"Reserve Bank of India Post Policy Conference Call for Media"

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SPEAKERS FROM RBI:
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SHRI ANAND SINHA – DEPUTY GOVERNOR
SHRI H.R. KHAN – DEPUTY GOVERNOR
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Reserve Bank of India Post Policy Conference Call for Media. As a reminder, all participants' 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, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. Participants connected to the audio bridge may press '*' and '1' to ask a question. Participants present in the conference room are requested to use the mike while asking a question. I now hand the conference over to Ms. Alpana Killawala from RBI. Thank you and over to you ma'am.

Alpana Killawala: Thank you very much Inba and welcome to everyone in the room and outside of this room to this Post Policy Press Conference. I will hand it over to the Governor. Sir.

Dr. Raghuram Rajan: Thank you. You already heard our opening statements from the RBI this morning, so let me not occupy time by offering the same words again. Just if I do not get the chance let me wish all of you a very happy Diwali but let us now get to business and open up to questions that you may have.

Alpana Killawala: First question to Aniruddha.

Aniruddha: Aniruddha here from ET Now. I was just going through your policy document, you have been very clear that the whole moderation of the liquidity stance is now over and going forward possibly the policy stance is going to be informed by the evolving growth inflation dynamics. You have also said of course that the inflation pressures at this point in time are very high and cannot be ignored. So going forward would it be really correct to assume that possibly the next rate action is going to be upwards from here on?

Dr. Raghuram Rajan: I do not think that should be the assumption. I think what we have said is that we are comfortable with where we are right now based on the environment that we see as well as the projections we have made on the evolving path of the economy. Going forward if the data come in very different either way, stronger or weaker then what we think the evolution will be, obviously we will have to take steps accordingly.

Latha: Thank you. Latha Venkatesh from CNBC-TV18. Actually more on that Governor, your statement is, "the inflation is likely to remain around or even above 9% in the months ahead absent policy action", does that include the action you took today? Or absent further policy action?

Dr. Raghuram Rajan: Remember, that part of the statement came before the policy actions that were described. So what we were saying is without the policy actions we have taken we think we would be on the accommodative side and you would perhaps experience a higher degree of inflation than we feel comfortable with. Now what we think is, we have taken some actions and those will be helpful and at this point we will wait for the data.

Latha: No, but what you are saying is that you have forecast at the moment is 9, probably for March-end. So if the data is even worse than that only then you will take action?

Dr. Raghuram Rajan: No, what we were saying is we have taken a couple of steps over the last month and with this policy action, and we believe that at this point where we have left the interest rates is consistent with our projections going forward. Now if our projections going forward and the data do not quite match then we will be induced to take further steps.

Latha: But you have not projected a CPI in that case. What would your CPI be for March 31? It would be 9 without this action?

Dr. Raghuram Rajan: It would be lower than 9 given our action. Now, where precisely it will end up, we have a sense of what we expect, but let us see.

Ira: Ira Dugal from Financial Express. Governor, extension of that actually, because there is a bit of confusion now. Until at least the annual policy, there was a number, we were talking about evolving WPI inflation around 5% in the short term, 3% in the medium term, and at least at that stage WPI was considered the predominant t indicator, of which CPI was also considered. Now not only do we not know whether you are looking at WPI, CPI, what head, we also do not know whether those 5% and 3% numbers hold. Are both still at the back of your mind or has that framework completely changed?

Dr. Raghuram Rajan: It is a very good question. First, I think your understanding of the previous framework, that it was solely focused on the WPI is mistaken. Even at that time the RBI looked at both, the WPI and the CPI. Now it talked a lot in terms of the WPI, but it also did look at the CPI. Our sense is, clearly there is a lot more history behind the WPI, it is an indicator that the RBI has used, but we cannot neglect the CPI also. Now we have not changed the goal post as far as WPI goes, but we also need to bring the CPI under control. We cannot live with close to double-digit CPI for an extended period of time. So our intention is also to bring the CPI within the boundaries of control. Of course the WPI in recent months has picked up partly as a result of **feed in** of food inflation, partly as a result of the exchange rate depreciation, partly fuel prices. We also have to bring that within the 5% norm that we have enunciated in the past.

Ira: Sir, The CPI within that 5%, norm?

Dr. Raghuram Rajan: WPI within the 5% norm.

Ira: Then what about the goal post for CPI?

Dr. Raghuram Rajan: So this is the question that I have avoided answering and I would continue avoiding to answer because to some extent our sense of the sensitivity of CPI to the actions we have taken, we are going to see how that evolves. I do not want to put a goal post of X% and find that the actions we have to take given the state of the economy are extreme in order to achieve that goal. So we will evolve the goal post. We have a committee right now that is looking at these issues, precisely what should be the goal post for CPI, what should be the goal post for WPI, what emphasis should we put on one, what emphasis should we put on the other. At this stage in the evolution of that particular dialogue I do not want to put a number out there and say this is what we plan to achieve by March 2014. What I will tell you is we want to bring it down from where that 9% was.

