"Reserve Bank of India Post Policy Conference Call for the Media"

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Alpana Killawala: . Welcome to all of you to the media conference call post policy announcements. Coming up is a short post policy statement by the Governorafter which we will have a question and answer session.

D. Subbarao: Thank you very much and welcome to the post policy press conference. For the last two years we have got a kind of protocol, I have a short statement which I will read out after which we will take your questions. This morning the Reserve Bank released its second quarter policy review for 2010-11. At the heart of the policy review there is further increase in the first repo rate and the reverse repo rate by 25 basis points each. Accordingly the repo rates stands rose to 6.25% and the reverse repo rate at 5.25%. There has been no change in the CRR which stands at 6% of NDPL of the banking system. With this increase since we started reversing the model policy expense in March 2010. The repo rate is increased by 150 basis points and the reverse repo rate by 200 basis points. There are always we have taken in to account both global and domestic market macroeconomic situation to in calibrating this policy move. In particular, we were guided by three considerations. 1st: Domestic growth drivers are robust which should help absorb to a large extent the negative impact of any slowdown in global recovery. 2nd: Inflation and inflationary expectations remain high as both demand side and supply side factors are at play. Given the spread and persistence of inflation, demand-side inflationary pressures need to be contained and inflationary expectations anchored. 3rd: Even though a liquidity deficit is consistent with our anti-inflation stance, it needs to be contained within a reasonable limit to ensure that economic activity is not disrupted.

To start with, a brief comment on the global economy. The fragile and uneven nature of the recovery and large unemployment in advanced economies raise concerns about the sustainability of the global turn around. The slowing momentum of recovery has prompted the central banks of some advanced economies to initiate or consider initiating a second round of quantitative easing to further stimulate private demand. While the ultra loose monetary policy of advanced economies may benefit the global economy in the medium-term, in the short-term it will trigger further capital inflows into emerging market economies and put upward pressure on global commodity prices.

Turning to domestic outlook, the economy is operating close to the trend growth rate, driven mainly by domestic factors. The normal South-West monsoon and its delayed withdrawal have boosted the prospects of both kharif and rabi agricultural production which should also stimulate rural demand. Most industrial and service sector indicators also point towards sustained growth. Taking into account the good performance of the agriculture sector, and a range of indicators of industrial production and service sector activity, the baseline projection of real GDP growth for 2010-11, for policy purposes, is retained at 8.5 per cent.

Let me now turn to the vital issue of inflation conditions. Notwithstanding some moderation in recent months, headline inflation remains significantly above its medium-term trend, and well above the comfort zone of the Reserve Bank. Food inflation has not shown the expected post-monsoon moderation and has remained persistently elevated for a year now, reflecting in part the structural demand-supply mismatches in several commodities. This has elevated inflation expectations. The risks for inflation spilling over into prices of other commodities are significant when the economy is growing close to trend. That could potentially offset the recent moderation.

Even as non-food manufacturing inflation has moderated, it remains above its medium-term trend. The new WPI series released in September 2010 is a better representative of commodity price levels with an updated base and wider coverage of commodities. When we compare the old and new WPI series, inflation at the aggregate level over the medium-term is similar under both series, but there are differences at a disaggregated level. Inflation in primary articles, especially food articles, in the new series has been significantly higher than in the old series, whereas for manufactured products, it has been somewhat lower.

Going forward, the inflation outlook will be shaped by three factors: (i) the evolution of food price inflation; (ii) global commodity prices; and (iii) demand pressures stemming from sustained growth amidst tightening capacity constraints in many industries.

On balance, inflation is expected to moderate from the present elevated level, reflecting in part, some easing of supply constraints and concerted policy action. In its July Review, the Reserve Bank made a baseline projection of WPI inflation for March 2011 of 6 per cent under the old series of WPI. The baseline projection of WPI inflation for March 2011 has been placed at 5.5 per cent under the new series. This is equivalent to 6 per cent under the old series. Effectively, this means that the Reserve Bank’s inflation projection remains unchanged from that made in its July 2010 Review.

