"RBI Post Policy Press Conference Call"

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MODERATORS FROM RBI

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Moderator Ladies and gentlemen, Good Day and welcome to the Reserve Bank of India's post policy conference call for the media. As a reminder, for the duration of this conference call all participant lines will be in the 'listen only' mode and there will be an opportunity for you to ask questions after the Governor's address and during the conference call. Participants connected to the audio conference bridge may press * followed by 1 to ask a question. Should you need assistance during this conference call, please signal the 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 Rochelle. Welcome to this press conference. I will straight away request the Governor to make a statement.

Dr. D. Subbarao Thank you Alpana. Once again, on behalf of all of us, welcome to this post policy press conference. You know that we have changed some of the processes governing this policy review. So I read out a statement in the morning but Alpana insisted that I must make another short statement now in order that we all warm up for this conference. So I have a short statement for you which I will read out.

As you know by now, this morning, we raised the repo rate by 50 basis points to 8%. Consequently the reverse repo rate moved to 7% and the MSF rate to 9%. This policy decision has been formed by two broad considerations. First, demand pressures have remained strong. As we indicated in our May 3 Policy statement, inflation was expected to remain elevated in the first half of 2011-12. Actual inflation so far has been even higher than expected. In particular, non-food manufactured product inflation has been significantly higher than the average of 4% over the last six years. Crude oil prices remain volatile and are a major risk factor. The recent increase in domestic administrated fuel prices and the minimum support price for certain food items will also keep inflation under pressure.

The second consideration that shaped the policy decision, is that there are signs that growth is beginning to moderate, particularly in respect of some interest rate sensitive sectors. However, there is no evidence as yet of a sharp or broad based slowdown. Several indicators, such as, exports and imports, indirect tax collections, corporate sales and earnings and demand for bank credit suggest that demand is moderating but only gradually. Although the impact of past monetary policy actions is still getting transmitted, considering the overall growth inflation scenario, we determined that it is necessary to persevere with the anti-inflationary stance. The expected outcomes of today's policy actions are the following:

First, the cumulative impact of past actions on demand will be reinforced. Second, the credibility of the commitment of monetary policy for controlling inflation and thereby to keep the medium term expectations anchored will be maintained. And third, the policy actions will reinforce the point that in the absence of complimentary policy responses on demand and supply sides, stronger monetary policy actions are required.

As regards guidance for the future: Going forward the monetary policy stance will depend on the evolving inflation trajectory which in turn will be determined by trends in domestic growth and global commodity prices. A change in stance will be motivated by signs of a sustainable downturn in inflation. The May 3 policy statement projected baseline real GDP growth for 2011-2012 of around 8%. This was based on the assumption of a normal monsoon and crude oil prices averaging $110 per barrel. Subsequent data suggests that this projection remains valid. Therefore, the baseline projection for real GDP growth for the current year has been retained at 8%. Our baseline projection for WPI inflation for March 2012, as per the May 3 statement, was 6% with an upward bias. At that time we had indicated the upside risks to the inflation outlook. Some of those risks have since materialised. Keeping in view the domestic supply-demand balance, global trends in commodity prices, and the likely demand scenario, we have revised the baseline projection for WPI inflation March 2012 upward to 7%. Let me reiterate what we said earlier which is that inflation is expected to remain elevated for a few more months before moderating towards the later part of this year.

The risk factors to our indicative projections of growth and inflation are the following: First, uncertainty about the future path of global commodity prices, especially of oil. Second, uncertainty about capital flows in the perspective of financing the current account deficit. Third, risk to food inflation stemming from monsoon performance, higher minimum support prices and inadequate supply response pertaining to protein rich items. And finally, significant upside risk to the projected fiscal deficit for 2011-2012 as the fiscal deficit has been a key source of demand pressure.

The Reserve Bank is strongly of the view that controlling inflation is imperative both, for sustaining growth over the medium term and for increasing the potential growth rate. This is a critical attribute of a favorable investment climate on which the economy's growth potential depends. Fiscal consolidation can contribute to a sustainable growth path by re-balancing demand away from government consumption and towards investment. The Reserve Bank's efforts of achieving low and stable inflation could also be supported by concerted policy actions and resource allocations to address domestic supply bottlenecks particularly in respect to food and infrastructure. The challenge for the government and for the Reserve Bank is to ensure that demand is constrained in the short term to bring inflation down but to encourage supply response so as to expand potential output of the economy in the medium term.

