

**Edited Transcript of Reserve Bank of India's Monetary Policy Press
Conference: October 08, 2021**

Participants from RBI:

Shri Shaktikanta Das – Governor, Reserve Bank of India

Shri M. K. Jain – Deputy Governor, Reserve Bank of India

Dr. Michael D. Patra – Deputy Governor, Reserve Bank of India

Shri M. Rajeshwar Rao – Deputy Governor, Reserve Bank of India

Shri T. Rabi Sankar – Deputy Governor, Reserve Bank of India

Shri Yogesh Dayal – Chief General Manager, Reserve Bank of India

Yogesh Dayal (Moderator):

Welcome to the post Monetary Policy Press Conference on October 08, 2021. We have with us, Hon'ble Governor, RBI, Shri Shaktikanta Das, along with respected Deputy Governors Shri M. K. Jain, Dr. Michael Patra, Shri M. Rajeshwar Rao and Shri T. Rabi Sankar. Sir, with your permission, may we start the Press Conference?

Shaktikanta Das:

Yes, please go ahead.

Yogesh Dayal (Moderator):

Thank you Sir. I will call on Shri Mrigank Dhaniwala from Newsrise to ask the first question please.

Mrigank Dhaniwala (Newsrise):

Good afternoon Governor. Is the MPC concerned about increased pass-through of high commodity prices to inflation and about the huge liquidity surplus leading to an asset price bubble? Do today's liquidity calibrations reflect these concerns?

Shaktikanta Das:

We analyse the overall global situation and the domestic situation. Global situation to the extent that it has a spill-over impact on our economy. And also with regard to the various strengths in our economy. Our overall policy cannot be directly linked to one

set of factors- the stock prices, or, the asset prices. It's a composite kind of assessment, which we make, taking into account the various factors. The liquidity situation we have assessed, we have said that enough liquidity will be made available to support the economic revival, to support growth and to support the financial markets. And, that is getting reflected. And, also we have studied the growth and the inflation- the dynamic factors, the momentum inherent in growth and inflation scenarios, and, based on that, we have taken an overall policy call, primarily determined by the way our domestic economy is likely to play out. Thank you.

Yogesh Dayal:

Thank you, sir. I'll move on to Shri Govardhan Rangan from The Economic Times.

Govardhan Rangan, The Economic Times:

Governor, you have announced that RBI will not conduct any more G-SAP programmes. One of the things is that even the Fed and the ECB have actually tapered down the amount of purchases, whereas you're gone for a sudden halt. So, what was behind the decision?

Shaktikanta Das:

Here, I would like to mention two points. First, is that we don't imitate what another central banks are doing. Our policy is determined primarily and majorly by our domestic circumstances. Second thing, we said that, at the moment, G-SAP is not required, it's not felt necessary. But going forward, the G-SAP option, together with the option of Operation Twist and OMOs are very much on the table. Now, reduction is something, which you referred. Now, let me explain it further. Today, at the moment, the total quantum which is coming under our fixed rate reverse repo window, which is basically overnight; at the moment the total quantum we are receiving in the fixed rate reverse repo is about four to Rs. four and a half lakh crore and I have said that even in the first week of December, the quantum expected under the fixed rate reverse repo will be in the region of Rs. two to three lakh crore. So, therefore, it is not a steep reduction of the liquidity that is available in the system, because the 14 days, the fine tuning- that much of liquidity is parallelly available. The overnight fixed rate reverse repo would come down from Rs. four to four and a half to about Rs. two to three and half lakh crore. So we cannot really call it as a steep reduction. Thank you.

Yogesh Dayal:

Thank you Sir. I'll move on to Shri Anup Roy from Business Standard.

Anup Roy, Business Standard:

Thank you, Governor for taking the question. Sir, I'll stick to this liquidity thing. In your liquidity operations today there was some element of surprise, the kind of 6 trillion of liquidity that you have announced, but RBI in the past has said that you want to be predictable. There was some element of surprise in the in the quantum that you announced if not entirely surprising, though, your commentary was very dovish and very assuring. But clearly you haven't given up surprise a tool. So as a central bank, would you like to continue with surprise as a tool, particularly in this environment or you want to be more predictable? You want to communicate everything that is coming? Thank you Sir.

