

# New Development Bank to lend \$2.5 billion next year: KV Kamath

Brics Bank president KV Kamath says increased government spending will soon lead to a recovery in the private investment cycle in India



New Development Bank president KV Kamath says the challenge of recapitalization that the government had is reduced with the interest rate cuts. Photo: Aniruddha Chowdhury/ Mint

**Goa:** A year-and-a-half after K.V. Kamath was appointed president of the New Development Bank set up by the five Brics (Brazil, Russia, India, China, South Africa) economies to challenge the dominance of developed countries in providing international finance, he says the institution has quickly taken shape and is now in expansion mode. In an interview on the sidelines of the 8th Brics summit in Goa, where he was present to submit the NDB's report card, Kamath said increased government spending will soon lead to a recovery in the private investment cycle in India. Edited excerpts:

### **How do you see the Indian economy doing at present?**

I am very bullish. Passage of the GST (goods and services tax) bill, good monsoon, several initiatives to curb retail inflation, particularly through supply side distribution, efforts to bring unaccounted wealth to productive use, the initiatives the government has taken on technology, all these will certainly mean that growth momentum will certainly pick up.

### **But private investments are yet to pick up.**

We don't need all drivers to tick together. If I look back at 2001, several things happened in sequence. Government was the first driver, through road projects—Pradhan Mantri Gram Sadak Yojana—

and so on. Then the private sector was a late pedaller in the whole process. Here also we will see them pedalling faster and faster as we go along. But probably other drivers will be ahead and then private investment will catch up.

### **What do you think is the right approach to deal with bad loans in the banking system? Do you think a Bad Bank (to take over and resolve non-performing loans) is a good idea?**

At this point of time, bad loan recognition process is done. Second is resolution process. Banks need to sit together; the government which is the owner needs to ask them for a time-bound programme to resolve (bad loans). The challenge of recapitalization that the government had is reduced with the interest rate cuts we have seen.

So treasury gains from mark-to-market effect probably takes care of all the capital that is needed. No government capital is needed at this time. So resolution of loans is required and within the resolution structure—if you think a Bad Bank is required, that is something that one needs to look at in detail.

### **How have things panned out at NDB since you joined as president?**

We set out a target that in the first year we will lay the foundation, we will raise and lend money. That was a fairly tough target, but we have been able to do all the three in the first year. So we start the second year on a firm foundation and with the ability to look for more growth.

### **What is the lending target of NDB for the next year?**

So far this year, we have done \$900 million of lending. But we have still one board meeting and a few more loans to happen. So it will be well over a billion dollar in the first year. Our target is to double that in the second year. For the coming calendar year, we are looking at \$2.5 billion lending.

### **You have, in the past, built institutions like ICICI Bank. What is the work philosophy of NDB?**

When I look back, there are three learnings that we could have from other multilateral lending banks, national development banks and commercial banks. And I have worked in all three types of institutions. My approach to this bank is taking the learning more from the national development banks and commercial banks which make you more nimble, agile and responsive.

### **Will the NDB have branches in all member-countries?**

We will start with a regional branch in Africa. That should be open this quarter. Then we will see how things go.

### **Recently India has proposed to the World Bank that it should allow NDB to leverage its strong balance sheet to borrow from the market at a cheaper rate and put the money in developmental activities. Do you think that is a feasible idea?**

We will look at all the suggestions and thoughts but we should also be able to leverage our own capital at this stage because it is under-leveraged. Along with leveraging our own capital, if there are any suggestions, we will examine them. But primarily, we will leverage our own capital at this point.

**There are discussions for setting up a Brics credit rating agency. What are your thoughts on that?**

I don't know the contours of this (proposed) institution. I need to understand what exactly it will do. Would it rate local papers and would that be accepted by the government? We are encouraging local currency financing and we clearly need a structure under which we can raise this. When we look at the Indian market, it's the Masala bond (rupee-denominated bonds sold overseas) that we are looking at. But that needs an external rating by globally recognized rating agencies. So we need to understand the contours of this before I could comment.

**The proposed rating agency also plans to rate sovereigns. That's because India considers the methodology followed by current rating agencies to be biased against developing countries.**

Important thing is how this rating will be taken by the markets. That question needs to be answered. However, there is an issue in terms of looking at the whole rating exercise because there could be several questions that could be asked about that.

**You talked about the rupee Masala bond sale that is likely to happen. What is the timeline for this and how much you are planning to raise?**

Hopefully in the first quarter of calendar year. I have not put a number to it, but I would guess it would be between \$250-500 million.

**How is the coordination between AIIB (Asian Infrastructure Investment Bank) and NDB? Are there certain projects that AIIB will invest in and you will not?**

(At) AIIB, as we understand, the focus will be in Asia while our focus is going to be wider. We will cooperate and complement what the other is doing. Most of the project allocation, at least from our member-countries, comes from the governments. So there is no competition per se because the needs are far more than what members can actually absorb.

**You have lent \$250 million so far for Indian projects through Canara Bank for renewable energy sector. Are there any more projects you will finance this year?**

I think there is something on the cards this year in next month's NDB board meeting. But we will actually be able to talk about it after we put it before the board. It is either in the water space or road space because we have interests from India in so many areas.

**India is likely to propose a Syria redevelopment fund under Brics umbrella. Can NDB have a role in that?**

We have not looked at that. At this point of time, that is not our focus because we have to work within our member countries.

**Is there scope of expanding the members of the NDB?**

That is something the governors have to decide and when they decide we will do further work on that.

**What is your lending plan for India for the next calendar year?**

As I said, our lending target is \$2.5 billion for next calendar year and we will see what is the deal flow from India. We will make sure that we look after the interests of all countries and have a pipeline which is appropriate.

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