प्रेस प्रकाशनी PRESS RELEASE

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August 9, 2016

Governor's Opening Statement to the Post-Policy Press Conference, August 9, 2016

As you will note from the policy statement, we have kept rates on hold, maintaining an accommodative stance while we await developments. We are within the inflation band given to us by the Government and expect to be around 5 percent CPI inflation by March 2017, absent unforeseen eventualities.

My hope is the next monetary policy statement will be by the proposed Monetary Policy Committee (MPC). The committee to select outside members of the MPC has commenced the process. On the RBI's side, the Board has selected Dr. Michael Patra to be the RBI Board nominee on the MPC. The other two members from the RBI will, of course, be the Governor and the Deputy Governor in charge of monetary policy. With the formation of the MPC, the Government and the RBI will have completed a fundamental institutional reform, which modernizes India's monetary policy framework and builds a platform for strong and sustainable growth. Some of the collateral benefits over and above low inflation will be a currency that is not depreciating constantly, higher real returns earned by savers, and lower nominal interest rates, including inflation risk premia, paid by borrowers.

A larger share of the policy statement than usual was devoted to a discussion of liquidity, and how we see it going forward. As we have reiterated in the past, we do not see the FCNR(B) repayments as disruptive. With the preparation we have made, and good management, redemptions should go smoothly. More generally, the new liquidity framework announced in the April policy is being implemented. We have reduced some of the structural liquidity deficit. However, the current surplus is partly because of seasonal factors and not because we have eliminated the structural deficit. To emphasize this point, we announced an Open Market Purchase today. The RBI will proceed in a calibrated way towards the goal of eliminating the structural deficit. When we have done so, episodes of systemic surplus and systemic deficit should be evenly balanced.

Despite easy liquidity, banks have passed past rate cuts into lending rates only modestly. Earlier, some bankers said that it was the lack of liquidity that was holding rates high, now I hear from some that it is fear of the FCNR(B) redemptions that is making them reluctant to cut rates. I have a suspicion that some new concern will crop up once the FCNR(B) redemptions are behind us. On our side, having examined our experience with the MCLR framework, we will shortly be suggesting some revisions. However, substantial pass through will happen only as corporate credit demand picks up, and public sector banks, strengthened by clean balance sheets, compete for corporate business.

In the next few weeks, we plan to announce guidelines for P2P lending and for account aggregators. On August 25th we will unveil a set of measures to improve the functioning of markets, especially the corporate bond markets. Some of these measures will build on suggestions in the recent Khan Committee report.

Before I end this statement, let me use this platform for two important messages that initiate the year-long public awareness and consumer protection campaign the RBI is embarking on. First, one of the biggest sources of harassment for ordinary customers in the banking system is meeting KYC or Know Your Customer rules. Actually, these have been simplified considerably in the recent past, but sometimes your local branch may not know it. The applicable KYC rules can now be accessed from the RBI's web page – there is a bar you can click on entitled "FAQs for KYCs". For instance, if you move, your new address can be self-certified and you do not need proof of new address. If your branch does not know these simplified norms, please go to the RBI webpage and point it out to them. You will be doing a public service.

Second, if you get an email from me or any future governor promising to transfer a large sum of say ₹ 50 lakh to you if only you send a small transaction fee of ₹ 20,000 to a specific bank account, delete the email. The reality is such emails are not from me and the RBI does not give out money directly to ordinary citizens, even though we print plenty of it. While the emails usually contain very convincing reasons why you have been chosen to receive money, ask yourself why I cannot simply deduct ₹ 20,000 and send you ₹ 49.8 lakh. If you think for a moment, you should not fall prey to such emails.

This is my last policy statement, but there are still 28 days in my term which I intend to use fully. We will now take questions.

Alpana Killawala
Principal Adviser

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