“Reserve Bank of India Post Policy Conference Call for the Media”

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Moderator Ladies and gentlemen good day and welcome to the Reserve Bank of India's Post Policy Press Conference. 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 call, please signal an operator by pressing '*' and then '0' on your touch tone telephone. Please note that this conference is being recorded. Participants connected to the audio conference bridge may press '*' and '1' to ask questions. 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.

Ms.Alpana Killawala Thank you. Dr. Raghuram Rajan, Governor, Deputy Governors and Executive Directors are here and without wasting any time I will straightaway request Dr. Rajan to make the opening remarks. Thank you.

Dr. Raghuram Rajan Thank you very much. Good afternoon. In the mid-quarter review today we began a calibrated change in the exceptional liquidity measures we introduced in July by cutting the Marginal Standing Facility rate, which is the effective policy rate today, by 75 basis points or 0.75 percentage points. We also reduced the minimum daily CRR balance that banks have to maintain, to 95% of the requirement. We believe that easing the exceptional liquidity measures was warranted, given that the external environment has improved and given that the government and the RBI have used the time since the measures were put in place to narrow the current account deficit and to ease its financing. The calibrated withdrawal will provide a boost to growth, reduce the financing distortions that are emerging in the market and reduce the strain on corporate and bank balance sheets. We remain vigilant about external market conditions and will do what is necessary if they deteriorate once again. We have also announced an intention to return to normal monetary operations where the repo rate will return to being the effective policy rate and liquidity conditions need not be as tight as they currently are. Let me emphasize that the difference between the MSF and the repo rate will be brought down to a 100 basis points. At the same time recognizing that the inflationary pressures are mounting and determined to establish a nominal anchor which allows us to preserve the internal value of the rupee, we have raised the repo rate by 25 basis points. The intent here is that when the repo rate becomes the effective policy rate it should be consistent with inflationary conditions in the economy. On net, these measures will reduce the cost of bank financing substantially while allowing us to take an appropriately precautionary stance on inflation. Let me say that we do not have in mind what the next move should be on the repo rate. It will be tailored to economic conditions. The intent of this move was to ward off escalating expectations of inflation but the pace of the disinflationary process has to be calibrated to the state of the economy. Let us remember that the postponement of tapering is only that, a postponement. We must use this time to create a bullet-proof national balance sheet and growth agenda which creates confidence in citizens and investors alike. At the Reserve Bank of India, my colleagues and I have been busy developing the measures we announced about two weeks ago. Yesterday the RBI implemented the full liberalization of bank branching with some safeguards to encourage inclusion. We announced both the FCNR-

B swap facility as well as the swap facility for bank borrowings. I am glad to say that the banks have started bringing in money. Till yesterday we had received \$466 million through the FCNR-B and \$917 million through the swap facility for a total of nearly \$1.4 billion in the four days that these facilities have been functional. We have started the process to issue two kinds of inflation index retail certificates, one with a lump sum payment at the end and the other with indexed interest payments. We are still exploring the details of the structure but we intend to issue these by November. We have set up the central credit registry for large bank borrowers, the various committees we announced earlier this month are swinging into action. Over the next few weeks, together with the government, we will take a close look at corporate distress and bank NPAs to see how we can accelerate the process of resolution. Finally we are taking a look at a variety of markets to deepen them and make them more vibrant. Measures will be announced periodically.

Ms. Alpana Killawala When you ask questions, please announce your name, the organization that you represent and then ask questions. Latha?

Latha Venkatesh, CNBC TV18 You said that you will anchor the repo rate consistent with the inflation rate. Which inflation rate will you be looking at? The WPI or the CPI? and why?

Dr. Raghuram Rajan The RBI has always looked at both rates and of course with CPI you could talk of the CPI new industrial worker, rural worker etc. We have to take everything into an account because remember, the WPI inflation rate doesn't contain, for example, a significant portion of services inflation. So you can't just focus on one. But I think till we get the report from Dr. Urjit Patel and his committee, I would refrain from saying we have a focus explicitly on a particular measure.

