

Edited Transcript of Reserve Bank of India's Fifth
Bi-Monthly Post Policy Conference Call with Media

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PARTICIPANTS FROM RBI:

**DR. URJIT R. PATEL – GOVERNOR, RESERVE BANK OF
INDIA**

**MR. R. GANDHI – DEPUTY GOVERNOR, RESERVE BANK OF
INDIA**

**MR. S. S. MUNDRA – DEPUTY GOVERNOR, RESERVE BANK
OF INDIA**

**MR. N. S. VISHWANATHAN – DEPUTY GOVERNOR,
RESERVE BANK OF INDIA**

**DR. MICHAEL D. PATRA – EXECUTIVE DIRECTOR,
RESERVE BANK OF INDIA**

Moderator:

Good Day, Ladies and Gentlemen, and Welcome to the Teleconference with Media arranged by the Reserve Bank of India after the announcement of the Fifth Bi-Monthly Monetary Policy. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, you may signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you and over to you.

Dr. Urjit R. Patel:

...thanking the staff and the management of all our banks, both private sector and public, for the dedicated work over the last four weeks during this process of withdrawal of legal tender status. I want to also acknowledge the unstinting effort of staff at the RBI and our currency presses in this context.

Coming to the monetary policy decision:

In its October resolution, the Monetary Policy Committee took a calibrated policy judgment of a reduction of 25 basis points in the policy repo rate on the basis of its assessment of the inflation path for the rest of the year, based on the information available up to August and high frequency indicators in September. Inflation outcomes in September and October, as well as the latest projection for Q4 2016 - 2017 vindicates this stance. It may be recalled that in October the MPC envisaged a trajectory taking headline inflation towards 5% by March 2017, with risks tilted to the upside. Since then a couple of risks have waned:

- 1) The disbursement of salaries and arrears under the 7th Pay Commission award has not been disruptive to inflation outcomes.
- 2) The extension of two months given to the Ministry of Finance to receive the notification on higher allowances under the Commission's award, could push its fuller effect into the next financial year rather than this financial year.

The Committee felt that it is now important to ensure that the targets of 5% for Q4 of 2016 - 2017 and 4 %, +/-2%, for the medium-term are achieved. This assumes critical importance in view of the stickiness in the inflation excluding food and fuel, what we call core, the recent rising profile of international crude prices and the continuing firmness in the prices of some salient food items. Accordingly, the MPC was of the view that given the reduction of the policy rate of 25 basis points in October, which cumulated to a reduction of 175 basis points since January 2015, a further reduction in the policy rate is not warranted at this juncture. It may be recalled that an incremental CRR was applied on banks' increase in net demand in time liabilities between September 16 and November 11. As part of our liquidity management operations to manage the return of specified bank notes into the system as deposits. This was intended as a purely temporary measure to manage the transition from an exclusive reliance on LAF operations to a mix of instruments including the MSS issuances. The government has proactively responded to the situation by enhancing the limit of MSS securities to ₹ 6 lakh crore or ₹ 6 trillion. This has enabled the withdrawal of the incremental CRR with effect from

the fortnight of December 10, banks will no longer have to bear the burden of the incremental CRR as they will be adequately compensated through the coupons on MSS securities.

May I request before we get to the question-and-answer session, first Mr. Gandhi to apprise us on the issues related to the withdrawal of legal tender characteristic status of the notes and the currency management.

R. Gandhi:

There have been several questions about the decision to withdraw the legal tender status of ₹ 1000 and ₹ 500 of the old series notes. The motivations for the decision are to deal with the problem of high quality counterfeit notes in these denominations and unearth the black money that may held be in cash. The decision has not been taken in haste, but after a detailed deliberation. There has to be a high level of secrecy surrounding this decision, and the fact is that such a large country was indeed taken by surprise when the decision was announced. The Reserve Bank and the Central Government were conscious of certain immediate difficulties that the public at large could face and all efforts were made to minimise them and mitigate them.

The problems of the common persons were at the top of the policy-makers radar and all dispensations were calibrated to address them without at the same time jeopardizing the achievement of the larger policy objective. The Reserve Bank and the Central Government note presses are working to their full capacities and all efforts are being made to reach the notes to every part of the country. In fact, during this period, that is from November 10, 2016 to December 5, 2016 the Reserve Bank had supplied to the public bank notes of various denominations worth near about ₹ 4 lakh crore.