Shaktikanta Das:

First thing is that there is no surprise. And it's not a sudden kind of intervention. The glide path, I mean, the roadmap, which I laid out for the 14 day VRRR auctions, is Rs. four lakh crore today, for which the notification was issued yesterday and every fortnight, it goes up by 50,000 crore, ending at Rs. six lakh crore in the first week of December, i.e., on 3rd December. So, the overall approach is one of gradualism and the total liquidity even currently that we are absorbing, if you put together four lakh crore on the 14 day VRRR auction and the fine tuning operation, which is two lakh crore. So, already six lakh crore is coming through the reverse repo window- through 14 days and through fine tuning. So, all that we are doing is around that. I have laid out a roadmap, which takes it to six lakh crore in the first week of December and then, the deployment of 28 days VRRR, or, further fine tuning operations will depend on the evolving situation. So, I would not agree that there is any surprise in what we have done, we have given out a clear, gradual, calibrated roadmap. Thank you.

Yogesh Dayal:

Thank you sir. I will now move on to Shri Mayur Shetty from The Times of India.

Mayur Shetty, The Times of India:

Thank you Governor. You had announced a roadmap for normalisation of liquidity. But, along with liquidity, banks were also given a dispensation on asset quality recognition, on prudential norms. Have things normalised there as well? All the stress in the economy has come out, it has been revealed by banks. Also, Deputy Governor had spoken about the climate change risk. Do you feel that there is a need for a regulatory roadmap on that?

Shaktikanta Das:

I would request Deputy Governor M. K. Jain to take that question.

M. K. Jain:

Thank you Governor. Let me respond that while banks and other financial institutions have resilient capital and liquidity buffers, as has been seen from their balance sheet, and we are also seeing that stress remains moderate, in spite of the pandemic. We are closely monitoring the build-up of overall stress, including stress in MSME and retail credit. And RBI is also conducting special meetings and discussion with the top management of banks, small finance banks, and NBFCs, wherever stress build-up has been observed. With regard to climate risk, I think it is at the nascent stage. And, debate is going on among the regulators as well as the government whether it should be within the domain of the government or the regulator. But nevertheless, we have initiated various processes to understand the dynamics of the regulatory policies on the climate risk.

Shaktikanta Das:

On the climate change risk, would Deputy Governor Rajeshwar Rao like to say something, because recently you gave a speech on this issue, and it was widely reported. So would you like to add anything?

M. Rajeshwar Rao:

Sir, I think, DG M. K. Jain has covered the crux of the issue. But just like to supplement by saying that, we have actually recognised the issue of climate risk. We have addressed the issue of climate risk internally also. And, we have joined the network for greening of financial systems. And, also we are joining the various working groups set up under the aegis of the NGFS. We have also set up a sustainable finance group

internally to look at this issue. The idea is that we could look at this issue comprehensively and come out with some kind of a guidance note in a short period of time. So that is where this equation stands at this moment. Thank you.

Yogesh Dayal:

Thank you Sirs. Now, I'll move on to Ms. Latha Venkatesh from CNBC TV18, but I'll request all participants to restrict themselves to one question please.

Latha Vektatesh, CNBC TV18:

Thank you. I wanted to know whether you can give us any timetable for the inclusion in the index. Indonesia has been in the index even without having Euroclear and what is stopping it? Is it tax issues? Should we expect it in this calendar? Or this fiscal?

Shaktikanta Das:

The whole matter is in very advanced stage of discussion with the major index providers. Both the Reserve Bank and the Government are in constant dialogue with the index providers and there are few issues, which are getting resolved. They have a particular set of expectations, and Government, in particular, is discussing with the Euroclear authorities as well as the index providers to clarify those issues. It is very difficult for us to give the timeline, because we are not deciding, somebody else is deciding. But it's in a very advanced stage and I think it should happen in the next few months.

Latha Venkatesh:

Sir, even as we were talking, the cut-off has come at 3.99 for the variable rate repo. It's a little startling, should we read it as a signal?

Shaktikanta Das:

I have not seen the auction results because I'm busy here and with a few other things. That the auction committee will decide. I think, you are referring to the 14 day VRRR. I have not seen the inputs that have come, so, I will not be able to respond. But, maybe, Dr. Michael Patra would like to say something.

Dr. Michael D. Patra:

Thank you, Governor. On the last question, we are essentially in a passive mode, since having offered the 14 day reverse repo auctions, we will accept what the market gives us and thereby, we will discover the price of excess reserves, as indicated by the market. So, essentially we are in a passive mode in terms of the reverse repo auction.

Yogesh Dayal:

We will move on to Ms. Ira Dugal from Bloomberg Quint, who has been waiting very patiently.