Latha Even a bias?

Dr. Raghuram Rajan I don't think there is a bias, I think the RBI historically has focused on a number of these. At certain points of time one matters more than the other but I won't say it is a permanent bias.

Latha Actually the next inflation reading on the WPI is likely be higher, we normally start to see the Kharif impact only in October, November, December. So would you say that the repo rate has yet to be normalized to inflation rate?

Dr. Raghuram Rajan What we have to look at is what we believe inflation will be in the longer horizon. Typically we look six months to a year ahead, so we have to look through temporary changes in inflation which we believe will be corrected by, for example, crops coming in and so on. So we have to look through some of that. So I don't think one particular inflation reading will effect what we think our stance will be. It will be a variety of issues.

Ira from Financial Express Governor, just a follow up on that. What is the acceptable level then? Should we still work with the numbers that the RBI put up in the annual policy? This year, for instance, those numbers still hold on the inflation side or has that changed?

Dr. Raghuram Rajan Events over the last few weeks clearly have had an impact on what we think our forecast of inflation is likely to be, or is, at this point I should say and take the rupee depreciation, take at least temporary higher price of oil we have to see if the oil price reductions sticks. These are all issues which will factor into inflation and of course suppressed inflation is also being let into, I think that is a good thing, it will be one off, it will not permanently increase the rate of inflation but those are factors which change inflation and change inflationary expectations, so we have to worry about some of those factors.

Ira But Governor that is just the point that I was trying to make. Is actually the repo rate being the operational rate and in the current context you are saying bringing down inflation to more tolerable levels has warranted an increase in the repo rate? So in the growth inflation dynamics that we are in right now, is it inflationary of sort?

Dr. Raghuram Rajan I won't say that, remember during my remarks, well of course we are anti-inflation, but during my remarks I said the pace of disinflation will be calibrated to the state of the economy. So clearly if the economy continues to weaken and looks relatively weak, there will both give us a certain amount of cushion in terms of disinflationary processes at work but also will give us an incentive to then perhaps look to putting greater emphasis on reviving the growth of the economy.

Participant Just on the external fund apart from the $1. 4 billion that has come in what else is giving you comfort right now on this front on current policy?

Dr. Raghuram Rajan I think on the external front clearly the noises on Syria are very comforting. The worry was that if there be action in Syria that could push up the price of oil considerably, even if for a temporary period, it would be somewhat painful for our economy. So I'm glad that negotiation has taken over from actual threat of action. I would see that as very positive. I would see the growth that is picking up in Europe, in Japan, in UK as very positive. It is helping our exports, both merchandise exports as well as service exports and I think it is allowing us to shrink the current account deficit at a faster pace than people thought initially.

Bijoy Idicheriah Bijoy from Cogencis Sir. **O**ne of the things that is happening is that you have unwound some of the measures but the CRR step that you have taken from 99% to 95%, it seems to be a more permanent measure. Is that something that the bank should not expect any further dispensation on back to the earlier levels that they maintained?

Dr. Raghuram Rajan Let me hand the details over to Deputy Governor, Dr. Urjit Patel. But let me emphasize that this is made out to be a much bigger hardship than what we have seen through past data actually is. Banks act as if there's been a tremendous increase in the CRR that they are subject to and when we look at past data, we find it is a small increment, basis point that they maintain. They used to maintain 102%, so we are saying 99% that's below the level that they used to maintain. So to act as if there is a big hardship, a big increase in cost, I think it is completely overstating the fact. Now we have, in the interest of allowing them easier management, reduced it to 95% but my sense is that with this, remember the CRR that they maintain is with historic regard, it is not prospective CRR, it is based on a number they already know, so for them to maintain it and to say that there is a tremendous hardship in maintaining 99%, I think is overstating the fact. We have taken, however, their worries into an account and reduced it somewhat. My sense is, as we stated, further reduction at this point is not contemplated. But let me turn it over to Dr. Urjit Patel.

