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Moderator: Ladies and gentlemen good day and welcome to the Reserve Bank of India Post Policy Conference Call for Researchers and Analysts. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the call over to Ms. Alpana Killawala from RBI. Thank you and over to you ma'am.

Alpana Killawala: Thank you Laveena and welcome to the Reserve Bank of India. I will hand it over to Governor.

Dr. D. Subbarao: Thank you very much. Once again welcome to this post policy teleconference with researchers and analysts. I just have a short statement not to say anything new, but just sort of warm up to this conference.

As you all know, we reduced repo rate yesterday by 50 basis points from 8.5% to 8%. Consequently, the reverse repo has gone down to 7% and the MSF has gone down to 9%. In order to provide greater liquidity cushion, we also decided to raise the borrowing limit of scheduled commercial banks under the MSF from 1% to 2% of their NDTL. As indicated earlier, banks can access this facility even if they have SLR securities in excess of the regulatory prescription. Also for the first time yesterday, we recalibrated the Bank Rate consistent with the change in the MSF rate.

The decision to ease the monetary policy was informed by two broad considerations. The first consideration was that growth had decelerated significantly to 6.1% in the third quarter of last year, although we believe that growth may have recovered somewhat in the fourth quarter. Based on current assessment, our indication is that the economy is clearly operating below its post-crisis trend. Also as we had indicated in the policy, the growth last year might be a tad lower than what we put out this year which was 6.9%. The second consideration that shaped our policy decision was the decline in inflation. Headline WPI inflation which remained above 9% for nearly two years has moderated significantly to below 7% by March 2012, last month. More importantly non-food manufactured products inflation had dropped from a high of 8.4% in November to 4.7% in March this year, actually coming below 5% for the first time in two years.

Looking ahead, the Reserve Bank's baseline projection of GDP growth for the current year is 7.3% and our projection for inflation for March 2013 is 6.5%.

As in the past, we have also given guidance for the period forward. The reduction in the repo rate was based on an assessment of growth having slowed below its post-crisis trend rate; however, the deviation of growth from its trend is modest. At the same time, upside risks to inflation persist. These considerations inherently limit the space for further reduction in the policy rate. Moreover if subsidies are not contained as indicated in the budget of last month, demand pressures persist and will further reduce whatever space is for monetary easing. The question several people have asked us in this regard is whether revisions in administered prices will adversely impact headline inflation. They may indeed, but I like to underscore that the appropriate monetary policy response to this should be based on whether the higher prices translate into generalized inflationary pressures. The likelihood of a pass-through of higher administered prices to generalized inflation depends on the strength of the pricing power in the economy and indications are that the pricing power is currently abating, but the risk of a pass-through cannot be ignored altogether.

Finally about liquidity management which posed major challenge for much of last year; however, liquidity conditions have eased till recently and are now steadily moving towards the comfort zone of the Reserve Bank; however, should the situation change, we will take appropriate and proactive steps to restore liquidity to comfort zone conditions. Thank you very much and we will now take up your questions.

Moderator: Thank you very much Sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone phone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Our first question is from the line of Mr. Nikhil Gupta from First Global Securities, Mumbai. Please go ahead.

Nikhil Gupta: Good afternoon everyone. Sir I have two questions. First one is I understand that the growth has decelerated and non-food manufacturing inflation has come down sharply in March 2012, but is there something in specific that we might have missed that prompted the RBI to go for a 50 basis points cut instead of 25, don't you think that keeping or going for a cut of 25 bps in this would have given you another chance of going for another cut in the future. I am not trying to say that you do not have space now, but as you said space is limited. So what exactly prompted for this 50 basis points sharper than expected cut in the repo rate?

Dr. D. Subbarao: You had a second question Nikhil?

Nikhil Gupta: Yes, the second question is not related to the monetary annual statement, but my question is, in the past 2 months February and March 2012, M0, the narrowest supply of money has, the growth in M0 has decelerated sharply primarily because of a sharp decline in deposits that bankers are supposed to keep with the RBI, they declined by almost 20% YoY in March 2012. So would you like to throw some implications of that or right in that?

