

Edited Transcript of Reserve Bank of India's Second Bi-  
Monthly Monetary Policy Press Conference

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**Shaktikanta Das:** Good afternoon, everyone. I will make my statement. We have already shared the MPC resolution with all of you. I will just go through my statement and thereafter we will have some questions and some observations.

Now, during June 3rd and 4th 2019, the Monetary Policy Committee assessed the recent macroeconomic developments and the outlook and its meeting today. It voted unanimously to reduce the policy repo rate by 25 basis points. So, we had discussions on June 3rd and 4th and then again, we sort of took the decision today, and the decision this time has been unanimous.

And the decision has been to reduce the repo rate by 25 basis points and also to change the stance of monetary policy from neutral to accommodative. The unanimous vote reflects the resolve of the MPC to act decisively and act in time. I thank the MPC members for the rich and fruitful discussions, which are reflected in the resolution and in the policy decision. I also wish to express my gratitude to our teams in the Reserve Bank of India for their hard work and diligence in providing valuable support and inputs to the MPC for its work.

Let me now turn to the key global and domestic developments that the MPC has reviewed:

At the outset, the MPC noted that global economic activity has not been able to sustain the improved performance seen in the first quarter of the calendar 2019, in the face of deepening slowdown in trade and manufacturing, which has impacted advanced and emerging market economies alike. Inflation remains below the target in several economies. In advanced economies, incoming data for second quarter of 2019 point to a loss of momentum relative to the first quarter. In the major emerging market economies, economic activity has either

slowed or has contracted. It is in this context that the central banks across the world have moved to an accommodative stance in setting monetary policy.

Financial markets have been unsettled by the acrimonious U.S.-China trade tensions. Crude oil prices remain volatile, reflecting evolving demand-supply conditions and geopolitical concerns. Most emerging market economy currencies have depreciated against the U.S. dollar.

On the domestic front, the MPC noted that the May 31st, 2019 data release of the National Statistical Office showed that the GDP growth for 2018-2019 has been placed lower by 20 basis points at 6.8 per cent relative to its February 28th estimate. In Q4 2018-2019 GDP growth decelerated sharply to 5.8 per cent, down from 6.6 per cent in Q3, and 8.1 per cent a year ago. On the supply side, agriculture and allied activities contracted, while manufacturing activity weakened sharply. Service sector growth accelerated, although construction activity slowed down markedly.

Looking ahead, the Indian Metrological Department has predicted that the southwest monsoon rainfall, that is June to September 2019, is likely to be normal at 96 per cent of the long period average. The third advance estimates of food grain production at 283.4 million tonnes for 2018-2019 were lowered by only 0.6 per cent as compared with the final estimates for the previous year. Further, the stock of food grains at 72.6 million tonnes as on May 16th, 2019, were 3.4 times the prescribed buffer norms, and provide a backstop against any supply disruptions due to weather adversities.

In the industrial sector, growth in eight core industries decelerated sharply in April. Credit flows from banks to large industries, however, strengthened. Though, they remained somewhat muted for micro, small and medium industries. Seasonally adjusted capacity utilization in the manufacturing sector slipped to 75.2 per cent in Q4 from 75.8

per cent in Q3. Import of capital goods, a key indicator of investment activity remained anemic in April. High frequency indicators suggest moderation in activity in the service sector.

Turning to inflation, the MPC took note of the fact that retail CPI inflation remained unchanged in April from its March level of 2.9 per cent. Higher inflation in food and fuel groups was offset by lower inflation in items excluding food and fuel. Inflation expectations of households in May 2019 round of RBI survey declined by 20 basis points for the three months ahead horizon, compared with the previous round, but remained unchanged for the one year ahead horizon. Normal growth in rural wages and in the organized sector staff costs remain muted. Liquidity in the system turned to an average daily surplus in early June after remaining in deficit during April and most of May due to restrained government spending.

Apart from liquidity injections through LAF operations, the RBI conducted two OMO purchase auctions in the month of May, amounting to ₹ 25,000 crore, and a U.S. dollar by buy/sell swap auction of US\$5 billion, equivalent to ₹ 34,874 crore for a tenor of three years to inject durable liquidity into the system. An OMO purchase auction of ₹ 15,000 crore has already been announced to be held on June 13th. And, the auction would be held during next week.

