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Dr. Urjit R. Patel: Good afternoon, everyone, for the First Post-Monetary Policy Press Conference of the new fiscal year. Over the past two days, the Monetary Policy Committee reviewed evolving global and domestic macroeconomic conditions and decided to hold the policy repo rate at 6%, while continuing with the neutral stance of monetary policy. In doing so, the MPC reiterated its commitment to keep inflation at the target of 4% in the medium-term and to remain vigilant on how actual inflation unfolds, in other words we continue to be data dependent. The MPC noted that while global economic activity and trade have gathered momentum and span, financial market volatility and potential trade wars pose a threat to the outlook. Moreover, crude oil prices have become volatile in the recent period. Considerable uncertainty persists about the pace of normalization, although not the direction of monetary policy, by systemic central banks.

On the domestic economy, the MPC's assessment was that while GDP growth in 2017-2018 of 6.6% was lower than a year ago, which was 7.1%, there were important intra-year turning points. Most notably, investment demand accelerated in the second half of 2017-2018 and recent high frequency indicators point to some further strengthening, with capital goods production registering a 19 months high growth in January of this year.

On the supply side, both food grains and horticulture are estimated to have crossed new records. Industrial activity has rebounded and become broad based, while the services sector has shown resilience and expanded through most of the year.

However, with imports outpacing exports, the trade deficit widened in January and February. CPI inflation has eased to 4.4% in February and excluding the estimated impact of increase or adjustment in the house rent allowances for central government employees under the 7th Central Pay Commission, it is estimated at an even lower 4.1%. However, with household inflation expectations having edged up and manufacturing firms reporting input price pressures and increase in selling prices, the committee focused on risks to the outlook for inflation. International crude oil prices have become volatile with a distinct hardening bias from the second half of March. Moreover, aggregate demand is expected to strengthen during the course of 2018-2019.

A normal monsoon and effective food supply management by the government were seen as mitigating factors. Overall, the MPC assessed the risks to inflation has tilted to the up side. On the growth outlook the MPC was of the view that the pace of economic activity could accelerate in 2018-2019 on clearer signs of revival in investment activity and sustained improvement in global demand. On the flip side, external demand could be adversely impacted, should crude oil prices persist at elevated levels or even increase, and trade protectionism intensify. On balance, we decided to be remain watchful about the unfolding of these risks as well as the impact on inflation of forthcoming revisions in the MSP, second round effects of HRA increases by various state governments and fiscal slippages.

The committee was also cognizant of the implications for food inflation, should the monsoon turn deficient, temporarily and / or spatially, and uncertainty imparted to the outlook by the recent volatility in crude prices. The committee has observed that growth has been recovering in an environment characterized by pickup in credit off-take and large mobilization of resources from the primary capital market, which should support investment activity, going forward.

In its judgement, India's long-term growth potential is expected to be reinforced by various structural reforms that have taken place. Given the unsettled global environment however, the MPC emphasized the importance of strengthening domestic macroeconomic fundamentals, persevering with deleveraging of distressed corporate sectors, rebuilding of bank balance sheets and the deepening of risk sharing markets.

I now request DG Acharya to comment.

Dr. Viral V. Acharya: Thank you, Governor. Good afternoon, everyone. I thought I will talk first about liquidity conditions and then about some market development measures. The surplus liquidity in the system, which had built up subsequent to demonetization and FX inflows until August 2017, the surplus liquidity continued to decline over the last six months with corresponding rise in currency in circulation in the economy. RBI has been using multiple tools, primarily reverse repos and open market operations or OMO sales to absorb the surplus liquidity so as to reach the stated policy objective of neutral system liquidity.

Since December, post the quarterly tax outflows to the government, the system liquidity has been almost neutral and has moved between deficit and surplus modes along with the changes in government balances. Towards the fiscal year end, and this is quite typical, system liquidity temporarily moved into deficit.

