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Dr. Urjit R. Patel: Good afternoon, everyone. The Monetary Policy Committee took note of an important change in the base line inflation trajectory with respect to the June 2017 statement. This trajectory now incorporates the first-round impact of the implementation of the House Rent Allowance award of the 7th CPC by the Central Government. Excluding the HRA impact, which will affect the CPI cumulatively, headline inflation would be a little above 4% by Q4, as against 4.5% inclusive of the HRA in the June statement.

Another important development noted by the MPC is that inflation excluding food and fuel, which has hitherto been sticky has fallen significantly over past three months. These factors along with the normal and well distributed rainfall and the smooth rollout of the GST opened up some space for Monetary Policy accommodation. Accordingly, the MPC decided by a vote of 4 to 2 to reduce the policy rate by 25 basis points.

Recognizing, however, that inflation is expected to rise from the current lows over the rest of the year, the Committee persevered with a neutral stance. With several factors contributing to uncertainty around the base line inflation path, implementation of farm loan waivers, the after effects of the GST, the timing of implementation of salary and allowance revisions by the State Governments, the MPC emphasized its commitment to keeping headline inflation close to 4% on a durable basis.

While reiterating the projection of real GVA growth for 2017-2018 of 7.3%, same as the June 2017 forecast, the MPC noted that while the outlook for agriculture appears robust, underlying growth impulses in industry and services may be weakening slightly, given corporate deleveraging and the retrenchment of investment demand. In this context, it was of the view that there is an urgent need to reinvigorate private investment, remove infrastructure bottlenecks and provide a major thrust to the affordable housing programme of the Government. The Government and the Reserve Bank are working in close coordination to resolve large stressed corporate borrowers and recapitalize public sector banks within the fiscal deficit target. Eventually, these efforts should help restart credit flows to productive sectors as demand revives.

I will now request Dr. Acharya to say a few words and then Mr. Vishwanathan.

Dr. Viral V. Acharya: Thank you, Governor. Good afternoon, everyone. As we have mentioned in the past and as Governor has just underscored, addressing the twin balance sheet problem remains the Reserve Bank's top priority at the moment. Investment slowdown in our assessment is significantly rooted in the resulting debt overhang problem from this twin balance sheet issue. With the clean up on banks NPAs currently underway, we are striving to meet in near future an important prerequisite for effective transmission of Monetary Policy, namely robust health of balance sheets in the financial and the real sectors.

In order to supplement these efforts, let me mention three developmental steps that the RBI will be undertaking to improve financial intermediation in the economy going forward. One, we will be releasing in the coming weeks the final guidelines for Tri-party Repo which we hope will pave the way for a vibrant corporate bond borrowing and lending market, providing better liquidity and price discovery, reducing market cost of capital and allowing access to non-bank finance for a greater number of borrowers in the economy. A thriving corporate bond market would in itself improve Monetary Policy Transmission by creating a direct impact of interest rate changes on a bigger part of the real sector in the economy.

Second, to improve transparency in credit markets and to facilitate a better early intervention as well as risk based counter cyclical provisioning, the Reserve Bank has decided to put in place a high-level task force comprising experts and relevant stakeholders. This task force will evaluate the existing public and private infrastructure for credit information, assess any data gaps, study the best international practices and provide a road map for the development of a comprehensive near real-time public credit registry for India. Let me stress that the objective is to improve not just the credit assessment by financial lenders but also of the financial lenders themselves.

Third, the experience with the marginal cost of funds based lending rate or MCLR system introduced in April 2016 for improving monetary transmission has not been entirely satisfactory, even though it has been an advance over the earlier base rate system. We have constituted an internal study group across several clusters to study the various aspects of this MCLR system and to explore whether linking of the bank lending rates could be made direct to market determined benchmarks going forward. The Group will submit the report by September 24th, 2017.

One last point, the currency in circulation is showing early signs of normalization. There remains, however, much surplus liquidity in the system that the Reserve Bank has been managing. We remain in touch with the Government to make our tool kit for this task more complete. In the meantime, we will continue with surplus liquidity management using instruments indicated in the April policy. Thank you.

N.S. Vishwanathan: Good afternoon. I will begin with the point which Dr. Acharya referred to on the credit registry. We have been taking progressively, measures to improve the effectiveness of the credit information that is filed with the credit information companies. And these reforms started with requiring all the banks report all the data to all the CICs and that there is no fragmentation. Subsequently, we have wanted to dovetail the SHG data into the Credit Information Companies' systems. And now we are making it mandatory for the CICs to issue all sorts of comprehensive credit information report because they used to carry the reports in various subsets in the form of industry, personal, MFI and things like that. And they used to only give information based on the particular area from where the demand is coming. Irrespective of where the information is being sought by, the comprehensive report covering all the bureaus in which information is kept should be provided to the credit information seekers so that the quality of credit assessment gets better.

