"First Bi-monthly Monetary Policy Statement, 2014-15"

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Dr. Raghuram Rajan's Statement on the Policy:

Good morning and welcome to the Reserve Bank. On the basis of an assessment of the current and evolving macroeconomic situation, we have decided today to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 per cent. We have also decided to increase the liquidity provided under 7-day and 14-day term repos from 0.5 per cent of net demand and time liabilities (NDTL) of the banking system to 0.75 per cent, and decrease the liquidity provided under the overnight repos under the LAF from per cent of bank-wise NDTL to 0.25 per cent with immediate effect.

Let me turn to the rationale. Real GDP growth is expected to pick up from a little below 5 per cent in 2013-14 to a range of 5 to 6 per cent in 2014-15 though with downside risks to the central estimate of 5.5 per cent. Easing of domestic supply bottlenecks and progress on the implementation of stalled projects already cleared should contribute to growth, as will stronger anticipated export growth as the world economy picks up.

For the year as a whole, the CAD is expected to be about 2.0 per cent of GDP. Sustained inflows, augmented by repayments by public sector oil marketing companies of their foreign currency obligations to the Reserve Bank in March, have led to an increase in reserves.

Looking ahead, vegetable prices have entered their seasonal trough and further softening is unlikely. There are also risks to our central forecast of 8 per cent CPI inflation by January 2015. These include a less-than-normal monsoon due to possible El Niño effects; uncertainty on the setting of minimum support prices for agricultural commodities and the setting of other administered prices, especially of fuel, fertilizer and electricity; the outlook for fiscal policy; geo-political developments and their impact on international commodity prices. In addition to these risks which are two-sided, there will also be a downward statistical pull on CPI inflation later this year, due to base effects from high inflation during June-November 2013. It is critical for us to look through any transient effects, including these base effects, which could temporarily soften or harden headline inflation during 2014.

Our policy stance is firmly focused on keeping the economy on a disinflationary glide path that is intended to hit 8 per cent CPI inflation by January 2015 and 6 per cent by January 2016. At the current juncture, it is appropriate to hold the policy rate, while allowing the rate increases undertaken during September 2013 through January 2014 to work their way through the economy. Furthermore, if inflation continues along the intended glide path, further policy tightening in the near term is not anticipated at this juncture.

In pursuance of the Dr. Urjit R. Patel Committee's recommendation to de-emphasise overnight "guaranteed-access" windows for liquidity management and progressively conduct liquidity management through term repos, we have decided to further reduce access to overnight repos under the LAF while compensating fully with a commensurate expansion of the market's access to term repos from the Reserve Bank. The primary objective is to improve the transmission of policy impulses across the interest rate spectrum.

Let me now turn to Developmental and Regulatory Policies:

We have set out a five-pillar framework to guide the developmental and regulatory policies of the Reserve Bank. I invite you all to go through Part B of the Policy Statement which lays out the developmental and regulatory measures, the progress made and some new initiatives that are being undertaken.

Let me highlight a few:

- Some recommendations of Dr. Urjit R. Patel Committee report have been implemented including adoption of the new CPI (combined) as key measure of inflation, explicit recognition of the glide path for disinflation, transition to a bi-monthly monetary policy cycle, of which this is the first, progressive reduction in access to overnight liquidity under the LAF at the fixed repo rate and a corresponding increase in access to liquidity through term repos, and introduction of longer term repos as well as, going forward, term reverse repos.
- Following on the recommendations of the High Level Advisory Committee chaired by Dr. Bimal Jalan, and after consulting the Election Commission, the RBI will announce in-principle approval for new bank licenses. Immediately after, and using the learning from the licensing exercise as well as building on its previously-released discussion paper on banking structure, the Reserve Bank will work to give licenses more regularly, that is virtually “on-tap”. It will also set out categories of differentiated bank licenses that will allow a wider pool of entrants into banking.

Turning to markets:

- To expand investor demand for Inflation Indexed Bonds, design changes improving their attractiveness to the general public are being worked out.
- In order to expand the market for corporate bonds, banks will be allowed to offer partial credit enhancements to them.
- The feasibility of limited re-repo/re-hypothecation of “repoed” government securities is being explored.

