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

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Moderator: Good day, ladies and gentlemen. Welcome to the Fifth Bimonthly Monetary Policy Conference Call with Researchers and Analysts. 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 would now like to hand the conference over to Mr. Yogesh Dayal. Thank you and over to you, sir.

Yogesh Dayal: Thank you, Janice. Good afternoon to all. Welcome to Fifth Bimonthly Monetary Policy Teleconference with Researchers and Analysts. And we have received a number of questions which I will request our dignitaries and executives to answer. We have Governor, and Deputy Governors and all the Executive Directors present here.

First question is from Mr. Ardhendu Bhattacharya. His question is, as part of liquidity operations of the RBI in the recent two weekly statistical supplement (WSS) data set releases, we have seen OMOs being conducted to the tune of over ₹5,000 crores cumulatively. Could you elaborate the nature of the same and how this differs from the OMOs announced by the RBI in terms of the impact? I will request Executive Director, Shri Rajeshwar Rao to take this question.

Rajeshwar Rao: Thank you, Mr. Bhattacharya. The operations you were referring to were conducted in the secondary market. The impact in terms of system liquidity is similar to OMOs undertaken through the auction mode.

Yogesh Dayal: Thank you, sir. The next question is from Mr. Dhaval Gada. His question is, as per RBI's Annual Report, it has been working on final guidelines for non-operative financial holding company structure for banks. Could you specify the key challenges for the delay and the revised timelines for final guidelines? I will request Deputy Governor, Shri Vishwanathan to answer the questions.

N. S. Vishwanathan: Basically the bank licenses have been given under different licensing guidelines, and the whole issue is to create a harmonized framework under which all can be put in within the framework. And, issues are how to harmonize them in a manner that there are no disruptions.

Yogesh Dayal: Thank you, sir. Next question is from Mr. Nikhil Walecha. The question is, when can we get clarity from the RBI on details regarding the holding company format for the banks? What is the minimum stake that the banks can take in insurance companies for which they do not require RBI approval?

Lily Vadera: Thanks for the question. The answer for the minimum stake in insurance companies- without approval they can invest up to 10% of the paid up share capital of the bank. That's the maximum that they are allowed without approval.

Yogesh Dayal: Thank you. Next question is from Mr. Mukul Mehta. His questions is, recent GDP print shows nominal growth of 6.1%, which is lower than average government borrowing cost. What is your take on the same? Whether in such a scenario, it makes sense to do nominal growth targeting, rather than inflation targeting? I will request Dr. Michael Patra to take this question.

Dr. Michael D. Patra: Please see our projections. If you see those projections, then nominal GDP growth falling below the interest rate and government borrowings is likely to be a one quarter phenomenon. And nominal GDP is projected to rise in the quarters ahead. As far as the regime is concerned, RBI has been mandated to conduct flexible inflation targeting, and this framework will be reviewed only after March 2021.

Yogesh Dayal: Thank you, sir. Next question is again from Mr. Dhaval Gada. His question is, RBI has created a regulatory arbitrage for housing finance companies by asking banks to move incremental retail loans, including home loans to external benchmark linked lending rates. HFCs which account for around 50% of home loan market in India, who mostly borrow from bonds and bank market, benefit as they pocket large part of rate cut benefit by not transmitting the entire rate cut benefit to the customers. What is the RBI's view on this transmission system of HFCs and possibility of moving them to external benchmark linked lending rate, like in the case of banks? I request Shri Vishwanathan.

N. S. Vishwanathan: At present there isn't any regulatory framework for fixation of interest rates by housing finance companies, also the NBFCs. We are looking at what needs to be done, going forward. Having said that, I think the other part is that the arbitrage should not be there, because if the banks are offering a lower rate, it is HFCs that have to catch up with the rates. So, I am not very clear how this is an arbitrage that works in favor of the HFCs. But in terms of harmonizing the regulation, we are working in that way.

Yogesh Dayal: Thank you. Next question is from Mr. John Doe. His question is, what measures is the RBI taking to address as there are no Punjab and Maharashtra Cooperative Bank (PMC Bank) like situations again? And would the RBI be willing to make exceptions to ownership rules in a bank for stressed situations? I request Deputy Governor Shri Vishwanathan to answer.

N. S. Vishwanathan: Of course, we have taken a series of measures to strengthen the supervision over the cooperative banks, number one. And, also we have announced today a slew of regulatory measures to ensure that the concentration risks are coming down. As far as the ownership is concerned, as you are aware, in case of cooperative banks, it is based on one man one vote principal, and it has no link to quantity of shares held by a person.

Yogesh Dayal: Thank you. Next question is from Mr. Ram Kumar. His question is, are there any plans to cap the spread of gold loan or FinTech companies similar to microfinance institutions? I would request Deputy Governor Shri Vishwanathan to answer.

