"Reserve Bank of India Post Policy Conference Call for Researchers and Analysts"

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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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Alpana Killawala. Thank you and over to you ma'am.

Alpana Killawala: Thank you very much, Inba, and welcome from Reserve Bank of India to this Post Policy Researchers and Analysts Conference. We will straightaway go into the questions because like last time we have received quite a few questions.

Soumya Kanti Ghosh: Dr. Soumya Kanti Ghosh, State Bank of India. Is the cumulative reduction in availability of term repo and repo from the RBI window effectively from 2 per cent (that is, term repo at 1.5 per cent of NDTL, current outstanding at 1.20 lakh crore, and repo at 0.5 per cent of NDTL) to 1 per cent now to be viewed in conjunction with the possibility of RBI purchasing dollars more aggressively in the event of deluge of capital inflows? Also, is this the reason that there is no guidance on M3 deposit and credit growth for FY15?

Dr. Raghuram Rajan: No, they are not connected. At least the short-term liquidity measures and any accumulation of currency as a result of FCNR or OMC currency purchases. As far as the short-term liquidity goes, let me repeat that our intent is as far as possible to try and ensure the call money rate hugs the repo rate. Of course, with the extreme sort of changes in government balances in tax payments and also to some extent in bank action at the end of the year there has been a fair amount of volatility and it has withstood our attempts to provide liquidity to the market, though this year as the number of bankers tell me has been a little better than previous years. But, we pumped in a lot of liquidity into the market, especially at the short end to avoid these kinds of spikes. I will let Dr. Patel give you some of the details. But, that should be seen as separate from any currency build-up on our balance sheet. Remember that at least from our perspective the currency build-up is more to some extent a long-term effect, it is not that we sort of get rid of our foreign currency assets on a daily basis and is different from the short-term liquidity. Yes, our asset build-up, whether it is net domestic assets which comes from purchasing bonds or net foreign assets which comes from purchasing foreign currency assets; the asset build-up is commensurate with the rate at which we want overall credit growth to take place over the year, as well as the need to accommodate growth in cash demand by the general public. Let me ask Urjit now to talk a little more on these issues.

Dr. Urjit R. Patel: Just to give you an indication of the average availment of liquidity in March, through the LAF Rs.311 billion which is 0.5 per cent of bank's NDTL until 31st March and the term repo of 0.5 per cent of NDTL which was Rs.394 billion. The ECR which also is provided at the repo rate was Rs.386 billion. Excluding the MSF it is still about trillion rupees or just over. That is the breakup of the kind of liquidity that we have provided in March.

Jayesh Kumar: Jayesh Kumar from Kotak Securities. Is RBI moving towards targeting term repo rate for monetary policy mechanism from the current LAF repo rate?

Dr. Raghuram Rajan: No, again, I think let me emphasize that what we are trying to do is ensure the call money rate is close to the repo rate. Clearly, the call money rate will be affected by the amount of liquidity that is available in the market and the amount of liquidity is affected by the quantity of term repos that we do. So, I would presume that the term repo rate will be close to the call money rate because of our intent close to the repo rate. But of course, in the term repo rate there is a compensation for duration of maturity which will make it slightly different from the overnight repo rate.

Devika Mehndiratta: Devika Mehndiratta, ANZ Bank. At the media conference yesterday, in response to a question on concerns on high core inflation you mentioned that the new government's budget might just focus more on investment than consumption, and that should help core inflation go lower. But don't you think that even the out-turn is likely to put an upward push to core inflation because the immediate impact of increased investments will be to increase demand, and supply from increased investment will come only after a lag. So do you not think that at this stage it looks like getting inflation down to 6per cent will quite certainly need additional policy tightening?

