2 majority to reduce the policy repo rate by 25 basis points. The MPC also voted unanimously to shift the monetary policy stance from calibrated tightening to neutral. I would like to take this opportunity to thank the MPC members for their extremely valuable contributions, and the richness and high quality of the discussions that we had. I also would like to thank our teams in the Reserve Bank who provided inputs and support at various stages of policy formulation.

Let me begin by setting out key developments that the MPC considered while arriving at the policy decision. The MPC noted that global growth is slowing down across key advanced economies (AEs) and in some major emerging market economies (EMEs) as well. World trade is also losing momentum. While international commodity prices, especially of crude, have recovered from their December lows, they remain soft. In consonance, inflation has edged down in major AEs and many EMEs. Global financial markets have regained poise from heightened turbulence in December, with equity markets paring earlier losses, bond yields easing and EME currencies appreciating, aided by a weaker US dollar.

As regards domestic macroeconomic developments, the MPC noted that the CSO has placed India's real GDP growth at 7.2 per cent in 2018-19, with gross fixed capital formation (GFCF) accelerating, but consumption expenditure moderating and net exports improving. More recent high frequency indicators point to investment demand losing some pace in the third quarter of 2018-19, while credit flows to industry remain muted.

On the supply side, output from agriculture and allied activities and services is expected by the CSO to decelerate in 2018-19. Rabi sowing up to February 1, 2019 has been lower than in the previous year, but it could catch up in the remaining part of the sowing season. The extended period of cold weather in this year's winter is also likely to boost wheat yields. In the industrial sector, activity measured by the index of industrial production (IIP) slowed down in November, even as capacity utilisation in the manufacturing sector increased above trend. Survey-based indicators point to weakening of demand conditions in the manufacturing sector. High-frequency indicators of the services sector suggest some moderation in the pace of activity.

In its assessment of inflation developments, the MPC noted that headline CPI inflation declined to 2.2 per cent in December, the lowest print in the last eighteen months. Continuing deflation in food items, a sharp fall in fuel inflation and some edging down of inflation, excluding food and fuel, contributed to the decline in headline inflation. Moreover, inflation expectations of households have softened by 80 basis points for the three-months' ahead horizon and by 130 basis points for the twelve-month horizon. Producers assess that inflation in prices of farm inputs and industrial raw materials eased in Q3 while growth in rural wages moderated.

On the external front, export growth was almost flat while import growth slowed in November and turned negative in December 2018. Consequently, the merchandise trade deficit for April-December 2018 was a shade higher than its level a year ago, although higher services exports and low oil prices should have a salutary impact on the current account deficit in Q3. On the financing side, net FDI inflows to India during April-November 2018 were higher than a year ago. Foreign portfolio flows turned negative in January 2019, after rebounding in November and December 2018. India's foreign exchange reserves were at US$ 400.2 billion on February 1, 2019.

Turning to the outlook, the MPC took into consideration these developments and revised the path of CPI inflation downwards to 2.8 per cent in Q4:2018-19, 3.2-3.4 per cent in H1:2019-20 and 3.9 per cent in Q3:2019-20, with risks broadly balanced around the central trajectory. GDP growth for 2019-20 is projected at 7.4 per cent – in the range of 7.2-7.4 per cent in H1, and 7.5 per cent in Q3 – with risks evenly balanced.

It is noteworthy that the path of inflation has moved downwards significantly, and over the period of the next one year, headline inflation is expected to remain contained below or at its target of 4 per cent. This has opened up space for policy action. Meanwhile investment activity is recovering but supported mainly by public spending on infrastructure. The need is to strengthen private investment activity. Private consumption also needs to be buttressed. While bank credit flows have picked up and overall flows to the commercial sector have also picked up, they are yet to become broad-based. The favourable macroeconomic configuration that is evolving underscores the need to act now when it is most opportune. In pursuance of the provisions of the RBI Act as amended in 2016, it is vital to act decisively and in a timely manner to address the objective of growth once the objective of price stability as defined in the Act is achieved. The shift in the stance of monetary policy from calibrated tightening to neutral also provides flexibility and the room to address challenges to sustained growth of the Indian economy over the coming months, as long as the inflation outlook remains benign. The decisions of the MPC in this regard will be data driven and in consonance with the primary objective of monetary policy to maintain price stability while keeping in mind the objective of growth.

Now let me turn to some developmental and regulatory policies that have been announced, which complement the monetary policy stance and action. Several measures are being proposed in areas spanning financial markets, regulation of banks and non-banking financial companies (NBFCs), regulation of payment and settlement systems and financial inclusion in the Statement on Developmental and Regulatory Polices, i.e., Part B of the Monetary Policy Statement. These policy actions will be anchored by the goal of financial stability, so that the soundness and efficiency of the financial system in intermediating the economy's needs of financial resources for productive purposes is preserved at all costs. With regard to financial markets,

i. the Reserve Bank proposes to modify the foreign exchange derivative regulations, i.e., Regulation FEMA-25, in order to improve access and participation by promoting operational ease and removing regulatory differentiation based on residence, product and type of transaction;
ii. a task force on offshore rupee markets will assess the causes underlying the growth of this market and recommend measures to encourage non-residents to access the domestic market;
iii. interest rate derivative directions would be rationalised with the objective of simplifying regulations and reducing prescriptive

