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Dr. Urjit R. Patel: Good afternoon, everyone. Welcome to the post Bi-Monthly Meeting Press Conference. As you know, the MPC reviewed current and evolving macroeconomic and financial conditions at its meeting today and decided to keep the policy rate under the liquidity adjustment facility unchanged at 6%. The decision of the MPC is consistent with the neutral stance of Monetary Policy. The MPC expects the headline inflation to average 5.1% in Quarter 4 of this Fiscal Year, including the HRA impact, up from the 4.6% in quarter 3.

Looking ahead, the MPC noted several upside risks to the inflation trajectory- the firming up of international crude oil prices, the hardening of non-oil industrial raw material prices and stronger pricing power among firms. While inflation will likely move in the range of 5.1% to 5.6% in the first half of the next fiscal year, i.e., 2018 - 2019, favorable base effects including unwinding of the 7th Central Pay Commission's HRA impact, combined with expectations of normal monsoon and effective food supply management may see inflation easing to 4.5% to 4.6% in the second half, with risks tilted to the up side.

As regards the growth outlook – the MPC expects GVA growth to pick up from 6.6% in 2017 - 2018 to 7.2% in 2018 - 2019 with the GST stabilizing and a conducive environment for a revival in investment activity created by improving credit off-take, large resource mobilization from the primary capital market and improving capital goods production and imports. The MPC was also of the view that the process of recapitalization of public sector banks and the referencing of large distressed borrowers for resolution under the insolvency and bankruptcy code should improve credit flows further and create demand for fresh investment as allocative efficiency in the economy goes up. Alongside, export growth is expected to improve further on account of improving global demand, although elevated commodity prices, especially of oil may act as a drag on aggregate demand.

The Committee took note of some upside risks; the impact of HRA increases by various state governments on headline inflation, further pressure on crude oil and commodity prices, the Union Budget proposals on the Minimum Support Prices for kharif crops and the increase in custom duty on a number of items, the impact of fiscal slippages on inflation and broader macro financial implications, notably on economy wide costs of borrowing and financing conditions and the effect on the confidence of external investors.

However, there are also mitigating factors:

1. Capacity utilization remains subdued, albeit increasing slightly.
2. Oil prices have moved both ways in the recent period and can potentially soften from current levels, based on production response.
3. Rural real wage growth is moderate.

Further, global demand is improving, which should help strengthen domestic investment activity. The focus of the Union Budget on the rural and infrastructure sectors is also a welcome development, as it would support rural incomes and investment and in-turn provide a further push to aggregate demand and investment activity in the coming quarters.

The nascent recovery needs to be carefully nurtured and growth put on a sustainably higher path through conducive and stable macro financial management.

Against this backdrop, the MPC emphasised the need for vigilance and decided to keep the policy rate on hold with a neutral stance, while reiterating our commitment to the target, on a durable basis.

Thank you. I now request Dr. Acharya, then DG Vishwanathan and DG Kanungo, we have a fair bit of proposals outlined in Part-B.

Viral V. Acharya: Thank you, Governor. Good afternoon, everyone. I will touch briefly upon the evolving liquidity conditions in the economy. Last year the system witnessed unparalleled levels of surplus liquidity, post-demonetization. RBI interventions to manage excess volatility induced by large subsequent capital inflows also added surplus liquidity to the system. To absorb this surplus liquidity and to reach the stated policy objective of neutral system liquidity, RBI has used multiple tools as announced in its April 2017 Monetary Policy statement – namely reverse repos, market stabilization scheme (MSS) instruments and open market operation or OMO sales. These have been deployed in a calibrated quantum, taking account of the growth in currency in circulation.

At present, the system remains by and large still in surplus liquidity mode and this is even net of durable liquidity absorbed through MSS and OMO sales. This is reflected, for example, in the Weighted Average Call Rate, or WACR, being comfortably below the RBI policy rate. The system liquidity is, however, steadily moving towards the neutrality objective. For instance, in December and January the system liquidity was in deficit mode on few days and RBI provided liquidity through its repo operations to manage the system's frictional liquidity needs on these days.

While the RBI remains ready to provide liquidity to meet such frictional needs, I would like to reiterate that RBI's liquidity operations are driven by its monetary policy objectives and the need to meet economy's demand for reserves that also factor in the indirect liquidity injections through forex operations. Except in rare, extraordinary, economy wide circumstances, the goal of RBI's liquidity operations is not to manage directly the prices of any particular long-term asset market.

In the present circumstances, economic analysis, including from some of you, has been referring to froth chasing one asset market and there being tight liquidity in another. The resulting asset price and yield implications are therefore unlikely driven by aggregate liquidity conditions, which as I mentioned, remain in somewhat surplus mode.