The overall liquidity situation has been in the news over the last few weeks. Let me explain the evolving situation and the underlying dynamics. The present tight liquidity situation is a result of both structural and frictional factors. On the structural side, the deposit growth rate of the banking system has been sluggish even as the credit growth has improved. On the frictional side, the government cash balances had built up as a result of more than anticipated tax receipts. On top of it, there were large capital outflows(on account of refund of over-subscription of Coal India IPO.

Tight liquidity conditions are admittedly desirable from the viewpoint of inflation management, but there are legitimate concerns about the deficit as the injection through the LAF window had become too large in recent weeks, in excess of the Reserve Bank's comfort zone of +/- 1 per cent of NDTL.

With a view to alleviating the frictional liquidity pressure, the Reserve Bank decided to conduct a second LAF (SLAF) on a daily basis and also allowed banks to avail additional liquidity support under the LAF window to the extent of up to 1 per cent of their NDTL up to November 4, 2010. In order to address the structural liquidity problem, earlier today, the Reserve Bank announced an OMO for purchase of government securities amounting to Rs.12,000 Crore.

Let me now move to external sector management which has assumed a lot of importance in the recent period owing to global developments. The current account deficits in the balance of payments widened in the first quarter of 2010-11. If the current trend persists, the current account deficit as a percentage of GDP for the full year will be significantly higher than it was last year. It is generally perceived that a current account deficit above 3 per cent of GDP is difficult to sustain over the medium-term. The challenge, therefore, is to rein in the deficit over the medium-term and finance it in the short-term. The medium-term task has to receive policy focus from both the Government and the Reserve Bank. The short term task is to see that the current account is fully financed while ensuring that capital flows are not far out of line with the economy's absorptive capacity and that the component of long-term and stable flows in the overall capital flows is high.

In the context of today's increases in policy rates, let me now turn to another important issue. It has often been argued that the widening of interest rate differential between the domestic and international markets will result in increased debt-creating capital flows. While it is true that large interest rate differential makes investment in domestic debt instruments and external borrowings by domestic entities more attractive, we need to keep in view three aspects in the Indian context. First, the economy's capacity to absorb capital flows has expanded as reflected in the widening of the current account deficit. Second, despite the already large differential between domestic and international interest rates, capital flows in the recent period have been predominantly in the form of portfolio flows into the equity market. This suggests that the interest rate differential is not the only factor that influences capital flows. Third, in line with our policy of preferring equity to debt-creating flows, we still maintain some controls in respect of debt flows.

Let me indicate some of the important risks to the growth and inflation outlook.

First, the main downside risk to growth emanates from the prospects of a prolonged, slow and halting recovery in advanced economies which would adversely affect the growth performance of EMEs, including India.

Second, inflationary pressures may accentuate due to the structural component in food inflation while demand side pressures may accentuate to the capacity constraints in many industries and rising global commodity prices.

Third, given the weak recovery, some advanced economies are in the process of resorting to another round of quantitative easing that could trigger capital flows into EMEs, including India. Large capital flows beyond the absorptive capacity of the economy could pose a major challenge for exchange rate and monetary management.

Fourth, the widening of the current account deficit raises concerns given the uncertainty associated with international capital flows.

Finally, asset prices in India, as in many other EMEs, have risen sharply in a short time which is a cause for concern.

How I mention three aspects of our concept today's monetary policy actions:
First: Sustain the anti-inflationary thrust of recent monetary actions and outcomes in the face of persistent inflation risks.
Second: Rein in rising inflationary expectations which may be aggravated by the structural nature of food price increases.
Third: Be moderate enough not to stop growth. (
Based purely on current growth and inflation trends, the Reserve Bank believes that the likelihood of further rate actions in the immediate future is relatively low. However, in an uncertain world, we need to be prepared to respond appropriately to shocks that may emanate from either global or domestic environment.

As it is a practice for the second quarter policy review, today's review also contains several developmental and regulatory measures to further develop commercial markets. Promote financial inclusion; improve credit delivery and strengthening the banking system. Among the important points are a discussion paper, on pros and cons of deregulating the interest rate on savings bank deposits. Some regulatory measures relating to housing loans, such as a prescription of the loan realization. Increase in the risk weight for residence housing for loans upto Rs. 75 Lakhs and above and increasing the provisioning for all housing loans with teaser rates.