stipulations to promote liquidity by encouraging participation, product innovation and by easing access norms;

iv. a draft regulation of financial benchmarks is proposed, which is based on the practices recommended by international standard setting bodies and lays down governance, quality and accountability standards for administrators of 'significant' benchmarks in the markets regulated by the Reserve Bank;

v. the provision that no foreign portfolio investor (FPI) shall have exposure of more than 20 per cent of its corporate bond portfolio to a single corporate is being withdrawn to encourage a wider spectrum of investors to access the Indian debt market; and

vi. resolution applicants under IBC will be permitted to avail external commercial borrowings under the approval route to lower their cost of funding for repaying outstanding rupee loans availed by the companies undergoing the Corporate Insolvency Resolution Process(CIRP) – this is expected to improve the overall effectiveness of this process.

Proposals relating to regulation of banks and NBFCs include

i. revising the definition of 'bulk deposit'' as a single rupee deposit of '₹ 2 crore and above' instead of the earlier threshold of '₹1 crore and above' in order to provide greater operational flexibility to banks in raising such deposits;

ii. establishment of an Umbrella Organisation for urban co-operative banks (UCBs) that can provide several services so as to enhance public confidence in the UCB sector, provide regulatory comfort and promote financial stability in an inter-connected financial system;

iii. harmonisation of three separate categories of NBFCs viz., Asset Finance Companies, Loan Companies and Investment Companies (which together constitute almost 99 per cent of NBFCs in terms of numbers) by creating a merged category called NBFC - Investment and Credit Company (NBFC-ICC), in order to address the complexities associated with multiple categories of NBFCs and to provide the NBFCs greater flexibility in their operations which would result in diversified product offerings, and better access to NBFI services;

iv. alignment of risk weights of bank exposures to all categories of NBFCs, other than CICs, with their credit ratings, with a view to facilitating credit flow to better rated NBFCs, lowering the cost of bank borrowings for NBFCs and in turn, for end consumers, particularly borrowers of MFIs.

Proposals related to enhancing financial inclusion include two points:

i. Enhancing the limit of collateral free agriculture loans from ₹1 lakh to ₹1.6 lakh, keeping in view the overall increase in inflation and rise in agriculture input costs – this is expected to enhance coverage of farmers in getting access to formal credit;
ii. Setting up of an internal working group to examine and recommend measures to address issues pertaining to the policy framework and delivery of agricultural credit in the country.

On the payment systems, the feasibility of bringing payment related activities of Payment Gateway Service Providers and Payment Aggregators under the direct regulatory ambit of the Reserve Bank will be examined. This is considered necessary given their increasing importance in the evolving structure of payment systems in the country and the fact that at present, they are essentially regulated indirectly through the banks with whom they have a tie-up.

Thank you. We will now take questions.

Swati Khandelwal: Zee Business Governor, Swati Khandelwal from Zee Business. My first question, there are still concerns regarding bond market confidence, and secondly, there are still concerns relating to liquidity crises where NBFCs or HFIs are concerned. So, what is your view on that and how do you think you will tackle this situation? And secondly, since the time you took charge, since 12th December, you have done marathon meetings, you have met many stakeholders, what broad points and issues did you find from those meetings till now and what solutions have you proposed for them?

Shri Shaktikanta Das: There are three questions, I will answer two of them and leave one to my colleague, Deputy Governor Viral Acharya with regard to the bond markets. Now, in my interactions with the various stakeholders, such as banks- public sector, private sector, cooperative banks; we have had meetings with NBFCs, number of suggestions have been made. We have tried to understand the issues and problems which they have brought to our notice, they have also given suggestions. Each of these suggestions is being examined and wherever appropriate, we are taking action. Some of the points which were made during these meetings and the action taken on them are reflected in Part B of the statement that I made.

Now, with regards to liquidity, I have already said that Reserve Bank is constantly, continuously monitoring the liquidity situation. And based on requirement we will ensure that there is no liquidity scarcity.

Dr. Viral V. Acharya: Just to complement what Governor said, RBI has been injecting system wide liquidity through open market operations, it has already given the calendar for three weeks of February, week 2 to 4 for ₹ 37,500 crore of durable liquidity to be injected. And presently, in February, the system liquidity position is in surplus, so my sense is there is liquidity for those who are able to get it from the lenders.

Nivrita Ganguly: BTVI Governor, we just had the budget announcements come in last week, so this was an interesting timing for the MPC meeting. How concerned is the MPC about the inflationary impact of the kind of policies that were announced in the budget? And also how concerned is the MPC about the fiscal slippage? To that end has there been any discussion, any approval from the audit panel for an interim dividend from the RBI as well?

Shri Shaktikanta Das: You see, so far as the inflation outlook is concerned, it is quite extensively covered in our statement which we have issued. In the statement which I made, we have made this point. We have given our projections, the MPC has given its projection with regard to inflation. And in the next 12 months' horizon, including the current quarter, it is expected that the Q3 of next year will end at 3.9%. So, therefore, the impact of various budget proposals and other developments have been factored into our projections. With regard to the interim dividend, as and when the Central Board takes a decision it will be announced. The third thing you asked with regard to the fiscal slippage, as I mentioned, that has been discussed. The possibility of fiscal slippage- the government has said 3.4% this year and 3.4% next year- that has also been factored into our inflation projections and we are working on the basis of those numbers.

