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

February 2, 2016

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MODERATOR:

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Moderator: Good Day, Ladies and Gentlemen. Welcome to the Sixth Bi-Monthly Monetary Policy Governor's Teleconference with Media. 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Dr. Raghuram G. Rajan: Good Morning. Let me emphasize some aspects of our statement and add a little more. Inflation has evolved closely along the trajectory set by the monetary policy stance. With unfavourable base effects on the ebb and benign prices of fruits and vegetables and crude oil, the January 2016 target of 6% should be met. Going forward, under the assumption of a normal monsoon and the current level of crude oil prices and exchange rates, inflation is likely to be inertial and around 5% by the end of fiscal 2016-17. However, the implementation of the Seventh Central Pay Commission award has not been factored into these projections and will have impart upward momentum to this trajectory for a period of one to two years. There are certain aspects of this pay commission award that we can look through however. The Reserve Bank will adjust the forecast path as and when more clarity emerges on the timing of implementation.

Turning to the Policy Stance: The Indian economy is currently being viewed at the beacon of stability because of the steady disinflation, modest current account deficit and commitment to fiscal rectitude. This needs to be maintained so that the foundations of stable and sustainable growth are strengthened. Reserve Bank continues to be accommodator even as it leaves the policy rate unchanged in this review, while awaiting further data on the development of inflation. Structural reforms in the forthcoming Union Budget that boost growth while controlling spending will create more room from monetary policy to support growth, while also ensuring that inflation remains on the projected path of 5% by the end of 2016-17.

Turning to other matters in keeping with the government's start-up India initiative, the Reserve Bank will take steps to ease doing business and contribute to an ecosystem that is conducive to the growth of start-ups. These measures which we will announce shortly will create an enabling framework for start-ups receiving foreign venture capital, will also allow different contractual structures embedded in investment instruments, allow deferring receipt of the consideration for transfer of ownership, create facilities for escrow arrangements and simplify documentation and reporting procedures, some of which are already in place. The detailed statement is being issued separately and should be available very shortly on the website.

Over the last few quarters, the Reserve Bank has expanded the tools banks have to deal with stressed loans. We are now working with the government and banks to ensure that the stressed assets are recognized on a proactive basis and that bank balance sheets both reflect a true and fair picture and are adequately provisioned. It is important to note that provisioning prepares banks for possible loan loss but if the loss does not materialize; it can be written back to profit.

We mapped out various possible scenarios to determine the extent of likely stress and believe they are all manageable. The Finance Minister has indicated he will support the public sector banks with capital infusion as needed. Our estimate is that the support that has been indicated will suffice especially when coupled with other capital sources that are usually available to banks. Our various scenarios also show that private sector banks will not want more regulatory capital as a result of this exercise.

Finally, the RBI is also working on identifying currently non-recognizable capital, that is already on banks' balance sheets such as undervalued assets. The RBI could allow some of these to count as capital as per Basel norms provided a bank meets minimum common equity status. We are also monitoring the recovery process to make it more effective. Following consultations with banks and NBFCs we will shortly issue instructions further fine-tuning the JLF and SDR process.

Finally, we monitor the liquidity needs of the economy on a continuing basis. We will use the entire gamut of liquidity instruments including overnight and term repos as well as open market operations to ensure that liquidity is plentifully supplied and the weighted average call money rates hug the policy rate. With that happy to take questions.

Latha Venkatesh:
CNBC TV18

Is it fair to say that you have become slightly more skeptical about the inflation level going to 4.8% which was there in the Monetary Policy Report till September? You also pointed out that services inflation is not falling and again that average for Jan-March 2017 has been placed around 5%. Would you say that you are not confident that the inflation will fall as much as you were perhaps few months before?

