"Edited Transcript of Reserve Bank of India's Post Policy Conference Call with Media"

December 2, 2014

PARTICIPANTS FROM RBI:

DR. RAGHURAM G. RAJAN – GOVERNOR,
SHRI H. R. KHAN – DEPUTY GOVERNOR
DR. URJIT R. PATEL – DEPUTY GOVERNOR
SHRI S. S. MUNDRA – DEPUTY GOVERNOR
DR. MICHAEL D. PATRA – EXECUTIVE DIRECTOR

MODERATOR: **MS. ALPANA KILLAWALA – PRINCIPAL CHIEF GENERAL MANAGER**

Moderator: Participants, thank you for standing by. I now hand the conference over to Ms. Alpana Killawala. Thank you and over to you Ma'am.

Alpana Killawala: Thank you, Shyma and welcome once again to everyone who are in this room and on the conference call. I will hand over the conference to Governor.

Dr. Raghuram G. Rajan: Thank you. We left all rates unchanged. The key paragraph in the statement is Para. 18, which I will read out for those who have not read the statement. "Still weak demand and the rapid pace of recent disinflation are factors supporting monetary accommodation. However, the weak transmission by banks of the recent fall in money market rates into lending rates suggest monetary policy shifts will primarily have signalling effects for a while. Nevertheless, these signalling effects are likely to be large because the Reserve Bank has repeatedly indicated that once the monetary policy stance shifts, subsequent policy actions will be consistent with the changed stance. There is still some uncertainty about the evolution of base effects in inflation, the strength of the on-going disinflationary impulses, the pace of change of the public's inflationary expectations, as well as the success of the government's efforts to hit deficit targets. A change in the monetary policy stance at the current juncture is premature. However, if the current inflation momentum and changes in inflationary expectations continue, and fiscal developments are encouraging, a change in the monetary policy stance is likely early next year including outside the policy reviews cycle." I am sure you can read the rest of the statement.

Let me add a few more points which did not quite belong in this statement. First, as far as the new monetary policy framework goes, we are in discussion with the government, and we hope to finalise a framework shortly. The government has indicated that it is comfortable in setting a target of 4% (+/-2%) as suggested by number of committees, including the Urjit Patel Committee for inflation beyond 2016. Second, there is substantial financial stress still in some sectors. We have been taking a holistic view instead of a sector-by-sector view keeping in mind the need for flexibility in financial restructuring while limiting the extent of forbearance. In the next few days, I hope to be able to announce two key relaxations - one is a move towards 5-25 restructuring for existing projects which are standard and also to allow banks to take equity in restructurings to a greater extent than they currently can, we are discussing the price at which such conversions can be done with SEBI as of now. So those are the two additional announcements I wanted to make.

I would like to introduce Mr. Michael Patra who is our Executive Director for Monetary Policy and has taken over.

Simran Gill, ET Now: You certainly have given a positive statement here saying that a change in the monetary policy stance is likely early next year if the current inflation momentum and changes in inflationary expectations continue the way it is. I just want to understand from you what are upside risks attached to this statement of yours? You already said by March you may be 6%. But going forward what are upside risks, how much more risky is this statement of yours?

Dr. Raghuram G. Rajan: Upside risk to inflation?

Simran Gill: No-no, to the statement that you could go ahead and really cannot raise much earlier in the next fiscal, the change to your monetary policy?

Dr. Raghuram G. Rajan: You mean how positive can you interpret it? That is the question? Well, as positive as you need to interpret it. I know that depends on your frame of mind. Let me tell you the thinking behind this that is we are certainly seeing a disinflationary process, and, of course, world developments, crude oil, etc., have been positive from that perspective for India. We want to get more certainty about the pace of the disinflationary processes as get a little more sense of some developments on the fiscal front, etc. As of now, and this is why the stance remains unchanged, we think that we are well set at this point but as the information comes in, our sense is that if it goes according to expectations, it will be towards monetary accommodation, the stronger the information the sooner the accommodation.