Dr. Urjit Patel I don't have much more to add than what the Governor has just said. But we look at data on how much CRR is maintained, it has always been maintained over 100% and it is retrospective - with a lagged fortnight, so there is actually no uncertainty. So in terms of management which is actually a very solid number that banks have to target and therefore the elbow room that we have given is very generous.

Dr. Raghuram Rajan Let me emphasize that this is peanuts, in the larger scheme of things. So the amount of attention that has gone into this particular issue, I think is unwarranted.

Anirudh, ET Now Good afternoon Governor, Anirudh here from ET Now. Like you mentioned that you feel that banks are overstating the impact of the CRR. Also in terms of kind of action that we have seems to be number of banks including yesterday we saw SBI raise their base rates. Just like to understand that these kind of personally reluctance on the part of banks to lend and also kind of ease at which they are hiking rate at this point of time; is that something that concerns you all in terms of regulatory impact.

Dr. Raghuram Rajan Let me put it this way the MSF cut we have done today 75 basis points affects a significant quantum of funds that are borrowed from the markets through wholesale deposits, bulk deposits and so on, and the 75 basis points cut there is actually a significant reduction in their cost of funding. Now set against that my sense was the 25 basis points increase in the repo rate is really intra-marginal. It is going to affect basically the borrowing on the LAF, so the immediate effect of what we have done is actually reduced the bank's cost of funding. Secondly if we can move reasonably quickly, again based on market conditions of course, to a situation where we normalize monetary policy, you get away from the condition where short-term rates are at such a high level, a number of entities, I was talking to a financial institution yesterday which largely borrows by issuing bonds in the market, and because of the increase in rates at the shorter end they were forced to go and borrow from banks because they could no longer borrow from the markets. Those kinds of distortions will be eliminated, they will be able to return to market borrowing as we remove these emergency liquidity measures. So my sense is that to the extent that we can anchor inflationary expectations we can create a sense of stability in the value of the currency by the repo but at the same time be able to eliminate these or reduce these liquidity measures again at a calibrated pace, the economy is actually better off from a growth prospective.

Participant Actually when we spoke to bankers they gave us perfectly the same explanation that you have given. That effective rate will come down. But when we talk to market players they feel that MSF or the hike in MSF was a temporary measure and repo is more permanent measures so you'd have given a signal of short-term kind of easing and a medium-term tightening. Is that a misinterpretation you see?

Dr. Raghuram Rajan I think what you should look at very carefully is our language.We are watching economic conditions and we will, when the repo rate becomes the effective policy rate, move it based on economic conditions. So yes, economic conditions are evolving; yes, there is an anticipation that the harvest will be good, that it will have a very moderating effect on inflation. Let us see how these play out.

Anup Governor, Anup Roy here from Mint Newspaper. Now that the US Fed has more or less signalled that it will continue with its asset buying program till at least this calendar year, do you see the kind of caps that we have put in particularly for individuals from $200,000-$100,000 etc., and the other measures to capital control. Already for companies we have lifted, do you think there is a case for continuing with those steps?

Dr. Raghuram Rajan I think you are focussing again on the very small. How many families in the country take out $75,000 per person? For a family of four that is $300,000 per family per year. How many families are affected by this measure? We have brought it from $800,000 per family per year to $300,000.It is a precautionary measure, you could say, it doesn't make a big difference, we don't know. It was a precautionary measure to ensure that there aren't big outflows. But it wasn't violating any previous contract. There was absolutely no intent to implement capital controls. The moment you say capital controls you are falling into the trap, that are a number of analysts are putting us into. This is a precautionary measure. We liberalized, when we had plenty of money pouring in and didn't want them to create problems here. We contracted when we felt that the money was flowing out. The next time money starts pouring in we will be happy to liberalize again. Think of this as a policy measure rather than an issue of liberalization or not. I think we have got the emphasis on this measure entirely wrong.