N. S. Vishwanathan: The gold loan NBFCs are in the category of single product NBFCs, and there are certain regulations for those type of NBFCs, number one. Number two, there are very detailed fair practices code with regards to auctions, etc., so we believe therefore that there aren't any immediate regulatory or stability concerns coming from them. Same thing, in fact, as far as the FinTechs are concerned, if they are doing an NBFC activity using FinTech, they have been also given registration as NBFCs. And we have put in place additional frameworks besides the normal NBFCs to ensure that their operations are not in any manner detrimental to the interest of the stakeholders with whom they work.

Yogesh Dayal: Thank you. Next question is from Mr. Ardhendu Bhattacharya. His question is, despite SEBI clearance, mutual funds aren't enabled on the Astroid System for dealing in overnight index swaps. Request clarification on the same. And the timeline to enable it. I will request Executive Director Shri Rabi Shankar to take this.

T. Rabi Shankar: There is no regulatory bar on mutual fund participation. They were waiting for SEBI clearance, now that they have got it, they are in the process of getting proper approvals.

Yogesh Dayal: Thank you. Next question is from Mr. Anand Shanbhag. His question is, the MPC states that most of the banks have linked their lending rates to the repo rate, and therefore the transmission of the policy rate is expected to improve. Is the RBI encouraging banks to link their time deposit rates to the repo rate? If the time deposit rate is not in sync with the repo rate, how viable and sustainable are the bank loans, whose interest rates are linked to repo rates? I will request Deputy Governor Shri Vishwanathan to take this.

N. S. Vishwanathan: One, there is a complete freedom for banks to determine their interest rates, we have not given any direction. If any bank wants to have a floating date based deposit rate, it's up to them. All that we have prescribed is on the lending side the smaller, retail home loans, and MSME loans be linked to an external benchmark. If in this operation there is an interest rate risk, it is for the banks to cover it through derivative products.

Yogesh Dayal: Thank you, sir. There are two similar questions, so I will read them one by one. Mr. Amit Premchandani. His question is, transmission of repo rate cuts have been lagging with a very marginal reduction in bank lending rates. Is this on account of lack of competition, giving pricing power or high small savings rate leading to sticky deposit rates? Another question of similar nature is from Miss Dipti Deshpande. Her question is, since fresh loans now are linked to the current repo rate as mandated by the external benchmarking method, no change in repo rate would mean no further easing on fresh loan rates. So, can the pause on repo rate cut hinder even the transmission of past rate cuts to these fresh bank loans? I will request Governor sir to take this question.

Shaktikanta Das: The RBI has been preemptive in reducing the policy rate by 135 basis points from February to October. And RBI has also ensured sufficient liquidity in the system to speed up transmission. Monetary transmission has been full and swift through the money and financial markets, this is a point which I also stated during the earlier press conference and in my statement today. Now in the credit market, the weighted lending rate on fresh loans has fallen by 44 basis points. And the one year MCLR has fallen by 49 basis points. Thus, transmission is underway and it's a very much work in progress. We expect transmission to gather speed with adoption of external benchmark by the banks. The pause in the monetary policy decision of the MPC, the temporary pause gives banks the time to further improve the process of transmission. The pause also gives us an opportunity to assess how this transmission is working its way into the real economy. In order to speed up transmission, we are also engaged with the government to align the interest rates on small savings with the formula based interest rate structure.

Yogesh Dayal: Thank you sir. Next question again is from Miss Dipti Deshpande. Her question is, despite a demand slowdown, retail credit has been growing at 16% to 17%. Where in your opinion is this credit being deployed? Segments like credit cards are seeing growth of 25% to 26%, does that worry you? I will request Dr. Patra to take this query.

Dr. Michael D. Patra: Retail loans are being deployed for a variety of purposes, such as vehicles, consumer durables, education, housing. As regards credit card outstanding, they have averaged 26% in the recent months. But this has moderated from above 30% just six months ago. We are closely monitoring the segment, including non-performing loans. NBFCs' exposure to the retail sector has actually decelerated from 20% in September 2018 to 14% in September this year. And banks are filling up this gap.

Yogesh Dayal: Thank you, sir. Next question is from Mr. Ishan Daga. The question is, the Goldilocks scenario of high growth and low inflation has gone into reverse territory now. And as per RBI estimates the scenario is unlikely to change in upcoming quarter or two. Therefore, does that signal a pause for next couple of quarters from policy stance point of view? If not, what would be the key factor or factors other than these two, i.e. growth and inflation, which will trigger such action?

And a similar question is from Ms. Anagha Deodhar. Her question is, in the recent past the focus seems to be on reviving growth. However, in this policy, the focus shifted back to inflation, although the growth has fallen to 4.5%. Could you elaborate on what caused this shift in focus? I would request Governor sir to take this query.

