Edited Transcript of Reserve Bank of India's Third Bi-Monthly Monetary Policy Conference with Researchers and Analysts

August 07, 2019

PARTICIPANTS FROM RBI:

MR. SHAKTIKANTA DAS – GOVERNOR, RESERVE BANK OF INDIA

MR. N. S. VISHWANATHAN – DEPUTY GOVERNOR, RESERVE BANK OF INDIA

MR. B.P. KANUNGO – DEPUTY GOVERNOR, RESERVE BANK OF INDIA

MR. MAHESH KUMAR JAIN – DEPUTY GOVERNOR, RESERVE BANK OF INDIA

DR. MICHAEL D. PATRA – EXECUTIVE DIRECTOR, RESERVE BANK OF INDIA

MR. YOGESH DAYAL – CHIEF GENERAL MANAGER, RESERVE BANK OF INDIA

Moderator: Good day, ladies and gentlemen. And welcome to the Third Bimonthly Monetary Policy Conference Call with Researchers and Analysts. As a reminder, all participant lines will be in the listen only mode. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yogesh Dayal. Thank you and over to you, Sir.

Yogesh Dayal: Thank you, Margaret. Good afternoon to all and welcome to this post policy analysts teleconference. The first question which we will take is from Mr. Mukul Mehta. The question goes like this; recently FX swap market got dislocated from the fair level of 125 to 150 basis points. This distortion was attributed mainly to LEF and RBI paying. This resulted in hedged USD returns for FPI at 1.8% to 2% for FPI, below US government debt. With government issuing sovereign bonds, if RBI continues with its paying or keeping the swap at higher level, will this not result in FPIs selling domestic bonds and buying USD bonds offshore, which will be at a much higher price than the domestic hedged rates? Also, will the RBI continue doing a FX sterilization without seeing fair market levels? I will request Deputy Governor, Vishwanathan Sir to take this question.

N. S. Vishwanathan: Thank you, Mr. Mehta. The forward premiums are driven by demand and supply dynamics and other factors; and supply or demand of foreign exchange on account of capital inflows or outflows impact the premium levels. The sterilization is essentially a liquidity operation aimed at supplementing monetary policy and exchange rate decisions while on the other hand it is left to market forces to determine the exchange rate levels.

Yogesh Dayal: Thank you, sir. The next question is from Mr. Jayesh Kumar. The question is- do you envisage policy relaxations to enhance the pace of gold monetization through gold loan companies, such as, risk weighted approach as against the capped LTVs? I would request Governor Sir to take this question.

Shaktikanta Das: At the moment, there is no such proposal.

Yogesh Dayal: Thank you, Sir. Next question is from Ms. Sangeetha Vivek. The question is on acute slowdown in financing by NBFCs. The US government took over Fannie Mae and Freddie Mac and supported the bank in 2008. Is it not the right time for RBI to step in and to start buying CPs/ NCDs of NBFCs, and the government to take over IL&FS debt? Bigger moral hazard is allowing the current slowdown to continue and slip into recession rather than supporting systemically important NBFCs. What use is a systemic classification? I will request Deputy Governor Shri Vishwanathan to take this question.

N. S. Vishwanathan: Basically, at present, the systemically important classification is from the point of view of intensity of regulation and supervision, because systemically important NBFCs are more connected to the system and, therefore, the regulatory framework for them is more intensive opposed to those which are not systemically important.

Yogesh Dayal: Thank you, Sir. Next question is from Mr. Dhawal Dalal. The question is, are you considering to include corporate bond repo as eligible money market instrument? Is the RBI considering to convert a BRDS instrument into electronic form to improve its liquidity? I will request DG Shri Vishwanathan Sir to take this question.

N. S. Vishwanathan: The corporate bond is an eligible money market product even today for inter-bank repo market, the extent of activity therein maybe less, but as a product it is already announced.

Yogesh Dayal: Thank you. Next question is from Mr. Dhaval Gada. There are two questions, in fact. First one is, one of the large private sector banks is on the brink of going below the regulatory capital threshold. How is RBI looking at this issue and is there any roadmap drawn already?