Prashant Nair **S**ir, I am Prashant Nair from NDTV. Just on that point, shouldn't you be thinking of too much money coming in and hence, I mean the problem is not depreciation but appreciation. A lot of money is coming in. You said $1.4 billion just come in. Our interaction with the banks suggests that you will have to choose that do we want to take 20 because you will be offered a lot more. So isn't the focus, I mean the exchange rate where it is, shouldn't you be thinking about, I mean, buying dollars? It might be too early but what is your sense?

Latha Would you worry about appreciation, is there a fear that RBI will have to intervene on the other side?

Dr. Raghuram Rajan We will cross whatever bridges we have to cross when we have to cross them. I think it is premature to answer that question. Let us see what flows in. Let me put it this way. We are fairly confident that we can finance this year's current account deficit without a substantial drawdown in reserves. In fact the Finance Minister's math which the RBI collaborated on, suggests that CAD could come down to $ 70 billion and even below and that the financial measures we put in place should raise more than that amount of money. Now if all goes well there will be an accretion to reserves. If that accretion to reserves looks like it is overwhelming us we will take appropriate decisions at that point.

Prashant The pace at which this happens is, you have agreed so far so much money is coming and I guess not some new found love for the country but because there is so much of it sloshing around, because there is very little of the rupee and exchange rate management

Dr. Raghuram Rajan On all these measures we have an ability to bring them to an end if we think adequate amounts have come in. So there is no need for us to immediately think about doing the reverse. We can basically shut down any measure and this goes back to the point I made earlier. Liberalize when you have or let outflows go more liberally when you have plenty coming in and constrain them when you have too little but don't view that as liberalization or not liberalization. View that as essentially policy measures trying to calibrate the health of the financial sector.

Prashant Of the OMC swap window, did you consider sort of asking them to go back to the spot market not a special window because that would have de facto meant that you were in a way, if you are not selling you are buying in the foreign exchange markets?

Dr. Raghuram Rajan The OMC window will, as we feel confident in the currency and its stability, slowly be tapered and that process when it starts, how it starts depends on market conditions. We will watch them but I don't envisage a situation where the OMC window is permanently open. No.

Ritesh Governor, this is Ritesh from Zee Business. Will you be comfortable in answering in Hindi?

Dr. Raghuram Rajan I made a promise that I will do full-fledged interview in Hindi a year from now. Given where market conditions are I would not trust my Hindi.

Ritesh During your first interaction when you joined RBI, we had asked you a question that what is your priority inflation versus growth and at that time and you said you will give your answer on 20th. It was a positive statement. Will it be correct to read that you will focus more on inflation and less on growth given the current of market scenario is?

Dr. Raghuram Rajan I don't think that is in an appropriate interpretation. I think that any Central Bank does worry about both and the emphasis does change depending on the economic situation and I think we are worried about both. Let me tell you the intent of the policy today was primarily to say that the cost of funding is very high at this point. We need to withdraw these liquidity measures as soon as the market conditions allow it. Given that market conditions have been very favorable in the last couple of weeks leading up to the policy, we felt increasingly confident we could withdraw those measures and thereby and this was an emphasis that the market is not picking up, reduce the cost of funding to the financial sector. Now you may say short-term, long-term the point is immediately there will be a reduction in the cost of funding to the financial sector and I think that has to be accompanied, you can't do it alone while not paying heed to the fact that inflation has been on uprise, partly also there are inflationary pressures because of the rupee depreciation so we need to look at both.

Ritesh And second question is on the QE3 tapering, we have seen Fed postponing the tapering. We have room available. Government and RBI, mainly the government, in 3 to 6 month period which when the QE 3 will start tapering off . What are the area where we can do improvements so that when the tapering actually starts we don't feel the shocks, I mean the high quality shocks?