Dr. Raghuram Rajan: Clearly, higher demand including investment demand given fixed supply will have an inflationary impact; on the other hand, eventually investment demand contributes to supply and has a disinflationary impact. So you are asking me, "Would not these effects matter?" Yes, they do matter, but to some extent when we take into account the projected growth we are essentially taking these into account in our inflation projection. So I would not say that this is going to disrupt our sense of the path. Now will reaching 6 per cent be easy? Remember, we have effectively about 2 years to reach it. So to that extent we believe that timeframe in which we are planning to reach the 6 per cent gives us the opportunity to do it without as much of a hike in interest rates as would be required if, for example, we wanted to reach it in a much shorter time. Obviously, government policies will help. For example, if the government is more circumspect on agricultural support prices as they have been last year, that would help mute food price inflation; a good budget to the extent that it builds confidence about the longer-term fiscal health of the country and thus longer-term inflationary pressures will also quell inflationary expectations. So, there are a bunch of things which could help, but as I said in the policy right now we think we are appropriately set given what we know.

Radhika Rao: Radhika Rao from DBS Bank. A conciliatory tone has been struck with the present government on the need to establish a cohesive inflation targeting or a version thereof. The ball is now in the incoming administration's court post-May polls. Can you please share the qualitative adjustments or support measures that you will seek from the government to keep inflation in check. Any moves to lower subsidies will prove inflationary in the short-term for instance?

Dr. Raghuram Rajan: I did outline some measures that we think would be useful – again, a good budget, action on support prices. Clearly, a reduction in subsidies and perhaps targeting more investment. Again, to the extent it does not increase overall short run demand but increases longer run supply would also be helpful on the inflationary front. A bunch of these things would be helpful. I think a number of studies have also shown that while increasing some of these administered prices such as energy prices would in the short run be inflationary, in the long run they are disinflationary, because demand adjusts to the higher prices, we have less demand for imported energy and that is helpful in the longer run. I think Kirit Parikh has done a study on this and that suggests the medium-term is actually beneficial. So, these are the things that we would anticipate would happen and they would be helpful.

Anjali Verma: Anjali Verma, PhillipCapital. Will it be correct to state that interest rate movement is now largely focused on 6 per cent Jan '16 CPI target, even if Jan '15 CPI target is achieved or marginally missed?

Dr. Raghuram Rajan: It is a good question; let me answer it as carefully as I can. The monetary policy is often intended to be as stable as possible, in the sense that you want moves to not be volatile, that we should not react to every change, and at the same time once we start an easing cycle, this easing cycle should move in that direction rather than ease for a little while and tighten again, ease again, tighten again. So, we would want to have relatively stable monetary policy. To the extent that we find a substantial amount of room builds up before the interim target is reached, the question would then be "Should we cut tremendously now?" but then run the risk of not reaching the final target. And the general intent I think would be smoother process; however, to the extent that we have substantial room that builds up, that would prevent any further hikes in the interest rate and that would be useful.

Anjali Verma: RBI increased the rates when inflation was largely being led by vegetables. And now when vegetable prices have corrected, it is being stated that other food inflation is still rising, along with core inflation. Should we therefore believe that interest rates will remain high until CPI target is achieved – reasons could vary?

Dr. Raghuram Rajan: I think what we are trying to do is forecast what CPI will be and we are setting interest rates with the idea that we will achieve a certain level of the CPI at a particular point in time, which means that we are willing to look through transient increases in CPI or transient declines in CPI. One such transient decline could be because of base effects, but we are willing to look through these with the view of achieving the medium-term goal that we have set. So, to that extent interest rates will be set with that in mind and would not react again to every blip that happens. Urjit, would you like to add something?

Dr. Urjit R. Patel: The forward guidance that was given in January 2014, I think it was underscored this time also is that the intermediate target and January 2016 target are based on data outcomes that are durable and therefore we are unlikely to react to monthly variations unless they show an underlying momentum that is consistent with the intermediate and January 2016 target.

Dr. Raghuram Rajan: Just to amplify on that, let us talk about a good scenario where we find sometime later this year that given the policy stance and given the accumulation of good news on the disinflationary process that we can reach the 2016 target in a rather smooth way going forward. We could under those circumstances even be in a position where we could cut interest rates consistent with reaching that target in a smooth way. What we are trying to do is avoid a situation where monetary policy becomes extremely volatile and acts in reaction to every piece of incoming data. We want to essentially achieve this disinflation in as smooth a way as possible.

