Edited Transcript of the Reserve Bank of India's Monetary Policy Press Conference: December 8, 2023

Participants from the RBI:

Shri Shaktikanta Das – Governor, Reserve Bank of India
Dr. Michael D. Patra – Deputy Governor, Reserve Bank of India
Shri M. Rajeshwar Rao – Deputy Governor, Reserve Bank of India
Shri T. Rabi Sankar – Deputy Governor, Reserve Bank of India
Shri Swaminathan J. – Deputy Governor, Reserve Bank of India
Dr. O. P. Mall – Executive Director, Reserve Bank of India
Dr. Rajiv Ranjan – Executive Director, Reserve Bank of India

Moderator:
Shri Yogesh Dayal – Chief General Manager, Reserve Bank of India

Yogesh Dayal:

Good afternoon everyone and welcome to the Post-Monetary Policy Press Conference of the Reserve Bank of India. This is the last of this calendar year and I would like to welcome all media friends to this Press Conference. Today, we have with us Honorable Governor Shri Shaktikanta Das, Deputy Governors – Dr. M. D. Patra, Shri M. Rajeshwar Rao, Shri T. Rabi Sankar, and Shri J. Swaminathan. We also have with us today, our Executive Directors Dr. O. P. Mall and Dr. Rajiv Ranjan. Sir, we will begin the press conference with your opening remarks. So, may I request you to do the opening remarks.

Shaktikanta Das:

Good morning. Thank you all of you for being here and I think in future just Governor will be better than Honorable Governor. I would like to make a few observations to capture the essence of today's Monetary Policy.

i) The years 2020 to 2023 will perhaps go down in history as a period of 'Great Volatility'.

ii) India's GDP growth remains resilient and robust as reflected in our projection of 7% growth in the current year.

iii) On the inflation front, the summer of 2022 is behind us. We have made significant progress in bringing down inflation. The steady decline in core inflation indicates that monetary policy is working.

iv) Moving forward, inflation management cannot be on auto-pilot. The future path is expected to be clouded by uncertain food prices. CPI data for November is expected to be high.

v) The MPC will be highly alert to any signs of derailing of the ongoing disinflation process. Based on the evolving situation, the MPC will take appropriate action to reach the 4% target.

vi) Liquidity will be actively managed consistent with Monetary Policy.

vii) The balance sheet of the financial sector remains robust. Sectoral and institution-specific signs of stress are being proactively monitored and addressed. We do not wait for the house to catch fire and then act. Prudence at all times is our guiding philosophy.

viii) The current account deficit (CAD) is expected to be modest and comfortably financed.

ix) Foreign exchange reserves at US$604 billion provide a strong buffer against global spillovers.

x) The stability of the Indian Rupee reflects the improving macroeconomic fundamentals of the Indian economy and its resilience in the face of formidable global tsunamis.

I will stop here. Thank you.

Yogesh Dayal:
Thank you sir, for those opening remarks. Before we go ahead, may I request my media colleagues to please wait for your turn to be called on and restrict yourself to one question each. If time permits, then we will go for another question. Sir, I will begin by inviting Mr. M. Govardhan Rangan from the Economic Times to ask his question.

Govardhan Rangan, The Economic Times:
Good afternoon, Governor. This time in terms of Monetary Policy, you have taken out all the surprises. It is more than what the market asks for. You said regarding the financial stability that you would not wait for the house to catch fire. Last time you saw some smoke in unsecured loans and doused it. So, which are the areas where you see smoke now in the sense that you would not wait for the house to catch fire? Thanks.

Shaktikanta Das:
As a part of our supervision and as a part of our very close and proactive monitoring of the financial sector and individual financial institutions, our endeavour has always been to remain up to date. We have deepened our supervisory methods. Our endeavour is also to try to use the smell test. I have talked about it earlier. Whenever we smell any stress building up anywhere at the system level or an individual entity level, we deal with it in the appropriate way.

Govardhan Rangan, The Economic Times:
You were warning about the unsecured loans for quite some time before you acted. Is there any segment where you feel there is a warning necessary now?

Shaktikanta Das:
I cannot spell it out. As and when something like that becomes necessary, we will act. At this point of time, as I have said in my statement today, the balance sheet of the

Indian financial sector continues to be robust and all the financial parameters of NBFCs and banks at the system level as well as at the individual level, they also continue to be well above the minimum regulatory parameters, whether it is in terms of capital adequacy or in terms of provisioning for bad loans or even on issues of, even on the parameter of profitability.

Yogesh Dayal:
Thank you sir. I will move on to Ms. Latha Venkatesh from CNBC TV 18.

