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Moderator: **Ms. Alpana Killawala – Principal Chief General Manager**

Dr. Raghuram G. Rajan: Well, many of you have already read the policy. Just a couple of points there. As far as the rates go, we did not make any move, but I think what you should read in the policy is both our views on the evolution of inflation going forward as well as focus on part B where there is a substantial number of actions that we have taken to facilitate growth and development of the financial sector. So with that as a preamble, I think we are happy to take questions.

Aniruddha: Good morning Governor, Aniruddha here from ET Now. So we all know that do not like to branded as a inflation warrior but clearly going by the kind of guidance that you have given and the kind of risks that you have outlined on the 6% inflation target by January 2016 one does seem to get impression that we might not see any kind of easing and possibly slightly a cycle of rate hikes if we don't reach the projection.

Dr. Raghuram G. Rajan: I do not think you should read that into the policy. What we have said is that we have currently positioned to reach the 6% by 2016 January given where the rate is. Now there are number of disinflationary forces underway which we have talked about. The low oil price is one of them. The fact that we have a relatively stable exchange rate is another and the fact that wages especially in rural areas have not grown as fast as in previous years is another positive factor for inflation. All these will combine to continue the disinflationary process we see reflected for example in core inflation; headline of course has been buffeted a little bit by food inflation. There are uncertainties still, one of which is how food inflation will evolve over the course of next year, but there are also positives and what we have to see is how this plays out. Now I know there is some discrepancy between our modeling of inflation which says that the expected level by 2016 is 7%. Of course those are models and the inflation stance or the policy stance is taken by all of us putting our judgment also to work and our judgment is that given all that we know about what was happening, we feel and some of it is model plus some subjectivity, that we can still reach 6% by January 2016 given where we are. Now of course there are uncertainties and therefore given our model is saying 7%, we are saying that the risks are still to the upside. Though they have come down since the last policy meeting, because the inflation readings have been better, the monsoon has been better etc. What we end with in the policy paragraph is that our actions will be based on our projection of inflation we need to reach 6% by 2016. I think there is broad agreement that is what we are trying to do, but it is contingent on incoming data. So as of now, we are reasonably set. As of now, our expectation is we would reach that target. But of course a lot can happen in the world. Oil prices which are low now can go up or they can go even lower. Some people are projecting really low oil prices; others are projecting reversion to where they were. Similarly every other factor is subject to some uncertainty. So we have to see, the policy will be data-contingent.

Suvashree: Governor, if I understand correctly, you are more confident in achieving the 8% inflation target by January 2015 than 6% by January 2016 as you have mentioned in at least three places about the upside risks to the 6% target. So does that mean that rates will be on hold for a longer time? Also, I would like to understand your views on the real interest rate as of now with respect to the current interest rate stance.

Dr. Raghuram G. Rajan: Number one; clearly there is a lot more confidence about reaching the 8% target and the 6% target. 6% target is the harder target and it involves 2% disinflation at least as far as our projections go from the beginning of next of year to the end of next year. So that is a fair amount that needs to be done. I do not know what the evolution of policy rates will be. As I said that will depend on data. Today we think we are appropriately set and that is why we reiterated, if you look at the words, we reiterated broadly the guidance that we gave in the August policy but also emphasised that at least the data development since August have been positive, that the monsoon have been better than expected and of course oil prices have come down significantly since then. Also, I should mention that we continue being fixated about the value of the rupee against the dollar. But if you look at the value of the rupee against all other currencies, the 6-country basket or a 36-country basket, the rupee has actually been quite strong. So those are all factors that have played out in the inflationary process and we have to wait and see how it develops but I would not read more than one should into the policy statement. We are little better than we were in August but there are still risks in achieving the 6% target. We are more confident of achieving the 8% target.

What real rate is appropriate? I mean, you cannot look at other countries and see what real rate is appropriate. I mean clearly what we would like to see is, more households having confidence in fixed income securities and deposits and returning to financial savings. As you know financial savings of households have dropped off considerably in the last few years. Some of that is because the tax benefits to financial savings have also come down in real terms but some of it is also because the real interest rate has not been appropriate. Because in looking at the real interest rate, you have to balance the interest of savers as well as borrowers. And we will have to find an appropriate mix. But that again is something that we will have to see as data evolves and we will see credit growth, we will see deposit growth, we will see other sources of finance how they grow and take a view.

