"Reserve Bank of India Post Policy Conference Call" With Researchers/Analysts

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Edited Transcript

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	MRS. USHA THAROT – DEPUTY GOVERNOR
	DR. KC CHAKRABARTY – DEPUTY GOVERNOR
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Moderator: Ladies and gentlemen good morning, good afternoon, good evening, and welcome to the Reserve Bank of India Post Policy Conference Call for researchers and analysts. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. To ask a question, you may press * and 1. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Alpana Killawala from RBI. Thank you and over to you.

Alpana Killawala: Thank you Melissa and welcome to all participants of this Reserve Bank of India's post policy interaction. We have the top management of the Reserve Bank here with us and I request the Governor to make his opening remarks and then throw the floor open for questions.

Dr. D. Subbarao: Thank you. Good afternoon, good morning, good evening to all our listeners and all our potential questioners. I expect you have seen the document that we put out yesterday, I do not have much to add to that. What I want to say is that we have begun the exit from the accommodative monetary policy in October 2009 when we raised the SLR. In January, we raised the CRR by 75 basis points and thereafter in March, April, and July again. Including yesterday, four times we have raised the policy interest rates. One question that everyone has been asking us is how come this is not transmitted. Monetary transmission is not taking place. Our response to that which we gave in the press conference yesterday and I want to tell you as part of this introductory comments today is that yes, monetary transmission has not been very effective in the past for a number of reasons. First of all, to evaluate what the monetary transmission has been, traditionally, people have looked at the BPLR, but we now note that the BPLR is a very opaque variable and a lot of lending has taken place below the BPLR and above the BPLR. So the BPLR itself is not a correct instrument for measuring monetary transmission.

There have been other problems too. More particularly, the system has been in surplus liquidity for much of the last one year except for the last two months and in a situation of surplus liquidity, monetary transmission by definition is quite ineffective. Also bankers have told us that the demand for credit has been quite subdued. So that could be another factor that explains weak monetary transmission. Then, finally there is also this issue about the transition from the BPLR to the base rate system. Banks are uncertain, I believe, about how the transition will go on and what the legacy issues there might be. So that is another factor that might have inhibited monetary transmission. But going forward, we expect that the transmission will take place in the direction change in the deposit and lending rates of banks.

The notable thing about yesterday's policy action is the narrowing of the corridor from 150 basis points to 125 basis points. Again, that is an effort towards improving monetary transmission. We expect that systemic liquidity will be more in the deficit mode than in surplus mode going forward. However, we will see that there could be off days when there could be marginal surplus, so there is the potential possibility of the rate oscillating between the upper band and the lower band of that corridor. That would cause uncertainty and instability in the markets and to the extent possible we would like to minimise that. So the narrowing of the corridor from 150 basis points to 125 basis points as part of yesterday's action was an outcome of that intention to reduce the uncertainty. The other notable thing we did, apart from rate changes yesterday, was announcing a six-week policy review by way of a press conference. Again, we have explained the rationale for that in our policy document. We want to be able to communicate more frequently and also be able to take action if necessary more frequently. At the same time, I want to say that it does not mean that every six weeks there would necessarily be policy action. Indeed there could be some mid quarter policy press release containing no action and there could be some mid quarter reviews that could have policy action. So I want to manage the expectations in that regard. That is all I have to say by way of introduction, but I will now turn to Subir if he wants to add anything.

Dr. Subir Gokarn: No, I think we can go straight to questions given that they have rather limited time and they have lots of questions.

Moderator: Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question, may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. The first question is from the line of Jay Shankar from Religare. Please go ahead.

Jay Shankar: My question is regarding the liquidity scenario. When do we expect the liquidity scenario to ease and the second question is regarding the capacity constraints which have been discussed in the previous policy document also and the current one also. Other than the auto sector, which are the major sectors where the RBI estimates the capacity constraints to be the major concern and the third one is regarding the rate corridor. Can we expect this to narrow going forward?

