"RBI Post-Policy Press Conference Call"

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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 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. Participants connected to the audio conference bridge may press * and 1 to ask a question. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this 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 Marina. We will have a short statement by the Governor first and then a few questions from Mumbai and go over to the other centers if they have any questions. Governor please.

Dr. D. Subbarao Thank you very much. Once again, on behalf of the Reserve Bank welcome to this post-policy press conference. I am not going to read out a statement this time because I read one this morning, but I just thought I would highlight some of the important things.

As all of you know we have reduced the CRR by 50 basis points from 6% to 5.5% that will pump additional liquidity of Rs. 320 billion into the economy and the policy rates have being left unchanged as before at 8.5% and other rates correspondingly at their respective places. We have also indicated the three considerations that informed our policy decision. First was that the growth is decelerating and growth is decelerating for a number of reasons, global environment and sentiment, domestic environment and sentiment, and of course, the monetary policy tightening that we have done. What I want to emphasise is that the monetary policy tightening that we have done is only one of the reasons for our growth deceleration.

The second consideration was that the WPI inflation is moderating. However, we pointed out that food inflation is mainly responsible for that, particularly seasonal factors in food inflation. Even in food inflation, vegetables are playing a big role. The food articles inflation between November and December has come down from 8.5% to 0.7%. That is very dramatic. That if you knockout vegetables the decline is quite modest from 8% in November to 7.1% in December. So, first, food is a big factor in WPI inflation coming down and vegetables are a big factor in food inflation coming down. But other components of inflation, non-food manufacturing inflation is still elevated.

Momentum indicators – we have done some internal analysis of that. I am told that there is no unique way of estimating the momentum indicator and different people have come out with different estimates. But within the RBI our estimate is that the momentum indicator of non-food manufacturing inflation, this is three-months rolling month-on-month average, seasonally-adjusted, that is either flat or very slightly coming down. That's why you would have noted that we have said this has not yet shown a discernible downward trend.

The third consideration that informed our policy is of course the liquidity situation. We have done OMOs of about Rs. 700 billion but we have also drained some liquidity as a result of our forex intervention. So the net impact of these two big things was that there was net drain from the system and for other reasons too there is structural deficit in the system and we thought we should replenish that. So those are the considerations that informed our policy decision.

As has become standard practice by now we have also given guidance. I do not want to go into that as that takes longer than normal. In fact the recent policy document is slightly longer than the previous ones. It is because, among other things, the guidance is longer. I want to anticipate - raised one question and answer it- because in this way I'll have an opportunity to answer it more clearly, which is that is this a reversal of our policy stance? Now I would just want to get some conceptual basis clarified. If you treat both the policy interest rates and the CRR as both monetary policy instruments you could draw one interpretation that this is a reversal of policy stance. There are some purists who believe that the CRR is a pure liquidity instrument and the policy rate alone is the monetary instrument then of course this is not a reversal. What is the Reserve Bank's view, we are on the record having said, that the CRR is a monetary policy instrument with liquidity dimensions. After all, the CRR will bring down the cost, the reduction in the CRR will bring down the cost of money to banks, so we will have an impact on the cost of money to them and on their ability to reduce the lending rates. We have also reiterated more than once in the statement that the policy rate hike has peaked and that the future course of action is for the rates to come down but I also want to emphasise the caveats there, once again in this press conference, which is that it's difficult to predict at this point of time, the pace, timing, and magnitude of the policy rate reduction. It will depend on a number of factors including the core inflation, credit growth, the rupee exchange rate and most importantly the fiscal deficit which we have emphasised in the statement.

The last thing about the policy statement that I want to say which we have explained again but just wanted to point out which is that we brought the growth estimate down but we left the inflation estimate flat so a question could legitimately be asked how do you explain this? We have explained this in the policy document, we have explained this in my statement this morning. Once again that is due to two reasons, one is the depreciation of the rupee which is slowing the adjustment of inflation to slowing growth and the second is the suppressed inflation particularly in petroleum product prices and coal prices. We want adjustment in those prices to take place. Don't read the signal that we have any inhibition or any disinclination towards that, it is just that we have to be alive to that possibility. Then, we had a meeting with banks this morning and you interviewed them before we came in. They have given you their take on the CRR cut but what they told us was that this will certainly improve their ability to lend to productive sectors of the economy and that the cost of money to them will come down and they will be able to pump credit.