As regards foreign investors, the Reserve Bank welcomes them and will continue to work to ease entry costs while reducing risk for investors and the volatility of flows. Towards this end

- Modalities allowing Foreign Portfolio Investors to hedge their currency risks through exchange traded currency futures are being worked out in consultation with SEBI.
- FPIs will also be allowed to hedge their coupon receipts falling due during the next 12 months.
- KYC norms are being simplified for Foreign Portfolio Investors.

- To encourage longer-term flows and reduce volatility, FPI investments in G-Secs will henceforth be permitted only in dated securities of maturity one year and above, and existing investments in T-bills will be allowed to taper off on maturity/sale. Any investment limits vacated at the shorter end will however be available at longer maturities, so overall FPI limits will not be diminished.

Turning to the inclusion and customer protection agenda,

- We intend to enlarge the Banking Correspondent (BC) base, through the inclusion of new entities, as well as considering a relaxation of existing distance restrictions.

A number of measures to protect consumers are being envisaged. For example,

- Banks should not levy penal charges for non-maintenance of minimum balances in ordinary savings bank account and inoperative accounts, but instead they should curtail the services accorded to those accounts until the balance is restored.

Last but not the least, to tackle distress in the system

- The comprehensive framework we outlined to help banks reduce their NPAs even while putting distressed projects back on track will be effective from today. We will monitor progress and make any needed adjustments to ensure it operates smoothly.

I hope the only thing that was surprising about monetary policy today was lack of surprise. I am glad financial markets and analysts have started understanding what we are doing. Thank you very much for your attention".

Alpana Killawala: We will start the press conference now. Shyma, you can make your announcement now.

Moderator: Sure ma'am. Participants connected to the audio bridge if you wish to ask a question you may press '*' and '1' on your touch tone telephone. Participants are requested to use handsets while asking a question.

Alpana Killawala: Okay. So we will start the press conference with Latha being the first one to ask.

Latha Venkatesh: Governor, you have not said anything about OMO, the borrowing program starts day after tomorrow. What will you be supporting or what is the policy of supporting bond yields? The auction starts on Friday and we'd like to know what is the policy on supporting auctions? And then you have said that you have seen potential output fall very sharply - from what to what?

Dr. Raghuram Rajan: To your first question, I think the intent is to provide sufficient liquidity to the markets, that means both short term liquidity consistent with maintaining the call money rate close to the policy rate, and second, providing long-term increases in the balance sheet of the RBI, consistent with what we believe is the appropriate rate of growth of credit in the economy. Now, our focus is on the rate of credit consistent with the inflation that we are looking at as well as the economic growth that we anticipate, and to the extent that OMOs as well as foreign currency asset purchases are consistent with that over the next year, we will accommodate what we can. On the second question on potential growth, why not I ask Dr. Urjit Patel to speak about that? As you know estimating potential growth is a very difficult task.

Dr. Urjit R. Patel With that important footnote that the Governor just enunciated, by our calculations and using well-known techniques, in particular the Hodrick-Prescott one, the potential output has fallen from 8.5 per cent in the fiscal year 2011-12 to just below 6 per cent presently, and this has been corroborated by some other research also.

Dr. Raghuram Rajan: Let me add a footnote to the footnote, which is that my own sense of potential growth is, it's a somewhat nebulous concept in the sense that to some extent what supply constraints in the economy, for example, will have an effect on what we think is potential growth. To the extent that the supply constraints are alleviated through, for example, political action that could enhance potential growth substantially in a relatively short time. So in that sense I do not think that when we talk about potential growth we are really talking about the structural sort of growth prospects of the economy going forward which could be quite different given our population, etc., provided supply constraint issues are addressed.

Alpana Killawala: Govardhan.

Govardhan: Govardhan from Economic Times. You mentioned that while inflation goes in the indicated glide path there may be no rate increase needed and at the same time you mentioned about El Niño effect on prices. We have seen the witness to food prices in the past pushing inflation. Does that mean that the El Niño effect pushes inflation higher you are back to rate increases? And the other factor was the fiscal deficit. Whatever was given in the revised estimates is not true and the actual numbers is way above the mark. So how does that affect rate outlook? So how do these two factors shape your interest rate outlook?

