

Edited Transcript of Reserve Bank of India's Post Policy  
Conference Call with Media

**August 9, 2016**

**PARTICIPANTS FROM RBI:**

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**DR. URJIT R. PATEL – DEPUTY GOVERNOR**  
**SHRI R. GANDHI – DEPUTY GOVERNOR**  
**SHRI S. S. MUNDRA- DEPUTY GOVERNOR**  
**SHRI N. S. VISHWANATHAN- DEPUTY GOVERNOR**  
**DR. MICHAEL D. PATRA – EXECUTIVE DIRECTOR**

**MODERATOR:**

**MS. ALPANA KILLAWALA – PRINCIPAL ADVISER**

**Lata Venkatesh:**  
CNBC TV18

Good morning, Governor. Lata Venkatesh from CNBC TV18. Well, a very prominent word is adequate provision of liquidity and move towards system neutrality. Can you give us some calculations of what is the system deficit, is it 2 lakh crores of base money that you have to create plus the old deficit of 90,000 crores? So is the deficit in your mind 3 lakh crores, can you define that structural deficit? As well, are you comfortable with this 40,000 crores surplus, even if it moves, it does not bother you that it might impact inflation or inflation expectations?

Second question, you have been alarming silent about NPAs, is it that you see it receding or at least the pace of acceleration decelerating, is there any confidence at all that that problem is getting resolved?

Also, if you can give us some preview of what is this MCLR change so that transmission happens?

**Dr. Raghuram G. Rajan:** Now I forget the questions. First question was liquidity deficit. It is actually a more complicated calculation than you might think, because we have to also take into account what component of our dividend payment to the Government, for example, is based on income we have generated domestically versus income we have generated internationally, that also factors into the permanent liquidity calculation. I mean, broadly speaking, we were at a deficit of about 1% of NDTL and we are moving to eliminate that over time. And the answer is, we are probably about 40% of the way at this point. Now, there are seasonalities, remember June - July is when cash comes back from the system and as a result there tends to be excess liquidity at points like this. And the government also has spent quite a bit, tax revenues have not come back. So, the point is not to have to look at this as balance because this will dissipate over time as tax collections come in. The point is to have neutrality over the entire year. Dr. Patel, would you like to add something on that?

**Dr. Urjit Patel:** Actually, when it was announced in April that we would eliminate the structural deficit, we had not given a timeline. And the reason for that are, the fact is that the Governor mentioned that there are a fair number of transitory issues also taking place. And in the back of our mind it was a one to two year programme, and I think we need that flexibility for the variety of reasons that you mentioned. And also for the fact that we have to make it congruent with the stance of monetary policy, it is not a constrained decision that was taken. But the path is well set that we want to eliminate that deficit and we will calibrate it in the least disruptive and most beneficial manner.

**Dr. Raghuram G. Rajan:** Second question you had was on NPAs, and I will ask Mr. Mundra to add anything on this. Broadly speaking, we are comfortable with the recognition process that banks have certainly taken a lot of steps, some banks I have said publicly before, have taken more steps than we required them to take. And so the culture of cleaning up seems to be well embedded, as well as the culture of recovery on some of the loans. What remains is for some of these large stressed projects to figure out a way to restructure them in a way that makes sense for the longer term

health of the system and the health of the project. Now, there are number of RBI schemes that are available, the latest being the S4A. And well, early days. I think what is important is to make sure. See the attitude towards these schemes is also changing, the earlier attitude was this is a way to postpone recognition that is no longer there, now the question is, is this a way to effect resolution. And so, the schemes are now being looked at with new eyes. And the hope is that as the recovery in economy also starts taking place, some of the stressed assets will be put back on track, there will also be more buying interest in some of the other assets which have possibility of new ownership. So at this point I think banks have enough tools, real issue is to use them. And I think we are working with them to make sure that any impediments are rectified. But again and again we emphasize, we do not want to go back to the old days of forbearers, so they have to use this in an effective way and the schemes have been structured such that there is no implication of forbearance. Mundra sir, would you like to add something?