Latha Venkatesh, CNBC TV18: Governor, when you say that change in monetary policy stance is contingent if the current inflation momentum and change in the inflation expectations continues, do you mean that if it goes according to your fan chart that will satisfy you to change policy stance or do you want a further downward surprise? Likewise, when you say that you are looking at fiscal developments, whether they are encouraging, would you look at the quality of achievement of the current year or the quality of progress in the next year?

Dr. Raghuram G. Rajan: Very good questions, on the first question on the fan chart itself. At this point, of course, we will take both narrowing, because we have said for the target we would like to see a narrowing of the band, so that we feel more comfortable that the target is likely to be achieved with high probability. But, of course, if it goes below the target, if information comes in, that takes us below that will also be a source of comfort. But when we are looking for more information it is really to do reduce the bands of uncertainty at this point, which will also hopefully move the mean down of what we expect.

Latha: If it comes in line that would be good enough?

Dr. Raghuram G. Rajan: I think we will have to take that call, but I have said if the trends continue that is what we are looking for. We want to make sure that this process is well underway; we had a couple of months after 4.5-5-years of high inflation. So we will make sure that this is for real, especially because we do not intend to flip-flop. Again, if the world changes dramatically or circumstances change dramatically, we will have to respond. But we do not want to follow sort of every piece of information up and down, we would rather change and change for good. On the second issue of the fiscal, I would not say it is the central thing we are looking at, but it is one of the number of things that we enumerated that we would like more information on. And at this point it is whether we can achieve the targets set for the current budget, not the next one. Obviously, we would also like to see a good budget going forward. Our discussions with the government suggest that things will be on track, and, of course, what we are looking for is that to happen.

Suvashree, Reuters: Related to Para. 18, “The Reserve Bank has repeatedly indicated that once the monetary policy stance shifts, subsequent policy actions will be consistent with the changed stance”. I wanted to understand ‘consistent with the changed stance’ means what exactly; does it mean that you are going to do it through liquidity or interest rate, what is the priority for?

Dr. Raghuram G. Rajan: It just means that if you are moving in the direction of more accommodation, then we are not going to do things which are in opposition to that change. So, for example, we would not suddenly cut rates one policy and then increase rates in the next, that is how you should read it.

Suvashree: What about the liquidity, would that also consistently change is that the stance?

Dr. Raghuram G. Rajan: I think we are already at a place where we are providing substantial liquidity to the markets consistent with the policy rate and the idea would be to continue providing liquidity consistent with the policy rate.

Suvashree: Just one point on this Governor, while you have been doing OMO sales to drain out the additional liquidity which you term as may be a structural one because of using this tool as OMO. I want to understand, Sir, when liquidity was in a permanent deficit mode, you were not using OMO purchase to that extent that you are using OMO sales this time, you were using term repo. I want to understand the reason for shifting to OMO sales from may be a term reverse repo for draining out liquidity?

Dr. Raghuram G. Rajan: So we have in mind a certain projection for the rate at which we want our balance sheet to grow. And we want to keep the rate of growth of the balance sheet consistent with what we want inflation to be. So when we find that the balance sheet is growing faster or slower, we undertake Open Market Operations to adapt the size and composition of the balance sheet to keep that in mind.

Suvashree: It is related to the Forex?

Dr. Raghuram G. Rajan: That is part of the change in the balance sheet size, but there could be other reasons. So the Open Market Operations are not really undertaken for short term liquidity needs or liquidity purposes, but for longer term balance sheet related sort of changes. So that is how you should interpret them. I know that some people have been thinking about us using it to manage long-term interest rates, we are not trying to manage long-term interest rates in anyway.

Latha: Did you not say that you are more looking at the quality of fiscal adjustment in the current year. Should we therefore assume that when you say early next year, you mean even before the first quarter or within the first quarter itself. I am asking to what extent do you want to look at inflation numbers. Do you want confirmation till March 2015 itself or the fisc and the inflation trajectory satisfy you by Jan or Feb, that would suffice?

Dr. Raghuram G. Rajan: I think we have been careful about not specifying a specific month; we are looking for information to build certainty, when we are more certain about the process, and we will act. So I think that is about how much I can tell you.