Implementing the recommendations of the Internal Group on Supervision of Financial Conglomerates.

Issuing final guidelines on compensation practices by banks by end-December 2010.

Putting the draft guidelines on licensing of new banks in public domain by end-January 2011 for public comments.

The implications for the monetary policy decisions on the regulatory and the liquidity message to discuss the meeting that have with the CEO of the Banks tomorrow. Thank you very much.

Lata): Sir, in paragraph 39 and in your speech you have highlighted the constraints, in fact you have gone on to state that inflation ise largely on the upside, but you have gone on to say that based on the current growth strength RBI believes the likelihood of further great hikes in the immediate future is low. How do we understand both these paragraphs?

D. Subbarao: Well, to be transparent on the measures, we have tried to communicate both the upside and downside of the inflation and I believe the policy communicates that. Since the September, mid quarter policy we thought we should also be giving forward guidance so we have said that for the immediate future, rate action is unlikely unless there are some shocks, both from domestic and external sides. The question is what is the immediate future? I think that would translate to about three months. So I am not ruling out any action in December or in January, but we believe that unless there is some unforeseen development we will refrain from action.

Ira (16:04) This is Ira from NDTV. Actually this is a followup on that question. Last time around, we talked about the neutral rate(. As per the policy statement you are saying that the likelihood of further rate action in the immediate future is relatively low. Would it be fair to assume that the RBI is comfortable with this rate in the(indiscernible) 16:25 current inflation scenario. Could you just explain that analysis?

D. Subbarao: We are a bit vary of using the term neutral rates because as we explained in the last quarter review, as I had also responded to you in some other TV interviews, neutral rate is a rate that is consistent with potential output and low on stable inflation. It is a theoretical concept that is applicable more to mature economies, and not so much to a very rapidly growing economy like us, as savings and investments are growing rapidly. Having said that I acknowledge that we used to press not neutral rates but normalized rates in our September review where we said that normalization is complete and further action will be driven by data. We stand by that statement. So there is no question of comfort or discomfort, but I would say that we have reached a normal level after the liberalization on reversal post policy and further action will be driven by growth and inflation situation, and implications of external developments; Subir anything else you want to add to that?

Subir Gokarn: I think the real rate consideration was made very explicit in the September mid quarter review and that still stands. Clearly, if we have an outlook of inflation below 6% in March and we are already above 6% on the repo, but if you want to take neutrally you probably will have to look at the midpoint of the range as an indication of where the rate is. We are obviously approaching that. The inflation forecast spans out; the short-term real rate will turn positive at that point. So it is something that is guiding our actions and our analysis. In fact, that is really what the September assessment was that we have to act in a way that is consistent of achieving a non-negative short-term real rate, so thats benchmark you might say that we are aiming at, but obviously this is subject to various pushes and pulls as we go along.

Ritesh: Governor, this is Ritesh Mehta from Zee Business. First you mentioned about the large inflows, which are coming in and you said it was a challenge going forward, is there a threshold where RBI is actually comfortable? The second question is you also mentioned in your speech aboutthat asset prices have risen, any particular sector where RBI has seen rises which are at an uncomfortable level, and thirdly in housing sector lot of steps have been taken in this policy related to housing particularly in terms of teaser rates among many other things and also in the past RBI has mentioned about the prices which have risen in the housing sector, is RBI uncomfortable still there?

D. Subbarao: On capital flows, there is no comfort level as such but as we have said, in fact I want you all to notice that we have added in the press statement a paragraph on capital flows, which is not in the policy document because we were anticipating a lot of questions we thought we should explain them.

