RBI to form IT subsidiary to tackle cyber threat

50-bps rate cut aimed at stronger, sustainable growth, says Governor Raghuram Rajan

The central bank has received 90 applications for financial assistance under the Depositor Education and Awareness Fund Scheme, 2014

MUMBAI: Flagging cyber security as a critical area, RBI on Tuesday said it will set up an IT subsidiary to deal with newer risks and vulnerabilities emerging from greater use of technologies. In its fourth bi-monthly monetary policy statement, RBI said cyber security has assumed critical importance across the globe. With the widespread use of new technologies, inter-connectedness and dependency, newer risks, threats and vulnerabilities have emerged. "The Reserve Bank is setting up an information technology (IT) subsidiary to assist in monitoring the preparedness of banks and identifying systemic vulnerabilities along with aiding the Reserve Bank in its own cyber initiatives," the central bank said. RBI further said it has received 90 applications for financial assistance under the Depositor Education and Awareness Fund Scheme, 2014. "The names of successful applicants will be announced by October 1, 2015. The window for inviting applications for availing financial assistance from the fund shall be re-opened," it said.

The scheme has been established by transfer of bank deposits and other credit balances that have remained unclaimed for more than 10 years. It envisages grant of financial assistance to applicants selected on the basis of proposals intended to promote depositors' interests. To align HTM (held-to-maturity) and SLR (statutory liquidity ratio), RBI said it has been decided to bring down the ceiling on SLR securities under HTM from 22 per cent to 21.5 per cent with effect from the fortnight beginning January 9, 2016. "Thereafter, both the SLR and the HTM ceiling will be brought down by 0.25 per cent every quarter till March 31, 2017," it said. The Reserve Bank also said it will update all its master regulations and streamline the required procedure for compliance with the regulations by January 1, 2016. "All master regulations will be fully updated and placed online. The Reserve Bank will also work to improve clarity in regulatory communications," the central bank said.

Reserve Bank Governor Raghuram Rajan on Tuesday said the 0.50 per cent reduction in key rate is to ensure strong and sustainable growth, and was driven primarily by its preconditions being met and the weakness in external environment. "The conditions we had laid out have been broadly met except monsoon... We have also seen some dramatic reduction in external environment, including China has had a tremendous effect on commodity prices including on oil prices and its prospects," Rajan told reporters after the monetary policy announcement. RBI cut the lending rate by a surprising 0.50 per cent, terming it as a "front-loaded" action but affirmed its commitment to the accommodative stance it adopted in January.

Rajan also made it clear that the RBI has not been "excessively aggressive" with the rate call and it should not be misconstrued as a bonus ahead of the Diwali festivities. "We have used what room we had, I don't think we were excessively aggressive. We weren't throwing Diwali bonus. Given the state of the economy, how can we move it forward," he said.

After the clarity on meeting the January 2016 target of containing inflation under 6 per cent, Rajan said the focus now needs to shift to squeezing it further to 5 per cent by early 2017. He acknowledged the difficulties in meeting the target, but made it clear that it is "imminently feasible" and drew attention towards the success in bringing down inflation by two percentage points in the last one year. The Governor said help from the government is very crucial, and welcomed the support being given through keeping the minimum support prices of grains lower and initiating other supply side measures. On inflation, Rajan expressed concerns on pressures emanating on the services front, where we have seen prices of education and healthcare go up considerably. He also said that it is difficult to gauge the supply in this sector, unlike other ones.

For growth, where the RBI has cut its estimate by 0.20 per cent to 7.4 per cent, Rajan said increasing the investments is very crucial. "The capacity utilisation, the first factor which leads to more investment, is still very tepid and...suggest there is room for more domestic demand which will be non-inflationary and it would create more investment. We need to restart investment. Corporate investment has been weak," he said. RBI Deputy Governor Urijit Patel said, "Capacity utilisation continues to be low at 70-72 per cent. That gives us confidence that there is a adequate slack to have higher growth and lower inflation."

When asked about the degree of influence which the US Fed's call to hold on to the rate hike had, Rajan said the RBI does keep an eye on all the developments but its calls do not over-rely on such actions. "We are continuing to make the economy more robust and ensure strong, sustainable growth. That is what we can do in this environment. We don't agonise everyday about what the Fed is doing," he said.

Patel, who is in-charge of the monetary policy, added that RBI has also assumed that the government will deliver on its target of cutting the fiscal deficits. On the real rate of interest, Rajan said that in a year's time the rate of treasuries will be at 7 per cent and the inflation will be between 5-5.5 per cent, and hence, we will be in the targeted 1.5-2 per cent band. When asked about transmission of lower rates, Rajan said he hopes that banks will passing on the entire 1.25 per cent cut effected this year to borrowers over time and added that RBI will work in tandem with the government to ensure this happens. PTI