Latha Venkatesh, CNBC TV 18:
Thank you Yogesh, and thank you Governor for asking people to drop the word Honourable. I think that is an extremely honourable statement to make. Thank you for that.

Sir, for the first time you have used the words, regulator should also be mindful of overtightening. Can we, therefore, expect the interbank call rate to come towards the repo rate of 6.5? It has been at 6.75 for the better part of a couple of months. On the issue of financial stability, you have just said that a connected lending framework will be to strengthen the pricing and management of credit by banks. Does this mean that there will be a little more tightening? Will that be the net result of that framework? When you announced the unsecured loans, was there a worry that bank loans were going to the stock market? There was a report from Ashish Gupta that derivatives are now 400 times. Is there any fear that this money is going there?

Shaktikanta Das:
Whatever was in our mind, we have spelt out. These are precautionary measures which we have taken. Our effort is always to act proactively before the bubble bursts. We act before stress builds up. Our endeavour has always been to act proactively and I have stated very clearly that these are pre-emptive measures which we have said. With regard to the connected lending, I would request DG Rajeshwar Rao to please answer that question. And with regard to the overtightening, we always take a balanced call. I would request DG Michael Patra to reply to that. I will supplement thereafter if need be. So, first, DG Rajeshwar Rao and then DG Michael Patra.

M. Rajeshwar Rao:
Thank you Governor. There is a bit of a misunderstanding between connected lending and interconnectedness. When we talk about connected lending, it is essentially lending to persons who have the position to control or influence the decision of a lender. So, it is in that context, a guideline on connected lending is being conceived of. Right now, the regulations vary between the regulated entities that have scattered provisions. In order to bring about uniformity in the process of these regulations, we are coming up with some draft guidelines, which will help to clarify the position and have uniformity in the regulatory approach to connected lending amongst all regulated entities.

Michael D. Patra:
If you notice in the first few days of December, the call rate has already started gravitating towards the repo rate. In fact, on the 4th and 5th of December, it was 6.45% sub-repo, and you will see that this is coincidental with Government spending. Government balances have been coming down and the previous tightness was also associated with a build-up of balances. On the overtightening, I will let the author speak on this

Shaktikanta Das:
We have always tried to take a balanced call, and this is not the first time that we have said so. What is our Monetary Policy as prescribed in the law? The primary target is price control in terms of maintaining 4% inflation which I have emphasised very clearly in my statement. I mentioned it again here in my opening remarks. The law also requires that we have to keep in mind the objective of growth.

Last year in May, we spelt out that when we shifted our focus and prioritised inflation over growth, that same approach continues. There is no change in that stance. It is to place things in a particular perspective. I have tried to explain the overall approach that central banks adopt and in particular, the approach that the Reserve Bank has been approaching. Our decisions, as I have said, are dependent on two major parameters. That is inflation and growth. Inflation is our top priority now. We still have a distance to cover to reach 4% inflation.

The use of the risk of overtightening should be read along with the previous sentence where I have said that a few months of good data should not push us into some kind of complacency and the fact that inflation has come within the target range also should not lead to any kind of complacency. So, a mention of the word 'overtightening' should not be read as a change in our approach. It would be wrong to assume that any kind of loosening et cetera is around the corner. That is not on the table at the moment. Let me be very clear. It is not at all on the table. Look at the inflation numbers; look at the inflation trajectory. So, we still have a distance to cover.

Latha Venkatesh, CNBC TV:
Was the stock market exuberance one reason? Do you feel the bank money is going there?

Shaktikanta Das:
That is a very hypothetical question. There have been anecdotal write-ups, but we are mindful of all possible risks building up. For stock markets, there is a stock market regulator, SEBI. The SEBI monitors what is happening in the stock markets, and if there is something happening, which is of concern to the SEBI or comes to the notice of SEBI, I am sure they will bring it to our notice.

Yogesh Dayal:
Thank you sir. I will move on to Mr. Ankur Mishra from ET Now to ask his question.

Ankur Mishra, ET Now:
Thank you Yogesh sir. I want to draw your attention to the announcement which was made in the last policy. You had warned about an unsecured loans portfolio and later on, there was an announcement from the Reserve Bank of India. I want to understand that a few of the players have said that they are going slow on small ticket-size loans. Did you see some problems there particularly? And another thing, NBFCs have also claimed to have reached out to you regarding the problem which will arise after the circular which you have issued. Is there some rethinking? Have you had some discussion?

Shaktikanta Das:
I would request DG Swaminathan to reply to that.