Dr. Raghuram Rajan: I think on food prices, first it is not given that El Niño will happen. Conditional on El Niño happening, it is not a given that food production plummets. If food production plummets, also it is not given that inflation across the board will be high- depends on which commodities are particularly affected, etc. So there are lots of uncertainties in this train of thought, and therefore I do not think we can at this point anticipate precisely what will happen. If food prices do increase, then there is this question of whether it has seen as a short-term transient increase such as we saw with vegetable prices in December, which we decided to look through or whether it is a more permanent increase which could cause, for example, second round effects in wages and so on. So we will have to take a call then. If first the hypothetical event happens, and second, we see a longer term effect on inflation and not a transient effect. As far as the budget outlook goes, we have essentially a vote-on-account right now. Clearly, the new government will have to announce a full budget, and presumably that will take into account the need to meet the fiscal consolidation path. I think that a number of measures will have to be looked at, and I think we should wait for that before taking a call on whether the budget is credible or not.

Alpana Killawala: Pradeep.

Pradeep: Pradeep Pandya from CNBC Awaaz. Sir, you said in your statement that for bank license you are waiting for the permission from EC. Till now have there been any talks with the Election Commission? What discussion has taken place till now? And secondly, the issue of on-tap or differentiated license which you have discussed about, what is the timeframe for that?

Dr. Raghuram Rajan: On the first issue of communication with the Election Commission, yes, they have asked us questions, we have responded. At least as of now I think they have the information that they need, and they have to make a decision which could be a variety of… I do not want to forecast what their decision will be. Let me just say that this process has been taking place under its own steam. It is a regulatory process, it is not a governmental process, and the notion of asking the Election Commission was primarily because this is election season and we did not want the potential licensees to get their approvals under a cloud. And that is why we have asked the Election Commission for their opinion on whether we can, whether this is something that comes under the code of conduct, let us wait and see what they say. If they say there is no issue there I think we would be in a position to announce the bank licenses fairly quickly after taking it to the committee of the Central Board. On the issue of differentiated bank licenses as well as on-tap licenses, the point is we should not be giving licenses every 10 years. Also I think that there is scope for having people with partial licenses, for example, only for payments or only for lending to come into the system, and this will allow people to develop banking capabilities even with relatively small size of operations, which will then allow them to may be apply for full banking licenses down the line. So to facilitate entry, to expand entry, we need to look at both – on-tap licenses, which is, examine regularly applicants every few years, and second have differentiated licenses. We already have a base document; we have to look at it much more closely. So I would suspect a framework in the next few months to develop, and then the process to start soon after. Of course it takes some time for people to apply, it takes some time for the applications to be vetted. What we have learnt this time is how to do it carefully, how to do the vetting very carefully and that will be part of the process going forward. I cannot give you a date but I will say quite soon that we hope to open the window, and it may be that we open the window first for differentiated licenses, for example, payment banks and then move to opening the on-tap for universal banks down the line. But the hope is to make this an ongoing process.

Pradeep: FM says if you seek permission from the EC amounts to giving an idea that the government does have a role to play in bank licensing, which is not the fact.

Dr. Raghuram Rajan: No, I think the idea to seek, I do not know whether it is permission or just to make sure the Election Commission was on board, was primarily to shield the announcement from controversy, so that the new licensees do not get dragged into the political process which could happen quite easily. I have said earlier- perhaps abundant caution, it is something that Dr. Bimal Jalan suggested would be a good thing, and I respect his judgment and his advice a lot, and that was the basis on which I went forward to ask the Election Commission and let us see what they say.

Ritesh: Governor this is Ritesh here from Zee Business. Sir two questions; first regarding the inflation, unlike the way there is a drop in inflation, the core CPI is still sticky and in your policy you have said that upside risk in inflation is still there. Does that give you a second thought on holding the rates first? And the second question is you have said in the policy, in the 12^{th} point, that liquidity conditions have tightened in March, partly on account of year-end 'window dressing' by banks and RBI will come up with measures. If you can just elaborate what kind of window dressing you mentioned here and what kind of measures you propose to take?