Transmission of cumulative reduction of 50 basis points in the policy repo rate in February and April 2019 was 21 basis points to the weighted average lending rate, i.e., WALR, on fresh rupee loans. Interest rates on lower tenor money market instruments remained broadly aligned with the overnight WALR, reflecting near full transmission of the reduction in policy rate. The 10-year government securities benchmark yield has also declined by about 40 basis points from its average in April 2019 to about 7 per cent. This was the position before we announced the MPC resolution and the decisions

were put in the public domain. Thereafter the developments, I have to see.

The Reserve Bank will ensure that adequate liquidity is available in the system for all productive purposes. Exports grew by 0.6 per cent in April 2019, but imports grew at a somewhat accelerated pace, leading to a widening of trade deficit. After a sharp recovery in March, net foreign portfolio inflows have been relatively modest at US\$2.3 billion in 2019-2020 during the months of April and May. India's foreign exchange reserves were at US\$421.9 billion, I repeat US\$421.9 billion as on 31st May, 2019.

Taking into account these factors and the impact of the recent policy rate cuts, and assuming normal monsoon in 2019, the MPC revised the path of CPI inflation to 3 per cent to 3.1 per cent for H1 2019-2020, and 3.4 per cent to 3.7 per cent for H2 of 2019-2020, with risk broadly balanced. As against 2.4 per cent for Q4 of 2018-2019, 2.9 per cent to 3 per cent for H1 of 2019-2020, and 3.5 per cent to 3.8 per cent for H2 of 2019-2020. Risks along the baseline inflation trajectory emanate from uncertainties relating to monsoon, unseasonal spikes in vegetable prices, international fuel prices and their pass-through to domestic prices, geopolitical tensions and financial market volatility, and the overall fiscal scenario.

The headline inflation trajectory remains below the target, even after taking into account the expected transmission of the past two policy rate cuts. Hence, there is scope to boost aggregate demand, and in particular, private investment activity, while remaining consistent with the mandate of flexible inflation targeting. The MPC also revised the projection of GDP growth for 2019-2020 to 7 per cent; in the range of 6.4 per cent to 6.7 per cent for H1 and 7.2 per cent to 7.5 per cent for H2 of 2019-2020, with risks evenly balanced; as against 7.2 per cent; in the range of 6.8 per cent to 7.1 per cent for H1 and 7.3 per cent to 7.4 per cent H2, with risks evenly balanced, which was the earlier

projection. The MPC noted that growth in pulses have significantly weekend as reflected in a further widening of the output gap.

So, I have broadly explained the background of the decision of the Monetary Policy Committee to shift the stance to accommodative and also for rate cut of 25 basis points.

Let me now set out some of the developmental and regulatory policy measures that we have announced today:

In the area of regulation and supervision, banks have been monitored against an indicative Basel III Leverage Ratio of 4.5% to mitigate risks of excessive leverage. Keeping in mind financial stability and with a view to moving further towards harmonization with Basel-III standards, it has been decided that the minimum Leverage Ratio should be 4% for Domestic Systemically Important Banks (DSIBs) and 3.5% for other banks.

In pursuance of the Guidelines for Licensing of Payments Banks and Small Finance Banks of November 27, 2014 it is proposed to issue Draft Guidelines for 'on tap' Licensing of Small Finance Banks by the end of August 2019. More time is, however, needed to review the performance of Payments Banks before considering the licensing of more payment banks to be 'on tap'.

It may be recalled that in August 2010, the Reserve Bank introduced a separate framework for the regulation of systemically important Core Investment Companies (CICs). In the light of the increased complexity of these corporate structures, their growing inter-connectedness with the financial system and the various recent developments, it has been decided to set up a Working Group to review the regulatory guidelines and supervisory framework applicable to CICs.

Turning to financial markets, it has been decided to constitute an Internal Working Group to review comprehensively the existing

liquidity management framework and suggest measures to simplify the current liquidity management framework and clearly communicate the objectives, quantitative measures and toolkit of liquidity management by the Reserve Bank. The Group is expected to submit its report by mid-July 2019.

In October 2017, the Reserve Bank had proposed the setting up of a foreign exchange trading platform for retail participants that would provide customers with access to an electronic trading platform through an internet-based application on which they can purchase/sell foreign currency at market clearing prices. The trading platform has now been developed by the Clearing Corporation of India (CCIL) and is being tested by users. The platform will be available to users for transactions from early August 2019. Operational guidelines for the platform shall be issued by the end of June 2019.

