"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 Post-Policy Conference Call for the Media. As a reminder, for the duration of this conference, all participants' lines are in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Participants connected to the audio conference bridge may press '*' and '1' to ask a question. Should you need assistance during the conference call, you may signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that the conference is being recorded. I would now like to hand the conference over to Ms. Alpana Killawala from RBI. Thank you. And over to you, ma'am.

Alpana Killawala: Thank you, Lavina, and welcome once again from RBI for this press conference. I request the Governor first to make a short statement.

Dr. D. Subbarao: Thank you very much. Once again a hearty welcome. I have dispensed with a prepared statement. Nevertheless, I want to use the opportunity to make a few comments on policy document that we released this morning which all of you must have studied and you commented on it already but nevertheless I thought I should go over that a little bit.

We have kept the policy rate and the CRR unchanged; and cut the SLR by 1% point from 24% to 23% of NDTL. We gave the rationale for that decision which I will go into shortly. Then we gave guidance for the period forward. In the guidance, there are three things. First that there are several factors responsible for the growth slowdown. The monetary policy stance is only one of them and we also said that as the multiple constraints to growth are addressed in course of time, the Reserve Bank will stand ready to change its monetary policy stance. Second, we said that we will respond to liquidity pressures including by open market operations and that is quite clear. And third, importantly, we said that given the turbulent and uncertain external situation we stand ready to take action simply as maybe warranted. It is difficult really to guess what sort of situation might evolve outside.

Then we gave an extended assessment of global and domestic macroeconomic situation followed by revised projection for growth for 2012-13 which is 6.5% and inflation which is 7%. As some of you noted and as we noted ourselves, the growth projection is lower than the inflation projection. We indicated the risk factors to our growth and inflation projections.

I want to take a few minutes to explain the rationale for our decision a little more in detail. I do not know if that is the question top most in your minds but certainly I will feel more comfortable if I have explained in a language that I feel comfortable with apart from the document language.

See, this tension between growth and inflation has been a complex one to manage. The growth moderation suggested that we ease the monetary policy stance but on the other hand the stickiness of inflation did not allow any room for such easing. Growth had slowed of course quite precipitously as we have noted that from the fourth quarter of '10-11 to the fourth quarter of '11-12, that is 4 percentage points down, which is quite disturbing, we take a note of that. But, on the other hand, inflation after coming down from the highs of 10%-plus has remained around 7% for the last three months because of food inflation in the prices, including coal prices. Core inflation has remained steady at 4.8% but the momentum of core inflation has been positive which is disturbing. The output gap is small. There are estimates of potential growth and potential growth rate. Within the Reserve Bank itself, there are different estimates, but we put out a number which is our institutional number, 7.5%. So, the output gap between that potential growth rate and the actual growth rate is quite small, if indeed potential growth rate is lower than that, the output gap is even smaller. What this means is that demand pressures could remerge at any time and we need to be vigilant about that.

There are several inflation risks. Again, I want to explain them in my own language. First is monsoon. Monsoon, I am told, hits inflation before it hits growth. So, we are going to have the impact of that. Plus, there is drought around the world. So, even the oil prices are going to be tight this season. Because of drought in parts of the country there might be drought related expenditure which will put pressure on the fisc, which will put pressure on the already tight fiscal deficit.

Then there is a wage pressure. Because the NREGA wages are indexed now, there will be wage pressure coming from that. In addition, there is the structural food inflation which has been with us for the last two, two and a half years. Then, commodity prices especially oil prices that have come down from about $125 in March to $95 I think in June, but going back up in the last one month, a risk factor that we highlighted in the statement. That together with the depreciation of the rupee is going to put pressure on input prices. And if oil prices are not adjusted that is going to put pressure on fiscal deficit.

Then, there is also concern about further easing around the world by advanced economies. Should that happen again, we will see its impact possibly, in terms of liquidity flowing into commodities and whether that puts upward pressure on commodity prices. That has always been a debatable issue what impact easing has - liquidity easing by advanced economies, central banks has- on commodity prices not only here in our country but around the world too. So, it is not clear but a lot of learned people say that there is evidence that somehow or the other (Inaudible) liquidity will find its ways to speculation and that might put pressure on commodity prices.

And then, there is suppressed inflation.

So, these are all the risk factors to inflation. And finally, I want to say that what we said in the June statement, what I said in my speech on the Statistics Day and today what we have said again - which is that the interest rate is not the only cost or only inhibiting factor that is affecting investment. There are other factors unrelated to the monetary policy. In fact, estimates show that the real interest rate today continues to be lower than what it was in pre crisis periods.

