Edited Transcript of Reserve Bank of India's Fourth Bi-Monthly Post Policy Conference Call with Media

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PARTICIPANTS FROM RBI:

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MR. N. S. VISHWANATHAN – DEPUTY GOVERNOR, RESERVE BANK OF INDIA
DR. MICHAEL D. PATRA – EXECUTIVE DIRECTOR, RESERVE BANK OF INDIA

MODERATOR:

MS. ALPANA KILLAWALA – PRINCIPAL ADVISER

Moderator: Good Day, Ladies and Gentlemen and Welcome to the RBI's Fourth Bi-Monthly Monetary Policy Media Teleconference. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, you may signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Alpana Killawala. Thank you and over to you, ma'am.

Alpana Killawala: Thank you very much for being a part of this media conference. I will straight away request Dr. Patel to take over.

Dr. Urjit R. Patel: Good afternoon, Ladies and Gentlemen. Thank you for attending this media conference. I know that the media has had to work a little bit harder this time because of the change in time which has been necessitated not to make things harder, but due to the process and time logistics which are entailed in the committee decision-making mode that we are now in. We did a scan of central banks and what we have introduced with the mid-afternoon policy, a decision today in terms of timing, is broadly the norm elsewhere.

As this is my first press conference as a Governor, I want to start by acknowledging my colleagues at RBI. I have been associated with the RBI when I was the advisor back in the mid-90s, long before I even became Deputy Governor. I hold my colleagues in the highest regards and believe RBI has been a truly strong and clean institution in our country. I learn from them and depend on them. I also stand on the back of many wise and strong predecessors, who have built the character and culture of the institution, which RBI employees uphold each and every day. I welcome the MPC members who will be a source of support to RBI and the country and will help to enhance the process and quality of monetary policy making in our country.

I will say a few words now on the international backdrop under which this policy has been made. For the first time in a long time, the weak global demand is actually going to drag down trade volumes to decline. It is possible that this week at the IMF meetings, there will be a further possible downgrading of global growth, I will be surprised if there isn't. Thirdly, the systemic central banks of the world continue to pose uncertainty for emerging markets causing volatility in EMs due to mixed US macro data and also in the European Union. There is also of course the issue of the outcome of the US Presidential Elections.

I will now take questions.

Participant:

Sanjay Pugaliya
The Quint: Congratulations, Dr. Patel for your first policy. I think the new mechanism of MPC, we are very curious to know about that. How has it taken off and how are you going to navigate it?

Dr. Urjit R. Patel: You know, we have been meeting over the last day and a half, going through presentations, discussions, drafting and coming to a conclusion on the policy repo rate. We have a great MPC. The three external members are of outstanding pedigree, they are very well known academics, they have been involved in policy making of one sort or another for a long time and they bring value and a dispersion of opinion which is what the MPC is about. Our discussions were frank, often intense, but always friendly. We allowed each other to speak and we ensured that there is no rancour and that at the end of the day, we agreed on a MPC resolution that we have placed for the country. Thank you.

Latha Venkatesh:
CNBC TV18

Governor, how much of this policy is a continuation of previous policy? I ask because the word 'removal of liquidity deficit' in the action of the MPC is not there, it was there in the previous policy. So, do you persist with removal of liquidity deficit and maintaining neutral liquidity?

Dr. Urjit R. Patel: Yes, we do, because there is no change in that. We have not referred to it. So, that is absolutely the case.

Latha Venkatesh:
CNBC TV18

The other thing, 150 basis points to 200 basis points positive real rate was the policy sometime back, will that persist as well? Will you look at 4 per cent inflation by January 2018, as per second point?

Dr. Urjit R. Patel: On the real policy rate, I will turn to Michael. Let me talk about the 4 per cent. Please note that pending the amendment to the RBI Act and associated notifications, RBI indicated its resolve to contain inflation through self imposed targets and framework agreement with the government. Now, all those ad hoc measures are superseded by the legal amendment and the two associated legal notifications, in addition to the MPC.