Dr. D. Subbarao: On your first question, you of course have said and I believe that everyone has an understanding of growth and inflation numbers. How growth has come down and how both headline and core inflation have come down. So there is no need to go back into those numbers, but your specific question was why 50 basis points as against possibly 2 steps of 25 basis points each. The main motivation for that was that we had to send a stronger signal for monetary transmission to take place. We thought that the growth and inflation dynamics permitted a reduction of that magnitude and if you go into a reduction of that magnitude, there was balance of advantage in doing it in one step of 50 basis points rather than what is now come to be known as two baby steps with 25 basis points each. On reserve money, I am going to ask Deepak Mohanty, our Executive Director to respond.

Deepak Mohanty: Nikhil as you know for M0, reserve money there are two components. One is the banker's deposit which is again determined by what is the cash reserve ratio. As you know last year that we had reduced cash reserve ratio. NDTL of banks didn't go up that much. To that extent, the requirement for banker deposit was less, but I would advise you not to see particular points of that because that number fluctuates quite a bit. As you know, banks cannot load their CRR requirement in the beginning of the week and it is going for the last reporting Friday. So then you could possibly see a dip, but having said that so whatever is the requirement as long as their NDTL is growing and the CRR is given, so the deposits by the banks is given. The other thing which happened which pulled down the reserve money growth is the currency expansion because as you see last year we got about 18 to 19% currency expansion. So as there was change in the interest rate particularly deposit rate, so then we saw lot of currency coming back to the banking system in the form of deposits. So currency expansion normalized in the range of 12.5. So both put together, reserve money expansion last year was lower than the year ago.

Nikhil Gupta: Thank you.

Moderator: Our next question is from the line of Mr. Rajeev Malik from CLSA, Singapore. Please go ahead.

Rajeev Malik: Good afternoon Governor and everyone else and thanks very much for this time. It is always a hectic period and we do appreciate your carving out this time. I have two small questions both to really eliminate my ignorance about some of the things. One is the disconnect, which I believe exists between the size of the rate action and the kind of guidance analysis that has been offered. It seems to be guidance analysis which supports utmost a quarter percentage point reduction, you earlier eluded to the fact that growth had slowed down to 6.1% in the December quarter, this was already known at the time of the March meeting. The inflation expectation for March even at that time was not terribly out of line and it is indeed it is transmission which is the motivation. Why are we trying to then indicate such a plethora of risks on the inflation side? The disconnect becomes more pronounced especially when you put in context a 50 basis point move would typically indicate either a central bank that is bit behind or wants to be ahead because growth is going to come off, but in case of a central bank that thinks growth is going to go back to trend and still has multiple risks to the inflation outlook. It is a bit of a puzzling aspect. The second small question is one of the expected outcome you site of the policy actions is to contain risks of inflation and inflation expectations resurging. I became to hear your reviews. How does that happen with the 50 basis points bigger than expected move for an economy which has multiple inflation risks and is going to recover back to trend on central bank's own expectation? Thank you very much sir.

Dr. D. Subbarao: Thank you Rajeev. I hope I can give you satisfactory answers. First yes, you think you saw disconnect between our rate action and our guidance and that is matter how you read this, but in the Reserve Bank, we saw both of them as being consistent. Let me explain this beyond what I had said in answer to the earlier question. As far as inflation numbers for March were concerned, of course there were all sort of expectations about what it might be, but the core inflation at 4.7% was actually lower than we had expected in the Reserve Bank internally, although we do not disclose our expectations nor do we actually formally discuss our expectations, but certainly that was a surprise. On the other hand, we also got growth IIP numbers after the March 15 statement of the Reserve Bank which also showed unreliable as the IIP number is it still showed deceleration in industrial activity and also thereby on growth momentum slipping. So both growth momentum slipping and inflation coming down more than we had expected had determined our action of 50 basis points.