Dr. Raghuram Rajan: On the first question, if we actually had second thoughts about the rate we would have moved the rate. We believe the rate is appropriately set right now given our anticipation of events over the next few months. So the core CPI is the key, but we have seen some sort of fall in the elements that we are worried about, for example, service inflation there has been some reduction over time. So we will give this disinflationary process some more time. We are not overly moved by the sort of fall in vegetable price inflation, but we are watching the disinflation that is happening in a number of important services, and let us wait to see how that moves. Of course, a number of factors will help in that, but as you said there are some risks. Now I want to say these risks are two-sided, we could get for example, a budget that is a strong budget and that could put us firmly on the fiscal consolidation path while shifting more of the focus towards investment rather than government consumption. That for example would be I think important for the economy. We could also see that some of the fears about food prices are not as strong as we currently discussed in the press, so let us wait and see I think that there could be two sided risk. Oil prices have stayed relatively calm, if geo-political risk fall, we could see a reduction in oil prices vice versa if geo-political risk increases you could see the reverse, so let us wait and see. Right now policy is appropriately set. Window dressing, yes, good point. What happens is towards the end of the year banks are trying to build a certain kind of balance sheet for a variety of reasons. Different reasons are driving different banks; some want to reduce the size of their risk weighted assets so as to qualify for lower capital requirements; others want to increase the size of their assets to meet government sort of performance requirements. It varies, but what you see is these incentive distortions do affect a variety of markets. For example, the CD market became very tight starting in February itself, so we took some pre-emptive actions to improve liquidity, but longer term we do not think that the RBI should be in the business of bailing out the banking system with infusions of liquidity when the banking system itself is creating its own problem. So we have to change the incentive structure, and we are thinking about a variety of ways, we will discuss with the bankers how we can better improve liquidity at the year end and not come to this path where banks are not lending to each other in order to maintain the balance sheets that they want, the year end should not be a time for anything special to happen, it should be smooth.

Aniruddh: Aniruddh here from ET Now. Just a couple of questions; firstly in terms of the hypothetical situation that you have mentioned in the macro report of not getting a stable Government. So just want to understand your views in terms of that eventuality does happen, what kind of concerns would emerge and what kind of challenges would emerge for policy setting? And secondly in terms of the recent issue of United Bank of India, there was a very key issue which had cropped up in terms of corporate governance issue at the bank. I just want to understand firstly what has the RBI probe found out and what is the way forward in this?

Dr. Raghuram Rajan: Let me defer the question on United Bank to Dr. Chakrabarty. On the issue of new government being not stable, clearly, the issue is that markets right now are anticipating a stable government and rapid policy actions and to the extent markets are disappointed, it would reflect on stock markets, perhaps on bond markets, perhaps on exchange markets; we have to be prepared for some turmoil. At the same time, I believe that even if the government is not necessarily a stable one, provided any new structure shows the appropriate concerns, about the economy, about the fiscal and so on, I would suspect that after an initial bout of turmoil there might be a reassessment, which may be more positive. But let us wait and see, what we have to do is be prepared for what eventualities happen, and I have said before, the better the balance sheet we build for the country, the more prepared we will be. And you could see, for example, the measure proposing that new investment will be at the longer end maturities in the bond markets rather than the short end maturities as an attempt to prepare our way to a better balance sheet as we go along, and it is a mild gesture respecting the rights of investors, but in a sense nudging them towards the longer end.

Dr. K. C. Chakrabarty: So far as United Bank of India is concerned let me say that it is neither a shock nor surprise to the Reserve Bank of India and it should not be to media. We have not conducted any probe, it is the bank chairperson who has written a letter to the Governor as well as the Finance Minister that "In my bank, accounts are not classified as NPA, please go for a forensic audit." So we chartered a forensic audit and the conclusions are found to be valid that, yes, their accounts are not classified as NPA. Now whether it is because of technology, but this is nothing new. For the last 3 years bank's chairmen are saying and even in note to the account, NPA has gone up because of the system generated NPA. And I have said many times there cannot be system generated NPA, NPA is generated in the bank book by the borrowers, and the computer never generates the NPA, so it was known. Second thing, even United Bank's loss, what we are highlighting it is not only because of NPA; Rs. 625 crore pension provision has not been provided. Now the issue is that, that is also not provided in many other banks if you go through the disclosure which is available in the bank's balance sheet. Now, these all issues point towards the corporate governance. We have written to Government of India to take a set of steps for improving their corporate governance, and it is not only for United Bank of India, for the banking system as a whole. But, we are not unnecessarily perturbed for one particular bank, United Bank, it is because of such certain initiative by the bank management that we have to intervene and this we have got. But we are definitely worried about overall how the system is functioning, and we are in dialogue with the government to improve the system.

