Edited Transcript of Third Bi-monthly Monetary Policy RBI Governor's Teleconference with Researchers and Analysts

August 4, 2015

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Moderator: Ladies and Gentlemen, good day and welcome to the Third Bi-monthly Monetary Policy Governor's Teleconference with Researchers and Analysts. As a reminder, all participants' line 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. Over to you, Ms. Alpana Killawala.

Alpana Killawala: Welcome to everyone. We will straightaway go to the Governor.

Dr. Raghuram G. Rajan: I already made an opening statement this morning. Just for those who have not listened in on that we held the policy rate at 7.25 per cent, while awaiting data on whether the recent increases in inflation, including in non-food items, are temporary, and whether the monsoon will continue to be near-normal. We note with appreciation the recent fall in oil prices, which will be beneficial for India. As we await greater transmission of our frontloaded past actions, we will monitor developments for emerging room for more accommodation.

We also made some announcements about developing a framework for FPI investment in government bonds as well as the fact that we will announce at least one set of bank licenses by the end of this month.

And finally, on the Monetary Policy Committee, there is, as the finance secretary said yesterday, a broad agreement between the government and the RBI on what such a committee would look like and I think the details have to be completely finalised, but in a broad sense there is agreement. So let me open up at that point.

Alpana Killawala: We have received some questions already.

Bhupesh Bameta: Quant Capital Is the rapid accumulation of forex reserves only incidental to reduce volatility in the currency market or a result of a deliberate policy to increase forex buffer in an uncertain world environment?

Dr. Raghuram G. Rajan: I would say that in March 2014 when we started building some reserves as flows started picking up into India, at that point the primary aim was to rebuild reserves we had lost during the period of volatility. I think since then we have certainly reached a fairly comfortable level and for some time the primary focus has been volatility rather than either building reserves for protection or trying to maintain a certain rate for the rupee which has not been our objective.

Alpana Killawala: Second question is on OMOs. I am combining three analysts' questions here.

A. Prasanna: ICICI Securities Does RBI have any options other than OMO sales for the management of durable liquidity surplus? Would the RBI be comfortable communicating the threshold beyond which OMO sales become absolutely necessary? And lastly, will the RBI look to restrict OMO sales to shorten of the yield curve, say up to 5-year bonds?

Amit Agarwal: Societe Generale

RBI is slow on OMO bond sales and liquidity is being withdrawn mostly using 3-day to 7-day reverse repo instruments. Is it not a good idea to push 14-day or 30-day reverse repo instrument at the sale or balanced market involving longer term liquidity?

Vinothharish G.S.: Wealth Advisors

Given that GDP deflator has been negative and nominal growth in GDP of 7-8%, is the central bank's open market sales purely to manage liquidity or is it to be seen in the context of the extent of money supply growth that the central bank would desire in the current context, where it sees the possibility of increase in FX assets, resulting in a higher than desired level of reserve money?

Dr. Raghuram G. Rajan: Perhaps I can just give you a sense of how we look at this and then maybe Dr. Patel wants to add to that. Every year we have a sense of what kind of GDP growth as well as inflation is likely to be over the course of the year which then tells us how much permanent liquidity we want to infuse into the market. Think of permanent liquidity as essentially from the asset side of the RBI's balance sheet. The increase in net foreign assets plus net domestic assets that we want to allow for the year, given the need to increase cash holdings as well as reserves of banks. So, given that target of permanent liquidity, we try and ensure that over time any interventions we make in the market, whether it is buying government bonds or buying foreign exchange assets, are in line with the pace of increase we would like to see over the year. Now, we cannot absolutely control to the last rupee that process and there are times when for a variety of reasons either short-term liquidity builds up or build downs in the market or a substantial inflow of foreign money which we think is unlikely to be permanent, these things move at a pace of their own different from the target that we intend. So, at such times, we may be in a position where we need to withdraw liquidity from the market in a permanent way given that we have infused a lot of permanent liquidity in the market. A classic example is when we buy a lot of foreign assets, we have infused excess liquidity in the market, we have to withdraw some of that through OMO sales or through other means. Now, what thresholds we have, etc.? Depends to some extent on how we see the next few months and whether we see for example inflows coming in that we will have to buy and sterilise or we think there is going to be a lull for some time in which point our domestic asset side may grow at a slower pace and allow us to eventually absorb the liquidity that we have infused into the market. So that sort of sense of what will happen to the liquidity situation over the next 3-4 months then determines what actions we take to withdraw that liquidity, whether it is through temporary means or through more permanent means. Clearly, OMO sales are part of our set of policy tools. We prefer to use those OMO sales when there is not as much clamour for borrowing from the government but sometimes you do not really have a choice and we have to do it. On the term repos, we would like to use longer-term reverse repos but the market appetite for them has not been significant. Now, one of the possibilities is that re-hypothecation may be required in order to make it more attractive. If you locked into a 30-day reverse repo and suddenly you need to sell out of that it maybe that re-hypothecation would allow that possibility. So we need to think about that and we are examining possibilities for re-hypothecation. I think I have broadly answered the three questions but if Urjit wants to add anything.