Pradeep Pandya, CNBC Awaaz: Calendar not fiscal right. So early next year calendar?

Dr. Raghuram G. Rajan: Calendar year early next year. You can pass the word early in many ways and try to figure out what early means but really it is about us having the confidence that that those bands are tightening.

Saloni, Bloomberg TV: Governor, I have two questions. First one is on the interactions that I have with either Finance Ministry and corporate India. Now their concern is that while formulating your monetary policy, be it what is happening on the ground and coming to the macros, be it inflation, be it crude, be it yesterday's core sector data. You while formulating your monetary policy seem to be disconnected with the woes of the corporate India? That is first question. Second is just to highlight and take your view on this particular line in the monetary policy, "Weak tax revenue growth and the slow pace of disinvestment suggest some uncertainty about the likely achievement of fiscal targets." So you say that the government appears determined to stay on course. But I would like to ask you, if there is some concern that there will be some amount of fiscal slippage?

Dr. Raghuram G. Rajan: Let me answer your second question first, I would use the word 'uncertainty' because obviously the pace of revenue inflows, etc., depend on growth which itself is an uncertain element right now. But I would reiterate that government has told us quite strongly that they are determined to stick to the targets and that is what we said in the policy. On the first, I think there is a misconception in corporate India that the central bank is not concerned about growth. It is a misconception because the fundamental way to get sustainable growth in this country, and we are not talking about growth this quarter, in fact, monetary policy will not affect growth this quarter, it has long lags, it has been established in India, 3-4 quarters down the line we will see the consequence. What again and again we have seen is in India but outside India also the way to sustainable growth is to have moderate inflation. The big fight between savers and producers has been that savers are seeing high inflation and do not want to save in financial assets, producers are seeing low inflation and say, "Oh! My god interest rates are so high, how can I invest?" How do you bring the two together? By bringing inflation down, otherwise we are going to have this again and again. So I think it is very short sighted when people comment that you are not helping growth this quarter, we are not talking about quarters, and we are talking about years of sustainable growth. In order to get that you need to fight inflation, beat it and then you can get the sustainable growth. So I think that is a message that has to seep through. And the RBI is certainly not against growth, we want the strongest growth for this country that is possible and that means creating the framework which will make that sustainable growth possible. We have been working on the framework, we are nearly there, and I would say bear with us, and hopefully, if we can reach there and stay there, it would produce many years of strong growth for corporate India. Not only if you are investing; are you bothered about interest rates this quarter? What we have done, the government and the Reserve Bank, by bringing down expectations on the inflation which have been coming down in the market is long-term bonds, since July they have come down by 60-70 basis points. That a fall in the borrowing rate. Short-term rates have come down because we manage liquidity much better, there is plenty of liquidity. Those are positives for corporate India. They should accept that there have been some positive developments. Going forward when monetary policy turns, hopefully, it will turn when the expectations broadly in financial markets which determine the rates they pay, the expectations of bankers will be such that the bankers are willing to give them better rates. What I also see is a whole lot of confusion out there about what rates the Reserve Bank is responsible for and what rates corporate India is responsible for. The immense risk premium that is being demanded of some corporates because of the state of their leverage, because of the risks that they have taken, and because of the inability or unwillingness to repay, should not be attributed to the Reserve Bank. What we control is a risk-free rate, what they can control is the risk premium that is demanded of them, and that would be also, and I have stated this before, something that they should work on even as we work on bringing down inflation and bringing down the risk-free rate that they have to pay.

Pradeep: You said just now that banks have not passed on the benefit of the fall in rates in the money market. Are you signalling to them that you are going to definitely cut rates next year? If you are saying it candidly that banks are not passing on the benefits. Do you think or want that banks should cut their rates without waiting for your rate cut?

Dr. Raghuram G. Rajan: See, it is not my place to tell the banks what to do.

Pradeep: You said just now.