Dr. Michael D. Patra: So, the neutral rate as you know, and as we have put out a research on this, is the time varying concept, does not stay still at a point in time and changes with things like demographics or the potential output itself. And the world over the sense is that the neutral rate is going down and that is why you see many countries actually putting in place negative interest rates, that is where they see their neutral rates. So, as far as we are concerned, in continuation of what has been articulated before, if you look at the risk free rate, that is the treasury bill rate, it is 6.5% and if you look at inflation expectation which is best exemplified in the RBI's own projections of 5 per cent, so you have a 1.5 per cent. But as I said, we need to take into account the global situation where the neutral rates are actually declining, so it could be around 1.25 per cent or thereabouts.

Dr. Urjit R. Patel: Can I now request both DG Vishwanathan and DG Mundra to speak about the areas related to them and which are partly reflected in Part B. Mr. Vishwanathan? Thank you.

N. S. Vishwanathan: Among the important announcements that we have made in this policy, I would like to draw your attention to two of them. One of course is the plan to bring the all India financial institutions in to the larger Basel type of framework by April 2018. In fact, we have been in discussion with the financial institutions and we have already drawn a plan. We will be issuing the final guidelines in this regard by end of October.

The second important announcement is relating to the Scheme for Sustainable Structuring of Stressed Assets (S4A) which is part of the scheme to deal with the stressed assets. There was this idea that the sustainable portion of the debt, irrespective of what it was before, when it is sustained why should it not be classified as standard? So they have agreed to that kind of thing, we will be coming out with some final guidelines on that. There will be certain conditions subject to which it would be done so that it is not used for wrong cases. So, we are coming up with the guidelines in those areas by end of October.

And of course, another reason is the small finance banks and payments banks. The guidelines are part of the original guidelines that we issued when we called for applications, but they wanted the operating guidelines too so that they know how to operate it. So, we discussed that with them and we are going to come out with that by end of this week.

S. S. Mundra: Let me little bit brief you about the area of supervision and the consumer related part and the developmental banking. Supervision, as you know in the given circumstances, the rules are changing and the goals are also moving. So, particularly as you know that for a couple of years, we moved to the risk based supervision which was the basic shift in the supervisory approach of Reserve Bank of India. We started with few banks, last year we expanded the scope, but this year, the entire banks now would be supervised under the risk based approach. And keeping in mind smaller banks, our team has also developed relatively different model to bring those banks under risk based supervision.

Looking to the developments, this year's supervisory approach would particularly focus on three other areas also, which though were covered but it will be more extensive and these are the areas of concern on misselling, Know Your Customers (KYC) and Money Laundering (ML) related issues and of course cyber security. Continuing the cyber security, as we all know that the concerns are increasing, so last year again on a pilot basis, we started few banks to inspect them separately on cyber security. This year the coverage is being expanded to more than 30 banks and going forward we intend to cover each bank from a view point of separate IT risk and the cyber security risk. And third also, the concern with the rising frauds in the system, we have setup a special cell within the supervisory department to trace the large size fraud and actively coordinate with other agencies so that they can be taken to the logical conclusion at a faster pace. So these are broadly in the area of supervision. In the area of inclusion, we have started work on creating a (Business Correspondence) BC-registry and also to design a framework for the BC Certification. So, those are the areas.

And finally in the area of consumer protection. We are working on to review the banking ombudsman scheme by expanding some of its coverage. We are also opening a few new offices of banking ombudsman during the year and the institution of internal ombudsman has already been put in place and we are interacting and monitoring the progress. Thank you.

Dr. Urjit R. Patel: I just want to add something on the (Non-Performing Assets) NPA. NPA situation is an important issue for the RBI in India. We will deal with this situation with firmness but also with pragmatism so that the economy does not feel any lack of credit to support the growth in the economy. But we must remember that the situation has not occurred overnight and therefore will require skill and thoughtful endeavor to resolve. There are four stages - the identification, the recording and reporting of this particular subject has been done satisfactorily, but the resolution which is the fourth leg is something that we need to work more. In fact, back in 2007 and 2008, the banking sector lent their balance sheets to support the investments in infrastructure. Just five sectors contribute 61 per cent of the stressed assets of the banking sector - infra, steel, textiles, power and telecom. These sectors are each individually important and dealing with stressed assets will require skill and creativity. There are many reasons that led to this situation, but now helping banks to deal with this situation is of the utmost importance for the country.