Bijoy: Governor, two questions. One is you have given a timeline for HTM cut. So you have given a timeline for the HTM reversal, at the same time you have allowed up to 7% of SLR to be factored in under LCR. Does this mean that SLR cut, because effectively SLR become 15%, that means have you achieved that 15% that you are intending to achieve for SLR and there may not be any SLR cuts.

Dr. Raghuram G. Rajan: I love the way you give me goals. I do not know where the intent is, I mean, 15% is a number that is out there in the air. Look, the point is over time. Okay, first the rationale for the 5%. Our view is the banks are sitting on plenty of liquid securities. So to put them under more severe constraints through the LCR, when the objective of the LCR is met by their holding sufficient liquid securities seemed a little bit of a travesty, misinterpretation of the intent of the policy. So our intent was to give them the flexibility to count some of that without actually selling those securities down. So SLR holdings achieve many purposes, one is liquidity. Historically it has been a source of government finance. We have said that as the government's finances improve, we will steadily bring SLR down. Now to what level, that depends. We will have to take a view. I do not have a view in mind right now, but it will be a measured process. Right now we want to deal with the problem of LCR which is kicking in earlier than the evolution of SLR. So given that there is a special facility we will open, there will be some conditions on when it will open, we will have to make sure that is consistent with Basel requirements but that will give the banks flexibility to count some of those existing SLR holdings as part of their liquidity coverage. So they do not have to maintain additional liquidity. That is all. So this is flexibility for the banks. It does not say anything about the overall path of SLR and where that will be. The progress that you should expect is that over time as government finances improve, SLR will be steadily cut to a level which is consistent with the liquidity needs and the prudential liquidity needs.

Bijoy: There have been some legal judgments against, the wilful defaulter stance that the RBI has, the earlier definition actually. Now you have come out with a norm that indicates non-cooperative. Is this a way of actually insuring that errant borrowers do not get away?

Dr. Raghuram G. Rajan: They are tacking two different things. The wilful defaulter is about somebody who has not used funds for the appropriate purposes. That is a crude way of saying; I do not want to get into the legalese. There the court, the Honourable court had some questions about whether all directors could be declared wilful defaulters and we have looked at that and we are in the process of modifying the definition so that directors should be seen as culpable in the sense of actively participating or being grossly negligent in the wilful default to be part of that wilful defaulters. So we are modifying that to deal with the concerns of the court which obviously we have to respect. Going to non-cooperative defaulter, it is trying to tackle a different issue which is there are some borrowers who basically resist repaying at every corner, holding up the process and our sense is whatever their recourse to legal processes is, which is allowable by the laws of the land, from a prudential perspective, they impose a cost to the system because banks cannot get their money using the existing laws such as SARFAESI. And therefore in those situations where there is a deliberate attempt to delay and inhibit the process of recovery after due processes have been followed, can we find a way of declaring these borrowers as non-cooperative? This is not a legal definition, it is a regulatory definition which will mean that higher capital, higher provisioning will be required in further lending to these borrowers. So it is a purely regulatory structure, but which will increase the cost precisely because there are prudential risks.

Latha: You say that future policy stance will influence by the Reserve Bank projection of inflation relative to its medium term objective. Your projection is 7% by the fourth quarter 2015-16 while your objective is 6% and this will guide your policy stance. How should we understand that? Should we understand that you will have to therefore act more to get to 6%?

Dr. Raghuram G. Rajan: As far as projection goes, you are taking the model projection. And what I was trying to say is model projections plus our subjective judgement as to forces the model is not capturing is our actual projection. So our sense is that the projection, the mean is around 6%. But the model is saying 7%, so it does create a little bit of uncertainty as to how much weight we should put on our subjective addition to the model. So our sense is the risks are to the upside which we have said. Those risks which were to the upside also in the August projection have come down somewhat. But we are certainly in a situation where we are not saying the risks are to the downside which we are saying for the short term projection. So hopefully that clarifies that.

Latha: Not entirely. What I want to therefore know is that if the projection comes as you say, along with the model you add your subjective observations and it indeed looks like the trajectory is towards your model projected 7%. What will your stance be? Will it mean you will have to do more work?

Dr. Raghuram G. Rajan: Either way. I have said if the data come in and say that we are going to miss this 6%, we will have to tighten if the data come in and say we will do better than the 6% of earlier than January, we will have room to be more accommodative. What I am saying is we are currently appropriately positioned but data could come in either way.

Latha: Are we now appropriately positioned in terms of real interest rate? Therefore if the projected rate of 7% happens, what would be the real interest rate that you will be comfortable? If you want it to come 6% would it be a different real interest rate. If we have already arrived at 6%, would it be a different real interest rate?