Dr. D. Subbarao: Jay Shankar, on the first question about the liquidity scenario, just to update you with the developments over the last one and a half year. The liquidity situation turned from surplus to deficit after 17 months in the month of May 2010. Two months ago you will recall, much of the last year, our average absorption in the window was about Rs.100,000 crore per day and in the first two months of this year, April and May, it was about Rs.49,000 crore on an average per day and because of 3G auction payments as well as advanced tax payments, liquidity in the market dried up. You yourself would have seen that over the last couple of weeks, liquidity situation has eased from the extreme tightness - for example on June 24 was the maximum injection of liquidity of Rs. 83,000 crore - but since then there has been substantial easing and we expect further easing in the next week or so as the government starts spending the salary disbursements. There will be some redemption of bonds, there will be some expenditure by the government. So there will be further easing of liquidity situation. But as we have said, it will not be completely getting back to the surplus situation. We expect that this will be more in the deficit mode than in the surplus mode.

Dr. Subir Gokarn: I think the immediate concern with respect to capacity utilisation is not so much with commodities, auto is a bit of an exception in the sense that we do not import big CVCs in any volume. But for any intermediate good even if domestic capacities are being constrained, clearly the global situation plus that imports are always an option. I think the concern is more with non-tradable capacities in terms of logistics and services, which are getting a bit stretched. May be infrastructure as well and those are really where the bottlenecks will start to have an impact on the inflationary process. So I do not think that the concern is about domestic capacity constraints in goods that are generally quite easily traded because the global situation gives us an offset against those. As I said, auto is very specific sector because the barriers on imports for automobiles are much higher than for all of the intermediate goods that go into automobile which can be relatively easily imported.

Dr. D. Subbarao: On your third question about the corridor, again, yesterday we narrowed it to 125 basis points. I really cannot speculate about what we might narrow it down to. As we said in the press conference yesterday, we started the corridor with 100 basis points in 2005. It had widened to about 300 basis points in 2008 and during the crisis, willy-nilly because of the asymmetric rate adjustment it had narrowed again to 150 basis points. Yesterday we reduced it to 125, but the width of the corridor varies across countries in the world from about 150 basis points in the ECB to 50 in Federal Reserve and Bank of Canada etc. We are going to appoint a study group, a working group shortly to go into the issue of the entire operation of LAF including what could be the width of the corridor in a steady state situation.

Jay Shankar: Thank you sir.

Moderator: Thank you. The next question is from the line of Yen Ping from JP Morgan. Please go ahead.

Yen Ping: Thank you very much Alpana for hosting this call. Looking at the monthly RBI Bulletin, we have seen that the RBI purchases and sale of U.S. dollars since December 09 (the column) has been blank. Does it mean that RBI has not been a buyer of US dollars in the market or is the number just not available any more?

Dr. D. Subbarao: We do not disclose this information about our intervention in the market. It is for analysts to see from the information that we give out. We disclose information with a lag of one month or two.

Shyamala Gopinath: We disclose in the Bulletin with a lag of one month.

Dr. D. Subbarao: So the information that you have seen is probably one month old.

Deepak Mohanty : (Executive Director) By the time the Bulletin comes, it takes a while. So essentially the lag becomes like two months.

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Yen Ping: Yes, but in the report there is currently no number since December 09 to the current, so we assume that this is zero?

Shyamala Gopinath: It means that we have not intervened.

Yen Ping: Okay, thank you very much.

Moderator: Thank you. The next question is from the line of Anirudha Godbole, a private investor from Dubai. Please go ahead.

Anirudha Godbole: Good afternoon to the Governor and other members of the distinguished panel. The 2000-2001 Report on Currency and Finance had mentioned that India has a sacrifice ratio of two. At the current inflation levels in the current economic environment, what is the Reserve Bank's estimation of the sacrifice ratio and my second question is you had put out a discussion paper on capital index bonds in May 2004. Has the Reserve Bank taken a view on whether you will be introducing capital index bonds?

Dr. Subir Gokarn: Can you please define the sacrifice ratio? If you are referring to a document 10 years old, my memory does not serve me very well.

Anirudha Godbole: The sacrifice output in terms of real GDP for one percentage point reduction in inflation.

Dr. Subir Gokarn: Deepak do you have any view on that?

Deepak Mohanty: No, one would have to really see that where the inflation is because as you know that if inflation is moderate, or less than 10%, it is very difficult really to determine what is the kind of trade off that one has. But currently inflation is in double digit. If inflation is in double digit, clearly there is no sacrifice, that clearly hurts the growth. So that is broadly the assessment that I could make out from this.