**S.S. Mundra:**

The only thing I would like to add here, see originally under the AQR program we had given a roadmap which runs up to March 2017. And I think we have indicated several times that is a very clearly laid out path and would not be a need to have a relook at it again and again. As Governor mentioned, the banks have moved on that path as it was laid out, some of them have preferred to take an early call and probably took some major percentage of it in December and March quarter. Having said that, sometimes we get the question because ratios are picked up in isolation, sometimes we talk about the stressed assets as a total, and sometimes we pick up GNPA as a percentage and say there is an elevation and it is not what was indicated. I think what is important to look at it that during this two quarters and the June quarter where the results have come, there is a substantial migration between the categories. So might be some of the assets which were earlier indicated in the overall stressed asset bucket might have moved from restructuring to GNPA percentage, but it was something which was very well anticipated. Overall if you look at the overall percentage of stressed assets, though there is no significant elevation in the pace of generation of new NPAs, there is a clear deceleration. And so I think that is what would be the roadmap. Of course, the provisioning requirement would continue to enhance in the remaining three quarters, some more assets do come within the bracket and also the hedging takes effect. As far as the various measures, Governor has already mentioned. And I think the overall movement of the banks in that direction is getting more sure-footed if not that any definite resolution is on the card, but I think the clarity is much greater than what it was when we embarked on this path.

**Dr. Raghuram G. Rajan:** MCLR is underway, you will hear shortly. Review has been done, we are now working on what measures.

**Anurag:  
Zee Business**

Sir, this is Anurag from Zee Business. Sir, the way you said that food inflation was very much in July and so that's the reason rate cut was not possible, but going by the good signs that are visible in the future, should we think that whatever rate cuts will happen will be later in FY17 only, because in FY17-18 GST will get implemented, as GST gets implemented it is seen that inflation always rises, so the possibility of rate cut is in next six to eight months only?

And sir, would like to understand one more thing, you just said that 150 basis points rate cut that you have done, the benefits of it have not been passed on to the customer, so would say that you are not happy, not satisfied with that pass on?

**Dr. Raghuram G. Rajan:** Okay, two questions. On the first question on whether there is time before which it will be impossible to do rate cuts, I do not really think one can argue in such a way that there is future inflation anticipated therefore it will become impossible to do the rate cut. Your rate cut is done taking into account the time path of inflation, if you think there is going to be more inflation in future you would not cut rates now. That said, I do not think, A) it is wise to assume that GST implementation would necessarily increase inflation; and second, whatever inflation that happens whether it will be long-term or short-term is something to think about, it is quite possible it could be onetime adjustment of prices, even if there is inflation. And similarly with some of the conditions of the Pay Commission, the allowances, for example housing allowance, that also will be something that is passed through into prices over time, but it may be a onetime effect on inflation rather than a permanent impact. What the monetary policy setters have to be aware of is whether this feeds into more generalized inflation, and that is what they have to worry about, that is something the RBI will be worrying about going forward.

The second question was transmission, yes, I mean look, we would be happier if there was more transmission. I do understand some of the difficulties the banks have and my sense is that as this process of clean up happens and as the economy recovers and credit demand also picks up, you will see more possibility of transmission.

**Supriya:**

Sir, I wanted a follow-up on this inflation bit, you sound worried about inflation, you are flagging off concerns but somehow your policy does not talk about GST inflation impact at all, even though you are talking about the 7<sup>th</sup> Pay Panel, and you are talking about household expectations rising. So that is question number one.

I will just follow-up on NPAs for a bit, because you have given a long answer and Mr. Mundra did exemplify that further, but are you satisfied with what is done or do you worry there could be some amount of back tracking after you have gone, you have decided to kill the cruel joy that you spoke about in the last policy but I am just taking a liberty to ask you that second question.