Dr. Raghuram G. Rajan: I would not read a lot into the 0.2 difference that you seem to be reading. There are wide bands of errors in forecast. However, since September of course we have had some information on Pay Commission awards and we have to see how it will be implemented and who implements it including the center and the state and the timing. There are some aspects of the Pay Commission that we can look through, some we cannot and over time as the award is actually put in place we will see and be able to give you more information on that. So broadly, I do not think it is fair to read that we have become more hawkish over time. I think broadly speaking the positives are balanced by the negatives. That there has been some movement downward in oil prices but at the same time what we have to look for, there are some risks which would also pull inflation down such as good monsoon next year. Of course, there is lot of speculation whether after two bad monsoons you are almost sure to get a good monsoon; I leave that to the meteorologists to figure out. But nevertheless, there are some downside risks as well as upside risks.

Latha Venkatesh:
CNBC TV18

You put a long emphasis on the fiscal deficit number. Exactly what would you want to hear that will give you this monetary space that you are looking for? And one statement remarkable by its absence is that you have not spoken about public investment pulling in private investments, so clearly you are not looking for that.

Dr. Raghuram G. Rajan: No, I do not think we have to reiterate every aspect of our previous statement in the continuing statement. So, it is not to say that public investment is not important. I think it is important and the government is engaged in it. On the issue of fiscal deficit and the budget and so on, it is not our place to tell the government what to do but we will see what the government does and then we act accordingly.

Nisha Poddar:
ET Now

Governor, I just was looking at the statement, you have clearly put the ball now in the Finance Minister Arun Jaitley's court. How important is another monetary policy rate cut at this point and there is an expectation now in the market that it could be announced right after the budget even before the next policy review. So how important is this and especially at a time when liquidity constraint is so high in the market space. Do you think that it is grave that OMOs are not sufficient at this point because clearly no matter how many cuts you do the transmission is going to be very critical and will be restrained if liquidity is the main concern?

Dr. Raghuram G. Rajan: A couple of things, one, as far as future policy moves, I will not comment on it now, we will see. I mean the statement is pretty clear on what we are looking for the kind of data we are looking forward will inform our future policy moves. On the issue of liquidity, our measure of whether there is enough liquidity of course is to see whether the rates in the call money markets are broadly in line with the policy rate and I think the evidence is that they are. Now certainly because of a variety of aspects which we pointed out in the statement, the amount of lending we are doing in the markets through facility has increased to offset some of the shortages for a variety of reasons, but we are supplying that liquidity to the market. So to argue there is an enormous liquidity shortage at this point I think is not consistent with the facts. However, we also take a view on the difference between short-term liquidity needs because of seasonal build ups of say of Government balances and long-term liquidity needs which come from a need to expand the RBI's balance sheet at a steady pace. And we are looking into what those mean for what instruments we use. When it is short-term liquidity needs we use more of the short-term instruments whereas long-term liquidity needs we use open market operations, currency, reserve management and so on. So as I said in the pre-statement to this conference, we will look at the emerging liquidity needs and use all instruments to manage those.

Nisha Poddar:
ET Now

And on the NPA terms that is the burning issue right now. Of course we have seen some bottom lines of private banks with earnings really being hit. Has RBI given a list to the banks to recognize some of the accounts as NPA or is it only by provisioning that we are looking at? And just a specific question because once it becomes an NPA the valuation of the company also drops. So that is one of the important things I wanted to understand especially when you also said that there could be some fine tuning of JLF as well as SDR, does this mean that some of the SDR norms would also be changed going forward?

Dr. Raghuram G. Rajan: Let me ask Mr. Mundra to comment on the details very shortly. But the RBI has not told banks what to do. We have discussed with them a range of accounts and essentially given them some time to figure out whether those accounts are regularized or moved into different categorizations. It is now in the banks court to move forward on this. Our only role is to make sure this process is uniform across banks and essentially ensure that over a period of time banks' balance sheets are both fully provisioned as well as the assets that could go bad are recognized as such and classified as such. Mr, Mundra, would you like to add anything to that?