More likely to be at work are fundamental factors such as domestic inflation and macro as well as global rates and commodity cycles, and perhaps also technical factors such as the relative supply of paper by respective issuers in the two markets.

Thank you. Let me hand over to DG Vishwanathan.

N. S. Vishwanathan: Thank you, Governor, Dr. Acharya. Just want to highlight a couple of points that you made in Part-B. This relates to the MSME sector with regard to their exposure.

There have been requests from the MSME sector for some additional time to pay their dues because of cash flow problems in the immediate aftermath of GST implementation. Data suggests that there is some stress in this segment in the recent past. We believe that implementation of GST enhances the formalization of the economy and the relatively smaller firms may require some support in this transition. We have, therefore, allowed banks and NBFCs to apply 180-day delinquency norm for payments that were overdue but not NPA as on September 01, 2017, as also, payments that fell due between September 01, 2017 and January 31, 2018. This will apply to MSMEs who have registered under GST- that is an important condition. And, it will include only those who have exposures from banks and NBFCs, aggregate of 250 million, including non-fund based facilities.

If you look, we have made this applicable to accounts which are standard as on 31st August, 2017, so that this is targeted at those who genuinely faced cash flow problems post GST implementation. It is not applicable to payments due in future but only to those where amounts were overdue, already. It is thus, very clearly targeted and there is a finiteness in terms of who would actually be benefitting from this provision.

The other change is something that we have been mentioning in successive monetary policy, with regards to the harmonization of the base rate methodology. We have been mentioning in the earlier policies that we are concerned about inadequacy of monetary transmission to the base rate and about large number of accounts still being under the base rate regime. We are now harmonizing the calculation of base rate with MCLR, so that the responsiveness of the credit portfolio to monetary policy signals is not hindered by interest rate on large part of banks' loan portfolio being linked to base rate.

I want to again clarify that what we are doing is harmonizing and we are not equalizing the MCLR with base rate. Thank you.

B. P. Kanungo: Thank you. As has been said, there have been several important announcements in Part-B of the policy. I will draw your attention to a couple of them.

First on the currency management system:

I would draw your attention to the Bi-Monthly Monetary Policy statement of October 2016, in which we had said that two high-level Inter-Agency Committees will be appointed to go into the entire gamut of currency management- they will go into the aspects at every stage of the movement of the currency along the supply chain and submit their report.

Last year also, Reserve Bank of India arranged an external audit of the four currency presses in consultation with the Government, and, as you know, two of them are owned by one of our subsidiaries, BRBNMPL and two are owned and controlled by the Government; to conduct an audit of the processes that they have; starting from procurement of raw material, the standardization of the process, the quality assurance process, and the security aspects. So,

based on all these three reports, it has now been decided that in a time bound manner, within a period of nine months, we will try to revamp our entire currency management system and a task force will be constituted for that. So that is a significant development in the currency management area that will come within nine months' time.

The second important policy announcement is relating to the unveiling of an ombudsman scheme for the non-banking financial companies. As you know, the banking ombudsman scheme is working well and it has been accepted well as a preferred mode of customer grievance redressal by public at large, which is cost-free and expeditious. And it was found that since the NBFCs' complaints are increasing and there is no such redressal mechanism, so it has been decided that we will have a scheme for the non-banking financial sector also and this will be introduced by end of this month in a phased manner.

To start with, we will start with only the deposit taking NBFCs and at a later stage, we will include all the non-banking financial companies who have asset size of 1 billion and above if they have a customer interface.

So this will be another important step for strengthening the customer grievance redressal mechanism for the non-banking financial sector. Thank you.

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

Anup Roy:
Business Standard

Thank you, Governor. Sir, I will come back to the issue that DG Acharya just now spoke about. Your weighted average call rates are below policy rate, your stance is neutral, rates are unchanged still bond yields are rising very sharply. What are the exact reasons, you think?

Dr. Urjit R. Patel: I think that we need to keep in mind that there is a confluence of factors and developments; both external and domestic, which forms the backdrop to this development. The firming of yields abroad because of the changes in the stance of systemic central banks, especially the US Fed and other fiscal developments in the US have been significant. So, over the last six weeks, the US 10-year yields have hardened by 40 bps to 50 bps, that is a fair bit of movement. Secondly, over the last six months, domestic inflation has increased, in part of course this has been due to the hardening of crude prices. Coming to domestic factors, because of the uptick in economic growth, there are now competing demands for financial capital, which puts upward pressure on all returns. Then, we also have the case that on the fiscal side we have news of fiscal slippages at three levels in the recent times, fiscal slippage this year, fiscal slippage next year compared to what the market expected and what the target was, and then a postponement of the medium-term adjustment even further. So, if you look at all these factors, I think it makes it pretty clear which way the bond yields are likely to move.

Manojit Saha:
The Hindu

Why do you think the investment GDP ratio is still subdued?