You know that we had a meeting with bankers following the policy announcement. At this point of time, (Let me take) 2 minutes to give you a gist of what we discussed. I know that the bankers came and spoke to you an hour ago.

On the policy rate hike impact on cost they said that it is going to be challenging in determining their response but they also told us that the response would be more rapid than in the past. They told us that the NPAs might come under stress especially in some interest rate sensitive sectors but they also told us and it is our understanding that there would be no systemic risk. Beyond the immediate policy issues we also discussed some issues of mutual concern that will be of concern to all of you too.

First about financial inclusion, which as you know, has been a priority item both, for the government and for the Reserve Bank. As we started driving the plan and as we started visiting the states, we are now encountering more practical problems, such as, division of villages, sharing of villages or sharing of the inclusion plan across banks and how state governments could possibly streamline this approach, especially in the context of the UID coming in now. And one of the questions in the UID, at the time of enrolment is, whether the enroller would like to open a bank account as part of that enrolment process.

Then we talked about the capital planning requirement in the context of Basel III. It was agreed that this is going to pose exacting requirements for the banks both, in planning, in the first instance, and then in mobilising the required capital. And of course, this will be a challenge for the government in terms of meeting the financing needs, capital needs of the public sector banks. I understand the government has already called for information from each of the public sector banks about their capital requirement in the context of Basel III. We, in the Reserve Bank, will also consolidate the requirements of both, public sector and private banks', requirements over the next three years or next five years and then see what sort of a challenge we collectively have in this regard.

The next item we discussed was about liquidity and instruments to increase the depth of the government debt market. You all know the issues that came up were quite predictable. Of course, the short term issue was the movement of the yield curve but the longer term structural issues were reducing the number of securities that are out there and increasing the weighted average maturity of the G-Secs. But towards the end, much of the discussion was on inflation indexed bonds that we have been talking about with the government and with the banks for quite some time now. I understand that the initiative to introduce inflation indexed bonds in the past has not been successful. Also banks told us that there is not much of an appetite for floating rate deposits and by extension there may not be much of an appetite for inflation indexed bonds. But our view is that we have to test this once again. There might be a tipping point. Something that did not work in the past might well work now because conditions have changed. So we will have to take a view on that.

Finally, we talked about an issue that we talked with you too, which is about de-regulation of savings bank deposit rates, interest rates on savings bank deposits. You know the pros and cons of that. We have put out a discussion paper. Several people wrote in the media about the pros and cons of that. The main concern of the banks we talked was about the additional problem it might cause in terms of their asset liability management. While banks said that that is a problem, they also said that there could be concerns about how this might impact low income savings bank account holders whether it might actually militate against their interests. So we will take this morning's discussion and whatever further feedback we might get in course of time before reaching a decision on that. Anticipating a possible question, when do we reach a decision on that, (let me tell you) it is not certain but perhaps soon enough. Thank you.

Ritesh Governor, Ritesh here from Zee Business. If we read your policy carefully we tend to see a lot of negative points and it sounds that RBI is more on emphasising negatively about the state of economy be it in upward direction of inflation or downward revision of M3 and credit growth. You also mentioned about moderation in growth in Q1 numbers and also the uncertainty about the monsoon. So in this full context nowhere is anything said about downward revision of growth. That RBI has not done any downward revision of growth. Apparently the professional surveys of RBI also say that the revision downwards that has come, but in its policy RBI has not done a downward revision. And second thing on Page #7, Para 40, it said under the inflation there is one off factor, if you can clarify what is one off factor?

Dr. D. Subbarao Thank you very much for that question. Although you have mentioned negative items that the overall stance and thrust is negative there are positive sides to the current macro economic situation and we did say that. First of all we have to understand that certain moderation in growth is an inevitable price we have to pay for bringing down inflation in the short term but it is something that will make growth in the medium term sustainable. We said that before, we are saying that again. On a more specific response to your question about growth, why we did not reduce it further from 8% which was our forecast last time around…first look at it from the demand side. Private consumption is quite strong. The recent consumer expenditure survey shows that wages had gone up by 20% last year as against consumer price inflation which is less than 10%. So because the wage grows faster than price rise, people are able to buy and there is demand of private consumption as well. Government consumption is largely insensitive to short term movement in interest rates and fiscal deficit will be there providing the demand. Net exports are doing well. We have of course flagged that as a risk factor but it is doing quite well. Only thing that is affected is investment. Of course, investment must pick up for the supply response to come in but if you look at growth from the demand side, three of those four factors are doing quite well. If you look at it from the sectoral side, agriculture, last year the growth was good, this year on a high base growth will be lower than it was last year but rainfall so far has been reasonably okay - just 1% below long period average. IIP was 5.7% for the last April-May;

