

**RBI Governor Shaktikanta Das speaks to Bloomberg Economics' Stephanie Flanders on coordinated policy action to the coronavirus fallout, Yes Bank and the Indian banking sector – March 03, 2020**

**Q1. Governor thus, thank you very much for talking with us. Of course the issue of the day is coronavirus and many discussions around what policymakers might be able to do. Do you agree that there's a case for coordinated central bank action in response?**

A. That is definitely in a strong reason for coordinated policy action because coronavirus has now turned out to be a global problem so when the problem is a global naturally the need for coordination at coordinated action is so much more and we have articulated the same view in the statement which we have issued earlier today where we have recognized that coordination coordinated action is underway and we have also indicated that there is need for coordinated action and I think the G7 countries are central banks from the G7 countries are having a conversation through teleconference in the letter, later on today and going forward I think in the very short in the very near future there will be, I do expect some discussion to take place through teleconference or videoconference among the larger, you know central banks of the large economies including India. So in a situation like as we have today, coordinated policy action has become that much more important.

**Q2. And how are you thinking about the impact on India I mean at the moment there's a very small number of cases but the number is rising potentially as risen today, but you will be facing the effect on global demand of the crisis, do you think, will you be thinking about a response?**

A. You see, so far as the you know the spread of the disease that aspect is concerned of course the government has been taking action, the government has also stepped up its vigil in the airports and in other places and in you know that is one aspect of the response, the other aspect the other area of impact on India would be broadly twofold, through two channels, one is the direct trade channel between India and China, because China is a large trading partner for India, so therefore that will be one channel which will impact India, the other channel is that when there is a slowdown in the global growth, so the global through the global channel also the India you know India will be impacted too. As regards the quantification of the exact impact I think you know we are very closely and continuously monitoring very closely and continuously monitoring the developments, so going into the next MPC which is due on 3rd of April, we would be working out the numbers and perhaps we would be in a better position to quantify the impact.

**Q3. But the situation is moving very fast that's a whole month before your next monetary policy meeting, would you consider acting before then?**

A. See, we have stated, in a statement today and I would like to also repeat it here that the RBI is prepared, the RBI stands prepared and we are ready for any kind of response that the situation would warrant.

**Q4. One of the things that we might be looking at, is inflation coming down quite sharply, from the relatively high January number maybe even falling by a 4% point between January and February, does that take some of the pressure off? does that give you more room to respond to support the economy?**

A. You see, the central bank that is RBI's response will be, one, is with regard to decisions which are outside the monetary policy, that is outside the interest rate cut, so far as interest rate cut is concerned, we have said it very clearly the monetary policy committee, has said very clearly in its last minutes and I have also said it in my minutes, that there is space for further rate cut and so that is one option which is available, the other option is, in terms of supporting the markets by liquidity building confidence or using very other various other tools and instruments to deal with emerging challenges that the RBI is ready and as and when there is a requirement the RBI will act upon it. It's not a question of waiting for one month, if the situation warrants, the RBI will act.

**Q5. There has been discussion around how much central banks can really do in the face of this threats, it's different like many other than other shocks to demand are you suggesting that those can't those different those alternative measures perhaps for the banking system you're more likely to go to them that's where you think that would be most help in response to this threats?**

A. Both options are open. Taking action under the monetary policy committee framework that option is open and the monetary policy we have said very clearly that the decisions or the rate cuts, the utilization of the policy space has to be timed in a manner, so that the impact is maximized and with regard to other decisions whether it comes to question of supporting by way of liquidity or coming out with certain dispensations which enables better flow of credit or which ensures greater stability of the financial sector, those measures are always open to the RBI. So we will undertake those measures, as and when they are required. In monetary policy again, under the inflation flexible inflation targeting, we have the choice between waiting for the inflation to come down, but we also have the equal choice and which we have also you know which we also have equally another choice, where under the flexible inflation target approach, you look through the current spike of inflation, look ahead and then take a call. So that the MPC will decide.

**Q6. But are you going on the assumption that inflation is peaked now?**

A. Inflation is expected to moderate from now on, the inflation is expected to moderate. The food inflation in particular is expected to moderate.