I also want to point out something that we discussed earlier on which is that the interest cost in the total cost of any production is relatively small so it is more a matter of sentiment rather than actual economics, so economics are important but sentiment is even more important so I do hope that the CRR cut will have some positive signals there. Second, we discussed the implementation of Basel-III with the banks. We have put out draft guidelines on the December 30th and some of those implications for banks were discussed and Anand Sinha told them that we are going to disseminate Basel-III through 5 seminars across the country, meeting not just the CEOs but the operational level people in the banks, because I am told that this is a very voluminous document, very forbidding, just to disseminate that to them and reach some understanding on the practical implications of rolling this out. We also hope to get an accurate indication during this exercise of the capital requirements of meeting Basel-III. That is the second thing. Third we discussed hedging by the corporates and the banks of course told us that whether to hedge or not, how much to hedge is decided on a case-to-case basis as part of a loan deal while our view was that it cannot be left entirely to the corporates to decide, the banks must have a policy on it and in the course of the next week or 10 days we will issue some guidelines to banks, but the main thrust of those guidelines will be to say that the banks must have a code determined policy on hedging of foreign exchange exposure. Then we talked about the financial stability report that we put out around Christmas last month and the state of the non-performing assets across sectors, across geographies in the country and Dr. **Chakravarty** and Anand Sinha have agreed that in the next one month they will have a meeting with about 10 large banks to discuss the NPA situation and see what measures have to be taken by the banks, by the Reserve Bank, by the state government, by the central government to ensure that the profitability and the viability of our banking system is intact as it is now.

Finally, we talked about the government borrowing requirement, the additional requirement, Khan told me, is about Rs. 700 billion in the rest of this year until mid-March, by way of G-Secs and about Rs. 500 billion by way of T-Bills and there will be additional borrowing by the state governments, Rs. 250 billion by the state governments and banks said that there will be no problems but they also urged us that we must manage liquidity. Our projection on that was that we will manage liquidity to see that there is no structural deficit but we will have to see how the CRR cut will shape up in terms of liquidity over the course of next one month or so. That is all I have to say. Thank you very much.

Alpana Killawala We already have questions of Anoop, Anirudh , Lata and Shobhana.

Anoop (Bloomberg) Early 2010 when the global economy was still recovering from the financial crisis we were fighting inflation and RBI had to raise interest rates. So going forward do you think that the rate action might be delayed to avoid any such confrontation situation that might arise from the rate actions, from the rates cuts subsequently?

Dr. D. Subbarao I did not understand what happened in 2010?

Anoop While the world was still recovering from the financial crisis and we were already fighting inflation. So just to avoid a similar sort of situation will the RBI's decision be more with a deeper sense of what might happen after the rate actions?

Dr. D. Subbarao Oh most certainly. First of all even in 2010 we did take into account the implications of the rate cuts and we have gone into that before about why we went through baby steps and long lists, long-series of small steps but we do take into account the future implications of our actions and certainly we are becoming increasingly sensitive to what is happening around the world too, which is beyond our control so certainly we will be very circumspect about how the rate cuts should roll out when they start.

Anoop Second question. Will the RBI continue with the OMO even after the CRR cut to support the liquidity?

Dr. D. Subbarao Yeah, I thought I just answered that, the answer is indefinite. We will look at how the CRR reduction goes out and we will look at the borrowing program and only if necessary we will do OMO, we may not do OMO but it is too early to decide that.

Anoop Thank you very much.

Anirudh Governor good afternoon this is Anirudh here from ET Now This is not the first time you have mentioned the importance of fiscal consolidation to complement the monetary policy, well this time you have actually mentioned in as many words that the absence of deliberate fiscal consolidation will constrain the central bank from actually lowering rates in a much faster pace. If you could give us a further understanding on that - how important is the fiscal consolidation to the whole rate reversal process at this point in time?

Dr. D. Subbarao Yeah I will answer that and maybe I will request Subir to supplement that. Fiscal consolidation has always been important for a number of reasons which we indicated but certainly also from the perspective of inflation management. And we have raised policy rates over the last 2 years as you know and one of the reasons the policy rate raising has not been completely effective was because there was demand coming from the fiscal side so that very important. That's always been important but at this juncture it is even more important for two reasons, one the cost of raising funds and the expectation that we would be able to cut rates in the future so we will look at a number of things but we also have to be looking at the fiscal deficit situation in order to be able to cut rates, in order for inflation to come down on a sustainable basis. The second reason we called attention to the fiscal deficit is because it’s very contextual. The budget is going to be announced shortly in about a month or two months from now and we thought it is very important at this juncture to call attention to it. I believe we are in good time to point this out to the government, of course the government knows and we have discussed this several times but we thought that the monetary fiscal coordination should be brought out in the public. Subir, you have to say something?