Gopika: In this context that the RBI has sought a reduction in the government's stake at public sector bank going forward, is that a part of the recommendations on corporate governance as such?

Dr. K.C. Chakrabarty: No, our view is very clear, the performance is ownership-neutral, it is the quality of management and the autonomy. What we have said, that if the government ownership can ensure the autonomy in the banks, if the management quality it can maintain, there is no need. But if there is a constraint on that we may have to look forward, the government may have to look forward. Second thing there is the issue of budgetary constraint; the type of capital which the public sector banks, we have not said, and we do not believe that the ownership affects the performance of the bank. That is absolutely not that, but if the government finds certain limitations, they may consider other options.

Gopika: Governor, you have mentioned that you are open to looking at banks merger, although you will ensure that stability is maintained. Is there a road map that you have underlined that Reserve Bank has already set its mind on which bank to be merged going forward?

Dr. Raghuram Rajan: Absolutely not and I think that would be a bad idea. I think its better that the banks themselves voluntarily decide where most value could be created if they merge. All I am saying is that we are open, and there is room for both bigger banks as well as smaller banks. So what are saying is that we would be happy to consider banks decide on doing that.

Let me also take this opportunity to say this is Dr. Chakrabarty's last press conference and we are very grateful for the tremendous services he has done for the Reserve Bank over the time that he has been there**.**

Suvashree: Suvashree from Reuters. My question is can you give us elaboration about what is the roadmap for implementing the Urjit Patel Committee Report, specifically on inflation targeting. Secondly, as you mentioned that you want banks to borrow long-term from RBI and not short-term. In that sense you have reduced the overnight repo and increased the term repo window. But what happens actually in terms of attaining the RBI's money supply target which will eventually help deposit mobilization and the government borrowing program.

Dr. Raghuram Rajan: Money supply target will be determined by what we expect credit growth and inflation to be consistent with the growth of the economy as well as the inflation we have in mind. And we will adjust our balance sheet to keep that in mind. Of course, there are three ways of adjusting the balance sheet; one, we can provide short-term liquidity, my sense is we provide short-term liquidity for short-term needs; there is also longer-term liquidity for the longer-term credit growth and that can be effectively provided by increasing the size of our net domestic assets, open market operations as well as our net foreign assets which is currently purchases. Some combination will happen over time, I cannot tell you the precise combination, but I envisage some combination will naturally happen. On the implementation of the Dr. Urjit R. Patel Committee Report, as I already said, we have already done a number of things. On the precise structure, for example, monetary policy committee, etc., those are issues that have to be discussed with the government. First, of course, we have to spend a little more time laying out what proposals we want to take to the government internally. Once we do that we will then send a set of possible suggestions to the government, including on the monetary policy committee structure if we believe that is the way to go, as well as on the process of setting inflation objectives, etc. Whether we move to a specific target when we move, all that remains to be discussed. I am happy right now that these issues are being discussed in the public, by the press and so on. I think over time as people feel more comfortable it will also be more appropriate for us to move faster at that point. But right now, I think we are in the process of putting together what we need to put together and eventually we will approach the government.

Bijoy: Bijoy from Cogencis. One thing that you have mentioned is the re-repo of the government securities. Is that something that you expect to lead through or to determine the inter-bank curve in the long run that you have in mind, do you think about the re-repo rate? Also on the on-tap licensing and differentiated licensing, is it prudent for you to do so at this point in time when you are still in the process of issuing the set of bank license to come up with this, because there will be a lot of people who miss out the bus and they kind of feel little left out because they probably would have wanted a payment bank or a differentiated bank rather than full universal bank. Just wanted your thoughts on both these issues.