It has been the endeavour of the Reserve Bank to increase retail participation in the government security market. In addition to scheduled commercial banks and primary dealers, it has been decided to also allow the Specified Stock Exchanges approved by SEBI to act as Aggregators/Facilitators to aggregate the bids of their stockbrokers/other retail participants and submit a single consolidated bid under the non-competitive segment of the primary auctions of State Development Loans (SDLs). The measure will be implemented in consultation with the respective State governments.

In the area of payment and settlement systems, it has been decided to do away with the charges levied by the Reserve Bank for transactions processed in the RTGS and NEFT systems in order to provide an impetus to digital funds movement. Banks will be required, in turn, to pass these benefits to their customers. Instructions to banks in this regard will be issued within a week.

Finally, with the usage of Automated Teller Machines (ATMs) growing significantly, it has been decided to set up a Committee involving all stakeholders, under the chairmanship of the Chief Executive Officer, Indian Banks' Association (IBA), to examine the entire gamut of ATM charges and fees. The Committee is expected to submit its recommendations within two months of its first meeting.

Thank you. I will stop here and then we will take questions and observations.

**Latha Venkatesh  
CNBC TV 18:**

There has been a default by a housing finance company, I wanted to know if the Reserve Bank believes that those entities can set themselves right by sale and acquisition or whether you consider any special measure- stressed asset purchase or refinance, any special measure? As well, you said your stance is accommodative. Does it mean liquidity also will be accommodative? You proposed a working group, will the working group look at only fixed rate reverse repo rate, how radical would be the change in liquidity that you are proposing?

**Shaktikanta Das:**

See, with regard to liquidity, as I have just said that the internal working group has already started working and the report will come by middle of July. So, let's wait for that report to come, I don't want to prejudge and say whether it will be radical and what all will be included in that. So, let us wait for the report of that internal working group, they will spell out what exactly is the approach. And then, in any case, it will be put out in the public domain. So, far as the accommodative stance, whether it will lead to, what impact it will have on liquidity- in the statement somewhere I have said, and as I said earlier, the Reserve Bank will ensure that there is adequate liquidity in the system to meet the productive requirements of the economy. So, RBI will ensure that there is adequate liquidity available in the system.



And with regard to the NBFCs, you mentioned about a housing finance company. As you know the RBI does not regulate the housing finance companies, nonetheless, the banks have significant exposure to the housing finance companies. And RBI in any case is mandated to look after the financial stability of the entire economy, and in that background, we have been very closely monitoring the activity and the performance and the developments in the NBFC sector, including the housing finance companies. We are also monitoring major entities in this universe of NBFCs and housing finance companies. And as you pointed out, the individual entities themselves are resorting to various measures using market mechanisms to mobilize additional liquidity and to mobilize additional resources to meet their liabilities and commitments. So, far as RBI is concerned, the RBI remains committed to ensure that we have a robust well-functioning NBFC sector. And the RBI will not hesitate to take whatever steps are required to ensure that financial stability is not adversely impacted in any manner by any development.

**Mythili Bhusnurmath**

**ET Now:**

I was really intrigued actually to see that there is no mention of the ongoing crisis and development in the NBFC sector in the policy statement. Is the RBI sufficiently confident, with the problems that are being faced today are of liquidity and not of insolvency, because if it insolvency no amount of liquidity would suffice to address the underlying problems, given the interconnectedness between the two. But, the long-term stability of the financial system might necessitate allowing some of the larger NBFCs included, to go down and not come to their rescue. Would the RBI be ok with the collapse of some large NBFCs? Also, given the fact that supervision has now turned out to be the actual chink in RBI's armor, is there a case for separate Supervisory Board somewhat on the lines of MPC, so that the kind of discretion and concentration of power vested with one DG looking after regulation and supervision is in some way mitigated. And we

don't have a situation where so much of power rests with one DG, in which case would the RBI have in place, either a ban or a cooling period after which, a DG, after he steps down from here can join a regulated entity?

**Shaktikanta Das:** You see, first thing I would like to say is that, you said so about powers vested in the DG. The reports, that is, supervision reports are placed before the BFS, i.e., Board for Financial Supervision, which is the committee of the Central Board of the RBI. All inspection reports, all supervision reports, whether it is commercial banks or it is urban cooperative banks or NBFCs, they are placed before the BFS, the Board for Financial Supervision.