Ira Dugal, Bloomberg Quint:

Governor, I'm going to stick with the reverse repo and the liquidity situation. There are two emergency measures in the system right now. One is the width of the corridor and hence, the level of the reverse repo rate and the other is the quantum of liquidity. 12 lakh crore, even as a percentage of NDTL is just unprecedented for India. I'm trying to understand what would signal to the RBI that there is comfort to start moving away from these emergency levels, because you can't pull out this level of liquidity in a knee jerk fashion, it will take months if not years to pull it out. Why is the RBI not starting the process? Is there just not enough comfort on growth? In which case, then, you know, there is a disconnect between what we are projecting on growth versus what we are projecting by our continued emergency liquidity and level of reverse repo statistics.

Shaktikanta Das:

Let Deputy Governor Michael Patra take this question.

Dr. Michael D. Patra:

Ira, in your question, you're asking about what triggers do we look at for the interest rate corridor? I would answer that question by saying that we would look for signs that the recovery is getting solidly entrenched and that the inflation rate is moving in a desired direction, that is, towards the target. I must hasten to add that we are not looking at destinations but at journeys. So, even dynamic movements in these directions will be our trigger. Now, in your question, you implicitly actually indicate that the RBI is following a stepwise approach, a sequence. First, as you mentioned, was the stopping of liquidity. Second, moving liquidity from the fixed rate reverse repo to

the auctions. Now, the auctions have two benefits for us. One, is that they enable better pricing of excess reserves and, two, they give RBI a better handle on these reserves by giving some more discretion in managing liquidity. On the next steps, let me assure you that RBI has all the adequate instruments. The issue is not one of instruments, but one of timing and calibration, and I mentioned to you what we are looking for.

Ira Dugal:

But, Sir, 14 days is not really absorption, even under your own liquidity framework, which you extended. It is only at 28 days that you start talking about that being an absorption tool, 14 days may be like fine tuning, Sir.

Dr. Michael D. Patra:

Yes, but as I mentioned, this step is all about taking it out of the passive fixed rate reverse repo, over which the RBI has less control, into the auctions where RBI has more control in determining the pace and timing of the sequencing of our measures. So, the first job will be to take it into the auctions and thereby get better discretionary control over these results. The next steps will follow, as I told you on the signs that I indicated.

Yogesh Dayal:

Thank you Sirs. I will move on to Ms. Mythili Bhusnurmath from ET Now.

Mythili Bhusnurmath:

Thank you Governor. A little puzzled by the trifurcation that you did about other countries- you said there are some which are tightening, some which are easing, and there is a third category, which is on a resolute pause. And, these are countries which have inflation in the elevated area and growth prospects are required and the nascent recovery needs nurturing. So, since we are a part of that third category- on resolute pause, but at the same time, the MPC seems to think that recovery is happening, inflation is coming down. So is there some contradiction there Governor?

Shaktikanta Das:

I think, there is no contradiction at all. We are studying the developments around both inflation and growth. They are dynamic, they're evolving. As I've said in my statement, the MPC is very closely watchful and the MPC will remain vigilant, and, going forward in a calibrated manner, without creating disruptions, our endeavour would be to go to get back to as close as possible to 4% inflation. Growth has revived in certain segments. I did point out some high velocity indicators, where uptick is visible, but there are others also where uptick is not visible. For example, passenger cars which were showing some improvement, now, they have sort of slightly moderated. In two-wheeler segment, the pickup is still not visible. In contact intensive services, the pickup is there, but still, it's way below the pre-pandemic levels. Overall, the growth is nowhere near the desired levels, there is still slack, there is still output gap. So, we are watchful and as Deputy Governor just pointed out that we are looking at the growth signs to become entrenched and show signs of durability. So, we are extremely and closely watchful of the evolving dynamics. RBI is an inflation targeting body. Let there not be any doubt about RBI's commitment to inflation. But, in the last one and a half years, since the pandemic began, as I have said earlier, we are dealing with an extraordinary situation, which needed innovative measures, which needed unconventional measures. And, that is how we have been doing. I have again, said today that our approach would be one of gradualism. We don't want to rock the boat. I'm just repeating what I said. We don't want to rock the boat. More so, because we have to reach the shores, which is now visible. We have to reach the shore and there is a journey beyond the shore. Therefore, we have adopted a path of gradualism. We are conscious of our commitment to growth, we are conscious of our commitment and role as a inflation targeting body. We will move ahead in a balanced manner. Thank you.

Yogesh Dayal:

Thank you Sir. I will move on to Shri Bijoy Idicheriah from Informist Media.

Bijoy Idicheriah, Informist Media:

Thank you Governor, for taking the question. Governor, you've spoken about the importance of gradualism and predictability. So, from that perspective, what should we see as your trigger? Should it be seen as market timings being normalised? Should it be seen as G-SAP withdrawal? Should it be seen as VRRR cut-off? Should it be seen

the policy corridor being narrowed? Are these the signals that we should see, because, we are also seeing a lot of the liquidity now flowing into asset markets, especially through CPs used for IPO financing and these kinds of things. So, is there a predictable trigger or a set of triggers that you can provide because the markets are still trying to gauge where we stand on the withdrawal or the policy normalisation?