We will move at various levels to address the situation and we have indeed done so. We are working with the banks and the government on the subject. As you know we have been at the forefront of improving creditor rights in India and the Bankruptcy Bill is an example of this, but, like all legislations, it will take some time to settle. The RBI and Government will work together to deal with some of the issues that emerge.

Govardhan:
Economic Times

Govardhan from The Economic Times. Dr. Patra mentioned about the real rate being the flexible one and you have forecast inflation at 4.5 per cent for 2017 - 2018, does that mean that you have a room of another 50 to 75 basis points to cut in the next few quarters ahead?

Dr. Michael D. Patra: No, I mentioned 2016 - 2017 and that Q4 projection is 5 per cent. So, if you deduct 5 per cent from 6.5 per cent which is the risk free rate today, you are getting 1.5 per cent. But as I said, globally there is a tendency of the real neutral rate to go down overtime and that is where it is today. So, I would discount 1.5 per cent by 25 basis points and say that 1.25 per cent is the real neutral.

Ira Dugal, Bloomberg Quint:

Governor, there is a fair amount of comfort on the inflation in this fiscal year, but if you read through the monetary policy report, there seems to be far lesser comfort on getting to the issue of that 4 per cent level. In fact at one point on page six, where you talk about accounting for HRA increases as and when they happen, you actually say that this may require a tightening of monetary policy stance. Just wondering then why at this stage are we moving towards even more accommodative policy which is accommodative both on interest rate and on liquidity when we seem to have an inherent discomfort on meeting our eventual target, sir?

Dr. Urjit R. Patel: Well, as I said that after the amendments to the legislation and the associated notifications, the Act and the consequent 4 per cent +/- 2per cent is what we have to endeavor for. In fact, if you read our March 2015 statement that also makes that very clear. What we have identified are some upside risks, but there are downside risks also. If you see that range when we talk about 4 and .5, it is very large. If I look at over the next seven, eight quarters, the government has introduced structural policies, reform policies which is of course done to address supply constraints. There is larger investment in railways and roads which will improve infrastructure, the ease of doing business, the proactive food management has played a crucial role in the past two years and will continue to play a crucial role in times to come. There is an improvement in pulses supply which has been the main contributor and there has been a sharp improvement in competitiveness ranking. So, while there are issues related to the upside risk, and we have always said that the direct impact of the (House Rent Allowance) HRA on the CPI will be looked through. So it is highly uncertain indirect effects which we will have to wait for in terms of both how the HRA is going to be implemented and then the consequences thereof. So, it is in that backdrop that risk has been identified, indeed there are some others also.

Shobhana Subramaniam, Financial Express:

Sir, in the past repo cuts have not really resulted in too much transmission on the part of banks into lower lending base. In fact, if you look at the past cuts, whether in the base rate and now the MCLR, are very-very small. So sir, are you expecting this time that the banks will pass on this cut in terms of a base rate, that is what will help the larger space of borrowers?

Dr. Urjit R. Patel: So, I think there are two parts in which the answer can be given. One, the transmission through the money markets has been swift and decisive and corporates are using those parts of the financial system more compared to vanilla bank credit. I agree that the transmission to bank lending and to bank borrowers has been less than any one of us would have liked and we are hoping that over the next quarter or two, or keeping in mind that the government has now also reduced the small savings rate, so the government's intention to bring that to the more market related has also been now amplified, that Marginal Cost of Funds based Lending Rate (MCLR) calculation itself will now throw up more transmission. One thing to distinguish is that the new lending, the transmission has been much more in terms of the rates coming down.

Alpana Killawala: Thank you very much.

Moderator: Thank you, Ladies and Gentlemen. With this, we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.