Swaminathan J.:
As it was mentioned while making that announcement itself, it was a pre-emptive measure to bring certain prudence and to bring an end to any sort of exuberance that may be exhibited by certain lenders. The effort was made over the previous 3-4 months by way of sensitising the players to put adequate internal control measures to ensure that the risk build-up is avoided. As the market was not responding enough to that, there was a necessity, as we had mentioned earlier, to watch the data and on the basis of the data, we have taken certain measures to strengthen the prudential measures that the regulated entities have to put in place.

It is too early to see or pass a conclusion as to what sort of effect it is taking. But at least from our interactions with the market participants, the financial system as well as some of the articles are alluding to the fact that there are risk management practices are getting better, underwriting is getting better, and any business model that is likely to throw up an enhanced risk is curtailed. That is our intention. It is not to curtail the growth and we have taken care to exclude growth drivers, the segments like home loans or vehicle loans or to the small borrowers or to SHG, those segments have been kept outside of this purview. So, we would expect the lenders to conduct themselves and draw their business models in a manner in which an avoidable risk buildup is mitigated.

Ankur Mishra, ET Now:
After your assessment, is there also consideration as I mentioned about NBFCs that you are having some kind of discussion about problems which you have faced?

Swaminathan J.:
Essentially, these measures were intended to address the interconnectedness that was building up within the financial system and also to curtail it because as we had highlighted, it was growing at about 24%, 25% on a YoY basis as compared to the rest of the system that was growing at about 12% to 14%. So, that particular segment of bank lending to NBFC had to be calibrated and we have tried doing it through the risk

weight. Also, the NBFC's growth in certain segments was an outlier, so for that particular segment, we have to add risk weight. So, it is a kind of prudential measure at this point. It is not to deny liquidity. It is not to ration the lending. It is only that, we would like the lenders to have adequate risk weights put in place and limits to be set in place for prudential monitoring. That's all.

Yogesh Dayal:
Thank you sir. I will move on to this side. Today, one TV channel has been launched, NDTV Profit. I will request Vishwanath Nair to ask his question from there.

Vishwanath Nair, NDTV Profit:
Whether these five policies of no action and maintaining this withdrawal of accommodation stance inadvertently communicate a neutral stance on rates to the market by any chance because you are not neutral yet, but five policies of no action could indicate that?

Shaktikanta Das:
I do not know on what basis you are reaching that conclusion. We do not communicate anything inadvertently. Let me make it very clear. All our communication is carefully prepared. We are aware that in the markets and the media, you analyse each and every corner of the statement, the comma, full stop, everything. So, we are very careful in our communication. There is no inadvertence in any of our communications. If somebody is assuming that it is a signal to move towards a neutral stance, it would be incorrect. It will not be correct at all. You look at the inflation trajectory. We are still away from 4% target and we have said that the Monetary Policy continues to remain actively disinflationary. So, it would be a mistake to read that we are giving any kind of signal that we are moving towards neutral. That would be a wrong interpretation.

Yogesh Dayal:
Thank you sir. I will invite Mr. Manojit Saha from Business Standard to ask his question.

Manojit Saha, Business Standard:
Good afternoon, sir. Is RBI comfortable with the EMIR-complied MoU with ESMA? Does that address the concern of inspection audit and possible penalty? Is RBI comfortable with that? And also, one clarification. You did not mention the word OMO this time. The sword had been hanging over the last two months. So, can we assume that it is off the table now because liquidity has been tightened?

Shaktikanta Das:
I will take the OMO question and with regard to the ESMA part, I will pass it on to DG Rabi Sankar. We have not said that it is off the table. We have announced that in the last meeting. We have very clearly mentioned in the statement that due to certain factors which are not in our control, like the demand for currency during the festival

season, the build-up of cash balances in the Government, which, of course, have now started coming down as Government spending has picked up, and based on market movement like market interventions, which have an impact on liquidity. I have said in the statement that the need to deploy this instrument has not arisen. It is not off the table. That instrument remains very much on the table. That is always in Arjuna's quiver. It will be used if and when required depending on the evolving liquidity conditions. I would request DG Rabi Sankar to take the other part of the question.

T. Rabi Sankar:

These MoUs or agreements with respect to market infrastructure agencies like CCIL should be underpinned by the word that is used in their regulations - cooperation. They should be cooperative documents. We believe that they should follow the principle of mutual respect and the principle of mutual trust. They should also be characterised by the principle of deference to local regulations. In other words, we are not comfortable with the regulations anywhere which are characterised by extraterritorial jurisdiction. The one we signed with the Bank of England is there on the website. You would have gone through it. You would have noticed that the emphasis is on deference and cooperation.