Ashutosh Datar: Ashutosh Datar, IIFL. RBI has said that the potential growth for the economy is around 6 per cent and possibly slightly lower. Does this reduce the need to cut rates to revive growth should inflation trajectory be better than envisaged as growth is not very depressed?

Dr. Raghuram Rajan: As I just said, if disinflation is stronger than we anticipated and we believe that we can go through the 2015 goal and 2016 goal in a smooth way we certainly would be prepared to cut interest rates.

Ashutosh Datar: Dr. Urjit Patel Committee report has suggested using real policy rate as a rule for monetary policy. Real policy rate is now close to zero, having declined from over (-) 200 bps a couple of months back. What is RBI's current comfort zone on real policy rate given the growth outlook and does RBI want real policy rate to become significantly positive?

Dr. Raghuram Rajan: Let me ask Dr. Urjit Patel to answer that question.

Dr. Urjit R. Patel: I think that we need to look at the issue of the real policy rate in a couple of ways. First, the real policy rate is a forward-looking variable, so expectations of inflation are important and expectations on the inflation front, while they have declined slightly from September continue to be high, almost in the double-digit. So I do not think we are at a stage when real policy rates in a forward-looking manner are decisively positive or even neutral. The importance of the real policy rate is in some ways an indicative variable to show how accommodative or how strong monetary policy is vis-à-vis objectives related to inflation and so on. So, it is a concept that we need to think about a bit more carefully rather than in a static backward looking sense and more as a forward dynamic concept.

Abhay More: Abhay More of Axis Bank. Though further policy tightening is not currently anticipated, RBI dropped the line used during January policy, "If inflation eases at a pace that is faster than we currently anticipate, and that reduction is expected to be sustained, the Reserve Bank will have room to become more accommodative." Is it fair to assume that RBI no more sees inflation coming down significantly over next 12 months in response to earlier actions taken? However, the fan chart of projections of CPI inflation still shows that central tendency at 8 per cent.

Dr. Raghuram Rajan: I would reiterate that what I just said that if in fact disinflation happens at a much faster rate than anticipated and we believe that we can finish this period with the appropriate amount of final disinflation, we certainly will be in a position to cut interest rates at that point. So we are watching, and as I said currently we think the stance is reasonable, there is always varied news around, I think yesterday we saw some good news with the CPI industrial worker which came in at 6.72, which is a substantial amount of disinflation. Again how much is food related, but even if it is food related to the extent that it alters inflationary expectations and changes the wage dynamics at the ground level, I think we will take it. So let us see how this goes; I think we are early days in the disinflationary process, we have to see how it works out. But we are hopeful that it will play out well.

A. Prasanna: A. Prasanna, ICICI Securities. In your press statement in January you said that RBI will have room to be accommodative if inflation falls faster than anticipated and in a sustained manner, this time around you omitted to mention this guidance. Are we to understand that this is just a tactical shift or is RBI more worried about inflation outlook now than in January?

Dr. Raghuram Rajan: This is the same question and same answer.

A. Prasanna : Last year RBI had started the process of aligning banks' HTM limits to G-Secs with SLR. Subsequent to market turmoil in August the change was suspended and HTM limit was retained at 24.5% of NDTL. Now that markets are back to normal, would the RBI take a re-look at the HTM limit? Would you again at a medium-term roadmap for SLR and HTM reduction provide clarity to market and also give a fillip to interest rate future?

Dr. Raghuram Rajan: Let me ask Deputy Governor Khan to address this question.

Shri H. R. Khan: We had allowed three quarters and the three quarterly interval ends with this year. So we should be going back to that old position.

(Please also see RBI press release dated April 2, 2014: http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=30930**)**

Kaushik Das: Kaushik Das, Deutsche Bank AG. Is the Reserve Bank of India comfortable with India's reserves adequacy position? Does it make sense to augment FX reserves at this stage?