Dr. Raghuram Rajan I will say that a substantial amount of action has been taken already and you have seen action in terms of growth enhancing action, the projects that are being cleared, the linkages that have been built up, the FDI policy that has been liberalized substantially. Yesterday we saw Tata coming with Singapore Airlines. Before that we saw number of other measures in the airline industry. The point is, these things take time to play out. Now most immediately from the government perspective is concerns about the fiscal deficit that too contributes to what the value of the rupee will be and the extent of inflation that we would see. I think the government yesterday announced fairly significant measures on tightening expenditure and I think that the market is also waiting for measures on the fuel subsidies especially diesel, so let us wait and see what happens. But these are measures which taken would increase confidence that the Finance Minister, and he has built a lot of credibility with last year's budget, that he would be able to stay behind the Red Line that he has drawn for himself.

Participant Good afternoon Governor. This is Saloni Shukla from Bloomberg TV. In your first speech that RBI had mentioned that you would be gradually looking at induction of PSU banks investment in G-sec. Is there a case for opening the bond market that foreign investors look at that gradually?

Dr. Raghuram Rajan I think that we have already seen one measure by SEBI to open the bond markets since my speech which was to eliminate the auction that G-Sec investors had to participate in from outside if they wanted a piece of the G-Sec market. I think that is a very good move. I think going forward we have to see how the limits play out. Right now those limits are far from being breached and so there is some room. There is some talk about bringing India into these bond indexes, what needs to be done. We will have conversations with the international index agencies, the entities, some of the investment banks, that create these indices. Let us see what they require, sometimes they require a pace that we have to examine before we feel comfortable with. But we will have those conversations. I think a big step forward was SEBI taking off the auction limit which was a hindrance from moving on to the indices and let us see what it takes to get on to some of those.

Tanaka My name is Tanaka from NHK, the Japanese Television. Regarding the QE 3, so the Fed has postponed the tapering, so do you feel happy or do you just feel that the currency....(inaudible)

Dr. Raghuram Rajan It's a very good question. I think that given the state of uncertainty about the US Economy they took a decision that was in their wisdom appropriate. I do think that short- term it has in a sense postponed some of the concerns. My sense is the markets were quite prepared for a moderate tapering, and what this has done is, in a sense it has again created the possibility of uncertainty down the line as the markets have to again anticipate whether tapering will occur and whether it was better to avoid this uncertainty for a brief breather when the markets celebrate, I don't know. Let me say this that to some extent our policy, I thought we would have to worry a lot about what Fed Policy would be, but our policy was actually quite easy even before the Fed did announce, there was some I's and T's we crossed. T's were crossed and I's we dotted. But in general I think this is the course we have to take in order to stabilize the economy and we need that stabilization regardless of what the Fed does. Of course, if we stabilize we are better prepared for the tapering whenever it happens. But let us not lose the chance, the warning that we have been given, and celebrate too early, that this is going to come back and what we need to do is put our house in order before it comes back.

Participant Just a follow-up. Is it really a warning from the other side, because this kind of a U turn, market was really prepared for a few months now, and then Fed Chairman has completely taken a U turn, so may be he is now worried about economy, may be the economy looks much weaker down the line.

Dr. Raghuram Rajan Perhaps, and therefore there is always the danger in any Central Bank policy is the signals that are read into it. My sense from talking to Fed officials is that they were balanced. They could go either way, and perhaps weaker data in recent days has switched them to a more accommodative stance. Nevertheless, I think the point, and this is a number of emerging market banks, I think, Central Bankers have been talking about is that, how many times should we prepare for tapering? Is once not enough? And of course we will have to prepare once again. But this time I hope we will be in a much better position, much stronger position, and we don't have to worry that much.

Participant The breather could be much longer.

Dr. Raghuram Rajan I don't know how long (will be) the breather. I am going to stop anticipating tapering at this point and look at fixing what we need to fix here.

Olga Tellis This is Olga Tellis from The Asian Age. Since the tapering has been put on hold and $85 billion will be pushed in every month do you think it only creates bubbles in the commodity, currency, and exchange markets.