Dr. Urjit Patel: No, I think all the three points have been addressed, just to underscore what the Governor said lastly that we would like to auction longer-term repos and reverse repos but it is only something which we can supply; if there is a lack of appetite is not much we can do, in fact, our preference is for longer tenor.

Dr. Raghuram G. Rajan: Last point here; you may have noticed in the last week or so we also reduced our longer-tem repos or how much we took of those. That is also part of the liquidity management process. So, we could either increase reverse repos or reduce repos, we have done a reduction in repos again to account that liquidity situation.

Amit Agarwal:
Societe Generale RBI's corporate forex hedging data is at least a year old, when RBI said that forex hedging is as low as 15%. Could you please tell us the latest forex hedging data and is RBI taking some active steps for increased corporate hedging? Could you also share the break-up of RBI's long-term FX liabilities in FCNR accounts? Are most of them going to mature in 2016?

Dr. Raghuram G. Rajan: Let me ask Mr. Khan to respond.

Shri H.R.Khan: This data which has been given 15%, that was for last year. What we see over time is the hedging as a percentage has improved. For example, whole of last year 2014-15, the hedging ratio was around 39% and the first quarter of this year it has gone close to 41%, so hedging ratio has gone up. What is also significant? If you see the weighted average maturity also, whole of last year was 6.5 years and first quarter this is 7.5 years. So, there is increase. As you know in parallel, from prudential side, we have prescribed quite a few norms. So in case it is open position, then the risk weighted capital charges do increase and that reporting mechanism and the computation mechanism is being further improved, including the disclosure in the Annual Report so that we have the data capturing. So in prudential side, we are trying to see it but the point to be noted is that as has been suggested in some quarters, that hedging ratio should be prescribed to take care of this, I think that is something one has to be very careful because it has other implications. So, short of that, prudential side, we are trying to see that there is hedging. On the Forex liability breakup, Mr. Mahalingam, if you can just add.

Shri G. Mahalingam: On the Forex liability breakup, you are aware that when we introduced the FCNR(B) swap scheme, it was meant for three years to five years deposit. Practically, a good lot of these deposits came in the three-year maturity category so they will all be maturing between September and December 2016, except for a small portion.

Dr. Raghuram G. Rajan: And they have all been covered in the forward market. So, we have covered those liabilities.

Bekxy Kuriakose:
Principal Mutual Fund Given the sharp fall in CP rates and increase in issuance, can it be made mandatory for reporting of CP rates at the primary market? At present, only a secondary market trades are being reported on FTRAC. Given that bulk of turnover in CP market happens in the primary segment, this would help in better information dissemination.

Shri H.R.Khan: We are looking into this. CCL's platform is already stretched, so we are seeing how it will work out for reporting of this.

Ankit Maheshwari:
I-Sec PD

Regarding FPI limits, foreign ownership of GSecs is nearly 4% in India while it is around 20% for some other emerging markets. Do you think this gives substantial space to increase limits? And also, given RBI is looking for a staggered release in limit, do we need to wait for the Fed to provide increased limits?

Dr. Raghuram G. Rajan: First, this structure has to be detailed in consultation with the government. So that will take a little bit of time, I do not think too long. But we are also looking for appropriate market conditions. You do not want to introduce this in an environment of excess liquidity and see a lot of flows come in at that point. I think it is better if first there is more sense of what the Fed is going to do. We are not worried about the effects on India when the Fed acts, but we do think there will be volatility the world around, maybe small; it may be the most awaited thing in history, so nobody really reacts when it happens or there may be more than is expected. I think it would be prudent to just wait, see it through and then take action. However, if action is likely to be delayed, now there is a fair amount of expectation it will happen in September, but if it does not, we certainly would not hold back our market reforms, waiting for external developments. So, I think it is prudent. Also, given the state of liquidity in the markets it does not cost us too much to wait but once we get a good sense of either the fact that there is nothing really going to happen on the external side for some time or that it has happened and the consequences have not been significant, we will have room to act. But, by and large I think sooner rather than later it will happen.