Yogesh Dayal:

Thank you sirs. I will move on to Mr. Shayan Ghosh from Mint.

Shayan Ghosh, Mint:

Following your guidelines on risk weights, a lot of lenders have decided to curtail smaller loans. But do you think that the sudden closure of the tap would affect that section of borrowers who were so far dependent on that? There have been a lot of instances of cooperative bank board changes recently, then ED raids and all that. As a regulator, how do you tackle the cases of corporate governance issues, and governance issues at the cooperative bank level?

Shaktikanta Das:

With regard to ED raids, etc., I cannot make any comments. That is an independent autonomous body. The other two components of your question, I would request DG Rajeshwar Rao and Swaminathan, you can take those questions.

M. Rajeshwar Rao:

Risk weights, as already mentioned, is essentially a prudential measure to curb growth or moderate the credit growth in certain specific sectors. It is not tantamount to turning off the tap. The tap is open but the only thing may be the pressure has then reduced a bit. So, I do not think that is the intention and is unlikely to be the outcome of the measure which we have announced.

Coming to the governance issues, through the supervisory process, we have a close monitoring of the various parameters of the functioning of the regulated entities which includes governance, business model, risk management, compliance, etc. It is a package which monitors the entire functioning of these regulated entities. If there are certain concerns about the regulated entity insofar as governance is concerned there would be an engagement with the concerned entity to take appropriate action as may be necessary.

Swaminathan J.:

Thank you. Just to supplement that, up to Rs.50,000-category to put a context to it the composition of that particular segment is less than half a per cent of the total outstanding. While of course, it may be dealing with a lot of number of people, it is a segment that cannot pose a great risk on its own because the total quantum itself is less than 0.5%. That is in terms of the context part.

The second is that, as I mentioned, we have what we would like to curtail and expect the lending institutions to provide for more by way of additional risk weight is some of those consumption-led segments or unsecured credit which do not have a defined end-use. We have taken care to support whatever growth drivers are already there. So, whatever lending was taking place for which a clear end-use was not visible or completely unsecured without a clear purpose is what will get curtailed. Based on this there will be some recalibration of business models, also recalibration of the growth number that is what is the intended effect of the regulation. If it is playing out, that is only giving the intended results and as DG(MRR) clarified it is not our intention to deny or ration credit. There is enough headroom available. The exposure framework permits adequate lending to be provided to support growth.

The second part, again to supplement that, the governance and effectiveness assurance function has been at the top of our priorities. From a qualitative perspective, while of course quantitative parameters, the entire financial system looks very good at this point, what we would like to focus on is the qualitative parameters. It has always been a focus area, but you might hear us more on governance and the effectiveness of assurance functions because strengthening these two is what will ensure the continued stability of the financial system. So, that is why the emphasis is on.

Yogesh Dayal:

Thank you sirs. I will request Shyama Mishra from Doordarshan to ask her question.

Shyama Mishra, Doordarshan:

Good afternoon Governor. Are there any external factors that are looking promising for the Indian economy?

Shaktikanta Das:

The major factor is that there is growing international confidence in the Indian economy. My interactions with Governors of other countries, with various other regulators and stakeholders and other investors, in particular from other countries, major investors who visit India and some of them do come to the RBI and meet us.

There is growing confidence in the potential of the Indian economy and India's capacity to grow that is probably something, which is noteworthy, and that also translates into another area namely confidence from the point of view of making investment, there is a kind of confidence in the quality of Indian products and more particularly the quality of India's services exports. There is a greater confidence in the quality of our merchandise exports and in the quality of our services exports which is the inherent quality and the strength of all that we are doing.

Yogesh Dayal:

Thank you sir. I will now request Mr. Anoop Roy from Bloomberg to ask his question.

Anoop Roy, Bloomberg:

Thank you sir. You are sounding very cautious about inflation and previously you have said that we will not consider easing or think of easing before it settles around 4% on a sustainable basis, but going by the analysts, it is not going to happen before 2025. So, are you going to keep rates elevated for this whole year, next year or something else that will prompt you to cut probably the U.S. Fed rate or something?

Shaktikanta Das:

Specifically on the rates and the cut, etc., I have stated, and DG Michael Patra has also stated that we refrain from giving any forward guidance considering that with the kind of uncertainty that lies ahead of us. In the concluding paragraph of my statement, I have said that the future looks very fickle, and I have also said that new shocks can hit any economy. It can come from anywhere and hit any economy anytime. So, if that is the level of uncertainty and if our inflation is still quite away from 4%, we just cannot give any forward guidance about whether we will tighten further or we will loosen or what we will do? Everything depends on the evolving situation. It is not possible in the current situation for any central bank to give forward guidance. You would have seen that the level of forward guidance also given by many central banks internationally has now sort of come down.

