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Dr. Urjit R. Patel: Good afternoon, everyone. The Monetary Policy Committee reviewed currently evolving macroeconomic and financial conditions and decided to keep the policy rate unchanged at 6%, while maintaining a neutral monetary policy stance. This was by a majority of 5:1.

The MPC reiterated its commitment to keep headline inflation close to 4%. We express concern about the loss of momentum of growth in the early months of 2017-2018, especially the persisting weakness in manufacturing. The MPC noted that the implementation of GST appears to have rendered short-term prospects uncertain, possibly delaying the revival of investment activity which is already hampered by stressed balance sheets of banks and corporations.

On a positive note, however, core industries posted a robust growth of 4.9% in August. The manufacturing PMI moved into expansion zone in August and September. The teething problems linked to GST may get resolved relatively soon, allowing growth to accelerate in the second half of 2017-2018. The outlook for agriculture and allied activities is favourable and services sector performance has improved markedly with many indicators pointing to further strengthening in the months ahead. Over the rest of the year, household consumption demand may get a boost from upward salary and allowances' revisions by state governments for their civil servants.

On the down side, a faster than expected rise in input costs and lack of pricing power may put pressure on corporate margins, thereby affecting value added by industry. Taking into account these factors, the projection of real GVA growth for 2017-2018 has been revised down to 6.7% from the August 2017 projection of 7.3% with risks evenly balanced.

On the other hand, the MPC observed that CPI inflation has risen by around two percentage points since our last meeting. These price pressures have coincided with an escalation of global geopolitical

uncertainty and heightened volatility in financial markets. Although the domestic food price index looks largely stable, generalized momentum is building on prices of items excluding food, especially emanating from crude oil, some price revisions in the wake of the GST implementation and the possibility of fiscal slippages.

Accordingly, the MPC expects inflation to rise from its current level and range between 4.2% to 4.6% in the second half of this fiscal year, which includes the house rent allowances by the Centre. Factors that impart upside risks to this trajectory are the implementation of farm loan waivers and salary and allowances, award of the 7th Pay Commission by States and potential second round effects on account of that. However, adequate food stocks and effective supply management by the government may keep food inflation under check.

The MPC was of the view that recent structural reforms will likely be growth augmenting over the medium to long-term by improving the business environment, enhancing transparency and increasing formalisation of the economy. The Reserve Bank continues to work towards the resolution of stressed corporate exposures in bank balance sheets which should start yielding dividends over the medium-term. It is reiterated, however, that it is imperative to revise investment activity, which in turn should revive the demand for bank credit by industry. Recapitalising Public Sector Banks adequately will ensure that credit flows to the productive sectors are not impeded and growth impulse is not restrained.

In addition, measures need to be undertaken to support growth and achieve a faster closure of the output gap, including restarting stalled investment projects, particularly in the public sector, enhancing ease of doing business, including, by further possible simplification of the GST and ensuring faster rollout of the affordable housing programme with time bound single window clearances and rationalisation of excessively high stamp duties by States.

I will shortly turn to my fellow Deputy Governors to explain the various developmental and regulatory policy measures announced today, but before doing so I would like to draw attention to two measures, which are aimed at improving the reach of financial services.

The first one relates to the use of the Prepaid Payment Instruments (PPIs). The Reserve Bank had issued guidelines for issuance and operations of Prepaid Payment Instruments in April 2009 in order to foster an orderly development of the PPI ecosystem. It has been decided to rationalise the operational guidelines with a view to encouraging competition and innovation and strengthening safety and security of operations besides improving customer grievance redressal mechanisms. In line with the vision for payment and settlement systems in the country, the revised framework will pave the way for bringing interoperability into usage of PPIs. Interoperability amongst KYC compliant PPIs shall be implemented within six months.

At the same time, it has been reported that banks are discouraging or turning away senior citizens and differently-abled persons from availing banking facilities in branches. Notwithstanding the need to push digital transactions and use of ATMs, it is imperative to be sensitive to the requirements of senior citizens and differently-abled persons. It has been decided to instruct banks to put in place explicit mechanisms for meeting the needs of such persons so that they do not feel marginalised. Ombudsmen are also being advised to pay heed to complaints in this context.

Thank you. I will now request Deputy Governor Viral Acharya.

Dr. Viral V. Acharya: Thank you, Governor and good afternoon, everyone. Household inflation expectations have been steadily getting anchored down as they are adapting to the realised inflation trajectory. However, these expectations still remain relatively high and are also manifested

in the continuing high level of rural and non-rural wage growth. Recent headline inflation prints have risen substantially from historic lows and in a broad-based manner. In addition, as the Governor pointed out, oil price risks and global market volatility have risen materially. In such a scenario it is important for the Reserve Bank to persist steadfastly with its objective of keeping medium-term inflation within a striking distance of the target rate of 4%.

