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

**PARTICIPANTS FROM RBI:**

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**SHRI H.R.KHAN - DEPUTY GOVERNOR**
**DR. URJIT R. PATEL – DEPUTY GOVERNOR**
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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 Conference Call on First Bi-Monthly Monetary Policy 2015-16. 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, please signal an operator by pressing '*' then '0' on your touchtone telephone. 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 very much, Inba. Welcome to all of you here in this room and outside who are connected. Governor's short remarks and then we open to question-and-answers. Governor?

**Dr. Raghuram G. Rajan:** Good Morning. As you saw, we have kept policy rates on status quo during this review. What we are waiting for is more information on a number of recent developments, including the effects of recent weather disturbances and possible more information on the likelihood of a reasonable monsoon. Given that there has been also very little transmission so far from the rate cuts that we effected at the beginning of the year and in March, we are waiting to see transmission taking place. The bulk of this policy is focused on measures, structural reforms we call them, to improve the working of the financial sector, including transmission. So, the message from this review is that while we are status quo on policy, we are not status quo on all the measures needed to take the economy forward on to a higher growth path. These include amongst as I said first creating the transmission but also a number of measures intended to facilitate the financing of growth going forward as well as to improve the liquidity of financial markets. So, with that perhaps we can take questions and elaborate on the details. Let me emphasize the fact that we have not moved on policy rate does not mean we have to move, we moved on a variety of other dimensions.

**Gopika :**
**ETNow** Now, with the onus of future rate cuts falling on banks and monetary policy transmission, how much of transmission do you expect from the banks with most banks saying that they will not expect to pass on the previous rate cut, say 50 basis points. How much do you think is warranted so that transmission is effected?

**Dr. Raghuram G. Rajan:** I do not think we are looking for a specific number and saying "Unless this happens, nothing more will happen." But we want to facilitate the process of transmission. I do not see an environment where credit growth is tepid; banks are sitting on money so to speak and their cost of funding, their marginal cost of funding has fallen, the notion that it has not fallen is nonsense. It has fallen, they can borrow at the margin today at 7.5% - there is plenty of liquidity in the markets. So, at some point, the pressure on the banks, the competitive pressures will tell. As it is a number of corporations are borrowing directly from the markets, you have seen that announced even today. So, I have no doubt that this will happen. If it happens sooner, it is better for the economy, but banks have to make their own decision.

**Saloni:**
**Bloomberg TV** Just wanted to take the rate transmission point forward, you have maintained that the policy stance remains accommodative, and further easing depends on rate transmission. Given that

the street is divided on when the Fed will start it' own monetary policy by June or September, can we expect an out of policy rate cut again because till June there are two rounds of CPI data expected. Wanted to further understand the policy guidance?

**Dr. Raghuram G. Rajan:** As I said, I cannot go further than saying we are waiting to look at the data. Our stance turned more accommodative in January and it remains so, which means you should not expect the direction to change in the future. The timing of future cuts will depend on how much room we have. We have outlined a number of factors we are looking at. We are not saying everything has to happen. But we are saying we would like to see some more of what we need to see happen. As far as Fed policy goes, we are not in some sense saying that that will be a determinant. We are more focused on the domestic economy and the domestic requirements. Of course, Fed monetary policy has an effect around the world, but at this point, as we saying the statement we feel we are adequately buffered and so that is not going to be a key factor or the key factor in determining our monetary policy stance going forward.

**Sandrine:**
**Bloomberg** So you repeat in the Statement that your future action will be data dependent. We have heard that mentioned before. The same way that Janet Yellen has a dashboard, something used in the US. Just wondering whether you have a dashboard and some guidance on what it is. And what would you wish to see on your dashboard?

**Dr. Urjit Patel:** We do not have a dashboard at least in the formal manner that the Fed possibly has. The most important variable that we have to look at of course is the CPI out turn both in the immediate run and going forward, looking through temporary changes. Regarding output and GDP growth, we do look at high frequency indicators such as cement production, freight, airline, IIP, etc., and those have been taken into account in making our GDP forecast in the monetary policy review and in the statement itself.

**Pradeep Pandya:**
**CNBC Awaaz** What kind of impact will it make to the base rate if we shift from average cost of deposit to marginal cost of deposit? What will be the equation be so that results remain the same?