As far as guidance is concerned which actually links to your second question. We thought we should be as transparent as possible and there are a number of upside risks to inflation that we had indicated - oil prices, currency, fiscal deficit, monsoon outlook, rural wages, etc. So as long as this inflation upside risks are there, there is always a possibility of inflation going out of line with our projection. Therefore we had indicated that we should be conscious of inflation expectations. Now on the guidance that scope for further rate action is modest, we started using this term which is the trend rate of growth. Our indication is that this might be around 7.5%. So if the economy is projected to go at 7.3% as we had said that the output gap is very small if at all. So we want to say that scope for further reduction is limited. I am sure you heard all this, but I do hope that my saying it again has satisfied you a little bit; however, I am going to request Deepak to add to what I have said.

Deepak Mohanty: Just to add one more piece of information for your consideration or reflection is that you would see the actual monetary tightening has been stronger than what we implied by the policy rate because on the liquidity side, it is very clear that what we have been projecting and expecting in the LAF window, actual liquidity has been much more tighter through the second half of 11-12 and so also that is reflected in the money supply growth because we had plan for about 15.5, but at the end of the year it was about 13% and we have a small paragraph in the policy which also shows the transmission it has also been quite strong by the banking side because there is the deposit rate, given the lending rate increase has been much faster than the policy rate increase because we have put a number there that you would see that for the major 5 banks that their effective lending rate which was about 11% on March 2011 has gone to 12.8%. So transmission has been quite strong and again the transmission is asymmetric because once we are on the downward cycle reducing the policy rate, so it does not get transmitted so fast because the banks locked themselves into fixed deposit structure and being a cost plus pricing, the transmission is bit slow. So there was a judgment again that 25 basis points discounted by markets and the kind of adjustment the banks have done whether that would have been that effective in transmitting the signal. Thank you.

Rajeev Malik: Those are both very convincing answers and thanks very much. Just two very quick pointers. Does that then indicate that there should have been stronger measures to address the liquidity angle earlier, over and above just the CRR cut or would that be in 20-20 in hindsight a better thing and secondly how should we in the market think about the new CPI which actually continues to grow higher and higher. I understand the focus on WPI, but an average consumer thinking about inflation adjusted return on deposits probably does not pay attention to WPI and is focused more on CPI. I understand there is limited history, so it is not very effective.

Dr. D. Subbarao: On your first question Rajeev about whether we should have been more aggressive in injecting liquidity, that is a judgment analysis that yourselves have to make, does not add to our sum total of knowledge debating that issue now. So I will leave it to you to make a judgment on that, but going forward we have given you guidance that we will manage liquidity appropriately and proactively to see that it is maintained within the comfort zone that we had indicated. However, I must also say that even as we made that commitment last year, we could not fulfill it for much of the year because of the government's cash balances being lumpy. So if that variable is taken out, I think our ability to fulfill our commitment would be higher.

On CPI, yes I think you put it very well; the new CPI history is very limited, very short. We have inflation numbers only for 2 months now. Index for 2011 and inflation for 2 months of 2012, but again I just saw that lot of people are listening in will hear this once again which is that we look at WPI, we look at all the CPIs, we look at the new CPI, we look at number of other indicators, corporate margins etc. I know where you are coming from which is to indicate as RBI, it should be projecting as a target, actually again old timers like Deepak will tell you that this is a multiple target monetary policy. So we do not have a single indicator.

Rajeev Malik: Fair enough. Thank you very much sir.

Moderator: Our next question is from the line of Mr. Karthik Kothari from Deutsche Bank, Singapore. Please go ahead. As there is no response, we will take our next question from the line of Shubhada Rao from Yes Bank. Please go ahead.

Shubhada Rao: Good afternoon everyone. I have two short questions. The first one of course that there is a sense of urgency for government to act on its fiscal consolidation. How critical in your estimation is this deal with which the government begins to act on subsidy management. Question two is now with monetary easing cycle having begun, are you likely to review the comfort level on liquidity of 1% of NDTL. These are the two short questions.

Dr. D. Subbarao: Thank you Shubhada. The first question, the answer is very clear the earlier the better because oil companies are bleeding and subsidy is going out. So the earlier the adjustment is made, the better it is not only from fiscal management point of view, but also from current account deficit and also from improving the efficiency of oil consumption in the economy. So I cannot really say when, but all of us have our expectation of when this might be done given the political compulsions. On the second question about the commitment to maintain liquidity in plus-minus 1% of NDTL, is your question is whether we should give up on that commitment?