Dr. D. Subbarao: Anyway, Mr. Godbole, thanks for raising that question. We will go back to the report and update our numbers and if we feel that we must disseminate that in the public domain, we will do that. Thanks for that question. Now capital index bonds.

Shyamala Gopinath: It is true that we had put out the discussion paper, but since then we have had feedback from the market participants telling us that there is a problem with the index that we need to choose for this. So we have redesigned that product and have also worked on the software. Now we are really waiting for this proper inflation index which the markets will be happy with and we will be discussing it with the government and plan an issue of inflation index bond, once we are through with the inflation index. Really waiting for this monthly inflation numbers that the Government would be releasing for the index we need. That will get us started very soon. We will look at those numbers and then take a view.

Anirudha Godbole: Thank you for your answers.

Moderator: Thank you. The next question is from the line of Sameer Goel from Deutsche Bank, Singapore. Please go ahead.

Sameer Goel: Good afternoon and thank you for the presentation. My question is about the liquidity situation. As you pointed out, you now expect liquidity to be more continuously in a deficit mode as compared with surplus. At the very least, we are looking at a more balanced situation on liquidity and as I see the key swing in liquidity which has happened on the last few months is largely because of the effective front-loading of revenues for the government because of the 3G auction. So to that extent, the spending pattern of the government and its cash balances with RBI become the key factor for us to be able to forecast liquidity. In the past, RBI has mentioned that, and it also remains the most un-forcastable variable if you like. Is there now any better guidance now that liquidity has become that much critical or a marginal factor, if better guidance from the government in terms of how it intends to pursue its spending pattern and therefore to get a better sense of how liquidity will pan out?

Dr. D. Subbarao: Thank you Mr. Goel. We don't have any further information on this. Government has not told us their plans for how they intend to utilise the additional resources they have generated and whether in fact as a consequence of that, there might be any change in the borrowing programme. So we are going on an assumption that the borrowing programme remains as indicated in the budget.

Dr. Subir Gokarn: Would just like to add to that. While the auction realisation speeded up the process of transition from surplus to deficit, it was already in progress. When our assessment of credit growth conversations with banks suggest that in the second half, we were expecting to see an acceleration and a broad based credit growth which would have then pushed liquidity into a balance or deficit mode. So what we got was a little bit of an advancement of that schedule. Had the auction realisations been somewhat smaller, then the transition would have taken place perhaps a little later.

Sameer Goel: Thank you.

Moderator: Thank you. The next question is from the line of Pramod Gupta from HDFC Standard Life Insurance from Mumbai. Please go ahead.

Pramod Gupta: Thank you very much for taking my question. Just wanted to know about the inflation forecast that we have for March. In your own report; you write that we are likely to see around 1 per cent rise in inflation because of the revised fuel prices and still you have raised the inflation target by only 0.5%. So what are the elements which are likely to pull it down in your opinion, if you can share that?

Dr. Subir Gokarn: We are looking at three drivers of inflation for the rest of the year. One is food prices and when we made an assessment of the monsoon performance in the preparation for this policy, we have numbers up to the third week of July which while not overwhelming, are still relatively comfortable. There are of course some regional variations which may affect some crops. But by and large the situation is significantly better than it was last year. So in terms of food prices, we should see a softening generally, no shock increases and in many cases may actually decline. That is one factor. The second factor is our assessment of the global situation compared to a previous policy statement has been toned down and we do expect to see this having a softening impact on commodity prices as global demand starts to or does not materialise as strongly as was expected a little earlier in the year This will affect oil prices as well as other commodities. So that is the second source of moderation of inflation. The third factor is something which we have held on to, which is we believe that our actions taken in the first half of the year will start to have an impact in the second half and that is essentially through the channels that we were addressing last quarter which is the ability to have some impact on credit growth and pricing through the instruments of liquidity and policy rate. So the combined effect of this we think will translate into 6 which is slightly higher than what we thought last time. But we really in our judgment we netted out the combined impact of these three factors.

Pramod Gupta: Thank you very much and just one more clarification I want to have. Basically, this special dispensation which may be likely for the airline sector. If there are any views RBI has or is it waiting for the proposal from the bankers on that?

Usha Thorat: We are waiting for the proposals from the banks.

Pramod Gupta: Okay, thank you.