Shri S.S. Mundra: As just mentioned buy the Governor, there is nothing like handing over a list to the banks. What we did, and we have explained earlier also, that this time we have done the looking at the banks book across the industry at one point of time and certain broad observations which came out of such inspection, they were discussed with the banks, they were shared with the banks. In the process banks were encouraged to have a positive and conservative approach. Now what does it translate? You mentioned about whether it is only NPA or whether it is provisioning. I think these two things go together. What it means to explain further, if there is a case which is clearly NPA, it would be NPA and would entail provisioning, there is no confusion about it. But when you look across the industry and there are instances where certain weaknesses are observed in the account which may not be with a particular bank as per the rule based measuring which we do today. But when we discussed and when banks take a proactive approach then they start providing for those cases also which may not necessarily be NPA today. But it prepares them for a future possibility as mentioned in the policy statement also and it strengthens the balance sheet. And of course this also triggers a process whereby the rectification can happen and if this rectification happens then provision comes back. So broadly this has been the approach. And your SDR thing, I think Mr. Gandhi would like to mention.

Shri. R. Gandhi: Yes, we have been having discussions that the banks and other institutions taking feedback about the SDR provisions and the JLF provisions. JLF provisions we are working on and shortly we may be able to revise guidelines, tweaking a bit here and there.

Dr. Raghuram G. Rajan: Just to clarify so there is no confusion, when Mr. Gandhi said provisions it did not mean provisioning, it meant the aspects of the JLF as well as the SDR.

Govardhan:
Economic Times

You mentioned that you are open to having plentiful liquidity and highlighted that call rates are hugging the policy rate. Then why is it that the G-sec yields are at where they are despite your 125 basis points cut in 2015? Where does the fault lie?

Dr. Raghuram G. Rajan: You must remember G-sec yields are a confluence of a variety of factors. First, depends on when you start tracking the G-sec yields. Remember policy on the date we announced a cut, policy is anticipated before that. So if we look from the middle of 2014 for example, G-sec yields have come down significantly in this year. So how much of the policy cuts in 2015 were anticipated and how much were not, that does matter and if there is some anticipation it was factored into the falling G-sec yields. But G-sec yields are not just about policy. Obviously expectations of inflation do come in and I believe expectations have fallen overtime. But other aspects also have an influence. For instance, clearly the supply and demand for G-sec at a particular point in time does have some effect. So to that extent yes, issues of liquidity, issues of available purchasing institutions, etc., do matter.

Govardhan:
Economic TImes

You have brought up the issue of re-emergence of stalled projects issue. Is that a worry on supply side issue in containing inflation?

Dr. Raghuram G. Rajan: No, if you look at the data, for example the CMIE data, though there are other sources of data on stalled projects, it looked like it was coming down steadily and what has happened in the last couple of quarters, it seems to have started picking up once again. And that is a source of concern because the steady improvement that was seen seems to be at least for a while halted. Now the government is taking measures to again reduce the stalled projects. Prime Minister, Finance Minister, Minister of State and Finance, all of them are engaged, so hopefully we will see this come down once again.

Amol:
Zee Business

In real estate a peculiar situation is emerging as builders get buyers to take home loans and then pass on the money to them and pay a premium over home loan rate to the buyer for using his credit limit. Banks officials are also involved in this ghost buyer funding. It creates an inflated loan book of home loans as well as risk of NPA. what the RBI take on this issue?

Shri S.S. Mundra: As far as information and accounts that is available with the banks on the retail portfolio, the whole retail portfolio and more importantly the home loan portfolio of the banks, the current percentage of NPAs of this or the percentage of stressed loans is quite low. So looking at available data it does not seem that there is additional stress on this portfolio. But what you have mentioned is also on our radar and if there are any schemes of such types or any such things are found then we surely investigate them. Here we also need to remember that NHB is the regulatory body for housing loan sector. But in the portfolio of the banks if there are any such loans and if we find any discrepancies in their accounts then we keep an eye on these.

