

‘Macro fundamentals, including external sector, are strong and healthy’



RBI Governor Sanjay Malhotra (centre) with (left to right) Deputy Governors S C Murmu, Swaminathan J, T Rabi Sankar, and Poonam Gupta before the press conference on monetary policy statement, in Mumbai on Friday

PHOTO: KAMLESH PEDNEKAR

Q&A Reserve Bank of India (RBI) Governor **Sanjay Malhotra**, along with Deputy Governors **T Rabi Sankar, Swaminathan J, Poonam Gupta, and S C Murmu**, addresses various issues during the post-policy media interaction. Edited excerpts:

How will the RBI manage the government's large borrowing programme?

■ **Malhotra:** On the government borrowing programme, we have been looking at the gross numbers, which I frankly do not think is the correct way to look at it. The way to look at it is this: We talk about ₹17 trillion, but there are significantly higher redemptions. As a result, the gross calendar will obviously be higher. However, in net terms, the government securities borrowing programme for this year is ₹11.53 trillion. For next year, it is projected at ₹11.73 trillion, an increase of ₹20,000 crore.

If the Budget size is going up by almost 8-9 per cent and gross domestic product (GDP) is expected to grow at 10 per cent, one would have expected borrowing growth of at least that magnitude. The increase is much lower. Secondly, money will be raised through treasury bills, which will help manage the yield curve better. We also find that the budgeted numbers for small savings are quite conservative. So, I think the government's borrowing programme is on the lower side, and it should be able to raise these resources at very reasonable prices.

■ **T Rabi Sankar:** Buybacks are not factored in at this point. They are incorporated during the course of the year. To the extent that buybacks take place, the gross borrowing number will reduce accordingly.

Is there a discussion on curbing banks from parking funds in the SDF? And is a CD ratio of 80-81 per cent the new normal?

■ At a time when credit growth is higher than deposit growth, it is expected that CD ratios will rise. At times when credit is not growing as much, CD ratios will decline. We have seen this happen over and over again.

There are periods when CD ratios increase and periods when they fall, depending on where banks are in the business cycle. That said, for us, it is not the CD ratio that is important. What is important is liquidity.

There is an LCR framework to monitor liquidity, as well as the net stable funding ratio, which looks at medium-term liquidity. The LCR focuses on immediate or one-month liquidity. Both these metrics, for banks as well as non-bank financial companies, are at very comfortable levels.

There was no mention of an INR or balance of payments deficit in the policy. Is that because the RBI is comfortable with the external sector due to the trade deals?

■ Our macroeconomic fundamentals, including

the external sector, are very strong, robust, and healthy. Whether you look at growth, inflation, the current account on the external side, or even the capital account, the near-term and medium-term outlook is very favourable.

The government has taken a series of measures to strengthen the external position. Several bilateral and multilateral agreements have been signed — earlier with the EU, EFTA, Oman, and the UK, and now with the prospective US deal. All of these will help, on top of a very comfortable current account, which stood at 0.6 per cent of GDP last year and 0.8 per cent of GDP in the first half of the current year.

On credit growth, you mentioned system-wide growth of around 14 per cent. One would assume the trajectory could increase in the new year. Would high CD ratios constrain growth?

■ **Swaminathan J:** Credit growth stands at about 14 per cent year-on-year. Agriculture credit grew around 12 per cent in December, industry by 13 per cent, and personal loans slightly above 14 per cent. Growth has been fairly broad-based.

With inflation risks emanating from commodity prices and rupee pressure, does the current pause indicate a terminal rate at 5.25 per cent?

■ **Malhotra:** That is for the MPC to decide. We remain data-dependent. The stance is neutral, except for one member who favoured a change. Neutral means that, given current and expected economic conditions over the next 9-12 months, this is the expected rate level.

We are in a good position. Underlying inflation is benign and well below the target, even in our forecasts. Headline inflation may fluctuate, but underlying inflation remains low. Policy rates are likely to remain at low levels for an extended period. Any further cuts will be decided by the MPC.

The weighted average call rate (WACR) fell below the LAF corridor on Wednesday without any RBI action. Can we expect any action going forward?

■ **Malhotra:** We target the WACR. It will be our effort that the call money rate remains at the policy repo rate. However, when there is monetary policy transmission still happening, it can be lower than that, as it has been even earlier. I do not expect it to fall below the standing deposit facility rate of 5 per cent. Average has been 5.25 per cent or so for the past one month. Average is still on target.