The second thing is about why did we reduce the SLR. Yes, liquidity is comfortable. Indeed, it has come within the plus/minus 1% NDTL range. Yesterday, I think it was Rs. 490 billion. Also, aggregate SLR is at 28-29% - above the minimum required, but some banks are short. So, what SLR does is that it gives liquidity to those banks which want it; unlike CRR which is across the board and I have heard all of you interviewing the bank chairmen and they telling you that this will have a possible impact on liquidity and indeed on their lending especially to the retail sector, so you heard from them, I do not have to support that any more.

Also, another consideration that weighed with us was that reducing the SLR was consistent with the long-term objective of bringing that down.

So, those are the factors that gave the logic for our action. In addition, I will just take a couple of minutes more. We had a meeting with bank chairmen today. We discussed four topics. The first one was the new guidelines for the priority sector based on the Nair Committee recommendations. Before we took a final decision, we had had extensive consultations with all stakeholders including bank chairmen. Evidently, there are still some open issues. I have listed only a few of them. One of the things that bank chairmen said was that you are bagging loans for direct agriculture at 13.5%. Does the the direct agriculture sector have the absorptive (Inaudible) capacity for that sort of credit. Foreign banks have the predictable problem of adjusting to that. And one of the foreign banks chairman also said quite thoughtfully is that, look, having 20 branches becomes sudden threshold because once you become from 20 to 21, you inherit all these costs. So that is the cost benefit calculus they hold in terms of priority sector. And there some lack of clarity on interest rate ceiling for lending through intermediaries to be reckoned as priority sector.

I thought that some of these suggestions were quite reasonable and what we decided was that in the next 15 days, there will be a meeting at the operational level followed by a meeting at the bank chairmen level with the deputy governor in the next one month. It is not clear what we will change but certainly we have an open mind.

The second topic that we discussed was the reasons for recent slowdown in deposits growth. The wedge between credit growth and deposit growth, Subir explained that how over the last two years it has moved in opposite directions and how we are unable to get a very clear understanding of the dynamics of this.

One issue that came up was whether retail depositors are actually influenced by the real rate of interest. The logic I understand is that the way that it is being fixed. I can say am I getting a real rate of interest or should I shift to some other alternative? But some of the experienced bank chairmen say that does not happen, retail depositors are somehow hostage either to banks or to the small savings instruments and therefore, they are not that cost-sensitive. Mr. Chakrabarty who is an experienced banker disputes that, but you will hear him dispute that in front of you. Okay? I do not want to preempt that.

But what we did tell bank chairmen is that they must interact more closely and more often with depositors associations. I asked them actually how many of them have had a meeting with depositors association at the sub-state capital level, at the level below the state capital. At least half of them raised their hands. So, I would think that that is happening but we did say that they must have interaction at that level.

The third issue was about floating rate base deposits and Anand Sinha explained this thing that this might be necessary and important and appropriate for the banks to manage their balance sheets and for the Reserve Bank to get better monetary policy transmission. But, the single message we got was that how our retail depositors are not yet informed enough, literate enough to take on something like this and that even the current facility allows them to hedge against inflation. Therefore, as this idea of floating rate deposits has to be floating for some more time, it cannot be a reality in the short-term.

The final issue is about attracting capital flows. And this discussion went along predictable lines. There was nothing really new that we got, except saying that at 6.5% India is still better than 90% of the planet, but that still is not good enough for us. Managing the current account deficits and financing the current account deficit remain big concerns. Thank you very much.

Parnika: Governor, this is Parnika from Business Standard. My question is that has RBI raised the bar for future rate cuts given the revisions in inflation and growth projections and also the policy initiative cut expected from the government?

Dr. D. Subbarao: No, I do not think you can say exactly in that phrase that we raised the bar. Our stance has been consistent in April, in June, today, indeed over the last several years which is that monetary policy and fiscal policy have to run in coordination. And that monetary policy action alone will not deliver the macroeconomic stimulus that we wanted. So, there are certain things that need to be done that is why we use that phrase 'Multiple Obstacles to Growth.' As those are resolved, we will adjust our monetary policy stance. But I do not think you can say that the bar has been raised in this policy.

Latha: Sir, Mine is a related question, may I? Sir you have increased the inflation forecast itself to 7%. So, per se do we see at all a scope for cutting rate? Because when it was 6.5 in April, you said you see a very limited room for further cut. Now that you have raised the rate, even this way in which you have projected inflation and the very strong reasons you have given to fear it will rise, do you see a scope for cutting rates at all at least in this calendar year?