Dr. Raghuram G. Rajan: No, I did not say this that they should cut it; I only said this that they are not cutting. Recognise the difference between describing a phenomenon and requesting an action. It is not my job to tell the banks what to do; all I am saying is that even though rates have come down, they have not passed it on. So the transmission process is still not working as significantly and therefore one would imagine that if past falls in short term rates, have not been passed through, an additional rate cut is only a mild chance. I do believe that there is a signalling effect, and I do believe that once banks are confident that rates will come down and stay down, they may start passing through more. Now, for us to reach that point where we can signal very strongly about interest rates, I think today is premature. But I have laid out the conditions where we think we would be in a position to move.

Pradeep: Sir, one more question on the “outside the policy review cycle” risk you have created, this uncertainty that you have created. What is the reason behind that? In the ten minutes time we got till now to speak to some bankers and economists, they said perhaps you are referring to the budget.

Dr. Raghuram G. Rajan: I might as well leave it as a risk, not be more specific.

Bijoy, Congencis: A couple of questions. One is on you said that the government is comfortable with 4% kind of inflation rate with (+/-2%). How dynamic will the RBI policy be after that because you also do not want the risk of being seen as constantly moving on either side of inflation? So how dynamic can you afford to be and how much space will that leave for the monetary policy? I also have a slightly different question, with a lot of new banking licenses being issued and in the process, are you looking for a streamlined legal framework for all kinds of banks and financial institutions.

Dr. Urjit R. Patel: The issue of a policy being dynamic, what actually the band gives you (4 %, +/-2) as a medium term target to endeavour towards is predictability. And therefore it does not mean that the policies would be changed too frequently. In fact exactly the opposite to ensure that we stay within the band, and therefore that should only help to bring the risk premium down for everything, that is priced off the risk-free rate. So in fact is a transition towards a more stable policy regime and it may not be something that would fluctuate more than in the past, in fact lesser.

Bijoy: The earlier policy cycle was 2-months cycle and there was certain certainty in how it kind of functioned with the fact that you are introducing element of surprise again. The fact that you all have stated it clearly that there is a possibility of inter policy actions, is it given the sense that you want your policy to be more dynamic and that hence will it be more dynamic in the next framework too?

Dr. Raghuram G. Rajan: No, I think that should be interpreted as our willingness to say that once we have enough information we will make a move, at some point it may be that the information comes and in between policy cycle. It is basically saying that we are alert to all the information and I think that is essentially the message we wanted to send. On the issue of banks, I think the licenses we are giving certainly fit within the scope of the BR Act, and therefore at this point there is no need to change. But over time we will see that there are certain issues that we need to take up to make the legislation governing the banks more uniform, at that point we will take it out in some new legislation.

Govardhan, Economic Times: Govardhan from Economic Times. Now that 4% target is almost taken by the government, do you think the government fiscal path that has been laid out, is that good enough for you to get to 4% or what move would you need in terms of quality of fiscal numbers that this is the 4%, and by when it can happen?

Dr. Raghuram G. Rajan: I think for now what you need to take is 4 (+/- 2) includes 6, so once we get to 6, we are at the edges of the longer-term target. Now the time frame to reach the mid-point of that target and all that will have to be discussed and it will come out. But in a sense what a glide path that the Urjit Patel Committee report suggested puts us within the bands, from which point the guiding path will be the new bands as and when that is formalised. But all I wanted to say is that that gives us now a sense of where we are going beyond January 2016.

Govardhan: When you mentioned you would allow banks to take equity, so is it going to be CDR with another name or how is that going to be ensured that it will not be misused?

Dr. Raghuram G. Rajan: It will be in the restructuring process. As part of the restructuring process today they can take 10%, they would be able to take more. As was the case before I think May 2013, so if they are reverting to an older policy. But the key issue is the price that was the concern then and that is something we are discussing with SEBI.

Gopika,
CNBC TV: Governor, just continuing with that question what gives you the confidence that banks will be able to revive that account going forward, if the equity stake does not? That means more responsibility in terms of reviving that account, so what gives you that confidence that bank will be able to do a better job?