Manoj Chitlangia:
ICICI Securities PD The current corridor between repo and reverse repo rate is 100 bps. As communicated by RBI, the objective remains to keep overnight rates as close to repo rate as possible. Would it make sense to move to either a single rate for repo and reverse repo which will ensure overnight at the policy rate or alternately bring down the corridor itself by say 25 bps?

Dr. Raghuram G. Rajan: We made a fair number of changes in the repo and the reverse repo including through these term repos, overnight repos, etc., Effectively, when we do the auction, it is almost bringing the repo and the reverse repo together. So in that sense, I do not think that much additional we get by bringing those two rates together. But it is something that down the line once we get comfortable with the changes we have made so far, one could well explore whether the corridor should be narrower. But it is not an issue that we are looking at right now.

Radhika Rao:
DBS Bank My query has two parts: (1) The market looks in January 2016 target of 6% and compares present prints to gauge room for cuts. If and by when do you think the focus should shift to the medium-term 4% target? (2) What to you is a reasonable level of inflationary expectations to provide comfort on the policy front, absolute or change factor?

Dr. Raghuram G. Rajan: On the inflationary expectations, as indicated by our survey, the levels are not as important as the changes because the levels are typically much higher than inflation that actually is observed or experienced. So, when we say double-digit expectations, it does not necessarily mean that that will be the realisation, in fact, the realisation where time has typically been

significantly below the expectations. So, we are sort of using those surveys more to see changes in expectations rather than levels. To your first question, how do we look beyond the 6%, of course, as we get closer to the end of the year we need to re-adjust. We have said that we are going to move towards 5% towards the beginning of 2017 and as we get closer to the end of the year that will become more a medium-term target. Now, as we go along, we are understanding the inflation process better and we are understanding the pace of disinflation that the economy can tolerate. We have been very careful about doing this at a measured pace that we do not inflict more pain on the economy than it can handle. My guess is thus far we are comfortable with the pace at which disinflation is taking place and is expected to take place given our targets.

Jyotinder Kaur: HDFC Bank Two questions: (1) The RBI has highlighted its concern regarding the pickup in core inflation. How much of this pick up does the RBI see as reflective of underlying demand conditions and cyclical pressures and how much does it think the role of structural pressures is likely to be? In the context of weak demand, do you think any pick up in core inflation on account of the hike in service tax is something to be concerned about? (2) The RBI has expressed its concern regarding the pickup in inflation expectations. How does the RBI view the virulence of these inflation expectations and their ability to feed into generalized price pressures given weak wage growth and bargaining power of labor, low capacity utilization and subdued corporate pricing power?

Dr. Raghuram G. Rajan: Let me ask Dr. Urjit Patel to answer the questions.

Dr. Urjit Patel: Core inflation is influenced by cyclical high excess demand and structural supply constraint factors. So, when supply constraints are binding, even a normal level of demand can appear to be excessive and can propel core inflation higher. Typically, the hike in service tax is a one-off cost push factor. The RBI is only being watchful about its impact; in the sense that it does not generate second round and tertiary round effects. On current reckoning, the pickup in inflation expectations appears to be transient and should wear off as softer inflation prints are available given that some part of the expectations are inevitably adaptive. For monetary policy purposes, it is important to watch for signs that indicate hardening of these expectations at elevated levels because this will then eventually push up actual inflation and make it persistent through a variety of channels, one of which could be divergence of financial savings.

Rajesh Agrawal: Bank of America In the policy document it is mentioned that the short-term real risk rates are nevertheless supportive of borrowing by interest rate sensitive consumer segment, such as housing and automobiles. Can you please elaborate on this? In the last one year CPI has fallen by 200 bps, but housing and auto loan rates seem to have come down only by 75-100 bps.

Dr. Raghuram G. Rajan: This was a comment more on the fact that housing credit, auto credit have been growing pretty strongly. Now, remember that whenever you look at interest rates you have to take into account the fact that many of these loans are floating rate loans effectively which means that as interest rates come down over time especially if they are long maturity loans, interest rates on the borrowing will also come down. So, what the borrower wants to know is not so much what

the spot real rate might be but how do the rates play out over time and how they will therefore feed into his costs over time. So, in that sense, the current real rates and the expectations of rate movements over time, seem to be consistent with a number of individuals going out and borrowing for cars and for housing. That is where the comment came from.

