# Edited Transcript of Reserve Bank of India's Second Bi-Monthly Policy Press Conference

## **June 07, 2017**

**PARTICIPANTS FROM RBI:**

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**MR. N. S. VISHWANATHAN – DEPUTY GOVERNOR**
**DR. VIRAL V. ACHARYA – DEPUTY GOVERNOR**
**MR. B. P. KANUNGO – DEPUTY GOVERNOR**
**DR. M. D. PATRA – EXECUTIVE DIRECTOR**

**Dr. Urjit R. Patel:** Good afternoon, everyone, members of the media and my colleagues. Please recall that in March inflation had begun to rise in line with our earlier projections. The reading for April, however, surprised on the downside and imparted high uncertainty to the outlook. This necessitated a revision in our projections.

In our assessment, a combination of new factors are at work. One – the transitory effect that has kept inflation low since November could be lingering on. And two – there are supply glut conditions in respect of pulses, cereal and vegetables which may have set in before demonetization.

It is difficult to segregate these factors, gauge how they will persist and the manner in which they will impact the future paths of inflation. With so many moving parts and the outlook clouded with uncertainty, MPC decided by vote of 5 to1 to stay on hold and wait for greater clarity to emerge with incoming data.

At the same time, the MPC was also cognizant of several earlier enunciated risks to the medium-term, rising rural wages, robust consumption demand, the imminent implementation of the 7$^{th}$ Pay Commission award on HRA and the acceptance of these by state governments and global risks materializing in the form of imported inflation.

Under these conditions, the MPC decided to persevere with a neutral stance and maintain status quo with regards to the policy rates.

As the Government and the Reserve Bank embark on resolving the twin debt overhang problems, we felt that a more targeted intervention that can unfreeze credit to help the stress free, but recently slowing sectors of the economy, borrow at better terms are likely to work better.

I will now request Dr. Acharya to make his opening statement. Thank you.

**Dr. Viral V. Acharya:** Thank you, Governor. Good afternoon, everyone. Interest rate policy works well when it is transmitted seamlessly by financial institutions and markets to the real economy. In the absence of efficient transmission, changes in interest rate policy go waste and potentially have unintended consequences. Investments slowdown that has taken hold of the economy at least since Q1 of 2016-17 is deeply rooted in the structural debt overhang problem of a number of our industrial sectors. Their excessive debt is saddled on our bank balance sheets. The accommodative policy of 2015 and 2016 failed to revive investment as it did not get fully transmitted by the stressed banks to the indebted sectors. The Reserve Bank, in partnership with the Government has embarked on resolving this stress in decisive manner.

In the meantime, as Governor pointed out, what is likely to work better than interest rate policy in responding to growth challenges is a targeted intervention to create greater lending capacity for the healthier sectors of the economy that has recently slowed down. DG Vishwanathan will introduce next, such targeted growth enabling interventions as well as layout the steps being undertaken on the resolution front.

Let me finish by saying that the last month headline inflation print and revised growth estimates have certainly raised difficult policy questions. We will watch carefully in the next few months the incoming data on inflation as well as the indicators of real economic activity. I expect that we will remain adequately contingent, and if data so warrants, then act for a broader accommodation through the interest rate policy.

Let me hand over to DG Vishwanathan.

**N.S. Vishwanathan:** Thank you so much, Dr. Acharya. We observed that delinquency is generally among the lowest in the home loan segment. In the past home loan portfolio of banks has also responded well to targeted countercyclical measures taken on the segment. In view of this and also having regard to the forward and backward linkages that an increase in the home loan segment can give rise to, it has been decided to reduce the risk weight on certain categories of home loans and also the standard asset provisioning**.** These changes, of course, are effective prospectively. We also reduced the SLR by 50 basis points as a part of the transition to the 100% LCR by January 2019 but in the interim it will be provided the liquidity to banks and possibly these two measures together should bring some buoyancy to the home loan segment.

On the stressed assets resolution front, here is a brief update on what happened after the press release that we had issued on the steps outlining the measures that we intend to take. The first meeting of the Internal Advisory Committee is going to be convened very shortly. The proposal to bring in the Oversight Committee under the aegis of the RBI and with an expanded remit has also been approved in principle, so that will come on soon. We have decided to focus on few large stressed accounts under this framework and accordingly a set of accounts have been identified based on objective criteria. The decision on specific accounts out of these to be referred to IBC or to be restructured will be taken under the guidance provided by Internal Advisory Committee. We have held a series of meetings with the stakeholders like IBBI, the banks, rating agencies, ARCs, the PE firms, investors, etc., and the required modifications to the restructuring guidelines are under works and the feedback received from these stakeholders are being built in to the final outcome that will come into it.