Shubhada Rao: No, the question is not on giving up, but now that the easing has begun, are you likely to see liquidity as surplus or looking at liquidity going to some surplus situation at any given point in time or even close to square if not in surplus. So in that situation, then 1% of NDTL are then we looking at new benchmark of comfort on liquidity?

Dr. D. Subbarao: We have our internal numbers about how liquidity might move depending on all the variables start going into it. I cannot really speculate on that in the public domain, but all we want to say is that we will maintain that in the plus-minus 1% zone and to the extent that inflation is still a concern, it might be in moderate deficit more often than more people are expecting, but we will try and maintain that commitment.

Shubhada Rao: Thank you sir.

Moderator: Our next question is from the line of Samiran Chakraborty from Standard Chartered Bank, Mumbai. Please go ahead.

Samiran Chakraborty: Good afternoon everybody. I have a question on the projection of inflation that is being done for March in 2013 at 6.5%. Just wanted to understand that if 6.5% is expected inflation, then is it kind of commensurate with the guidance of limited policy easing and what kind of assumptions have gone behind this 6.5% projection particularly on fuel prices. And if in the middle of the year we see that inflation trend is not in line with 6.5%, but higher. Would that mean that the monetary policy stance would reverse at that point of time to bring it down to 6.5%? Thank you.

Dr. D. Subbarao: Okay Samiran, three questions. On the first question, yes a projection of 6.5% factors in the easing that we did yesterday and we have also said that inflation will remain range bound. So the limited policy easing as you had said that we done yesterday factors in this 6.5% number. There are a number of assumptions that have gone into this, but I believe we do not disclose them in the public just as all of you do your numbers and based on certain assumptions and can you remind me what the third question is. Deepak do you remember?

Deepak Mohanty: On the inflation that, the kind of guidance what we have given.

Dr. D. Subbarao: Go ahead and answer that.

Deepak Mohanty: On the first question again just to supplement the Governor, at the back of our mind some numbers, some calculation about the oil prices. We have also factored in some bit of pass-through from there. We have been considering the kind of carry forward which is there from last time. Of course timing could vary and also that factors on the coal and electricity side and as you would see that it is not that we have just given the end point number in inflation. We have also put the baseline for the whole year and so that also goes up and down, but the bottom-line is that it would remain on an average about 6.5. It can go up little bit, go down and depending on the adjustment and the extent of adjustment that takes place to the administered prices, there could be a spike here and there. So that should be there. And so the guidance, but at the same time the risks are on the upside as the Governor was mentioning and then as we have put in the policy also because substantial risks are there and given that situation at the present context and the way that we are expecting the inflation and growth to evolve, so we think that 8% at this stage would seem inappropriate.

Dr. D. Subbarao: Samiran I recall your third question now which is about how we might respond to an adjustment in administered prices, is that your third question?

Samiran Chakraborty: I was saying that if inflation in the middle of the year if a trajectory is not meeting the 6.5% mark, would that mean that the monetary policy stance will change at that point of time to reach 6.5%?

Dr. D. Subbarao: Not such a binary question, yes or no because we will have to look at what the drivers of inflation are and depending on how we see the drivers of inflation, how we see about how inflation must sustain, those factors will determine our response.

Samiran Chakraborty: Thank you.

Moderator: Our next question is from the line of Teh Kwee Chin from GIC, Singapore. Please go ahead.

Teh Kwee Chin: Question on gold loan. I understand that you said you are looking to study the demand as well as the macro implication of gold in the macro economy. My question is if you tighten the LTV of what you can lend now based on gold collateral, are you not limiting the liquefaction of gold to rest and the liquidity in the economy and do you have some assurance that by doing so, you will reduce demand for gold going forward. Thank you.

Dr. D. Subbarao: I am going to request Anand Sinha, Deputy Governor to respond to that.

Anand Sinha: The measure that we have taken is only for one sector that is for NBFC gold companies. Now we have to make a distinction whether we are dealing with gold as an asset class or are we dealing with some institutions. So right now we are dealing with only an institutional aspect that is we had quite a few concerns both from customer protection perspective as well as an extraordinarily rapid growth of these gold companies. So we had to take some measure to constrain such a rapid expansion and put them on stronger footing. That is why we have taken this measure and this measure is not applied to banks at this stage and again to reiterate we are not dealing with gold as an asset class problem, but with only some institutions.

