RBI Governor Shaktikanta Das Interview to Mint - Retail credit growth must sustain over 9 months – December 17, 2019

Q1. Earlier this year you had referred to the Panglossian mood. Has the mood changed?

A. Pangloss, if you see the character, was excessively obsessive. When somebody was drowning, he kept on saying this also will be alright. What I had told was that there are challenges, but there is no point in maintaining a mood of gloom and doom. At the same time, I said don't maintain a Panglossian countenance and do nothing about it. There are challenges. You have to deal with it and continue to have a positive spirit. I remain an optimist that the economy will revive. Our potential is much higher than what we are doing now.

Q2. Can we say the worst is behind us?

Difficult to say at this point of time. I do not like to say whether it's a V-shaped, U-shaped or W-shaped recovery process. At any point of time there will be green shoots visible. There are downsides. But we need to watch whether green shoots are getting entrenched or whether it's one-off thing. We surveyed 1,539 listed manufacturing companies. We found that the 45.6% of their available resources in H1 (first half) FY20 have gone towards fixed assets including capital work in progress, against last year's H1 figure of 18.9%. We also find evidence of deleveraging, non-availment of working capital loans. Non-availment of working capital loan can be interpreted in two ways. One is lack of demand. The other is companies have enough cash, so they don't need to avail of working capital. As I see it, it's a mix of both. It's not either/or. Information collected from select banks show prepayment of loans have gone up substantially by 36%. So there is a balance sheet clean-up that is happening across banks, NBFCs (non-banking financial companies) and corporates.

Q3. Credit growth has fallen to 8%. RBI has been sucking out liquidity. There is also an overhang of liquidity which is not utilized. Do you see that being used as fresh credit in the future?

A. Credit growth in recent months is coming from retail loans. Within that housing sector is witnessing about 19% growth. Retail credit has picked up by about 17%. Demand for project loans has not picked up. There are some demands here and there. By and large, it has not come back. There are some trends which could show that perhaps things are looking up. But it's too early for such a conclusion. What is important to see that this is sustained over at least the next 2-3 quarters. Then only we can say that it is entrenched. Assets of deposit and non-deposit taking systemically important NBFCs, excluding housing finance companies, grew from ₹28.3 trillion to ₹31.95 trillion between September 2018 and September 2019. Data shows that 211 NBFCs, which account for 81% of marketshare, showed an average asset growth of 19.7%. If you exclude the government-owned NBFCs, even then assets grew by about 11% during the same period.

Q4. You said retail loan growth is picking up. How does it fit into the larger picture of consumption not picking up? There is a dissonance in the argument that retail growth is picking up while consumption demand has slowed down.?

A. Non-bank credit is yet to come back to pre-IL&Fs levels. Bank credit is picking up. When banks were tackling the problem of high levels of NPAs (non-performing assets) and when they were not active in the space of retail credit, the non-banks came and occupied that space and banks found it easy to lend to non-banks. That saw an exponential growth in non-bank lending. But once the NBFC issues became visible, NBFC lending slowed. Banks are now coming back and occupying that space. Credit growth from banks to NBFCs has also grown. Bank credit is reviving for NBFC sector. Market is supporting NBFC sector but with a lot of differentiation between good and not-so good NBFCs. Logically, the next quarter should see pick up in consumption. Food inflation is high. It's not just onion, vegetables, pulses and some cereals. It's transient with respect to vegetables. Onion prices have also started softening. Core inflation continues to be low. That reflects slowdown in consumption. That is yet to revive. Consumption should pick up.

Q5. The regulatory structure for banks and NBFCs is misaligned. While banks are told to pass on rate cuts to consumers, NBFCs are holding on to higher rates and better returns. Is RBI looking to address this asymmetry?

A. NBFC regulation is not as strong as banks. We are now making changes to the sector. We have mandated that there should be a chief risk officer. We have also mandated that NBFCs should have Liquidity Coverage Ratio (LCR) requirement as part of asset-liability management (ALM). There are a few other regulatory measures which are under consideration that we will be bringing in steadily. These new regulations have to be brought in a non-disruptive manner because the sector is slowly regaining momentum. Any regulatory intervention should not therefore disrupt the process. Similarly, in cooperative banks, we have said that we will be coming with regulatory guidelines.

Q6. Is the MPC looking to include financial stability as its mandate?

A. The underlying theme all these years has been financial stability. The jury is still out whether mandate of MPC should be expanded. I think we can combine both. Price and financial stability are interlinked. While you are maintaining the price stability, which is the primary target of monetary policy, financial stability includes other things. It includes how robust is your regulatory framework for various financial entities. It also includes how effective are your supervision methods. It includes macroprudential norms that we have. Therefore price stability also enhances financial stability. If you are able to maintain price stability, that will be a major contributing factor for financial stability. Financial stability will be difficult to quantify.

Q7. The other unfinished reform agenda is the small savings scheme. Your thoughts on this?

A. In the MPC resolution, we had mentioned that interest rate on small savings schemes need to be reduced for better transmission. 31 December they are supposed to be reset. We have conveyed our views to the government.

Q8. The market has interpreted the recent pause on policy rates as RBI putting the ball in government's court?

A. When we cut the rate, the MPC was convinced that we should do so. This time, we saw inflationary pressures were building up. November inflation numbers had not come. Also, we thought that we had already cut rates by 135 basis points. So we need to allow earlier rate cuts to transmit fully. Government has taken some measures and the impact needs to unfold. It's not like RBI is putting the ball in government's court or vice versa. There is a need for coordinated policy action between monetary and fiscal authorities to revive growth. It should become a national agenda.

Q9. You quoted former IMF chief Christine Lagarde that there is a need for coordinated global action and how every government should came together for a countercyclical stimulus. Is there a case for counter-cyclical stimulus in India?

A. Christine Lagarde has openly articulated that some major European economies with fiscal space should loosen their purse strings to kick-start their economies. In 2008, we saw multilateralism under the aegis of G20. They created the Note Purchase Agreement and the New Arrangement to Borrow. So there was coordinated action by all G20 members. Today, such coordinated action is not there. The international narrative has changed to bilateralism. What I had said is that we need to have more coordinated action between countries for revival of global growth. Multilateralism is there, but the kind we saw in 2008 is missing. In our annual report, we had said that India is going through a cyclical slowdown and there is a need for carrying out further structural reform on the back of GST (goods and services tax), RERA (Real Estate Regulation and Development Act) etc.

Q10. With nominal GDP growth slowing to 7%, is there space available for fiscal expansion?

A. With inflation targeting, nominal GDP is said to soften. Inflation was touching 10% seven years ago. It has come down. It has remained below 4% for a long time. At this point, the current spike in food inflation is transient. With inflation at 4%, nominal GDP growth will come down. It is a challenge for government to find space. Therefore, the government should focus on accretion of additional revenue through the disinvestment programme, streamlining of GST, plugging tax leakages, and other (ways of) revenue mobilization.

Q11. What is the status of the public credit registry (PCR)?

A. We have floated a tender for this. PCR requires a new legislation and the internal draft is almost ready. Once we are ready, we should be sending it to the government and they will take a final call. So many issues like who can access the information and to whom RBI can give information need to be considered. There are issues of privacy also that need to be taken into account.