The recent loss of momentum in growth seems to have energised quite a lively debate. It is too early, however, in my view and real time activity indicators do not yet paint a clear picture to be able to separate the transient component of this one quarter loss of momentum from the gradual decline in overall growth that has taken hold since the Q1 of 2016-17. The longer term trend is best explained by the deleveraging underway in the heavily indebted parts of the corporate sector and in poor credit growth at Public Sector Banks, given, they have inadequate capital relative to impending losses on their legacy assets. On the bright side, corporate credit risk profile is showing some signs of improving gradually, the large distressed borrowers are being directed to the insolvency and bankruptcy code and efforts are underway to concretely address Public Sector Banks' health. These structural changes will take some time to revive the affected parts of the economy. Teething problems or at least the uncertainty facing the GST rollout should also resolve in a few months. In the meantime, given the inflation outlook there did not seem much room for monetary policy adjustment.

Several market friendly reforms have been proposed in Part B to pursue our other objectives in the meantime. These include the setting up of high-level task force on Public Credit Registry, the composition is now complete and the report will be out in April 2018. Framework for authorising electronic trading platforms for securities that are under RBI's regulations, proposal for foreign exchange trading platform for

retail users to ensure that they get better pricing, further operational flexibility to non-resident importers and exporters to enable more of the currency hedging market to move onshore, comprehensive review of various FDI policies for April 2018 and beyond and measures to improve settlement of short sales transactions in G-Secs to avoid the kind of squeeze scenarios that we had in March and April this year. The Reserve Bank also remains committed to improving the transmission of Monetary Policy from banks and non-bank finance companies to borrowers.

Let me turn it over to DG Vishwanathan to present the developments on this and other fronts.

NS Vishwanathan: Thank you, Dr. Acharya. Taking from what Dr. Viral said, last time we had alluded to the stickiness of the base rate, being more sticky vis-à-vis the MCLR and had talked in terms of setting up a committee to go through the entire mechanism of base rate and MCLR with a view to strengthening the monetary transmission. The committee has submitted its report and that will be placed on the website. One of the major recommendations is to move towards an external benchmark as the base rate will determine interest rates and based on the feedback that we will get from the market on this report, we will take a further call on this. But in the meantime, we did speak to the banks on the stickiness of base rate because we were concerned about that, since a large part of exposures were still based on the base rate. You would have seen a few banks have marginally brought down their base rate as well in the meantime. Hopefully once the report and its actions are taken, we will have a much better transmission.

Second is, we had this Legal Entity Identifier (LEI), which was a post global financial crisis reform. Progressively, we want to use the credit data to be linked to this Legal Entity Identifier, therefore we are proposing to mandate that the banks should ask for the Legal Entity Identifier from large borrowers and will do it in a calibrated manner so

that over a period of time but in a time bound manner, all large credits say of above Rs. 5 crores are covered by this LEI. We will be able to get a proper idea of their group exposure and that will enable us to get a hand on their credit concentration risk and mitigate them, going forward.

Something that has been waiting for long is coming out today, the Peer to Peer (P2P) NBFC regulations. On 18th September the Government notified P2P as an NBFC activity, so we are coming out with the regulations today. One important feature that I want to highlight there is that we are not allowing the P2P platforms themselves to take any exposure because internationally wherever there have been failures it happened because the P2P themselves were lending. Here the platform will enable lenders and borrowers to come into the platform and avail the facility. This we expect will target what we call as the 'missing middle' in the credit ladder – the kind of borrowers who were not covered by MFIs and the borrowers who may be higher credit risk for the banks. So the kind of borrowers in-between are the likely beneficiaries of this scheme, we hope that this will bring a major shift in the crowd funding systems that we want to put in place in India. Already there are some operators in this field, the regulations provide for a transition so that they are able to transit to the new regulations in a proper manner.

The non-scheduled co-operative banks have not been able to open accounts with RBI because of the tighter norms that we have put in place. What we believe is that the licensed banks should have an access to central bank account opening facility, so we are relaxing the norms, simplifying the norms rather, so that all the Urban Cooperative Banks will be able to open accounts with RBI. Otherwise, today the banks which do not have account with RBI, maintain their CRR with a scheduled commercial bank or a co-operative bank, which we will be

able to now divert to RBI itself. So the directions for this have already been issued to our offices to simplify the procedure.