Dr. Subir Gokarn We have been in this debate about the importance of supply-side factors versus demand as drivers of inflation and the resolution there is clearly that more capacity needs to be created in so many different sectors to mitigate the impact of the supply bottlenecks to ease them and in that context so rebalancing of demand or expenditure from consumption oriented, particularly if it's public consumption, government consumption to investment, is pretty explicit. So what we're saying is that this rebalancing is necessary to take us to more sustainable growth with low inflation path and that is the deeper point that we wanted to cite in the statement.

Lata Couple of questions, I am Lata from CNBC. I wanted to ask exactly what Anoop also was suggesting. Is the CRR cut a replacement instead of OMO or is it complementary to OMO? You did say that you will like to see that there is no structural deficit. How would you measure that, would you want it to be Rs. 60,000 crore and no more, would that be the acid test?

Dr. D. Subbarao **Rs.** 60,000 is the band that we put out. But what the experience of the last six months has shown is that it's difficult to calibrate it and to operate that band as an iron clad guarantee. So we will certainly watch the situation. I'm afraid I'll will only have to reiterate the answer that I have given earlier, which is, that we will see how the numbers behave and how much the credit demand picks up, which depends on how banks ease and what the sentiment is like, so again I have to say that we will look at the liquidity situation. Only definitive thing I want to say in response to your question is Rs. 60,000 is an operational band, it's an indicative band. We try to maintain it around there but there is no iron clad guarantee. Whether we will do OMOs I do not know because there is some appetite for OMOs also. Banks want to keep some extra SLR for flexible liquidity management purposes. They do not necessarily want to sell it away to us. So we also have to keep looking out for the appetite for OMOs as we plan for them. But I do notice that OMOs this year have gone relatively better than they did last year.

Lata The next question sir is with respect to what you raised and answered, is this a reversal of policy. I didn't quite get what is the RBI's view. Have you reversed the policy clearly? And if you have, then are you not still worried about inflation? You are saying that non-food manufacturing inflation on a three-month rolling month-on month basis has fallen. Now that number is not in the public space. We don't know what that calculation is. But if you look at the manufacturing inflation itself, it is rising and rising at a rising pace. I mean, the rise in November over October was less than the rise in December over November. So there is no real satisfaction or assurance that manufacturing inflation even started to slow, even flattening out is not on the horizon. So how would you answer the charge that you are reversing policy a little too early?

Dr. D. Subbarao First question about 'Is this a reversal of policy?' As I said, in the Reserve Bank's view the CRR is a monetary instrument with liquidity dimensions. So in as much as it is a monetary instrument, it is a reversal of policy. It's a reversal of policy stance, but it is not a reversal of policy interest-rate stance, okay? And to that I add a caveat about when we might or on what basis we might start reversing the interest rate, but the policy stance you could read this as a reversal. The second thing about inflation, we do share your concern, as passionately as you said it, which is that manufactured inflation and non-food manufactured inflation is still high. At 7.6%, it is significantly higher than the average that we achieved, 4 to 4.5% before the crisis.

Dr. Subir Gokarn **The momentum indicator -** it is in the public domain, it is in the MMD chart of 6.9, Page 42.

Dr. D. Subbarao Okay, before you study that I do want to say that different people have different ways to calculating this. It's not unique. So you can come up with a different number even if you are working on the same data, that is why you see some of this investment banks which have put out numbers of momentum. They are slightly different from the number we have put out there. But what is clear from all the numbers is that it is not yet showing a discernable downward trend. That's the bottom line of all the numbers. Then how is the non-food manufacturing inflation going to roll out. I recall, we said in the statement that we expect it to come down but at a slowing pace. That's the calculation at this time in our inflation outlook for the rest of this fiscal year and for next year.

Dr. Subir Gokarn I think, just to go back to the question of stance, the statement we made is that this is a liquidity action which is consistent with the monetary stance which is that for the last two announcements both October quarterly and December mid-quarter, our guidance was that the interest rate cycle has peaked, it was not that the interest rate cycle has gone to reverse and in a situation where liquidity was a significant constraint, we felt that doing the CRR address the liquidity issue to an extent, without compromising that monetary stance which is that it is at its peak. So, on that stance you could say that this is a liquidity action which is consistent with an anti-inflation monetary stance. Had it been a situation where we needed to raise rates, for example, just as a hypothetical, then the liquidity action of this time would have been difficult to justify. So here there is a consistency which in the past there has not been.