Jayesh Kumar: Kotak Securities Is there any change in your CPI projections of 5% in Q4 of FY17 given global commodity crash?

Dr. Raghuram G. Rajan: At this point, it is not a projection as much as the target. So, we will start making projections at some point, but right now it is our target. As I said, at some point, we will switch from making projections for early 2016 to making projections for early 2017. That point will be very near in the future.

Devika Mehndiratta: ANZ Does your revised inflation projection assume that the move up in June food and core inflation is one-off or do you assume this uptick in momentum stays in coming months? Q2.Would it be fair to say that now that we know sowing of summer crop is much better than expected, rains in August-September do not matter as much as June-July rains?

Dr. Raghuram G. Rajan: Let me ask Micheal Patra to address this question.

Dr. Michael Patra: The June uptick in inflation is a very typical pre-monsoon seasonal upturn and should dissipate over the coming months. One should remember that August is also critical for sowing. So rainfall in August will be watched very carefully. Also, we need to watch for any shocks that we have not programmed for and how they alter these projections going forward.

Dr. Raghuram G. Rajan: I would add that we probably have not taken the full brunt of the most recent drop in oil prices into account in our models and we still in our models have an oil price which is in the mid-50s. So if oil stays significantly below that, that would be a very positive factor.

Rohit Arora: Barclays I think your explanation on OMO has more or less answered my question, but as a follow up I just wanted to understand, if RBI’s liquidity sterilisation tool preference is it also dependent on market conditions or is it purely a function of structural or frictional liquidity? For example, we observed significant decline in FX swaps since March. Is it fair to say it was driven by a sharp rise in FX implied yields or likewise say bond yields sell off significantly due to demand/supply imbalances, would OMOs be dependent on that?

Dr. Raghuram G. Rajan: I think all our actions are to some extent also affected by market conditions where it is easier to operate, where distortions maybe higher or lower. At the end of it, all markets are connected and any temporary distortion gets dissipated over time through arbitrage. But, at the same time if we operate excessively in one place or the other, it can push prices, yields away from the prevailing prices and yields elsewhere and we have to worry about that. So, we take this into account, think of these as us determining where the transaction costs of operating are the lowest, that is where we go and operate where we can, but it is not the only determinant and there are other determinants also.

Saket Kapoor: Kapoor and Company

The strategic debt restructuring being implemented by RBI, how efficient and strong instrument is this which can actually correct the impediments in the system because as you have already told that it is not only the interest rate cut that will get the economy into the right trajectory of growth, there are other components also, where is it SDR formulated that it can serve the purpose it is being formed for?

Dr. Raghuram G. Rajan: As I said this morning, we are trying to give banks the flexibility to do what they need to do recognising there are limits in our judicial system as well as in the laws that govern distress. So, for example, in our environment, it is very hard to deal with a promoter who is unwilling to cooperate and let me hastily say that a lot of promoters are willing to cooperate as they work their way out of distress, but there are a few who are not. The SDR process which allows banks to take equity effectively allows banks to get control if a promoter does not deliver on the promises that are made and thereby reduces the problem of the uncooperative promoter. But, I do not want to say that is the only place where this can be used. It can be used in other situations also, where the need is to actually write down debt but get equity instead. This also facilitates banks taking equity and becoming more partners in the system. Of course, we do not want them to be long-term partners, at least a short-term they can gain from the upside in this process.

Saket Kapoor: Contrary to it, I think this is the best environment for the country to lay their roadmap for a secular growth if the commodity crash, the fall in gold prices, the oil collapse, if all can be formulated, along with stringent measures taken by regulatory bodies like RBI and SEBI on other fronts, it can pave the way for long and sustainable growth which the government is also hoping for. So how can RBI now play a greater role in embarking on this journey because it is not necessary that this environment will continue for long?