The net liquidity injection by RBI to deal with this through short term repo contracts stood by March end at Rs. 0.58 trillion or Rs. 58,000 crores. The weighted average call rate, or WACR, has remained lower than the policy rate in the last six months, on average, though the normalization of liquidity conditions has meant that this gap is actually steadily closing.

Overall, the system liquidity is expected to be in a moderate surplus mode in the first half of fiscal year 2018 and the evolving liquidity conditions will determine our choice of instruments for transient and durable liquidity management.

Let me turn quickly to a few market development measures that have been announced in Part B of today's resolution. I will only talk about three of them:

First, extending access to rupee interest rate swap market for non-residents with the intention of enabling better risk management by entities, particularly our banks. This proposal aims to tap into the active offshore rupee interest rate swap market to add depth and liquidity to the domestic interest rate swap market. This access will be subject to macro-prudential risk limits.

Second, introduction of swaptions. In order to allow better timing of interest management using interest rate swaps for banks and corporate among other entities, this should help kick-start activity in interest rate options which were introduced in December 2016.

And third, reviewing and adopting of measures to breathe new life into STRIPS which were introduced in G-sec markets in 2006. This is in order to exploit the full potential that STRIPS can provide in terms of targeted investments at specific durations, especially for long-term investors and financial institutions. Thank you.

Dr. Urjit R. Patel: I request DG Vishwanathan.

N. S. Vishwanathan: Thank you, Governor. I just want to highlight two important announcements on the banking regulation front. On the mandatory loan component and working capital facility, etc., the working capital requirements of borrowing entities are met by banks through cash credit limit which is a revolving facility. The cash credit facility places undue burden on the banks in managing their liquidity requirements with corresponding repercussions for RBI's liquidity operations. Currently banks do not charge any commitment fee and do not maintain any capital on the undrawn portion of the cash credit because it is classified as an unconditionally cancellable facility. This does not have any risk weight under the Basel rules. So, all these actually accentuated the problem. We, therefore, want to control the possible volatility and utilization of cash credit limits by making it mandatory to have a working capital demand loan portion in the working capital facility. So, we will come out with draft circular covering all these aspects for comments and then we will go forward on this.

The second part is something that you have been asking every time on Ind-AS. So, we have formally said that Ind-AS was to be implemented effective from this year. As a part of this we have also been requiring banks to submit half yearly returns based on the Ind-AS formats. The format of the financial statement that is prescribed in Schedule 3 of Banking Regulation Act is not amenable for reporting financial statements under Ind-AS and therefore we have requested the government to amend the schedule and that is under consideration. In our assessment also, many of the banks are still not prepared to move in to Ind-AS, so we thought that we should defer till the preparedness and amendment schedules take place**.** Nevertheless, we will continue to have the proforma statements coming to us to monitor how the banks are going forward on it. Thank you.

Dr. Urjit R. Patel: Mr. Kanungo.

B. P. Kanungo: Thank you, Governor. I wish to highlight three important announcements in Part B - that is the statement on developmental and regulatory policies.

The fist pertains to the storage of payment system data. Payment ecosystem as you would have observed has expanded manifold, it has undergone rapid expansion in recent times. There have been new systems and new players, new platforms, the existing platforms and the systems- they have added new players also. To sustain this pace of growth, public confidence is the key, public confidence in the payment system. Therefore, it is necessary that safety and security of the payment system is robust, continuously upgraded and is best in class as per the international standard. The supervisory oversight to ensure that there is thorough monitoring and surveillance is also crucial in this regard. It is observed that so far as the payment system is concerned, the players, some of them, store their data in India, some of them do not store their data in India, some do it partially. In order to facilitate this continuous surveillance and monitoring we are mandating that all the payment system operators will be required to keep their data inside the country. And this must be achieved in a period of say six months. So, this is the first important announcement.