Dr. Raghuram G. Rajan: We will watch the process but this is something that banks across the world do and banks in India have asked for this as a way of giving them greater flexibility in ensuring that the project is put back on track and that the banks get some upside if it works out. So equity is a form of upside. Now, the key issue is to make sure that the transaction is done at a fair price so that the banks are not overpaying, and at the same time the minority shareholders in the company do not get a raw deal. So this is what we are discussing with SEBI, how to contour that. But, I think ultimately banks will have to take a decision, it does not mean that they would take equity in every situation. In some situations in which they might prefer not to and maintain their debt holdings, but in a sense this is giving banks a little more flexibility.

Pradeep: Are you prescribing the rules about how to do that valuation and determine the equity?

Dr. Raghuram G. Rajan: I think that is what we are discussing, what the contours of the valuation will be.

Gopika: Considering you have revised the March ’15 inflation downwards, is it therefore given that March ‘16 target could be 4% or you are still keeping that open?

Dr. Raghuram G. Rajan: No, I think the January 2016 target is 6%, that is all we have right now. What I was putting out was beyond that, we are probably going to move towards something like the government seems comfortable with something like the recommendations of the Urjit Patel Committee Report. And so what we will do beyond that that gives you a sense of where we are going, but if we hit 6% by January 2016, we are at the outer extremes of that zone so we have sort of delivered the economy into that next regime.

Aparna,
Financial Express: You have brought this 6% -in September we were looking at 6% in January 2016 that has been brought closer home to March 2015. So that is the new inflationary trajectory. Plus you have listed out a lot of positive developments on the inflation side and some of the things that you are looking out which will be material to the change in stance which you are saying. It looks like you have decided in September that you would not do anything in December. A lot of things have changed now. Making certain that you would probably act on the accommodation

may be 2 months or 3 months down the line, why not do it today? Even bond deals, commercial papers rate, everything is already signalling a fall in interest rates, why is the RBI not doing anything?

Dr. Raghuram G. Rajan: Let me just respond very quickly. We have to be a little bit careful about letting ourselves be led by looking in the mirror, right? It becomes self-referential, markets are predicting what we are going to do, we are predicting what we are going to do based on what the markets tell us we are going to do, somebody has to lead, somebody has to follow. We have not predetermined any course of action. Our course of action is determined by the incoming data which is something we have been saying for some time that the data will drive policy and going forward given that we do not want to flip-flop, we want to be relatively sure that we are on track. Remember 6% in 2015 does not necessarily mean you hit 6% in 2016; inflation is not a one way street, it can go up and down. So we want to be sure we hit the 2016 target, deliver the economy into whatever new regime the government proposes, that going forward we can move to that regime. So that is what drives policy, that is what has driven the policy statement today, and in no way is it predetermined.

Aparna: Sir, in terms of the expectation cycle as well, you also have the RBI Expectations Survey, the households Survey, the numbers from the survey are completely out of sync from what the inflation trajectory has been over the last 6 months or so. How seriously do you take your own survey on households and what other things do you see in the expectations?

Dr. Michael D. Patra: We recognise that the survey is largely adaptive, meaning that people look at food prices in the last month and then they form the expectations. But what you need to take away from these surveys is the direction of change and you might see in last two polls there has been a substantial easing of expectations in the near-term, 3-months. People are not yet sure about the 1 year, but they are clearly telling us that we look at inflation softening in the next 2 readings, that is what we look at that expectations numbers.

Dr. Urjit R. Patel: Just to add that it is only one part of the information set. If you look at the sub-indices within inflation it gives us a lot more information about what people are going to feed into that expectations going forward. If you for example see a 2% or 3% fall in inflation in say housing, it is reasonable to assume that 3 months down the line the expectations are going to come down everything else being equal. So it is one part of the information set, much like several other variables that we have, including our models.

Dr. Raghuram G. Rajan: Also, I think people thrash that inflation survey too easily. These are real people who have expectations about inflation. They may not be reading the financial newspapers or have sophisticated sort of model in mind, but they are the people whose inflation expectations matter. So while as Michael put it, we are not focused on the level, the changes do tell us that expectations are changing. And over time what you see the level is reasonable. In periods of low inflation, the level comes down substantially. But what this is telling us is the inflation over the last 5 years was so difficult that the levels have moved up to levels which do not bear any correspondence to the numbers that we see for overall inflation. That is partly because some of the objects that they buy on a daily basis had moved up so much in inflation that their expectation was set really high. So that is the pernicious nature of that inflation, that people feel uncomfortable. This is your voter, this is your citizen, this is the public, so those people have to feel more satisfied.