Latha: I will just quote what you said in your speech which is not a part of the document, it was your deviation. "Our interest rate stance is consistent with our projections for the evolution of the economy but we will closely watch incoming data for significant departures from our projections". So will this also include the GDP projections, the November 30 GDP?

Dr. Raghuram Rajan: I talked about growth and inflation in the same breath. So there are projections about growth, there are projections about inflation. If growth comes in much weaker than we think it will, clearly that indicates that a) in some sense more action is needed on growth but b), it also indicates that disinflationary process will be stronger than we think it is, and that will give us some room on the inflation side. So, clearly both elements will feed into our actions going forward.

Pradeep: Pradeep Pandya from CNBC Awaaz. Would it be correct to understand that you had this chance for the 100 basis points corridor to be bridged either by increasing the repo or decreasing the MSF, from both sides and you have decreased the MSF. So would it be correct to believe that now going forward, you do not want to increase the repo?

Dr. Raghuram Rajan: No, I do not think you should take that as the meaning of the action that was done. We have said before what we want to go back to is normal monetary policy. Normal monetary policy means the repo rate is 100 basis points below the MSF rate, the corridor is exactly 100 basis points. Going forward if we increase the repo rate the MSF will move up by 100 basis points, the MSF will move up by exactly that same amount, so the corridor maintains at 100 basis points. If we cut the repo rate, the MSF will come down accordingly so that the corridor is maintained. So what we have done is precisely gone back to the corridor. Now, going forward ordinary monetary policy will take over.

Pradeep: Governor, this question is related to the MSF cut which you have made. One the one side you are saying that your inflation projection will not be met by the end of the year, the 5% target that you had kept at the beginning. Even after that you are effectively cutting the rates, so what is your stance?

Dr. Raghuram Rajan: No, no. I think, again go back to Latha's first question, the point was we thought that it would be higher than estimated without further policy action. So with the policy action we hope that the direction in which the inflation will move is the direction we want it to move in.

Ritesh: Governor, Ritesh here from Zee Business. Sir, one is more of a clarification. Until the last annual policy, RBI used to always give an outlook. We find it missing in this policy. Is there a reason behind it? And secondly, you mentioned that second half the growth may pick up. What gives you the confidence that there will be more growth in the second half and first question of the guidance part which is missing?

Dr. Urjit Patel: The outlook does appear in the Macroeconomic and Monetary Developments Report (MMDR). So it is not that we are not presenting an outlook on not only these two variables but the macroeconomic in nature. It is not in the policy but it is in the MMDR. So there is a bit of a rationalization there, but there is nothing else to it.

Dr. Raghuram Rajan: I should add we have had a lot of complaints that the policy statement is already too long. So we have to cut it back a little bit and the extra element is in the MMDR.

Ritesh: About the question which I asked, what gives you confidence that growth will pick up in the second half?

Dr. Raghuram Rajan: There is a central estimate but I cannot bang on the table and say I am certain. When you say confidence you are indicating some degree of certainty. Economy is around turning points. It is very hard to predict exactly when it takes up. So what are the big uncertainties? The big uncertainty right now is all those projects that have been cleared- when they come on stream, when they start producing, when they alleviate liquidity stress in the banking system. So I think that is something that neither you nor I nor even I think people in the government can exactly predict. It depends on when people who have been given the clearances start taking them up. So that is one element of growth and those are very big projects, if you look at the amounts that are involved. On exports, we have seen some pick up recently. Now this goes against the grain of global trade. The global trade has been very, very muted in terms of growth, but exports in India have started picking up. If this continues this will be very positive for growth and will be very helpful. Of course the flip side of it is our imports have also come down. If our exports keep growing and our growth starts picking up we cannot rely on that longer term. And of course there is agriculture, the sown area is 5% higher, we believe that we will get fairly strong agricultural growth in the next few months and that will also enhance rural sentiment, that will enhance related industries like poultry, animal husbandry. Those can be fairly helpful in terms of growth. So this is what gives us a sense, maybe we can reach 5% when you put all this together.

Ritesh: Will the elections spending play a part?

Dr. Raghuram Rajan: Give me your highest estimate for election spending.

Ritesh: Officially, unofficially it can be different, 50 crores, 2500 crores.

Dr. Raghuram Rajan: 2,500 crores? That is peanuts. I mean 2,500 crores is nothing in the larger scheme of things. Now it may change sentiment one way or the other, but the election spending is too small to give a big boost.