Teh Kwee Chin: Thank you.

Moderator: Our next question is from the line of Ms. Sonal Verma from Nomura, Mumbai. Please go ahead.

Sonal Verma: I wanted to check do you expect yesterday's 50 basis points rate cut to be sufficient to revive growth to 7.3%, specifically on investment, do you think that will be sufficient to revive investments?

Dr. D. Subbarao: First of all our apologies that we did not let you in yesterday because we are giving this opportunity today. You were the one trying to get in yesterday?

Sonal Verma: My colleague yes.

Dr. D. Subbarao: Please apologize to your colleague on our behalf. We value your participation and your colleague's participation. About the impact of 50 basis points rate cut on investment. As we have said several times before the policy and in the policy document as well, the deceleration in growth and the decline in investment activity is an outcome of a number of factors, the external situation, the domestic policy and governance issues as well as monetary tightening. So this 50 basis points hike should revive investment activity and certain amount of that response has been built into our projection of growth of 7.3%, but should the response be more positive then that growth will be higher, but I also want to say that the rate action by Reserve Bank is a necessary condition but not a sufficient condition for a full scale reversal of investment sentiment, a lot of our other things have to fall in place.

Sonal Verma: Sir if I could also ask you last few years we have seen a lot of macro imbalances worsen in India right from the twin-deficit to inflation moving higher to trend growth coming down. What is the Reserve Bank's assessment on how much of this is cyclical versus structural?

Dr. D. Subbarao: Of course the twin-deficit problem has come up again. I can only offer some comments taking on my feet as it were. If you take the fiscal deficit, there is some cyclical component in that. There is some structural component. The cyclical component arises from the crisis response when we had deviated from the FRBM path and over the fiscal stimulus. There was also growth deceleration which dented the revenues and therefore added to the fiscal tightness or fiscal concerns. So I believe that as we come out to the crisis and as growth picks up, that itself should get us out of the cyclical tightness on fiscal deficit. Again on current account deficit too, I really cannot say how much is cyclical, but take gold for example. Gold imports had increased last year and you can hypothesize that at least part of that is cause of the inflation here and people were buying gold as a hedge against inflation as an investment option. So if you have a low and stable inflation, we should see appetite for gold coming down. Whether you will see that as a structural factor or cyclical factor, it is not clear to me, but that certainly one factor we have to keep in view, but I am going to ask Deepak to add to this.

Deepak Mohanty: Just to add one point is that the global economy is also slowing down. So that has a cyclical impact particularly on the industry side. To that extent given our increased integration, then it has an adverse impact now. So that is one factor. And the other structural factor clearly is that on the investment demand because the aggregate demand is getting more imbalanced more in terms of consumption and private consumption and away from investment. So that is one aspect that we are trying to address, but the Reserve Bank cannot do everything, but at least interest rate reduction is perhaps enabling condition for that imbalance to get corrected to some extent. Thank you.

Sonal Verma: Thanks a lot sir, can I ask one more question please.

Dr. D. Subbarao: Go ahead.

Sonal Verma: Sir there has been a lot of confusion on your comfort zone on liquidity because of the various factors that you mentioned. Can you please restate it. Is it still plus-minus 1% of NDTL and do you look at LAF, is it LAF plus government balance or do you look at overnight rate. If you could just reiterate your comfort zone?

Dr. D. Subbarao: I am a bit concerned that by reiteration I might be adding to confusion, but nevertheless since you would ask here, I will reiterate that which is that, yes this is a commitment we will try and honor on a best effort basis that we will maintain liquidity in the plus-minus 1% of NDTL zone, but there is always that variable of government cash balances which is lumpy. Over which, the Reserve Bank does not have much discretion. There has been and there might be some volatility in liquidity, but we are hoping that as fiscal management gets on even keel the government cash management also will get better and the lumpiness will get reduced if not eliminated and that we will be able to honor this commitment to a much larger extent than we have been able to. So to reiterate in one sentence, our commitment to this plus-minus 1% NDTL stands.