but again, as I said in the statement just now, several positive indicators - tax collection, non food credit growth, capacity utilisation, imports and exports, they are all holding up. Margins have been hit but again, modestly. Services sector is doing quite well. So that is a long answer to your question about why we did not peg growth lower than 8%.

Dr. Subir Gokarn Can we answer the second question? In April the index number for crude petroleum was raised by 35% because obviously an adjustment to past price increases which had not been factored into the index value. So just that one adjustment revision actually added 40 basis points to the inflation rate and since that number will now provide the baseline compared to last year, that is the one off factor that is impacting the inflation rate.

Latha Venkatesh Sir, the sentence in your monetary policy stance. You have said "manage the risk of growth falling significantly below trend" What is RBI's definition of significant? Is 7% significant, 7.5% significant, sub-7 significant?

Dr. D. Subbarao I wish I could be as precise in the answer as you have been in the question, I clearly cannot say that precisely. We have had a lot of debate internally and I believe there has been some debate in the public also about what are trend growth rates, I would not just term potential growth but what the trend growth rate is. In our annual policy statement two years ago we said that the trend growth rate was about 8.5%. Because of the crisis, because of the capital destruction that had taken place in advanced economies, and because this is a globalised economy where we have trade and financial links with the rest of the world, potential growth rate for India also could have come down. So we need to make sure that to bring inflation down, growth is around potential. Our document that we released yesterday, Money and Macro,that said that put trend growth at about 8%. So we believe that if you are growing at around 8% we can manage inflation. But going forward we need to expand potential output in order to ensure that growth is non-inflationary.

Latha Venkatesh My question was not on what is potential growth. That was second question actually since you answered it. But what you are saying in your stance is that one of the objectives will be to manage an interest rate environment that anchors moderate inflation. And the second objective is managing the risk of growth falling significantly below trends. What we want to understand is, when does the RBI worry about growth? What would you construe as a significant fall of growth?

Dr. D. Subbarao Well, I just want to reassure all of you that growth is never far away from our policy radar screen. We always are concerned about it but we have to be aware of the balance between growth and inflation. Growth falling significantly below trend, as you say, if we consider at 8% having the trend growth rate, and if consistently growth falls below 8% then perhaps the balance would shift but I also want to say that as soon as the first number comes below 8% balance is not shifted. It is got to be significantly and consistently falling below that.

Dr. Subir Gokarn

Just looking at recent history, the worst growth rate we have had in the depth of the crisis is 6.7% for annual and quarterly 5.8 but annually 6.7%. So we would obviously use that as a benchmark for a dire doomsday scenario. In our fan chart in the document Page #7 again, we have a probability distribution around 7.5-8.5 as the range. So clearly within that is the realm of tolerance. I think that is one way to look at that fan chart that if it were to go, show signs of persisting below that then obviously…. but if that were to happen as per our analysis, the inflation rate would have probably dropped quite dramatically. As you saw, happened in the crisis itself. The crisis saw inflation rates drop for two reasons, one because commodity prices dropped dramatically, two because growth slowed down dramatically. We are using the same two factors now to explain our stance which is that inflation is being determined partly by domestic growth and partly by the level of international commodity prices.

Ira Dugal

I was looking to the inflation report. It was saying that was the evolving inflation trajectory, I am just wondering that if we look it from April to now when the RBI has done 125 basis points in rate hikes, has there been that much of shift in the inflation picture? Has there been such dramatic risk to the upside which we should probably now over compensate for what we probably did not do in the earlier part of the cycle when we were actually underestimated inflation. So I am just wondering you know to put it a little differently, are we now risking under compensating the impact of growth just as we underestimated inflation?

