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Moderator: Good day, ladies and gentlemen. Welcome to the First Bi-Monthly Monetary Policy Conference with Researchers and Analysts. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. Ladies & gentlemen, I would now like to hand the conference over to Mr. Jose Kattoor. Thank you and over to you, sir.

Jose Kattoor: Thank you, Janis. We take the first question that is from Ramesh Mehta. His question is, recently on year end forex funding rates moved up towards 70 per cent whereas for other days it trades at 20 per cent to 25 per cent. Interest rate difference was 200 basis points but we have seen five times bigger rise from this level. Was keeping higher funding rates a policy decision for some kind of interest rate defense or was it due to market forces? If it was for market forces, whether forex rates should be driven by market forces to any particular levels? What are the risks of spilling of higher rates in forex market to other markets since all markets are interlinked? This question will be taken by ED, Shri. Rajeshwar Rao.

Rajeshwar Rao: Thank you, Mr. Mehta. Regarding your question, our comments are as under. The forward premiums and money market rates tend to move higher on the year end dates due to a confluence of factors and RBI makes sufficient liquidity provision to meet the year end demand for the rupee liquidity. The dollar swap rates were high due to market factors as banks would have wanted to reduce their dollar holdings at the end of the year to comply with regulatory requirements. The rates have since trended to normal levels. RBI continuously monitors the developments in all markets and takes necessary action as deemed appropriate to contain spillover risks.

Jose Kattoor: Thank you, ED. The next question is from Amit Shewale. His question is about yield maximization. Pre-announcement of the three-year forex swap, the yield differentiation between India and US rates was at 4.35 per cent and the three-year swap premium was also hovering around the same level. Post announcement, the swap rate had crashed by approximately 75 bps. The rough calculation suggests that rupee yield for injecting liquidity via forex swap could be 6 per cent, he explains it as 3.7 per cent premia plus 2.3 per cent three-year US treasury rates, versus 6.75 per cent three-year G-Sec. With the primary objective being to inject durable liquidity being met, shouldn't we also look at yield maximization? The question will be taken by ED, Shri. Rajeshwar Rao, again.

Rajeshwar Rao: Thank you, Mr. Shewale. The Reserve Bank's liquidity operations are aimed at managing the system liquidity so as to achieve the monetary policy objectives, while meeting the economy's demand for reserve money growth through a mix of instruments at RBI's disposal. The liquidity and market conditions determine our choice of instruments for transient and durable liquidity management.

Jose Kattoor: Thank you, ED, Shri. Rajeshwar Rao. Next question is from Nikhil Gupta. The question goes like this: Dear RBI team, my question is regarding your recent policy change under which you decided to inject INR liquidity into the system through US dollar swap rather than OMOs. Could you please explain what lead to such change? It is highly confusing considering immense supply of G-Sec's in Q1: FY20. Further, what according to the RBI would be the impact of such US dollar swaps on a) India's foreign exchange reserves; b) INR-USD exchange rate; and c) India's trade deficit, if any? The question will be taken by ED, Shri. Rajeshwar Rao.

Rajeshwar Rao: Thank you, Mr. Gupta. RBI has multiple instruments at its disposal to manage durable as well as transient liquidity in the system. The choice of an instrument depends upon the prevailing liquidity and market conditions. The US dollar amount mobilized through the buy/sale swap action would reflect in the RBI's foreign exchange reserves for the tenor of the swap, while also reflecting in RBI's forward liabilities. As regards the second point on the INR-USD exchange rate, the exchange rate of rupee is largely determined by demand and supply conditions prevailing in the foreign exchange market and gets influenced by various factors, including the interest rate differential, relative current account balance and capital flows. The exchange rate has remained stable since the long-term buy/sale swap done by us on 26th March and it is unlikely to have impact on India's trade deficit.

Jose Kattoor: Thank you, ED, Shri. Rajeshwar Rao. Question from Amit Shewale. Question is, while forex swaps have been looked at as a tool for injecting durable liquidity, can they be also looked to infuse liquidity of tenors similar to the term repos with a floor rate (interest differential of corresponding INR and USD rates)? This question will be taken by DG, Dr. Acharya.