Moderator: Thank you. The next question is from the line of Devika Mehndiratta from Credit Suisse, Singapore. Please go ahead.

Devika Mehndiratta: Good afternoon. Thank you for taking my questions. My first question is that the call rate can be close to the floor of the corridor sometimes, even if banks are borrowing from the RBI's repo window. So when you say that the repo rate will be the operational rate going forward, does it mean that you would like to see the call rate at the top end of the corridor or does it mean that it is necessary so long as banks are net borrowers at the repo window even if it is for small net borrowings and secondly just wanted your view on how you think fixed investments are picking up because the capital goods IT sub-index has been quite volatile in recent months? Thank you so much.

Shyamala Gopinath: What you are saying is that there could be situations when banks would be borrowing from the repo window, but still the call rate will be at the reverse repo rate or at the lower end. How the call rates move during any day would depend on daily liquidity situations and the special liquidity requirement of individual banks. So there may be like we do see some banks borrowing at repo rate and a lot of them depositing funds in the Reserve Bank. So we will have all kind of situations depending on individual requests of banks. But what we would like to see really is a reduction in the volatility of the call rate and therefore it should fluctuate between the reverse repo rate and the repo rate and definitely at the top end of the repo rates ….

Dr. Subir Gokarn: The initial sense we have from the capital goods numbers is that first there is a commercial vehicle component that is quite significant, but machine and equipment also has been quite buoyant. Lot of investment plans that were put on hold when the situation was slack in 2008-09 are coming back on track and so plans that were already in the pipeline are now being implemented. That has resulted in a bit of a bunching of investment activity which correlates with the very strong surge that we saw in capital goods. As these plans get implemented, we move into a slightly different environment when new plans are getting made. We hear from the banks that since then there is a fair amount of money that is in the sanction pipeline, but yet to be disbursed. This suggests that the momentum in investment will continue, but not as robust or not as buoyant as the initial numbers suggest because that was a little bit of a postponement effect that was coming into play.

Devika Mehndiratta: Thank you so much.

Moderator: Thank you. The next question is from the line of Shishir Shindekar from DYK College of Commerce, Nasik. Please go ahead.

Shishir Shindekar: Thank you madam. Good afternoon respected Dr. Governor and Deputy Governors. Thanks for arranging such programmes regularly and introduction of base rate system also. Sir my question is inflation has already entered into double digit figure. What will be the desired level of inflation to achieve GDP growth about 10% at the end of March 2011 and similarly what will be the desired level of foreign exchange rate of Indian rupees as well as dollars by the end of March 2011 according to the RBI? Thank you sir.

Dr. D. Subbarao: Thank you very much Shishir. You have asked a very challenging question because it is difficult to find a precise number for both inflation and the exchange rate that correlate with the 10% growth rate. But you recall that what we put out yesterday was 8.5% growth with inflation of 6%. In the long run, we hope that the inflation will come down to 5% and in the medium term to 4 to 4.5%. The usual question is about the trade-off between growth and inflation. If you have been listening since the beginning, there was that question about sacrifice ratio. In the short-term, there could be trade-off between growth and inflation, but in the medium-term, there is no trade-off and I think it is important to have low inflation for having high growth. So, as much as we cannot give precise numbers for exchange rate and for inflation correlated with the given growth rate, I want to assure you that RBI looks at all these variables.

Shishir Sindekar: Thank you very much sir.

Moderator: Thank you sir. The next question is from the line of Samiran Chakraborty from Standard Chartered Bank of Mumbai. Please go ahead.

Samiran Chakraborty: Thank you Governor and Deputy Governors. My question is that this year you were estimating that capital inflows would likely be just enough to care of the current account deficit. My question is that in that case, how would you think of expanding RBI's balance sheet especially if RBI is not buying government bonds as well through OMO operations and my second question would be that last quarter you had mentioned that one of the reasons for your calibrated approach has been to encourage supply side response to curb inflation. Would you think that now with a more aggressive liquidity tightening and rate tightening, there could be a negative impact from the supply side?