And so far as the strengthening of the supervisory mechanism is concerned, about a fortnight ago we have already announced the formation of a separate cadre for regulation and supervision of banks, NBFCs and other financial institutions. And this is a major decision which has been taken basically to strengthen our regulation and to strengthen our supervision. When I said about financial stability, long-term financial stability, I would not like to see financial stability in a compartmentalized manner as short-term, medium-term or long-term, we look at the overall financial stability. And with regard to what would be the specific instruments and what would be the specific steps, I would not like to spell it out because it will lead to unnecessary speculation. Let me just repeat what I said a little while ago, that RBI will not hesitate to take any measure which is required to maintain the financial stability of the system, including short-term, medium-term and long-term.

**Mythili:** So, there might be a conflict between the short-term and the long-term?

**Shaktikanta Das:** We will examine all the complexities, beyond that it is difficult, it is not possible. And I would not like to, let me put it this way, I would not like to spell it out and fuel speculation.

**Swati Khandelwal**

**Zee Business:**

Governor, you said about manufacturing sector service sector, on both the sides there is slowdown and subdued environment is prevalent. If we talk about corporate earnings, they are actually under lot of pressure. Demand is a big problem, slowdown and demand, how do you estimate it to improve? Will liquidity really help that come back or more steps will be required to be taken?

**Shaktikanta Das:**

You see liquidity, as I just said, there is a surplus mode in the system liquidity, the system liquidity which is there it is at the moment in a surplus mode. Now, this month we have already announced an OMO of ₹ 15,000 on 13th June. Other instruments are available, as and when we take decision, we will keep on infusing liquidity, again, based on requirement. And the policy rate cut which we have done in February and April of 50 basis points and today's cut of 25 basis points, so 75 basis points rate cut which has happened during this calendar year, it will translate. The transmission has been about 21 basis points so far as fresh rupee loans are concerned. This is an expectation that as we go forward there will be higher transmission, and then there will be faster transmission also. So, this transmission naturally will find its impact in individual consumer loans, or consumer durable loans or two wheeler loans, it will really impact these segments and there are chances of interest rates going down in those sectors so far as new loans are concerned.

**M. Govardhan Rangan**

**The Economic Times:** The MPC has met the expectation of 25 basis point cut. But given that the Fed itself has taken a U-turn in terms of- from three rate hikes to two rate cuts this year, and you have cut both the GDP and the inflation forecast. How does the MPC still justify such high real interest rates? Is it killing the power to drive for a full blown crisis ahead?

**Shaktikanta Das:** You see, there has been a lot of discussion about real interest rates. And it comes on the table for discussion from time to time. So, far as we are concerned, our decision at the moment is driven by the growth concerns which is there in the RBI Act and also the inflation concerns, inflation and growth, in that order. As per the mandate of the MPC, the MPC targets a certain level of inflation, keeping in mind the requirements of growth. But while deciding all these things, other factors do come in. But there are many views about real interest rates, so that's why I at this point of time would not like to spell out what is the real interest rate, what should be the real interest rate. Because, as we take decision, it is for you to judge, it is for you to take a call how close we are to the real interest rate calculated by you. Somebody may calculate it slightly differently. As the central bank, I would not like to spell out a real interest rate at this point of time. But it's for you to take a call whether we are moving closer, whether we are closing the gap and we are moving, how close we are moving to the real interest rate.

**Nivrita Ganguly  
BTVI:**

Sir, just a follow-up to your comments on NBFCs, because it is really what everyone's concerned about in the sector at the moment. NBFCs are finding it very, very difficult to raise money at the moment, if you're saying you'd like it to be a supportive environment, just to understand the thinking of the RBI, on one side are you alright with, let us say, the weaker NBFCs in the system getting pushed out of market? On the other side would you be prevailing on PSU banks to lend to these NBFCs that ask for funds at this point?

**Shaktikanta Das:** No. Again, I would just like to repeat what I said, the specifics of it I would not like to get into. And we will take whatever steps; if and when they are required we will take the steps. And we are monitoring the situation very closely, as you know the NBFC supervision, the periodicity of the NBFC supervision, which was about 18 months earlier, now it has been reduced to 12 months. So, every year there is an inspection of NBFCs. Major entities are also being very closely

monitored in RBI. So, RBI will not delay to take any action, if and when such action is required.

**Nivrita:** Is there going to be an AQR of NBFCs?

**Shaktikanta Das:** If there is a decision you will come to know, but when we are monitoring individual entities already, we have the data and we know what exactly the position is.

