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

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MODERATOR: MS. ALPANA KILLAWALA – PRINCIPAL CHIEF GENERAL MANAGER

Moderator: Ladies and gentlemen, good day and welcome to the Reserve Bank of India post policy conference call for media. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and 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 Shyma and welcome everyone from the RBI. I will straight away request Governor to open the press conference.

Dr. Raghuram G. Rajan: Thank you. Good morning. Alpana tells me I have to say something before we start taking questions. So given that we cut rate off cycle and given there has been no significant new development on inflation in the fiscal front since then, we have maintained status quo on interest rates. However, we have taken actions in a number of other directions and the details are in the document we have handed out and we are happy to address any of the questions there. Many of these actions are intended to further the growth process and some are intended to enhance stability of the system. In terms of guidance going forward, the guidance remains what it was when we cut rates, that further action will be in the direction that was initiated and that it will depend on developments, in particular on developments on the fiscal front as well as a continuation of the disinflationary process. So our further actions will be driven by the data. Let me stop there and ask Urjit Patel if he has anything to add.

Dr. Urjit R. Patel: Not much. One thing that I would like to bring forth is that we are in the midst of the age of competitive depreciation and 'beggar thy neighbour' monetary policy. As you know, the Swiss National Bank abandoned its peg, Singapore eased its Monetary Policy on January 28 and its currency fell to its lowest level since 2010, and Central Banks have intervened heavily in the bond markets bringing yields down to historic lows. This reminds one of an African saying that when elephants fight, the grass suffers. And the Economist says that the ECB and Bank of Japan are printing money and devaluing their currencies while the US economy is growing strongly; anyone who stands in the middle risks getting crushed. I think this forms an important backdrop of our macroeconomic management as we go forward and face these quite unusual challenges. Thank you.

Latha Venkatesh: CNBC TV18 Sir you have not given any guidance at all. If you can give us some idea of how you see the CPI trajectory with the old base itself. If it is only 6% as your forecast for January 16 now indicates, what will be the real rate that you are comfortable with?

Dr. Raghuram G. Rajan: I have talked about all these. So I am not sure what new guidance you want from me. I will reiterate that we are looking for developments on both the disinflationary process - we would like to see it continue, and of course on the fiscal front, we have a budget coming up. So those are important developments that we will pay attention to now. I am not going to give you a number that I am looking for in each of these things. These are more complicated than particular numbers, where they are a whole package. We would like the forces that are in play, including the transmission of lower oil prices, of course oil prices went up in recent days, but our hope is that, the modal estimate is that these things will stay low for this coming year. As these lower prices feed into prices more generally, that will help disinflationary process. Also, we have had a relatively stable exchange rate so far, that will help also to some extent and there have been some actions on food management. Of course this is the season when vegetable prices start picking up and we want to see how those will play out, but there is no single item that we are waiting for but we need more data than we had on 15th of January and we have not had significant data since then. So until we get more data, I think we are on pause.

Latha Venkatesh: I understand you give data, but if you could reiterate what kind of a difference you want to see between inflation and policy rates? Do you want to see a 2% difference; do you want to see a 1.5% difference?

Dr. Raghuram G. Rajan: You are looking for what we think is the reasonable level of the real rate. I have said before that we think that between 1.5% and 2% is a reasonable real rate given where we are in the business cycle. Now of course different people have different views. You had a panel discussion with Dr. Rangarajan where he would like to see it closer to 3. There are some people who would like to see it closer to 1, there are others who mix and match and add in various risk premia and claim that the policy rate is now way into real territory. So we have to be a little careful. What we would like is the real risk pre-policy rate to be about 1.5% to 2%.

Latha Venkatesh: Your real rate will be 1.5% or 2% ?

Dr. Raghuram G. Rajan: That gives me sufficient degrees of freedom.

Saloni:
Bloomberg TV Sir I would like to know your sense on the new GDP series. Now what one camp is saying is that this reduces the room for monetary easing while the other camp says is that this gives the RBI the excuse to tighten the monetary easing. What is your sense on GDP series considering fact FY14 target has jumped up substantially upwards?

Dr. Raghuram G. Rajan: We do need to spend more time understanding the GDP numbers and we will be watching February 9 releases with great care and delve in deeply into what we see there. At this point, it is premature to take a strong view based on these GDP numbers.