The second question related to this, what triggers one should look for to see a case for widening of repo and reverse repo band? I will request Governor to take this question.

Shaktikanta Das: See, with regard to the first question, I would not like to discuss matters relating to individual banks. And with regard to the second question about triggers, etc., I think you have to wait for various forthcoming policy announcements and statements from the RBI.

Yogesh Dayal: Thank you, sir. Next question is from Mr. Shubhranshu Mishra. His question is, is an asset quality review of wholesale NBFCs, HFCs on the card? If yes, when? And a related question also with this is from Mr. Vikas Kotha. The question is, there seems to be an information asymmetry present in the NBFC sector currently, which is making the banks risk averse to the sector, thereby impeding the lending. What measures can be taken by RBI in this regard? Is an asset quality review on the cards? I will request DG Shri Jain to take this question.

Mahesh Kumar Jain: We do examine quality of assets in our supervisory cycle. We will continue to do so this year too. And more so, lenders should do their own risk assessment.

Yogesh Dayal: Thank you. Next question is from Miss Payal Shah. And the question is, with 35 bps easing in August, does this open the space for 15 bps or 40 bps going ahead? Governor Sir will take this question.

Shaktikanta Das: See, on future monetary policy actions and stance, as I have told earlier and as I have said even during the press conference today, the RBI and the MPC will be guided by incoming data and how the macro economic and financial conditions evolve.

Yogesh Dayal: Thank you, Sir. The next question is from Mr. Prasanna Ananthasubramanian. The question is, would RBI consider a) communicating reinvestment policy for its G-Sec holdings? And b) publishing its G-Sec portfolio to give visibility about near-term maturities? I will request Deputy Governor Shri Kanungo to take this.

B.P. Kanungo: No, there is no such proposal at this point of time.

Yogesh Dayal: Thank you. Another question for Mr. Prasanna is- would RBI be open to purchase of SDLs to augment its OMO purchase tool?

B.P. Kanungo: SDL is already used in liquidity operations as you know.

Yogesh Dayal: Thank you. Next question is from Mr. Bharath Sunnam. The question is- in the current context of weakening global currencies against dollar, more importantly the Yuan, do you also believe there is more room for rupee depreciation? And can you give us an idea about what is RBI's stance on weakening of currencies? I would request Governor to take this question.

Shaktikanta Das: See, as far as the Indian rupee is concerned, the RBI's stated approach, in fact, this came even during today's press conference; the RBI's stated approach is that we do not take a view on a specific level of exchange rate, that is, a specific level of the rupee vis-à-vis the dollar. We allow it to be determined by market forces, that is, forces of demand and supply. And always the policy priority of RBI is to try and ensure that there is no undue volatility in the forex market.

Yogesh Dayal: Thank you, Sir. Next question is from Mr. Prakhar Agarwal. The question is, what is the rationale of reducing risk weight for personal loans at this point? Further, we have kept risk weight on credit card intact. Are we seeing any concerns there? And a related question is from Mr. Amit Premchandani. Personal unsecured loans have been growing at 2 times plus nominal GDP growth for last three to four years. Reducing risk weight in those products appears to be pro-cyclical. Is it not risky to reduce the risk weight at the current stage of consumer credit cycle? And also, another related question is from Mr. M. B. Mahesh. His question is, at a time when there is a slowdown and signs of pickup in retail loans, we want to understand the rationale for reducing RWA in this segment. I will request DG Vishwanathan Sir to take this question.

N. S. Vishwanathan: See, the Basel regulations require a risk weight of 75% on assets which are classified as regulatory retail. All these fall in the category regulatory retail, and for certain reasons we had in 2004 kept the risk weight at 125. We have made our own assessment in terms of what we call the quality of stressed assets, etc. So, we believe that 125% risk weight is not necessary and, therefore, we have brought it down to 100. Mind you, it is still higher than what is globally required.