**Ira Dugal**

**Bloomberg Quint:** Governor, there is not much discussion at least in the official statement on the fiscal situation. We know that the government has met the 3.4 per cent number, but there is widespread concern that subsidy payouts were not happening on time, there is a build-up of borrowings at the FCI in particular, plus a lot of borrowings are being transferred to the books of public sector enterprises. Firstly, is the RBI concerned about the fact that that could crowd out private borrowers? Also, since there is so much borrowing from the National Small Savings Fund, there is an adverse incentive to keep small saving rates high, which will then again impede transmission. Isn't that a big hindrance in investment transmission right now as well?

**Shaktikanta Das:** You see, the government has broadly followed the fiscal glide path over the last five years. Broadly the fiscal glide path has been followed, in 2014-2015 the budgeted number in the Interim Budget for fiscal deficit was about 4.5 per cent, then it was budgeted little lower, and they ended the year in 2014-2015 at 4.1 per cent, then it was 3.5 per cent, if I recall correctly, then it has now come down to 3.4 per cent. So, broadly, they have followed the fiscal glide path.

And so far as the borrowings by the public sector companies and the crowding out effect is concerned, the total borrowing requirement of the public sector companies will have to be seen from the perspective of two points, one is, there are certain public sector entities like the NTPC or, for example, the NHAI which undertake a lot of capital

expenditure and which have their own revenue streams to repay their borrowings. So, therefore, it's better to look at that borrowing as a part of the capital investment requirements of the economy, rather than seeing them as a borrowing by the government.

**Ira:** Next budget?

**Shaktikanta Das:** No, these borrowings are supported by borrowings which are supported by revenue streams of public sector companies themselves, not depending on the budget for repayment. But they have their own revenue streams, like the National Highway Authority or the National Thermal Power Corporation.

**Ira:** Sir, PFC or government companies?

**Shaktikanta Das:** Let me let just complete. So, I didn't mention PFC, I said, public sector entities, which have their own revenue streams to repay those borrowings, they have to be taken together as a part of the overall borrowing by the industrial or the commercial sector of the economy. So, far as the other sectors are concerned, the fiscal deficit numbers, the government, as I said, has broadly maintained the fiscal deficit glide path. And we do expect the government also to remain fiscally prudent, broadly fiscally prudent. As regards the other issues of small savings, etc, I am sure government will take note of the overall economic developments and take whatever decision is considered necessary.

**Bijoy Idicheriah  
Cogencis:**

Just an addition to the earlier point that you made on the liquidity framework that you said is coming up, the review of the existing liquidity framework coming up. Are the delays in government spending also creating frictional problems for the RBI's management of liquidity that leads to a lot of speculation about RBI not providing enough liquidity to the market via OMOs, or the new tools like FX swap? Is the fact that the government is not spending when its coffers

have money, is that becoming a problem for the RBI in managing liquidity?

**Shaktikanta Das:** I think it was a temporary phenomenon during the election period, usually when you have a general election, usually during such times the government expenditures tend to slow down. So, therefore, in the last two months or so, I think April and May, government expenditure had slightly gone down, because of the election period. And the focus by the government agencies were on the election, etc. But now that the elections are behind us, I think government expenditures are already showing signs of pickup. And we do monitor, as you know, while looking at and analyzing the overall liquidity, we do look at the currency in circulation, we do look at government expenditures. And all these aspects are taken into account.

**Bijoy:** Also, is there any update on the revised circular?

**Shaktikanta Das:** The revised circular will be should very shortly, it has taken some little more time than we anticipated, because it involved examining various legal issues, it involved very detailed and wide ranging stakeholder consultations. And then internally we had to examine it in detail. It has taken a little more time than we had originally anticipated, but it will be issued very shortly, and very shortly means in a matter of maybe next two, three or four days.

**Gopika Gopakumar**

**Mint:** I just want to understand RBI's thinking on the NBFC regulation. You've made a thinking to bring NBFCs in line with banks, in terms of ensuring an emergency liquidity renew and other regulatory framework. Also considering that there have been so many committees being set up and sort of increased supervision of NBFCs, do you acknowledge the fact that there were lapses on RBI's front in terms of supervision and that lead to the recent events that lead to the crisis?