**Dr. Raghuram G. Rajan:** GST, look it is premature to talk about the inflationary impact of GST when we do not know what the rates will be, as the rates are set one can get a better estimate. And as I said, the experience of other countries, for example, Malaysia, has been that the inflationary impact, in their case there was an inflationary impact but it was short lived. What is important is we have to see that the price adjustment, if there is one, conditional on GST coming in does not become generalized inflation. A lot depends on which prices go up, which prices come down, some prices may also come down and are these salient prices, not so salient prices. So I think it is

premature at this point. The RBI is currently is focused on meeting the glide path target of 5% by March 2017. We do not visualize GST obviously coming in before April 2017 at the earliest and therefore this is outside in a sense the short-term horizon for which we are planning, but it has to factor into the medium term horizon. That said, before we know the numbers, it is premature to talk about it.

**Supriya:**

Are you worried about the back tracking of NPAs?

**Dr. Raghuram G. Rajan:** Let me just ask Urjit to add to that first answer and then I will talk about back tracking.

**Dr. Urjit Patel:** About 55% of the CPI basket will not be impacted by the GST. Secondly, as the Governor said, the effective rate is going to be important, but remember that one benefit of the GST is that the cascading disappears so you might actually get effective tax rates on many goods and services to come down. And usually as a base expands, you do not need to have a tax rate which is as high as would be required. So the inflationary impact, firstly, it could just be one time; secondly, to the extent that such a large part of the CPI basket is already out of it, I think the durable impact on it is likely to be limited. But it remains to be seen and the full effects of this will be only felt, if at all, possibly in the second half of the next financial year as we go forward.

**Dr. Raghuram G. Rajan:** On the NPAs, first let me introduce to you our new Deputy Governor in-charge of Regulation, Mr. Vishwanathan. So, as you can see, Mr. Vishwanathan who will be essentially holding the fort on that issue along with Mr. Mundra. And I do not see why that should be assumed that there would be any backtracking, I think the path is clear, there has been substantial cooperation all along the way between the government and the RBI on this. The banks know what needs to be done, the promoters know what needs to be done and therefore I would think that it is a process of doing it as opposed to back tracking.

**S.S. Mundra:** I would just like to add that a policy becomes very successful when those who are affected by the policy also start firmly believing in it and start processing it on their own. And as both of us mentioned that banks themselves have now quite productively engaged with this, so I think it will be a virtuous cycle which would continue.

**Shishir:**  
**ABP News**

My name is Shishir, I am from ABP News. Sir, you have said that implementing GST as per the timelines that the government has giving is very challenging, so according to you which is the biggest challenge if GST is to be implemented from 1st April, 2017?

Second question, there are many figures coming that once GST is rolled out the GDP may increase by 1%, 1.5% or 2%. What is your assessment on that?

**Dr. Raghuram G. Rajan:** So first on the challenges, obviously this is an enormous undertaking and such an enormous undertaking will require efficient implementation from all sides. Also, there are, as you know, some legislative sort of requirements, the states have to pass it, at least half the states. And so that will take some time. But broadly speaking, the government is confident of doing it, I do not see any reason to doubt it, but it is a challenging task. On the issue of how much this will add to GDP, I think this is more guess work than, I think other countries that have managed to do this have seen, as Dr. Patel said, both an improvement in revenues but also by unifying the market in the country you both reduce the transaction costs of transport which is very important, the time, the wastage, etc. But you also increase efficiency, because now you can produce anywhere for anywhere, you do not have to locate because you want to produce for that particular territory or whatever. So those kinds of benefits of a unified market may be harder to calculate but may be significant in the longer run. So, 2% is not a big number, I would think that that should be achievable. Let us see.

**Virendrasingh Ghunawat:**  
Aaj Tak

Sir, Virendrasingh Ghunawat from India Today, Aaj Tak. Sir I just have a simple question, your journey has been very controversial, one simple question, there have been many political blame games happening, some emotions have come from your family as well, many statements have also come, your father has also said in the interviews.

**Dr. Raghuram G. Rajan:** Let me stop you there, my father was surprised by one reported and I do not think the reporter should be going after families, they should have stayed away, they got in, he gave an answer, I do not have anything more to say on that.

**Virendrasingh Ghunawat:**

Not an issue sir. Question is very simple, we would like to know a conclusion, it may happen that we might not get a chance to ask this question in the future. How was your journey till now, would you like to say something to the ones who pointed at you?