Sonal Verma: Thanks very much sir.

Moderator: Our next question is from the line of Sameer Goel from Deutsche Bank Singapore. Please go ahead.

Sameer Goel: Good afternoon Governor and thank you for the opportunity. My question is also about liquidity management. In fact couple of questions related ones. You have mentioned yesterday and emphasized again that you would do your best to keep liquidity in RBI comfort zone. Now the two main tools you have are obviously the cash reserve ratio and open market operations. My first question would be what has informed or would inform the choice between these two policy tools in terms of bringing the liquidity back into the system if needed in the next few months and second the question about the technical aspects of open market operations themselves, I refer to some comments by Deputy Governor Khan which have been quoted in the press which suggested open market operations either through auctions or via the negotiated dealing system now. It looks to me like the latter is not usual practice, is there anything in particular which then informs your decision of whether to do the open market operations via announced auctions or via the NDS? Thank you.

Dr. D. Subbarao: Thank you Sameer. On the first question about the comfort zone of RBI and the specific question was about the choice between OMO and CRR, it depends on the circumstances, I do not think there is a standard template answer, but you know and we know that there are differences about how the implications of OMO and CRR. OMO and CRR both expansionary, but CRR is across the board, whereas OMO eases liquidity or gives liquidity to those banks which have excess SLR and which need liquidity. So OMO is a more discriminatory instrument whereas CRR is across the board. I have also been told by our economists that the expansionary impact of CRR in most circumstances is more than that of OMO, but again as I said there is no standard template. Deepak anything else to add to this choice between CRR and OMO?

Deepak Mohanty: Not really.

Dr. D. Subbarao: Mr. Khan, will you please respond to the other question?

H. R. Khan: Issue regarding notified OMO and doing OMO through NDS-OM basically as Governor has mentioned this if we look at our liquidity assessment and whenever we need the liquidity and in case of extreme deficit more than we have to inject liquidity, we normally will notify, but giving our assessment has been that for example 1, 54,000 we are notified as OMOs, but actually we could mop out close to 1 lakh 30,000. Given that, we also do sometimes NDS-OM because as and when there is a liquidity shortage, we do that and that is sort of a creeping OMO, but the main concern if the liquidity in shortage mode. If liquidity is not in shortage mode that sort of OMO so that sort of purchase through NDS-OM also. So basically it boils it down to the liquidity. If the liquidity shortage is there either we do notify OMO which is a bulk amount or you do creeping OMO through NDS-OM which is a smaller amount, but main concern would be liquidity.

Sameer Goel: Thank you.

Moderator: Our next question is from the line of Mr. Vivek Singh from CIMB Principal, Singapore. Please go ahead.

Vivek Singh: Thank you Governor, thank you for your time. I just have one question. I just wanted to figure out trying to understand what will you be looking at in future monetary policy actions in terms of whether you should be cutting or not, as in you will be expecting government to be responsible in the fiscal side and the government has not really responded to that till now. If we do not see the consolidation coming through, will it be and demand holds up as per your expectations. Will it be fair to say that you may not be cutting much throughout the fiscal?

Dr. D. Subbarao: I do not think that characterization will be accurate. So what we said is that growth will be 7.3% this year and that is close to trend. The scope for further rate action is limited because of the output gap getting closed. So going forward in our monetary policy stance, we will go by growth, inflation and disaggregated drivers of growth and inflation. :But it is also our understanding that for growth and inflation to evolve as we had projected, one of the big requirements is fiscal deficit running as per the budgeted script and particularly important for managing that fiscal deficit number is reduction in subsidies. So I want to reiterate the adjustment of subsidies is an important initiative for a number of reasons, but from the immediate context of the Reserve Bank it is important for reducing the overall demand and managing inflation. But to say that our entire policy stance will be determined just on a binary issue of have they adjusted subsidies or not, I think would be somewhat inaccurate.

Vivek Singh: Thank you Governor.

Moderator: Our next question is from Babita Rana from CMIE, Mumbai. Please go ahead.