Dr. D. Subbarao: Well, I see a scope, okay? But I cannot really say when. I cannot even say when it might happen. But you are right, the fact that inflation projection has been raised gives room for accommodating or adjusting to that sort of inflation I do not know if that is the right word but given that that is the projection. But you also have to see that against the growth that I explained just now. The output gap is quite small. Indeed it could be smaller than we had projected if the trend growth rate is lower than 7.5%. So, it would not go entirely by the inflation projection, it will go by a number of figures as well as how the risk factors might unfold.

Ira from NDTV : Similar line of thinking on that, sorry, but rightly or wrongly been sort of understanding in the market that if the government acts on the fiscal side there will room that will open up the monetary action, but under the current economic scenario, it is growth and inflation, do you see that is not being the premise that we should be working on, because inflation is so well ahead of your target and you are talking about upside risk on inflation as well which are aside from the fiscal risk.

Ira : My question is that will fiscal action simply be enough to spur multi action or no? Because the current scenario has gone beyond that.

Dr. D. Subbarao: I would not feel comfortable answering such a specific question about the fiscal action would trigger monetary policy action. There are a number of things that need to be done to revive growth sentiment, to spur investment, both domestic and external. Some tangible, credible action on fiscal deficit certainly would revive investment sentiment but there are other things to be done as well. So, to say that look, that is necessary or sufficient for monetary policy response I do not think the Reserve Bank will feel comfortable answering a specific question like that.

Ira : It maybe necessary but not sufficient?

Dr. D. Subbarao: I would say that you cannot characterise that as necessary or sufficient. How we will evaluate that as being necessary or sufficient or both will depend upon other circumstances.

Ritesh: Ritesh here from Zee Business. Governor, you have mentioned in your past policies -- today also you mentioned about inflation being your primary issue at this point in time, but given the way you have actually reduced the growth target and the macroeconomic scenario looking like, plus the external scenario how do you see the growth panning out because we see there are still downside risk to the growth given the condition and going forward can growth take a primary position instead of inflation? And another question on the monsoon part of it, given the way monsoon has panned out till now, do you believe going forward it can play a spoilsport both for inflation as well as growth?

Dr. D. Subbarao: Well, I can only paraphrase what I said earlier. Again, I repeat what I have said. This balancing between growth and inflation, indeed, managing that tension between growth and inflation has been a difficult challenge all along ethically more so now, because of growth coming down and inflation remaining sticky. If your question is, when will the growth moderation overtake inflation concerns of monetary policy action, I do not think, again, we will be able to respond in such a cut and dry manner. We will have to see not only those numbers but also look at how they might evolve in the months beyond that. So, all I can say in terms of forward guidance is that we will watch the growth and inflation numbers, we are not driven only by inflation, we are not driven only by growth, we are driven by how growth and inflation interact and that interaction is becoming not only more complex, but more complex to understand. Second, monsoon situation, we had some discussion on that in preparation for this policy review. Some of our people told me that this monsoon, even though it is deficient, still the outcomes would be lot less worse than in 2000 and which is that they would not be as bad as in 2009 partly because we have buffer stocks and partly because there is better management of drought**,** but still I am not an expert but Subir, do you want to explain about the monsoon outlook and how it might influence us.

Subir Gokarn: The growth impact of weaker monsoon is somewhat less, obviously, agriculture is a much smaller share of GDP and also the kharif crop to rabi crop ratio is now more or less balanced. So, the impact on output is not that significant. But, there are some crops which are grown in areas where the rainfall has been particularly deficient, and this includes pulses, toor in particular, oil seeds and this could have an impact on prices, coarse grains is the other one which has been impacted. So, the inflation impact of this might be visible and in fact, that is one of the risks that we have pointed out in our policy document. So, on balance, the inflation risk from what the monsoon is, probably a little more significant growth risk particularly in the context of an overall food inflation scenario and I think that is perhaps the difference between now and earlier years when we had bad monsoons the food price scenario before that situation took place was not as severe as it is now, whereas now for last two years good monsoon or bad monsoon we have had strong pressure on food prices.

Simran from ET Now: This is a related question to what has already been asked. So, could we assume that RBI will act only when the government has taken action on the policy side and until then we should not expect any further rate cut?

Dr. D. Subbarao: You can all assume that. I think we will have to take a stock of growth and inflation dynamics and the external situation. So, I do not think we should cast ourselves in such a hard and fast straitjacket.

Diana Monteiro: Diana Monteiro from Bloomberg UTV. It is a two-part question. Basically, what is the base line projection for monsoon given the fact that you have revised the inflation upward, what is the projection we are going with for the monsoon? And the second question is, can we look at the liquidity situation turning surplus, because currently we are around 40,000 to 50,000 crores and if this does lead into liquidity situation as bankers pointed out 63,000 crores coming into the system, can we look at a surplus?