**Shaktikanta Das:** You see, lapses, it for you to really say whether there were lapses, I mean. But so far as RBI is concerned, I think I would believe and I do believe that our supervision mechanism is very robust, has been very robust. And from time to time many aspects of a supervision report, which are available to us are shared with the individual entities. It's not put in the public domain for obvious reasons, because it is between the regulator and the regulated entity. Our concerns are always, and it has been always so, they are shared with the individual entities with a specific direction to place it before their Board of Directors. So, RBI expects the Board of Directors of the companies to take necessary action based on its supervision reports. And the compliance of the supervision reports are also monitored during the subsequent year inspections. So, therefore, fine tuning and improving supervision and regulation, the regulation and the supervision is a continuous exercise. And we have therefore, especially in the light of the recent developments, and keeping in mind the requirements of the growing complexity of our financial system, decided on the separate cadre for supervision and regulation.

**Manojit Saha  
The Hindu:**

In the last Press Conference, you indicated that the Jalan Committee Report should be out very soon, but it has not come out. There were some media reports that the Finance Ministry is not okay with the recommendations. Do you think RBI and the Finance Ministry are on the same page of Jalan Committee recommendations?

**Shaktikanta Das:** You see, Jalan Committee is working independently, I do not interfere, or I do not involve myself in any manner in the working of that Committee. The Committee is working on its own in an objective manner. And the rest of it which is appearing in the papers, I also see in the papers, I am not aware. So, let the report of the committee come, they needed some extra time because it needed time. We had initially given three months, but the Committee required some more time and



we have accepted that. So, we would expect the report to come very shortly. And the Committee will take appropriate view, let the Committee report come.

**Mythili Bhusnurmath**

**ET Now:**

Supervision of NBFCs can never be on par with banks, is this not an opportunity for RBI to make it clear that banks are different entity altogether, the entire idea of too-big-to-fail applies only to banks and not to mutual funds, not to NBFCs. And if send out a message that you are supervising NBFCs more closely and taking responsibility for that, RBI might end up by biting more than it can chew. NBFCs that are not efficient must be allowed to fail, that is the way the market functions. Mutual Funds that do not take on risk more than it should, should not be rescued. So, I think unless RBI does this, and you will have to do it cleverly so that the market does not panic. I think this is a very important signal to send that banks are different from NBFCs, they are more closely monitored, lower risk, lower returns. Mutual funds, NBFCs, higher risk higher returns. If NBFCs go down they must be allowed to go down with as little friction in the system as possible.

**Shaktikanta Das:**

No, it goes without saying that bank and NBFCs are different, they are different, and they have different regulatory criteria. So, far as the other points which you mentioned, these are suggestions which you have made. I am sure my colleagues have made note of that. We will see, we will examine that.

**Pradeep Pandya**

**CNBC Awaaz:**

So, are you saying regarding mutual funds which are currently in trouble that, unlike earlier times, during crises when RBI had been providing help to them, this time no such help will be provided to them? Or if the banks want to extra accommodate NBFCs, you won't help them in their refinancing or provide any help that will be required?

**Shaktikanta Das:** See, one thing is that we do not regulate mutual funds, they are not under RBI's regulatory purview. For NBFC sector, I won't say anything more than what I have already said earlier. If and when some action is required, we will take it.

**Sahil Joshi**

**India Today Aaj Tak:** Sir, it is said in the SFIO charge-sheet that RBI should have acted a bit faster before the crises hit.

**Shaktikanta Das:** At RBI we are not aware of the SFIO charge-sheet. And if it is referred to us by any authority, we will look at it.

**Sahil:** They are saying basically that you should have acted.

**Shaktikanta Das:** I don't know, that's what I am saying. We have don't have access to that charge-sheet. And if anything is referred to us by any authority, we will look at it.

**Kumud Das:  
Dainik Bhaskar**

I have a query that the bankers are complaining, I mean, they are saying that the number of willful defaulters is increasing. And the reason they say, it is due to the variation in definitions, RBI says that it is working due to diversion of funds, RBI says diversion of fund is a crime but according to CRPC Act it is not a crime. So, there is a clear lilne of definition of crime. So, what should be the way forward?

**N.S. Vishwanathan:** If you look at, what we have told as far as willful defaulter is concerned is that, once the person is declared a willful defaulter three things happen. One, that company cannot get any loans from the banking system for five years after it has brought down the debt to ₹ 25 lakhs. And any company in which the Director is associated cannot be lent to. So, willful defaulters we are not calling it as a crime, we are saying that he has made a willful default and therefore has a high risk,

banks should not lend to them. As far as we are concerned that is definition of willful default.

**Anirban Nag  
Bloomberg:**

Governor, could you elaborate on this change in stance to accommodative what does it mean? And two, if the monsoons are less than normal, would you be concerned about the food prices or would be more concerned about rural growth?