Latha Venkatesh: CNBC TV18 Since you say that inflation will not rise above 3.9% for all of calendar year 2019, did the MPC consider a double cut, i.e. 50 basis points? Or do you think the space exists in 2019 itself because the forecast is highest would be 3.9%? As well, since you spoke about OMOs, if it is already in surplus, will you all continue with OMOs? Now would you have some visibility about April and May as well?

Shri Shaktikanta Das: With regard to OMOs and the liquidity infusion, it will depend on the evolving situation. This is an assessment which is regularly made, not just monthly or fortnightly but it is almost every week or every day we make the assessment. And whenever there is a requirement we will infuse the necessary liquidity into the market. We will take into account that there is a dividend payment also which is coming up and the interim dividend payment has been mentioned and that is a matter which the Central Board will consider and decide. And depending on the evolving situation the Reserve Bank will infuse liquidity whenever necessary.

Latha Venkatesh: CNBC TV18 Since liquidity is in surplus, I am asking, whether you will consider tapering OMOs?

Shri Shaktikanta Das: No, that is the position at the moment. To some extent it has been tapered in the month of February, because first week we did not do an auction but then we have maintained the auction size per week at ₹ 12,500 crore. But again, it depends on the evolving situation, I would not like to pre-judge the situation. Whatever is our assessment of the liquidity requirement, we will infuse that. With regard to the inflation, I mean, with regard to whether the MPC considered a higher rate cut- 50, 70 or whatever, now there are several discussions which take place in the MPC and as and when the minutes are given out, on 21st of February it will be known. It will not be proper and fair to say what was discussed and not accepted.

Latha Venkatesh: CNBC TV18 No, my question was, does space open up for a cut further in your assessment? Because the highest inflation you see is 3.9%.

Shri Shaktikanta Das: I have covered this aspect in the statement which I read out. If you go through it very carefully in the video footage, you will get a better clarity.

Suvashree Choudhary: Reuters: But could you repeat the answer Governor.

Shri Shaktikanta Das: You want me to read it again? I gave sufficient clarity. But since you are saying, I will just read out that portion again for a better clarity of all of you and also I think the viewers. I have mentioned that, “the shift in stance of Monetary Policy from calibrated tightening to neutral also provides flexibility and the room to address the challenges to sustain growth of Indian economy over coming months as long as the inflation outlook remains benign. The decisions of the MPC in this regard will be data driven and in consonance with the primary objective of Monetary Policy to maintain price stability while keeping in mind the objective of growth.” This is the position, which clarifies it.

Mythili Bhusnurmath: ET Now Did the MPC consider the hygiene of the fiscal deficit number announced, 3.4% is what we have on paper, but if you consider off-budget items that do push up the fiscal deficit and you mentioned in fact that the budget proposals are likely to boost aggregate demand, but the full effect of these is likely to be felt over a period of time. Likewise, your Monetary Policy measure also will be felt, in fact, over a longer period of time, because Monetary Policy has a lag of typically four to six quarters. So is there a possibility of both monetary policy and fiscal both being expansionary in the same time? Or did you think that the economy needed such a big boost? At 7.2%, does the economy need a big boost? What was it that really moved your mind, because you talk about fuel which is volatile, one cannot take lower prices for granted, inflationary expectations, given the kind of coverage that RBI has with the Inflation Expectation Models; both these cannot really be relied on. So, what was is it that really convinced you to go for growth rather than inflation at a time like this?

Shri Shaktikanta Das: The RBI Act says that price stability has been defined under the Act as 4%, (+/-2%). Now, once that target is on board, I mean, we are on board with regard to that and in the next 12 months horizon if we see that the inflation remains at 3.9% or maximum of 4% or below, then there is room to act. And the Act also says that keeping in mind the objective of growth. So therefore, the decision of the MPC has not done anything which goes beyond the Reserve Bank of India Act. We are also saying, as I read out in my statement, that the decision of the MPC will remain data driven and the primary objective of Monetary Policy to maintain price stability- that remains very much in focus. With regard to the fiscal, we have assessed all the aspects. The various measures which have been announced, we have analysed the transmission time that each of the announcements would take to have an impact on the ground level; that also has been factored in. Also, the calculations showed that the 3.4 % in the current year was actually about 3.37%, if I remember correctly; and 3.4% of next year is about 3.35%. So, therefore, that also has been kept in mind. We have gone by these numbers, we have analysed the expenditure measures announced by the government, we have also analysed on the revenue side, we have analysed how GST is playing out, what is the future outlook with regard to GST collections which we expect will pick up, because the initial bottlenecks and various changes in the entire systems and procedures, they have been almost entirely streamlined now. The GST collections are also likely to show better growth, budget itself has projected certain growth. So all these aspects have been taken into account. With regard to the off-budget items, that is a matter for the fiscal administrators to decide, I would not like to comment on that. There is considerable debate these days in the media space about Public Sector Borrowing Requirement (PSBR), well, that is something which is for the government to consider. PSBR as of today I think is still just in the public discourse, the public debate has just started. So, at the moment to address your question, it is for the fiscal administrators to really take a view on that.