Amol:
Zee Business Recently have you received any complaint about such matters?

Shri S.S. Mundra: See, if there are one or two complaints that is another thing, and if there is a direction that there are many such complaints like this or if there is anything visible in the whole economy, so here there is no such direction at the moment. Yes, one or two complaints, individual cases keep on coming up and we do look into those.

Takafumi Hotta:
Nikkei

I would like to ask you about the recent monetary policy of the Bank of Japan. It has introduced country's first negative interest rate on corporate bonds. Some say that they are undertaking excessive monetary easing measures. I would like your views on this.

Dr. Raghuram G. Rajan: See, I do not comment on the policies of specific central banks. I think my views on monetary policy across the world have been made pretty clear. I believe there is only so much monetary policy can do and beyond that action should be left to others. But this is a view that can be subject to discussion and debate.

Aparna:
Mint

In a recent lecture, you quoted James Carville to say that the best thing is to be the bond market. You can intimidate everybody. How intimidated are you by the bond market in the context of transmission as yields of Treasury bills have gone up? Do you feel transmission has been hit?

Dr. Raghuram G. Rajan: Look, one of the factors that I did mention earlier when we were talking about yields picking up also is that across the world with tightening policy in mind yields have been picking up. If you look at some of our emerging market cousins, you find countries where yields have moved considerably more than in India. So our problem is that it has not come down as much as we would like, but it has not moved up significantly. So the answer to your question is it is a risk we should be aware of and often the role of somebody who tries to manage market stability is to warn about risks. It does not mean the risk will be realized and hopefully we will take enough actions that the risk becomes a remote possibility. But it is a warning rather than saying that this was eminent on us.

Anup Roy:
Business Standard

The Government's surplus cash balance with you reckoned for auction, though we do not know the actual cash balance, it is Rs.1.5 trillion. What kind of problem it is causing for you? And your own liquidity injection is close to 1.73% of NDTL whereas your own effort is to put in 1.5% of NDTL. So what kind of problem it is creating for you as far monetary policy is concerned and competition is concerned, etc?

Dr. Raghuram G. Rajan: I would not say that there is an immediate effect because we do tend to offset any increase in Government balances through liquidity measures in the market. So in that sense, short-term fluctuations we expect and we take measures to offset them. So auctioning Government balance is one of them but we also lend money into the markets at such times. We do also think about what the long-term liquidity needs of the economy are and obviously as I said earlier we will adjust appropriately.

Dr. Urjit R. Patel: I think we need to look at the issue of liquidity and reserve money growth from the perspective of the nominal growth for the whole year, and at the moment our reserve money nominal growth is over 12% which is larger than 10.5% of last year, in a year when we expect nominal growth for the economy to be actually lower. So I think there is adequate base money creation. And it is important to distinguish between offsetting temporary fluctuations and imparting enough long-term expansion of the RBI balance sheet and that is almost a one to one offset between any short-term fluctuations of Government cash balances and what we do. And sufficient statistic to look at that is how close we are on a weighted average call rate basis to the policy rate and that number has actually been coming down over the last three quarters, the deviation from the policy rate. So I think the liquidity management has been adequate and we stand ready to do more, in fact that is likely to happen as we reach nearer the end of the fiscal year and there is some window dressing by banks etc., as we did last year.

Bijoy:
Cogencis

There has been some opposition from the banking sector to the March 2017 banks' book clean-up deadline. Will this impact transmission by the banking sector? There is no mention of transmission by banks in the policy today. Also, on MCLR norms, do you think the RBI has given banks a hall pass as there is a more internal yield curve approach now as compared with the initially proposed marginal cost pricing-linked Base Rate system?