Lata Sir, you are calling it an anti-inflationary stance. I mean this Rs 32,000 crores is primary liquidity. At a money multiplier of 5 it will be Rs.160,000 crores in course of time. That is not necessarily anti-inflationary?

Dr. Subir Gokarn No, I think you have to again look at in terms of the benchmark that we have. Our basic notion of transmission is when liquidity in deficit, we feel that transmission is fairly strong. High policy rates tend to translate into high lending rates and what we are doing is basically bringing liquidity to a situation where it is putting a little less stress on the system but remains within that negative boundary so we are not in any way pushing liquidity into a surplus situation far from it.

Shobhna Shobhna from Financial Expresses. Sir you expressed apprehension about government borrowing crowding out private sector borrowing. Where would you like to see the deficit next year if we assume that we grow at about 7% and in that context and we see clearly more pressure on the money market and how much, because in that case rates will not come down?

Dr. D. Subbarao I'm not sure that I want to go on record with a number for the fiscal deficit for next year but before the crisis we went down by I think 2.5% in the last year and the state governments have gone even below that. So that's doable, helped by an external situation. Then it's whatever the number this year, all I want to say is part of fiscal deficit is concerned beyond what we've said in the statement is that it's got to come both from increasing revenues and compressing expenditures. You cannot depend on revenue increase alone, you got to compress expenditures. And we are all mindful of the fact that the discretionary expenditure of the government on which they can impose cuts or restructure is quite limited. So as much as we understand the government's compulsion, I think it's important for medium-term sustainability of the macro economy and for the growth prospects that the fiscal consolidation takes place.

Shobhna Just one question, on the Euro zone since you have expressed ...**(Inaudible)** currency..can you add a little more color assuming that there are problem with the Euro zone?

Governor You mean the rupee?

Shobhna Yes because if the Euro prices continues to weaken ... in terms of lower currency everything will have an impact and global growth is slowing down?

Dr. D. Subbarao Most certainly but we cannot speculate on the currency any way much less in a conference like this but I do note that the Euro has been appreciating in the last few days and so has the rupee and we do hope that there is some resolution of that. What the banks told us this morning, because they do talk to corporates who are also borrowing outside, is that actually the reality of Europe is better than our understanding of it, that Europe's situation is contained for the moment, it is not blowing up. Of course we need to see substantial improvement, substantial progress on resolution but it is not as imminent as the blowup as it looked like around Christmas time.

Participant Thank you for taking my question. My question is, the depression is likely to see more effect on the fiscal side. For the monetary action what would you like to see, what would give you the confidence that the fiscal and monetary policy will starting to work in a coordinated fashion?

Dr. D. Subbarao First of all the fiscal deficit number has to come down, whatever the number. The revised numbers for the current year is not yet in the public domain except that they have said that it is going to slip from the number that they had indicated earlier. I cannot as I said earlier, give a number for what we would like it to be in 2012-13. But it will be useful if they not only give the number for 2012-13 but also a medium-term path for fiscal consolidation which would include elements of revenue augmentation and expenditure compression. Beyond that, I would take that it will be even more credible if they indicated what would be the lines on which expenditure compression would take place. Just as we know that on the tax side, there is the DTC and the GST. If on the e expenditure side too, we could go one step further and say that look we are going to bring expenditure down by 1% or whatever and that is going to come from this and if there is sufficient focus on quality of fiscal adjustment, not just the number, but on how the expenditure restructuring is going to take place from as we said in the statement, from consumption to investment and public to private and those two things have to take place. So if the government goes beyond the number and gives details about how the number is going to roll out next year and beyond, I think that will be very credible not only for the Reserve Bank certainly, but for all those people who are planning investments in India.

Participant There is one follow-up question about what is the more accepted path for consolidation you said that you guys started talking how they are going to start cutting deficit and best way to do that? If you can just give a little color about how they are going to do actually ?

Dr. D. Subbarao Within the budgets or outside, I think the government will have to give an indication of their constraints and their opportunities for fiscal consolidation. Some of the large expenditure items in the budget, as I said earlier, are nondiscretionary. Like salaries, pensions, interest payments. So the government can put out what the discretionary expenditure items are and how they are going to roll out next year and beyond. So that the fiscal deficit numbers which are contained in the medium-term plan are actually fleshed out in some detail about how they will actually be materialised and that will be very credible. I would not have said that if I was in the government.