Anirban Nag: Bloomberg News Two questions. You seem pretty pessimistic about growth expectations, especially the high-frequency data showing some slowdown in growth. Why have you retained your growth at 7.4%? And secondly, on inflation projections, why is the RBI consistently getting it wrong as far as undershooting of inflation; is it time to reconsider your inflation models?

Shri Shaktikanta Das: I will ask my Deputy Governor Viral Acharya to reply to your question. But before that, I would just like to mention that I would not like to sort of attach adjectives to our inflation projection, whether it is optimistic or pessimistic. We work on the basis of numbers, and our analysis threw up certain numbers and we have shared that with you.

Dr. Viral V. Acharya: On the projection, of course, this is a continuous lament of a lot of observers. I will just mention three to four things that you should keep in mind. First, at least over the last year the headline inflation has averaged almost exactly at 4%. So, while you may have issues with the specific level of projections, there have been errors on the other side which have actually delivered an inflation of 4%. Because what should have happened is that if the rates were kept very high relative to our expectations, actually the inflation should have come down even further below 4%. But there have been errors on the other side, especially in core inflation, which have actually delivered. So, you cannot just take one aspect of what we do and sort of cherry pick that and say that this edifice is not working. The second point I would say is that, if you look at internationally on inflation projection errors of various central banks, you observe two distinct patterns. One is that food is always a volatile component in all economies. And in economies where food is a bigger proportion of the basket, these are the central banks that tend to make larger errors. In fact we have done some study which shows that once you control for the fact that Indian food basket is very volatile in inflation and that it has a very large proportion in our headline, the relative errors that the central bank here makes are actually not that out of line with sort of what happens elsewhere in the world. Now having said that, we should take this criticism seriously and I think we do, we are actually internally quite introspective about all of these, as I said, the lament that we keep hearing on a persistent basis. What we have done over the last year is now we have specific sub-groups of our modeling teams that focus on individual food items, they try and get a sense through our regional offices of what are the mandi arrivals, etc., in various items. We try to get an early sense of what the CSO number might look like. Essentially, if you look at the large surprises they have been related, of course few years back, to demonetization, but off late they seem to be related to a supply glut. That is a point we have mentioned in the resolution, both domestically and internationally in a large number of items there is a supply glut. Now, just from a modeling sense, you get the supply numbers once a year, the official statistics, now to use that to actually have a real-time projection of these food item forecasts is not easy. And therefore, as I said, we have started a little bit of grass roots work; we are talking to agri specialists, agri economists in the country to get a better sense. So, hopefully we will get better with time.

Shri Shaktikanta Das: As Deputy Governor Acharya mentioned, we have had extensive consultations with lot of experts over the last two months or so. The effort is to fine tune the system as much as possible. I will move to the next question, if any. And may I request, please avoid multiple questions, because two, three questions from each and then we will have to come back. Everyone has to get a chance.

Anup Roy:
Business Standard I have a question that government is now asking for previous year surplus also, apart from the interim dividend. So, how do you take it? Also this practice of bridging fiscal deficit using dividend from RBI, what is your take about it?

Shri Shaktikanta Das: Payment of surplus or dividend from RBI is a legal provision, it is a part of the RBI Act. We are not doing anything beyond what is there in the legal provision. Now, how the government uses the proceeds of RBI dividend or surplus as you call, it is government's decision that they have to take. With regard to what government has asked, let us not go by speculation. There are several issues which are under correspondence, which are under discussions between the government and the Reserve Bank. These are all discussed and a decision is taken. Any decision of the Reserve Bank is always driven by certain principles and certain accounting norms. So, we will have to follow those principles.

Anup Roy:
Business Standard It is not speculation, Finance Minister has given it in writing.

Shri Shaktikanta Das: As I said, all the decisions of the Reserve Bank's Central Board will be based on certain principles and certain accounting norms and practices.

Ken Koyanagi:
Nikkei, Japan I see it rather unusual that you guys have cut rate under the tightening stance. And is it fair to say that it reflects a sense of urgency that inflation rate may eventually go below the target range, which is below 2%? Or is it just an adjustment towards growth neutral policy rate? How do you characterize this rate cut?

Dr. Viral V. Acharya : The right way to see it is that we have experienced fairly extra ordinary volatility in crude oil prices over the last 12 months. If you just recall right, when we met in October policy, the expectation of the market was that we were actually going to raise rates at that time and we did not, and we moved to a calibrated tightening stance. Since then, oil prices have collapsed, the food prints have been particularly benign because of the supply glut conditions. RBI was very proactive in revising its projections from October to December by a very significant 50 to 70 basis points at various quarters. However, central banks do move in small steps, so we thought, given that the oil had just eased after the October policy, it wasn't prudent to actually withdraw the calibrated tightening stance right away in December itself. Having said that, whatever discussions happened at the press conference in December were more or less viewed by everyone as an effective neutral stance at that point of time. So, you should just keep that perspective in mind that we have experienced fairly large shocks on oil and food in a very short amount of time. One sentence I would like to stress that is also mentioned is that, at least as per some of the output gap measures, there is a small opening up of output gap; that the actual output has gone slightly below the potential. As Governor said, because the inflation trajectory is below the headline rate, the Committee as a whole believed by majority that there was space for a rate cut as well.