Most of the data that we have seen for 2013-2014, except inflation which was very strong, give us a sense that there was lack in the economy. I think the chief economic advisor has pointed to the fact that imports, non-oil imports were coming down substantially, but there are other factors including for example auto production which is a fairly clean number which were coming down over this period. So we find it hard to see the economy as rollicking in 2013-2014. However, we must understand better why those numbers kick up and it could be that it is not manufacturing but services which were stronger during that time. One of the interesting factoids that you see is that India is moving more towards consumption of services, away from consumption of manufacturing. So it could play a bigger part in consumption but I do not want to say anything about the numbers till we understand them better. Let me say that our view will be formed only in part by numbers; it will be also other indicators that we look at on the strength of the economy.

Saloni: Governor, the second question is on something which you mentioned time and again-on rate transmission. You have given two separate examples, one the recent rate cut and prior to that as well there has been hardly any rate transmission. Post 15 January, only two banks went ahead and cut rates. Is there a nudge required from the Reserve Bank of India when it comes to passing on the rate cuts?

Dr. Raghuram G. Rajan: The Reserve Bank is not the owner, is not in any way involved in the day-to-day running of the banks. That is a decision that the owners and management have to take. So we cannot nudge them. We can only comment on the fact that despite a fall in long-term interest rates, substantial fall, treasury rates have come down a significant amount over the last year and a half and corporate bond rates have also come down substantially. That bank lending rates have remained more or less flat over this period. You see some movement on the new loans made by banks. There has been some adjustment in rates but in general, base rates have not changed. Of course when you talk to banks, they are very happy that we cut rates. At some point, my guess is transmission has to take place so you have to look at that also.

Bijoy: Cogencis You just mentioned that unless there are further triggers you are effectively in a pause event. Having gained the experience of going for baby step approach in the past, as an institution, would you at this point be looking at more significant measures and then pauses rather than going for a long winded baby steps approach?

Dr. Raghuram G. Rajan: We paused for 15 days. Monetary policy is a long-term process, so don’t hold me every 15 days to something new. What we have said is we are waiting for data; we have a budget coming up, that is a significant change in the fiscal space. It is going to be an important change. We have got new GDP numbers coming on February 9 which will reflect a whole new view of what is happening in the economy. We have got inflation numbers coming. This is all data that we need to watch for. Now if I cut interest rates today, again two weeks from now you will be asking when are you cutting rates again. So let the monetary policy process follows its due course and monetary policy, remember works with long and variable lags; in India, approximately three quarters. So we cut interest rates and make news for you but it does not do anything for the economy for three quarters. So what we need to do is take into account the whole view knowing that we are steering a ship which moves fairly slowly. So we need to work with that and we need to take all the information we need. I said again and again I am not for doing one thing and then reversing that. So we will do it as and when the information comes. There are important pieces of information we are waiting for. As soon as that comes, we will be in a better position to decide.

Dr. Urjit R. Patel: The CPI is also being rebased. So we do not know where that is moving and it would not be terribly responsible for us to take that as not an important component into what this thing is going to look like if you see what has happened to the GDP numbers. And in terms of the forward guidance, I think that what was said in December and then in January that, Mr. Governor has reiterated several times that once we have embarked on a change in the direction we will stay put in that direction. I think that is adequate forward guidance and the fact of the matter is that since January 15 we have had no substantial data point on practically any macroeconomic variable.

Bijoy: Governor you spoke about stable FX rates. How much of that is a consideration when you are intervening. It has also been an issue there has been lot of talk about RBI intervening, is there a sense that there is excess depreciation also?