Dr. Raghuram Rajan I think that was the worry of some Fed Governors including Governor Stein. And I think they have to watch for that. That was one of the bigger factors in ending tapering, the worry that as it could create those kinds of asset price distortions. I personally have not been a great fan of asset purchases except when markets are broken. I think the QE1 was a great action in that it fixed the broken mortgage backed securities market, that was important. Since then I think one can be on both sides of the fence on whether asset purchases have done a lot. The difficulties the counterfactual what if it had not happened, we would have been worse off, and I think it is very hard to answer that question. But, given the price distortions that happen when you buy asset purchases in a large scale, I do worry a little bit about that. But Let He Who Be without Blemish Cast the First Stone. To some extent our measures have also had some effect on asset prices and sometimes Central Banks have to do that.

Olga A lot of money goes in speculation so that's why?

Dr. Raghuram Rajan Some of it does. To some extent all investment is an act of speculation. But some of it does, and it does create asset price distortions, and potentially bubbles. So I think that is the reason to worry, which is why you don't want to overdo it, and I think that has been one rationale why the Esther George who keeps voting for tapering and against continuation cites this as one of the biggest worries.

Sachin Kumar Sachin Kumar from Hindustan Times. After this repo rate hike there will be a negative impact on growth. So would you try to revise growth projections and second, do you see more inflows after this repo rate hike and subsequent measures?

Dr. Raghuram Rajan Of course, we have been very careful about immediately associating our repo rate hike to growth implications. Sometimes the knowledge that inflation will be lower can actually enhance growth prospects rather than reduce growth prospects. So I don't think you want to immediately conclude that this is negative for growth. But also remember that it is clubbed with a substantial reduction in the MSF, which is growth positive. So I think that analysts when they look at this should weigh the measures together rather than see it as a unilateral issue. I also believe that from a growth perspective there are other more important factors that are going to come into the economy over time including the projects, project completion is going to be an important issue, power generation and the availability of power on which there has been some positive news will be an important factor. The Kharif crop and the sentiment in the rural areas will be an important factor. So I would not overestimate the effects of a 25 basis points repo rate increase. Of course there is, I mean, our intent is to signal a stance against inflation, but I will not overestimate the negative effect against growth, on growth.

Sachin Kumar The second question about increased the inflow after this repo rate hike.

Dr. Raghuram Rajan We have to see, I don't want to again link inflows directly to the repo rate hike, inflows or outflows, I would rather say that we have taken a number of measures which look like they are biting, look like they are pulling in money, and which will stabilize the currency which allows us to focus on the internal value of the Rupee going forward rather than primarily which was over the last few weeks, on the external value of the Rupee.

Sameer Hashmi Mr. Rajan, this is Sameer Hashmi here from BBC. You spoke about the Finance Minister drawing a red line when it comes to the fiscal deficit. Have you also drawn a red line when it comes to inflation and do you think there is a certain level at which you want to see inflation and unless it does not come down to that level, you will not look at interest rates or cutting rates.

Dr. Raghuram Rajan I don't think from the statements I have made, we don't have such a categorical stance. You always have to balance the state of the economy with your fight against inflation. What I would like to see is that we achieve certainly, the RBI targets of trying to bring WPI inflation below 5%. Dr. Urjit Patel's committee will, over the next three months contemplate, will be thinking about, but the pace at which that is done is to some extent going to be calibrated to economic conditions. So, I think yes, absolutely, we want to fight against inflation, and we will bring inflation down, but it is not "Take no prisoners" kind of stance.

Sameer Hashmi One follow up question. You answered that earlier, but I will just follow it up. This whole debate on inflation versus growth.You have the Prime Minister of the country talking about the Central Bank needs to relook or rather the role has to evolve and it has focus on growth, do you think the state of the Indian economy, it is really difficult for even the Indian Central Bank to shift its priorities at this point of time?