Dr. Raghuram Rajan: Look, we have a lot of reserves. Right now, 300 billion plus. So the key question is "At what point you feel safe?" And I think if you focus only on reserves there is really no point at which you feel safe, because provided there is enough uncertainty about the economy, uncertainty about conditions, uncertainty about the treatment of international investors, 400, 500, 600 any level of reserves, until you get to Chinese levels, is probably not enough. So really our focus should be on creating the policy environment which gives investors confidence, and I think certainly from the financial sector side, we at the RBI have been trying to provide this kind of confidence. I think this is a far better way. Our intervention in exchange markets have historically been to reduce exchange rate volatility and that is not just volatility today but also anticipated volatility if the exchange rate becomes unduly strong in a short while because of extreme inflows or unduly weak in a short while because of extreme outflows. So to the extent that we have to intervene to prevent that kind of volatility, we have plenty of reserves.

Kaushik Das: What is the RBI's target for core CPI inflation? If there is no official target, what is the "glide path" expectation of core CPI inflation as per RBI's latest forecast?

Dr. Raghuram Rajan: We do not have a target for core CPI; we have a target for headline as suggested by the Urjit Patel Committee. We use core CPI, however, to give us a sense of what some of the other inflationary processes are in the economy. For example, it reflects more what is happening in services, which gives us a sense of second round effects of food price increases and so on. So it by itself is not a target, partly because we believe that you cannot afford to ignore headline if it continues to be much higher than core for a substantial period of time.

Aman Mohunta: Aman Mohunta, Nomura Securities. What would be the RBI's approach towards INR if large portfolio inflows continue ahead of the election keeping in mind – one, export competitiveness; two, binary risk across elections; and three, Fed likely to increase Fed fund rates starting 2015?

Dr. Raghuram Rajan: I think this is a similar question to the one I just answered that we do not have a level for the Indian rupee in mind, we do worry about potential volatility both immediate as exchange rates move substantially in short periods, but also likely volatility if we believe that the exchange rate either hits too low or too high a value, which is very much inconsistent with fundamentals. So our primary attempt is to reduce exchange rate volatility, and that is where our exchange intervention goes. Right now the oil marketing companies have bought what they need in the markets and are paying us back, and to that extent there will be some reserve accumulation. But as I said before, I do not think we are targeting a level of reserves, primarily because we believe that even with our current level that is pretty substantial. If there are occasions when in order to reduce substantial volatility we have to pick up reserves in the market, we will do so, we are not averse to that. But there is no target that we have in mind that we are going towards.

Prakash Goel: Prakash Goel, Newline Investment. In the policy statement RBI mentioned that FPIs will no longer be allowed to invest in treasury bills. I wanted to check the effective data for the regulation?

Dr. Urjit R. Patel: The treasury bill limit was USD 5.5 billion, it will slowly taper away, and the overall limit in government security stays at USD 30 billion, because whatever gets tapered off from USD 5.5 billion is added to the 1-year and above segment in the G-Sec.

Dr. Raghuram Rajan: In other words, an FPI today holding a treasury bill that matures tomorrow, that limit will be reduced once the security matures. But the FPI can go and buy at the longer end immediately to the extent that the FPI needs. The idea here is really to make our flows a little less volatile. One of the things we saw in the experience last summer was a substantial portion of the outflows were at the very short end. So this is a nudge towards going a little longer, and it is a nudge in the sense that we are not disrupting anybody's existing investment, only that when they reinvest they invest a little bit at the longer end.

Jayesh Kumar: Jayesh Kumar of Kotak Securities. What is RBI's thinking on relaxation of gold import policy of 80:20, given stable currency and CAD is under control?

Dr. Raghuram Rajan: I think that what we have to do is slowly and steadily take actions to remove some of these curbs. The precise timing of these actions will have to be discussed with the government. It would be useful for some of the big uncertainties facing us to be behind us rather than still in front of us before major actions are taken in this regard. But I do not rule out smaller steps.

Shashin Upadhyay: Shashin Upadhyay, ICICI Securities. With the reiteration of RBI on the implementation of "revitalizing distressed assets", I wanted a perspective on banks' technological capability to recognize asset quality so proactively, and if RBI is considering to allow banks any exemption at the initial phase of implementation? Also your experience with creating Central Registry of Securitisation Asset Reconstruction and the Security Interest of India (CERSAI)?