On capital flows, there is both pull factors and push factors and the pull factors are commonacross emerging economies, growth prospects, declining trend rates in inflation,, it is push back that is new in the emerging economies but so far this year capital flows have been roughly in line with the current account deficit unlike in 2007-2008. In 2007-2008 for example capital inflows were about 90% of GDP as against current account deficit of 1.8% of GDP. We are nowhere close to this situation because capital flows are in line with the current account deficit and the current account deficit itself has expanded; however, we have said that we want to finance current account deficit with stable flows and the endeavor going forward is to assure that the component of stable flows in the overall capital flows is high. So that answers your first question. There is no comfort level as such but we want to roughly correspond with the current account deficit. On asset prices, there are numbers of course on how much the equity prices have gone up and depending on what index we use, last year about 80% to 95%, this year about 15%, on gold about 9% to 10% last year and another 20% since first April this year, real estate housing prices there is no one index but service conducted by us on the surveys that we have studied show that real estate prices have reached or even surpassed peak crisis level in most metros, so that is where the asset prices are, there is no bubble but there is certainly asset price buildup because of a number of factors including the liquidity in the system. On housing sector we have taken measures, we have studied them because we thought that we must rein in some loose practices in play close to the housing sector, I do want to go in to the specific, but I would refer to Usha .if you want to say anything about the housing sector provisions.

Subir Gokarn: Just to gain your attention to draft on page 52 of the MMD, you have our indices and the industry indices reflecting housing price.

Unknown speaker: Governor, do we thereforeo understand that the moves that were inunciatedtoday on home loans was more to rein in certain banking practices and not really intended on house prices or assets prices?

D. Subbarao: Well, I do not think we can differentiate the two, right? What real world impact they might have is really beyond our control but in a way I think both considerations acted on our mind,s.

Anoop: On the capital flows intensifying pressure on intervention you said that the objective is to save cost of intervention. Are they not going to intensify after the rate increase and have the measures in housing been done in anticipation of any possible buildup of asset price and the second question is is the buy back announcedfor November 4, 2010 a buyback by the government or open market purchanse by the RBI?

D. Subbarao: The second question is simpler; it is an open market operation by the Reserve Bank, it is not by the government; i.e., on November 4, 2010 there will be OMO by the Reserve Bank of 10,000 Crores. The securities also have been listed in the press release, right? On your first question: as I said earlier, capital flows this year happened roughly in correspondence to our current account deficit, so we are not seeing excess flows like in the past, should there be excess flows we have used measures in the past and we will use measures in the future. Now, as far as the interest rate differential, let me also take this opportunity to elaborate of what I said in the statement that I read out. The absorbtive capacity has increased therefore we are able to absorb more capital flows. Second, in recess period most of the flows that have come in are the equity flows, it is interest rate differential sensitive but not as sensitive as the debt flows. On the debt flows too you must note that NRI deposits there is a predetermined interest rate, on official debt there is a predetermined interest rate. On FII debt in the rupee debt there is a quantitative restriction. So the only debt that could be interest rate sensitive is ECB and ECB too does not happen overnight, right? It is a fairly extended process of price evaluation, sanction, and disbursement, so I do not think we are in the same boat as many other emerging market economies as far as capital flows is concerned, not to say that we may not have a problem in the future, that depends on what the global developments are. We are eagerly watching the situation.

Anoop: My question was on the pressure of intensifying your intervention and the subsequent cost?

D. Subbarao: Well, it depends on what we do: whether we intervene and then sterilize or we do not sterilize, right? We intervene to prevent appreciation; there is costs to different players in the economy, right? Some people benefit and some people lose and some people who lose are more vociferous than others, so we must recognize that, so there are costs as I had said many times and I am saying it now, no matter what option you choose whether you intervene and not sterilize or you intervene and sterilize there are big costs to different players and we are conscious of those costs.

Unknown Speaker: Could you please confirm has RBI intervened in the forex market and secondly as you mentioned that if you intervene the liquidity does not stabilize; would that be of sort of in line with the monetary stance measure than doing an OMO which appears to be contrary to the stance.?

D. Subbarao: On your first question I cannot confirm or deny that. You will find out from the data after some time. Second, on intervention, we have said before and I am reiterating now that we will not intervene in the forex market for liquidity management purposes. We will intervene in the forex market to manage volatility in the forex market or to manage disruptions to the macro economic situation. If any action in the forex market has some reaction in the liquidity situation then there is an incidental byproduct. So, whether we should intervene on the resultant liquidity, our decision whether to sterilize or not will be based on the liquidity situation at that point in time.