Dr. Raghuram G. Rajan: I think it is too early to say that the exchange rate has played a big part in the export numbers. In fact if you look at export volumes, they are still up for the non-oil, non-gold, non-jewellery part and I think at present it would be wrong to say that we have become grossly uncompetitive. As you know there are more different estimates of what the appropriate exchange rate is. If you just add inflation, we get the sense that our real effective exchange rate has appreciated quite a bit. If we couple that with productivity growth over time, then the appreciation is significantly more moderated. But that said as Deputy Governor Dr. Urjit Patel started off saying we have to be a little careful in this world. As I said in past meetings people keep looking at the exchange rate vis-à-vis the dollar and say our currency is weak but we have strengthened versus virtually every other currency. So it is something that we have to be watchful for. We do not intervene to try and target a particular level for the exchange rate. Where we do intervene is to reduce volatility and we have intervened in both directions in recent months and weeks, so we both buy and we sell. So it is not in any way an attempt to go one directional. I think we are perfectly comfortable with where the rupee is but it is a risk that we have to keep in mind going forward with the massive amounts of quantitative easing that are going on in the rest of the world that there are possible dangers of us becoming uncompetitive on that dimension.

Neha: Reuters One question is that you qualified the intermeeting move which you mentioned last time. Is that saying that you won't do that again? And second you have allowed foreign investors to reinvest coupons in government in bonds. Just wanted to get a sense why not open up limits for longer term investors since that has been tapered?

Dr. Raghuram G. Rajan: We said it once, now we do not need to reiterate the possibility that intermeeting moves are always on the table, they never taken off, they have always been on the table. So I do not want to keep emphasizing. The last time we emphasized because we had done actions during meetings and will try as far as possible to stick to meetings. But one reason we did it last time was because we had said in public that we would not wait a moment longer than when the data suggested we could start cutting rates. And given that public statement, we felt that as soon as the data suggested and there was no more data awaited, we would cut rates. So remember all the inflation data had come in including WPI inflation and we cut rates on the 15th. Now there has been no data since then, right. So we will await more data including the important data on CPI rebasing that Urjit talked about as well as fiscal developments and after that we make judgments about what next happens, but there is no conscious desire to omit that part of the language.

The second question was on reinvestment of interest. Now we do want to manage the country's balance sheet to make sure as I said before that we have a bulletproof balance sheet when the inevitable interest rate crises come. Now we have taken two actions in that regard this time – one is recognizing that we would not like to be seen as against foreign investors and given that we want to expand limits on a regular basis, given the interest in India today if we just expand the FPI limit in government securities by some let us say $5 or $10 billion that will be taken up in couple of weeks and we will still get people wanting us to open more. We thought a more streamlined way of doing it, would be to allow reinvestment of interest which is a more regular feature and which will allow some room for patient investors who have stayed with us and have taken the coupons to reinvest their coupons. That was the reason for the government securities. We have seen a considerable amount of investment at the short-end and corporate securities and in the same way when we limited reinvestment in government securities below 3 years, we did not do the same thing for corporates because we wanted to develop the corporate market also. There has been some of that, but again there is too much sitting at the short-end and we would like to nudge people into the longer-end. So we have said when you reinvest, you reinvest in 3 years and above securities. Hopefully, that will alleviate some of the pressure that could be building up in the corporate debt market and this is a prudential measure again. Let me emphasize, we are open to foreign investors. We welcome them which is one reason the FDI action we have taken today that is these put-call options that were embedded in various investments, we have said we are not against them, we just want to make sure it is not hidden debt. So if you have a put option, but the put option is at a price which is lower than what you invested, so you do not get a guaranteed debt return, we are okay with that. So we are trying to make it easier for foreign direct investment. There are other features that were earlier not favoured which we will open up as we look into this and come out with a detailed paper, but the idea is to make it easier for foreign direct investment even with a variety of contractual features that would allow these investors to put money in.

Amol: Zee Business It was what you said earlier that transmission has to take place and it has been mentioned that early next year you would cut the rates which you already did 15 days back but transmission has not taken place. I want to know what is the RBI's view. What is the reason that banks are not reducing the rates? Were they waiting for this policy because we have seen now that in policy you have mentioned that there is a revival in the industry and government has taken the initiative but still the banks are not transmitting the rate?

Dr. Raghuram G. Rajan: So a couple of banks have in fact cut their base rate. Some banks are I presume worried about the fact that if they cut their base rate, it impinges all borrowers, not just new ones. Given how weak credit growth for the banks has been and overall financing has been quite strong because they have gone out- large corporations are going outside the banks. I think banks at some point will have to start lending again and to get that lending they will have to be more competitive which means they will have to cut their base rate. Now we did revise our directions on how they calculate base rate to make it a little more transparent, but I am hopeful that it is a matter of time before banks judge that they should pass it on. Many have been relatively quick to cut their deposit rates but not so quick to cut their lending rates and I presume some are hoping that they can get the spread for a little more time to repair bank balance sheets. Eventually competition is what matters.