Dr. Raghuram Rajan No, look the priorities of the Central Bank have always been sort of both inflation and growth, and as I keep saying, the emphasis on each. You never take off the emphasis entirely, the emphasis, the rate of emphasis varies with conditions. In a situation where there is growing signs of inflationary pressures there will be inflationary pressures in the pipeline, we know about, including the suppressed inflation which is being led into prices, including the effects of the rupee depreciation, we have to be careful about inflation, right. So I think the emphasis varies. But as I said earlier, if we see substantially lower growth that itself will contribute disinflationary pressures and we will take a view at that point.

Govardhan Govardhan from Economic Times. The currency volatility you have said that the focus has turned to the internal determinants of the value of the rupee, primarily the fiscal deficit and the commodity inflation does that mean that we will no more be blaming the Fed or the speculators for the share of currency?

Dr. Raghuram Rajan Look, actually when I say the internal value of the currency, you must remember the internal value of the currency also determines to some extent the external value of the currency. So I would say that as we build confidence in the economy, as we build confidence in the value of the rupee, the external value of the rupee will adjust appropriately. So our main focus is now, let us turn our attention to building confidence about the value of the rupee. And the exchange rate will adjust appropriately.

Govardhan Just a follow up to that. The tapering is quite inevitable, so how are you preparing to bridge the tapering as and when it comes. What are the factors that you would like to be in place to ensure that the currency markets don't vary so much when it happens?

Dr. Raghuram Rajan I think we have already taken a number of measures that is why I said we are prepared for the tapering. Now those measures will play out. We will see the money plough into the FCNR-B, through the FCNR-B, swap arrangement we have concluded, through the bank Tier-1 capital arrangement we concluded and it is also coming in other forms and I think that to some extent will offset any potential for outflows down the line. So, I don't think we need to contemplate a whole new set of measures now that tapering has been postponed. Obviously, we have to watch this and if they don't play out as anticipated we will have to think of what else we need to do. But at this time I feel fairly confident that those measures are adequate to prepare us. Now going forward, I think we have to focus on other issues that is strengthening the growth dynamic including the role that the financial sector can play in it by structural reforms that I talked about in my first press conference.

Participant A follow up on speculation aspect if I may. You talked about normalizing MSF but what about some of the other causes or currency speculation that will be imposed in other markets players including banks, etc., are we in a position to start normalizing those also?

Dr. Raghuram Rajan I think we should let the markets stabilize and as they stabilize we will take actions to bring or reduce the constraints on players that on reflection may be at that point unwarranted, so I think first let the markets stabilize and then we can look at both bringing back players who were there, but also allowing more freedom to the players who are in there.

Participant Sir, just a follow up. Two points, one is, what would you consider stability, time spent around the level of the rupee, because the stock market almost back with a new high and you said earlier when enough capital has come in we will start worrying about appreciation in the rupee, what is enough Sir, if you can talk about that.

Dr. Raghuram Rajan I obviously cannot tell you a number. I have to see the economic conditions. We have to look at what we have been comfortable with, and also, I see volatility as two effects, one is intraday movements, when the intraday movements are large, I think it is problematic. And also unidirectional movements, either a series of movements down or a series of movements up, those are also I think are a cause for worry. A very hard to pin down definition is when I stop worrying about it on a minute-by-minute basis, then I think volatility is to the point where we can actually take action.

Ritesh Just a follow up question. At the current levels will RBI be much more comfortable than what it used to be about a month back time, when it was actually hovering around 70 levels.

Dr. Raghuram Rajan Of course, that is an easy answer. We are more comfortable partly because we think there was a certain amount of panic in the market which was entirely unwarranted and driven by certain apprehensions which again were unfounded. So, absolutely, I am more comfortable with where we are now than where we were a couple of weeks back.

Participant Sir, you said RBI has already taken a few steps in terms if the Fed will look at tapering, it has not done, it has been a postponement. Will you be much more prepared, we will not see so much high shocks as and when the Fed starts tapering?