Dr. Subir Gokarn: On the first question Samiran, I think it is not entirely a correct assessment that you have indicated which is that the capital inflows will just about cover the current account. We pointed out to potential risks on either side of this that is there is a risk under uncertain global conditions that we might not have an adequate cushion which includes the question about balance sheet expansion and on the other side, there is also the risk of excess. But in the baseline actually you take off these two extreme situations and we do expect that we should have enough capital flows. If we do not have enough capital inflows to expand the balance sheet, clearly we have the options of OMO, we have option on the CRR which we will keep in mind as we look at the aggregate requirement for balance sheet expansion. So it is really a question of how the global scenario pans out and what impact - positive or negative - it has on capital inflows and at that point we will obviously evaluate the need for additional instruments to expand the balance sheet.

Shyamala Gopinath: Just to supplement, it will also very much depend on the liquidity situation and our monetary stance as to whether we expand the balance sheet and saw what instruments we use and as Dr. Gokarn said we have several options and depending on the context, we would really determine which instrument it would be.

Dr. D. Subbarao: On the second question Samiran about encouraging surplus side yes, you are quite right that we also need to balance between inhibiting demand-side pressures and encouraging surplus side response and that is the balance we have been trying to trade over the last several policy reviews. What impact this might have on the rate hike - I believe that credit for productive sectors will continue to flow and I am given to understand that investment decisions would be taken not on the current interest rates, but interest rates over several cycles. So I think long-term investors make choices based not on today's interest rates, particularly not today's short-term interest rates, but the long-term interest rates and I think on that variable, we will be doing okay.

Samiran Chakraborty: Thank you.

Moderator: Thank you. The next question is from the line of Sonal Varma from Nomura Securities, Mumbai. Please go ahead.

Sonal Varma: Hi, good afternoon. Actually I had three questions. One in your press conference yesterday, you had mentioned that liquidity in balance is broadly defined as being less than 1% of NDTL, it is about Rs.45,000 crore. So just wanted to confirm that you meant plus/minus 1% of NDTL. Does that also mean that if we are beyond that band, we are basically looking at the potential policy measure on either side. Second you have, on various forums, tried to describe what the neutral level of policy rates are and you also mentioned yesterday that we are getting closer to neutral now. What I wanted to understand is, are we still normalising or have we moved into a tightening mode now? Third, you have mentioned in your documents that global economies could slow down in the second half, that is, what data is pointing out which could have some impact on India's industrial production growth and export growth also in the second half. So is that already accounted for in your forecast?

Dr. D. Subbarao: Very good question Sonal. About the first question on what could be balance, it is plus/minus 1% of NDTL. That is what we meant. You should not read this in a mathematical sense that if it goes slightly on either side of that, it will trigger automatic policy action. No. Certainly not. We will have to take into account a number of other considerations, but in balance, we meant on a ballpark basis plus/minus 1% of NDTL.

Dr. Subir Gokarn: I think the distinction between normalisation and tightening is a little bit academic at this point. The minute we started moving, we could interpret that as both, tightening and normalisation simply because inflation pressures started to become visible pretty soon after we started the action and it is quite likely when we look back on it, that the phase may have been somewhat different had the inflation pressures not been so acute in the first half of the year. So at this point, you could say that we are trying to simultaneously pursue both objectives that there is a tightening motivation and that is reflected in our policy stance statement and the expected outcomes and there is a normalisation motivation which is also driving the policy. Now the neutral is obviously notional, so there is no concept of stopping at neutral just because we think we have reached it. All actions are in any case going to be influenced by what the circumstances at the time are and also what are the assessments of the future. So I think the distinction is not really very meaningful.

Dr. D. Subba Rao Can you please repeat the second question?

Sonal Varma: I will just repeat it. What I wanted to ask was there is potential that because of global slowdown, we may face some repercussion on domestic industrial output growth and exports in the second half. So I just wanted to understand if that is already accounted for in your forecast ?

Dr. Subir Gokarn: Yes, the forecast is either balancing between the strength of domestic drivers and the risks of some impact from the global situation. We really are not looking at major impact in terms of growth. There are risks that we pointed out on capital inflows, but there are also benefits that we pointed out on the softening of commodity prices. So in a sense the two vulnerabilities from the global side or on capital flows that is the vulnerability, the benefits, and the opportunities from commodity price softening. Export growth obviously will be affected if the recovery falters, but we have not seen that as a very significant driver of growth in this phase in any case. So the domestic drivers are really far more important.

Sonal Varma: Thank you.