**Shaktikanta Das:**

See, accommodative stance would basically mean that rate increase is off the table. So, far as the failure of monsoon, the MPC has mentioned it in our resolution, but at this point of time the IMD forecast is very positive that it will be a normal monsoon. And food stocks, also I have mentioned about the buffer stocks of being a 3.4 times, the existing stocks are 3.4 times that of the buffer requirements. So, going forward, it will depend on how the situation plays out.

**Mayur Shetty**

**The Times of India:** Policy has made the observation that the transmission of rate cuts have been incomplete for even new borrowers, and for old borrowers it has actually gone up. So, considering the time lag and transmission, do you think there is a need to relook at the MCLR?

**Shaktikanta Das:**

See, it has been noticed in the past that the transmission takes about four to six months, sometimes it takes about four to six months, and normally that has been the pattern in the past. But this time I think the transmission has been faster than that, in about two to three months' time I think 21 basis points have been transmitted. And as I said, I think going forward we expect faster and higher transmission to happen.

**Pradeep Pandya  
CNBC Awaaz:**

Sir, actually average cost to funds have increased, if you see the data. And for public sector banks I think they have reduced by only 3 to 4 bps only, whereas for private banks they have increased. My question

is that before you came there was a discussion to make a market linked system of rates, in which banks could immediately pass it on to the system. This was deferred at that point of time. So, are the talks going on now about that to again implement this system so that average rates could come down significantly?

**Shaktikanta Das:** Again, as I said that it requires further examination. And we are monitoring the transmission, so as soon as we take some decision in that regard, we will announce that.

**Anup Roy  
Business Standard:**

Sir, state development loans, it is a very risky thing, FPIs don't touch it, many investors don't want to touch it. And now through stock exchanges you are encouraging retail investors to invest in it. So, don't you think it is risky, because retail investors don't know about the fiscal situation of states?

**Shaktikanta Das:** You see, the state development loans, as they are known, that is the borrowing by the state governments are not risky at all. Because there is an implicit sovereign guarantee in them. First thing is that the state governments are sub-sovereign. Second thing is, there is an implicit debit mechanism which RBI operates, on the due date of repayment the RBI automatically debits the state government account and makes the repayment. So, therefore, there is an implicit sovereign guarantee so far as the state government loans are concerned. So, therefore, they would not and they cannot be considered as risky. And this position has been accepted also by the Bank for International Settlements.

**Anup:**

Sir, why do you think that the FPIs are not investing there?

**Shaktikanta Das:** On FPI investment, Mr. Kanungo, would you like to comment?

**B.P. Kanungo:** As Governor correctly said, there is absolutely no default risk. And if you look at the rating mechanism that we have been talking about for some time, that has not started working, because what do you actually assess there, because there is no default risk. However, there is a need for the states to continuously engage with the FPIs and others, there I concede the point that compared to the G-Sec the FPI investment in the state government loan is clearly decidedly less, it is around 7 per cent to 8 per cent of the limit. So, there is a need for the state government to engage with them. And another aspect which the market has brought to our notice is the lack of information regarding the state of affairs in the state government finances. So, you would have noticed that in the recent past high frequency data was being released on several important areas to the market by Reserve Bank of India. And we are also continuously working towards this rating mechanism in consultation with our banks, hopefully that will see the light of the day. So, with these steps, I think the interest in the state development loans will increase. And the step that we have announced and Governor mentioned in his opening remarks, it is for broadening the investor base so that G-Sec was available to the retail investors, I mean, a mechanism was already there now we want the same mechanism to be followed in case of the state development loans.

**Dr. Viral V Acharya:** FPIs don't invest in SDLs because they are very illiquid, they need an exit mechanism. So, it is not a credit risk problem, it is a liquidity risk problem. And what Kanungo Sir was saying was that we are broadening the investor base, that should actually improve the liquidity of SDLs potentially.

**Ira Dugal  
Bloomberg Quint:** Sir, recently the Kerala Infrastructure Investment Board has raised dollar bonds. That is a completely state backed entity, even the revenue flow, etc, is all state. If is not contrary to the Constitution which doesn't allow a sub-sovereign to raise foreign currency loans? The RBI approved it, so they are in a clear. But this is the first time a state has

done this, both in terms of pushing some expenditure into another entity but also Constitution says that the sub-sovereign can only borrow within the country.

**B.P. Kanungo:** I think you are talking about the Chit Fund investment that they have, I mean, the Kerala Government runs chit fund to which the NRI's can subscribe.