Virendra Singh: Governor, Virendra Singh Ghunawat from Aaj Tak, India Today Group. Two questions sir; one is you have mentioned on the licensing of new banks, applications will be screened by the Reserve Bank to ensure *prima facie* eligibility and thereafter the applications will be referred to High Level Advisory Committee. *Prima facie*, would you consider most of the big names who have applied and who are under investigation by various agencies? So how that would be applied on that? And the second important question I need to ask is an expectation of the country. Onion prices, common man and the politicians they are blind and shedding tears. Does that apply in terms of bankers as well as in the board rooms because of inflation? Because the problem is on the supply side. How hiking interest rates would sort out this?

Dr. Raghuram Rajan: Let me ask Mr. Anand Sinha to answer the first question.

Shri Anand Sinha: Yes, all applications would be looked into. *Prima facie* means the initial scrutiny would be done within the Reserve Bank, by our own officers and a determining committee, and those observations will be passed on to the High Level committee who will take an independent view and come back to us. But whether there are cases or no cases, everything we have to take into account, and then take a final call.

Dr. Raghuram Rajan: On the onion prices, clearly, this hike was not meant to quell onion prices. We have no immediate capacity to bring down onion prices. It is an issue as you said how much is supply, how much is demand. Clearly demand has not shot up suddenly because the sudden spurt in onion prices, so there clearly is an element of supply side effects here. But the thing that people who keep insisting this is just supply side. Take something like core CPI, take out food, take out fuel from CPI and it is still growing at 8.5%, that is inflation which is driven by things like services, which is not picked up by WPI. So when people ask me why you are following both, because WPI misses some aspects of inflation, it picks up other aspects and that is why we have to look at both. CPI inflation is what the common man experiences and that includes things like medical services, includes things like education, and he or she has to pay for that. So we cannot sort of focus on one element of inflation that is WPI inflation and ignore the other element, and the other element is more than just food. Yes, food is a big part of CPI, but core CPI has also been growing very strongly and that has us worried.

Suvashree: Suvashree from Reuters. I have two questions, one is you have normalised interest rate corridor today, what are your plans for the LAF cap normalisation? And the second is when do you think that oil demand will be completely back in the market?

Dr. Raghuram Rajan: On the LAF cap as you say, what we have to work out is how much liquidity we are providing to the market. Our sense is we are already providing a fair amount of liquidity both through the LAF window, now through the enhanced LAF repo window and also through the export refinance. That was a window that was not used earlier but now is being used to about 0.5 percentage point of NDTL. So together we are providing about 1.5 percentage point of NDTL through these windows in addition to which we are providing liquidity through the MSF window. So there is a fair amount of liquidity that we are providing through multiple windows. You are absolutely right that our intent is to eventually make the LAF repo rate the operational rate. That will require a balance of liquidity in the market. The pace at which we proceed with that and what instruments we use we will have to determine over time.

Latha: Will that depend on inflation or whether it will depend on the rupee, the removal of the cap?

Dr. Raghuram Rajan: We will watch conditions in the markets. I do not think we look at these liquidity conditions as a primary tool to fight inflation. It has to been more a tool to manage stability in the exchange markets, but this is something that we will take a call over time. The second question was oil demand, I can do no better than repeat what we said, which is the oil marketing company window is operational, and that as and when the tapering occurs it will occur in a calibrated fashion.

Suvashree: What will be the factors that will be determining the complete return?

Dr. Raghuram Rajan: I think I can only say that we will look at conditions in the market and determine the pace at which that tapering occurs.

Suvashree: Is it fair to say that by November end you will converge all the rollbacks?

Dr. Raghuram Rajan: I do not think it is fair to say anything at this point. We would take a view as market conditions evolve.

Ira: Sir, a quick follow up on the LAF, if I may. So is it fair to say, if I may use the phrase again that the LAF is not strictly in the operational rate even now, but the intention is to move towards that?

Dr. Raghuram Rajan: So what will happen given that now we are providing 0.5 percentage points of LAF and 0.5 percentage points of term repo, is when liquidity conditions in the market sort of adjust, at some point that rate will go down to the LAF rate. Right now it is closer to MSF, it will come down to the LAF rate. So it will be a function. The LAF will become the repo rate as liquidity conditions in the market adjust, and that may be just a matter of time. So we have to see when that happens.

Gopika: Gopika from CNBC TV18. In your MMD you mentioned that with the hesitant global recovery still unfolding, the the challenge would be to put the domestic economy back on track quickly before a new world of less abundant liquidity becomes reality. Is it safe to assume that all the measures that we have taken to support rupee recovery will be extended beyond November 30 as well?