Dr. Raghuram Rajan: Let me ask Mr. Mahapatra, Executive Director in charge of this process to speak.

Shri B. Mahapatra: Let me reiterate what Governor said yesterday in the policy that the framework has been implemented since yesterday. Yes, in the meeting with bankers some of them did express some problem at their end that their systems are not ready; but they will overcome it by giving the data in Excel format and we will accept it for some time. But everybody agreed that it has to be done, and they will do it, may be initially a month or two it may be manual or through Excel format. But they will definitely submit online to our registry which has been set up.

Dr. Raghuram Rajan: So it is underway and while we do not rule out glitches in the short term that we have to fix, I think everybody is onboard and is committed to make this process of revitalizing assets work.

Ajay Massand: Ajay Massand of NITK. My question is regarding foreign bank entry in India. Recently, RBI has allowed foreign banks through WOS mode with the guidelines. Many of the foreign banks are not clear about the near normal treatment to WOS, and few are not happy to enter through this mode. How do you see the foreign banks scenario evolving in the near future, do you see acquisition of private banks as an option for them in the future?

Dr. Raghuram Rajan: First, I do not think there is any lack of clarity on what exactly they are supposed to do both in the wholly-owned subsidiary structure and under current circumstances. I think many of them are adopting a wait-and-watch approach till they are more confident about the way, for example, the obligations of Indian banks on priority sector may change over time. I think at some point we will have to take a view because this transformation to the wholly-owned subsidiary structure is not so much a move based on enhancing or reducing the profitability of foreign banks, but primarily a move to enhancing stability of the Indian financial system. But that said, we would like it to happen on a voluntary basis, and to the extent that there are certain opportunities they can avail of, which we think certainly would be beneficial to the Indian customer, I would very much welcome discussion on those issues. So this is something that we are working out with the foreign banks, and over time we hope more of them, especially the large ones, will voluntarily move into wholly-owned subsidiaries. On the issue of "whether they can take over private Indian banks" this is something that we have said, we will take a look at. Let them first take the first step of moving into the subsidiaries and meeting some of the kinds of obligations and responsibilities that we put on Indian banks. And as I said, the intent is to give them as close to national treatment as we can once they do that. So this is something that we certainly are very willing to take a look at, but I think it is part of the sequence.

Neerav Dalal: Neerav Dalal, YES Bank Limited. Is RBI happy with the extent of debate or economic scrutiny or deliberations amongst the academicia as well as the public at large on the Urjit Patel Committee recommendation of inflation as a choice of nominal anchor for the monetary policy framework or do you think it has been received with a certain amount of *fait accompli*?

Dr. Raghuram Rajan: Let me ask Dr. Urjit Patel to comment on this one.

Dr. Urjit R. Patel: As the Governor has indicated in earlier interactions that there is a fair bit of commentary and debate and discussion going on with regard to the report; frankly, it has been a most informative for us also. As you know, some of the recommendations that were made have been put into place, one or two of them were put into place even before the report came out, and we will take on board all the suggestions and discussions that have taken place. We are internally having a fair bit of discussion on how to take these matters forward, and there is a certain amount of sequencing that is inevitable with regard to something that is fairly complicated, so we will see how it goes. Some of the things will come up much later in terms of implementation, but remember there are about 45 recommendations in the report. Some of them are contingent in nature, for example, we have said that some of the distortions that come in the way of the transmission of the monetary policy need to be addressed to; this is with regard to subvention for agriculture credit for example, that it is imperative that the government sticks to the medium-term fiscal responsibility to create the financial and fiscal space for economic activity and keep the inflation under control. We also need to be cognizant of changes in the MSP because of the food price to wage to overall inflation spiral that comes about. So there is a fair bit of work to do. These recommendations will be implemented at the opportune time.