Dr. Raghuram G. Rajan: We are all engaged in this process, whether it is SEBI, whether it is RBI, whether it is the government. And as you correctly point out we have to create a sustainable environment for growth, this is not about growth over the 1-year or 2-years. As we see it at the RBI, we are attempting to create the framework for growth for the next 10-15-20-years which is what we need to really make up for the many decades of slow growth over the last century and half. So, this is a good time as you say. Everything is coming together, but we have to be careful to do this in a sustainable way. Again and again, the mistake that countries make is losing their head at times like this. Instead of building the necessary framework for sustainable growth you go out on a limb in one direction or the other and you pay the price down the line. So, that is what every agency, whether government, SEBI, RBI, we are all trying to avoid, instead make the building blocks. So, initially, growth maybe slower than anticipated, but in the long run it will be more sustainable and stay for longer.

Chinmay Gandre: Future Generali

This is primarily relating to the inflation estimates that you have laid out in the first quarter that is the first bi-monthly review of about 5.8% and second review is actually silent about it which has now been revised to about 6% and about maybe 6.1% given the fan chart that is based on which we calculate. Just wanted to know, is the revision downward from 6.4% to

6.1% or has it remained same from 5.8% to 5.6%, just because there is a small clarification that we require?

Dr. Michael Patra: Please recall that in June, we raised our projections to an average of 6.3% for Jan-March quarter. Currently, our assessment is that it will average around 6.1%. So, that is the difference of 0.2% that you see in the policy document.

Chinmay Gandre: Because this 6.3% was actually absent in the second policy review, is that a correct thing to actually derive?

Dr. Michael Patra: No, it was in the fan chart.

Nikhil Gupta: Nirmal Bang Equities I have two questions: First one, do you still maintain your projection of 4% by August 2015? Secondly, what according to you are the one or two major factors that are constraining the private corporate sector to come ahead and invest? What I believe is unlike in developed markets, consumption demand has not collapsed or been extremely subdued in India and secondly, central government alone cannot revive the CAPEX cycle since its accounts for less than or close to 5% of total investments in the country. So what are one or two major factors and what do you believe can be done to handle them even outside the monetary policy?

Dr. Raghuram G. Rajan: First question, 4% is our target in January 2018, that is approximately two and a quarter years from now.

Nikhil Gupta: No, sir, the 4%, that you thought because of the base effect would be there in August 2015, is it still intact?

Dr. Raghuram G. Rajan: Yes, we have significant base effects coming in because inflation went up tremendously last year around this time. So yes, we still believe it would be around 4% in August 2015. On the second issue which was what are the factors restraining corporate investment. Our analysis by our staff suggest that first, of course, capacity utilisation is low; then the next question is why is capacity utilisation low, what are the sources of demand that are weak? I would say that two are obvious now – one is agricultural or rural area demand has been weak in the last few quarters than it was in the past and the weak harvest over the last year probably plays an important part in that. But the second factor is the export demand. If you look at a number of industries that are suffering, one of the factors that hits you is the fall in exports in those industries and that has to be blamed in some part on weak global demand, the overcapacity in some countries which is causing a fair amount of price pressure in those products, as well as potentially the relative depreciation of some regions in the world against India. So, those are factors that make it harder for our exports to be strong and sustained. The last PMI number suggests a better reading for exports. And in general, I would still reiterate we are not uncompetitive, we are losing out in some areas but by and large the country is not uncompetitive.

Nikhil Gupta: But the rural pain is relatively a recent phenomenon, investment has not picked up in the past 3-4 years. So any comments on that?

Dr. Raghuram G. Rajan: You see a general decline in investment but I do not think it has been an abrupt fall 4 years ago and maintained at low levels since then. But, you are right that there are other factors also. In general, even the fall in investment has been responsible for a further fall in investment because capital goods producing industries then have lower incentive to invest and so on. There have been a number of factors which have come together – the slowing of the economy over the last 4 years is also in part responsible. But, in most recent times, I would say, these are the important factors in the low capacity utilisation. Look at capacity utilisation also; it has been falling over the last 3 or 4 years.

Kumar Rachapudi: ANZ Bank I have a question on RBI's assessment of the pricing power of corporates and the impact of that pricing power on the inflation in next 3-4-months, particularly the impact on core inflation. Secondly, the RBI's view on how the government has been able to tackle food inflation pressures from a supply side point of view?

Dr. Raghuram G. Rajan: Let me ask Dr. Patel to speak on the first part.