Dr. Raghuram Rajan: As I said it is not safe to assume anything here. I think our intent is that by the time tapering actually takes place we should be in complete balance and hopefully conditions in the economy itself, this is not monetary conditions but conditions in the economy itself will be such that we are better prepared to meet tapering. I think this involves confidence about the value of the rupee, it also involves confidence about the fiscal deficit, and here I would emphasize that it is important that we sort of get full credibility on the fiscal deficit going forward, and it also implies confidence about India's growth prospects. Which is why I would very much hope to see growth in the next few months as the situation evolves.

Pradeep: Since you talked about building buffers in today's policy document in terms of forex. So the money that has come in so far, is that sufficient? Or you have a target for buffer money you would like to come in?

Dr. Raghuram Rajan: No, I would not want to talk about targets and so on. I think at this point we are happy with the money flowing in. I should mention that the money from those two flows FCNR(B) and the bank capital is now north of 12 billion, it is 12.1 billion or so. And we will watch how it comes in, we will watch as I said the evolving market situation and how things play out. We have to, as we have said that in the document, bring the oil marketing company demand back on market before we can rest fully assured that we are back to some kind of a market equilibrium.

Prashant: Sir, Prashant Nair from NDTV Profit. I just have a question about how you think about interest rates. Yesterday's report and today also you talked about incentivising savers. So after about 4-5-years real rates are now getting to positive region, but at what point would you start to say? Increasing rates now would make sense from this point of view which is incentivising savers but everywhere else it is getting counterproductive in terms of hurting growth and industry, etc. and broadly how do you think about it?

Dr. Raghuram Rajan: Broadly, the way I think about it is, on the one hand we have producers who are seeing relatively muted inflation, and therefore are seeing the interest rates that are being charged as relatively high compared to their ability to pass it on. On the other hand we are seeing savers who are seeing the interest rates they are getting as relatively low compared to their needs going forward, that real interest rates as you said are barely positive, in fact in some cases are quite negative. What is the difference between those two is inflation. So in order to balance these, ultimately there is no answer but to bring inflation down. If we have a low rate of inflation then the interest rates can also come down and the saver can feel satisfied with the low interest rate while the borrower can feel satisfied that he is not paying an arm and a leg. So in some sense I think this is where you should not see the fight against inflation as anti-growth. It is going to be the best medicine for sustainable growth going forward.

Prashant: So fighting and curbing inflation and finally bringing it down may not be up to the RBI. It has to be the government and the RBI. We are starting off on a low base in terms of bringing real rates into positive so you have to do more, that is understandable. But at what point, given the state of things that you say well doing more will hurt**.**

Dr. Raghuram Rajan: Let me emphasise, you are absolutely right, this fight is for everybody. Not just us, not just the government but also the private sector, etc. When you say supply side constraints, who controls the access to the supply side? It is firms that are going to invest, we need more investment. We are very conscious of the state of the economy also and that is hopefully a source of disinflation and will help us in this process. So why are we not we immediately raising interest rates sky high because we believe there is also some disinflation setting in. If you look at rural wages for example, latest numbers show very low real growth in rural wages, which is part of the disinflationary process. So our sense is, yes, a lot of players have to come in and participate in this process of bringing inflation down. RBI is not the only player that is going to be there, but at the same time we are not going to disclaim responsibility and say this is all supply side, somebody else has to do the work, we in the mean time will take a pass on fighting inflation, we are part of the fight.

Olga Tellis: Olga Tellis from The Asian Age. You have projected growth at 5% but your professional forecasters projected it at 4.8% which is lower. Do you think they are being pessimistic or you are optimistic?

Dr. Raghuram Rajan: I think we are being realistic. I want to emphasise that we have given growth at some bands around it and I do not want to go out on a limb and say this is going to be the exact growth number. Let me emphasise that there are significant risks on both sides to the growth number. On the downside there is the possibility that global growth is weaker, that these few months of exports that we have seen turn out to be a mirage and we go back to slow net exports which will be problematic. And further down side is these projects that have been cleared take longer than anticipated to come on line and do not even contribute to growth in this latter half of the year. Upside, agriculture could be stronger than expected. As Deputy Governor Dr. Urjit Patel mentioned, we managed the strong growth in exports at a time when world trade growth has not been very strong. And if this continues and there is a possibility that it could, may be that also adds to the upside in terms of growth. And finally the big unknown, these projects, may come back much stronger. Especially power, remember a lot of the country is power short. The effects of additional power coming in could elevate growth more. So this 5% is balancing these risks but I would not in any way say that there are no risks to this forecast.

Alpana Killawala: There are three questions outside. Inba can we take the questions?

Moderator: Our first question is from Radhika Merwin of Hindu Business Line. Please go ahead.

Radhika Merwin: Just a couple of thoughts on this cap that we have on the LAF. Till when can we expect this cap on the LAF to continue, what are the indicators we can look at for this cap to totally go off?