Dr. Raghuram Rajan: The idea of rehypothecation typically works not so much with term repos but reverse repos, with somebody sort of lent money and suddenly feels that they have a squeeze on their reserve they want to relend to somebody else, rehypothecation allows that. So as you move to term reverse repos this will be a helpful thing, and we are exploring it, we think we can do it without much risk. Of course, during the financial crisis there was re-re-re-rehypothecation and that created problems because nobody knew who it was hypothecated to, we can control that process we believe and once we feel satisfied there is some internal discussion how to do it, we will move ahead.

Bijoy: Is something that you think could lead to an inter-bank term money kind of market?

Dr. Raghuram Rajan: The idea in all this is to start from the very short end and create longer and longer term money markets. We already have a reasonably liquid term repo facility. Once we bring all this into play I think it will help the money markets quite a bit. On the issue of bank licenses - look, the idea here is that we have a lot of applicants. Once we give the set of bank license, there may be some applicants who are more suited or qualified for a different kind of license. So, we want to say, "Look, the possibility is opening up, and we will get more people there." The other thing I see it is sort of a smaller playing field where people prove themselves, and then can qualify for the bigger playing field. Show that you can do this kind of lending or that kind of payment, and then build trust and then you can qualify for more. The point we want to make is that really a bank license in this country is a measure of trust, and you have to deserve that trust. So, we want to ensure that people who can build that trust get the opportunity to get those licenses.

Alpana Killawala: We will take a question from outside. Shyma?

Moderator: Sure. Participants, connected to the audio bridge, if you have any question, you may press '*' and '1.' We will take a question from Manju of Financial Chronicle. Please go ahead.

Manju: You have allowed FIIs to hedge the currency risk. Are you trying to curtail the NDF market?

Dr. Raghuram Rajan: Let Mr. Khan answer that.

Shri H. R. Khan: The policy is as Governor was mentioning in his initial remarks, what we are trying to do is create more facilities for onshore hedging; one is up to $250,000 we are proposing that people can hedge without any documentation requirement; this is one effort to make onshore hedging facility easy. Similarly, for FIIs, some of them we know try to hedge in NDF market and this facility for up to one year coupon flow which is a near-term requirement will also help in facilitating hedging in the domestic forex market. Similarly, we are also in dialogue with SEBI for allowing FIIs to get into currency futures market.

Dr. Raghuram Rajan: I think the idea is that this is determined by improving the hedging environment for foreign investors in India, not necessarily to combat the NDF market but primarily to improve the environment in India.

Moderator: Thank you. We will take the next question from the line of Gautam Chakravarty from Ticker News. Please go ahead.

Gautam Chakravarty: Just wanted to check on yesterday's finance minister said that we would probably add another 25 billion to our FX reserves, which means probably the money which has come through the FCNR(B) route. Wanted to understand the impact of it on the reserve money and consequently the RBI policy as a result of that?

Dr. Raghuram Rajan: We have taken into account the effect of the FCNR(B) that we added to reserves. Remember, that is offset somewhat by the amount we give the oil marketing companies to buy the oil. Of course, as of today, they have acquired all that they need to pay us back and those payments will come through in April, continuing perhaps into May also. It had come through in March which explains some of the accretion to reserves we have had, but we will go through April and May. I think that basically sums up what he said.

Gautam Chakravarty: So, should we assume that it has been netted off more or less?

Dr. Raghuram Rajan: No, I do not know what you mean by netted off. I think what you should assume is that we have taken into account the expansion in our foreign currency assets while determining the overall liquidity that we expand for the market. Remember, in the past few years, there was a very little expansion in foreign currency assets. So, most of the expansion came through net domestic assets. Now, I think given what has happened so far, there will be a more balanced expansion.

Moderator: Thank you. The next question is from the line of Joel Rebello from Mint. Please go ahead.

Joel Rebello: I just want to check your plans on the Forex reserves. We have seen a lot of inflows in the market; the rupee is now stable and we are doing better than other countries. I just wanted to understand what is the plan in terms of the reserves? There are some suggestions for example, that RBI should in fact look to buy the dollar in the market and look to smoothen out the inflows and help our exporters in a way. Just wanted your comment on that, Sir?

