Interview with the Financial Express on December 24, 2019 – Shri Shaktikanta Das, Governor, Reserve Bank of India

The central bank is awaiting the report of a forensic audit into Punjab & Maharashtra Co-operative (PMC) Bank and will have greater clarity on repaying depositors within a few weeks, says RBI governor Shaktikanta Das?

It will take a few more quarters to see if signs of growth revival visible now are sustainable, Reserve Bank of India (RBI) governor *Shaktikanta Das* tells *Shritama Bose* and *Malini Bhupta*. The central bank is awaiting the report of a forensic audit into Punjab & Maharashtra Co-operative (PMC) Bank and will have greater clarity on repaying depositors within a few weeks, he added. Edited excerpts:

Why don't the banks want to lend? What's the point of having Rs 2 lakh crore surplus liquidity if it's not going to be lent?

Yes, banks are lending. Yes, compared to earlier years or compared to last year, the growth in bank credit is less. The credit growth is a little less than 8%, as per the latest data. There it's a mixed picture. The lending to retail sector has remained strong. Retail sector lending has grown by 17% and within that the lending to the housing sector has grown by 19%. With regard to retail growth, it has picked up. It's only with regard to the business loans or project-related loans where there is a slowdown for various reasons. One is the offtake, demand for offtake. The other one is certain problems related to the real estate sector, and number three, you already have a gap in capacity utilisation. Therefore, there is enough capacity and that is also contributing to lower offtake. We did some analysis and we found that the economy is going through a process where the large corporates are deleveraging their balance sheets. They are cleaning up their balance sheets. You have banks also cleaning up their balance sheets in terms of reducing the GNPA. You also have the NBFCs which are cleaning up their balance sheets and which are deleveraging. This is a kind of transitory phase. Going forward, the possibilities of a demand pick-up are there.

Do you have any visibility on when that could be?

I would not like to give a timeline, but we are seeing some green shoots. There are some positive signs, but we have to wait for one or two quarters to see whether these positive signs are sustained, and they are not one-off phenomena.

Why has it become so difficult to predict growth? Earlier it used to be tough to predict inflation, but now we even see repeated cuts made to the growth estimate by RBI.

The margin of error with regard to inflation projections has become considerably less. It is about 10-20 basis points. The inflation surprise has come from food prices, which are subject to a lot of seasonal vagaries. This time, for example, the spike in vegetable prices was due to unseasonal rains in end October and November. In onions, about 26% of the crop is reportedly damaged. When 26% of the supply is taken out of the market, it will obviously have an impact on prices. Other vegetable prices also spiked. There was an increase in the price of pulses and certain cereals. Vegetable prices have always been very difficult to predict. It is the food prices which are difficult to estimate. Having said that, with regard to inflation projections, the margin of error has been considerably reduced.

The challenge, as you have rightly said, is about the growth numbers. This year has been an unusual year. Nobody had really expected the sudden slide that has happened. We projected 6.1% in the October policy and two months later, we said it would be 5%. When we had said 6.1%, we had a range. Internally, there was one body of opinion within RBI that it could be lower. The broader consensus was that 6.1% was more likely and so we went with that. We are looking into the various aspects of improving our growth-forecasting mechanisms.

Has the NPA cycle bottomed out or should we expect more pain ahead, given the divergences?

I think overall the NPAs have been identified. Now if suddenly a large borrower slips, and that's a big if, naturally, it will come to be classified as a non-standard asset. But other than that, I think banks do have a sense of the NPA numbers. The divergence which you are pointing out is due to certain regulatory guidelines not having been fully or properly followed by the banks while classifying them as NPAs. That does happen. For example, in a restructured account how to apply the regulatory norm, sometimes the banks due to gap in understanding, arrive at a particular number. When our supervisory team goes, they point out the particular regulatory norm that has not been properly applied. For restructured assets or the realisable value of security or those which are under resolution, RBI guidelines are there. RBI supervisors then point out that these are the regulatory guidelines and the realisable value of security should be different. That also leads to divergence. These are not surprise cases, but due to incomplete application and adoption of the RBI guidelines which happen sometimes due to gaps in understanding.

The ICA mechanism has not really thrown up any positive surprises. If things stand where they are, a bunch of cases will be headed for the NCLTs after January 7. Are you planning to offer relief on provisioning for those cases?

This question has been put to me earlier as well. What we said in our June 7 circular is that from the date of first default, which may be on June 7 or June 30 or July 15 or any other date, in the case of a particular loan, from that day the clock starts ticking. So, from the date of the first default, 30 days is given as a review period within which the banks will review that particular case and the borrower has the opportunity to make payments to regularise the account. If the payments do not come in 30 days, the lenders have another 180 days (so, total 210 days). What is critical is the date of first default. As regards cases which were in default prior to June 7, the clock started ticking only from June 7. So, the banks got extra time for earlier cases. One of the aspects of June 7 circular you also have to keep in mind. It also provides that you make a provision and if you are able to resolve it subsequent to 210 days or if you are going to the NCLT and once the case is admitted, the provisions get reversed. So, the June 7 circular has a system of incentives and disincentives. If an account crosses 210 days, lenders have to make provisions as per the guidelines. They have the option of reversing the provisions subsequently, depending on fulfilment of certain conditions.

For cases that do hit that deadline in January, are you contemplating a relief in provisioning?

No, we don't see any need for any modification of the June 7 circular. The package is known right from day one. The banks can even then restructure and reverse the provisions at a later date.

It was mandatory for banks to sign ICAs, but some banks have not signed them in cases where they are creditors to defaulters. Have you received any complaints against such banks or taken action against them?

This is a regulatory stipulation which all banks are expected to follow. If a bank does not abide by a regulatory stipulation, naturally our supervision will point out and consequential regulatory/supervisory/enforcement action will be taken against such bank(s).

How long will PMC Bank account holders be denied access to their money? Does it worry you that a lot of ordinary people are losing faith in the financial system?

See, PMC bank issue is a case of fraud. Without going into details of what happened, I want to say that it is a case of sophisticated fraud, where bogus and fictitious accounts were produced before the RBI supervision team. Also, I would like to state that RBI is a supervisory body. When its team visits a bank or a non-bank and seeks information, the records which are certified by the bank's competent persons, those records are produced before the RBI supervisors and they look at that. In this case, bogus records were produced by the competent persons. Going forward, we are focussing on improving our supervisory systems and processes. There is a forensic audit (by an external agency) which is getting completed. The report is expected by the end of this month. Several assets have been identified by the Economic Offences Wing of Mumbai Police and by the Enforcement Directorate. There are certain assets which are already hypothecated, securitised with the PMC Bank. One, forensic audit report will be available by the end of this month. Two, the realisable value of the assets securitised with the PMC Bank is being assessed. Third, for assets identified by the EOW and ED, their value is also being determined. When we get a sense of these three things, which we expect should happen within the next two-three weeks, then we will have a much better picture to see how the bank can monetise those assets. Already a coordination mechanism has been established between the administrator of the PMC Bank, the EOW, the Enforcement Directorate and the RBI to take steps for quick monetisation of all those assets after obtaining permission of the courts.

Is the RBI working on a framework for resolution of assets under Rs 1,500 crore? On that, once we decide, you will know. We are definitely working on that.

We were supposed to migrate to a zero-MDR regime by November 1. Banks and non-banks tell us that they have received no communication from the government or the NPCI so far. It is a Budget announcement which the government made. Consequential action is work in progress.