Dr. Raghuram Rajan: I think you just have to wait and see how it evolves; I am not going to give you a precise indicator. Latha asked me a related question earlier, is it going to be based on the currency markets or is it going to be based on the inflation? I think primarily currency markets, let us see how it evolves and then once we feel a degree of comfort we will move accordingly.

Radhika Merwin: Just wanted to understand if there are further risks to exchange rate volatility going forward, then can we see any reversal of the current measures. I mean we are rolling back the liquidity tightening measures, but do we stand the risk of these current measures being reversed in future?

Dr. Raghuram Rajan: No, that is dwelling on the hypothetical, what if something happens? We will have to figure out what worked, what did not work and figure out what the appropriate stance at that point is. So let me not talk about roll backs, let us wait and see. We are hopeful that currency markets are stabilising. I would still say that we are not out of the clear entirely until we are beyond the taper. But at this point, I am quite happy with the way they are evolving.

Moderator: Next question is from Sophia Rodriguez of MNI. Please go ahead.

Sophia Rodriguez: In past month, in several interviews, you talked about disinflationary impulses to the economy from the legacy of the output gap and from other sources. But in the macro document and in the document today I did not see much discussion around that. So what has changed?

Dr. Raghuram Rajan: Nothing, just we did not put everything we talked about in the document for reasons of space. But I would not take it as something deep and sinister. It is not.

Moderator: Next question is from Abheek Bhattacharya from the Wall Street Journal. Please go ahead.

Abheek Bhattacharya: Back when the conversation was mostly about WPI, there was a sense that the level that the RBI was comfortable with is 5%. So anything above 5% would be uncomfortable, then we could assume some sense of hawkishness. Is there such similar number on the Consumer Price Index that the RBI is now comfortable or uncomfortable with? I realise, you look at a variety of indicators when it comes to inflation, but I am just trying to get a sense of parallel number to see if inflation does get below that, if your stance will change?

Dr. Raghuram Rajan: I sort of answered a version of this question before. We are getting comfortable with the CPI as of now. As you know it does not have a long vintage and till we get comfortable with how it moves, what it moves based on and how easy it is to influence it through the various processes that we have under our control. I think putting a target out there for everybody to start getting coalesced around, I think would be difficult. So let me just leave that at this point as an area of uncertainty for you. We have a sense in our own mind of where we want to get to, but at this point I cannot be explicit until I know how inflation dynamics as far as the CPI goes evolve. But I would also say that we have a committee looking at whatever we know about these and getting more comfortable with all the studies that have been done on the CPI and they will help us in this process of what kind of targets should we set, over what horizon should we aim to achieve the target and that I think will be helpful in us being able to communicate to you more precisely as time goes on.

Bijoy: Bijoy from Cogencis. Two quick questions. One is you have said that you have given a guidance in the MMD report. But does it kind of defeat the purpose itself when the guidance comes ahead of the policy, because you want guidance when the policy action actually happens, so that is my first question. And second question is on differential licensing. You have raised the issue, but there is no substantial information on it. So if you could share what your thoughts on that are.

Dr. Raghuram Rajan: Let me ask Dr. Urjit Patel to give you an answer for the first and Mr. Anand Sinha will talk about the second.

Dr. Urjit Patel: What we have done in the MMDR is given you an indication of the numbers related to the CPI and WPI. What we have given in the policy is not a projection, but the guidance based on that. So nothing actually has been taken away from either document when you read them together. I think it is a complete analysis and our in-house projection if you read them together.

Dr. Raghuram Rajan: I think the question is more when you talk about the guidance before policy; you want to see what we think would happen post policy and you want more specific guidance on that.

Bijoy: This is what the trend has been over the last few quarters and RBI has been saying that they are trying to improve the way they give guidance. So is there a shift from that?

Dr. Raghuram Rajan: Not really a shift, but at this point we are sort of telling you the reasons why policy is what it is. I will tell you, the real difficult part which is not being very comfortable with our sense of how CPI will move given the policy actions and wanting to be equally fair on CPI and WPI in terms of our treatment, we thought it is easier to give the pre-policy analysis of how this would look like and then get a post policy, we hope CPI will move in the right direction, we think it will, but as we get more comfortable we will give you a post policy analysis of both. I think at this point we could give something on the WPI, but because we want to give both equal treatment we are not giving you the post policy analysis.

Shri Anand Sinha: The paper that we have come out is a discussion paper where various possibilities have been looked into. All the different proposals which could be considered, or what are the plus points, what the down sides, those are the points which have been discussed. So it is a directional paper, it is not a policy paper where you will get all kinds of details. That will be formulated after we get the response from the stakeholders for which two months' time was given and then we had some discussion with the bankers also. So taking all that into account, a very definite policy framework will evolve eventually; at this stage it is directional. So you cannot expect very hard facts or very crystallised kind of proposal right now.