Dr. Urjit R. Patel: I think that we should expect the investment GDP ratio to improve and I think there are first discernable signs of that when existing capacity utilization reaches a certain level. And secondly, the reason I say that there are incipient signs is that the credit off-take after a long time is now in double-digits, albeit at low double-digits. So, I think that the movement in both these are likely to result in an investment GDP ratio that may go up. The other thing that we need to keep in mind is that the taxation on capital in India is from several sources and I think that at the marginal rate it absorbs. So, just from the back of the envelope, you have a corporate tax rate, you have a dividend distribution tax rate, for dividend income above 10 lakhs you have the marginal tax rate, which is, whatever bracket people come in, that would be at the highest level, you have a securities transaction tax and you have a capital gains tax. So, there are five taxes on capital and that would obviously also have an impact on investment and savings decisions.

Govardhan Rangan:
Economic Times

Good afternoon, Governor. The way the monetary conditions hardened in the last few weeks by almost 100 basis points, there was expectation that there could be a shift in your stance. But you are persistent with a neutral stance and your inflation forecast for next year is also between 5.1% to 5.6%. Why there was no shift in stance and what would warrant a shift in the stance?

Dr. Urjit R. Patel: Well, we look at inflation projections longer than what is happening in this quarter, half of this quarter is already gone, and that rate includes 35 basis points of the HRA, so that needs to be taken off. If you look at our 2018-2019 forecasts and you make the adjustments for HRA going forward, the inflation rates are still around 4.5%, in some quarters, some months they may be a little higher. Taking all that into account, we felt that at this stage, without more data coming in, it was not necessary to change the repo rate or the stance.

Anurag Shah:
Zee Business

Sir, would like to understand from you that do you think the inflationary risk will continue, going forward and there may be further spikes too? So, is there less possibility of rate cuts in future?

Dr. Urjit R. Patel: The decisions that we took was based on our projections and the projections indicate that may be inflation in this quarter has increased but in 2018-2019 it will be around 4.5%. So that is why we did not feel the need to make any changes in this monetary policy. And as and when the data comes in next two, three, four months, then we will see what is to be done.

Ira Dugal:
Bloomberg Quint

Governor, going back to your 2014 monetary policy framework, in that when you talked about the institutional framework, some of the preconditions you talked about- one of them was a 3% fiscal deficit target, which that report said was necessary and achievable, by, I think 2018-2019. Now we are looking at a 3% fiscal deficit target in FY21. To what extent is this going to

impinge on your ability to bring down the inflation rate to 4% on a durable fashion, and wouldn't that necessitate tighter monetary policy, sir?

Dr. Urjit R. Patel: I think that there are several preconditions that were in the report. We also need to be mindful that even as the fiscal deficit has stayed above 3%, inflation has come down to some extent because the fiscal stance starting from 2014 has actually been on a downward trajectory. Secondly, the monetary policy itself has become much more flexible in terms of responding to the inflation risks. So, it is not necessary that a 3% target should be achievable by the time the report said, the report was written in 2014. However, having a fiscal stance that is conducive to achieving the 4% target is important and significant and postponed deviations from them would make matters more challenging, going forward.

Shyama Mishra:
Doordarshan

Sir, you mentioned in your upward risks about the decision on MSP that was taken in the Union Budget. How much impact will it have on economy and have you factored in the cost that how much will it come to?

Dr. Urjit R. Patel: I think that we are still awaiting some of the specifics on that, in terms of costing it. And in the coming weeks, as more information comes through on exactly which crops are going to be supported to what extent, then we would have a better idea on the impact. We have said that there could be an impact, but we have not said how much or whether it is going to be more or less and we do not actually put a sign on it. So, at the moment there is not enough information for us to figure out exactly what the costing would be.

Alekh Angre:
Mint

Thank you, governor. Sir, my question is regarding the SDF facility, the Finance Minister had said that the government would be amending the RBI Act to introduce it. Just wanted to understand what could be the structure and rate of it, the Patel Committee Report had said that SDF will act as the floor for the LAF corridor and would you also be using SDF when those T-Bills under MSS mature in March? Thank you.

Dr. M. D. Patra: At the current time the SDF will just be an additional liquidity management instrument to add to our arsenal. The exact details will be worked out as and when it is introduced, as you know it is still a budget proposal and we will let you know those details. It intends to make the liquidity management procedure symmetrical, as of now it is asymmetrical, you have two instruments of injection but only one instrument of absorption.

Sagar Jagdale:
Tickerplant

I wanted to ask- has the RBI shared its additional dividend with the government?

Dr. Urjit R. Patel: As you know we always share the dividend with the government and we have already done that for this year. So, that is something that is done in a mechanical way and it will continue to do so going forward. Our fiscal year, as you know, is from July to June, so we are half way through our current fiscal year.

Thank you very much.