Dr. D. Subbarao

At each point of time since April 2010, I know that your question is with reference to April 2011 but at each point of time since April 2010 we have tried to balance the requirements of growth and inflation. So in the beginning, as we started tightening policy and reversing our stance after the crisis. We did that at a moment of great uncertainty around the world. We had to support growth, policy rates had gone down to historically low levels, we could not raise them abruptly. So for all those reasons we took what is now come to be called "baby steps". So it is not as if we had undercalibrated or overcalibrated. Since April 2011, of course, we had done 50 basis points. Early May, I mean mid-June and now 50, because there are some unanticipated factors. Our crude prices, for example, went up much more, the softening did not translate into domestic prices; MSP had gone up of pulses and of rice. Coal prices had gone up and that had yet to show up in electricity generation. So all these factors could not be anticipated and the other factor as Subir mentioned now about mineral oils which were about 40 basis points. So these are the factors that have led us to, what is now considered to be a surprise action.

Anirudh

Governor, good afternoon. This is Anirudh from ET Now. I would like to understand from your point of view, you have mentioned that demand side pressures are major consideration at this point of time. Well, even when interest rates in India are at high-levels, the interest rates in OECD markets continues to remain very low. So don't you think that this will prompt corporates and large borrowers basically to look at these overseas markets and borrow freely from them and therefore that could in fact in some way add to the demand-side pressures that we are facing in India, at this point of time again?

Dr. D. Subbarao That is quite true. In as much as we allow ECB under certain circumstances and with certain conditionalities, those corporates and borrowers who can access external markets will do so. Indeed this is one of the things that banks have told us but that is the way this market operates. Those borrowers who are able to borrow at competitive rates, better rates will go there, but you must also recognise that there are limits on how much ECB will come in, there are restrictions on the end-user ECB, on the interest rate cap, on the purposes for which it can be borrowed, on the tenor of the ECB. So those restrictions I am sure will ensure that we will not have a flood of ECB and add to the demand.

Bijoy This is Bijoy from Newswire18. Just looking forward to the kind of peak or pause and the statement does not mention anything to that effect instead it is quite hawkish in its stance. Is that a conscious choice and are we nowhere close to the peak?

Dr. D. Subbarao The guidance was of course very deliberately worded and that is what it says that until we see a sustained downward trend in inflation, we will have to persist with our anti-inflationary stance. It is difficult at this time, indeed, it is not possible for me to define exactly what the calibration going forward will be; but your understanding is quite right that as long as inflation persists, there will be no significant change in our stance.

Niladri Sir this is Niladri from Business Standard. The bankers said they asked for some clarification of the NPA identification norms. Sir could you clarify on that, what they are?

K. C. Chakrabarty Identification norm they are talking about is the project lending, commercial production. I think that has been replied to them but still…what the department has said is that if specific cases are there, we can examine. But whatever is our guideline, they are prudent and there is enough scope. In fact, what we are telling the management is that why they cannot look into what should be the appropriate commercial production and if it is not happening, it gives rise to risk and that is quite prudent. But still, if there are specific cases - anyone can go and file a PIL, anybody can go to the court or clearance has not come - there it can be referred and it can be examined. I don't think there is any change in the guidelines in this issue.

Niladri What they said is that the commercial production rate should be delinked from the repo rate definition?

K C Chakrabarty It cannot be.

Anand Sinha There is enough flexibility in rate of commercial operations. We have initially given some margin and that margin has been increased in the case of infrastructure and otherwise also by looking into the realities of the situation; but it cannot be open ended. There are two reasons for that, if a project does not start operating on the due date or within a reasonable time then the viability of the project becomes suspect, that needs to be relooked into. The second problem is that even long-term projects in India are financed on floating rate basis and not on fixed-rate basis. That is also a source of risk. Therefore we have to be careful. We have enough leeway made into that and in fact on the basis of further set of issues led by Dr. Chakrabarty, when he was Chairman PNB, we have made some further modifications. I believe that these modifications are more than adequate. Basically our approach is that the banks should be able to sense the problem well in time and there is enough time given to go in for the corrective measures. But yes, we have told them that if there are major issues that bankers feel, they can write to us through IBA forum, , after all, these are all evolving processes nothing is very static or rigid.