**Dr. Raghuram G. Rajan:** That is why there has to be both incentive or willingness for banks to move as well as the flexibility on the regulation or the calculation. I think we need both. In terms of the incentive for banks to move, as I said earlier, the fact that credit growth has remained relatively weak so far, that there is a lot of competition building up in the markets. Markets seem perfectly willing to lend at lower rates now and so banks over time will be forced to match the markets and will have to bring down the rate. So, what we have to make sure from a regulatory perspective is that the regulation is not standing in the way. And to the extent that people focus on average cost rather than marginal cost, it is much more slow moving. So, we have to try and deal with that. Now, remember that the base rate does not seem to stand in the way of banks raising the base rate when interest rates are raised, it only seems to come in the way when interest rates are cut. So, we have to think about incentives as well as the actual structure of regulation and, both when working together will help transmission.

**Latha Venkatesh:**
**CNBCTV18** You have said that inflation goes down to 4% around August, that is the RBI forecast and then climb back to 5.8%, and then the old monetary policy stance remains, that you want the real return to be 1.5% to 2%. If you add that 1.5-2.0 % say 1.75% to your 5.8% ultimate inflation number, then technically there is no scope for any further rate cut at all. We are already at 7.5% which 5.8% plus 1.75%. So at 4%, what exactly do you mean - is that because of base effect, because you are also saying you will look through base effects and seasonal effects. Is this 4% because of base or seasonal effect, how do you refer the 4% or how should one look at

the future movement of monetary policy? You are taking cognizance of the fact that small scale savings at 8.75% will further stymie banks position in terms of reducing deposit cost. I wanted your comments on that.

**Dr. Raghuram G. Rajan:** Let me start with the second question. First, banks have already reduced in a number of situations the deposit rates. So, it does not seem to be an absolute barrier. Of course, we have to make sure that small savings rates do not stand in the way of banks further reducing because the government has said it is going to tie them to government securities rates. As far as the 4% in August goes, that is largely because of base effect, but Urjit can correct me if I am wrong. And when we say we are looking through base effects and seasonal effects, it means two things – one, the seasonal price rise as a result of vegetable prices as well as perhaps because of weather disturbances is something we can look through. So, we are looking through the ups as well as the downs. To try and see whether the incremental inflation is down to a level where we have the ability to accommodate. We talked about a number of data variables which will be important in determining this. I think it is the composite picture that we will be looking at rather than any single data variable. What we are saying is we just did some, let us wait for transmission and we will also get more information and be able to make of our minds about the next step after that.

**Latha Venkatesh:** If I could comment on the arithmetic itself; 5.8% plus 1.75%, by your arithmetic there is no scope for cuts.

**Dr. Raghuram G. Rajan:** If I wanted to be hawkish, I would say 5.8% plus 2%. If I wanted to be dovish, I would say 5.8% plus 1.5%. So there is room if we want to look for it. We just need all the other pieces to fit into it.

**Joel Rebello:**
**Mint** I did not have the time to go through the whole financial markets efficiency measures. If you can take us through top three measures and your rationale behind it.

**Dr. Raghuram G. Rajan:** Let me talk about a number of measures; just in order, there are some regulatory measures to meet our Basel requirements. One of which is we put in place a countercyclical capital buffer, we are saying we do not need it right now. So we are not activating it right now. We had allowed banks to issue long-term infrastructure bonds. We are now saying that other banks can hold -Bank-B can hold Bank-A's infrastructure bonds up to a certain limit in order to facilitate trading. This is a request from the banks and we think it is reasonable with some caveats on that. We are going to look at the base rate and we are going to try and push banks towards marginal costing of the base rate rather than average costing so that they can move more quickly. And marginal costing seems the right thing. If you are able to raise deposits going forward at a lower rate, that should feed into your base rate more quickly. We are also going to have financial benchmarks on money market rates for example, so that banks can use that to determine their lending rates. Instead of having a base rate, use the short-term, medium-term money market rate, just like LIBOR, we want to move towards that quite quickly. Two important issues on bank governance – one, we had prescribed a very detail set of calendar reviews that banks had to do; you have to do this by this time, that by that time. What we are doing is we are doing away with that completely. We are saying bank boards can now look at seven elements which were prescribed by the Nayak Committee; these are just seven things that of important like Risk Management, Strategy, and Human Resources Management. They can figure out how frequently they want to look at it, when they want to do it, how they want to do it. We are just liberating the bank boards to use the time better. We are also recognizing the need to bring in high quality professionals into bank boards. Earlier, we had limited how much professionals could be paid on bank boards. We are still going to limit it but in a way that makes it competitive, the pay structure for bank boards competitive with other boards so that they can attract high quality people. And we are going to work with the government to ensure that similar compensation is available for public sector boards so that public sector boards are no worse in competing with the private sector boards. We are allowing well-managed urban cooperatives to issue credit cards and we are also allowing a number of state cooperative banks to open ATMs without go back to the Reserve Bank. As far as trading goes, two main issues with government bond trading. We are looking to set up primary dealers to work as market makers for a number of liquid bonds that will get liquidity across the spectrum and we are also going to make it easier for individuals to trade government bonds. Now, typically, there is not a huge amount of individual demand, but it should not be that there are roadblocks in the way of individuals buying government securities and they are going to ease the way in a number of ways. We are going to open up the possibility of Indian corporations issuing rupee bonds abroad. Now that is a big thing, because a lot of investors want to come to India to buy corporate bonds today. We are going to allow the corporations to issue abroad so that it can be traded abroad. Now, this will come under the overall ECB window to some extent because in a sense we are replacing people having to borrow in dollars to people being able to borrow in rupees and not then having to hedge it, our corporations do not have to hedge it. This is I think a big development. We already have people like the IFC, World Bank, thinking of issuing these bonds. Why not our own corporations? So that is a movement forward. Some movement on auctions; there are some announcements which came yesterday, will come today on further developments that we are undertaking. The priority sector guidelines will be issued very shortly; we have got comments, we are going to look at them in detail and then issue final instructions before the end of this month. We are expanding the loan limits for microfinance institutions consistent with the fact that we have had inflation over the years and they have asked for an expansion which we think is warranted. And finally, NBFC-IDFs - in order to lend to certain kinds of projects, there were some constraints because we had required them to have something we call a ‘tripartite agreement’ and if you have questions on that I can answer, but what we have done away is a need for tripartite agreement, it is a long-standing request which will facilitate NBFC-IDFs in lending to infrastructure projects. So those are some of the broad elements. But this is an ongoing process. We just collected some of the ones that we had in the works but more will come, structural reforms are well and truly alive.