Latha: Banks were worried that there will be regulatory arbitrage if you gave differential licensing?

Shri Anand Sinha: Regulatory arbitrage will have to be tackled because differential licensing is not something very new that we are talking about. In fact we have talked about this in 2007 also and at that time certain banks were there in many countries. So what we will have to do is to contain the downside, address the risks when we formulate our policy.

Pradeep: Is this discussion is part of the ongoing process for new banks?

Shri Anand Sinha: For new banks, very definite and concrete policy has been laid out, applications have been invited on the basis of that whereas this is not a crystallised policy.

Latha: Sir, what about OMOs? What will force one to do an OMO, an NDTL deficit of 1%, 1.5%?

Dr. Raghuram Rajan: I think we will watch the liquidity situation and react accordingly. I mean there is only so much we can predict as to what will happen and we have said in the past that we stand ready to meet the liquidity needs of the market. We will watch it and decide what we need to do.

Latha: Is there an intolerance limit like 1.5 deficit?

Dr. Raghuram Rajan: If you are saying, do we have a precise number in mind, the answer is no.

Saloni: Saloni from Bloomberg TV. Sir, two questions, first on the asset quality fund. Two weeks back finance ministry has indicated its unhappiness on how banks are going forward and recovering bad loans. Considering the fact that your first speech at the helm of RBI has indicated that promoters do not have divine right stay in power, if they do not know how to function the company. Have you also indicated to banks to really go aggressive as far as recovering some bad loans is concerned? And the second question is, I know spoke a lot about the growth path, but a couple of divergent views. The macroeconomic report indicates that there will be some recovery in the second half of this financial year. But considering the fact that there being a fresh hit as far as the investment cycle is concerned on corporates and the corporate demand not picking up, you see there is downside risk as far as growth is concerned and that has not bottomed out as yet?

Dr. Raghuram Rajan: First on your second question, yes, there is downside risk to growth, I admit that fully. I said that, and that downside risk till exist, it has not disappeared. Our growth projection is balancing the upside risk and the downside risk. On the projects that are in trouble we actually have offered a more nuanced view to the banks and we had a discussion even today which is, in genuine difficulty we have to find a way to get the real assets back on track. Nobody wins if the economy is deprived of a power plant or deprived of a road which could otherwise be functional and help the economy. But we have also said that in situations where the promoter is clearly unable to carry that forward or where there is a clear evidence of diversion, banks should take action, they should not neglect those situations. Let me turn to Dr. Chakrabarty and ask him if he would like to add anything on that.

Dr. K. C. Chakrabarty: We have to try and what system does, to change the promoter is not so easy, environment also should help. Only thing we are saying it is at the evolutionary stage. Only two things I will say. You see, any system creates NPA when the people borrow money and they do not pay. So banks cannot be made solely responsible for NPA. We have tried to say that bank has two issues. One is environment is bad that is why NPA is more, we have to tackle this through the regulatory issue; make the banks to more provision, bank will price the risk. And second thing is if there is a management issue, appraisal issue, those need to be addressed. At present we are focusing into all these issues. Structural changes, promoter, this is a much wide range, but banks are free to do that. We would not like to intervene and guide the banks; you change the promoter here and other things, let that should be left to the discretion of the bank, existing promoter and new promoter and the legal system.

Dr. Raghuram Rajan: So there are possibilities for us to ease the way to putting assets back on track and we are exploring them and we will come out with some measures shortly. But the idea is let us get the economy back on track and for that we have to work on restructuring the real side.

Saloni: Do you want them to be more aggressive as compared to what they are right now?

Dr. Raghuram Rajan: I think our sense from the meeting with the bankers today was that they were all fully cognizant of the ability to take action, whatever action they thought was required. Both the messages coming from the finance ministry as well as from the RBI are on the same page “Do what is necessary.” This is not saying we create an atmosphere of fear or be vindictive; it is basically what we need to do to get the assets back on track.

Siddhartha: Sir, Siddhartha from Times of India. Given the negative surprises on both growth and the inflation side, it has been happening in the last few quarters, how do you see the present set of measure actually helping you meet the target?

Dr. Raghuram Rajan: You are talking about monetary policy?

Siddhartha: Yes.

Dr. Raghuram Rajan: As I said, our focus is on trying to curb inflation in an environment of weak growth. Now some of the growth that may come from say agriculture will help on some dimensions. I do not see it as a solution to everything, but also the fairly slow growth will help in the disinflationary process. That coupled with the rate hikes that we have put in place should help get us on the way towards lower inflation. So I think what we have done is consistent with the environment as it stands.