Subir Gokarn I do not think we have an explicit number for the base line. We work with a number of alternative kind of scenarios and that averages out to the kind of inflationary impact that you think with. The reason why we have taken our inflation forecast up or projection up is one of the reasons is the monsoon impact on food prices. There is also oil, there is also rupee depreciation, so a number of factors have been taken into account. On the issue of liquidity we are as you know around Rs. 450 billion in the LAF these days. So, 600 billion which the SLR reduction releases, unlike a CRR which would be an immediate injection, is only a choice, a cushion that banks have. Many banks have surplus SLR and they may continue with that surplus, so there is no immediate trigger for an entry of this amount into the market but given the dynamics of deposit growth and the fact that deposit growth has tended to lag credit growth for quite sometime, we felt that looking ahead even though liquidity maybe comfortable now, some pressures may emerge as this wedge persists and so, this is actually creating capacity for banks to manage that pressure as and when it arises. So, the SLR cut is not anticipated to put that amount of money immediately into the system. A CRR would have done it and CRR would have perhaps given your equation, resulted in the emergence of surpluses if not on a daily basis at least on some days over the next few weeks.

Ira: I am just wondering if that is a inflicted message here perhaps to the government as well in the SLR cut that we cannot continuously keep supporting higher market borrowing and crowding out private investment itself sort of an inflicted message by using the SLR as a tool rather than CRR?

Dr. D. Subbarao: No, I do not think so. The choice between CRR and SLR is what I explained, what Subir explained just now which is that CRR is a across the board and it would have maybe meant surplus liquidity beyond what was required. SLR is more market based and it was driven or motivated by the need to support shift of banks portfolio from the government to the private sector. Whatever implicit messages are there for people to infer just as like you people in the media should read all the implicit messages and make them explicit. Hats off to us.

Ira: Government bond yields could perhaps go up on account of something like this, in that sense completing the government borrowings program…

Dr. D. Subbarao: Yes, but we said we will manage liquidity, including through open market operations, that is not to suggest that we will manage yield at certain level or whatever but there is the open market operation that is not to manage yields but to manage liquidity.

Hitesh: Governor, just an add-on question to what you said, you said that bringing down on SLR is in the long-term objective of RBI getting down the SLR for banks, is there a level where RBI is comfortable for banks SLR to be seen in a medium to long-term?

Dr. D. Subbarao: I could not ask myself that question but has the Narasimham Committee given any or any committee given any number for this?

D K Mohanty: Not on the SLR.

Dr. D. Subbarao: Not on the SLR.

D K Mohanty: They are going for the liquidity buffer.

Subir Gokarn: We are unique in the nature of the arrangement as far as we are concerned. There is a whole debate going on, on liquidity buffers in the Basel context, Anand is looking at that very carefully, so we are trying to work a way towards the system which is consistent with the Basel objective of providing liquidity buffer without necessarily constraining either the banks or financial system in terms of liquidity or market determination. So, Mr. Gandhi chaired a working group on improving liquidity in the GSec markets, so idea of SLR, how we can tweak it to increase liquidity is also being considered. So, there are a number of different initiatives that are going on at this point.

Dr. D. Subbarao: Since the issue has come up, Anand, would you take a minute to explain how SLR might be reckoned with in the Basel III? Just good for all of us?

Anand Sinha: 29.19 Actually, the SLR portfolio that we are maintaining is in a way coming through Basel liquidity requirement in a sense that there are two ratios which are prescribed. One ratio which looks at the amount of liquid assets available with a bank to cover 30 days of stressed net outflows. So, that needs to be 100% covered. And that is to be covered by most liquid securities. So, in a way our SLR meets that requirement. But the international standard requires that these securities must be unencumbered , must be available for sale, to that extent our SLR does not meet that definition, that is up to 23 or 24, whatever is prescribed. So, we are looking at a method to create a window out of that because over and above 24% locked liquidity if we ask our banks to have much more liquidity and meet Basel III requirements then they will be seriously handicapped. So, we and monetary policy department are looking at a framework wherein some part of the minimum SLR requirement will also be available to meet the liquidity requirements under Basle III.

Participant: Is Basle agreeable to this?

Anand Sinha: It is not a question of, they have certain parameters. As long as we meet that parameter, if we say that you can avail liquidity again on that, that is it.

Dr. D. Subbarao: But I do want to say that in the finalization of Basel III there was some discussion on some of the outliers like India and our specific concerns. But you know in the international note (Inaudible) standard you have to fall in line at some point of time, you can pursue your point of view and then eventually it is a compromise across so many countries.