Dr. Raghuram G. Rajan: I am not picking a real interest rate out of a hat. I want to see the evolution of credit, the evolution of activity, the evolution of deposits to determine where we feel comfortable. Remember the real rate as you will know is composed of the nominal rate, policy rates which we set plus whatever other credit spreads and inflation spreads and other spreads people put in, liquidity spreads and so on minus inflation right. And what is happening is inflation is coming down. So even without us changing the policy rate, to some extent the real rate has been widening over the last few months from being strongly negative, it has become somewhat positive. We have not seen a big response in financial savings thus far as a result of the rate becoming positive, partly it is perhaps because inflationary expectations have yet to adjust to the changes in inflation. Over time that will happen. So the expected real rate which is the nominal rate minus the expectations of inflation will then become positive. I think it is too early to say that the expected real rate is already positive right now that will reflect in savings behaviour. I do not know how fast that will move etc. Also we have to look at credit and the credit off take, how that moves. So there are some uncertainties in this process which is why I do not want to lock into a particular real rate. Then you have to tell me whether it is the real rate which is today or it is the expected real rate or there are lots of ambiguities there.

Latha: Is not there normally in your mind an appropriate real interest rate for a country like ours?

Dr. Raghuram G. Rajan: No, I do not know what that is. I have to see how the various aspects that we are worried about, investment, savings, credit, how all those move to get a sense of what I am comfortable with. The world has changed a lot in the last few years, right. So a few months ago there was saying that the appropriate real rate in the US was negative 6%. Now given the real rate in the US is negative 6% or even 0, what is the appropriate rate in India? I do not know. I need to see how all these variables move and I think we will be very pragmatic about it and not locked into a view that the theoretical real rate is X. Usually people look at some factor of growth and so on to determine that. I think we will be little more pragmatic.

Govardhan: You mentioned of the interest rate in US in the outlook, one aspect is that we have talked about inflation in India, but there is a thing that the rates based on the US is going to go up. How does that affect your stance and what is the US stance on interest rates if the global interest rates go up, how would you respond?

Dr. Urjit R. Patel: I think that how the US interest rate indeed other systemic central banks also. Euro may go the other way. So there is not one single international rate so to speak. But if you look at that composite. If that is likely to go up, in some ways that does constrain our elbow room to the extent that we are highly integrated with the global capital markets and therefore that is a variable that we do need to keep in mind but that would not inform fundamentally our interest rate policy because that is geared towards the inflation objectives.

Dinesh: Dinesh from First Post. Just wanted to know how you anticipate the additional risks on inflation in terms of this possible high pricing for energy and energy fuel prices. The Supreme Court has cancelled the majority of the coal blocks which were allotted. On the other hand, there is this revised gas pricing formula which is being worked out. Fuel prices have headed up also. So have you factored in, have you thought of this impact on the overall inflation? Second question, on the one hand you are fighting hard to contain the bank loan scenario. On other hand two factors probably which are new since your last policy one again this coal block cancellation. So set of loans have already gone into the development of coal block. That is one and second is the Jan Dhan Yojana this government's add-on public product. About 1.5 crore accounts are expected to be given overdraft facility if I go by the reports. So the government expects bad loans coming out of this given the not so good KYC compliance in opening these accounts. There is no uniform documentation in offering this account. So does this give you additional concern for your monetary policy as you fight inflation?

Dr. Urjit R. Patel: Let me take the first half of that long section which is on energy pricing. What we need to remember is that we are already importing a fair bit of coal from abroad for our power stations. I think the coal price, your question related to what would happen to electricity price. So there is already an imported element in it. Secondly imported coal prices have also softened as part of the global commodity compared to some time back. So while that could have some effect, it remains to be seen how much of the substitution will take place and of course the sector itself is dynamic. There is production increase by other coal companies where the allocations have been deemed legal. So it is not a static thing. Secondly, the electricity price is a regulated price. So that would depend on when the electricity price increases filters in through the system and there may not be a one for one relationship at every point in time. So one is not terribly worried about this as impacting overall inflation at least from my reading of it but it remains to be seen as we go forward.