Dr. Viral V. Acharya : So, it is not a reflection of urgency at all in that sense.

Bijoy Idicheriah:
Cogencis Just a clarification -first on the food bit, is there some element of farm distress that we are seeing in these numbers? It is a conversation that keeps happening. Is there some element of farm distress that is also playing around

with the way the farm numbers are showing up? Another thing on the IBC linked companies- allowing the people who are taking over those companies to access FX bonds and use them. There have been companies that have come in, gone through the process of NCLT and bid for companies and been selected, and then some of them have disappeared. Is there an opportunity for some people to play the market by setting up companies offshore, bringing in FX money into the country to use that; I am just raising a question on possible misuse of the end use?

Shri Shaktikanta Das: The resolution under the IBC is done by the NCLT and before it goes to the NCLT, there is a Committee of Creditors which assesses and follows certain transparent procedure to select the new promoter or whoever wants to come in. So, therefore, I do not think our decision will give room for any kind of fly-by-night operator, if I may use the word, to bring in money just for the sake of bringing in money. In any case, there are other openings of bringing in money, we have the ECB route, and we have the FPI route. So therefore, it is a well regulated resolution process and only the companies which have been identified under the resolution process only they will be able to get it.

Bijoy Idicheriah: Just to clear that, there are already companies that have not made payments for companies that they had already won the bids for. It is already a problem because there is a 365 days plus delay in some of these companies and we are losing value on them, that's why my question.

Shri Shaktikanta Das: No, we do not anticipate that kind of a problem to develop.

Bijoy Idicheriah: And on the food bit, sir, farm distress?

Shri Shaktikanta Das: Farm distress- let us leave that point for discussion in a larger context and let us focus on the announcements that we have made today in the Monetary Policy and also in Part B of my statement. Because, if we open up other areas of discussion, it is endless.

Sameer Hashmi:
BBC Good to see that you are taking so many questions; that is a good sign. My simple question is how concerned are you about India's economic growth next year? You projected it at 7.4% but you still look at many indicators whether it is private investment, consumption, does not seem very healthy.

Also, how closely are you watching the global economy? Because that is expected to slowdown; there are already talks of Fed actually now cutting rates because US growth is expected to slowdown in the coming months.

Shri Shaktikanta Das: We are monitoring the external situation very closely. You will see it in the MPC's statement which we have issued, we have discussed about the external factors. In my statement also I touched upon it briefly. Concerned about growth, we have at this point of time made our projections, there are several upside and downside risks to growth. So, at this point of time, it is very difficult to say beyond what our data shows.

Sameer Hashmi: BBC But the big concerns sir, are any big concerns you are seeing for the Indian economy?

Shri Shaktikanta Das: Big concern, I mean, one is the monsoon, it is a no brainer. The second one is the crude oil prices. And the overall external situation, there are issues around let's say Brexit, how it is playing out; how the US economy is recovering. There are trade conflicts, which are expected to get resolved, but we do not know how much time it will take. So, these are obviously the risk factors, which will have impact on our domestic economy and we are regularly monitoring that.

Suvashree Choudhary : Reuters I want to know what is the appropriate real interest rate for a neutral stance? And what is RBI's projection about the potential GDP growth rate? And regarding the measures that you have taken for NBFCs, is there any AQR that you are expecting that you want to do for NBFC sector as well?

Shri Shaktikanta Das: On the NBFC thing, I will ask Mr. Vishwanathan to reply.

Shri N.S. Vishwanathan: The NBFCs are subject to onsite inspection on an ongoing basis. So, it is not that we do not have an inspection. Maybe where there is larger inspection, we may want to intensify in some of those cases.

Dr. Viral V. Acharya: I have never been a fan of spinning down a specific number on these things, they do keep changing. In fact, the only way monetary policy can actually affect real outcomes is if temporarily it has some impact on the real interest rate. So this thing does move around, there is a little bit of preoccupation with what is the RBI's preferred real rate of interest. I would actually say that we do not work with targeting a specific real rate of interest, our target, as Governor stressed, is to examine how the monetary policy changes would get transmitted to the real economy, it depends on the specific conditions at a given point of time. And depending upon what the situation is, whether you are cutting rates or raising rates, the hope is that you may actually be playing around exactly with the real rate of interest in the economy to either stimulate or bring back some of the economic activities.

Pradeep Pandya: CNBC Aawaz Till now the OMOs that you have done, because of them, bond yields have come down, so funds have become cheaper for the government, some big companies. But when we ask the NBFCs, they say their costs have risen, when we ask the small businessmen, in the past three months, they say that their funding cost has increased by 1% to 1.5%. The rate cut that you have done now; how would you ensure that it impacts everyone and the EMIs also reduce for the people? And my another question is, you took three banks out of the PCA, will this list grow more? How soon can we expect that more banks can come out of this distress so that more people can avail loans?