Unknown speaker: Governor, is there any possibility that at some point you will consider taking action to curb capital inflows and in particular debt inflows or taxes like it has occurred in in Brazil for example?

D. Subbarao: We already have several measures in place and we have at several times tweaked those measures to calibrate the flows, in particular during the crisis for example we have tweaked the NRI interest rates, raised the limits and liberalized flows, so in the reverse direction should we find flows to be far in excess of our absorbing capacity and should we find that they are disrupting macro economic activity here we will take action, but I do not see very abrupt action being taken because we have a fairly long record of being fairly predictable about what we do.So I do not see a situation where we might face something very, very unpredictable, although I am not ruling out any measure, indeed I have said before that we will not rule out measures including some caps or taxes that Latin American countries have imposed but we will not put them in lightly.

Vikas Bajaj: In Andhra Pradesh MFI's are are reporting that in some cases less than half their borrowers are repaying on a weekly basis sis. Given the political (indiscernible) situation and the worry that industry will collapse in that state and there will be ramifications on the banking system, How concerned are you about what is happening in Andhra Pradesh, what you hope will come up from the intervention that you are seeking for your committee?

D. Subbarao: Let me preface the answer to your question; I was just saying that just to put this in to perspective there have been three types of concerns against MFI sector; the first is the high rates of interest, the second is some loose practices in lending practices—loose or unhealthy practices in lending , and third is coersive practices in recovery of loans. These are the concerns that we have seen in the media as far as the MFI sector is concerned. We have as you know appointed a sub-committee according to this and one of the terms of reference across the board sub-committee is to look at this from the borrowers perspective, also to look at it from a systemic perspective whether there is any concern; I want to say that there is no implication for the stability or the financial system because the amount of the loans to MFI sector are relatively small. At the individual bank level or at the individual bank level in a certain state or in a certain circle there might be some pressures but at a systemic level MFI issue is not likely to have any implications.. The board sub-committee has already held one meeting, I believe they are going to have another meeting later this week, they expect us to submit the report by end January and we should be able to take some action if any action is warranted.

Sir, if you can give some numbers because there are vague fears Shall we relate it separately, I do not want to just throw off a number but can we do it tomorrow?

Unknown speaker: You said that the credit growth we are witnessing is good but it is not broad based, and also commercial real estate) has gone down over the last couple of quarters and gone up, so why was the action taken on the residential front and not on the commercial real estate front especially as you are also saying that asset prices are going up?

D. Subbarao: We did not go into the granular detail but when we have meetings with some of this industry association including people involved in the real estate and the banks too they said the pressure is more on the housing sector than on commercial real estate. In commercial real estate the supply at the moment is more than the demand, so they are not in the same boat, the housing and commercial real estate and that is the reason we have acted differentially, does that answer your question.

Unknown speaker: On the infrastructure there is pricing concern over how much exposure there is to the infrastructure sector?

Usha Thorat: So far the exposures are well within the norms of the banks and the exposure, so overall if you take the total growth of the infrastructure it is quite significant, nobody has exceeded their norms as per their policy.

Unknown speaker: I just have a related question; whether this is applicable over the entire period of the loan or over a fixed rate because there seems to be little confusion about that. Secondly, at the systemic level are theree worries that too much money is flowing into the teaser schemes In fact we are told that 80% to 100% of the new home loans demand is coming straight into these teaser loan schemes?

Usha Thorat: Actually in housing loans, floating rate loans for very long tenure can be risky because it is not possible to predict interest rate over a very long period. Now, in the case of teaser rate loan they are neither pure floating rate loans nor fixed rate loans. They have got a concessional initial fixed period and then it resets on to a floating rate, so the lower interest rates in the beginning actually lure borrowers into taking the loan so this itself has the makings of leveraging and putting pressure and not allowing housing prices to adjust, it actually supports the prices or in fact even makes them go up, so the increase in housing prices then has implications from a systemic angle.. , So that is the reason for putting in this additional provisioning for standard asset.

Unknown speaker: That provisioning amount is for the entire period of loan? ….

Usha Thorat: This is something that one needs to assess. We need to see whether--compared to fixed rate loans and floating rate loans--whether there is a need to further provisioning. As we have said earlier we are going through a fairly rigorous database study and we are trying to come up with something more based on some kind of a dynamic provisioning model . So we did think that this kind of a thing was timely at this point in time, it is something that definitely we shall keeping under the radar..