Regarding ring fencing, the regulated entities from the virtual currencies, digital tokens issued by the private parties are getting international attention for quite some time for their speculative value. Internationally, while the regulatory responses to these tokens are not uniform, it is universally felt that they can seriously undermine the AML and FATF framework, adversely impact market integrity and capital controls. And if they grow beyond a critical size, they can endanger financial stability as well. In the past RBI had reportedly cautioned, at least I remember on three occasions, the members of public, the users, holders and traders in virtual currency regarding the various risks that they are undertaking by exposing themselves to these crypto currencies. Now we have decided to ring fence the RBI regulated entities from the risk of dealing with entities associated with virtual currencies. They are required to stop having business relationship with entities dealing with virtual currencies forthwith and unwind the existing relationship in a period of three months time. However, we also recognize that the blockchain technology or the distributed ledger technology that lies beneath the virtual currencies has potential benefits for financial inclusion and enhancing the efficiency of the financial system and we also believe that they should be encouraged to be exploited beneficially for the economy.

Staying on digital currency, in response to the emergence of the private digital tokens all over the world several central banks are debating the possibility of introducing a fiat digital currency. As opposed to the private digital tokens on which I just spoke about, these are issued by the central bank, they constitute the liability of the central bank. And, they will be in circulation in addition to the paper currency that we have. It also holds the promise of reducing the cost of printing of the notes. So, recognizing this, we have constituted an inter-departmental committee in Reserve Bank of India who will produce a report and they will explore the feasibility and desirability of issuing a digital currency by the central bank, by the Reserve Bank of India and to guide us in this matter in future. Thank you.

Dr. Urjit R. Patel: Thank you, Mr. Kanungo. Will take a few questions. Hindu?

Manoji Saha:
The Hindu

RBI has clearly reduced its inflation forecast compared to what it was in the earlier policy and you have also said that the HRA impact will be there till mid-2018. However, at the same time, you have also given an estimate, excluding the HRA impact, which has also been highlighted. Can you throw some light on the issue?

Dr. Michael D. Patra: If you will recall, in monetary policy report of April 2016 we did a detailed analysis of the 7th Pay Commission and its recommendations. These recommendations are salaries, allowances and all that. So, of this, the house rent allowance has a bearing on inflation. Remember that housing has a weight of about 9.5% in the CPI so that what happens is that housing matters to the path of inflation. Now what CSO does when it measures housing is that, while it collects rentals from all over the country, for the government housing it imputes the house rent, which is the house rent allowance. Now when we came with the 7th Pay Commission's recommendation, the house rent allowance was increased by 105.6%, so that is what it would impute, but that is not real inflation, it is just a statistical effect which is boosting up CPI. So what we are doing is just to focus on the real underlying inflation pressures, we exclude house rent allowance from the CPI. So you can see that we have presented those projections and we have underlined them to bring your attention to the fact that when you assess inflation, please exclude the house rent allowance effect, because it is purely statistical. So you can see that for the first half if you exclude housing, the projection comes down by as much as 35 basis points, which is the full measure of the impact of HRA which started in July and peaked in December and will wane during 2018. Thank you.

Dr. Urjit R. Patel: Because the impact of HRA on account of the central government wanes the impact on inflation, ex-HRA in the second half is not there. So it is because of that that in the first half it makes a difference and in second half it does not make a difference. Going forward, as state governments rollout their HRA revisions, we would have to be cognizant that we need to exclude that from the CPI index to gauge the exact amount of inflation. And that first round statistical effect of the HRA revisions from the state governments would also have to be excluded. However, if there are second round effects on account of expectations and aggregate demand, those we will take into account. But the pure statistical effect of HRA revisions have to be excluded from the CPI. And we had telegraphed this in April 2016, so it is just to emphasize that fact.

Debi Prasad Nayak:
Wall Street Journal

Sir, I would like to know why have you switched to GDP from GVA? And do you see the economic recovery strong enough to keep up the momentum if RBI has to raise the rates later?