B.P. Kanungo: Thank you, Sir. There are two to three important announcements, rather market friendly announcements pertaining to the securities market, both for the government securities and for State Government loans. First I will start with the government securities market. As you know, for quite some time Government of India and Reserve Bank of India have been trying to broad base the investor base, especially to ensure that there is robust retail participation in the G-Sec market. You would recall that several steps have been taken in this direction which include the modification of the Government Securities Act 2006, introduction of the odd lot in the NDS-OM secondary market, improvement in settlement mechanism, retailing of the G-Secs by PDs and introduction of the non-competitive bidding in primary auctions. You would also recall that in the Union Budget 2016-2017, Hon'ble Finance Minister had made an announcement that Reserve Bank will facilitate the participation of the retail investors both in the primary and the secondary market. In the secondary market it has already happened through the mechanism of the stock exchanges since we have already permitted the participation of the demat account holders into our NDS-OM platform. Now we are turning our attention to the primary market. After discussion with SEBI, now it has been decided that in addition to the banks and the PDs, the stock exchanges will act as facilitators or aggregators, they will collect the bids from the retail investors and bid in the platform, in the non-competitive segment of the Government Securities market. So, this will broaden the investor base.

So far as the State Development Loans are concerned, you would have observed that in recent times the State Government borrowing has increased significantly and it has outpaced the growth in the Centre's market borrowing. Reason is that the states are increasingly turning to

market borrowing as a means of financing their fiscal deficit, there is high growth in SDL borrowings and in recent years there is a greater reliance on market borrowing as we have mentioned. As a result each auction of SDL involves participation of 15 to 20 states for an amount of say around 26,000 crores. This has given rise to concerns on elevated supply and consequent adverse impact on yields. Therefore we have decided that there is a need to further develop the liquidity in the SDL market, for which, instead of the extant practice of holding the auctions for the State Development Loans on alternate weeks, we will do it on weekly basis. And this weekly auction is likely to have a salutary impact on yields as issuance sizes will be smaller and the issuances will be evened out, thereby it will be more palatable to the market.

Additionally, in order to contain the rollover risk in case of the State Government loans we will go for active consolidation of the SDLs through buybacks, switches and re-issuances which will cut down the rollover risk. There is another aspect which has been engaging the attention of the Reserve Bank for some time, it is important that the auction of the State Development Loans, given the increasing size of the SDLs, is sensitive to the fiscal position of the individual states. This helps financially sound states to borrow at a cheaper rate and prevents the cross subsidisation. The present SDL yield, even though it is auction based, is not reflective of the risk asymmetries among the various states, so RBI will announce necessary steps in this regard during the next 12 months. We will unveil all the steps that we are going to take in a calibrated manner. To start with, we have decided that the high frequency data relating to the state finances that is already available with us would be displayed on our website. This will be in a standardised format so that it will facilitate peer-to-peer comparison. The other steps will come in due course during a period of 12 months in a time bound manner. Thank you.

Dr. Urjit R. Patel: Thank you, Mr. Kanungo. We will take a few questions, will start with Business Standard.

Anup Roy:
Business Standard

Thank you, Governor. There are some discussions about fiscal stimulus package by the Government, what is RBI's take on this?

Dr. Urjit R. Patel: Given that the general Government fiscal deficit, in other words of the State and Centre Government's accounts combined, given that these are already in the region of 6% of GDP, our national fiscal stance can hardly be described as tight. In other words, we should be very cautious lest fiscal actions undercut macroeconomic stability.

K Ramkumar:
Hindu Business Line

You mentioned about this inflation getting a little bit higher, so does that mean that there is no scope for a rate cut, going forward?

Dr. Urjit R. Patel: So, what we have done is; you are right that our projection has gone up compared to August and the range is now 4.2% to 4.7%, that includes the HRA adjustment, that is basically a statistical top-up, if you will, on the housing component of CPI. What the MPC has said is that we will be watching incoming data carefully and there are upside risks which we have enunciated, there are some things which may mitigate these risks, so we will basically have to wait and watch on how the evolution of inflation takes place over the next six to seven months in terms of what happens on our projections. But as you know that inflation has been volatile, within two months it did increase by two percentage points, so we will see what happens.

Wall-Street Journal?

Debi Prasad Nayak:

Wall Street Journal

Sir, you have mentioned that in the second half the growth may improve but the private investment is still low. So, what will be the main triggers for the improvement in the growth?