Yogesh Dayal:

Thank you sir. I will now invite Mr. Ryosuke Hanada from Nikkei Asia to ask his question.

Ryosuke Hanada, Nikkei Asia:

I want to ask about the detailed assessment of the Indian economy as everyone's aware that the latest GDP statistics show robust growth. However, at the same time, some private institutes reported that the jobless rate temporarily recorded over 10% in October. I understand it is not the Government's official statistics, but what do you think about the future expectations regarding the employment environment in India?

Shaktikanta Das:

We have analysed all these aspects in great detail internally. I would request DG Michael Patra to please take that question.

Michael D. Patra:

They are now very credible official statistics on employment. So, I will refer you to the periodic Labor Force Survey, which is put out by the Government of India and has been conducted since April 2017. So, you have a consistent series right from July 2017. If you look at those data which are available right up to September 2023, you get the labour participation rate, the worker-to-population ratio that is the number of employed people in the population and also the unemployment rates, not only for the country as a whole but also for women and men and for urban and rural areas. So, if you see the labour participation rate, it is at its highest level ever. People want to or are seeking work and as regards the unemployment rate, it has fallen to 6.6%, not 10%, and that is probably the lowest in the series right now.

Yogesh Dayal:

Thank you sir. I will invite Mr. Piyush Shukla from the Financial Express to ask his question.

Piyush Shukla, The Financial Express:

Sir, the transmission of your rate hikes done through the last year and this year is not reflected in large banks' savings account deposits so what are we doing about that? A lot of people are parking money in mutual funds as well. So, small banks are not able to register any growth in their CASA. It is a minuscule single digit. What is happening there? Secondly, regarding the willful defaulter circular which you have asked banks to apply for within 6 months, there is a representation made by IBA to extend the timeline to one year, so any update on that?

Shaktikanta Das:

The information regarding the transmission of rates, I have provided in a footnote to the statement. You might have already noticed it. You were talking about the savings and the savings bank interest rates. You also referred to more and more money going into mutual funds. Now that is the function of the economy, which is the function of the market and that is a decision which each individual has to take where he wants to put his money. How much money he wants to keep in banks, how much money he wants to put in mutual funds, and where he is going to deploy his money or his savings. So, I would not like to say anything about that.

With regard to Small Savings Bank interest rates, you are right they have not seen much increase, but as you would appreciate the interest rates are deregulated and any sort of introduction of any kind of administered rate for any component of bank deposits would be a very retrograde step. So, we have no such ideas. It is a commercial decision that the banks have to make. At times you would have noticed several banks also increase their savings account interest rates because they depend on their liquidity assessment. So, it is a decision which is left to the banks to take. So far as the RBI is concerned, the interest rates, as you are aware, are deregulated.

M. Rajeshwar Rao:

On the willful defaulter case representation, the entire draft circular has been put in the public domain for comments. We have received feedback on the circular and we are in the process of analysing them before we refine and finalise the circular. So, this feedback also will be factored in while making a final decision on the circular.

Piyush Shukla, The Financial Express:

When will the final circular come sir?

M. Rajeshwar Rao:

No, we are just in the process of analysing shortly.

Yogesh Dayal:

Thank you sir. I will move on to Mayur Shetty from The Times of India.

Mayur Shetty, The Times of India:

Governor, I wanted to know the thinking behind the announcement on the RBI providing cloud services. Is this an extension of the principle of data sovereignty and asking payment companies to have on-soil storage of data? I had another question on growth. What makes you so confident of growth given all the commentary that we are hearing on sluggish private investments, uncertain rural demand and slowing import demand?

Shaktikanta Das:

I was anticipating this question, but I was wondering why it has not been asked. On the cloud part, I would request DG Rabi Sankar to reply and explain why we are setting it up. We have already explained but DG Rabi Sankar takes that part of the question and about our confidence with regard to growth, let DG Michael Patra reply, I will supplement, if required.

T. Rabi Sankar:

Increasing data, data storage, data processing, and their efficiency are major issues and currently data is sometimes kept in-house on-premises, and sometimes in other clouds. We thought that the basic driver behind this is to provide a structured, scalable data storage and data processing facility, which is why the cloud has been talked about.