Dr. Raghuram G. Rajan: Well, on the bank on front, let me just say that it is an issue we are following very closely that while the size of the stressed assets in the system is large, I think if we take action to put these stressed assets back on track. That is the best way, the fastest way we can bring that down and our entire pressure on the bank has been deal with the problem today. Do not postpone it to tomorrow because tomorrow is worse. The coal issue will have to be worked out. Let us see what plans the government brings into play. Of course a significant attempt to address the fundamental weaknesses in that sector and to get coal sort of flowing again, consistent with the high reserves that we have could be the silver lining in this whole issue, that we deal with the problem once and for all with major reforms in the coal sector which then make coal more available to the country for the growing needs. But we have to see how the legacy of the past is dealt with. I think whatever solutions emerge will require in a sense compensation for some of the assets that are on the ground and thereby some compensation the banks will lend against those assets. But let us see how it emerges. On Jan Dhan Yojana, we welcome the Jan Dhan Yojana. It is part of the RBI's plan to get universal access. There are many ways it can be done and some of the new institutions which we have announced in this that we are getting to closure on this policy - payment banks, small finance banks will be vehicles towards that aim. What we have also been saying again and again, I am not as worried about the quality of the KYC. For small accounts in fact, we have essentially allowed for KYC that can be upgraded over time and in fact we have been quite liberal on KYC. What I am more concerned about is that we actually achieve proper inclusion by bringing in households that were not reached in the past and we bring them in along with things like unique ID and so on so that the process of direct benefit transfer which in the sense is the broader goal can be achieved through these kinds of accounts. So let us keep the broader aim in mind and work towards achieving universal access and we are working with the government to try and make this dream a possibility.

Simran: Simran from ET Now. I have a follow up question; we spoke to a couple of bankers after the coal verdict. So they have been saying they might approach the regulator for restructuring of some of the accounts that have been affected by the coal verdict. It is essentially the small accounts, they are not really worried about the large accounts. So will you allow some amount of flexibility or any kind of restructuring going forward for these companies which could get affected by this?

Dr. Raghuram G. Rajan: I think there is fair amount of flexibility already built into our approach and I think it would be premature to judge questions of flexibility. But I will reiterate, whenever we have issues of flexibility coming up, the real issue is putting the asset back on track on recovering your loan, etc. It is not about postponing recognition of the problem. And let us keep that in mind, that ultimately these problems do not go away, they have to be recognized and let us focus on that. That real issue is to put the real asset back on the ground, make it income generating so that loans can be repaid.

Manju: How is the joint lending forum that banks have set up working out and if it is bringing down the pile of bad debts, as banks are collectively dealing with the early warning signals?

Dr. Raghuram G. Rajan: Let me ask my Deputy Governor, Mr. Mundra, to speak about the joint lending forum and then Mr. Mohanty will take.

Shri S. S. Mundra: From the introduction of the system, as you know for the first three months it was more on a kind of pilot basis and then it has progressed further. But in terms of the total number of accounts which are reported under the forum and the number which was there in January and amount and when we compare with what is reported in recent months, there is a reduction in number as well as in amount. Of course the reporting is only the initial part of it, then it has to be followed by the formation of JLF and the related action on that and I think all the cases which are reported, those actions are being undertaken. So I think the system is settling down quite well. That is what the general impression we may get from it.

Manju: How much of bank finance has locked up in the companies of projects whose coal block are cancelled?

Shri R. Gandhi: We have yet to collect that information. It will be coming from the banks. Banks will be reporting once they recognise it as a SMA-1 or SMA-2, so that amount we will be able to tell.

Manju: RBI holds about $73 billion of US treasury bills. If in case the US interest rates were to move up, what would be the impact on the domestic liquidity?

Dr. Raghuram G. Rajan: I do not know if there is a direct impact on domestic liquidity.

Manju: You will have to do mark-to-market.

Dr. Raghuram G. Rajan: We will have to mark-to-market, exactly. See in recent weeks what has been happening is the dollar has been appreciating against other currencies. Therefore when we look at our reserves in dollar terms, they have been coming down. Also newspapers make a lot of noise about it is coming down because we are selling dollars. The bulk of the action has been revaluation of our foreign exchange reserves rather than any action we are taking in the market. So similarly if interest rates move up, we will have to revalue our reserves based on what the mark-to-market value is. So we cannot be preaching a different story to banks and then not mark-to-market our own assets. So we follow this practice.

Amol: I would like to draw your attention to real estate sector. I want to know whether real estate prices are worry for you because banks are really directly associated with it. Demand and supply is a major indicator to the prices and that drives the economy. But look at the real estate sector and for example observations are prices are still stagnant. There are just going up and there is no downwards. So how do you look at that sector specifically do you see any change there?