Vidhi Was there any request for the refinancing of loans, as we understand, is that also something that you have already given a feed back because the request was that you do not even give refinance loan as part of the restructuring process of bad loans

Anand Sinha No, in fact when they mentioned about that it came to my notice for the first time. If a portfolio is taken over by some bank, normally one would expect it should be on the same contractual terms. But if the contractual terms are changed then one will have to look into what the reasons are. So if they make a reference to us we will see otherwise this is our prima facie reaction because I do not know the details. You can very well go in for evergreening by shifting loans from one bank to another modifying the contractual terms. So, one has to look at it carefully. That is why we have told them whatever issues are there you can write to us. We will certainly examine.

Moderator May announce the instructions please. Thank you. Ladies and gentlemen and participants connected to the audio conference bridge may please press * and 1 to ask the question now. Our first question is from the line of Sophia Rodrigues of Market News, Sydney. Please go ahead.

Sophia Rodrigues My question is about the Indian Rupee. I have not really followed the market recently but I was wondering whether the Reserve Bank thinks that the Rupee appreciation would take away some pressure from inflation like what most other central banks are currently doing, and I am referring to the Reserve Bank of Australia and the Reserve Bank of New Zealand.

Dr. D. Subbarao Thank you Sophia for that question. I only have to reiterate what we have said several times in the past that we do not use exchange rate as an instrument for inflation management. If we intervene or we intervene in the market only if there is volatility in the exchange rate or there is likelihood of disruption to the macroeconomic stability. That has been our position and continues to be a position.

Sophia But would you now believe that a rising Rupee would be beneficial, to the Reserve Bank, I mean in terms of the monetary policy?

Dr. D. Subbarao Well I have no views on the exchange rate itself but you know as much appreciation of the rupee helps in inflation management, it does, but there are costs on the other side too, so as an institution the Reserve Bank does not take a position on the value of the rupee.

Shamik from Reuters We just want to know is the RBI worried about the possible US debt default and has the RBI made some arrangements if that thing happens and is the RBI in talks with the US officials on this issue?

Dr. D. Subbarao As far as a possible US debt default and the current impasse on the debt ceiling we have reviewed the position and I believe we have sufficient liquidity to manage a situation. We are prepared for possible repercussions in the market. But whether they would actually default, what implications it might have is uncertain at this point of time. Whether we are in touch with the US government, not from the Reserve Bank side. We had consultation which is a scheduled bilateral consultation with the US end of June, but that is nothing to do with the debt impasse.

Ragini
from BloombergUTV Governor, just wanted to understand, did you this time around base your decision on the macroeconomic data that you sometime back just a few days ago said was unreliable and subject to frequent revisions or did you take a different view of it. Also would explain the difference in the projection of inflation that is coming from the professional forecasters standing at 8.6%. And we all despite that vision project at 7% still there is a big gap there. So if you could put that in context?

Dr. D. Subbarao The second part of the question was?

Ragini The inflation projection, we are looking at 7% for the fiscal March 2012, whereas the professional forecasters put it at 8.6%?

Dr. D. Subbarao On the first question, of course, we live in the real world and I have identified in the Statistics Day speech about some of the handicaps that have been in place in having the right data for policy purposes. But like everyone else, like all analysts, we also have tried to flip behind the numbers and have our own interpretation of how these numbers might be adjusted. But that is the learning process, it could be far better if we had more reliable and less frequently revised numbers.

Subir Gokarn On the first question we put forth a number of other indicators in our discussion both in the MMD (Macroeconomic and Monetary Development document) and the policy statement. We look at corporate numbers, we look at credit growth, we look at tax collections. So all of these are different dimensions of the economic situation and so we are not reliant on a specific set of data to reach our conclusion. We also talk with a lot of people all the times. So there is a third dimension coming which may be subjective but also gives us added information. So it is difficult to confine our judgment to a specific set of data. We try and make our judgment based on the consistency between all of these inputs. On the 8.6 number that is actually more corresponding to average quarterly it is not a year-end forecast. For this reason it is not strictly comparable. Our yearly average would probably end up somewhere in that region also.

Gopika I would just add to that - Gopika from CNBC - like in the other policy where there is no upside in your inflation forecast because you have increased it to 7% compared to 6% with an upward bias. So does it mean that the 7% incorporates all the risks and probably the upward bias that you are expecting or is it to say that you will be hiking rates more in order to ensure that it remains at 7% and therefore no upward bias?

Dr. D. Subbarao There is a fan chart Goipka for the probability distribution of inflation. And that is all you have to see. There is some probability on either side but the most probable outcome we believe is 7% with no bias on either side. Whether that would be with or without further action is difficult to say, as I said a short while ago. I do not know myself, has to depend on how growth, inflation and a number of other macro economic variables behave.