**Dr. Raghuram G. Rajan:** Look, I have nothing to say, critics are there all the time. There are also people who send me messages in the plane from the bank, anonymous notes saying thank you for what you are doing. So you get both sides, that is part of the job, you have to take it as the cost and the benefits. And I think the most important thing is that, at the end of the day do you feel you have made a useful contribution and that some people are better off as a result of it. I think from that perspective this has been a fantastic job. And when I said sometime back when somebody asked me how has it been, I have enjoyed every minute of it, partly because every day when my fellow colleagues at the RBI and I sit together and work, we manage to move the needle forward a little bit at the end of the day, you will leave the office saying we did something. And there are very few places where you can have that sense of satisfaction. So I think this has been a fantastic experience and I hope there is some value added.

**Goverdhan:**  
**Economic Times**

Sir, Goverdhan from Economic Times. Now that the government has agreed to the inflation targeting, so there are two sides that you have added to the last policy is that food prices pushed up the projected inflationary trajectory and at the same time the reserve tilted to the upside, but you have maintained the inflation forecast at 5%. Is there something uncomfortable that has been looked out of the document despite all these risks being flagged off?

**Dr. Raghuram G. Rajan:** So we have flagged some risks but there is, remember, these risks relating to food could be reversed by what we are already seeing as a reasonably good monsoon and the sowing patterns. Now where we have been a little hesitant is because in the past monsoons good sowing patterns have been reversed over time because the monsoon has faltered. So until we see the full effects of the monsoon, it would be premature to declare victory, but I the meteorological department has told us to expect more of the same. Given that, we have some confidence that some of the elements that went up in price, certainly the seasonality in vegetables but also potentially pulses because of the large sowing in pulses that some of those prices should come down and should give us the negative impact on inflation which will offset some of these upside risks that we have talked about. So, broadly we are comfortable that we should be reaching 5%. Of course, there are uncertainties which could emerge.

**Goverdhan:**

And you have also mentioned about the negative yield if you look at some other developing economies sovereign debt, so does that mean that you see kind of a global bubble bursts?

**Dr. Raghuram G. Rajan:** No, I think those who initially saw the negative yields and were worried about immediate crash in bond prices were surprised by the fact that the yields went even more negative, now more yields are trading negative. Is this is a healthy and long-term state for the global economy? Probably not. Is it going to collapse tomorrow? Probably not.

**Shobhana:**  
**Financial Express**

Shobhana from Financial Express. On the FCNR-B you said you did not have too much concerns, so are you expecting redemptions of the levered and the unlevered position? Because some time back there was concern that the banks may not have enough FOREX to be able to deliver to RBI and then redeem the deposits.

**Dr. Raghuram G. Rajan:** See, let's separate two things. One is the 26 billion which have come in as FCNR-B, now that includes people have borrowed money and then they have invested in FCNR-B, that total is 26 billion. Now let's assume all of it goes out, we have not only covered it in forward markets, we have covered about 80% of it in forward markets and we have 365 billion as of last count in reserves. So, even if it all goes out we can completely pay for it. So, the real question is whether there would be short-term disruptions in the market, because for example, some of the banks who have sold us forward contracts find that they are not able to realize dollars from

elsewhere. We would be monitoring the markets, we do not want to give a blanket guarantee that there will be no volatility, we want banks to be prepared to deliver to us. But if there is volatility we will do what is necessary.

**Pradeep:**

Sir, you said a couple of things for common people, on that I would like to understand that you are talking about increasing awareness and also keep on increasing awareness on our channels, but as a regulator, the KYC rules that you spoke about, if a customer has any grievance and even after showing your rules his work does not happen, so is there any redressal mechanism available? And same, the fraudulent emails that you spoke about, people also get phone calls, so are you making any mechanism for report such complaints so that they get a way through RBI to take some steps or any action to be taken.

And second question I have is on inflation targeting, when you had come the government had set an inflation target with consent of yours. So, at as now Governor and MPC appointment process is going on, and before that only a target has been made available. So has there been any consultation with you, any consent from you was taken?