**Govardhan:**
**Economic Times**

With the Fed seen to be slowing on interest rate increases, do you get a wider window on the interest rate cycle to lower interest rates?

**Dr. Raghuram G. Rajan:** Let me repeat- the Fed's policy changes will have an impact globally. But that is not our central concern. When it comes there will be some volatility but what the improvement in macro policy both from the government side as well as the RBI side, as well as the buffers we have built, give us is the luxury of being able to focus a little more on domestic policy and domestic policy requirements rather than what is going to happen internationally. So, I am not saying that that is irrelevant, that is No. 4 in our guidance, but it is not the central issue and I am not too worried that concerns about when the Fed will move and how much will affect our own policy process. It will be one factor but not the most important factor and I doubt it will be constraining in terms of when we move again.

**Govardhan:** On priority sector lending, the working group has prescribed uniform levels of lending for all, be it public sector, private sector, or foreign banks. Does that ignore the institutions' strengths and weaknesses?

**Dr. Raghuram G. Rajan:** We, as I said, on the occasion of our 80th anniversary celebrations, are moving towards the ownership neutral kind of structure, institution-neutral, ownership-neutral. We are doing it for the NBFCs, we are doing it for the banks. There should not be an unlevel playing field. What we are saying is, yes, we recognize certain banks have certain expertise and therefore let them trade that expertise to the priority sector lending certificate. So, if some banks can do more of agri, can sell those certificates to the foreign banks. So, what we do recognize is that there is an adjustment path that is needed and we will take that into consideration when the final guidelines are put out. But the notion that we have to maintain this unlevel playing field is probably unwarranted.

**Amol:**
**Zee Business** My question is on NPAs. Last time you have said that you have spoken to Finance Minister to strengthen DRTs. What is the update on that? Secondly, It is difficult for banks to recover the money from NPAs at the same time it is a challenging for them to raise the capital as well. There are more than 6 lakh crore NPAs. Do you think this was not seen carefully during inspections?

**Dr. Raghuram G. Rajan:** Let me ask Mr. Mundra to speak on the NPA issue. Let me address the DRT's issue. Dr. Adhia from the DFS has been looking at this issue. Of course he is better placed to answer the question that you ask me. But, we have sat together, he has come to talk to the DRT and understand some of the concerns that are keeping them from expediting cases and I think the Department of Financial Services is well embarked on the idea of expanding their capacity to move faster. So, you should ask him for the details, but certainly, this is an issue that the government is looking at and there will be moves to address it.