Dr. Raghuram G. Rajan: I believe that the marginal cost loan pricing which will kick in April 1st will actually help transmission and I think it will be an improvement over the earlier base rates. As you know banks will move to that for new loans and I do believe that we will see a significant change in the transmission process when that comes in. So I have no doubts on that account. On the earlier part of the question, I think a number of banks actually welcome the ability to clean up their balance sheets knowing that others are doing that also and they will not be seen in isolation. I believe this process will create the basis for strong growth as banks can then focus not on managing legacy assets but on lending to new ones. So I do not think that this will deter from profitability in the medium-term as well as growth. I think transmission basically will happen and as I have said continuously, eventually banks will be forced by competition to transmit.

Bhavik Nair:
Financial Express

In the revised ECB guidelines, the RBI had kept infrastructure firms under track-II- where bonds below 10 years of tenure cannot be issued. Many firms are known to have written to the RBI requesting clarification on this regard. What is the RBI’s take on this?

Shri H.R. Khan: We have issued this policy just two months back, so we will allow some time for it to run before we take a large scale review. But the specific issue of door-to-door maturity or average maturity, we have received some representations, we are looking at it.

Radhika Mervin:
Hindu Business Line

The first one on the point what you mentioned that you are trying to identify non-recognizable capital basically in the form of undervalued assets, if you can explain that a bit. And the other I wanted to ask on the new MCLR method, it is evident that the banks will have to kind of stretch the duration on the loan side and reduce on the liability. So are we looking at options like floating debt deposits that can come in the future?

Dr. Raghuram G. Rajan: Let me take the second question first. Marginal cost pricing, yes it will impel banks over time to look at floating rate deposits and other new instruments. But this is not something that we will push them to; they have the freedom to do it even today. On the issue of non-recognized capital today, on a number of dimensions we have been stricter than Basel norms on recognizing assets that have increased in value or assets that exist on the balance sheet that will be a source of value in the future. We are looking at some of these to see if there is a possibility that while still remaining conservative, we can allow banks a little more room to use these and as we do the analysis we will make appropriate public statements.

Radhika Mervin:
Hindu Business Line So are these assets which are, I mean what kind of assets are we referring to here?

Dr. Raghuram G. Rajan: For example, you may have real-estate assets that are counted as a fraction of that, that we allow only a fraction of that value to count as capital, so things like that.

Manju:
DNA

I wanted to know why the bank book review was undertaken. What was the signal that RBI was acting on because most banks had been reporting lower NPAs for the last few quarters? What percentage of bank loans are weak or stressed after the review of banks' books last month? Private agencies say that weak accounts may be as high as 17% to 18%. Did your investigations also throw up similar figures?

Dr. Raghuram G. Rajan: On the first question which is what was the trigger, there was no specific trigger. What we had focused on in the process of cleaning up bank balance sheets is first to give the banks various powers to deal with stressed assets. There is no point pushing on cleanup when powers are limited. Over the last year and half, two years we have given them more powers and we have enabled that. And now the time has come to actually push more on the full recognition and provisioning, so it is a process rather than any trigger.

Manju:
DNA What percentage of loans was stressed?

Dr. Raghuram G. Rajan: I think those 17%, 18% numbers maybe a little on the high side. But broadly speaking I think we should also be careful about treating any stressed asset as a total write-off. Some of these assets need changes in terms, changes in conditions, sometimes changes in promoters and could very well over time as the economy recovers repay a fair amount of value.

Manju:
DNA

Will all the SDR and JLF accounts invite provisioning, is that what you are telling the banks?

Shri R. Gandhi: Provisioning will be based on whether it is classified as NPA or not, so based on the actual classification of NPA it will be done. And beyond that, the floating provisions that banks do make to take care of future losses.

Pradeep Pandya:
CNBC Awaaz

You said that you leave the budget to the Government, but in the statement you also said that you are looking for structural reforms. What do you mean by this, what type of structural reforms?