As regards to the lower denomination of the notes, that is ₹ 100, ₹ 50, ₹ 20 and ₹ 10, the Reserve Bank over its counters and through bank branches all over the country has supplied 19.1 billion pieces of denomination in this period. This is more than what the Reserve Bank had supplied to the public in the whole of the last three years. We reiterate that there is adequate supply of notes and hoarding of notes helps nobody's cause. We also strongly advocate the public to switch to digital payment modes, given that there are several options, there are adequate safeguards and there is an increasing accessibility of this mode of payment by a large of recipients.

Dr. Urjit R. Patel:

May I request Mr. Mundra to say a few words, and then Mr. Vishwanathan.

S. S. Mundra:

Well, I may take this opportunity to speak a little bit on the subject which was most discussed in detail in the last policies, this is the asset quality. I appreciate that as of now the questions and focus on your mind is elsewhere, but nonetheless, very briefly from the September quarter result which has come from the banking system, while there had been an incremental rise percentage of gross NPA and net NPA, there has been marginal reduction in restructured advances and after blending too there has been a slight uptick in the overall level of stressed assets in the banking system. But there are a few things which need to be noted:

- 1) The formation of incremental NPA has decelerated.
- 2) The provision coverage ratio at the system level has slightly improved and relative to the previous year in this half year, the recoveries have been better than what they were in the corresponding period and the write-offs have reduced to some extent.

So as in the past, maximum NPAs continue to be contributed by the industry segment in the asset portfolio at the usual five, six sectors which were showing the larger stress, and it tends to remain same. Thank you.

N. S. Vishwanathan: From the regulation side, basically the fact that there has been a deceleration in NPAs, the demand for dispensations has come down. What we had announced in the last policy, we talked in terms of the S4A, in fact if you see what we did, we went a little beyond that we allowed the banks to implement the 5/25 in few cases, up to ₹ 250 crore. And of course, last week we also issued the large exposure guidelines. The idea being that one, we need change the current stock of NPAs but also we tried to find ways to reduce the accretion to the bad loans.

Dr. Urjit R. Patel: Thank you. We will now take questions. I will start with Pradeep Pandya.

Pradeep Pandya: Sir, the most important question that everyone is asking is the queues which have been formed, so needed some details like how many new currency notes you have issued, what is your assessment about how much is the deficit now, how much more cash is needed to be printed and supplied to the banks? And till when do you think, the limits that you have put on withdrawals, you would be able to remove the limits like it was before November 8?

R. Gandhi: As I mentioned in my opening remarks also, large quantities of notes in various denominations have already been supplied to the public and they are continuously being supplied also. So the tendency to hoard, that is what we appeal to the public that they need not worry about the availability, it is continuously coming, so they would freely recirculate the notes that they have then this problem will not be there. So that is what we are saying continuously. We are assuring the public that continuous supply will be coming along. And about the limits to be revised, that is constantly in our radar, constantly we are recalibrating the needs of the public and accordingly modifying it.

Ira: Governor, in your statement you talk about the fact that the impact on the economy would be transient and you would not say as the fuller analysis, I am not quoting exact words, is awaited. Did the Central Board of the Reserve Bank of India recommend this to the government in its judgment? How did it mix its judgment if it did have an understanding of how the economy is going to get impacted? And how long will this replacement process take, Governor, we really would like to know that, because the longer it takes the more the hit to the economy.

R. Gandhi: When we discussed about the withdrawal of legal tender characteristics, the various possibilities and various impacts had been analyzed. And the assessment that we have made is

that with the available stock of notes and production plan, based on that, we were confident, it was our belief that we could meet the requirements of the public. And that is why just now I mentioned, 19 billion notes which were equivalent to what we supply in three full years, that was in our custody and which we have given to the public. So that is why the assessment which have been made which included the possible temporary impact that the reference have been made in the statement also, that has also been accounted.