Diana Monteiro Good afternoon. Diana Monteiro from Bloomberg UTV. I had two questions. Firstly external debt has risen to about $320 billion and on the other hand you are looking at Forex reserves that the RBI has is around $290 billion. How big a concern are these two and secondly the fact that in second quarter earnings as well as third quarter earnings, the biggest negative would be Forex losses. So in light of that, what would be basically the bank's role over here in taking care of companies which have larger exposures to FCCBs, ECBs and even mark-to-market losses or even foreign exchange?

Dr. D. Subbarao It is true that external debt is what, about $320 billion I think. It is higher than our reserves and we are keeping track of that. It is within safe limits, although it has gone up in the last few years. Subir just told me that we also have to look at the composition of the external debt. Regardless, the aggregate number at $326 billion is higher than our reserves. So on the one hand, external debt has gone up our cash reserves have come down. So the indicators turned adverse. We do have to be mindful of that, but I do not want to say that there is any great concern about that.

Dr. Subir Gokarn The usual criteria for reserve adequacy is the sum of the current account deficit and the risk debt obligations of residual maturity less than one year. So that is basically covered. So based on that criteria with some cushion that we are well covered with . The 326 represents debt of all maturity, much of which is quite long term. So it has only come into the adequacy calculation.

Dr. D. Subbarao I would request Chakrabarty to answer that question on forex exposure.

Dr. KC Chakrabarty Regarding the forex exposure of the corporates, banks are in the business of managing the risks. When they provide the funding to the corporate, they must have taken care of what is the risk mitigation measures which the corporate are having. So we feel that bank should not be affected even if the corporate profit goes down, but as and when the situation evolves, we have to look into that. At present, banks have not come with a big problem on this issue but we hope that banks will be able to manage that situation. If some restructuring is necessary, some other relief is necessary that will be considered on a case to case basis, but we do not see a major problem at present.

Mayur (Times of India) Sir, the rupee has firmed up now. So what sort of stability are you looking at before you remove the restrictions on the trader? **Dr. D. Subbarao** I do not want to speculate on that. It is not even clear that they are temporary measures. So we will decide on that, but it is not on our radar at the moment. The administrative measures that we took before Christmas, do not be under impression that they are temporary measures.

Mayur And sir, you said sometime back that the chances of global shock from Europe look far more remote, so are you expecting that in the next fiscal, nothing, there won't be any impact?

Dr. D. Subbarao No. Far from that. What I said was what the banks told which this is second or third hand transmission of information. The corporates who told banks, banks have told us which is what I am telling you. So they may some distortion in all this. What they really are saying is that may be the reality is slightly better than our worst fears, that European situation is disturbing, but it not explosive like we feared around Christmas time, but I do want to say that in the Reserve Bank we are keeping track of, to the best of our ability, about what is happening or not happening in Europe, also about the exposure of our banks and our corporates to European debt and to our short-term debt and trade credit and all that. So we are monitoring it to the best of our ability.

Moderator We have a question from Sunny Verma from the Financial Express. Please go ahead.

Sunny Verma Good evening Governor. I just wanted to ask you that you just mentioned that banks are adopting a case-to-case approach on hedging their forex exposures. So given the volatility that we have seen recently in the rupee, why do not you make it mandatory for banks to hedge their foreign exchange exposure?

Dr. D. Subbarao The reason we do not want to mandate is because we moved away from micromanaging banks. We want banks to take a decision themselves. So far we have used moral suasion. Sometime next week or in about 10 days from now, we will issue our guideline about banks having to consult their boards for well-considered policy on hedging by their corporate borrowers. Even now we have asked banks to report, for reporting purposes, all loans of over $25 million, whether they have been hedged or not to what extent. That reporting is under process and progress now, but what will happen 10 days or 2 weeks later is that we will mandate only to this extent, mandate banks that they must go and get a policy approved by their boards on hedging of forex exposures.

Sunny Verma Sir is there any estimate of the amount of exposure that Indian corporate and banks have to the European banking system?

Dr. D. Subbarao There is some rough estimate. The BIS put out some numbers and we have tried to to disaggregate those numbers. To the Euro zone, if we exclude UK, Switzerland, Sweden etc., I believe it is about $60 billion, the Indian exposure to European banks. That is the number.

Moderator The next question is from Prithvi Durai from Newswire 18. Please go ahead.

Prithvi Durai This is Prithvi from Newswire 18 sir. Sir just wanted to ask with so many OMOs happening, do you think the RBI has become the debt fund manager of the government to some extent?

