Mid-Quarter Monetary Policy Review: September 2013 – Statement by Dr. Raghuram G. Rajan, Governor, Reserve Bank of India

Good Afternoon. In the mid-quarter review today, we began a calibrated change in the exceptional liquidity measures we introduced in July by cutting the Marginal Standing Facility rate, which is the effective policy rate today by 75 basis points or 0.75 percentage points.

We also reduced the minimum daily CRR balance that banks have to maintain to 95 per cent of the requirement.

We believe that easing the exceptional liquidity measures was warranted given that the external environment has improved and given that the Government and the RBI have used the time since the measures were put in place to narrow the current account deficit and to ease its financing.

The calibrated withdrawal will provide a boost to growth, reduce the financing distortions that are emerging in the market, and reduce the strain on corporate and bank balance sheets. We remain vigilant about external market conditions and will do what is necessary if they deteriorate once again.

We have also announced an intention to return to normal monetary operations where the repo rate will return to being the effective policy rate and liquidity conditions need not be as tight as they currently are. Let me emphasise that the difference between the MSF and repo rate will be brought down to 100 basis points. At the same time, recognising that inflationary pressures are mounting and determined to establish a nominal anchor which will allow us to preserve the internal value of the rupee, we have raised the repo rate by 25 basis points.

The intent here is that when the repo rate becomes the effective policy rate, it should be consistent with inflationary conditions in the economy. On net, these measures will reduce the cost of bank financing substantially while allowing us to take an appropriately precautionary stance on inflation.

Let us remember that the postponement of tapering is only that, a postponement. We must use this time to create a bullet proof national balance sheet and growth agenda, which creates confidence in citizens and investors alike.

At the Reserve Bank of India, my colleagues and I have been busy developing the measures we announced about two weeks ago. Yesterday, the RBI implemented the full liberalisation of bank branching, with some safeguards to encourage inclusion. We announced both the FCNR(B) swap facility as well as the swap facility for bank borrowings.

I am glad to say that banks have started bringing in money. Till yesterday, we had received US$ 466 million through the FCNR(B) and US$ 917 million through the swap facility to a total of nearly US$ 1.4 billion. We have started the process to issue two kinds of retail inflation indexed retail certificates, one with a lump sum payment at the end and the other with indexed interest payments. We have set up the central credit registry for large bank borrowers. The various committees we announced are swinging into action.

Over the next few weeks, together with the government, we will take a close look at corporate distress and bank NPAs to see how we can accelerate the process of resolution.

Finally, we are taking a look at a variety of markets to deepen them and make them more vibrant. Measures will be announced periodically.