Aparna: Aparna from Financial Express. My question is on the SLR. The SLR first essentially envisages, that's was what you have said it will be able banks to lend to more to productive sector and less incentive for them to put money in the government bond. But the point here is credit growth is slow what as you have suggested ……so it is not that banks are reluctant to lend to private sector. It is that they have not been getting demand from companies, then it is an investment issue. So, in that sense there is an interpretation that SLR cut at least achieves nothing but just push up bond yield. And second part of my question on that is when there is a growth slowdown and when you want banks to lend more to the private sector it helps to give free money, say CRR cut. But SLR cut is an enabling liquidity it contains a price. So why is it that you are giving liquidity at a price and not free

Dr. D. Subbarao: Thank you. Quite very insurgent (Inaudible) questions. First, on what SLR is expected to do under what it might actually do, what banks have told us is that much of the demand for credit is from working capital, it is true that non-food credit inflation is slightly above the indicated projection. But this SLR reduction will help them to divert credit to the retail sector and also for them to get rid of some high cost deposits and therefore make money available, reduce the cost of credit and give it to those people who need the credit. So, I do not think it is appropriate to evaluate the SLR reduction in the current static situation. You must make a dynamic evaluation of that and that shows that it is going to be a positive impact of this SLR reduction and that is going to work over time. Second, about if you wanted to give liquidity why did you not give CRR, why are you doing it through SLR. Precisely for the reason that we explained a short while ago is that CRR is across the board and that would have upset or disturbed the liquidity calculation that we wanted to maintain. So, that is how we wanted to do. SLR cut reduces preemption, go ahead.

Subir Gokarn: Again, coming to the question you raised about raising bond yields and nothing else is an illogical statement, because if bond yields are being raised, it suggests that people who held bonds are actually selling those bonds which is what pushes the yields up because they have the option to channelize them elsewhere. So the first reaction if bonds yields were, in fact, as they did go up would suggest that some calculation in terms of where the incremental or how the funds would be reallocated came up. Now, over time if credit does not pick up and banks eventually come back to holding government securities then bond yield should go back to where they were. But, as you said, the opportunity to lend to the private sector has increased as a result and we are creating these cushions. If there is liquidity cushion because we do think that this credit deposit differential may persist and that has been a source of stress on liquidity for sometime. And if there is demand for credit in the private sector, whether it is at the retail level or the corporate level then this is creating some additional capacity to meet that.

Mayur Shetty: Mayur Shetty from Times of India. My question is, finance ministry has put some restrictions on public sector banks raising bulk deposits. I wonder whether you have similar concerns about banks.

Dr. D. Subbarao: See, whatever concerns we have about banks and that will come through regulation and that to the extent that our regulation department does not react to that, that means we did not see the need for any action at that point of time. So if and when we feel that there is need for regulatory intervention we will do at that.

Latha: Is there a downward bias to growth? The professional forecast is coming up with a sub 6% and the last reading we have is 5.3. A consensus is emerging for the Q1 which was the out of August 31 which is also around that number. In that context, would you want to give an upward or downward bias, that is the first question. I have one more question. You said that priority sector lending was one of the issues discussed. Now, the foreign banks were very keen that exports continue to be considered a priority sector. The bankers who came, who addressed us today, mostly Indian commercial bank chairmen also wanted that exports be included in priority sector, and I wanted to know what RBI thought.

Dr. D. Subbarao: First, on the growth estimate of 6.5%, we have not given our downward or upside bias to our estimate and that is deliberate, it is not an oversight. So, we went through a lot of projections internally and suggest that 6.5% is the most probable estimate at this point in time. I know that there are some people including on your channel today hypothesizing what might happen if it goes below 5%, etc., but 6.5% is our best estimate. On priority sector exports be considered, I do not want to preempt our final decision. Yes, that is one of the suggestions made by the banks, but we will have to take a view on that. I do not want to pronounce on it because if I pronounce on this now there is no scope for further discussion.

K. C. Chakrabarty: The only thing I will say that it is not that entire export is not priority sector, exporters to priority sector categories has been exporters…..

Latha: Agriculture.

K. C. Chakrabarty: No, even SME, SSI and 40% export is by the SSI sector and they must get the credit.

Anup: Anup from Bloomberg News. Just want to ask you, what is the implication you are seeing of the SLR cut on the government borrowing programme. The government's fiscal deficit relies a lot on the borrowing itself. Is the cost of borrowing for the government may rise after SLR cut?

Dr. D. Subbarao: No, in our mind we did not take into account that connection between SLR cut and government borrowing might going up or down. So, we treat both of them separately. Is that your question?

Anup: I am saying that overall implication just not on the absolute borrowing as such?

Dr. D. Subbarao: Meaning what the cost is?