Dr. Urjit Patel: Firstly, it is difficult to perfectly bifurcate what is emanating from a reduction in pricing power and what is emanating from a reduction in input costs. It would seem that at this point in time both are in play and therefore going forward, this should obviously help us in terms of manufacturing and core inflation components of the CPI. To your second question, I think that both last year when the monsoon was not so good and given the uncertainty over the monsoon this year, the government has played a very important and effective role in ensuring that some of the key commodities that are consumed are controlled in terms of enough supplies and movement of those food items. I think it has been a very good policy action including effectiveness on the ground.

Dr. Raghuram G. Rajan: I would add to that, on the import front, the willingness to import where necessary allows us to take advantage of low global food prices. Of course, all these actions we need to keep in mind the situation of the farmer also, but I think the balancing has been done in a very appropriate fashion.

Alpana Killawala: I received a question on SLR though name is not very clear. What is the program for SLR given the ongoing fiscal consolidation and the introduction of liquidity coverage ratio?

Dr. Raghuram G. Rajan: As far as SLR goes, what we need to do is over time we need to bring it down from current levels. However, I think it is important to remember that the pace at which it is brought down is such that it does not impose pressures on the government financing market. That implies that that pace has to be consistent with new demand for bonds coming on the market to replace banks which will at some points start exiting the market. So, my sense is this is going to be a measured process, it will certainly take into account forecast of demand for government bonds from different players and it will happen over years rather than over quarters. It is going to be a very measured process.

Shri R. Gandhi: LCR we had given the banks a path by 2018 that they should achieve, it has already started kicking in, from 60% over the period they have to achieve 100% LCR.

Sonal Varma: Nomura

Actually two questions; one was why do you think the underlying inflation measures have been stabilising in the last 4-5 months? What do you think drives the incremental disinflation from here other than oil because of you it is also that output gap is going to close in the next 12-18-months? Second question was given that you have also mentioned that there is a 2-3 quarter lag between monetary policy and growth and even longer lags from growth to inflation. Why is the guidance being linked to the undershooting of the 6% inflation target?

Dr. Raghuram G. Rajan: Let me ask Michael to explain why inflation is stabilising.

Dr. Michael Patra: I think by underlying inflation you mean inflation excluding food and fuel?

Sonal Varma: Yes.

Dr. Michael Patra: What we also do is we try to take out petrol and diesel out of there because that is in transport and communication as you know. And if you do that, you will see that the underlying inflation has actually not stabilised but it has actually picked up. This is a matter of concern because it involves non-tradables and as you know non-tradables inflation tends to be sticky. About drivers of disinflation, we have cited three or four factors. Yes, you are right, output gap is closing, but it is closing over a 2-year period and therefore inflation pressures from there will be slow to creep into the formation of inflation. But two propitious factors are noted in this statement – one is softness in crude prices going forward as also the fact that slowly the food inflation is losing steam partly because of good management and partly because of the rains doing better than what we anticipated.

Dr. Raghuram G. Rajan: To your point on what else will be needed. Clearly, apart from the positive effects of crude, supply side has to kick in more strongly in order to reduce the bottlenecks and reduce the pressures thereof and hopefully, over the next year, year-and-a-half, we will see some of the measures that have been taken so far come in more strongly. Then, in these disinflationary episodes, eventually, expectations of the public get more anchored and then work their way into a variety of places including wages and so on. So, given that a lot of the disinflation has happened without anchoring of expectations, hopefully, when that happens we will get more bang in terms of disinflation. So these are the other factors that could help over time. In all this, I think the state of the world, essentially excess capacity disinflation across a variety of industries is going to be a big factor also. And what I keep saying is that we must take advantage of these propitious circumstances to once and for all get inflation down in India. If we cannot get it down now, and say, "Look, we will try again later," I am not sure we will get better circumstances and we can do it at relatively low cost; we are not trying a Volckerian disinflation at this point, interest rates have not gone higher than 8%. If we can bring down inflation in India sustainably, with only a mild cost to output, I think we will have created an extremely important change in the economy.

Dr. Urjit Patel: I think one other factor that would help in this process is the government's medium-term fiscal consolidation plan. And within that some sort of rebalancing towards alleviating supply constraints in infrastructure, on account of a changed expenditure policy. So, I think we are going to get some beneficial effect from the medium-term fiscal consolidation changes.

Dr. Raghuram G. Rajan: On your last question of the 3-4-quarter lag, this goes back to an earlier question when do we start bringing the 2017 beginning target into focus, my sense is pretty soon.

Alpana Killawala: Thank you very much for joining in.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of RBI that concludes this conference call. Thank you for joining us and you may now disconnect your lines.