Dr. Raghuram G. Rajan: Government has suggested a number of steps to make the economy more flexible, create growth opportunities. There are some steps to incentivise investment; all those would be things that we will look at. There could be steps to encourage more training, skilling; one of the biggest sources of concerns in the economy today is service sector inflation because there is limited capacity there, you see education, you see healthcare. So whether the Government takes some steps in those directions, all those are structural reforms that could help in the particular area we are interested in, which is lowering the pace of inflation over time.

Shraddha:
Bloomberg TV

Only because we are very close to the Union Budget want to ask this. Any deviation from the FRBM target, or any reset of the fiscal road map, how do you think that will impact the economy, the debt market and obviously the monetary policy if we see any fiscal relaxation?

Dr. Raghuram G. Rajan: See, the budget has to be viewed as a package as always, what are the various aspects of the budget, how does it get put together. So it is very hard to say this number, well this number depends on what number was the previous year, what number will be year afterwards. So I do not think anybody including the markets is looking at one number, they are looking at the entire package.

Beena Parmar:
Hindustan Times

Since you mentioned that you have discussed certain accounts with the banks, so is there a possibility that you can share the top 10 borrowers, not the names. What I need is the quantum of the share of accounts, the amount that has been towards the bank.

Dr. Raghuram G. Rajan: I don’t think, I have shared more information. I mean you all have a sense which are the stressed accounts in the system. So I would probably do not add more information than what you already have. But broadly the banks are aware of some of these issues. The big point was to get them all on the same playing field to make them collectively aware that these are a variety of accounts, a variety of situations that we are tracking and it was a good discussion with them and they are moving forward based on that.

Beena Parmar
Hindustan Times

Also is there any discussion on further sale of bad assets to ARCs, has there been any progress?

Dr. Raghuram G. Rajan: Well, we had a discussion with ARCs, with some other NBFCs on what role they could play in this process. We never tell the banks, they must sell such and such asset but we need to create capacity in the system to absorb asset sales if they happen and that is what we are actively engaged in. The ARCs mention some impediments in their access to capital; we are looking at that and working with the Government to see if their capacity can be expanded.

Ushang Sheth:
Zee Business

Regarding the start-up initiatives announced, how are you working towards making it easier in India and how does the RBI intend to work towards the funding of startups which is a major and leading concern.

Dr. Raghuram G. Rajan: We want to simplify the process. If a start-up wants money it can take it in different forms, complicated contracts, but many times these contracts are not allowed in FEMA. Can we make it possible for those contracts to actually be undertaken? Many times when they sell it to the company, all the receipts do not come immediately; there is some time taken before the proceeds are paid. During that time the amount is escrowed, can we extend the time that the amount is escrowed so that sales can take place more easily? So there are a variety of places where entrepreneurs have come to us and told us that they want some relaxations. The details are in a document which is on the web, "Start-up initiatives, regulatory relaxations announced by the Reserve Bank of India". Some have already been announced**,** some are underway, some are being disused with the Government. But the broad point is we are supporting the start-up process by making it easier to raise money often from abroad, but also simplify the compliance with regulations including putting a lot of the forms online so that they really do not have to go from pillar to post.

Shayan Ghosh:
Financial Express

Some large private sector banks have said during their Q3 financial results that a chunk of their slippages have come from RBI's reclassification directive. Why do you think it took an RBI nudge to classify such accounts as NPAs? Were there instances of IRAC norms not being followed by some banks?

Dr. Raghuram G. Rajan: What we did was looked closely at our IRAC norms and had a discussion with the banks on how those norms would continue to be met going forward. The word 'proactive' is the best way to describe it. These are accounts that for a variety of reasons based on the reading of the IRAC norms would look weak and would require classification if we look forward. IRAC is supposed to be essentially forward looking and becomes effectively forward looking when you go to the new IFRS norms which is not that far away, '18-19 is IFRS norms. This is in a way a smooth transition to that process.

Alpana Killawala: That is all from our side. Thank you very much for joining.

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