Dr. Raghuram Rajan That is just what I said, I think we are prepared. The time we have got will enable us to examine any possible chinks but I think the steps we have taken anticipating tapering should prove sufficient but of course that does not mean we rest. We are now taking action in a number of other dimensions to improve the health of our economy. Ultimately, as I have said before, the view foreign investors have of us is an overall view. It is a view about the health, the growth, as well as our ability to finance things like the current account deficit. So my sense is, we need to work on other dimensions now that I think we have largely, if not completely tackled the issue of what the current account deficit is and how to finance it.

Kavita Krishnan This is Kavitha Krishnan from CNBC Awaaz. Two questions. One is, Sir with the policy action that you have done today, what is it that you expect bankers to transmit. What do you expect bankers to do? Secondly, you have been speaking about retail inflation. You did mention it earlier as well, and you mentioned it in this statement as well. Is there a number that the RBI is comfortable with as far as retail inflation is concerned? You have already put out a number for WPI.

Dr. Raghuram Rajan First on the first question which is what do I expect the bankers to transmit. I expect them to set rates appropriate to their cost of funding and I hope that they will look at their cost of funding and see how that has changed to make decisions and not look into the future and try and anticipate some hypothetical cost and they will look at their current cost. My sense is that is what most of them do. So, I don't want to micromanage that process. We will see what they come up with. The second question was, I mean, so to that point, right now the repo rate increase of 25 basis points affects basically 0.5% of the entire borrowing of the banking system. So 0.5% x 0.25% is a very small number and has to be set aside the fact that if they had borrowed funds that would fall by 75 basis points. So, that effect should swamp any effect of the repo rate hike. I am not saying that in the future when we go down to the repo rate as the operational rate they may not find that more of their funds are priced at something related to that rate. But right now I think in terms of today's policy action, the central factor has been to bring down their costs rather than increase their cost of funding.

Kavita Krishnan Dr. Rajan you say that the bankers are trying to say is that when you say that the gap between the LAF and MSF will reduce to 100 does it mean repo will also have to walk up just as the MSF also have to walk down?

Dr. Raghuram Rajan I don't know, but my sense, I can tell you almost surely that the MSF will do much of the walking. Remember what I said is, we have to wait and look at economic conditions to determine what the next step will be. It can be two way, so it could be that we walk more on the MSF side, but it could be that the repo rate will do some of the walking, I want to be, at this point entirely neutral on what the next step will be. It will be dependent on economic conditions, but I do want to prepare the markets for the fact that we are neutral.

Participant Is there too much uncertainty now in the policy rate corridor earlier it used to be 200 bps.

Dr. Raghuram Rajan No, I said we are brining it down to normal monetary policy in which the corridor will be 100 bps, 100 on the up and 100 on the down.

Participant Are you saying the interest would then trend down.

Dr. Raghuram Rajan I am not going to get into that, I think we are at the point where questions have largely been exhausted. The realm of speculation at this point I think….

Participant Governor, you spoke about getting into the bond index . Now we made some enquiries and the expectation for those who want this country in the bond index. Is that all limits on FII investments will have to be removed. Are you open to that?

Dr. Raghuram Rajan That is an issue we have to talk to the bond index people about. Some of them have different limits from the others, and what we have to do is, talk to them and see what we feel comfortable with and what they feel comfortable with, and we have to see whether there is a meeting point, so I don't want to at this point say that this is going to happen, I want to say that we are in a position to explore it and we will see, based on what their conditions are and remember there is not one bond index, there are many bond indices, and we have to see, do they want a big player like India, what are the compromises that they are willing to make and what are the compromises we are willing to make, and we have to see if there is …

Participant What are you willing to make.

Dr. Raghuram Rajan Let us see.

Alpana Killawala I think we will stop Sir. Thank you Governor. Thank you very much. Thank you Inba. We close here.

Moderator Thank you very much ma'am. 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.