Dr. Viral Acharya: Thank you, Mr. Shewale. As Governor clarified in his remarks at the press conference, the Reserve Bank has decided to augment its liquidity management tool kit by introducing FX swap as a new tool to manage the durable liquidity needs of the system. The evolving liquidity and market conditions determine our choice of tenor and the instruments for liquidity management operations. Your specific question is on the tenor and the answer to your question is, that in principle the answer is yes.

Jose Kattoor: Thank you. Dr. Acharya. Next question is from Dhawal Gada. This is, any update from the RBI on preparedness of banks moving to external benchmark-based retail lending rates? Along with this a question from Mr. Vikas Khota, respective members of the MPC, could you tell us about the current status of the proposal to link floating rate loans to an external benchmark? Also, when can we expect the final guidelines to be issued regarding the same? Question will be taken by DG, Mr. Vishwanathan.

N.S. Vishwanathan: As indicated by the Governor in the press conference, he has stated that we had proposed earlier that the new floating rate on personal retail loans and floating rate loans to micro and small enterprises will be benchmarked to an external benchmark from 1st April. Taking into account the feedback received during discussions held with the stakeholders on issues such as management of interest rate risks by banks from fixed rate interest rates being liabilities against floating interest rate assets and related difficulties and the lead time required to put the IT systems in place, it has been decided to hold further a consultation with stakeholders and work out an effective mechanism for transmission of rates. In the mean time, as you may be aware, we have taken several measures to enable better management of interest rate risk by banks, for instance, by allowing non-residents to participate in the rupee inter-state swap market.

Jose Kattoor: Thank you, DG Vishwanathan. Again a question from Dhawal Gada: RBI had put lot of emphasis on large ticket stress loan resolution via IBC process. How does RBI intend to drive large ticket resolution post recent Supreme Court judgment on 12th February circular? Question will be responded by DG, Shri. N.S. Vishwanathan.

N.S. Vishwanathan: Thank you, Mr. Gada. Again, this has been addressed by the Governor in the press conference and the statement has been put out at the Bank's website. In sum, we have said that the powers of RBI under section 35AA and other sections of the Banking Regulation Act are not in doubt. In the light of the Honorable Supreme Court's order, Reserve Bank will take necessary steps, including issuance of a revised circular as maybe necessary for expeditious and effective resolution of the stressed assets. We stand committed to maintain and enhance the momentum of resolution of stressed assets and adherence to credit discipline.

Jose Kattoor: Thank you, DG Vishwanathan. Next question is from Chinmay Sapre. Question is: What are the major challenges under consideration that are leading to delays in (a) guidelines related to liquidity and ALM management for NBFCs; and (b) guidelines related to holding structure of non-banking activities of banks like insurance and asset management? The question will be taken by DG, Shri. Vishwanathan.

N.S. Vishwanathan: If it was easy we would have done it by now. There are issues that are being addressed. I cannot specifically say by when we will come out but our concern is that whatever we do should be non-disruptive and that is the effort that we are making to put in those guidelines.

Jose Kattoor: Thank you. DG Vishwanathan. I guess the next question is also to you only, more about the regulations. This is from Shubranshu Mishra. Any new regulations we can expect for NBFCs related to (i) LCR for NBFCs similar to that of banks; (ii) Harmonization of Tier-I ratios across NBFCs different licenses?

N.S. Vishwanathan: We are working on a framework for different types of NBFCs, but I cannot tell whether LCR is going to be there. You will come to know when we come out with the final guidelines. As far as harmonization of Tier-I ratios across NBFCs, it is not under consideration right now.

Jose Kattoor: Thank you, DG Vishwanathan. There is a similar question, this is on NBFC ALM. This is from Alpesh Mehta. He is asking, what is RBI's assessment on NBFC ALM situation now? Are the current ALM guidelines sufficient or do we expect new norms on that front soon? Question will be taken by DG, Shri. Vishwanathan.

N.S. Vishwanathan: As we have responded to earlier questions, we are working on framework, we will come out with that soon.