Siddhartha: An unrelated question, would you like to comment on the controversy regarding your nationality?

Dr. Raghuram Rajan: You know it would be a joke if some people were not so serious about it. And I will answer this question once and only once and I am not going to answer it again though I get an e-mail a day on it. I am an Indian citizen, I have always been an Indian citizen, hold an Indian passport, I have always held an Indian passport. On occasion, I have held an Indian diplomatic passport and my father was in the Foreign Service and when I travelled on behalf of the Ministry of Finance. I have never applied for the citizenship of another country, have never been a citizen of another country, and have never taken the Pledge of Allegiance to another country. I do hold a green card. The green card does not require you to take a Pledge of Allegiance anywhere. It is simply a work permit which you need to have to work in another country that is the United States, and unfortunately right now the Green Card is expiring so that I have to go through the whole process of reapplying for it just to keep it going. But that is the sum total of my citizenship. Let me tell you the interesting thing is, who is concerned about this? In some sense, it is to me shameful, we spend so much time on such issues. There was a time when India was open to the outside when we did not really care where people came from. We sort of incorporated them in what we were doing. It seems to me that people who are pushing this angle. Much of the time I wanted to ask why should you care? But if they do care, the answer is I am an Indian citizen and I am proud of being an Indian citizen and I have always been one. Thank you.

Parnika: Parnika here from DNA. What kind of rate action are you expecting from the banks now considering the emphasis given on deposit accretion? Is there something else that you expect banks to do other than tweaking the interest rate to get deposits?

Dr. Raghuram Rajan: They are going to take the actions that they have to give the demands on their funds, given their need to raise funds. What we have said is that we would hope that they would raise more deposits. Now this does not necessarily come only from raising the interest rate. It can also come from better deposit raising activities. Going out and looking for new deposits elsewhere. So I would hope that going forward, we present more attractive investment options to savers in this country so that we can also change the saving dynamics where we are seeing financial savings falling as a fraction of GDP significantly in the last few years; we need to change that. But after all what is our current account deficit, but the deficit between our investment and our savings. Too little of our investment is being financed by our saving, as Deputy Governor Urjit

Patel said. Today this is particularly alarming when our demographics is changing towards a situation where we would expect significantly more savings. We have more people entering the labor force. They should be helping in savings but we are not seeing that happen. So this is something we need to change.

Kartik: Kartik from Bloomberg News. Your views on the monetary policy framework are known from the paper you have done and what you have done in the past. Given the rate action you have done, is it right to assume that we are moving towards inflation targeting, or simultaneously is it actually doable in a country like India?

Dr. Raghuram Rajan: I think the RBI has said very clearly again and again, it is worried about the inflation. I do not want to say inflation targeting because once you say the word inflation targeting, people have single minded focus on inflation regardless of the growth sequences. And the point about any kind of reasonable central bank is it looks at achieving a reasonable level of inflation, taking into account the growth situation. Because growth itself will create some disinflationary forces and therefore it means that you can achieve the target with less of an interest rate hike. Also central banks always look at the state of the economy. Because they do not want to create a situation where you drive rate is so high that the economy collapses and then you have deflation rather than inflation. So all these things are taken into account, so I do not want to in any way say we are going to become nutters on inflation. But Dr. Urjit Patel has a committee which is looking at these issues and we will take the report of that committee very seriously. They may argue one way or the other. Maybe we should be more explicit about our objectives and so on. But I am also hopeful that we will get a sense of which elements we should emphasise.

Nupur: Dr. Rajan this is Nupur Acharya from Wall Street Journal. Just a very quick question, any progress on the inclusion of India in debt indices, there has been a lot of talk about it?

Dr. Raghuram Rajan: We are in talks with the various bodies that are engaged in this and the talks are happening with the RBI, with the SEBI, with the government. Let us see where they go. We have the ability to be somewhat flexible, but at this point there has to be a meeting of the minds on this. One of the concerns they have as you know is they want no limits on debt flows and we have to see how far we can go on that which is consistent with our comfort level.

Saikat: Sir, Saikat from ET (print). In your maiden speech, you made a mention of SME receivables with the reference of 2010 report which was prepared by you only. Is there any need for creation of secondary market? is there any update on that? And second one is you have mentioned lot of things about IIBs. But according to market participants these IIB basically made for retail and there is a need for articulation and aggressive education, Do you have a plan of action for this?

Dr. Raghuram Rajan: I will ask Mr. Khan to address the question on IIBs. We are actually looking at that very actively and we are trying to enlist some entities to give it a serious thought and to come out with a position paper on that. So the idea is to push this quite quickly and quite fast. So there will be something in the next few months. Not so much papers but actual structure on the ground hopefully.