**Dr. Raghuram G. Rajan:** On the KYC norms, I mean, usually if you have a complaint about banks you first take it up with the bank, you ask the bank here is a particular problem I have and banks will deal with it. If you cannot get redressed from the banks, you can use our ombudsman system, so that is the second layer after you first take it up with the banks and give them an opportunity to redress.

**Pradeep:**

And can we compliant on your website?

**Dr. Raghuram G. Rajan:** You can do that on our website, there is a way to file a complaint with the ombuds-person by email by the website. The second aspect is fraudulent, fraud, theft, ATM fraud, phone fraud. Those, we now have a special website which will send your complaint directly to the state level coordination committee which includes some of the law enforcement agencies and if you have such and such compliant, we will give you immediately a registered number for your compliant and you can track how that compliant is being addressed by the various agencies. Mundra sir, would you like to add on that? So that in fact was inaugurated last week, that particular website and the complaint.

**S.S. Mundra:** Regarding the 4% and +-2% target, there are three processes. One, the RBI's Expert Committee to revise and strengthen the monetary policy framework itself had recommended 4% and +-2% and the recommendations were based on a fair bit of analysis. Secondly, the Monetary Policy Framework Agreement which the Governor signed on behalf of the RBI with the Government in February of 2015, that also had 4% and +-2%. And subsequent to the amendment of the RBI Act, there have been discussions with the government from the RBI



side and what has been endorsed is the 4% and +-2%. And that process is regardless of the Monetary Policy Committee. The target has to be established between the bank and the Government.

**Sajeet:**  
**Bloomberg**

Governor, Sajeet here from Bloomberg. Two questions. The first one, the policy talks about your waiting space for policy rate action, what are the factors that you will look at which will create space for a policy rate action? And the second on the inflation, you have maintained a 5% target for March 2017, what are the risks to breaching of that 5% target which you have? And given the fact that the impact of CPC or the 7th Pay Commission, has it been factored in, has any exercise been done, what kind of impact it may have on inflation it continues?

**Dr. Raghuram G. Rajan:** We have done exercises on what the impact of the 7th Pay Commission allowances would be. And it depends to some extent on what the final announcement is and the pace at which it will be rolled out, the pace at which it will be rolled out by the states, etc. So, there is some mechanical increase in housing inflation when it is rolled out. And we have to figure out how to adjust for that. As I said, typically mechanical increases, one time increases, it is possible to look through some of that and say, okay this is going to happen for one time but it will come back after that after we have been through this particular phase. What is more difficult is to gauge how this will impact generalized inflation. If people see that inflation is higher through the CPI index, though they do not see daily prices going up, how will they adjust and will it then impact inflation more generally. So these are things that the RBI will have to consider, it would be premature to say exactly what it will do. Going forward, of course the impact of the good monsoon, especially on food prices will be helpful, as will the fact that to some extent energy prices have thus far remained still moderate, let us see going forward.

**Sajeet:**

Policy..

**Dr. Raghuram G. Rajan:** I think a stronger impact of the monsoon on food prices as well as the continuing disinflation in services inflation for example, those would create more policy space, it is something that we have to watch for, there has been only one month in which services inflation which had sort of settled was sticky around 5% has shown some life below that. But we have to see.

**Sajeet:** RBI has enough data for this?

**Dr. Raghuram G. Rajan:** I think we are data dependent, let's see.

**Manojit Saha:**  
**The Hindu**

Manojit Saha from The Hindu. So, there will be some amount of expectation, pressure on your successor to cut rates quickly and sharply. So what will your advice, suggestion to your successor in your battle against inflation will be?

**Dr. Raghuram G. Rajan:** See, I do not advice my successor. Moreover, I think there is some likelihood that the next decision will be made by a monetary policy committee rather than an individual. If that is the case, there will be six people sitting together and deciding what the path of interest rates will be. I think we should expect them to take an independent decision and I am sure they will.

**Manojit Saha:**

Why you are so hopeful that next decision will be taken by a Monetary Policy Committee?

**Dr. Raghuram G. Rajan:** I mean, everything is in place, except the selection of the three members that the government has to decide on. And as I said, that process has already started. So it is not going to take a long, long time to do that.