Bansi Madhwani: Bansi Madhwani, STCI Primary Dealer. The MMDR released yesterday suggests that the negative output gap may be minimal at this stage at around 1 percentage point. Considering this, would this negative output gap be sufficient to set disinflationary forces into the economy for headline CPI inflation to reach around 6 per cent by Jan 2016 or would it warrant more policy action?

Dr. Raghuram Rajan: Let me ask Dr. Michael Patra to answer this one.

Dr. Michael D. Patra: The negative output gap is expected to impact the disinflation process in a way in which we see the trajectory. There are also other forces at work such as the vegetable price softening, the stability in the exchange market for one, and the softening bias in the global commodity prices. There are also risks to this forecast going forward like less-than-normal rainfall or the timing of administered price changes. So, on balance we see inflation moving around this trajectory of 12-month period of 8 per cent and then on to 24-month of 6 per cent.

Ankit Baveja: Ankit Baveja, DBS Bank. Over the last 6 to 9 months RBI has avoided infusion of long-term liquidity through OMOs. Would the RBI look at buy back of T-bills to infuse short term liquidity and it has the added advantage of not affecting the long end yield curve?

Dr. Raghuram Rajan: I do not think it is correct to say we have not done any, we have done some… perhaps that was not the intent. We have done enough consistent with the growth of the balance sheet of the RBI to meet the demand for added currency as well as the need for credit. Now I think that we are not averse to doing more open market operations as and when needed, to meet the required growth in our balance sheet and we separate the provision of short-term liquidity from the issue of the need to grow our balance sheet through more permanent purchase of assets. And we are happy to provide what is needed by the economy given our forecast of growth as well as inflation.

Abhishek Gupta: Abhishek Gupta, DSP Merrill Lynch Bank of America. In order to ensure that the call money market rate does not fluctuate too much above or below the target repo rate, what do you think should be the optimal frequency of holding variable term repo auction? Would the RBI continue to hold weekly auctions or could it even move to conducting daily?

Dr. Raghuram Rajan: Let me ask Michael to take a stab at answering this.

Dr. Michael D. Patra: Currently, the term repos will be held co-terminus with reserve requirement cycles, but we have shown flexibility in introducing longer term repos and shorter term repos. So the use of term repos will be synchronous to the liquidity situation as it evolves, and the RBI has shown that it can devise instruments to deal with liquidity developments.

Arvind Chari: Arvind Chari, Quantum Advisor. Can you elaborate on the likely roadmap towards the desire to lower SLR –is it to do only with fiscal consolidation or also a response to an increase in credit cycle?

Dr. Raghuram Rajan: Let me ask DG Khan to answer.

Shri H. R. Khan: Over time SLR has been reduced and we have built in some flexibility in regard to SLR by providing MSF window, people can go down 2 per cent and use them as liquidity and management tool. Going forward we will keep this point of view. One area which we are working is that the requirement of liquidity coverage ratio (LCR) and how you treat this SLR for LCR. So we will take a holistic view and going forward we will be reviewing it.

Dr. Urjit R. Patel: Just add to that, SLR reduction has fair bit to do with improving the monetary transmission mechanism but not necessarily is it the monetary policy instrument. Basically, if we reduce the SLR the distortion in the system comes down because the banks per force have to hold 23per cent and if we bring that number down it engenders more efficiency in the banking system.

Dr. Raghuram Rajan In short, we will be looking both at the regulatory requirements stemming from liquidity coverage ratio, and we will certainly try and adapt SLR holdings to make it easier for banks to fulfill those requirements, but also we will take a look at the SLR holdings from the perspective of essentially taking away from the capacity of the banks to provide credit and thus distorting both transmission as well as credit flows. So as the government relies less on this and can show that there is a medium-term fiscal consolidation plan with the new government, I think we will be in a better position to take a view on this and make the necessary adjustments.

Alpana Killawala: Inba, can we open up for questions line?

Moderator: Sure ma'am. Our first question is from Naveen Sharma of Bajaj Allianz. Please go ahead.