Dr. Viral V. Acharya: I will take the question on the switch from GVA to GDP as the headline measure of economic activity. So, I think it is mainly to conform to international standards. Globally the performance of most economies is gauged in terms of gross domestic product or the GDP, this is also the approach followed by multi-lateral institutions, international analysts and investors. And primarily, they all stick to this norm because it facilitates easy cross-country comparisons. And as you know the CSO has also started using the GDP as the main measure of economic activity since January 2015. So, even though there are good economic reasons to employ GVA as the supply side measure of economic activity, we have decided to switch to GDP. But for convenience of everyone in footnote 2 of the resolution we have clarified what would have been the imputed GDP growth numbers from the GVA numbers that we had provided in February. So you can see what is changing between the two policies. Thank you.

Shishir Sinha:
ABP News

Sir, thank you very much. My question is, on one side we are saying that CPI needs to be low, we saw that it is low in February and it is expected to remain low in March also, and projection is that it may remain low in three quarters of the next fiscal, so, in this context, may we know why did you keep the policy stance neutral and did not change the policy rate?

Dr. Urjit R. Patel: The inflation prints for February did turn out to be softer than our projection, much of this is because of the seasonal softening of the prices of vegetables that occurs during the winter months. However, the MPC looks ahead and we noted that there are several uncertainties around the base line inflation path which is why we kept the stance neutral and the rate unchanged. First, there is the uncertainty around the revised formula for MSP, as announced in the union budget for Kharif crops, which may have an impact on inflation, although the exact magnitude will only be known in the coming months as the programme is rolled out. So that is one uncertainty. Then there could be the risk of some fiscal slippage from the Union Budget estimates or over the medium-term which could adversely impact the outlook on inflation. There are also risks in this area from slippages at the level of state governments, on account of higher committed revenue expenditure. The companies and firms that we pool in the Reserve Bank's industrial outlook survey expect input and output prices to rise, going forward. Lastly, the volatility in crude prices has imparted a fair bit of uncertainty to the near-term outlook. And for these reasons, we have continued with the status quo and risks tilted to the upside. We will closely monitor the evolution of these handful of factors and how they impact on inflation and that underpins the decision that was taken by the MPC today.

Anup Roy:
Business Standard

Thank you, Governor. Sir, now that you have come up with a firm deadline that after March 1, if an account is NPA, 180 days of resolution, etc, now banks are saying that it will lead to 600, 700, 900 accounts, clubbing into NPA, or resolution needed for that. So, are you concerned that it will lead to risk aversion of banks to lend and also the investment pattern of the companies will be disrupted?

N. S. Vishwanathan: One, the reasons why we have introduced these revised guidelines is because we believe that the IBC has given a framework for resolution of stressed assets and the development that are happening is giving us comfort that it will go in the right direction. The second part is that the default definition is one day but NPA definition remains 90 days, so we do not see why this circular by itself should result in more NPAs coming, number one. What we have of course done is that we have withdrawn those schemes which resulted in banks postponing the recognition, and therefore I do not think we must see it in the light that you are saying. Thank you.

Govardhan Rangan:
Economic Times

Good after noon, Governor. Recently in a public forum you spoke about the absence of regulatory powers on the PSU banks and how to control them and how to bring order there. Of late there have been some instances of reports about some lapses in the private sector banks as well, so would like to know has there been any development from regulators point of view on these institutions? Thank you.

Dr. Urjit R. Patel: Those are two different issues and they are not related. What was said in the speech and the debate around it relates to the legal powers that RBI has, which seem to be asymmetric between public sector banks and private sector banks. And therefore, that has got nothing to do with our supervisory and regulatory action on any bank concerned.

Shyama Mishra: Doordarshan

Sir, my question is related to the earlier question. Have you been talking to the centre regarding the regulatory powers of the RBI, whether you can modify them and act tough on the PSBs?

N. S. Vishwanathan: This requires amendment to the Banking Regulation Act. As the Governor has said, the non-neutrality of RBI's powers come from the provisions of the BR Act, and that needs to be changed, the Governor has made the Bank’s position on this very clear so there will be discussions on this front.

Dr. Urjit R. Patel: Thank you.