Anup: Yes.

Dr. D. Subbarao: Subir just answered the question, we cannot take a position on how yields might move. So, that is a market-driven variable and that is how it should be.

Sophia: One line that I was looking for in the statement was on weak currency being the kind of stimulus to the economy. I see that line missing. So, is the RBI already worried that weak rupee is causing inflation concerns rather than acting as a stimulus?

Dr. D. Subbarao: Let me reassure you that there is indeed one line you might have missed that.

Sophia: I was looking for it actually.

Dr. D. Subbarao: I can quite understand, but when you go back to your office and then you will find that line, which is that the rupee depreciation with some lag will offset some of the other factors, but it is not clear how rupee depreciation might affect imports and exports and then there are some analysis who have put out this J-curve analysis and said that first, state that it worsened before it improves and the fact that we are seeing an improvement in the non-coal, non-oil trade deficit is an indication that this J-curve effect is already in play. But in the Reserve Bank we want to see this for some more time before understanding how the impact might unfold. But we did recognize.

Subir Gokarn: On Page #7 in the growth outlook discussion, the sentence is specifically "however, the lagged impact of depreciation of the exchange rate could partly offset this" meaning some of the other negative factors

Shobhana: **(Inaudible) State Electricity boards....ownership will be turned into** bond that would be guaranteed by the state government and they also wanted the commercial banks to give a moratorium. Are you in favor of this because the amount is so large and we have already seen so much restructuring happening?

Dr. D. Subbarao: Anand have they come forward? Can you tell us what happened in respect of some other states that we talked to, Rajasthan and Punjab?

Participant: RBI was in the committee which put out this….

Vijaya Bhaskar: We were there. In fact, we have said that in so far as state electricity boards are concerned, care should be taken that you cannot fund the losses. That is the point we are taking. About the moratorium and all, they said they will come back to us, only Rajasthan government has worked it out and they have submitted to Chaturvedi Committee. We have said, form a consortium and each consortium whichever is in need, finance it to that particular SEB, that should act as a de facto consortium reason and they have to work out. After that they have not yet come back to Reserve Bank for any conditions.

Moderator: Participants on the audio conference, if you have a question you may press '*' and '1.'

Alpana Killawala: Okay, maybe we can get back later. Pradeep, you have a question.

Pradeep: In today's policy statement as well as in yesterday's report you have mentioned that the actions taken by various global central banks, in fact have made your job more complicated. Now, in December, when there was a large stimulus announced by European Union Bank, ECB, it kind of helped us markets went up, rupee recovered and I think there are more positives seen than negatives. Now, it is possible that in the next few days or maybe next few weeks there could be further stimulus. What would be the impact on the economy according to you? Any such measures are taken either by FED or ECB….

Dr. D. Subbarao: That is a good question. The external situation is uncertain. What is more uncertain is how the markets might respond to statements coming from there. Actually, in one of the international conferences, in the conference of Governors and Finance Ministers, I cannot recall which one, the European Governor or Finance Minister, somebody was saying we did this and that, the market should believe us. One of the finance ministers actually said what you did or did not do is not important. What is important is how the markets interpret your omissions and commissions. So, even the impact on India will depend on how the markets interpret. The statements coming from there and the actions coming from there indeed like if there is coordinated action. It is true that if there is coordinated action and if there is some reassurance of trust and confidence, that will help us too in as much as if external situation improves it helps us in terms of export demand, it helps us in terms of capital inflows. But if there are actions that are not followed through and if that saps confidence further and it depresses external situation it hurts us too. I know I rambled on, but it is not really clear how the external situation might affect us. We found that it hurts us through the trade channel, through the finance channel, and the confidence channel, which channel would be more dominant at any point of time is uncertain.

Pradeep: In the yesterday's report if we refer to Page #39, this is chart 6.2, the momentum, that is month-on-month seasonally adjusted annualized rates is actually lowest in last say, 26 months. You have not mentioned June, but I believe June would also be lower. So the momentum is actually falling while today you have raised your inflation expectation coming, the projections. These two don't really go together.

Dr. D. Subbarao: You are a very good student, but the June number was actually slightly positive. The month-on-month seasonally adjusted, three-month moving average inflation for core, momentum was up in June.

Pradeep: For core?

Dr. D. Subbarao: You are looking at Panel D?

Pradeep: Yeah.

Subir Gokarn: Because the June number enters the three-month moving average for May so that is the last number we have. But the momentum in June which is a monthly number has actually turned down. In that sense that is the context in which we made this. It is not a clear sign of decline in the momentum. So, we are doing the moving average to smooth out the volatility which is quite high in the series.