Amol: You also reduced the SLR, now do you think that perhaps it is the right time to be looking at cuts?

Dr. Raghuram G. Rajan: I do not know the right time. It is their management which has to decide what the right time is. I think it is the pressure of competition which eventually forces them to pass through these cuts. So let us wait and see, it is not regulatory intervention, it is competition.

Gayatri:
Economic Times How do see the disintermediation that is going on in terms of corporate opting for CPs affecting transmission. And then you have announced some major liquidity measures for replacing export credit refinancing. So how is it going to make a difference in terms of impact to the economy or transmission? Will you allow acquisition financing in case of chronic NPAs and wilful defaulters?

Dr. Raghuram G. Rajan: On the disintermediation, I think that is part of the competition that banks are now facing competition from the money markets and a number of corporations are going directly to issue commercial paper. A number of banks say "I can borrow less than the base rate by going to the market". At some point, the banks have to react and so that will push banks to reduce their lending rate. So that is why I think over time the transmission will take place simply because there is so much competition.

Gayatri: Do you see this particular factor impacting transmission?

Dr. Raghuram G. Rajan: I think it will help. The transmission of monetary policy takes time because even though interest rates change, the change in interest rate feeds into investment over time. So it is not the first leg of transmission I have been talking about, but it is the second leg once it has gone into interest rates. Now we are still waiting for the first leg to take place that is it has to go into bank lending rates. It has already gone in some way into call money rates because call money rates have come down. We are infusing enough liquidity into the market and therefore I think we will see the transmission operate already because it is reducing the cause for large corporations to borrow from the market. Banks will have to match that at some point. In your second question about ECR, ECR was being used less. We thought given the Urjit Patel Committee recommendation that we should move away from special windows to a generalized auction based system and given that we have been supplying plentiful liquidity through that auction based system and it is working quite well, we thought that this was a good time to do away with it entirely and move to the full auction. We have been cutting ECR for some time; this was the last stretch which we did away with it. Now we have a fully modern liquidity framework and I think this is something that will help us going forward. Third question was acquisition financing, we have no problem with acquisition financing; there are no constraints on it.

Gayatri: In case of wilful defaulters..

Dr. Raghuram G. Rajan: No, what we have said is in case if plant is not completed and there is a possibility that it was because of the promoter not having enough funds or not having enough management capabilities, that in case there is a new promoter distinctly new promoter brought in, not part of the same group or somebody new, then banks could get some more time to complete the project with the new promoter that will put some of these projects which are stuck back on the field. Now if there are reasons beyond control such as the unavailability of inputs and so on that is a different situation. The other big sort of development on the restructuring is that banks can take equity positions up to the 30% stake, so a couple of banks can gain control if they decide to convert this convertibility clause. Alternatively in restructuring they can embed a convertibility clause and that will allow them to take control in case the restructuring does not pan out as promised. So this will allow a more effective transfer in case there is a need for change in management. The SEBI and RBI are discussing the details of the conversion, the price that which it will convert, etc. SEBI of course is interested in protecting the rights of minority shareholders and RBI is interested in making sure that banks do not convert at too high a price given the fair value and so that discussion is coming to some agreement and we will see that it happens within a short while.

Keith Bradsher: New York Times I wanted to come back to the question of how you are assessing changes in the fiscal space. As you are looking to the budget are you are mostly interested in what the initial year deposit as a percentage of GDP is likely to be or you are more interested in what the structural changes are on a longer term in terms of what the deposits are likely to be?

Dr. Raghuram G. Rajan: I think both. I think the Finance Minister as well as all the Ministry officials have reiterated their desire to stick to the budgetary target for this year, but also there is a lot of anticipation about the fiscal path over the next few years. It is not that we are locked to into a specific number or a specific path, but it is the overall package whether it makes for serious high quality fiscal consolidation over time that clearly will impact inflationary forces that we are most worried about. So it is all aspects of the budget that we will be looking at and that are eagerly awaited. I think the government has the intent of producing a solid budget.