Moderator: Thank you. The next question is from the line of Nilesh Shah from ICICI Prudential Mutual Fund, Mumbai. Please go ahead.

Nilesh Shah: Sir based on certain statistical analysis, we can deduce that rupee is probably getting depegged from the dollar. Is that a fair assessment and then could we see little bit more flexibility on the currency side? The second question is, are we seeing liquidity tightening measure to structural inflation or cyclical inflation and as was expected earlier, if good monsoon does indeed bring down the inflation, could we see liquidity tightening bias getting reduced?

Dr. D. Subbarao: The rupee has not been pegged to the dollar in that sense. So there is no question of depegging. Now we have stated our policy several times which is that we intervene in the market only to manage excess volatility or to prevent disruption to the macroeconomic situation and that is the policy we have followed for several years. So there is no pegging to the dollar as such. Then, question on liquidity - cyclical and structural.

Dr. Subir Gokarn: We would interpret structural inflation as being driven by some fundamental imbalance between demand and supply which is not directly amenable to control by monetary actions. So for example, if we are taking food one could argue that there are structural components to food inflation. The reason why food prices are going up, but this is possibly true in other sectors as well. The monetary action is essentially aimed at cyclical inflation. They have been aimed at stabilising the growth rate around the trend and aimed at stabilising the inflation rate around some sort of low constant which we stated in our policy as a medium-term objective of 4% to 4.5% as what we think is a sustainable structural rate of inflation. But the issue of liquidity has to be seen in that context that liquidity measures as a means of dealing with inflation essentially will be used to deal with the cyclical component of inflation.

Nilesh Shah: Thank you.

Moderator: Thank you. The next question is from the line o f Ruchi Singh from ICICI Bank, Mumbai. Please go ahead.

Ruchi Singh: Sir thank you for holding this call. I would like to request you to throw some light on the road map for deregulating the interest rate on the saving deposits?

Dr. D. Subbarao: There is no road map at the moment. This is one question that analysts raised with us during the last policy review and you are raising it now. We recall that it came up in the press conference yesterday also. There are both pros and cons of deregulating interest rate on several accounts. If you deregulate, there could be innovation in the banks, there could be greater competition, there could be products designed to meet specific income groups, specific occupation groups, etc. On the other hand, there is a concern that it might militate against the objective of financial inclusion. So what we are going to do is, we are going to have analysts such as yourselves debate this in the public domain. We will also study this and going forward we will see if we need to constitute a working group to go in to this. But then when we actually do that, we will come back in the public domain and announce that. Meanwhile, I do hope that people such as yourself will study this and educate public opinion.

Ruchi Singh: Okay, thank you sir.

Moderator: Thank you. The next question is from the line of Mahrukh Adajani from Nomura, Mumbai. Please go ahead.

Mahrukh Adajani: Hello, thank you sir. Sir just had a few questions. One is that obviously, if the liquidity remains somewhat tight, deposit rates would go up, and consequently lending rates would go up and if lending rates rise beyond a point, it would start hurting lending growth, and then of course industrial growth. So what is the comfort level beyond which you would not like lending rates to rise or the point or the breakeven point when probably liquidity infusion would start taking place?

Dr. D. Subbarao: It is difficult to be precise on that Mahrukh because a number of variables going into it. What is our comfort level at one point of time in one situation may not be the comfort level in another situation. Besides, I think it is not appropriate for us to speculate on this. What I do want to assure you and other listeners is that we are taking into account a number of variables, not just the nominal lending rates. You also have to look at the real lending rates - not just at a point of time, but over a period. So my apologies that we are unable to give a definitive answer because that question has, I believe, no definitive answer.

Mahrukh Adajani: Thanks sir and just a couple of follow up questions sir. On this whole topic of restructured loans, basically there are a lot of newspaper reports on various accounts being restructured and it is very difficult to know the bank wise exposure. And since we tried banks, I mean, would there be any database or are you thinking of more disclosures by banks in the annual reports or at least the company wise accounts that are restructured? I know that banks do not mention which companies they lend to but if the accounts are stressed, would not it be more transparent for banks to disclose these exposures by company names and the amounts involved?