**Shri S.S. Mundra:** Regarding NPA which you mentioned, I think it would be too simplistic to put it like this that if there is a continuous process of audit and inspection, the NPA built up into the system can always be seen in advance. We have to appreciate there are a number of factors that are in play; one in post 2008-09, lending was predominantly directly to the sector which was a relatively new sector in the lending, that is the infrastructure. Then of course, there were policy-related issues and delays those are the issues. Between individual institutions, there were the issues about the leadership, or the vacuum, and overall of course the global environment as well. So, I think these are the facts which come together and playing to the formation of NPA. What is important that this was recognized quite early by the Reserve Bank. In the last few months we have an entire mechanism of early recognition, resolution, moving to the formation of joint lending forum, taking a decision within a given timeframe. I think these are things in the right direction. So the moment this kind of trend is spotted the enabling measures are put into place. I think this is how you have to look at.

**Moderator:** Thank you. We will now take questions from the participants on the audio bridge. The first question is from Manju of DNA. Please go ahead.

**Manju:**
**DNA** I just wanted to ask you though banks are not bringing down the rates; they are investing into commercial papers of companies at much lower rate. Is there any risk involved in this and are you taking cognizance of this? The second question I had is why has RBI allowed banks an extended time to restructure their debt? If references are made either to the CDR or JLF before March 31st , why did the circular come on 30th of March when almost all must have been done or was there a bunching up of debt that remained to be restructured?

**Dr. Raghuram G. Rajan:** Let me address the second issue first; I think the rules of the JLF basically allow any entity that goes into the JLF 120 days to figure out what needs to be done and at the end of it as an incentive to do it fast, the asset classification that prevailed before it went into the JLF persists. So, all we are saying is this continues to hold even post March 31st. Now, that does give a little bit of time for banks to deal with problem companies and so on, but the notion here is it is really a softening of the end of forbearance rather than any change in the fact that forbearance has come to an end. Why did not we say this a quarter or two ago, perhaps that would have given banks an incentive to wait a little longer before addressing the issues and I have repeatedly said the faster banks address issues the better it is. Basically we said on March 31st, anything that has already come in gets that 120 days to fix it, so you do not have to sort of rush ahead of the wheels to do this immediately and do bad deals as a result. But there is no more forbearance after this anything that goes in after this does not get forbearance. To your first question, this is part of the issue, right. Banks are able to lend at lower rates today which is exemplified by their buying CPs. So we do have to look at the institutional constraints on them not cutting rates more generally through the base rate system which is what we partly tried to address with this encouragement towards pricing on the basis of the marginal cost of credit. But, I think the incentive for them is also clear because they are lending to companies at the commercial paper rates that suggests that they are happy to pick up the returns that are available today in those kinds of markets which means they should be happy to lend at those rates to normal customers going forward. So, I think the adjustment is a matter of time and given the amount of liquidity that is going to be released during this month, March is a tight month, April is much less tight, I think there will be incentives for banks to cut rates.

**Moderator:** Thank you. The next question is from Radhika Merwin of Hindu Business Line. Please go ahead.

**Radhika Merwin:**
**Hindu Business Line** My question pertains to the NBFC-IDF leeway that you have given on the PPP projects. If you can elaborate a little bit because as I understand currently, these debt funds can fund NHAI projects, port projects, etc. So, what is the kind of leeway are we offering to other projects?

**Shri R. Gandhi:** NBFC-IDFs is for regulatory forbearance for those kind of support which they give where there they are triple-D and tripartite agreements. If there is no tripartite agreement, they do not get that regulatory support or forbearance. There are other infrastructure projects where there is no opportunity for tripartite agreement so those projects should also be permitted for them to be refinanced. So that argument we agreed. So that is the one we are permitting now. Second, they also mentioned that there are other projects where it already operational after one year, why they cannot be financed. That also we have accepted and now they can finance those projects as well. So the idea is that IDFs should be financing less risky projects wherever it is possible.

**Radhika Merwin:** So ideally this will still fund operational projects or are we actually expanding the ambit of bringing in other projects as well?

**Shri R. Gandhi:** They have only for operational projects. Only after completion of the project is over and after one year.

**Radhika Merwin:** My second question pertains to the benchmark that you have mentioned that will be provided to price banking products. As I remember, according to the Urjit Patel Committee recommendation, we have been talking about the term repo across different tenures acting as benchmark to price different deposit rates across different tenures. So, are we talking on the same lines when we are talking about benchmark indices here?

**Shri H. R. Khan:** Basically, what has been indicated is that both asset side and liability side if they have to price with reference to a particular market interest rate, there has to be some benchmark, because the transmission is not happening, because advances are tied to different benchmark and deposits are to different benchmark. So that is why the whole concept of this market interest rate benchmark which the new company will try to put out. That is the idea. It is not directly related to the term interest rate which we have been talking about.