Jose Kattoor: Thank you, DG. Vishwanathan. Mr. Alpesh Mehta is asking another question on the liquidity issue for NBFCs. The question is, with the repeat instance of liquidity issue for NBFCs would RBI be comfortable giving permanent liquidity window like LAF against G-Sec to NBFCs? The question will be taken by Dr. Acharya.

Dr. Viral Acharya: Thank you, Mr. Mehta. At present there is no plan to offer a permanent liquidity window like LAF against G-Secs to NBFCs.

Jose Kattoor: Thank you, DG, Dr. Acharya. The next question is from by Sreejith Balasubramanian. The question is regarding the CPI. For example, from September 2016 to June 2017 the year-on-year growth in the CPI telecom component (mobile telephone charges) fell from +2.7 per cent to +0.2 per cent, while the growth in average revenue per user (ARPU) for wireless services as per TRAI fell much more sharply from minus 1 per cent to minus 37 per cent during the same period. Even growth in revenue components within the ARPU (revenue from calls, data usage, etc.) became deeply negative, but growth in CPI telecom component was still positive. If the CPI captures the actual fall in telecom revenue, core CPI might be much lower than the current numbers. Your comments please. The question will be taken by Dr. Patra.

Dr. Michael D.Patra: Your question relates to the compilation of CPI, perhaps you may direct this question to the Central Statistics Office, which is the authority which brings out the CPI.

Jose Kattoor: Thank you, Dr. Patra. Next question is from Kaushik Das. Question is, large OMO purchases have been done in FY19 to offset domestic liquidity tightness arising out of BOP deficit. But it has also helped to support bond demand supply dynamics to a great extent. Bond markets seem to be overly dependent on OMO purchases at this stage. Does RBI feel concerned about this phenomenon? Question will be taken by DG. Dr. Acharya.

Dr. Viral Acharya: Thank you, Kaushik. As governor explained in his press conference remarks, RBI has multiple instruments at its disposal to manage durable as well as transient liquidity in the system. The specific choice of instruments depends upon the prevailing liquidity and market conditions, and you are right that in a specific year it can be driven by the BOP deficit as well. Recently as you know, the RBI has augmented its liquidity management tool kit by adding long-term foreign exchange buy/sell swaps.

Jose Kattoor: Thank you, Dr. Acharya. Next question is from Prakash Pandey. Question is, as RBI has delivered two rate cuts on the trot now, with the banks deposit accretion not being particularly sharp how do you see policy transmission happening across the yield curve if the depositors increasingly have options of investing in debt funds or small savings schemes, etc? In this case could this encourage shorter term borrowings by borrowers creating liquidity mismatches? The question is to be taken by Dr. Acharya.

Dr. Viral Acharya: Thank you, Mr. Pandey. It is an interesting question, it relates to the transmission of monetary policy when there are other constraints in the economy. As we observed in the part B of the Monetary Policy resolution today, we will be both engaging with stakeholders as well as reflecting on measures through which transmission of Monetary Policy can be improved and you will see our responses in due course. Thank you.

Jose Kattoor: Thank you, Dr. Acharya. Our next question is from Siddharth Gupta. Are there any plans for MPC to publish a 'Dot plot' with MPC members' current expectations of the rate trajectory? Dr. Patra?

Dr. Michael D.Patra: The answer is, no.

Jose Kattoor: Thank you, Dr. Patra. Our next question is from Karan Champaneri. The question is, considering the inefficiencies of conventional monetary tools, what is the stake of RBI on modern monetary theory? The question will be taken by Governor.

Shaktikanta Das: See, this is a unconventional concept which has now come up and there is some amount of discussion going on around it. In a way, it would be a kind of a retrograde measure if you again go back to monetizing the financial requirements of any government for that matter, I am talking in general on a global basis where the debate is happening more in the advanced economies. So it will be a retrograde step, we have to be very mindful about our total government debt and the general government debt, the debt of the state governments and the center put together. And, the consequences and the down sides of this approach are far too deep to take a view at this point of time, more debate needs to be done, I don't want to sort of rush into a conclusion on this. But having said that, I would rather I would think several, several times before taking a positive view on this because the negative consequences and the downside are far too costly.