The second, of course, again Dr. Acharya referred to the improvements that we are looking at the MCLR and what will be going forward. When we introduced MCLR we had asked the banks that where the existing borrowers are under the floating or the base rate system, they could allow them to move to the MCLR on a mutually acceptable terms. But we find that the base rate is relatively more rigid, so we need to look at, because quite a few borrowers are still under the base rate system. So the monetary transmission is to that extent impacted, and we would look at how we can make the base rate lot more responsive to changes in the cost of funds in banks, and definitely that we will be exploring very shortly. We will have discussions with the banks on this going forward.

On the NPA front, as you know we have taken substantive actions after the Banking Regulation Amendment Ordinance was passed. As indicated in the press release of June 13, 2017, we have on the basis of recommendations of the IAC- Internal advisory Committee directed banks to refer 12 cases for its resolution in IBC. All these 12 cases were referred by the banks' boards under IBC and they are under various stages in the NCLT with the respective benches. So, dealing with stressed assets is an ongoing process and we are working on the next step.

Dr. Urjit R. Patel: Thank you very much. We will take a few questions now. Hindu Business Line?

K Ramkumar:
Hindu Business Line

On the one hand there is liquidity and on one hand is overhang in the system So, do you think there was a need at all for you to cut the rates and well you also have a situation where inflation could rise down the line actually?

Dr. Urjit R. Patel: Well, we have been facing the challenge of liquidity overhang for some time and we are managing that, we are keeping the weighted average call rate within the policy corridor. Reducing the width of that corridor is something that was part of that tool kit. While our statement acknowledges that from the current lows inflation is likely to rise, it is going to be about 4% by Q4. Given the factors that we have pointed out that inflation excluding food and fuel has fallen significantly over the past three months, once we exclude the impact of the HRA which is one source of uncertainty; HRA from the central government side has now been taken care of; and including that in the projections still brings us close to 4% and we had said that this was statistical exercise and therefore it is right for us to net that out. I think what we have done is taken a calibrated policy decision based on the outturns and our projections going forward. And we felt that a 25 basis points cut while keeping the stance neutral was something that we should be doing at this juncture.

Alekh Angre:
Mint

Was a rate cut in October under discussion in the MPC because then you would have got two more inflation prints, GDP data and a clearer picture on surplus liquidity in banking system?

Also, you are now taking measures to improve MCLR transmission, so why not October, why August?

Dr. Urjit R. Patel: That is a good question. You know, the data flow these days is continuous and we did have the GDP numbers that were released a couple of months back. We also had two more data points regarding the inflation rate itself. And encompassing the development since June, the normal monsoon, the smooth rollout of the GST, the inflation excluding food and fuel coming down, we thought that this was an opportune time to do a 25 basis points cut.

Govardhan Rangan
Economic Times

You mentioned about several factors contributing to uncertainty around baseline inflation trajectory. Put this in the context of what Dr. Acharya mentioned in the minutes of last meeting about higher real interest rates, it appears like the RBI is looking for a bigger real interest rate buffer because of uncertainties. What is the real rate cushion that RBI would be comfortable with?

Dr. Viral V. Acharya: I think so, one, I would say we are looking at the real rate as one of the drivers into the decision making, it is not the sole component. And you know it is best to look at the real rate more when you think things are steady rather than when things have actually gone through a fair bit of uncertainty as we have over the last year. Nevertheless, I think if you take the 6% rate and you take our projected rate of slightly over 4%, I think we are talking about something may be slightly in excess of the range that you are talking about. My own view, as I have stressed in the minutes last time was that this is alright in a time when transmission is actually not necessarily guaranteed to work as well. I have given the structural issues of debt overhang that I have been flagging. So, I think we are just slightly outside of the range of 1.75% and we are comfortable with that.

Manojit Saha:
The Hindu

We have recently seen SBI has cut savings bank rate, so, clearly they are indicating that their margins are under pressure so with this rate cut do we expect really banks to transmit it by cutting lending rates further?

Dr. Urjit R. Patel: The way to look at the transmission is to determine what has been the case since we started the easing cycle. And there are two or three things that are clear, one, that on new lending the transmission has been much stronger, especially in those segments where there is a lot of competition, so housing loans, personal loans where the NBFCs also play a big part. Secondly, on the part of the loan portfolio that is tied up on account of base rate and liabilities of a longer nature, the transmission has been slower. Given the liquidity conditions prevailing and that we have reduced policy rates by substantial amount since the easing cycle started, I think there is scope for banks to reduce lending rates for those segments that so far have not yet benefitted to the full extent of our policy rate cuts.