Shaktikanta Das:

Deputy Governor, Michael Patra may take that question.

Dr. Michael D. Patra:

As I just mentioned, there is a certain sequence in which RBI is proceeding. So, as I was explaining to Ira, the first steps were to really stop the addition to liquidity. Having done that, we are now moving from a passive liquidity management framework to the more regular recurring liquidity management framework, where we have some discretion in the modulation of these flows. As and when growth gets stronger and self-sustaining and inflation looks like it is heading towards the target on a durable basis, we will take the next steps. And, as I mentioned to her, there is no dearth of instruments with the RBI. Let that be firmly understood. It is only a question of calibrating it to the emerging circumstances and timing it so that we avoid nasty surprises.

Yogesh Dayal:

Thank you Sirs. I move on to Shri Anirban Nag, Bureau Chief, Bloomberg.

Anirban Nag, Bloomberg:

Good afternoon Governor. One small question Governor. With all these liquidity absorption measures that you've announced, is this a precursor for an eventual raising of the reverse repo rate?

Shaktikanta Das:

I think we have dealt with that question. Deputy Governor, Dr. Michael Patra just spelt out some kind of a roadmap. So perhaps Deputy Governor Michael Patra can take that question.

Dr. Michael D. Patra:

Ideally, Anirban, I don't have much to add to what I said. If you had something more specific that you are asking about, I will surely answer that.

Yogesh Dayal:

Thank you. I will move on to Ms. Swati Bhat from Reuters.

Swati Bhat Shetye, Reuters:

Governor, you mentioned about the need for calibration of direct taxes on fuel. This is not the first time we've seen you mention this, in at least three policies now. I just wanted to understand, there has been no movement at all on this from the Government side. Has there been any direct communication with the Government? What is the response? And, are you going to press this issue further with them, because clearly inflation is getting impacted by this. So, what's your view on that?

Shaktikanta Das:

On this issue as well as on several other issues, where the action lies in the domain of the Government, there is constant engagement between the RBI and the Government. We voice all our suggestions and concerns from time to time. Government has taken several measures already with regard to, let us say, pulses, with regard to edible oil or with regard to you know, other supply side factors including the import of, for example, potato some time ago from Bhutan. Now, they are entering into long agreements with certain other countries, neighbouring countries, for import of policies. So, from time to time, Government has been taking action. On the petrol and diesel front, we have flagged the issue. Now it's for Government to consider all aspects and take a decision. So, beyond that, I have nothing to add.

Yogesh Dayal:

Thank you Sir. I'll move on to Shri Ankur Mishra from ET Now Swadesh.

Ankur Mishra, ET Now Swadesh:

Thanks for taking the question. My question is that RBI has focussed on growth, in light of changed circumstances. You had just said that you can see the shore now. I want to understand that going forward, will there be a change in the focus on growth, with the change in circumstances?

Shaktikanta Das:

Going forward, the focus would shift from where to where, I may not be in a position to mention about it today. Nor, will I be able to specify on its timing. It depends on the evolving situation. How the growth entrenches, going forward; how the inflation plays out- all these are dynamic events and depend on the evolving situation.

Yogesh Dayal:

I would now invite Ms. Swati Khandelwal from Zee Business.

Swati Khandelwal, Zee Business:

Good afternoon Governor. Definitely, inflation is the talking point today and you have already given good response to it. When we say that Government should step in and take measures so that inflation doesn't move up further, to which you responded that there is continuous dialogue between the RBI and Government and its now their prerogative to do what further they can do. But, beyond that, Sir, apart from raising tax burden on fuel, are there other measures? Because, definitely there will be some impact of surging global energy prices on India as well. There are buying trends to be seen, there is pent up demand and all these will further push up inflation. So, apart from that option, do you think there are other measures to prevent that? There is another query w.r.t. senior citizens and general public who are getting lower interest rates on deposits and they have been hit in a big way. What do you think RBI should do in that respect, because, post retirement, their FDs are earning lesser, so, what do you have to say? Thank you, Sir.