Mayur Mr. Governor there are two questions. During bankers' meet did the bankers ask the help of RBI for financing them at Greater Noida or Noida Extension and is RBI going to intervene in this matter? And the second question is there were reports in recent days that NRI Indians have sent hundreds, billions of dollars to India. So whether this report is correct and if so where these funds have gone?

Dr. D. Subbarao On the first question the answer is no. We have not received any representations so far from the Greater Noida Real Estate issue and the Supreme Court order on that. On the second issue, no not to the best of my knowledge and if and when it comes you will find that in the foreign exchange statistics.

Paranika Sir, this is Paranika from Business Standard. In your expected outcome you say that you need to maintain the credibility of commitment of monetary policy including inflation. Is it that the efficacy of monetary policy actions are now being questioned that you need to actually mention that in absence of anything coming from the government, any step coming from the government whatever action the monetary policy is taking they need to be stronger. Just throw some light on this why did you need to use really that word committed?

Dr. D. Subbarao It is to reaffirm that the Reserve Bank stands committed to inflation management. And to establish and to reaffirm our credibility that is all I can say. As far as what the government needs to do to manage inflation we have said that quite explicitly at least in two places in the statement about supply response coming from in the food and the infrastructure sector and about fiscal management. And that the fiscal deficit should it be maintained at the current level and in the future years should consolidation take place that will help demand management and help inflation management.

Latha What tilted the balance between half and quarter percent? Is it the credibility issue that the markets have mostly factored in perhaps a quarter percent and they will start looking at a pause thereafter (and) you want to beat that expectation out; that one factor why you preferred half over quarter? What was the polemics of that debate?

Dr. D. Subbarao Certainly it is not to surprise the market; it is not to reaffirm our credibility but it was the cause for our judgment that the inflation scenario as it has played out and that it is likely to play out of the rest of this year demand a strong action and therefore those were the polemics of the debate about the 25 basis vs 50 basis points.

Dr. Subir Gokarn The underlying strength in consumption which is now being borne out by number of supporting data some of which we have referred to in the MMD. Plus the fact that even with the fiscal consolidation that is underway that there is a strong pressure on demand from the fiscal side. Both of these are little less sensitive to interest rates; over all let us say components of consumptions spending that our recent step aims to impact. So that is an assessment in May which took us to a somewhat more front loaded action to have the desired impact on demand. And having started down that path, we believe that there is logistical consistency to continue down the path till we see what we are looking for which is a downturn in the inflation rate, which has not happened as yet.

Pradeep Pradeep from CNBC Awaaz. As you have surprised the market so the talk around is that in the previous cycle the repo rate was 9% do we expect to go back about 1% higher? So what is the assessment from your side compared to the mid-2008 inflation rate and the effective rates were, your rates are still 1% lower but the real market rate or the lending rate are at present, what would be your policy on that basis, will it be more tighter than 2008 or there is more room to it?

Dr. D. Subbarao It is more tighter or it is more loose than the rate of 2008 it is you who should be determining that. This we will not be able to say. I do not want you to go away with an impression that 9% repo rate is a target because we have already got in there. That is not the issue. We will only tighten till we believe that is necessary to bring the inflation down. And we will take appropriate action to reverse that in order to support growth at the right time. It is not as if 2008 we went to 9% and we need to go back there. And there are number of other factors that are different today from those of 2008, we are recovering from a crisis from a very low growth rate when the rest of the world is still recovering from a recession. So I think to compare today's monetary policy with what happened in 2008 would be misleading.

Joel

Sir, this is Joel from Mint Newspaper here. Thanks for taking my question. Sir, on page 10, Para 4, you have mentioned for the first time to my mind that government may not meet its fiscal target. My question is how much of your decision to hike rate by 50 basis points this time was guided by this realisation that the government may not meet their target and also going forward how challenging will it be for the RBI given that we expect that the government may not do its part in probably controlling inflation, if I could put it that way?

Dr. D. Subbarao

It is difficult to precisely say how much one factor influenced our decision because we have indicated all the factors that have influenced the decision altogether. So the government's fiscal stance and the challenges they might face in meeting the stance would be, has been one of the factors that has gone into determining the stance. As far as how the fiscal scenario will turn out, this is our understanding of the fiscal situation just as everybody has, but we have no reason to believe that the government is not sensitive to fiscal consolidation. I think they are concerned about it and they will do every bit possible to meet the target.