Shri Shaktikanta Das: The interest rate at which the banks do the lending, it is their own decision. It all depends on the risk perception of the banks with regard to individual borrowers. What is the strength of an individual borrower, how fragile his balance sheet is, depending on the strength of the balance sheet, the bank has to take a call and it depends on the bank. And that is a function between the banks and the NBFCs, or between the NBFCs and the individual borrowers where individual loans are given. So, we would not like to comment anything on whether interest rate has risen or reduced, as you know interest rate determination is left to the banks, they will decide that. As for PCA banks, I request DG Mr. Jain to reply.

Shri M. K. Jain: We are very clear that as long as there is some improvement in the benchmark parameters, then it will be examined at the appropriate time.

Pradeep Pandya: CNBC Aawaz Do you expect this improvement to take place soon and some more banks will come out of PCA?

Shri Shaktikanta Das: I won't make any presumptions, the three banks that have come out; we watched their performance, a detailed analysis was done on all the parameters for past few months and after examining that we also took into account the capital infusion that the government has done; and we took these three banks out of PCA. And as I said regarding the MPC, all the decisions will be data driven, there is no discretion. All the decisions regarding PCA banks or any other matters, they will be data driven.

Pradeep Pandya: CNBC Aawaz Sir, if you could please complete answer to my first question; the change in stance that you have taken and reduced the rates, do you hope that banks' deposit and lending rates will reduce and EMIs will reduce?

Shri Shaktikanta Das: After the Monetary Policy Committee meeting, Reserve Bank and banks do have a meeting; so within the next two or three weeks we will have a discussion with all the banks; this used to happen earlier and this is not the first time we will have such a meeting. We will have an interaction with all the banks, we will discuss with them; we only set the policy rate, the remaining decision is left to the banks regarding interest rates. So we will interact with them and at that point probably we will get a better sense.

Govardhan: Economic Times The MPC statement touches on the core inflation where health and education could be a one-off phenomenon and that seems to be the basis for the forecast of 3.9% inflation for next year Q3. What made you conclude that it is a one-off phenomenon? And if that is the case, you still have almost 200 basis points positive real rates, which is probably the highest, does that mean we conclude that we are into kind of a downward rate cycle?

Shri Shaktikanta Das: Education and health we have analysed in detail. We have asked RBI's regional offices also to interact with the NSSO, to interact with the state level evaluation departments, every state has its own evaluation department; so we have interacted with them. We have also tried to gather data from the pharmaceutical companies, our regional offices have also tried to gather data with regard to education, where exactly the prices have possibly gone up. We have done a fairly wide state-wise analysis and we see this happening in about seven or eight states. But, there are reasons why perhaps it has happened. There were some seasonal factors also and there were certain factors relating to the supply and availability of certain brands of medicines. So, various factors have gone into it. We do not think or believe that these prices, whether it is the tuition fee in private coaching classes or it is the price of medicines- branded or other kinds of medicines which have been sold, we do not think that the increase that was seen would be sustained over a period of time. Another reason which people have told us, is that in many sectors in the rural areas this is the first time that the NSSO volunteers have gone for data collection perhaps that has led to better capture of data. This is what many people have told us, but I have no way to certify or confirm whether what they are saying is correct. You would like to add anything?

Dr. Viral V. Acharya: I just had a small point to what Governor said. If you see the uncertainties paragraph no. 23, we have said that the unusual spike is something that we will closely watch. This was also the point I was making earlier, when you get a large surprise you have to give it a little bit of time to fully understand it. So, as of now it has been treated as a one-off phenomenon, we have to see whether it is truly one-off or whether it persists. If it persists, we will have to see what to do about it.

Mayur Shetty: Times of India Governor, in the past whenever the risk weightage has been reduced for any particular sector, it has been counter cyclical. This time I believe some of the NBFCs will see a reduction in their risk weightage, so was it because you all felt that there is going to be some kind of a drop in bank lending to NBFCs?

Shri N. S. Vishwanathan: Actually, this was an aberration in the risk weight system. All other NBFCs had their exposure linked to risk weights already. This was a part of harmonizing, we are trying to harmonize the number of NBFCs; we said that three types of NBFCs being brought into one category. It is to be seen as a part of general harmonization and reducing complexities from the regulatory framework.

Mayur Shetty: Times of India As far as the bank exposure is concerned, do you all see that going down in future?

Shri Shaktikanta Das: No, I have touched upon that, there is credit growth in certain sectors. As I mentioned in my statement that it is not broad based, so that also we are closely monitoring.

Anand Adhikari:
Business Today Governor, the foreign exchange cover for imports, I have seen it has gone down from 11 months to nine months cover and we have also seen foreign exchange reserves from a peak of $ 428 billion has gone down below $400 billion USD. So, is this an area of concern and how do you look at it?

Shri Shaktikanta Das: No, the reserves, as I gave the figures today, it is $400.2 billion. So we have $400 billion USD as reserves and it is quite substantial for us. So I do not see any risk in that front and we have also today liberalized the FPI, this 20% limit which we had put. We have also come out with a comprehensive revised guideline for ECBs, so we do hope that all these things will facilitate greater inflows.