Dr. D. Subbarao **No,** we have not become the debt fund manager of the government. Actually if you look at it, there has been some structural liquidity deficit and we are giving money to the system now, but there is no reason why banks should have lend to the government and not lend to the corporate sector. If you see the incremental credit to deposit ratio has come down, incremental investment to deposit ratio has gone up. So banks are choosing to invest in government securities rather than lend in the private sector. It has nothing to do with what the Reserve Bank has done or not done. I will also go a step further and say that indeed between the OMO and the CRR, the CRR is most broad based in the sense that it does not have a bias towards the government or the private sector. So to that extent, any further doubt that the RBI is a debt manager or is managing the monetary policy for the purpose of managing the debt of the government is incorrect.

Ritesh Good afternoon Governor, Ritesh here from Zee Business. Sir three questions. **First thing the downward revision of growth that you have done, behind that you have given so many reasons like uncertainty in Europe, and worries about inflation and domestic fiscal deficit** but given the current situation and uncertainty with 7% down side risk are you seeing 7% as a number and there is no downside risk to that in the current context. Secondly sir, regarding NPAs you have talked to bankers and you have raised points and even in the policy document you have noticed this change and earlier also you have talked about this. Are there any particular sectors where RBI is uncomfortable, because when we discus with the bankers they have few particular sectors where they are uncomfortable, but what about RBI? Is there any particular sector where RBI is uncomfortable?

Dr. D. Subbarao For the first question on downside risk to growth, yes there is downside risk to growth there is probability distribution of the growth. So there is downside risk to growth and that will arise from both domestic factors and external factors. External factors, we know the Euro situation and domestic factors, there should be increase in credit and inflation should come down and most importantly, I think investment has to pick up. If investment does not pick up, our growth prospects both in the short term and the medium term will be threatened. About specific sectors of NPAs, I will ask both Chakrabarty and Anand to please respond.

Dr. KC Chakrabarty We do not have any particular as of now the sector specifics concern. If we analyse the NPA pattern of the banks, you see, even the gross NPAs which was about 2.26% in 2007, this is today 2.8%. If we see sectoral variation, it varies from something less than two say 1.5% to 3.5% in iron and steel or textile. Now the segments which are most talked about and I must say specifically telecom, power, Discoms. Believe me the NPAs you see for example power what is reported NPA is 768 crores out of the portfolio of 2 lakh 68,000 crores. So we do not have any concern, but even we take into the restructuring advances, even in the worst downturn, as of today, the restructured standard asset which is a disclosure in the balance sheet, we see only 1 lakh some 12,000 crores and that has mainly happened in the infrastructure segment and that is not because of credit risk, there are many other project implementation risks that are involved. So as of now, we have no concern, but we have concern how the message is going from the media, from the analysts, from the banks, for us. So what we are trying to do as Governor indicated, we want to make a sense with the banks, get more granular figures, see what is the possibility of restructuring, what we need to do, so that at least communications should be effective. As of now whatever the figure is reported, we do not mind that we should be worried, we have done a stress test in the financial stability report where also we have said if the 40% of this restructured assets become NPA, what will happen what we say yes, profit of the banks will come down. So as of today, we do not have any specific concern as of today.

Ritesh But sir the kind of restructuring numbers are coming out and the kind of CDR request banks are seeing from corporates, is RBI worried that somewhere down it could be a **red flag** for the system as a whole?

Dr. KC Chakrabarty See we have reasons to worry all the time. We are dealing in financial matters with the financial institution. So it's not like that with us. Mr. Governor has numerous worries all the time. We have worries but we don't think in a manner that, because of that there will be a big disaster. At this time, whatever data is available with us and whatever banks are telling us, accordingly we believe. But we want to know there should not be any disaster. That is the reason we want detailed information and for that reason we will complete the dialogue with banks at the end of this month.

Dr. D. Subbarao I just want to add to that. Dr. Chakrabarty has given the aggregate numbers and of course there is no cause for alarm, but there is certainly cause for being more attentive. But I do want to say that we discussed the power sector in the morning with the banks and in certain states, the discoms are not able to service the debts. Banks have suspended the lines of credit or whatever and those Chief Ministers have written to us to intervene in the matter. I am answering this question only to put forward the Reserve Bank's position in this which is that whether banks continue to lend or stop lending the discoms and on what basis is a matter between State Governments, if there are private operators between them and the banks. The Reserve Bank, we have said that, does not want to intervene in the matter. It is for the banks to take a business decision and what banks have told us is that in certain states, the governments, the Electricity Boards have come up with a credible plan for restructuring and for servicing the loan in which case they have resumed the loans and in certain states that has still not happened and therefore they are having to continue suspend the lines of credit.