Joel

How does it change your situation given that if the government fails. How more challenging it is, can you throw some light on that?

Dr. D. Subbarao

If the fiscal deficit is higher than it is today or it is projected today, it will add to demand and therefore will add to inflationary pressures. As Subir said a short while ago that is one component of this output equation that is fairly interest rate insensitive. So we hope that borrowing and fiscal deficit will be contained within the budgetary limits.

Joel

Sir, one question if I may ask, you mentioned about oil prices, if we pass we will have inflation, if we don't pass it on then we have a deficit. So in a way when you said that the government response and the reforms also required to continue inflation. Actually you are not leaving too many options for the government?

Dr. D. Subbarao

No, that was by way of explaining, how far oil prices might go, what we are saying is that there is an upside risk on oil prices regardless of which way the global situation turns. If recovery should pick up the lost momentum, there will be higher demand and therefore prices will go up. Should recovery be sluggish and lose momentum, the present stimulus might be continued or there could be further stimulus as we catch up from some of the statements of other governors in which case financialisation of commodities will continue which will again mean that prices will be under pressure. So what we tried to say was that in either case there will be an upward pressure on commodity prices.

Joel

How Indian government should be treating it. Whether that should be passed on immediately or the subsidy should continue….

Dr. D. Subbarao

Well on that everybody has a view but we said our view very clearly that it is better that the government pass it on because it will be inflationary in the short-term but it will lead to a more efficient allocation of resources and greater energy conservation and energy efficiency.

Anoop Sir Anoop from Bloomberg. In light of the recent rate increases and the fact that they may have to be continued, will the RBI have to resort to more tools to manage the government borrowing programme, tools like the OMO?

Dr. D. Subbarao At this time we cannot say if there is an OMO programme. We will let you know. But the borrowing programme stands as it was indicated earlier. We had that meeting last week and the net and the gross new securities have all been indicated there and the OMO programme that indicates what actually is. Should borrowing change, should fiscal deficit go up then if necessary we will do OMO. At this time there are no plans.

Mr. H R Khan In the last meeting we had in Delhi on 21^{st}, government has indicated that they do want to stick to the borrowing calendar. So as of now from our side there is no plan of an increase in borrowing plans.

Neha Governor, would you consider staying on for the second term?

Dr. D. Subbarao I think we will restrict questions to our monetary policy, okay, and thank you.

Ritesh What is the RBI's view on the Europe crisis and has RBI factored in the 8% growth number keeping in mind the Europe and the US crisis?

Dr. D. Subbarao Surely yes. In fact you'll find a paragraph in the statement on our assessment of the US and the Europe situation, that is uncertain and that uncertainty is adding to the domestic uncertainty and we have factored that in.

Ira The government seems to be moving forward on FDI and the retail, these I am asking you because their main argument is in medium term it is going to help bring down inflation? I was wondering if the RBI all has been consulted on that, have they given their views. Does the RBI have a position or could you talk about the supply-side structural bottleneck, that context I was wondering if the RBI has come in at all on that issue?

Dr. D. Subbarao We were invited for that meeting and Khan attended that meeting, will you please indicate what happened there?

Mr. H R Khan There were several secretaries and they had different issues, whether they should have more conditions or less conditions. RBI had a very limited point in the sense that this 50% backend investment how is this monitored and how it can be reported that is what was our point. The point which was being told in that meeting is about Farmer to Farm grid of supply-chain and all probably that would help, that is what the point was. But we have not taken a position around FDI per se, we have not taken any position.

Dr. D. Subbarao But our larger position remains which we have said in the statement as well that for financing current account deficit more longer term investment is required. So if the FDI comes in through that route that is good in terms of financing current account deficit. On the first question whether it would bring down the inflation that is a general understanding; I have not studied that issue in-depth but from what I read and on in my earlier job I was deeply involved in that. The understanding is that it would bring down inflation. So I think I'm sure logically it should bring down but if there are contrarian views, we can discuss them.

Alpana Killawala Thank you very much. I am very sorry for the questions (which) were not taken up. Thank you Governor.

Dr. D. Subbarao Thank you very much.

Moderator Thank you ladies and gentlemen. We conclude this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.