Jose Kattoor: Thank you, Governor. Our next question is by Arindam Som. The question is: On 5th December 2018, the RBI issued guidelines on the loans system for delivery of bank credit which requires working capital limits of borrowers with fund based exposure above INR 1,500 billion to have a minimum 40 per cent loan component effective. Currently, around 70 per cent to 80 per cent of the working capital funding happens via revolving credit limits, such as cash credit limits. With regard to this circular there are two questions, (i) what is the intent behind this circular, does the circular allow immediate rollover of the loan component on the maturity date? (ii) Will intra-day overdraft or ad-hoc limits be included within the purview of the circular? The question will be taken by DG. Shri. Vishwanathan.

N.S. Vishwanathan: First thing, I think it is INR 1,500 million and not INR 1,500 billion. Banks provide working capital finance by way of cash credit, overdraft, working capital demand loans, etc., so they also include bank guarantee, letters of credit, trade credits, etc. In the past cash credit has been the most popular mode of providing working capital finance. While it has its benefits it also poses several regulatory challenges, which are, liquidity management being required to be carried by banks rather than borrowers themselves. They were hampering smooth transmission of monetary policy decisions. The circular envisages to address these issues. In terms of the guidelines, banks may consider rollover of working capital loans on the request of the borrower, provided it is in compliance with extant IRAC norms and also the rollover has to be taken by the banks within the overall limit, it does not result in the credit limit going up from the what is already sanctioned. And I also want to clarify that intra-day facilities are exempted from the purview of the circular, since they are supposed to be self-liquidating, within the day itself.

Jose Kattoor: Thank you, DG Vishwanathan. Our next question is from Lakshmikant Reddy. In the last three monetary policies CPI projections have been revised downwards. Is there any chance to change the stance from neutral to accommodation in next MPC? Question will be taken by Governor.

Shaktikanta Das: All efforts are made to make as accurate projection as possible. There are reasons why it is difficult to forecast all the volatilities, for example in food prices. It is always our endeavor to improve and refine our methodologies and our approach in arriving at the projections. With regard to- is there any change in stance from neutral to accommodation, that you will know when the next MPC statement is issued. Thank you.

Jose Kattoor: Thank you, Governor. Next question is from Gautam Singh. By cutting the repo rate the RBI is signalling the interest rates to head lower, but banks are increasing deposit rates, seems their deposit growth is far behind their credit growth. How do we expect the lending rates to come down when cost of deposits in the system is going up? For better transmission, is the RBI considering a surplus liquidity situation in next 6 to 12 months? To be taken by Dr. Acharya.

Dr. Viral Acharya: Thank you, Gautam Singh. We are in consultation with banks on the issues relating to transmission of monetary policy. You have flagged some of the issues that arise, they are all important. As Governor mentioned in his speech at the press conference, these consultations will hopefully lead to some greater clarity on what effective benchmarking we can provide for pricing of bank loans and if there are some other measures that would be effective, we would also entertain those.

Jose Kattoor: Thank you. Dr. Acharya, there is one more question for you, this is from Arjun Nagarajan. Thank you for taking my question. The RBI has infused just shy of Rs. 3 trillion of rupee liquidity through OMOs in FY19. However, the RBI’s intervention of around $26 billion in net dollar sales for April to January alone has sucked out Rs. 1.8 trillion of liquidity. Could the RBI help us understand if sterilized intervention could be an option where system liquidity remains relatively unaffected by such intervention operations?

Dr. Viral Acharya: Thank you, Mr. Nagarajan. It is an important observation and a good question. So, you are right that RBI injects durable liquidity, both by modulating net foreign assets and net domestic assets in its balance sheet In particular, any reduction in the net foreign assets will indeed decrease the system liquidity. There are periods when the Reserve Bank looses significant quantities of net foreign assets in a relatively short period of time, such as April to October last year. In this case, the growth of net domestic assets (NDA) does have to be commensurately higher to compensate for the deceleration of the net foreign assets. However, as you can imagine, the pace at which we can do this depends upon the market conditions in the domestic assets as well. So sterilization in full quantum is not possible instantaneously throughout the year.