Gabriele: Wall Street Journal You had one concern today about the spillover of competitive quantitative easing about which you have been speaking for quite some time now. I would like to know if you think that India is in a better position than it was last year and even 2013 to cope with the coming new wave of quantitative easing in the current year. And also I would like to know if you think that the markets have already priced in the coming tightening cycle of the Federal Reserve.

Dr. Raghuram G. Rajan: First, I am not sure that we know fully the process that Federal Reserve will follow. It will depend to some extent on developments on the dimensions that you talked about. As you know, the Federal Reserve introduced a phrase on the international situation in its statement this time. So I have no doubt that the exports as well as the part the dollar will play some role in their future deliberations. As far as India's position goes, we have made important strides on at least three out of four macro variables and I am hopeful that the fourth we will also move. The three - on growth we never plunged as low as some of our comparative countries. Of course if we take the new statistics that is there, we were already up to 6.9%. I do not want to over emphasize that because we need to understand that but that is one of the highest growth rates in the world. If we stick with our projection of 5.5%, we are still doing pretty well for this year. The second element that has improved considerably is our current account deficit which we project to be 1.3% this year and perhaps even lower next year because of the lower oil price, so long as it stays low. The third element has been inflation. After all investors are worried about the value of the rupee that has come down, considerably the inflation has come down which is one of the reasons the rupee has remained so stable. The fourth element is the fiscal deficit. We have made some strides there, some important strides and this is where the budget will be an important factor in establishing the continued confidence that our macro actions are all in the right direction. A secondary aspect which is important to help us is the build-up of reserves. Our reserves are substantially higher even net of forward positions which today are positive rather than negative last year and therefore I think we are in a much better position. Will we be immune from volatility, then the answer is no. I think everybody is affected by volatility but after the first wave of volatility when market participants stop to think, I am hopeful that we will look much better than perhaps comparative countries.

Anita:
Economic Times Power producers have been complaining that once the banks categorize an account as NPA for banks they do not give any further credits. But in case you see that there is a possibility of that account reviving, would you see any merit in banks considering giving them more money for positive revival in future?

Dr. Raghuram G. Rajan: I think we should not attribute stigma to an NPA and this is a misconception that is both amongst producers as well as lenders. The producers think if their account is labelled NPA, it means they are at fault. It just means that account is not paying and there could be very legitimate reasons why it is not paying because of policy inaction, because of legal complications, etc. and accounts will stop paying or changes in world prices. So the fact that an account is an NPA is an accounting statement, it is not a statement about blame or reputation, etc., that is number one. Second, even an account which is an NPA, banks can lend to it and in fact with the new loans, so long as they are being serviced and there could be a moratorium on those new loans also, that loan is not considered an NPA. Our regulations do not label it an NPA. So projects that are halted because of their NPA can be restarted with new loans from the banks. There is nothing that prohibits that. What is important is the banks make a calculation that these new loans are necessary to restart the project and the package is going to be NPV positive for the banks because it has already made loans which are in trouble, the project needs to go forward to pay off, here it is a little more to ensure working capital needs are met or the final construction phase is done. That is okay and that is important actually at this time that in such situations they take a considered decision. I am not going to micro manage the decision from here but I am going to say if those loans are made, they are perfectly appropriate and they will not be considered NPA. In fact the rules say until fresh loans into an NPA situation are not necessarily NPA so long as they perform.

Gopika:
ET Now Governor, would you look at extending the April 1 deadline for classification of restructuring accounts into NPA, etc.

Dr. Raghuram G. Rajan: Well, I have said repeatedly that it is important we clean up bank balance sheets that we show the bank sheets what they actually contain. That will enhance confidence in the bank balance sheets and enable the banks to raise the much needed fresh capital. In order to build confidence in bank balance sheets, we have to come to an end of forbearance that we have to put banks on the right track. We have given enormous amounts of new flexibility in trying to put distressed projects back on track. But I do not think the answer is to pretend and extend or extend and pretend. It is to call a spade a spade, do what is needed including making new loans if necessary to complete the project but move on beyond that.

Moderator: Thank you ladies and gentlemen. With that, we conclude this conference. You may now disconnect your lines.