The idea is to ensure the security, integrity and safety of data. It has nothing to do with the data sovereignty that you have referred to here. What services will be provided and all will be determined in the course of time. Whether it will be infrastructure as a service, which is a storage or whether it will be platforms that will be provided, whether it will be software that will be provided especially for smaller entities like cooperative banks. This provides a lot of efficiency in terms of scale because for each one to maintain their database involves a large amount of investments, skill and all that this cloud is expected to provide.

This cloud will be owned by financial sector entities as we have clarified going forward. At this point in time, our idea is to just give it a push, let it start off and then let the system manage. It is like a digital public infrastructure. At this point in time, IFTAS will create it and run it. Going forward, it will shift.

Shaktikanta Das:
On the growth part, you can take.

Michael D. Patra:
As you know the first half estimates have beaten all estimates, including ours and if you just sort of put that actual number and the projections we made in the last policy together you will come up with a number close to 7% or at 6.9%, but if you look at October, November high-frequency data which we use for our nowcast, they are all very robust right now. So, if you just take October-November data, you will exceed 7%. So, at the current time, 7% is a conservative estimate.

Shaktikanta Das:
Let me touch upon what you referred to as rural demand and CAPEX. The rural demand; despite the late Kharif harvest in certain parts of the country, two-thirds of Rabi sowing is already complete. Secondly, we have also seen that two-wheeler sales have posted a significant turnaround and in fact according to the data provided by the Federation of Automobile Dealers Association FADA, for the 42 days festival period during October and November, the retail sales of two-wheelers recorded a growth of 20.7%. FMCG volumes in the rural segment have also shown improvement and they are growing at about 6.4%. Right from the beginning of this financial year, the rural demand for FMCG is steadily picking up and as per the latest data, they have grown by about 6.4% in the whole of the second quarter. The demand for Mahatma Gandhi NREGA interestingly also has declined for the first time in this financial year during November by about 4.6%. So, that is why we are saying that there are signs that rural demand is also turning around.

With regard to investment pickup, the Government capital expenditure continues to be very strong. The General Government capital expenditure undertaken by both the Central Government as well as the State Governments recorded a growth of 36.7% during April-October 2023. Private capital expenditure is also showing signs of revival, particularly in sectors like petroleum, steel, cement and chemicals. Capacity utilisation has now reached a kind of threshold. It is higher than the long-period average at 74%. It has reached a point where we can expect private investment to start picking up. Quite a bit of investment is already taking place in private-sector manufacturing companies. For example, the investment in fixed assets by listed private manufacturing companies has registered a growth of 10.5% in the first half of the current financial year and a number of companies, according to our survey and the inputs, in the manufacturing sector are using their internal reserves and surpluses to invest. They are not approaching the bank or they are not resorting to any other kind of borrowing or raising funds. The high-frequency indicators of investment, such as steel consumption and cement production and very importantly import of capital goods are also showing good growth. All these indicate that the investment cycle should continue.

Yogesh Dayal:
Thank you sirs. I will move on to Ms. Swati Bhat Shetye from Thomson Reuters.

Swati Bhat Shetye, Thomson Reuters:
You mentioned in your statement today that FPI flows have started to pick up. They have also picked up on the debt side. With India's inclusion in the Global Bond Index next year, we could expect further flows. So, even if the overall flows into India are comfortable, would you require any kind of macroprudential norms; if there is heavy investment in, say, the benchmark paper or any individual paper? Are you considering any of those factors and how would the RBI respond to those?

Shaktikanta Das:
I have mentioned at some other events the impact of the bond inclusion of India in the bond Index. There are various assessments available, various analysts are making various assessments as to how many billions of dollars will flow in we have to see. It will start probably, as per reports, from June onwards on a sort of monthly basis. It is not as if suddenly in June there will be a huge flow. It will happen every month and we have the capacity to deal with that kind of inflow and that's it.

If you look at our past track record, we have been managing these flows in both directions when there are outflows or there are inflows and we are quite confident of dealing with it and it will be a kind of a steady inflow. If materialises from June onwards, we should be able to deal with it.

Swati Bhat Shetye, Thomson Reuters:
Sir, I was talking about whether there is heavy investment in one particular bond, would that be a matter of concern? Overall flows may be comfortable, you have been managing those, but say the benchmark bond if a percentage of ownership in one bond becomes very heavily foreign-owned, is that going to be a cause of concern?

Shaktikanta Das:
DG Rabi Sankar can take that question.