Pradeep: Have you factored in some amount of impact due to higher food inflation, food stuff and monsoon and maybe those….?

Subir Gokarn: Those factors are basically incorporated into the discussion on risks. But this is based on numbers alone. And of course, even in the June number, the food inflation was in double-digit. So, in that sense, there seems to be some indication that monsoon expectations are starting to spill over and expectations are critical here. So, when you look at the behavior of prices and the commodities that are traded on the futures exchanges, there are clear signs of (inaudible)

Shamik (inaudible) This is Shamik from Reuters. I have a small question. Can you explain how the dynamic between growth and inflation getting more complex? Just wanted to understand what would prompt the RBI to ease rates going forward? Could you give some light on what could be the factors that – because you have said that you will watch inflation and growth and the external situation, exactly what would prompt easing?

Dr. D. Subbarao: It is difficult to define at this point of time specific factors that will trigger our action because we will see how these numbers as we estimate today move and how both domestic and external macroeconomic situation evolves. I am afraid I am unable to give a more specific answer to your very specific question.

Anirudh Anirudh from ET Now. Just given that you have brought down your growth outlook to 6.5% and also raised your inflation outlook to 7%, there are a lot of commentaries, there has been a lot of economists coining the word, stagflation at this point of time to describe the Indian economy. Just wanted to get the views that RBI, yourself in particular, understand whether there actually is such a scenario?

Dr. D. Subbarao: No, I do not believe so. I do not think we are in a stagflation situation, of course, you are right that growth has moderated, inflation is sticky but stagflation is if this sort of a situation persists for over an extended period. You have to recognize that the world is going through an extraordinary crisis and an extended crisis for the last five years. So part of what is happening in India is also the impact of what is happening around the world. So, I do not think you can just look at the Indian numbers and say that this is stagflation.

Bijoy: Bijoy from Newswire 18. Two quick questions; one, is there a direct link between the SLR cut and the OMO buy, because the market is expecting RBI will do OMOs necessarily now following the SLR cut. And the second, in the guidance RBI has said, as the multiple constraints to growth are addressed, the Reserve Bank will act appropriately. Could there be some more clarity on that?

Dr. D. Subbarao: On the first question, the short answer is no. There is no direct link between SLR cut and OMO. But SLR cut has been done and we have said that we will manage liquidity in such a way that there is credit flow to productive sectors of the economy. On the multiple constraints to growth and how we might act as, answered I think more than four or five times quite inadequately in the last 45 minutes, so I defer to Subir.

Subir Gokarn: I am sorry. Would you please repeat your question on that?

Bijoy: I just want clarity on your guidance thing - as the multiple constraints growth are addressed the Reserve Bank will act appropriately.

Subir Gokarn: We have been saying for sometime that although growth has slowed in response to higher interest rates that we do not believe that that is the only factor and therefore, in order to revive growth, a simple change and a mere change in interest rates would not be adequate because there are other constraints which are binding. So, what we are saying there is that as these constraints start to get eased by policy actions, by global developments, whatever, that the space for policy easing may emerge. I mean, when we see that space that is the kind of scenario in which our responses will materialize. So, it is not tied into a specific change or a specific factor but just a general change in the set of constraints that currently binds growth, of which high interest rates were one but clearly not the only one, that has been our assessment for a while but from the June mid-quarter onwards we have been started to give some quantitative indications because we have been engaged in a pretty elaborative such exercise internally to try and filter out the impact of interest rate changes from the impact of the other factors and that is sort of giving us more analytical foundation for the statement.

Alpana Killawala: One from Nupur and the last one from Virendra.

Nupur Acharya: This is Nupur Acharya from Dow Jones Newswire. You touched upon the possible drought situation and the possible pressure coming on the FED. Do you presume that there might be some increase in the government borrowing and what do you estimate how it will probably impact the banking system?

Dr. D. Subbarao: We take the government borrowing as the number that has given in the budget which is about 5.7 trillion that number is the number that we are going by. So, we do not want to go on the assumption that that number will be different until there is any indication from the government.

Virendra Singh Virendra Singh Gunawat from Aaj Tak here. I have four small questions. First, P. Chidambaram is becoming the new Finance Minister at this juncture. Your first reaction Sir? Second, on the gold consumption, Mr. Chakrabarty has mentioned in one of the events that India is a poor country so people need to think twice before purchasing gold in rituals and ceremonies, so what is RBI's suggestion to the people of this country? Third, on the polymer notes, are you sure, RBI is sure, that not a single person could make a fake and the counterfeit note of this polymer currency? And the fourth is who is the new face on the currency, we know right now, Mahatma Gandhi, any decision on that?