Shri H. R. Khan: Government of India and RBI will be working on some campaign to educate people about the advantage of retail IIBs and the moment it is finalised, the features which is in very advanced stage, we will be coming out with a press release and we will also do joint campaign.

Hotta: Hotta from Nikkei newspaper, Japan. My question is about GDP growth. You said earlier this month India potential growth rate will be in double-digits. I think that this is because of increasing population of India. Regarding medium term, means 3 or 4 years, how much is the appropriate level of GDP growth in India?

Dr. Raghuram Rajan: Potential growth rate has some connotations. Let me call that the aspirational growth rate. That there is no reason we should not growing at 10% if we did all the right things including getting our infrastructure right, part of the building out of the infrastructure will contribute to that growth, but also skilling our population and getting the business regulation right, I think that we could easily be at double digits. Given our level of per capita income which is at this point just above 1500, so I have no doubt if we took all the right actions we would get there. Today, what is our potential which has a precise economic meaning, I would say, most studies would say somewhere about 6.5 or so is about where we would end up. But those studies tend to basically emphasize the most recent growth numbers in estimating what your growth potential is. So we have done poorly in the recent past, so many people say our growth potential is lower, and part of why they would say growth potential is lower is you have 10% inflation with 5% growth so your potential must be really low. I think if you allow me the flexibility of saying some of that is because of supply constraints. If we fix the supply constraints, we have somewhat a higher growth path, and then maybe one could debate whether it is 6-6.5 or more. So this is an area which is clouded in uncertainty amongst the economists. Here again putting a precise number probably is difficult.

Kavitha: Kavitha Krishnan from CNBC Awaaz. Sir today as you have increased the repo rate, loans etc., have become expensive. Government is telling to banks that in selective products they should decrease the interest rate, make the loans cheap so is it right to say that you and government both are wanting different things.

Dr. Raghuram Rajan: Trying to draw a rift between us and government? We are on the same place as the government, that we see a need for growth. We would like to see more growth in investment rather than consumption. If we had a preference of where we would see growth, it comes from investment. But, of course, when do people invest? They invest when they see more demand. To the extent that there is more demand, it will propel the investment cycle. But, of course, more demand is also potentially going to add to inflation. So you could argue that maybe if the RBI had to do it, it will not say, go out and cut interest rate and make loans at the same time as we they raising interest rates to somewhat. Ultimately part of how this works is by quelling demand. So yes, we are on somewhat different pages, but I can understand why they are doing it, and to the extent that it feeds back into investment. To that extent I think we need more investment in this economy to help especially on the supply side.

Kavitha: Because this came just after the credit card 0% EMI loan which consumers were getting when you have sent a notification to the banks and asked them to close down.

Dr. Raghuram Rajan: That was not an attempt in any way to prevent firms from offering low rate. Basically a low rate is they are cutting the price. If they want to cut the price, we are very happy that means lower inflation. We have no problem with firms cutting the price. We have no problem with banks passing through the entire benefit to the consumer. I think the intent of that particular circular was there were situations where this benefit was not being passed through or where the full cost to the consumer was being disguised. And so we were saying from a consumer protection perspective you have to indicate. By all means give your interest rate, but give it throughout. Indicate what you are passing through. We thought the level of transparency in those schemes was not fully appropriate.

Simran: Simran from ET Now. So the first question on foreign banks. You said that whoever is willing to adopt WS model they will be incentivized. So on one hand incentive may include branch expansion or something like that. So could you elaborate it in your national treatment that you are talking about, will that also include financial inclusion because clearly I do not think bankers consider that as an incentive. The second question is on the NSEL issue. RBI has also submitted report on the same. So how grave is the situation right now, do you think that it will pose a systemic risk.

Dr. Raghuram Rajan: Let me ask Dr. Chakrabarty to talk about NSEL**.** Quick answer is, no, it is not a systemic risk but let me ask him to talk about the details. On the first question of wholly-owned subsidiaries, the intent is that they should have both the privileges as well as the responsibilities of Indian banks when they become wholly-owned subsidiaries. We will also have some safeguards to make sure that the Indian banking system does not turn out to be beyond a certain point foreign-owned, but that will give them enough incentive, I think within those safeguards to operate and to expand relative to where they are. But I think the full intent is that they should have the responsibilities also which means priority sector and other responsibilities that we ask Indian banks to take up. So this is not meant to be giving them any regulatory arbitrage.

Dr. K. C. Chakrabarty: On NSEL we have no issue. At present there is no problem to the banking system because of this. Rest is that this is all coming under other regulatory forums and they have to address that issue. I do not think we have any issue with that.

Dr. Raghuram Rajan: Thank you very much and Happy Diwali to everybody again. Thank you.

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