**Q7. You've been monitoring very closely the shadow banking system and I think there were around 10 institutions that you were monitoring particularly closely would you say that the risks have now eased that we're nearing the end of the shadow banking crisis?**

A. You see, we were very closely monitoring 50 top non banking finance companies and/or the last one year. Of which, about eight or ten were giving us great, you know were giving us some concern, that number eight or ten has now come down to about three or four and even those three or four, their own situation their own positions have improved compared to where they stood, one year ago. So therefore overall there has been improvement in the non-bank finance sector, they are now able to access money from the market, they are able to access funds from the banking sector, the fund flow to the non banking sector has improved and the overall risk around the non banking finance companies sector NBFCs as we call it, the NBFC sector the overall risks around that have also come down quite a bit.

**Q8. So just to clarify when the non-bank financial sector in your view no longer poses a threat to financial stability?**

A. Not as much as it did one year ago. Now things broadly seem to be under control and let me also add that these 50 non-bank finance companies represent roughly about 75% of the you know the loan outstanding from the non banking finance companies to their borrowers.

**Q9. Would you say the concern is perhaps shifted to the banking system, there is a number a number of institutions certainly one institution raising concern but the balance sheets in general are vulnerable, if we see a further decline in growth if there's downside risks from the virus or from anything else are you worried about that should you be taking more?**

A. You see, the banking sector in India remains safe and sound. There need not be any doubt about it, the banking sector in India, I to reiterate is safe and sound. The overall gross non-performing asset numbers have also come down and that is closely being monitored. So far as the government-owned public sector banks are concerned, government has improve you know infused lot of capital and the resolution of the stressed assets have also improved over the last one year. So therefore overall Indian banking sector remains safe and sound.

**Q10. But there's no infusion for the state-run banks in this next year's budget do you think that could be over-optimistic if we're actually facing downside risks now to growth?**

A. No, I am sure if there is a requirement of government would provide the necessary it so happens that it's not there in the budget, but I am quite sure that and I have a sense that going forward during the course of the year if there is a requirement, the government will come forward and infuse rig the required capital and the banks do have the public sector banks also do have the option and in fact this should, also access capital from the market rather than you know looking at the government as the capital provider of the first resort.

**Q11. But I have to ask you there's one institution that people are particularly focused on YES Bank, is that too big to fail?**

A. No individual banks I don't want to discuss. Overall, the banking sector remains safe and sound and the Reserve Bank under any situation will never allow a major bank to you know the Reserve Bank is committed to maintaining the banking sector stability.

**Q12. I guess we should finally ask you there was some interest, when the Prime Minister was in America, around India entering the global bond indices is India ready for that, do you think there's a lot of steps that would have to they will have to go through in order to get there?**

A. No we are in discussion with, you know, various companies and banks which run those indexes, we are in discussion with them and in the last budget the government has also announced that certain government bonds there will be no ceiling on the non-resident investment in certain government bonds and we are identified, we are in the process of identifying which are the bonds where there will not be any ceiling on a non-resident investment and once we are able to do that, this could pave the way for getting included in you know in the global bond indexes. So we have made some progress on that front and it is continuing.

**Q13. And you're reviewing the inflation target, when do you think that review is gonna be complete?**

A. You see, by June we will complete the internal review which we are undertaking and after that we propose to hold a roundtable with a roundtable discussion with experts on monetary policy, mainly drawn from outside the Reserve Bank, we will have a wider consultation and then move forward.

**Q14. Do you expect to see a change because obviously when we see a review, we think that is questioning the current framework that it's not fit for the next for the future. Is that a fair?**

A. No there is no such there is no such underlying assumption. We are keeping our options open, it will all depend on the outcome of the review. It's not because something has not worked or something has worked, but to say that something has worked or otherwise, we need to analyse it in greater detail and in any case the monetary policy framework is already in operation for three and a half years, it's you know it's due for a reset of you know in March of 2021. So well before that we would like to review, analyse, how it has worked and then move forward.

**Q15. I'm going to start end where we began with the virus because that's obviously what people are most focused on. Do you think you know a month ago or two months ago, one would have been looking at this year and one would have had one plans for this year in the forecast for this year, do you think that all of those are now being thrown in the air that which this is going to be the year of the corona virus?**

A. You see, in the last few years that has been, there has been a lot of uncertainty around the global economy. I mean you had Brexit, you had the US-China trade conflicts, when there was some amount of certainty coming in. Now you have a new uncertainty, which has come in the form of coronavirus. So obviously that is going to have a major impact on global growths and the various estimates of the deepened global growth range from 0.4% to 1.5%. So therefore there will be definitely a deepened global growth. So I do expect policymakers and central bank authorities all over, you know in all countries, I do expect that coronavirus will be one of the major issues on the table, going forward.

**Q16: Governor thus, Reserve Bank of India, thank you very much.**

A. Thank you.