Usha Thorat: As you know, we have asked the banks and the banks are disclosing the extent of restructured loans in their annual accounts. So this information is transparently available in their balance sheet and like you yourself said, the banks will not be able to disclose borrower wise restructured accounts. I think the market will have to look at others parameters including the statements coming out of the company themselves as also the rating agencies. In our Financial Stability Review, we had added it and had provided figures of the restructured accounts for the system as a whole.

Mahrukh Adajani: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Bajoria from Barclays Capital, Singapore. Please go ahead.

Rahul Bajoria: Thank you so much for holding the call. I have two questions. The first one is that even though the RBI revised up with growth target of the current fiscal year, the credit growth target was left unchanged at 20%. It would be great if you can shed some light on it. My second question is that given that monsoon rainfall has picked up significantly in the month of July and the sowing of our major crops has been pretty good, if food inflation was to come down at a faster pace, then most people on the street are currently anticipating. Does that really help in anchoring inflation expectations in the system? Thank you.

Dr. D. Subbarao: Let me answer your second question first about monsoon rainfall and its impact on food inflation. Our document states that 70% of inflation today as measured by WPI is from the non-food side which states that 30% is still from the food side. So to the extent that there is good agriculture production and to the extent that softens prices of food products, there will certainly be a positive impact on inflation. But that we will not know and we will not have until another two months.

Dr. Subir Gokarn: Basically, it is a judgment based on the federal mix and the availability of alternatives. So in the baseline, although we have pointed out that there is a little bit of a risk of capital inflows being a little lower than we would like, in the baseline, we are not concerned about this and we do expect that in the baseline some capital inflows will actually help to support the higher growth projection. So we felt that the mix of both activities and credit sources and sources of funds will keep the credit growth number more or less at where we pegged it earlier.

Rahul Bajoria: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Ramya Suryanarayanan from DBS Bank, Singapore. Please go ahead.

Ramya Suryanarayanan: Hi, thanks for this opportunity. My question is, I wanted to know, I know the working group will still work with but any chance that the RBI move towards the single policy rates that is no spread at all? For example, what I mean is the ECB has a single policy rate which is the repo rate and that is the rate at which it injects liquidity. Separately, it conducts fine tuning operations to absorb liquidity when you need. But the 150 basis points spread that the ECB has is actually between deposit and lending facilities. But when it comes to the policy rate, actually the ECB only injects liquidity at the policy rate. So any thoughts on that?

Dr. Subir Gokarn: The terms of reference for the working group will certainly include this issue and I would say that the three broad sets of issues which the group will be asked to examine. One is the appropriate width of the corridor which includes not having one at all; two is the stability of the corridor - is it to be used as a strategic policy instrument so that the variance in the width itself can be a policy instrument; and three, what do we need to do in terms of supporting mechanisms or instruments that will allow us to exploit whatever corridor we have fully. So these are the broad sets of issues that we think will define the TOR of the group. As we said, we are in the process of setting it up and we will obviously ask them to look into all of these issues.

Ramya Suryanarayanan: Okay, thank you.

Moderator: Thank you. The next question is from the line of Varda Pandey from Birla Sun Life Mutal Fund, Mumbai. Please go ahead.

Varda Pandey: Hi, my question to you is on the liquidity scare again. Going by the scenario on capital flows and it is possibly not as safe to assume robust flows going ahead. Currency with public is the other component that has been growing much more aggressively than what we saw last year. So going by the months of September-October when we would see the maximum impact of currency with public and a possible sustained deficit in liquidity, we have a reinforced monetary transmission so to say. Would that still go along with the 8.5% growth forecast that you have? Also to add to that whenever we had an 8% kind of a growth, history says that the balance sheet expansion of RBI has been fairly massive about 1.5 lakh crore on the net foreign assets. So would you have expectations there as well? Would you have forecast there as well?

Deepak Mohanty: As you rightly said, the currency expansion during the festival seasons like Pooja and Diwali and is normally anticipated because that is the seasonal expansion in credit, but to support 8.5% growth, as we have put out in the policy itself, we would expect money supply growth to be 17%. So that obviously pre-supposes some expansion in the balance sheet which has been explained during the course of various other questions that we would have to expand the Reserve Bank's balance sheet and we have the instruments for that and to support 8.5% growth also, we have put out 20% credit growth which also would be supplemented by the non-banking sector, both, as the domestic capital market and from the external flows. I think that should be adequate to support 8.5% growth.