Naveen Sharma: I wanted to ask you just one thing on the MTM, it has been mentioned a lot in the Urjit Patel Committee report as well, where RBI has raised rates by 75 basis points, it is the Government of India which has paid the price, and the borrowing cost has gone up from 150-200 basis points, while banks they are not raising their base rates, they are not raising their deposit rates. So how do you see this monetary transmission mechanism taking place, because unless that happens, I do not see how the inflation will come down because interest rate will not be working effectively in that manner?

Dr. Raghuram Rajan: Let me ask Deepak Mohanty to answer.

Shri Deepak Mohanty: In terms of transmission the way that we have articulated that from the policy rate changes that is more to the money market and the bond market. But there are lot of rigidities in terms of its transmission to the credit market. So corresponding to the change in the policy rate we do not see that kind of a change happening in the lending side, and as you rightly observed because the deposit pricings are on a fixed interest rate basis, so banks have less flexibility to change the deposit pricing, in the process they are not able to price the loan product the way it would perhaps be desirable from the changes in the policy side.

Dr. Raghuram Rajan: Another way of seeing it is that remember, the RBI cut interest rates in the early part of last year and was following a more accommodative cycle and the banks did not follow as much down, there was some weakening in the lending rates but not a huge amount. Then there was a period in which liquidity tightened tremendously last summer, and again banks sort of held their rate. And of course now after we have raised rates three times, they sort of held approximately where they are. I have said before that it seems to me the primary factor at this point driving rates is inflation- that the banks are unwilling to cut deposit rates from where they are because of the high rate of inflation. But because the deposit rates were already relatively high, and we were lower in terms of the policy rate we have not moved that deposit rate that much. At the same time, I would not say that we have been totally irrelevant in the bank lending; at least now the policy rate is providing a floor which is closer to where the bank deposit rate is, and over time as inflation comes down, monetary policy will gain more traction than it has right now. So I would not completely dismiss our having traction on the credit side, but as Deepak Mohanty said, the traction right now is coming through market interest rates.

Moderator: Thank you. Our next question is from Ram Kumar of Reliance General Insurance. Please go ahead.

Ram Kumar: To conduct an orderly conduct of government auctions, why cannot an element of uncertainty be introduced in the weekly supplies? Perhaps this can be done by accepting greenshoe option of bids in the weekly auction and correspondingly bringing down the supplies in the next week; similar process can be continued week-on-week.

Dr. Raghuram Rajan: Let me ask Mr. Khan to respond.

Shri H. R. Khan: The whole concept of calendar was to provide some predictability and transparency to the market so that investors can plan their investment plan. If you bring a greenshoe option it has some flexibility element built into that, but market will take that greenshoe and the additional amount and bid for that, so that will bring an additional uncertainty. We cannot totally rule out, but for the present we do not think greenshoe option will work in the Indian context till the market matures.

Dr. Raghuram Rajan: The issue of green-shoe options etc. is a matter of active debate in the RBI. These are all issues we keep thrusting back and forth. As and when as Mr. Khan said we feel that we are ready to go forward, we will certainly examine these kinds of things, but these are actively debated.

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

Soumyajit Niyogi: I would like to know in case of El Nino driven low monsoon how RBI will accommodate impact of El Nino – will it be proactive and try to protect from possible spillover or wait as a transitory impact?

Dr. Raghuram Rajan: There are lots of uncertainties surrounding the El Nino issue; one of course is whether El Nino will actually occur; second, if it occurs whether it affects rainfall; third, if it affects rainfall, whether rainfall affects food production; fourth, food production is affected whether that affects food prices. So a whole chain of events have to happen for this to figure squarely in our inflation forecast. And even if it affects food prices, whether that is a transient effect or whether it is a more permanent effect. So I do not think we are going to anticipate what will happen given so much uncertainty and act accordingly. Instead we will see it as a potential risk and we will have to adjust as and when the risk occurs with the knowledge that there are wide bands of uncertainty around the risk occurring.

Alpana Killawala: So we come to the close of this 'Researchers and Analysts Conference.' Thank you very much for participating and we hope you found this useful. Thank you.

Dr. Raghuram Rajan: Thank you.

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