Manojit Saha:
The Hindu Monetary transmission has been a headache for RBI for a very long time, particularly when rates are being revised downwards. Now again we are starting a rate cut cycle. How concerned are you with monetary transmission? And if there is a concern, how will you address it? The other issue is that we will be completing one year of February 12 circular next week, there have been demands earlier and there have been demands now also to make certain changes to the circular. What is your view on the February 12 circular?

Shri Shaktikanta Das: At the moment there is no proposal to modify the February 12 circular. With regard to the other point you said, monetary transmission, yes, whenever there is a policy rate reduction it would be RBI's expectation that monetary transmission does take place. But again, we have to keep in mind that the lending and the fixing of the rate of interest is a function of the banks. We will be having an interaction, as I mentioned, in the next fortnight or so, we will have a meeting with the CEOs and MDs of all banks and we will be discussing these issues, including the issue of monetary transmission.

Vaijayanthi M. C.:
The New Indian Express I have supplementary questions; last policy you made a benchmark shift to allow this transmission to happen. What has been the banks'

response? They have been complaining about the benchmark shift, so, is this helping now?

Shri Shaktikanta Das: The discussion paper or draft guidelines, they were placed in the public domain on these external benchmarks. We have got lot of comments from the public as well as from the banks, they are currently under examination.

Vijayanthi M. C.:
The New Indian Express And the IBC process, does Sashakt or any other process that is being looked at for resolution before it goes to IBC? Do you see that delaying or derailing the IBC set out by the February 12 circular?

Shri N. S. Vishwanathan: Not at all. The February 12 circular talks about 180 day timeline, Sashakt only looks at how to ensure that the process during the 180 days timeline is efficient.

Gopika Gopakumar:
Mint The government has budgeted for lower Capex for next year, do you see that as a risk to growth? And secondly, what is your assessment of asset quality, you said that your focus when you joined as the RBI Governor. We see you have completed your risk-based supervision and also you have completed your divergence reports and you submitted to the banks. What is your assessment of asset quality? Rating agencies have said that there are still unrecognized stressed loans of ₹ 3.5 lakh crore in the system.

Shri M. K. Jain: With regard to the asset quality, one thing I may inform you that based and the CRILC data and the data which we have analyzed we are seeing that the slippages as well as the recovery in the NPAs is improving, slippages basically coming down, that is very clearly visible. With regard to the paper report, I do not want to comment because it is related to a specific sector, it is not related to the overall things. As part of the supervision we do examine all kind of regulatory compliances that whether regulated entities are in compliance with all the regulatory guidelines or not.

Jescilia:
Free Press Journal I just wanted to understand how the enhanced limit for collateral free agriculture loans will play out, how are you expecting them to play out in coming few months? Because you have said that the circular will be issued very shortly, so what is the timeframe for that?

Shaktikanta Das: The last time this agricultural loan collateral limit of ₹ 1 lakh was fixed was in the year 2010. Over the last eight years there has been inflation, there has been rise in input costs. So we have taken that into account, we have taken into account all these aspects and tried to do some kind of indexing to inflation and then we have arrived at this number of ₹ 1.6 lakh, and we will be issuing the circular within a week or so at best.

Ashish Agashe:
PTI Sir, how are we looking at this issue of promoter shareholding because people are saying that it is forcing people for forced mergers, or probably there are also litigations which are happening, how are you looking at the promoter shareholding at the banks?

Shri Shaktikanta Das: At the moment there are one or two cases, in one of the cases I think they have taken some action already, the other case is under litigation, it is in the court. So therefore, on this issue I would not like to make any observation in public at the moment.

Nivrita:
BTVI Governor, that bank has said that they are willing to talk out of court, is that something that the RBI is considering?

Shri Shaktikanta Das: No, the matter is under litigation, it is sub-judice, it is not correct on my part to discuss on that.

Ira Dugal:
Bloomberg Quint Governor, your comment seems to suggest that the MPC will look at the legal mandate of targeting headline inflation in a fairly technical fashion, which would go against the grain of what the central bank used to do, which is to look at core inflation. In the current scenario where headline is clearly depressed by food and fuel, and core remains high, how does the central bank act in a way that underlying inflation pressures are not ignored and do not come back to hurt us, for instance, next year if suddenly food prices were to rise?

Shri Shaktikanta Das: In our statement we have made it clear. And earlier also DG Acharya touched upon it. We have internally examined; when I get the numbers of inflation in H1 of next year and third quarter of next year, we have internally examined the push factors and the risk factors, and the upsides and downsides in various components of the headline inflation. We have looked at food inflation, we have looked at core inflation, we have looked at fuel and all the aspects we have individually analysed. And then we arrived at, of course, the headline number which we have given at 3.9%. So therefore, all the pulls and pressures, both ways, upwards and downwards, have been factored in food, core and in fuel. So therefore, in any case, the law mandates that we need to look at the headline number, so we have to go by the headline number. But let me again reiterate what I just said a couple of minutes ago, the risks to core, both upwards and downwards have been examined.

Ira Duggal: Bloomberg Quint But the risk to core are on a downside right now, would you expect core to come off? And I am not talking about one off -of health or education, core has been elevated throughout, has there been a change in dynamics or core adjusting to headline or headline adjusting to core?