Dr. Urjit R. Patel: Again, just adding to that, the motivations about the decision were to deal with the problem of high quality counterfeit notes and unearth black money that may be held in cash. The decision was not and has not been taken in haste but after detailed deliberations. The consequences that have emanated from that were taken on board and that is why the planning, the process and the implementation was what it was, keeping in mind that high secrecy had to be maintained. And the Central Bank and the government were conscious of certain immediate difficulties for the public at large and all efforts were made to mitigate them. As Mr. Gandhi said, and I would like to reiterate that the problems of the common person in this context were at the top of our radar and all dispensations were put in place to ensure that the period for disruption is the minimal while we recalibrate our note supply to the denominations that were not withdrawn in terms of the legal tender character.

Latha: Sir, how many notes have come back, the old notes?

R. Gandhi: The old notes that have come back amounted to as of now ₹ 11.55 lakh crore.

Latha: It is as of yesterday, sir?

R. Gandhi: Yes.

Supriya: Governor Patel, there is a speculation about special dividend to be paid by RBI owing to extinguished current post demonetisation. What is your stance on this demand?

Dr. Urjit R. Patel: Actually, the withdrawal of legal tender characteristic status does not extinguish any of the RBI's balance sheet, and therefore there is no implication on the balance sheet as of now. So that question does not arise as of now.

Supriya: No question of a special dividend right now?

Dr. Urjit R. Patel: Not just by the withdrawal of legal tender character, no.

David Keohane: Can I ask when it would have a balance sheet effect? When will notes, for example, stop being exchangeable at RBI branches?

Dr. Urjit R. Patel: Even then they still carry the liability of the RBI as long as only the legal tender characteristic status is withdrawn.

- Bijoy Idicheriah:** Sir, in the beginning of the year you all spoke about moving to a neutral stand on liquidity, how much longer will it take now for you all to achieve that and how much more complicated does it get because of the uncertainty that you all mentioned and the MPC notes about the currency withdrawal?
- Dr. Urjit R. Patel:** Actually, we had said that we would move to a neutral stance over a period of time, and that continues to be the objective. And as temporary effects of this abate, we will be on that saddle path.
- Arijit Ghosh:** Leaving the rates unchanged today does it leave you a space to cut interest cycle after Fed's move next week?
- Dr. Urjit R. Patel:** The decision had nothing to do with the Fed move. The Fed move has been factored in by all financial markets and what we have said in the last paragraph is where we are that we will wait for more data to come in and then take a call, given that we want to achieve the 5% by Q4 2016-2017 and we are on track to do that. And with incoming data, we find that on a durable basis if some space is found, then we will take a look at that.
- Olga Tellis:** Sir this ₹ 2000 notes have been causing a lot of problem, is there any sense to better to make ₹ 200 notes instead of ₹ 2000.
- R. Gandhi:** The choice of denominations have been based on the total level of transactions that people want to conduct. So it has to facilitate the easy way of transacting any amount or value, so that is why need for different denominations are definitely felt. And that is why it was a choice that ₹ 2000 notes was decided to be printed.
- Olga Tellis:** It is causing a lot of problem.
- R. Gandhi:** Preference of a particular denomination by different sets of people are always there, somebody may like a particular denomination, somebody may not like, that is their perception. But when we introduce a denomination, that is to care of an average common minimum requirement.
- Dr. Urjit R. Patel:** Just to add, what we have done over the last two weeks is recalibrated our production towards the 500 and the 100, and once that happens, the circulation of the 2000 will also go up and we will see the benefits of those coming in the coming days as the production supplies reach the banks. And therefore, some of this concern will be alleviated in a practical sense rather than just a theoretical sense.
- Govardhan:** Sir, there is a mention of this reduction in GDP estimate it by about 50 basis points because of various factors. I am sure there has been no rate reaction or in terms of liquidity action because you have to still you have to comprehend about how it is going to play out. So why there is no action when you actually factored in a drop in the growth rates?
- Dr. Michael D. Patra:** The GVA estimates are down 50 basis points, much of it is due to the Q2 revision which is in the past. It surprised everyone on the downside. The SBNs impact is also factored in but that is

only about 15 basis points and we regard that as a very transitory phenomenon. So monetary policy should not be reacting to any transitory phenomenon.