**Manju:**  
**DNA**

Since you are concerned about common man's woes, I just have some questions to ask. Banks do not reduce bank loan rates, home loan rates even if they bring down the base rate unless customers write to them. And the floating home loan rates of banks only tend to go up, they do not move down. So will the RBI look at the arbitrary movement of retail home loan rates? Because you said that you will be utilizing your 28 days remaining fully, so I thought whether you could do something about this.

Another thing I wanted to ask you, my second question. In your letter to the employees you said that you will be available to serve India whenever needed, and later on in Bangalore you said that you are still around and probably a lot in India. So just wanted to know, would you be in some capacity in the country, what will you do besides going back to Chicago University?

**Dr. Raghuram G. Rajan:** Let me ask Mr. Mundra to respond to your first question. I can respond to your second question, look I just go back to my previous sort of employment structure where I used to, both, work at the University of Chicago but also have a considerable involvement in different Indian causes. Earlier, for example, I was involved with the Indian School of Business and we will see going forward what I do. But I have not made plans yet.

**S.S. Mundra:** I think there is already an admission that interest was more for the second question, but nonetheless, let me. See, on the housing loan, if it is taken as a floating rate there are choice available to the customer taken as a floating rate or fixed rate. If it is taken on fixed rate then of course it is a different thing. But if it is a floating rate and if there is a movement either in MCLR or base rate, then I do not see a situation where that after reducing the MCLR the

benefit would not be passed on to the customer. If there are any specific instances, we can certainly look into it.

**Manju:**

They are not passed on until the customer writes to the bank, also the floating home loan rates are at over 11% now, if you check out.

**S.S. Mundra:**

No, see what is the floating rate is something which is a contract which was entered into, if there is a certain spread over, though my sense is that most of the banking industry and housing loan is around base rate. But if there is a specific expense we can look into it, but what I was trying to say, see as Governor mentioned the MCLR framework itself we are having a relook, in this year supervisory cycle we also would be putting emphasis on the calculation and implementation of MCLR in the individual banks, that is also on the agenda. And beyond that if there are specific instances, I think it will be very difficult to react to a general remark because it may be one isolated incident. But in the large part of banking industry, I understand, the position is that a floating rate loan with the change in the benchmark rate gets automatically passed on. But, we will be very happy if there is a specific incident which can be brought to our notice.

**Participant:**

Sir, banks ask for the one-time return charges. Are you fine with it?

**S.S. Mundra:**

See, again I mean to say, if the original contract carries a particular clause and it is done by that. But as far as the retail loan and housing loan are concerned, I think it has been now more than two or three years that the repayment charges have been abolished, there cannot be any repayment charges. Return charges will be a matter for some. See we will not be completely kind of entering into the commercial agreements and commercial judgments of the bank, anything which is normal in usual course of business and which does not look unreasonable, I do not think that we would be really interfering into that. But if there is something which blatantly on the face of it looks unreasonable or looks onerous then certainly we will have a role there.

**Bijoy:  
Cogencis**

This is Bijoy from Cogencis. Sir, a lot of criticism that has come during your tenure has been about your inflation focus, do you think that the fact that the government has agreed to a 4% target, a 2% to 6% band, the fact that there is MPC that is already in place, the NPAs are going down, do you think it validates all the work that you mentioned when you came in and you have been able to achieve during this tenure?

**Dr. Raghuram G. Rajan:** Look, I think snap judgments either by critics or by supporters are not really what matters, I think what matters is how this plays out in the longer run for stronger and sustainable growth

for the country for job creation, for our movement into the middle income. I think that is something that you can see only with the benefit of five, six years of experience and to know whether in fact it was appropriate. In our view the measures we have taken in the RBI were and are justified given the conditions that we have. People can have different judgments but we have to see, as Mundra sir often says, the proof of the pudding is in the eating, let's see over the next five six years how this plays out and then we will reach a judgment whether this is good or bad.

**Alpana Killawala:**

So that is it. Thank you very much. Thank you, sir. And thank you, Margret. We will close.

**Moderator:**

Thank you very much. Ladies and gentlemen with that we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.