Anirudh: In terms of the measures that you are announcing in terms of home loans I believe they are applicable only to commercial banks but also given the fact that a number of housing finance companies have similar schemes especially in the teaser scheme that you have attributed to, is that also a concern for the RBI given the fact that you do not directly regulate them but will there be any concern from your side from the systemic level.

Shymala Gopinath The practice for NHB to adopt the reserve bank regulatory guidelines on housing finance, so they would also issue similar guidelines to housing finance company. First the RBI guidelines get issued and then they follow it up.

Question: This pertains to the Fed policy outcome, which is likely to be released in a couple of days. Does your statement on current account deficit and the inflows that we are likely to see still stay at that level). Can you give us kind of explanation or clarification on how the liquidity situation is likely to be for the next couple of months?

D. Subbarao: Okay, on the first question it is not clear what the Fed action will be, how much the QE2 will be We have also heard from some market participants that in anticipation of a certain size of QE2, flows (have already come in and unless there is a surprise on the QE2 there may not be much of a change in the flows, so I cannot obviously react to hypothetical question because it depends on actions of people over which I have no control. We know what is happening around the world just as much as you do, but it is not that as if we have factored in a specific number. But we factored in not only that Fed might do something but how our market participants might react to that.

On the liquidity situation actually that is a good question because we have set up the appropriate level for the LAF windows is) plus or minus 1% of NDTL and over the last few weeks as much as we said that has been deficit mode, it has been above the 1% limit, so we endeavor over the next few weeks it will be line with the plus/minus 1%. I enquired about how long it might take with our people and they said that we cannot put a timeframe on this but it is not going to happen quickly, so it might take a few weeks for that to adjust. It also depends on how the OMO goes, forex flows, whether we intervene or not and all those situations and including the government spending.

Ritesh: Sir, this is a follow up question. With the Coal India money getting back into the system do you think that money will ease liquidity situation in the system?

D. Subbarao: My short answer is yes, because in as much as we said that the frictional liquidity,one of the factors contributing to that was the Coal India issue, which was heavily oversubscribed. Capital flows have come in, some of them were hedged but some did stay within the country and also I understand that there were some banks, which were in surplus, some in deficit, at aggregate level there was no problem but at the disaggregated level there was some frictional liquidity and we expect that those will ease out, but there are other frictional factors and there are other structural factors and they will take time to resolve.

Unknown speaker: Sir, this is on liquidity, given that deposits growth though it is not much, was CRR an option considered? Given the high short-term rates, was not hiking the policy rates an option?

Sudhir: CRR, we did not get inputs into this split between liquidity issue and the monetary issue and so looking at CRR reduction as a possible solution to liquidity problems even while addressing the inflationary issue through a rate hike. We felt that the CRR is not really a tactical instrument, it is not something that can be used and changed when the situation changes and we believe that the liquidity situation is not long-term situation. We have also in our policy statement addressed this question that was asked earlier indicated ae zone of comfort, plus/minus 1% of NDTL and when it is outside the plan we feel that, some action needs to be taken but then you have to understand what is driving the liquidity constraint and at this point there are a number of short-term factors at play, which are much more better addressed by measures like OMO, so that is why we have chosen even in the phase of our monetary signal being, still anti-inflationary we needed to address theliquidity constraint from a little more short-term perspective.

Now the second question that you related to this, because there is a temporary tightening of liquidity short-term rates have gone up above the corridor, but to see that as a permanent phenomenon, to see that as something that will persist for a long period of time and to depend on it as a way to signal an anti-inflationary stunt ,would have been a little risky. So we want to make sure at least the policy rate is the signal and the signal sending is that we are still concerned about inflation. That signal would not have been sent by a temporarily high short-term market rate.

Unknown Speaker: You had given a hugh accommodation to the govt borrowing through the OMO two years back. You had said it was an adhoc measure.At that time it was said that it was also a liquidity management tool. The OMO announced today is not to accommodate govt. borrowing perhaps, but for liquidity management. Are you indirectly monetizing the fiscal deficit and andcomplicating your own inflation management in the medium term?