Overall, what I want to say is that RBI has a strategy to deal with the resolution of the large assets and we are working in a calibrated manner and we hope to see certain actions coming soon. Thank you.

**S.S. Mundra:** Good afternoon. I just want to briefly touch upon the PCA framework. As you are aware that sometime back we had revised the PCA framework and after that some banks have been put under this revised framework. The revised framework is essentially intended to pick up the early warning signals of concern in these banks and put a structure so that they can be restored to their financial health as early as possible.

Having said that, you must have seen that in last couple of weeks there had been a kind of misinformed campaign in some part of media, more particularly in the social media, about giving the impression that depositors' funds are at risk and they should be withdrawn. Surprisingly, some of these campaigns, where probably it appears from this that they were released by the seller of the rival products and all that and following that we had issued a press release. Actually, my purpose of speaking today is to compliment that most of you covered our press release very quickly and quite adequately. However, some of you have chosen to completely give it a miss. There was never even a mention, and my point of speaking today I think is for an important cause, an important social cause which we have to deliver and RBI really considers all of you as a very important partner in this communication. So, my only appeal is that in future wherever there is such opportunity, I hope it will be 100% endorsement and not 95% or 90%. Thank you very much.

**BP Kanungo:** Thank you, sir. You will recall that the rupee denominated bonds in overseas jurisdictions by the Indian corporates which goes by the name "masala bonds", was enabled by the Reserve Bank of India on 29th September of 2015, and this is in operation for quite some time and the framework was not changed, and it has gained some traction also. So, now we have decided that it should be brought in harmony with the ECB guidelines and certain qualitative parameters that are applicable to the ECB guidelines will now be applicable to the framework governing the masala bond issuance also, primarily three important ones relating to the maturity period, the all-in-cost ceiling and the recognized investors. These are the three parameters under which it has been harmonized at present. So this is one major development. Thank you.

**Dr. Urjit R. Patel:** Thank you. We will now take a few questions. Let me start with The Hindu.

**Manojit Saha, The Hindu:** Governor it has been reported by the media that the Finance Ministry called for meeting with the MPC members, does it not curb RBI's independence and damage the credibility of MPC?

**Dr. Urjit R. Patel:** The meeting did not take place, all the MPC members declined the request of the Finance Ministry for that meeting.

**Shishir Sinha, ABP News:** Sir, my question is regarding the issue of loan waiver. Starting from Uttar Pradesh, it has now reached Maharashtra also. What will be its impact on MPC, on monetary policy framework? And is the economic state of the states such that they can bear the burden of such loan waivers?

**Dr. Urjit R. Patel:** The MPC resolution says that the risk of fiscal slippages which by and large can entail inflationary spillovers has risen with the announcements of the large farm loan waivers. There is a risk that unless there is existing fiscal space in state government budgets or some space is found, the likelihood of going down the slippery path and dissipating the important gains that we have made in fiscal rectitude over the last two, three years can come about. And past episodes in our country have shown that when there are significant fiscal slippages they do permeate through to inflation sooner or later. So it is a path that we need to tread very carefully and before it gets out of hand. Thank you.

**Manoj Dharra, Zee Business:** Thank you, sir. The pronounced slowdown in GDP growth in Q4 FY17 in CSO's new data has been partly attributed to demonetization, what is your view on that sir?

**Dr. Urjit R. Patel:** The new data released by the CSO needs to be analyzed carefully before reaching stronger conclusions with certitude. Remember that these data incorporate the new indices of industrial production and wholesale prices, the latter is used as a deflator. And in that sense, present a much better picture of the economy than the old series. That data shows that a slowdown in economic activities set in during the first quarter of 2016-17 well ahead of demonetization. The data also shows that agriculture and mining and quarrying, two areas which are high cash intensive are not affected by demonetization. Rural wage growth again has remained elevated, especially compared to agriculture labor inflation. Manufacturing, as reflected in corporate sales growth and the IIP, electricity and other utilities and trades, hotels, transport and communication have been resilient in the second half of 2016-2017. Construction and real-estate have been affected, but in some ways, this was predictable since the attack on black money, would almost by definition affect these sectors, given the circumstances under which they operate. Turning to GDP, private consumption actually accelerated in Q3 when the demonetization was the most intense and then remained resilient in Q4.

What is important to note in the CSO's data is that the slowdown in GDP is mainly due to deceleration in Gross Fixed Capital Formation during quarters 1 to 3 and then a contraction in Q4. This suggests that there are more fundamental factors at work that public policy should address urgently to rekindle the animal spirit and reinvigorate entrepreneurship and business optimism.

**Supriya Shirante, ET Now:** I will ask you on the inflation part, it takes a very bold and transparent central bank to reduce its targets like you have, so, a) congratulations and I think it is in acceptance in the government on that as well but are you being overly cautious here or are you preparing ground for perhaps monetary easing in August? And are you personally disappointed that the meeting was sought for the MPC members by North Block?