Yogesh Dayal: Thank you sir. Next question is from Mr. Ravi Singh. The question is on HFCs. HFCs are now under direct supervision of the RBI. Does the RBI plan to conduct an asset quality review or stress test for HFCs (covering the lending practices and ALM), make the results public and make weaker HFCs build on larger capital or liquidity buffers so that the market can differentiate weaker HFCs from the stronger ones; and the problems at one HFC does not lead to liquidity freezing to all HFCs or NBFCs? I will request Deputy Governor Shri Jain to take this question.

Mahesh Kumar Jain: HFCs will continue to be supervised by NHB.

Yogesh Dayal: Thank you. The next question is for Mr. Gautam Singh. The question is, net liquidity in the banking system has turned into huge surplus at over Rs. 1.7 trillion now, which is considerably higher than the RBI's stated comfort level of plus/minus 1% of NDTL. If liquidity continues to remain in surplus to this extent, does it mean that the need to do further OMO purchases to enhance liquidity into the system is not there now? Also, up to what level the RBI would be comfortable with the excess liquidity in the system? I would request Governor to take this question please.

Shaktikanta Das: See, Reserve Bank's liquidity operations are primarily aimed at managing the system liquidity so as to achieve the monetary policy objective, while meeting the economy's demand for reserve money growth. And if you recall, even during the press conference today, this question was raised and I had said that there is already at the moment abundance of liquidity in the system and every day the RBI is absorbing something like Rs.1.5 lakh crores to Rs.2 lakh crores. Now, I have also said in my statement this morning that the Reserve Bank is committed to ensure that sufficient liquidity is available so that the needs of all productive sectors of the economy are met. And, I have added that towards this objective the Reserve Bank will use its liquidity management instruments to ensure that the systems' requirements of both day to day liquidity and durable liquidity are adequately provided. Now, RBI has multiple instruments at its disposal to manage both durable and transient liquidity in the system. The choice of instrument depends upon the prevailing liquidity and market conditions. The Reserve Bank undertakes some amount of fine tuning, I must add, the Reserve Bank undertakes fine tuning operations to absorb surplus liquidity on a day to day basis.

Yogesh Dayal: Thank you, Sir. Next question is from Kumar Rachapudi. How is RBI viewing the ongoing trade tensions between the US and China which are dragging down the global growth? Historically, these kind of tension resulted in weaker emerging market economics, which curtailed the space for monetary policy to support the domestic economy. Did the RBI front-load the easing so that it has the room to stay put in case global risk appetite worsens from here? I will request Governor Sir to take this question.

Shaktikanta Das: See, we monitor all global and domestic developments closely and continuously, and factor them into the monetary policy formulation process. In fact, if you read the resolution of the Monetary Policy Committee today, it has recognized the risks to domestic economy, the risks emanating from geopolitical developments and escalating trade tensions. So, these are aspects which we constantly monitor. However, so far as monetary policy in India is concerned, as in all other countries, it has predominantly, I must add here, it has predominantly a domestic focus. And our goal is to maintain price stability, keeping in mind the objective of growth. That is the mandate which the RBI Act gives to the RBI.

Yogesh Dayal: Thank you, Sir. Next question is from Mr. Kapil Punjabi. His question is, triple-A PSUs continue to pay higher spreads of 90 to 100 basis points across the yield curve, which crowds out other credit. Though rates have been reduced, these spreads are elevated. How RBI can really address this to finally bring down the cost of borrowing for corporates in general? I will request DG Shri Kanungo to take this question.

B.P. Kanungo: As you know, the spreads on corporate bonds reflect the market's perception of the risk profile of that entity. On the part of RBI, our action and stance is being reflected in the significant downward moment of the G-Sec yield, of which the corporate bonds are priced.

Yogesh Dayal: Thank you, sir. Another question is from Mr. M. B. Mahesh. His question is, the public sector banks are just about gradually coming out of the big NPL cycle from the corporate sector. Is there a risk that increasing the counterparty effect for an NBFC would result in these banks taking more risk than desired? I will request Deputy Governor Shri Vishwanathan to take this question.