D. Subbarao: I do not think so, because as we have explained today's liquidity management is a legitimate function of the Reserve Bank and today's action of the OMO was intended to manage liquidity. Indeed, increasing liquidity is to encourage credit flow, so to that extent if the government or private sector borrows, that's ok.

Unknown Speaker: On transmission of monetary policy. Do you think banks still have scope to increase deposit rate or base rates to be in sync with the policy rate which was hiked by RBI since March. The other is that last year during the mid-term review the policy stance was managing crisis to recovery.(Now do you think from now onwards it is going to be more on managing the growth

D. Subbarao: On the first question on the monitory transmission I think the monitory transmission process is still in progress. Today's was the the sixth hike since March 2010. I do not think the full impact has transmitted into the system so from the Reserve Bank perspective we believe that deposit rates will go up. Butagain that depends on how banks respond. On the second question on managing

the crisis to managing the recovery. , Yes I would say we are managing the growth inflation dynamics in a still uncertain global environment.

Unknown Speaker: My question pertains to your numbers have extended PPD. Statute has seen as a move to make them strong enough so that they can compete in terms of NLD (ph) especially in the alternate areas.

Usha Thorat: Actually the UCBs do not see any or the same space as NCI. But certainly it is being commensurate average realization, there is certainly a need a section of the community needs mostly, speakers who are members of the corporative bank, now what we found when we put into place the whole lot of measures to improve the health of UCBs about five years ago when we started gradually removing from the system the unviable UCBs (indiscernible) 52.40 cancellations of licenses. We found that many of the constraints that we had for the UCBs as part of the overall measures to clean up the system whoever actually is hampering their growth. So this current set of policy that you should see is one off incentivizing and providing sufficiently enabling framework for those red management UCBs to be able to grow their business just like any other every bank without the kind of constraint had actually in fact for some time. So this is actually being seen from that point of view and the fact that the UCBs are actually very important of financial inclusion is debt. Shall we have the last question?

Unknown Speaker: The question is on credit growth. When you say 20% you are maintaining the projection for the entire year at 20%, I am also taking into consideration the other avenues through which borrowers are now picking fund and that also is a consideration after that is it slowly the scenario changing and then bank credit will be still better indicator of credit off-take for the system?

D. Subbarao: Are you asking that the target of 20% that we are seeing for credit growth non-full credit growth from the banking system?

Unknown Speaker: Yes. I am asking that in the report that you maintain the same projections for the entire year 20%, so you are also taking into consideration that borrowers are now seeking fund from regional fund from other avenues other than the banks specifically in the second quarter post the infusion, so now do you think that first of all taking back attrition and the second question is (indiscernible). 54.41

D. Subbarao: For some time you would recall that the credit growth actually was behind that projection and when we check with the bankers they told it was because the corporate are accessing from other resources. Now I believe increasingly they have probably finished with other sources other sources for money and now they are coming to batch (55:07) for money, which is what the numbers show. That is roughly in line with the projection.

Sudhir: Can I just supplement that by referring you to table 4.10 on page 40 of the amended document which is giving a breakup of close to commercial sector, so the credit projection is taking into account factor and alternate channels.

Unknown Speaker: Is it the bank credit is a good indicator for credit uptake in the system?

Usha Thorat: Not necessarily, because it is a onetime cost. Two years ago where credit was being affected. You are saying that are you only looking at the bank credits. That is not correct.

The very fact that we look at total flow of funds to the commercial system.

Unknown Speaker: That is not correct. Indirectly we have and that is why we are trying to do it.

G. Chakravarthi: This is Gautham Chakravarthi here again, related point to this thing. The bankers meeting earlier in the afternoon the feeling that we got was probably the transmission of the monetary policy probably there was a sort of resistance or probably that transmission was (indiscernible) 56.33 many terms in many ways they are not going to respond with the policy (indiscernible) after the recent (indiscernible) the Bank of India to push real interest rates up so that, in fact one of the Bankers theory is that you can forget about it, real interest rates being linked to the inflation or the inflation interest rates have no correlation to that extent how much more because one of the objectives of taxing of liquidity was all geared towards that, given that and the recent developments in the banking system can you source through some more additional banker thoughts on that.