Shaktikanta Das:

You see, what all measures need to be taken for controlling inflation, going forward, for that, we have been interacting with the Government. Government has already taken good number of measures, like, the ones I mentioned some time back- edible oils, pulses and vegetable prices, where Government has taken steps. Other suggestions are being discussed internally with the Government. RBI or Government do not have control over international energy prices, crude prices, but, we do keep a close watch on the trends and if you see in the last ten-fifteen days, energy prices and crude prices have been quite volatile. Some countries like Russia took some measures to stabilise the prices. These situations are developing rapidly and we will wait for the

trends to stabilise a bit and then assess the situation. As regards senior citizens, I would say that the measures that we have taken, like the reduction in repo rate, they were considered absolutely necessary in pandemic times. First we need to support the overall economy. If the economy is collapsing or it is in contraction zone, then other major issues may emerge for many others, including senior citizens. So, we dealt in that manner. The interest rate on small savings schemes for senior citizens is higher than the formula based rates, e.g., the spread over the corresponding benchmark rate for one year term deposits is higher than the benchmark rate. We can consider these as fiscal support measures undertaken by Government for senior citizens and other middle-class and small savers.

Yogesh Dayal:

Thank you Governor. I would now invite Ms. Gopika from Mint.

Gopika Gopakumar, Mint:

Thank you Yogesh Sir. Good afternoon Governor. Banks like State Bank of India have been complaining about mispricing of credit risk due to excess liquidity and lack of credit growth. Is this a worrying trend? And, do you think with today's liquidity measures this could be rectified?

Shaktikanta Das:

I don't think SBI has flagged this as a complaint. I think, SBI has flagged this issue as a concern, which is for banks to take note of, whatever be the liquidity situation. In any case, the banks have enough liquidity, and, RBI has the reverse repo window open. It is for banks to do their own risk assessment and price their loans accordingly. So the statement that came from SBI was not a complaint. It was a timely flagging of an issue, for banks to do their risk assessment and pricing of loans properly and based on their risk assessment, they have to price their loans. So, action on this aspect lies in the domain of banks. SBI has flagged an issue on which banks are expected to act.

Yogesh Dayal:

I'll move on to Ms. Shritama Bose from Financial Express.

Shritama Bose, Financial Express:

Sir, in June this year, you have identified the candidates who will be taking over PMC Bank and resolving it. By when do we expect the scheme of amalgamation, which is, sort of, the preliminary step for the resolution to be firmed up and notified?

Shaktikanta Das:

Deputy Governor Rajeshwar Rao can deal with that question.

M. Rajeshwar Rao:

Centrum has submitted the application for licence that is at an advanced stage of consideration. Once the final licence is approved, we will be very shortly proceeding with the scheme draft scheme and getting the requisite approvals. So, it's in an advanced stage. Thank you.

Yogesh Dayal:

Thank you Sirs. I'll move ahead to Shri Anand Adhikari from Business Today.

Anand Adhikari, Business Today:

Governor, tech giants and small finance banks have recently tied up for the customers to open fixed deposits for their liability side. There are also other banks which are exploring similar tie-ups. What is RBI's view on this? Is the RBI comfortable in allowing tech giants to give away their front end platform for marketing and getting customers?

Shaktikanta Das:

Deputy Governor, Shri Rajeshwar Rao may take that question.

M. Rajeshwar Rao:

Thank you Governor. On the issue which you have raised, let me say that this entry of big-techs into the financial sector space is a global phenomenon, which is engaging the attention of central banks around the world. In India too, we are examining the issue from the regulatory implications, having regard to the applicable laws and the regulations which are prescribed. So, we are examining this issue.

Yogesh Dayal:

Thank you Sir. I'll move on to Shri K. Ramkumar from the Hindu Business Line.

K. Ramkumar, The Hindu Business Line:

Good afternoon, sir. I wanted to know about the scheme of penalty for downtime time in ATMs. This has come into effect from October 1st and a small finance bank has already announced that it is closing down its ATMs for operational reasons actually. So, other banks also could take a hard call on this issue about closing down ATMs in rural and semi-urban areas. This could undermine the cause of financial inclusion, naturally. So, can you throw some light on it, what is the resolution that you are proposing so that this harsh decision is not taken by banks? Thank you.

Shaktikanta Das:

Deputy Governor Rabi Sankar like to take this question.

T. Rabi Sankar:

Thank you Sir. The idea behind the penalty on outages in ATMs is to ensure that ATMs are available as much as possible in areas where the attention to ATMs is less, which is largely the rural and semi urban areas. Having said that, we have received various feedback, some positive some raising concerns, there are specific issues, specific to locations, we are trying to take all the feedback and have a review and see, how best it can be implemented. But, the basic objective of ensuring that money is available in ATMs is what matters, besides this issue that came up.

Yogesh Dayal:

Thank you Sirs. With this, we come to an end of the Press Conference. There are no further questions and with your permission, we will close for the day.

Shaktikanta Das:

Thank you everyone and my Season's greetings to all of you. Thank you.