Babita Rana: Hello, good afternoon everybody. This will be with respect to the projection of monetary aggregates that you had given yesterday. If you can provide some light on the assumption with respect to other components of money supply growth which is at around 15%. This would be particularly with in the light of the CRR cut that we had in the last year, two cuts. So if that would increase the multiplier which is say at around 5-5.2 right now. In the light of those two CRR cuts and considering that projection for money supply at 15% is lower than the credit growth that we are having. So if we can get some light on the assumption regarding the other two components of money supply which is forex assets of the banking system as a whole and the government debt. Is the assumption that we may again have a year of a drawdown in reserves or may be a modest rise in reserve and what would be the assumption with respect to the rupee averaging against USD during the year and its impact on the NNMLFO of the banking system?

Dr. D. Subbarao: Thank you Babita I am going to request Deepak Mohanty to answer that question.

Deepak Mohanty: There are too many questions there, but sum and substance of that will provide adequate reserve money which again provides the foundation for money supply to grow at 15%. So, as you rightly observe that the two rounds of CRR reduction certainly it has raised the money multiplier. To that extent, money supply growth going forward within the reserve money should be faster, but the essential point that given that kind of a money supply growth and the deposit growth in the banking sector whether the asset demand can be met from the corporate sector and from the government, so that balance whether it can be met. So that is how we have put out a projection of 17% in terms of the credit growth and inherent in that is our assumption of inflation. If inflation indeed remains around that projection that you will see real credit growth expansion is quite substantial in that case and also the assumption that we have taken is that the government would stick to its market borrowing program, so that can be again partitioned between the banking sector and other sectors which would government secret is. So if these calculations don’t work well, obviously there will be some pressure here and there, but I must mention that these are not targets, these are only indicative projections. Thank you.

Moderator: Our next question is from Viraj Kacharia from Cayuga Capital, UK. Please go ahead.

Viraj Kacharia: Thank you for the call. I just have three questions. First if you look at the divergence between WPI and CPI at the retail level, there is a big divergence in terms of WPI has been trending downwards, at the same time CPI has been jumping upwards; is that something central bank will be keeping in mind in terms of future monetary policy? And second question is in terms of oil prices. Is there any trigger level in terms of oil price level that the central banks will start getting concern and in terms of its impact on inflation? And lastly mostly on the government borrowing program. Most of the market borrowing program scheduled in the first half of 2012 and 2013, does that change RBI's view in terms of liquidity management for the first half of the fiscal year? Thank you.

Dr. D. Subbarao: Thank you Viraj. On your first question about divergence between WPI and CPI, of course to the extent there is divergence, we try to take note of that and try to understand why there is divergence and historically CPI and WPI have correlated over long periods, but some times they diverge as indeed they have over the last two-three years because of the differences in their baskets and differences in the weights. For example food has a much higher weightage in CPI than in WPI. Services are there in CPI, but they are not there in WPI. There are some matters which are in WPI, but not in CPI and there are different base effects for WPI and CPI. For all these reasons for certain periods of time, there could be divergence and should there be divergence we try to understand that and factored that into our policy calculation. Oil prices what is the specific question?

Viraj Kacharia: Oil prices certainly, we are also concerned with the present level of oil prices. As you see the policy in terms of risk factor, the first risk that we have put is about oil prices and so we are clearly concerned even at the present level and also in our projection we have factored in some assumption about the oil prices and some minimal extent of pass-through from the administered price correction also.

Dr. D. Subbarao: Thank you and Khan will you please answer the question about government borrowing program?

H. R. Khan: Normally government borrowing is frontloaded in the first half because in the first half credit uptake is relatively low. So following the same trend, this year in fact compared to last year we have increased frontloading. Our assessment is that given what will be the likely increase in NDTL, there will be some space for picking up government borrowing and as I told earlier, the credit expansion when it take place that much. The second issue is today going in favor of government borrowing is that this year first quarter for example we have lot of redemptions, so lot of flows will be there to the system. And the third thing is in terms of treasury bills, this first quarter treasury bills there is a net decline compared to net increase last time. So we believe that there has been less pressure, so it is going to be a challenging task, but it is going to be relatively less pressure and over and above that as and when there is situation arises, we will be doing tweaking in terms of tenure tweaking in terms of amount from auction to auction. So that is how we will approach the world strategy of government borrowing in the past.