Sandrine, Bloomberg: Governor, was today's decision your last on your own? Do you have an agreement from the Government as well for a Monetary Policy Committee and can you share the contribution or the number? And the second question I had is 2015 could be great year for India. I was looking at the line with the oil prices. What do you think is needed on the government side for the monetary, fiscal and foreign policy to work together?

Dr. Raghuram G. Rajan: First, I do not formulate policy on my own, I have gentleman sitting on my left as well as the gentleman sitting on my right, we all discuss and policy emerges from that. Second, going forward, I presume at the outcome of these discussions which are still going on, will be a monetary policy committee. When that will take charge, how that will take charge is something that we still have to determine. The broader point there is to formalise this collegial decision making so that it is not one person who sort of is the bigger head who is supposed to be the final decision maker. On the point of revival of growth and revival of India, our projections are for a steady pickup in growth going forward after perhaps some weakness from agriculture in the third quarter. I think the government is seized of the central things that it needs to do in the short term which is fix power, fix mining, especially coal and iron ore and also make land acquisition easier so that some of the large projects can go on. Doing some of this will also bring down the number of stalled projects. And then the next step is incentivising investment. Clearly, Railways provides a massive possibility for investment and Mr. Suresh Prabhu is moving fast on that. Defence production is another area for new investments. And of course, traditional investments in consumer and capital goods. There of course, we need stronger demand to overcome the excess capacity we have right now, but I have no doubt over time those capacities will diminish and you will see investment. The moment we see investment picking up more strongly, we can say we are finally out of the woods.

Dr. Urjit R. Patel: You mentioned oil prices. I think it is an issue worth underlining that there are three sets of reasons why oil prices are soft these days – one is of course the slowdown in Europe, more than expected slowdown in China, there is a third and that is there is a price war going on. The Saudi oil minister described yesterday that we would like shale production to go out of business. Now price wars result in very steep declines but when the war is over, you can see a rebound. So there is no secular reason why oil prices should fall $30 within a phase of a few weeks. So for a country dependent on hydrocarbons from abroad, it is a risk we have to build into all our projections. Once the price war ends you do not know where this could reach.

Amol, Zee Business: Sir, my question is about NPA and bad loans. Finance Secretary had also given a big statement about how the promoters are looting the banks and also recently you gave a speech in Gujarat about the banks and the examples that you gave. I want to understand, what is actually RBI's stand and government's stand in terms of recovering the money from the promoters, when you clearly say that there are certain number of promoters who have actually duped the banks?

Dr. Raghuram G. Rajan: I think it is important to be clear about what we are talking about. There are a large number of promoters who have taken genuine risks and gotten into trouble, because the economy was not so strong, because projections were perhaps overoptimistic, sometimes even because capital was not appropriately structured, loans were too short-term and so on. Those situations we have to work through. The bankers have to recognise that mistakes have been made that we have to work with the promoters and the allocation of losses has to be fair, that those who get more of the upside have to take more of the downside in bad times, those who more of the upside in good times. That is what we are working on trying to achieve through the CDR process, etc., through this new joint lending forum that we put together to make sure that those projects – the important things from the economy's perspective are put back on track, because these are valuable resources, we do not want them to be lost for the economy, we need to put them back on track. That is one thing we have to do. And that is where some concessions have been made by the banks, concessions will have to be made by the promoters, some cases, some promoters will have to give up control; that process will have to take its own course. We are not determining that, the banks will determine that, because after all they are on the scene. There is a second category where promoters are deliberately standing in the way of recovery where sometimes not all these amount to frauds, some is just standing in the way, some is actual fraud, where assets have been taken out of the business, sometimes money has been transferred abroad. There we have to send a strong message that that kind of action is intolerable in the Indian scenario and you will not get away with it, and that is where we are talking with the government, we are working very hard on trying to deal with that. If we can speed up the judicial process, especially things like the debt recovery tribunals, I think it will help and I have argued and I will argue again, I said this earlier that will help bring down some of these risk premia that we are subjecting new projects to. Remember, we got a massive infrastructure investment need. So one, we do not want to scare away promoters from taking that up, we need people who want to take risk, will take risk, but we also have to make sure that if those projects get into trouble, bankers can get their money back. If bankers cannot get their money back, they are not going to give you loans at cheap price. So making sure that debt recovery tribunals work better, making sure that you do not have excess number of stays, excess number of appeals that is what we need to focus on.