Jose Kattoor: Thank you, Dr. Acharya. So, Janis, we will take a few questions on teleconference.

Moderator: Sure. Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. The first question from the line of Shubhada Rao from YES Bank. Please go ahead.

Shubhada Rao: Thank you. Goodafternoon everyone. I just had one question. This is relating to uncertainties around the inflation outlook, as have also been alluded in the statement in paragraph no. 22, particularly around el-Nino, the demand-supply dynamics in crude oil market, core inflation trajectory and lastly the fiscal scenario, going forward. Given this kind of a clouded inflation outlook, what specific factors perhaps were under consideration to lower further the inflation trajectory in the first half of FY20?

Jose Kattoor: Thank you for the question. This will be taken by ED, Dr. Patra.

Dr. Michael D.Patra: We did consider all the factors that you mentioned while projecting inflation. Also, we were conscious of the fact that food inflation has undershot our projections in the last quarter of 2018-2019 and is revolving softly over the first half of next year. Also, we noticed that inflation excluding food and fuel has moved down from its trajectory in the first eight months of 2018-2019 and is now trending towards 5 per cent. These are some of the factors that motivated us to lower the inflation projection.

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Thank you. My question is to Governor, sir, firstly about the deepening of the G-Sec market and the participation by retails and high net worth individuals (HNIs). Sir, what steps are being taken for further participation so that money can directly, the G-Sec releases can directly be acquired by the retail participants also. What steps are being taken?

Jose Kattoor: The question will be taken by DG, Mr. Kanungo.

B.P. Kanungo: As you know, we have a medium-term debt management regime for quite some time, which is being rolled over, which rests on the tripod of the risk mitigation and the raising of the funds at the rate most convenient to the borrower, i.e., government, and also the retail development of the market, which includes the retail segment. Over the years, large many steps have been taken and the most recent, you would recall that we allow the National Stock Exchange and the exchanges to aggregate the demand of the retail investors and place a bid with the Reserve Bank in the primary auction as per their requirement of government securities. Going forward, we will continue the efforts, it may take the form of different type of instruments to suit the needs of the investors, bringing down the cost of participating in the auctions and steps like that. So the efforts will continue in future as well.

Saket Kapoor: Sir next question is, even your predecessor, Mr. Patel, has also elaborated on the point of higher transaction cost in the financial market, so our current Governor, Mr. Das, you were very close in the Finance Ministry and were one of the authors of many budgets and you did advocate about non imposition of long-term capital gains for a very longer time. So what is now your take on the same- whether it has served the merit for which it was introduced, the higher transaction cost being imposed on the capital markets?

Shaktikanta Das: See, main thing is that so far the taxation policy of the government is concerned, I really am in no position to comment on that or influence that in any manner. But, the context of imposition of the long-term capital gains tax is something which needs to be understood, that is, the capital gain tax was exempted and securities transaction tax (STT) was introduced to ensure a level playing field between the foreign investors who are coming through Mauritius route and the domestic investors; because the domestic investors were ending up by paying capital gains tax whereas all the investors who came through the Mauritius or the other similar routes, they were exempted from capital gains tax because there was no capital gains tax in India, there was no capital gains tax in Mauritius also. So, naturally it was not a level playing field, the Indian domestic investors suffered. So, to correct that, STT was introduced and capital gains tax was exempted. But once the India Mauritius Double Taxation Avoidance Treaty has been renegotiated, now capital gains tax is leviable and is levied in Mauritius. They are starting this year, there was a two-year window which was given and from 2019 the actual levy of taxation will start. So, when there is a level playing field, the exemption given was consequently withdrawn. Now that is the context, I am not passing a value judgment whether it was a right thing or wrong thing to do, but that was the context in which this capital gain tax was reintroduced. Now, whether it is acting as a disincentive for the markets and all, we have to see how it is actually working, it was brought back in last year in the budget for that financial year. The taxation year, the filing of returns of and all will come now only. So, it is too early to comment whether it has affected this way or that way on the flow of investments. Thank you.

Moderator: Thank you. Nnext question is from the line of Kaushik Das from Deutsche Bank. Please go ahead.