T. Rabi Sankar:
We should cross the bridge when we come to it saying what will happen if there is a lot of investment. We have not had that issue before, but most central banks globally monitor the total holding in any particular security by any individual investor. That is something we also wanted, but as I said that is not something that we have had if it comes. We will deal with it at that point in time. Just to say one other point, if you look at our history the total amount that people say will come in through the bond Index

inclusion is between US$20 to US$25 billion. In 2013, we lost close to US$20 billion in a very short period of time, without having too much of a problem we managed that. The concern is that this could cause volatility and all that is a bit overblown. Apart from that, we have all the instruments necessary. The reserve levels are much higher, the parameters for our exposure or vulnerability are much better and so on.

Yogesh Dayal:
Thank you sirs. I will move on to Ms. Swati Khandelwal from Zee Business to ask her questions.

Swati Khandelwal, Zee Business:
Can you please elaborate on how the new regulatory framework of connected lending can help existing customers, which is going to bring in more improved access to smaller exposures? Can you please quantify smaller exposure? In the regulatory framework which you are strengthening, the exposures which are small exposure for that access should be better for the regulator, if we can quantify small.

Shaktikanta Das:
Deputy Governor Rajeshwar Rao has already clarified the connected lending. Connected lending has nothing to do with the interconnected issue. There are already guidelines on connected lending. Basically, the meaning of connected lending is that if a person is in a position where he can influence the bank's decision for them, we broadly call it connected lending or there are two parties which are interrelated. A bank is lending to a party and there is already an interrelationship between the bank and that party; that is called connected lending. We already have a guideline for connected lending, for example, directors of banks, if they are particularly borrowing from this monetary level it has to be taken to the board, etc. There is no connection with the interconnectedness.

Swati Khandelwal, Zee Business:
For web aggregators, you have talked about the focus on digital lending, so whether it is going to restrain, or it will tighten smaller ticket loans?

Shaktikanta Das:
DG Rajeshwar Rao can respond to that question.

M. Rajeshwar Rao:
This is actually a follow-up on the recommendations of the working group on digital lending, which was accepted by the Reserve Bank last year and we have come out with guidelines. We said we would also look at regulating the web server, what you call lending through web platforms. The basic idea is the lending service platform. They may collect information from various sources and give the details to the customer, but there could be a preference for certain things and certain other things may not be covered. So, we will give them some guidance on what should they do so that the borrower has full transparency on what are the rates available to him.

Shaktikanta Das:
Web aggregators, who are going to function, should be a neutral platform on each. It should not be like they push sell that particular loan product through some other method. Some instances have come to our notice and we are trying to make it transparent, and neutral, ensuring no miss-sell and at the same time borrower decision influence should not be any scope.

Yogesh Dayal:
Sir, we will take the last three questions. There have been some people who have been waiting very patiently. So, I will start with Hamsini Karthik from The Hindu Business Line followed by Hitesh Vyas from the Indian Express and with Mr. Pankaj Aher from the Informist.

Hamsini Karthik, The Hindu Business Line:
There seems to be a sort of growing reliance by most of the lenders, banks and NBFCs put together on risk-based pricing. This is both on the secured as well as the unsecured side. You have attacked the unsecured side through the RWA, but there is a sense that we can price the risk very well. At a regulatory level, is there something that you all are very comfortable with? There is another layer to it on the secured loans where we are seeing that the terminal value of assets is reducing in terms of their market value when they are put out vis-a-vis new property. This is evident with cars, this is evident with home loans, etc., as well, but the pricing between the two is shrinking. Whether we take mortgages versus LAP or second-hand cars versus new cars, it is shrinking. Is that a cause of concern for you?

Shaktikanta Das:
I would request DG Swaminathan to take that question.

Swaminathan J.:
Essentially risk weights have to be aligned with the type of the product and the segment to which it caters. So, at the macroprudential level, the regulations try to segregate them on that principle and then accordingly we ensure that the risk weights are assigned. The lenders will accordingly calibrate their business models. Wherever we see a possible risk build-up, we have taken certain measures as a pre-emptive action and to remind you that these additional risk weights on some of the items are only bringing back what was prevalent during pre-COVID. These segments were sort of a bit of relaxation brought in to facilitate a very unusual situation. So, they are now back to normal numbers. Apart from NBFC, which was a recent phenomenon which we had to act upon. It is towards that effect that wherever there is an additional risk builder that has got to be addressed. The second part of your question, I am sorry I did not get it. What was the second question you asked?

Hamsini Karthik, The Hindu Business Line:

Earlier we used to have at least a 200 to 300 bps gap between a LAP and mortgages that are shrinking. It is now around 70 bps.

Swaminathan J.:
We have guidelines which are clear in terms of how pricing will have to be done, whether it is an MCLR-based lending or an external benchmark linked rates, and how the risk premium and the operating cost can be calculated and arrived at. This is what we can provide in terms of guidance. Beyond which what exactly should be the applicable or effective pricing for a particular product, or a segment of customers is purely driven by the policies approved by the boards of the respective lending institution and their business model focus areas and their risk appetite.