N. S. Vishwanathan: The policy statement mentions, this is more an effort towards harmonization. As we have said there, the requirement for limit for other than NBFCs is 20%, plus 5% with the approval of the Board. We didn't want to give a sense that we have a different view on NBFCs. Ultimately, the extent of exposure is dependent upon each bank’s assessment of the financial soundness of the NBFC concerned.

Yogesh Dayal: Thank you, sir. Margaret, I think we can take some more questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Srinivas Varadarajan from Deutsche Bank. Please go ahead.

Srinivas Varadarajan: My question is, looking through the current surplus liquidity, and really to assure liquidity over a longer time horizon, can the RBI actually consider increasing the amount that it supplies through the fixed rate repo, say, from about 0.25% of NDTL, to around 1% of NDTL? And the variable rate repo say from 0.75% of NDTL to say 2% of NDTL? That's one. And the second question is, towards the cause of monetary transmission, do you think it makes sense actually to reject fixed rate reverse repo bids on some days to make it completely discretionary, and as a safety net could it then be absorbed by say a standing deposit facility which is at a lower rate?

Shaktikanta Das: See, these are some new suggestions which you are making. Off hand, I don't want to give my reaction, either this way or that way. You have made some points. I have made a note of that. Thank you.

Moderator: Thank you. The next question is from the line of Kaushik Das from Deutsche Bank. Please go ahead.

Kaushik Das: My question is regarding the real interest rate, at today's repo rate and if I use the forward looking inflation forecast, which is 3.6% for April-June, the real interest rate is close to 1.9%. You have talked in the press conference about the biggest priority being closing the output gap. So, given what's happening globally and the domestic growth outlook, do you think real interest rates have a role to play on the downside to fill the output gaps, as you mentioned?

Shaktikanta Das: I would request my colleague, Michael Patra, Executive Director, to reply to your question. Because I have I think touched upon this issue.

And I would suggest, Michael, if you have any points to add you can supplement.

Dr. Michael D. Patra: Thank you. Just to supplement what Governor said in the press conference, the current priority is to close the output gap and the inflation gap. It is only after that, that the neutral rate, which you are referring to as the real rate becomes relevant.

Kaushik Das: But my question was, whether the real rate itself has a role to play in closing the output gap? And as you have mentioned, Dr. Patra, sometime in October 2016 you had mentioned that the real interest rate could be 125 instead of 150 to 200, given that global growth was slowing down at that point of time. So, is this kind of discussion being done at RBI at this point of time?

Michael Patra: Yes. As you know, Kaushik, at that time I had mentioned also that this is a time wearing concept, and it moves sluggishly with structural factors. So, we constantly evaluate the level of the real interest rate, the neutral rate and factor it into our policymaking.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: First question, one of the comments that I heard was, the housing finance regulations will continue to be with NHB?

Shaktikanta Das: No, the regulations will be with RBI. What my colleague, Deputy Governor Jain mentioned was that the supervision will continue with the NHB, regulation will come to RBI.

Alpesh Mehta: So, anything related to the asset quality or the loan practices, etc., that will continue to be with NHB, is that true?

Mahesh Kumar Jain: I think we have said loudly and clearly.

Alpesh Mehta: Okay. And the second question, I missed the comment on the personal loans, why the reduction in to the risk weights, considering the risk is increasing on that front.

Shaktikanta Das: I think this was replied during the press conference today and Deputy Governor Vishwanathan also replied that it's basically, please keep in mind that the international Basel requirement is much lower, it is 75%. And, in India we had for all other categories the risk weight at 100%, excepting consumer retail loans. For retail loans the risk rate weight was kept higher at 125, but actually it is 100% in almost all the other cases. So, it is more by way of harmonization of the regulatory requirements.

Yogesh Dayal: Margret, maybe we can take one last question.

Moderator: Thank you. The next question is from the line of Sudhanshu Mishra from Bank of Baroda. Please go ahead.

Sudhanshu Mishra: Just one clarification with regard to the consumer financing. This risk weight reduction is only for banks or it also extends to the NBFCs?

N. S. Vishwanathan: The NBFCs are not subject to different risk weights at all, they have 100% risk weight across the board for everything.

Yogesh Dayal: Thank you, Margret.

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