


भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

इ-मेल email: helpdoc@rbi.org.in
संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फेक्स/Fax: 91 22 22660358

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Second Bi-monthly Monetary Policy, 2016-17: Governor's Opening Remarks at the Press Conference

In our [monetary policy statement of April 2016](#), we stated that we would watch macroeconomic and financial developments in the months ahead with a view to responding as space opens up. Incoming data since then show a sharper-than-anticipated upsurge in inflationary pressures emanating from a number of food items (beyond seasonal effects), as well as a reversal in commodity prices. A strong monsoon, continued astute food management, as well as steady expansion in supply capacity, especially in services, could help offset these upward pressures. Given the uncertainties, the Reserve Bank will stay on hold, but the stance of monetary policy remains accommodative. The Reserve Bank will monitor macroeconomic and financial developments for any further scope for policy action.

Transmission of policy into bank lending rates still remains work in progress. We will shortly review the operation of the Marginal Cost Lending Rate framework to iron out any issues. Timely capital infusions into constrained public sector banks will also aid credit flow.

On liquidity, there have been two concerns. First on the maturing of FCNR(B) deposits, our sense is that the leveraged portions of those deposits will not be renewed. Therefore, there could possibly be outflows of the order of \$ 20 billion. The RBI has covered those requirements in the forward markets, and will take some advance deliveries in the lead up to the maturation of the deposits. Of course, some counterparties are apprehensive that they will not be able to deliver easily on the dollars we are owed, and hence there may be some dollar shortage in the market. This is something that we will monitor. We may supply dollars in case of extreme volatility, but no one should take this for granted. We are, however, committed to supply short term rupee liquidity to the extent needed, to support our monetary stance.

The second concern on liquidity has been how long we propose to take to move from a situation of systemic liquidity deficit to one of close to neutrality. This is something that depends on market and external conditions. As you know, a fair amount of durable liquidity has already been supplied. In addition, we are seeing outstanding cash balances come down somewhat. We will not commit to a timeframe, but will be opportunistic in moving the system towards the goal.

Finally, on the bank clean up, we are working together with the government on facilitating the process. There are discussions on mechanisms that will leave projects with appropriate capital structures and access to credit, as well as some incentive for promoters to earn their way out of difficulty. SEBI is also being consulted. There is also a discussion of various funds to invest in stressed situations. However, there is no intent to go back to the days of forbearance or reverse the move towards transparent bank balance sheets.

Alpana Killawala
Principal Adviser