**Dr. Michael D. Patra:** As Governor mentioned, the inflation outcomes really reflect a combination of factors which are very difficult to disentangle at this stage just with one data point. So I think the MPC took a conscious view that we will look at more data. What we are saying is that there are these transitory factors like fire sales of perishable goods and all that, but more importantly since July we are seeing that supply side factors have come into play, especially pulses, cereals and vegetables which could be longer lasting than these transient factors. So, we need to really unravel these effects and then take policy actions, not act in a state where the outlook is very very blur, that is what I think the Governor meant to say.

**Gopika Gopakumar, Mint:** Thank you. You said that spending will now depend on the pace at which the re-monetization will happen. Could you tell us to what extent the re-monetization has happened, because we still continue to hear from the bankers that the cash is still not available in rural areas, so could you tell us because data still not available, there has been reluctance on the part of Central Bank to come out with data on pace of re-monetization.

**BP Kanungo:** No, in fact the data of re-monetization is in public domain and if you look at the data, the Notes in Circulation (NIC) figure, pre-November 8th data, 82.6% of the pre-demonetization NIC has been remonetized, which is a large number. And if you will look at the volume, in volume terms it is 108% of the figure as on that day. So it will not be true to say that there is shortage of currency. Yes, there could be shortage of currency in some pockets, but whenever such things come to our notice, we respond immediately through various means by inter-chest remittances and several measures have been taken in this regard. So I will not agree to the view that there is cash shortage on a longer-term basis or persistent basis at any place, it could be very well for a day or two. And the ATM shortages, our analysis is that most of the ATMs, in a place if there are 7 ATMs or 10 ATMs, some of the ATMs do work that has always been the case before demonetization also.

**Latha Venkatesh, CNBC TV18:** Well, I am drawing your attention to two phrases, in Para 14 you say if the configuration evident in April are sustained then absent policy intervention headline inflation will be 2 to 3.5. Again, Dr. Acharya said, 'act for broader accommodation'. Now if you pick these two phrases it looks like you are giving us space for accommodation, what will make you cut, if you move towards 2% you will cut, when will you, what will be the conditions that will bring forth accommodation?

**Dr. Viral V. Acharya:** I think what we are saying is that we have revised our inflation projections down. But if you look at our second half projections, we are still in the 3.5% to 4.5% range. So as Michael Patra pointed out, we need to see through the next couple of months for more data to see whether the inflation remains within these medium-term projections that we have or whether it is a surprise even relative to these revised projections. And I think Governor stressed this as well, we have a combination of a big surprise in the inflation number as well as the CSO revisions. And we are just trying to get a finer grip on what is exactly happening in the economy over the next few months.

**Ira Dugal, Bloomberg Quint:** Sir, question on banking. You said that the internal committee had met or is due to meet and you also said that Oversight Committees are in place or are in the process of being put in place**.** What is the composition of these committees, particularly, the Internal Advisory

Committee, is this going to be RBI members, to what extent is the RBI's staff going to be involved in taking these decisions of, you know, these large stressed accounts where they go to IBC or restructured under other means?

**N.S. Vishwanathan:** I think press release we issued made it very clear that this Committee will comprise majorly of our independent Board Directors, so, it stays that way.

**Dr. Urjit R. Patel:** And the Oversight Committee is actually already in place, I mean just more members are going to be added, so it is not that the Oversight Committee is yet to be established. There is already a two member Oversight Committee and more members will be added as the work has picked up and will continue to pick up.

**Bijoy Idicheriah, Cogencis:** Sir, the 5:1 vote, does it reflect, not just differing views but also the maturity of the MPC, the fact that it has been a few months and it has been a few meetings, so do you think the MPC itself has come into grips with the kind of role that it has been given and the data that is at its disposal? Also, if you could just throw some light on the SLR/HTM calendar. Again there is a gap between SLR/HTM, did you all consider issuing a new calendar because old calendar has expired or did you think it is a too premature?

**N.S. Vishwanathan:** On the HTM part what we have said, in the past we have said that the banks have to have only up to 25% of the investment portfolio as HTM but we had allowed them an exemption beyond this 25% provided the entire excess is on account of the SLR that they are maintaining and as and when we brought down the SLR, we were also bringing that percentage down, this time we have taken a view that it is not necessary to bring down the amount of G-Secs they can hold under HTM, that is the stand we have taken.

**Dr. Urjit R. Patel:** On the configuration of the MPC vote, it strongly suggests that wait and watch approach has been taken and the diversity of the views that are in the MPC constitution has meant that we did have a vote that was not unanimous.

Thank you.