So, it is not to be construed that the regulation will look at the differential pricing between various products, and how secured or unsecured it is. We look at the risk build-up and try addressing it. Pricing is part of the commercial decision and how exactly to build risk premiums over different products is something which the banks themselves build basis their risk appetite framework and business priorities.

Hamsini Karthik, The Hindu Business Line:
Do you believe it is in a comfortable position today?

Swaminathan J.:
Absolutely. This is something which is left to the commercial judgment and wisdom of the lending institutions and if you see any unusual outlier behaviour, that will be curtailed through the supervisory process, we may not require regulations to control that.

Yogesh Dayal:
Sir, Mr. Vyas from The Indian Express.

Hitesh Vyas, The Indian Express:
Sir, I just want to understand the policy stance you have explained in the past, but I just want to understand once again when you say withdrawal of accommodation, what exactly does it mean?

Shaktikanta Das:
I would request DG Dr. Patra to take that question.

Michael D. Patra:
Actually, the Governor has explained this several times, but let me take the last attempt. So, in modern times, Monetary Policy is chiefly operated through the interest rate and Monetary Policy is a tool of stabilisation. By stabilisation, I mean that when GDP goes way above its trend the task of Monetary Policy is to bring it down to its trend, and when inflation goes above its target, Monetary Policy tries to bring down

inflation to the target. Obviously, when this kind of thing happens, GDP goes above target or inflation goes above target, Monetary Policy raises the interest rate and conversely, when it is below, it reduces the rate. So, increasing and reducing rates is probably with some kind of benchmark. So, there is a certain benchmark where if inflation is at target and GDP is at trend; Monetary Policy has to neither restrict nor accommodate.

At the current time, GDP is at potential, i.e., at trend with the new number, but inflation is way above target. If you take the average for the year, it is 5.4% and the target is 4%. So, we have to withdraw accommodation further to bring back inflation from 5.5% to 4%. That is the withdrawal of accommodation.

Yogesh Dayal:
So, on this side, we have missed out Mr. Pankaj Aher from Informist.

Pankaj Aher, Informist:
Sir, before I ask a question, I wanted to actually compliment you for the candour with which you have answered at least a couple of questions today.

Shaktikanta Das:
Why do you say unusual that we reply with candour? We have tried to be as transparent as possible.

Pankaj Aher, Informist:
On the question of stance, you clearly said that there is no inadvertent communication from the RBI. We also appreciate that. The market will be very happy to hear those things. My actual question is, given this backdrop, given the monetary policy committee’s target of inflation control, given the RBI's projections for inflation, would it be fair to expect that unless there is an external shock or unforeseen shock Monetary Policy will continue to remain actively disinflationary till inflation reaches 4%?

Shaktikanta Das:
Same kind of question came earlier also and I have replied. We are not giving any forward guidance about our specific actions with regard to stance or with regard to the rates. With regard to stance, the deputy governor has explained what is meant by withdrawal of accommodation.

So, you can interpret from that when the RBI will probably if that situation materialises, that can be a situation where the RBI can think of changing the stance, but at the same time reaching 4% should not just be a one-off event, it has to be durably 4% and as the monetary the MPC should have confidence that yes, 4% has now become durable.

You can also interpret from that when the stance will change and with regard to the rates, I will not be able to give any forward guidance that will depend on the evolving situation since this is the last question, I guess I just wanted to say it just for clarification because media has its own way of interpreting statements and I don't want to be inadvertent in any manner.

I referred to Arjuna’s quiver. Let me say very emphatically that we have no exalted notion of ourselves as an institution. It was just a kind of analogy or a metaphor I used to explain to just say that particular instrument is available with the Reserve Bank. There is absolutely no intention to have an exalted opinion of ourselves or to assume that we have become equal to a great warrior. We draw lessons from the principles that the character Arjuna and Mahabharata has demonstrated from time to time. Thank you.

I used the word character of Mahabharat Arjuna. It is not the character it is a great warrior of Mahabharata.

Yogesh Dayal:

Thank you sir. With this, we come to the formal close of the press conference. I would like to thank all the media friends for patiently participating in the press conference and also thank the top management led by Governor Shri Shaktikanta Das for making it very interesting. Thank you very much and wish you a Happy New Year in advance. Thank you.

Shaktikanta Das:

Wish you all a very Happy New Year and once again your reference to inadvertent made me to again clarify these two things. Thank you.