**Dr. Raghuram G. Rajan:** The idea here is to get a believable benchmark and that is what the company is set up to do, based on actual transactions. Those actual transactions maybe loan transactions for one kind of benchmark, it maybe your term repo, the 14-day term repo, for which there is an established interest rate nowadays, it can be other term repos. This is something the company has to figure out, what demand there is in the market. We hope the company will set up in the next two months and start working out different benchmarks and then banks will be free to pick up those. There is an issue that sometimes is raised about the benchmark of which banks price their loans being determined by the banks themselves. And so this would provide an exogenous benchmark which they can use.

**Aparna:**
**Financial Express** Sir, I have two questions. One is on liquidity which is a key dimension to the credit-deposit growth and monetary transmission. We have seen deposit growth at 14 per cent all along. Now even deposit growth has fallen from a high number to average 11.4 per cent. I checked the data, it is a 50 year low. Does the RBI in future see a structural issue in liquidity which can hamper the business of banks? My second question is you have been warning companies about unhedged forex exposure. Banks tell us that corporates are still not hedging their forex exposure, large open exposures are still there. Do you see the risk of this exposure still persisting, what is the update?

**Dr. Raghuram G. Rajan:** First on deposits growth being also lower. Clearly, there is some disintermediation also going on that there is some direct raising of funds from the markets whether in terms of commercial paper or in bond issuances which is bypassing the banks. And this is why I have said that at some point, the banks will have to react so as to recapture some of the business and let us wait and see how that happens. There are also structural constraints that we have to look at but I do not think right now that is the determining factor, constraints such as small saving trade and so on. As far as the second question on unhedged exposure, we can exhort the banks, the banks can exhort the companies, but at some level until you have very-very intensive monitoring of what the companies do… you can take a horse to water, but you cannot make it drink. That is where the notion that volatility can happen anytime and that we are not sort of going to be focused on holding the rupee at some particular level without any change. That should be clearly communicated to companies also that they should have absorbed it by now. Our focus is on undue increases in volatility, but we are not going to maintain any particular level for the rupee and so they have to recognize that they are taking on a big risk, especially if monetary conditions change around the world. So, I think that we will look at our current regulations and see how we can make them more effective, but also companies should absorb the message that it is in their own interest and this is where I think the possibility of them raising money in rupee bonds outside and using that would be an alternative to borrowing ECBs and dollars and holding it unhedged. The other factor that one must recognize is we are also trying to improve the extent to which distress is resolved. If distress is always resolved with banks taking the hit, and the promoter going scot-free, there is an incentive sometimes to take certain kinds of bets; they become one way bets. If the dollar strengthens against the rupee, the banks take the hit, but if the dollar weakens, the equity holders benefit. So that also is something that hopefully the measures we have taken will try and convince people that that kind of negotiation is unlikely to happen going forward, and that banks are not going to forever take the downside hit when positions are unhedged.

**Alekh:**
**Cogencis** What is the rationale behind allowing banks to cross hold the long-term bonds because the RBI wants to get long term money from PFs and the insurance companies.

**Dr. Raghuram G. Rajan:** The idea is not for this to be another source of financing, it will be very limited, small fraction, single digit fraction of their assets, they are primarily for trading purposes. So, what the banks said is we are a big part of the trading community here and liquidity in this bond will be enhanced if we can use some of them for trading. To make sure there is no incentive to over hold these bonds, we are essentially subtracting the benefit a bank gets from the bonds it has issued, by the number of bonds it holds, so that there is no double counting of these benefits, in fact, only single counting and bonds held for trading come at a cost. So, we are just ensuring that these are used for trading rather than become a way of bank-A holds B's bonds and bank-B holds A's bonds and therefore, get all the priority sector as well as the liquidity benefits.

**Kavita Krishnan: CNBC Awaaz** Last time when rate cuts were taking place and the banks were also reducing interest rate what we had seen was that this was not happening in the case of loans for old customers but it was for so for new customers. So this time with the rate cuts taking place will you ensure that old customers also can get the benefit of reduced interest rates?

**Dr. Raghuram G. Rajan:** To the extent that a loan is tied to a benchmark like the base rate then when the base rate comes down, the EMIs will also come down. So anything that is tied to a common rate, will adjust accordingly. So, we do not have to issue special new instructions to make sure that this happens.

**Alpana Killawala**: Thank you very much. Thank you, Sir.

**Dr. Raghuram G. Rajan:** Thank you.

**Moderator:** Thank you. Ladies and Gentlemen, on behalf of Reserve Bank of India that concludes this conference. Thank you for joining us and you may now disconnect your lines.