Varda Pandey: The other characteristic of the current account deficit that I wish to point out was that the real effective exchange rate has appreciated very sharply which is sort of in contrast with what we saw in times of the earlier episode of current account deficit. What would you say about that?

Deepak Mohanty: The real rate again is determined mostly by capital flows because what we have seen in the past experience that, it is again capital flows which have had stronger influence. This is true globally also. And if you look at the real effective - exchange rate now - because we take the broad basket which we have put out in the policy - the 36 country - you do not see a very large appreciation there. Because the nominal rate more or less is 1.5. But 6 country again the appreciation is little larger this financial year - about 3.5. But compared to the nominal rate appreciation is less. That is again because of the inflation differential in India vis-à-vis most advanced country.

Dr. D. Subbarao: In any case, I would not say real rates have appreciated sharply, I do not think that is correct. Last year, yes in 2009-10, but in 2010-11, the rate of appreciation has come down as inflation rate has come down and going forward, we expect the adjustment to go on.

Varda Pandey: Right sir, thank you very much.

Moderator: Thank you. The next question is from the line of Surajit Neogi from SBI DFHI Ltd, Mumbai. Please go ahead.

Surajit Neogi: Good afternoon respected Governor and good afternoon the eminent panel. I would like to know one thing. When we are talking about inflation and we know that the monetary policy does not have much control over food inflation. One of the sectors probably is the real estate sector which probably is going to be overheated. Can we expect from policy angle regulatory tightening to curb that overheating in the coming days because already we have proceeded towards the normalised interest rate regime and further policy action could hurt growth so to penalise that one sector why are we looking at other sector? Can we look into the one sector?

Dr. D. Subbarao: Yes, we do indeed look into specific sectors, particularly, real estate. You recall that in the past, we had tightened the provisioning norms for real estate and we keep track of this and should there be any misaligned movement in any particular sector, our policy action will respond to that. In this recent policy action, we again looked at asset price movements and we found that there is no need for any further sectoral tightening at this point.

Surajit Neogi: Okay.

Moderator: Thank you. The next question is from the line of Jatinder Agarwal from RBS Mumbai. Please go ahead.

Jatinder Agarwal: Good afternoon sir. The question is on deposit growth and currency with public which has partly been discussed. Other than rates which have been low on the deposit side, what else could be other factors why deposit growth has been slowing down so much?

Dr. Subir Gokarn: One explanation we have had from banks is related to the liquidity situation that we saw over the last six months or the first part of this year. A lot of liquidity de-motivates banks on trying to raise further deposits particularly when credit growth is not comparable. The second factor in recent weeks has been withdrawals by bulk depositors, so the combination has led to an apparent slow down in deposit growth. But we think this is a transitory phenomenon because as liquidity moves into the deficit mode and credit growth picks up and becomes more broad based, we should see banks having stronger incentives to raise deposits to support their credit expansion. So this we see now as a transitory phase which reflects the swing from surplus liquidity situation to a deficit one.

Jatinder Agarwal: Sir just to continue with this; on the currency with public which has also been rising, does that have any correlation to inflation as such?

Dr. D. Subbarao: Yes, I think it does in the sense that in a period of high inflation, people tend to keep currency with them and not put money in the bank. So the expansion in currency that we have seen over the last few months is a reflection of the high inflationary scenario and that as inflation tapers over the next few months, we hope that the reverse adjustment will take place.

Jatinder Agarwal: Thank you sir. And also the second thing is about the request in terms of disclosure from banks. I am an equity analyst for banks. In terms of this restructured loan books, what we get is annual restructuring of accounts during the year. Can RBI frame a policy where banks actually disclose the year-end or period-end, total restructured books on their balance sheets?

Dr. D. Subbarao: I have been advised by my colleagues here that we can look into this and we certainly will.

Jatinder Agarwal: Thank you sir.

Moderator: Ladies and gentlemen due to time constraints that was the last question. Alpana, would you like to give closing comments please.

Dr. D. Subbarao: I just want to say that we enjoyed this conversation with all of you and I know that all of you have not had a chance to raise your questions. But I do hope that this has taken us further towards clarifying some of the more difficult, more contentious, more debatable issues. I want to say that we have benefitted from talking to you and those of you who did not have a chance to ask questions, please do mail them in and we will try to respond to them. Thank you.

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