**Ira:** No sir, this is the Kerala Infrastructure Investment Board which just did.

**B.P. Kanungo:** And RBI has permitted?

**Ira:** Yes sir, RBI has permitted.

**B.P. Kanungo:** No RBI has not permitted.

**Shaktikanta Das:** I will have to check on that.

**Anurag Shah  
Zee Business:**

Sir, for banking frauds the Malegam Committee was made so what is the status of that, the committee which was formed after the fraud in Punjab National Bank? Because the data that we are receiving today are somewhere reflecting a disappointing trend, the trust in the banks has been wavering.

**Shaktikanta Das:** No, there is no problem on trust with the banks. The reporting data which has been released it shows this year how many frauds have been reported. The actual occurrence might have happened earlier. The data which is coming in the papers it the reporting data, meaning in 2018-2019 so many frauds were reported. But actual date of occurrence can be and it is in previous years. I would request DG Jain to supplement.

**M K Jain:** With regard to the Malegam Community recommendations, we are already examining those, wherever actions are warranted on our part we are taking those actions. As governor has told, this reported date of

the fraud is not the date of the occurrence, and the date of the advance when it was given. If these two numbers are also captured, then it is not pertaining to the recent years. The recent incident of coming out of those fraud instances in large numbers in the public domain is because of couple of reasons which have been taken by RBI as well as by the Government of India, to identify all NPA accounts, ₹ 50 crore and above to the forensic audit. We came out with our guidelines on early warning signals, as well as the red flag account. So, because of these reasons these instances of the past are surfacing in the recent times.

**Parnika Sokhi**  
**Moneycontrol:**

I just wanted to understand, what is RBI's view on the role of credit rating agencies in the current scenario? Do you think they have been doing well or was there any shortfall in what they should have done? Has RBI assessed them in any way or have they taken any measures or are you in touch with them?

**Shaktikanta Das:**

See, credit rating agencies as you know, I mean, RBI cannot be commenting on how good or how bad they are performing, whether they are performing well, because they have a separate regulator, the SEBI is their regulator. So, it's for SEBI to take a call. And I am sure SEBI is taking a call on that. So, far as we are concerned, also as a part of our supervision we are also having discussions and interaction with the auditors, with the credit rating agencies and all other entities which are involved while we are supervising a particular bank or any other entity.

**Sameer Hashmi**  
**BBC:**

As you have noted in the statement that growth disbursements have weakened and economic growth has been a concern and that also you have indicated that there could be more rate cuts to accommodate growth concern. Now, the RBI has done its job, what steps do you think or you expect really New Delhi to take in order to have the

desired effect, because eventually both sides will have to play a role. So, what concrete steps you expect the new government to take in order to force growth?

**Shaktikanta Das:** If I need to give some suggestions to New Delhi, I will do that directly with them and not through the media. But let's be clear on that, so if RBI has any suggestions, and in any case, before every budget the Reserve Bank sends its suggestions to the Finance Ministry, to the Government, and they do consider it. So, therefore, this year also we are sending our suggestions to the government. It is for the Government, the Finance Ministry to take a call on that.

And you had said that we had indicated further cuts, what I wanted to say, that is your conclusion. What I said is that accommodative stance basically means rate hike is not on the table, it is off the table. So, the rate hike is off the table.

**Latha Venkatesh  
CNBC TV 18:**

Sir, the Supreme Court has asked you, I mean, it issued strictures to the Reserve Bank that you have to make annual reports public in that specific RTI query on annual inspection report. Any update on that? Will you allow it?

**Shaktikanta Das:** It is an order of the Apex Court of the country, there is an order of the Supreme Court and we have to obey the Supreme Court orders. And there is no question of going against that. And consequent to that, we have already made necessary changes in our disclosure policy. You can see it in the website also, necessary changes have been made in our disclosure policy. Individual cases I don't recall.

**Swati Khandelwal  
Zee Business:**

Have the meetings or deliberations on the next round of bank mergers started?

**Shaktikanta Das:** When that will happen, you will get to know, budget is coming.



**Mythili Bhusnurmath**

**ET Now:** How are you looking forward to working with the new woman Finance Minister? Trepidation? A bit of wariness?

**Shaktikanta Das:** Well, I have worked with the present Finance Minister. When I was in the Finance Ministry she was in the Ministry of Finance, as Minister of State. But then, it is a system, it is the RBI system which works with the government system.

Thank you very much.