Bijoy Idicheriah
Cogencis

Sir, this is effectively a 5:1 vote in favor, it is not a 4:2. There is a lack of sync between the RBI members voting itself from February when there was a stance change to eventually having to cut your CPI inflation projections and having a 5:1 vote in a favor of status-quo last time, this is a 5:1 vote in favor of an easing. It is a sharp movement in the last six months. Do you think it shows that there is certain amount of dissonance and there are too many factors moving which means different people have different views even within the RBI?

Dr. Urjit R. Patel: Well, firstly there is a reason why we put out the minutes so that individual members can give their specific reasons for their vote decision, and possibly to explain why they changed their minds from June. I think the resolution itself on balance very comfortably shows why we went for a 25 basis points cut compared to the status quo in June. We have had more data points, some uncertainty has been resolved and the substantial reduction in inflation excluding food and fuel. So, I think it is all explained.

Ira Dugal
Bloomberg Quint:

In para 19 you talked about further upside risk to the inflation have either reduced or not materialized and then you say you expect to maintain that projection of 4% by the end of Q4, why did you not change your stance while cutting rates and also if you stay on this path towards 4% should one assume that this is the extent of accommodation you think was possible only if we start to see further deceleration of inflation or quicker disinflation, should we see further room open up for rate cuts?

Dr. Urjit R. Patel: Well, let me refer you to paragraph 19 where we make it clear why we are sticking to the neutral stance. Given that the trajectory of inflation is expected to rise from the current lows, that is the main reason why we have been cautious enough to stick to the neutral stance. And therefore there is nothing to explain in terms of why we have not changed the stance. The stance is exactly where it should be and what it was in June. And therefore, I think it was a right call to make by a majority of 4 to 2.

Pradeep Pandya
CNBC Aawaz:

As Dr. Acharya said that the transmission depends on NPA resolution to a large extent. At one stage we have seen investigations being started on 12 companies, so, going forward, will there be selection of more companies from whom banks should start recovery on priority basis?

N.S. Vishwanathan: I think I have stated in my opening statement that dealing with the stressed assets is an ongoing issue and we are working on the next steps. I think that answers your question. We are working on the next steps.

Latha Venkatesh
CNBC:

Sir, on liquidity, although we had a neutral policy we have had fairly accommodative liquidity. By when do you think that will be drained, if you can give a time table? And because of this liquidity do you worry that yields in some place have really fallen, don't you worry about the credit quality of some NBFCs, some mutual funds, some CP yields have fallen to 6% - is there a worry at all?

Dr. Viral V. Acharya: Yes, I think this is a good question. We are certainly examining this very closely. I would make three points. One, we were clearly remonetizing and we had to wait and assess when we think the system is actually reaching stable level of currency in circulation. Like one way I think something is stable when it bounces around its level and I think it is only recently that this has started happening, otherwise we have just been remonetizing at an increasing rate and currency in circulation has been going up. So, one, we had to give ourselves a certain amount of time to know whether the system is actually getting the currency that it requires. Two, having said that, as you know we have been mopping up a lot of liquidity on 7, 14 and 28-day variable rate reverse repos, we have also started conducting open market operations at fairly gradual pace of reasonable amounts, our intent is not to actually destabilize or shock the markets in any way. Third, we will continue watching the currency in circulation numbers closely to get a sense of whether we are now at the right level. And if yes, that will give us a sense of assuming reasonable growth numbers where the currency demand would be in say six months, nine months or 12 months time and that will lead to our calibration of the more durable liquidity operations like open market operations that we might have to do.

Sameer Hashmi
BBC:

BBC. Sir, you have mentioned over here in the 20th Paragraph that the government needs to take steps to look at private investments, remove infrastructure bottlenecks. If we look at the recent data that has come out, whether it is industrial production, factory output that has weakened. How big a concern is that and how much did that really play a role in influencing this decision to go for a rate cut?

Dr. Urjit R. Patel: I think we have mentioned that we could have a stronger growth performance if some of these things are taken forward, in particular, removing infrastructure bottlenecks, finding measures to reinvigorate private investment and provide a thrust to the affordable housing initiative of the government which has the potential for very strong multiplier effects. And I think a fair number of pieces of the jigsaw in that context are already in place, there is one that we are aware of and which according to several stakeholders is coming in the way for speedier implementation is the clearance of these projects on affordable housing at the state government level. I think we need a time bound single window clearance if this very important initiative which has the potential for very strong growth impulses going forward to come into place.

Okay, that is it. Thank you.