Dr. Urjit R. Patel: One thing is that there are factors that have affected growth in the second quarter of this year, some of those will dissipate. In the recent days the high frequency indicators, many of them suggest that growth is in the uptick, the core IIP which was released yesterday was at 4.9%, in the second quarter the services sector has been showing a healthy growth rate. So, there is a possibility that the cyclical upturn will happen in the next two quarters, but overall the growth this year has been degraded from 7.3% to 6.7%.

Sachin Chaudhary:
India TV News

Sir, MPC mentions an internal group study pointing to monetary transmission, can you share some of its findings?

Dr. Viral V. Acharya: As DG Vishwanathan pointed out, internal group was set up to ensure that base rate and the MCLR rates which are used as the benchmark for the floating rate loans by the banks and non-bank finance companies adjust with monetary policy and changing yields in the Indian bond markets. I would say the primary recommendation of the report and it is going to be put up later today after close of business for feedback, is that it is going to propose three possible benchmarks, three external benchmarks to which such lending could be tied to, going forward. We think that internal benchmark such as the base rate or the MCLR, based on data, seem to give banks a very high amount of discretion, a lot of factors that are flexible for them to ensure that the lending rates can be kept high even if monetary policy is going down

an accommodative path. So, in order to address this we think it is time to move to how it works in most of the countries, which is to have these rates tied to external benchmarks. It will create a fair bit of transparency for the borrowers, they can just compare two loans and see which is at a lower spread because the benchmark will be the same. It leaves open which of these benchmarks should be used and we welcome feedback on that.

The second important point I would stress is that it suggests that the interest rate resets which are right now at annual frequency, creating potentially a one year lag in transmission, be changed on all floating rate loans to quarterly resets, so that the transmission would be much faster once the Monetary Policy changes.

The last thing I would say is that it proposes that this happens in a fairly time bound manner so that Monetary Policy can have its impact on the economy.

Govardhan Rangan

Economic Times:

The Monetary Policy Report forecasts inflation at 4.5% in Q4 of 2019 and the report talks about 100 basis points addition if the states also implement the House Rent Allowances. Does that mean that you are effectively looking at 5.5% in March 2019? And add fiscal slippages to that, it essentially means that we are completely off a rate cut scenario till March 2019, irrespective of the growth rate.

Dr. Urjit R. Patel: As this resolution and previous resolutions have indicated, there is an uncertainty bound around all these and while there are upside risks there are also downside risks, there might be some reversals of commodity prices, which is a possibility, food inflation continues to be kept under control. So, it is equally wrong to pre-judge either way,

how these things will evolve, what we have done is to lay out the risks which could materialise with varying probability.

Ira Dugal:
Bloomberg Quint

Governor, can we request a little bit more clarity on the PSU recapitalisation issue? I think the RBI has put it in every statement, Dr. Acharya has made a comment as well, has the RBI sensitised the government to the fact that it is just the capital for growth that they need, there is still a large amount of provisioning requirements that are going to come in. And is the RBI open to something like recapitalisation bonds if they cannot find the money mentioned within the budget?

NS Vishwanathan: The discussion on recapitalisation of public sector banks is an ongoing one with the government. The need for capital for all requirements, including minimum capital required for growth has been underscored. And as far as instruments are concerned, all instruments will be considered.

Gopika Gopakumar:
Mint

Governor, you spoke about reinvigorating the whole investment climate and also you said that the GST has delayed the revival of investment activity. When do you really see the whole private investment picking up?

Dr. Viral V. Acharya: It is a little hard to precisely project this, so one has to rely a little bit on evidence in other parts of the world where such significant deleveraging of corporate and banking sector balance sheets have taken place. What history seems to suggest is that you need both 'deleveragings' to take place; it is important for corporates to delever or the borrower, or whichever segment of the economy is heavily indebted, to delever. But it is also important for financial

intermediaries to have the capital, both for financial stability and for growth as was just mentioned. As DG Vishwanathan said, we are working quite hard on getting some traction on the second front, on the first front we are directing cases to the insolvency and bankruptcy code to push through that resolution. My sense is this whole process could take anything from twelve to eighteen months as a whole. Of course, investments may revive even earlier along the way because once deleveraging takes place some consolidation might take place in some of the indebted sectors, capacity utilization might improve. When exactly that takes place is a little hard to predict, but I think what we can do is to structurally set the stage right so that whenever growth impulses are there the economy is positioned correctly to amplify this.

Dr. Urjit R. Patel: Just to add to that, the one instance where we could see investment reviving is that as the capacity utilization rates go up in those sectors which are credit worthy, it is not that all sectors are suffering from over leverage and poor balance sheets, there are lots of sectors where it is not binding and there it is basically that as capacity utilization picks up we would see investment proposals coming. Thank you.