Viraj Kacharia: Thank you.

Moderator: Our next question is from the line of Soumyajit Niyogi from SBI DFHI, Mumbai. Please go ahead.

Soumyajit Niyogi: Good afternoon respected Governor and respected persons. I have one question regarding the first half of the last year, Dr. Gokarn has prescribed this fan chart of growth rate and he stated here the RBI's tolerance level. Regarding this policy, he had also given a fan chart of growth rate as well as WPI projection. Can we have some sort of guideline what would be the lower level of tolerance for the growth where RBI can expect or can tolerate that amount of faltering in growth?

Deepak Mohanty: Mr. Niyogi, I don't think your interpretation is correct, but I don't know because what was said because there is no tolerance level there because the baseline projection is there and what the fan chart indicates is the risk because the risk that we see in terms of if I put to the growth that you will be seeing the fan chart is symmetric, so that means upside risk is more or less at the similar level than the downside risk and it gives the probability distribution and when we go for the inflation that is you see chart two. So it is asymmetric. So the upside risk is much more than the downside risk due to the inflation. So that is the way it should be interpreted. So the band should not be taken as the Reserve Bank's tolerance level.

Moderator: We will take our next question from the line of Manas Paul from Axis Bank, Mumbai. Please go ahead.

Manas Paul: Sir very good afternoon to you all. My questions had been kind of answered in bits and pieces. Just wanted to know if the inflation risk will flare up down the line, would that lead to any kind of change in reversal of the stance that we have right now?

Dr. D. Subbarao: As you said, your question has been answered not only in bits and pieces, but also all in one place I believe several times in the session which is that there are several upside risks to inflation which we have indicated in our policy document. We are sensitive to them and should they flare up, whether monetary policy will respond to it or not will depend on our understanding of the nature of inflation and the drivers of inflation. I want to reiterate once again that the probability of hiking rates is non-zero, but it is small just as the probability of each increase further is also non-zero, but modest.

Manas Paul: Thank you sir, thank you.

Moderator: We will take our next question from the line of Prithviraj Srinivas from HSBC Research. Please go ahead.

Prithviraj Srinivas: Good afternoon Governor and distinguished panel members I have two related questions. My first question is our estimates suggest that growth will have to accelerate to strength sequential basis for the economy to post 7% plus growth this year. In this scenario, do you see business has regained pricing power going ahead? And my second question is in an ideal situation we would like to see investments meet the recovery. If this does not happen due to administrative hurdles. Will you see a need to adjust the core inflation estimates?

Deepak Mohanty: Yes certainly because as the way that you see now because we see excess capacity in the system because the industrial production itself that if you would look at 3.5% up to very much lower than the kind of trend that we have seen. So there is certainly excess capacity in the system, but there are different supply bottlenecks in terms of supply inputs, electricity and other factors. So given the kind of a trend that we have seen to catch up to the trend it should not be that inflationary unless the supply bottlenecks accentuate in the process.

Dr. D. Subbarao: The second question about the investment activity.

Deepak Mohanty: Yes certainly because we see that the pipeline investment is there, but the new investment intentions are coming down. So we do expect that investment should pick up and in the aggregate demand, investment is less inflationary than the consumption demand which is there. So some bit of rebalancing in the aggregate demand is also required so that could also be beneficial in terms of correcting the extending balance that we are seeing in the system and so several factors also linked to this in terms of the revision in the administered petroleum prices and things like that the pass-through. So that should also rebalance the system more towards investment.

Dr. D. Subbarao: Prithviraj I hope you find those answers satisfactory. Thank you.

Moderator: Participants that was the last question. I would now like to hand the conference over to Ms. Alpana Killawala for closing comments.

Dr. D. Subbarao: I want to thank all the analysts who asked questions and all those people who are listening in, for joining this conference. I want to say that we attach a lot of value to disseminating to discerning analysts and researchers such as yourselves who are more clued into the intricacies of policy making and do let us know if you have any further comments or concerns. Thank you very much.

Alpana Killawala: Thank you all of you and thanks Laveena.

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