Kaushik Das: Before I ask my question, I had a suggestion about the service that come out from the RBI on inflation expectation and other service. Is it possible to release it a few days before the policy so that professional forecasters can take a look at the trend of inflation expectations and then can have a view of RBI, what they will be doing in the monetary policy? So that will be really helpful if we can get it a little before the day of the policy.

Jose Kattoor: Thank you, Kaushik. The question will be taken by Dr. Acharya.

Dr. Viral Acharya: The right way to look at it is that it is before the next policy.

Kaushik Das: Fine. And the second question is, with the 46 per cent weight of food in the CPI basket, basically monetary policy today is just reacting to food and currently it is favourable so RBI is finding it easy and if food goes up then there will be a tendency of the market to expect rate hikes from RBI. So, isn't it time to kind of give a little bit more weight to core inflation, otherwise just reacting to food, because food is influencing headline, can distort other parts of the market as well. So how is RBI thinking about it going forward?

Jose Kattoor: DG, Dr. Acharya will take that question.

Dr. Viral Acharya: It is an important observation, it is a good question. I don't think that the monetary policy necessarily focuses just on any one specific segment of inflation. Our target is clearly mandated in terms of the headline inflation. But clearly, different components of inflation are important, they influence each other and they shape the inflation trajectory going forward. And that will be the case going forward as well.

Jose Kattoor: Thank you, Dr. Acharya. Can we go to the next question?

Moderator: Sure. Our next question is from the line of Astha Gudwani from Bank of America. Please go ahead.

Astha Gudwani: This is actually a follow-up to a question asked on stance, while we understand that it is only in the next policy, we will know whether it changes or it doesn't. What should we be tracking to anticipate if at all there is any change? And is change in stance a necessary pre-condition to any rate cut going forward?

Jose Kattoor: Dr. Patra will take this question.

Dr. Michael D.Patra: I think you should just watch the RBI for its stance. What was your second question?

Astha Gudwani: Necessary pre-condition to another rate cut.

Dr. Michael D.Patra: Not necessary, the neutral stance actually allows you to move either way or to stay put.

Jose Kattoor: Thank you, Dr. Patra. Next question?

Moderator: Thank you. Our next question is from the line of Rachapudi Kumar from Southern Ridge Capital. Please go ahead.

Rachapudi Kumar: I just wanted to ask the RBI's views on credit growth, what is the credit growth which the RBI thinks is consistent with the 7.2 per cent GDP forecast? And if the RBI has numbers ready on hand, what is the reserve money injection which is required which needs to be consistent with this credit growth number?

Jose Kattoor: Dr. Acharya will take this question.

Dr. Viral Acharya: Generally central banks don't take a stand on the levels of credit growth that are needed to support specific levels of growth activity. It depends heavily on the split between equity and credit financing in the economy. Increasingly, credit comes not just from banks but it also comes from non-bank financial sources. Clearly, healthy levels of credit growth are nevertheless needed, but it is also important that credit growth is broad based across different sectors of the economy, a point that Governor also mentioned in his inaugural remarks at the press conference of the MPC. So, to cut a long story short, I think it is a complex question, the focus of the RBI in the MPC is on inflation and growth, credit growth plays a part in both of these and to that extent we of course pay attention to it.

Jose Kattoor: Thank you, Dr. Acharya. Janis, we will take one last question.

Moderator: Sure. We have the next question from the line of Ashish Jain from L&T Finance. Please go ahead.

Ashish Jain: Sir, with these huge OMOs last year and with expectation of OMOs this year, curve is getting steeper and steeper. Is RBI concerned over curve steepness?

Jose Kattoor: The question will be taken by Dr. Acharya.

Dr. Viral Acharya: Yes, there is no specific objective function of the monetary policy or the RBI that relates to the level of the long-term interest rates. Our open market operations are an important part of our liquidity tool kit and we use it in order to meet the durable needs of the economy on an ongoing basis.

Jose Kattoor: Thank you, Dr. Acharya. Janis, that concludes the session.

Moderator: Sure. Thank you very much. Ladies & gentlemen, with this we conclude today's conference call. Thank you all for joining us. You may disconnect your lines now.