Shri Shaktikanta Das: No, I think that is a bigger call, I would not like to go into that. I think Viral probably would like to, but I would not like to take a call on which one is moving towards whom. We have to go by the headline number, that is the determinant.

Dr. Viral V. Acharya: I think your observation is an important one and another way of stating what Governor has just said is that even if you are focusing on headline, the reason why the split matters is because as I said earlier, the food tends to be more volatile, the core inflation tends to be more persistent. And if you look at why the inflation trajectory is going up, is precisely because actually the core is at slightly elevated levels. As Governor said, there are upside risks, there are downside risks, those have to be taken into account. But the level of headline inflation as per MPC's projections are implying 3.9% at Q3, as Governor said.

Shyama Mishra: Doordarshan News Sir, Government in its budget said they will be helping out farmers with ₹ 6,000 per year, That will be about like 12 crore farmers. What is the impact on the economy, would you be assessing that?

Shri Shaktikanta Das: As I said it will be contributing to rural purchasing power. We have already mentioned that it will definitely contribute to rural purchasing power. It also enables the farmers, once the transmission takes place; it enables the farmers to spend that much more in purchasing various inputs and other raw material, fertilizers and pesticides, whatever they want. So, therefore it will definitely boost rural demand, particularly in these sectors.

Purva Chitnis: NDTV In your commentary you have said that the five constituents of the food group are in deflation and are showing a deflationary trend. So who concerned are you about this deflation in the food items?

Dr. Viral V. Acharya: At a technical level, of course what MPC makes of this deflation is two things. One, try to understand if this momentum has implication only for very short-term projections or will it have some bearing even on three or four quarters out. That is a very important point that is being stated in the resolution, which is that there seems to be a bit of a supply glut domestically and internationally in many of the food groups which has perhaps meant that this deflationary momentum may persist. So that is the sense in which it is going to bear on the food prices going forward.

Saraswathy: Moneycontrol Just two things, first of all, is RBI looking at the performance of rating agencies, considering there have been high rated companies that have defaulted? Secondly, would the RBI Central Board also be considering the Bimal Jalan report before looking at the interim dividend?

Shri Shaktikanta Das: SEBI is the regulator for the rating companies, so therefore SEBI has to take a call on this matter. Bimal Jalan Committee has been given three months' time, so depending on when the report comes thereafter, we will internally examine that. So, after that is over it will be considered definitely.

Debi Prasad Nayak: Wall Street Journal Sir, why Dr. Acharya voted for a hold and was there any pressure from the Government to cut the rates?

Shri Shaktikanta Das: He has differed with me with regard to the repo rate. Who has voted in what line, you will know once the minutes are put in public domain on the 21st of February.

Govardhan Rangan: Economic Times In terms of banks' lending to the NBFCs on the risk weight, it is going to be based on credit rating. Going with the recent experience, some of the companies that went bust, actually were AAA rated, and the manufacturing companies and finance companies- their leverage ratios differ completely. So, are you exposing banks to more risk with less kind of a rating related risk weight?

Shri Shaktikanta Das: There have been some cases, as you pointed out. But then there are few cases like that, and you cannot use that to characterize the entire rating agency spectrum. What you mentioned is indeed a matter of concern that after a certain rating is given, within a few months, the company faces kind of difficulty which it is not able to handle. Now SEBI is looking into it. So far as we are concerned, there have been some developments, but ultimately you have to go by some kind of rating. Of course, the fact that you go by rating does not necessary mean that the lending agency, whether it is a bank or an NBFC, it does not mean that they will give up their internal scrutiny and appraisal. In fact, recent developments do necessitate that the banks and NBFCs do greater due diligence in their lending process.

Swati Khandelwal: Zee Business Sir just one question, the report of ICICI Bank that Justice Srikrishna has made, what is the RBI's stance on that? It has alleged Ms. Kochhar of quid-pro-quo. What is your view as a banking regulator?

Shri Shaktikanta Das: There are two aspects, RBI looks at the regulatory aspects. Wherever there is a regulatory violation by the bank or by an individual functionary of the bank, if there are regulatory violations, it is within the domain of the Reserve Bank then Reserve Bank will act. But if there are certain things which require investigation, that is in the domain of the investigating agencies. So therefore, it is for the investigating agencies to take further action.

Thank you very much. I would like to thank you for all being here. Many names which you announced, the names are familiar to me but I do not know many of you because I am new to Mumbai. But once you mentioned your names, I could correlate you to some articles and other things which you have written. Thank you very much.

Mythili Bhusnurmath: ET Now One question- interconnectedness which has become a big issue now, how concerned is RBI about interconnectedness between mutual funds, NBFCs, insurance companies, banks, there is a systemic issue. As the RBI, as regulator of banks, are you contemplating any steps?

Shri Shaktikanta Das: All these issues which you mentioned at the moment, come up in the FSDC which we have. There is a FSDC sub-group also which is chaired by the Reserve Bank Governor and it includes the other regulators. So, all these issues which you mentioned are discussed from time to time, both in the FSDC as well as in the FSDC-subcommittee. Yes, there are areas of concern and there are issues of interdependence, definitely these are very important and they will be discussed in the FSDC sub-committee. Thank you.