Participant: On gold I also have one question on gold RBI again and again on every platform said that people should not buy gold but whenever I log in to online banking account first flash I see is the bank is selling gold coin to be purchased and recently I went to Madhya Pradesh there big hoardings have been put up by banks that we sell gold coin, please purchase gold coins. So how RBI will handle this.

Dr. D. Subbarao: There are quite a lot of questions. I do not know who is becoming finance minister that is the Prime Minister's prerogative, but if Mr. Chidambaram becomes the finance minister, he is a very experienced man that will be good, but again, there are a lot of other experienced people. So, I am speaking on behalf of the Reserve Bank we have no institutional position on who should be the finance minister. On gold loans, yes, we have done quite a lot of thinking about that and there have been some speeches and statements from the Reserve Bank. And Anand has explained our board which is that there has always been a stipulation that banks should not lend against gold for speculative purposes and that has been reiterated. Banks can lend against gold but that loan cannot be used for speculative purposes. Second, banks finance purchase of gold. And third, we cannot ban or we cannot restrict loans against gold beyond a point because that is indeed the lifeline for millions of households across the country, right? So, they keep gold as a hedge against difficult times. We have to manage that. What we said is that loans cannot be given against bullion. Loans against jewellery and gold coins is okay but loans against primary gold or against bullion is not allowed. So, there has been a lot of speculation about what triggered the spurt in gold imports last year and we are still studying that. The hypothesis is that the high inflation and low returns on competitive instruments in real terms has been responsible for that. But we need to study that. So, on gold, our position is that we should allow loans against gold, but ensure that those loans are not being used for speculative purposes. On polymer notes, fake notes, my understanding, what I have been told is that the possibility of counterfeiting is lower but you can never predict technology, everything is a race between currency printers and counterfeiters who is one step ahead. In fact, many years ago, many of you are too young to see that, I have seen that movie . It is called **Seven Times Seven or** some movie which is about currency printing, these guys do print currency and then they try something, but cannot get the type of ink ... whatever.... you could see on the web site and get that movie, it is about 25 years old. So, counterfeiters are always there, you know there is always a race between currency printers and counterfeiters. On the new face on the currency note, I do not know if there are any plans. Chakrabarty?

Dr. K. C. Chakrabarty: Design of the note this is changed by Reserve Bank time-to-time and it is a long drawn process. We have not taken any view. The designs are under change consideration. As and when it happened we will come to know. I cannot say because it is the Government of India also to decide the design, we consider so many designs. As of now tomorrow whatever the print comes Gandhi's face will be there, I can say.

Participant: There is a follow-up question on gold. It is the thought within the RBI for banks to be banned to sell gold coin?

Dr. D. Subbarao: The answer is no. Because as much as the sale of gold coins has gone up in absolute terms, gold coins themselves are a very small proportion of the total import support. So, if your concern really is at the macro level about gold, this gold coin is not a big variable in that problem.

Shilpi: This is Shilpi from Economic Times. Wanted to understand are you looking to inspect HSBC Bank's book? Now that they are being found of print valuation of money laundering.

Dr. D. Subbarao: It is not the practice for the Reserve Bank to comment on specific institutions. But as and when we have anything to disclose in the public domain we will do that. Thank you very much. We have an appeal to make to all of your t the end of this conference. And I request our executive director Mr. Padmanabhan to make this appeal.

Padmanabhan: As you know, several people have lost huge money by responding to fraudulent mails/SMSes/phone calls. We, at the Reserve Bank, get many complaints and have ourselves been victims in as much as the fraudsters have used our name and names of our senior officials, our logo which is copied from our website. Unfortunately, the Reserve Bank and money are not the only things in these fraudulent mails as they are sent in the names of all credible organisations and their officials; they also offer jobs and other business deals. Gullible people, in the hope of receiving huge money, deposit moneys that they demand and easily become their victims.

I urge you all to help us in this cause and spread awareness about the issue through your medium. Alpana has kept a bunch of press releases that we have issued on this subject over the last couple of years. The messages that came out of these are:

- Never respond to any e-mail, phone call or SMS, no matter how appealing or official it looks, if it seeks from you information about your user id, password, mobile number, etc.

- No responsible organisation ever asks for your user id, password
- Such messages are sent by fraudsters who use the information that you have innocently supplied, to steal money from your bank account or to steal your identity or contact book from your e-mail account.
- Complaint to the local police or Cyber Crime branch when you receive such mails/phone calls/SMS.
- Please remember, no one, least of all an unknown person, gives you anything for free.

Moderator: Thank you, participants. On behalf of Reserve Bank of India that concludes this conference. Thank you for joining us. You may now disconnect your lines.