Amol: Have you proposed something to Finance Ministry, are they working on something?

Dr. Raghuram G. Rajan: We are talking with the Finance Ministry. Finance Ministry has already talked about expanding the number of debt recovery tribunals, the debt recovery appellate tribunals. But we are working closely with the Finance Ministry to make sure that that happens.

Joel,
Mint: One thing that you have done in the last week or so is removing that 80:20 cap on the gold imports. Is there any further move that you think because are we in safe position right now with regards to gold? India is a country where everyone wants to buy bold. Are we in such a

safe place that we not need any restriction or are there any other moves planned to ensure that gold imports have not gone out of the hand from here on?

Dr. Raghuram G. Rajan: I think the best way to put it is there was some debate about this particular rule and the distortions that it was creating. There were arguments on both sides that while there were distortions that the distortions were small relative to the larger effect of containing gold imports. And on the other hand there was the argument that any distortion is bad and we are at the point where we can sustain a relaxation of the distortions. This is a decision that government takes, this is not a decision the RBI takes. We just give advice. The government decided that it was probably best at this point to scrap the rule and it has been scrapped. I think we will watch how it plays out. Of course, there are now further requests to change duty structure, etc., that the government will view in its own good time and decide.

Joel: Were you in agreement with the government?

Dr. Raghuram G. Rajan: I think I do not want to go into the details of any discussion of this kind to say who said what and what happened, but I think the decision has been made, I think the decision is a reasonable one, and let us see how it plays out. I think the fact that we have a substantial fall in one import, that is, crude oil, means that we have some room to sustain an expansion in another import. But my hope is that apart from the natural demand for gold because of weddings, jewellery, etc., that investors increasingly see financial assets as the home for investments rather than gold, and hopefully the performance of financial assets, both fixed income as well as equities, will convince more and more of them to put their money in those kinds of assets, diversified and say of course rather than in real jewellery and stuff.

Swati,
Bloomberg TV: Governor, Swati from Bloomberg TV. We know that the appointment process for banks PSU was done; we were expecting that to be expedited with the ED process for appointment. When is it likely to be because we know that one stage of it is cleared, is there some timeline that you can put it?

Dr. Raghuram G. Rajan: I think that is a question Secretary DFS would be better able to answer; you should pose the question to him.

Kavita,
CNBC Awaaz Last week you have issued guidelines for payments banks and small finance banks. In that you have said that RBI is making a beginning. So should we understand that like last time this time also there could only be one or two licenses, you will not give away more licenses?

Dr. Raghuram G. Rajan: I do not have a number, we will have two expert committees which will opine and then give us a set of candidates and then we will go through that also. My guess is and this is just a guess that it will be certainly more than two. I do not want to put an upper limit, I do not want to put a lower limit other than saying probably lower limit will not be two. We need to ensure there are a variety of participants that are licensed here so that we can learn from the experience. So

I think that would imply a reasonable number. Yes, this will be a full-fledged licensing process and hopefully we will get enough applicants that we can choose a good number.

Kavita: Any timeline set to complete the process?

Dr. Raghuram G. Rajan: January 15-16 is when we get the applications, then put a few months after that because the expert committee has to go through it and then after the expert committee the RBI has to go through it. We will do everything as fast as we can. The whole process for the bank license, we did in 3-4 months. So I would use that as a benchmark.

Alpana Killawala: Thank you, friends, for joining us for this press conference.

Moderator: Thank you. Participants, with that we conclude this conference. You may now disconnect your lines.