Dr. Raghuram G. Rajan: Well, it depends on where and how much. But leave side the Aurangzeb Roads and the Malabar Hills from the calculation. Generally what we want to look at is whether real estate prices are increasing faster than inflation and at what rate. Now in a growing economy, you might assume the value of land in real terms is also going to increase, the value of real estate will increase for that reason, but the question is at what rate. And my sense from looking at the housing data is that broadly even when you say they are not coming down with 7%-8% inflation, they are coming down in real terms. So they are becoming more affordable because wages are going up. At this point as far as credit to the real estate to buy real estate goes, I am not overly worried because we do put a pretty hefty discount on the loan to value. The loan has to be for most houses at most 80% of value plus and I am not crowing about this, but I am being realistic, there is often a cash component also in these purchases which is pure equity that the buyer has in the house. So to that extent, there is a fair amount of cushion below the bank's loan. And so even though loan growth to real estate sector has been quite strong, first it is still a relatively small portion of bank balance sheets and second there is a sufficient equity cushion as of now. Going forward we will have to see how the real estate prices evolve and at what point we start getting more concerned, but as of now I am not overly concerned barring a few locations where it seems frothing.

Amol: This is last question on Jan Dhan Yojana you clarified, but the point is earlier the KYC norms were not there. Then the KYC norms came to the picture. Now you are saying that you are giving some relaxation to KYC norms. For Jan Dhan Yojana, you don't need any KYC. How actually you are dealing with KYC norms, because looking at the population of the country, 50% people still do not have enough documents and they do not still understand the financial language.

Dr. Raghuram G. Rajan: Now look there are variety of relaxation that were already in place beforehand right. Would you like to explain the KYC please, Mr Gandhi?

Shri R. Gandhi: Recently we have clarified that only one document is needed out of the total documents that have been listed. All these things are as per the PMLA rules. So relaxation now which has come for Jan Dhan Yojana is related to starting the account process. That with a simple declaration with two photos also, one can start a small savings bank account. That from day one they will be able to start, but to graduate into a normal account, then regular KYC procedure will be there.

Shri S. S. Mundra: I will just add to what you are mentioning. One thing, there is a timeline, by then documentation has to be completed, till such time there are restricted transactions. Second part of your question, that people are not aware. You understand the entire financial inclusion program also includes financial literacy and that is going on side by side. So as the people are educated in that, they are expected that within timeline there would be compliance.

Gabriele: Economists we interviewed were unanimous in predicting your move (or absence of thereof) today, but when it came to reading your future actions they were split on the timing and direction of future policy actions. They predict the RBI will budge anytime between the first quarter of next year and the second half of 2016. And while some predicted a hike, other forecast a cut. Are you comfortable with the kind of guidance you are giving to the market? I also have another small question. You noted earlier how the rupee has been relatively strong compared to other emerging market currencies. Do you think that after being part of the BRICS - and more recently of the fragile five - India now stands in a category of its own?

Dr. Raghuram G. Rajan: First question, I think that is appropriate given how much we know. We are staying away from predicting how the policy will evolve going forward because it is going to be data-contingent and as we see the incoming data, our projections will change with our objective model based projections and our subjective projections and we will adapt policy accordingly. There will be no change in the goal which is to reach that 6% by January of 2016. So I am not uncomfortable with people on both sides of the spectrum. That does suggest that the uncertainty about the data is on both sides. Some people are fairly confident the disinflationary process is well under way and we will see substantial disinflation and others are more sceptical and worry about some additional risks. In recent weeks the sceptics have been coming down a little bit but I think they are still out there. So that is why you see a variation. On the second question, you see one of the dangers in I think economic reporting is we continuously obsess about the rupee dollar exchange rate and if you look at the rupee dollar exchange rate, yesterday the news was that rupee has hit a new 7 month low. But if you look at any reasonable measure of the rupee against multiple currencies which is what we should, given we are looking at trade weighted basket in terms of the question that you asked about the rupee strengthening, the rupee has strengthened precisely because the dollar has strengthened against everybody else. The dollar index is about 6.5% stronger than it was at the beginning of the year and we broadly held parity with respect to the dollar where we were in the beginning of the year. So we strengthened along with the dollar. Now is that something that we are aiming for or anything of that sort? We have said repeatedly we are not focused on the level for the exchange rate. What we want to do is reduce undue volatility and that typically means intervention on both sides. Though of course in recent months with the strengthening of the views on India especially after the stable government, there has been a lot of money pouring in and many of the views have been one-sided about India. Now we have taken that opportunity to build some reserves, but going forward again there is no level that we have in mind. Our main objective is to limit volatility when we think it is there.

Alpana Killawala: Thank you very much. Thank you Inba. We can conclude.

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