Dr. Raghuram Rajan: I do not think we are trying to establish any level in the market, I think what we do is try and attempt to keep the exchange rate from becoming overly volatile, that will continue to be our policy.

Alpana Killawala: I will take it back, Shyma. One last question from this room. Olga?

Olga: Yesterday, the BJP spokesperson has said that they don't think there is a need for new bank licenses. So, do you see some problems going ahead?

Dr. Raghuram Rajan: Not really, I think one should respect all the opinions that are expressed, but this is a process that has been certainly initiated by the finance minister in 2011, by Mr. Pranab Mukherjee, but then has been taken up by the Reserve Bank on its own since then. All regulatory processes have to come to an end, they cannot be indefinite. And the natural end for this, let me remind people when I came in as Governor, I said, "We will appoint the Bimal Jalan Committee. And I hope to have the new licenses announced by January." What happened was the requirements of due diligence. I also at that time had said that "I hope this would be one of the cleanest processes to get initiated." Requirements of due diligence took a little longer, getting the replies from the various investigative agencies took a little longer, which is why the Jalan Committee gave us the report on February 25th. Since then we have had the internal process, looking at those licenses once again by the Governor and the Deputy Governors, and trying to understand what makes sense. So, all this has taken time and spilt over into election season. But this is not in anyway a political process, it is an economic and regulatory process, and therefore should be seen "distant" and "different" and therefore while different political parties, etc., may have used, we have to undertake what we have to undertake.

Shefali: Shefali from Wall Street Journal. One question on foreign banks, what is holding them back from going for subsidiarisation? You are having discussions to encourage them?

Dr. Raghuram Rajan: I think a number of factors; some of them do not really at this point see a big benefit from increasing their branches which is one of the benefits of subsidiarisation that we have suggested. There will be others such as national treatment on a number of dimensions. But clearly, unlike some of our commentators who feared we were giving away the house by allowing this, the foreign banks do not see it as 'appetizing.' Some of them are worried about the greater priority sector obligations that come with that. Going forward, we will have to take a view at some point; clearly, separately from the foreign banks the intent is to make priority sector norms more effective. The Nachiket Mor Committee has given a number of recommendations; we will explore that and then take it out as we go. But at some point, this does become a regulatory issue that in order to ensure banking sector's stability, we need our large entities to be fully responsive to regulations here. And therefore, at some point if the carat does not work, we may need to push a little harder as some other jurisdictions across the world have done. But before that let us first address some of the concerns that people have, not just in the foreign banks but elsewhere and see if this becomes a more attractive voluntary move. Some foreign banks suggest they are some distance along the way in making up their mind. Since we did not set a date for this, and since there are some other issues we are working on right now, we will come back to it once we get clarified.

Saloni: Saloni from Bloomberg. When you joined in September last, you mentioned about easing of SLR norms. Nachiket Mor panel has also recommended a partial easing. What is your sense on this, have you a timeframe in mind as to when do you want to reduce the SLR norms and to what extent?

Dr. Raghuram Rajan: I think we will start on that process, as soon as we are confident that the fiscal consolidation part will continue with the new government. I want to emphasise we see SLR change as something that is needed for reducing the distortions to credit in this country rather than as a monetary measure. So, we will embark on that path once we are fairly confident that fiscal consolidation will continue. For now, of course, there is some uncertainty about the shape of the next government, etc., So, until that is clarified it would be premature to embark on that path. But yes, once we are sure that fiscal consolidation will happen, I think we can reduce the demand on the banks to hold SLR to make it more consistent with what is required from a liquidity perspective. So, another aspect we will be exploring is how this fits in with Basel liquidity norms and to make whatever SLR holdings are available with the banks, more capable of meeting the liquidity requirements that Basel requires. Thank you very much, everybody.

Dr. Raghuram Rajan: Thank you very much everybody.

Moderator: Thank you. Ladies and gentlemen, on behalf of Reserve Bank of India that concludes this conference. You may now disconnect your lines.

April 2, 2014

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