Nilesh Good afternoon, this is Nilesh from Star News. Sir what we are seeing that traders have made their own coins of Rs. 1 to Rs. 2. They say they are doing this especially because of the lack of coins they are making their own coins and that they are using for trading. Does RBI know about it and what kind of action RBI can take regarding this? Secondly, what is the reason for lack of coins?

Dr. D. Subbarao For the first question, we have also seen the reports in the newspaper yesterday. Some markets in the Mumbai are making coins on their own. This is an offence under the Coinage Act and we have asked our Mumbai office to enquire into it and take appropriate action including also reporting the authorities. We got to first verify what's happening because it is a newspaper report at this time. So we will verify that and if that is indeed correct, those people who are behind it are liable under the Coinage Act and we have asked the Mumbai office to take care of this.

Dr. K C Chakrabarty We want to say that whenever any complaints come to us we express this concern to currency chest of banks and the office of Reserve Bank and look into the matter. There is no shortage of coins. As of today all the branches of Reserve Bank and main branch and currency chest in that there are around 1.5 million coin is there. But it's the question of distribution. India is a big country. There could be problem in distribution. The second thing what Mr. Governor has said we have made a committee to ascertain the reason for this problem in the long-term.We have released around 12 million coins so after that where does the coin go? The average age of the coin is 10 years. Whenever we receive such complains about lack of coin we try to address that and we have coins to fulfill that demand. We can't give you any guarantee in such a big country, sometimes banks do not want to give coins. So for that reason the customer can have problems but we don't believe that we have shortage of coins.

Nilesh Thanks sir.

Tanushree Mule Mr. Governor, Tanushree Mule from Business World. In yesterday's Macroeconomic Developments , you have talked about 43% dip in investment in new projects by corporates and 70% dip in outlay of financials of project sanctions by banks and FII. How big a concern is this one and two, how long are you going to take for this number to be at par with the last years' number?

Dr. D. Subbarao It is a big concern. I wish I could put a number, but it is difficult. We have pointed that out in the survey yesterday and in the policy document today that by far the biggest concern is a sharp decline in private investment. The gross fixed capital formation which was I think 10.7% in the first half of last year has dropped to as low as 3 odd percent this year. So it is a very significant drop. As I said a number of factors are responsible for this and the monetary policy tightening is only one of them. So it is a big concern. How long will it take, the Reserve Bank is not in the front seat in terms of driving investment, but we do hope that investment will pick up sooner rather than later because this is important for growth purposes. It is also important for inflation purposes because we got to get the supply response in the economy going. So I wish it takes place very soon and beyond that I cannot really put a timeframe on this.

Pradeep Sir you told that you talked with banks about hedging with their corporate clients, so the ECBs or FCCBs of the corporate clients will be covered in that?

Anand Sinha Whatever foreign exposure is there and there is no natural exposure of that, so whatever unhedged part is there that will be covered.

Pradeep Sir in that case did you try to understand that with this how much cost will increase and what is your concern behind this step? Is the risk of companies increasing these days what we are seeing or is it the overall loan, mainly short-term loans is increasing a lot, and that you said in yesterday's document you are addressing that.

Shri Anand Sinha See the hedging policy or this kind of prudential requirement is not made by seeing the current cost. This is made on the ground that if there is any tail risk or a lot of adverse movement then what will happen so to contain from that we make this policy and it does not mean that it should be 100% hedged. Everyone has their own capacity so banks will have to take care of that, that if they give loans to corporates so their unhedged position how much will they allow in their estimates, how much he will be able to absorb. They have to price that risk. So what we want to say is that banks should not leave it to corporates to hedge whenever they want or when they don't want. They should have one overarching policy so that it can contain the risk because whatever happens to corporates will impact banks. So it's not micro We are not laying down, we could very well mandate. We are not mandating anything.

Pradeep You are taking this step to protect the company's balance sheet or for your concern that the foreign debts are rising and you are trying to contain that?

Shri Anand Sinha Banks are our concern. We want to protect banks' balance sheet and it will be protected when the corporate's balance sheet will be protected.

Parnika Good afternoon sir. This is Parnika from Business Standard. Sir you said that in the next financial year, domestic economy will exhibit a modest recovery with growth being slightly faster than that during the current year. What makes you say that, which are the areas that expecting this hike?