Shaktikanta Das: The MPC took the view that economic activity has weakened further and the output gap remains negative. However, several measures already initiated by the government and the monetary easing undertaken by the Reserve Bank since February, are gradually expected to further feed into the real economy. On the other hand, MPC was concerned that the inflation is rising in the near-term, but it is likely to moderate below target by the second quarter of 2021. In order to have greater clarity with regard to the overall outlook, the MPC considered it prudent to carefully monitor incoming data. Further, if I can add, the MPC also judged that there is monetary policy space for future action, but MPC felt it appropriate to take a pause at this juncture. In my statement also I had alluded to, if you recall, in my statement I have also alluded to growth-inflation trade-off confronting the MPC in this meeting. I mentioned that inflation has indeed reason sharply in November, and may remain elevated for a few months. However, the forces driving up inflation appear to be transient. Therefore, there is a case for looking through the current food price spike. But it would be prudent to await greater clarity on how the inflation path evolves, especially given the likelihood that several food prices may stabilize by Q4 of 2019-2020. The RBI has been, as I said earlier, preemptive in easing monetary policy with the easing cycle starting in February. Rate reductions have occurred in quick succession in every MPC meeting since then. By committing to maintaining an accommodative stance, as long as it is necessary to revive growth, while ensuring that inflation remains within target, the MPC has in fact given a very clear forward guidance that there is space available for further monetary policy action. However, there is need to optimize the impact of the rate reductions. The key consideration has to be the timing of further actions, even as we monitor the impact of actions already taken so far.

Yogesh Dayal: Thank you, sir. Next question is from Mr. Vinay Mhaskar. His question is, in RBI's monetary policy statement dated 7th August 2019, RBI mentioned that the NEFT system will be made available 24/7, beginning from December 2019. Is the RBI likely to come up with additional liquidity windows for banks to manage their liquidity and CRR obligations? Also, can you please clarify the exact implementation date for the same? I will request Deputy Governor, Shri Kanungo to take this questions.

B.P. Kanungo: As you would recall, Vinay, as has been announced in the bimonthly policy statement of October 4, 2009; that pursuant to the implementation of NEFT 24/7, in order to facilitate smooth settlement of the transactions, the Reserve Bank shall also extend the collateralized liquidity support round the clock so that it will be available 24/7. And the modalities of the liquidity support, we are working out internally in what manner it will be rolled out. And it will be announced much before the actual rollout takes place. The tentative date also we will announce to the banks. But this will happen before December 31st.

Yogesh Dayal: Thank you, sir. Next question is from Mr. Ankit Maheshwari. His question is, given that liquidity surplus has gone over ₹3 lakh crore now, and given the draft report on committee's recommendation for managing liquidity in 0.25% to 0.5% of NDTL, would the RBI consider OMO sales to remove durable liquidity? Or do you think that growing demand and growth require continuation of the surplus liquidity situation for some more time? I would request Executive Director Shri Rajeshwar Rao to take this questions please.

Rajeshwar Rao: Mr. Maheshwari, regarding your question, a decision would be taken at the appropriate time based on the evolving liquidity conditions.

Yogesh Dayal: Thank you, sir. Next question with me is from Mr. Arjun Nagarajan. His questions is, the RBI's committee has seen a welcome positive shift on the transmission of its earlier delivered rate cuts of 135 basis points. What in the RBI's opinion can fasten this pace of transmission on the ground? I request Governor sir to take this question.

Shaktikanta Das: As I stated during the press conference and in my statement in more than one occasion, the introduction of external benchmark for pricing of loans, which came into force from 1st October, this is expected to speed up transmission, especially given the liquidity conditions, the ample and surplus liquidity conditions, which is prevailing since June of this year.

Yogesh Dayal: Thank you, sir. Janice, these are the questions which I had at my level. We have some time for a few questions before we close. So, I would request that please do not repeat the questions which were asked earlier, and, only two questions I will be able to accommodate. Thank you.

Moderator: Sure. Thank you very much. We take the first question from the line of Kaushik Das from Deutsche Bank. Please go ahead.

Kaushik Das: In the previous monetary policy, there was a clear statement that monetary accommodation would continue till the time it takes to revive growth. Is any particular growth range you would like to share that you feel comfortable that growth has revived adequately? And the second question is, weighted average lending rate, is it right to assume that incrementally it has just fallen by 15 basis points since the last October 25 basis points rate cut?

Shaktikanta Das: Now with regard to the second part of the question, well, that is the number which is based on our data. So therefore it is actual number. Now, with regard to the first part, we cannot look at, again, I mean, what is the exact point at which we will treat that growth has been revived, we cannot take such a mechanistic view about whether it is the growth at such and such percent, say x percent or y percent will be treated as revival as happened. And in any case, broadly the approach would be, it would basically mean that till the time the output gap has closed.

Kaushik Das: Governor, this 44 basis points that you said about this weighted average lending rate, last time it was 29 basis points. So, just by subtracting that is it right to assume that the incremental rate cut has been 25 basis points in weighted average lending rate? That's what I meant.

Shaktikanta Das: Yes, I think so.

Moderator: Thank you. We take the last question from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Sir, I wanted to understand how flexible would RBI be in extending any dispensation that probably we had done in case of Catholic Syrian bank in terms of promoter holding to any other fresh case, if that arises? Thanks.

Shaktikanta Das: No, I think this is a hypothetical question. If there is a river which comes across our way, and we have a bridge in our front, we will take a view at that stage. It's very hypothetical at this stage.

Yogesh Dayal: Janice, I think that's all we have time for today. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining. You may now disconnect your lines.