Anurag Shah:

And Sir, we are seeing since 2013 regarding bank account portability. At many forums, Deputy Governor has mentioned it, so the things that have happened recently and how after demonetization people are angry with their own respective banks, and before that debit card fraud thing was there, so perception of people changed towards the banks. So sir, this bank account portability, how is RBI moving forward on it, how much has been the progress? Or should we understand that this is a thing of a very long-term and in the coming 8 - 10 years nothing will happen?

S. S. Mundra:

Truth is in the middle of both, neither is it going to happen tomorrow and nor there is a need to wait for eight years. See, there are some things where industry should itself be ready about it, and if things come after the industry is prepared then they it comes to be good. But before that the developments that have happened in many alternate channels like UPI has come, use of digital channel is increasing. So to some extent it will fulfil those needs. One more important thing will be that as and when people will have the awareness and they will link their account with Aadhar, when accounts are being linked with Aadhar, then at that time this portability can be done a bit strongly. So I think it will take some more time but this will be the direction in the future.

Vishwanath:

Governor, is there any cost benefit analysis of the entire process of demonetization that has taken place? Plus, what happens if the entire demonetized currency note comes back to the banking system, does that mean that there was never a black money problem?

Dr. Urjit R. Patel:

I think the cost benefit is in the following ways: the cost we are witnessing now and that is in terms of inconvenience which we are all aware of. The benefits are in the medium-term and in the long-term and that is on account of that security of our notes is enhanced because the new notes will have enhanced security features, so they will be more difficult to forge or fake. Secondly, we will have more transparency, in terms of fiscal and tax compliance we will be at a better place, the public finances could improve and a very important collateral benefit is the thrust on digitization that is taking place. The RBI, the banks and the government are working very closely, and in fact that benefit is going to catalyze and improve on whole host of factors in terms of transparency, accountability, ease. And ultimately, the cost of printing money, because as more digitization takes place, the total quantum of paper currency that we require from a base line level should come down.

Shishir Sinha:

Sir, like you said that around ₹ 11.5 lakh crore have come, so the target which we had set that we have to deposit all the money in the banks, so can that date be postponed till 15th? And is the Reserve Bank thinking of bringing back the ₹ 1000 note?

R. Gandhi:

Size of denomination as I mentioned, based on the requirements of the public it will be determined as time goes on. So whether ₹ 1000 notes will be coming or not, yes down the line

there can be a decision relating to that. As of now we have not determined anything about it. And about the date, yes it is a continuous review, the program is as of now up to December 30.

Manojit: Sir, how do you address the trust deficit factor. I put money in banks with the trust that I will get it whenever I want. So that is breached now. So how do you address that issue?

Dr. Urjit R. Patel: Firstly, the money that is in your bank account is yours. We have a situation where over this transition process we have some controls on the withdrawal, but this is not anywhere likely to be a permanent feature. So in terms of your wealth, the money in your deposit accounts are where they are and there is absolutely no doubt that it is a liability that the RBI will fulfill. And yes, during the transition there is an issue but I do not think that there is a fundamental trust deficit that has emerged. In fact, most people seem to be saying that this was actually a good thing to do for the reasons I just cited that it helps to fight the fake currency note problem, the associate terrorist financing, and to help with the black money issue and therefore in part create a transparency and accountability. So I think that this is not a long-term issue at all, in fact it is a transition issue and there is no question of any trust deficit being breached anywhere.

S.S. Mundra: The basic issue is your money is yours, your money is not swept around. it is only one medium of using that money is restricted but everyone is free to use the money in your account like the payment by cheque so the fundamental question is not there that, your money is not yours that is not the issue

Ramkumar: When this limit be removed when will be the situation will normalize, ATM limits are there, branch limits are there for withdrawal. So, when the limits of it will be removed and when the situation will be normalized, when will we be the able to withdraw money from the banks?

R. Gandhi: There are restriction that we have placed on the withdrawals, that continuously is under review, we are monitoring the situation based on the supplies and based on the actual demand which is coming from the grassroot level, constantly it is being reviewed. Exact date and everything that is difficult at this point in time, but every day we are reviewing it.

Moderator: Thank you. Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.