Dr. Subir Gokarn We do see some as we have been saying that the moderation in inflation over the course of the year does create some space for the monetary cycle turning. It is a conditional statement. It is based on some expectation of various factors happening, many of which we have listed and that will then stimulate an investment revival. We are making an assumption of normal monsoon of course in that forecast and so agriculture remaining on trend. So it is preliminary assessment of the growth momentum or the growth performance of the next year and of course we will make a more formal and more detailed assessment in the April policy as we normally do, we put out the specific number, but for at this point we see that this current growth momentum is suggesting some sort of bottoming out and some may not be seeing explosive recovery, but moderate recoveries.

Parnika Sir when do you see the growth kicking in?

Dr. Subir Gokarn I think that is bit too premature a question to answer. We normally do a very detailed growth assessment in the April policy I think will come out with a more specific number then.

Gopika Governor, Gopika from CNBC. Sir in the past policies, we have noted that RBI makes its stand clear on whether it is comfortable with the policy transmission that is happening through banks. Considering that banks have not passed on the rate hikes which were happening in the past two policies and there is no clear signal from the bankers even today whether they will pass on this rate cut and there is some banker saying they may wait till March before they could pass on the rate hikes. Are you comfortable with the kind of transmission that is happening. Is this along expected lines?

Dr. D. Subbarao I would say yes. There is no cause for complaint on monetary policy transmission. As we have indicated in the document, banks have responded by raising their lending and deposit rates in response to our tightening and with some lag, I am sure that they will respond to this cycle if and when it stops, including what we have done today. So we do expect that lending rates will come down, but I cannot speak on behalf of the banks, but on behalf of the Reserve Bank, I want to say that there are no big concerns about monetary policy transmission.

Dr. Subir Gokarn I think it is important to look at transmission on two dimensions. One is pricing, the other is quantity. Now when we see credit having slowed down and come below what we had projected in the beginning of year, that is also an indication that banks are not passing credit into the system which is again a fact of that impacts on aggregate demand which is what we are aiming to control. So both pricing and quantity have to be taken into account.The fact that prices have not gone up, perhaps suggest that banks are no longer able to exercise pricing power as far as their lending is concerned. In fact when you look at financial flows as an aggregate, beyond the banking system, there is actually a net decline so that is really an indication that is consistent with the slowing growth momentum and so on which we have sort of taken into account when we have framed our policy position.

Shaumik This is Shaumik from Reuters. Question to the Governor, I just wanted to know any steps that the RBI is considering for the Iran Oil Payment issue?

Dr. D. Subbarao No, we have some arrangements in place, and they are working fine at the moment and we are also exploring other options, but I cannot really discuss them.

Lata Sir some banks have been saying that they want SLR status for the loans given to Air India **be** converted into bonds that is one of the projected packages. Would RBI be comfortable with that?

Dr. D. Subbarao No, we will not be comfortable with that.

Lata FX flows because of the deregulation of NRE deposits, any estimates on them? It is now over a month. I think you did it in the third week of December. You have a month gone by, any estimates at all because it was sold by banks with much hoopla.

Dr. D. Subbarao **W**e cannot say. We do not have a number, but I have asked the banks this morning. They have said that there is a discernible improvement in NRI deposits and also on remittances, so they have got nothing to do with our policy calculations, but we want to wait and see whether it is a one-time flow or whether it will sustain and it is too early to say, but we are watching the numbers and certainly if you look at the balance of payment numbers on the finance side, there has been an improvement with more than expected flows under both NRI and ECBs.

Aparna This is Aparna from NewsWire18. You have put a lot of weightage on the fiscal consolidation for your monetary policy measures especially on the rate side going forward. Would you be content with just an indication from the Finance Minister that they would be decisively on the fiscal consolidation path or would you want the government to have a tactical plan to reduce the fiscal gap? **Dr. D. Subbarao** It is not the question of my satisfaction as such, but I think beyond the number, there has to be some strategy backing up that number. That is not only for convincing the Reserve Bank, but for convincing everyone around that the fiscal consolidation strategy is credible.

Aparna And you did say some time back that banks are choosing to invest in government securities there is no reason for banks to give credit to government and not give credit to corporate. Has the RBI considered a cut in SLR?

Dr. D. Subbarao I cannot speculate on that. We have not done cut in SLR that is all you know. Thank you very much. There is one other thing which I forgot to mention which is that with the bank, you can take notes of this. With the banks, we also discussed Stephen Leacock's essay, My Financial Career. So you can all take it and read it. My Financial Career by Stephen Leacock they come in the context of financial inclusion, servicing the clients and so please read that.

Alpana Killawala Thank you very much. Over to you Marina.

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