D. Subba Rao: No, not really, I cannot really react to a loaded question like that, it is a complex question about why banks are not responding but we believe that there is room for response through the rates hike we have done and how the banking system will respond in the future will depend on our actions and I cannot really speculate on our actions now but within the actions that we have already taken, I believe there is scope for banks to respond.

Sudhir: I think if we look back at the July announcement that was a transition from a surplus liquidity situation to a deficit liquidity situation and we clearly saw that transmission was quite visible that banks did raise their deposit rates almost immediately after the policy and along with that lending rates were also hiked, the base rate went up in many banks and when we did our September mid quarter review we found that out of 40 banks about 25 or 26 had actually in that period raised base rates, so I think liquidity is really going to be the driver of this process and from the experience we have from the July to September period to suggest that in a situational liquidity is deficit that the transmission process does seem to work.

Unknown Speaker: (indiscernible) 58.58From CNBC TV, along with the real estate sector also is there any kind of concern in aviation sector, we know that we are now giving concessions to a particular, one of them Kingfisher, in which the bankers are working on that, but will it come back to you in terms of getting some more concessions on that one, has that been given and going forward the other true that we are talking about, the other two companies is there going to be some kind of other leading losses that would be incurred?

Usha Thorat: We are looking at the sector as a whole, we said that we do not have to get in to individuals company specific issues and we wanted the banks to take over this, so all the three major companies, it should be treated similarly and whatever request has been made further in the case of the one company, now I think that is over, there is nothing further on that.

Unknown Speaker: No, because they have come back to you all, there were some NPV losses.

D. Subbarao: I think we will not discuss this specific company but sector as a whole, yes there were concerns and we said that banks must address that issue and come to us with a package. I believe that comes in respect to one company and other companies.

James: Several Central Bank governors around the world have been talking about a currency war, do you think we are in a state where we are facing a currency war, what is your suggestion on the matter?

D. Subbarao: In Korea in a meeting of central bank governors and finance ministers it was agreed that we will use the phrase currency war, you can say there has been some sort of a truce, but if you see the communiqué that came out of the Korea meeting two weekends ago, countries have agreed that they will let exchange rates be determined by market fundamentals and there was also an agreement that imbalances must be contained. There was no agreement that there could be a specific cap on the imbalance but that surplus countries and deficit countries should both pay attention to restricting imbalances and third there was also an agreement that the IMF has come out with a consistent framework that will look at both adjustments of surplus countries and deficit countries so that for the world as a whole it is optimal, so I do not know whether the IMF framework will come for the Seoul meeting in Mid November or whether it will go beyond that.

Unknown Speaker: Sir just wanted to understand the rationale behind the (indiscernible) 1.2.03 after regulating which one of the banks in this business whereas in the financial services has RBI found out some instances where banks are actually using the funds to invest in the (01:02:16) financial services, is RBI concerned there?

Usha Thorat: No, it is actually a part of the overall managing of the requirement because under the section that banks can invest up to 30% in any company, for financial services (indiscernible) 1.2.50 and it is possible that it was needed (indiscernible) 1.2.58.

Unknown Speaker: Has RBI found out some instances particularly?

Usha Thorat: There may have been some instances the thing is to see whether it is symmetric to the banks activities or not and if not to give them a non-disruptive features for coming down within the limits.

D. Subbarao: You have seen permanent cost of characters on our side over the last several months and I just want to say that Usha will be leaving the Reserve Bank in a few days, so you will be seeing a different configuration. All of us are sad to see her go, but that is the way the world works and I just want all of us to acknowledge her tremendous contribution.

Usha Thorat: It is time to recollect since how long we have been attending these monetary policy meetings and post policy conferences. I think it is since 1995.

As chief general managers we were very much a part of policy making and policy discussions, so it has been a long time, suddenly it is coming to an end, anyway it has been a great press and I think we have interacted with several people over the years and some people here are still and it is same as we used to interact with in 1994, so I think it is great to have this opportunity to be here and I am saying goodbye. Thank you Melissa.